

VETERANS CLAIMS EDUCATION · FREE GUIDE



VA Recoupment & Debt Guide & Worksheets

Recoupment or debt? · Separation and severance pay · The combat exception · Drill pay · Why debts happen · Dispute, waiver, compromise, payment plans · Deadlines · Protections · Appeals · Worksheets

Before you start: we are a free education resource. We are not VA, a VSO, an attorney or an accredited claims agent, and we don't assist with or file claims. Only VA decides. Examples are made up to show how the rules work. Describe your own experience truthfully; false statements to VA can have serious consequences.

Two different things, two different fixes

Recoupment of separation or severance pay is required by law and can't be waived, but it can be checked and corrected. An overpayment debt can be disputed, forgiven, settled or paid over time, if you act in time. Online version with a deadline finder and recoupment estimator: veteransclaimsedu.com/blank-6

The two dates that matter most: (1) Dispute or ask for a waiver within 30 days of your first debt letter and VA generally holds off collecting while it decides. (2) You have 1 year from that letter to ask VA to forgive the debt.

Who	Contact	For
Debt Management Center	800-827-0648 (overseas 1-612-713-6415) · PO Box 11930, St. Paul, MN 55111	Benefit debts: disputes, waivers, compromises, plans, audits
VA benefits	800-827-1000	Recoupment and the decision behind a debt
Online	va.gov/debt-management · VA Form 5655	Check balances, pay, request help
Free help	va.gov/get-help-from-accredited-representative	Never pay to file

WHAT'S INSIDE

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1 · RECOUPMENT OR DEBT?

	A. Recoupment	B. Overpayment debt
What happened	A lump sum when you left the military, then a VA compensation grant	VA paid more than you were entitled to
A debt?	No , a required deduction	Yes
Waiver?	No	Yes , if collecting would be unfair
Plans or settlement?	No; withheld until recovered	Yes
Who	VA regional office	Debt Management Center
Letter says	"Separation pay," "severance pay," "recoupment"	"Overpayment," "indebtedness," "debt"

2 · HOW RECOUPMENT WORKS

Type of pay	What VA recoups
Separation pay after Sept. 30, 1996	Amount minus federal tax withheld
Separation pay on or before Sept. 30, 1996	Generally the full gross amount
Special Separation Benefit (paid on or after Dec. 5, 1991)	Amount minus federal tax withheld
Voluntary Separation Incentive	Recouped from compensation
Disability severance pay	Only from pay for the same disability (separations on or after Jan. 28, 2008); not recouped if DoD found it combat-related

- ☐ VA usually withholds the whole payment until recovered, then pays in full.
- ☐ Can't be waived, but check every number and appeal errors within 1 year.
- ☐ Raises speed it up: a higher rating, dependents or a COLA mean more is withheld each month.

EXAMPLE

Separation pay at 30%

\$40,000 separation pay, \$8,800 federal tax withheld, rated 30% (\$552.47 a month).

\$31,200 to recoup ÷ \$552.47 ≈ 57 months of full withholding.

Official sources: [10 U.S.C. § 1174\(h\)](#) · [10 U.S.C. § 1212\(d\)](#) · [38 CFR § 3.700](#)

Rated for years, then suddenly recoupment?

- ☐ Why: a new claim leads VA to check DoD records and the old payment turns up. There's no time limit.
- ☐ The most VA can recover is the separation pay (after tax, if paid after Sept. 30, 1996), not years of compensation.
- ☐ Solely VA's error and you didn't know? VA can't make it retroactive to create a debt for past years (38 CFR § 3.500(b)(2)); it recoups going forward.
- ☐ Past debt created anyway? Dispute it and ask for a waiver of that debt. The recoupment itself can't be waived.
- ☐ Hardship: ask in writing for a monthly arrangement with VA Form 5655, and ask for a hearing.

EXAMPLE

Decades later, at 100%

Dave got \$30,000 separation pay in 1994 and has been 100% since 2008 with no withholding. A 2025 PACT Act claim turns it up.

$\$30,000 \div \$3,938.58 \approx 8$ months of withholding, not 17 years. If the miss was solely VA's error, no debt for 2008–2025.

3 · DRILL PAY AND ACTIVE DUTY

- ☐ No VA compensation and military pay for the same day. VA checks drill pay with DoD each year.
- ☐ Return VA Form 21-8951-2 when VA asks, or a debt can be created.
- ☐ Back on active duty? Tell VA; compensation stops and restarts after release.

