Higher Education

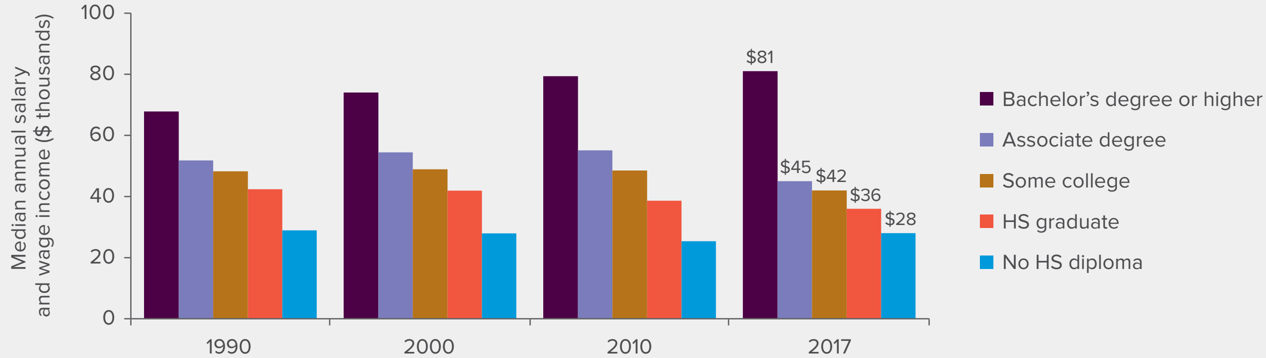
JANUARY 2020

Higher education is a driver of economic mobility in California

The value of a college degree is the highest it has been in decades. The typical full-time worker with a bachelor's degree earned $81,000 in 2017, while the typical worker with only a high school diploma earned $36,000. Educational attainment is associated with lower unemployment and less strain on the social safety net, as well as higher tax revenue and greater civic participation. In addition, awarding more bachelor's degrees is key to meeting California's future need for college-educated workers.

PPIC polling finds that a majority of Californians see a four-year degree as very important for economic and financial success in today's economy. However, there are large and persistent gaps between socioeconomically disadvantaged groups and their peers—as well as across racial/ethnic groups—in college preparation, access, and completion. California has made progress in these areas, but more needs to be done. Targeted financial aid could expand access and improve completion. A more robust transfer pipeline would better connect community colleges—where most low-income and underrepresented students start—to four-year universities. Ongoing reforms in remedial (or developmental) education have the potential to remove a key obstacle.

WAGES HAVE GROWN FOR HIGHLY EDUCATED WORKERS



SOURCES: Author calculations based on 1990 and 2000 decennial censuses and 2010 and 2016 American Community Survey one-year estimates.

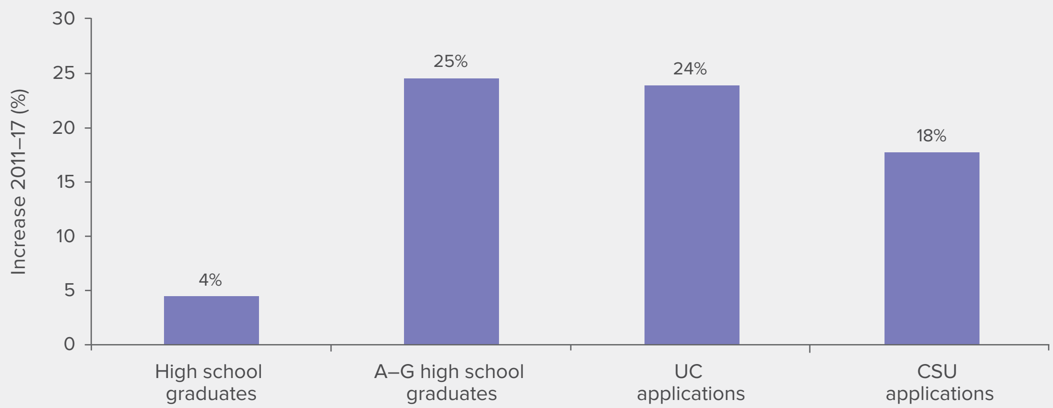
NOTES: Wage and salary income for full-time year-round workers age 25 to 64. Dollars are adjusted for inflation using CPI-U-RS.

