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2023 Price-to-Earnings Premium for Four-Year Colleges

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With college tuition on the rise, an institution's return on investment (ROI) is increasingly important for students and families in the college decision-making process. Third Way's Price-to-Earnings Premium (PEP) offers an accessible metric for prospective students and policymakers to assess the ROI offered by different colleges.

The PEP tells us how many years it will take the typical student to recoup their educational investment to attend a given college. The value is a ratio of the institution’s total average net price to the graduate’s expected earnings premium. In this report, we analyze the price-to-earnings premiums offered by bachelor’s degree-granting institutions in the United States using 2023 College Scorecard data from the US Department of Education. To calculate the PEP, we divide the total average net price of the bachelor’s degree (assuming four years of tuition) by the difference between the median earnings of a former student from that college ten years after initial enrollment and the median earnings of a high school diploma holder in the same state as the institution.

$$\text{Number of years to recoup net cost of credential} = \frac{\text{Total average net price}}{\text{(Post-enrollment earnings)} - \text{(Typical salary of a high school graduate in the institution's state)}}$$

A low PEP value indicates fewer years to recoup the net cost of the degree, while a higher PEP means that the institution saddles students with high tuition, fails to deliver a strong earnings premium, or both. The PEP assumes that individuals who pursue a college degree expect to earn more than a high school graduate. If an institution does not equip its students with median earnings that are greater than those of a median high school diploma holder in the same state ten years after enrollment, the college does not deliver an adequate ROI, if any. Students today are primarily motivated to pursue higher education for its financial benefits, and comparing PEP values can help them decipher which institutions can give them the best bang for their buck.[1] This metric can also help policymakers consider transparency and accountability mechanisms for taxpayer-funded institutions that fail to deliver successful outcomes for their students.

Private Non-Profit and Public Institutions

Equip Students with Robust Returns

States with Top 10 PEP Values

State	Median PEP	Number of Public Institutions	Median Net Price	Median Earnings of Former Students
CA	1.30	32	$45,908	$62,124
FL	1.44	12	$32,284	$54,004
WA	1.66	8	$41,300	$62,307
WY	2.00	1	$32,144	$53,303
AZ	2.35	3	$58,544	$58,967
NY	2.47	36	$53,016	$54,091
NJ	2.55	12	$64,916	$59,909
TX	2.66	32	$56,270	$51,471
CT	2.67	10	$54,540	$66,655
OR (tie)	2.78	8	$63,298	$55,862
NV (tie)	2.78	3	$57,220	$53,363

Note: Data reflect all public, four-year institutions in the respective 11 states with available data.
Source: Author's calculations using data from the US Department of Education's 2023 College Scorecard and the US Census Bureau's 2021 American Community Survey 5-year estimates.

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This year's PEP outcomes show exciting trends for former students' ROI from attending public and private non-profit colleges. Students at 85% of public and private non-profit colleges, combined, can recoup their net tuition costs within 10 years, and 57% of these institutions even set up their students to recoup the costs within 5 years. Table 1 breaks down the PEP by institutional sector, from schools that provide a ROI in less than one year to those that offer no return at all.

The ability to recoup net tuition costs in less than a year is an exceptional ROI benchmark, and 22 public and 9 private non-profit colleges help their students achieve it. The largest number of institutions in our dataset are clustered in the 1–5-year range, an outcome that allows students to recoup their costs in approximately the same time it takes to complete their degree: 75% of public institution students recoup their costs within 5 years, as do 47% of private non-profit students. And 94% of public and 80% of private non-profit college students can recoup their costs within 10 years.

There are far fewer private for-profit institutions included in our dataset, yet the for-profit sector fares notably worse on the PEP metric. As seen in Table 2, 45% of private for-profit colleges—almost half—leave students struggling to recoup their costs 26 or more years after enrollment or never seeing any ROI on their degree. Only a small fraction of public and private non-profit colleges—2% and 9%, respectively—leave students unable to recoup their costs 26 years or more after enrollment or with no ROI.

