

**SUMMARY OF MAJOR CHANGES TO
DoD 7000.14-R, VOLUME 7B, CHAPTER 4
“RECOUPMENT OF SEPARATION PAYMENTS”**

All changes denoted by blue font

Substantive revisions are denoted by a ★ preceding the section, paragraph, table,
or figure that includes the revision

Hyperlinks are denoted by *underlined, bold, italic, blue font*

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	This chapter is being updated with hyperlinks and formatted to comply with current administrative instruction.	Update
040102.G	Adds definition for Voluntary Separation Pay (VSP).	Add
040102.H	Adds definition for Special Separation Benefit (SSB).	Add
040501.A-E	Adds information for Voluntary Separation Incentive Beneficiary Payments.	Add
0407	Adds expanded Voluntary Separation Pay (VSP) for Members of the Armed Forces.	Add
040701, Bibliography	Adds Members affected by VSP between October 17, 2006 and December 31, 2012.	Add
040702, Bibliography	Authorizes the Secretaries of the Military Departments to waive the requirement to repay VSP.	Update

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CHAPTER 4

★RECOUPMENT OF SEPARATION PAYMENTS0401 GENERAL PROVISIONS

040101. Purpose. To provide guidance covering the 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.

★ 040102. Definitions

A. Readjustment Pay. A lump-sum payment to members of a Reserve Component of any Military 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 member of the Uniformed Services who is discharged involuntarily or released from active duty and who does not qualify for retired pay. For more information, see Volume 7A, Chapter 35 of this Regulation.

D. Voluntary Separation Incentive. An annual payment to members who separate voluntarily from service before October 1, 1995, under conditions prescribed by the Secretary of the Military Department concerned (or designee).

E. Special Separation Benefit. A lump-sum payment to members who separate voluntarily from service before October 1, 1995, under conditions prescribed by the Secretary of the Military Department concerned (or designee).

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.

G. Voluntary Separation Payment. An annual or lump-sum payment to certain mid-career officers to encourage them to voluntarily leave active duty.

H. Reserve Special Separation Pay. Payable to Reserve members who had completed more than 20 years of service but who had not reached age 60. This payment is not subject to recoupment from retired pay.

0402 READJUSTMENT PAY

040201. Members Affected

A. A member who receives readjustment pay before September 15, 1981 because of involuntary discharge or release from active duty after June 28, 1962, and who later qualifies for retired pay upon completion of 20 years of active service, must refund 75 percent of the readjustment payment. For this purpose, a member who 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 4-1.

B. A Regular Army commissioned officer in the grade of second lieutenant, first lieutenant, or captain, who receives readjustment pay from December 30, 1974 through December 30, 1977, and who later qualifies for retired pay upon completion of 20 years of active service, must refund 75 percent of the readjustment payment. See Table 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, and received readjustment pay after June 28, 1962 but before September 15, 1981, and who, after a period of enlisted service, is retired for temporary or permanent disability and also qualifies for service retirement as a Reserve officer, must refund 75 percent of the readjustment payment. See Table 4-1.

D. A member who receives readjustment pay on September 15, 1981 or later, and who later qualifies for retired pay, must refund an amount equal to the total amount of readjustment pay received. See subparagraph 040202.B of this chapter.

040202. Recoupment of Readjustment PayA. Readjustment Pay Received Before September 15, 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 readjustment 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 that the member is not entitled to retired pay.

3. When applying the 75-percent formula 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 September 15, 1981 or Later

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

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

040203. 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 [Internal Revenue Service Form 1099-R \(Distributions from Pensions, Annuities, Retirement Profit Sharing Plans, IRAs, Insurance Contracts, etc.\)](#), nor is it reported as taxable earnings.

B. A member who receives readjustment pay and also is immediately eligible to receive disability compensation from the Department of Veterans Affairs (VA) 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 September 15, 1981 which has not been recovered from disability compensation shall, upon a later retirement from an active Uniformed Service, immediately be deducted from retired pay. Readjustment pay received on September 15, 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, as applicable) of the readjustment payment has been recovered by the VA before retirement.

C. If a member previously was paid readjustment pay or a payment of mustering-out pay under the Mustering-Out Payment Act of 1944 or the Veterans' Readjustment Assistance Act of 1952, then the prior readjustment or mustering-out payments are deducted from the readjustment pay to which the member is entitled after June 28, 1962. If the member has repaid the prior payment of readjustment pay to the United States, then the period covered by it is treated as a period for which a payment has not been made.

D. A member may waive entitlement to readjustment pay. Also, the full amount of such pay may be refunded before retirement. Under either condition, the member receives retired pay immediately upon retirement or transfer to the Fleet Reserve or Fleet Marine Corps Reserve.

