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Code to Code

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Honest, but Still Unfortunate?

Ninth Circuit Defines Authority of Social Security Administration to Recoup Overpayments Following Chapter 7 Discharge



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As the U.S. Supreme Court has stated, the Bankruptcy Code's principal purpose is to provide a "fresh start" to the honest-but-unfortunate debtor.¹ A concern for economic wellbeing is similarly recognized in the Social Security Act, which is "to provide workers and their families with basis protection against hardships created by the loss of earnings due to illness or old age."² Among other things, the Social Security Act authorizes the federal government to operate a Federal Disability Insurance Trust Fund to provide Social Security Disability Insurance (SSDI) benefits to qualifying individuals.³

Although their goals are seemingly aligned — to provide an economic safety net — conflicts can emerge between these statutes, as illustrated by the Ninth Circuit's recent decision in *Cooper v. Social Security Administration*.⁴ This article examines how courts analyze whether SSDI overpayments could be recouped despite a chapter 7 discharge. *Cooper* clarifies the rules regarding recoupment and affirms the Code's "fresh start" cornerstone for individuals who have been innocently overpaid Social Security benefits.

The Bankruptcy Case

Prior to seeking bankruptcy relief in filing a "no-asset" chapter 7 case, Darrin Cooper became disabled in a workplace injury and, as a result, began receiving workers' compensation payments in 2015 and SSDI benefits in 2019.⁵ In connection with the

SSDI benefits, he submitted a questionnaire that properly disclosed that he was receiving workers' compensation payments.⁶ Nonetheless, the employees at the Social Security Administration (SSA) failed to accurately record the reported workers' compensation benefits on the SSA system, resulting in \$73,355.50 in overpayments.⁷

In July 2020, the debtor filed his case in the U.S. Bankruptcy Court for the Western District of Washington.⁸ At that time, neither the debtor nor the SSA were aware of the overpayments, thus the debtor did not schedule the SSA as a creditor.⁹ The debtor received a discharge on Oct. 21, 2020, with no bar date having been set.¹⁰

Two weeks after the discharge order was entered, upon the SSA's request the debtor provided the administration information regarding his workers' compensation benefits and included his notice of bankruptcy discharge.¹¹ In October 2022, nearly two years after the discharge and three years after the SSA's overpayment, the agency notified the debtor that it would reduce or withhold his SSDI benefits to recoup the overpayment.¹²

The SSA informed the debtor it would not honor the discharge because it failed to receive notice during the chapter 7 case.¹³ In response, the debtor did not seek a waiver or appeal the SSA's decision but instead reopened his bankruptcy case in February 2023.¹⁴ The debtor then

6 *Id.*
7 *Id.*
8 *Id.*
9 *Id.* at 1005-06.
10 *Id.* at 1006.
11 *Id.*
12 *Id.*
13 *Id.*
14 *Id.*

1 *Marrama v. Citizens Bank of Mass.*, 549 U.S. 365, 367 (2007); *Lamar, Archer & Co. v. LLP v. Appling*, 584 U.S. 709, 715 (2018).

2 See *Mathews v. De Castro*, 429 U.S. 181, 185-86 (1976).

3 42 U.S.C. §§ 401, 423.

4 *Cooper v. Soc. Sec. Admin.*, 131 F.4th 995, 1000 (9th Cir. 2025).

5 *Id.* at 1005.

moved for the bankruptcy court to hold the SSA in contempt for adjusting his monthly benefits in violation of the discharge injunction.¹⁵

The Logical-Relationship Test

After an initial hearing and supplemental briefing, the bankruptcy court issued an oral decision in the SSA's favor.¹⁶ The court held that the SSA had properly invoked the equitable doctrine of recoupment, which allowed the SSA to recover the discharged SSDI overpayment without violating the discharge injunction in the debtor's case.¹⁷

The bankruptcy court explained that recoupment is an equitable doctrine permitting one party to recover a debt from another when both obligations arise from the same "transaction or occurrence."¹⁸ To determine whether both obligations arise out of the same transaction or occurrence, the Ninth Circuit applied a "logical relationship test,"¹⁹ which asks whether both obligations arise from the same set of operative facts.²⁰

Applying this test, the bankruptcy court concluded that the Social Security Act envisions pre-petition overpayments logically linked to post-petition entitlements because it requires the SSA to consider an individual's entire work history, including pre-petition benefits payments, when determining SSDI entitlements.²¹ The bankruptcy court found that a "very strong logical relationship" existed because the countervailing obligations arose from the same entitlement program and basis for entitlement.²²

The debtor appealed to the Bankruptcy Appellate Panel (BAP), which held that the bankruptcy court had not abused its discretion and affirmed the bankruptcy court's decision.²³ As in the bankruptcy court, the BAP found that the pre-filing overpayment and post-filing adjustment arose from the same disability, disability period, statutory scheme and common fund.²⁴ The debtor subsequently appealed to the Ninth Circuit.²⁵

