



**RETURN ON INVESTMENT OF A UNIVERSITY EDUCATION**  
February 2012

## SETTING THE SCENE

The imminent rise in tuition fees from September 2012 has been well publicised, often with negative undertones, and so the following slides will draw together research carried out by different sources in an effort to demonstrate the true benefits of choosing to attend university.

There are 3 key points to note when considering the payment of tuition fees, which are often lost amongst the rhetoric:

- 1. No upfront learning costs** - the government will lend students the money for fees, which will be paid back when they graduate and begin working. The fees will not have to be paid up-front
- 2. Graduates pay nothing until they earn £21,000 a year** – the threshold at which graduates have to start paying their loans back will rise from £15,000 to £21,000. This will rise annually with inflation. If a graduate never earns more than threshold then they will not have to pay back a penny. Each month graduates will pay back 9% of their income above that threshold (see table below).
- 3. Loan is wiped after 30 years** - if the debt is not cleared 30 years after graduation, it will be cancelled

## SETTING THE SCENE

Earnings	Current System		New 2012 System	
	Annual repayment	Monthly pay packet reduction it's equivalent to	Annual repayment	Monthly pay packet reduction it's equivalent to
<b>£15,000</b>	Nothing	Nothing	Nothing	Nothing
<b>£16,000</b>	£90	£7.50	Nothing	Nothing
<b>£21,000</b>	£540	£45	Nothing	Nothing
<b>£22,000</b>	£630	£52.50	£90	£7.50
<b>£30,000</b>	£1,350	£112.50	£810	£67.50
<b>£40,000</b>	£2,250	£187.50	£1,710	£142.50
<b>£50,000</b>	£3,150	£262.50	£2,610	£217.50

Source: Independent Taskforce on Student Finance Information – ‘Can I afford to go to university in 2012?’

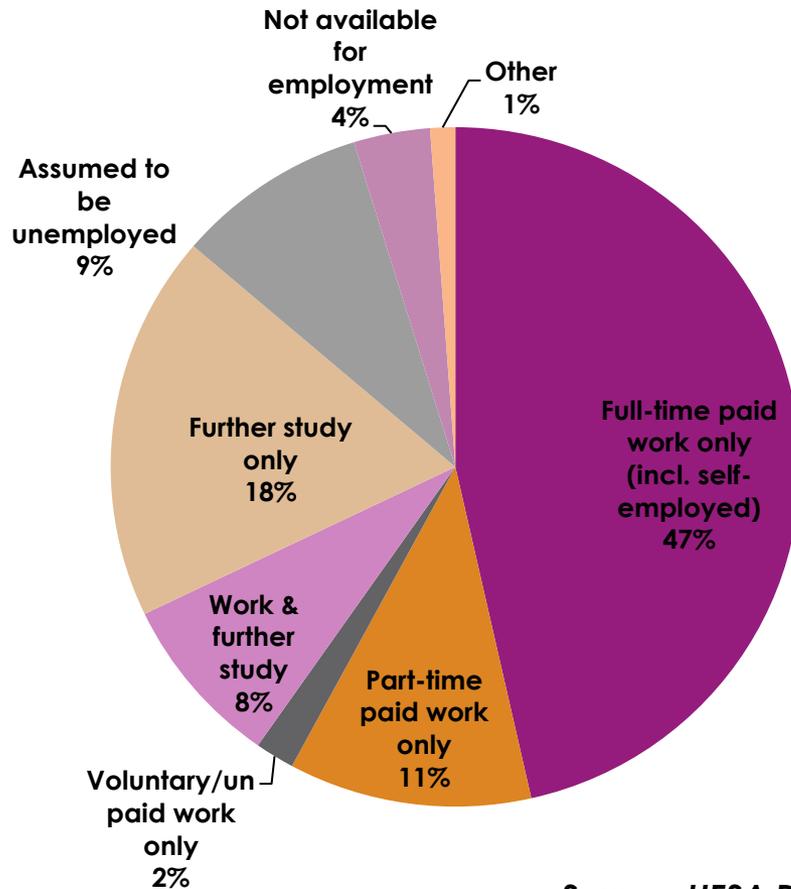
## EMPLOYMENT PROSPECTS

Lord Browne's 'Independent Review of Higher Education Funding and Student Finance' published in October 2010 summarised that "A degree provides graduates with an entry to employment as well as a habit of learning. Over the course of a working life the average graduate earns comfortably over £100,000 more, in today's valuation and net of tax, than someone with A levels who does not go to university"

