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How Can Policymakers Assess the Value of a Law Degree?

An Essay for the Learning Curve by Tia Caldwell

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Each year, more than 70,000 students apply to law school,[1] many motivated to make a difference in the world and achieve a financial return on their investment.[2] Yet once law students graduate, fewer than half felt their degree was worth the cost, according to polling from the American Bar Association.[3]

To understand whether these feelings are substantiated by data on tuition and earnings, we created an accountability metric that estimates the time it takes for college students to recoup program costs. The metric, which builds on previously suggested formulas comparing program costs with increased earnings, adds forgone wages to the costs of law school, a factor other metrics leave out. Using rich data on law outcomes, we show that this metric is more aligned with quality benchmarks than other ways of comparing tuition and earnings.

We find most law programs pay for themselves within six years, but about 10 percent take a decade or more to pay off. Students attending these lower-value programs pay substantial tuition and fees for minimal earnings increases and have lower bar passage rates, reduced employment opportunities, and unaffordable debt burdens. These underperforming law programs, which are disproportionately offered by private colleges (including for-profits), underscore the importance of introducing more accountability into graduate-level education.

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[1] "Legal Education," American Bar Association, accessed October 4, 2023, https://www.abalegalprofile.com/legal-education.php#anchor1.

[2] CJ Ryan, *Analyzing Law School Choice* (New York: SSRN, 2019); and Dan Slater, "Survey Says: Promise of Money Drives People to Law School," *Wall Street Journal*, February 25, 2008, https://www.wsj.com/articles/BL-LB-5365.

[3] "Legal Education," American Bar Association.

The Cost-to-Earnings-Premium Metric

As Americans report increasing skepticism about higher education[4] and growing difficulties repaying their student loans,[5] higher education officials face pressure to ensure postsecondary programs truly leave students better off. Among the many proposals for reform, one promising idea is evaluating college programs based on the financial value they generate for students.[6]

Here, we explore measuring value with a cost-to-earnings-premium metric, which divides the costs of attending college by the amount the program boosts earnings. We calculate the earnings boost using graduates' earnings minus an estimate of students' earnings if they had not earned the degree (i.e., counterfactual earnings). With a reasonable measure of counterfactual earnings, the cost-to-earnings premium yields an estimated number of years it takes the typical student to recoup the costs of their educational investment.

Unlike similar value-added metrics,[7] this metric includes, as part of the costs, the wages students could have earned if they were working instead of studying. Adding forgone wages, which can be one of the largest costs of college, results in a more accurate estimate of the years required to recoup costs. Outside the context of law schools, it allows the metric to recognize a short program as a better financial investment than a program that boosts wages by the same amount but requires many years of full-time schoolwork.

[4] Megan Brenan, "Americans' Confidence in Higher Education Down Sharply," Gallup, July 11, 2023, https://news.gallup.com/poll/508352/americans-confidence-higher-education-down-sharply.aspx.
[5] Pew, "Borrowers Discuss the Challenges of Student Loan Repayment" (Washington, DC: Pew, 2020).
[6] For examples, see Kimberly Dancy, Katelyn DiBenedetto, Alyse Gray Parker, Konrad Mugglestone, Eleanor Eckerson Peters, Amanda Janice Roberson, Mamie Voight, Jennifer Engle, and Jamey Rorison, *Equitable Value: Promoting Economic Mobility and Social Justice through Postsecondary Education* (Washington, DC: Postsecondary Value Commission, 2021); and Jordan D. Matsudaira and Lesley J. Turner, *Towards a Framework for Accountability for Federal Financial Assistance Programs in Postsecondary Education* (Washington, DC: Brookings Institution, 2020).
[7] This metric is very similar to the price-to-earnings premium suggested by Third Way. See Tosin Akintola, Michael Itzkowitz, and Nicole Siegel, "Interactive Map of the Price-to-Earnings Premium for All Students" (Washington, DC: Third Way, 2021).

