CHAPTER 4

RECOUPTMENT OF READJUSTMENT PAY, NONDISABILITY SEVERANCE PAY, SEPARATION PAY, VOLUNTARY SEPARATION INCENTIVE, AND SPECIAL SEPARATION BENEFIT

SECTION A
GENERAL PROVISIONS

10401. Purpose

To provide for recoupment of payments made to certain members upon involuntary discharge, release from active duty, or voluntary separation, when members are later placed on a retired list.

10402. Definitions

a. **Readjustment Pay.** A lump-sum payment to members of a Reserve component of any service, members of the Army or Air Force without component, and Regular Army commissioned officers below the grade of major who are involuntarily released after completing at least 5 years of continuous active duty and who do not qualify for retirement.

b. **Nondisability Severance Pay.** A lump-sum payment specifically authorized by law to certain commissioned and warrant officers who are involuntarily discharged from active duty under certain conditions.

c. **Separation Pay.** A lump-sum payment to a regular officer or a member of a Reserve component who is involuntarily discharged from active duty under certain conditions.

d. **Voluntary Separation Incentive.** An annual payment to members who separate voluntarily from service before 1 Oct 1995, under conditions prescribed by the Secretary concerned.

e. **Special Separation Benefit.** A lump-sum payment to members who separate voluntarily from service before 1 Oct 1995, under conditions prescribed by the Secretary concerned.

f. **Recoupment.** Refund or recovery of readjustment pay, nondisability severance pay, separation pay, voluntary separation incentive or special separation benefit previously received, due to entitlement to retirement benefits based on the same active service.

SECTION B
READJUSTMENT PAY

10411. Members Affected

a. A member who receives readjustment pay before 15 Sep 1981, because of involuntary discharge or release from active duty after 28 June 1962 and later qualifies for retired pay on completion of 20 years of active service must refund 75 percent of the readjustment payment. For this purpose, a member transferred to the Fleet Reserve or the Fleet Marine Corps Reserve is considered to have "qualified for retired pay under a statute authorizing retirement upon completion of 20 years of active service," even though such transfer may have occurred after completion of less than 20 years of actual service. See table 1-4-1.

b. A Regular Army commissioned officer in the grade of second lieutenant, first lieutenant, or captain, who receives readjustment pay from 30 Dec 1974 through 30 Dec 1977, and who later qualifies for retired pay upon completion of 20 years' active service, must refund 75 percent of the readjustment payment. See table 1-4-1.

c. A member of the uniformed services who served on active duty as a temporary officer and held a Reserve officer status upon release from active duty as a temporary officer and held a Reserve officer status upon release from active duty 15 Sep 1981 or later, who has completed 5 or more, but less than 20 years of active service, and who does not qualify for retirement. Effective 1 Oct 1983, the 5 years' minimum active duty must have been continuous for any member who was not on the active duty list. A period of active duty is continuous if any break in service does not exceed 30 days.

d. A member who receives readjustment pay 15 Sep 1981 or later, and who later qualifies for retired pay, must refund an amount equal to the total amount of readjustment pay received. See paragraph 10412b.

10412. Recoupment of Readjustment Pay

a. Readjustment Pay Received Before 15 Sep 1981:

1. A total of 75 percent of the gross readjustment pay without interest is deducted immediately from retired pay.

2. There is no entitlement to retired pay until 75 percent of the lump sum pay is recovered. Cost for coverage under the Survivor
Benefit Plan must be paid by direct remittance to
the servicing finance activity during the period
member is not entitled to retired pay.

(3) When applying the 75 percent
formula to lump sum readjustment payment to
determine the amount to be recouped from retired
pay, any mustering-out payment previously
received under the Mustering-Out Payment Act of
1944 or the Veterans’ Readjustment Assistance Act
of 1952 must be first deducted from the gross
readjustment pay.

b. Readjustment Pay Received 15 Sep
1981 or Later

(1) A member who receives
readjustment pay 15 Sep 1981 or later and
subsequently qualifies for retired pay must refund
an amount equal to the total amount of the
readjustment pay received.

(2) Recoupment of the readjustment
pay shall be by monthly deduction based on the
service used in the computation of readjustment pay.

