

Regional view - United States

Is college worth the cost?



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Despite rising costs of higher education, the average return on investment for a four-year college degree has actually risen over time. But the worthiness of college tuition is situational and borrowing to pay for it isn't the right solution for every family.

It's graduation season, which is a time of celebration for many families. Still, this can be a bittersweet occasion for some, especially those with student loans who might be wondering whether their degree will end up being worth the cost, time, and effort.

On the one hand, college expenses are extracting a growing toll on Americans' finances. Even after adjusting for inflation, costs have more than doubled in the last 30 years, and this includes public colleges, which have faced cutbacks in funding from states struggling to balance their budgets. The outstanding balance of student loans has ballooned by USD 1 trillion in the last 11 years to reach USD 1.6 trillion—the second-largest form of household debt after mortgages.

Even so, college isn't quite as expensive as it appears from the headline data; according to [a recent NACUBO study](#), 90% of freshmen at private colleges received financial aid which covered nearly 60% of the listed tuition and fees. When comparing college costs, it's important to consider the actual cost after aid rather than just the "sticker" price.

College used to mean a guaranteed ticket to a high-quality, high-paying job. In 1980, only about 20% of 25-

year-olds held a bachelor's degree; today, it's nearly 35%. Despite this rising competition, and the higher cost of school, the average return on investment for a four-year college degree has actually risen from about 9% to a current ROI of 14–15%, according to [a study by the Federal Reserve Bank of New York](#).

That's because even though the median wage for a college graduate has only barely risen in inflation-adjusted terms, high-school graduates' wages have actually dropped in real terms. This rising wage gap means that a worker with a bachelor's degree can expect to earn about USD 1 million more than a high school graduate over the course of his or her career—and this doesn't even include the investment returns enabled by a higher savings rate.

But while there's little doubt that a college degree is worth the (admittedly frighteningly high) price tag for most students, it's not as clear that borrowing to pay for college is the right solution for everyone.

Student loans *can* be [an example of "good debt"](#) when used correctly, but they should be a "Plan B." [The National Center for Education Statistics](#) found that only 71% of students who began college in 2003 with SAT scores

above 1140 graduated within six years. Borrowing for a couple of years of college and then failing to graduate is one reason why so many people are struggling to pay off their student loans.

Plan A should be treating college like any other major life expense: Saving and investing early can significantly reduce the financial burden. And thanks to the power of tax-free growth compounding over time, families have even more of an incentive to start saving earlier in a 529 college savings account—a dollar invested in a 529 plan when your baby is born could easily mean two dollars of tuition payments when they matriculate.

Before deciding to take on debt, families should have an honest conversation about choosing a college and degree to figure out what best fits into their plan and future. The worthiness of college tuition is situational. There's a certain caché assigned to a degree from an "elite" school, but paying more doesn't always mean a higher salary or getting hired quickly after graduation. Some majors can offer higher ROIs than others, but an undergraduate degree shouldn't be chosen solely from an investment perspective; it's also important that the student is being empowered to pursue their passions.

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