



Higher Education Return on Investment for Students, Families and Society

Introduction

Return on investment is a term often used by investors to understand the profitability of an investment. In higher education, there has been mounting focus on the return for investing in, and completing, a college credential. Some ask if the upfront financial investment is worth the monetary return. One way to look at this is to determine the average lifetime earnings of individuals at different levels of education attainment. But this approach does not take into consideration the total expenses or opportunity costs involved — issues such as the years of income a student must forego while completing the degree. Nor does it include non-monetary returns such as job security and lifestyle stability. This brief examines the higher education return on investment from two perspectives: individual financial advantages and societal benefits.

How Education Affects Financial Stability

Pursuing a higher education produces a variety of positive outcomes. One is upward financial and social mobility for students and their families. People with more education are more likely to earn more and less likely to be unemployed.

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This policy brief is one of two covering postsecondary return on investment. For more information, please contact stevie.lawrence@sreb.org or visit [SREB.org/completion](https://www.sreb.org/completion).

Earnings and unemployment rates by educational attainment, 2020

Educational attainment	Median weekly earnings (\$)	Unemployment rate (%)
Doctoral degree	1,885	2.5
Professional degree	1,893	3.1
Master's degree	1,545	4.1
Bachelor's degree	1,305	5.5
Associate degree	938	7.1
Some college, no degree	877	8.3
High school diploma	781	9.0
Less than a high school diploma	619	11.7

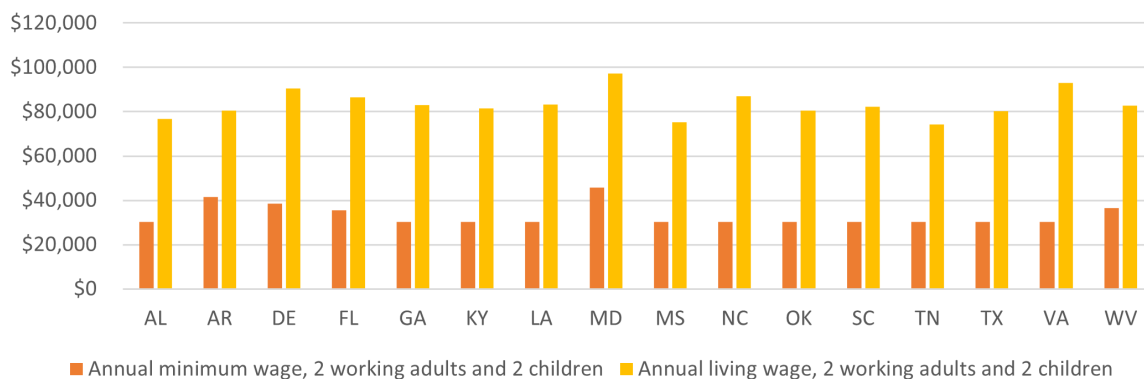
Data is for ages 25 and over. Earnings are for full-time wage and salary workers.

Source: Current Population Survey, U.S. Department of Labor, U.S. Bureau of Labor Statistics

The unemployment rate for those with less than a high school diploma is 11.7%, nearly 3 percentage points higher than for those with a diploma, and decreases steadily thereafter as education attainment increases.

Moving to earnings, the difference between average minimum wage earnings and annual living wage earnings for a family in the SREB region is striking. While state minimum wage levels are continuing to increase across the country, sustaining a family — defined as two working adults and two children — is not financially feasible at current minimum wage levels. In the South, the smallest difference between minimum wage and living wage is Arkansas's at nearly \$40,000 annually, while the biggest difference, in Virginia, is over \$60,000 annually. Over the course of a year, then, a family in Virginia earning minimum wage would need an additional \$60,000 to sustain itself. High school graduates with no additional training are more likely to face difficult decisions on things like medical care for their children and transportation to and from work.

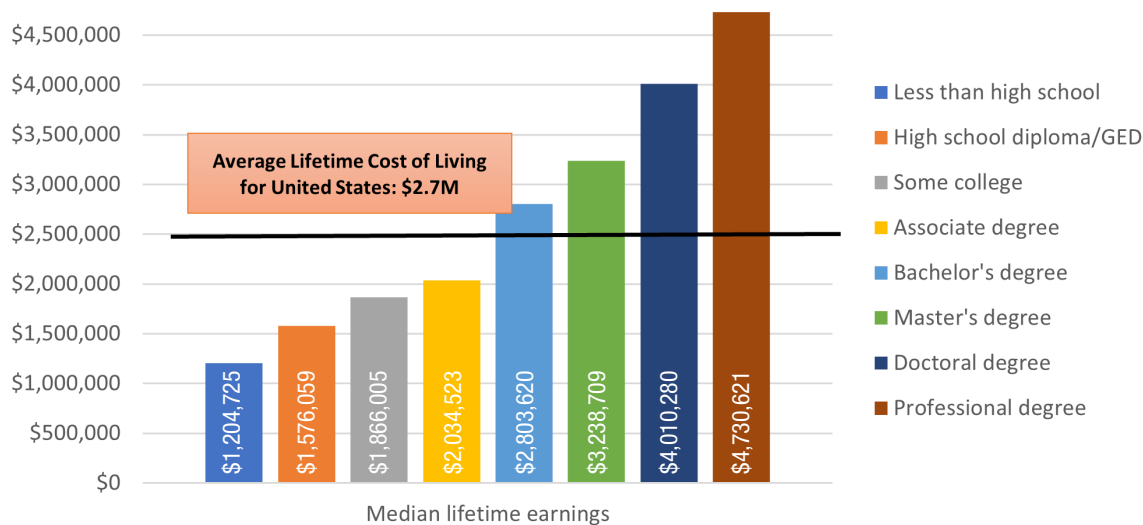
Annual Family Wage Differences by SREB State, 2020



Data Source: MIT Living Wage Calculator, January 2020

The lifetime earning differences between levels of educational attainment are also vast. The 2021 report *The College Payoff* from the Georgetown University Center on Education and the Workforce indicates that the average working adult will earn between \$1.2 million and \$4.7 million depending on education level. Data from the Bureau of Labor Statistics Consumer Expenditure Survey suggests that the typical American will spend close to \$3 million over the course of a lifetime on housing, food, transportation, medical care, entertainment and other miscellaneous expenses. As the table below shows, only those with a bachelor's degree or above can afford these expenses.

