

Is College a Worthwhile Investment?

COLLEGE AS AN INVESTMENT: COSTS, PAYOFFS, AND FINANCING
FEDERAL RESERVE BANK OF CHICAGO
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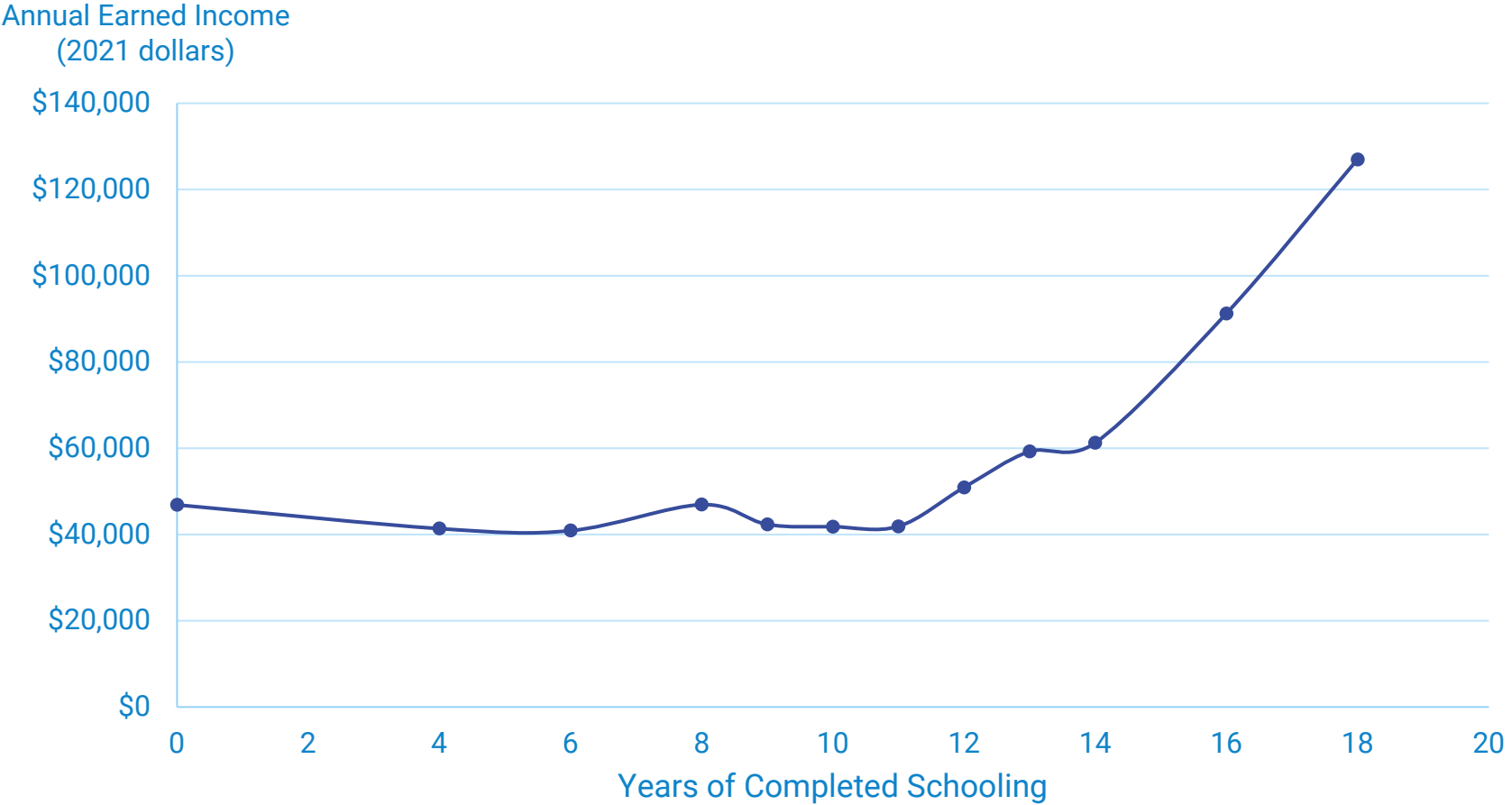
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*The views expressed here do not necessarily reflect the views of the
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Investing in Postsecondary Education

- Well-documented advantages to additional schooling
- Published tuition and fees have been rising
- Earnings advantage has not
- Is higher education a worthwhile investment?

