

BY STEPHANIE NORRIS, LAURA DAWSON ULLRICH, AND SONYA RAVINDRANATH WADDELL

Preparing to Work: Changing Demand for Postsecondary Education?

Starting around a decade before the COVID-19 pandemic, and more acutely during the pandemic itself, postsecondary enrollment declined — most notably among community colleges, both in the Fifth District and in the United States as a whole. Yet the 2023-2024 academic year saw a shift in that trend as enrollment grew once again. What's going on?

The unsatisfying answer is that there are conflicting forces at work, and it's hard to tell which will prevail. But one thing is clear: Combined with the anticipated decline in the college-age population, high costs of four-year degrees, and changing demands among employers, parents, and students, higher education seems to be at a crossroads. Now might be the time to rethink the human capital needs of America's future workforce and the programming required to meet them.

ENROLLMENT TRENDS

It is a long-held truth among those who study education and the workforce that completing a postsecondary degree will improve an individual's labor market outcomes. On average, in the labor market, a person is better off finishing high school than not finishing high school, is better off with an associate degree than a high school diploma, is better off with a bachelor's degree than without, and is better off still with an advanced degree. This pattern shows up not only in earnings, but also in everything from likelihood of employment to resilience in an economic downturn. In June, for example, the unemployment rate among those who only finished high school was 4.2 percent — almost twice as high as the rate for those who held at least a bachelor's degree. At the height of the Great Recession

(December 2009), high school graduates had an unemployment rate of 10.6 percent compared to 4.9 percent for those with a bachelor's degree.

Of course, the “wage premium” for higher education represents an average; it does not tell us the return an *individual* will receive from attending school, which depends not only on the individual's interests and abilities, but also on the type of degree, the major, and the institution. Nonetheless, given the overall relationship between education and income, it is not surprising that for decades we saw enrollment at four-year institutions increase. We mainly focus on public four-year, private nonprofit four-year, and public two-year institutions, which consistently account for most postsecondary enrollment. In the spring of 2024, for example, those three types of institutions accounted for almost 90 percent of total enrollment in higher education. (There are technical differences between the categories of public two-year institutions and community colleges, but the vast majority of public two-year institutions are community colleges, and we use the terms interchangeably here.)

Starting in about 2010, total enrollment in postsecondary pursuits started to fall. Part of the reason was demographic: For 18-to-21-year-olds, the estimated population fell by an average of 0.6 percent per year from 2010 to 2019. But the share of high school graduates who chose postsecondary education also fell. In 2022, 62 percent of high school graduates enrolled the following fall in a two- or a four-year college — this was 8.1 percentage points lower than in 2010 and 4.2 percentage points lower than in 2019. Part of this might be due to the flattening in the college wage premium even as rising costs for higher education have driven more students into debt.

In other words, the enrollment decline, in addition to being demographic, could be related to decreased affordability, a decline in the perceived value of education, or a perception of increased volatility in its value. Importantly, much of the decline in enrollment came from a decrease in community college enrollment.

The emergence of the COVID-19 pandemic in 2020 introduced new challenges for enrollment, exacerbating the already complicated enrollment environment. For example, the pandemic necessitated a move to online classes, created skepticism about the value of an online degree or any postsecondary degree, and enhanced challenges finding family care for parents seeking to go to school. COVID-19-era shifts were especially disruptive for disciplines that cannot be taught online, such as welding or dental hygiene. In many cases, these classes continued in person, but enrollment was severely limited to ensure social distancing. In fall 2020 and again in fall 2021, total enrollment fell by more than 2 percent. The cumulative decline between fall 2019 and fall 2021 was 4.7 percent.

Again, community college enrollment struggled the most: Two-year public institution enrollment declined a staggering 14.4 percent, while four-year public enrollment declined only 0.4 percent.

Recently, we have started to see total enrollment come back (though it remains below pre-COVID-19 levels). However, we might be witnessing a shift in demand for postsecondary education.

