

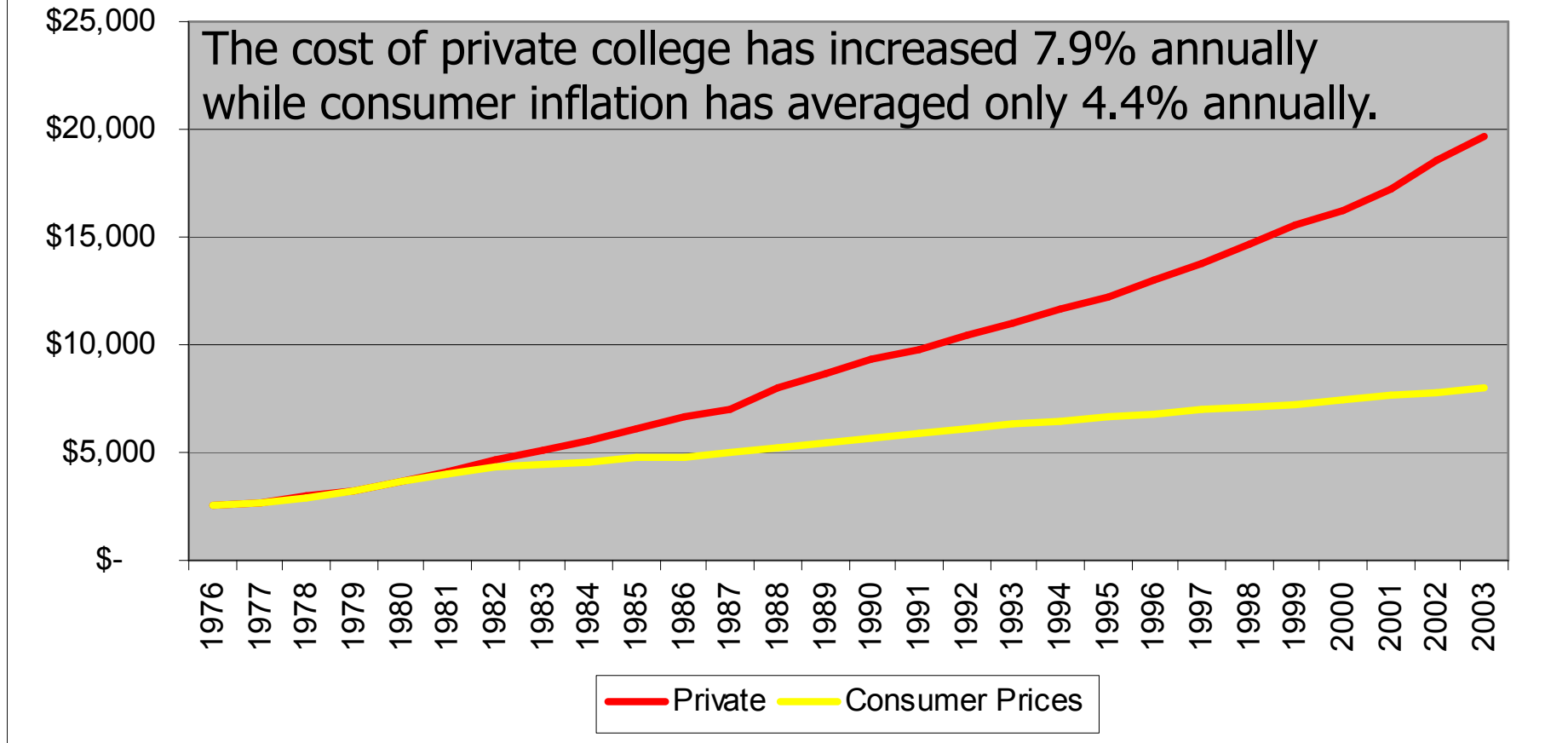
To ask why a college education is so expensive is to be wrong before you've started.

A college education is not a purchase it is an investment.

When one looks at an investment, the appropriate question is:

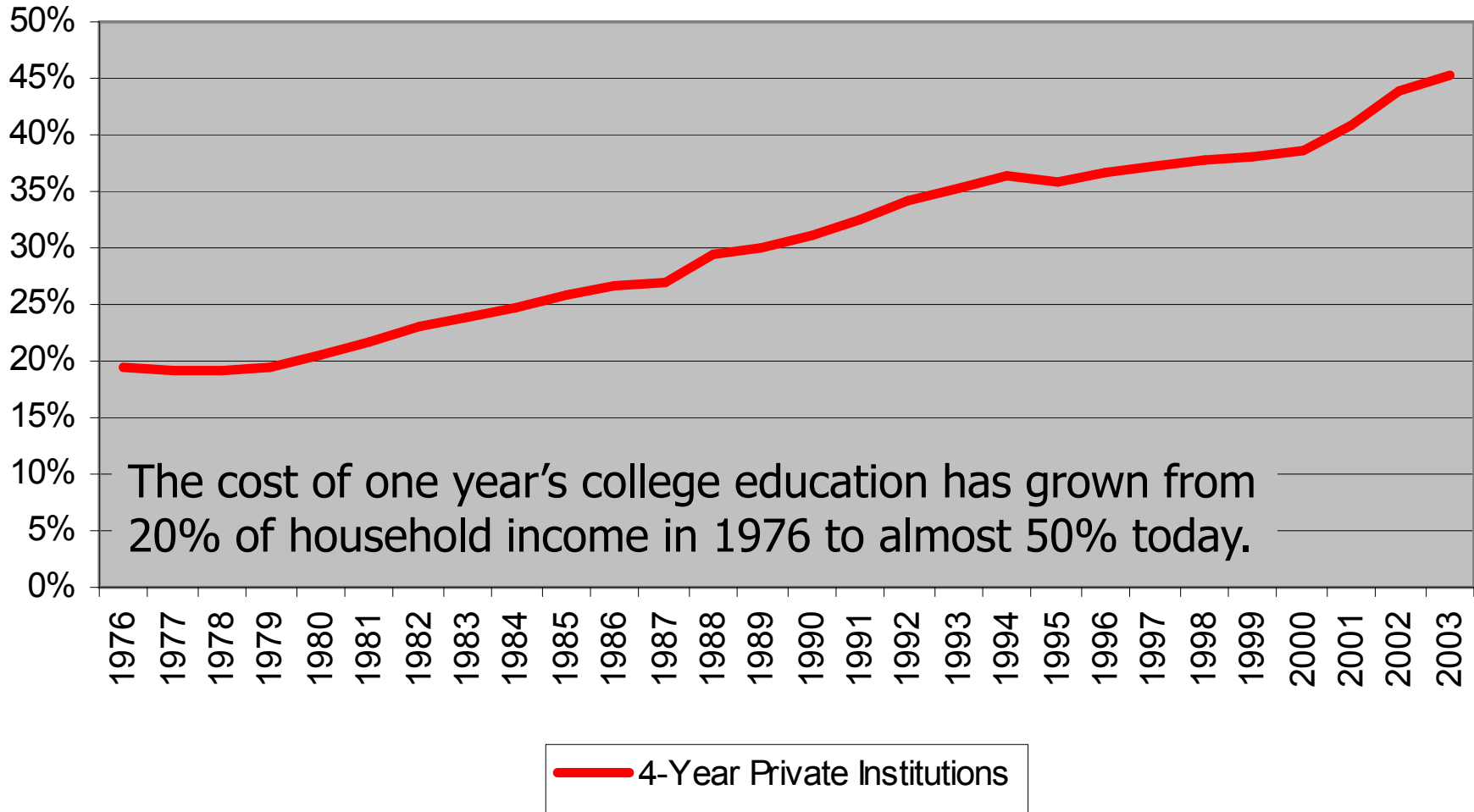
→ What does it cost me relative to what it returns?

