

**VOLUME 7B, CHAPTER 23: “SPECIAL AND VOLUNTARY SEPARATION  
INCENTIVE PAY”**

**SUMMARY OF MAJOR CHANGES**

All changes are denoted by [blue font](#).

Substantive revisions are denoted by an \* symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by [\*\*\*bold, italic, blue, and underlined font\*\*\*](#).

The previous version dated July 2012 is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
All	Updated chapter with hyperlinks and formatted to comply with current administrative standards.	Revision
230102.D.2 and 230302.A.2	Rearranged subparagraph to adhere to administrative standards.	Revision
Bibliography	Updated Bibliography, accordingly.	Revision

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## CHAPTER 23

SPECIAL AND VOLUNTARY SEPARATION INCENTIVE PAY

## 2301 GENERAL

## 230101. Overview

This chapter provides policy for the administration and payment of the special separation benefits programs to mid-career service members of the Military Services in over-strength inventories. Special Separation Benefits (SSB) and Voluntary Separation Incentives (VSI) benefits are authorized in Title 10, United States Code (U.S.C.), sections [1174a](#) and [1175](#). The applicable period for SSB and VSI was January 1992 through October 1995. Both options require member affiliation with a Reserve Component. See Volume 7A, Chapter 35 for detailed information on SSB/VSI benefits, entitlements, and eligibility requirements.

## \*230102. Responsibilities

A. Defense Finance and Accounting Service (DFAS)-Cleveland Site

1. The DFAS-Cleveland Site will maintain the VSI account until all annual installments are paid, or until the death of the VSI member recipient. A member's entitlement to VSI is not transferable, except that the member may designate beneficiaries to receive the payments in the event of the member's death, in accordance with paragraph 230401.

2. The DFAS-Cleveland Site will make all VSI annual beneficiary payments. Following the death of a VSI recipient, the DFAS-Cleveland Site will provide customer service support for designated beneficiaries and be the primary source for VSI member beneficiary account assistance and maintenance.

B. Defense Manpower Data Center (DMDC). The DMDC will maintain a personnel database that identifies and tracks participation in the SSB/VSI programs. Because of the requirement for Reserve affiliation, the DMDC will provide advice of Reserve participation to the DFAS-Cleveland Site.

C. Secretary of the Treasury. The Secretary of the Treasury administers the "Voluntary Separation Incentive Fund" (hereafter referred to as the "Fund"). All VSI payments made by the Secretary of Defense after December 31, 1992, pursuant to 10 U.S.C. 1175, shall be paid out of this fund. The Fund is classified as a trust fund and has been designated as account number 97X8335. This Fund will consist of a receipt and expenditure account.

D. Department of Defense (DoD) Board of Actuaries. The DoD Board of Actuaries (hereinafter referred to as the "Board") shall:

1. Determine an amount that is the total present value, as of January 1, 1993, of the future benefits payable to persons who separate under VSI prior to

January 1, 1993. The Board also shall determine an amortization period and schedule for liquidating the original unfunded liability of the Fund. For members separated on or after January 1, 1993, the Secretary shall deposit in the Fund during the period beginning on that date and ending on September 30, 1999:

a. The sums necessary to pay the current liabilities during that period; and

b. The amount equal to present value, as of September 30, 1999, of future benefits payable as determined by the Board.

\* 2. For each fiscal year after fiscal year 1999, the Board shall:

a. Carry out an actuarial valuation for the Fund and determine any new unfunded liabilities arising from gains and losses to the Fund;

b. Determine an amortization schedule for liquidating these new unfunded liabilities; and

c. Determine for the upcoming fiscal years, in sufficient time to be included in the fiscal year's budget requests, the amount of DoD contributions to the Fund necessary to comply with the amortization schedules for the Fund's original and new unfunded liabilities.

## 2302 PAYMENT PROCESSING

### 230201. Voluntary Separation Incentives (VSI) Payments

A. Upon separation, the Service member will complete a Department of Defense [\(DD\) Form 2058](#), State of Legal Residence Certificate, and Internal Revenue Service [\(IRS\) Form W-4](#), Employee's Withholding Allowance Certificate. Members who wish to designate beneficiaries must complete a [DD 2864](#), Voluntary Separation Incentive (VSI) Beneficiary Designation Form.