A SHIFT IN ENROLLMENT

The 2023-2024 academic year brought with it much-anticipated and hoped-for

increases in enrollment across all sectors of higher education: Following trends from the fall of 2023, the National Student Clearinghouse (NSC) data on enrollment in the spring of 2024 indicates that enrollment across institutions was up. Nationally, undergraduate enrollment grew 2.5 percent in the spring of 2024 for the second consecutive semester following the pandemic declines.

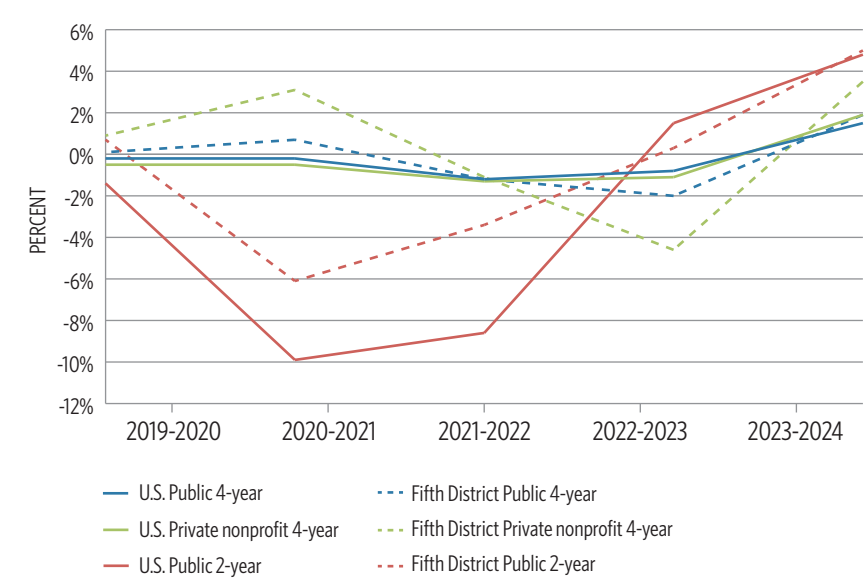
Enrollment growth was strongest at community colleges, both in the United States and in the Fifth District. (See top chart.) In fact, bucking the pre-pandemic and pandemic trends, community college enrollment was the only type of enrollment that was up in every Fifth District state from spring 2023 to spring 2024. (See bottom chart.)

In spite of this growth, community colleges are still further behind their 2019 enrollment levels than four-year institutions. In the Fifth District, for example, enrollment at community colleges was still about 20,000 students (3.7 percent) below its 2019 levels in spring 2024, while four-year public institutions were less than 1 percent below and four-year private nonprofits were slightly above their 2019 levels. Growth trends have shifted, however, and as technology and the demands of employers continue to develop, these shifts will matter not only for employers and workers, but also for the institutions that may be at risk and the students, staff, and communities that rely on those institutions.

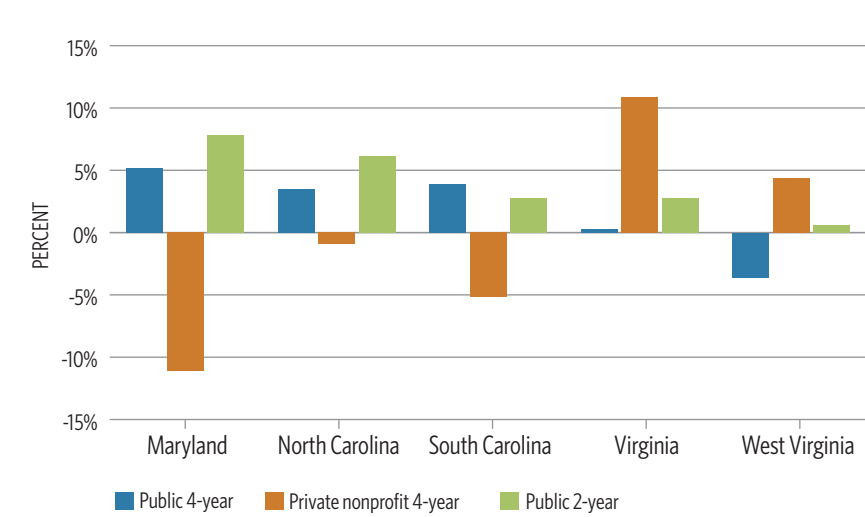
Looking ahead, the demographic shifts that began over a decade ago are about to become more severe. One study estimates that the number of high school graduates will peak at 3.9 million in 2025 and after that, we will see about a 10 percent decline, such that the class of 2037 will be about the same size as the class of 2014. This “2025 cliff” is a result of declining fertility rates, which became more severe at the beginning of the Great Recession in 2007. Colleges and universities will be competing for