## Tuition & Fees (4-Year Institutions, \$ per year)



Source: *Statistical Abstract of the United States, 1995-2006*; *Current Population Reports, Bureau of Census, 1978-1997*; *Annual Survey of Colleges, The College Board, 2002*

## Tuition and Fees as % of Median Household Income

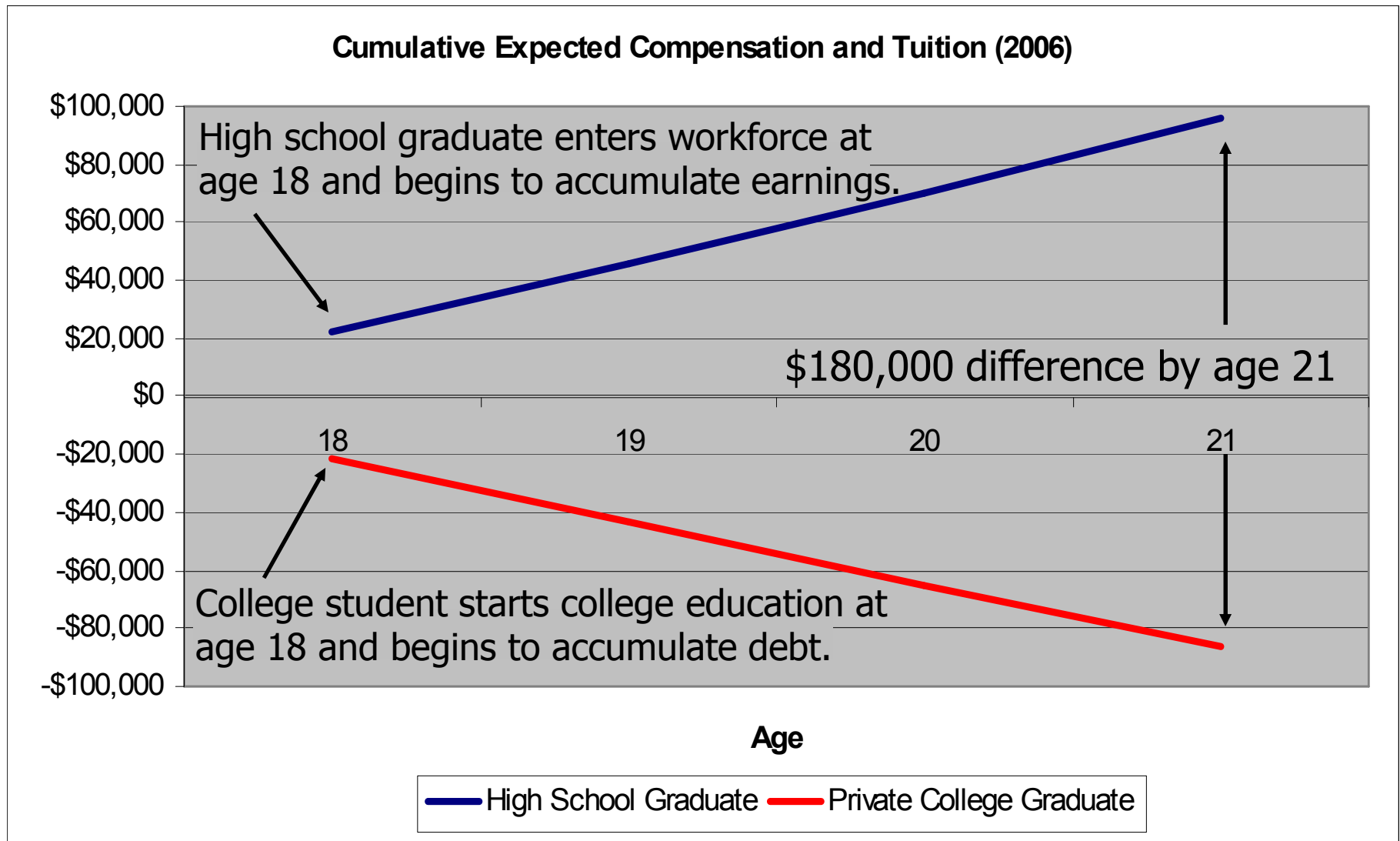


Source: *Statistical Abstract of the United States*; *Current Population Reports*, Bureau of Census; *Annual Survey of Colleges*, The College Board

The cost of a college education isn't just tuition.

A large cost is the four years' worth of lost income that the student could have earned had the student gone into the labor force immediately after high school.