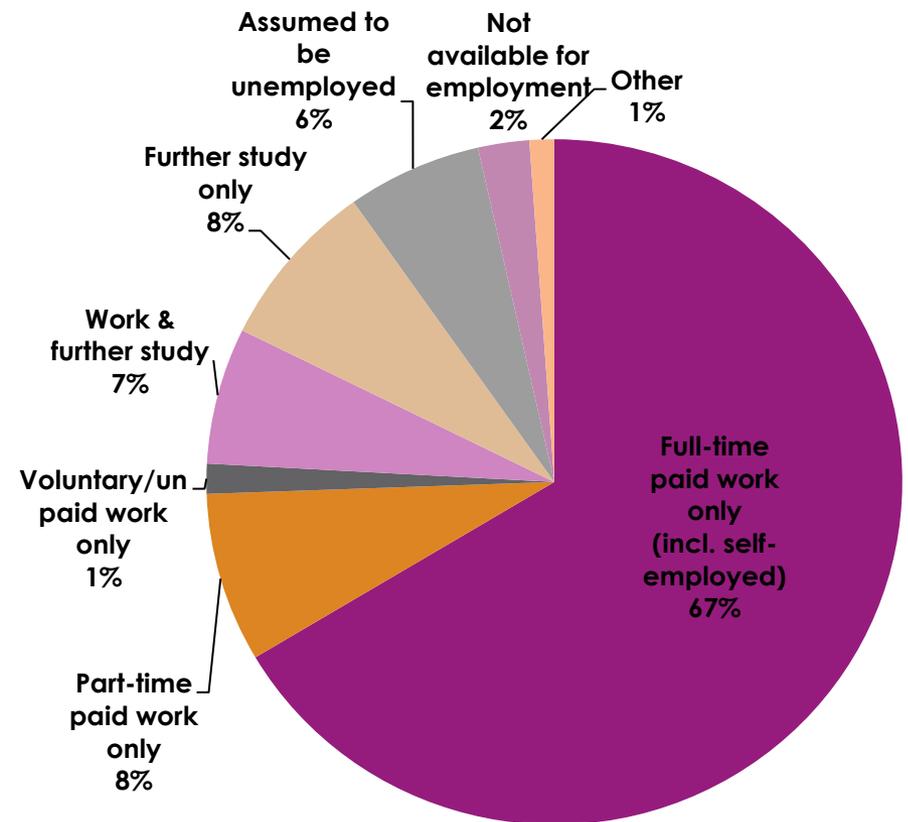
The prospect of a greater likelihood of gaining employment may be a particular attraction when young people are considering whether or not to go to university following the release of the latest labour market statistics. These showed that 1.6 million people claimed Jobseeker's Allowance in December 2011 and that 22% of all those aged from 18-24 that are not in full time education were either unemployed or economically inactive between September and November 2011 (**Source: Labour Market Statistics January 2012, Table A06**). When compared to the pie charts below which show that only 9% of those who complete an undergraduate degree were unemployed after 6 months of graduating - falling to 6% amongst postgraduates - the advantages of holding a degree in the job market are clear.

## DESTINATIONS OF LEAVERS

Destinations of Full Time UK undergraduates (data taken at 6 months after graduation):



Destinations of Full Time UK postgraduates (data taken at 6 months after graduation):