Change in Enrollment by Institution Type: U.S. and Fifth District

Year-over-year % change



Enrollment Change Spring 2023 — Spring 2024



SOURCE: National Student Clearinghouse Current Term Enrollment Estimates (spring 2024); authors' calculations.
NOTE: Includes graduate and undergraduate students. Based on spring enrollment.

an ever-smaller number of freshman students.

Changing demand might also shift enrollment for different types of post-secondary pursuits within institutions. In the latest data from the NSC, not only did we see increases in community college enrollment that outpaced four-year institutions, we also saw a change in the type of community colleges that students are choosing. In the spring of 2024, community colleges

with a larger percentage of students enrolled in vocational programs increased total enrollment by almost 18 percent — with enrollment that now exceeds pre-pandemic enrollment by 4.6 percent. (See chart on next page.) On the other hand, community colleges that have more students enrolled in programs designed to transfer to four-year colleges grew enrollment in 2024, but enrollment levels remain well below 2019 levels. Undergraduate certificate

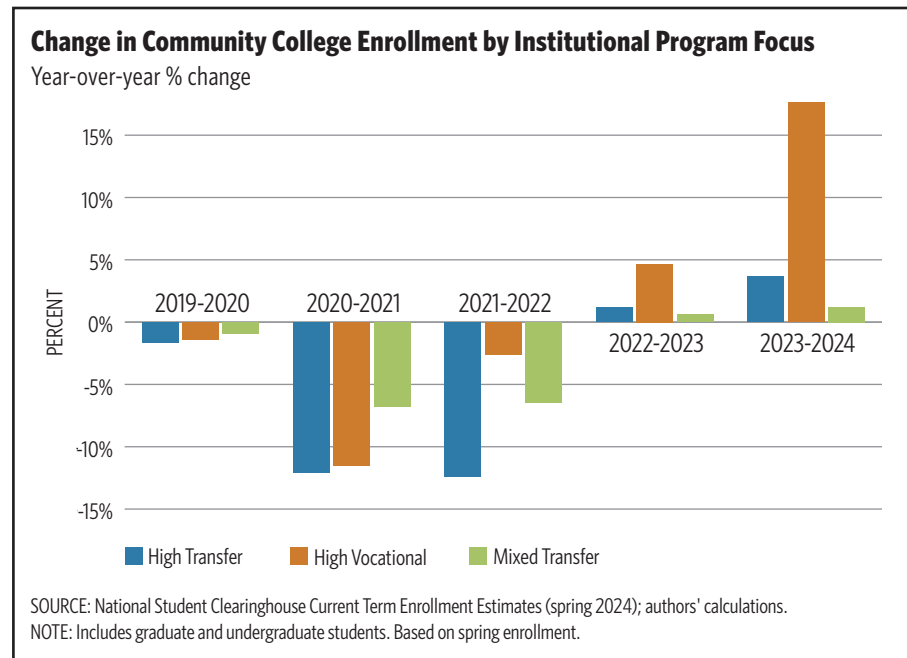
programs at both community colleges and four-year institutions are experiencing the largest increases in enrollment, and certificate enrollment has now more than recovered from COVID-19-era declines. Associate degree enrollment is growing faster than bachelor's degree enrollment, but enrollment for both types of degrees lag pre-COVID-19 levels. Across higher education, there is evidence that since the pandemic, student demand has shifted toward shorter-term academic programs.

