



The Iowa Policy Project

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EXECUTIVE SUMMARY

Education Pays in Iowa

The State's Return on Investment in Workforce Education

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Skills and knowledge not only drive economic growth, but also increase the earning capacity of our workforce. The positive relationship between income and education has been well-documented, with each educational gain beyond high school producing stronger labor market attachments and substantially higher earnings.

Investments in workforce education result in improved economic outcomes for Iowa families, and in the process boost the state budget. Our analysis finds that investing in postsecondary education for low-income adults returns tax revenue more than double the state's costs. In fact, the state can garner \$3.70 in increased tax revenue for every dollar invested in an associate's degree and \$2.40 for every dollar invested in a bachelor's degree for low-income adults.

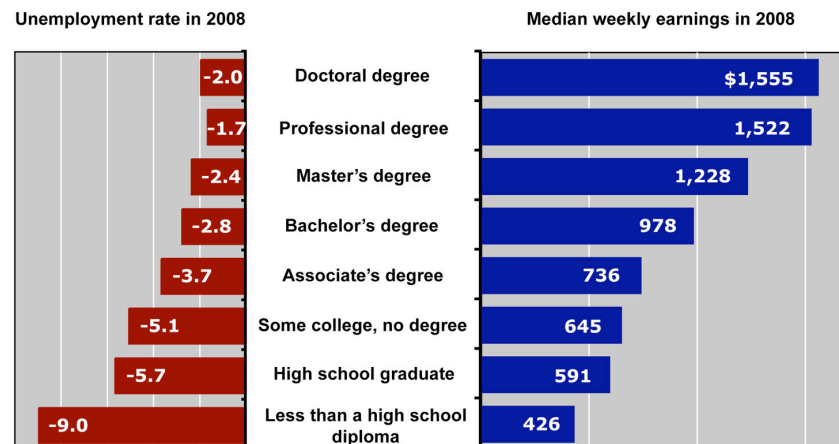
State investments in workforce education can also greatly improve the economic futures of Iowans struggling to support their families. In a state where wages are stagnating for less-educated workers, many Iowans were having a difficult time making ends meet even before the current recession began. Further, a projected shortage of skilled labor combined with the rising cost to families for postsecondary education demands that Iowa invest in workforce education to address our state's education gap.

Education Pays

Since the early 1980s, it has become apparent that postsecondary education and training are threshold qualifications for the vast majority of good jobs.¹ Decade after decade, the U.S. Census illustrates that workers who increase their skill levels ultimately work and earn more.

Higher education levels are closely associated with both increased earnings and lower unemployment rates in Iowa, as they are in the nation as a whole. Iowans with a bachelor's degree on average earn \$7.26 more an hour than those with a high school diploma. The wage gap between those with postsecondary

Figure 1. U.S. Unemployment Rate & Median Weekly Earnings by Education, 2008



Source: Bureau of Labor Statistics, *Education Pays*,
<http://www.bls.gov/emp/emptab7.htm>

education and those without has grown substantially. Between 1979 and 2007, the wages of workers with a college degree increased by 17 percent while the wages of workers with less than a high school diploma *declined* by 27 percent (after adjusting for inflation).² Additionally, unemployment and under-employment rates of Iowa workers without a high school diploma are more than triple the rates among workers with some college education.³ Achieving higher levels of education also dramatically reduces the likelihood of living in poverty. Poverty rates for Iowans 25 years and older are lowest among college graduates (2.9 percent), while individuals with less than a high school diploma and those with a high school degree, but no college, have poverty rates of 21 percent and 8.7 percent, respectively.⁴

Whether the indicator is unemployment rates, wages, or poverty, it is undeniable that education pays for Iowans. This holds true even in hard times, as better-educated workers are less likely to fall into poverty when they hit economic difficulties because they spend less time without work after a job loss and are more likely to be re-employed at comparable wages and at jobs that offer health insurance.⁵

Wages for Less-Skilled Workers Shrink, Families Struggle to Get By

At one time a high-school diploma or GED provided reasonable access to jobs that pay well. However, changes in technology, labor markets and global competition have resulted in the loss of well-paying jobs in manufacturing, information and wholesale trade, and an increase in lower-paying employment opportunities.

