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COLUMN

Maryland lawyers and student loan debt

According to the American Bar Association, the average law school graduate owes approximately $160,000 in educational loan debt after graduation.

In Maryland, the starting median salary for first-year lawyers is about $100,000, with incomes ranging from $50,000 to over $200,000 depending on location, size of the law firm, and type of law. This means graduates could enter the workforce with loan debt up to three times their salary or more.

With today's student loan interest rates, it can take decades for these educational loans to be paid off, with monthly payments exceeding $1,000 per month.

In a survey by the ABA Young Lawyers Division, 95% of law school students took out student loans, and 22% said they would have benefited from better loan counseling before graduation. In fact, recent graduates have decided to postpone or abstain from buying a house (55%), having children (48%), or getting married (28%) due to student loans.

Furthermore, nearly two-thirds said that they felt overwhelmed or stressed about their overall personal finances in general. As such, careful student loan planning today is essential to help lawyers manage their finances, improve quality of life, and meet their long-term goals.

Law school graduates with student loan debt face additional challenges in 2023 with the Supreme Court's rejection of President Joe Biden's student loan forgiveness plan, the ending of the forbearance in late August, and the beginning of payments in October.

So, what strategies can these lawyers deploy to accelerate paying off their student loans?

Maryland is considered by some organizations as one of the five best places for lawyers with student debt to live. Access to employers offering Public Student Loan Forgiveness, strong demand for lawyers in the Maryland-D.C.-Virginia region (D.C. has the most lawyers per capita), and state and school loan repayment programs help student loan borrowers craft a repayment plan that minimizes the financial and emotional drain of their higher education.

A time-sensitive student loan planning consideration is the Dec. 31, 2023 deadline for the one-time adjustment. The U.S. Department of Education will review loan payment histories back to 1994, so those with federal direct loans should assess opportunities to consolidate their loans and maximize their one-time adjustment.

This could include consolidating a Federal Family Education Loan (FFEL) or Perkins loan or merging an undergraduate with a graduate loan. About 50% of student loan borrowers are over 35 years old, so this recount could have a significant impact on the timing of forgiveness.

As part of this one-time adjustment, the Department of Education will also review the Public Student Loan Forgiveness qualifying payments. If you are employed in public service, it will be important to properly consolidate your federal loans by year-end and certify your qualifying employment.

This includes government, military, law enforcement, public health and education, nonprofit Section 501c, and nonprofit organizations that provide certain types of public services.

Student loan borrowers should also review their October loan payments and assess their cash flow. Those that were on an income-driven replacement (IDR) plan prior to the forbearance have not had to recertify their income in 3½ years, so they should determine the impact of certifying their income in 2024 to plan their budget accordingly.

If they made IDR loan payments during the forbearance and are on track for forgiveness, then they may want to request a refund of those payments, since the 3½ years of forbearance will count toward student loan forgiveness with or without a payment. Borrowers should contact their loan service to initiate this request.

There may also be an opportunity for those with an IDR plan to amend their tax returns for 2020, 2021, and 2022 if they were previously filing married filing separately versus married filing jointly. Given that income has not been certified since 2019, there could be a benefit to amending their filing status and using the tax refund for other financial needs.

Applications are currently open for The Maryland Student Loan Debt Relief Tax Credit Program. For certain types of law, Maryland offers additional state loan repayment assistance.

Given that student loans have such a significant financial and emotional impact on law graduates, loan decisions should be carefully evaluated in the context of the individual's long-term goals. A knowledgeable CPA, CFP professional or financial adviser can help assess timing, interest rate, and loan plan considerations before consolidating loans, choosing a payment plan, amending tax returns, or requesting payment refunds.

Despite the risks and challenges of student loans, 61% of lawyers say they would earn a law degree again, and 55% would attend the same law school. It's clear that the higher education is worth its weight. A well-constructed plan to manage student loan debt can improve quality of life, offer peace of mind, and ensure you realize the full benefit of your law degree for many years to come.

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