

The Lifetime Fiscal Benefits to Illinois Taxpayers and Individuals Who Return and Finish High School

Benefits to Illinois Taxpayers

The combined net fiscal benefits from having adults obtain a high school diploma are nearly \$312,000. These fiscal savings exclude other benefits such as increased property taxes, increased sales and excise taxes, reduced costs of substance abuse treatment, reduced criminal justice system costs other than prison/jail maintenance, reduced costs of providing free medical care to the uninsured, and the positive social benefits from a healthier society, a more active citizenry, and more effective parenting.

Annual costs for programs to reenroll dropouts are approximately \$10,000 which is the average cost for educating a high school student. Usually it takes 2 years to help a dropout earn a high school diploma so the two-year cost is approximately \$20,000. The Illinois taxpayers received cost savings of over \$312,000. The return on investment is that for every \$1 invested, Illinois taxpayers receive a return of \$15.

Benefits to Individuals Who Return and Finish High School

The mean lifetime earnings of high school graduates in Illinois as of 2000 were nearly \$316,000 higher than those of high school dropouts, a 45% difference. The mean lifetime earnings of Associate degree holders were \$344,000 higher than those of high school graduates.

Mean lifetime property income of high school graduates in Illinois exceeded that of high school dropouts by approximately \$15,000, a relative difference of 76%.

High school dropouts in Illinois would be expected to experience twice as many years in poverty as high school graduates from ages 18-64 (9.7 vs. 4.8 years). The lifetime poverty rate of high school dropouts was 21% versus only 10% among high school graduates. Among those with an Associate's degree, the lifetime poverty rate was only 6%. High school dropouts would experience nearly twice as many years with low incomes (below 200% of the poverty line) as their counterparts who graduated from high school (20 vs. 11 years).

Nearly two-thirds of Illinois householders with a high school diploma owned their own home in 2000 versus only one-half of householders lacking a high school diploma (65% vs. 50%). The mean reported value of the homes owned by householder with a high school diploma exceeded that of homes owned by high school dropouts by about \$15,000 in 2000.

The rest of society also will receive economic benefits from having more adults graduate from high school. There are a variety of fiscal savings to national and state governments from high school graduation. These fiscal benefits can assume a variety of forms, including higher levels of federal and state income tax receipts and payroll taxes, lower federal Earned Income Tax Credits, reduced cash transfer payments, such as unemployment insurance, disability, and public assistance, reduced in-kind transfers such as rental subsidies and food stamps, and reduced costs of maintaining individuals in juvenile homes, jails, prisons, and mental hospitals.

Using data from the national 2003 March Current Population Survey, U.S. Census Bureau estimates of tax liabilities and imputed values of selected in-kind benefits, and estimates of institutionalization rates for the 18-65 year old population of Illinois in 2000, we have estimated the net fiscal cost savings to state and federal governments from having adults graduate from high school. While many of these estimates are based on individuals (cash income transfers, Medicaid receipt, incarceration rates), some, especially estimates of federal and state income tax liability, are based on the household unit as a whole rather than on individuals, such as in the case of married couples filing jointly.

A variety of fiscal estimates of tax payments, cash transfers, in-kind transfers, and costs of incarceration were made. The values of these fiscal measures were generated for the following three groups of adults:

- Those lacking a high school diploma/GED
- Those with a diploma/GED but no completed years of college
- Those with 1-3 years of college, including Associate's degree

Findings of these fiscal measures are presented in Tables 2 through 5. In Table Six, we combine all of these findings into one overall fiscal impact, which includes individual and household effects. Overall, households headed by adults with high school diplomas will pay more than \$208,000 in federal and state income taxes and payroll taxes over their lifetime than high school dropouts, will receive \$63,500 less in cash and in-kind transfers, and impose at least \$40,300 less in incarceration and other costs of institutionalization over their lifetime through age 65. The combined net fiscal benefits from having adults obtain a high school diploma are

nearly \$312,000. These fiscal savings exclude other benefits such as increased property taxes, increased sales and excise taxes, reduced costs of substance abuse treatment, reduced criminal justice system costs other than prison/jail maintenance, reduced costs of providing free medical care to the uninsured, and the positive social benefits from a healthier society, a more active citizenry, and more effective parenting.

