

More Education, Better Retirement

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Recent college graduates have had a difficult time finding employment to match their skills. Indeed, unemployment is now higher among 18 to 24 year olds than any other age group. Despite the current labor market, a college degree can drastically change an individual's earning power. But what impact does a college education have 40 years later during retirement?



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Education and Retirement Income. While some recent studies have identified a decrease in the return to education as the labor market changes, education has a proven impact on lifetime income.¹ The Bureau of Labor Statistics estimates that, in 2012, the median weekly earnings of individuals with bachelor's degrees were about \$400 higher than high school graduates. Workers with a professional degree earn the most, about \$1,100 more than a high school graduate per week. The same BLS data shows that the highly educated are more likely to be employed.

Building upon the idea of increased lifetime income, an analysis of Census data shows that education increases the amount of retirement income (other than Social Security) that a person receives.² The extra income grows with each additional year of education, according to Census Data from 2000 to 2011[see Figure I].³

- College graduates on average receive \$8,482 in annual retirement income other than Social Security, \$6,500 more per year than high school graduates.
- Each additional year of education increases expected non-Social Security retirement income more than the previous year.

Social Security as a Component of Retirement Income. The Survey of Consumer Finances confirms that those with more education or income have more saved in retirement accounts and more financial assets than their less educated counterparts. Individual retirement income increases the standard of living for the elderly and decreases the reliance on other government programs like Medicaid.

The Social Security Administration estimates there are 37 million retirees in the United States.⁴ Analysis of Census data shows that 60 percent of today's retired elderly have no retirement income independent of Social Security.⁵ This means there are 22.2 million nondisabled retirees who rely only on Social Security. Analysis shows that each additional year of education reduces the likelihood of having no retirement income other than Social Security by 3 percent. If all of

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the elderly retirees had four additional years of education, a projected 4.4 million more people would have additional retirement income from savings.

Education and Disability During Retirement Years.

Not surprisingly, as Americans age, the rate of disability among them rises. Figure II shows the percentage of the elderly who reported disabilities to the Census [see Figure II]:

- Some 18.5 percent of individuals 65 years of age or older have independent living difficulties, defined as difficulty performing basic activities outside the home alone, such as visiting a doctor's office or shopping.
- A partially overlapping group of 10.9 percent of seniors have self-care difficulties – long-term

conditions that make it difficult for them to care for their own personal needs, such as bathing, dressing or getting around inside the home.

However, analysis of Census data shows that within the elderly population, those with more education are