Issue of First Impression

On appeal, the Ninth Circuit noted that it was an issue of first impression in the circuit as to whether the SSA could recoup SSDI benefits that it overpaid, through its own error, from a beneficiary who has already received a no-asset discharge in bankruptcy.²⁶ Recoupment is an equitable doctrine,²⁷ as it allows for "a demand arising from the same transaction as the plaintiff's claim or cause of action, strictly for the purpose of abatement or reduction of such claim."²⁸

It is separate and distinct from a setoff that "allows entities that owe each other money to apply their mutual debts against each other, thereby avoiding the absurdity of making A pay B when B owes A."²⁹ Because recoupment enables a creditor to recover discharged debt that would otherwise be inaccessible, it "enables creditors to evade the discharge injunction and collect discharged debts."³⁰ In order for a creditor to avail itself of recoupment, the Ninth Circuit explained that the "logical relationship" test derived from Rule 13(a) of the Federal Rule of Civil Procedure must be applied.³¹

Our logical-relationship test demands consideration of the equities, including the fundamental purpose of the Bankruptcy Code. The factual and legal connections that undergird any logical relationship must be such that recoupment is equitable on the facts of the specific case and thus will not improperly encroach on the Bankruptcy Code's policy of limiting setoff.³²

Critically, the Ninth Circuit counseled against a far-reaching application stating that "[w]e have cautioned that an overly broad interpretation of the logical relationship test would frustrate the fundamental purpose of bankruptcy proceedings."³³ In this case, the SSA reduced the debtor's monthly SSDI benefits in 2023 to recoup an overpayment made in 2019 and discharged in 2020.³⁴

The Ninth Circuit began its analysis by rejecting the SSA's argument that recoupment of SSDI benefits from a bankrupt debtor should always be permissible.³⁵ First, the Ninth Circuit reasoned that "[s]uch a sweeping right to recoupment would defeat the fundamental purpose of the Bankruptcy Code and create a circuit split regarding a practice that the Social Security Act already proscribes."³⁶ In support, it noted that courts across the country have held that the Social Security Act protects SSDI benefits from recovery in bankruptcy and that the Social Security Act contains no language that would exempt the SSA from this limitation.³⁷ Next, the Ninth Circuit found that the Social Security Act and its derivative regulations caution that the SSA should not adjust benefits in a manner that defeats the purpose of Title II of the Social Security Act by "depriv[ing] a person of income required for ordinary and necessary living expenses."³⁸ Finally, the Court highlighted that "as an equitable doctrine not mentioned in the Bankruptcy Code, 'recoupment is not subject to all of the same strictures in bankruptcy as setoff.'³⁹

Attenuated Relationship

Having rejected the SSA's broad application of recoupment, the Ninth Circuit's analysis in *Cooper* next turned to

15 *Id.*

16 *Id.* at 1007.

17 *Id.*

18 *In re Cooper*, No. 2:20-BK-11937-MLB, 2024 WL 166103, at *4 (B.A.P. 9th Cir. Jan.16, 2024), *rev'd and remanded sub nom.*, *Cooper v. Soc. Sec. Admin.*, 131 F.4th 995 (9th Cir. 2025).

19 *Cooper*, 131 F.4th at 1007; see also *In re Madigan*, 270 B.R. 749, 754 (B.A.P. 9th Cir. 2001) ("In the Ninth Circuit, in order to determine if two claims arose from the 'same transaction,' we must apply the 'logical relationship' test.") (citations omitted).

20 *Madigan*, 270 B.R. at 755.

21 *Cooper*, 131 F.4th at 1007.

22 *Id.*

23 *Cooper*, No. 2:20-BK-11937-MLB, 2024 WL 166103, at *9.

24 *Id.* at *7-8; *Cooper*, 131 F.4th at 1007.

25 *Cooper*, 131 F.4th at 1007.

26 *Id.* at 1001.

27 *Id.* at 1008.

28 *Id.* (quoting *Newbery Corp. v. Fireman's Fund Ins. Co.*, 95 F.3d 1392, 1399 (9th Cir. 1996)).

29 *Id.* (quoting *Citizens Bank of Maryland v. Strumpf*, 516 U.S. 16, 18 (1995) (quotations omitted)).

30 *Id.* at 1008-09.

31 *Id.* at 1009.

32 *Id.* at 1012 (citations omitted).

33 *Id.*

34 *Id.* at 1012.

35 *Id.* at 1013.

36 *Id.*

37 *Id.* (citing *Neavear v. Schweiker (Matter of Neavear)*, 674 F.2d 1201, 1205 (7th Cir. 1982); *Rowan v. Morgan*, 747 F.2d 1052, 1055 (6th Cir. 1984)).

38 *Id.* at 1013 (citing 20 C.F.R. § 404.508).

