



Labour Market Matters

Special points of interest:

- Students who took working breaks from education found to earn more than those who did not.
- Grants to aid student debt-relief found to have little effect on enhancing post-secondary attendance.

“[I]ndividuals who return to school after a break are in some ways different from those who do not take breaks from their education – and this difference could be the reason for their enhanced earnings relative to their peers who did not take breaks from school.”



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Working breaks from school found to benefit future earnings

Many students choose to take working breaks from educational training for various reasons: to accommodate life changes; to pursue labour market opportunities; to discover interests and direction that they might pursue further later in school. Whatever the reason, it would be useful to know what effect working breaks from education can have on the future labour market returns that an individual can have relative to similarly educated individuals who did not take breaks from their educational training.

A paper by CLSRN affiliates Ana Ferrer (University of Calgary) and Alicia Menendez (University of Chicago) entitled: **“The Returns to Flexible Postsecondary Education: the Effect of Delaying School”** ([CLSRN Working paper no. 17](#)) finds that graduates who delayed their education in fact earn more than their peers who did not delay their educations. This effect persists even after accounting for factors such as work experience and labour market connections. The results point however to a selection effect in terms of the individuals who choose to return to school after a period of absence – meaning that individuals who return to school after a break are in some ways different from those who do not take breaks from their education – and this difference could be the reason for their

enhanced earnings relative to their peers who did not take breaks from school.

Using data from the Canadian National Survey of Graduates (NSG) 1995, the researchers examine flexible post-secondary educational choices, and estimate the returns to delaying post-secondary schooling. They find that in terms of graduates from non-university post-secondary institutions; relative to traditional college and trade school graduates, an estimated 3% earnings premium was found for school delayers. For delayers with multiple certifications, there was a wage premium of 10%. These premiums were found to exist for individuals who were working between education periods. No earnings penalty was found for those who were unemployed or out of the labour force before returning to school; and they were found to earn the same returns for their degree as traditional graduates. Continuers with multiple degrees were found to earn a wage premium only if they complete a second trades certificate or diploma.

For university graduates; those who delayed their university (bachelor) education were found to experience an 8% earnings premium relative to traditional bachelor graduates, had they been in the labour force between education periods. Those who were out of the labour force, before starting their education, were found to experience substantially lower earnings



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relative to traditional bachelor degree graduates, in the realm of a 20% earnings penalty. Continuing graduates with multiple degrees were found to earn 13% more on average than traditional graduates, but only if their previous degree was a university degree as well.

The researchers note that the above figures actually underestimate the returns to delayed education because they do not take into account that students who choose to delay might be different from those who do not. They believe that a more accurate return to the educational delay decision are closer to the order of 13% for non-university (college and trades) institutions and 26% for university graduates. The researchers found that these returns diminished by half, but remain significant, five years after graduation.

Can student debt-relief enhance post-secondary attendance?

While the long-term benefits of post-secondary education are large, the rising costs of education may limit access to post-secondary education for individuals who are financially constrained. Student loans have helped to increase access to funds that could enable financially constrained individuals to attend post-secondary institutions, but concerns about mounting student debt in order to finance post-secondary education are also on the rise. A recent study found that among post-secondary graduates between the ages of 20 and 45, those who borrowed to attend school were ten percentage points less likely to have investment income; were seven percentage points less likely to own a home and had about \$39,000 less net worth than their counterparts who did not borrow money to fund their post-secondary educations.¹ In other words, there could be a potentially high long-term cost to borrowing to fund education in terms of how far back borrowing sets students in terms of their financial development in the future relative to peers who did not borrow to fund their educations. Many argue that the mounting cost of education and resulting student debt could deter students from pursuing higher education. In light of this argument, some argue that it would make good policy sense to take measures to reduce

student debt by increasing access to debt-relief support measures such as non-repayable grants. A study by CLSRN affiliate Marc Frenette (Social Research and Demonstration Corporation) entitled ***“Is Debt Relief as Good as Liquidity? The Impact of Prospective Student Debt on Post-Secondary Attendance among Low-Income Youth”*** (CLSRN Working Paper no 76) measures the impact of student debt on the probability of post-secondary education attendance among youth.

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Frenette attempts to identify the student debt effect on post-secondary enrolment by examining data on two non-refundable grants (the Canada Access Grant for Low-income youth and the Millennium Access Bursaries) which are



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offered to students. Students are automatically accessed for these grants with their student loan applications. If both the loan and grant application are successful, the grant amount is clawed back from the loan value – thereby alleviating debt-load but not increasing the total value of funds offered to the student. Despite the large size of the grants (up to \$6000 or \$7000), and the fact the students were automatically assessed for the grants with their regular student loan applications, the study found no evidence that the grants helped raise enrolment in post secondary education or university.

The results of the study suggest that access to liquidity (or greater amount of funds – borrowed or not) may be more of an important factor in the decision to pursue post-secondary education for financially constrained students than prospective debt. Frenette

notes that the net lifetime benefits of attending post-secondary are quite large relative to the debt reduction offered by the grants. As a result, only the (likely) few students who were just below the ‘breakeven point’ in terms of the valuation of post-secondary as an investment can be induced to pursue higher education with such grants. Frenette also suggests that the grants have failed to raise attendance because students had to apply for loans to get the grants even if they did not wish to borrow. Students may not have been aware that they could forfeit the loan without jeopardizing their grant, or as a recent study suggests,² many students may have preferred applying for the grant on its own since they are loan averse. In either case, Frenette suggests that the money spent on the grants may have been directed towards reducing liquidity constraints for those students who face them (e.g. students who must leave the parental home to attend). It may also be more effective to ‘decouple’ grant and loan applications to facilitate access to non-repayable aid for loan averse students.

¹Luong, M. (2010). “The Financial Impact of Student Loans.” *Perspectives on Labour and Income*. Statistics Canada Catalogue 75-001-X.

²Palameta, B. & Voyer, J.P. (2010). *Willingness to pay for Post-secondary Education Among Under-represented Groups – Report*. Toronto: Higher Education Quality Council of Ontario.

Endnotes

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