BOX 1

Cost-to-Earnings Premium

$$Years\ to\ recoup\ costs\ = \frac{direct\ costs + 1/2{*}(counterfactual\ earnings * program\ length)}{(earnings - counterfactual\ earnings)}$$

Earnings is the median earnings of program graduates measured three years after graduation.[a] For simplicity, both earnings and counterfactual earnings are measured at only one point in time. If actual earnings increase faster than counterfactual earnings over time, the metric may underestimate value and overestimate the number of years to recoup costs.

Counterfactual earnings is an estimate of graduate cohorts' annual earnings if they had not attended the educational program. Ideally, we would know the median counterfactual earnings for each program's typical student and judge each program against this benchmark. But there is no way to know for certain what students would earn if they did not attend a college program, and the US Department of Education does not report the next most helpful data point: wages before enrollment.

Given the data constraints, we set counterfactual earnings conservatively at $40,000 for all law programs. We based this threshold on analyses from the Foundation for Research on Equal Opportunity (FREOPP), in which researchers estimated counterfactual wages for all graduate programs using the earnings of 30-year-olds with a bachelor's degree, considering earnings variation by students' demographics and undergraduate majors.[b] FREOPP's analysis put the average law school's counterfactual earnings at $55,000, and no law school had counterfactual earnings below $41,000. Our $40,000 is thus a conservative choice that likely overestimates the economic benefit of most law programs.

Direct costs is the median tuition and fees over the course of a program. Ideally, we would have subtracted median grant aid from these costs, but the government collects only listed tuition and fees for law programs and not tuition net of institutional grant aid. As a result, our direct costs are overstated for programs that offer tuition discounts to more than half of students.

1/2(counterfactual earnings * program length)* is a measure of forgone wages calculated by halving the annual counterfactual earnings multiplied by the length of the program. Cutting counterfactual earnings in half acknowledges that many students work part time during their studies and is more generous to college programs. (See the Methods section for more details about the data.)

[a] Measuring the earnings of attendees rather than graduates could be an effective way of encouraging colleges to improve completion rates. But, especially because programmatic earnings data currently exist only for students who complete their degree, we use graduates' earnings in this essay.

[b] Preston Cooper, "Is Grad School Worth It? A Comprehensive Return on Investment Analysis," Foundation for Research on Equal Opportunity, March 31, 2022, https://freopp.org/is-graduate-school-worth-it-a-comprehensive-return-on-investment-analysis-a84644f29f9.

Consider a program where the typical recent law school graduate makes $80,000 annually. Imagine that this student would have earned $40,000 if they had not attended the program, meaning the program boosts wages by roughly $40,000 (the exact amount will vary over time). If the student pays $120,000 in tuition and fees during the program, it will take about three years to recoup the direct costs of the degree: $120,000 / ($80,000 – $40,000).

These three years would earn back the costs of tuition and fees but not the student's lost time and wages. Using our measure of counterfactual earnings, the student could have earned an extra $60,000 over the three years, had they not attended the program: ($40,000 * 3) / 2. With the additional $60,000 in costs, the example program takes four and half years to pay off: $180,000 / $40,000.

Evaluating a Cost-to-Earnings-Premium Metric

Rich data on law school outcomes beyond earnings presents an opportunity to test how the cost-to-earnings premium compares with other quality benchmarks. We correlated the metric with other measures of quality (e.g., bar passage rates and employment rates after 10 months) and value (e.g., the percentage of graduates who have completely repaid their loans after four years, FREOPP's estimate of each program's lifetime return on investment, and the gainful employment regulation's discretionary debt-to-earnings ratio[8]). Although there are no perfect measures of a program's value-add, a strong accountability metric should correlate with these measures.

