

# What Is a College Degree Really Worth?

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Federal Reserve Bank of St. Louis***

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***My collaborators on the research discussed here include  
Bryan Noeth, Lowell Ricketts and Ana Kent.***

The views expressed here are those of the speakers and do not necessarily represent the views of the Federal Reserve Bank of St. Louis or of the Federal Reserve System.

# What Is a College Degree Really Worth?

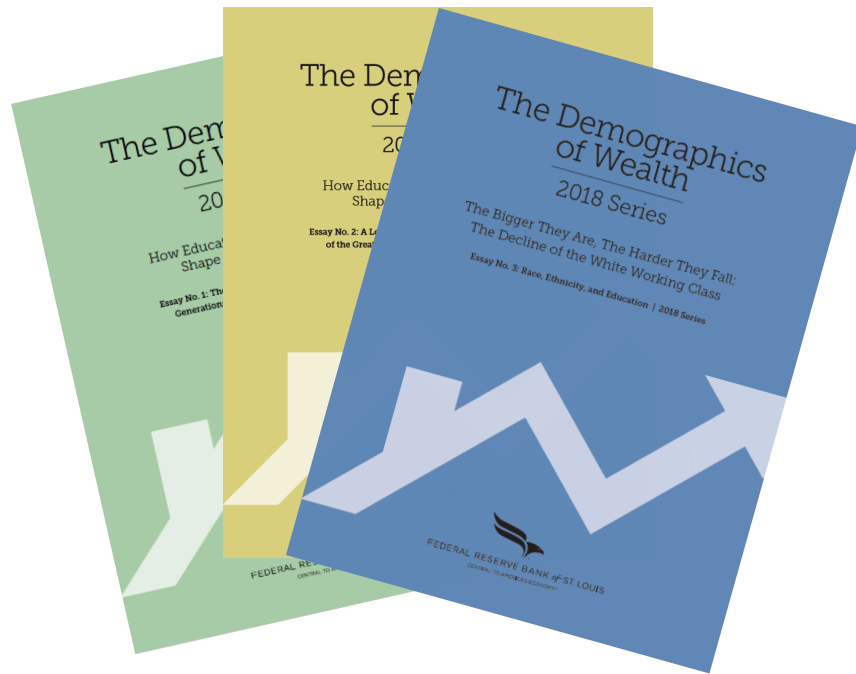
- A college degree is associated with higher income and wealth, on average.
  - There are non-financial benefits, too.
- But the rewards and risks are unequal:
  - Multi-gen grads: A grad parent gives a leg up.
  - Generational differences: Generations after the Boomers have accumulated less wealth.
  - Racial and ethnic differences: Has higher ed become an engine of racial inequality?
- Conclusions
  - College is vital but we need to make it work for *everyone*—first gen, post-Boomers, POC.
  - Unequal access dilutes its promise.

# ***The 2015 Demographics of Wealth***



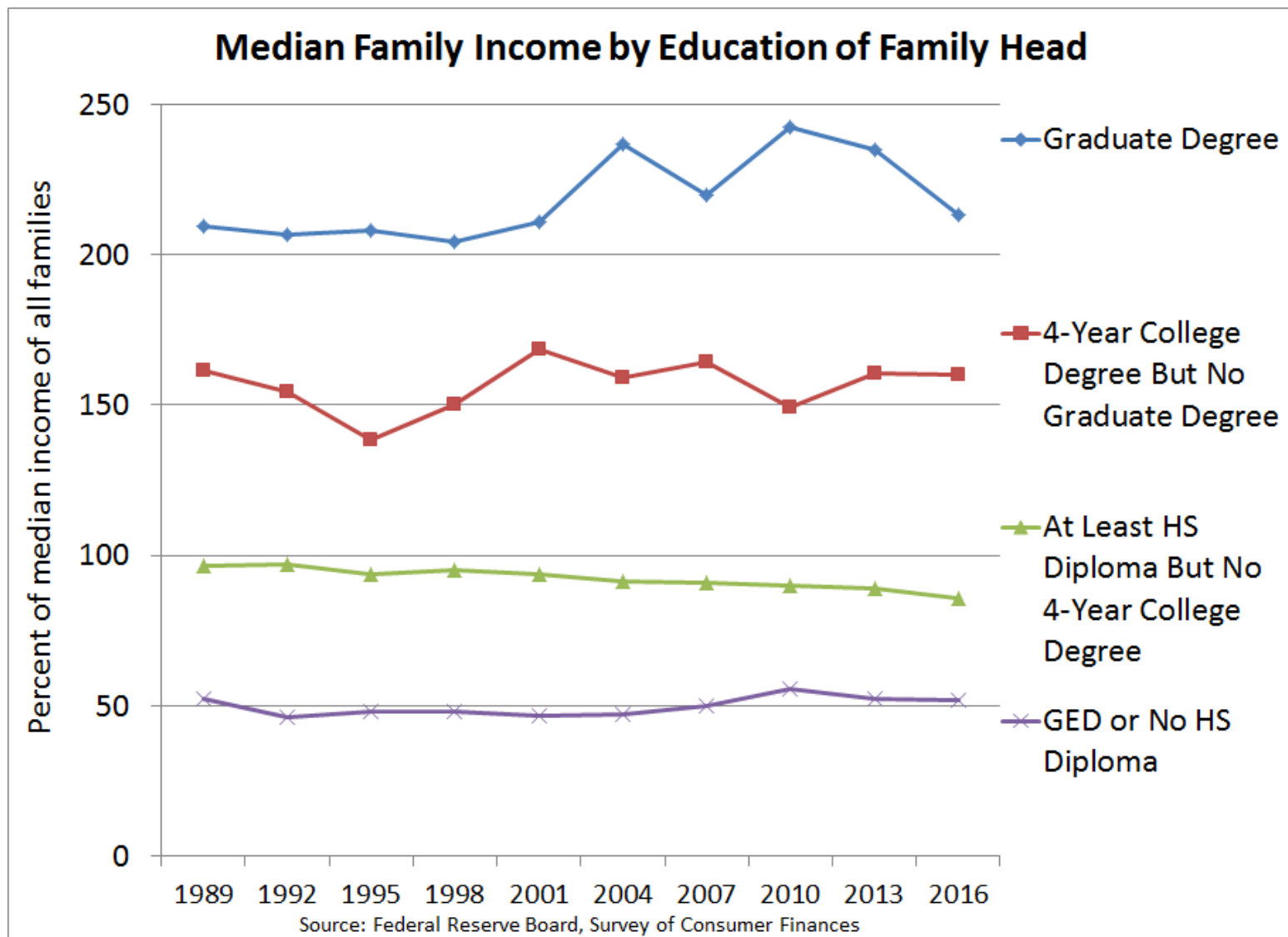
- **Data: Federal Reserve's 2013 Survey of Consumer Finances.**
- **Written by Emmons and Noeth.**
- **The series explored the connections between wealth and a person's:**
  - **Race/ethnicity**
  - **Education**
  - **Age and birth year (generation)**
- **These three demographic factors are powerful predictor of which families are struggling and which are thriving.**