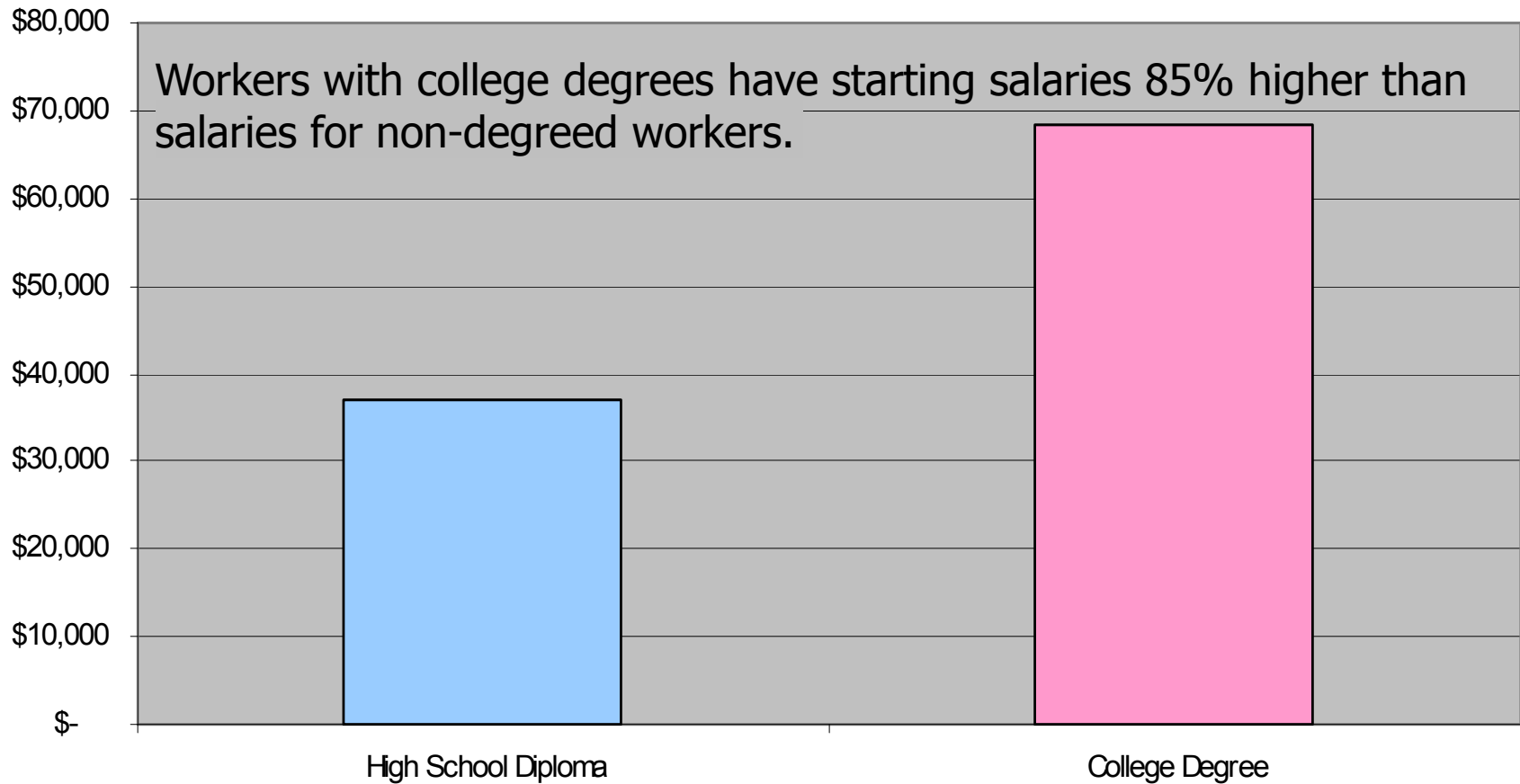
By the end of four years, college has cost a total of almost \$200,000 in tuition and lost wages!



## What are the benefits from a college education?

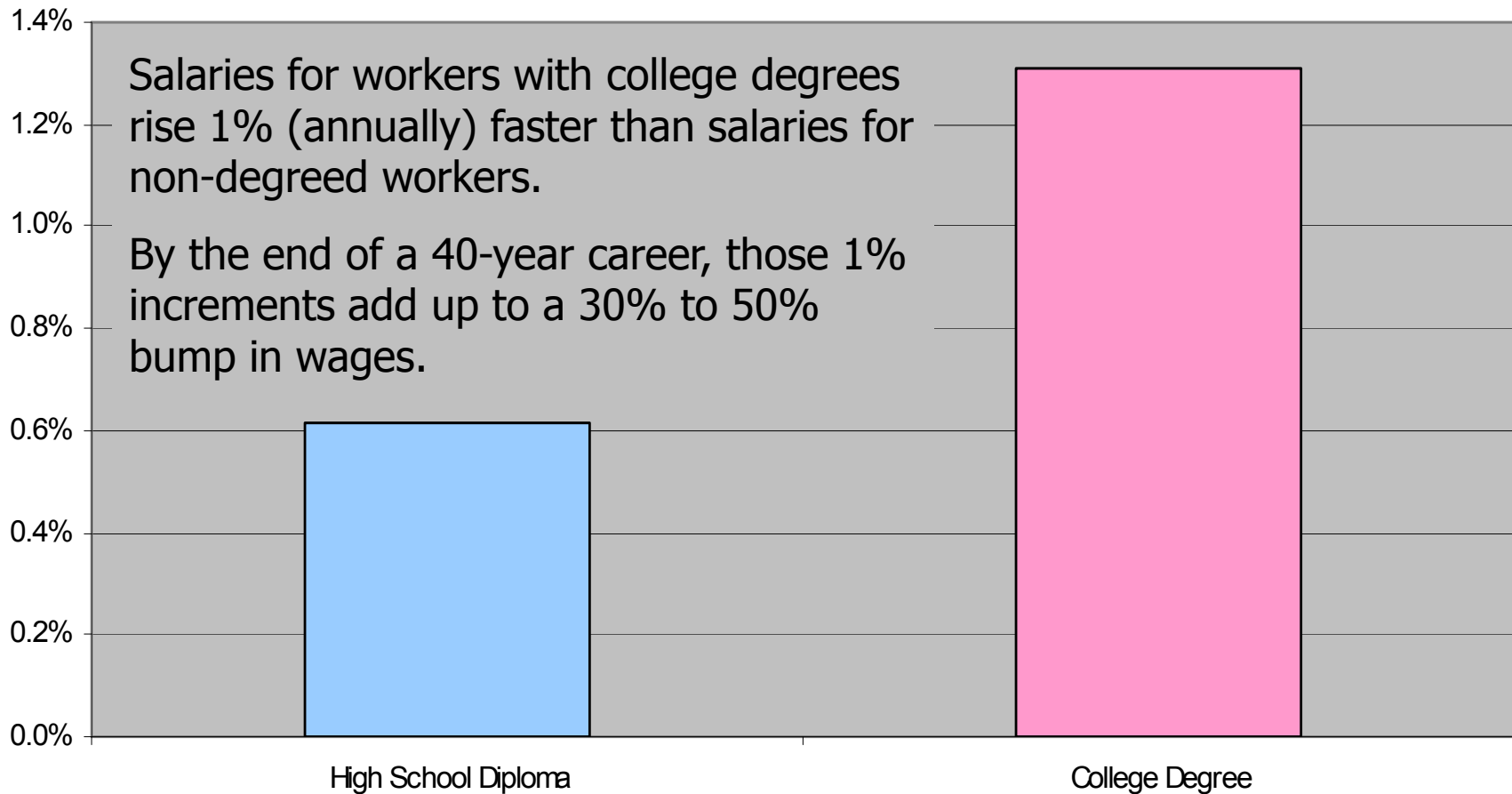
1. Greater starting salary.
2. Greater annual growth in wages.
3. Lesser likelihood of unemployment.

