

Benefits for California and Its Growing Number of Seniors of Expanded Access to Higher Education

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Madame Chairman and Mister Chairman, and members of the committee, thank you for the opportunity to appear before you today. My name is Dowell Myers and I am a demographer, urban planner, and professor in the School of Policy, Planning, and Development at the University of Southern California. My business is one of thinking ahead and counting the numbers, along with the harder task of building a shared public understanding about where we are headed together.

In preparing these remarks I am struck by the date today—2010—as I know are many of you. I always thought of 1960 as being much closer to the present than 2010. That year was far in the future and not a date I was eager to see, because it would mean that not only California's master plan for higher education would be 50 years old, but I would be 50 years older as well. Now that we have finally arrived in the future—2010—what should we do about it to make it a success?

My testimony today is focused on two related claims. First, I will demonstrate that expanded access to higher education is more important today than at any time in California's history, even more important than when the master plan for higher education was developed 50 years ago. In addition, it can be argued that expanded access to higher education by young people is extremely important for the future well-being of older citizens of California.

I have two main reasons for these claims. One is the grave crisis posed by the baby boomer retirements and the soaring ratio of seniors to working age Californians. Most citizens of the state do not comprehend the breadth of impact and the magnitude of this crisis. I will share some new insights today that may help to drive this message home. We face a true emergency in the coming decade.

In addition to this aging crisis, our state is now more self-reliant on its homegrown workforce than was true in the past. It's a new day in California. For the first time in history the state's fortunes rest primarily on the children who are born and raised here, and depend on how we invest in them. The well-being of older residents and of the state as a whole will depend on this investment in higher education.

The Soaring Senior Ratio

The challenge of the baby boomer retirements can be described succinctly in terms of the ratio between the number of seniors, ages 65 and older, and the state's residents who are of prime working age, 25 to 64. Some might argue that 65 is no longer an appropriate age for retirement and that it should be pushed back to 67, as with social security, or to 70. That is a judgment call as to how long we should try to keep our seniors working, and delayed retirement certainly has economic advantages, but the consequences I will outline might only be delayed by 5 years or so.

Ever since the time of the master plan in 1960, the senior ratio has held fairly steady in California at about 20 to 21 seniors per 100 working age. Anything so constant becomes invisible to us and we have all been lulled into complacency. But starting next year the first wave of baby boomers will cross age 65, and the senior ratio is slated to rise tremendously, reaching 37 per 100 by 2030 (see Exhibit 1).¹ This is an increase of 73.3 percent. After so many decades of stability, this soaring ratio will likely become a major policy concern in California.

All parts of California will be affected, although the crisis is more severe in some counties than others. The amount of increase in the next 10 years, followed by the 10 years after that, is shown in Exhibit 2. The coastal counties are impacted the most, rising 79.9 percent by 2030 in Los Angeles, 86.5 percent in Orange, or 91.9 percent in San Mateo, for example. The central valley doesn't escape either, with increases of 83.3 percent in Sacramento and 46.9 percent in Fresno. The smallest increase is in San Bernardino County, where the senior ratio "only" increases by 30.9 percent.

