What Is A College Degree Worth? And For Whom?

California Future of Work Commission
Convening on Education, Skills and Job Quality
November 14, 2019

William R. Emmons, Ana H. Kent and Lowell R. Ricketts
Center for Household Financial Stability
Federal Reserve Bank of St. Louis

These are our views alone and not necessarily those of the Federal Reserve Bank of St. Louis or the Federal Reserve System.
St. Louis Fed’s *Center for Household Financial Stability*: Research on the Demographic Determinants of Family Income and Wealth

STLOUISFED.ORG/HFS
You’ve Been Introduced to Inequality (Sept convening)

Income & wealth

Income inequality dwarfed by wealth inequality

Income

<table>
<thead>
<tr>
<th>10th percentile</th>
<th>Median</th>
<th>90th percentile</th>
</tr>
</thead>
<tbody>
<tr>
<td>$13,259</td>
<td>$56,516</td>
<td>$162,180</td>
</tr>
</tbody>
</table>

Wealth

<table>
<thead>
<tr>
<th>10th percentile</th>
<th>Median</th>
<th>90th percentile</th>
</tr>
</thead>
<tbody>
<tr>
<td>- $950</td>
<td>$97,300</td>
<td>$1,186,570</td>
</tr>
</tbody>
</table>

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And the Racial Wealth Gap (Sept convening)

Racial wealth inequality is enormous—and not solved by education

- **All families**: $171,000
  - White: $17,600
  - Black: $17,600

- **By Education**
  - No college degree: $98,100
    - White: $11,600
    - Black: $11,600
  - College degree: $397,100
    - White: $68,200
    - Black: $68,200

Source: Survey of Consumer Finances 2016

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Median Wealth
Data and Definitions

- Data we use: Federal Reserve’s *Survey of Consumer Finances*
  - Best source of detailed information on US families’ financial lives.
  - Rich demographic details but no geographic break-downs.

- Income vs. Wealth
  - **Income**: What a family earns in a year (wages and salaries, interest and dividends, transfers, pension distributions)
    - *Median family income in 2016*: $52,657
  - **Wealth or Net Worth**: What you own minus what you owe; $NW = \text{your assets (house, cars, savings accounts, retirement accounts, other financial and non-financial assets)} - \text{your liabilities (mortgage, car loan, credit-card debt, student loans, etc.)}
    - *Median family wealth in 2016*: $97,306
Data and Definitions

- **Racial and ethnic groups:** Self-identified by survey respondents
  - White non-Hispanic: 68%
  - Black non-Hispanic: 16%
  - Hispanic of any race: 11%
  - Other races (Asian, Native American, etc.; more than one race): 5%

- **Education levels of survey respondent (typically family head)**
  - Did not finish high school on time (includes those with a GED): 16%
  - On-time high-school diploma; or some college but no degree: 38%
  - Associate’s degree or certificate: 12% (no info on degrees, schools)
  - Bachelor’s degree only: 21% (no info on degrees, schools)
  - Post-graduate degree: 13% (no info on degrees, schools)
What Is A College Degree Worth? And For Whom?

- We focus primarily on middle-aged (40-61) families to eliminate factors that make young and old families hard to compare.

- Our main conclusions
  - On average, bachelor’s and post-graduate degrees boost a family’s income and wealth.
  - But benefits are unequal across races, ethnicities, and generations.
    - Large boosts for White, Other Races; small boost for Black, Hispanic.
    - College boost is declining across generations, especially for wealth.
The Data on Education, Income and Wealth

- Links between education and family income across race/ethnicity
  - Large boosts for White and Other Races
  - Smaller boosts for Black and Hispanic

- Links between education and family wealth across race/ethnicity
  - Very large boosts for White and Other Races
  - Very small boost for Black; somewhat larger for Hispanic

- Declining benefits of college across generations
  - Overall characterization; Differentiate by race/ethnicity
Aggregate Data: College Boosts Incomes

Middle-Aged (40-61) Family Income in 2016 by Highest Level of Education

Median middle-aged family income in 2016

Source: Federal Reserve Survey of Consumer Finances
White Non-Hispanic Families: College Boosts Income

Median middle-aged family income in 2016

Source: Federal Reserve Survey of Consumer Finances
Black Non-Hispanic: College Boost Is Much Weaker

Median middle-aged family income in 2016

Source: Federal Reserve Survey of Consumer Finances

stlouisfed.org/hfs
Hispanic of Any Race: Only Post-Grad Degrees Boost

Source: Federal Reserve Survey of Consumer Finances

Median middle-aged family income in 2016
Other Races: Very Strong Post-Grad Income Boost

Median middle-aged family income in 2016

Source: Federal Reserve Survey of Consumer Finances
Conclusion: College Income Boost Strong for White, Other

Source: Federal Reserve Survey of Consumer Finances
The Data on Education, Income and Wealth

- Links between education and family income across race/ethnicity
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- Declining benefits of college across generations
  - Overall characterization; Differentiate by race/ethnicity
Aggregate Data: College Boosts Wealth

Median middle-aged family wealth in 2016

Source: Federal Reserve Survey of Consumer Finances
College Boosts White Wealth; Especially At the Top

Source: Federal Reserve Survey of Consumer Finances

Median middle-aged family wealth in 2016
College Wealth Boost for Blacks Is Small

Source: Federal Reserve Survey of Consumer Finances

Median middle-aged family wealth in 2016
Hispanic College Wealth Boost Only for Post-Grads

