



# Student Debt and the Profession

A Research Funding Proposal

# Student Debt and the Profession

A Research Funding Proposal

## CONTENTS

BACKGROUND.....	3
THE IMPACT OF LAW STUDENT DEBT ON THE LEGAL PROFESSION.....	3
CASE SCENARIO .....	4
CURRENT STATISTICAL DATA.....	5
RE-PAYMENT .....	6
THE OPTIONS.....	6
RESEARCH PROPOSAL .....	7

# Student Debt and the Profession

## A Research Funding Proposal

### Background

Student loans were introduced in 1990. Until that time there was a system of mandatory and discretionary awards. Loans came about due to the rapid growth in the number of students in full-time education during the 1960's, late 1980's and early 1990s which meant that the cost of student support via public funds escalated. A student loan scheme was therefore introduced in 1990 to contain the cost of student support without curtailing the expansion of higher education.

The initial idea was to introduce loans as a significant supplementary source of income. Maintenance grants were frozen at their level for 1990/91 and the real value was eroded by inflation. The intention was for the deficit to be made up by the increase in the value of student loans. This was to continue until loans and grants were equal in value. Due to an acceleration in 1994, this was achieved by 1996/97.

In July 1997, Sir Ron Dearing's National Committee of Enquiry into Higher Education announced substantial changes to the system of student funding. Remaining maintenance grants were to be discontinued and tuition fees of up to £1,000 per year were to be charged to the students personally. The implementation of these recommendations has greatly contributed to the present situation.

### The Impact of Law Student debt on the Legal Profession

Student debt is an escalating problem not isolated to those entering the legal profession. However, it is a problem which undoubtedly has a greater impact on a profession where an extra one/two years' vocational training is a requirement to entry. Faced with large debts on completing an undergraduate degree, the prospect of incurring further debt to complete the CPE and/or LPC courses is an extremely unattractive option.

The problems of debt will obviously impact greatly on the legal profession and the standard of candidates entering it. The main impact is likely to be on the choice of fields within the legal profession that young lawyers choose to pursue. The lesser paid areas such as criminal and high street practice, which have the greatest contact with the general public, are likely to see good candidates dissuaded from entering those areas due to the poor remuneration and large debts which will need to be repaid. City firms will undoubtedly continue to sponsor and fund candidates and increase starting salaries in line with the commercial demands but what of high street and small to medium sized firms? The impact of debt may well be the channelling of law students into commercial firms able both to provide funding at Law School and pay higher starting salaries. For the law students mindful to pursue a career in Criminal or Family Law the barriers are increasing. In a climate where talk of access to Justice is taken for granted the legal professionals of tomorrow may well be in short supply having opted, not through choice but through financial constraint, to join the ranks of commercial lawyers or abandon a legal career altogether. Something must be done to encourage

candidates to choose a career in the lesser paid areas of law, to persuade them to invest further in their education and risk starting work with debts of between £30,000 to £40,000 (see below).

There are various options which might redress the balance presented by burgeoning student debt:

1. Increase the salaries that Trainees in poorly paid areas of law receive.
2. Reduce the cost of the vocational training courses.
3. Offer trainees tax concessions for taking out professional law school loans, thereby giving them greater disposable income in the first few years and reduce the burden of debt.

The TSG is currently working on all three of these options. To be able to formulate policy it is essential that the TSG has accurate statistical data on the actual (not predicted) levels of law student debt and the impact it is having on entry into the legal profession. Such statistical analysis will enable the TSG to test the various hypotheses expounded and ensure that the profession is open to the best candidates, irrespective of sex, race, sexual orientation or social background. With this in mind we would ask you to consider the current project being undertaken by the TSG, as summarised below, and the availability of funding to finance research into debt levels which is essential to progressing this project.

