Total and Permanent Disability Discharge for Federal Student Loan Borrowers

Student Aid Bill of Rights: Protecting the Social Security Benefits for Borrowers with Disabilities

In 2015 the President announced the Student Aid Bill of Rights, which included a number of efforts to make it easier and fairer for millions of Americans to pay for higher education. One measure directs the Department of Education (ED) and the Social Security Administration (SSA) to work together to ensure that disability insurance recipients who are eligible for a discharge of their student loans avoid having their disability payments offset, through the Treasury Offset Program (TOP) to repay defaulted debt. The two agencies are proactively identifying borrowers who may be eligible for loan discharge in order to help protect their Social Security benefits from offset and ensure they are able to access the benefits for which they are eligible. ED will contact eligible borrowers with further information about the discharge process.

How are potentially impacted borrowers identified?

Under the Higher Education Act, student loan borrowers who are totally and permanently disabled (TPD) are eligible to have their Federal loans discharged, which means that they no longer owe the outstanding amount. (There is no discharge for partial disability or for short-term disability.) In many cases, borrowers who are eligible for this benefit may not be aware of its existence or know how to apply.

At the direction of the President through the Student Aid Bill of Rights, SSA and ED have established a new process that allows ED to more easily identify borrowers who are eligible for a disability-related discharge and reach out to those borrowers to help them apply for and receive the benefit. The new process greatly simplifies the steps needed to obtain a disability-related discharge by empowering the two agencies to compare data to document a borrower's eligibility. This effort builds on the Administration's 2013 action to align the standards between SSA and ED and eliminate the requirement for a separate medical determination for the TPD discharge.

What happens once a borrower is identified?

Because loan discharges may be considered taxable income, ED cannot automatically grant a loan discharge to these borrowers. Instead, ED will contact potentially eligible borrowers, identified through a data match with SSA, with customized letters outlining next steps to complete the discharge process. The outreach will provide borrowers with a simple application they can sign and return to start the process toward loan discharge. The borrowers will not be required to make payments for up to 120 days after the letter and application is mailed. This 120-day suspension does not include suspension of offsets of other Federal payments like tax refunds or Social Security Payments. However, once the application is processed and approved, any payments received after the disability certification date, voluntary or otherwise—including through the Treasury Offset Program—will be refunded.

Once the borrower returns the signed application, the loans can be discharged. If, during the three-year monitoring period, the borrower starts earning above the poverty guideline for a family size of two in his or her state, the borrower will be returned to a repayment status. If the borrower does not return the application within the 120-day suspension period, the suspension will expire and the borrower will return to his or her normal payment schedule. It should also be noted that once this initial 120-day suspension expires, the borrower cannot receive another suspension, though the borrower could continue with the TPD process and/or submit another TPD application in the future. Applications will be processed by Nelnet, ED's designated contractor for TPD discharges. For more answers to specific questions about the TPD program, please consult the FAQ page on Nelnet's website: https://disabilitydischarge.com/faqs

What are the tax implications for the TPD discharge?

While the President's 2017 Budget proposal seeks to exclude TPD discharges and other Department of Education loan forgiveness options from taxable income, loans discharged under the TPD program may be subject to taxation, depending on the specific circumstances of the borrower, unless Congress acts. Accordingly, borrower notifications will also include information to ensure borrowers understand the potential tax implications for this benefit and can make an informed decision about electing to apply for a discharge.

When will identified borrowers receive their letters?

The first set of borrower notifications will begin by mail on April 18, 2016 and will be followed up with a second letter 120 days after the initial letter unless a signed application is received. Due to the volume of borrowers identified and to ensure borrowers get timely customer service assistance, the notifications will be sent on a rolling basis over a 16-week period. ED will monitor the contacts to identify any opportunities to accelerate the timeline.

How many borrowers have been identified through the match thus far?

In December of 2015 and March of 2016, ED and SSA completed the first set of matches. ED sent in excess of 42 million borrower records to SSA, which identified borrowers who are receiving disability payments and have a designation of Medical Improvement Not Expected (MINE) status that qualifies them for a disability-related loan discharge. Around 387,000 borrowers were initially identified as potentially eligible for loan discharge. The match will continue on a quarterly basis to identify additional potentially eligible borrowers.

For additional information, visit https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation/disability-discharge or https://disabilitydischarge.com or contact the customer service center at 1-888-303-7818.

Sample Letter Excerpt:

U.S. Department of Education
Information about your federal student loan

Total and Permanent Disability Servicing Unit

April 18, 2016

Jane Doe
123 Main St
Any City, VA 123456

Borrower Name: Jane Doe
Account: A123

Dear Jane,

The U.S. Department of Education has received documentation from the Social Security Administration (SSA) showing that you may be eligible for a Total and Permanent Disability (TPD) discharge of your federal student loans. TPD discharge means that the remaining balance of your loans would be forgiven and you would not be required to make any further payments.