

# **THE BALANCING ACT: VALUING HUMAN CAPITAL TO OFFSET STUDENT LOAN DEBT**

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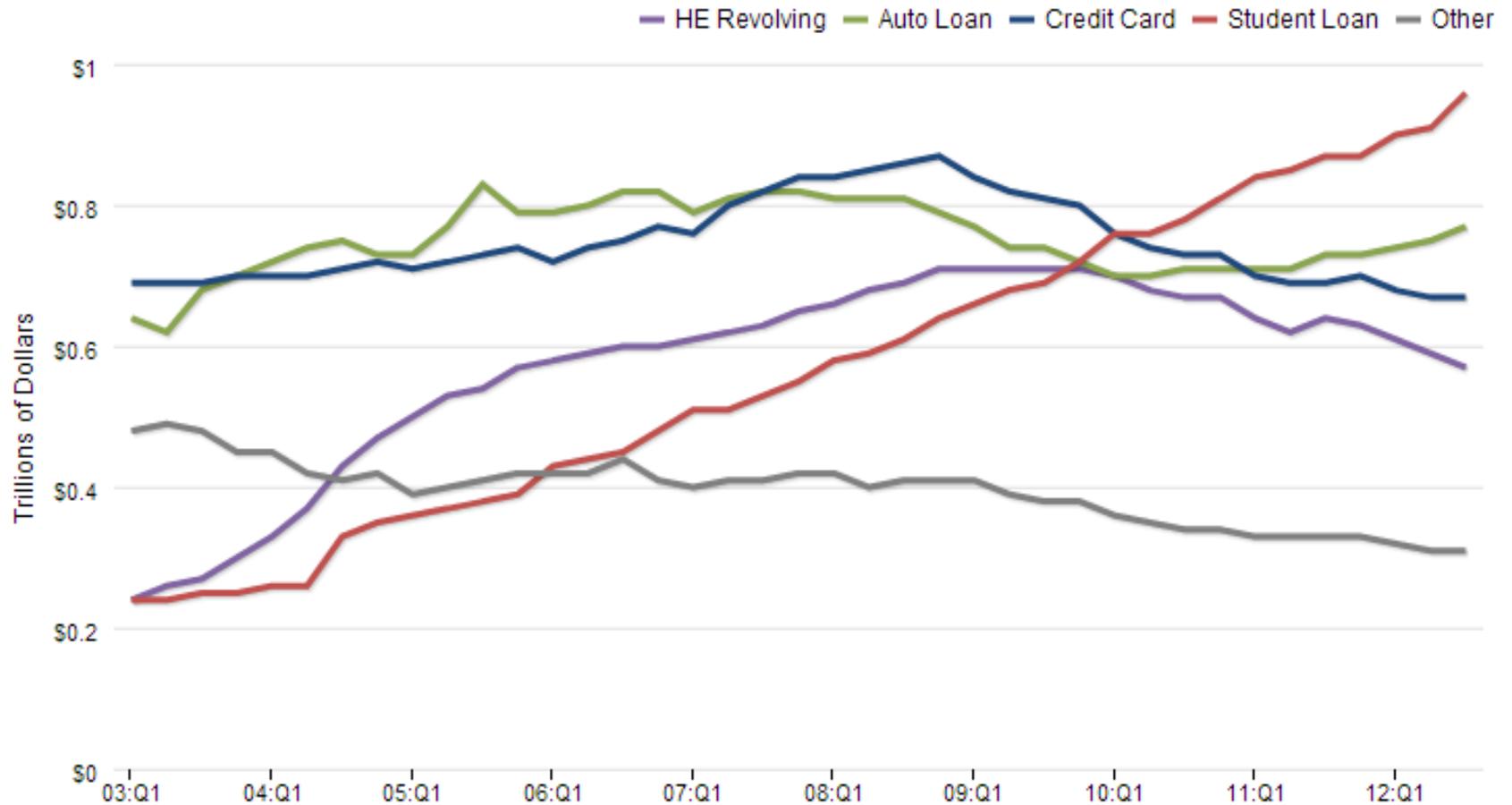
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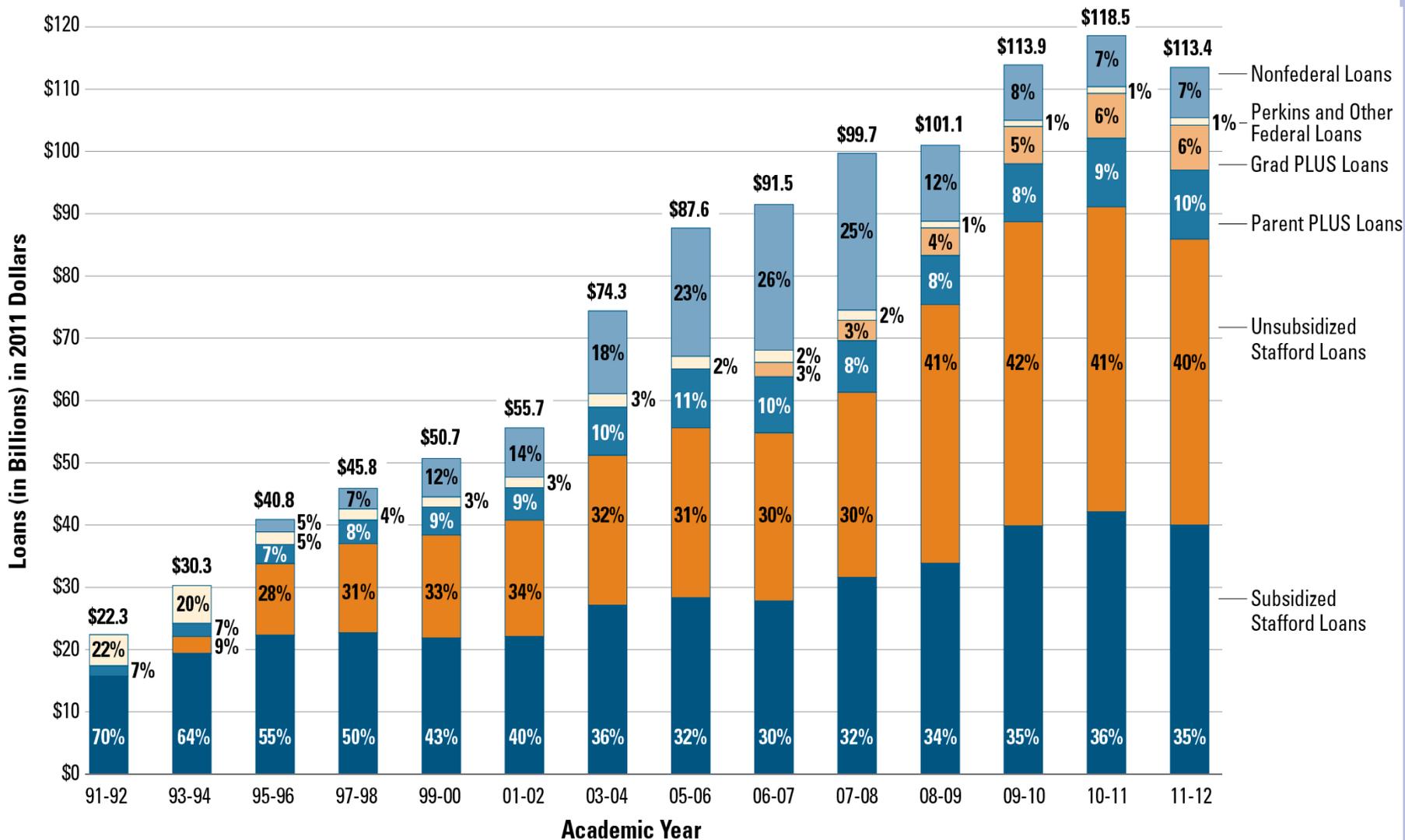
# THE ISSUE