10413. Special Provisions

a. No income tax withholding is made
from retired pay used for satisfying the
readjustment pay recoupment. Neither is such pay
included on Treasury Department Form W-2P,
Statement for Recipients of Annuities, Pensions or
Retired Pay, nor reported as taxable earnings.

b. A member who receives readjustment
pay and is also immediately eligible to receive
disability compensation from the Department of
Veterans Affairs may retain the gross readjustment
pay; however, 75 percent (or the total amount, if
applicable) of that gross readjustment payment is
deducted from the disability compensation.
Acceptance of the gross readjustment pay,
however, does not prevent the member from
becoming entitled to disability compensation based
on service performed after that payment was
received.

(1) Readjustment pay received
before 15 Sep 1981, which has not been recovered
from disability compensation shall, upon a later
retirement from an active uniformed service, be
immediately deducted from retired pay.
Readjustment pay received 15 Sep 1981 or later,
which has not been recovered from disability
compensation shall, upon a later retirement from
an active uniformed service, be deducted from
retired pay by monthly deductions.

(2) No deduction from retired pay
is required when 75 percent (or the total amount,
SECTION D
SEPARATION PAY

10431. Members Affected
   a. Entitlement After 15 Sep 1981
      A regular officer (including a regular warrant officer) and nonregular member of an
      armed force involuntarily discharged or released on or after 15 Sep 1981 with at least 5 but less than
      20 years' active service, are entitled to separation pay as determined by the Secretary concerned.
      Effective 1 Oct 1983, the 5 years' minimum active duty must have been continuous for any member
      who was not on the active duty list. A period of active duty is continuous if any break in service
      does not exceed 30 days.
   b. Entitlement Before 15 Sep 1981
      A member of the Army, Navy, Air Force, or
      Marine Corps on active duty 14 Sep 1981, who is
      later involuntarily discharged or released from
      active duty, is entitled to readjustment pay or
      severance pay under the laws in effect on that date.
      A member who is also eligible for separation pay
      elects which payment to receive. If the member
      fails to make an election in a timely manner the
      most favorable amount is paid.

10432. Recoupment of Separation Pay
   a. A member who receives separation pay and who later qualifies for retired pay will repay
      an amount equal to the total amount of separation pay received by a monthly deduction from retired
      pay based on the service for which separation pay was computed.
   b. A member who receives separation pay and who is also eligible for disability compensation
      from the Department of Veterans Affairs will repay an amount equal to the total amount of separation
      pay received from the disability compensation awarded. However, no deduction for separation
      pay shall be made from disability compensation based on service performed after the separation
      pay was received.

SECTION E
VOLUNTARY SEPARATION INCENTIVE (VSI)

10441. Members Affected
   Certain members who voluntarily separated
   before 1 Oct 1995, received annual payments of
   voluntary separation incentive (VSI), based on
   their grade or rank at separation and number of
   years of service creditable for retirement purposes.

10442. Recoupment of VSI
   If a member who has received VSI becomes
   eligible for retired pay, recoup from the member
   the gross amount of VSI paid. The gross amount
   paid does not include any amounts offset because
   of the member's receipt of military compensation
   between the date of separation which caused the
   VSI to begin and the date the member becomes
   eligible for receipt of retired pay. Recoupment is
   according to the following formula—divide the
   total days service for retirement prior to the
   separation by the total days of service for
   retirement: the resulting fraction is the percentage
   of retired pay to recoup until the entire amount
   due has been collected. Also apply this collection
   rate to any increases in the member's retired pay
   resulting from any cost-of-living increases.

SECTION F
SPECIAL SEPARATION BENEFIT (SSB)

10451. Members Affected
   Certain members who voluntarily separated
   before 1 Oct 1995, received a lump-sum special
   separation benefit (SSB) based on years of service
   for pay purposes and grade or rank at date of
   separation.

