

Why Law Firm Leaders Should Care About Student Debt Crisis

By **Brian Kabateck** (August 14, 2025)

The New York Times reported in April that over 42 million Americans have active student loans from the federal government.[1] This means that roughly one in eight Americans owes debt for postsecondary education — whether college, trade schools, graduate school or law school.

This represents a crisis that extends far beyond individual financial hardship.

The situation has become dramatically worse in recent months. According to TransUnion, among federal student loan borrowers who actually have payments due, nearly one-third — 31% — are now delinquent, representing the highest delinquency rate since data collection began.[2]



Brian Kabateck

CNBC also reported that millions of Americans face what experts are calling a default cliff — with millions of borrowers expected to reach default status this fall.

This issue will likely only be exacerbated by recent moves by the Trump administration: In May, the administration resumed aggressive collection efforts on defaulted loans after a five-year pause, including wage garnishment and tax refund seizures. The administration has also eliminated forgiveness provisions from some repayment plans and terminated many U.S. Department of Education staff members who assisted borrowers.

Most significantly, President Donald Trump signed the One Big Beautiful Bill Act into law on July 4, which fundamentally restructures student loan repayment. Under the new law, future borrowers will have only two repayment options, starting in July 2026.

Any time somebody becomes delinquent on their student loan, it affects their credit rating and their ability to borrow. Data published in June by TransUnion shows that borrowers falling behind have seen their credit scores drop by an average of 60 points, with some high-credit borrowers losing as much as 175 points.

With collection efforts resuming and credit scores plummeting for those who fall behind, young lawyers face even greater financial pressure and may find themselves unable to qualify for mortgages, car loans or even apartment rentals due to damaged credit — resulting in less happy, more stressed young lawyers working in law firms. That, in turn, affects retention, productivity and job satisfaction in ways that directly influence the firm's bottom line.

Why This Crisis Matters to the Legal Community

When I started attending law school more than 40 years ago this year, it was relatively inexpensive. I was a part-time student at Loyola Law School, Los Angeles, and while working during the day as a law clerk, I was able to pay the \$3,000 or \$4,000 a semester — roughly \$10,000 a year when you included summer school, tuition and books. It was a stretch, and I did not have a lot of expendable income, but law school was generally affordable.

For context, in 1985, the average private law school tuition was \$7,526 per year, while public law school tuition averaged \$2,006 per year for in-state residents.[3]

Today, before you even get into paying rent, transportation, or books and supplies, law school costs close to \$140,000 for the full three-year program. The average annual cost is about \$46,000 in tuition alone, with total costs including living expenses often reaching \$70,000-\$80,000 per year.[4]

We also know that in 2018, about 29% of law school students received substantial tuition assistance covering at least half their costs, with an additional 6% receiving full assistance in the form of scholarships or other aid — anywhere from a few thousand dollars a year to a full ride.[5] Nevertheless, the substantial majority of the student body borrows money to attend law school.

To put this in historical perspective: Even accounting for inflation, private law school costs 2.5 times more today than in 1985, while public law schools cost over 5 times more than they did in 1985.

The good news is that most people who attend law school today really want to be lawyers, and I think that is laudable. The bad news is they are coming out of college and law school with sometimes hundreds of thousands of dollars in debt.

The Current Crisis for Young Lawyers

Now, all of this may be interesting, frustrating and sad at the same time, but why in the world should older lawyers, senior partners, managing partners and owners of law firms care?

We need to care because this is a burden on the practice of law. First, it is driving up the cost of your young associates. One of the reasons why salaries have increased over the last 20 years is because these young law school graduates need to earn more money to pay student debt.[6]

While student loan interest is tax-deductible up to \$2,500 annually for eligible borrowers, this modest benefit barely makes a dent. That means that for every dollar a young lawyer pays toward their loans, they need to earn approximately \$1.50-\$1.60 in gross income due to federal and state taxes — particularly in states with high tax rates, like California.

Additionally, and probably more importantly, it negatively affects their happiness and general well-being. How can they start a life if they owe so much debt? How can they buy a home when their debt-to-income ratio is already maxed out? How can they get married or have a significant relationship when their financial stress affects every decision? This is magnified when one law student marries another, and their debt becomes doubled.

All of this means that you have a less happy, more stressed young lawyer working in your office. This affects retention, productivity and job satisfaction in ways that directly affect your bottom line.