Table 1:
The Personal Economic Benefits Over the Lifetime (18-65 Years Old) of Graduating from
High School and Obtaining an Associate's Degree in Illinois: 2000
 (Both Men and Women)

	(A)	(B)	(C)	(D)
Economic Outcome	No High School Diploma or GED	High School Graduate/ GED Holder (No College)	Associate's Degree Holder	High School Graduate Minus High School Dropout (B – A)
Lifetime earnings, from paid employment, including self employment	\$700,900	\$1,016,700	\$1,360,800	\$315,800
Property income (interest, dividends, rents)	\$19,500	\$34,300	\$59,200	\$14,800
Mean number of years in poverty	9.7	4.8	2.7	-4.9
Mean years with incomes below 200% of poverty line	20.3	11.6	7.2	-8.7
Home ownership rate (% of householder owning own home)	49.9%	65.3%	69.5%	+15.4 percentage points

Table 2:
Mean Lifetime Federal Income Taxes, State Income Taxes, and Social Security
Payroll Taxes/Federal Government Retirement Contributions Paid by
U.S. Households by Years of Schooling Completed by Householder, Ages 18-65
(2002 Estimates)

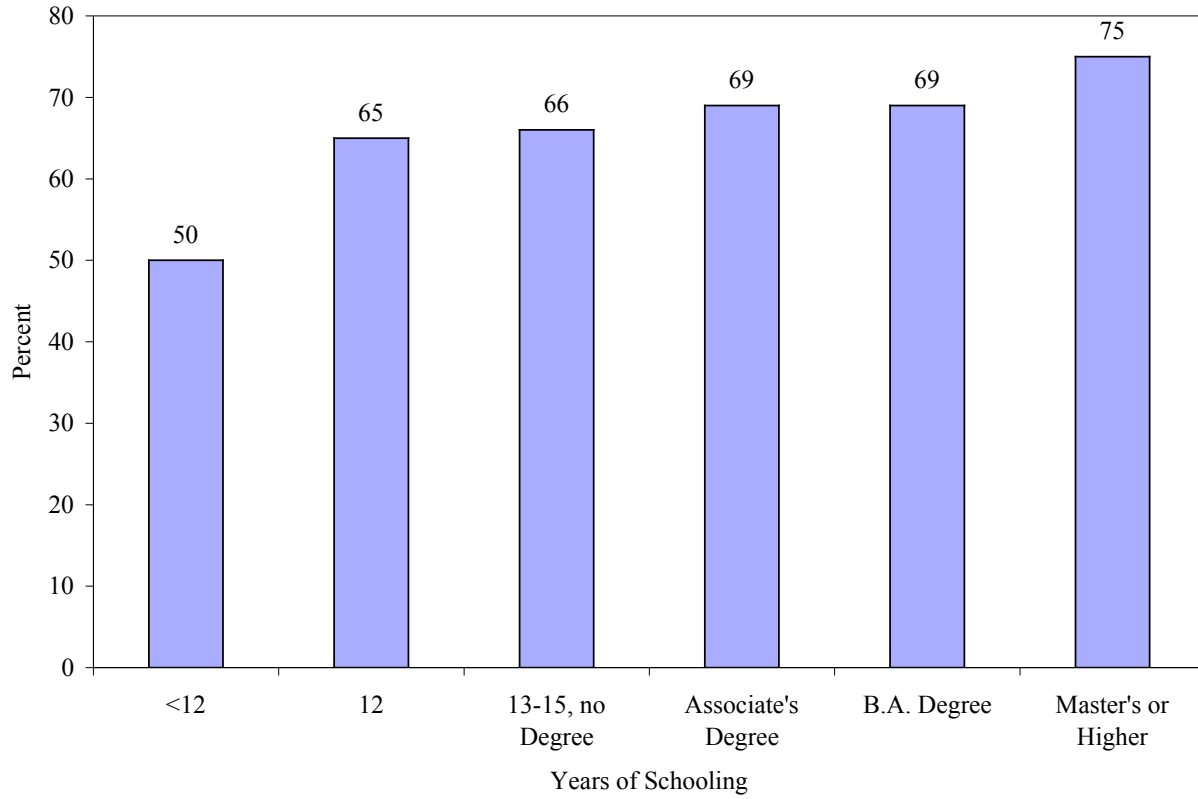
Tax Source	(A) Lacks High School Diploma/ GED	(B) High School Graduate/ GED Holder (No College)	(C) 13-15 Years Including Associate's Degree Holders	(D) High School Graduate Minus High School Dropout
Federal income taxes	\$83,472	\$199,488	\$307,248	\$116,016
State income taxes	33,984	77,376	109,968	43,392
Social Security payroll taxes	58,320	88,272	105,456	29,952
Federal government retirement contribution	437	2,688	4,224	2,251
- Federal Earned Income Tax Credits	-37,632	-21,216	-14,928	-16,416
= Net lifetime income and payroll taxes	\$138,581	\$346,608	\$511,968	\$208,027