4 · WHY DEBTS HAPPEN

Cause	Prevent it
Divorce, death, child turns 18 or leaves school	Remove the dependent right away
Rating reduction	Respond within 60 days of the proposal
Drill pay or active duty	Return VA Form 21-8951-2
Felony incarceration over 60 days	Report it; dependents can ask for an apportionment
Pension income or assets change	Report changes right away
Dropped classes (education)	Tell your school and VA
VA-paid hospital or nursing home	Tell VA when admitted

5 · YOUR OPTIONS (USE MORE THAN ONE)

Option	How
Dispute	Write to the Debt Management Center or use Ask VA, with proof, ideally within 30 days
Waiver	VA Form 5655 plus a statement, within 1 year
Compromise	VA Form 5655 and a lump-sum offer
Payment plan	Call DMC; longer plans need VA Form 5655
Lower withholding	Ask for a reduced monthly offset, with VA Form 5655
Appeal the decision behind it	Higher-Level Review, Supplemental Claim or Board appeal within 1 year

Waiver standard (“equity and good conscience”): fault, balancing of faults, undue hardship, defeating the purpose of the benefit, unjust enrichment, and changing position because you relied on the payments. No waiver for fraud, misrepresentation or bad faith.

EXAMPLE

An unreported divorce

Ray, 70%, divorced in January 2025 but didn’t remove his ex-wife until March 2026.

$\$1,961.45 - \$1,808.45 = \$153$ a month $\times 14$ months = $\$2,142$. He asks for a waiver within 30 days with a complete VA Form 5655, so collection waits for the decision.

Official sources: [VA Form 5655](#) · [38 CFR § 1.963](#) · [38 CFR § 1.965](#) · [38 U.S.C. § 5302](#)

6 · DEADLINES

When	What happens
30 days from the first letter	Dispute or ask for a waiver; collection generally waits for a decision
After that	VA can keep all or part of each monthly payment
About 120 days, unresolved	Referral to Treasury: tax refunds, Social Security (not SSI), federal pay can be taken; fees added
1 year from the first letter	Last day to ask for a waiver

No interest or fees on disability compensation and pension debts (38 U.S.C. § 5315). VA may report unpaid debts to credit bureaus after notice. VA health care copay bills are handled separately.

7 · PROTECTIONS

- ☐ VA’s mistake alone: generally no debt if the overpayment came only from a VA error you didn’t know about (38 CFR § 3.500(b)(2)).
- ☐ VA took too long: since a 2022 law, VA generally can’t collect overpayments that built up after it took more than about a year to act on information you gave it (38 U.S.C. § 5302B).
- ☐ Advance notice: 60 days to respond to a proposed reduction; ask for a hearing within 30 days to keep payments at the old rate until VA decides.
- ☐ Late letter: if a VA or mail error delayed it, the 1-year waiver clock can start when you got it.
- ☐ Cost of collection: VA may not pursue a debt costing more to collect than it’s worth.

8 · APPEALS

- ☐ Appeal the decision that created the debt within 1 year; winning can erase the debt.
- ☐ Appeal a denied waiver within 1 year, adding what VA didn’t consider.
- ☐ Do both at once if needed. Free help: an accredited representative.

Official sources: va.gov/decision-reviews

WORKSHEET 1

Which is it?

Tick what matches your letter and records.

- ☐ Letter says “separation pay,” “severance pay” or “recoupment” → A
- ☐ Letter says “overpayment,” “debt” or “indebtedness” → B
- ☐ DD214 shows separation or severance pay → A
- ☐ Letter came from the Debt Management Center → B
- ☐ A dependent left my household and I didn’t report it → B
- ☐ I drilled or went on active duty while getting VA pay → B
- ☐ I asked DMC for an audit of the debt
- ☐ I got my DoD combat-related determination (if DSP)

WORKSHEET 2

Recoupment math

Use your DD214, separation orders, DFAS records or W-2.

Line	Amount
A. Gross separation or severance pay	
B. Federal income tax withheld from it (payments after Sept. 30, 1996)	
C. Amount VA should recoup (A – B)	
D. Already recouped (ask VA)	
E. Balance left (C – D)	
F. Monthly VA compensation	
G. Months left (E ÷ F)	
Combat-related DSP? (If yes, VA shouldn’t recoup it)	
DSP disability vs. my other rated conditions (DSP only from the same one)	

WORKSHEET 3

Monthly budget for VA Form 5655

Fill in real numbers. VA uses these to decide waivers, plans and lower withholding.

Monthly income	Amount	Monthly expenses	Amount
VA compensation or pension		Rent or mortgage	
Wages (after taxes)		Utilities (power, water, gas, phone, internet)	
Social Security / SSDI		Food	
Spouse's income		Car payment, gas, insurance	
Retirement or other income		Medical costs and insurance	
Other		Child care, child support	
		Other debts (credit cards, loans)	
Total income		Total expenses	

Left over each month (income – expenses): _____ · Assets (savings, second car, property): _____

WORKSHEET 4

Hardship statement

A short, honest statement to attach to VA Form 5655.

I am asking VA to _____ (waive / reduce withholding on / accept a plan for) my debt of \$ _____.

The debt happened because _____.

I did not know I was being overpaid because _____.

Repaying it now would cause hardship because _____.

My household has _____ people, and after basic expenses I have about \$ _____ left each month.

I have attached _____.

Need help writing it? Use our free Statement Writer at veteransclaimsedu.com/statement-writer to draft your statement or a buddy statement, then copy it onto the VA form.

Date on first debt letter _____

30 days (dispute / waiver to pause collection) _____

1 year (last day for a waiver) _____

[illegible]

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