Human Capital Investment: Helping Students Choose the Best Path for Themselves

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Evening at the Fed
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Our Perspective on Financial Education

Research

Our Perspective

This series articulates the Richmond Fed's views on issues of particular importance to the economy and the financial system.

Financial Education

Instead of prescribing specific financial advice, financial education efforts arguably should focus on providing information to enhance the ability of individuals to evaluate their own options, particularly for life's major financial decisions.
What makes the higher education decision major?

\[
\max_S \int_S^\infty \exp\left(- (r + \nu) t \right) w(t) h(t) \, dt
\]

Complex  Infrequent  Irreversible  Long-term

Source of Maximization Problem: Acemoglu, Daron and David Autor. “Lectures in Labor Economics.” MIT.
College completion typically leads to positive labor market outcomes, but...

- Not everyone who enrolls in college completes.
- College may not be the best path for all students.

Preparedness and good information are important for choosing the right path and succeeding.
College completion has long inoculated against unemployment

Unemployment rate, workers 25 years and over

- Less than high school
- High school
- Some college or associate's degree
- Bachelor's degree or higher

Source: Bureau of Labor Statistics
And college has long delivered earnings payoffs, which have steadily increased over time

Median weekly earnings, workers 25 years and over (2013 constant dollars)

- Bachelor's degree or higher
- Some college or associate's degree
- High school
- Less than high school

Source: Bureau of Labor Statistics
## A finer recent breakdown

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Median Weekly Earnings in 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doctoral degree</td>
<td>$1,591</td>
</tr>
<tr>
<td>Professional degree</td>
<td>$1,639</td>
</tr>
<tr>
<td>Master’s degree</td>
<td>$1,326</td>
</tr>
<tr>
<td>Bachelor’s degree</td>
<td>$1,101</td>
</tr>
<tr>
<td>Associate’s degree</td>
<td>$792</td>
</tr>
<tr>
<td>Some college, no degree</td>
<td>$741</td>
</tr>
<tr>
<td>High school</td>
<td>$668</td>
</tr>
<tr>
<td>Less than high school</td>
<td>$488</td>
</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics
Sticker prices have risen, but what many students actually pay has been relatively flat.

Source: The College Board, Annual Survey of Colleges; Trends in College Pricing 2014
Educational Attainment of U.S. Population

<table>
<thead>
<tr>
<th>Percent of population, 25 years and over</th>
<th>100%</th>
<th>90%</th>
<th>80%</th>
<th>70%</th>
<th>60%</th>
<th>50%</th>
<th>40%</th>
<th>30%</th>
<th>20%</th>
<th>10%</th>
<th>0%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Master’s degree or higher</td>
<td>11%</td>
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<tr>
<td>Bachelor’s degree</td>
<td>18%</td>
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<td>Associate’s degree</td>
<td>8%</td>
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<tr>
<td>Some college, no degree</td>
<td>21%</td>
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<tr>
<td>High school</td>
<td>28%</td>
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<tr>
<td>Less than high school</td>
<td>14%</td>
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</tbody>
</table>

Source: U.S. Census Bureau 2013 ACS 5-year est.
Returns to college look good, but... potential biases in the data

**Ability Bias**
- Workers with higher education
- Workers that are inherently productive

**Selection Bias**
- Jobs that require higher ed
- Jobs that require lower ed

High ed “types” are already productive

I’m good at those!
After controlling for biases, returns still look good, but...

Two important caveats to keep in mind... #1

Beware of averages
After controlling for biases, returns still look good, but...

Two important caveats to keep in mind... #2

You’ve got to finish.

Photo Source: by Beat, Flickr
The Importance of Completion

High school completion is first order.
Completion Rates Beyond High School

Many who enroll do not complete any degree within 6 years of completing high school.

<table>
<thead>
<tr>
<th>Expected Attainment</th>
<th>No Degree</th>
<th>% of No Degree with Loans</th>
<th>Student Loan Debt (borrowers with no degree)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certificate</td>
<td>52%</td>
<td>37%</td>
<td>$11,160</td>
</tr>
<tr>
<td>Associate’s degree</td>
<td>62%</td>
<td>39%</td>
<td>$10,758</td>
</tr>
<tr>
<td>Bachelor’s degree</td>
<td>38%</td>
<td>51%</td>
<td>$14,457</td>
</tr>
</tbody>
</table>

Data reflect survey results from 2004-2009.

The Importance of Preparedness

Three dimensions of preparedness

Academic ability

Work habits

Knowing options
Prepping for Completion and the Workforce

• **Early Childhood** experiences seem to matter a lot for hard and soft skills.

• **MS/HS** appear to be a good time for exploring options and further building soft skills.

• **Community college** can help students assess preparedness and explore other postsecondary options.
The Upshot

• **Completion** is important.

• Returns are **individual**.

• **Preparedness** (including having information) can help students choose the best path for themselves and ultimately complete that path.
Richmond Fed Resources

**Higher Education**
Are you ready for the next frontier?

**Inside:**
- Constellations to guide your decision
- Preparing for your deep space voyage

**Also Inside:** Avoiding the black hole of noncompletion

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Invest in What’s Next
Life After High School

majorfinancialdecisions.org