



Thinking About Return on Investment

As college costs and student debt have skyrocketed in recent years, discussion of “return on investment” (ROI) has become a staple of the national conversation, not to mention the conversation of many families with high school age children. Everyone knows stories of unemployed or underemployed college graduates, so it’s not unreasonable to inquire about employment and earnings statistics of recent graduates when assessing prospective colleges. Unfortunately, however, the information is more difficult to ascertain than some college representatives make it sound, and for numerous reasons the data on ROI even from external sources like Payscale.com do not necessarily correlate with the quality of a college’s education or the earning potential of its graduates down the line.

Applicants concerned with job opportunities immediately after graduation would be better off focusing their attention on the colleges’ career planning offices. Since employers often prefer to hire candidates with some kind of proven track record, those with references from impressive internships and co-ops will find themselves in the best position immediately upon graduation. Recognizing this, even small liberal arts colleges which never used to concern themselves with such matters are now revving up their career services and trying to reach students as early as freshman year to help them amplify what they’re doing in the classroom with real world experience.

It’s also important for families anxious about college expenses to investigate the schools’ four-year graduation rates. While a relatively low rate may sometimes result from numerous students’ interrupting their classwork to do those valuable co-ops and internships and consequently taking a bit longer to receive their degrees, other times it’s because many students at the school are unable to register for all the classes they need in order to graduate as quickly as they wish. This happens most frequently in large universities where lowerclassmen are more likely to get closed out of classes whose spots go to upperclassmen first. This is a liability especially for the undergraduate who starts college “undecided” or changes his mind about his choice of major. Applicants to large state schools should make every effort possible to learn how much difficulty the students on campus have had with their course registration process.

Even for students who graduate on time, the data provided by Payscale.com and the individual colleges is based entirely on self-reporting by alumni. Needless to say,

not everyone answers the questionnaires, and those most likely to do so are the ones with the best news to report. But that's not the only problem with it. Another is that the reported data is only from recent graduates. Engineers' salaries are among the highest immediately upon graduation, but those who earn professional or business degrees some years later very often have higher mid-career incomes than the typical engineer does.

Contrary to what some may think, Philosophy is not necessarily an impractical major. In fact, it turns out to be a particularly popular one for individuals subsequently admitted to some of our nation's most prestigious graduate programs and ultimately employed at the highest levels in Business, International Business, and Public Administration.

That Philosophy and other liberal arts graduates may be highly coveted in the workplace is not so surprising when you consider that employers frequently cite critical thinking and communication skills as the ones they're most interested in.

Furthermore, a large percentage of the jobs at which Americans are currently employed didn't even exist a generation ago, so assuming that trend continues, undergraduates who acquire transferable skills will likely find themselves more in demand than those who pursue very specific career training.

Does a degree from a prestigious college translate to higher earnings than a degree from a state school? The answer is a bit complicated. As might be expected, students coming from economically disadvantaged backgrounds whose parents never attended college do earn more on average if they attend a more prestigious college, but for most others the findings are quite different.

Economists Alan Krueger at Princeton University and Stacy Dale at Mathematica Policy Research studied the question first in 1999 and then again in 2011. In the initial study they looked at earnings twenty-five years after graduation of individuals who had been admitted to Ivy League schools in 1976 but opted to attend a state university instead. Their earnings, it turned out, were on par with those of their contemporaries who had attended the Ivies. The findings were the same when Krueger and Dale repeated the study with individuals who entered college in 1989. Once again, it turned out that the individual's own SAT scores were a better predictor of future earnings than the average SAT scores of the school he or she attended.

This does not necessarily mean, though, that the state university will give a better return on investment than the Ivy League institution or even a private liberal arts college. That's because the most selective schools are the ones most likely to be generous with need-based financial aid, and many excellent private colleges and universities are exceedingly generous with scholarship aid based on the student's GPA and test scores. Thus, they can provide a less expensive option for many students than the currently cash-strapped state universities do.