ALLIANCE FOR EXCELLENT EDUCATION

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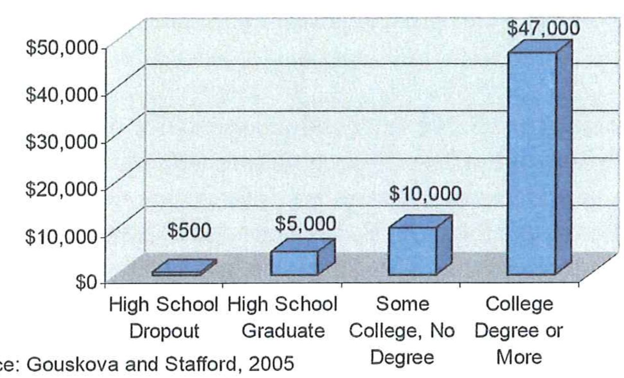
# Hidden Benefits
## The Impact of High School Graduation on Household Wealth

Several recent reports have highlighted the earnings gap between high school graduates and dropouts; however, earnings tell only part of the story. Families rely on income from salary for regular expenses, but real economic security requires accumulated wealth (Conley, 1999; Shapiro, 2004; Hertz, 2006). Household wealth, also known as "assets," is broadly defined as the accumulation of investments that appreciate over time. This wealth may take various forms, including cash investments (savings, equities, 401(k) accounts, and individual retirement accounts), material possessions that hold monetary value (homes, cars, small businesses), and investments in nontangible property such as degrees.

Education can be the key to higher earnings, but it is even more importantly linked to the accumulation of assets. Research by Elena Gouskova and Frank Stafford of the University of Michigan Institute for Social Research shows that, on average, households headed by a high school graduate accumulate ***ten times*** more wealth than households headed by a high school dropout (Gouskova & Stafford, 2005). In other words, for every $500 of wealth households headed by a high school dropout have, their peers with diplomas have accumulated approximately $5,000. Based on this finding, the Alliance for Excellent Education has determined that the **citizens of the United States would have over $74 billion more in accumulated wealth if all heads of households had graduated from high school.**

**Average Household Wealth by Education**




Source: Gouskova and Stafford, 2005

## The Importance of Wealth

Wealth is critical to the economic well-being of individuals and families for a host of reasons. Indeed, wealth is the best gauge of a household's financial security and prospects (Conley, 1999). Yet, according to a recent report by the Ford Foundation, while "fewer than 13 percent of American households live below the official poverty line … more than a quarter live paycheck to paycheck with negligible or nonexistent net worth" (Ford Foundation, 2007).

Perhaps the most important benefit of wealth is the cushion that accumulated assets provide for families that face sudden unemployment, disabling medical situations, or any kinds of financial emergencies (Kochhar, 2004; Doron & Fisher, 2002). Regular income helps families pay for day-to-day living expenses; assets allow them to survive financial hardships. But "25.5 percent of all American households had insufficient net worth to sustain living *at the federal poverty level* for three months if their income were to be disrupted" (Corporation For Enterprise Development, 2002).

The ownership of assets that can be converted to cash can make the difference between a family's continuing economic viability and bankruptcy, homelessness, or other lasting financial calamity. For instance, families can convert assets to cash to cover living expenses. They can also borrow against assets (e.g., a retirement account) at much better commercial loan rates and with greater ease than those without similar assets.

**Assets matter. Assets mean economic security. Assets mean mobility. Assets mean opportunity.**

Corporation for Enterprise Development, 2002

Accumulated wealth has other long-term benefits. For example, assets can be invested in higher education, which leads to ever increasing levels of income and wealth (Kochhar, 2004; Doron & Fisher, 2002). Families with greater wealth are also more likely to have the resources, time, and educational background to support their children's education, such as fostering the development of reading skills, participating in school activities, and encouraging their children to make ambitious academic choices (Sawhill, 2006; Orr, 2003; Hertz, 2006). The National Conference of State Legislatures notes that "research … suggests positive effects on the children of participants [in asset-building programs], such as improved living conditions, educational opportunities, and positive modeling of savings behavior" (2005).

Wealth also confers other advantages that make further wealth generation more likely. Buying a house in a desirable neighborhood, starting a business, paying for higher education, or funding a comfortable retirement, are all ways that families increase their long-term financial security and improve the financial prospects for themselves and their children (Mishel, Bernstein, & Allegretto, 2006).