# ***The 2018 Demographics of Wealth***



- **Data: Federal Reserve's 2016 Survey of Consumer Finances.**
- **Written by Emmons, Kent and Ricketts.**
- **The series explored the connections between wealth and a person's:**
  - **Parents' education**
  - **Generation, especially Gen X and millennials**
  - **Race and education jointly**
- **Again, we documented large wealth differences associated with demographic factors.**

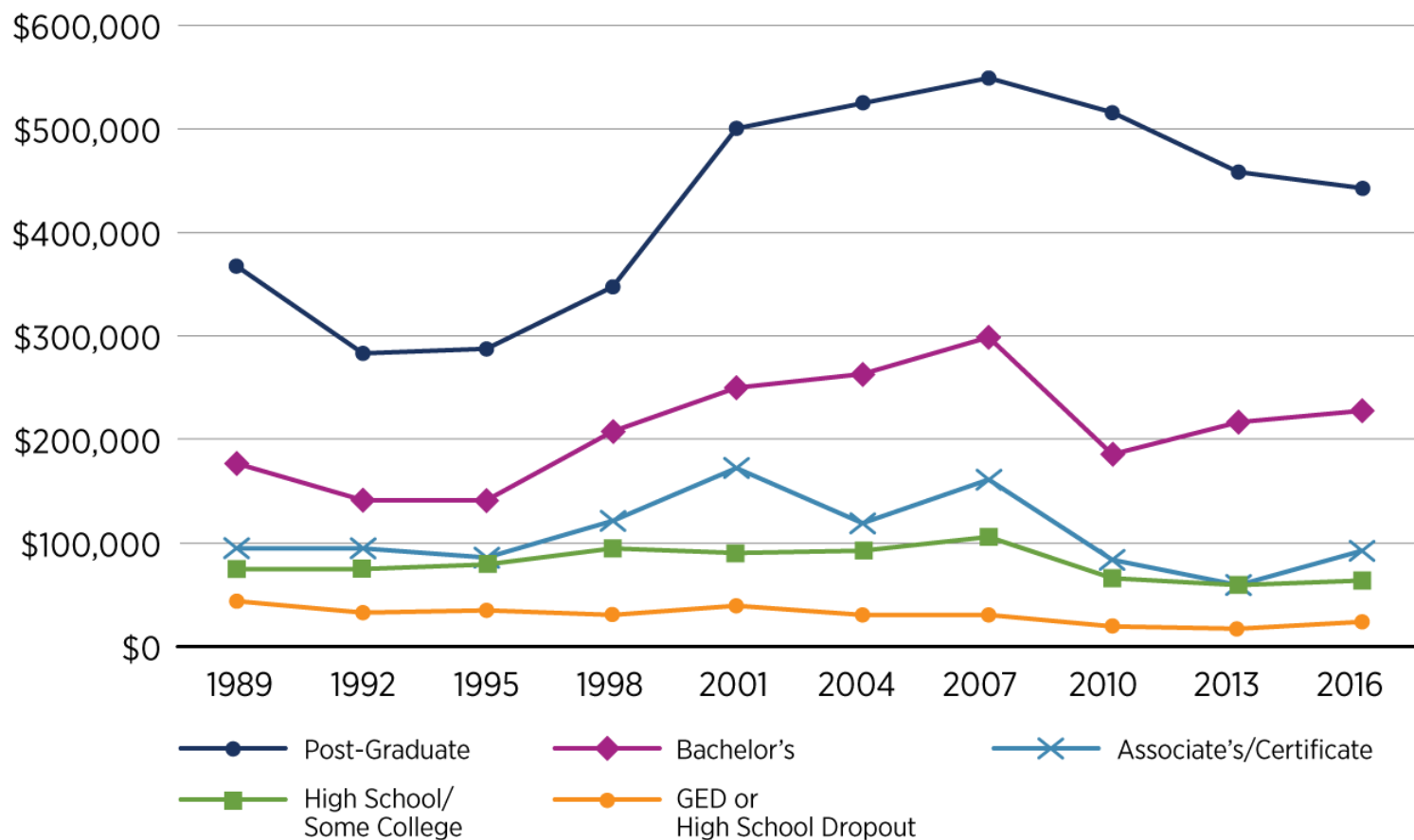
# Education is Strongly Related to Income



