

# BE WELL

## Debt Relief Options to Improve Attorney Financial Wellbeing

Many attorneys, particularly those early in their careers, struggle with the burden of student loan debt. It can be extremely limiting to be saddled with extensive and long-term debt, affecting our most basic living needs: where we live, what we eat, and how we spend our free time. A recent report by the American Bar Association found that student loan debt “causes stress and anxiety for most young lawyers who borrowed . . .”<sup>1</sup> Like many other attorneys, I also carry significant student loan debt, primarily from law school. While the anxiety comes in waves, I often feel significant stress about my financial future due to the amount of student loan debt I carry.

When looking at the cost to attend law school and the average amount of student loan debt law school graduates carry, it is unsurprising that young attorneys are stressed about their debt. According to the Law School Admissions Council (LSAC), which owns and operates LawHub, in 2023 law school tuition at private schools was on average \$55,963 per year, \$43,590 for non-resident public schools per year, and \$30,554 for residential public schools per year.<sup>2</sup> LSAC reported that the average private law school graduate graduated with \$135,183 of student debt while public school attendees graduated with \$93,643 of student debt.<sup>3</sup> These amounts do not reflect the final balance borrowers have due to interest accrual during school and repayment. LSAC estimates that for 2023-2024 graduates, for example, a borrower who borrows \$130,000 during law school will owe \$150,110 by the time the first payment is due six months after graduation.<sup>4</sup> This translates to a \$1,788 monthly payment for a 10-year repayment plan.<sup>5</sup> A \$1,788 monthly payment is a significant amount for someone, even with an attorney salary, to put towards one item in their monthly budget.

In 2022, approximately 71.2% of law school graduates borrowed money.<sup>6</sup> Even though student loan debt is a heavy burden to carry, attorneys, like other borrowers, can utilize a variety of programs, including the Vermont Bar Association (VBA) Loan Assistance Repayment Program (LRAP), tax deductions, educational assistance programs, and student loan payments counting towards a retirement matching program, to maximize their financial wellness. Employers can also use some of these programs to draw in potential employees and to retain current employees.

Even though the costs of a legal education are high and those who borrow for their education often feel stressed, borrowers can take advantage of programs designed to boost their financial wellbeing. Hopefully, borrowers who are able to take advantage of these programs can feel better about their financial future.

### (1) Apply for assistance through the Vermont Bar Association Loan Repayment Assistance Program

In an effort to support attorneys in Vermont with student loan debt, last year the VBA established LRAP. For the next year of financial awards, the application opened on Sept. 27, 2024, and will close on Nov. 11, 2024. The application and all information can be found on the VBA website. [www.vtbar.org](http://www.vtbar.org).

Applicants must be licensed to practice in the State of Vermont, be a member of the VBA, have an income from legal work below \$78,375, and have more than \$25,000 of student loan debt, which can be a combination of undergraduate and graduate loans. The VBA prioritizes applicants who practice in underserved geographic areas of Vermont, including the Northeast Kingdom, Grand Isle/Franklin, Windham, and Orange counties. Additionally, the VBA prioritizes applicants whose practice focuses on underserved legal areas or areas that serve vulnerable and working people in Vermont, including family law, criminal defense, estate planning, disability, social security, unemployment, workers' compensation, small business, consumer protection, housing, mental health access, and guardianship.

Recipients can receive a maximum award of \$5,000 per year, which is paid twice yearly. The number of awards and the amount of the award is at the discretion of the LRAP Committee. The LRAP award must be used by the recipient to pay for their educational debt.

As past recipients of the LRAP award can attest, this is a powerful way for the VBA and Vermont legal community to help Vermont attorneys afford the high cost of education. The VBA strongly suggests that all attorneys who fit the criteria apply to this program.

### (2) Tax deductions for student loan interest

Those who pay student loans can also receive up to \$2,500 in a tax return for interest paid on student loans.<sup>7</sup> The deduction phases out, starting when filers reach \$75,000 modified adjusted gross income.<sup>8</sup> Borrowers can take advantage of this tax deduction to help boost their financial wellness.

### (3) Employers can assist their employees through establishing an educational assistance program

Employers can pay up to \$5,250 per year towards their employee's student loans through an educational assistance program.<sup>9</sup> This benefit began in 2020 and will expire at the end of 2025.<sup>10</sup> Essentially, the program allows the employer to use the employee's pre-tax wages to pay up to \$5,250 per year towards the employee's student loans.<sup>11</sup> For employees who pay student loans, this has the benefit of using pre-tax dollars, rather than post-tax dollars, towards student loan debt.