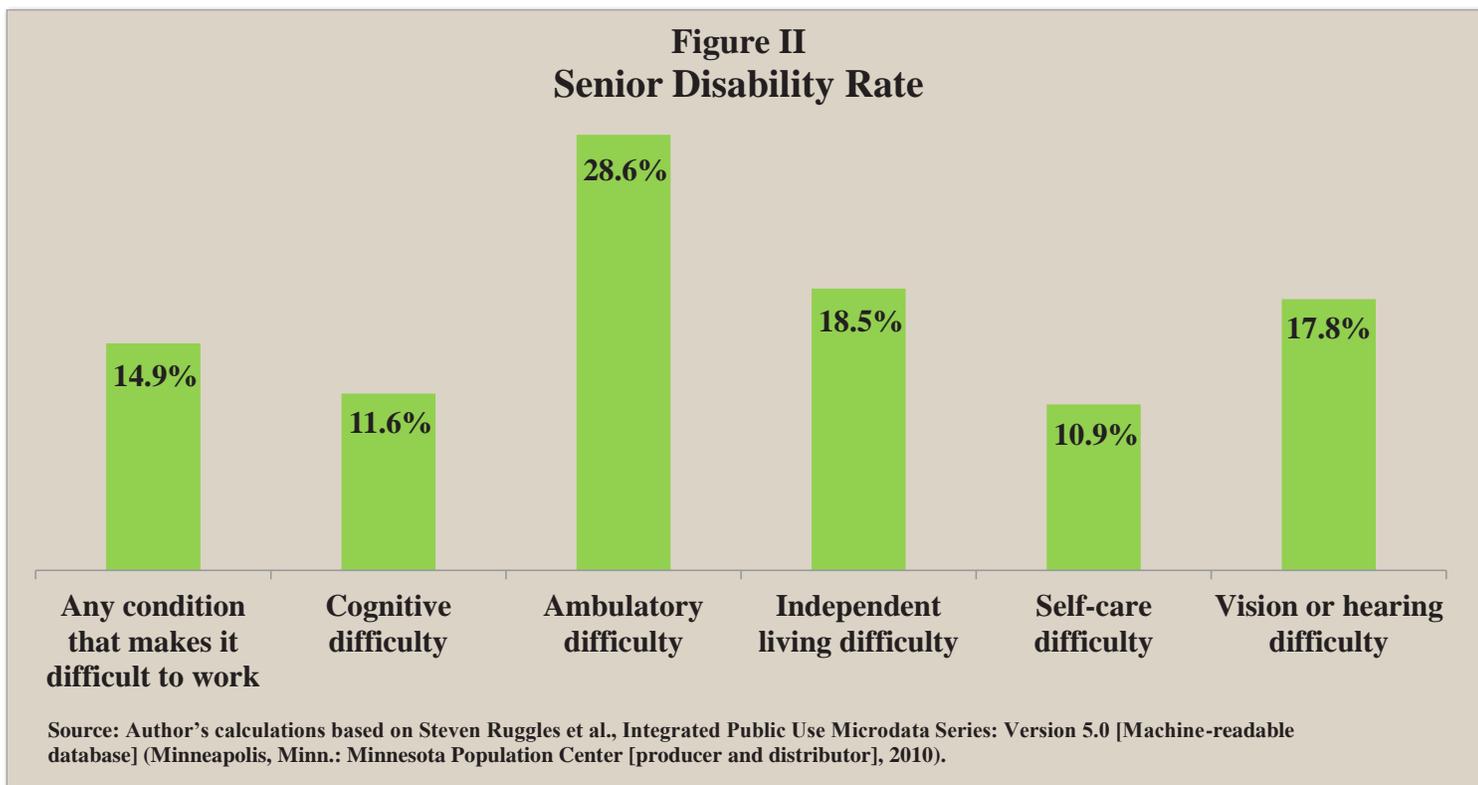
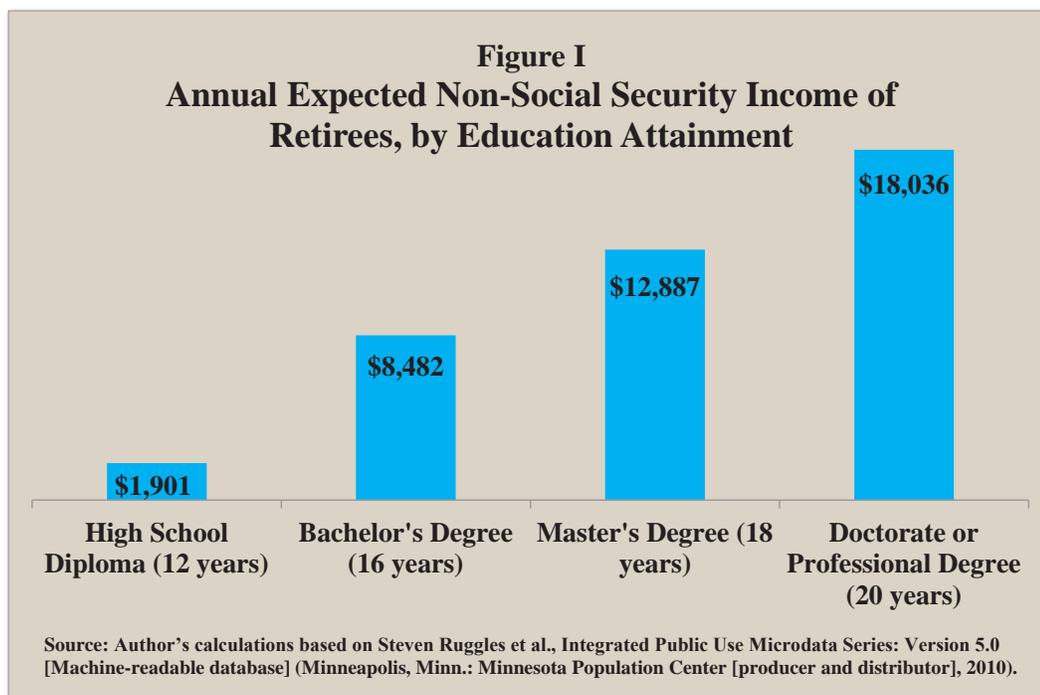