The capacity to improve financial prospects for one's children and grandchildren is the most enduring benefit that wealth offers. Young people who have resources for college costs, professional training, housing, or starting businesses have significant advantages over their peers. They are better able to absorb the opportunity costs of education or internships that strain personal finances but have powerful impacts on later earning power, and they have less debt as they begin their careers and start their own families. Indeed, it is in great part because wealth can be inherited that it has greater impact on individual prosperity than income (Conley, 1999).

Most economists view wealth as a much more important determinant of economic status than earnings because of the long-term advantage it provides in almost every aspect of life (Doron & Fisher, 2002; Oliver & Shapiro, 1995). Both wealth and poverty tend to perpetuate themselves: the effects of wealth are so significant that it can take as long as five generations for the effects conferred by wealth to disappear (Sawhill, 2006).

As individuals and families benefit from greater wealth, so do the communities in which they live. Research indicates that communities benefit from increased homeownership, greater levels of entrepreneurship, and higher levels of educational attainment that come with asset accumulation. Communities also benefit through greater neighborhood stability, increased civic involvement and voting participation, and reduced need for public assistance (Center for Social Development, 2002).

## The Wealth Gap vs. the Earnings Gap

Assets are very unevenly distributed in the United States, and the disparities not only reflect historical inequities, including segregated education systems, but also help to perpetuate the inequalities that still exist (Conley, 1999; Shapiro, 2004). And wealth inequality, between whites and minorities as well as between those with high and low incomes, is increasing. According to recent data from the Federal Reserve Board compiled by Citizens for Tax Justice, the share of assets owned by the wealthiest Americans (the top 1 percent) increased by 3.3 percent between 1989 and 2004, while the share of the poorest 50 percent declined from 3 percent to 2.5 percent (Citizens for Tax Justice, 2006). Putting it another way, 20 percent of Americans hold 84 percent of the nation's wealth; the least affluent 40 percent hold only 1 percent of the country's assets (Ford Foundation, 2007).

Hispanics and African Americans lag much farther behind whites in wealth than they do in earnings. On average, the earnings of minorities are approximately 55 percent of those of whites, while the average net worth of minorities is under 30 percent of that for whites (Kochhar, 2004). Although there have been some fluctuations, the wealth gap remains significant. The groups on the lowest rungs of the economic ladder are the most vulnerable to economic dislocation—and the least able to provide that "leg up" for their children.

Debt plays an important role in limiting these groups' financial security. More than 60 percent of black and 54 percent of Hispanic households have either no financial assets or are in significant debt. (Corporation for Enterprise Development, 2002). In fact, about one quarter of low-income families have significant household debt (including credit cards, car loans, and other loans apart from home mortgages), compared to 13 percent for whites, and these families must devote as much as 40 percent of their income to paying off this debt (Mishel, Bernstein, & Allegretto, 2006). Thus, rather than accumulating and transferring enduring assets to their children and grandchildren, poor families struggle to provide for their daily welfare and are ill-equipped to support the educational and economic advancement of their families.

## Increasing High School Graduation Rates to Increase the Nation's Collective Wealth

Building the capacity to accumulate wealth for groups that have lagged behind is a key strategy for breaking the cycle of poverty and fostering a solid middle class in the United States, but this is a goal that cannot be met without education (Shapiro, 2004).

Policymakers have long supported asset-building programs like the Homestead Act of 1862 that gave land to 1.5 million families and the G.I. Bill that allowed millions of World War II veterans to earn college degrees and buy houses. For the past decade, there has been a growing focus by governments, philanthropists, banks, and community organizations on supporting poverty reduction by creating opportunities for expanded asset ownership, particularly through additional options for homeownership and access to subsidized savings programs. One current policy focus is on the idea of creating savings accounts for all children that would be funded at higher levels for children from poorer families (Ford Foundation, 2007).

Given the connection between education and asset accumulation, another strategy for narrowing the wealth gap would be to increase the educational attainment of those at the low end of the wealth spectrum. To estimate the size of the impact, the Alliance for Excellent Education analyzed existing data to ask: What would be the impact on this country's collective wealth if every head of household graduated from high school?