## Median Compensation for 18-24 Year Olds (2006)



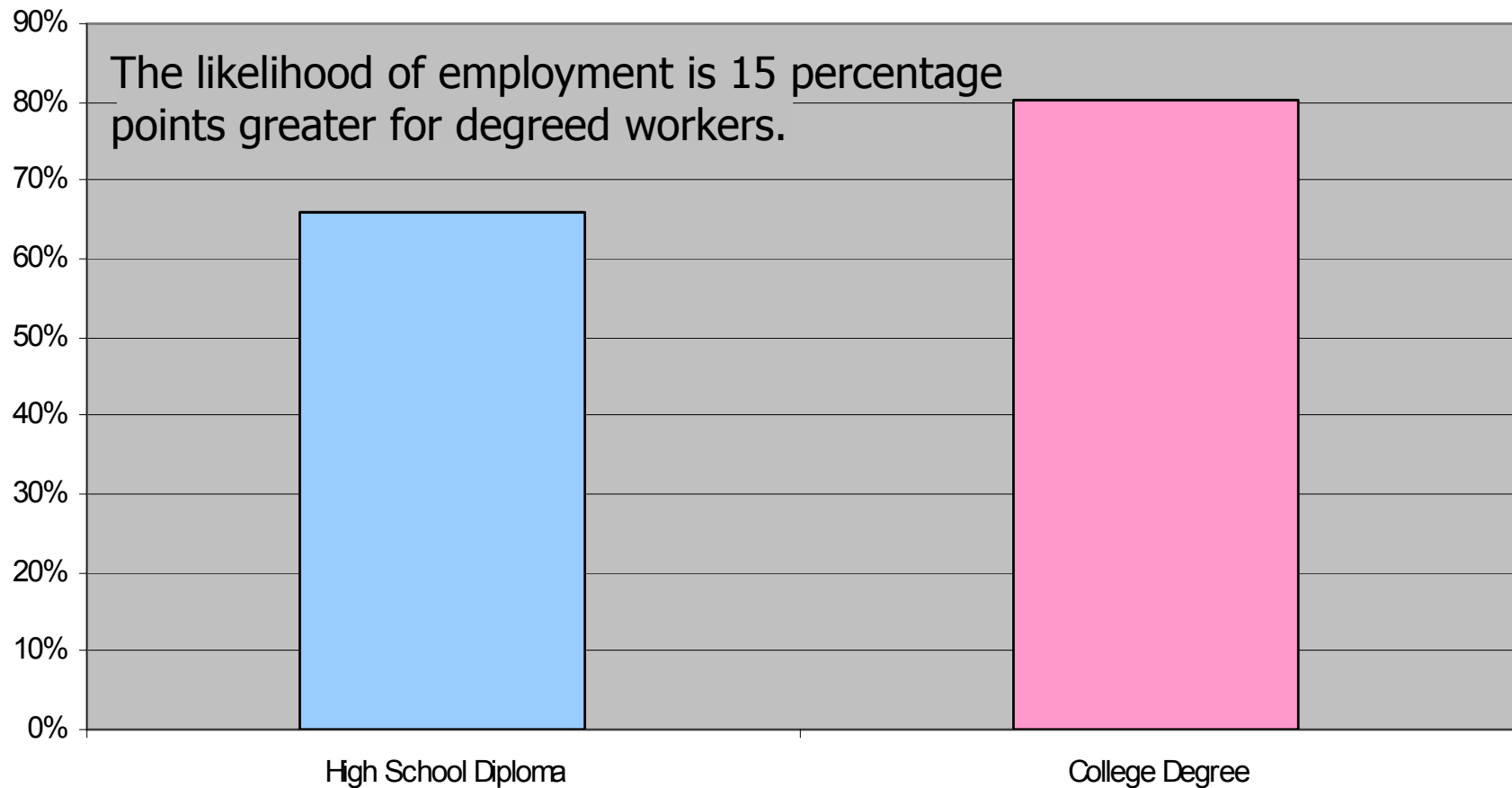
Source: *Statistical Abstract of the United States*

