

# Chapter I

## It Ain't Necessarily So

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College is important to your economic future. It is the price of admission to millions of jobs. And you make more money with a college degree than just a high school diploma.

For years, the College Board said a college graduate earned \$800,000 more over a lifetime than a high school graduate. And the Census Bureau put it even higher. (Chart 1) Many organizations cite one or the other of these numbers as part of the why-college-is-worth-it mantra.

But there's a lot of confusion about the potential earnings of college grads. The College Board, for instance, while it previously pushed the \$800,000 number on its Web site, also publishes a slew of other numbers about the advantage, one as low as \$300,000 over a lifetime.

Now, after I pressed them in the course of writing this book, even the College Board's own academic expert calls the \$800,000 number "very misleading" for most students.

One of the problems for people thinking about college is that all these numbers talk about average or median or "typical" earnings. But in doting on the average/median/typical gain in incomes for college graduates, the experts smooth over the rough spots. Throwing big earners into the mix covers up those struggling at the other end.

In other words, the \$800,000 – or even the \$300,000 – is not a guarantee. You could make more, or *you could make less*.

Since these "typical" earnings numbers can mislead, therefore, it pays to be careful in using them to judge how much to borrow for college.

The point of this book is that if you borrow too much you can wipe out the economic benefits of going to college.

You could even be, over a lifetime, *economically behind the average high school graduate*.

That means that you could borrow so much and end up making so little that - at least in purely economic terms - you might have been better off NOT going to college but instead plunging into the workforce right

out of high school, notes Boston University economics Professor Laurence Kotlikoff.

People who start work immediately after high school, after all, have at least four years of income to show for it and, presumably, don't have \$20,000-\$40,000 of school debt hanging around their necks. And plumbers, Kotlikoff points out, make a pretty good living.

*This is a chart put out by the U.S. Census Bureau showing the differences in earnings potential of people with different levels of education. The difference here between a bachelor's degree holder and a high school graduate is \$900,000.*

## **Chart I**

### **– AVERAGE EARNINGS DIFFERENCES**

<b>Lifelong Employment Earnings*</b>	
<b>Education</b>	<b>Earnings (in millions of dollars)</b>
<b>Professional Degree</b>	<b>\$4.40</b>
<b>Doctorate</b>	<b>\$3.40</b>
<b>Master's Degree</b>	<b>\$2.50</b>
<b>Bachelor's Degree</b>	<b>\$2.10</b>
<b>Associate's Degree</b>	<b>\$1.60</b>
<b>High School Diploma</b>	<b>\$1.20</b>
<b>Less than High School Diploma</b>	<b>\$1.00</b>

*\*Full-time, year-round employment over a period of 40 years.*

*Note: - that those who have earned a professional degree show the highest projected average lifelong earnings—4.4 million dollars. However, college graduates who have completed a bachelor's degree showed a projected earning potential of 2.1 million dollars, as opposed to the high school graduate's 1.2 million. Source: U.S. Census Bureau.*

How could this be?

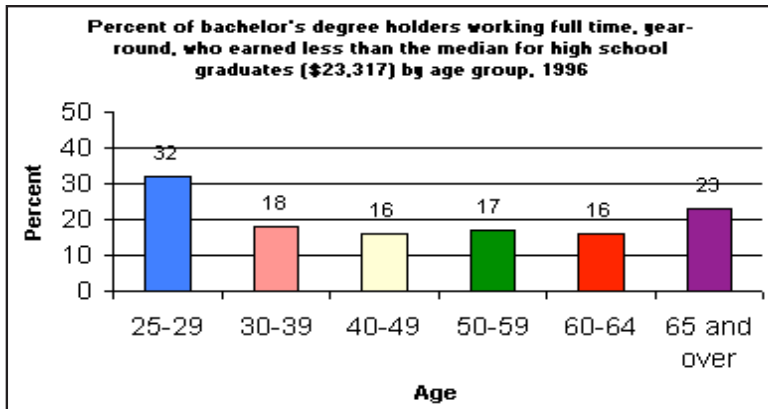
Despite all the blithe chatter about average, typical, or median wages on some Web sites, lots of college graduates make less than “typical” incomes.

You don’t have to take my word for it. Even the government notes there are risks to investing in a college education. In its “2004-2014 Job Outlook for College Graduates,” the Bureau of Labor Statistics warns that:

*“High earnings are not guaranteed for individual graduates.*

*“For every graduate who earns more than the median (middle amount), another earns less. And while unemployment rates are low overall, many college graduates sometimes have trouble finding work, especially if they are waiting for a particular type of job.” (Author’s emphasis)*  
<http://www.bls.gov/opub/ooq/2006/fall/art03.pdf> - page 45

Further, a 1998 statistical study by the BLS found that about 17 percent – or one in six – college graduates “earned less than the median high school graduate.” (Chart 2) Even among college graduates aged 30 and up, some 14 percent were earning less than the median high school graduate, the study noted. (A review of these numbers by me in the fall of 2009 – with help from a BLS economist – shows that this BLS finding from 1998 still broadly holds true.)