Individual Lifetime Earnings by Education Attainment Level



Source: Georgetown University Center for Education and the Workforce, *The College Payoff*, 2021

The True Cost of Higher Education

Measuring the return on higher education investment means considering a student's investment over the entire length of their enrollment, including tuition, all fees, and student loan interest. Barriers to completing a credential of value after high school extend beyond tuition to items such as room and board, books, supplies and basic living expenses.

Paying for basic living needs can be challenging for students who work full- or part-time jobs to sustain themselves. This often extends the time to degree, which in turn increases overall tuition payments and related education expenses.

The Financial Advantage of a College Education

Although the cost of higher education continues to rise, a postsecondary credential remains a solid and profitable investment. Research such as the report *Making College Worth It: A Review of the Returns to Higher Education* indicates that, on average, the return for a baccalaureate degree continues to be positive and outpace that for a high school diploma. The earnings gap, for example, between high school graduates and those with a bachelor's degree continues to increase. The 2019 College Board Report *Education Pays* suggests that those without postsecondary experience not only earn nearly \$25,000 less per year but are more likely to be unemployed and to need social service benefits. The college wage premium, the report notes, has increased from 52% to 54% for college graduates with work experience and from 78% to 83% for recent graduates.

Securing employment that yields the desired financial outcome is another risk associated with investing in higher education. The report *Is College Worth the Investment?* indicates that wages vary by choice of college, choice of major and the individual characteristics of students. For graduates with a bachelor's degree, choice of major continues to be among the most significant variables.

To be more specific, for students who graduate in four to six years, the median bachelor's degree earnings have a net return on investment of \$306,000 as noted by the report *Is College Worth It: A Comprehensive Return on Investment Analysis*. Some degrees, though, for instance architecture and engineering, are worth millions of dollars more over a lifetime than others such as psychology, social work and education. When students take longer than the typical amount of time to graduate, or drop out, the return on their investment decreases sharply. For students pursuing a traditional four-year bachelor's degree who are unable to finish, the return on investment decreases by 57%.

There has been an increase in the number of adults who complete an associate degree or higher after high school, but there remains significant work to be done in this area. SREB's most recent *Fact Book on Higher Education* indicates that postsecondary degree completion has increased by 3.2 percentage points nationally and 3.5 percentage points for SREB member states for working adults ages 25–64. According to the Postsecondary Value Commission, of that age group 71% of Asian American people, 56% of white people, 40% of Black people and 30% of Hispanic people in the United States had earned an associate degree or higher as of 2020. A more educated population improves economic conditions for those who complete a postsecondary credential and supplies more skilled workers to meet industry and workforce demands.

Societal Advantages

The societal benefits of earning postsecondary credentials were part of the original conception of higher education in the U.S. When the first colleges and universities were founded, higher education was for those training to become ministers or public servants. As enrollment increased in the mid-19th century, due in part to benefits available through the G.I. Bill and the Federal Student Loan Program in 1958, the focus expanded to training students for other careers, with an emphasis on developing a more educated and informed middle class.

The research literature on the return on investment for a college education is plentiful, and while non-monetary and intangible benefits may be more difficult to measure than financial returns, they are just as important in determining whether that investment is valuable.

Those non-tangible benefits include higher levels of well-being and feeling more engaged at work. And according to a 2021 *Value Colleges* article on the non-monetary benefits of attending college, still more outcomes of postsecondary education are critical thinking and problem-solving skills. The 2016 report *Does College Teach Critical Thinking? A Meta-Analysis* suggests that these skills improve substantially over the course of a typical college experience, and that critical thinking is viewed as an important component of many medium- and high-skill jobs.

Higher education may also lead to civic-minded citizens. According to the U.S. Bureau of Labor Statistics, almost 40% of college graduates did some volunteer work, more than 20% above the rate for those who only finished high school.

Higher levels of education even correlate with better health and longer life: the National Center for Health Statistics has found that life expectancy at age 25 — an important indicator of adult population health — is about a decade shorter for people who do not have a high school degree compared with those who have completed college.

According to the 2018 report *Evaluating the Return on Investment in Higher Education*, reliance on food stamps, Medicaid or other public assistance, as well as the probability of unemployment, all decline in lockstep with increasing levels of education. Thus lower use of these benefits allows tax dollars to be spent on other societal needs. And individuals and families with advanced credentials not only are less likely to rely on such social programs but tend to contribute more in taxes. The report also shows that higher levels of education tend to lead to lower levels of crime, directly reducing government spending on incarceration. Higher levels of education could also lead to lower costs for policing and public safety.

The Impact of Higher Education

State policy can provide families with greater access to higher education and in doing so improve both their livelihoods and their overall well-being. The benefits outweigh the costs to individuals, communities and society.

To set a clearer agenda for student success in the South, better positioning students for higher education and the workforce, SREB's Student Success Advisory Council is investigating such questions as: What is the return on investment in higher education for local, state and regional economies? What can states do to build a more viable workforce? How can higher education do more to prepare individuals and meet workforce demand? The next brief in the return-on-investment series will take on these questions.

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