

EXPERT
Insights

PRESENTED BY



Ray Boshara

Senior Advisor and
Director of Household
Financial Stability



with Moderator:

Christi Baker

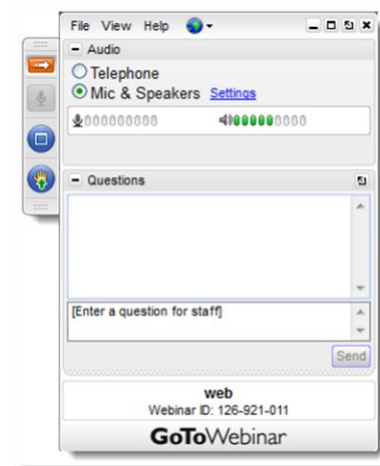
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Leveling the Playing Field for Education and Wealth: What Can We Learn from Recent Research?

Asset Funders Network
AFN Expert Insights Webinar
August 27, 2019

Ray Boshara*

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www.stlouisfed.org/hfs

**These are my own views, and not necessarily the views of the Federal Reserve Bank of St. Louis, Federal Reserve System, or the Board of Governors*

Outline of Presentation

- I. Overview: Education and Wealth
- II. How Education Predicts Wealth
- III. How Wealth Predicts Education
- IV. Implications for Philanthropy

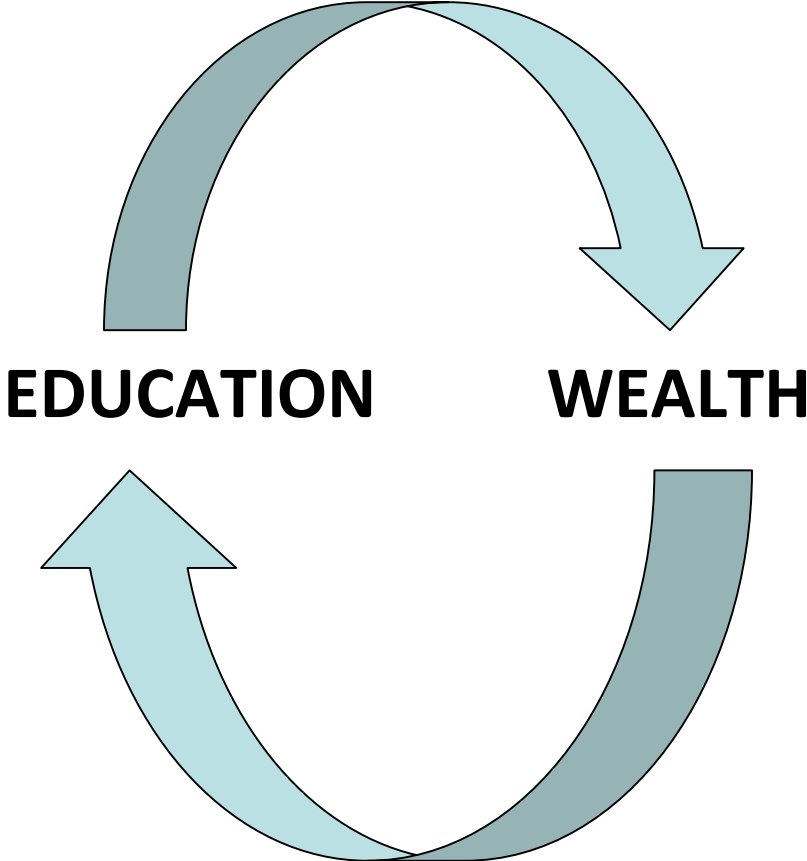
In General, College Really Pays...

Compared to those not completing a 4-year degree, a college degree is associated with:

- Higher income and wealth
 - ✓ College income boost: 108%
 - ✓ College wealth boost: 327%
- Better health
- A higher likelihood of being a homeowner
- A higher likelihood of being married or cohabitating
- A lower risk of falling behind on loan payments

34% of families are now headed by someone with at least a 4-year degree, up from 23% since 1989.

