

**SUMMARY OF MAJOR CHANGES TO
DoD 7000.14-R, VOLUME 7B, CHAPTER 23
“SPECIAL AND VOLUNTARY SEPARATION PAYMENT PROCEDURES”**

All changes are 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
Multiple	Former Volume 7C, Chapters 1 and 5 are incorporated into this new Volume 7B chapter.	Update
All	This chapter is being updated with hyperlinks and formatted to comply with current administrative instruction.	Update
Multiple	Removed DFAS-Denver from the chapter and replaced with DFAS-Cleveland.	Update
230201	Added guidance regarding VSI payments.	Add
230203	Added guidance regarding recoupment of the SSB/VSI.	Add
230402	Updated address for sending VSI beneficiary claims.	Update

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CHAPTER 23SPECIAL AND VOLUNTARY SEPARATION PAYMENTS AND PROCEDURES2301 GENERAL PROVISIONS

230101. Purpose. This chapter provides procedures 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) are authorized in Title 10, United States Code (U.S.C), sections [1174a](#) and [1175](#).

230102. ResponsibilitiesA. DFAS-Cleveland Site

1. The DFAS-Cleveland [Site is the central site and](#) will maintain the VSI account until all annual installments are paid, or until the death of the VSI member recipient.

2. The DFAS-Cleveland [Site](#) is the central site location for 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 VSI/SSB programs. Because of the requirement for Reserve affiliation, the DMDC will provide advice of Reserve participation to the DFAS-Cleveland [Site](#).

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

1. Determine an amount which 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 schedule for liquidating the original unfunded liability of the "Fund." (The "Fund" is classified as a trust fund and has been designated as account number 97X8335, "Voluntary Separation Incentive Fund." This Fund will consist of both a receipt and an expenditure account.)

2. For each fiscal year after fiscal year 1996, carry out an actuarial valuation for the Fund and determine any new unfunded liabilities arising from gains and losses to the Fund. The Board also shall determine an amortization schedule for liquidating these new unfunded liabilities. For the upcoming fiscal years, the Board will determine, in sufficient time as to be included in the fiscal year's budget requests, the amount of Department of Defense contributions to the Fund necessary to comply with the amortization schedules for the Fund's original and new unfunded liabilities.

★2302 PAYMENT PROCESSING230201. 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 VSI Beneficiary Designation Form.

B. The 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) 1199-A (Direct Deposit Sign-Up Form) to establish EFT payments. If an SF 1199-A is not available, the VSI recipient must submit the financial institution's routing transit number and a canceled check or deposit slip, that shows his/her account number and bank address.

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.

D. A member who is receiving the 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, but there shall be deducted from the VSI an amount equal to the amount of any such disability compensation concurrently received; except that no deduction may be made from the VSI from 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.

E. A member's right to the VSI shall not be transferred except that the member may designate beneficiaries in accordance with paragraph 230401.

230202. Withholding RequirementsA. Federal Income Tax Withholding (FITW)

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

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

230203. Recoupment of the SSB/VSI. A member who has received the 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. See Volume 7B, Chapter 4. The SSB shall also be deducted from disability compensation under the laws administered by the Department of Veterans Affairs. See Volume 7B, Chapter 4.

2303 DEBT COLLECTION PROCEDURES

230301. General. VSI/SSB payments are subject to offset for debt collection. When a Service member is released from active duty with debts due the United States, offset from the initial VSI/SSB entitlement the amount of the debt. In the case of VSI, if the debt is greater than the initial payment, 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 VSI/SSB payments must be consistent with standard debt collection procedures and policies.

230302. Debt Collection

A. VSI Overpayment

1. Overpayment of Initial VSI installment. The DFAS-[Site](#) that paid the Initial VSI payment 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](#), Code FRCBC, 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. A debt incurred as a result of an anniversary overpayment, is pursued as an "out of service" debt by the DFAS-Cleveland [Site](#). 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 original 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.

C. Active Duty Debts

1. Amounts due the United States should be offset against the initial VSI/SSB payment at the time of the member's separation. The member's original servicing DFAS Site will pursue any uncollectible amounts using "out of service" debt collection procedures.