### Case Scenario

Taking an average student embarking on a 3 or 4 year degree either in law or another discipline, the tuition fees are £3,000 to £4,000. Even on a modest estimation there is a further £5,000 per year living expenses. The result is the cost of a degree being somewhere in the region of £18,000 to £24,000 over the three or four years. For the average student this would be met by way of student loans.

It is at this juncture that a student must decide whether to continue on into a legal career via law school or choose an alternative career without completing further study. Faced with debts of up to £24,000, it is obvious that students will be less inclined to choose a career where they have to invest further in their education. The thought of incurring a further debt of between £11,205 and £20,445 at law school (depending on whether the CPE and LPC are completed (see Table 1, below)) is a major determining factor.

The alternative option of a career starting immediately on leaving university would present the average student with a very realistic choice rather than incurring further debt. For example, a career as a management consultant would yield a starting salary of around £25,000. By the time a law student has finished 1 or 2 years at law school, their contemporaries who opted to go directly into work would be in established positions earning salaries far in excess of the law society minimum. The law student has to look forward to beginning a training contract on anywhere between £10,000 and £20,000 per year with debts of £29,205 to £44,455.

Burdened with a debt of between £18,000 and £24,000 on completing a degree, the choice of career may already have been made by the student's finances rather than their desire or aptitude for entering the profession.

### **Current Statistical Data**

Table 1, below, shows the actual cost of entry into the profession through the normal degree channels, irrespective of whether those costs are funded through loans or private income. At this stage they represent the maximum levels of debt for a student with no savings who is self-funding.

*Table 1 - The financial costs of qualifying as a Solicitor*

--

## Re-payment

Re-payment of educational loans will be scheduled according to the package from the Student Loans Company or relevant bank. The repayments are likely to start in the region of 12 months following the completion of the L.P.C. course, and typically last for over 5 years, costing over £200.00 per calendar month (p.c.m.).

For the 2 years of the Training Contract following the academic training, the Minimum Salary will probably be the Law Society minimum of £12,000.00 (£1,000 p.c.m. gross) outside London, and £13,600.00 (£1133.33 p.c.m. gross) inside London.

These figures will have to cover the payment of National Insurance, tax, loan repayments and maintenance costs, in addition to the costs of the professional image (Suits, Shirts, Shoes etc.) and the often ignored hidden costs of post-work entertainment.

These entertainment costs are higher in firms where the take-on rate of trainees is small compared to the total number of trainees, and will be higher in London in any event. The trainee must pay these costs in order to fit into the 'corporate' image and be considered suitable for re-employment after the end of the Training Contract period. Pressures are still high at this time in terms of competition between trainees.

## The Options

The TSG policy committee continues to consider ideas for the reduction of student debt and for the removal of barriers from the path of candidates wanting to enter the profession. The options presently being considered are:

### 1. *Increase the salaries Trainees receive*

The TSG has been particularly vocal in its support for the Law Society minimum salary for Trainees, to protect those working in the less profitable areas of the law. Its stance over the past few years resulted in the retention of the minimum salary at the point when a proportion of the profession wanted it abolished and has recently secured an increase to £12,000.00 (£1000.00 p.c.m. gross) outside London, and £13,600.00 (£1133.33 p.c.m. gross) inside London with effect from 1 August 2000. Further pressure at this point would be unlikely to attract support.

### 2. *Reduce the cost of the vocational training courses*

Concern has been expressed about the high level of fees charged by some LPC providers. Large sums are being extracted from students notwithstanding the fact that some of these not-for-profit institutions have already accumulated substantial cash reserves which could be used to minimise student expenditure. The TSG has raised the matter with the institutions concerned and is presently considering what further action to take. It is unlikely a great amount of progress will be made on this as Law lecturers must be retained on a higher remuneration

than University lecturers due to the alternative of private practice as a Solicitor/Barrister.