Education and Wealth: Some Cautions

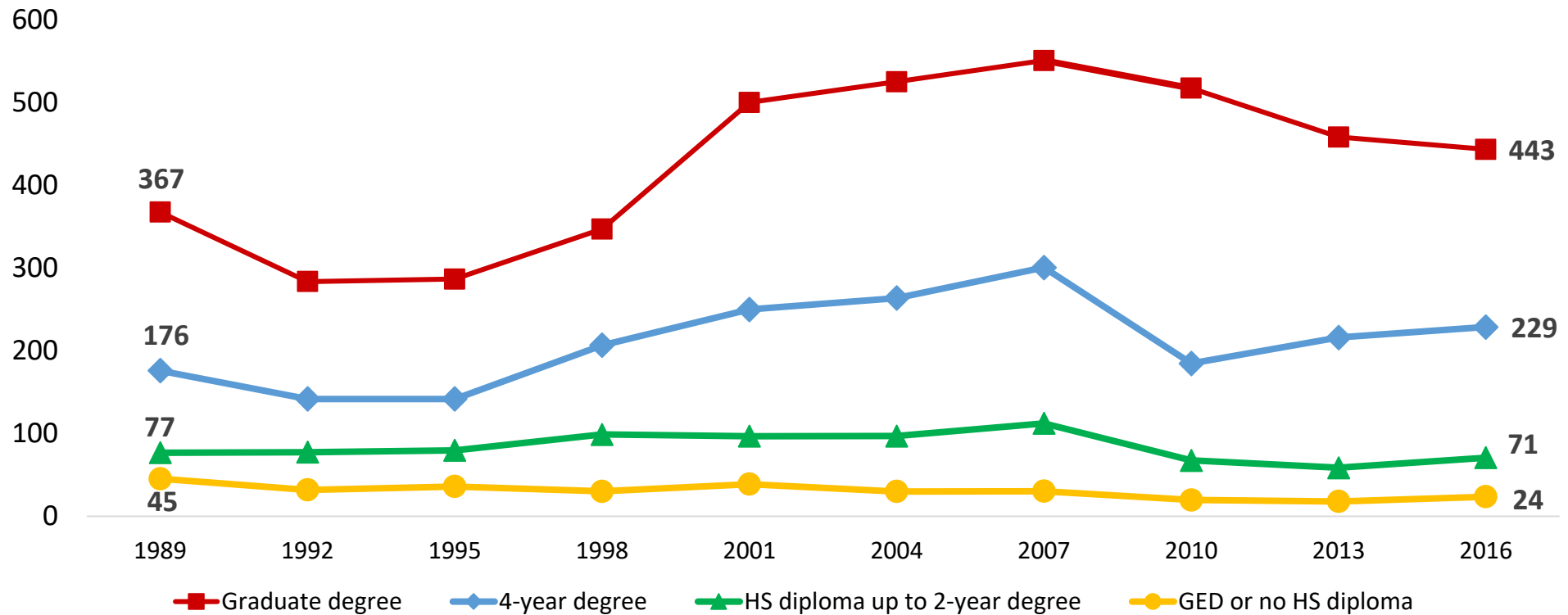


II. How Education Predicts Wealth

Overall, Education is Strongly Correlated with Wealth

