



Student Loan Discharge or Forgiveness

Should you discharge your student loans because of a Total and Permanent Disability (TPD)? That is a big and permanent decision. A TPD discharge could have tax and health insurance consequences for you and others in your household.

Loans discharged through TPD are considered a type of income by the IRS. Choosing a TPD discharge could mean that you have to file a tax return when you otherwise would not be required to file. A TPD discharge could also increase the taxes you owe. If you file taxes with another person, a TPD discharge could affect them, too. You might want to talk with a tax professional about these issues before applying for a TPD discharge.

TPD discharges can also affect eligibility for certain types of medical insurance and could change how much you pay for insurance. Loans discharged through TPD count as taxable income. Such a change to your income could affect:

- How much tax you owe
- Your eligibility for Medicaid
- Eligibility for Medicaid or the Children's Health Insurance Program for other people in your household
- How much you and others in your household pay for health insurance bought through health care exchanges (sometimes called "marketplaces" or "Obamacare exchanges")
- How much you owe in copays or other cost sharing

Health insurance rules can be different in different states, so you should talk with a trained health insurance navigator in your state before applying for a TPD discharge. You can find trained navigators at <https://localhelp.healthcare.gov/> and disability specific help from the [National Disability Navigator Resource Collaborative](#).

This change in income will not affect:

- Social Security Disability Insurance or Supplemental Security Income payments

- Your eligibility for Medicare

Details and Background

On April 12, 2016, the Department of Education announced a new plan to identify people who may be eligible for student loan forgiveness based on disability. The Higher Education Act allows for federal loan forgiveness for borrowers who are “totally and permanently disabled.” (This only applies to federal loans, not private loans.)

The Department of Education has been working with the Social Security Administration to identify federal student loan borrowers who receive disability payments. Starting April 18, 2016, the Department of Education will begin sending letters to borrowers who fit this description to inform them of the Total and Permanent Disability loan discharge process. (Discharge and forgiveness mean the same thing.)

Learn more about the announcement from the Department of Education: <http://www.ed.gov/news/press-releases/us-department-education-acts-protect-social-security-benefits-borrowers-disabilities>

Learn more about the discharge process: <https://disabilitydischarge.com/default>

The Total and Permanent Disability (TPD) discharge process is not without drawbacks. The amount forgiven is counted as income by the IRS for that year. That means people may end up owing taxes on the amount that was forgiven, and their income may appear artificially inflated for purposes of other tax-based benefits. These include any benefits based on Adjusted Gross Income (AGI) or Modified Adjusted Gross Income (MAGI), including:

- Medicaid (through non-SSI eligibility pathways)
- Children’s Health Insurance Program
- Health Insurance Marketplace premium subsidies (Advanced Premium Tax Credits) and cost-sharing reductions
- Affordability definitions*
- Supplemental Nutrition Assistance Program (SNAP or “food stamps”)
- Housing and heating assistance

*The Affordable Care Act defines “affordable” as coverage costing less than 9.66% of your MAGI. If you are offered coverage, such as through your employer or retirement plan, but it is not affordable by the ACA’s definition, you become eligible for premium subsidies. However, if your income is artificially inflated by student loan forgiveness this may remove your eligibility for premium subsidies on the marketplace, even if the amount of forgiveness would not have been enough to eliminate your premium subsidies in the subsidy calculation.

Questions? Please contact our team of Information Specialists at 800-539-7309 or email them at infospecialist@Reeve.org.

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