# Wealth Gaps Are Even Larger Across Education

## Wealth Gaps by Educational Attainment

A look at median (50th percentile) household wealth over time



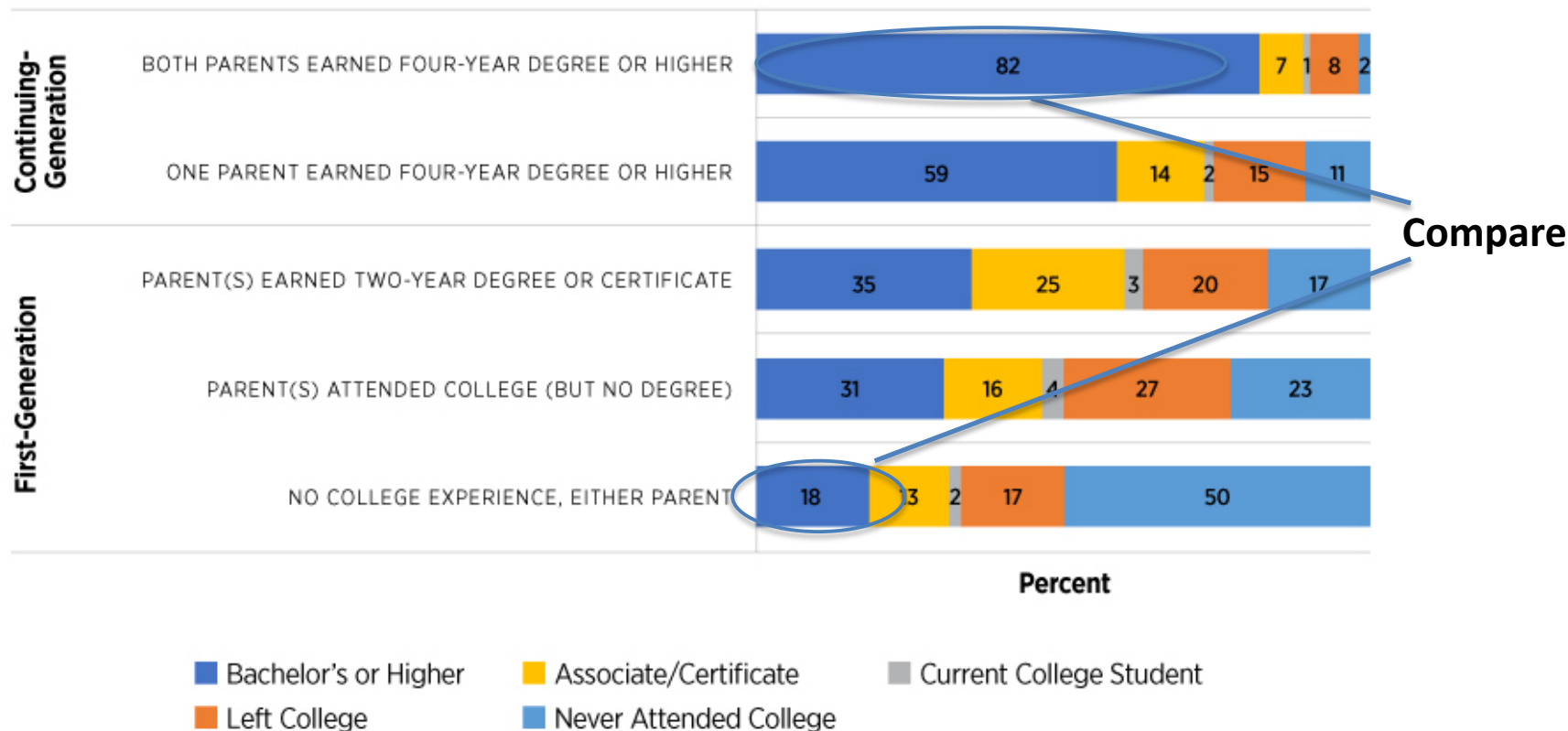
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# Other Indicators of Well-Being

<i>All figures are averages from 2010, 2013, 2016 SCF waves</i>		Homeowner-ship rate (%)	Marriage or cohabitation rate (%)	Healthy share (%)
Black	College grads	60	37	81
Black	Less than college	41	38	64
Hispanic	College grads	57	49	86
Hispanic	Less than college	44	63	69
White	College grads	80	66	87
White	Less than college	69	57	68

Source: Tables 3 and 4 in Emmons, Kent and Ricketts, *Demographics of Wealth, 2018 Series*, Essay No. 3, <https://www.stlouisfed.org/household-financial-stability/the-demographics-of-wealth/decline-of-white-working-class>.

# Kids Track Parents' Education; Wealth Follows



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Source: Ana Kent, Dialogue with the Fed, Sept. 24, 2019, <https://www.stlouisfed.org/dialogue-with-the-fed/grading-on-a-curve>, data from Federal Reserve Board Survey of Household Economics and Decision-making.



# Having A College-Grad Parent Enhances Your Own College Payoff

Your race & ethnicity	Your parents' education	Your education	Expected income	Expected wealth
White NH	College grad	College grad	\$157,000	\$630,000
White NH	College grad	Less than college	\$77,000	\$159,000
White NH	Less than college	College grad	\$114,000	\$409,000
White NH	Less than college	Less than college	\$53,000	\$98,000
Other	College grad	College grad	\$103,000	\$348,000
Other	College grad	Less than college	\$49,000	\$38,000
Other	Less than college	College grad	\$70,000	\$100,000
Other	Less than college	Less than college	\$35,000	\$19,000

Compare

Note: Median values in 2016 SCF for family headed by middle-aged (40-61 years) person.

Source: Figures 5 and 6 in Emmons, Kent and Ricketts, *Demographics of Wealth, 2018 Series*, Essay No. 1, <https://www.stlouisfed.org/household-financial-stability/the-demographics-of-wealth/the-financial-returns-from-college-across-generations>.