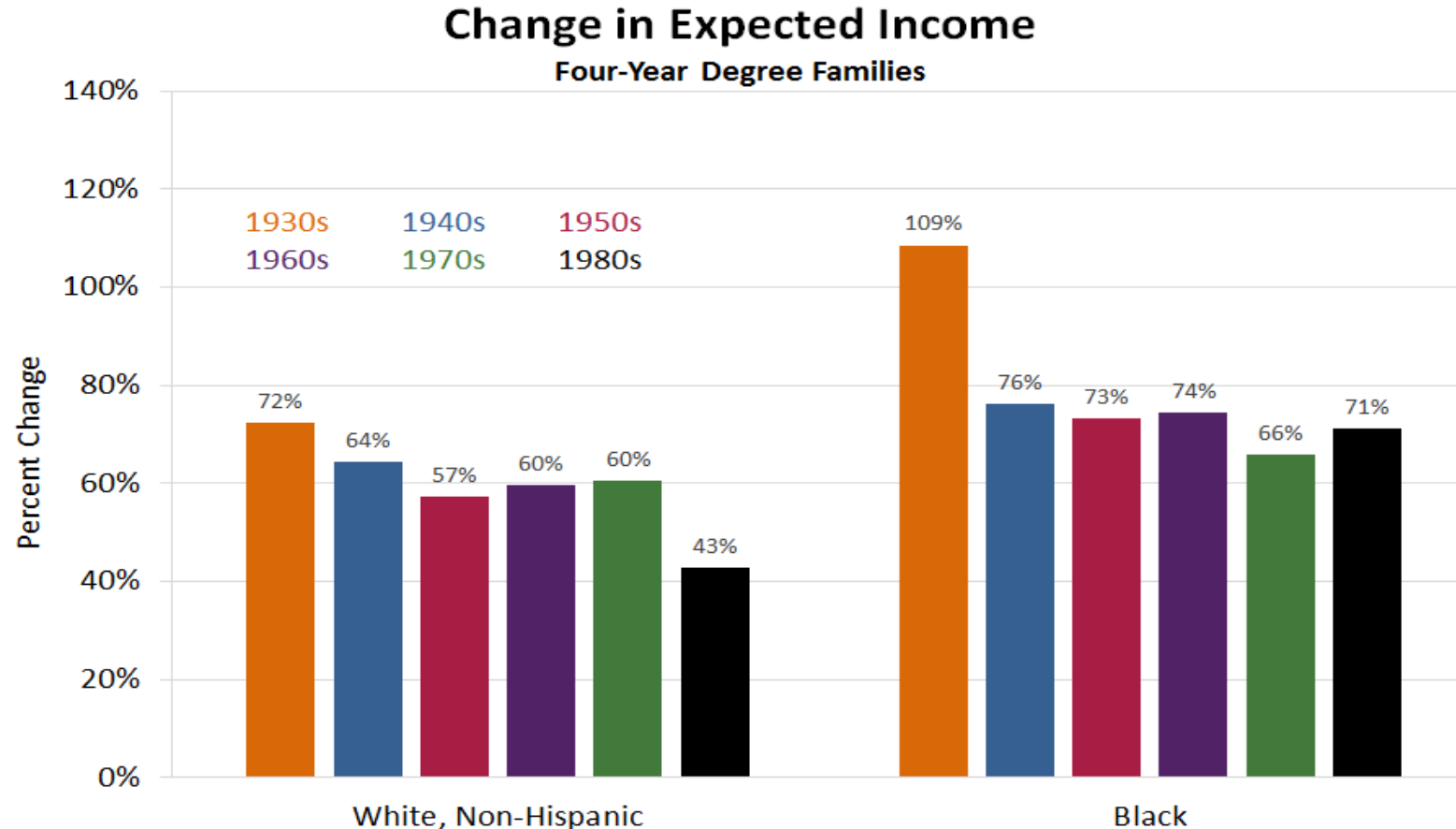
Real Median Family Net Worth, By Education

Thousands of 2016 Dollars



Source: Federal Reserve Board, Survey of Consumer Finances.