Source: Bureau of Labor Statistics <http://www.bls.gov/opub/ted/1998/Oct/wk4/art05.htm>

So the government acknowledges the problems of trying to sweep everyone into averages/medians/typical earnings assumptions, and it’s these that the College Board uses in its superior wage assumptions for college graduates.

## Is the College Board Right?

The College Board publishes lots of different numbers about the economic advantages of a college education. And that's a problem.

On its Web site the College Board until very recently said in at least a couple of places that the "typical" earnings advantage of a four-year degree over a high school diploma is \$800,000.

Then, in its study "Education Pays 2007," the College Board shows a college graduate earnings calculation that includes the cost of borrowing to pay for education. Chart 1.3 titled "Earnings Premium Relative to Price of Education" reveals that, accounting for those borrowing costs and other factors, the median advantage shrinks to about \$300,000.

Sandy Baum, professor emeritus of economics at Skidmore College and a consultant to the College Board, is the lead author of "Education Pays." She noted in an interview that the core of her study emphasizes the college advantage as a ratio - about 60 percent - rather than emphasizing the \$800,000 advantage. (See Appendix 1)

Indeed, chart 1.1 of the study shows a 62 percent advantage in median earnings for a "typical full-time year-round worker in the United States with a four-year college degree."

The trouble is that in a footnote to chart 1.2 on the next page in Baum's study, it states that:

*"The typical expected earnings over the working lives of four-year college graduates add up to \$800,000 more than the expected earnings of high school graduates. If college graduates who also earn higher degrees are included, the lifetime earnings premium is over \$1,000,000."*

Then, just to keep it interesting, the same chart says in a second footnote:

*"Accounting for the fact that some of the higher earnings are many years in the future, the increased earning power of a college education is worth about \$450,000 in today's dollars. If college graduates who also earn higher degrees are included, the lifetime earnings premium is over \$570,000."*

Finally, in chart 1.3 in the study, as mentioned, Baum makes a future earnings calculation that assumes that the student borrows for an undergraduate degree. When that cost is thrown into the mix and other factors are considered, suddenly the lifetime earnings of a college graduate are

only about \$300,000 more than those of a high school graduate.

With all those predictions out there, even a careful reader might be confused.

The problem for students and parents is that the College Board chose to emphasize the \$800,000 number on its Web site, and that has been picked up and repeated over and over again on the Internet by other organizations that take the College Board's word as gospel.

I invite you to do a Web search for the phrases "College Board" and "\$800,000" and see what you get. Many sites, including those of lenders who market loans to students and their parents, quote the \$800,000 citation word for word, often with direct reference to the footnote in Prof. Baum's study. But they don't say it comes from a footnote.

My advice?

If you're borrowing for college – *and two-thirds of students do* - use \$300,000 as a reference point and forget \$800,000. You might well make more than \$800,000 more in a lifetime. And you might well make less than \$300,000 more. You might even make less than a high school graduate. But by acknowledging the costs of student debt and discounting future dollars to their present value, the \$300,000 figure is much more rooted in reality.

Happily, Baum has gone on the record saying that the \$300,000 number is the one to focus on. (*U.S. News & World Report*, Oct. 30, 2008) <http://www.usnews.com/articles/education/2008/10/30/how-much-is-that-college-degree-really-worth.html>

## **But there's more**

The main reason for talking about future earnings potential is to encourage students to feel comfortable about borrowing for their educations. If students didn't borrow, large segments of the higher education industry would likely collapse. Colleges would close by the hundreds. The College Board, I presume, does not want that. It wants you to borrow.

But the College Board until very recently took its enthusiasm for student debt one giant step further than pushing the \$800,000 advantage. On its Web page titled "2008-9 College Prices – Keep Increases in Perspective," (and on at least one other Web page) the College Board repeated the \$800,000 marketing mantra and then followed immediately with this amazing statement:

“In other words, *whatever sacrifices* you and your child make for his or her college education in the short term are more than repaid in the long term.” (*Author’s emphasis*)

This means that, contrary to all investment wisdom, you can never pay too much for a college degree.

I encourage you to do a Web search for the phrases “College Board,” “\$800,000” and “whatever sacrifices.” In a recent search, I got more than 30 distinct hits in addition to those on the College Board site. Among these were such sites as:

- Teen Masters Bowling
- Evanston Township High School Aid Workshop
- USS Cole Families Seek More Compensation

Use of this misleading and destructive information by high school workshops or teen bowling scholarship sites shows that a vulnerable part of the population – students – are in danger of buying this misinformation/disinformation wholesale. Here’s how the “Teen Masters Bowling” Web site rewrote the College Board passage:

“Now, the good news. *It’s worth it. According to a 2007 College Board study, Education Pays, people with a bachelor’s degree earn over 60 percent more than those with only a high school diploma. Over a lifetime, the gap in earning potential between a high school diploma and a B.A. is more than \$800,000. \$800,000!!! In other words, whatever sacrifices you and your child make for his or her college education in the short term are more than repaid in the long term.*”

