ECONOMIC POLICY TRENDS

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COVID-19 AND RECENT POST-SECONDARY GRADUATES

In an earlier trends piece, we explored ways governments can support current and incoming post-secondary students through the COVID-19 crisis. Here, we discuss implications for students graduating this year, as well as those struggling with student debt in a rough labour market.

Graduating in a recession can have a lasting effect on a person's earnings. Not only are job prospects weaker and new graduates more likely to start in lower-paying jobs, it may take graduates years to earn the same as peers who entered the labour market when the economy was stronger.

According to one study, earnings are about 9% lower in the year after graduation for those entering the labour market in a recession, and it takes 10 years to catch up with those who graduated in better times. A more recent study found similar effects: those who graduated with a Bachelor of Arts in 2009 earned $3000–4000 less at graduation, with some catch up after five years. For college graduates the differences were smaller—$1000–2000 on average—but in the context of a lower base income.

That said, this will not be a typical recession. Some macroeconomists are forecasting a V-shaped recession: a very sharp decline followed by a rapid recovery. Unemployment rates are likely to spike high during the crisis, and younger people with less labour market experience are always hit harder in such times. However, a rapid recovery could mean that a return to more usual hiring rates might happen faster than in past recessions.

This recession will be particularly difficult for new graduates, who are less likely to qualify for EI and crisis benefits like the CERB. Though supports for employers like the 75% Emergency Wage Subsidy should help, additional measures are necessary—especially for new or recent labour market entrants who are carrying student debt.

For those still in school, a solution to getting through the current crisis is to borrow more now and pay it back later—though such an approach could mean higher debt loads and repayment troubles in the future. For recent graduates facing a tough job market and uncertain incomes, repayment problems are likely to intensify. Fortunately, existing initiatives can help, and additional tweaks to these programs could further strengthen support for graduates.

One example is the federal government's recent announcement of a six-month interest-free payment holiday for all student loans. This hold on both payments and interest is automatic, which means all direct payments will be frozen and other forms of payment will not be expected. Many provinces have followed suit.

Additionally, the Repayment Assistance Program (RAP) is available to anyone struggling with student loan repayments due to low income. Through the program, repayments are reduced to an affordable amount based on the borrower's recent income, with no interest accruing. For those accessing RAP for more than 60 months, or those who are more than 10 years in repayment, the program starts to pay down the principal, with the goal of reducing debt to zero after 15 years.

However, nearly half of borrowers eligible for RAP do not use the program. For some, this may be because they have resources other than their own income to help with repayments. For others, it may be an informational problem. One solution to low uptake would be to make the income-contingent RAP system the default for repayments, and to offer optional faster payment plans.

Student loan borrowers who have fallen behind on payments go into default, a situation that is more common among those with a combination of low income and limited parental support. Those who have defaulted are not eligible for RAP, and in some provinces, debts are sent to collection agencies. The federal loan program and some provinces offer rehabilitation programs. For federal loans, borrowers can pay two regular payments and all accumulated interest, or starting in January 2020, accumulated interest can instead be added to total debt.

Now is the right time to push reset on defaults. Any defaulted loans could be automatically rehabilitated under the new option, and payments frozen during the six-month holiday. During this time, rehabilitated borrowers could also apply for the RAP. Since loan payments are frozen, this approach has no immediate budgetary costs. In fact, it could even lead to some long-term gains. And, for many, it could for help relieve anxiety over debt in these turbulent times.

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