Income Returns on College Have Been Steady Across Birth Cohorts

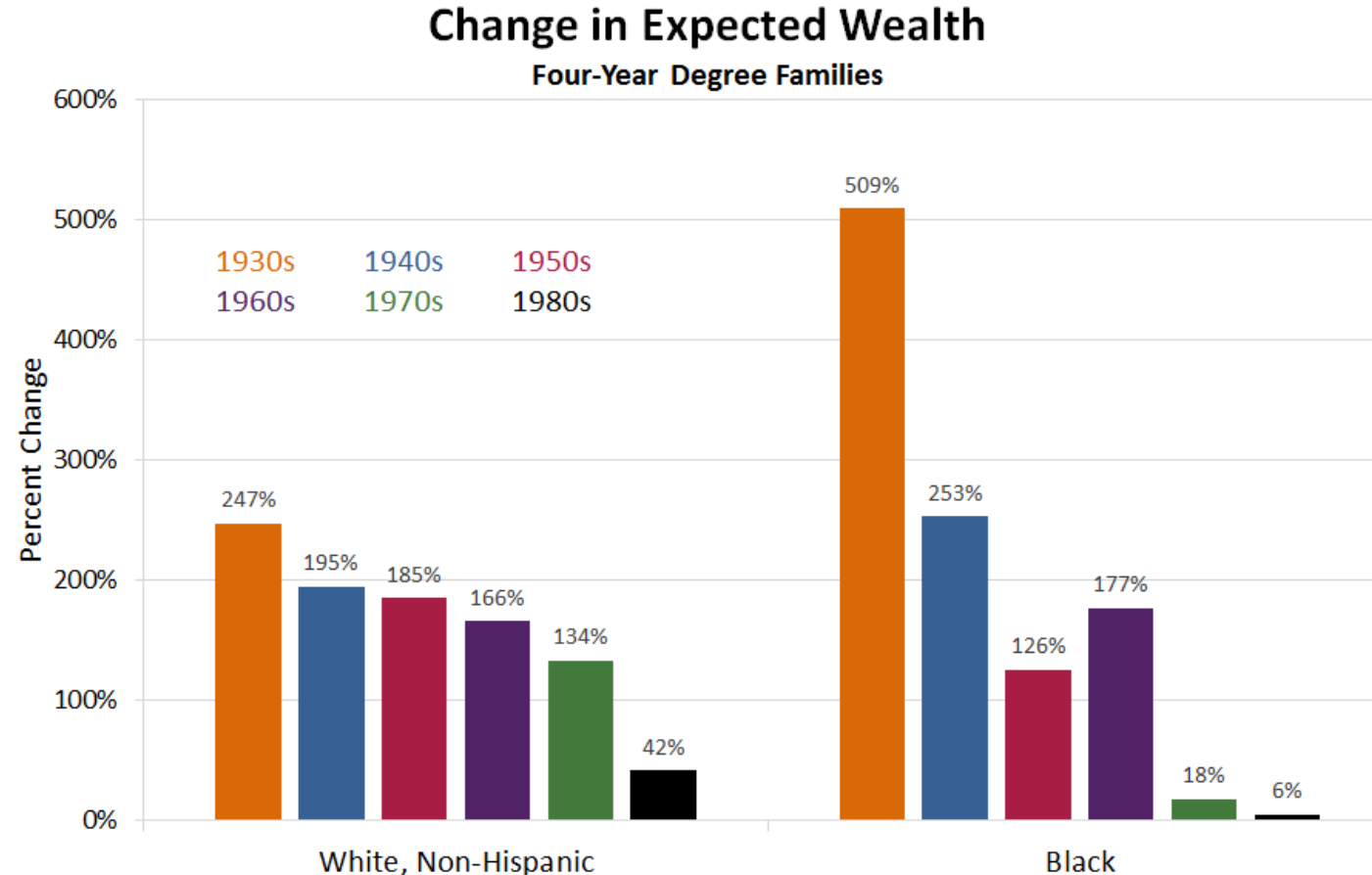


SOURCES: Federal Reserve Board's Survey of Consumer Finances and authors' calculations.

NOTE: Percent change is relative to nongrad families of the same race born in the same decade.