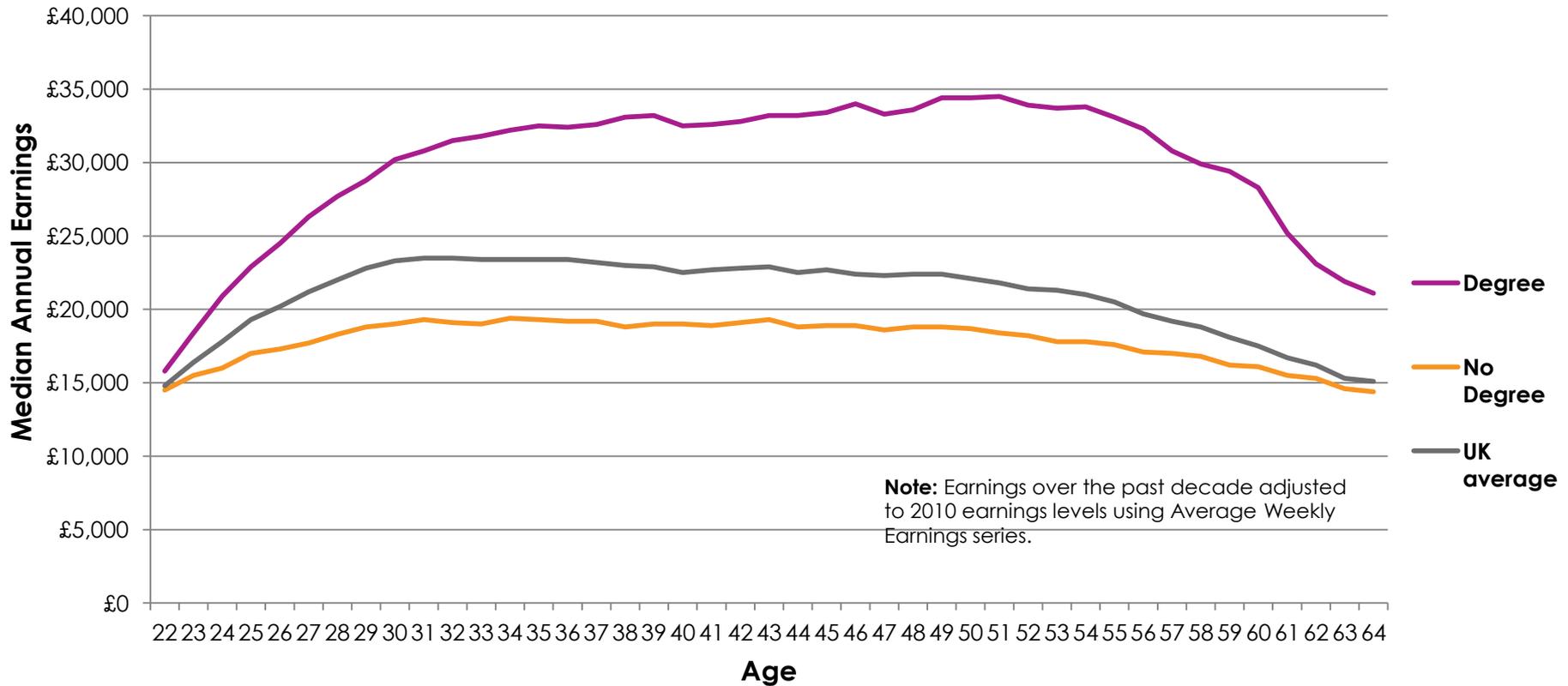
Source: HESA DLHE 2008/09

## EARNING POWER

- Choosing a university education gives an individual higher earning potential throughout the course of their working life. Earnings are similar for those aged 22 at around £15,000, regardless of whether they have a degree or not, however a university graduate at the age of 51 (the peak of their career) earns approximately £16,100 (88%) more than someone without a degree.
- Degree holders earned an average of £12,000 a year more than non-graduates over the last decade. After adjusting to allow for increases in earnings over the period, the data shows that graduates aged 22 to 64 had median salaries of £29,900 compared with £17,800 for non-degree holders.
- For those without a degree, earnings increased for each year of age, levelling off at the age of 30 and peaking at the age of 34 at £19,400.
- For those with a degree, earnings increased faster for each year of age. They also increased for longer, levelling off at the age of 35 and peaking at £34,500 at the age of 51. After this point average wages decreased as it is more likely that the high earners were able to retire and leave the labour market.