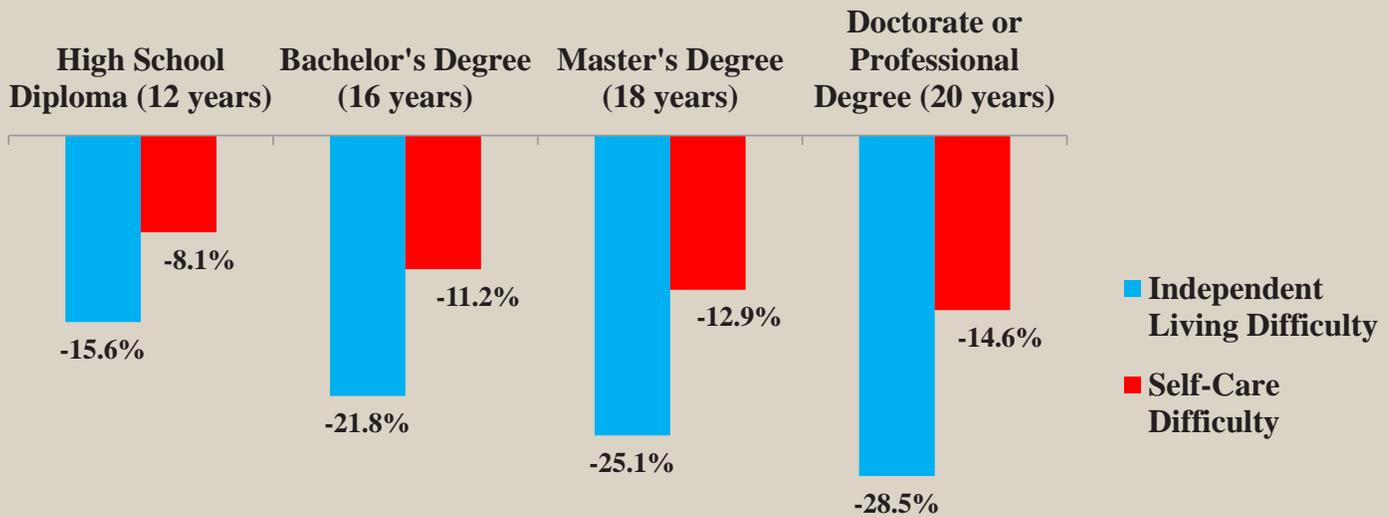