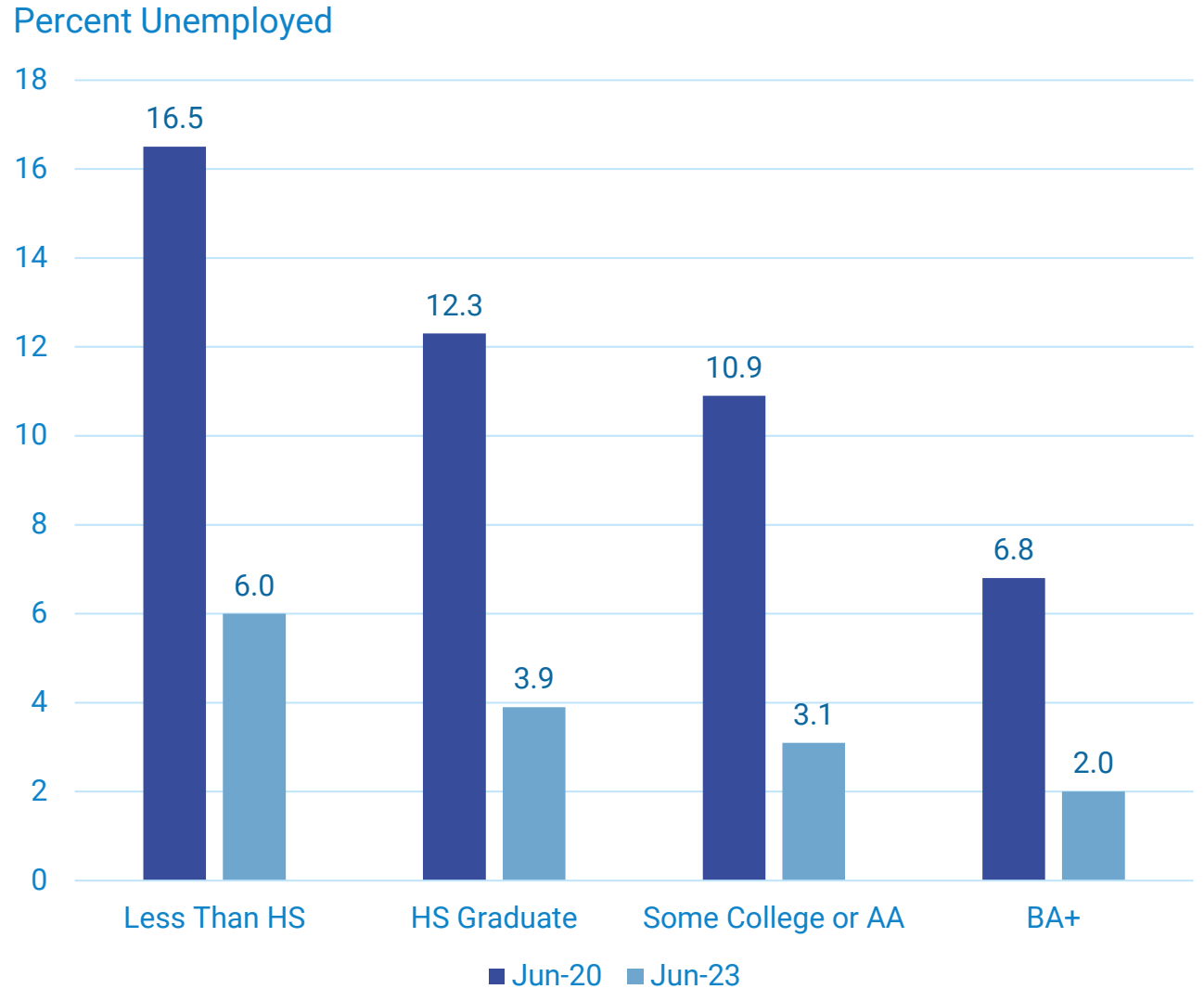
Average Income by Education



Source: American Community Survey 2017-2021 5-year sample available from IPUMS. Averages are for U.S. citizens ages 25 through 64 years who usually worked full-time and for at least 40 weeks last year.