HOW DO STUDENTS DECIDE?

In theory, students and their families must weigh the costs of pursuing a program (such as tuition and fees, forgone earnings, and the cost of child care during class times) against the benefits (such as the wage premium upon graduation, a fulfilling career in their preferred location, and prestige). Quantifying the costs is relatively straightforward, but the benefits are harder to project. To find out which skills will be in high demand in their areas, students may rely on labor market projections for their area or simply look to the largest local employers.

One key piece to this decision should be the likelihood of completing the chosen educational pursuit, be it a degree, a certificate, or acquisition of a certain skill. There is ample evidence that whether you are seeking a bachelor's degree, associate degree, or a certificate, you are better off completing the degree. Thus, in addition to evaluating the cost and benefit of the educational pursuit itself, it is critical to weigh the risk of not completing. There are many factors that affect a student's propensity to complete an academic program, but when evaluating their choices, many students rely on broad metrics such as institution-specific graduation rates.

As we have written about previously, finding appropriate metrics can be challenging for those pursuing a path at or through a community college. For many years, the most used definition of



postsecondary success, the traditional Integrated Post-Secondary Educational Data System (IPEDS) graduation rate, has best aligned with the goals of four-year institutions — that is, defining success as degree completion by a first-time, full-time, degree-seeking student. We typically measure success for community colleges and four-year students and institutions with identical metrics. Yet before students can decide on their postsecondary path (and before policymakers can make decisions about what programs to invest in), we need to define success for community colleges in a way that reflects their objectives and the populations that they serve.

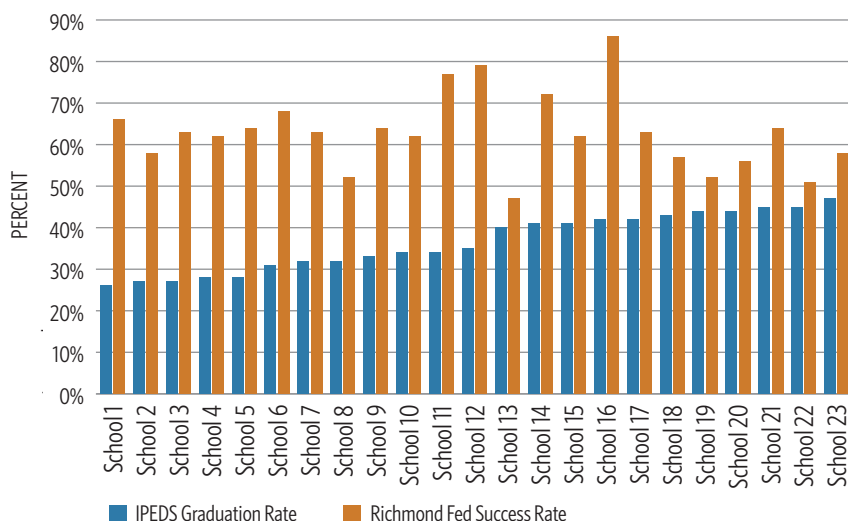
COMMUNITY COLLEGES: SORRY, WRONG NUMBERS

Community colleges play a unique role in the U.S. higher education system. By definition, these institutions tend to serve a specific geography, allowing them to tailor their program offerings and support services to the needs of their local community. Through deep relationships with local employers and by building curricula around the skills needed for work in local industries, community colleges often provide a direct pipeline to the local workforce. Community colleges also serve students

from a broad array of socioeconomic and demographic backgrounds. They provide students who plan to attain a bachelor's degree with a low-cost alternative for the first two years of college. Nontraditional students who want to reskill or upskill can attend community college for short-term training opportunities. They provide opportunities for part-time students who need to work or care for family members while seeking a degree. They also provide dual enrollment opportunities for high school students. In the most recent NSC data, the number of dual enrolled students increased for the third consecutive year, comprising almost 30 percent of the undergraduate enrollment increases.