I even interviewed one high school guidance counselor in San Diego who said she had a variant of the \$800,000 number plastered all over the walls of her school to keep students focused on the importance of college to their futures. A Congressman from Pennsylvania used it in a press release in 2008. [http://www.house.gov/apps/list/speech/pa16\\_pitts/529s.shtml](http://www.house.gov/apps/list/speech/pa16_pitts/529s.shtml)

To top it off, I found a Web site sponsored by *the White House* called “The Initiative for Educational Excellence for Hispanic Americans” that uses the \$1 million number and the “whatever sacrifices” line to pitch college debt to young Americans. This Web page dates the “whatever sacrifices” line at least back to 2002. That means this phony pitch line has been fed to American citizens by the College Board for at least seven years. Imagine the millions of American students who have seen and believed it in that time!

Check it out at <http://www.yesican.gov/secondary/paying/costs.html>

For the typical unsuspecting high school senior, this \$800,000-\$1,000,000 scripture is repeated so many times and by such a variety of obviously reliable sources that it must be true. *Everyone says it is.* And in many cases it is true, on average. But some earn far more than \$800,000 more. AND SOME EARN FAR LESS.

It's important to ask how many financial innocents who believed the College Board are, as a result, in financial trouble today?

However, I'm pleased to report that, in direct response to a push from Sandy Baum and me, the College Board took both offending sentences down from two places on its Web site on Wednesday, Dec. 16, 2009. In an emailed statement to me Dec. 16, chief spokeswoman Nancy Viggiano acknowledged, "We have corrected some outdated information on our Web site." The *Wall Street Journal* credited me for this in a February 2010 article titled, "What's a College Degree Really Worth?" by Mary Pilon. [http://online.wsj.com/article/SB10001424052748703822404575019082819966538.html?mod=WSJ\\_Careers\\_NewsTrends](http://online.wsj.com/article/SB10001424052748703822404575019082819966538.html?mod=WSJ_Careers_NewsTrends)

| (NOTE: To read the full story of how I got the College Board to take the \$800,000 number and the "whatever sacrifices" sentence off its Web site, go to Appendix 1.)

What remains for the College Board to do, however, is to say publicly that it is no longer pushing the \$800,000 number and that for most students \$300,000 is the number to focus on. Even as it revises the "Education Pays" study for 2010, the board needs to conduct a campaign to correct the misleading impression it fostered for years. And it needs to atone for the disgraceful, destructive "whatever sacrifices" sentence - which has been splattered all over the Internet since at least 2002 - by alerting the public that this is a falsehood and apologizing for it.

If the world knew the College Board was now saying that a degree for those who borrow is worth \$500,000 less than it was saying the day before, would students be less likely to borrow recklessly for college?

I think so.

This seemingly small concession is bigger than it first appears. It may turn out to be a kind of tipping point at which the higher education industry stops puffing up the value of a college education. With consumers newly aware of the real values involved, it's possible the industry will be forced to start coming to grips with the runaway inflation of college

prices and will begin to stop the game that sacrifices the economic well being of thousands of students who feel pressured by the system to borrow more than they can afford.

## **Nothing's guaranteed**

The College Board, in its own 2006 publication "How Much Debt is Too Much?" (also by Baum) does acknowledge the uncertainty of an investment in a college degree. "Investments in postsecondary education are risky," it says. "Not all who begin a degree program will graduate, and not all graduates will find remunerative jobs."

The same report says, "*Potential borrowers who expect to have low post-schooling income should ... be particularly careful about education borrowing.*" (Author's emphasis)

That finding was also made in a 2002 paper by Jennie Woo, senior economist at EdFund – a service of the state-funded California Student Aid Commission:

"Some kinds of academic programs which don't lead to jobs with high enough or steady enough wages may not be worth borrowing money to attend," Woo wrote.

## **Summing up**

So what does all this mean?

It does NOT mean that borrowing to go to college is a bad idea. For lots of reasons, such as intellectual growth and meeting the minimum requirement for millions of jobs – not to mention sheer fun – going to college can be a valuable experience. And it might be a mistake *not* to go to college, even if it doesn't make a ton of economic sense. Maybe the only road to the vocation of your dreams leads through a college gate.

In my case, a bachelor's degree was the price of admission, even to the tiny *Amsterdam Recorder* newspaper in upstate New York way back in 1973. (I escaped undergrad debt with the GI Bill and my parents' help.) And more schooling - a master's degree - got me out of small town journalism and into a much bigger market where both my career and my paycheck had potential to grow (even with a \$5,000 college loan). With the extra degree, I nearly doubled my pay in a year's time.

But in many cases *it won't pay off economically* if you borrow too much.

In the next chapters, this book will help you estimate how much you're likely to earn right out of school and figure out how much it's appropriate for YOU to borrow. And it will show you some ways of getting a college degree without going too deeply into debt.

By controlling your debt, you can make a wise college investment.