

VOLUME 7B, CHAPTER 4: “RECOUPMENT OF SEPARATION PAY”**SUMMARY OF MAJOR CHANGES**

Changes are identified in this table and also denoted by [blue font](#).

Substantive revisions are denoted by an asterisk (*) 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 [March 2020](#) is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
9.2.1 (040902.A)	Added reference to Volume 7A, paragraph 350809 to provide additional information for the collection of Voluntary Separation Pay (VSP).	Addition
9.3 (040903)	Added paragraph for information on collection of VSP to members who return to active duty pursuant to Title 10, United States Code, section 1175(j) with reference to Volume 7A, paragraph 350811.	Addition
References	Updated references.	Revision

Table of Contents

VOLUME 7B, CHAPTER 4: “RECOUPMENT OF SEPARATION PAY”	1
1.0 GENERAL (0401)	4
1.1 Purpose (040101)	4
1.2 Authoritative Guidance (040102)	4
2.0 DEFINITIONS (0402)	4
2.1 Readjustment Pay (040201)	4
2.2 Nondisability Severance Pay (040202)	4
2.3 Separation Pay (040203)	4
2.4 Disability Severance Pay (DSP) (040204)	5
2.5 Voluntary Separation Incentive (VSI) (040205)	5
2.6 Special Separation Benefit (SSB) (040206)	5
2.7 Voluntary Separation Pay (VSP) (040207)	5
2.8 Recoupment (040208)	5
2.9 Reserve Special Separation Pay (RSSP) (040209)	5
3.0 READJUSTMENT PAY (0403)	5
3.1 General Provisions (040301)	5
3.2 Recoupment of Readjustment Pay (040302)	6
4.0 NONDISABILITY SEVERANCE PAY (0404)	7
4.1 General Provisions (040401)	7
4.2 Recoupment of Nondisability Severance Pay (040402)	7
5.0 SEPARATION PAY (0405)	7
5.1 General Provisions (040501)	7
5.2 Recoupment of Separation Pay (040502)	7
6.0 DISABILITY SEVERANCE PAY (DSP) (0406)	7
6.1 General Provisions (040601)	7
6.2 Recoupment of DSP (040602)	8
6.3 Collection of DSP – Board for Correction of Military Record Cases (040603) ..	9
6.4 Survivor Benefit Plan (SBP) Participation (040604)	9
7.0 VOLUNTARY SEPARATION INCENTIVE (VSI) (0407)	10
7.1 General Provisions (040701)	10
7.2 Beneficiary Payment Procedures (040702)	10
7.3 Recoupment of VSI (040703)	11

Table of Contents (Continued)

8.0	SPECIAL SEPARATION BENEFIT (SSB) (0408).....	10
8.1	General Provisions (040801).....	10
8.2	Recoupment of SSB (040802)	11
9.0	VOLUNTARY SEPARATION PAY (VSP) (0409)	11
9.1	General Provisions (040901).....	12
*9.2	Recoupment of VSP (040902)	12
*9.3	Repayment For Members Who Return to Active Duty (040903).....	12
10.0	RECOUPMENT OF SEPARATION PAY, NONDISABILITY SEVERANCE PAY, READJUSTMENT PAY, OR DISABILITY SEVERANCE PAY (0410).....	13
10.1	Members Affected (041001)	13
10.2	Veterans Administration (VA) Disability Compensation (041002)	13
10.3	Concurrent Receipt Programs (041003).....	13
10.4	Recoupment Rates (041004)	14
10.5	Exceptions (041005)	14
10.6	Financial Hardship (041006).....	14
	Figure 4-1. Financial Hardship Calculation Examples.....	16
	Table 4-1. Recoupment of Readjustment Pay Received Before September 15, 1981(Note 1)	17
	Table 4-2. Recoupment of Nondisability Severance Pay Received Before September 15, 1981 (Note)	18
	*REFERENCES	20

CHAPTER 4

RECOUPMENT OF SEPARATION PAYMENTS

1.0 GENERAL (0401)

1.1 Purpose (040101)

This chapter provides guidance for the recoupment of payments made to members whose status transitions from involuntary discharge, release from active duty, disability separation, or voluntary separation, to retiree.