B. DFAS-Cleveland Site will send annual VSI payments to the VSI recipient's bank via Electronic Funds Transfer (EFT). The Service member should complete [Standard Form \(SF\) 1199A](#) (Direct Deposit Sign-Up Form) to establish EFT payments. If an SF 1199A is not available, the VSI recipient must submit the routing transit number of the financial institution, a canceled check or deposit slip that shows his/her account number and bank address, and the member's signature.

C. After the initial payment, the DFAS-Cleveland Site will issue all subsequent annual payments on the anniversary of the member's separation. In the event that the anniversary date falls on a weekend or holiday, make the payment according to the same rules followed for regular active duty paydays.

## 230202. Effect of Disability Compensation

A member receiving VSI shall not be deprived of the VSI by reason of entitlement to disability compensation under the laws administered by the Department of Veterans Affairs (VA).

A. Deduction. There shall be deducted from VSI [payments](#) an amount equal to the amount of any such disability compensation concurrently received.

B. No Deduction. No deduction may be made from VSI for any disability compensation received because of an earlier period of active duty if [the](#) VSI is received because of discharge or release from a later period of active duty.

## 230203. Withholding Requirements

A. Federal Income Tax Withholding (FITW)

1. Initial SSB and VSI Payments. [From the initial SSB and VSI payment](#), withhold FITW at the applicable flat rate percentage of the gross payment. All SSB and initial VSI payments are included with the member's other taxable pay amounts during that calendar year and reported via the IRS Form W-2 (Wage and Tax Statement) in January of the following calendar year.

2. Annual VSI Payments. Withhold FITW from annual VSI payments based upon the annual Percentage Method of Withholding Table. A valid IRS Form W-4 is required to compute the proper withholding amount under this method. If the member does not submit an IRS Form W-4, compute the tax withholding as if the member is single, with no withholding exemptions. All anniversary payments are produced by the DFAS-Cleveland Site and reported to the member via IRS Form W-2 in January of the calendar year following the payment.

B. State Income Tax Withholding. All SSB and VSI payments are subject to state income tax withholding for residents of states [that](#) have entered into an agreement with the Secretary of the Treasury. State withholding and reporting for the SSB and initial VSI payment [are](#) based on the member's legal residence at the time of separation from active duty. See Volume 7A, Chapter 44 for those states [that](#) have entered into an [agreement with the Secretary of the Treasury](#). For VSI anniversary payments, withhold State income tax based upon the State of legal residence claimed on DD 2058, or if no new DD 2058 is submitted, withhold State income tax based upon the State of legal residence claimed on the member's DD 2058 on file at separation.

C. Withholding of Federal Insurance Contributions Act (FICA). The responsible DFAS-Site will not withhold FICA or any other payroll taxes from SSB and VSI payments.

230204. [Recoupment of Special Separation Benefits \(SSB\)/VSI](#)

A member who has received SSB/VSI and who later qualifies for retired or retainer pay shall have deducted from each payment of such retired or retainer pay the amount of SSB/VSI received. SSB shall also be deducted from disability compensation under the laws administered by the VA. For detailed information on recoupment, see Chapter 4, [paragraphs 040502, 040603, and 040702](#).

## 2303 DEBT COLLECTION

## 230301. General

SSB/VSI payments are subject to offset for debt collection. When a Service member is released from active duty with debts due the United States (U.S.), [offset the amount of the debt from the initial SSB/VSI entitlement](#). In the case of VSI, if the debt is greater than the initial payment, then the remaining debt may be collected from subsequent installments. Collections are made according to the administrative offset provisions contained in [31 U.S.C. 3716](#). The collection of debts from SSB/VSI payments must be consistent with standard debt collection procedures and policies [in Volume 5, Chapter 28](#).

## \*230302. Debt Collection

A. [VSI Overpayment](#)

1. [Overpayment of Initial VSI Installment](#). For collecting VSI overpayments, the responsible DFAS-Site will pursue collection action using out-of-service debt collection procedures. If the VSI account has already been transferred to the DFAS-Cleveland VSI pay system, notify the DFAS-Cleveland Site, [Department Code JBJAA\(D\)](#), within five days with the correct payment information. If debt collection actions prove unsuccessful, follow the provisions of paragraph 230302.C.2.

\* 2. [VSI Anniversary Overpayment](#). [The DFAS-Cleveland Site will pursue a debt incurred as a result of an anniversary overpayment, as an out-of-service debt](#). If the debt cannot be collected through these procedures, offset the amount owed from subsequent installment payments. This offset will include any applicable interest, administrative and/or penalty charges.

