College degree still worth the investment, data suggest

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Despite rising tuition and falling wages, college graduates continue to earn far more over a lifetime than a worker with no more than a high school diploma, an analysis of four decades of federal data shows.

The main reason: Average wages also have declined for workers with no college degree. The gap between wages for college graduates and those without a college degree remains near all-time highs.

“Investing in a college degree may be more important than ever before because those who fail to do so are falling further and further behind,” says the report, released Tuesday by the Federal Reserve Bank of New York.

The report, titled Do the Benefits of College Still Outweigh the Costs?, comes at a time when a
sluggish labor market, combined with rising levels of student loan debt, has raised questions about the value of a college degree. By the end of 2013, aggregate student loan debt had soared to more than $1 trillion, with delinquent payments or defaults of 11% of loan balances. The Federal Reserve study calculates federal data on wages for full-time workers ages 16-64 from 1970 to 2013 for workers in three categories: those with no more than either a high school diploma, associate’s degree or bachelor’s degree. Calculations are based on the costs of college, the wages foregone by being in school and wages after graduation compared with those of non-degree-holders. The return on investment for earning an associate’s or bachelor’s degree has remained steady at about 15% a year over the past decade, “easily surpassing the threshold ... for a sound investment,” about 7% a year, the authors, economists Jaison Abel and Richard Deitz, write.

Areas of specialization also influence earnings, the report said. Among workers with a bachelor’s degree, engineering majors earn the highest average annual returns, 21%, while education majors earn the lowest, 9%. Liberal arts majors post a 12% average annual rate of return. The study assumes that a bachelor’s degree is earned in four years and an associate’s in two -- not the case for significant numbers of students. It also does not account for risks associated with dropping out of college.

Among details:
• Over the past four decades, those with a bachelor’s degree generally earned 56% more than high school graduates and those with an associate’s degree 21% more than high school graduates.
• From 1982 to 2001, bachelor’s degree holders earned an average 80% more and associate’s degree-holders almost 30% more than workers with no more than a high school diploma. Average wages increased 31% for workers with a bachelor’s degree and 12% for those with an associate’s degree. Wages were unchanged for high school graduates.
• From 2001 to 2013, the wage advantage over high school graduates reached 75% for bachelor’s degree holders and more than 20% for those with an associate’s degree. But average wages declined 19.3% for workers with a bachelor’s degree, 11.1% for those with an associate’s degree and a more modest 7.6% for high school graduates.

It is not clear whether the declining wages are a consequence of economic recession or a more permanent reversal in the demand for the skills of college graduates, the report said. But findings also indicate that employers will pay a larger salary for college graduates even in jobs that are not typically considered college-level positions.