39 *Id.* at 1014 (quoting *Gardens Reg'l Hosp. & Med. Ctr. Liquidating Tr. v. California (In re Gardens Reg'l Hosp. & Med. Ctr. Inc.)*, 975 F.3d 926, 934 (9th Cir. 2020)).

whether recoupment was permissible in the debtor's case. Contrary to the bankruptcy court's finding of a "very strong logical relationship,"⁴⁰ the Ninth Circuit determined that the factual and legal relationships between the debtor's receipt of pre-petition overpayment and his post-petition entitlement were somewhat tenuous.

For the factual relationship, the court acknowledged that the overpayment and the entitlement each arose from the same disabling condition during the same disability period.⁴¹ However, the Ninth Circuit reasoned that Social Security regulations requiring beneficiaries to provide periodic updates as to their disabling condition may have weakened the factual connection had these facts been included in the record of this case.⁴² This was due to the possibility that the debtor's present entitlement to benefits might be based on a different version of his disability than his past entitlement.⁴³

With respect to the legal relationship, the court similarly noted that the overpayment and present entitlement arose from the same statutory scheme and the same Federal Disability Insurance Trust Fund.⁴⁴ However, the Ninth Circuit found that this fact alone was insufficient, echoing its previous precedent, which held that "[m]ere genesis in a common fund cannot establish a logical relationship between countervailing claims."⁴⁵ In the context of SSDI benefits, the common fund supported only a weak legal relationship because SSDI beneficiaries do not make ongoing payments into the Federal Disability Insurance Trust Fund from which the SSA draws their benefits.⁴⁶ Therefore, while the overpayment and present entitlement were legally related because they both arose from the Federal Disability Insurance Trust Fund, "no circular payment scheme bolster[ed] that relationship."⁴⁷

Malfeasance Matters

The final part of the Ninth Circuit's analysis weighed the equities in the debtor's case. The court reasoned that equitable recoupment would not only deny the debtor a fresh start through bankruptcy, it would also deprive him of necessary living expenses to which he was indisputably entitled.⁴⁸ Such deprivation, the Ninth Circuit maintained, would contravene the express purpose of Title II Social Security benefits.⁴⁹ Although an issue of first impression within the Ninth Circuit, the court highlighted the Third Circuit's decision in *Lee v. Schweiker*,⁵⁰ which held that recoupment of old age benefits was impermissible in part because it would undermine the benefits' purpose of "provid[ing] income to qualifying individuals."⁵¹

Finally, the Ninth Circuit identified several additional equitable factors weighing against recoupment, including the

absence of any evidence that the debtor engaged in misconduct that would make retention of the overpayment unfair, and the fact that the overpayment resulted from the SSA's own processing error.⁵² The court also concluded that there was no support for a suggestion made by the SSA that the debtor should have first sought to appeal alternative remedies contained in the Social Security Act before reopening his bankruptcy case.⁵³ The Ninth Circuit further pointed out that the SSA's own *Program Operations Manual System* guidance instructs that even absent notice in a no-asset bankruptcy, "the bankruptcy judgment will be binding on SSA."⁵⁴

Ultimately, the Ninth Circuit determined that recoupment was impermissible where, as in the debtor's case, the SSA seeks to recoup overpayments from a bankrupt beneficiary who engaged in no malfeasance.⁵⁵ The bankruptcy court's decision was reversed and remanded.

Conclusion

The Ninth Circuit's decision in *Cooper* is a significant win for innocent individuals receiving SSDI benefits, ensuring important protection for an otherwise-vulnerable class. The decision places the onus on the SSA to avoid overpayment errors and avoid the need for recoupment.

For future recoupment cases and other cases implicating the logical-relationship test in the Ninth Circuit, it seems likely that the more comprehensive consideration of the equities applied by the circuit will govern. Under this approach, courts are less likely to weigh only surface-level legal and factual connections and will instead explore the fundamental purposes of the Bankruptcy Code and any additional relevant statutes to the case at hand. Under *Cooper*, in the absence of malfeasance or wrongdoing, creditors (including the SSA) will be unlikely to satisfy the logical-relationship test in support of recoupment. **abi**

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40 *Id.* at 1007.

41 *Id.* at 1014.

42 *Id.* at 1014-15.

43 *Id.*

44 *Id.* at 1015.

45 *Id.* at 1016 (citing *Gardens*, 975 F.3d at 940).

46 *Id.*

47 *Id.* at 1016-17.

48 *Id.* at 1017.

49 *Id.*

50 *Lee v. Schweiker*, 739 F.2d 870 (3d Cir. 1984).

51 *Cooper*, 131 F.4th at 1017 (citing *Lee*, 739 F.2d at 876).

52 *Id.* at 1018.

53 *Id.*

54 *Id.* (citing U.S. Soc. Sec. Admin., GN 02215.230).

55 *Id.* at 1002.