We find that our chosen metric is much more correlated with the benchmarks than a simple comparison of tuition with earnings and is somewhat more correlated than a tuition-to-earnings-premium metric without opportunity costs. The correlations are strong, ranging from 0.47 to 0.80, depending on the quality measure in question, meaning programs that perform well on the cost-to-earnings-premium metric also tend to have high bar passage rates, high employment rates, strong loan repayment rates, and more affordable debt-to-earnings ratios. The opposite is true for programs projected to take many years to recoup costs. This finding gives us confidence that, with a reasonable measure of counterfactual earnings, a cost-to-earnings-premium metric can accurately approximate a program's return on investment.

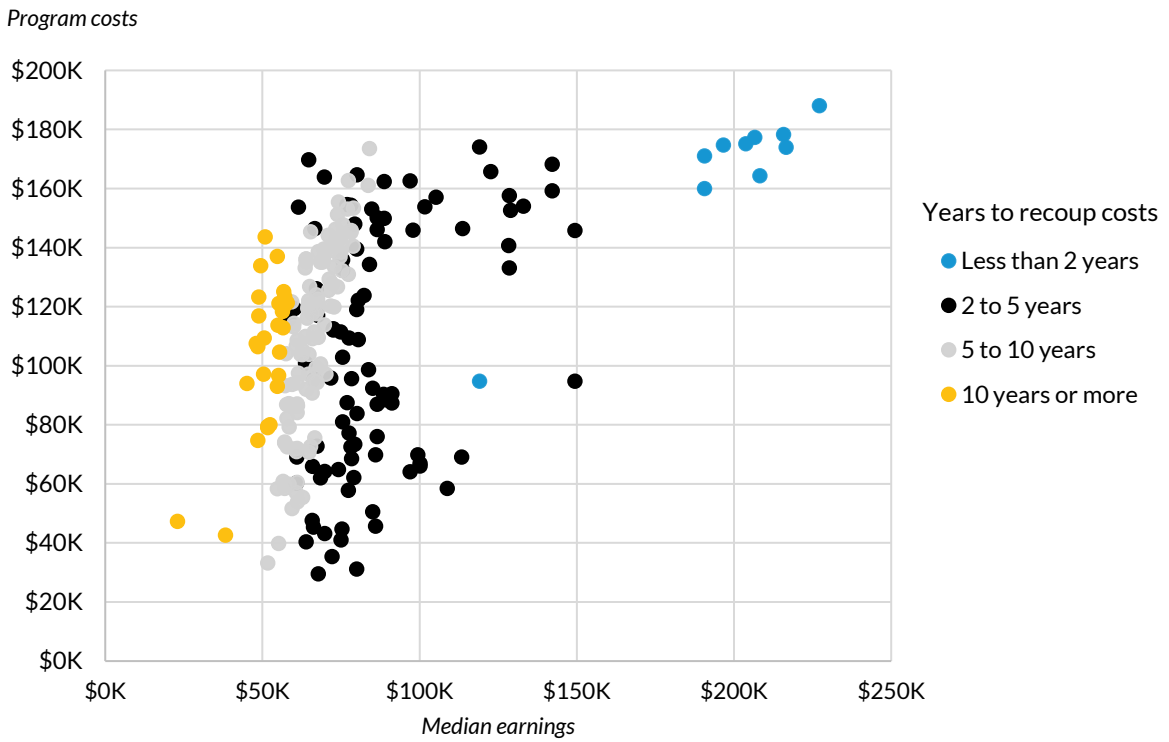
Evaluating Law Programs

Generally, programs that perform well on the cost-to-earnings-premium metric have relatively high median earnings three years after graduation and slightly lower direct costs (figure 1).

[8] Gainful employment includes several tests, but we correlated the cost-to-earnings-premium score with this measure because it is the test that law programs are most likely to fail.