The 2024 American Bar Association Young Lawyers Division Student Loan Survey found that young lawyers carrying substantial student debt experience significant financial stress that manifests as anxiety, depression and hopelessness directly attributed to their loan burden.[7] This emotional toll translates into delayed life milestones, with the majority postponing marriage, delaying children and putting off major purchases like homes.[8]

Most concerning for workplace dynamics, over half of young lawyers report they sacrifice personal time — including time spent on vacation, socializing, exercising and self-care — because they fear it would jeopardize their career advancement.[9] Three-quarters of debt-laden respondents altered their initial legal career plans, prioritizing salary over their original professional interests.[10]

When only about one-third of heavily indebted young lawyers believe their law degree was worth the cost, you're dealing with a workforce focused on financial survival rather than professional excellence — directly undermining the productivity, loyalty and long-term thinking that successful law practices require.

Solutions and Strategies

So what are some of the solutions?

First, there are some broader policy changes that would help. To begin with, federal and state governments should make the repayment of student loans fully tax-deductible, so that repayment comes with pretax dollars rather than the current limited \$2,500 deduction. This should benefit federal and state governments because their loans will be repaid, as opposed to dealing with defaulting students who cannot pay their loans.

Further, private lenders can refinance student loans and substantially reduce payments, though this eliminates federal protections and forgiveness options.

But what can senior partners and law firm leaders do here?

We should seriously consider offering student loan repayment as a benefit or perk. If you have an employee who is someone you want to keep, come up with a five-year plan, where each year you pay off one-fifth of their student loan balance.

Yes, it becomes taxable income to them, but it ensures you will keep a good employee, and you can work out an arrangement that if they leave prematurely, they have to pay some of it back.

Consider, also, offering financial counseling services to help associates navigate repayment options, understand refinancing opportunities and plan for their financial future. With the current issues facing federal repayment programs, professional guidance has become more valuable than ever.

I am not suggesting that these strategies are always a good idea, but in this context, they can lead to a much happier employee and a much more productive lawyer who is able to get on with their career and build a law practice — which benefits all of us. In a competitive market for legal talent, firms that proactively address the student debt burden will have significant advantages in recruiting and retaining the best young lawyers.

When young lawyers aren't constantly stressed about money, they can focus their energy on what we hired them to do: Practice law effectively and build client relationships. A financially secure associate is more likely to take on challenging assignments, invest time in business development and commit to long-term client matters, rather than constantly job-hunting for higher pay.

They're also more willing to make the kind of professional investments — like attending bar

events, taking on pro bono work or pursuing specialized training — that ultimately benefit the entire firm's reputation and capabilities.

Most importantly, when associates can actually afford to live the life of a professional — buying a home, starting a family and participating in the community — they become the kind of established, committed lawyers who eventually become valuable partners, rather than expensive temporary employees.

The investment in helping associates manage their debt burden is not just good corporate citizenship — it is good business strategy that creates more productive, loyal and satisfied lawyers who can focus on building their careers and serving clients, rather than simply surviving financially.

As the student debt crisis continues to evolve under changing federal policies, forward-thinking law firms must adapt their compensation and benefits strategies accordingly.

Brian S. Kabateck is the founding partner at Kabateck LLP.

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[1] <https://www.nytimes.com/2025/04/22/business/education-department-student-loan-debt.html>.

[2] <https://newsroom.transunion.com/june-2025-student-loan-update/>, <https://www.cnbc.com/2025/06/26/student-loan-default-cliff-coming-as-late-payments-rise.html>.

[3] <https://www.lawhub.org/trends/tuition>.

[4] <https://educationdata.org/average-cost-of-law-school>.

[5] <https://educationdata.org/average-cost-of-law-school>.

[6] <https://www.nalp.org/0623research>.

[7] https://www.americanbar.org/content/dam/aba/administrative/young_lawyers/2024-student-loan-survey.pdf.

[8] https://www.americanbar.org/content/dam/aba/administrative/young_lawyers/2024-student-loan-survey.pdf.

[9] https://www.americanbar.org/content/dam/aba/administrative/young_lawyers/2024-student-loan-survey.pdf.

[10] https://www.americanbar.org/content/dam/aba/administrative/young_lawyers/2024-student-loan-survey.pdf.