### (4) Boost retirement savings while paying down student debt

The Secure Act 2.0 created a new program for treating student loan payments as elective deferrals for purposes of matching contributions to retirement.<sup>12</sup> This program began at the beginning of 2024.<sup>13</sup>

Oftentimes, an employee can contribute to their employer sponsored retirement account and receive an employer match up to a percentage of their yearly salary.<sup>14</sup> In that instance, the employee must contribute that amount in order to receive the matching funds from the employer.<sup>15</sup>

Secure Act 2.0 creates an option, not a requirement, for employers to treat their employees' payments toward student loans as a “deferred” payment towards retirement.<sup>16</sup> Essentially, the Secure Act 2.0 recognizes that someone who is paying back student loans is less able to prioritize other financial goals, such as saving for retirement. When an employee is less able to put their salary towards retirement savings, they are also potentially missing out on the employer match.

The employee's payments towards the student loans can only count as a deferred payment for the purposes of the matching

funds if the payment is towards a “qualified student loan payment” which is “a payment made by an employee in repayment of a qualified education loan . . . incurred by the employee to pay qualified higher education expenses, but only if the employee certifies to the employer making the matching contribution that such payment has been made on such a loan.”<sup>17</sup> To certify a payment, the employee must provide to the payment sponsor “(1) the amount of the loan payment; (2) the date of the loan payment; (3) that the payment was made by the employee; (4) that the loan being repaid is a qualified education loan and was used to pay for qualified higher education expenses of the employee, the employee’s spouse, or the employee’s dependent; and (5) that the loan was incurred by the employee.”<sup>18</sup>

Employees could also use student loan payments as part of their contributions towards their match, rather than the entire contribution towards the match. For example, an employee with a 5% match can contribute 2% towards their match and then use their student loan payments as the other 3%.<sup>19</sup> Rather than leaving money behind by not meeting the employer match, the employee can tailor the program to meet their financial situation. For borrowers with significant student debt, saving for retirement can feel impossible. I have certainly felt like this. With student loan debt so immediate and retirement feeling so far away, it feels like saving for retirement needs to take a back seat. Thankfully, this new program recognizes that and allows borrowers to pay their student loans without forgetting completely about retirement savings.

#### (5) Retention tool for employers

The IRS promotes the educational assistance program and the retirement deferral program as ways for employers to entice employees to work for the employer and to retain employees.<sup>20</sup> Considering the significant number of graduates with student loan debt and the high amount that many borrowers carry, these programs may help employers attract and retain talent.

Therefore, while the burden of student debt can feel very heavy and insurmountable, as I have felt myself, these programs can assist borrowers with meeting their financial goals. Hopefully, these programs can help borrowers improve their financial wellbeing and reduce stress and anxiety with managing student loan debt.

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<sup>1</sup> Survey reveals effects of law student debt, recommends solutions, American Bar Association (Sept. 9, 2024) <https://www.americanbar.org/news/abanews/aba-news-archives/2024/09/survey-reveals-effects-law-student-debt/>; Student Debt, COVID-19 Relief, and Loan Forgiveness: Perspective from Today’s Young Lawyers, American Bar Association (2024) [https://www.americanbar.org/content/dam/aba/administrative/young\\_lawyers/2024-student-loan-survey.pdf](https://www.americanbar.org/content/dam/aba/administrative/young_lawyers/2024-student-loan-survey.pdf)

<sup>2</sup> Cost of attendance, LawHub <https://www.lawhub.org/trends/tuition> (last visited Sept. 10, 2024).

<sup>3</sup> Law School Debt in the United States, LawHub <https://www.lawhub.org/trends/debt> (last visited Sept. 10, 2024).

<sup>4</sup> Id.

<sup>5</sup> Id.

<sup>6</sup> Id.

<sup>7</sup> Topic No. 456, Student loan interest deduction, Internal Revenue Service <https://www.irs.gov/taxtopics/tc456> (last visited Sept. 10, 2024); Did you know that the Internal Revenue Service (IRS) provides tax benefits for education?, Federal Student Aid <https://studentaid.gov/resources/tax-benefits> (last visited Sept. 10, 2024).

<sup>8</sup> Publication 970 (2023), Tax Benefits for Education, Internal Revenue Service <https://www.irs.gov/publications/p970#d0e6339> (last visited Sept. 10, 2024).

<sup>9</sup> Reminder to employers and employees: Educational assistance programs can be used to help pay workers’ students loans; free IRS webinar will offer details, Internal Revenue Service (Aug. 24, 2023) <https://www.irs.gov/newsroom/reminder-to-employers-and-employees-educational-assistance-programs-can-be-used-to-help-pay-workers-student-loans-free-irs-webinar-will-offer-details>

<sup>10</sup> Id.

