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### As Salaries Rise, So Does the Debt

Leigh Jones  
The National Law Journal  
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Runaway costs for a legal education are threatening to trample any optimism among law school graduates created by recent associate salary increases at the nation's top law firms.

Law school tuition is bounding far ahead of pay raises at firms of all sizes.

Whether new lawyers land jobs at giant international firms, where salaries recently hit \$135,000 plus bonuses, or at small practices in the Midwest and elsewhere, they are paying up to 267 percent more for their education, compared with costs in 1990.

At the same time, new associates are earning on average just 60 percent more than what they were in the private sector in 1990, a figure that does not take into account decreased earning power due to inflation.

The result means that beginning lawyers -- especially those in midsize and small firms -- are shouldering proportionately much more debt at graduation than did their predecessors, a situation that some observers fear will lead to more loan defaults, attrition and job dissatisfaction.

"It stinks," said Jill Peterson, an associate at Hellmuth & Johnson in Eden Prairie, Minn. She graduated from William Mitchell College of Law in St. Paul, Minn., in 2002 with about \$80,000 in debt. She is well compensated at the 25-lawyer firm, she said, but her loan payments each month take a big bite out of her paycheck. She hopes to pay off her debt in 15 years.

Tuition and costs at public and private law schools have skyrocketed since 1990. For in-state residents at public law schools, students are paying 267 percent more than in 1990, according to information compiled by John Sebert, consultant on legal education to the American Bar Association. For nonresidents, public law school costs have soared by 197 percent. Private tuition since 1990 has risen by 130 percent. Tuition in 2004 at public law schools for in-state residents averaged \$11,860 and \$21,905 for nonresidents, and at private schools, tuition was \$26,952.

About 80 percent of law school students obtain loans to pay for law school, and the average loan debt is \$76,763 for private law school graduates and \$48,910 for public school graduates.

While law school costs have exploded, associate compensation has not. According to the National Association for Law Placement (NALP), the median salary for first-year associates in private practice in 2004 was \$80,000, the last year that figures for comparison were available. The 2004 number represents a 60 percent increase over the median salary in 1990, which was \$50,000.

Between 1990 and 2004, inflation totaled 45 percent, which means that in 2004 an associate would have needed a salary of \$72,400 to have the same earning power of \$50,000 in 1990, regardless of the much greater law school costs.

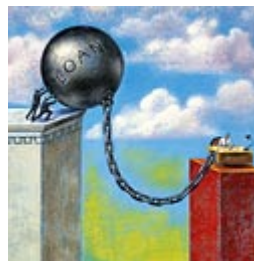


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By the same token, the price of a legal education for an in-state resident at a state law school, accounting only for inflationary increases, should have increased from \$3,236 to \$4,700, a sharp contrast to the \$11,860 average cost at the same type of school in 2004.

Even at the nation's biggest firms -- those with more than 501 attorneys -- salaries in 2004, which averaged \$125,000 (not including bonuses), have risen just 78 percent since 1990, compared with the 267 percent increase in the cost of public in-state education and the 130 percent escalation in private law school education.

The latest raise to \$135,000 at some firms -- the first increase in associate salaries in five years for many -- still trails far behind inflationary legal education costs. Firms that have recently upped their first-year associate salaries include Gibson, Dunn & Crutcher of Los Angeles; DLA Piper Rudnick Gray Cary; and Sheppard, Mullin, Richter & Hampton of Los Angeles.

The outlook is drastically worse for law graduates who opt for public interest work, where the median salary for beginning lawyers in 2004 was \$36,656, according to NALP.

"There's a major concern," Seibert said. "If you graduate with average private law school debt and earn something other than the average salary, you are going to have trouble."

The prognosis also is bleak for new attorneys in smaller firms, who typically earn much less than those at large firms. The median salary for first-year associates in firms with 26 to 50 attorneys was \$65,000 in 2004, just 44 percent more than the median salary at those firms in 1990, which was \$45,000. Beginning lawyers at law firms with two to 10 lawyers earned \$48,000 in 2004, compared with \$30,000 in 1990.

## **BEHIND TUITION EXPLOSION**

Several factors have contributed to the explosion in law school costs and student loan debt, including smaller appropriations for public law schools from state legislatures, pressure to boost rankings and the call for law schools to provide more practical skills training. But the primary reason for the escalation apparently stems from the inability of law schools to increase revenues in ways other than by increasing tuition and by fund raising.