B. [SSB Overpayment](#). The Service member's responsible servicing DFAS-Site will treat a debt incurred as a result of overpayment of SSB entitlement, as an out-of-service debt. Pursue overpayment according to standard debt collection procedures [in Volume 5, Chapter 28](#).

C. [Active Duty Debts](#)

1. Amounts due the U.S. should be offset against the initial SSB/VSI payment at the time of the member's separation. The member's responsible servicing DFAS-

Site will pursue any uncollectible amounts using out-of-service debt collection procedures in [Volume 5, Chapter 28](#).

2. The DFAS-Cleveland Site will retain debts for VSI recipients as long as collection efforts are satisfactory. If collection efforts prove unsuccessful, the responsible servicing DFAS-Site will forward the debt to DFAS-Cleveland for administrative offset against the next VSI installment payment at the following address:

Defense Finance and Accounting Service  
Attn: VSI ([Department](#) Code JBJAA(D))  
P.O. Box 998011  
Cleveland, OH 44199-8011

Such debts should be transferred to the DFAS-Cleveland Site no later than 90 days before the next VSI installment payment using a [DD 139](#), Pay Adjustment Authorization. The DD 139 must state that due process has been accorded the member. Once offset action has been taken, the DFAS-Cleveland Site will credit the proper military personnel appropriation and notify the [appropriate](#) DFAS-Site of the amounts collected. If the total debt cannot be liquidated from a single VSI anniversary installment, the respective DFAS-Site should resubmit the remaining debt for offset, including any applicable interest, administrative and/or penalty charges, until the total debt has been satisfied.

D. Debts from Non-Appropriated Fund Instrumentalities (NAFI). A member's annual VSI installments are available for collection of debts owed to NAFI activities.

1. The NAFI is responsible for providing notification of the existence of the debt and due process to the debtor. The initial NAFI notification to the debtor must include a demand for immediate payment in full of the debt.

2. To effect collection, the NAFI must send a DD 139 to the DFAS-Cleveland Site to the address listed in subparagraph 230302.C.2. The DD 139 must contain the following statement: "Member has been provided due process according to Volume 7A, Chapter 50, subparagraph 500104.A.3."

3. The entire amount of VSI entitlement is available for offset according to the administrative offset provisions contained in 31 U.S.C. 3716.

E. Debts from Non-DoD Federal Agencies. DMDC will receive and certify all requests for administrative offset from non-DoD Federal Agencies. Once certified, the DMDC will send the request, via a DD 139 or letter of transmittal, to the member's responsible servicing DFAS-Site. This DFAS-Site will satisfy the request by administrative offset of the SSB or initial VSI payment. For VSI payments, once the account is transferred to the DFAS-Cleveland Site, refer any debts to the DFAS-Cleveland Site for offset against future VSI installments.

## 230303. Garnishments

Garnishment orders remain in effect. Transfer garnishment cases for VSI recipients to the DFAS-Cleveland Site for administration.

## 2304 BENEFICIARY PAYMENT

## 230401. Designation of Beneficiaries

A. Service members may designate beneficiaries to receive VSI installments [that](#) remain unpaid after the death of the member.

1. The VSI recipient should make designations using [DD 2864](#). The VSI recipient may designate different percentages to be received by multiple recipients. In the event percentage elections are not made, divide payments evenly among the designated beneficiaries.

2. After separation, the VSI recipient may change his/her beneficiary information by sending a notarized [DD 2864](#) to the DFAS-Cleveland Site.

B. The DFAS-Cleveland Site will maintain beneficiary forms for all VSI accounts until the end of the VSI entitlement period, or until the person's death.

## 230402. Notification of Death and Beneficiary Claim

A. The DFAS-Cleveland Site requires notification of a VSI recipient's death. Proof of death, such as a civil death certificate, is required. Upon receipt of proof of death, the DFAS-Cleveland Site will close out the member account and establish the beneficiary account.