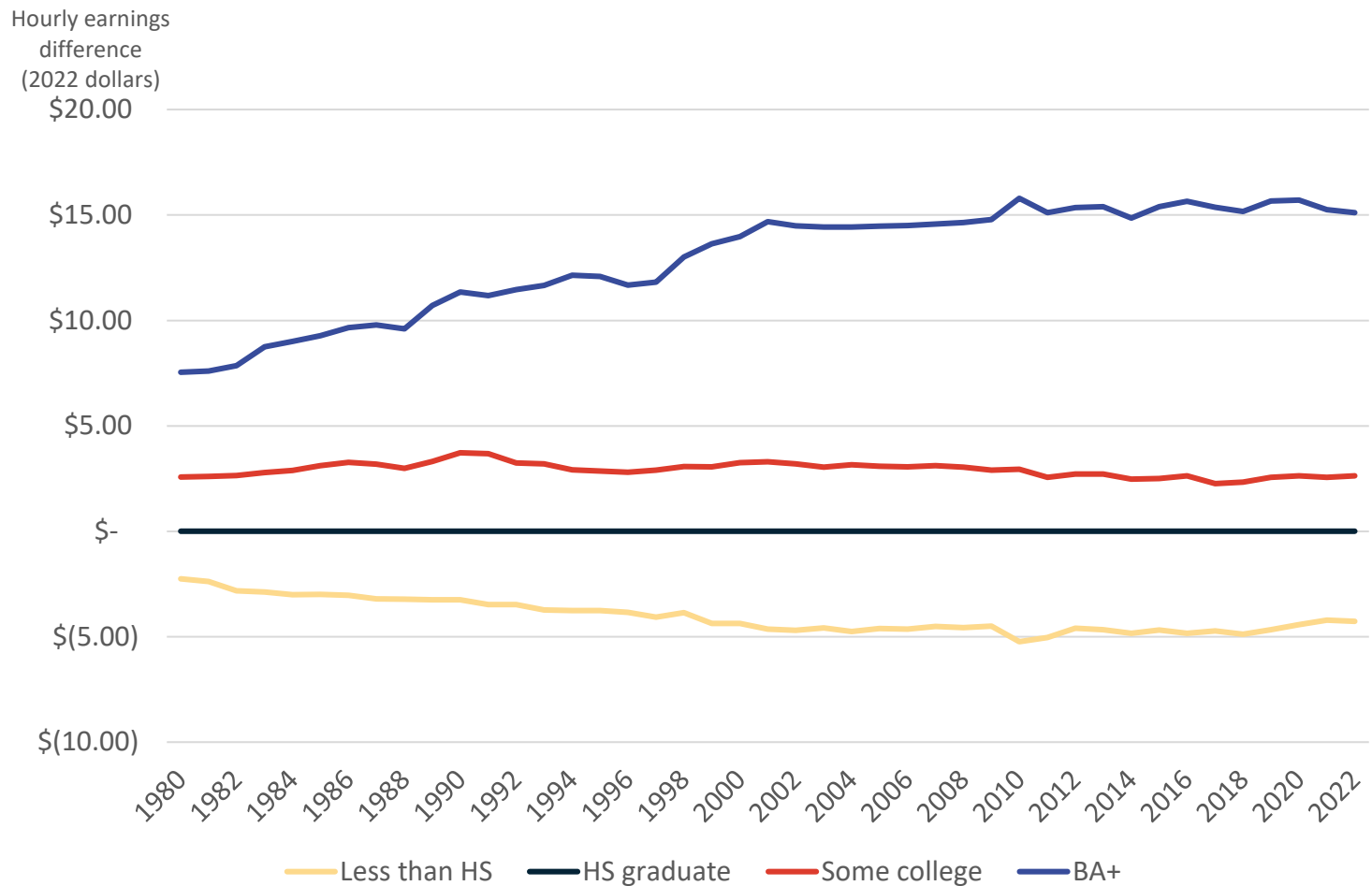
Educational Attainment is Protective

- Unemployment rates decline with educational attainment.



Source: Bureau of Labor Statistics, Labor Force Statistics from the CPS, SA rates