## Annual Real Growth in Median Wages from Age 24 to Age 65



Source: *Statistical Abstract of the United States*

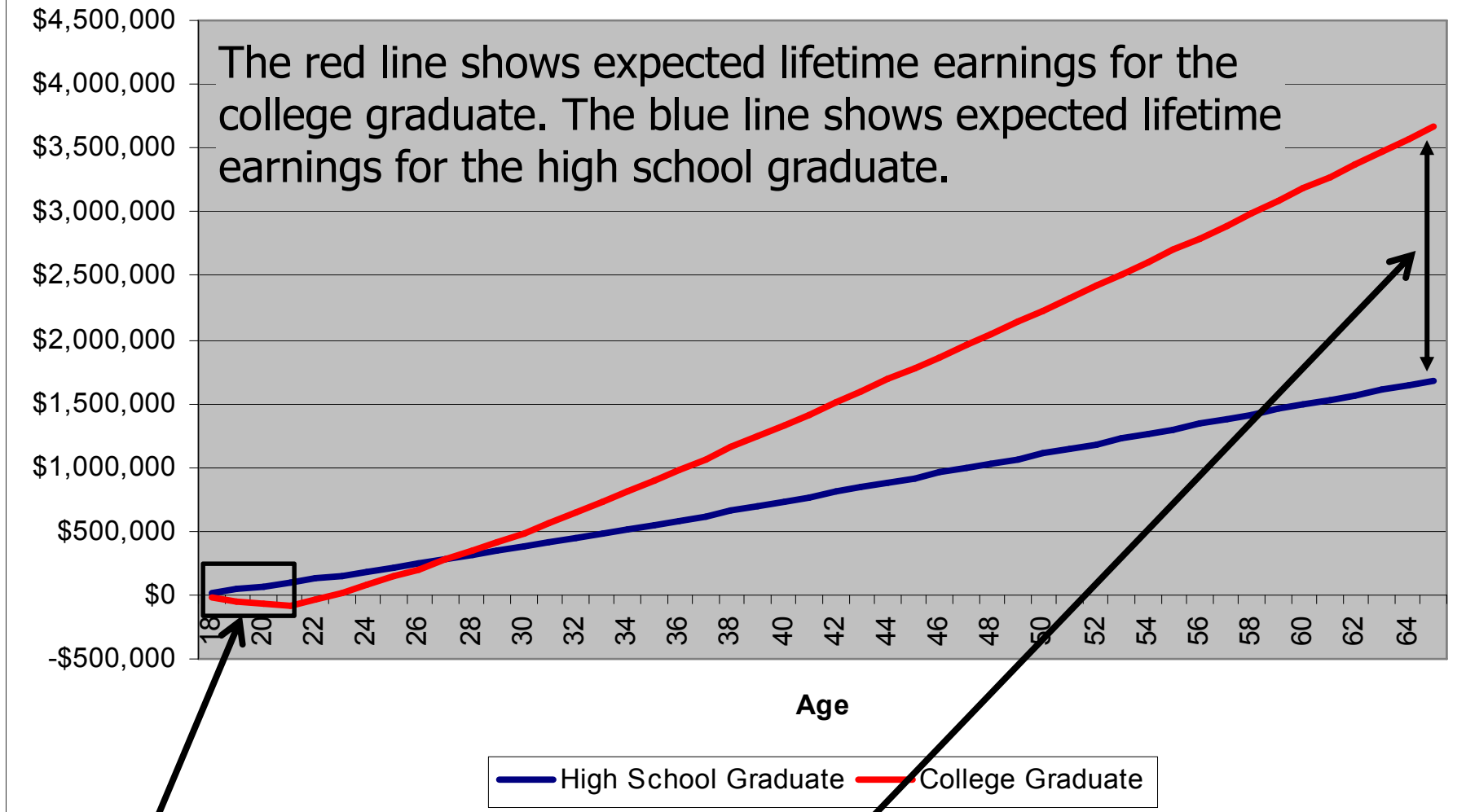
## Likelihood of Employment (1992-2006)



Source: *Statistical Abstract of the United States*

Add up these benefits and you find that the median college graduate's earnings are 244% of the median high school graduate's earnings.

### Lifetime Expected Compensation for 18 Year Olds in 2006 (2006\$)



Source: *Statistical Abstract of the United States, Current Population Reports, Bureau of Census, Annual Survey of Colleges, The College Board*

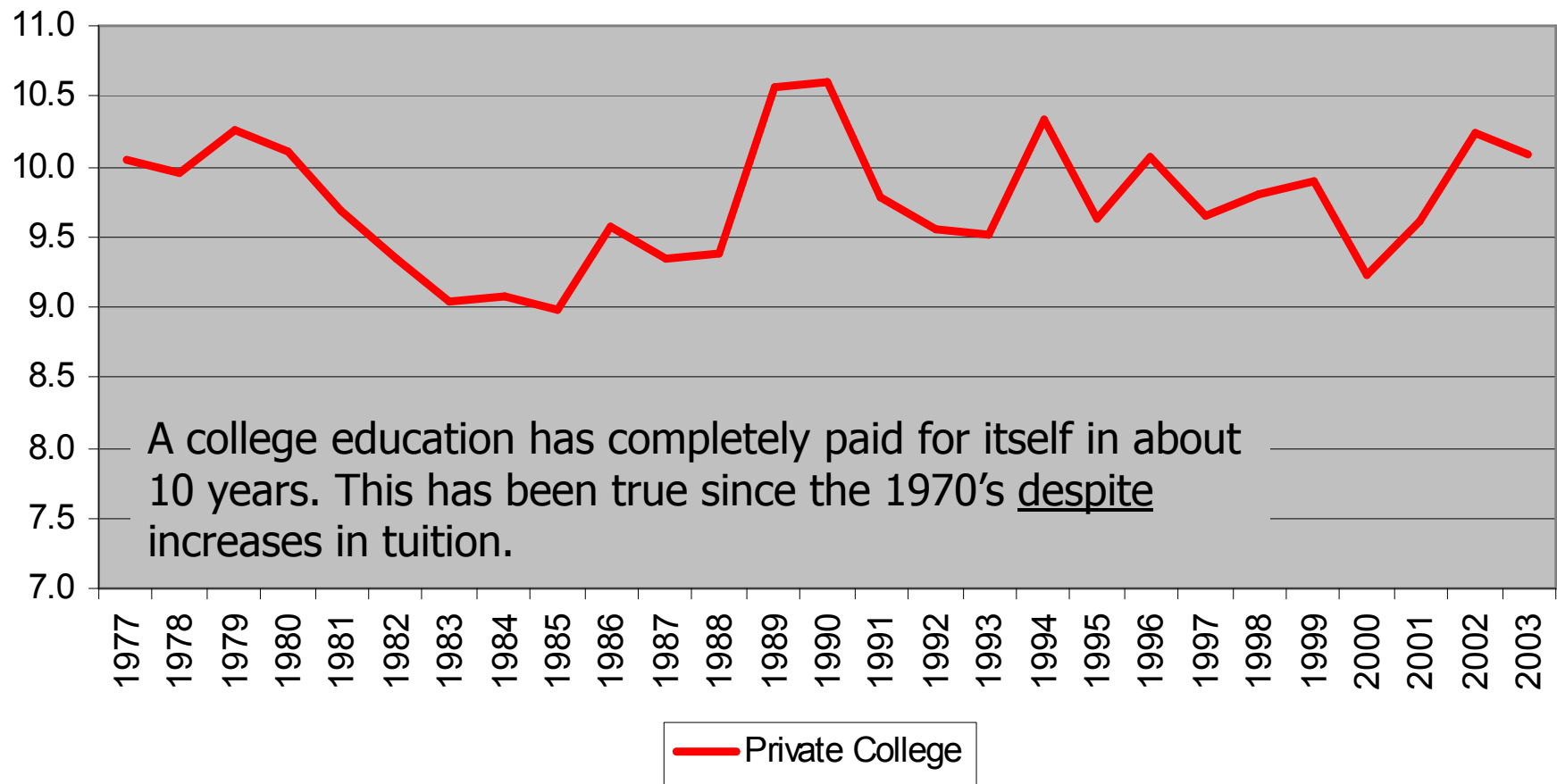
Remember the \$180,000 cost of four years of college? That's this box: ages 18 to 21.