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# Intergenerational College Payoff is Smaller But Still Present for Non-Grads

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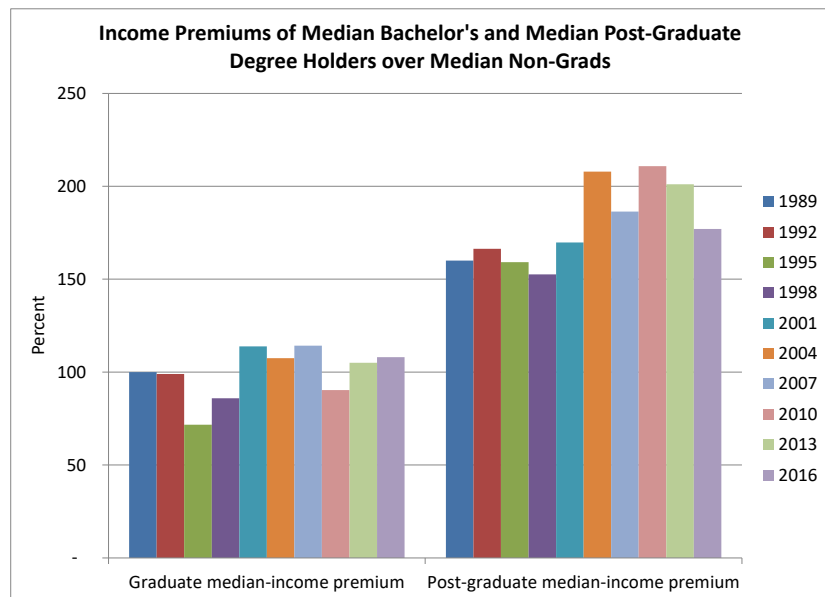
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# Conventional Wisdom (Pooled SCF Data): Large and Growing College Premiums

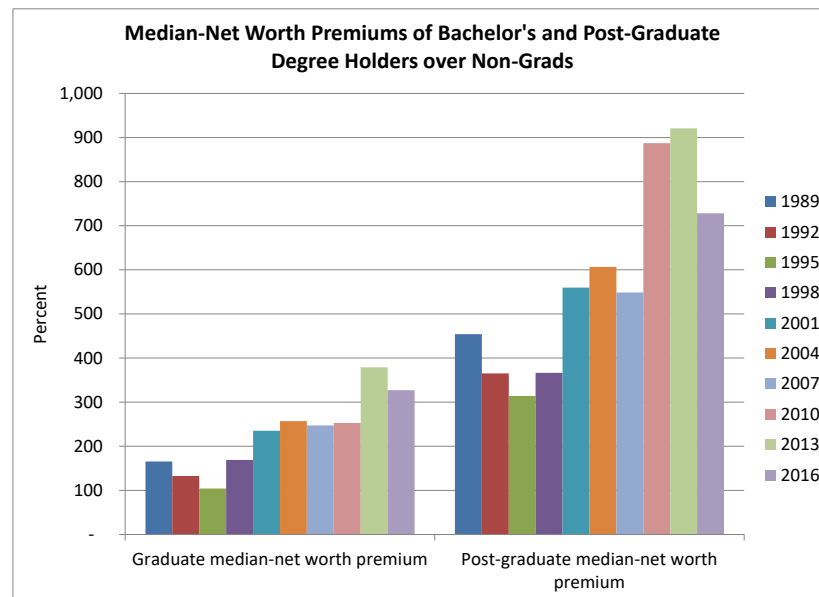
## Income



**Terminal  
bachelor's degree**

**Post-graduate  
degree**

## Wealth



**Terminal  
bachelor's degree**

**Post-graduate  
degree**

Includes SCF families of all races and ethnicities, all ages and all birth years.

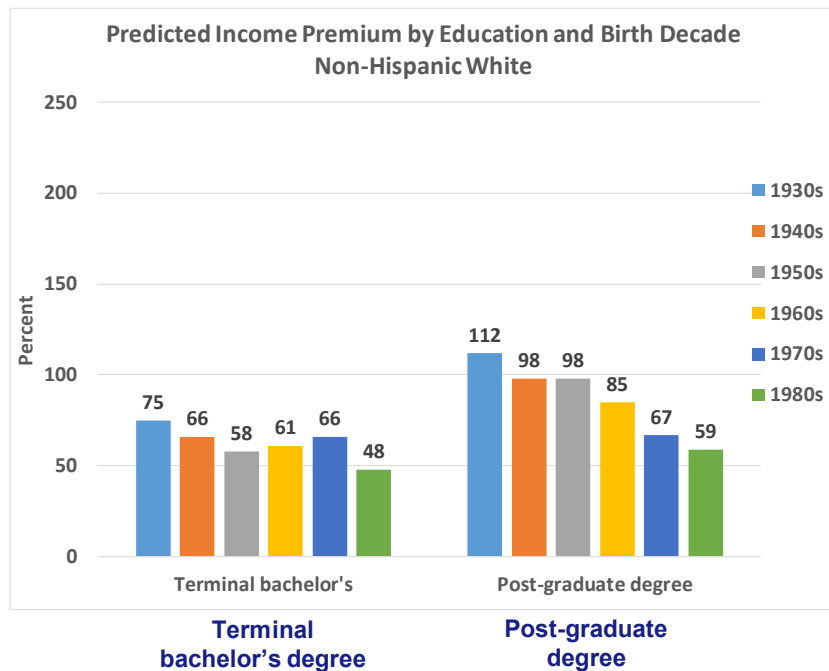
Source: Emmons, Kent and Ricketts, "Is College Still Worth It? The New Calculus of Falling Returns," *Review*, Fourth Quarter 2019,

