How does the return to a degree vary by class of award?

Tej Nathwani, Higher Education Statistics Agency

1. KEY DEFINITIONS

KEY DEFINITIONS

- In the first part of this presentation, the analysis incorporates both graduates and non-graduates.

- By the 'return to a degree', we mean the extent to which the annual pay of graduates exceeds that of non-graduates (in percentage terms) at age 25-26.

- The second part is restricted to graduates only, where we focus more closely on the return by separate degree class.

KEY DEFINITIONS (CONTINUED)

- In this second section, the return continues to be provided in percentage terms at age 25-26, though I shall be specific about the group we are comparing to.

- Graduates are those who hold a first degree as their highest qualification (postgraduates are excluded).

- Non-graduates are individuals whose highest qualification comprises of A levels, GCSEs or equivalent.
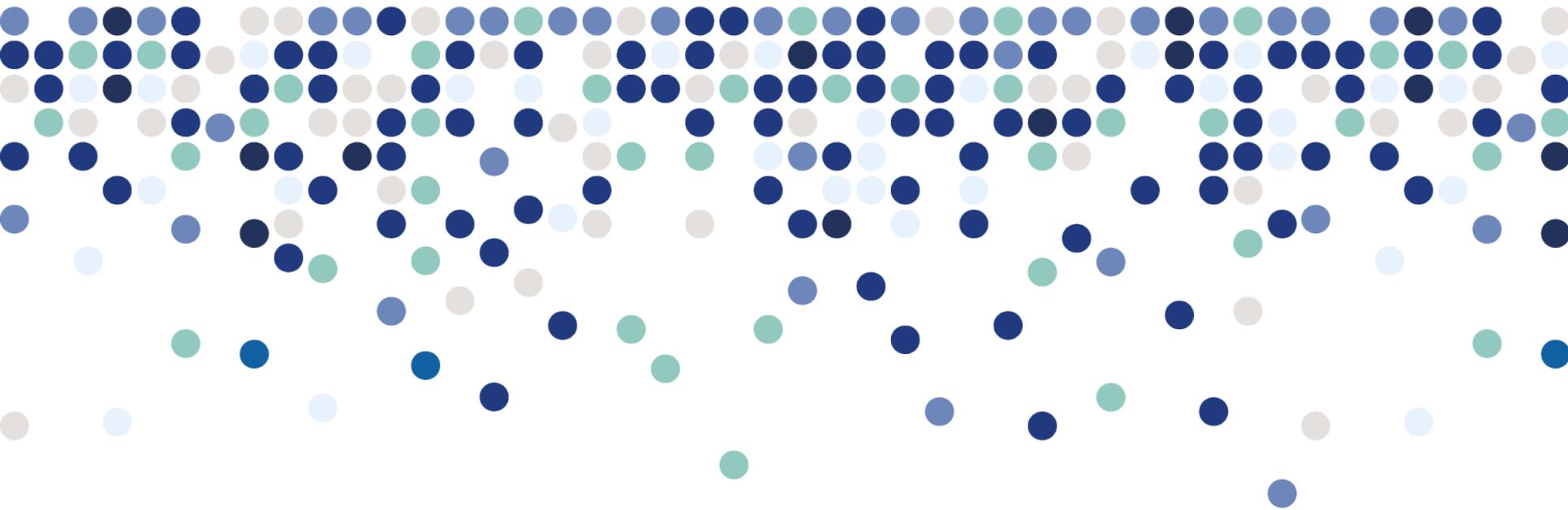
2. RELEVANCE TO POLICY

WHY THIS MATTER IS IMPORTANT

- UK government policy aims to ensure that students have the information they need to make informed education choices.

- Higher education is a significant investment decision for young people and their families.

- It is valuable to provide data on future earnings (including how this may vary depending on performance at university).

WHY THIS MATTER IS IMPORTANT (CONTINUED)

- The proportion of first class degrees awarded has increased from 8% in 1996/97 to 28% by 2017/18.

- Over the same time period, the percentage awarded an upper second class has remained fairly constant (in the region of 50%).

- There are concerns within the sector over possible grade inflation and the impact this may have on the value/reliability of higher education qualifications.

3. DATASETS

DATASETS

- Our work utilises the following datasets;

- **British Cohort Study** – a birth cohort study, which follows the lives of those born in 1970.

- **Next Steps** – also a birth cohort study tracking those born around 1990.

- Both studies are currently managed by the Centre for Longitudinal Studies at UCL.

DATASETS (CONTINUED)

- **Labour Force Survey (LFS)** – a quarterly UK-wide collection run by the Office for National Statistics.