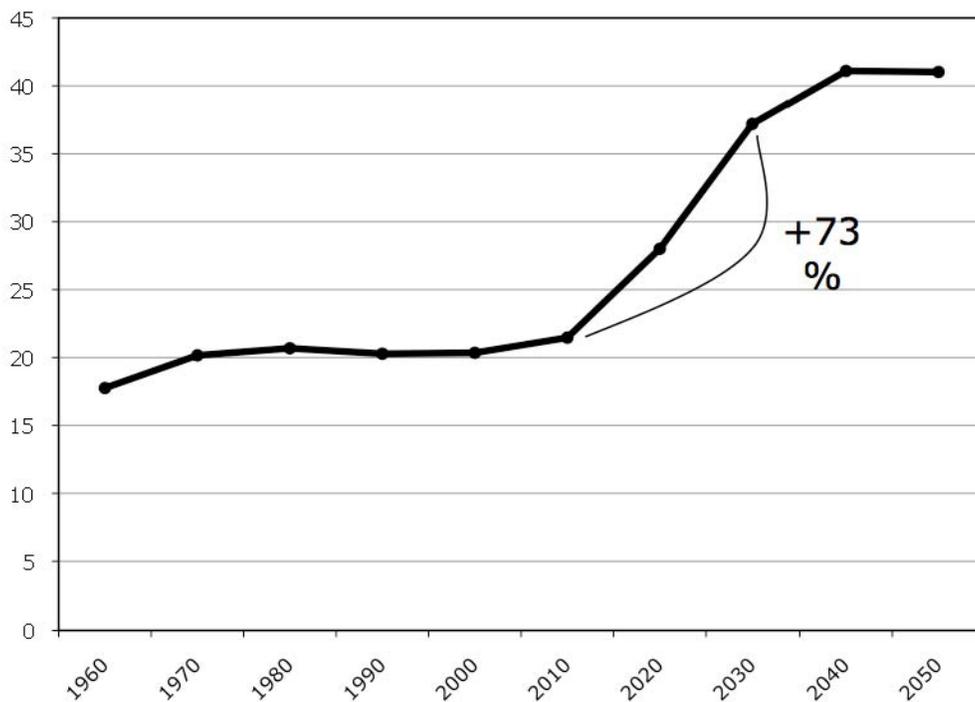


Exhibit 1. California Ratio of Seniors (65+) per 100 Working Age Residents (25-64)

Source: U.S. Census and Department of Finance 2007 Projections

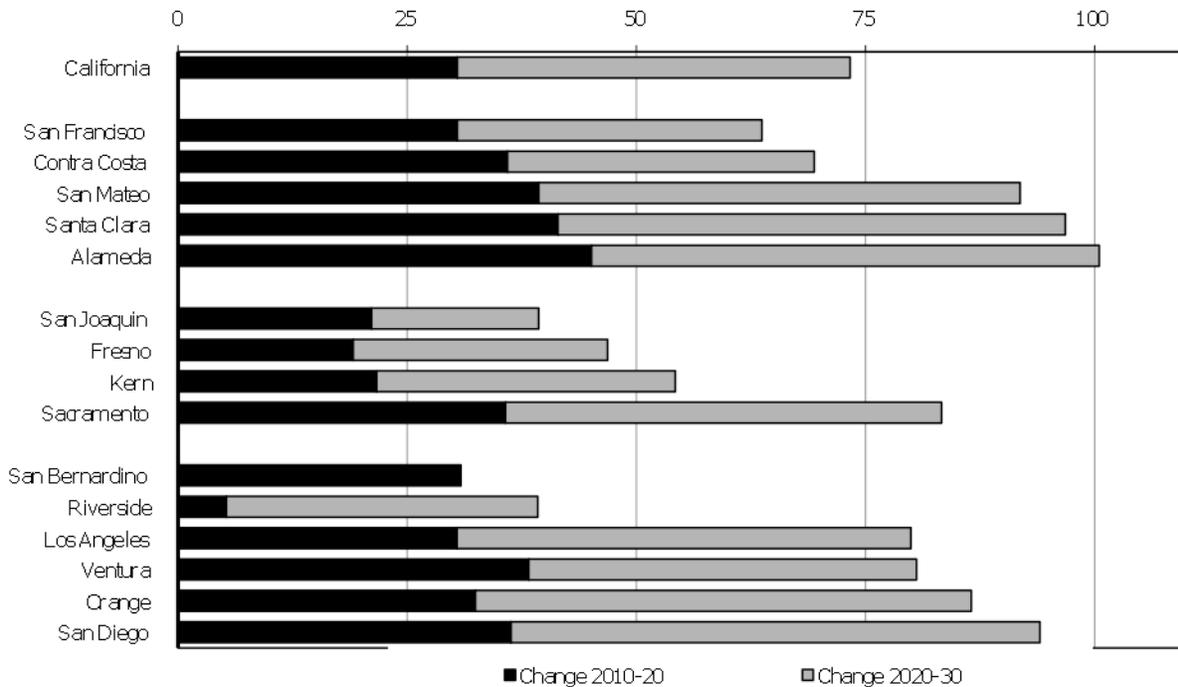


Exhibit 2. Percentage Increase in the Senior Ratio to 2030
Source: U.S. Census and Department of Finance 2007 Projections