The Alliance used 2005 U.S. Census Bureau numbers for households by educational attainment in each state and then multiplied the households by their median financial wealth (Gouskova & Stafford, 2005) to derive the total financial wealth of each education level by state. Additional household financial wealth gained by high school graduation was calculated by multiplying the number of households headed by an individual with less than a high school degree by the median financial wealth of those households headed by an individual with a high school diploma. The current estimate of the financial wealth of households with less than a high school diploma was subtracted by this number to derive the additional household financial wealth that would be gained by each state (and the nation) if every household were headed by someone with at least a high school diploma.

There would be, according to these calculations, an additional $74 billion in collective wealth in the United States if every household were headed by an individual with at least a high school diploma. The results for each state and the nation are shown in the table on page 5. It should be noted that this is a conservative estimate, as the calculation does not include the value of housing. Although homeownership may offer the greatest asset-accumulation opportunity for most Americans, the decision was made to exclude the value of homes, because mortgage holders may also have considerable debt associated with the home and since the value of homes may fluctuate in unpredictable ways; developing a firm estimate of the value of this particular asset is complex and outside of the scope of the Alliance's analysis. That said, since a home is the most valuable asset most families have—and graduates are more likely to be able to afford that investment—the $74 billion figure is likely to significantly understate the potential loss to non-graduates.

Even the conservative estimate of $74 billion, however, represents much more than extra money in the pockets of low-income individuals. This figure represents the additional financial security and opportunities that are lost—by individuals, families, communities, and states—because of an education system that is failing the approximately 1.2 million students who drop out of high school each year.

**For more information about the state of America's high schools and to find out what individuals and organizations can do to support effective reform at the local, state, and federal levels, visit the Alliance for Excellent Education's website at www.all4ed.org.**

**MetLife Foundation**

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## Increase in Wealth if All Heads of Households Were High School Graduates[1]