- Its primary aim is to assess the state of the labour market.

- **Longitudinal Destinations of Leavers from Higher Education (LDLHE)** – a survey of graduates 42 months after they qualify.

- This was a biennial survey administered by HESA, which captured information on graduate earnings.

4. PART 1: METHOD AND RESULTS

METHODOLOGY (COHORT STUDIES)

- We begin by examining the two birth cohort studies.

- We look at:

- The average return to a degree.

- The return to a degree by class (based on whether graduates were awarded at least an upper second class).

CONTROLLING FACTORS

- We then account for factors that are correlated with both education level and earnings. This includes;

- Personal characteristics

- Household background

- Cognitive/Non-cognitive skills

- Job tenure

- Health

BIRTH COHORT STUDIES – KEY FINDINGS
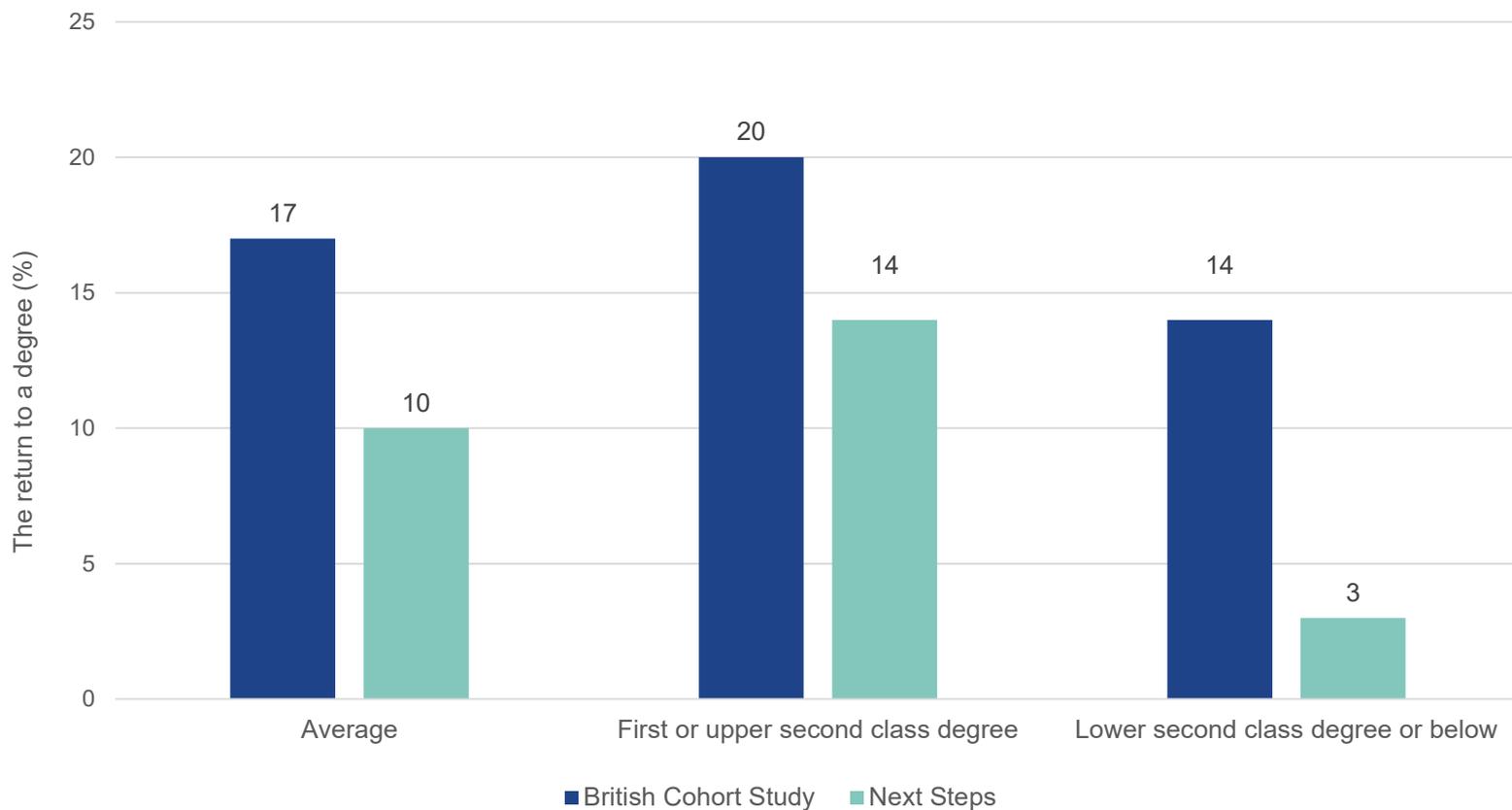
OVERVIEW

- The average return to a degree has declined by 7 percentage points.