FIGURE 1

Law School Tuition and Fees and Earnings



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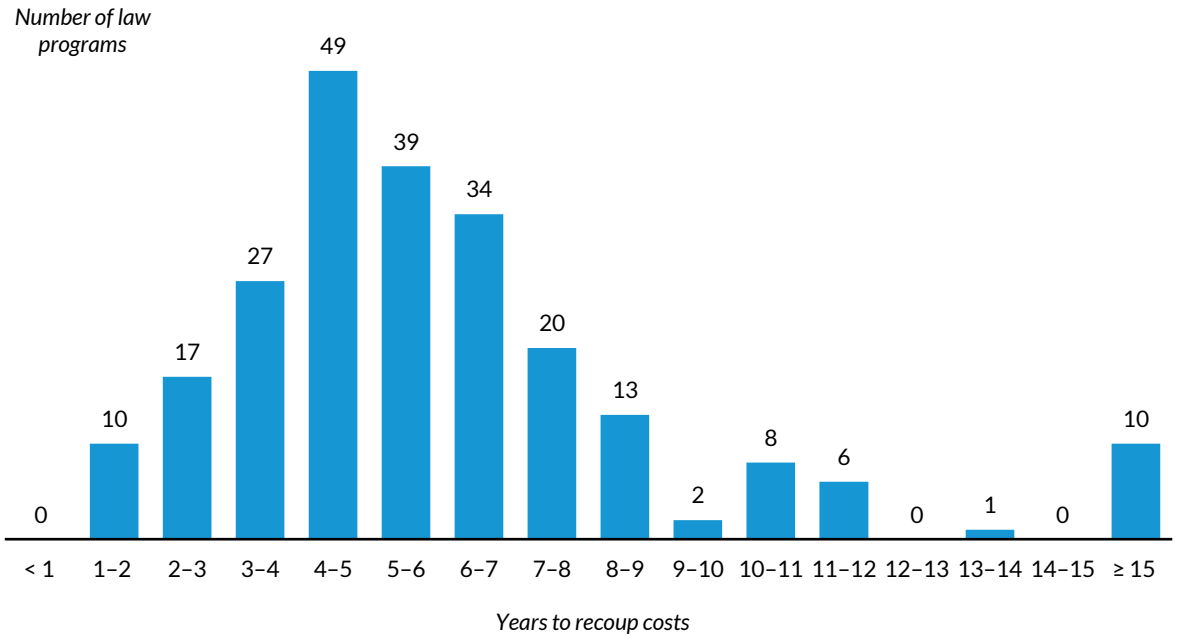
Source: Author's calculations using College Scorecard and Integrated Postsecondary Education Data System data.

Assuming students would have made $40,000 if they did not attend law school, we find wide variation in the time it takes law programs to pay off. More than half of law school programs pay off within six years, and almost 90 percent pay off within 10 years (figure 2). But 25 of the 236 programs with enough data to be evaluated take more than a decade to pay for themselves.