## Non-Mortgage Balances



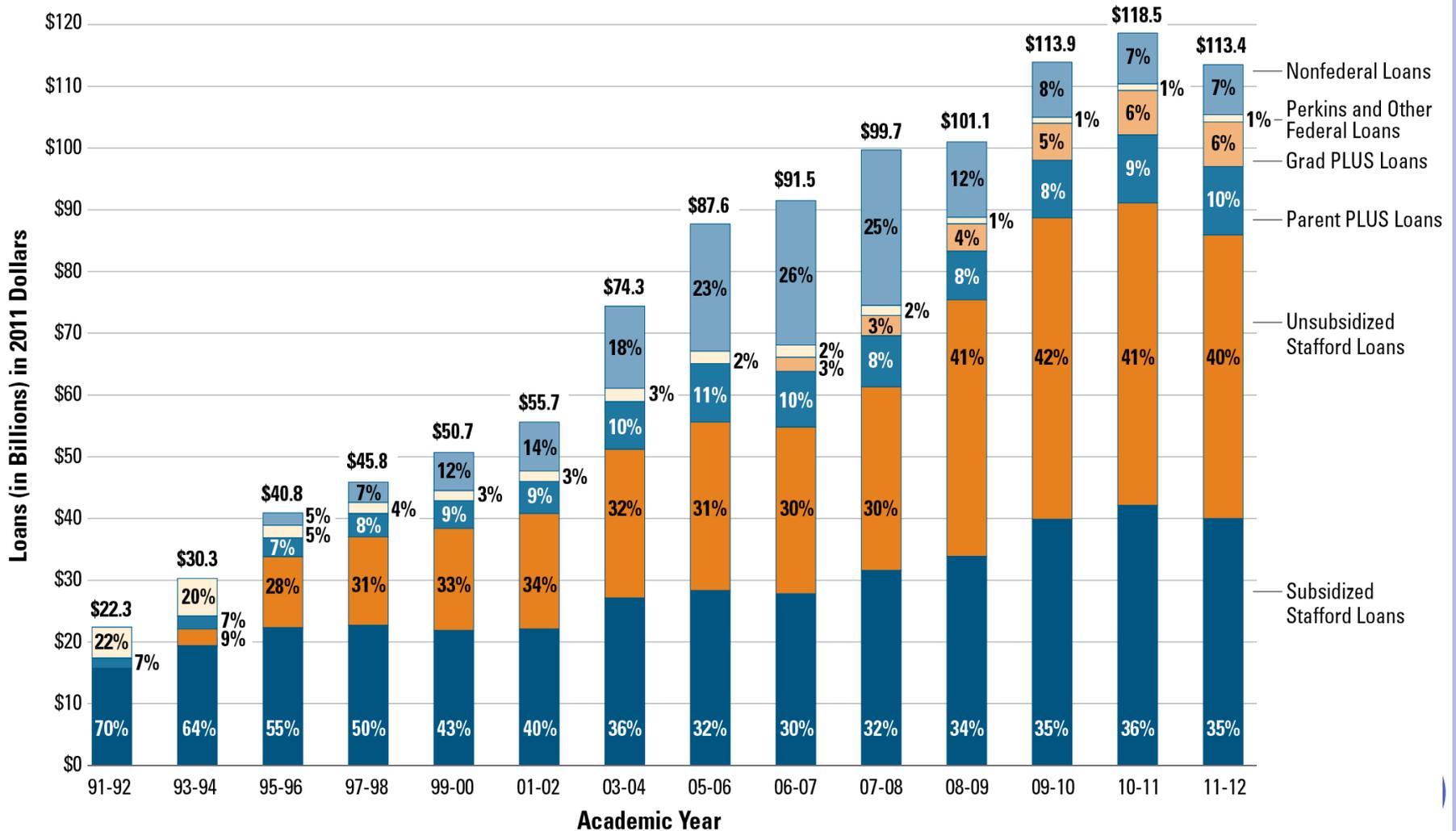
Source: FRBNY Consumer Credit Panel/Equifax