E. Reserve members retired under [Title 10, United States Code \(U.S.C.\), sections 12731-12737](#) who received readjustment pay before September 15, 1981 are not subject to recoupment or readjustment pay. Such members receiving readjustment pay on September 15, 1981 or later are subject to recoupment of readjustment pay under subparagraph 040202.B of this chapter.

0403 SEVERANCE PAY – NONDISABILITY

040301. General. Before September 15, 1981, certain provisions of law governing separation from the active list required refund of severance pay upon a member's retirement. See Table 4-2 for conditions governing refund of severance pay received before September 15, 1981. Members who receive severance pay on September 15, 1981 or later, and who subsequently qualify for retirement, are subject to recoupment under paragraph 040302 of this chapter.

040302. Recoupment of Nondisability Severance Pay

A. Lump-sum severance pay must be recouped by deducting from retired pay each month an amount based on the service for which the severance pay was received until the total deducted equals the amount of the severance pay.

B. The member may refund the full amount by direct remittance to the servicing finance activity or may authorize deduction in an amount greater than that required by law.

0404 SEPARATION PAY

040401. Entitlement. For information on eligibility requirements for separation pay, see [section 3502](#) of Volume 7A.

040402. 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 also is eligible for disability compensation from the VA, will repay an amount equal to the total amount of separation pay received from the disability compensation awarded. No deduction for separation pay shall be made from disability compensation based on service performed after the separation pay was received.

★0405 VOLUNTARY SEPARATION INCENTIVE (VSI)

040501. Members Affected Certain members who voluntarily separated before October 1, 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. Authority for the VSI expired on December 31, 2001. The following are beneficiary payment procedures.

A. The Defense Finance and Accounting Service (DFAS)-Cleveland Site will make all remaining installments to the designated beneficiaries. If a valid designation was not made or received, then distribute payments according to the order of precedence contained in 10 U.S.C. 2771. Continue to make annual installments on the date of the deceased VSI recipient's original anniversary payment date.

B. The DFAS-Cleveland Site will pay annual installments to the beneficiary for the remainder of the deceased VSI recipient's entitlement period. 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. Federal Income Tax Withheld (FITW) is based upon the Internal Revenue Service (IRS) Form W-4P (Withholding Certificate for Pension or Annuity Payments) submitted by the recipient. If an IRS Form W-4P is not submitted, then the DFAS-Cleveland Site will calculate withholding as for a married person claiming three withholding allowances. State income taxes or Federal Insurance Contributions Act (FICA) will not be withheld from beneficiary payments. The DFAS-Cleveland Site will issue an IRS Form 1099-R to each beneficiary recipient.

D. The DFAS-Cleveland Site will not honor garnishment orders against beneficiary payments.

E. 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, then the debt may be collected from VSI installment payments.

040502. Recoupment of VSI

A. If a member who has received VSI becomes eligible for retired pay, then 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 that he or she became eligible for receipt of retired pay. Recoupment is according to the following formula: Divide the total days of 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.

B. In a case in which a member is receiving simultaneous VSI and retired pay, the member may elect to terminate the receipt of the VSI. Such election is permanent and irrevocable. Under these circumstances, effective after such election to terminate the VSI, the rate of monthly recoupment from retired pay of the VSI received in accordance with subparagraph 040502.A shall be reduced. The rate of recoupment shall be reduced in accordance with the following formula: Divide the total number of months that would not be paid as a result of the member's election to terminate the VSI by the number of months that the VSI was scheduled to be paid. The resulting fraction is a percentage rate of reduction that is multiplied by the percentage in subparagraph 040502.A to compute a percentage that is the proportionate rate of reduction; and, subtract the proportionate rate of reduction from the original rate of reduction in subparagraph 040502.A to determine the reduced rate of recoupment from retired pay.

0406 SPECIAL SEPARATION BENEFIT (SSB)

040601. Members Affected. Certain members who voluntarily separated before October 1, 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. Authority for the SSB expired on December 31, 2001.

040602. Recoupment of SSB

A. If a member who has received an SSB payment becomes eligible for retired pay, then recoup from the member the gross amount of SSB received, as shown on the member's Department of Defense (DD) Form 214 (Certificate of Release or Discharge from Active Duty). Use the formula in subparagraph 040502.A to compute the recoupment rate.