FIGURE 2

Time to Recoup Law Program Costs



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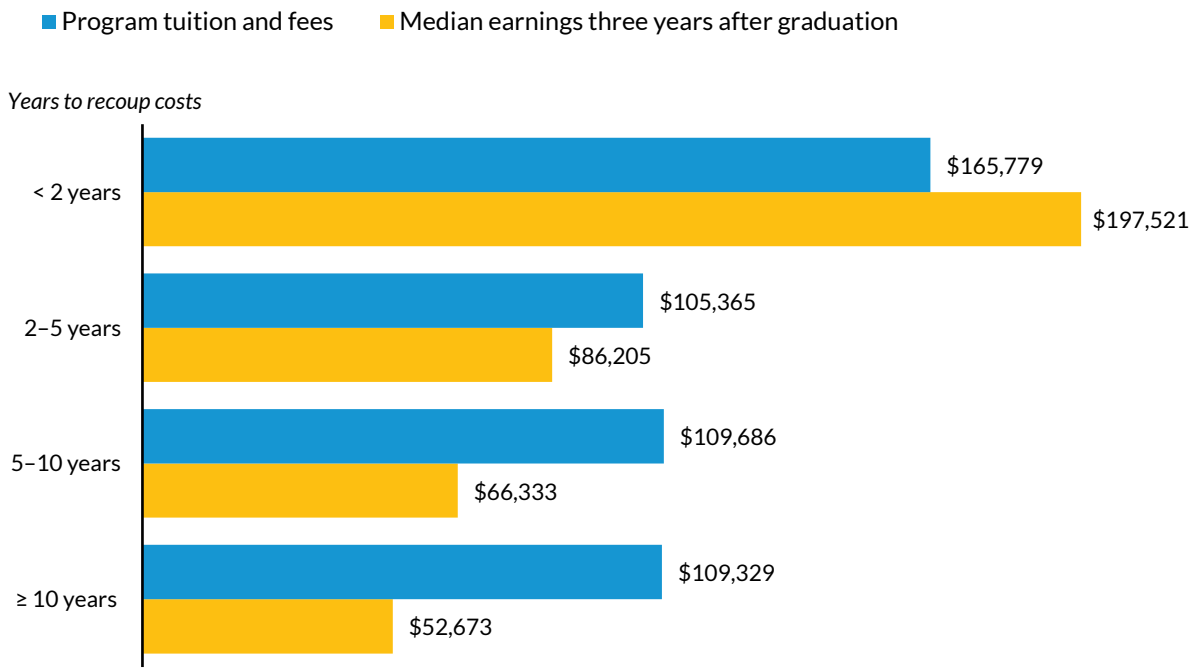
Source: Author's calculations using College Scorecard and Integrated Postsecondary Education Data System data.

The 10 programs that pay off in under two years, almost all of which are offered at Ivy League and Ivy League–adjacent schools, achieve value by generating extremely high earnings that make up for high tuition. Columbia University, for instance, offers the most expensive law program in our dataset. Still, it pays off in less than a year and a half because the median recent graduate makes more than $227,000.

FIGURE 3

Law School Program Costs and Earnings



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Source: Author's calculations using College Scorecard and Integrated Postsecondary Education Data System data.

More than 90 law programs are estimated to pay off in two to five years. Compared with the 10 highest-value programs, these programs result in more modest wages but achieve value by charging lower tuition. The typical in-state law student at Georgia State University, for example, recoups their program costs in less than three years, largely thanks to low tuition. An in-state student at Georgia State University pays only about $50,000 in total tuition and fees for the three-year program and can expect to earn $77,000 three years after graduation.

The 135 schools that take more than five years to recoup costs, according to the cost-to-earnings premium, are, on average, slightly more expensive but lead to significantly lower wages. Recent graduates of law schools who take between 5 and 10 years to pay off their debt earn about $66,000 and pay $110,000 in tuition and fees (figure 3). The 25 programs projected to take more than 10 years to pay off charge similarly high costs but generate even lower earnings for their graduates. Students invest around $109,000 to attend these programs, yet recent graduates earn around $53,000.

Although most programs in the dataset are offered at public schools, the programs projected to take longer than a decade to pay off are disproportionately run by private nonprofit and for-profit schools. Fifty-two percent are offered at nonprofit schools, 32 percent are offered at public schools, and the remaining 16 percent are offered at for-profit schools. Although there are few for-profit law programs, the four with enough data to be evaluated all fall into this lowest-payoff category.

These disproportionately nonprofit and for-profit programs show other signs of offering a subpar education. Compared with other law programs, their bar passage rates are 13 percentage points lower and their employment rates 10 months after graduation are 17 percentage points lower. More than 80 percent of the programs are projected to fail the recently proposed gainful employment test (though few could be subject to financial sanctions under the regulations). The gainful employment failures indicate that graduates are burdened with unaffordable debt loads, a fact reflected in much lower loan repayment rates than the top-performing schools. Lastly, a significant number of these 25 programs have struggled to achieve and maintain American Bar Association accreditation,[9] and several have recently closed following regulatory and financial difficulties.[10]

Implications

Students, colleges, and policymakers should all note the wide variation in the payoff of law degrees. Law schools that realize they create little value should consider what they can do to lower costs and improve employment outcomes. Prospective law students may want to double-check that their goals are aligned with likely outcomes by comparing their expected costs, including forgone wages, with their expected wage gains[11] minus what they already earn.