Median middle-aged family wealth in 2016

Source: Federal Reserve Survey of Consumer Finances
Very Strong College Wealth Boost for Other Races

Source: Federal Reserve Survey of Consumer Finances

Median middle-aged family wealth in 2016
Conclusion: Big College Wealth Boosts for White, Other

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Median Family Wealth ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GED or No HS Diploma</td>
<td>36,906</td>
</tr>
<tr>
<td>On-Time HS Diploma or Some College</td>
<td>126,366</td>
</tr>
<tr>
<td>Associate's Degree or Certificate</td>
<td>164,848</td>
</tr>
<tr>
<td>Bachelor's Degree</td>
<td>463,946</td>
</tr>
<tr>
<td>Postgraduate Degree</td>
<td>1,032,240</td>
</tr>
</tbody>
</table>

Source: Federal Reserve Survey of Consumer Finances
The Data on Education, Income and Wealth

- Links between education and family income across race/ethnicity
  - Large boosts for White and Other Races
  - Smaller boosts for Black and Hispanic

- Links between education and family wealth across race/ethnicity
  - Very large boosts for White and Other Races
  - Very small boost for Black; somewhat larger for Hispanic

- Declining benefits of college across generations
  - Wealth boost falling faster than income; declining for all races/ethnicities.
White Income and Wealth College Benefits Are Declining

Income

Predicted Income Premium by Education and Birth Decade
Non-Hispanic White

All estimates are adjusted for differences in age.

Wealth

Predicted Wealth Premium by Education and Birth Decade
Non-Hispanic White

All estimates are adjusted for differences in age.

Model includes SCF families of a particular race or ethnicity adjusted for family size and life cycle.
Black Income Benefit Holding Up; Wealth Collapsed

Non-Hispanic Black

**Income**

Predicted Income Premium by Education and Birth Decade
Non-Hispanic Black

*All estimates are adjusted for differences in age.*

<table>
<thead>
<tr>
<th>Birth Decade</th>
<th>Terminal bachelor’s degree</th>
<th>Post-graduate degree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1930s</td>
<td>123</td>
<td>69</td>
</tr>
<tr>
<td>1940s</td>
<td>76</td>
<td>73</td>
</tr>
<tr>
<td>1950s</td>
<td>84</td>
<td>74</td>
</tr>
<tr>
<td>1960s</td>
<td>138</td>
<td>100</td>
</tr>
<tr>
<td>1970s</td>
<td>104</td>
<td>75</td>
</tr>
<tr>
<td>1980s</td>
<td>93</td>
<td>71</td>
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**Wealth**

Predicted Wealth Premium by Education and Birth Decade
Non-Hispanic Black

*All estimates are adjusted for differences in age.*

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<tr>
<td>1930s</td>
<td>509</td>
<td>253</td>
</tr>
<tr>
<td>1940s</td>
<td>423</td>
<td>126</td>
</tr>
<tr>
<td>1950s</td>
<td>509</td>
<td>177</td>
</tr>
<tr>
<td>1960s</td>
<td>18</td>
<td>6</td>
</tr>
<tr>
<td>1970s</td>
<td>18</td>
<td>16</td>
</tr>
<tr>
<td>1980s</td>
<td>16</td>
<td>8</td>
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Model includes SCF families of a particular race or ethnicity adjusted for family size and life cycle.
Hispanic Income Benefit Holding Up; Wealth Collapsed

Hispanic of Any Race

### Income

Predicted Income Premium by Education and Birth Decade
Hispanic of Any Race

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<td>56</td>
</tr>
<tr>
<td>1950s</td>
<td>44</td>
<td>111</td>
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### Wealth

Predicted Wealth Premium by Education and Birth Decade
Hispanic of Any Race

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<td>22</td>
</tr>
<tr>
<td>1950s</td>
<td>106</td>
<td>220</td>
</tr>
<tr>
<td>1960s</td>
<td>140</td>
<td>442</td>
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Model includes SCF families of a particular race or ethnicity adjusted for family size and life cycle.
Other Races Income and Wealth Benefits Holding Up

All Other Races and Ethnicities Including More than One
Income

Predicted Income Premium by Education and Birth Decade
Other Races and Ethnicities

All estimates are adjusted for differences in age.

Wealth

Predicted Wealth Premium by Education and Birth Decade
Other Races and Ethnicities

All estimates are adjusted for differences in age.

Model includes SCF families of a particular race or ethnicity adjusted for family size and life cycle.
In Sum: What Is A College Degree Worth? And For Whom?

- On average, bachelor’s and post-graduate degrees boost a family’s income and its wealth.

- But the benefits of college are unequal across races, ethnicities, and generations.
  - Large boosts for families who are White and of Other Races.
  - Boosts are smaller for Black and Hispanic families.
  - College boosts for White and Other families very large for wealth.
  - College boost declining across generations, especially for wealth.
Looking Forward: Why Are the Benefits of College Unequal?

- Across races and ethnicities
  - Continuing structural and systemic barriers to college access, completion and post-graduation success for Blacks and Latinx.
  - Wealth accumulation is multi-generational; poverty trap is strong.

- Across generations
  - Luck of your birth year: More recent cohorts benefiting less.
    - Diminishing job prospects for young non-college grads.
    - Rising cost of college.
    - Financial liberalization (more access to debt, especially when young) and asset-market bubbles hinder wealth accumulation.