### **3. *Seek favourable tax treatment for law school loan repayments***

Taking out a professional law school loan is akin to a business development loan taken out by a company, which already qualifies for favourable tax treatment. The Government could be asked to concede the similarity between a law school loan and a business development loan, and to treat Solicitors on an equal footing. By investing in education you are hoping to reap the rewards of higher earning capacity at a later stage, just as a business might invest in plant and machinery in the hope of increasing profits at a later date. However, this approach is unlikely to garner support from the Treasury as it could set a precedent to be followed by the National Union of Students.

The options presented above are designed to tackle the financial hardship trainees now find themselves in on entering the profession. The future success of the legal profession is entirely dependant on those entering it and if the present problem is ignored it will undoubtedly impact on the future of the profession as a whole, and the non commercial fields in particular.

### **Research Proposal**

The TSG represents the students and trainees at the heart of this problem. By providing funding to the TSG it will enable the group to furnish the Law Society, and the profession as a whole, with accurate data on the problem. It will facilitate an assessment of the size of the problem at present and the way it is likely to develop and impact on entry into the legal profession in the future.

Research could take the form of gathering data from law students and academic institutions, banks offering loans and local authorities offering career development loans. It is proposed that the research should be both wide and detailed enough to allow an accurate assessment to be made of the problem. The TSG feels that time and money spent tackling this problem now would avoid crises at a later stage.

The TSG would like to question a representative sample of its membership of 33,000 students, trainees and solicitors up to 1-year post qualification. To do this will involve preparing and distributing a questionnaire to a total of around 2000 people. Obviously, this will not be a cheap exercise. The TSG has already sought to secure commercial sponsorship for this initiative, but without success.

Costs are likely to be incurred in the following areas:

**1. Distribution**

The TSG would need to print the questionnaires and arrange for them to be posted / sent by DX to members selected as the sample group. It may also be necessary to send reminder letters to the sample group to encourage a response.

**£2,000**

**2. Return Postage**

One of the largest complaints with questionnaires, and the reason responses are sometimes so few in number, is that subjects have to pay to return their answers. The TSG would like to make use of the Royal Mail Freepost / Business Reply Service to ensure that members are not out-of-pocket by returning the questionnaire. This should increase the response rate, giving greater validity to the generated statistics.

**£500**

**3. Statistical Analysis & Reporting**

The TSG does not have the technical ability to analyse the responses in more than a simple fashion. Engaging a professional statistician to analyse the responses and prove a correlation between high debt levels and other factors, such as race, age, social background, etc. is an essential requirement for the project.

The TSG will seek competitive bids from a number of researchers wishing to undertake the project and will engage the party that shows a thorough understanding of the issues underlying the research and that provides best value for money. Both the Institute of Advanced Legal Studies and NOP Numbers Data Processing have already expressed a keen interest in undertaking the project. Initial discussions with RPPU have helped to set the parameters for the research, but finalising the questionnaire design, collating responses and analysing and reporting results would be the responsibility of the research firm.

**£15,500**

**Total            £18,000**

The TSG hopes that the benefit that this research will bring to both the TSG and the Law Society will be sufficient to warrant the allocation to this project of £18,000. The TSG considers that the present lack of accurate statistical data is hampering its, and the Law Society's, activities. The formulation of policy on the impact of law student debt on entry into the legal profession is reliant on accurate information. The TSG therefore hopes that serious consideration will be given to this request for research funding.

The members of the TSG's Debt Working Group were in 1999:

*Chair*

**Oliver Roberts** (Formerly Manchester TSG), *Solicitor at Beachcroft Wansboroughs, London*

*Members*

**Adrian Barham** (TSG Company Secretary), *Solicitor at Burges Salmon, Bristol*

**Verity Chase** (TSG Vice Chair), *Trainee Solicitor at Harvey Ingram Owston, Leicester*

**Theeba Ragunathan** (TSG Chair), *Solicitor*

**Matthew Whelan** (Co-opted), *Trainee Solicitor at Martineau Johnson, Birmingham*