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However, Wealth Returns on College Vary More, and Are Diminishing



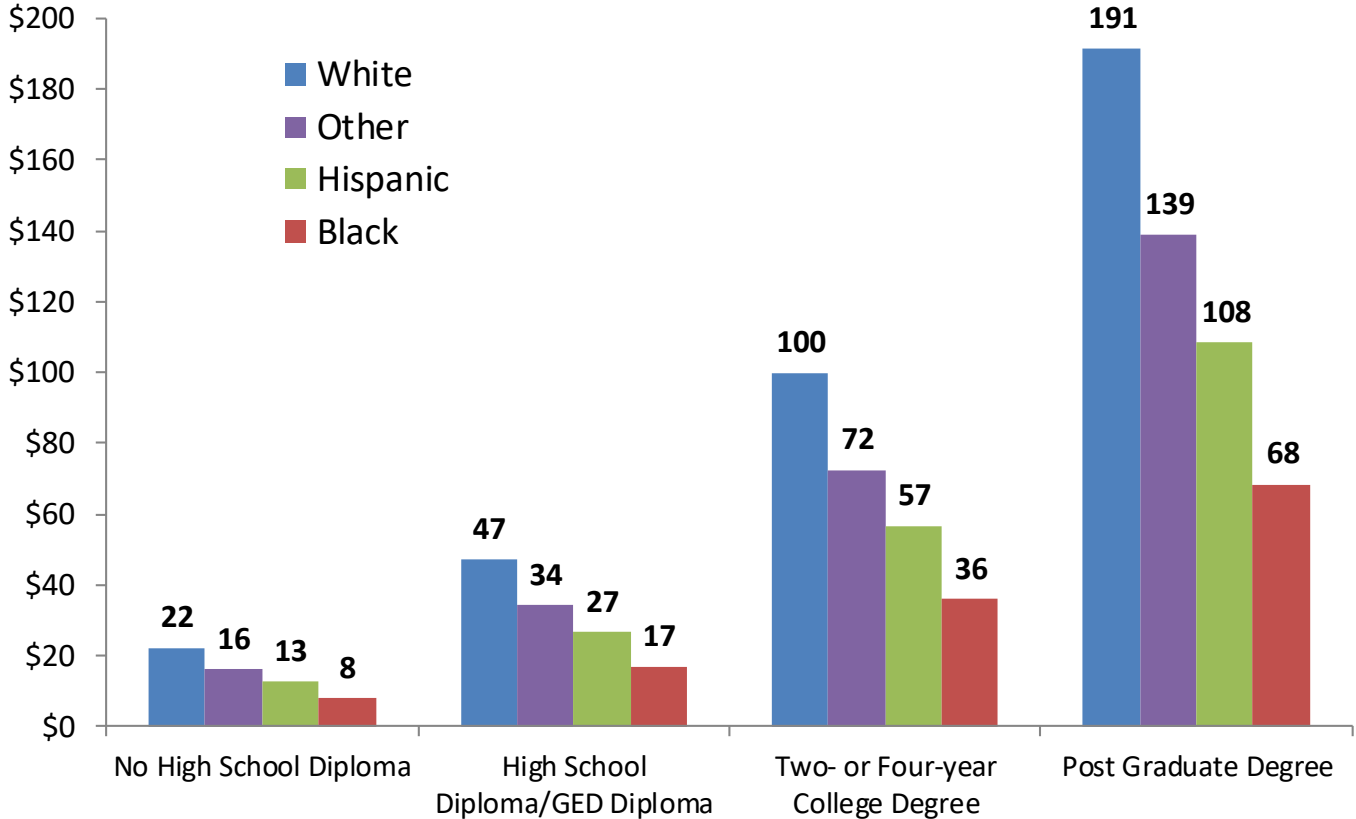
SOURCES: Federal Reserve Board's Survey of Consumer Finances and authors' calculations.

NOTE: Percent change is relative to nongrad families of the same race born in the same decade.