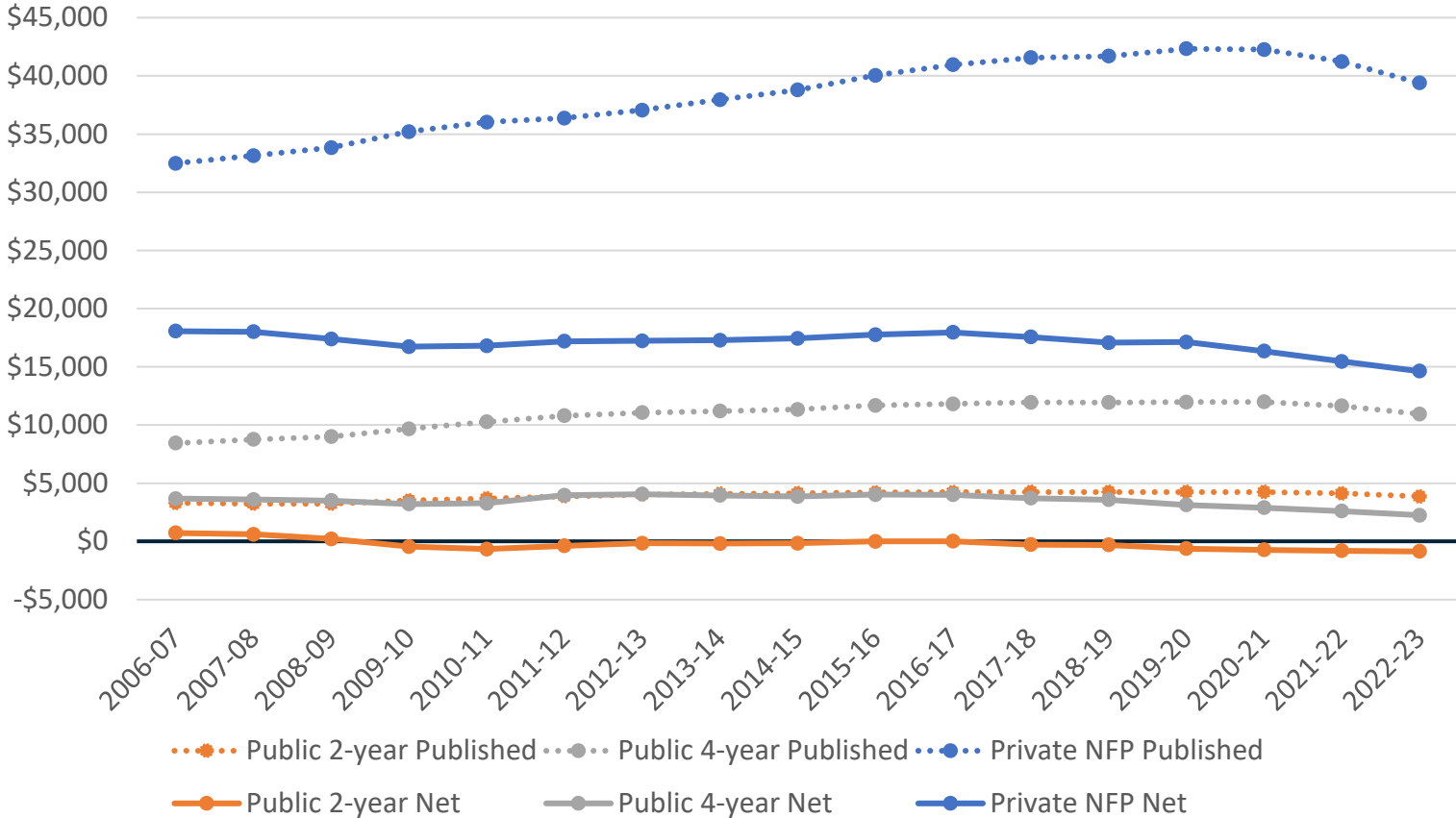
Average Hourly Earnings Advantage Relative to HS Graduates



Source: Bureau of Labor Statistics, *Current Population Survey*.

Average Published & Net Prices

Tuition & Fees (2022\$)



Source: College Board, *Trends in College Pricing 2022*

Is College a Worthwhile Investment?