# GROWTH OF FEDERAL AND NONFEDERAL LOAN DOLLARS IN 2011 DOLLARS, 1991-92 TO 2011-12, SELECTED YEARS



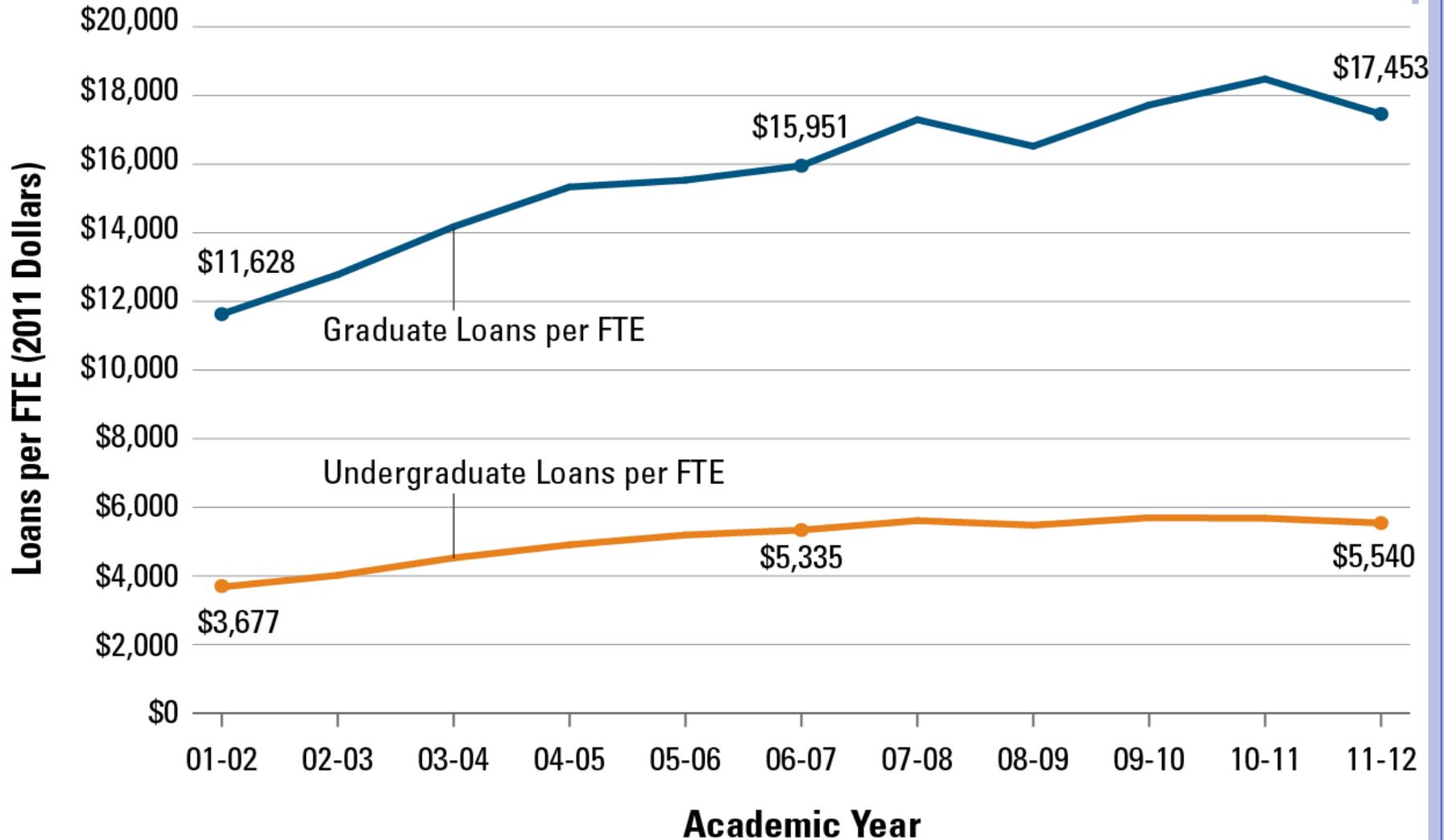
○ SOURCE: The College Board, *Trends in Student Aid 2012*, Figure 6.

# GROWTH OF FEDERAL AND NONFEDERAL LOAN DOLLARS IN 2011 DOLLARS, 1991-92 TO 2011-12, SELECTED YEARS



○ SOURCE: The College Board, *Trends in Student Aid 2012*, Figure 6.

# AVERAGE TOTAL STUDENT LOANS PER FULL-TIME EQUIVALENT (FTE) UNDERGRADUATE AND GRADUATE IN 2011 DOLLARS, 2001-02 TO 2011-12



○ SOURCE: The College Board, *Trends in Student Aid 2012*, Figure 10B.