Consequences of a Growing Top Heavy Age Structure

The rising ratio of seniors will have unprecedented impacts. Always before in California we have had greater growth among young adults from migration than we had seniors who aged into retirement. This represents a new day for California. Aging is entirely predictable and there is no reason why we cannot plan for it.

Everything that seniors do differently than working age residents will be impacted by this changing ratio. This includes working and retirement, of course, but it extends to service needs, tax contributions, home buying, recreation, and driving slow on the roads.

In my short time today, allow me to address just three impacts of the rising senior ratio and explain how greater access to higher education is needed as a solution. These include the tax problem, the skill problem, and the house value problem.

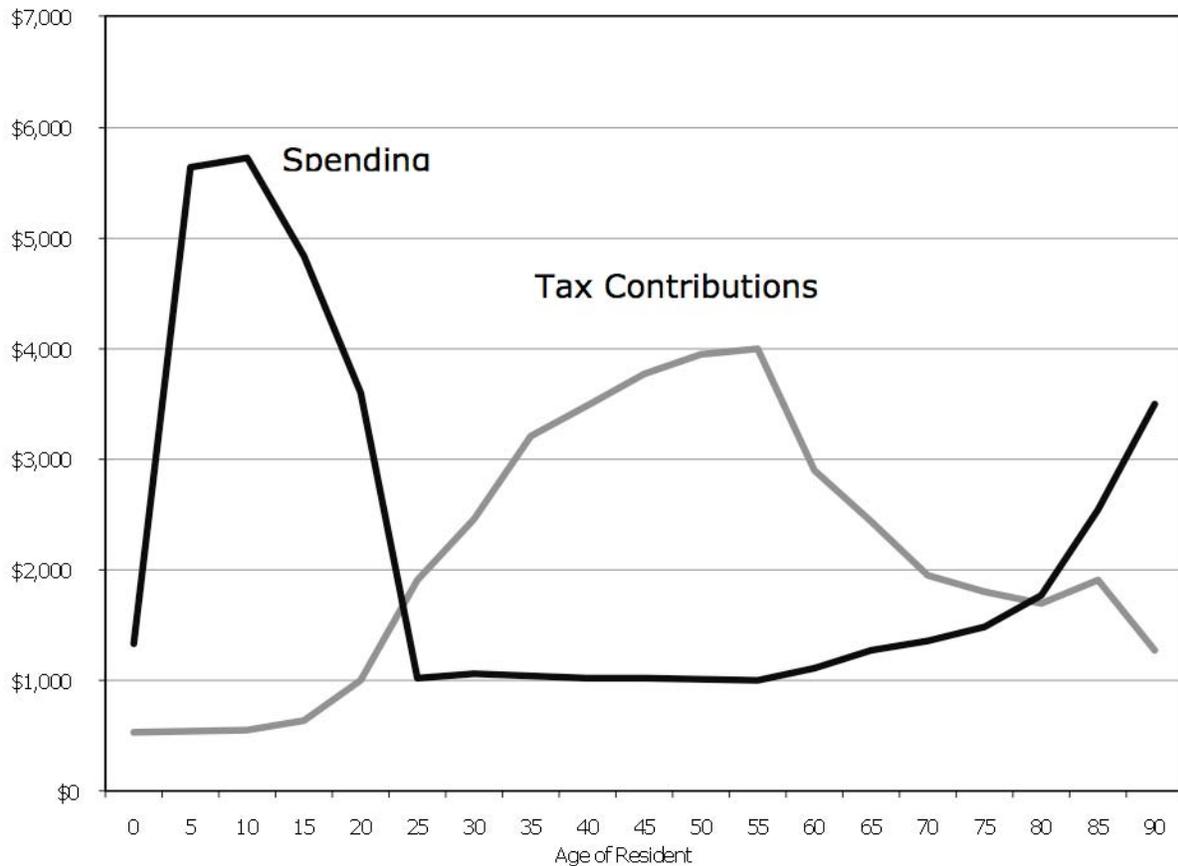


Exhibit 3. Public Spending and Tax Contributions, Per Capita by Age, California 2000
Source: Immigrants and Boomers, Figure 9.1; Ron Lee et al. (2003)

