



Just what will that College Degree get you?

By Deborah D. Thornton

Most parents tell their children to “go to college.” But economically, what will a college degree get you? Analysis from the College Board shows that the median family income for those with a bachelor’s degree is just over \$100,000, compared to \$49,400 for workers with only a high school diploma.¹ In 2006, the Bureau of Labor Statistics reported a median weekly income of just over \$1,400 for a person with a doctorate degree. In comparison, a bachelor’s degree holder made just over \$900, and someone who did not graduate from high school only made \$409 per week. This is a median difference of over \$50,000 per year between the most and least educated workers. In addition, the Labor Department shows that unemployment of the college educated is approximately half that of high school graduates. So a college degree does appear helpful to long term financial success, but don’t whip out your checkbook just yet.

During the current recession, recent graduates have been some of those most impacted by the employment downturn. In the third quarter of 2008, unemployment for college graduates aged 20-24 was 7.6 percent, and this fall it reached the highest ever, at 10.6 percent.² The current recession is significantly impacting both the immediate and long-term future of many recent graduates, especially those with large amounts of debt. A report in the NASFAA Journal of Student Financial Aid revealed that 19 percent of those receiving Pell loans delayed marriage because of their debt concerns, and 24 percent delayed having children.³ This was in comparison to 11 percent and 19 percent respectively for students without Pell loans. While it might be expected that major purchases such as cars (36 percent) and homes (45 percent) would be delayed because of college loans, marriage and children are core building blocks of American society which are being negatively impacted by college debt and lack of employment opportunities.

The Iowa College Aid Commission has an Internet page of various “calculators” to be used by parents and students in analyzing college decisions. Their program offerings are known by the acronym of “ICAN” – the Iowa College Assistance Network. One of the calculators is the “Value of College Calculator.”⁴ You plug in different numbers estimating the long-term benefit of a college education. Interestingly enough, the initial numbers show that college in Iowa costs \$7,500 per year – while we have seen vastly different costs (\$18,600 to \$19,800 for a Regent school) reported by various agencies. Presumably \$7,500 is an estimate of just tuition and fees at Regent schools and does not include room and board. The ICAN calculator numbers also show a post-college starting salary of almost \$38,000, annual raises of 4 percent, and a four-year completion period. It assumes you start college at age 18 and work until 65. With these assumptions, the calculator shows that value of attending college is similar to being given \$516,000 in cash today and will result in almost \$2 million more (\$1,957,575) in earnings over your lifetime.

Alter those numbers just slightly, to reflect the full \$19,000 cost of attending an in-state public university, a graduation time of 5 years instead of 4, a more realistic 3 percent annual raise and the net present value drops significantly, to only \$149,000. This is just \$73,000 more than the actual cost of attending college. If you take a job paying only \$30,000 instead of \$38,000

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– still more than the high school graduate, the calculator tells you that the cash today (Net Present Value) would “not have a positive impact,” and you would only make \$180,000 more than the high school graduate over your lifetime. If a worker, such as a woman who marries, becomes a mother, and stays home with her children, is out of the full-time workforce for any extended time the NPV becomes even more questionable.

A more discouraging scenario for those parents paying for four years at an Iowa private college, and potentially paying some \$30,000 per year, is that according to the calculator, “going to college will not have a positive impact on the present value of our lifetime earnings” unless their child graduates and makes more than \$30,000 a year from the very beginning. The numbers when you use a six-year graduation timeframe, at both the public and private college, are even more negative. The interested parent, grandparent, or taxpayer can easily access the calculator at www.collegetoolkit.com/co/icsac/college-calculators/rescalecval.aspx to insert their own individual numbers and evaluate the results.

College Board President Gaston Caperton recently said, “While a college education is critical to long-term financial security, it feels out of reach to many students and families in today’s economy.” He went on to say that “institutions must increase their efforts to reduce costs and to prevent tuition from rising as rapidly as it has in the past.”⁵ Not only does that education “feel out of reach,” but also according to the Iowa College Assistance Network (ICAN) calculators, the price, length, and result of a college education may actually be financially negative. Yet the Iowa Board of Regents just raised tuition for next year by another six percent.

The most important idea to take away from the calculator scenarios is that for a college degree to be financially rewarding, students must be aware of the time needed to complete the degree, the cost, and the value of the job as a result. Earning a degree that leaves you with a large debt, takes an extended period to acquire, and provides little workplace value is not economically wise.

Given that most people in the country did not receive any raise this year; that many 2009 graduates do not have any job, much less one paying \$38,000 a year; that many students are now graduating in five or six years; and that they are graduating with significant student loans; legitimate questions must be asked. Is a four-year degree financially appropriate for all students in all fields? Might a two-year technical degree be financially more rewarding today? Or might a four-year degree be earned in less time? Each student and family will have to answer these questions for themselves. But knowledge is power and be sure you are informed. Then pick up the phone and call the Iowa Board of Regents about that tuition increase.

(Endnotes)

¹ “Trends in College Pricing 2009,” The College Board, p. X, <www.collegeboard.com/trends> (October 31, 2009).

² “Student Debt and the Class of 2008,” The Project on Student Debt, December 1, 2009, p. 1.

³ Sandy Baum and Marie O’Malley, “College on Credit: How Borrowers Perceive Their Education Debt,” NASFAA Journal of Student Financial Aid, p. 15.

⁴ Value of College Calculator, Iowa College Student Aid Commission, <<http://www.collegetoolkit.com/co/icsac/college-calculators/rescalecval.aspx>> (November 8, 2009).

⁵ “Cost of Attending College Rose Faster Than Inflation, Reports Find,” Foundation Center, <pdnapps.fdncenter.org/link/20013175/story> (October 22, 2009).

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