HIRD WAY

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Paying the Right Price for Your College Program





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It's college apps season!

Soon, millions of students will be writing their personal essays, beefing up their extracurricular activities, and clicking "submit." They have a lot of decisions to make, and one of the biggest will be what school they choose to attend.

Let's say you're a student. You know what you want to study, and you've decided you want to enroll at a college in the area where you grew up—one that keeps you close to your family. But there are still dozens of choices, and you want to make sure that whatever option you pick is likely to pay off. If you choose right, you could be on your path to a satisfying career and financially-secure future. If you choose wrong, you could be paying off student debt for decades.

Now there's information to better ensure you're getting the outcome you're looking for.

Third Way developed a metric—<u>a Price-to-Earnings Premium (PEP)</u>—to help students make this decision. The PEP compares the cost that students pay out-of-pocket to attend an institution to the additional amount of income they earn from doing so. Essentially it answers the question, how long does it take the typical student at an institution to recoup their educational costs? We even took this a step further. Now, you can calculate the <u>PEP for individual college programs</u> within an institution. We've even <u>made the data available</u> so families and college counselors can have this information available at their fingertips. Below are some examples of how students could use it and how big of a difference the right choice can make.

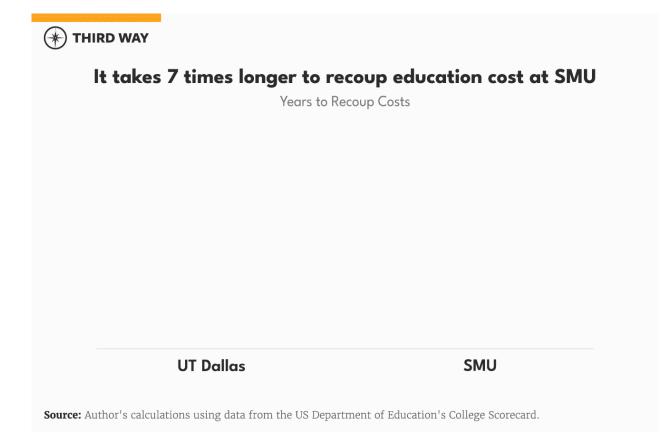
#1: Studying Psychology in Dallas

You live in Dallas, and you're interested in studying psychology. Maybe you want to become a caseworker and give back to your community. There are dozens of colleges in the area and most offer psychology programs. Right now, you're trying to decide between the University of Texas (UT) at Dallas, a large public school, and Southern Methodist University (SMU), a small private college. These schools both award bachelor's degrees in psychology, have similar admissions standards, and are only located about 11 miles apart from each other. But, when looking at the amount each degree costs and the earnings of their psychology graduates, the return on investment at each school is vastly different.

If you're a typical student studying psychology at UT Dallas and you graduate in four years, you'll pay \$57,300 in out-of-pocket costs to earn your degree. Yet, students who graduate with a psychology degree from UT Dallas (that don't attend graduate school) are shown to earn \$9,300 more than the typical high school graduate with no college experience in Texas. Based off of the additional income you now make relative to the \$57,300 you paid for your education, it will take about 6.2 years to recoup your costs.

Total Net Cost of Earnings Degree: \$57,300 / \$9,300 Earnings Premium of UT Dallas Psychology Graduates = 6.2 Years to Recoup Educational Costs

However, if you're a typical student studying psychology at SMU and you graduate in four years, you'll pay \$146,300—almost three times as much as UT Dallas. Yet students who graduate with a bachelor's in psychology from SMU only make \$3,500 more a year than the typical high school graduate with no college experience in Texas. This means it will take you more than 41 years to recoup your education costs, almost 7 times longer than at UT Dallas. In terms of an economic return, one option is much more likely to pay off than the other.



Two well-known colleges in Dallas, two identical degrees, two extremely different outcomes.

#2: Studying Political Science in Philadelphia

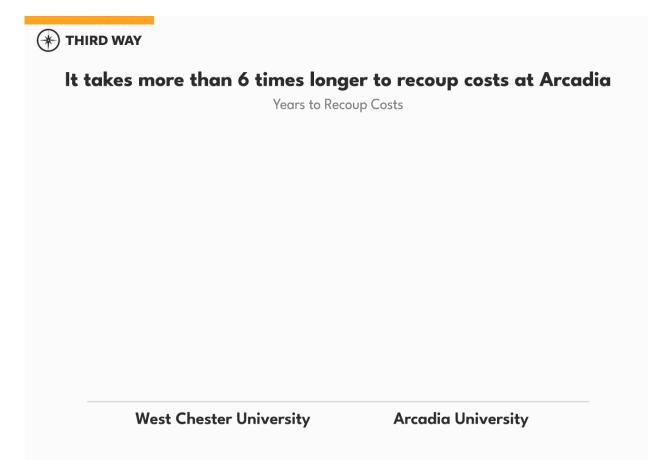
You grew up in Philadelphia with two politically-active parents. You helped them canvass for City Council races, and now you want to follow in their footsteps and study political science. Your top choices are currently West Chester University of Pennsylvania and Arcadia University, two wellknown schools in the Philadelphia area. They both offer political science degrees, have similar admissions standards, and are about 36 miles apart. But that's where the similarities end.

If you study political science at West Chester University and graduate in four years, the average student pays a little more than \$88,000 to earn their credential. A political science degree often results in additional earnings of \$11,500 in comparison to someone with no college experience in Pennsylvania. Taking these costs and additional earnings into account, poli sci majors at West Chester typically recoup their costs in just 7.7 years.

While it's just two gallons of gas down the road, poly sci majors at Arcadia University take about seven times as long to earn back the cost of getting a degree. On average, students pay around \$98,500 to earn a four-year degree, but they only earn \$1,950 more a year than the typical high school graduate with no college experience.

The result?

Based off of the low additional earnings that poly sci majors show at this school, it will take them 50.5 years to earn back the nearly \$100,000 price tag it took them to go to college. If you were 18 years old upon entry, you would be 72 by the time you earned enough to pay down the cost of earning your degree.



Source: Author's calculations using data from the US Department of Education's College Scorecard.

#3 Studying English in Georgia

You grew up reading Toni Morrison. Your favorite subject in high school was English. And now you want to further polish your wordsmith skills at a university. You grew up in Georgia and are stuck between Georgia State University and Georgia Southern University, two popular public colleges in the state.

It costs around \$48,000 to earn a bachelor's degree from Georgia State University. On average, graduates make \$5,800 more than the typical high school graduate with no college experience in Georgia, meaning you can recoup your educational costs in 8.2 years. Not bad. However, spending four years to earn an English degree at Georgia Southern University? Not so good.

Georgia Southern students pay around \$63,000 out-of-pocket to earn a degree—\$15,000 more than Georgia State. That could be ok if the earnings premium graduates obtain is substantial. But, for English majors at this institution, it's not. The typical English major earns almost \$1,000 *less* than someone with no college experience, even two years after they've earned their degree. This option often leaves students with little to no economic return on investment whatsoever, meaning they may be left worse off than by not attending in the first place.



Source: Author's calculations using data from the US Department of Education's College Scorecard.

Conclusion

Choosing what college to attend—and what major to pursue—can be hard, but some things make that decision easier. You want to go to a college to pursue your passions and further develop your sense of self. However, whatever you study shouldn't leave you drowning in debt for decades, and there are simple ways to avoid that. Our PEP measurement allows students to compare college programs in their city, their state, or even across the nation. So as students start filling out their college applications, they should keep an eye out for institutions and programs that are shown to historically pay off, while avoiding those that show a consistent pattern of bad outcomes for those who enroll.

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