Student Loans and the Payment Pause

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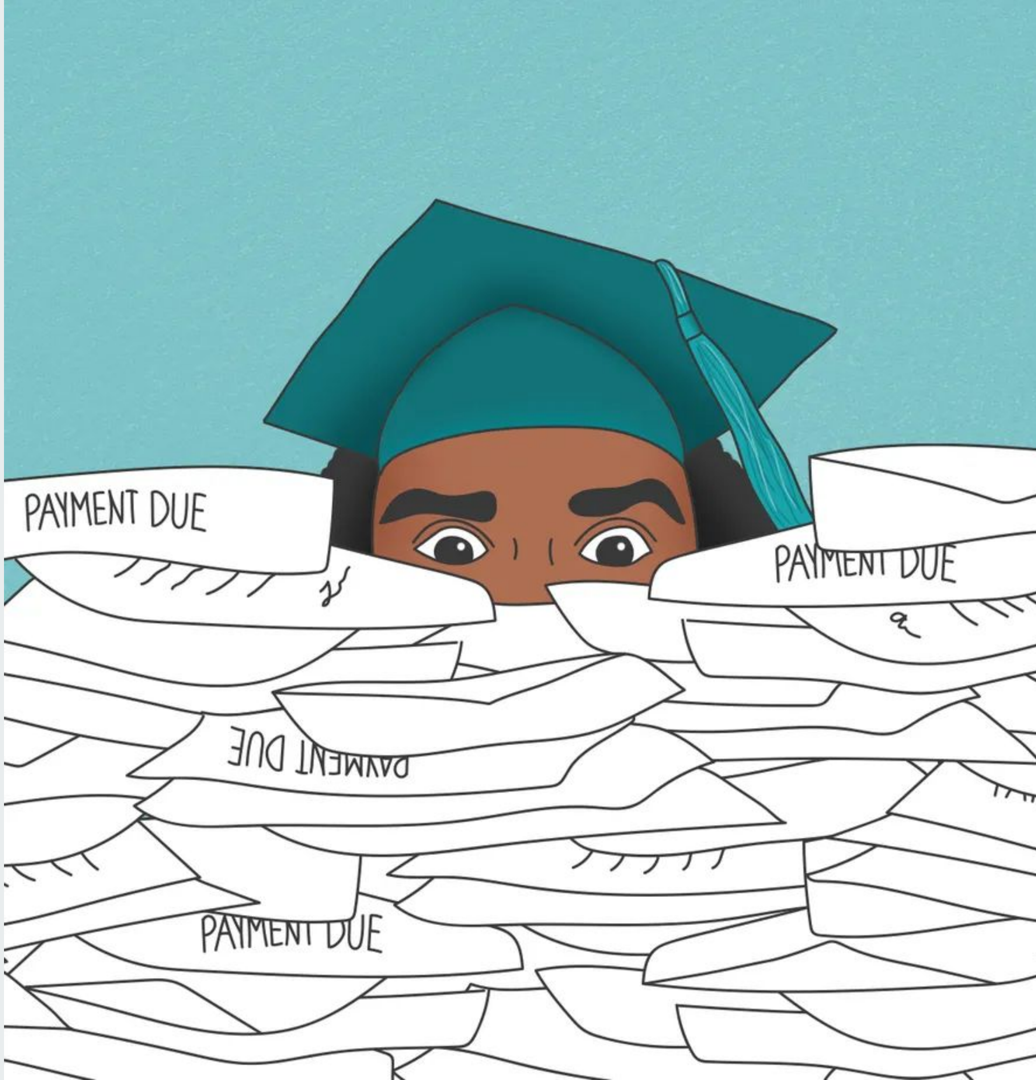
Research Question

- How has the student loan payment pause affected labor market and mental health outcomes for student loan borrowers?



Background

- COVID federal student loan relief since March 13, 2020
  - Pause on payments
  - 0% interest
  - Stopped collections on defaulted loans
- Eligible loans:
  - Direct Loans
  - FFEL and Perkins held by ED
  - Defaulted FFEL not held by ED
  - Defaulted HEAL loans
- Ineligible loans:
  - Nondefaulted FFEL and defaulted/nondefaulted loans not held by ED
  - Nondefaulted HEAL
  - Private student loans

Relevance

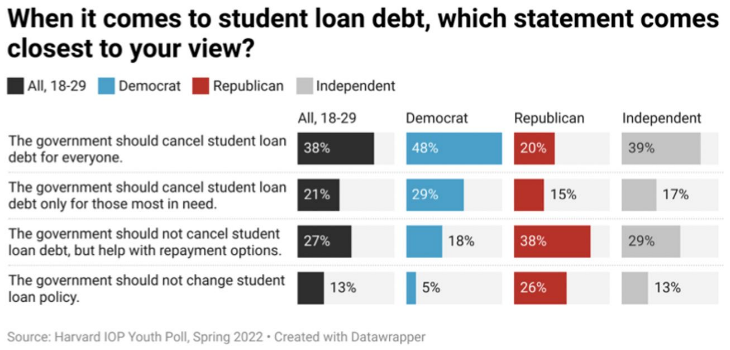
- US student loan debt totaled $1.75 trillion as of April 2022 (NerdWallet)
  - Federal: $1.61 trillion (92% of loans, 43.4 million borrowers)
  - Private: $131.10 billion (8% of loans)
- Student loan pause extended to August 31, 2022 (U.S. Department of Education)
- The pause has saved borrowers $195 billion (WSJ)
- Forgiving loans or pausing payments may affect labor market and mental health outcomes
- Even before the pandemic pause program reducing student debt has been a topic among political parties
- Forgiving student loans may not be a good use of federal funds