As postsecondary demand has shifted toward community colleges, it has become more important than ever to understand how they are serving their students and to define success in a way that accurately represents their programming. In response to these issues, the Richmond Fed has been engaged in an effort to rethink the measurement of community college success and to collect data on a more holistic group of community college students, including those enrolled in non-credit programs. The Richmond Fed's Survey of Community College Outcomes includes a new approach to

Comparing the IPEDS Graduation Rate and the Richmond Fed Success Rate, By Community College



SOURCES: Federal Reserve Bank of Richmond; National Center for Education Statistics (NCES) Integrated Postsecondary Data System.
NOTE: Institution names are omitted to maintain anonymity.

measuring success, which broadens the definition of community college student success to include not only degree attainment, but also attainment of shorter-term credentials, such as certificates or industry licenses, successful transfer to a four-year institution, or persistence in enrollment beyond four years. For example, in Virginia, although the traditional IPEDS graduation rate does a good job at approximating success for some schools, success can look very different in other schools when we take into account the full array of community college programming and define success accordingly. (See chart.)

We also collect data on students enrolled in non-credit programs so that we can observe the full range of student enrollment at community colleges. All the prior enrollment data presented in this article reflects enrollment only in credit-bearing academic programs across institutional sectors. However, a large and growing percentage of community college students are enrolled in non-credit, workforce programs. These programs range from commercial driver's license, or CDL programs, to phlebotomy to welding. (See "Non-Credit Workforce

Programs at Community Colleges," *Regional Matters*, Feb. 22, 2024.)

Outreach to community colleges indicates that not only is enrollment shifting from degrees to these shorter-term programs, it is also shifting from credit programs to non-credit programs. We can't observe those students in the data from NSC or other national data providers, though, complicating the enrollment story.

QUANTIFYING THE BENEFITS

Defining success and understanding the likelihood of completion is a first step, but as individuals negotiate labor market changes and seek to maximize their investment in postsecondary training, there is a renewed sense of urgency for quality information on the payoff to different educational pathways. Why is it so hard to link specific higher education choices to labor market outcomes?

These data are inherently difficult to produce because it requires following students' post-degree skills attainment and because it is difficult to control for the range of factors outside of their educational attainment that can affect their earnings. While we know that

college graduates have lower unemployment rates than noncompleters, this varies by field of study and degree attained. The New York Fed's labor market data on recent college graduates show that while the unemployment rate in 2022 for those with a bachelor's degree or higher was 2.2 percent, this ranged from 0.2 percent for those with an industrial engineering degree to 8 percent for those with an art history degree. Not surprisingly, wages differ as well. While those with industrial engineering degrees between the ages of 22 and 27 had a median wage of \$71,000, those with an art history degree had a median wage of \$41,000 at the same age.

To improve data in this area, the Census Bureau has been working on a project known as Post-Secondary Employment Outcomes (PSEO). The PSEO data include earnings and employment outcomes for community college and four-year graduates by degree level, major, and institution attended. Not every state has chosen to participate, but two Fifth District states — South Carolina and Virginia — have participated. The data indicate that there are some industries, such as health professions, where wages increase dramatically with attainment of an associate degree, but further degree attainment doesn't result in notably higher wages one year after award completion. In others, such as engineering and business, attaining a bachelor's or master's degree in the field results in significantly higher wages, on average.

Measuring the value of non-credit certificates, licenses, or third-party credentials is even more challenging. Students who attend short-term training programs are often excluded from enrollment and graduation rates and data on third-party credential attainment is very difficult (or even impossible) to attain. Until there are standardized data on enrollment in non-credit workforce programs and the tangible outcomes that students attain, even the most robust datasets

linking educational outcomes to wages will be limited in their ability to reflect community college outcomes.