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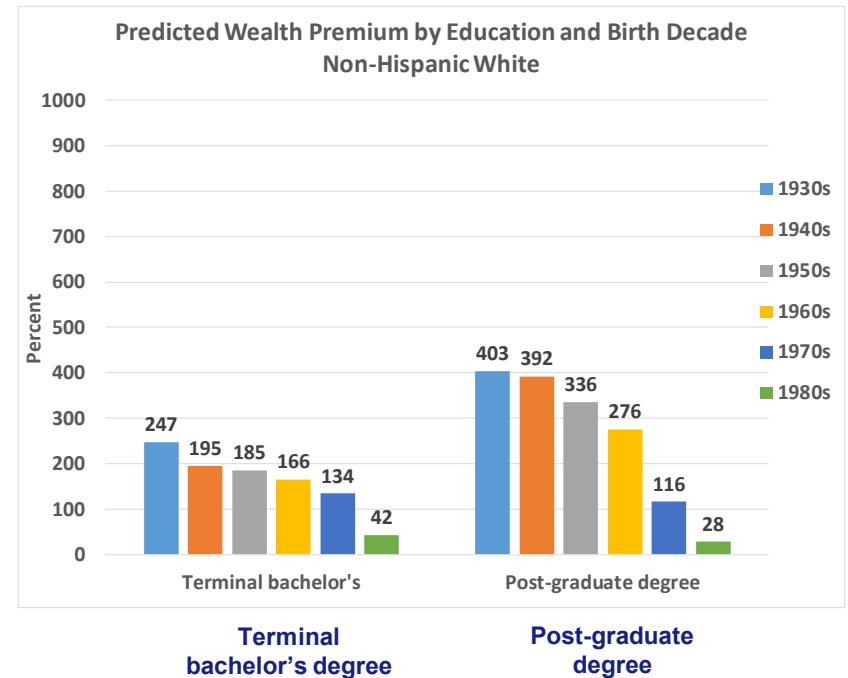
# But We Find *Shrinking* Premiums Across Generations for All Races, Esp. Wealth

## Non-Hispanic White

### Income



### Wealth



Model includes SCF families of a particular race or ethnicity adjusted for family size and life cycle.

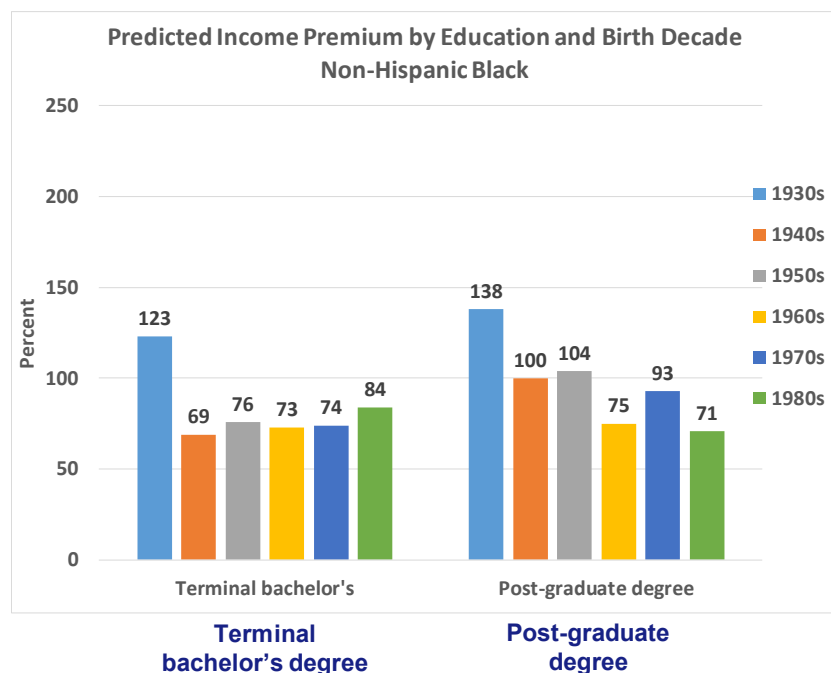
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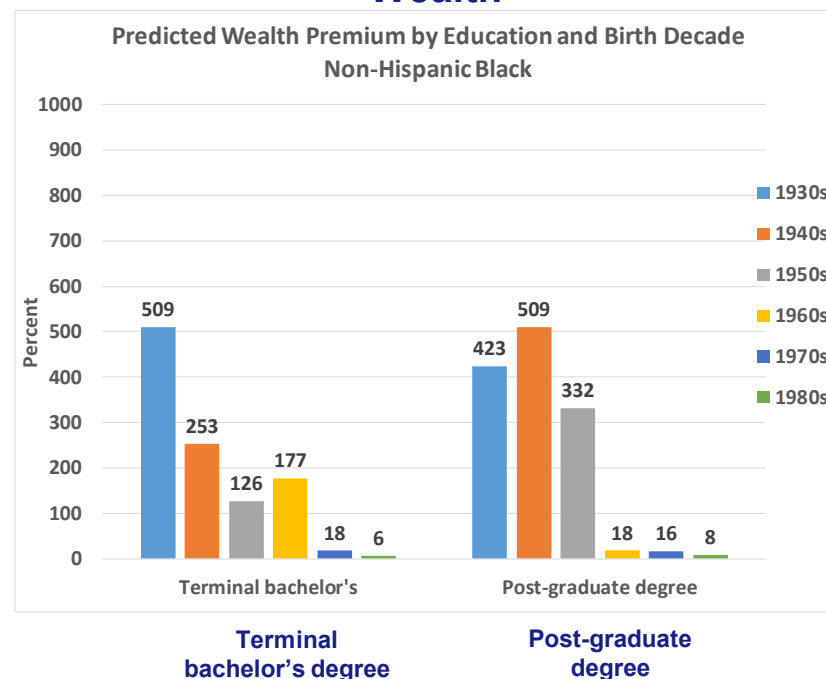
# But We Find *Shrinking* Premiums Across Generations for All Races, Esp. Wealth