Source: March 2003, CPS survey, work experience and income supplement, tabulations by Center.

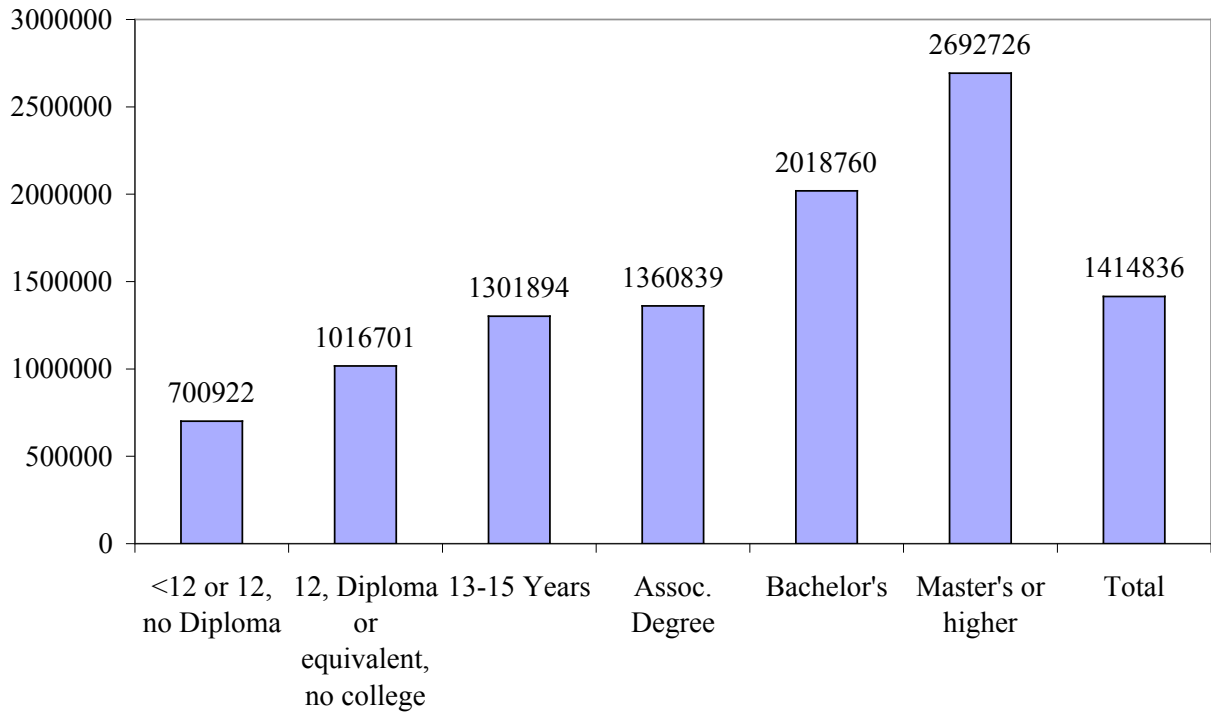
Key Findings:

- i. The mean lifetime earnings of high school graduates in Illinois as of 2000 were nearly \$316,000 higher than those of high school dropout, a 45% difference. The mean lifetime earnings of Associate degree holders were \$344,000 higher than those of high school graduates
- ii. Mean lifetime property income of high school graduates in Illinois exceeded that of high school dropouts by approximately \$15,000, a relative difference of 76%
- iii. High school dropouts in Illinois would be expected to experience twice as many years in poverty as high school graduates from ages 18-64 (9.7 vs. 4.8 years). The lifetime poverty rate of high school dropouts was 21% versus only 10% among high school graduates. Among those with an Associate's degree, the lifetime poverty rate was only 6%. High school dropouts would experience nearly twice as many years with low incomes (below 200% of the poverty line) as their counterparts who graduated from high school.
- iv. Nearly two-thirds of Illinois householders with a high school diploma owned their own home in 2000 versus only one-half of householders lacking a high school diploma (65% vs. 50%). The mean reported value of the homes owned by householder with a high school diploma exceeded that of homes owned by high school dropouts by about \$15,000 in 2000.

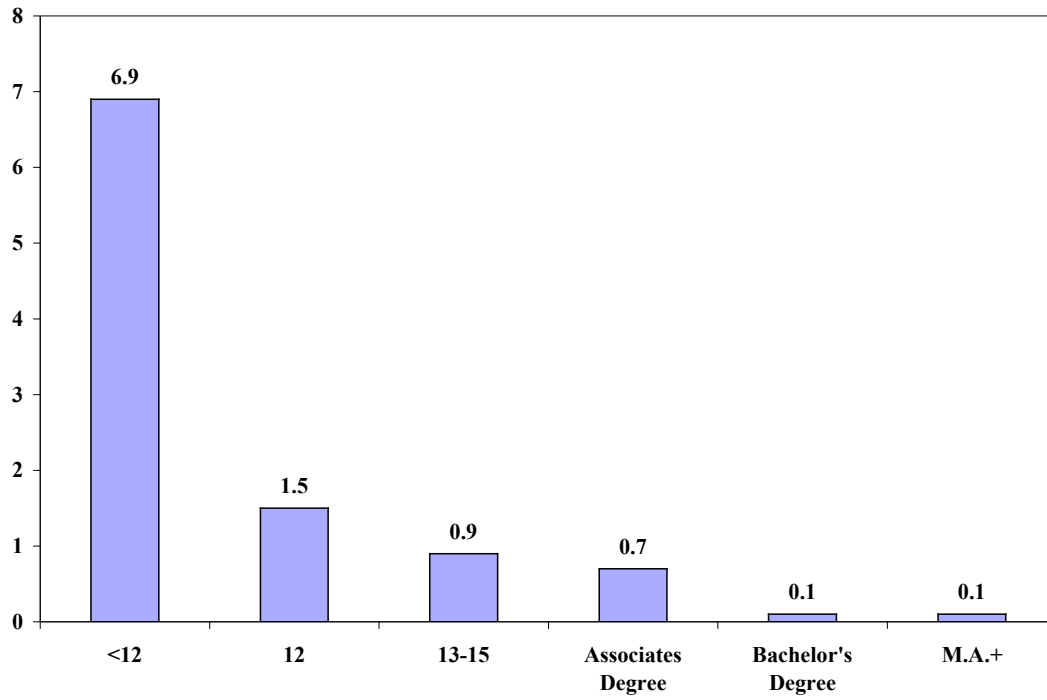
Chart 3:
Home Ownership Rate of 16-64 Year Old Householders in Illinois by
Educational Attainment of the Householder, 2000



Lifetime Earnings of 18-65 Year Olds by Educational Attainment, Illinois, 2000.