Relevance

- U.S. Department of Education announced changes to bring borrowers closer to forgiveness:
  - Public Service Loan Forgiveness (PSLF) program in October 2021
  - Income-driven repayment (IDR) forgiveness in April 2022
- 40,000 immediately qualify for debt forgiveness under PSLF changes
- Over 3.6 million borrowers will receive at least 3 years of additional credit toward IDR forgiveness
- Will also help in reducing delinquency and and defaults after restart.
- U.S. Department of Education will also prepare borrowers into transitioning back into repayment programs once the pause end. (Offers a fresh start for those before the pause that were unable to repay loans or failed to pay them off on time)

Harvard Youth Poll (Spring 2022)

- 85% of young Americans favor some form of government action on student loan debt
- 38% favor full debt cancellation
- 27% favor government assisting with repayment options without any debt cancellation
- 21% favor debt cancellation for those with the most need



Review of the Literature

Velez, Cominole, & Bentz, 2019

- *Debt burden after college: the effect of student loan debt on graduates' employment, additional schooling, family formation, and home ownership*
- Graduates with larger amounts of student loan debt:
    - **Higher earnings**
    - More likely to have a job that requires a bachelor's degree and relates to their bachelor's degree major
    - Less likely to be married
    - Less likely to have a child
    - More likely to have a **negative net worth**

Review of the Literature

Daniels & Smythe, 2019

- *Student debt and labor market outcomes*
- Quasi-difference-in-difference design
- Student debt holders have 8% higher income post-college compared to non debt holders
- Driven by more work hours, not higher wages

	log(income) (1)	log(hrs) (2)	log(hrly wage) (3)	Fully emp (4)
Post-college	0.22	0.30	−0.03	0.19
	(0.03)	(0.02)	(0.03)	(0.01)
Post-college × Loans	0.08	0.06	0.01	0.05
	(0.04)	(0.03)	(0.04)	(0.02)
Observations	20,962	23,503	19,252	26,613
Individuals	4,633	4,685	4,389	5,038

Notes: The models above include age fixed effects, individual fixed effects, time fixed effects, and regional fixed effects. The coefficient significance levels are determined by using robust standard errors clustered at the individual level.

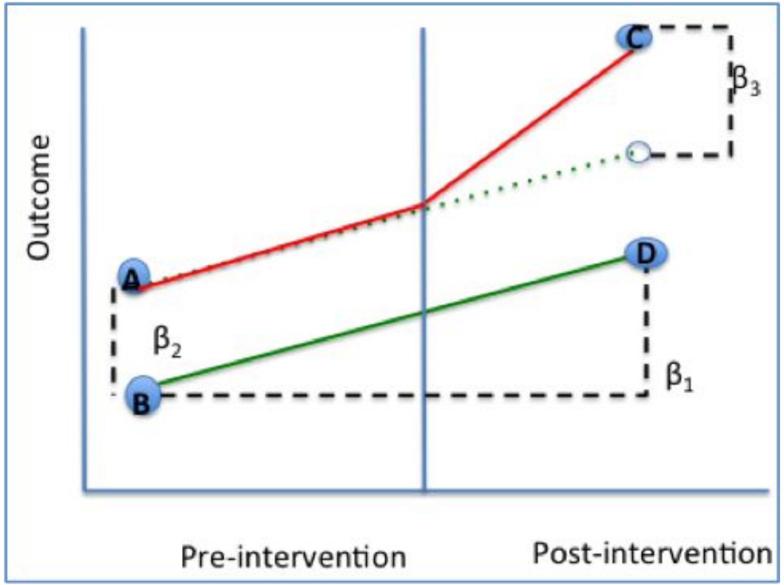
The Ideal Study: Design & Data

- **Difference-in-difference** design
- Measure the effects of the federal student loan pause on labor market & mental health outcomes:
  - Employment
  - Work hours
  - Income
  - Wages
  - Stress (Perceived Stress Scale)
  - Mental illness (K6 Distress Scale)

- Groups:
  - Americans with federal student loans
  - Americans with private student loans
- Time periods:
  - Pre-intervention: February 2020 (loan pause starts in March 2020)
  - Post-intervention: February 2021 (and every 2 years)
- National Longitudinal Survey of Youth 1997 (NLSY97)
  - Representative sample of 8,984 men and women born from 1980-1984
  - Interviews conducted annually from 1997-2011 and every other year since then

The Ideal Study: Empirical Approach

- Difference-in-difference with multiple post-intervention periods
- Assumptions & needs:
  - Parallel trends
  - No other changes at the same time
  - Policy change not anticipated
  - Consistent data over time
- Have the assumptions been met?
  - Trends can be checked in data
  - Other policy changes around same time
  - Policy changes not anticipated



Limitations & Future Directions

- Other policy changes around same time
  - Changes to PSLF
  - Changes to IDR forgiveness
  - More changes anticipated
- Cannot directly tell us intervention effect of forgiving or taking on loans

- Look at longer term effects of loan pause
- Study long-term effects of existing student loan forgiveness programs
  - Forgiveness under IDR plans
  - Public Service Loan Forgiveness program
- Study updates to student loan forgiveness programs

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