May 16, 2011

# Is College Worth It?

College Presidents, Public Assess  
Value, Quality and Mission of Higher Education

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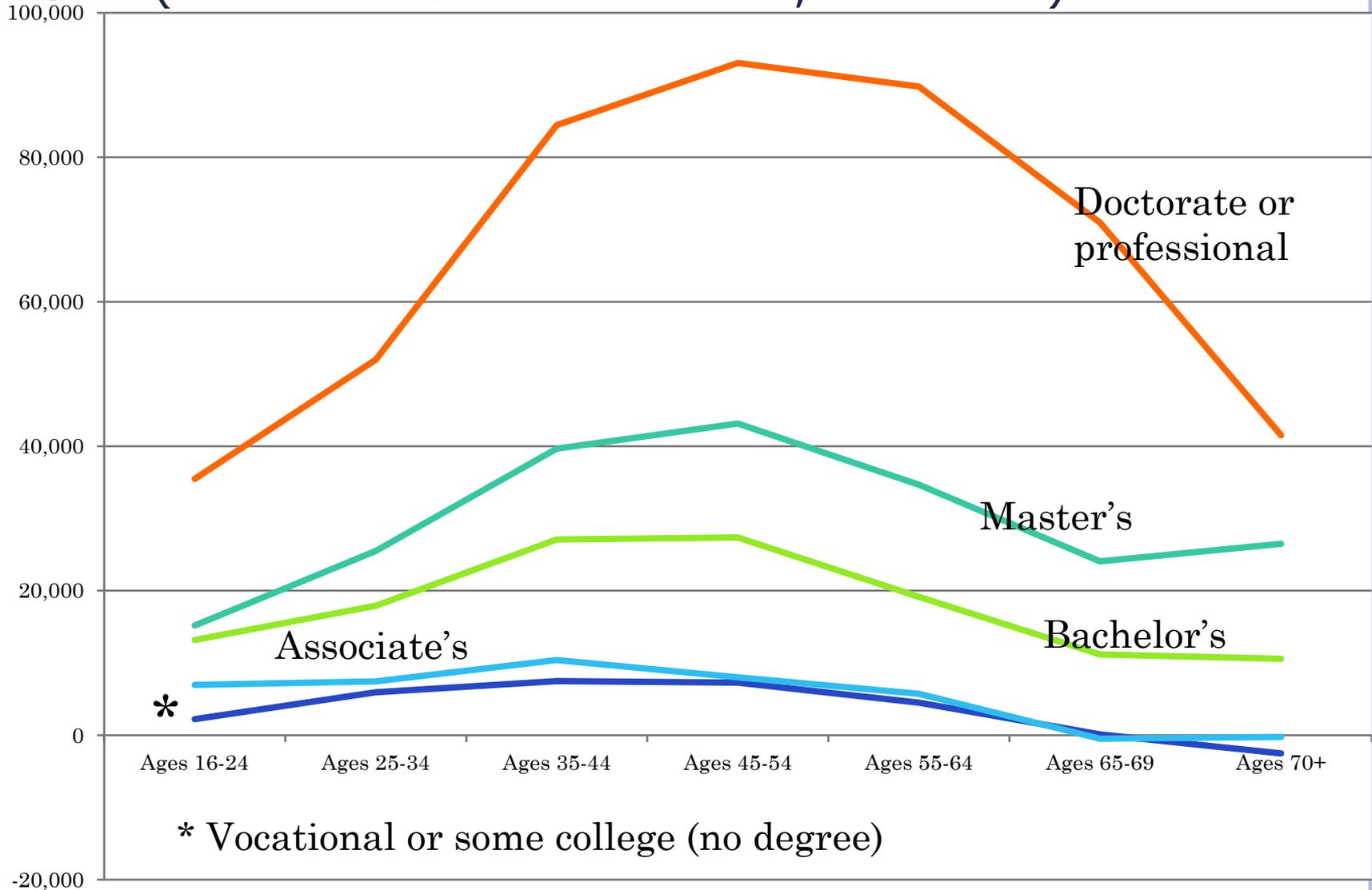
# OBJECTIVE

- Account for human capital on household balance sheets
  - Data from March 2012 CPS and 2010 SCF



# EFFECTS OF EDUCATION ON INCOME, BY AGE

(WITH CONTROLS FOR OCCUPATION, BASE IS H.S.)