## Non-Hispanic Black

### Income



### Wealth



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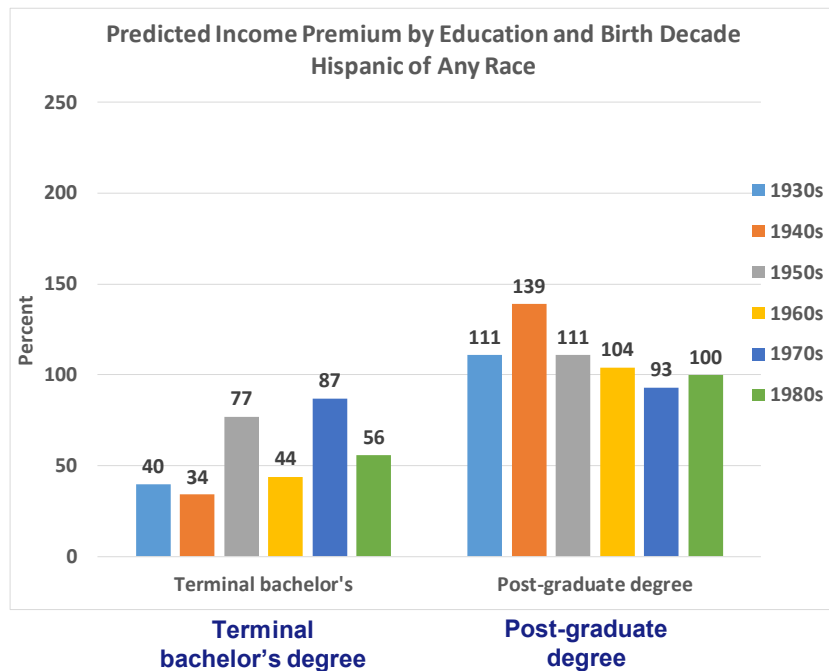
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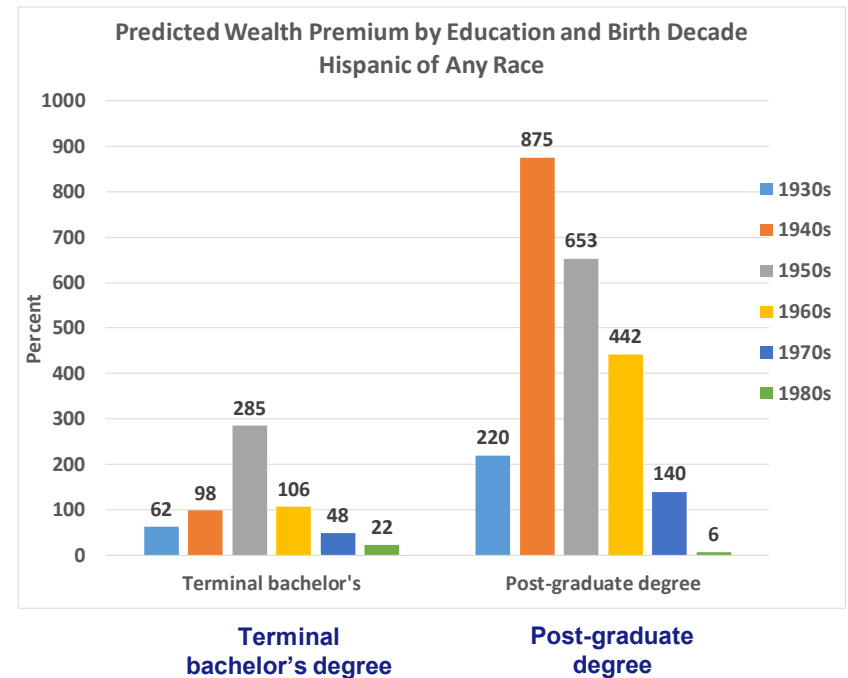
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## Hispanic of Any Race

### Income



### Wealth



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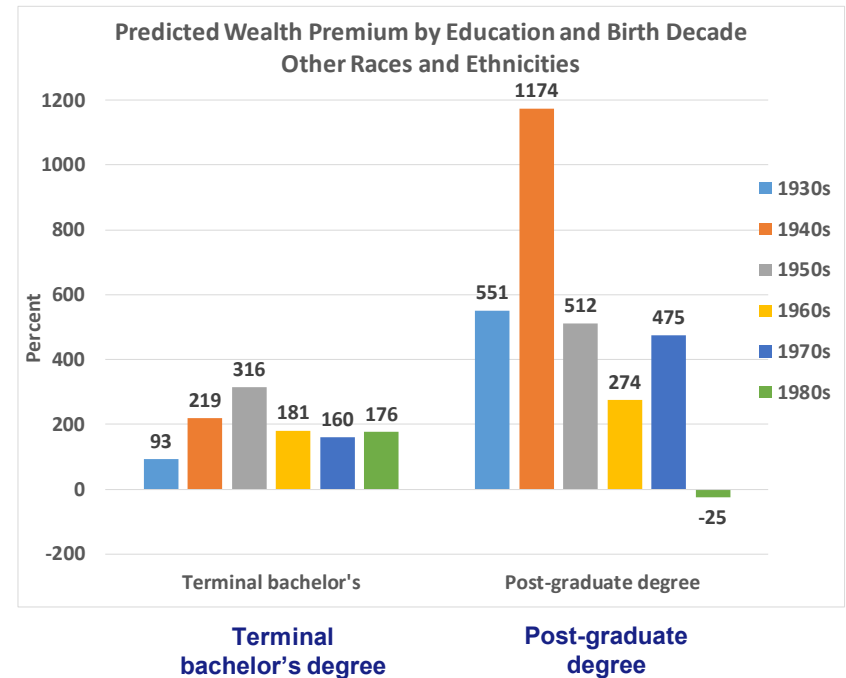
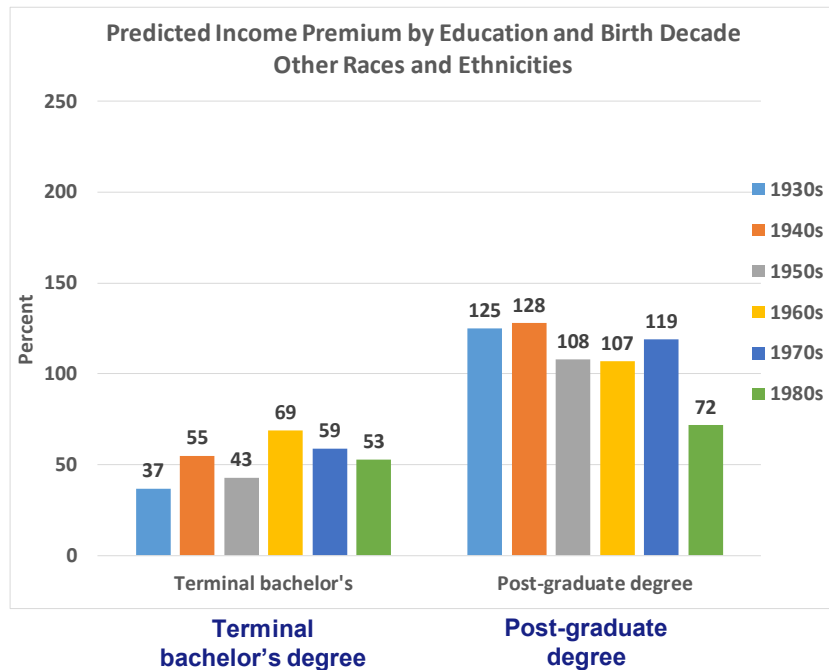
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# But We Find *Shrinking* Premiums Across Generations for All Races, Esp. Wealth