B. No specific form is required for making claim for beneficiary payments. A statement signed by the beneficiary claiming future VSI payments will be sufficient. The statement should include the beneficiary's social security number. Mail beneficiary claims to:

Defense Finance and Accounting Service  
Attn: VSI  
PO Box 998011  
Cleveland, OH 44199-8011

## 230403. Beneficiary Payment

A. Death of the Member. Upon the death of the member, the DFAS-Cleveland Site will make all remaining annual installments to the member's designated beneficiaries for the remainder of the deceased VSI recipient's entitlement period. If a valid designation was not made or received, distribute payments according to the legal order of precedence contained in [10 U.S.C. 2771](#) as follows:



1. Beneficiary designated by the member in writing, if the designation is received by the Military Department concerned before the member's death;

2. Surviving spouse;

3. Children and their descendants, by representation:

a. Adopted Child. An adopted child is a legal heir in every state and, therefore, is entitled to payment of unpaid pay and allowances, if otherwise proper. **If others adopt the deceased member's child**, then the child is a beneficiary only in those states where an adopted child inherits from its natural **parent**.

b. Stepchild. A stepchild is not an eligible beneficiary unless adopted by the deceased retiree.

c. Illegitimate Child. An illegitimate child may not be paid unpaid pay and allowances of a deceased retiree unless that child is recognized for inheritance purposes under the laws of the jurisdiction involved.

4. Father and mother in equal parts or, if either is dead, the survivor;

5. Legal representative; or

6. Person entitled under the law of the domicile of the deceased retiree.

B. Death of the Beneficiary. Payments will be distributed to a beneficiary's estate in the event a beneficiary dies after a VSI recipient's date of death. The DFAS-Cleveland Site will make such payments according to the laws governing the beneficiary's state of legal residence.

C. Withholding Requirements

1. FITW is based upon the IRS Form W-4P (Withholding Certificate for Pension or Annuity Payments) submitted by the recipient. If an IRS Form W-4P is not submitted, the DFAS-Site will calculate withholding as for a married person claiming three withholding allowances.

2. State income taxes or FICA will not be withheld from beneficiary payments.

3. The DFAS-Cleveland Site will issue an IRS Form 1099-R (Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.) to each beneficiary recipient.

D. Garnishment of Beneficiary Payments. The DFAS-Cleveland Site will not honor garnishment orders against beneficiary payments.

E. Offset of Beneficiary Payments. Beneficiary payments generally are not subject to offset. For instance, VSI beneficiary payments are not offset even though the beneficiary is entitled to receive Social Security on behalf of the deceased VSI recipient. However, if a beneficiary is indebted to the government, the debt may be collected from VSI installment payments.

230404. Report of Existence

The DFAS-Cleveland Site will send a report of existence letter annually to each beneficiary. For additional information on Report of Existence, see Chapter 15, [Chapter 37 \(section 3716\)](#), and [Chapter 46 \(section 4612\)](#).

2305 RESERVISTS DEBT COLLECTION

230501. General

Reservists' Special Separation Pay/Reservists' Involuntary Separation Pay (RSSP/RISP) payments are subject to offset for debt collection. Any debts remaining at time of separation/retirement is offset from the amount of the RSSP/RISP payment. In the case of RSSP, if the debt is greater than the initial payment, the remaining debt may be collected from any subsequent installments. Collections are made according to the administrative offset provisions contained in 31 U.S.C. 3716.

A. RSSP. RSSP may be paid to Reservists who have performed more than 20 years of service and are under 60 years of age, provided the member [receives](#) the approval of the Secretary concerned and meets the eligibility requirements in Volume 7A, Chapter 58, subparagraph 580504.A.

B. RISP. Subject to the approval of the Secretary concerned and restrictions contained in Volume 7A, Chapter 58, paragraph 580505, a member of the Selected Reserve may be paid RISP. RISP may be paid to a member who is separated from service on or after March 11, 1993, and has performed 6 years or more, but less than 15 years of service prior to date of discharge from a Reserve Component or involuntary transfer from the Selected Reserve.

230502. Debt Collection

A. RSSP Overpayment

1. Overpayment of the Initial RSSP Payment. The DFAS-Cleveland Site will pursue collection action against the RSSP recipient. If the RSSP account has been transferred to the DFAS-Cleveland Site RSSP pay system, [then](#) that Site, [Department](#) Code JBJAA(D), will be notified of the correct payment information within 5 days. If debt collection actions prove unsuccessful, follow the provisions of subparagraph 230502.C.1. If the debt cannot be satisfied through RSSP offset, the DFAS-Cleveland Site will forward the uncollectible amount to the DFAS-IN Site for collection action. Offset from retired pay will include all appropriate interest, administrative, and/or penalty charges.

