Does Student Loan Forgiveness Drive Disability Application?

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Introduction

Student loan debt in the US exceeds $1.3 trillion, and unlike credit card and medical debt, cannot typically be discharged through bankruptcy. Moreover, this debt has been increasing: the share of borrowers leaving school with more than $50,000 of federal student debt increased from 2 percent in 1992 to 17 percent in 2014. However, federal student loan debt discharge is available for disabled individuals through the Department of Education's Total and Permanent Disability Discharge (TPDD) mechanism through VA or physician certification of a total and permanent disability. In July 2013, the TPDD expanded to include receipt of Social Security Disability Insurance (SSDI) or Supplemental Security Income (SSI) as an eligible category for discharge, provided medical recovery was not expected. The ability to discharge student debt through acceptance onto SSDI or SSI therefore represents a substantial incentive to apply for these programs.

Meanwhile, SSDI and SSI program participation varies dramatically both geographically and over time, with a large per-capita increase in the size of these programs from the early 1980s through the Great Recession, but with a recent general decline in program participation (Annual Statistical Report on the Social Security Disability Insurance Program, 2017). Moreover, application and entry onto these programs is uneven across the US at any point in time, with county-level application rates among working-age adults varying from 0 to 3% in any given year for SSDI. Explanations for these temporal and geographic patterns abound: stagnating low-skill wages; variation in labor demand across local labor markets; underlying health differences; gender differences in labor force participation; changes in determination

criteria, especially by age; and changes in information and barriers to application (Autor and Duggan 2003, Duggan and Imberman 2009, Armour 2018, Foote et al. 2019).

Given the increasing value of discharge of student loan debts through SSDI or SSI entry, and these findings on the sensitivity of disability program participation to economic, policy, and informational contexts, this study examines whether expansion of the TPDD eligibility criteria to include SSDI or SSI acceptance had a measurable effect on participation in these programs. As discussed below, we find such a measurable effect, indicating that the TPDD expansion increased SSDI and SSI application rates.

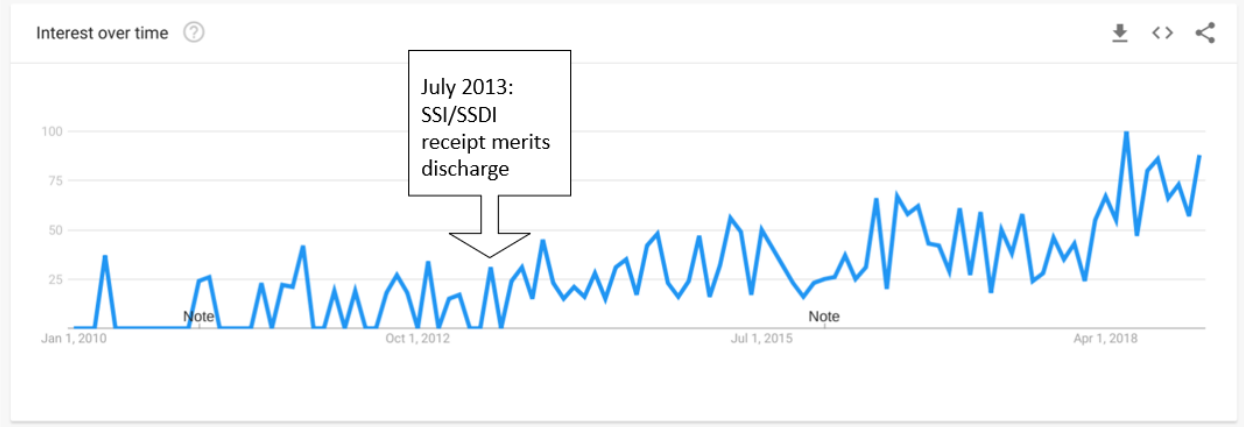
Policy Change and Analysis

Prior to 2013, the Department of Education's Total and Permanent Disability Discharge (TPDD) allowed for two classes of student loan borrowers to have their federal student loans discharged: veterans with a 100% service-connected disability rating or an individual unemployability rating, or an individual who has a licensed physician certify an inability to engage in substantial gainful activity due to a physical or mental impairment lasting at least 60 months or that will result in death. However, in July of 2013, the TPDD mechanism expanded to include individuals who were receiving SSDI or SSI benefits and whose had a "medical recovery not expected" determination.

In theory, the prior allowance for a physician's certification is the same criteria as that used by SSA in determining a disability of at least 60 months (an inability to perform substantial gainful activity) and does not require the individual satisfy the SSI asset test or be covered by SSDI, but the ability to have the SSA determination process directly satisfy the documentation requirements of TPDD substantially reduces the TPDD-related application costs, as well as increases the benefit of SSDI or SSI participation.