The Tax Problem and Solution

Demographers have a special way of viewing taxes and spending. We look at it by age group, either how much is paid into the state and local coffers per capita, or how much is spent on each age group per capita. The following figure shows how different is the age pattern of taxing and spending (Exhibit 3). Middle age residents of California contribute the most in taxes, while children and very young adults receive the most in public spending. Seniors also receive sizable per capita spending via pensions and health care. The soaring senior ratio will place a lot more weight on this type of spending in the coming decade and this growth in spending will form a large portion of the state’s tax problem.

Meanwhile, the middle-aged generation is essentially the leader in investing in the new generation, and it also is the leader in providing entitled support for the seniors. It would be fair to say that the middle-aged generation is the workhorse of taxation, and they might wonder what’s in it for them. We certainly can spell that out.

How Access to Higher Education Helps: The solution to the state's tax problem is investment in new taxpayers. We need to expand the ability of the next generation to more easily carry the weight of the rising senior ratio. Expanded access to higher education has especially clear-cut benefits.

A series of studies have estimated the return on public investment in higher education. All have shown that at least twice as much is gained in added tax contributions from more educated workers as was invested from public revenues. One study of particular note, conducted at the University of California–Berkeley by a team led by Henry Brady, found a 3-to-1 return on investment, with full payback by the time the graduating high school class reached age 35.² After that time the added tax contributions outweigh the original investment and now pay a fiscal dividend to the public. Made stronger by higher education, these middle-aged taxpayers will be the backbone of California's more prosperous future.

Yet another study, estimated for the nation as a whole by economist Stephen Trostel, is noteworthy for its insights.³ He estimates payback of government investment in higher education with higher tax contributions (state and federal combined) occurs by age 31. The return on investment is 8-to-1, with about one-third of that accruing at the state level. Trostel emphasizes that these average returns include students who would have gone to college even without a subsidy. In cases where the student beneficiaries would not otherwise have gone to college, the investment yields the highest returns. Members of neglected minority groups who are the first in their families to go to college are prime prospects for returning extra high return on investment. Expanded access for these groups should have exceptional fiscal rewards.

Bottom line: Invest taxes to increase future tax revenues. This benefits the whole state and especially the older generation.

The Skill Problem and Solution

The skill level of California's labor force has steadily risen over recent decades, allowing the state to build a thriving high-technology and information-based economy. However, continued increases are now in doubt because the methods for past increases will not work in the future. The master plan for higher education is still of crucial importance, but it was never sufficient by itself. A major extra factor was that we imported talent from other states and nations, but this is no longer adequate. We now know from estimates by the Public Policy Institute of California that there is likely to be a shortage of one million college-educated workers in coming decades.⁴

Our primary means of raising skill levels was simply called "retirement": out with the older generation of less-educated workers, and in with the young, higher-educated. As displayed in the following figure, this method of replacing older workers with more skilled young people led to substantial gains in overall skill levels (see Exhibit 4). As recently as 1980, among the pre-retirement generation, only 24.2 percent held a BA. They could be replaced with young adults whose generation had 14.8 percent with a BA. The old system worked pretty well.