## *All Other Races and Ethnicities Including More than One Income*



Model includes SCF families of a particular race or ethnicity adjusted for family size and life cycle.

Source: Emmons, Kent and Ricketts, "Is College Still Worth It? The New Calculus of Falling Returns," *Review*, Fourth Quarter 2019,

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# **Why Have College *Wealth* Premiums Collapsed While *Income* Premiums Persist?**

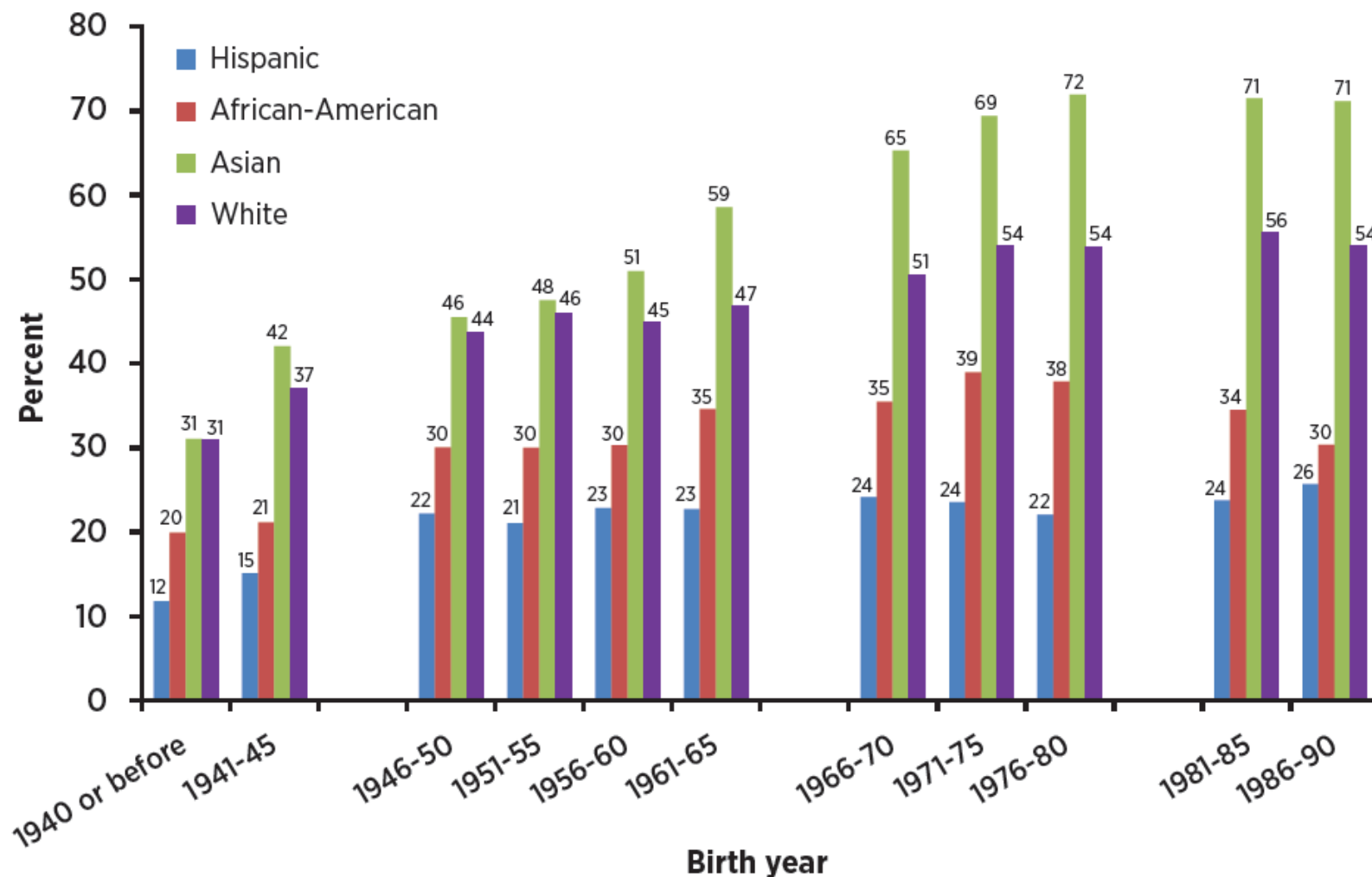
- **Unlucky birth years make it hard to accumulate wealth (no, really!)**
  - Think about how expensive housing and the stock market are today; entering in 1960 or 1980 was better than 2000 or 2020.
- **Financial liberalization**
  - Credit is more available today than 50 years ago—it's a blessing and a curse.
- **The rising cost of college**
  - College tuition has increased more than 3 times faster than overall inflation over 40 yrs.
  - College* boosts your income while *colleges* extract your wealth.