<sup>11</sup> Frequently asked questions about educational assistance programs, Internal Revenue Service (June 2024) <https://www.irs.gov/newsroom/frequently-asked-questions-about-educational-assistance-programs>

<sup>12</sup> Notice 2024-63, Guidance Under Section 110 of the SECURE 2.0 Act with Respect to Matching Contributions Made on Account of Qualified Student Loan Payments, Internal Revenue Service <https://www.irs.gov/pub/irs-drop/n-24-63.pdf> (last visited Sept. 10, 2024).

<sup>13</sup> IRS issues important interim guidance on employer matching contributions made to retirement plans related to employee student loan payments, Internal Revenue Service (Aug. 19, 2024) <https://www.irs.gov/newsroom/irs-issues-important-interim-guidance-on-employer-matching-contributions-made-to-retirement-plans-related-to-employee-student-loan-payments>

<sup>14</sup> Secure Act 2.0 Student Loan Match: How It Works, Lord Abbett (Feb. 13, 2024) <https://www.lordabbett.com/en-us/financial-advisor/insights/retirement-planning/secure-act-2-0-student-loan-match-how-it-works.html#:~:text=A%20feature%20of%20Secure%20Act,into%20the%20employee%27s%20retirement%20account.&text=Student%20loan%20debt%20precludes%20many%20workers%20from%20saving%20for%20their%20retirement.>

<sup>15</sup> 401(k) plan overview, Internal Revenue Service, <https://www.irs.gov/retirement-plans/plan-sponsor/401k-plan-overview#:~:text=If%20the%20plan%20document%20permits,to%20defer%20under%20the%20plan.> (last visited Sept. 10, 2024).

<sup>16</sup> SECURE 2.0 Act of 2022, Pub. L. No. 117-328, 136 Stat. 4459, Division T, § 110(b)(D).

<sup>17</sup> Id.

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<sup>18</sup> Notice 2024-63, Guidance Under Section 110 of the SECURE 2.0 Act with Respect to Matching Contributions Made on Account of Qualified Student Loan Payments, Internal Revenue Service <https://www.irs.gov/pub/irs-drop/n-24-63.pdf> (last visited Sept. 10, 2024).

<sup>19</sup> Ronda Lee, Here’s how SECURE 2.0 helps student loan borrowers save for retirement, Yahoo Finance (Feb. 26, 2024) [https://finance.yahoo.com/news/heres-how-secure-20-helps-student-loan-borrowers-save-for-retirement-170135614.html?guccounter=1&guce\\_referrer=aHR0cHM6Ly93d3cuZ29vZ2x1LmNvbS8&guce\\_referrer\\_sig=AQAAACpZW0V6CnvfCabdgC8tOq8FBR5qMqczzVY8xwQ76fKhvy-1oRo\\_wED-FzGH42Kr41cpmOWCOiyGNn\\_PmRg9q58H-3PylfeQPYxJkrZ3ldn98TTG1cl\\_S8Jrq-WVqDE-W10oyHGzoVltYo905fUOTR4DDijz\\_D9PT4x-4iTi4hHmBsz](https://finance.yahoo.com/news/heres-how-secure-20-helps-student-loan-borrowers-save-for-retirement-170135614.html?guccounter=1&guce_referrer=aHR0cHM6Ly93d3cuZ29vZ2x1LmNvbS8&guce_referrer_sig=AQAAACpZW0V6CnvfCabdgC8tOq8FBR5qMqczzVY8xwQ76fKhvy-1oRo_wED-FzGH42Kr41cpmOWCOiyGNn_PmRg9q58H-3PylfeQPYxJkrZ3ldn98TTG1cl_S8Jrq-WVqDE-W10oyHGzoVltYo905fUOTR4DDijz_D9PT4x-4iTi4hHmBsz)

<sup>20</sup> Reminder to employers and employees: Educational assistance programs can be used to help pay workers’ student loans; free IRS webinar will offer details, Internal Revenue Service (Aug. 24, 2023) <https://www.irs.gov/newsroom/reminder-to-employers-and-employees-educational-assistance-programs-can-be-used-to-help-pay-workers-student-loans-free-irs-webinar-will-offer-details> (“Employers who don’t have an educational assistance program may want to consider setting one up. In a tight labor market, worthwhile fringe benefits such as educational assistance programs can help employers attract and retain qualified workers.”).