

Student Loan Repayment Moratorium Ends



Independent Fiscal Office | Research Brief | June 2023

On June 3, 2023, the federal Fiscal Responsibility Act was signed into law. The act suspends the U.S. debt ceiling limit through January 1, 2025. It also formally ends the student loan repayment moratorium and payments are scheduled to resume in September. The moratorium began in March 2020 and will have been effective for three and one-half years. This research brief uses the latest student loan data and the IMPLAN economic model to quantify the state economic and General Fund revenue impact from the resumption of student loan repayments.

For Pennsylvania residents with student loan debt, the latest data from the Enterprise Data Warehouse and the Federal Reserve Bank (FRB) of New York show:

- 1.9 million borrowers with \$66 billion of total federal student loan debt (excludes private lenders).
- A debt balance of \$35,400 (average) and \$19,800 (median).
- More than half (57%) of borrowers are under age 35, but owe less than half of total debt (44%).
- Roughly half of repayments will be made by households with income over \$100,000.¹

When repayments begin, the analysis assumes that the average Pennsylvania borrower will remit \$300 per month, so that repayments across all borrowers total \$6.7 billion per annum.² That figure could also approximate the maximum annual savings to debtors from the repayment moratorium (assumes no defaults and all borrowers forgo repayments during the moratorium).³ Borrowers benefit from the moratorium because (1) interest does not accrue and (2) the payment delay means that the same loan balance will be repaid with dollars that are worth considerably less due to high inflation. For example, if a borrower had a debt balance of \$25,000 prior to the moratorium, then the real value of the loan falls by nearly 18% (-\$4,450) due to those two factors.⁴ For the lender (i.e., the federal government), the Committee for a Responsible Federal Budget estimates that the repayment pause cost is \$5 billion per month and \$195 billion total due to foregone interest payments alone.⁵ Those estimates do not include additional erosion in the real value of loans due to unusually high inflation.

To quantify the impact from the resumption of loan payments, the analysis uses the IMPLAN input-output model for Pennsylvania. The repayments are treated as a reduction in disposable household income, similar to an increase in federal income taxes or state sales tax. Because borrowers have unique spending patterns

¹ This statistic is based on national data as state-level data are not available. Sources include: "Student Loan Pause Could Cost \$275 Billion", Committee for a Responsible Federal Budget (November 2022); "Is High Student Loan Debt Always a Problem?" Looney and Yannelis, Stanford Institute for Economic Policy Research (July 2016); and "The Nine (or More) Lives of the Student Payment Pause", Briones et al., University of Virginia, EdPolicyWorks Working Paper Series No. 77 (January 2023).

² The monthly amount is based on a study by the Federal Reserve Board that estimated a range of \$200 to \$299 for 2019. The analysis uses \$300 per month due to the five-year time gap and increasing cost of higher education. See: <https://www.federalreserve.gov/publications/2020-economic-well-being-of-us-households-in-2019-student-loans-other-education-debt.htm>.

³ The economic and revenue impact analysis assumes a 12% default rate, so that net repayments are \$5.9 billion per annum. For 2019 Q4, data from the New York FRB show the Pennsylvania delinquency-default rate was 13.6%. Delinquency indicates that the borrower has at least one student loan 90+ days delinquent while default is declared after loans have been delinquent for a period of time (usually nine months). The analysis also assumes that borrowers who owe 10% of total student loan debt continued to make repayments during the moratorium. Because those borrowers do not restart payments, they do not affect the economic and revenue impact computations.

⁴ The real value computation uses the Philadelphia CPI-U from February 2020 (259.7) to August 2023 (305.9, projected).

⁵ See <https://www.crfb.org/blogs/student-loan-pause-could-cost-275-billion>.

and rates of savings, the analysis splits repayments across four income groups: under \$50,000 (20% of total dollar repayments before defaults); \$50,000 to \$100,000 (25%); \$100,000 to \$150,000 (30%) and more than \$150,000 (25%).⁶ The analysis also assumes that higher-income borrowers use savings (existing savings or amounts that would have been saved) to finance one-third of repayments, while lower-income borrowers must reduce consumption to make repayments.⁷ The IMPLAN model reduces disposable income for households in each group and simulates the impact on the state economy based on consumer spending patterns, supply chain relationships, applicable taxes and leakages from the state economy.

The fully-phased in annual economic impact results are as follows:

- **Employment** falls by 35,100. This figure includes full- and part-time workers and self-employed.
- **Labor income** falls by \$2.0 billion. Labor income includes employee compensation and self-employment income.⁸
- **Value Added** or nominal **Gross Domestic Product (GDP)** falls by \$3.4 billion. This metric does not double count sales as they move through supply chains.
- **Total Output** or **Total Sales** fall by \$5.8 billion. This metric double counts sales as they move through supply chains and therefore exceeds GDP.

Two caveats should be noted regarding these results. First, the figures reflect outcomes after the policy change has fully manifested itself in the state economy, and that will likely require more than a single year to occur. Second, the model is a state-level model and assumes that the policy change only impacts state residents. However, all U.S. borrowers will be affected, and the reduced discretionary income of non-resident borrowers will also have a negative impact on the state economy. While the first caveat overstates the economic impact in the first year, the second understates it.

To assess the impact on General Fund tax revenues, these same two caveats hold. The annual impact for the three largest General Fund revenue sources are as follows:

- **Personal income tax** falls by \$40 million.
- **Sales and use tax** falls by \$125 million.
- **Corporate net income tax** falls by \$15 million.

These revenue impacts could also be assessed without the IMPLAN model. For sales tax revenues, if annual gross loan repayments are \$6.7 billion, but consumer spending only falls by \$4.3 billion (due to defaults, use of savings, and some borrowers continued to repay during moratorium and are not impacted) and 50% of that spending would have been spent on taxable goods, then the annual sales tax impact would be -\$130 million ($\$4.3 \text{ billion} * 50\% * 6.0\%$). This simple computation provides a check for reasonableness and ignores any multiplier or leakage effects, and the two caveats noted. Other General Fund tax revenues will also decline (e.g., cigarette, gaming and liquor) as well as non-General Fund revenues (e.g., gasoline and Lottery), but those reductions will be considerably smaller.

⁶ These percentages do not reflect assumed defaults (12% of total repayments). The analysis assumes lower-income borrowers default at much higher rates.

⁷ A recent research paper finds that borrowers did not increase savings in response to the repayment pause, and that "borrowers substitute increased private debt for paused public debt," notably credit cards and auto loans. See "Debt Moratoria: Evidence from Student Loan Forbearance," Dinerstein et al., Becker Friedman Institute Working Paper No. 2023-62 (May 2023).

⁸ For IMPLAN, employee compensation is the total payroll cost of the employee paid by the employer and includes wages and salaries, all benefits (e.g., health and retirement) and all payroll taxes (both employer and employee).