As wages for less-skilled workers shrink, families struggle to cover basic living expenses. Almost one-third of Iowa workers earn less than the \$10.28 per hour wage needed for a full-time worker to keep a family of four above the poverty line.⁶ However, poverty levels do not fully account for housing or transportation costs and exclude child care expenses altogether, making them imperfect indicators of how Iowa's families are faring. Comparing wages in Iowa to the actual cost of living in the state shows more families are unable to make ends meet than poverty statistics indicate.⁷

Where Iowa Stands

■ Iowa lacks a college-educated workforce.

While Iowa leads the nation in many indicators of educational quality, the state currently ranks 37th in the nation for the percentage of household heads with at least four years of college. Iowans are more likely to have a high-school diploma or GED than their counterparts nationally, but less likely to have a college degree. Over 56,000 more Iowans would have postsecondary degrees if Iowa were at the national average.⁸

■ Iowa will need more highly educated workers.

While Iowa and the nation are currently experiencing high rates of unemployment, Iowa may well face a labor shortage when the current economic crisis ends and the state economy recovers. Iowa's historically stagnant population growth and the impending baby-boom retirements, combined with employers' projected demands for workers, have led analysts to estimate that Iowa will have 150,000 more jobs than workers to fill them by 2012.⁹

With the top 10 fastest-growing Iowa occupations all demanding workers with postsecondary education and training, almost 45 percent of all occupations in the state will require it by 2012.¹⁰ These growing jobs are also the most likely to provide family-supporting wages.

■ College in Iowa has become less affordable.

Higher education has become too costly for many to attend without financial assistance, making it increasingly difficult for Iowans to invest in their own education and training. In *Measuring Up 2006: the State Report Card on Higher Education*, the National Center for Public Policy and Higher Education

gave Iowa a failing grade on the affordability of postsecondary education due to two factors: (1) the large share of family income needed to attend public two- and four-year colleges, particularly among low- and middle-income students; and (2) the very low state investment in need-based financial aid and the lack of low-tuition college options.

The net college costs for low- and middle-income students to attend a community college or Regent university represent 39 percent and 45 percent of their family income, respectively.¹¹ These two population groups enroll 69 percent of college students in Iowa.

To summarize Iowa’s current challenges, the state has declining wages and an existing skills gap, and will face workforce shortages. Current workforce training resources are inadequate and many people can’t afford to go to college without assistance.

Iowa’s Return on Investment in Workforce Education

Individuals completing postsecondary education earn higher wages, thus generating more in state revenue throughout their working lives. To estimate the return on the state’s investment in workforce education, this report compares the cost of educating more students to the benefits of increased tax revenues. This analysis simulates providing current low-income working adults a tuition scholarship at any Iowa community college or four-year public institution to complete an associate’s or bachelor’s degree.

Our analysis suggests that a tuition scholarship program more than pays for itself in additional tax revenue, over a 40-year work life, for students who otherwise would not receive education beyond high school — a 3.7-to-1 return for the state’s cost for an associate’s degree, and a 2.4-to-1 return for the state’s cost on a bachelor’s degree (see Table 1). Furthermore, our revenue estimates may be conservative particularly given evidence that returns to education are higher than average for relatively disadvantaged groups when compared with the population as a whole.

Table 1. State Cost of Providing Tuition Scholarships Compared to Increase in Future State Tax Revenues, Per Student

	State Cost	Additional Taxes	Net Gain to State	Revenue/Cost Ratio
Associate’s degree	\$ 4,310	\$ 15,830	\$ 11,520	3.7
Bachelor’s degree	\$ 24,740	\$ 59,210	\$ 34,470	2.4

Source: Authors’ estimates

It is important to note that the estimates in Table 1 assume the scholarship recipient remains an Iowa taxpayer for his or her entire working life. Many of course will not. But, an alternative way of looking at this issue is to ask: How long would a graduate have to work in Iowa to repay the cost of an education? For someone obtaining an associate’s degree, the answer is 10 years after graduation. Census migration data suggest a large majority of community college grads stay in Iowa well beyond 10 years.