B. Under the original SSB legislation, a member who received an SSB payment, and who subsequently qualified for benefits administered by the VA, was subject to recoupment of the gross amount of the SSB that he or she had been paid. Under Section 653 of Public Law 104-201, for payments of SSB that were made after September 30, 1996, the amount subject to recoupment was the total gross amount of the SSB paid, less the amount of Federal income tax withheld from such pay. Public Law 105-178 extended the provisions of section 653 to any payment of SSB made during the period of December 5, 1991 through September 30,

1996. The VA administers the refund program for members affected by the retroactive period of adjustment. No recoupment of SSB is required, regardless of when paid, if the disability for which the member receives VA compensation was incurred or aggravated during a period of later active duty.

★0407 VOLUNTARY SEPARATION PAY (VSP)

040701. Members Affected. Certain members who voluntarily separate between October 17, 2006 and December 31, 2012 may receive a lump-sum voluntary separation pay (VSP) in an amount up to four times the full amount of the separation pay a member may receive (see Volume 7A, section 3509).

040702. Recoupment

A. A member who is paid VSP under 10 U.S.C. 1175a, and who later qualifies for retired or retainer pay under Titles 10 or 14 of the United States Code, shall have deducted from each payment of such retired or retainer pay a monthly installment specified by the Secretary of the Military Department concerned (or designee). The total amount of retired or retainer pay deductions shall equal the total amount paid to the member.

B. The requirement to repay VSP following retirement from the Armed Forces do not apply to an officer who was eligible to retire at the time the officer applied and was accepted for VSP benefits.

C. The Secretary of the Military Department concerned (or designee) may waive the requirement to repay VSP if it is determined that recovery would be against equity and good conscience and would be contrary to the best interests of the United States. Upon approval, the Military Department concerned shall forward a copy of all waivers to the Deputy Under Secretary of Defense, Military Personnel Policy (DUSD (MPP)).

D. Waivers by the Secretary of the Military Department concerned (or designee) must be determined on a case-by-case basis, which requires identification of the individual member, the amount of debt, and the circumstances of each case. The Principal Deputy Under Secretary of Defense, Personnel and Readiness, shall review, in coordination with the Department of Defense (DoD) Office of General Counsel, any waiver by a Secretary of a Military Department (or designee) that applies to more than one individual. This review process shall ensure a consistent consideration of the equities in such cases throughout DoD.

RECOUPMENT OF READJUSTMENT PAY RECEIVED BEFORE SEPTEMBER 15, 1981 (note 1)				
R U L E	A	B	C	D
	If a member was a	and received before	and later qualifies for	then
		September 15, 1981 (note 1)	retirement	readjustment pay is
1	Reserve member (or member of the Army or Air Force without component (temporary))	readjustment payment upon involuntary release after at least 5 years of continuous active service after June 28, 1962	after 20 years of active service (note 2)	recouped immediately upon retirement at the rate of 75 percent of the gross readjustment pay (note 3).
2	regular Army officer below the grade of Major	readjustment payment upon involuntary release after at least 5 years of continuous active service because of a reduction in force for the period December 30, 1974 through December 30, 1977		
3	temporary officer on active duty and held a Reserve officer status	readjustment payment upon involuntary release after at least 5 years of continuous active service after June 28, 1962	for disability after a period of enlisted service and also qualifies for retirement for 20 years of active service	not recouped from retired pay (note 4).
4	Reserve member (or member of the Army or Air Force without component (temporary))		under <u>10 U.S.C. 12731</u>	

NOTES:

1. For recoupment of readjustment pay received September 15, 1981, or later, see subparagraph 040202.B.
2. Includes transfer to Fleet Reserve or Fleet Marine Corps Reserve with less than 20 years of active service if otherwise qualified.
3. Payment of readjustment pay before June 28, 1962 is not recouped from 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 of active service.

Table 4-1. Recoupment of Readjustment Pay Received Before September 15, 1981

RECOUPMENT OF SEVERANCE PAY RECEIVED BEFORE SEPTEMBER 15, 1981 (note)					
R U L E	A	B	C	D	E
	If a member was	and was discharged	and received before September 15, 1981 (note)	and later qualifies for	then
1	a Regular commissioned Air Force or Army officer	because of failure of selection for promotion to grade O-3 or above	severance pay	retired pay	do not deduct severance pay.
2		because of moral or professional dereliction, or unsatisfactory performance			
3	a Regular commissioned officer of the Navy, Marine Corps, or Coast Guard	because of unsatisfactory performance with less than 20 years			deduct full amount of severance pay.
4		because of failure of selection for promotion to grade O-3 or above			
5	a Regular warrant officer of any Military Service	because of unfitness or unsatisfactory performance of duty and did not reenlist			
6		because of failure of selection for promotion and did not reenlist or was not retained on active duty as a regular warrant officer			
7	an officer of the Navy or Marine Corps	because found not qualified from causes arising from own misconduct upon reexamination for promotion			

