



HOW DOES THE RETURN TO A DEGREE VARY BY CLASS OF AWARD?

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Since the 1990s, the proportion of graduates attaining at least an upper second class degree has continued to grow. Focusing on those in full-time employment, a research team from HESA (Higher Education Statistics Agency) and the Department of Economics at the University of Warwick have examined the change in the return to a degree (i.e. the percentage by which the annual pay of graduates exceeds that of non-graduates) by classification awarded.

KEY FINDINGS

Relative to non-graduates (i.e. those with A-level or GCSE qualifications), we find that:

For the 1970 birth cohort, the return to a degree is;



20% for those possessing a **first or upper second class** award.



14% for those achieving a **lower second class** degree or below.

For those born around 1990, the return to a degree is;



14% for those possessing a **first or upper second class** award.



3% for those achieving a **lower second class** degree or below.

Focussing only on graduates and analysing returns by degree classification, we find;

- Tentative evidence of a fall of up to 3 percentage points in the return to a first class degree relative to an upper second class award.
- The return to an upper second class degree relative to a lower second class degree or below has, however, increased by 3 to 8 percentage points.

The observed decline in the return to a degree is consistent with our first briefing paper. We now additionally see that for those with a first or upper second class degree award, there has been a decrease in the return to a degree of 6 percentage points, and a greater fall of 11 percentage points in the return to a degree for those holding a lower second class degree or below. Over the two-decade period therefore, the gap in the return to a degree between those with at least an upper second class degree and those with a lower class degree has widened.

This divergence in the return to a degree by broad classification of award appears to be the result of the changing return to an upper second class degree relative to a lower second class degree or below.

INTRODUCTION

A key aspect of current government policy is ensuring prospective students are provided with the information they require to make informed choices. Given the cost associated with studying for a degree, higher education remains a key investment decision for young people and their families. Understanding the financial benefits, including how this might be affected by performance at university, is therefore imperative.

Between 1996/97 and 2017/18, the proportion of graduates achieving a first class degree increased from 8% to 28%. This has led to rising concerns within the sector over grade inflation and the subsequent impact this could have on the reliability of the qualifications being awarded.

Higher education is seen to have a vital role in boosting social mobility within the country. However, previous evidence has noted that those from disadvantaged backgrounds are less likely to attain a first or upper second class award. Large differences in the return to a degree by classification awarded could therefore inhibit the extent to which higher education can improve social mobility.

DATA AND RESULTS

Utilising the British Cohort Study and Next Steps datasets, we begin by exploring the change in the return to a degree by classification awarded. The analysis covers a two-decade period that has seen an increase in both higher education participation and the proportion of graduates achieving at least an upper second class award. Our study initially draws a distinction between graduates with a first or upper second class degree and those who attained a lower second class degree or below.

Factors such as cognitive and non-cognitive skills, household background and personal characteristics are known to determine both higher education choices and labour market outcomes. When estimating the return to a degree, it is therefore important to take such determinants into account. Both the British Cohort Study and Next Steps datasets have the advantage that they contain rich information on individual and household characteristics.

After controlling for a range of factors (personal characteristics, household background, cognitive/non-cognitive skills, job tenure and health), we find evidence of a fall in the return to a degree for those possessing a first or upper second class award

(from 20% in the British Cohort Study to 14% in Next Steps). We observe a larger decline in the return to a degree among those holding a lower second class degree or below (from 14% in the British Cohort Study to 3% in Next Steps).

We follow up this analysis by focusing on graduates only and estimate the return separately for a first, upper second and a lower second class degree or below. Alongside the British Cohort Study and Next Steps datasets, we additionally use the Labour Force Survey and the Longitudinal Destinations of Leavers from Higher Education survey.

After accounting for sex, ethnicity, disability and job tenure (the only factors available across all four datasets), we find tentative evidence of a fall of up to 3 percentage points in the return to a first class degree relative to an upper second class award. This could be the result of a growing proportion of graduates being awarded a first class degree.

The return to an upper second class degree relative to a lower second class degree or below has, however, increased by 3 to 8 percentage points. A possible explanation for this finding is the rising tendency over the period for employers to use an upper second class degree as the minimum requirement to be considered for graduate positions. Indeed, the Institute of Student Employers noted that the proportion of employers requesting applicants to possess at least an upper second class degree rose from 52% in 2004 to 76% in 2012.

FUTURE RESEARCH

Our study has assessed the return to a degree at an early stage in one's career. It is also important to understand how degree performance impacts longer-term outcomes and whether the variation in the return by classification awarded persists throughout graduates' working lives.

There has been a particularly steep growth in the proportion of first class degrees being awarded in the last five years – a period not covered by our analysis. Meanwhile, some of the major graduate employers are moving away from using degree classification during the initial stages of the recruitment process and are now inviting applications from those graduates with a lower second class degree or below. It will be useful in future to explore how these changes in higher education and the labour market are impacting the return to a degree by classification awarded.

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