# **Despite Its Promise, Has College Become an Engine of Inequality?**

- **College-graduation rates have increased for all races and ethnicities.**
- **But three types of graduation gaps are increasing:**
  - **Hispanic and Black non-completion rates are higher than whites' and others' (e.g., Asian).**
  - **Degree-attainment gaps by race and ethnicity across generations are rising.**
  - **Access to elite institutions remains uneven.**
- **Precisely because college is becoming more important, these gaps undermine narrowing of income or wealth gaps.**

# College Attainment Rising for All Groups...

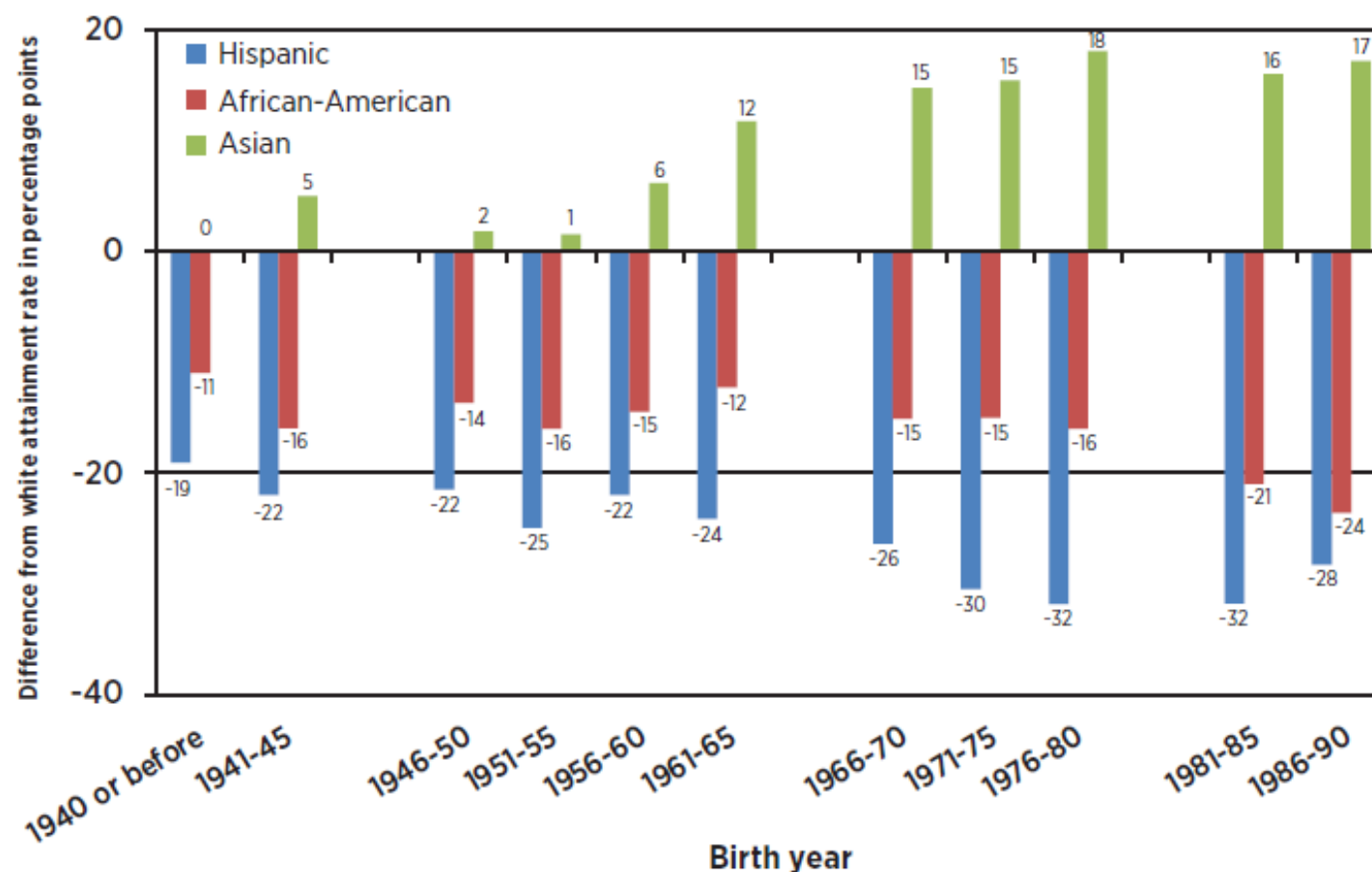
## Four-Year College-Degree Attainment Rates (2015)



See Emmons and Ricketts (2017b).

# ... But Attainment Gaps Are Growing

## Differences in Four-Year College-Degree Attainment Rates (2015)



See Emmons and Ricketts (2017b).

# **In Sum: What Is a College Degree Really Worth?**

- **College is becoming more important for upward mobility.**
- **But:**
  - **Access is inequitable.**
  - **College is too expensive.**
  - **First-gen students still face many obstacles.**
  - **Degree-attainment gaps are growing across races and ethnicities.**
- **To fulfill its promise, higher education should work for everyone—not just those who begin from a position of privilege.**

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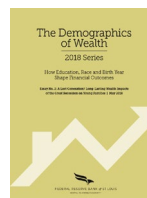


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