| State | Number of Households Headed by High School Dropouts | Household Wealth Accumulated by High School Dropouts | Number of Households Headed by High School Graduates | Household Wealth Accumulated by High School Graduates | Potential Additional Household Wealth if all Heads of Household Were High School Graduates |
|---|---|---|---|---|---|
| Alabama | 351,620 | $175,810,000 | 544,616 | $2,723,080,000 | $1,582,290,000 |
| Alaska | 20,489 | $10,244,500 | 63,185 | $315,925,000 | $92,200,500 |
| Arizona | 317,026 | $158,513,000 | 520,782 | $2,603,910,000 | $1,426,617,000 |
| Arkansas | 204,273 | $102,136,500 | 367,480 | $1,837,400,000 | $919,228,500 |
| California | 2,051,413 | $1,025,706,500 | 2,430,339 | $12,151,695,000 | $9,231,358,500 |
| Colorado | 184,583 | $92,291,500 | 417,417 | $2,087,085,000 | $830,623,500 |
| Connecticut | 158,485 | $79,242,500 | 370,180 | $1,850,900,000 | $713,182,500 |
| Delaware | 44,929 | $22,464,500 | 96,493 | $482,465,000 | $202,180,500 |
| District of Columbia | 37,208 | $18,604,000 | 48,297 | $241,485,000 | $167,436,000 |
| Florida | 999,805 | $499,902,500 | 2,013,765 | $10,068,825,000 | $4,499,122,500 |
| Georgia | 550,222 | $275,111,000 | 929,718 | $4,648,590,000 | $2,475,999,000 |
| Hawaii | 42,599 | $21,299,500 | 117,584 | $587,920,000 | $191,695,500 |
| Idaho | 67,927 | $33,963,500 | 145,914 | $729,570,000 | $305,671,500 |
| Illinois | 632,699 | $316,349,500 | 1,254,359 | $6,271,795,000 | $2,847,145,500 |
| Indiana | 348,924 | $174,462,000 | 872,897 | $4,364,485,000 | $1,570,158,000 |
| Iowa | 125,286 | $62,643,000 | 418,456 | $2,092,280,000 | $563,787,000 |
| Kansas | 116,357 | $58,178,500 | 309,981 | $1,549,905,000 | $523,606,500 |
| Kentucky | 351,273 | $175,636,500 | 542,644 | $2,713,220,000 | $1,580,728,500 |
| Louisiana | 329,976 | $164,988,000 | 550,431 | $2,752,155,000 | $1,484,892,000 |
| Maine | 58,869 | $29,434,500 | 189,943 | $949,715,000 | $264,910,500 |
| Maryland | 246,974 | $123,487,000 | 514,207 | $2,571,035,000 | $1,111,383,000 |
| Massachusetts | 286,424 | $143,212,000 | 632,429 | $3,162,145,000 | $1,288,908,000 |
| Michigan | 496,318 | $248,159,000 | 1,145,179 | $5,725,895,000 | $2,233,431,000 |
| Minnesota | 184,242 | $92,121,000 | 538,137 | $2,690,685,000 | $829,089,000 |
| Mississippi | 235,487 | $117,743,500 | 334,285 | $1,671,425,000 | $1,059,691,500 |
| Missouri | 334,894 | $167,447,000 | 732,401 | $3,662,005,000 | $1,507,023,000 |
| Montana | 33,870 | $16,935,000 | 112,997 | $564,985,000 | $152,415,000 |
| Nebraska | 71,201 | $35,600,500 | 202,559 | $1,012,795,000 | $320,404,500 |
| Nevada | 138,477 | $69,238,500 | 252,470 | $1,262,350,000 | $623,146,500 |
| New Hampshire | 48,078 | $24,039,000 | 144,389 | $721,945,000 | $216,351,000 |
| New Jersey | 420,011 | $210,005,500 | 878,971 | $4,394,855,000 | $1,890,049,500 |
| New Mexico | 123,753 | $61,876,500 | 194,879 | $974,395,000 | $556,888,500 |
| New York | 1,081,614 | $540,807,000 | 1,963,174 | $9,815,870,000 | $4,867,263,000 |
| North Carolina | 579,243 | $289,621,500 | 953,756 | $4,768,780,000 | $2,606,593,500 |
| North Dakota | 33,555 | $16,777,500 | 76,828 | $384,140,000 | $150,997,500 |
| Ohio | 616,295 | $308,147,500 | 1,574,436 | $7,872,180,000 | $2,773,327,500 |
| Oklahoma | 210,859 | $105,429,500 | 418,627 | $2,093,135,000 | $948,865,500 |
| Oregon | 167,164 | $83,582,000 | 348,141 | $1,740,705,000 | $752,238,000 |
| Pennsylvania | 643,215 | $321,607,500 | 1,787,923 | $8,939,615,000 | $2,894,467,500 |
| Rhode Island | 66,409 | $33,204,500 | 113,231 | $566,155,000 | $298,840,500 |
| South Carolina | 299,878 | $149,939,000 | 489,043 | $2,445,215,000 | $1,349,451,000 |
| South Dakota | 35,992 | $17,996,000 | 99,233 | $496,165,000 | $161,964,000 |
| Tennessee | 443,798 | $221,899,000 | 779,513 | $3,897,565,000 | $1,997,091,000 |
| Texas | 1,563,621 | $781,810,500 | 1,964,935 | $9,824,675,000 | $7,036,294,500 |
| Utah | 72,659 | $36,329,500 | 192,510 | $962,550,000 | $326,965,500 |
| Vermont | 25,742 | $12,871,000 | 75,180 | $375,900,000 | $115,839,000 |
| Virginia | 413,061 | $206,530,500 | 723,873 | $3,619,365,000 | $1,858,774,500 |
| Washington | 243,442 | $121,721,000 | 583,352 | $2,916,760,000 | $1,095,489,000 |
| West Virginia | 141,072 | $70,536,000 | 291,817 | $1,459,085,000 | $634,824,000 |
| Wisconsin | 248,936 | $124,468,000 | 730,851 | $3,654,255,000 | $1,120,212,000 |
| Wyoming | 18,568 | $9,284,000 | 64,002 | $320,010,000 | $83,556,000 |
| United States | 16,518,815 | **$8,259,407,500** | 31,117,809 | **$155,589,045,000** | **$74,334,667,500** |

[1] The Alliance for Excellent Education used 2005 U.S. Census Bureau's numbers for households by educational attainment and multiplied them by their median financial wealth (Gouskova & Stafford, 2005) to derive the total household wealth accumulated by education level by state. The difference in the median financial wealth between non-graduates and those with a high school diploma ($4,500) was multiplied by the number head-of-households who did not graduate high school for the potential additional wealth if all heads of households were high school graduates.

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