By age 65, the college graduate has earned \$2 million more than the high school graduate – and that is after subtracting out the \$180,000 cost of going to college.

## There are three ways to evaluate an investment:

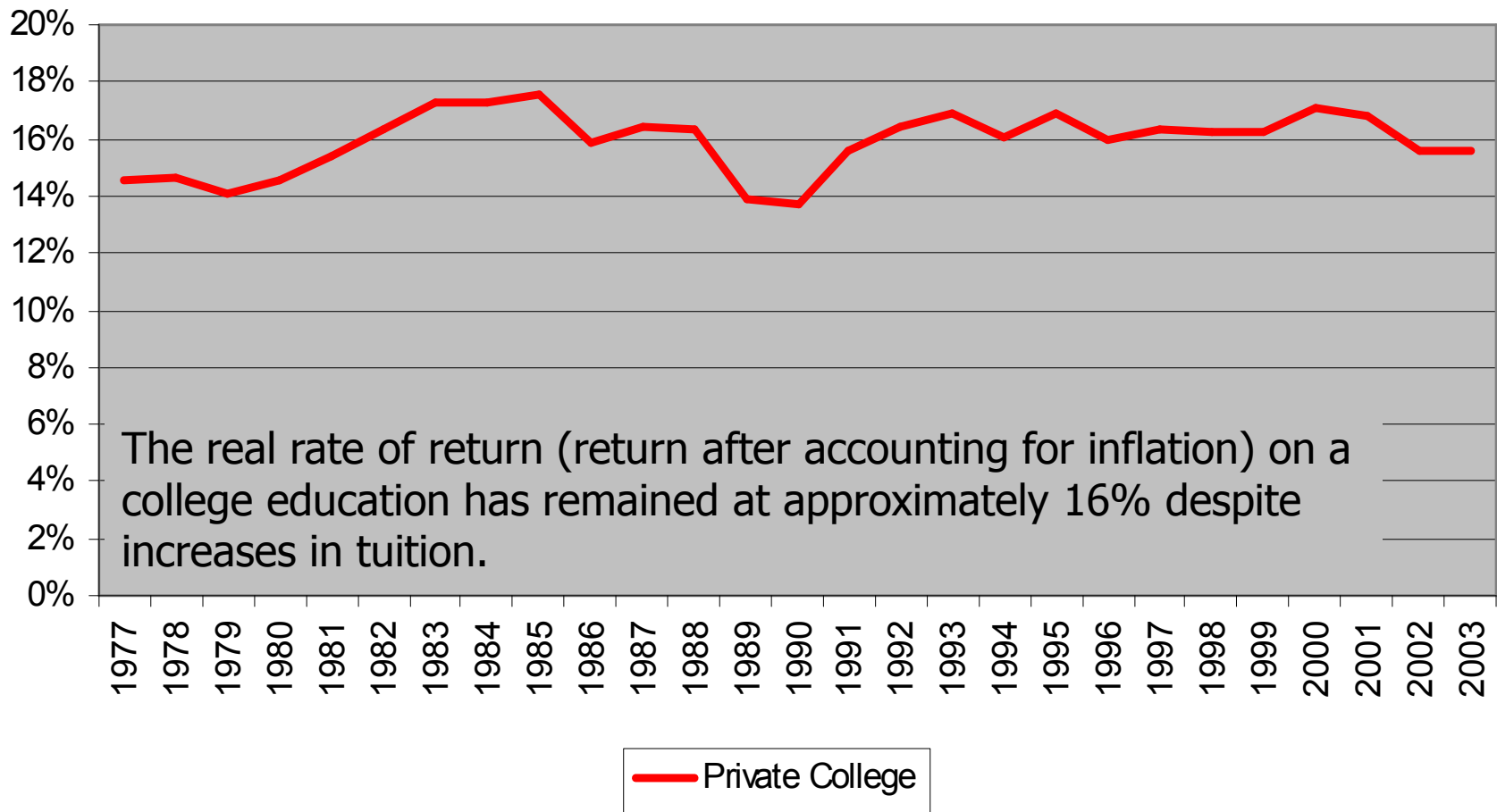
1. Breakeven Point (how long does it take to recoup my investment?)
2. Internal Rate of Return (what's the "interest rate" on this investment)
3. Net Present Value (what's the investment worth to me in today's dollars)