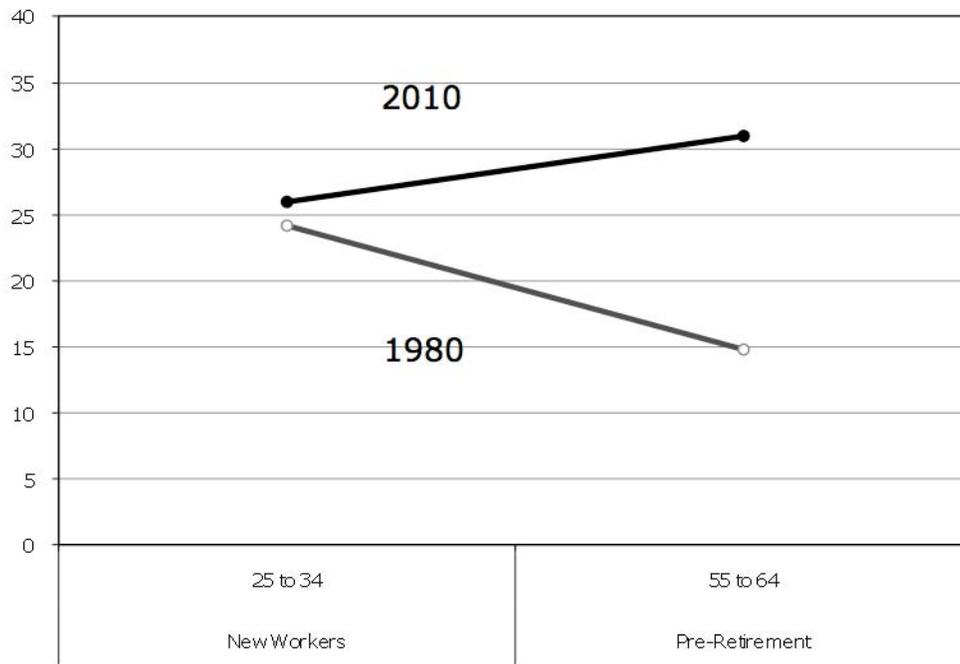


Exhibit 4. Decline of Average Workforce Skill:
 Retirees Have a Higher Percent with BA than the Replacement Workforce in California

Today we face a situation that has reversed. Our older generation of workers is comprised of baby boomers who are the most educated generation in history. Now that they are on the brink of retirement we will be losing highly educated workers. Among the replacement workers, a lower share currently has a BA than the retirees that are being replaced. Thus retirement is no longer a good formula for increasing the skill level of the workforce.

How Access to Higher Education Helps: The solution is obvious—slow the retirement of skilled baby boomers or increase the college going among the younger, replacement generation. Although both are plausible, only the latter is sustainable over the long term, because the boomers cannot be denied retirement forever.

Expanding access for under-served demographic groups has the greatest growth potential for elevating the skill level of the younger generation. Latinos and African Americans historically have much lower college participation rates, and Latinos are beginning to make up a majority of the younger generation. Therefore, it is not only essential to raise their college graduation but it also has the greatest potential for growth.

Bottom line: Raising the future workforce quality of the state is crucial for supporting the economy’s production of higher-paying jobs in the new economy. The baby boomer retirements makes it imperative to raise skill levels among the younger generation. Plus, better-educated young people can contribute greater amounts of tax revenue, thus repaying past investments.