California needs more college graduates

For the first time ever, a large group of highly educated workers—the baby boomers—is retiring. And although more students are applying to college and completion rates have been improving, young adults are not graduating at high enough rates to meet rising economic demand for degree holders.

- **More students than ever are eligible for college—but slots at UC and CSU are limited.**
  The good news is that the proportion of California high school graduates completing a college preparatory curriculum (known as the A–G requirement) has grown. A recent state study found that about 14 percent of graduates are eligible for the University of California (UC), and about 41 percent are eligible for California State University (CSU). These shares are higher than the 12.5 percent and 33 percent eligibility levels recommended by the state's Master Plan for Higher Education. While California universities are accepting more students than ever, many qualified students are still not able to attend their college of choice. For example, space constraints at 19 of the 23 CSU campuses prevent many qualified applicants from enrolling in their chosen majors. In 2017–18, CSU campuses rejected more than 16,600 qualified freshmen applicants, an increase of 36 percent since 2013–14. Both UC and CSU now redirect applications to other campuses, but student take-up is low.

RECENT INCREASES IN UC AND CSU APPLICATIONS INDICATE A GROWING DEMAND FOR HIGHER EDUCATION



SOURCES: University of California, California State University, California Department of Education.

NOTE: California residents only.

- **UC, CSU, and the community colleges need to help students graduate or transfer more quickly.**
  About three in five first-time freshmen at CSU and about four in five at UC earn a bachelor's degree within six years. However, only one in five CSU students and three in five UC students graduate "on time," in four years. UC is working to improve on-time graduation, and CSU has adopted ambitious new goals as a part of its Graduation Initiative 2025 program. On-time graduation rates are increasing at both institutions, and CSU has seen notable increases in six-year graduation rates. At the community colleges—which enroll large shares of lower-income and historically underrepresented students—fewer than half (48%) of students transfer, obtain a degree or certificate, or complete 60 units within six years. However, the vast majority of students who do transfer to UC and CSU earn bachelor's degrees.

- **College readiness—and effective remediation—is key in helping students meet academic goals.**
  A lack of academic preparation can delay or prevent student progress toward associate degrees or transfers to four-year colleges. For many students, however, developmental education has also been a stumbling block. Community colleges are implementing new policies aimed at getting most students into college-level courses sooner and offering new courses designed to improve remediation. CSU discontinued remediation as of 2018, enrolling all entering students in college-level courses and providing support for underprepared students.

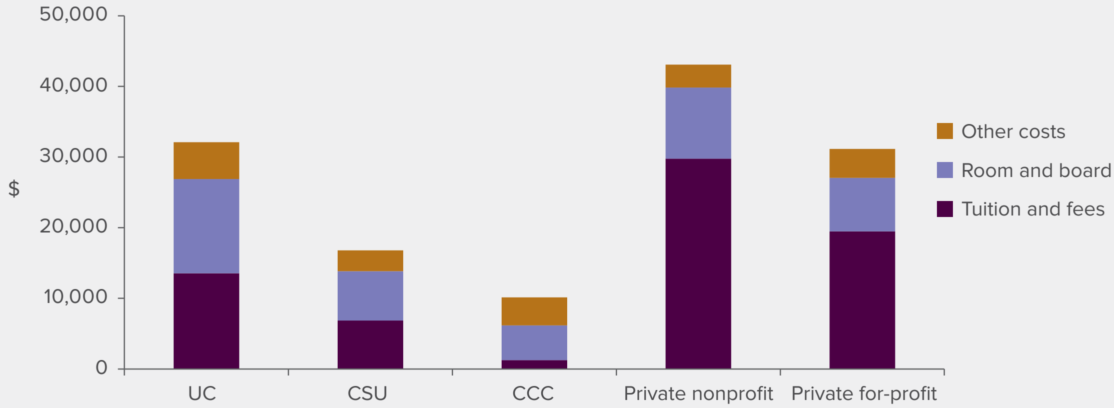
College costs have risen, but most graduates benefit from earning degrees

- **Tuition increases have leveled off, but college costs remain high.**
  During the Great Recession, General Fund allocations per student fell by about 20 percent at CSU and UC, prompting both systems to more than double tuition between 2006 and 2011. State and institutional financial aid increased to cover tuition at public institutions for low-income students. Since the recession, state higher education funding has risen moderately and tuition has held steady or increased slightly. But the total cost at public institutions—including room and board, books, and transportation—is much higher than the cost of tuition.