Furthermore, this expansion to the TPDD criteria was widely publicized, increasing the saliency of TPDD as a pathway to student loan discharge, as evidenced in the frequency of searches for “tpd discharge” reported by Google Trends:

Figure 1: Google Searches for “tpd discharge” from 2010-2018

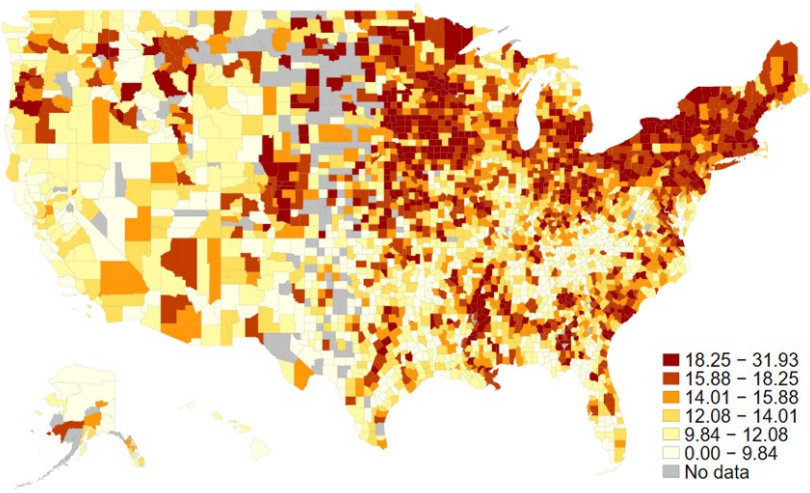


Note: Lowest value indexed to 0; highest value indexed to 100

To test whether this TPDD expansion led to an increase in SSDI or SSI applications, we conduct an analysis of county-level SSDI and SSI applications before and after the 2013 change and use variation in incidence of county-level student loans. To do so, we draw on Experian measures of the fraction of individuals in a county who have student loan debt on their credit reports. As Figure 2 shows, there is considerable variation across counties in the fraction of their population with student loans, with higher rates of indebtedness in the Northeast and Upper Midwest. We use this measure of the incidence of student loans by county as the “dose” in a dose-response, difference-in-differences analysis; that is, although the TPDD expansion applies nationwide, if there are no individuals with federal student loans in a particular county, then there is no policy-induced change in the incentive to apply to SSDI or SSI, and these counties are effectively “control” counties. The more residents have student loan debt in a county,

the higher the corresponding “treatment” of the TPDD expansion, and thus any effect on SSDI or SSI applications should be increasing with the incidence of student debt.

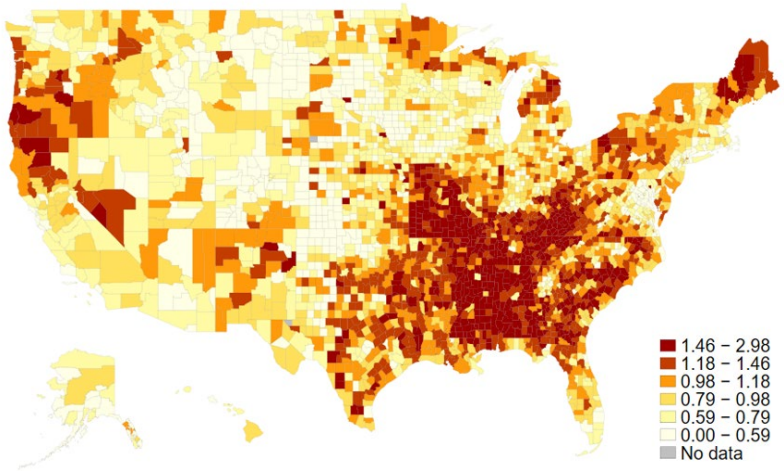
Figure 2: Percent with Any Student Loan Debt, 2016



Among individuals with a credit bureau record

To measure SSDI and SSI program participation, we use annual county-level counts of applications, denials, and awards drawn from Form 831 and Supplement Security Record (SSR) files. Figure 3 shows the county-level variation in SSDI application rates in 2010.

Figure 3: SSDI Applications as Percent of 18-64 Population



Source: Authors’ calculations from Form 831-generated statistics.

Again, there is substantial geographic variation in these rates, although with markedly different patterns than in student loan indebtedness, with the highest SSDI application rates in the South.

We estimate our dose-response, difference-in-differences model, wherein control counties are those with zero incidence of student-loan indebtedness, and the treatment effect varies by this incidence, with year and state fixed effects, controls for sociodemographic characteristics in 2010, and standard errors two-way clustered at the county and year levels. We include years 2000-2012 as pre-policy years, and 2014-2016 as post-policy years, dropping 2013 since part of the year is treated.

Our main finding is that there is a strong, statistically significant, and robust estimate of the impact of the TPDD expansion on SSDI and SSI applications: SSDI and SSI application rates increased in counties with a greater incidence of student-loan indebtedness after this 2013 change relative to less student-loan-indebted counties. The size of our estimate implies that counties with the mean incidence of student-loan indebtedness vs. those with no indebtedness had approximately a 10% higher rate of SSDI and SSI application after this policy change, with 40% of these applications being accepted onto these programs. This effect reduces the ongoing secular decline in SSDI and SSI rates over this time period for more indebted counties. Given that the geographic distributions of student loan indebtedness and historical SSDI/SSI program participation differ, there are strong implications for both the size and location of SSDI and SSI beneficiaries. Furthermore, these results highlight the importance of programs and policy changes that interact with SSDI and SSI in understanding the drivers of participation in these programs.