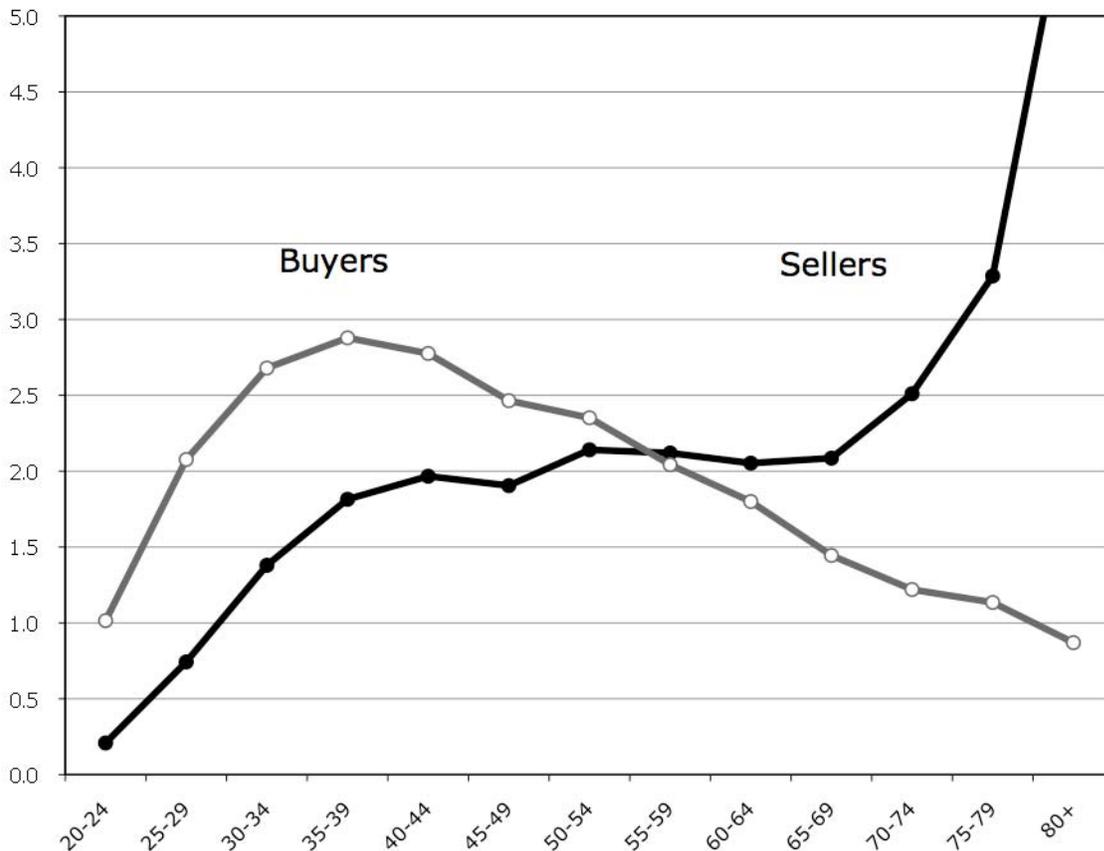


Exhibit 5. Percent of Population Buying or Selling a Home Each Year, California, 1995-2000
Source: Estimates of buying and selling rates by Dowell Myers, based on 2000 census data and supplementary housing market information

The House Value Problem and Solution

A little recognized impact of the soaring senior ratio is how badly it could throw housing markets out of balance. No sooner will the state’s house values stabilize after the current recession, than a deep erosion could set in, due to something labeled the generational housing bubble.⁵ Increased access to higher education can help mitigate this problem and benefit the older generation in particular.

The facts are simple: most seniors are homeowners and they will begin to sell off their homes after age 70 and very rapidly after age 80 (see Exhibit 5). The soaring senior ratio suggests a very unfavorable housing market for sellers (comprised of boomers and older owners). But in contrast it foretells a highly favorable market for buyers (comprised of the younger generation). In the face of a buyers’ housing market, the prospective sellers are likely to anguish over the question of “Who is going to buy your house?”

There is an ethnic distinction to these buyers and sellers as well. The older generation is more heavily made up of non-Hispanic whites, while the younger is more often comprised of Latinos and others. A great many Latinos are homeowners, even if they are immigrants. By the time they have lived more than 30 years in California, 64.6 percent are homeowners. That is higher than the state average homeownership rate of 57.0 percent in 2008, which includes all ages and ethnicities. Unfortunately, although some

Latinos purchase comfortable middle-class homes, many others can afford to purchase only homes that are well below average in price. A preponderance of lower-priced buyers could have a real impact on sellers.

My projection of buyers and sellers suggests who will be shaping the housing market at the end of the current decade (see Exhibit 6). Calculations were made within each age group, showing the difference between the number of buyers and sellers. An expected surplus of buyers in the age group is shown by an upward bar, while a surplus of sellers is indicated by a downward bar. I further partitioned these bars by the number expected to be of each ethnicity.⁶ The large sell-off of older white homeowners is visible after age 65, while at younger ages there is a large number of buyers entering the housing market, roughly half of whom are Latinos.