10452. Recoupment of SSB
   a. If a member who has received an SSB
      payment becomes eligible for retired pay, recoup
      from the member the gross amount of SSB
      received, as shown on the member's DD Form 214.
      Use the formula in paragraph 10442 to compute
      the collection rate.
   b. A member who receives SSB and who
      subsequently becomes eligible for disability
      compensation from the Department of Veterans
      Affairs will repay an amount equal to the SSB from
      the disability compensation. However, no
      deduction for SSB shall be made from disability
      compensation based on service performed after the
      SSB was received.
### Table 1-6-1

**RECOUPMENT OF READJUSTMENT PAY RECEIVED BEFORE 15 SEP 1981 (Note 1)**

<table>
<thead>
<tr>
<th>RULE</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>if a member was a Reserve member (or member of the Army or Air Force without component (temporary))</td>
<td>and received before 15 Sep 1981 (note 1)</td>
<td>readjustment payment upon involuntary release after at least 5 years' continuous active service after 28 June 1962</td>
<td>after 20 years' of active service (note 2)</td>
</tr>
<tr>
<td>2.</td>
<td>regular Army officer below the grade of major</td>
<td>readjustment payment upon involuntary release after at least 5 years' continuous active service because of a reduction in force for the period 30 Dec 1974 through 30 Dec 1977.</td>
<td>for disability after a period of enlisted service and also qualifies for retirement for 20 years' active service</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>temporary officer on active duty and held a Reserve officer status</td>
<td>readjustment payment upon involuntary release after at least 5 years' continuous active service after 28 June 1962</td>
<td>under 10 U.S.C. 1331</td>
<td>not recouped from retired pay (note 4).</td>
</tr>
<tr>
<td>4.</td>
<td>Reserve member (or member of the Army or Air Force without component (temporary))</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**NOTES:**
1. For recoupment of readjustment pay received 15 Sep 1981 or later, see paragraph 10412b.
2. Includes transfer to Fleet Reserve with less than 20 years' active service if otherwise qualified.
3. Payment of readjustment pay before 28 June 1962 is not for recoupment for retired pay.
4. There is no provision of law that authorizes recoupment of readjustment pay for members not qualified for retired pay based on 20 years' active service.
<table>
<thead>
<tr>
<th>RULE</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>a regular commissioned Army or Air Force officer</td>
<td>because of failure of selection for promotion to grade O-3 or above</td>
<td>severance pay</td>
<td>retired pay</td>
<td>do not deduct severance pay.</td>
</tr>
<tr>
<td>2</td>
<td>because of moral or professional dereliction, or unsatisfactory performance</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>3</td>
<td>a regular commissioned officer of the Navy, Marine Corps, or Coast Guard</td>
<td>because of unsatisfactory performance with less than 20 years</td>
<td></td>
<td></td>
<td>deduct full amount of severance pay.</td>
</tr>
<tr>
<td>4</td>
<td>because of failure of selection for promotion to grade O-3 or above</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>5</td>
<td>a regular warrant officer of any service</td>
<td>because of unfitness or unsatisfactory performance of duty and did not reenlist</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>because of failure of selection for promotion and did not reenlist or was not retained on AD commissioned grade</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>7</td>
<td>an officer of the Navy or Marine Corps</td>
<td>because found not qualified from causes arising from own misconduct upon reexamination for promotion</td>
<td></td>
<td></td>
<td>do not deduct severance pay.</td>
</tr>
<tr>
<td>8</td>
<td>a woman officer of the regular Navy or regular Marine Corps in grade O-3</td>
<td>because she is not on a promotion list and has complete 13 years of active service in the Navy or Marine Corps</td>
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</tr>
<tr>
<td>9</td>
<td>a woman officer of the regular Navy or regular Marine Corps in grade O-2</td>
<td>because she is not on a promotion list and has complete 7 years of active service in the Navy or Marine Corps</td>
<td></td>
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</tr>
<tr>
<td>10</td>
<td>an ensign in the Navy or a second lieutenant in the Marine Corps</td>
<td>because found not professionally qualified upon reexamination for promotion</td>
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</tr>
<tr>
<td>11</td>
<td>a Reserve member of any service</td>
<td>without member's consent before active duty agreement under 10 U.S.C. 679(a)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>a regular commissioned officer of the Coast Guard</td>
<td>because performance is below standard or because of moral or professional dereliction</td>
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<td></td>
</tr>
</tbody>
</table>

**NOTE:** For recoupment of severance pay received 15 Sep 1981 or later, see paragraph 10422.