

Investment Comparison: College versus Car?

Comparing Student Loan Debt to Auto Loan Debt

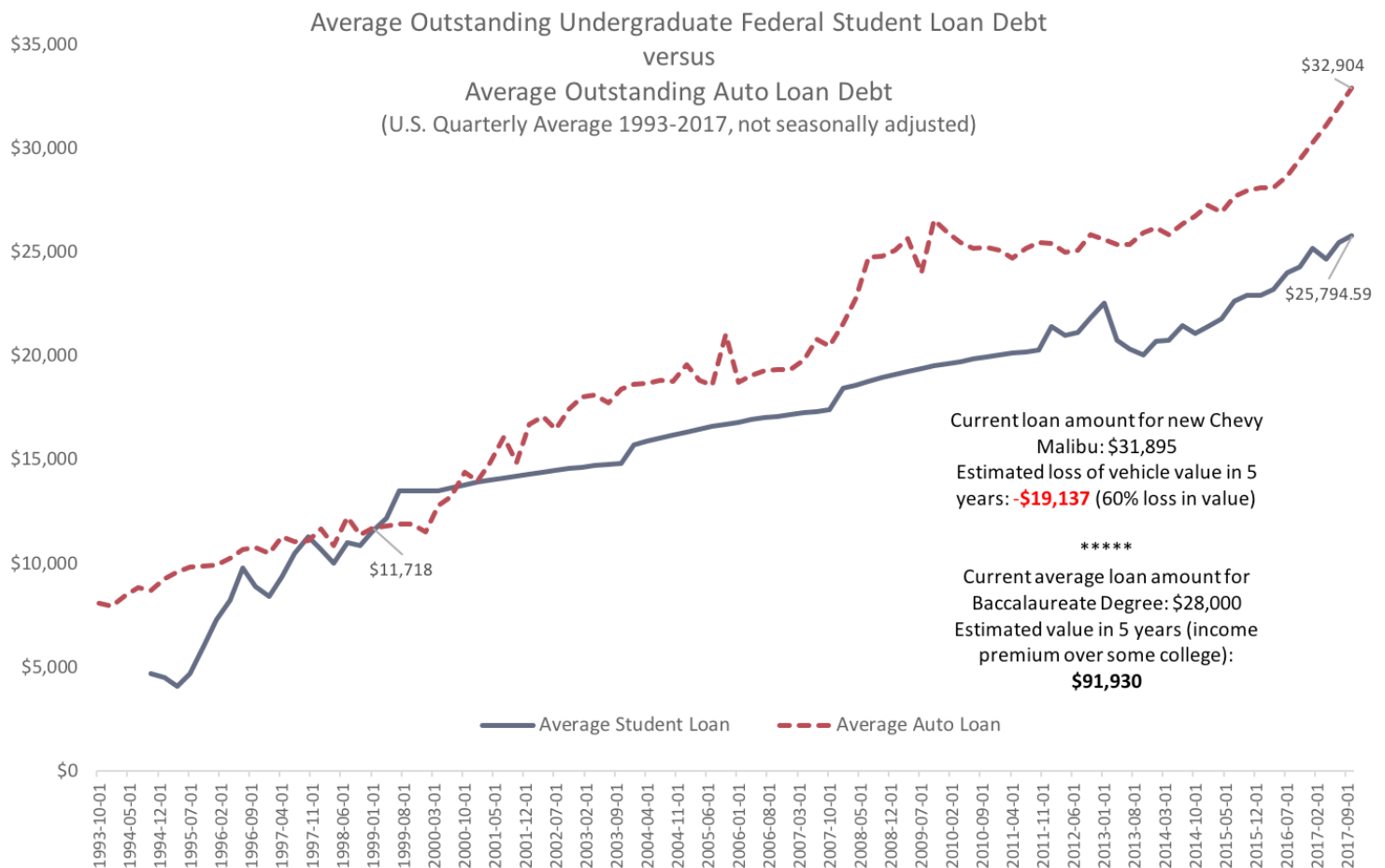
Automotive debt is at an all-time high, with the average outstanding debt per auto loan at close to \$33,000 - about the cost of a nicely-equipped Chevy Malibu. Yet there is no public outcry about whether this level of debt, for a depreciating asset, is an issue. Student loan debt levels are also rising, at a slower rate than auto debt, and yet a week does not pass without an article or research paper pointing to rising student debt as a cause for concern. Average outstanding student loan debt today rests at about \$26,000, 21 percent lower than average automotive debt. In our view, student loan debt is considerably more valuable because it is an investment in an asset that appreciates over time.

More Americans hold automotive debt than student loan debt because more people own cars than have degrees. No one would argue that a car loan is not worth the cost, since a vehicle is often needed to participate in the economy. However, concerns about acquiring student debt - even though the economic benefits of a degree are clear - seems a huge concern for many Americans.



Debt Levels in the U.S.

The data below show that average student debt and average auto loan debt track closely. As the cost of most products has increased over time, so has the cost of earning a college degree and buying a car. Beginning in 2001, average debt for each of the two assets (education or a car) diverge where the average car loan becomes increasingly higher than the average student loan. By the third quarter of 2017, average outstanding student debt begins to level off while automotive debt is still increasing rapidly.



Data: St. Louis Federal Reserve, College Board, National Center for Education Statistics, American Community Survey, Edmonds.com
 Analysis: Michigan Independent Colleges and Universities

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The increasing value of a degree

Earning a college degree is a long-term financial investment that also provides benefits in the short term. For about 60 percent of students in the U.S., loans are necessary to help finance the cost of higher education, compared to 85 percent of new car purchasers who use a loan. The investment pays off, as those with a bachelor's degree have just a 2.5 percent unemployment rate compared to 4.6 percent for those with no degree.