How Access to Higher Education Helps: A neglected benefit of college education is that it increases homeownership and, especially, increases the housing price a buyer is able to pay. Compared to high school graduates, Latino home buyers with a college degree buy homes priced an average of 64 percent higher.

Bottom line: The soaring senior ratio dictates that we build a stronger working age population, so that every individual can carry more economic clout. We need more of the young people to be college graduates. This will directly benefit the seniors by helping to shore up house values and provide more prosperous buyers.

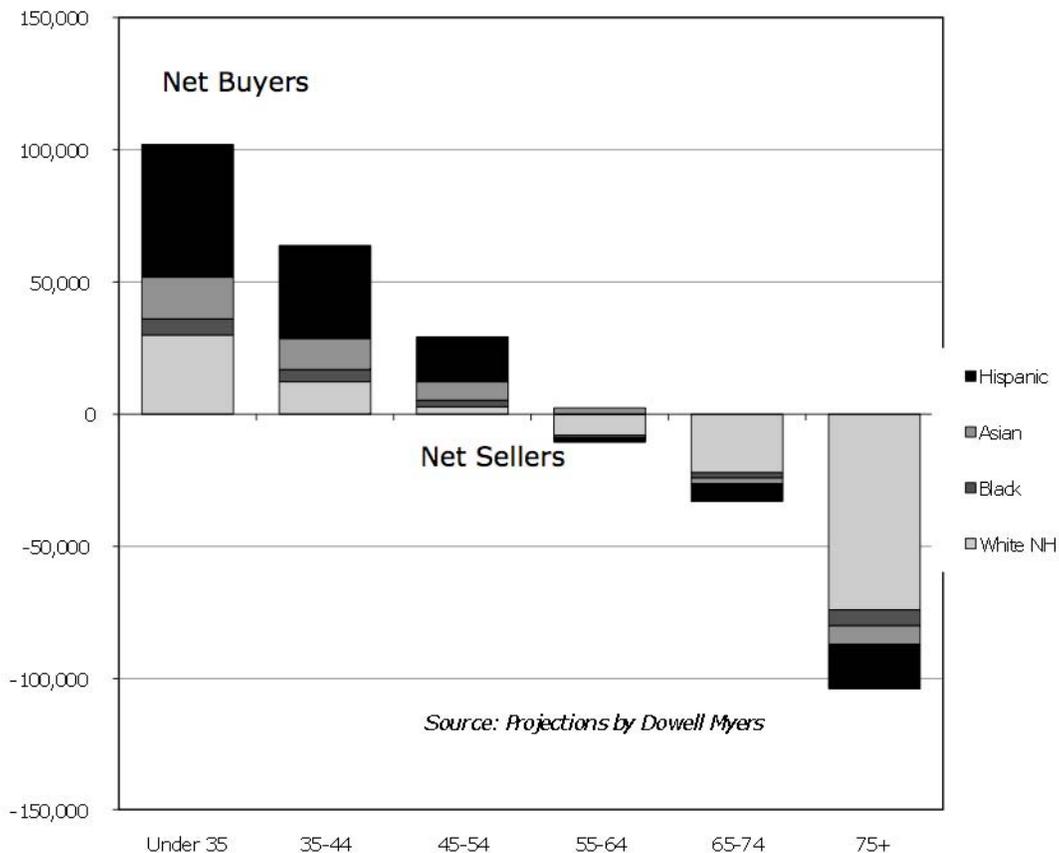


Exhibit 6. Percent Annual Difference of Buyers and Sellers in Each Age Group by Ethnicity, California, Projected 2020

Our New Reliance on a Homegrown Workforce

All of the above factors are made more crucial because we have become so reliant on people born and raised in our state. This is different than before. California was always a magnet for migration, but the peak of that was in the late 1980s. Beginning with our deep recession of the early 1990s, migration from other states and even other countries has steadily slowed. Newcomers have learned that jobs are more plentiful elsewhere, and housing prices are certainly easier to manage there, as well.