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Combining All Birth Cohorts, Overall Wealth Returns are Positive but Vary by Race and Education Level

Net Worth by Education Level and Race
Index = Per \$100 of College-Educated White Family's Wealth

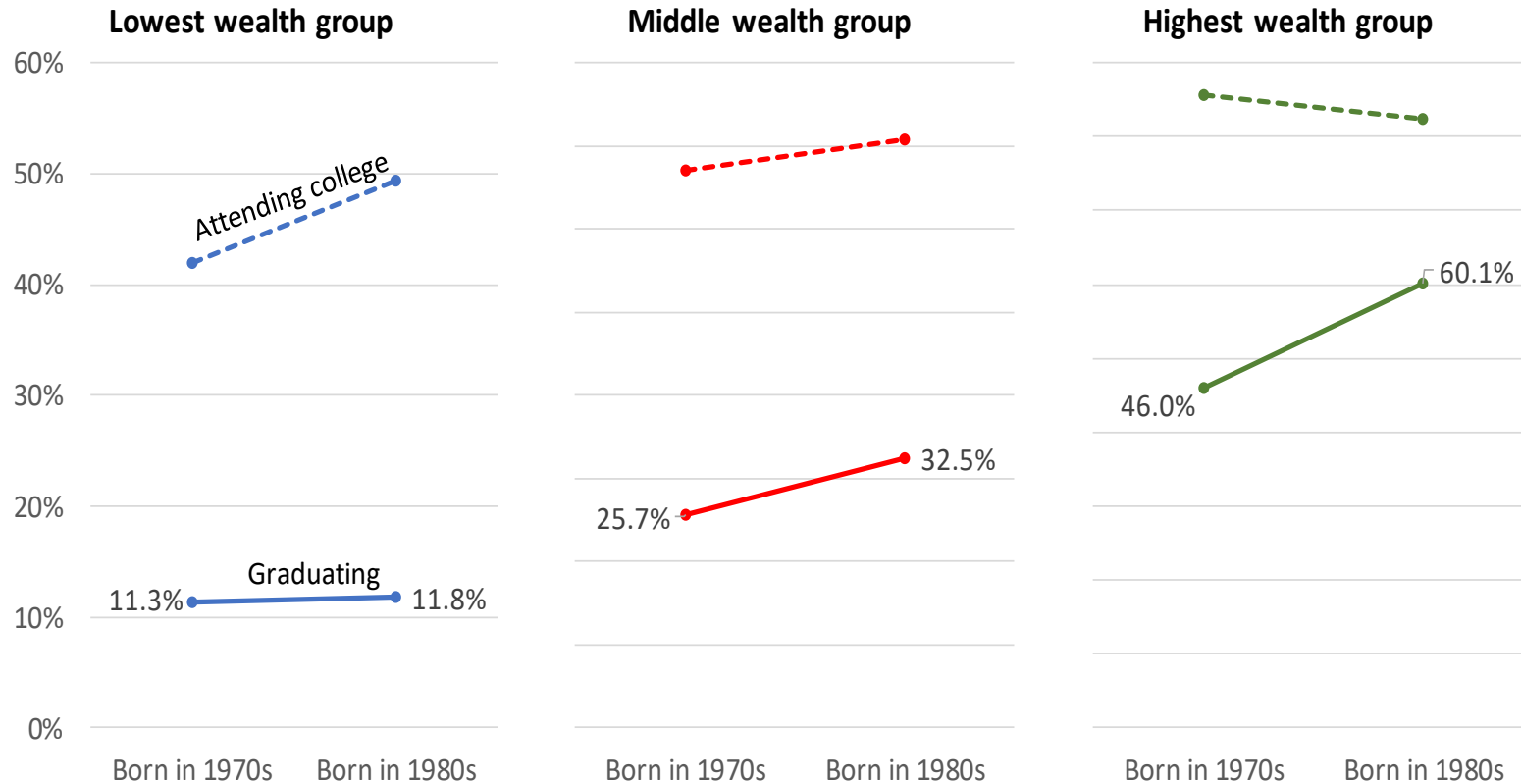


Source: Federal Reserve Board's Survey of Consumer Finances and author's calculations.