- Among those graduates awarded at least an upper second class degree, the fall is 6 percentage points.

- However, a larger decrease of 11 percentage points is observed among graduates awarded a lower second class degree or below.

ROBUSTNESS CHECKS

- Data on education and earnings in the birth cohort studies is self-reported.

- One method by which we can assess the robustness of our findings is to corroborate the results using an alternative data source.

- This is the first instance in which we use the LFS.

CORROBORATING FINDINGS USING LFS

- Collection of class of award data in LFS began in the mid-2000s.

- We can only evaluate the robustness of the findings in Next Steps.

- With LFS not possessing the same breadth of controls available in the birth cohort studies, we explore the association between education level and earnings only.
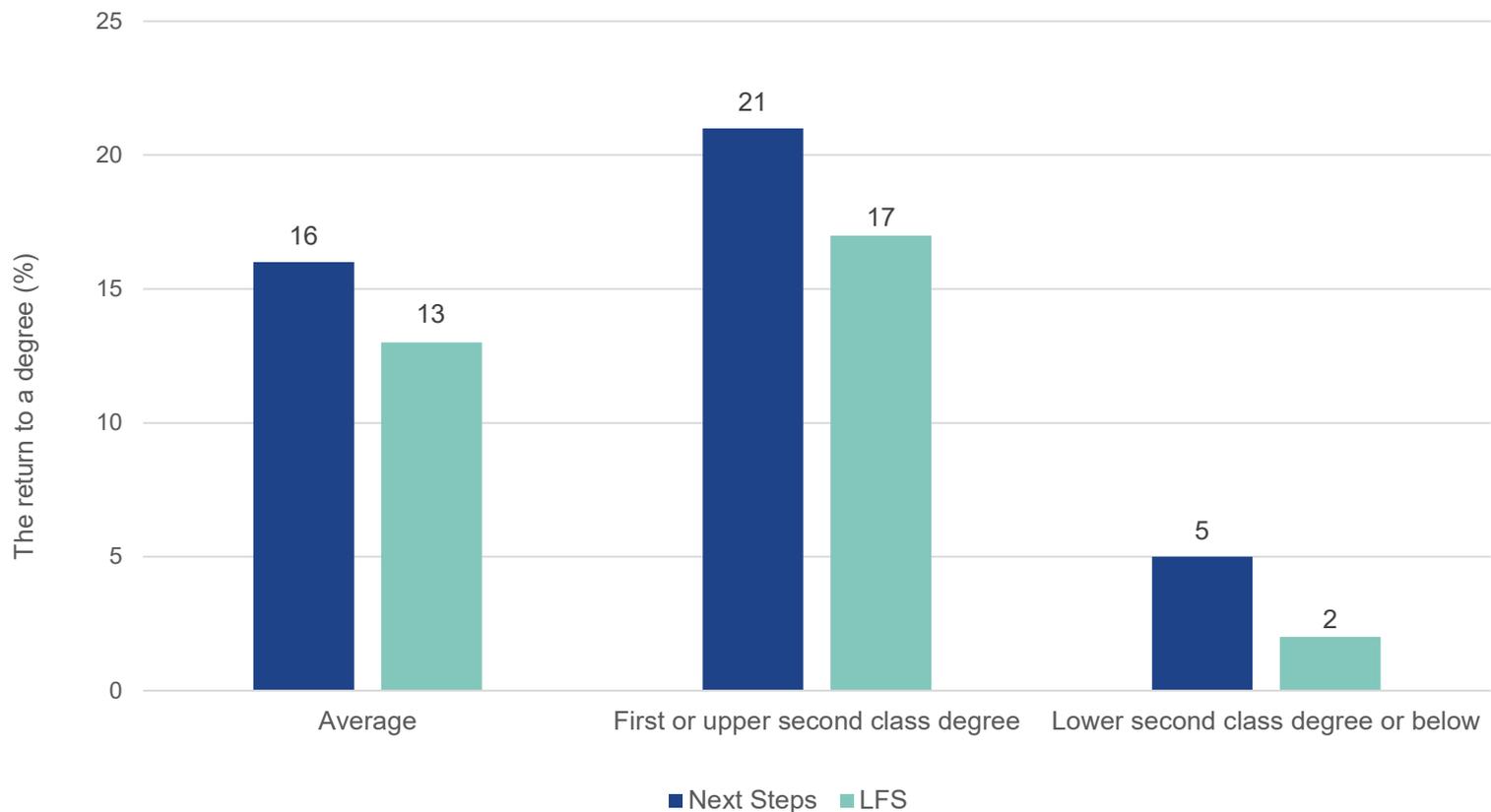
5. PART 2: METHOD AND RESULTS

THE RETURN BY SEPARATE DEGREE CLASSIFICATION

- Our earlier discussion highlighted that there has been a particularly steep growth in first class awards.