Table 4-2. Recoupment of Severance Pay Received Before September 15, 1981

RECOUPMENT OF SEVERANCE PAY RECEIVED BEFORE SEPTEMBER 15, 1981 (note)					
R U L E	A	B	C	D	E
	If a member was	and was discharged	and received before September 15, 1981 (note)	and later qualifies for	then
8	a woman officer of the Regular Navy or Regular Marine Corps in grade O-3	because she is not on a promotion list and has completed 13 years of active service in the Navy or Marine Corps	severance pay	retired pay	do not deduct severance pay.
9	a woman officer of the Regular Navy or Regular Marine Corps in grade O-2	because she is not on a promotion list and has completed 7 years of active service in the Navy or Marine Corps			
10	an ensign in the Navy or a second lieutenant in the Marine Corps	because found not professionally qualified upon reexamination for promotion			
11	a Reserve member of any Military Service	without the member's consent before active duty agreement under 10 U.S.C. 12311(a) expired			
12	a Regular commissioned officer of the Coast Guard	because performance is below standard or because of moral or professional dereliction			

NOTE: For recoupment of severance pay received September 15, 1981 or later, see paragraph 040302.

Table 4-2. Recoupment of Severance Pay Received Before September 15, 1981 (Continued)

BIBLIOGRAPHY**CHAPTER 4 – RECOUPMENT OF SEPARATION PAYMENTS**

0401 – GENERAL PROVISIONS

040102.C Public Law 96-513, section 109,
December 12, 1980
37 U.S.C. 203(d)

0402 – READJUSTMENT PAY

040201.A 10 U.S.C. 687(f) (repealed)
50 U.S.C. 1016 (repealed)
43 Comp Gen 402
Public Law 96-513, section 109,
December 12, 1980

040201.B 10 U.S.C. 3814a
Public Law 96-513, section 109,
December 12, 1980

040201.C 46 Comp Gen 107
Public Law 96-513, section 109,
December 12, 1980

040202.A.3 10 U.S.C. 687 (c), (f) (repealed)

040202.B 10 U.S.C. 1452
Public Law 96-513, section 109,
December 12, 1980

040203.A 43 Comp Gen 311
Public Law 96-513, section 109,
December 12, 1980

040203.B 10 U.S.C. 687(b) (6) (repealed)
Public Law 96-513, section 109,
December 12, 1980

040203.D 43 Comp Gen 311 id: 402

040206.B Public Law 104-201, section 653,
September 23, 1996
Public Law 105-178, section 8208, June 9, 1998

0403 – SEVERANCE PAY – NONDISABILITY

040301 53 Comp Gen 921, id: 923

0404 – SEPARATION PAY

040402	Public Law 96-513, section 631, December 12, 1980
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0405 – VOLUNTARY SEPARATION INCENTIVE

040501	10 U.S.C. 1175(d)(3)
040501.A	10 U.S.C. 1175(f)
	10 U.S.C. 2771(a)
040502.A	10 U.S.C. 1175(e)(3)(A)
040502.B	10 U.S.C. 1175(e)(3)(B)

0406 – SPECIAL SEPARATION BENEFIT

040601	10 U.S.C. 1174a(g) 10 U.S.C. 1174(h)
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Table 4-1

Rule 1	10 U.S.C. 687(f) (repealed) Public Law 96-513, section 109, December 12, 1980
Rule 2	10 U.S.C. 3814a Public Law 96-513, section 109, December 12, 1980
Rule 3	46 Comp Gen 107 Public Law 96-513, section 109, December 12, 1980
Note 1	43 Comp Gen 402

Table 4-2

Rules 1 & 2	10 U.S.C. 3303 (repealed), 3786 (repealed), 3796 (repealed), 8303, 8786, 8796
Rules 3 & 4	10 U.S.C. 6382(c), 6383(f), 6384(b) 14 U.S.C. 286
Rules 5 & 6	10 U.S.C. 564, 1166, 1167(b)
Rule 7	10 U.S.C. 5864
Rule 8	10 U.S.C. 6401
Rule 9	10 U.S.C. 6402
Rule 10	10 U.S.C. 5865
Rule 11	10 U.S.C. 12312
Rule 12	14 U.S.C. 327

0407 – VOLUNTARY SEPARATION PAY

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| 040701 | 10 U.S.C. 1175(a)
Principal Deputy Under Secretary of Defense for
Personnel and Readiness Policy Memorandum,
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| 040702 | Principal Deputy Under Secretary of Defense for
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