## Expected Breakeven on Education @ Age 18



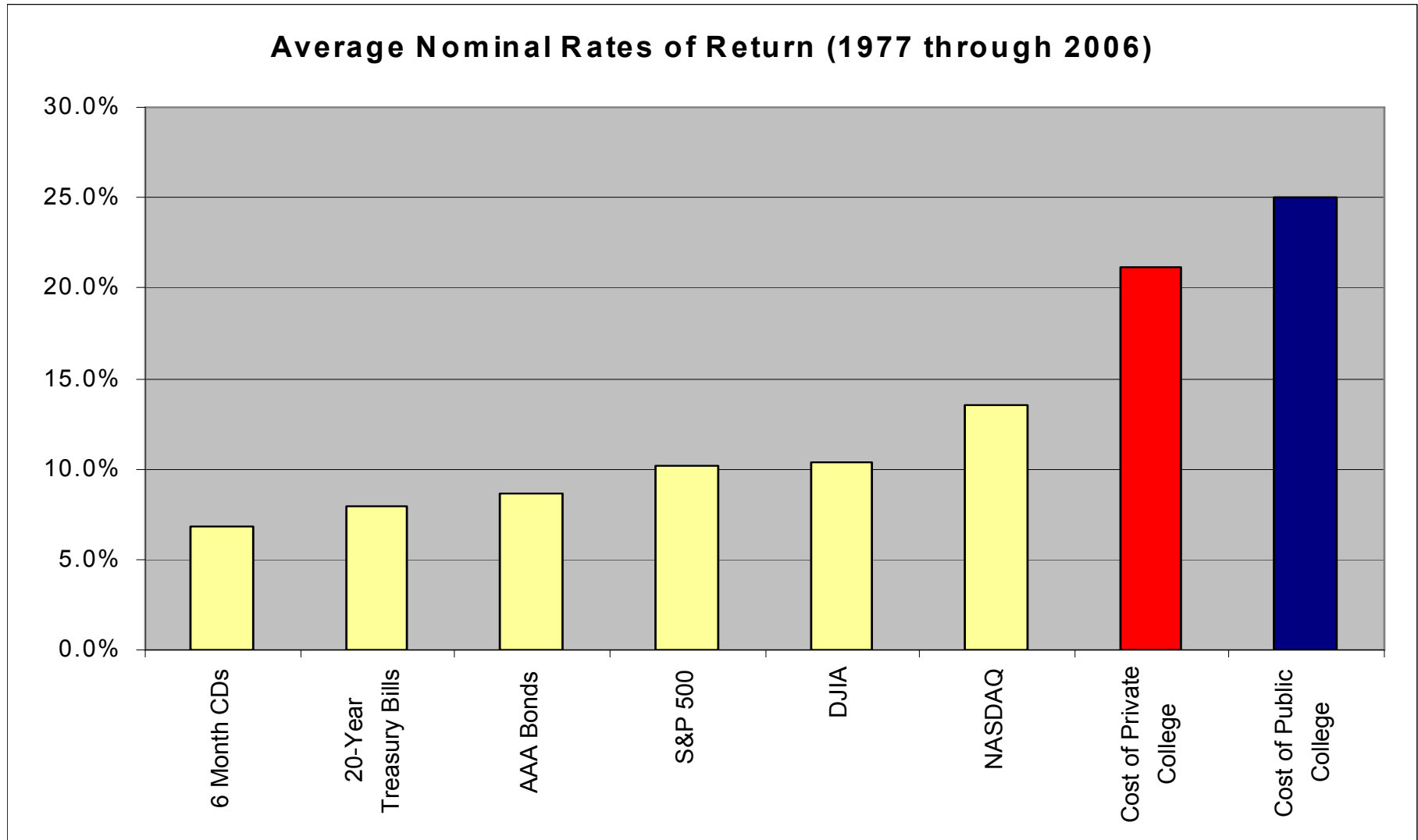
Source: *Statistical Abstract of the United States*, *Current Population Reports*, Bureau of Census; *Annual Survey of Colleges*, The College Board

## Expected Real Return on Education @ Age 18 (2006\$)



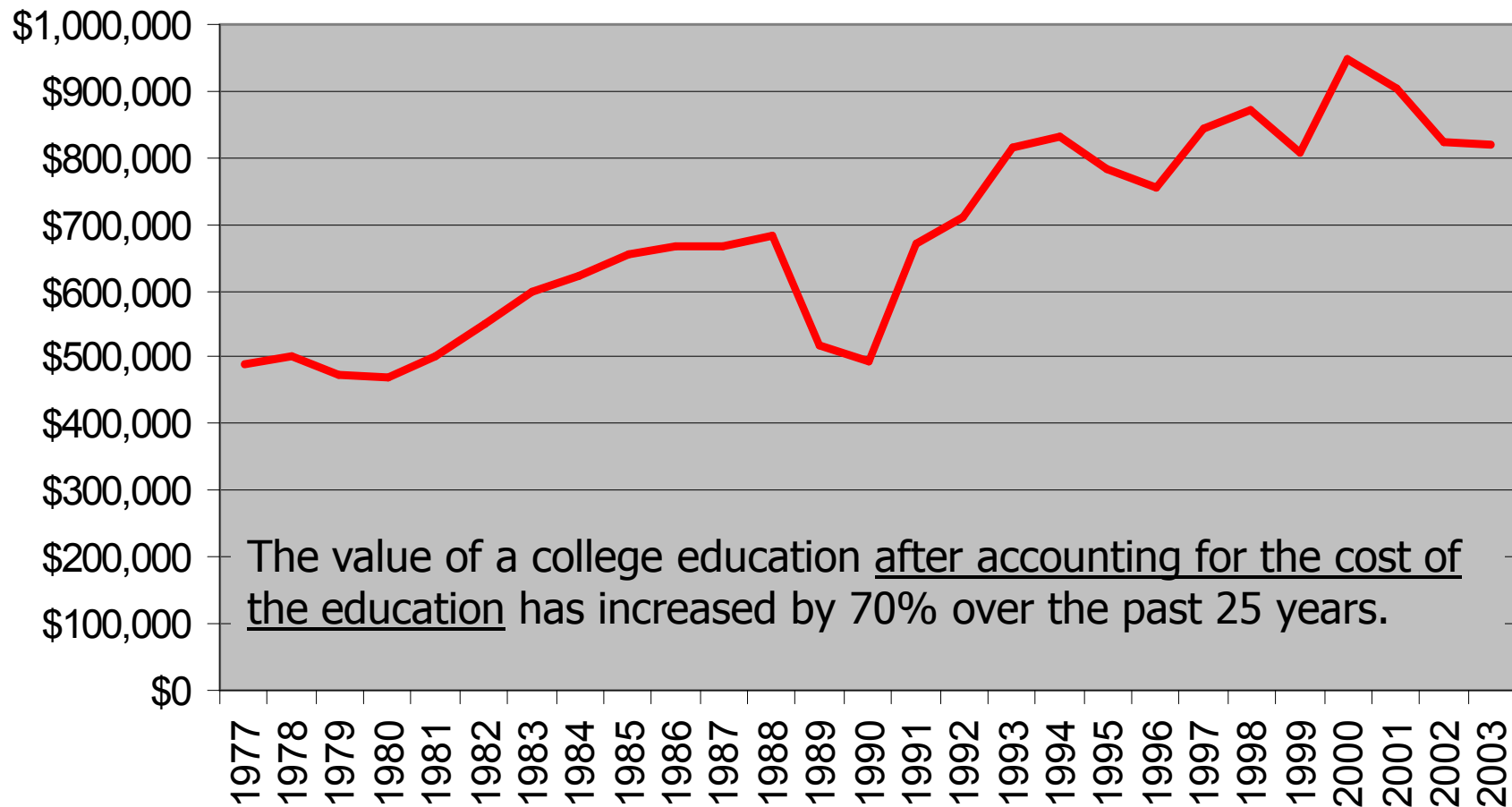
Source: *Statistical Abstract of the United States*, *Current Population Reports*, Bureau of Census; *Annual Survey of Colleges*, The College Board