- Costs of college for the individual
 - Forgone earnings while in school
 - Tuition and fees
 - Non-financial costs
 - E.g. distaste for school relative to work

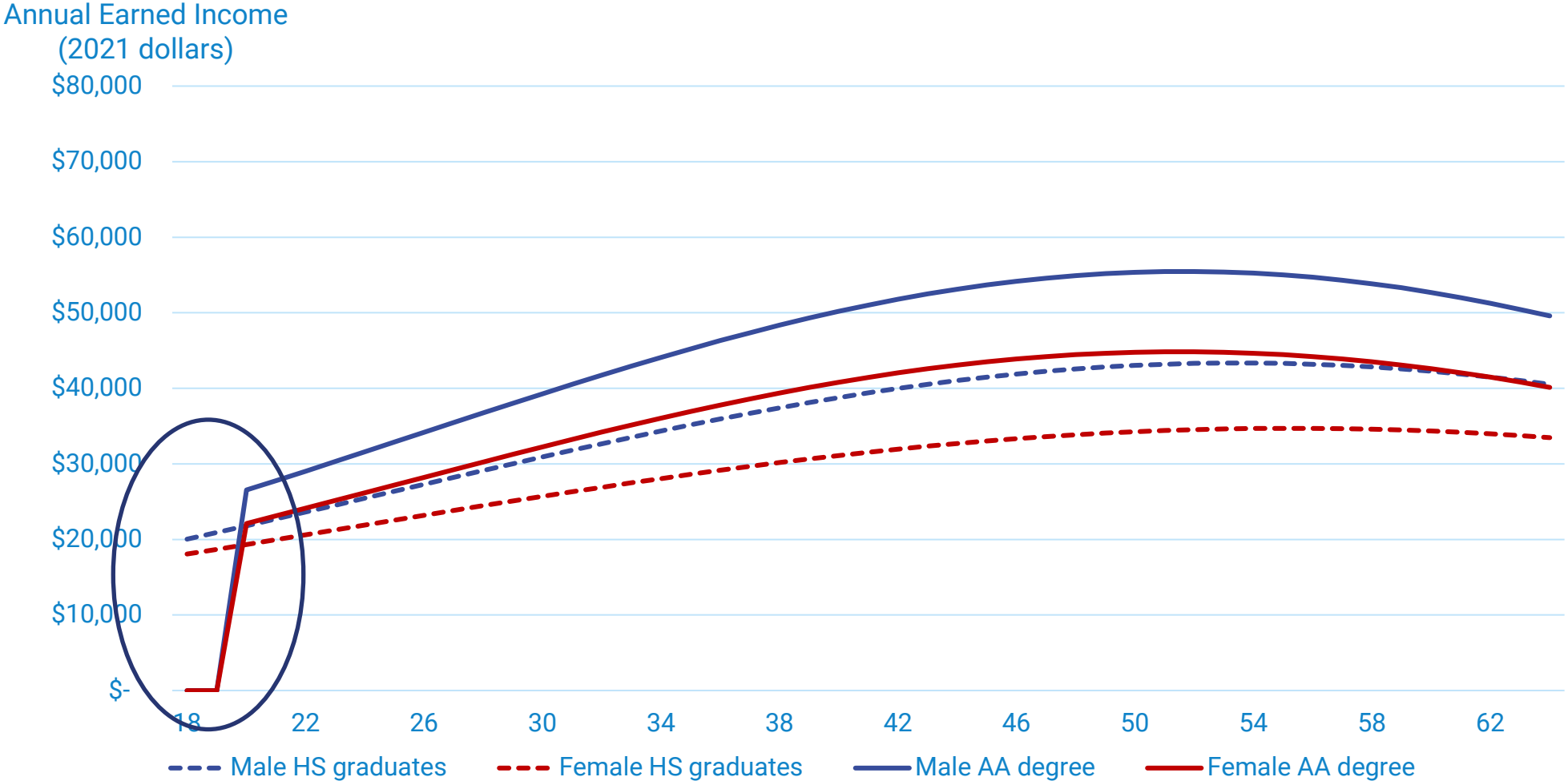
- Benefits of college for the individual
 - Higher earnings
 - Lower unemployment rates
 - Other non-financial benefits
 - E.g. better health outcomes

