Is My Social Security Safe From Debt Collectors?

If that question has been on your mind, we've got good and bad news.

Here's who can and can't tap into your benefits.

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If you're a retiree saddled with debt, you may be wondering what happens to your Social Security benefits if you are no longer able to make your monthly payments to creditors.

The answer depends on to whom you owe money.
To find out if debt collectors can tap into your Social Security benefits, U.S. News spoke to three financial experts.

Most Collectors Can't Touch Your Social Security

Germi Cloud, a certified national Social Security advisor and partner at Cloud Financial in Huntsville, Alabama, has good news for you. Private debt collectors, such as credit card companies and banks, can't garnish your Social Security benefits. Section 207 of the Social Security Act prohibits debt collectors or a bankruptcy court from dipping into your bank account to take Social Security money for purposes of paying off what you owe.

Having your benefits directly deposited in a bank account is the easiest way to ensure your Social Security money doesn't get mistaken for dollars that can be taken. "If you get a check, you could very well lose those [section 207] protections," Cloud says. "You'd have to prove it's protected money [in your account]."

For most people, this shouldn't be a problem. The government officially phased out paper checks in 2013, but waivers were granted to some elderly beneficiaries who didn't want to transition to electronic payments.

Government Agencies Can Raid Your Benefits

While your money is safe from private bill collectors, the government can and will take a portion of your Social Security benefits if you owe them money. According to Willie Schuette, a national Social Security advisor and financial coach with The JL Smith Group in Avon, Ohio, that means your benefits could be garnished if you are behind on payments for any of the following:

- Income taxes
- Federal student loans
- State-ordered child support or alimony
- Federally backed mortgages

How much can be taken from Social Security depends on the type of debt you owe. In most situations, the government can pull 15 percent of your benefits to cover your debt, but under the Debt Collection Improvement Act of 1996, it must leave you at least $750 each month. That is, unless the levy is for federal income taxes. In that case, the government isn't required to leave $750 behind. The other exception is for child support or alimony payments. Depending on your state laws, the court may be able to take half of your benefits or more to pay your obligations to your children or ex-spouse.

Fortunately for most seniors, child support and alimony payments typically end before retirement. Likewise, student loans wouldn't seem to be an issue for older Americans, but that may be changing. "Federal student loans will be an interesting dynamic in the future," Schuette says. "I see that potentially being a [problem] area [for seniors]."

A report by the Government Accountability Office last year found 4 percent of Americans ages 65 to 74 had student loans in 2010. That might not sound like a lot, but it's four times more than the 1 percent of that demographic that had student debt in 2004. From 2005 to 2013, senior student loan debt ballooned from $2.8 billion to $18.2 billion.

As a final note on Social Security garnishments, it's important to distinguish between retirement benefits and supplemental security income given to disabled adults and children as well as some low-income seniors. The latter cannot be taken to pay off debts, even by the government.

The Best Defense is a Good Offense

If you think your Social Security benefits might be raided to pay overdue bills, the worst thing you can do is ignore the problem. "They don't want to go after your Social Security. Believe me," says Jordan Niefeld, a certified financial planner with Raymond James & Associates in Aventura, Florida. In Niefeld's experience, most government agencies are happy to work with you so long as you're willing to work with them. "If you try to run away from the problem, they're not going to be supportive," he says.

Schuette says the government typically sends several letters about a debt before it takes action. The final letter will inform you of the intent to levy Social Security payments, and after that, you have 30 days to contact the agency and work out a payment plan.

Although financial experts are hesitant to say you can't stop a garnishment order after it starts, the ones interviewed for this article agreed it is best to never let it get to that point.

Another strategy you could use is to delay starting Social Security until you have paid off what you owe. Unfortunately, that may not be a realistic option for many people, particularly the roughly 30 percent of retirees for whom the Employee Benefit Research Institute says debt is a problem. "The [people] who take Social Security right away [may do so] because they are far in debt and need the money," Schuette points out.

Regardless of whether you are receiving Social Security right now or will be shortly, the best way to avoid the government taking a portion of your benefits is to work out payment plans for debts and stick to them. Look for resources to help with budgeting and debt consolidation if you feel overwhelmed.

"You've got to want to be better at your finances," Niefeld says. "It doesn't clean itself up on its own."