Income trajectories also are strong for those with at least a bachelor's degree compared to those who do not have one. Typical starting earnings in the U.S. for someone with a bachelor's degree hover around \$33,000 annually and this average grows each year a person with a degree is working and gaining more experience. After five years, average earnings are close to \$76,000. After ten years average earnings grow to close to \$150,000 annually and this adds up to more and more over time.

What is a vehicle worth after five years?

While a degree increases in value, a vehicle does the opposite. A new vehicle, a Chevy Malibu for example, worth about \$32,000 initially, will drop in value each year that it is owned, even if it is meticulously maintained. Just one year after ownership, the vehicle's value falls approximately 19 percent to \$26,000. After five years the value falls a total of 60 percent from its starting value, down to just \$13,000.

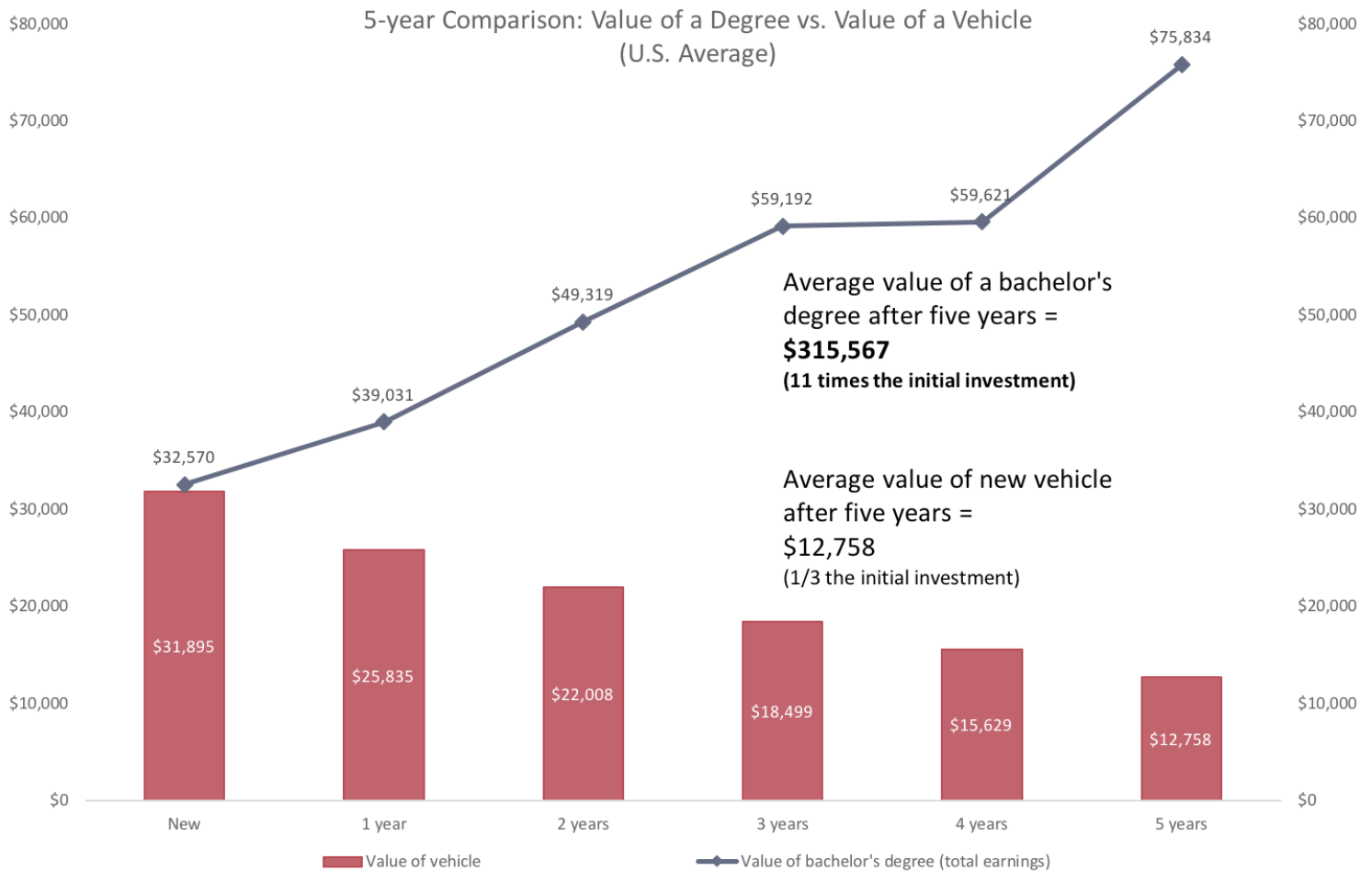
Which investment is worth it?

No one will argue that buying a car is not worthwhile, especially when many individuals need a vehicle to get to or from work. However, a vehicle is not an investment as it decreases in value, requires additional costs to cover maintenance, and must eventually be replaced.

A bachelor's degree, on the other hand, may seem like an expensive investment, but after just five years, a college diploma is worth an average aggregate of \$315,567 in earnings. Compared to an average vehicle value of \$12,758 after five years, it is clear that the college degree is a better bet in both the short and long run.

What about those with more than average debt?

Some college graduates have higher debt than average. These individuals tend to be in fields like engineering, business, medicine, law, and the sciences where education and training cost more than your typical college degree. However, the income potential for these individuals is even higher with starting salaries at an average of \$65,000, increasing to over \$200,000 with several years of experience.



Data: St. Louis Federal Reserve, College Board, National Center for Education Statistics, American Community Survey, Edmonds.com
 Analysis: Michigan Independent Colleges and Universities