These PEP data show overwhelmingly positive ROI outcomes amongst public and private non-profit colleges. It is not surprising that public institutions—which typically charge lower tuition rates—perform well on this ROI metric. The median net tuition of a bachelor's degree from public institutions within this dataset is $56,796, which is $31,052 less than the median net tuition for a bachelor's from a private, non-profit college—$87,848. [2] The strong performance by private non-profit institutions with higher sticker prices may reflect that they often serve fewer students and have larger endowments and financial reserves, allowing them to provide significant tuition discounts to lower the actual net degree price. [3]

Top Performing States on the PEP

PEP Outcomes by Institution Type

Years to Recoup Net Tuition (PEP)	Public	Private Non-Profit	Private For-Profit	All Institutions
<1	22	9	0	31
1-5	378	460	11	849
6-10	98	332	10	440
11-15	15	79	9	103
16-20	3	23	3	29
21-25	4	9	1	14
26+	8	29	14	51
No ROI	3	60	14	77
Total	531	1001	62	1594

Source: Author's calculations using data from the US Department of Education's 2023 College Scorecard and the US Census Bureau's 2021 American Community Survey 5-year estimates.

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Table 2 pinpoints the top ten states with public institutions that offer students the quickest ROI for a bachelor's degree. We determined these states by calculating median PEP values for public colleges in each state. The states with the top ten earnings premiums all provide students who attend their public institutions with a median PEP of fewer than three years.

At 1.3 years, California boasts the quickest ROI of any state for their public institutions, which correlates with one of the lowest median net tuition prices and one of the highest median earnings in this group. Florida follows close behind with a median ROI of 1.4 years to recoup the net cost of attendance at its public institutions. Table 2 also demonstrates the tremendous geographic diversity in public systems that are providing their students with the quickest returns on their investments. From Connecticut to Texas to Washington, top performance on the PEP is not isolated to a certain region of the country.

It is not surprising that we see several of the most populous states in the country in Table 2. California, New York, and Texas, for example, have robust public institution systems that provide affordable, accessible educational opportunities for their large populations of students. Those states are also home to some of our nation's most bustling metropolitan areas, which serve as economic hubs for graduates. Jobs in those metro areas can provide former students with strong earnings if they stay local, boosting median earnings. Together, these factors give these states an advantage on the PEP. We do see, however, that top PEP performance is not isolated to those states. Public systems of varying sizes and structures perform well on the PEP, indicating that a variety of public colleges across the nation are setting students up for success.

Hispanic-Serving Institutions Dominate the PEP

Hispanic-serving institutions (HSIs), which are institutions that enroll at least 25% Hispanic students, dominate as top-performing schools on the 2023 PEP.[4] Of the 177 HSIs in this analysis, 77% provide students with the resources to recoup their tuition within five years, and of all the colleges in our dataset whose students recoup costs in less than a year, 48% are HSIs. The top-performing institution on the PEP rank this year is the City University of New

York's (CUNY) Baruch College, an HSI in New York City, with a PEP of 0.2—meaning the typical Baruch student can recoup their tuition costs in fewer than three months. Baruch College is accompanied by 13 other HSIs in the top 25 performing institutions on the PEP. More than half of the top 25 colleges this year are Hispanic-serving.

Among all HSIs in this dataset, the median PEP is 3.4 years; the median PEP at public HSIs is 2.1 years, and private non-profit HSIs have a higher PEP of 4.4 years. (There are no for-profit HSIs in this dataset.) Public college systems in which most of the colleges are designated as HSIs, like the California State University, CUNY, and University of Texas systems, accordingly, have many institutions in the upper echelon of the PEP. For example, six of the eight University of Texas academic institutions are HSIs, and all help students recoup their costs within three years.

HSIs provide students with an excellent bang for their buck, serving as engines for strong educational ROI. This finding is consistent with Third Way's previous research about ROI and economic mobility, in which HSIs have performed notably well. [5] HSIs play a key role in educating the United States' Hispanic population, and they do so affordably and provide their students with exceptional outcomes on their returns on investment. [6]

Conclusion

This year's PEP analysis shows positive trends for student outcomes at public and private non-profit colleges across the nation. Many of these institutions offer students excellent timelines to recoup their net tuition costs. HSIs are notably setting their students up for financial success with very quick returns on their educational investment. Yet the fact remains that some institutions consistently fail to provide their students with reasonable ROI: 45% of private for-profit, 9% of private non-profit, and 2% of public colleges provide their students with an ROI that takes more than 25 years to recoup or never pays off at all. The PEP highlights many colleges' excellent financial outcomes for their former students, while demonstrating the need for increased accountability for institutions that use taxpayer dollars and fail to provide students with reasonable tuition and future earnings.

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ENDNOTES

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