Policymakers should also pay attention to the range in the value of law schools and graduate programs in general. New gainful employment regulations will apply accountability metrics to some graduate programs for the first time, but only short-term and for-profit programs could lose access to federal aid for their poor performance without congressional action.[12] Because only 2 percent of law programs are offered at for-profit colleges, most will continue to receive federal subsidies regardless of their value. In fact, the federal government disbursed $278 million in loans last year to help students attend nonprofit and public law programs that will take more than a decade to pay off.

This regulatory gap could be an opportunity for policymakers to design accountability metrics tailored to graduate programs. As a first step, the US Department of Education could collect and publish the median earnings of workers *before* they enroll in a graduate program. With these data, analysts and

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[9] Lyle Moran, "La Verne Law School Opts for State Accreditation Rather Than Closure," Above the Law, November 26, 2019, https://abovethelaw.com/2019/11/la-verne-law-school-opts-for-state-accreditation-rather-than-closure/; George Khoury, "Cooley Law Can't Hide ABA Accreditation Problems," FindLaw, December 19, 2017, https://archive.findlaw.com/blog/cooley-law-cant-hide-aba-accreditation-problems/; Stephanie Francis Ward, "What Comes Next for Law Schools with Two-Year Bar Pass Rates below 75%?" ABA Journal, May 13, 2021, https://www.abajournal.com/web/article/what-comes-next-for-law-schools-with-two-year-bar-pass-rates-below-75; and Don Macaulay, "LMU's Duncan School of Law Does Not Meet Admissions Standard," *National Jurist*, April 17, 2018, https://nationaljurist.com/prelaw/lmus-duncan-school-law-does-not-meet-admissions-standard/.

[10] Debra Cassens Weiss, "Class Action Claims Closing of Savannah Law School Is Intended to Benefit Parent School's Finances," ABA Journal, March 27, 2018, https://www.abajournal.com/news/article/suit_claims_closing_of_savannah_law_school_is_intended_to_benefit_parent; and "Valparaiso Law School to Close in 2020," *South Bend Tribune*, October 31, 2018, https://www.southbendtribune.com/story/news/education/2018/10/31/alparaiso-law-school-to-close-in-202/116956146/.

[11] See the US Department of Education's College Scorecard at https://collegescorecard.ed.gov/.

[12] Financial Value Transparency and Gainful Employment (GE), Financial Responsibility, Administrative Capability, Certification Procedures, Ability to Benefit (ATB), 88 Fed. Reg. 32300 (May 19, 2023).

policymakers could more accurately estimate counterfactual earnings to better account for earnings premiums *and* lost wages during school. Once a well-calibrated cost-to-earnings-premium measure is used as an accountability measure, more law graduates will be able to report that their degree was worth their time and money.

Methods

We calculated a cost-to-earnings-premium measure for law schools using the formula $(direct\ costs\ +\ \$60{,}000)/(earnings\ -\ \$40{,}000)$. Although 304 programs reported tuition data, only 236 also had the earnings data required for evaluation.

Our counterfactual earnings of $40,000 come from FREOPP's estimate of counterfactual earnings for law school programs among students at age 30.[13] Because FREOPP did not estimate counterfactual earnings for programs in Puerto Rico and we could not be sure that $40,000 was a conservative estimate of counterfactual wages there, we excluded law programs in Puerto Rico.

For the earnings variable, we used median earnings three years after leaving school for program graduates who were not currently enrolled in school. Three years is short enough to allow for timely consumer protection but is enough time for graduates to take the bar exam, finish clerking, and find their financial footing. Because many law students graduate in their late 20s,[14] earnings three years after graduation correspond with FREOPP's estimate of counterfactual earnings at age 30. The earnings variable, reported by the College Scorecard, is measured in 2019 dollars and includes the earnings of 2014–15 and 2015–16 graduates.