- **High college costs have caused students to rely on loans.**
  Student borrowing has returned to pre-recession levels at UC (about 40% among first-time freshmen as of 2017), while the share of borrowers at CSU (38%) has remained above those levels. Californians at public institutions are less likely to take out loans and tend to borrow less money than students attending public schools in other states; they are also less likely to borrow than Californians who attend private colleges (53%). Loan default rates are less than 6 percent for students who attend public and private four-year universities but more than 50 percent for students who attend for-profit institutions.

- **Labor market outcomes are strong for college graduates.**
  In 2018, unemployment rates for college graduates (those with at least a bachelor's degree) were about half those of high school graduates (3.0% versus 5.7%, according to the Current Population Survey). Full-time, year-round

TUITION IS ONLY PART OF THE COST OF COLLEGE



SOURCE: Integrated Postsecondary Education Data System.

NOTES: Data are from 2017. Costs are for one year of education. Community college (CCC) tuition is for a full-time load of 12 units per quarter. "Room and board" and "other costs" (which include books, transportation, and other associated expenses) are the average cost of living for first-time, full-time freshmen weighted by the proportion of students living on campus, off campus, or with family.

workers with a college degree earned, on average, more than twice as much as those with only a high school diploma. This wage differential has grown consistently over time.

- **Career education can bring substantial wage returns.**
  A third of future jobs will require some postsecondary education but less than a bachelor's degree. Community colleges offer a lot of this training—known as career education—at a lower cost than private for-profit two-year colleges. Career education often focuses on skilled trades, applied sciences and technologies, and career preparation. On average, students completing a program in one of the six biggest career education fields see a 20 percent earnings increase. Some credentials and fields are particularly valuable. For example, students who earn associate degrees in health more than double their earnings, on average. Short-term certificates (earned in less than a year) generally have much smaller payoffs; even so, they can be initial steps on longer career pathways.

Looking ahead

California faces a shortfall of college-educated workers. At the same time, growing demand for higher education is putting pressure on public colleges and there is widespread concern about college affordability and economic mobility. Effective responses to these challenges will have a profound impact on California's future well-being.

Update higher education goals. California has not updated its vision for higher education since it created the Master Plan almost 60 years ago. There have been signs of progress—for example, all three public systems are working to improve graduation rates. Setting measurable goals—such as expanding eligibility for UC and CSU, increasing transfers from community colleges to four-year colleges, and ensuring that college is affordable for all students—is essential to a shared vision of the state's future.

Plan for funding challenges during the next recession. California tends to cut higher education spending during economic downturns, which can affect access, affordability, and quality. Policies for managing higher education finances in tough economic times can help stabilize student costs and keep California on track to achieve its goals. Evaluation of recent changes to the funding structure for the community college system can shed light on the impact of performance-based funding.

Ensure access and affordability for low-income students and promote their success. Although state financial aid continues to cover tuition for most low-income students at public colleges, the high cost of housing and other living expenses have heightened concerns about homelessness and food insecurity. The California Student Aid Commission's Student Expenses and Resources Survey provides fine-grained data on student costs and could help the state explore ways of making college an option for its lowest-income residents. Also, colleges with policies and practices in place to help students with different backgrounds succeed can offer key insights on increasing upward mobility.

Collect, link, and use data to improve higher education. California is one of only a handful of states without a comprehensive, longitudinal data system that links student progress from K–12 through college and into the workforce. The governor and the legislature have taken initial steps toward creating such a system. The state should work with higher education leaders, researchers, and stakeholders to develop a system that can ensure student privacy and data security while evaluating the effectiveness of educational institutions and policies.

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