Is College a Worthwhile Investment?

- Expected financial value of college
 - Assume age-earnings profiles by race or ethnicity and education level equal current-year observations
 - Assume tuition and fees at 2-year and 4-year institutions remain constant in inflation-adjusted terms
 - Sum up income over a lifetime with a college education in present discounted value (PDV) terms (i.e. I value earnings in the future less than I value earnings today).
 - Calculate the PDV of income over a lifetime earned with a HS diploma
 - Calculate the PDV of tuition and fees costs

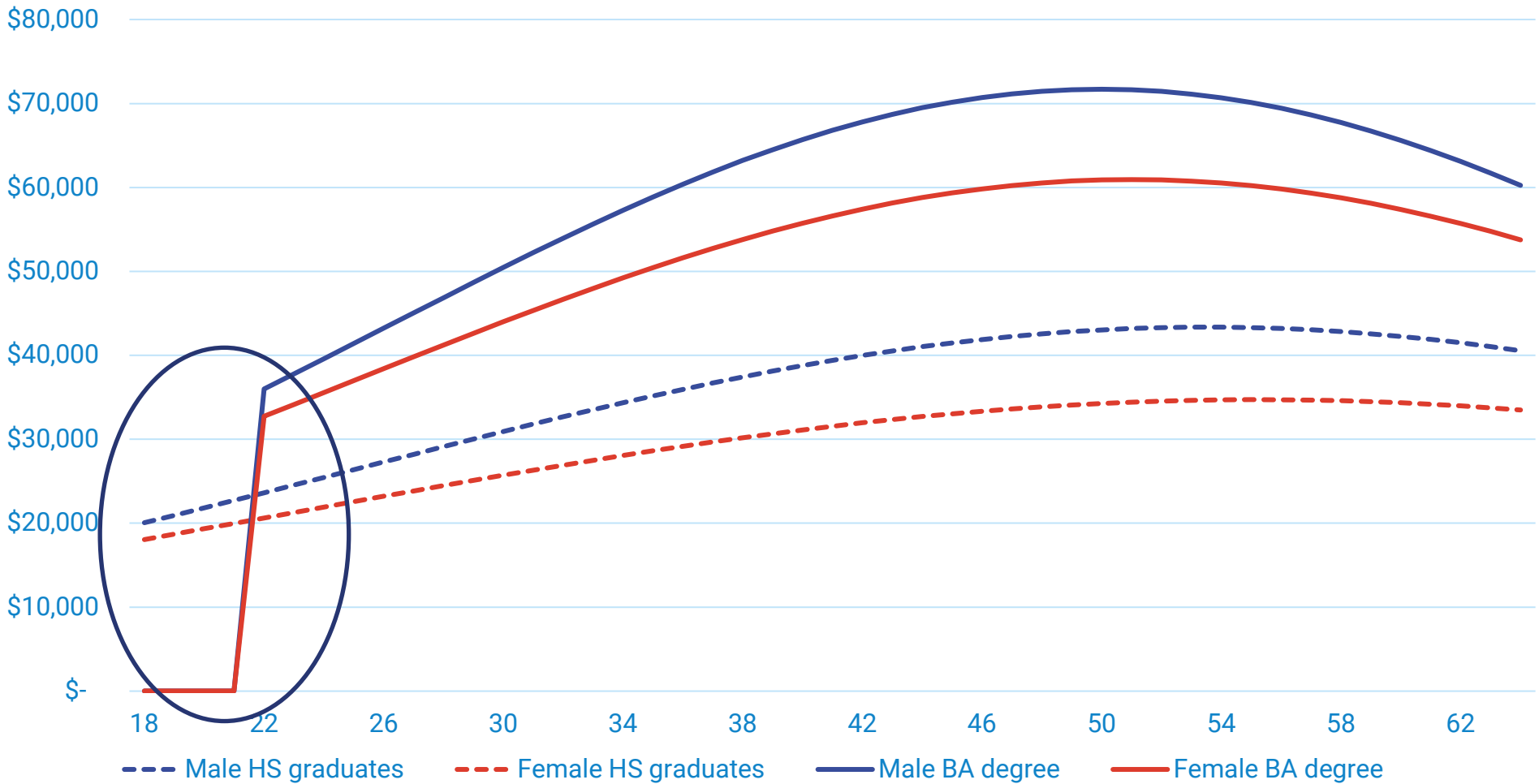
- Net benefit of college = PDV college income – PDV HS grad income – PDV of tuition and fees