2. RSSP Anniversary Overpayments. The DFAS-Cleveland Site will collect RSSP anniversary overpayments as an out-of-service debt. In the event the debt cannot be collected through these procedures, the DFAS-Cleveland Site will offset from any subsequent installment payments. This offset will include all applicable interest, administrative, and/or penalty charges.

B. RISP Overpayments. The Reserve member's responsible servicing DFAS-Site will pursue all RISP overpayments according to out-of-service debt procedures.

C. Other DoD Debts

1. RSSP Payments. The Reserve member's responsible servicing DFAS-Site will offset debts against the initial RSSP payment. If debts are established after the initial payment, the RSSP recipient's responsible servicing DFAS-Site will pursue collection using out-of-service debt collection procedures. The RSSP recipient's responsible servicing DFAS-Site will retain the debt as long as collection actions are satisfactory. If collection actions prove unsuccessful, notice of the debt will be forwarded to the DFAS-Cleveland Site, [Department Code JBJAA\(D\)](#), for administrative offset against any remaining RSSP installment payments. The debt will be transferred to the DFAS-Cleveland Site no later than 90 days from the next RSSP installment payment using a DD 139. Once offset action has been taken, the DFAS-Cleveland Site will credit the proper Military Personnel Appropriation and notify the [appropriate](#) DFAS-Site of the amount collected. If the total debt cannot be liquidated from a single RSSP anniversary installment, the [appropriate](#) DFAS-Site will resubmit the remaining debt for offset until the total debt has been satisfied. If the debt is not satisfied by offset from the last RSSP payment, the RSSP recipient's applicable DFAS-Site will collect against the Reserve member's retired pay.

2. RISP Payments. The DFAS-Site will offset amounts due the [U.S.](#) against the RISP payment at the time of the Reserve member's separation. If debts are established after an RISP payment, pursue the debt using out-of-service debt collection procedures.

D. Debts from non-DoD Federal Agencies. DFAS-Cleveland Site/Code ABA will receive and certify all requests for administrative offset from non-DoD Federal Agencies. Once certified, DFAS-Cleveland Site/Code ABA sends the requests to the Defense Manpower Data Site for locator service. Once the debtor's DFAS-Site has been identified, the requests for offset are sent via a letter of transmittal or cartridge to the Reserve member's responsible servicing DFAS-Site. This DFAS-Site provides the member with a courtesy notice of salary offset beginning and satisfies the request by administrative offset of the RISP or initial RSSP payment. For RSSP payments, once the account is transferred to the DFAS-Cleveland Site, advice of any debts owed to non-DoD Federal Agencies will be transmitted to the DFAS-Cleveland Site, [Department Code JBJAA\(D\)](#), for offset against any future RSSP installments.

E. Other RISP Offsets

1. Individuals who subsequently receive basic pay, compensation for inactive duty training, or retired or retainer pay under a purely military retirement program will have such pay or compensation reduced by 75 percent until the total amount withheld equals the RISP entitlement.

2. Service members, who subsequently receive disability compensation from the VA, will have deducted from such compensation the total amount of RISP. However, there is no reduction if the disability compensation is for a disability incurred or aggravated after the period for which the RISP was paid.

## 230503. Garnishments

Garnishment orders remain in effect. Garnishment cases for RSSP recipients will be transferred to the DFAS-Cleveland Site for administration.

## \*BIBLIOGRAPHY

## CHAPTER 23 – SPECIAL AND VOLUNTARY INCENTIVE SEPARATION PAY

## 2301 – GENERAL PROVISIONS

230101	10 U.S.C. 1174a(h)(2) 10 U.S.C. 1175
<a href="#">230102.A</a>	10 U.S.C. 1175(f)
230102.C and D	10 U.S.C. 1175(h)

## 2302 – PAYMENT PROCESSING

<a href="#">230202</a>	10 U.S.C. 1175(e)(4)
230204	<a href="#">10 U.S.C. 1175(e)(3)(A)</a> 10 U.S.C. 1174a(g); 10 U.S.C. 1174(h)(1) 10 U.S.C. 1175(e)(3) <a href="#">10 U.S.C. 1174(g)</a> and 10 U.S.C. 1174(h)

## 2304 - BENEFICIARY PAYMENT

230403.A	10 U.S.C. 2771
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## 2305 – RESERVIST DEBT COLLECTION

230501	Public Law 102-484, section 4416, October 23, 1992 DoDFMR, Vol. 7A, Chapter 58, Para. 580505
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