Figure III
Reduced Likelihood of Disability, by Educational Attainment, Relative to a Senior of the Same Age with an 8th Grade Education



Source: Author's calculations based on Steven Ruggles et al., Integrated Public Use Microdata Series: Version 5.0 [Machine-readable database] (Minneapolis, Minn.: Minnesota Population Center [producer and distributor], 2010).

likely to be healthier than those with lower levels of educational attainment.

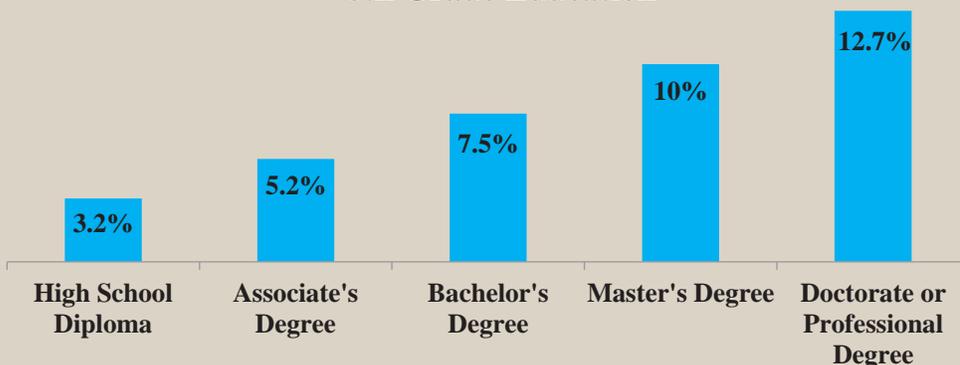
Figure III compares the likelihood of disability among seniors with higher education levels to seniors with only an 8th grade education [see Figure III]:

- Among those over 65, a college graduate is 6.2 percent less likely to have independent living difficulties than a high school graduate, and 21.8 percent less likely than someone with only an 8th grade education.

- An individual with a master's degree is 4.8 percent less likely than a high school graduate to have self-care difficulties.

Thus, there is an increasing return to education, at least with respect to health; each additional year of education reduces the likelihood of disability more than the previous year. The National Bureau of Economic Research found that more education correlates with better health, and that the "effect of education increases with increasing years of education."⁶ This finding has implications for the health care system. While only 13 percent of

Figure IV
Increased Likelihood of Working, by Educational Attainment, Relative to a Senior of the Same Age with an 8th Grade Education



Source: Author's calculations based on Steven Ruggles et al., Integrated Public Use Microdata Series: Version 5.0 [Machine-readable database] (Minneapolis, Minn.: Minnesota Population Center [producer and distributor], 2010).

the U.S. population is over 65, the elderly consume about 36 percent of health care.⁷

Education and Employment During Retirement. Educational attainment also influences the decision to retire.

An analysis of Census data shows that for an individual 65 years of age or older, each additional year of education beyond high school is associated with a 1 percent increase in the likelihood that they will be employed, controlling for age. Figure IV shows how much more likely an educated person of retirement age is to be employed than someone with an 8th grade education [see Figure IV]:

- A senior with an associate's degree is 5 percent more likely to work than a senior with only an 8th grade education.
- A college graduate is 4.3 percent more likely to be working than a senior with a high school diploma.

People with more education are likely to be healthier, and because health is a determinant of disability rates, the more highly educated can continue to work longer.

Conclusion. Education has long-term impacts through retirement. More education increases retirement savings, decreases dependence on government, improves health and increases employment at both a state and individual level. This is good news for the 21 million students across the country who attend college.⁸

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Endnotes

¹ Bureau of Labor Statistics, "Earnings and unemployment rates by educational attainment," May 2013. Available at http://www.bls.gov/emp/ep_chart_001.htm.

² Retirement income other than social security is defined by the Census as "how much pre-tax retirement, survivor, and disability pension income, other than Social Security, the respondent received during the previous year."

³ Steven Ruggles et al., Integrated Public Use Microdata Series: Version 5.0 [Machine-readable database] (Minneapolis, Minn.: Minnesota Population Center [producer and distributor], 2010).

⁴ Social Security Administration, "Social Security Basic Facts," February 7, 2013. Available at <http://www.ssa.gov/pressoffice/basicfact.htm>.

⁵ No pretax retirement, survivor or disability pension income, other than Social Security.

⁶ David M. Cutler and Adriana Lleras-Muney, "Education and Health: Evaluating Theories and Evidence," National Bureau of Economic Research, Working Paper No. 12352, 2006. Available at <http://www.nber.org/papers/w12352>.

⁷ Mark W. Stanton, "The High Concentration of U.S. Health Care Expenditures," Agency for Healthcare Research and Quality, Research in Action, Issue 19, June 2006. Available at <http://www.ahrq.gov/research/findings/factsheets/costs/expriach/index.html>.

⁸ "Digest of Education Statistics, 2011 (NCES 2012-001), Chapter 3," U.S. Department of Education, National Center for Education Statistics, 2012. Available at http://nces.ed.gov/programs/digest/d11/ch_3.asp.

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