Is College a Worthwhile Investment?

COLLEGE AS AN INVESTMENT: COSTS, PAYOFFS, AND FINANCING
FEDERAL RESERVE BANK OF CHICAGO
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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?
Is College 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.


<table>
<thead>
<tr>
<th>Educational Attainment</th>
<th>Percent Unemployed Jun-20</th>
<th>Percent Unemployed Jun-23</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less Than HS</td>
<td>16.5</td>
<td>6.0</td>
</tr>
<tr>
<td>HS Graduate</td>
<td>12.3</td>
<td>3.9</td>
</tr>
<tr>
<td>Some College or AA</td>
<td>10.9</td>
<td>3.1</td>
</tr>
<tr>
<td>BA+</td>
<td>6.8</td>
<td>2.0</td>
</tr>
</tbody>
</table>

Average Hourly Earnings Advantage Relative to HS Graduates

Average Published & Net Prices

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

Annual Earned Income (2021 dollars)

- Male HS graduates
- Female HS graduates
- Male AA degree
- Female AA degree
Earnings Profiles: Black Adults

Annual Earned Income (2021 dollars)

- Male HS graduates
- Female HS graduates
- Male BA degree
- Female BA degree
Net Value of an AA Degree 2021

Women

- All: $80,000
- Black or African American: $60,000
- Hispanic of any race: $40,000
- White: $80,000

Men

- All: $120,000
- Black or African American: $80,000
- Hispanic of any race: $80,000
- White: $120,000

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Net Value of a BA Degree 2021

Women

- All
- Black or African American
- Hispanic of any race
- White

Men

- All
- Black or African American
- Hispanic of any race
- White
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.