Institutionalization Rates Among 18-64 Year Old Males
In Illinois by Educational Attainment, 2000



Institutionalization Rates Among 18-64 Year Old Male High Dropouts and Graduates by Race-Ethnic Group in Illinois, 2000
(in %)

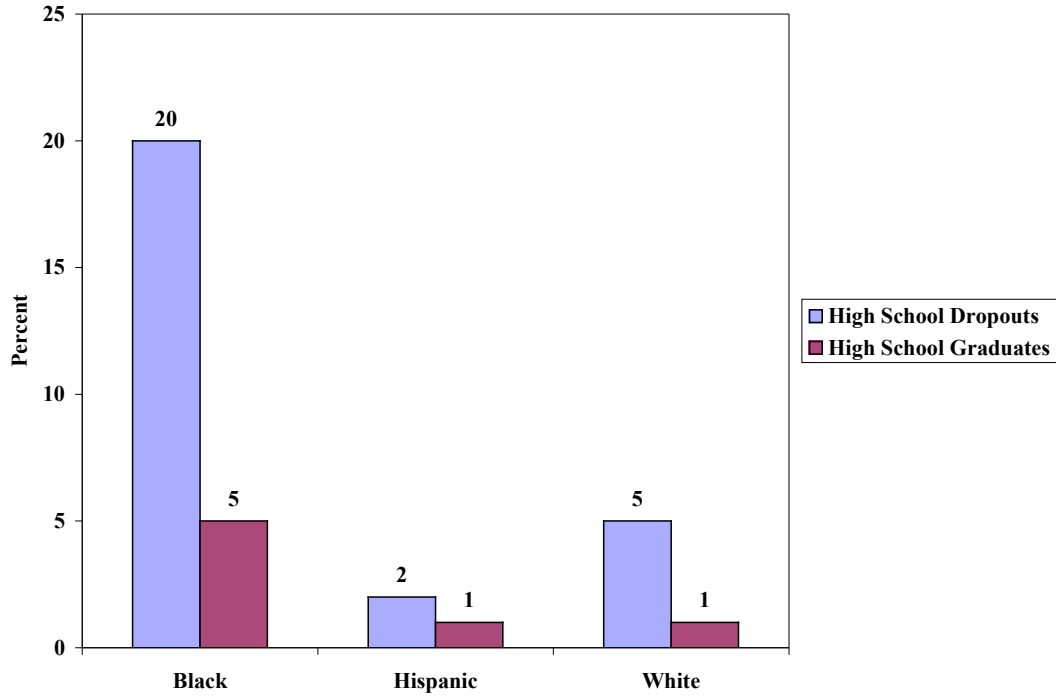


Table :
Number of Years Between Ages 18-64 that Illinois Adults
Would be Poor, Near Poor or Low Income by Years of Schooling Completed
(2000 Census Estimates)

	(A)	(B)	(C)
Educational Attainment	Poor	Poor or Near Poor	Low Income
Less than 12 or 12, no diploma	9.7	12.4	20.3
H.S. Graduate/GED	4.8	6.2	11.6
13-15 Years, No Degree	3.4	4.4	8.3
Associate's Degree	2.7	3.6	7.2
Bachelor's Degree	2.2	2.7	4.6
Master's or Higher Degree	2.3	3.3	5.3
All	4.4	5.6	9.9

Table 6:
Net Fiscal Cost Savings of High School Graduation in the U.S.
Over the 18-64 Year Old Lifetime
(Estimates as of 2002)

Fiscal Impact Measure	Amount
Additional federal and state income and payroll taxes and reduced federal EITC credits (household-based measure)	\$208,027
Reduced receipt of selected cash income transfers and Medicaid benefits (person based measure)	\$45,265
Reduced receipt of selected in-kind transfers, including rental subsidies and food stamps (household based)	\$18,220
Reduced costs of incarceration in correctional institutions <u>and</u> mental hospitals (person based)	\$40,320
Total fiscal savings to national and state governments	\$311,832