# EARNING POWER

## Median annual earnings: age by qualification, 2000 to 2010, UK



Source: Office for National Statistics Report 6<sup>th</sup> April 2011 – ‘Graduate earnings over the last decade’ (data from Labour Force Survey)

## ALTERNATIVE INVESTMENTS

### Individual net lifetime benefit and rates of return by qualification:

Degree Level		Individual
Undergraduate degree	NPV	£108,121
	IRR	14.9%
Foundation degree	NPV	£51,402
	IRR	12.7%
HE Diploma	NPV	£69,465
	IRR	12.5%
'Other' higher education	NPV	£31,611
	IRR	17.4%

*Note: All monetary values expressed in present value terms (discount rate = 3.5%)*

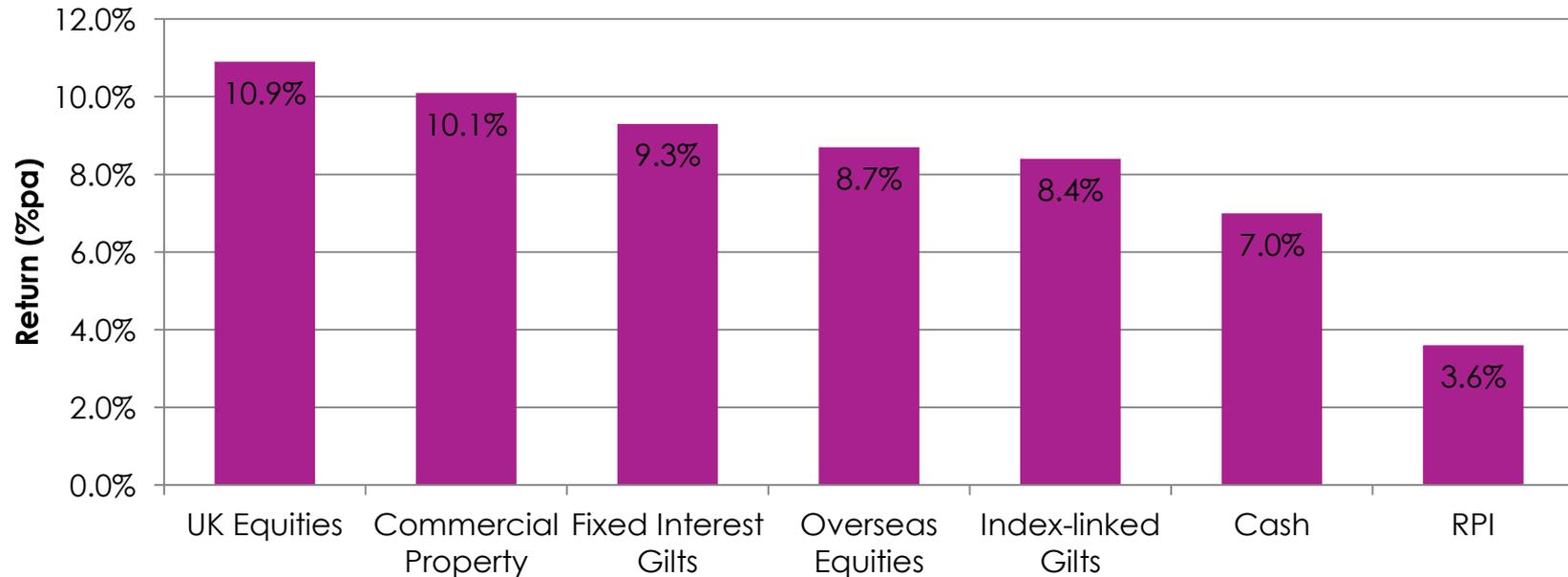
The BIS Research Paper No 45 'The Returns to Higher Education Qualifications' published in June 2011 show that the average rate of return for an undergraduate degree is 14.9% (15.6% for men and 14.8% for women).

When compared to other major asset classes it is evident that any level of higher education provides the student with a higher return on their investment (see chart).