Stephen Friedman, dean of Pace University School of Law in White Plains, N.Y., points to the "basic economics" of law schools, which, unlike corporations, cannot "sell more stuff or operate more efficiently." Although law schools, in order to increase faculty pay and cover rising costs, can add students, they generally are restricted from doing so by the size of their facilities, the number of faculty members, what the legal market will bear and more, he explained.

"Your only alternative is to raise prices -- the fundamental driver behind this extraordinary increase," he said.

But law students are partly to blame, said Joseph Harbaugh, dean of Nova Southeastern University Shepard Broad Law Center in Fort Lauderdale, Fla. Would-be lawyers live too comfortably while in school and fail to make the necessary sacrifices, he said, adding that a quick look at any law school parking lot proves his point.

"The students' cars are better than the faculty and staff's cars," said Harbaugh, who is also a board member of Access Group, a nonprofit provider of student loans for graduate and professional degrees.

Law schools calculate the amount of money students need for tuition and for living expenses into their budgets, which helps determine how much federal loan money their students can borrow. Harbaugh said that many law schools do a disservice to students by raising their budgets to accommodate so-called cost-of-attendance fees, which are those expenses that law students have for attending school other than tuition and fees.

Terry Wallace, an associate at 110-attorney Poyner & Spruill in Charlotte, N.C., agrees that law students can get by with less.

"Looking back, I could've lived a more spartan lifestyle in law school," said Wallace, a 1999 graduate of North Carolina Central University School of Law. He said the prevailing attitude among law students was to study diligently during the week and "play hard on the weekends," which took money.

He graduated with about \$40,000 in law school debt, which he paid off last year. He has purchased a home and, as a reward for shedding his debt, splurged on a plasma television.

Wallace noted that many of his classmates who entered law school right after receiving their bachelor's degrees were deep in the red when they received their diplomas. "There's not a lot of financial discipline there," he said.

Peterson, with Hellmuth & Johnson, also said that living "too richly" is a problem for law students.

"Some people are living like lawyers while they're in school and living like students when they're out," she said. Peterson explained that many students also have overblown expectations about what lies ahead for them.

"While you're in law school, everybody has the idealistic thought that you'll be a partner in five years, bringing down \$350,000, and that life is going to be grand," she said. "The reality is that it takes a lot of work and it takes time."

The consequence of the growing debt is uncertain, though the predictions are numerous. The public interest sector already has experienced a drop in the number of attorneys joining its ranks. In the last 25 years, new lawyers entering public interest has declined from 5.4 percent to 2.9 percent, according to the University of Washington Public Interest Law Association.

Although many law schools have initiated loan-repayment assistance programs to help students who want to pursue public interest jobs, more graduates are expected to continue opting for big firms to help pay down debt, at least initially, even if their ambitions lie elsewhere.

Robert Kafin, chief operating partner of Proskauer Rose in New York, said that high law school debt "distorts incentives" for graduates who might be happier working somewhere other than a large law firm. "There is an incentive for people not otherwise interested in a career to start there," he said.

## **DEBT INFLUENCES JOB CHOICE**

The effect of burdensome student loans on the legal profession is a subject that NALP currently is grappling with, said executive director James Leipold. His group is planning a summit next year with other legal organizations that will explore the ramifications to the legal community of ballooning law school costs and debt. Anecdotally, however, he said that more graduates are entering big-firm practices with the "deliberately stated goal" of paying down debt and then leaving.

Higher default rates are another anticipated outcome from the rising debt. Jeffrey Hanson, director of borrower education services at Access Group, said that "borrowers are stressed, but they're still paying their bills." However, they are defraying big purchases, such as homes, to pay their debt, he said.

The U.S. Department of Education reported in September that default rates for all federal student loans hit an all-time low at 4.5 percent in 2003, the latest year for which the information is available.

Access Group tracks the default rate for private loans, which students generally obtain after they have borrowed the maximum amount through federal loans. The default rate for private loans that pay for professional and graduate degrees runs higher than federal loans. In 2005, it totaled 8 percent, down from 8.5 percent in 2004 and 8.6 percent in 2003.

The decline, Hanson said, may be the result of more stringent lending criteria than more borrowers paying back their loans. And as interest rates inch up, default rates follow suit, he said. In addition, some observers are predicting that more students will rely on private loans if the U.S. House of Representatives passes a bill that would slash \$12.7 billion from federal financial aid. (The Senate previously approved the bill.)

Perhaps more of a concern about default rates is that fewer law graduates are passing the bar, which delays or even precludes their ability to repay their loans.

Nova Southeastern's Harbaugh is troubled by the impact on debt load because of the 64 percent pass rate for first-time test takers in 2004. The pass rate in 1995 was 78 percent. "It's the lurking issue," he said.