III. How Wealth Predicts Education

As Family Wealth Rises, College Success Rises

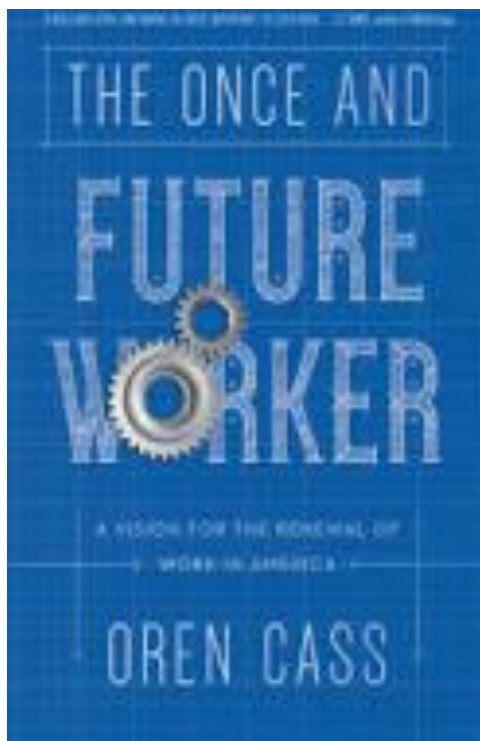


Note: Wealth categories are based on a person's parents' wealth when the person was 10-14 years old. Lowest wealth group is the bottom 40 percent of households; middle wealth is the middle 40 percent; upper wealth is the top 20 percent. Educational outcomes are at age 25.

Source: Fabian Pfeffer, "Growing Wealth Gaps in Education," the journal *Demography*. Graphics by *The New York Times*

IV. Implications for Philanthropy

Context: Educational Paths in the U.S.



Approximately one in five Americans:

- ❖ Fail to graduate high school in six years.
- ❖ Complete high school but pursue no further education.
- ❖ Start but do not complete college.
- ❖ Earn a college degree but have jobs that don't require one.
- ❖ Follow the traditional high-school → college → career track.

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Possible Directions for Philanthropy

1. Develop skills and opportunities for Americans not on the “traditional” high-school → college → career path:

- ✓ Project QUEST example (www.questsa.org)
- ✓ Promote adaptability and technical skills for team-based, life-long learning (Neil Irwin, *How To Win*)

2. For those on the 4-year college completion path:

- ✓ Reduce the cost of college.
- ✓ Ease student loan burdens through IBRs, employers, etc.
- ✓ Develop “rainy day funds” to promote college completion.
- ✓ Especially promote college completion for first-gen students.

3. For all kids, promote early education and savings programs, ideally through at-birth, life-long 529 accounts.

Resources cited during the presentation:

- Scott-Clayton, Judith. “What accounts for gaps in student loan default, and what happens after.” Evidence Speaks Reports, June 21, 2018, Vol. 2, No. 57. [Link](#).
- Cellini, Stephanie Riegg; and Turner, Nicholas. “Gainfully Employed? Assessing the Employment and Earnings of For-Profit College Students Using Administrative Data.” NBER Working Paper No. 22287, January 2018. [Link](#)
- Elliott, William; Song, Hyun-a; Nam Ilsung. “Small-dollar children’s savings accounts and children’s college outcomes by income level.” *Children and Youth Services Review*. March 2013, Volume 35, Issue 3, pp. 560-71. [Link](#).
- SEED for Oklahoma Kids (SEED OK), Center for Social Development, Washington University in St. Louis. [Link](#).
- Josh Mitchell. “Does Free College Work? Kalamazoo Offers Some Answers.” *The Wall Street Journal*, June 28, 2019. [Link](#).

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