

BEYOND THE HEADLINES

At a Glance: Jobs, Workers & the Economy

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FOCUS: U.S.

When Does a College Degree Pay Off? PART 1 of 2

Recent news reports (see, e.g., *Time* magazine's May 30 edition and National Public Radio's *Tell Me More* segment of June 5) have posed the question of whether a college education is worth it given the rapidly escalating costs that leave graduates with years of foregone wages and a substantial debt load. This question is particularly pertinent in light of local and national policies – such as President Obama's *American Graduation Initiative* – seeking to substantially increase the number of people who attend and graduate from college.

Pew Research Center's report, *Is College Worth It?*¹ acted as an important catalyst for the flurry of news reports.² The report found that the current cost of a college education – at both public and private institutions – has roughly tripled since 1980 in inflation-adjusted dollars.

Given these costs, does a college degree always pay off? The Pew study revealed the following:

Overall, A College Degree Provides a Substantial Payoff...

Net Lifetime Financial Gain of College Graduates vs. High School Graduates		
High School Graduate Only	Associate's Degree	Bachelor's Degree
Lifetime Earnings: \$770,000	Lifetime Earnings: \$1,000,000	Lifetime Earnings: \$1,420,000
Less foregone earnings + cost of college: (\$0)	Less foregone earnings + cost of college: (-\$50,000)	Less foregone earnings + cost of college: (-\$100,000)
Net Gain: \$770,000	Net Gain: \$950,000	Net Gain: \$1,320,000

The average Associate's Degree holder earns **\$180,000** more over their career than a person with a high school degree alone.

The average Bachelor's Degree holder earns **\$550,000** more over their career than a person with a high school degree alone, and **\$370,000** more than a person with an AA.

Notes: Based on 2009 median annual earnings, and 40-year working life. Future dollars are discounted at a 4% rate. College graduates (AA or BA) include only those with no advanced degrees.

Importantly, these lifetime earnings gains figures **assume no period of unemployment**. As the recession and its aftermath have made clear, however, **those with lower levels of education experience much higher rates of unemployment**, such that the comparative lifetime earnings gap between college graduates and non-college graduates is likely to be understated in the numbers presented above.

Further, the study notes that trends in the value placed by the labor market on a college degree can be seen in younger workers' earnings over the past 30+ years. Pew found that **pay for younger workers with a BA has remained fairly stable** since 1976 (when BA holders earned about **10% more** than those with just a high school education), while **earnings of those with just a high school education fell during the 1980's** before stabilizing in the early 1990's, from which point BA holders have been earning about **50% more** than high school graduates.

... But the Payoff Depends Upon the Field of Study

The Pew Research Center study points out that undergraduate field of study is very important to one's lifetime earnings. Using BA holders as an example (including those who went on to obtain advanced degrees), Pew found that those with an undergraduate major in engineering had lifetime earnings of **\$1.9 million, compared to \$1.1 million for those majoring in education**.

The field of study/occupation – not simply how far one travels along an educational pathway – is thus a key determinant of one's lifetime earnings benefit. In general, Pew found that lifetime earnings are typically significantly higher for those studying in fields requiring numerical competencies (computers, engineering) compared to other fields (e.g., education and liberal arts).

UP NEXT: The August 2011 - Volume 2 BEYOND THE HEADLINES will be Part 2 of When Does a College Degree Pay Off? - and will focus specifically on the payoff of a one- and two-year college credential.

1. *Is College Worth It? College Presidents, Public Access, Value, Quality and Mission of Higher Education*, Pew Research Center (by Pew Social Trends staff), May 15, 2011 (<http://pewsocialtrends.org/2011/05/15/is-college-worth-it/>).

2. See also: *What's It Worth? Value of College Majors*, Georgetown University Center on Education and the Workforce (authors Carnevale, Strohl, Melton), May, 2011.

BEYOND THE HEADLINES: Policy & Labor Market Updates for Those Working to Help Low-Income and Low-Skill Individuals Advance through Education, Training & Living-Wage Jobs

About Seattle Jobs Initiative

Seattle Jobs Initiative creates opportunities for students, workers and business to succeed by helping education and job training programs meet the demands of a new economy. We find and apply solutions for people to gain the skills they need for good jobs that create prosperity for all in today's marketplace.

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