**Source: London Economics from BIS Research Paper No 45, The Returns to Higher Education Qualifications, June 2011**

## ALTERNATIVE INVESTMENTS

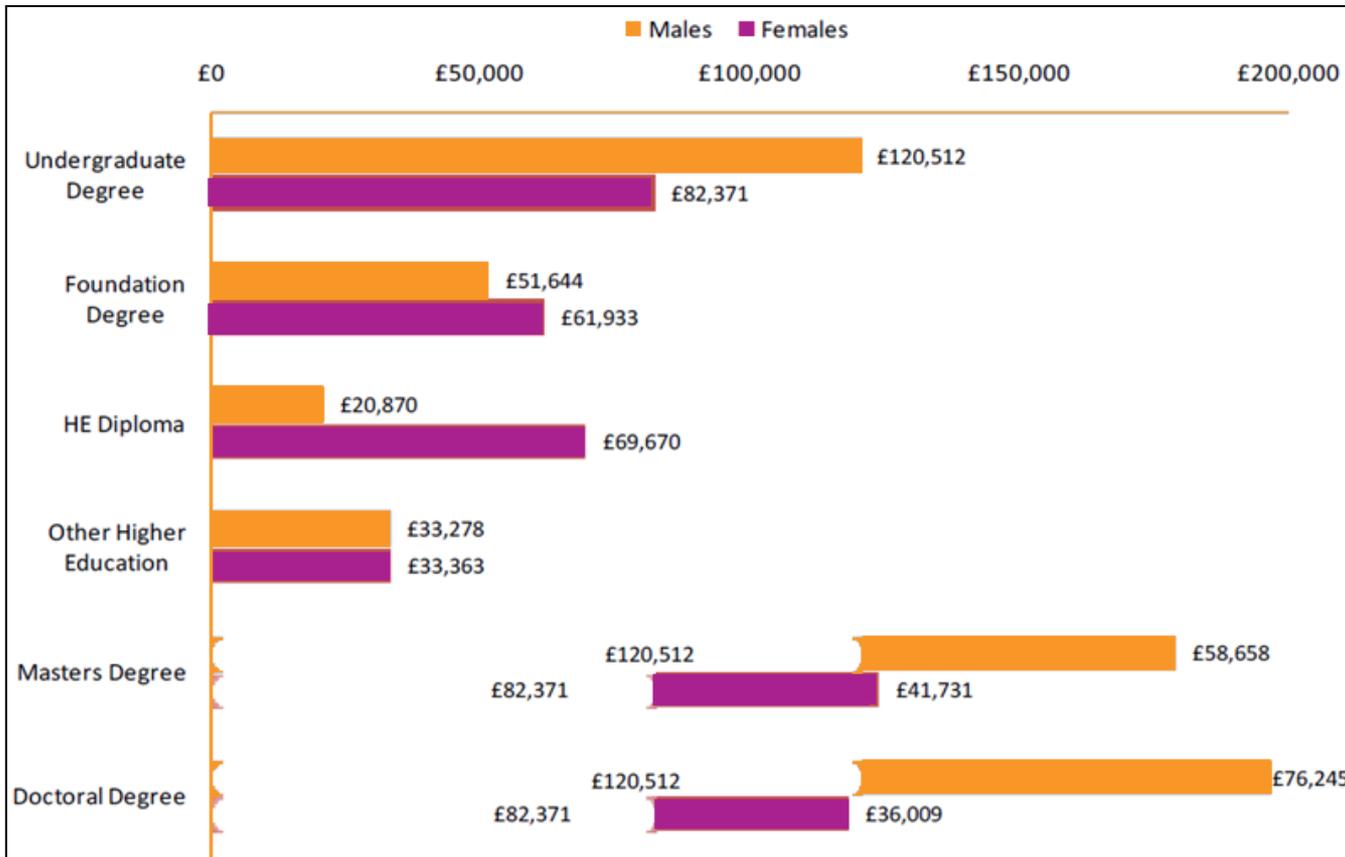
**Return of Major Asset Classes  
20 year period to 31 December 2007**



Note: Asset returns are geometric averages.

**Sources - BBS Actuaries 'Risk & Return Factsheet'; UK Equities: FTSE All Share Total Return Index  
Overseas Equities: FTSE World (ex UK) Total Return Index; Property: IPD Annual Index;  
Fixed Interest Gilts: FT Over 15 Year Index; Index-linked Gilts: FT All-stock Index-linked Index  
Corporate Bonds: iBoxx Sterling Non-Gilt All Stocks Index; Cash: 7 Day Sterling London Inter Bank Offer  
Rate; RPI: UK Retail Prices Index, Year to December.**

## LIFETIME BENEFITS (NET GRADUATE PREMIUM\*)



\*The **net graduate premium** represents the present value of the benefits associated with an undergraduate degree relative to an individual in possession of 2 or more GCE 'A' Levels (gross graduate premium) minus the present value of the costs associated with acquiring a degree. These costs include the direct costs (such as tuition fees minus student support) and indirect costs (such as foregone earnings).

Note: All monetary values expressed in present value terms (discount rate = 3.5%)

Source: London Economics from BIS Research Paper No 45 'The Returns to Higher Education Qualifications' June 2011