Present value calculations -- regressions by age cohort

	interest rate ("i" in calculation)=	0.02				
	some college (no degree) or vocational training					
	worklife is age 18-67, 49 years					
				Present Value =		162,607.07
age assumption	year ("t" in calculation)	amount, based on regression coefficients	1+i	(1+i)^t	amt/(i+i)^t	cumulative
18	1	0	1.02	1.0200	0.00	0.00
19	2	0	1.02	1.0404	0.00	0.00
20	3	2235	1.02	1.0612	2106.09	2106.09
21	4	2235	1.02	1.0824	2064.79	4170.88
22	5	2235	1.02	1.1041	2024.31	6195.19
23	6	2235	1.02	1.1262	1984.62	8179.81
24	7	2235	1.02	1.1487	1945.70	10125.51
25	8	5961	1.02	1.1717	5087.66	15213.17
26	9	5961	1.02	1.1951	4987.90	20201.07
27	10	5961	1.02	1.2190	4890.10	25091.16

...

53	36	7265	1.02	2.0399	3561.47	139554.85
54	37	7265	1.02	2.0807	3491.64	143046.49
55	38	4510	1.02	2.1223	2125.05	145171.55
56	39	4510	1.02	2.1647	2083.39	147254.93
57	40	4510	1.02	2.2080	2042.54	149297.47
58	41	4510	1.02	2.2522	2002.49	151299.95
59	42	4510	1.02	2.2972	1963.22	153263.18
60	43	4510	1.02	2.3432	1924.73	155187.90
61	44	4510	1.02	2.3901	1886.99	157074.89
62	45	4510	1.02	2.4379	1849.99	158924.88
63	46	4510	1.02	2.4866	1813.71	160738.59
64	47	4510	1.02	2.5363	1778.15	162516.74
65	48	118	1.02	2.5871	45.61	162562.35
66	49	118	1.02	2.6388	44.72	162607.07

# INDIVIDUAL PROJECTIONS

Education Level	Assumptions	PV of Projected Gains (base = H.S.)		
		Discount rate = 2%	Discount rate = 4%	Discount rate = 6%
Vocational or some college (no degree)	18-19 (@ high school wage), then 20-66 (retire at 67 with full Social Security)	\$162,607	\$106,187	\$72,986
Associate's degree	18-19 (@ high school wage), then 20-66 (retire at 67 with full Social Security)	\$223,554	\$151,386	\$108,159
Bachelor's degree	22-70	\$649,576	\$441,065	\$317,170
Master's degree	22-23 with Bachelor's, then 24-70 with Master's	\$997,227	\$658,160	\$461,585
Doctorate or professional degree	22-23 with Bachelor's degree, then 24-25 with Master's degree, then 26-70 with doctorate or professional degree	\$2,150,163	\$1,372,445	\$931,378

# CASE STUDIES

Description	Median net worth	PV of additional earning capacity	Revised net worth
Under 35, single with BS degree	\$17,400	\$649,567	\$666,967
35-44, married, both have BS	\$257,800	\$919,954	\$1,177,754
45-54, married, both have BS	\$566,250	\$543,640	\$1,109,890
55-64, married, both have BS	\$718,000	\$212,386	\$930,386

# LIMITATIONS

- Income regressions can be fine-tuned
  - Race/ethnicity
  - Gender
  - Region
- Sensitivity analyses
  - Discount rates
  - Length of work life
  - Higher earnings → higher savings, higher assets

# LIMITATIONS

- Limited number of case studies
  - Limited number of observations in SCF
  - No attempt to estimate aggregate impacts

# SO WHAT?

Net worth +  $PV_{(\text{earnings capacity})} > \text{Net worth}$



# SO WHAT?

- Net worth +  $PV_{(\text{earnings capacity})} > \text{Net worth}$ 
  - Magnitude of values – early investments pay off
- “Public Goods” aspect of post-secondary education
  - Maintaining affordable student loan program
- Education as an investment
  - Improved advising capacity

# SO WHAT?

- Encourage “invest in yourself”
  - Children’s savings accounts
- Underwriting and ability to pay
  - Student loans
  - Small dollar credit?
- More research is needed!