2. The DFAS-[Cleveland Site](#) will retain debts for VSI recipients as long as collection efforts are satisfactory. If collection efforts prove unsuccessful, the servicing DFAS-[Site](#) will forward the debt to the DFAS-Cleveland Site, Code FRCBC, for administrative offset against the next VSI installment payment. Such debts should be transferred to the DFAS- [Cleveland Site](#) no later than 90 days before the next VSI installment payment using a [DD Form 139](#) (Pay Adjustment Authorization). The DD Form 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 applicable 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 demand for immediate payment in full of the debt.

2. The NAFI must send a DD Form 139 to the DFAS-[Cleveland Site](#) to effect collection (see subparagraph 010202.B.3. above for the address). The DD Form 139 must contain the following statement: "Member has been provided due process according to DoDFMR, Volume 7A, subparagraph 500104.A.2."

3. The entire amount of the 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. The 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 Form 139 or letter of transmittal, to the member's original 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 PROCEDURES

230401. Designation of Beneficiaries

A. Service members may designate beneficiaries to receive VSI installments which remain unpaid after the death of the member.

1. The VSI recipient should make designations using the VSI Beneficiary Designation Form. 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 VSI Beneficiary Designation Form 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 claiming future VSI payments, signed by the beneficiary, and with the beneficiary's social security number, will be sufficient. Beneficiary claims are sent to:

Defense Finance and Accounting Service
[Attn: VSI](#)
[PO Box 998011](#)
[Cleveland, OH 44199-8011](#)

230403. Beneficiary Payment

A. The DFAS-Cleveland [Site](#) will make all remaining installments to the designated beneficiaries. If a valid designation was not made or received, 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. 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. 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, 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.

2305 RESERVISTS DEBT COLLECTION PROCEDURES

230501. General. Reservists' Special Separation Pay/Reservists' Involuntary Separation Pay (RSSP/RISP) payments are subject to offset for debt collection. Offset from the amount of the RSSP/RISP payment any debts remaining at separation/retirement. 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

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, that Site, Code FRCBC, will be notified of the correct payment information within five days. If debt collection actions prove

unsuccessful, follow the provisions of subparagraph 231102.C.1. If the debt cannot be satisfied through RSSP offset, the DFAS-Cleveland [Site](#) will forward the uncollectible amount to the DFAS-DE 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 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 original DFAS-[Site](#) will offset debts against the initial RSSP payment. If debts are established after the initial payment, the RSSP recipient’s original servicing DFAS-[Site](#) will pursue collection using “out of service” debt collection procedures. The RSSP recipient’s original 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](#), Code FRCBC, for administrative offset against any remaining RSSP installment payment. The debt will be transferred to the DFAS-Cleveland [Site](#) no later than 90 days from the next RSSP installment payment using a DD Form 139. Once offset action has been taken, the DFAS-Cleveland [Site](#) will credit the proper Military Personnel Appropriation and notify the applicable DFAS-[Site](#) of the amount collected. If the total debt cannot be liquidated from a single RSSP anniversary installment, the applicable 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 their retired pay.

2. RISP Payments. The DFAS-[Site](#) will offset amounts due the United States against the RISP payment at the time of the Reserve member’s separation. If debts are established after 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](#)/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 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](#), Code FRCBC, 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 Department of Veterans Affairs, 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. Garnish 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 SEPARATION PAYMENT PROCEDURES

2301 – GENERAL PROVISIONS

230101 10 U.S.C. 1174a
 10 U.S.C. 1175

2302 – PAYMENT PROCESSING

230201.D 10 U.S.C. 1175(e)(4)
230201.E 10 U.S.C. 1175(f)
230203 10 U.S.C. 1174a(g); 10 U.S.C. 1174(h)(1)
 DoD FMR, Vol. 7B, Para. 040602.A

10 U.S.C. 1175(e)(3)
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10 U.S.C. 1174a(g); 10 U.S.C. 1174(h)(2)
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