- The second part of our work focuses on graduates only and concentrates on the return by separate degree classification.

- This is where we introduce analysis of LDLHE.
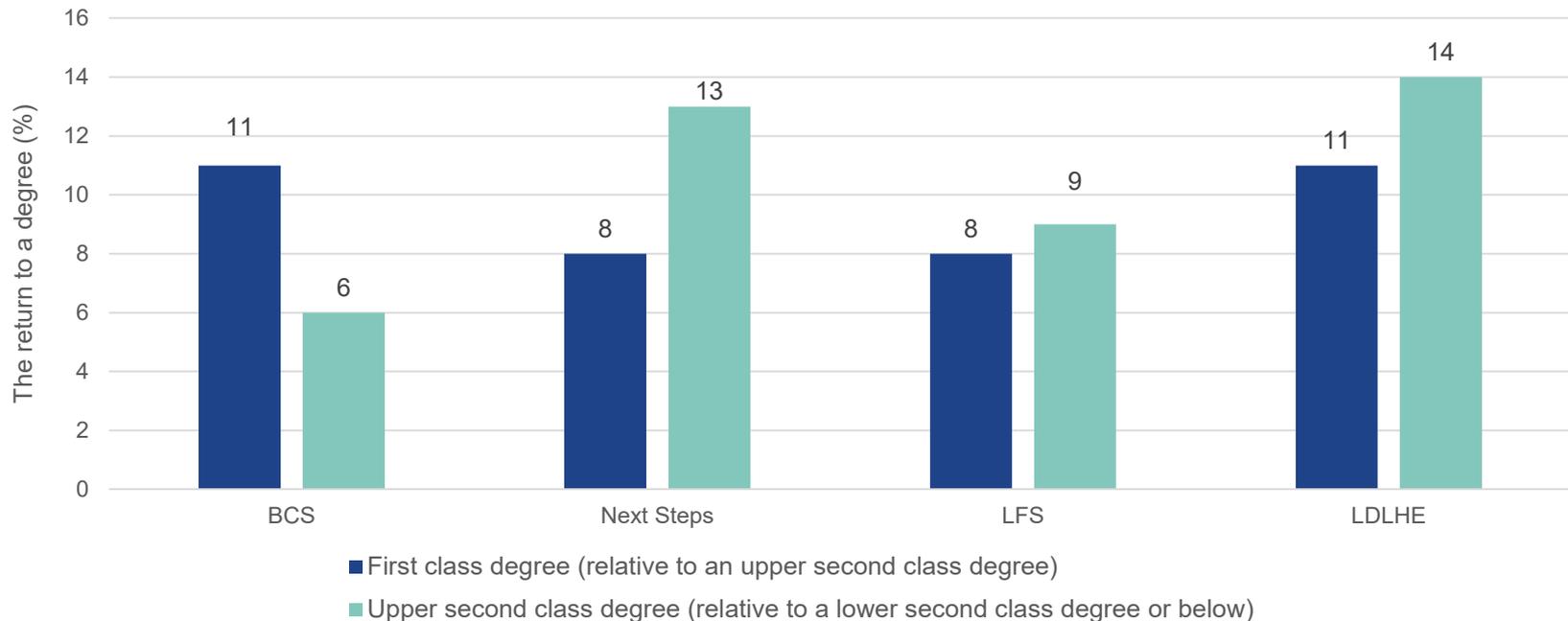
METHODOLOGY (LDLHE AND LFS)

- Using the six LDLHE collections, we develop a combined dataset covering those born between 1980 and 1992.

- We corroborate the findings from LDLHE by pooling all quarters of the LFS between 2006 to 2018 into a single dataset.

- This provides us with an LFS sample comprising those born between 1980 and 1993.

KEY FINDINGS

- In both datasets, we begin by assessing whether there is any evidence of a change in the return between 1980-1993.

- We focus on the association between education level and earnings.

- We could not reject our hypothesis of no change in the return by separate degree classification between 1980-1993.

KEY FINDINGS (CONTINUED)

- Using both birth cohort studies, the LFS and LDLHE, we look at the change in the return by separate degree classification across the two decades.