Age Earnings Profiles: Black Adults

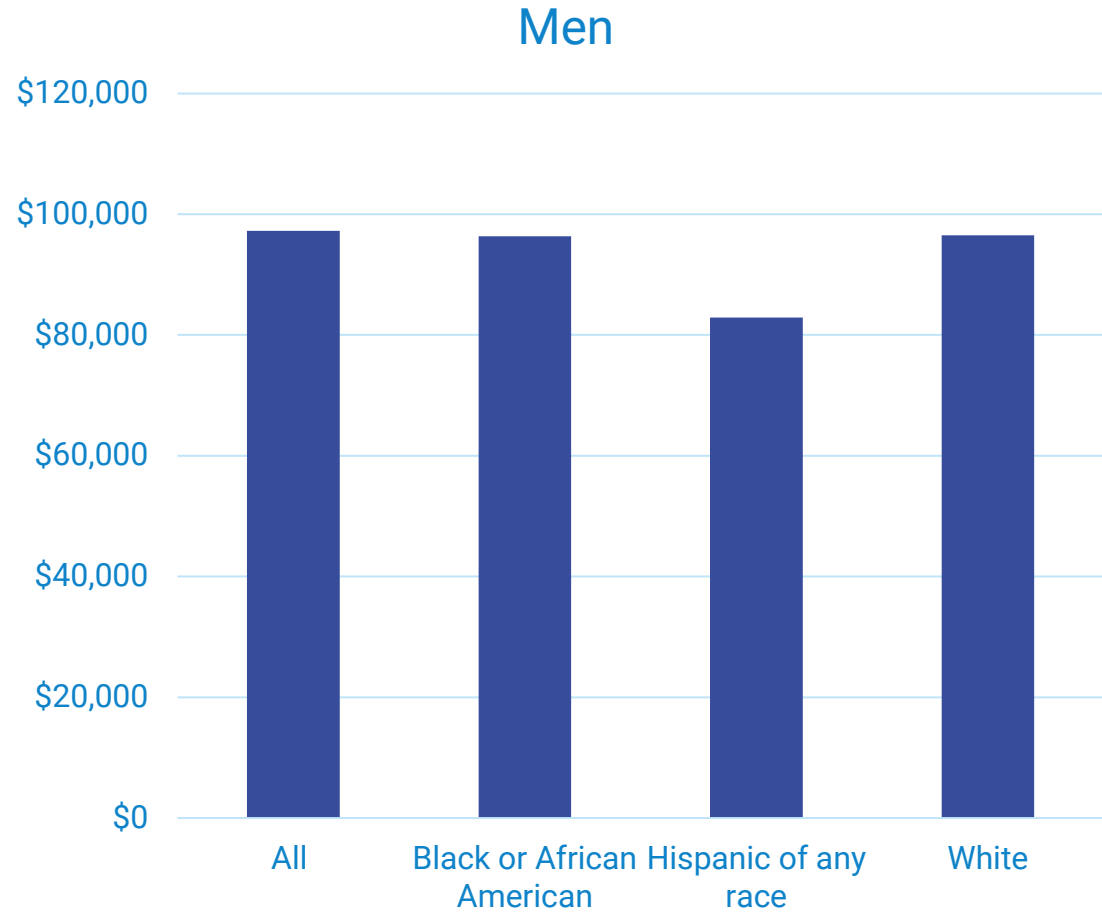
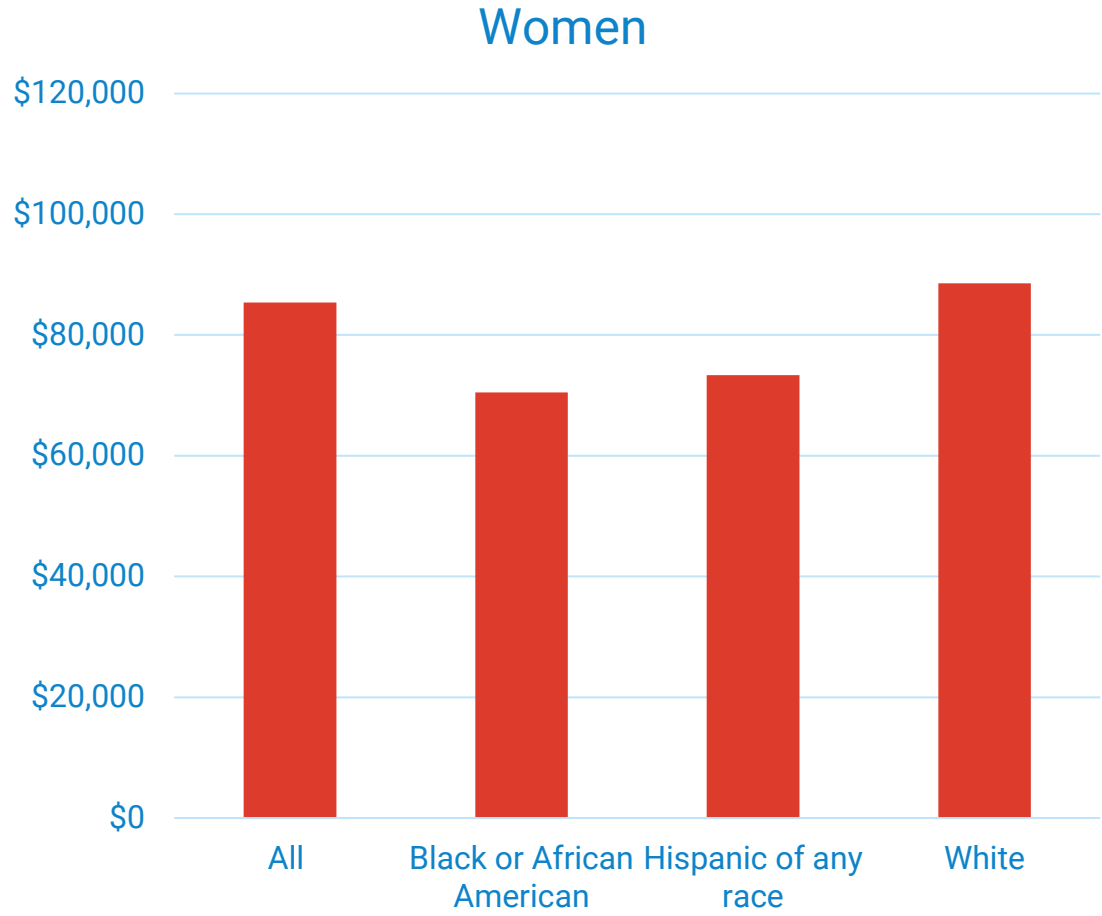