In a newly recognized milestone, for the first time, a majority of the California population is comprised of California-born natives.⁷ The most recent data (2008) show that the California-born share has grown to 53.3 percent. This native Californian share is lowest among the seniors and highest for the young (Exhibit 7). In late middle age, reflecting the migration of earlier decades, only 33.4 percent were born in California, while that is true of 72.8 percent of teens and young adults. These figures are substantially higher than was recorded in 1970.

Ongoing research suggests the homegrown share in middle age will expand even more rapidly over the next two decades. Looking ahead, we will likely find that a much larger share of California's skilled workforce was raised in the state than was true in 2008, and certainly since 1970, when the master plan was still new.

Exhibit 7. Percent Homegrown (Born in California)

	1970	2008
under 15	74.6	88.9
15-24	52.9	72.8
25-34	33.1	47.4
35-44	26.2	38.7
45-54	21.6	38.2
55-64	18.2	33.5
65-74	14.7	24.0
75-84	13.9	24.6
Total	43.1	53.3

Source: Census of Population, 1970; American Community Survey, 2008

Concluding Remarks

Allow me to briefly summarize the two main points offered in this testimony.

First, the rise of a homegrown majority population means that California is more reliant on educating its own children to produce an educated workforce than was true in prior decades. This self-reliance makes the goal of increased access to higher education more important today than ever before, even more important than it was when the master plan for higher education was first developed.

Second, the evidence strongly suggests that increased access to higher education benefits the older generation *at least as much* as it does young people. That is because of the three factors I have emphasized.

Expanded access to college education produces a stronger base of taxpayers, with a 3-to-1 or better return on public investment.

Expanded access to college education also is needed to address the declining skills created when our most educated generation—the baby boomers—retires from the workforce.

Finally, expanded college education is needed to strengthen the housing market by cultivating higher-earning home buyers who are better able to pay a good price to older sellers.

What makes these three benefits crucially important for the coming decade and beyond is the emergency created by the soaring ratio of seniors to prime working age residents. After decades of stability our age structure is being thrown out of balance. The 73 percent increase in the senior ratio is what so urgently requires us to strengthen the economic capacity of the younger generation. Only in this way can proportionally fewer people support the required load.

Access to higher education is Californians' best investment in our shared future. In view of the emergency of the soaring senior ratio, we need every California child to be college educated. We need it now more than we ever have.

End Note

¹ All data pertaining to the senior ratio are taken from the decennial census or from the 2007 population projections issued by the Department of Finance.

² Henry E. Brady, Michael Hout, Jon Stiles, with Shannon Gleeson and Iris Hui (2005) “Return on Investment: Educational Choices and Demographic Change in California's Future.” Survey Research Center, University of California, Berkeley.

³ Study summarized in Philip A. Trostel (2008) “High Returns: Public Investment in Higher Education,” *Communities and Banking* (Spring): 31-34.

⁴ Hans Johnson and Ria Sengupta (2009) “Closing the Gap: Meeting California’s Need for College Graduates.” San Francisco: Public Policy Institute of California; Hans Johnson (2009) “Educating California: Choices For The Future.” San Francisco: Public Policy Institute of California.

⁵ Dowell Myers and SungHo Ryu (2008) “Aging Baby Boomers and the Generational Housing Bubble: Foresight and Mitigation of an Epic Transition,” *Journal of the American Planning Association* 74 (Winter): 17-33.

⁶ Estimates were constructed by applying observed rates of buying and selling for each age-race/ethnic group. Rates were constructed for the period of 1995-2000, a time that preceded the market distortions post 2001 and which can be termed a more “normal” rate of behavior suitable for long run projections. These rates were then applied to population projections detailed by age-race and ethnicity. Further explanation can be found in Myers and Ryu, op. cit.

⁷ Dowell Myers, John Pitkin, and Ricardo Ramirez (2009) “The New Homegrown Majority in California: Recognizing the New Reality of Growing Commitment to the Golden State,” Special Report, Population Dynamics Research Group, University of Southern California.