The return to a degree (%)

	BCS	Next Steps	LFS	LDLHE
First class degree	11	8	8	11
Upper second class degree	6	13	9	14

■ First class degree (relative to an upper second class degree)

■ Upper second class degree (relative to a lower second class degree or below)

KEY FINDINGS (CONTINUED)

- There is some tentative evidence of a decline in the return to a first class degree relative to an upper second class degree of up to 3 percentage points.

- The return to an upper second class degree relative to a lower second class degree or below has increased by 3-8 percentage points.

6. DISCUSSION

CONCLUDING REMARKS

- There has been a decline in the average return to a degree over the two decades.

- Our exploration with the LFS indicates this is a recent phenomenon.

- Further work with the LFS points to accelerating growth in non-graduate pay relative to graduate earnings.

# CONCLUDING REMARKS (CONTINUED)

- This resonates with findings reported by the ONS on the Annual Survey of Hours and Earnings.

- They note the stronger pay growth in non-professional occupations since 2014 relative to professional roles.

- It is in non-professional jobs that most non-graduates are likely to be based.

CONCLUDING REMARKS (CONTINUED)

- There is now a widening gap between the earnings of those with at least an upper second class degree and those awarded a lower second class degree or below.

- This appears to be driven by the rising return to an upper second class degree relative to a lower second class degree or below.

- One possible explanation of this trend could be that employers have increasingly recruited graduates based on being awarded at least an upper second class degree.

CONCLUDING REMARKS (CONTINUED)

- There is some tentative evidence that the return to a first class degree relative to an upper second class award has declined.

- This could be due to the impact of a rising proportion of first class awards.
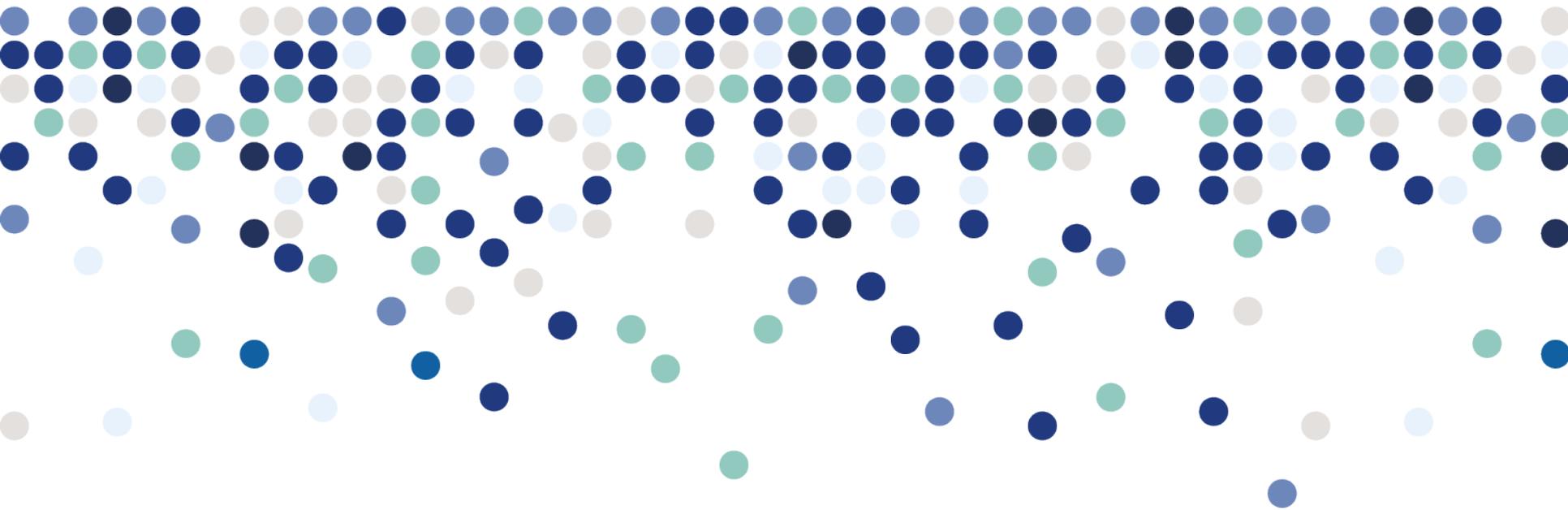
7. FURTHER INFORMATION

ADDITIONAL INFORMATION

- A copy of the main paper and a non-technical summary can be found at;

- https://www.hesa.ac.uk/data-and-analysis/research

- Please also feel free to email any questions/comments you have on our work to pressoffice@hesa.ac.uk.