For a college graduate, the state’s cost would be returned in the first 24.5 years. Looking at it another way, the state would recoup its costs if 42 percent of the bachelor’s-degree graduates remained in the state throughout their working lives.

The state’s returns on investment in education improve if the cost is reduced. This could be achieved by using federal dollars for training, such as Temporary Assistance to Needy Families (TANF) or Workforce Investment Act (WIA) funds.

Policy Recommendations

When low-income adults have access to increased education and training, their lifetime earnings increase substantially, generating tax revenue for the state that more than offsets the cost of investing in this access. To garner the largest fiscal returns and set the state firmly on the path toward economic growth, Iowa must ensure that low-income workers get the education, training and supports they need to gain the skills and credentials required to access good jobs with family-sustaining wages. Based on a review of relevant research and our return-on-investment findings, Iowa should:

- Expand financial aid to help low-income working adults pay for postsecondary education, by
 - Creating a tuition scholarship program for low-income workers;
 - Fully funding Iowa Work-Study at its standing-limited appropriation of \$2.75 million.
- Promote education and training within Iowa's TANF program, by
 - Directing program administrators and case managers to promote education with clients;
 - Using American Recovery and Reinvestment Act (ARRA), or stimulus, funds to support education and training for a greater number of TANF participants.
- Modify Iowa's WIA plan to enhance Recovery Act training provisions, by
 - Assuring local funds for training and related uses to enable access to more discretionary funds;
 - Using discretionary funds to advance postsecondary educational opportunities.

Conclusion

Iowa is already struggling with declining wages and will face a workforce shortage and a critical skills gap when the economy recovers. While education boosts wages, Iowa's investments are inadequate to assure access to education for those who need it to improve skills, but cannot afford it. Without skills, Iowa workers face increasing difficulties in securing a family-supporting wage. Without skilled workers, Iowa businesses and the state's economy suffer. Providing education and training opportunities can improve workers' long-term employment and earnings outcomes, as well as generate additional revenue.

Higher education benefits not only individuals but Iowa as a whole. College graduates are more likely to receive employer-provided health insurance and pensions, and pay taxes. They are healthier and less likely to be unemployed or poor, foster higher levels of educational attainment in their children, use fewer public resources, and are more likely to volunteer, vote and make charitable contributions. Our analysis finds that a scholarship program for low-income workers to obtain an undergraduate degree yields a positive fiscal return. With stimulus funding available to serve more families, under both TANF and WIA, now is the time to make investments for Iowa's growth. Expanding access to education and training for low-wage workers is particularly important when economic prospects are dim. An investment in workforce skills would prepare Iowans for the future and contribute to rebuilding our economy.

¹ Anthony P. Carnevale and Donna M. Desrochers, "Benefits and Barriers to College for Low-Income Adults" *Low-Income Adults in Profile: Improving Lives through Higher Education* (American Council on Education, 2004).

² Colin Gordon and Beth Pearson, *The State of Working Iowa 2008* (The Iowa Policy Project, 2008).

³ Ibid.

⁴ U.S. Census Bureau, 2005, 2006, 2007 American Community Survey.

⁵ Jason E. Bordoff, Jason Furman and Paige L. Shevlin, *A Hand Up: A Strategy to Reward Work, Expand Opportunity, and Reduce Poverty* (The Brookings Institution, 2007).

⁶ Poverty wage data is reported in 2007 CPI-U-RS adjusted dollars from Economic Policy Institute's analysis of Current Population Survey (Outgoing Rotation Group files).

⁷ Elaine Ditsler and Beth Pearson, *The Cost of Living in Iowa* (Iowa Policy Project, 2008).

⁸ Charles Bruner and Mike Crawford, *Securing Iowa's Economic Future: Strengthening Skills, Work Supports, and Economic Security for Working Families* (Iowa Fiscal Partnership, 2006).

⁹ Iowa Works Campaign, *Meeting Iowa's Workforce Challenge* (Iowa Works Campaign, 2006).

¹⁰ *Iowa State WIA Plan, 2005-2007*; Bureau of Labor Statistics, *Occupational Outlook Handbook, 2006-2007 edition* (U.S. Department of Labor, 2006); Iowa Department of Workforce Development, *2012 Statewide Iowa Job Outlook*.