Earnings Profiles: Black Adults

Annual Earned Income
(2021 dollars)

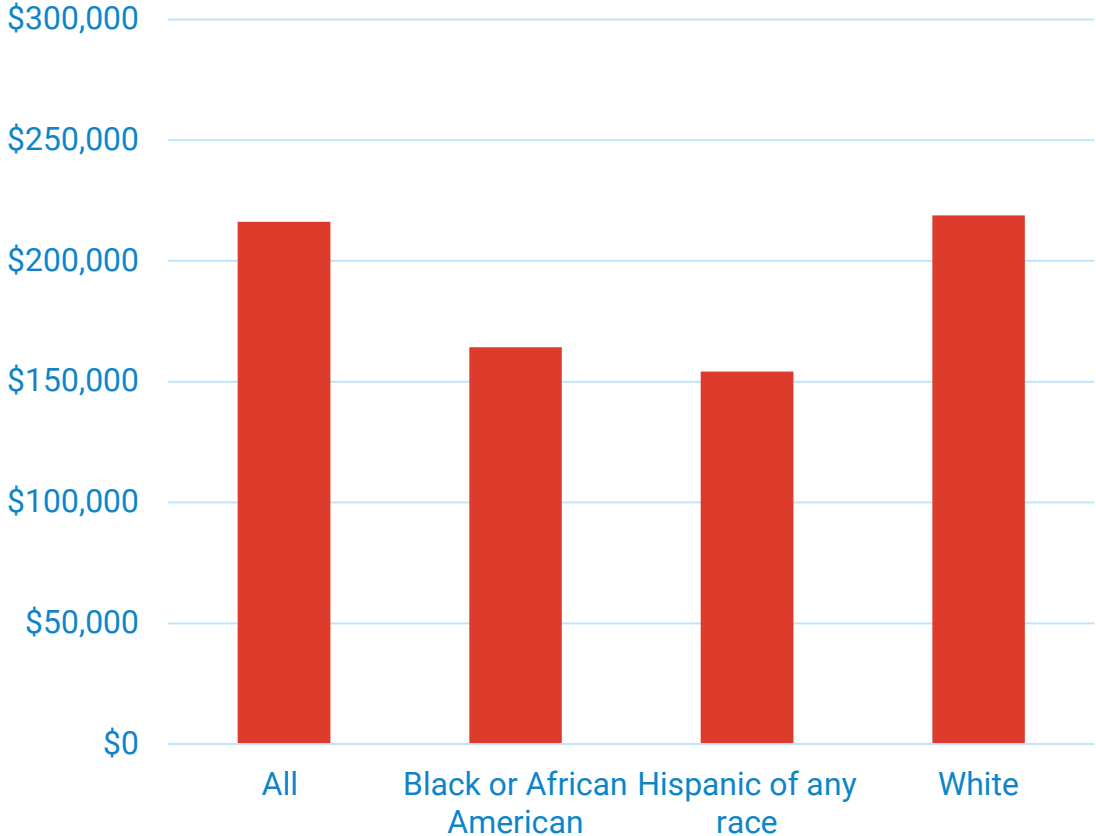


Net Value of an AA Degree 2021

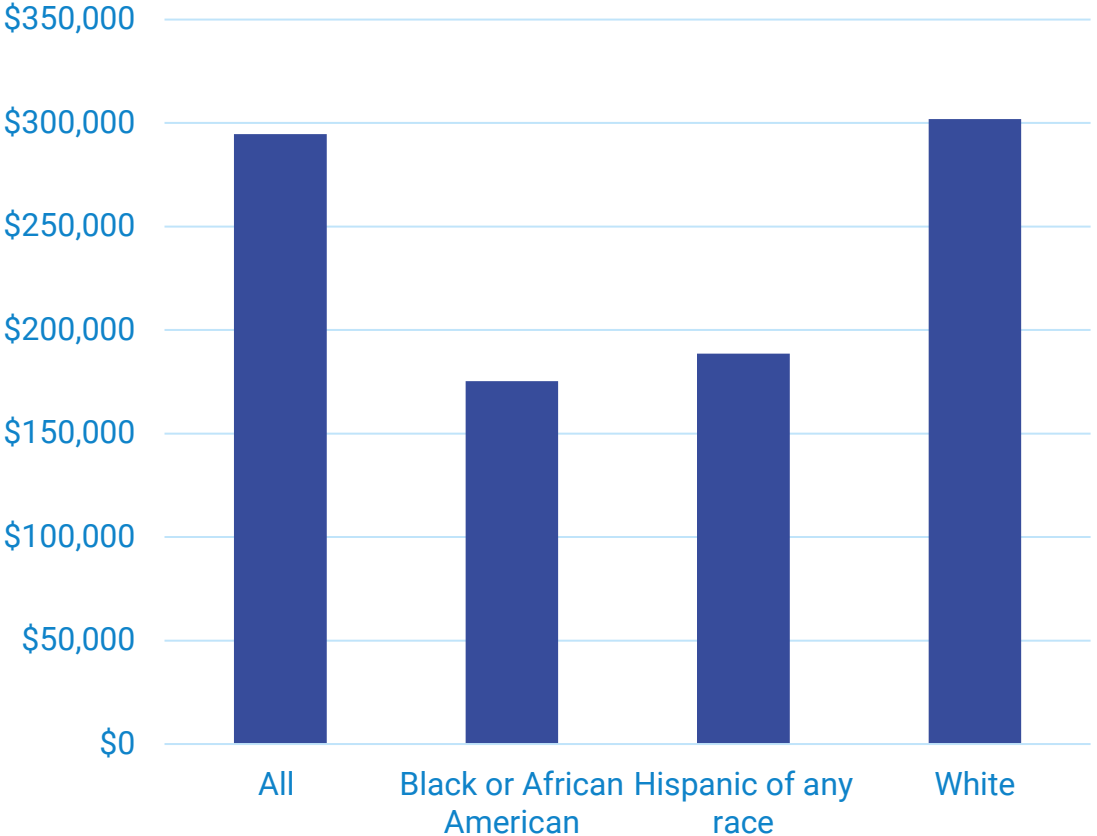


Net Value of a BA Degree 2021

Women



Men



Is College a Worthwhile Investment?

- Yes! On average, college is a good investment.
- Average value varies: Worth more investigation into why.
- Postsecondary education remains one of the best investments for individuals even considering the risks.
- Insuring individuals against the risks is an important consideration for optimizing investment levels and solving our student debt crisis.



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Thank you!