For direct costs, we used the typical tuition and fees for one year of the law program multiplied by three (as full-time law programs are three years long). We used 2015–16 tuition data to match with the earnings cohort's last year of study. All institutions receiving federal funding must report the typical tuition and fees for their law programs, and these data are disseminated through the Integrated Postsecondary Education Data System.[15] But schools are not required to report their law programs' grant aid, so we could not calculate median net tuition, our preferred direct cost measure. This absence means our median costs are too high for any law program that discounts listed tuition for more than half of students.

We checked the websites of a few schools that reported unusually low costs and made appropriate adjustments for the programs that reported credit-hour costs instead of annual costs. We also used

[13] Preston Cooper, "Is Grad School Worth It? A Comprehensive Return on Investment Analysis," Foundation for Research on Equal Opportunity, March 31, 2022, https://freopp.org/is-graduate-school-worth-it-a-comprehensive-return-on-investment-analysis-a84644f29f9.
[14] The median student applies in their early 20s. Jessica Tomer, "Should You Go to Law School Immediately after Undergrad?" American Bar Association, August 21, 2018, https://www.americanbar.org/groups/law_students/resources/student-lawyer/student-essentials/going-to-law-school-immediately-after-undergrad/.
[15] See the IPEDS 2023–24 Survey Materials at https://surveys.nces.ed.gov/ipeds/public/survey-materials/forms?surveyid=11&instructionid=30072&formid=72.

deflated 2016–17 tuition and fee amounts for schools that reported 2016–17 tuition and fees that were more than 50 percent higher than in the previous year. We adjusted the tuition of 18 programs.

Because schools report costs separately for in-state and out-of-state students and there are no public data on the proportion of in-state and out-of-state students in each program, we counted these as separate programs. For instance, we have one observation for Georgia State University's in-state students and one for out-of-state students. Eighty-one law schools charge different tuition for in-state and out-of-state students and are included in the dataset twice.

Although the cost-to-earnings premium is the focus of the analysis, we also used a few other data sources. We included an estimate of programs' lifetime return on investment from FREOPP. These estimates use the American Community Survey to extrapolate lifetime earnings from recent graduates' earnings reported in the College Scorecard.[16] We used 2014 bar passage rates and employment rates 10 months after the class of 2014 graduated, from the American Bar Association.[17] Gainful employment outcomes were merged from the Department of Education's recently released 2022 Program Performance Data.[18] Lastly, we took the College Scorecard's lower-bound reports of how many 2015–16 and 2016–17 graduates had completely repaid their loans after four years. We ran correlations comparing each of these variables with the cost-to-earnings-premium metric.

FIGURE 4

Correlations between Accountability Metrics and Quality Measures among Law Programs

Benchmark	Tuition / Earnings	Tuition / (Earnings – $40,000)	(Tuition + $60,000) / (Earnings – $40,000)
Bar passage rate	-0.23	-0.42	-0.47
Employment rate at 10 years	-0.29	-0.51	-0.58
Portion of graduates who repaid their loans after four years	-0.31	-0.58	-0.69
FREOPP's estimated lifetime return on investment	-0.37	-0.53	-0.61
Discretionary debt-to-earnings ratio from gainful employment	0.47	0.77	0.80

Source: Author's calculations using College Scorecard and Integrated Postsecondary Education Data System data.
Note: FREOPP = Foundation for Research on Equal Opportunity.

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[16] Preston Cooper, "How We Calculated the Return on Investment of a Graduate Degree," Foundation for Research on Equal Opportunity, February 24, 2022, https://freopp.org/how-we-calculated-the-return-on-investment-of-a-graduate-degree-22c4865805fa.
[17] "2017 Raw Data Law School Rankings," PublicLegal, accessed October 4, 2023, https://www.ilrg.com/rankings/law/2017/1/desc/LSATHigh.
[18] US Department of Education, "2022 Program Performance Data Description" (Washington, DC: US Department of Education, n.d.).

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