



Graduate income premium

The labour market pays the highest premium for completion of a bachelors degree compared with any other qualification, and the premium paid for completion of a bachelors degree increases over time

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.

A rational employer will 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.

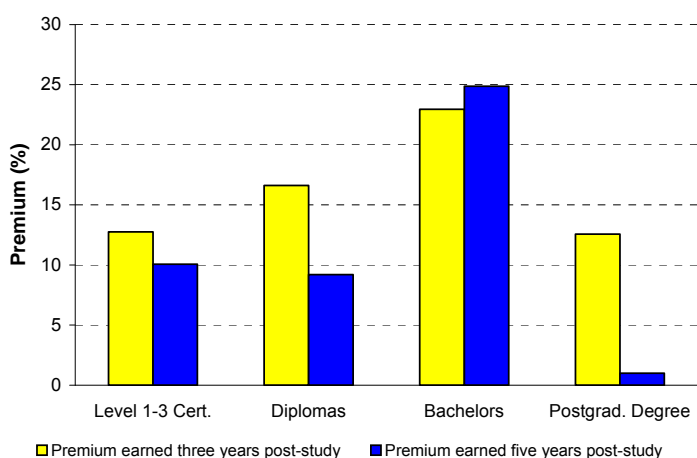
How We Are Going

This indicator presents data on the earned income in 2005 of Student Loan Scheme borrowers who last

studied in either 2000 or 2002 – that is, it analyses income three and five years after finishing study.

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

Premium in earned income in 2005 for completion by qualification level – premium five years post-study compared with premium three years post-study



The labour market pays the highest premium for completion of a bachelors degree compared with other qualifications. In 2005 those who completed a bachelors degree in 2000 earned 25% more than those who started but did not complete the degree in 2000.

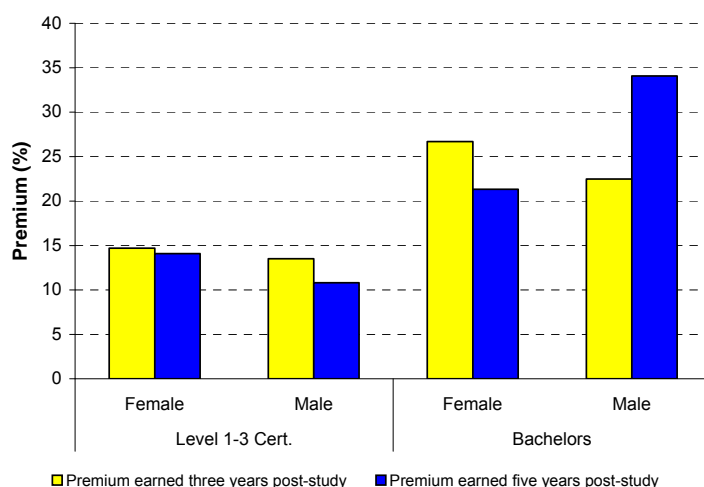
Those who completed diplomas and level 1-3 certificates had similar premiums for completion at 10% and 9.2% respectively, while the lowest premium was for those who completed a postgraduate qualification. Most people who start a postgraduate qualification but fail to finish have previously completed 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 was 2 percentile points higher five years post-study compared with three years post-study for those who studied at the bachelors level. At lower levels of study there was a decline in earnings premiums. For diplomas the premium decreased from 17% for those last studying in 2002 to 9.2% for those last studying in 2000, while for level 1-3 certificates the premium reduced from 13% for those last studying in 2002 to 10% for those last studying in 2000. This indicates that over time, and compared with qualifications at degree level, the labour market is valuing the experience of those who have studied at lower levels more than the qualification itself.

While females generally earn less than males with equivalent qualifications, females enjoy a similar premium for completion of tertiary education to males, over all qualifications combined. Five years after successfully completing a qualification, females earned 24% higher than females who started but did not complete earned. The corresponding premium for males was 23%.

For bachelors degrees though, among students who left in 2000, the premium for completion for males was higher than females, with premiums of 34% and 21% respectively. Also, the premium earned by males who complete at that level increased between the third and fifth years post-study, while it decreased for females.

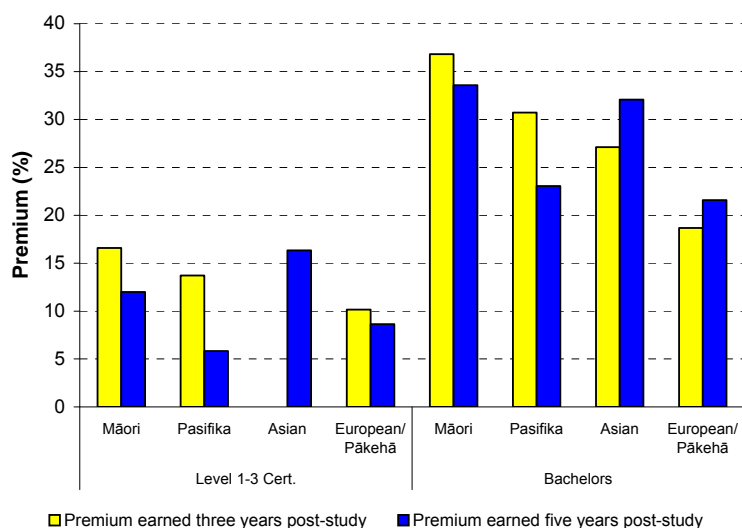
Premium in earned income for completion by qualification level and gender – premium five years post-study compared with premium three years post-study



For level 1-3 certificates, the return to females who completed, five years after study, was higher than the return to males.

Māori gained more from additional qualifications than other ethnic groups. In 2005 Māori who completed a bachelors degree in 2000 earned 34% more than those who started but did not complete the degree in 2000. This compares with a premium for completion of 22% for European/Pākehā. At the certificate level, Māori who completed earned 12% more than Māori who started but did not complete in 2000. For European/Pākehā the premium for completion was only 8.6%.

Premium in earned income in 2005 for completion by qualification level and ethnic group – premium five years post-study compared with premium three years post-study



Note: No figures are presented for Asian (three years post-study only) for for level 1-3 cert. due to a low number of cases

There premiums for those who completed a bachelors degree between 2000 and 2002 decreased for both Māori and Pasifika, but increased for Asian and European/Pākehā. Among level 1-3 certificate students, the premiums for completion between 2000 and 2002 also decreased for both Māori and Pasifika, as well as for European/Pākehā to a lesser degree.

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

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