There are, of course, benefits to higher education that are not directly reflected in wage data, and low wages don't always indicate low demand (or low value to society). Child care workers, for example, are in demand nearly everywhere, but the wages in the child care industry remain very low. Wages also reflect individual characteristics and preferences that are independent or only tangentially related to their field of study and occupation. Additionally, many people work in occupations that are unrelated to their degree or certificate. Still, knowing the earnings potential of different educational and career paths is important for students seeking to make sound economic decisions around how they spend their postsecondary training.

FOR SOME INSTITUTIONS, A SQUEEZE

As the pool of high school graduates shrinks and a smaller number of new first-time students enroll in college each year, some schools will feel the effects more sharply than others. In about the mid-2010s, market forces were already putting small colleges like Sweet Briar College in Lynchburg, Va., at risk of closing — though Sweet Briar recovered thanks to the rallying of alumnae. (See “Too Small to Succeed?” *Econ Focus*, First Quarter 2017.) More recently, schools as different as the University of Lynchburg and West Virginia University have announced major changes to offerings.

In general, flagship universities have maintained increased enrollment, but many regional public colleges and universities have experienced declines. For example, in South Carolina, undergraduate enrollment at Clemson and the University of South Carolina (USC)-Columbia grew by 32 and 13.8 percent, respectively, between 2013 and 2022, while undergraduate enrollment at some smaller regional public

universities, such as USC-Upstate and Winthrop University, saw declines of more than 20 percent.

Similarly, elite private colleges and universities have welcomed record-setting classes, while other private schools have seen persistently declining enrollment. For example, Washington and Lee, in Lexington, Va., an academically elite private university, saw enrollment grow from 1,845 full-time students in fall 2019 to 1,859 full-time students in fall 2022, maintaining their preferred institution size. Over the same period, Marymount University, a similar-sized private nonprofit institution in Arlington, Va., saw full-time undergraduate enrollment fall from 1,951 to 1,644, a 15.7 percent decline. These institutions also depend on tuition and enrollment differently. As of June 30, 2022, Marymount University's endowment had a balance of \$49.2 million, approximately \$30,000 per full-time enrolled undergraduate. As of the same date, Washington and Lee had an endowment balance of about \$2 billion, approximately \$1.1 million per full-time enrolled undergraduate. Schools like Marymount are often called “tuition-dependent” because they rely on tuition revenue to meet annual expenses and do not have significant endowment income to help weather periods of enrollment declines or cost increases.

Community colleges face the same enrollment environment as four-year institutions without the same level of state funding or large endowments. However, their unique position within higher education and workforce development that has disadvantaged them in outcome and workforce metrics may serve them well, as labor force demands and student preferences shift. For one, community colleges can be a low-cost option in an environment where students and parents are increasingly questioning the value of a higher degree. In addition, community colleges are more adept at shifting to meet the needs of their local workforces.

Of course, as demand for shorter-term degrees rises, there is room for

community colleges to better align their educational services with the needs of the local workforce. Recent research from the Georgetown University's Center on Education and the Workforce suggests misalignment in many communities between associate degrees and certificates earned and the skills needed for occupations that are increasingly in demand. Community colleges with direct lines of communication with employers and partnerships can pivot to train in-demand workers through non-credit short-term credential programs. Of course, if policymakers wish for community colleges to fill this role in the workforce ecosystem, clarity around outcomes, aligned incentives, and funding to provide these services will be critical.

CONCLUSION

There will be changes to demand for higher education that come from long-term trends such as demographic shifts or technology like artificial intelligence that changes labor market demands. There will also be short-term changes that might have long-term implications. For example, the increasing enrollment trends at community colleges relative to four-year institutions may well be boosted by this year's FAFSA debacle in which the Department of Education repeatedly delayed release and processing of the new federal financial aid application. (See “June Update: The 2024 FAFSA Crisis,” *Community College Insights*, June 21, 2024.) But most critically, for students to make the right decisions for themselves, they need good information about how different institutions or types of postsecondary education will enhance their longer-term prospects. To understand which programs to invest in, our policymakers need to understand the current and future labor market outcomes from different postsecondary programs. No one has a crystal ball, but better data and more research could help. **EF**