Graduate income premium

The labour market pays the highest premium for completion of a bachelors degree compared with any other qualification

Indicator Description

The premium paid by the labour market for completion of a tertiary qualification – comparing the income of those who start a tertiary qualification and complete with those who fail to complete.

Why This Is Important

The success of an education system is manifested in, among other things, the success of individuals in finding sustainable employment as well as the level of wages that employers are willing to pay for the skills and knowledge that the individual brings to a job. There is a substantial body of evidence that shows that those with higher levels of education are more likely to participate in the labour market, face lower risks of unemployment, have greater access to further training and receive higher earnings on average.

An employer will generally employ a worker as long as there is a marginal benefit in doing so – that is, while the cost of employing that person is less than the marginal revenue that person generates. Thus, the earnings premium enjoyed by a group of graduates is a reasonable proxy measure for the value of the contribution made by that group to the economy.

How We Are Going

This indicator presents data on the earned income of young domestic students who last studied in 2003, who
we call young leavers. The indicator looks at their earnings one year and four years after they left study. We focus on young leavers in this indicator as education is likely to have more of a direct influence on earnings for these young learners than it does for older students, many of whom already hold qualifications and/or have a number of years of work experience.

The key statistic in this analysis is the ratio of median earned income among those who completed a tertiary qualification in their last year of study over the median earned income of those who did not complete. This gives the ‘benefit of completion’ or the premium in earned income that students who complete receive.

The labour market pays the highest premium for completion of a bachelors degree compared with other qualifications. For the 2003 leavers, the premium for completing a bachelors degree was 20% four years after leaving study.

Those who completed diplomas, level 4 certificates and level 1-3 certificates had similar premiums for completion at 4.7%, 4.5% and 4.2% respectively, while the lowest premium was for those who completed a post bachelors certificate or diploma. The premium for completing a masters degree was 3.1%. Most people who start a postgraduate qualification but fail to finish have previously

1 See the accompanying indicator definition for more detail on the definition of a young leaver.
completed a bachelors degree and will receive a lift in earnings from that qualification, hence the reduced benefit between those completing and not completing a postgraduate qualification.

The premium for completion decreased at the bachelors level, diploma level and the post bachelors certificate or diploma level between one year and four years post study. However, the earnings in the first year after study are likely to be subject to some variation as leavers will be likely to enter the labour market at different times.

While females generally earn less than males with equivalent qualifications, females enjoy a higher premium for completion of tertiary education to males. Four years after successfully completing a bachelors degree, females earned 26% more than females who started but did not complete earned. The corresponding premium for males was 24%.

Similarly, the premium for completion for females for level 1-3 certificates was higher than males (13% for females and 11% for males), for level 4 certificates (11% for females and 6% for males), for diplomas (14% for females and 4% for males), for post bachelors certificates or diplomas (14% for females and -2% for males) and for masters (10% for females and 9% for males)

In all but two cases, the premium for completion increased for both males and females between one and four years post-study. The exceptions were for females who studied at the bachelors level, where the premium for completion reduced slightly from 27% one year post study to 26% four years post-study, and for males who studied at the post bachelors certificate or diploma level.

Where To Find Out More
To obtain more information on income and education consider the indicator:
- Impact of education on income.

Income is interrelated with unemployment rates. To obtain more information on unemployment and education consider the indicator:
- Unemployment rate by highest qualification.

References