

# The college payoff: a look at income and wealth premiums

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Getting a degree from a 4-year college not only increases graduates' education, it also benefits graduates in many other ways, including the following:

- Greater income and wealth
- Healthier lifestyle, a better chance at homeownership
- A higher likelihood of marriage or cohabitation
- The financial means to better manage debt going forward

College income and wealth premiums are the additional income earned and the wealth acquired by a family headed by a member with a college degree over a family headed by a member who does not have a 4-year college degree. In their article "[Is college still worth it? The new calculus of falling returns](#)" (Federal Reserve Bank of St. Louis *Review*, fourth quarter 2019), William R. Emmons, Ana H. Kent, and Lowell R. Ricketts analyze the income and wealth trends associated with families headed by those achieving less than a 4-year college degree, a bachelor's degree, and both a bachelor's degree and a postgraduate degree. In analyzing those trends, the authors seek to determine the college income premium and wealth premium.

The authors identify three factors that may affect the extent of the income and wealth premiums experienced by graduates, across various birth cohorts, with at least a bachelor's degree:

1. Date of birth—one's ability to increase income and accumulate wealth depends on the level of asset prices at the time he or she begins to acquire those assets.
2. Financial flexibility—leveraging credit, properly or improperly, may positively or adversely affect wealth; incomes would be unaffected.
3. The cost of higher education—the rising cost of education would hamper the accumulation of wealth in the short run.

The authors used data from the Federal Reserve Board's Survey of Consumer Finances to assess college income and wealth premiums and analyze trends across decade-long cohorts of those born in the 1930s to those born in the 1980s. When comparing families headed by a member who got a bachelor's or postgraduate degree with families headed by a member who did not get a 4-year college degree, the authors found that the income premium was positive across all cohorts. However, for White families, the income premium may decline for those families in the most recent cohort of those born in the 1980s. In addition, the authors found that the wealth premium has declined for those cohorts born after 1940 and is at a historical low for White families headed by a member born in

the 1980s with a bachelor's degree. As for families of any other race and ethnicity in the 1980s cohort, the wealth premium is statistically indistinguishable from zero, regardless of whether they are headed by a member with a bachelor's or postgraduate degree.

According to the authors, the percentage of U.S. families headed by a member with a bachelor's degree has increased from 23 percent in 1989 to 34 percent in 2016. For those families headed by a member with a postgraduate degree, the percentage increased from 9 percent to 13 percent. Over that period, the share of White families headed by a member with a bachelor's degree or more increased from 26 percent to 38 percent. However, the share for families of all other races and ethnicities increased from 14 percent to 25 percent. Although these trends may show that families believe graduating from college is worthwhile, the authors found that for recent graduates, getting a college or postgraduate degree is less of a worthwhile financial investment.