

Is the Student Loan Moratorium Affecting Employment?

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The COVID-19 pandemic had a dramatic impact on state employment and labor force participation rates (i.e., the share of residents working or actively seeking employment). For Pennsylvania, data for December 2021 show that payroll employment fell by 280,000 (-4.6%) compared to December 2019 and labor force participation rates are the lowest since 1986. News articles point to early retirements as a significant factor that drives both outcomes. However, the latest data from the U.S. Census Bureau show that for Pennsylvania, younger workers in the 22-24 and 25-34 age cohorts recorded the largest reduction in relative payroll employment levels and employment-population ratios across all age groups.¹

Overall, the data show a reduction in the employment-population ratio of 4.7 percentage points and 341,800 (-6.1%) payroll jobs from 2019 Q2 (pre-COVID) to 2021 Q2. (See table below.) For the 55-64 age cohort (potential early retirements), the ratio declined 3.4 percentage points and employment fell by 60,100 (-5.5%), which is less than the overall average across all age groups. For seniors age 65 or older, the employment-population ratio declined by 2.8 percentage points and employment fell by 10,700 (-2.7%).

The largest decline in the employment-population ratio was the 22-24 age cohort, which fell by 7.3 percentage points, while employment declined by 35,400 (-11.4%). The next largest reduction was the 25-34 age cohort, as the employment-population ratio declined 4.9 percentage points and employment fell by 95,400 (-7.7%). These results are striking because both groups are prime working age and it is likely that the younger age cohort did not have dependent children, and so were not impacted by issues related to securing childcare or remote learning. Moreover, data from the job openings and labor turnover survey (JOLTS) show state job openings in 2021 Q2 and Q3 at the highest levels recorded for that series.

	Age Group							
	19-21	22-24	25-34	35-44	45-54	55-64	65-79	All
Employment to Population Ratio								
2019 Q2	47.7%	65.2%	71.3%	75.2%	74.0%	60.6%	22.7%	59.7%
2021 Q2	<u>42.9%</u>	<u>57.9%</u>	<u>66.4%</u>	<u>70.6%</u>	<u>71.1%</u>	<u>57.2%</u>	<u>19.9%</u>	<u>55.1%</u>
Change	-4.8%	-7.3%	-4.9%	-4.5%	-2.9%	-3.4%	-2.8%	-4.7%
Change in Employment								
Number (000s)	-16.0	-35.4	-95.4	-33.7	-90.4	-60.1	-10.7	-341.8
Percent	-6.8%	-11.4%	-7.7%	-2.9%	-7.5%	-5.5%	-2.7%	-6.1%

Note: Ages 14 to 18 not shown or included in total. That age group gained 6,900 jobs during the time period. Data are for payroll jobs only and exclude self-employed. The table assumes that all workers in the age 65+ in the U.S. Census data were between age 65 to 79.
Source: Quarterly Workforce Indicators, U.S. Census Bureau. Demographics data from U.S. Census and IFO projections (2021).

¹ The employment-population ratio is the share of residents employed and is an alternative measure to the labor force participation rate. Some analysts prefer that metric because it can be based on actual employment data as opposed to surveys used to generate labor force participation rates. However, the labor force participation rate includes self-employed individuals (the employment-population ratio used for this brief does not) and is a broader measure. The employment-population ratio used for this brief also counts number of jobs, as opposed to individuals. If an individual worked two jobs in 2019 but only one job in 2021, it will appear as a reduction in the ratio.

While many factors motivate these outcomes, an ongoing policy that may have contributed to the significant decline in employment-population ratios for the two age cohorts is the student loan moratorium, which now enters its third year. Under the moratorium, loan repayments are suspended, and interest does not accrue on outstanding balances. Due to high inflation, the real value of the outstanding loans declines over time and will be repaid in dollars that have less value. Existing borrowers generally benefit during periods of unexpected high inflation, especially if interest does not accrue on outstanding loans.

The moratorium is only one factor that may explain the larger reduction in employment-population ratios, but for individuals with loans, the repayment suspension could be a material factor in decisions to actively seek and accept employment. The latest data from the U.S. Department of Education (September 2021) show that 1.86 million Pennsylvania residents had outstanding student loans of nearly \$65 billion, with an average balance of \$35,500 (federal loans only). For most borrowers, the average monthly repayment could range from \$250 to \$400 per month (\$3,000 to \$4,800 per annum). Not surprisingly, the data show that the proportion of residents with student loans is much higher for the 22-24 and 25-34 age cohorts. For certain borrowers, the suspension of loan repayments may delay the need to find immediate employment.

The moratorium is scheduled to expire on May 1, 2022. The administration could extend the moratorium prior to expiration, but extension entails significant federal costs. The Congressional Budget Office estimates that the moratorium costs the federal government \$4.3 billion each month, or \$52 billion each year.² Moreover, a recent analysis by the Brookings Institution finds that nearly three-quarters of monthly student loan debt payments (in dollar terms) are from earners in the top two income quintiles.³ Policymakers will need to compare the benefits of further relief relative to the significant federal costs incurred and potential negative implications for labor force participation that disproportionately benefits upper income earners.

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² See <https://www.cbo.gov/system/files/2021-04/56997-PNPI.pdf>.

³ The article finds that 40% of households (incomes above \$74,000 in 2019) owe nearly 60% of outstanding education debt and make 73% of payments. See <https://www.brookings.edu/blog/up-front/2020/10/09/who-owes-the-most-in-student-loans-new-data-from-the-fed/> and <https://www.brookings.edu/research/student-loan-forgiveness-is-regressive-whether-measured-by-income-education-or-wealth/>.