Add back inflation to compare the return on a college education to returns on other investments. Dollars invested in a college education yield a 20% to 25% rate of return!



Source: *Statistical Abstract of the United States*, *Current Population Reports*, Bureau of Census; *Annual Survey of Colleges*, The College Board

## Expected Net Present Value of Education @ Age 18 (2006\$)



Source: *Statistical Abstract of the United States, Current Population Reports*, Bureau of Census; *Annual Survey of Colleges*, The College Board

OK, so a college education is a great deal (despite increases in tuition).

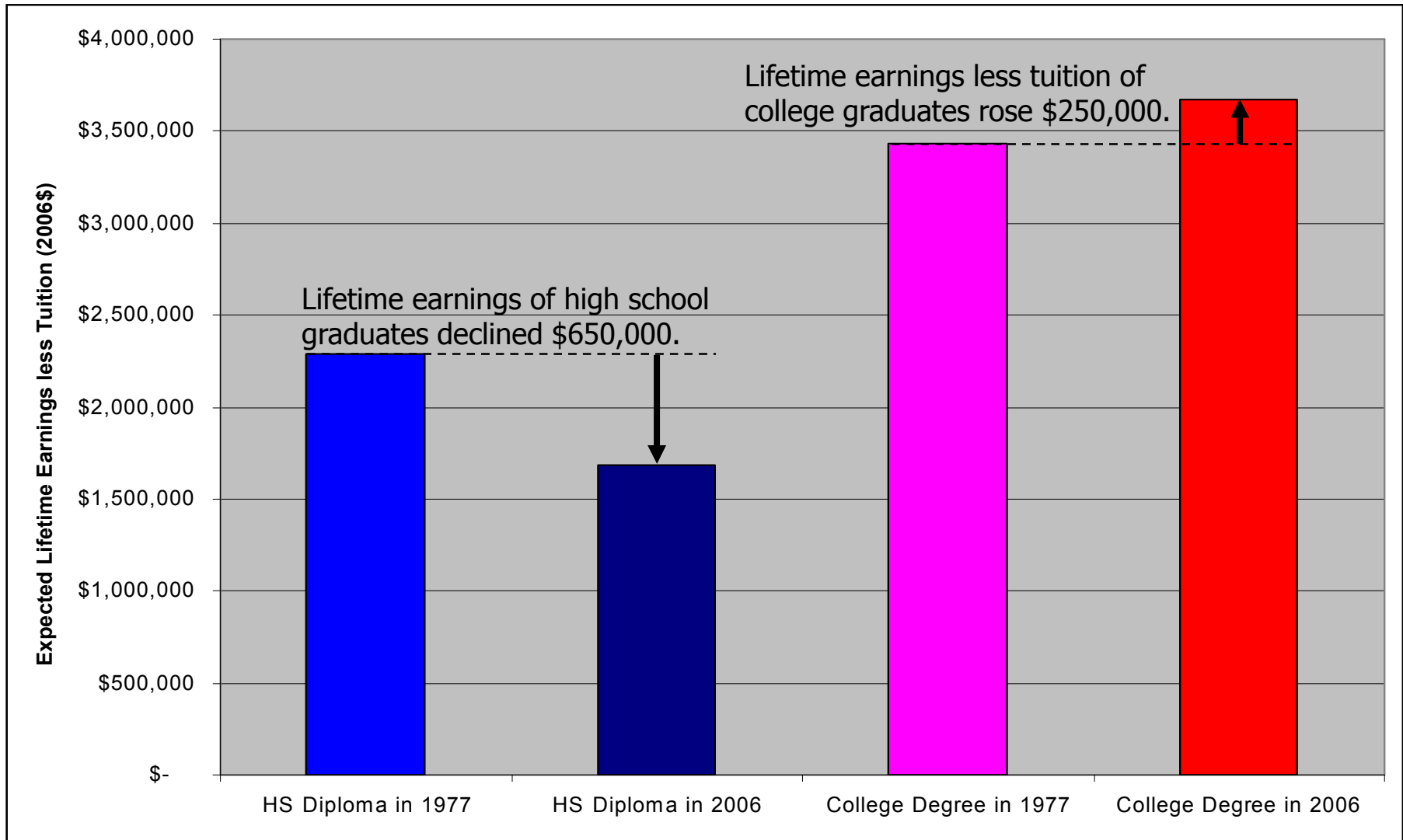
But, that doesn't answer the question:

Why is the cost of a college education rising?

One contributing factor is the decline in the value of a U.S. high school education.

As the quality of high school education declines, colleges must compensate for the education that students are not receiving in high school by completing the high school education plus providing the college education.

Over the past generation, the value of a high school education has declined by almost 30%.



Source: *Statistical Abstract of the United States, Current Population Reports, Bureau of Census; Annual Survey of Colleges, The College Board*

### Components of the Value of Higher Education (2006\$)