1.2 Authoritative Guidance (040102)

The pay policies and requirements established by DoD in this chapter are derived primarily from, and prepared in accordance with the United States Code (U.S.C.), including Titles 10, 14, and 38. The specific statutes, regulations, and other applicable guidance that govern each individual section are listed in a reference section at the end of the chapter.

2.0 DEFINITIONS (0402)

2.1 Readjustment Pay (040201)

Readjustment Pay is 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 O-4 who were on active duty (other than for training) on September 14, 1981, and were involuntarily released after completing at least 5 years of continuous active duty and who did not qualify for retirement. Separation Pay superseded Readjustment Pay.

2.2 Nondisability Severance Pay (040202)

Nondisability Severance Pay is a lump-sum payment to certain commissioned and warrant officers, who were on active duty (other than for training) on September 14, 1981, and involuntarily discharged from active duty under certain conditions. Separation Pay superseded Nondisability Severance Pay. Note: This chapter uses the term “Nondisability Severance Pay” when referring to what is commonly known as “Severance Pay” as a mechanism to distinguish severance pay from disability severance pay.

2.3 Separation Pay (040203)

Separation Pay is 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.

2.4 Disability Severance Pay (DSP) (040204)

The DSP is a lump-sum payment to a member of the Uniformed Services involuntarily separated from the military service for minor physical disability and who does not qualify for disability retired pay.

2.5 Voluntary Separation Incentive (VSI) (040205)

The VSI is an annual payment to members who separated voluntarily from service before December 31, 2001, under conditions prescribed by the Secretary of the Military Department concerned (or designee). Voluntary Separation Pay (VSP) superseded VSI.

2.6 Special Separation Benefit (SSB) (040206)

The SSB is a lump-sum payment to members who separated voluntarily from service before December 31, 2001, under conditions prescribed by the Secretary of the Military Department concerned (or designee). VSP superseded SSB.

2.7 Voluntary Separation Pay (VSP) (040207)

The VSP is an annual or lump-sum payment to certain members to encourage them to leave active duty voluntarily. The authority to separate a member in conjunction with VSP applies for the period of October 17, 2006 through December 31, 2025.

2.8 Recoupment (040208)

To align entitlement to retirement benefits with applicable active service, this chapter uses the term recoupment in conjunction with the recovery of readjustment pay, nondisability severance pay, separation pay, DSP, VSI, SSB, or VSP previously received.

2.9 Reserve Special Separation Pay (RSSP) (040209)

The RSSP is payable to Reserve members who had completed more than 20 years of service but who had not reached age 60. Payment of RSSP is not subject to recoupment from retired pay. For more information, see Volume 7A, Chapter 58.

3.0 READJUSTMENT PAY (0403)

3.1 General Provisions (040301)

3.1.1. A member who received 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 under Title's 10 or 14, U.S.C. upon completion of 20 years of active service, must have the retired pay withheld until a total of 75 percent of the readjustment pay has been recovered. For this purpose, consider a member who transferred to the Fleet Reserve or the Fleet Marine Corps Reserve 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.

3.1.2. A Regular Army commissioned officer in the grade of O-1, O-2, or O-3 who received 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 have the retired pay withheld until a total of 75 percent of the readjustment pay has been recovered. See Table 4-1.

3.1.3. 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 later qualifies for retired pay upon completion of 20 years of active service, must have the retired pay withheld until a total of 75 percent of the readjustment pay has been recovered. See Table 4-1.

3.1.4. A member who received readjustment pay on September 15, 1981 or later, and who later qualifies for retired pay, must have the retired pay reduced until the recovery of the full amount of the readjustment pay. See subparagraph **040302.B**.

3.2 Recoupment of Readjustment Pay (040302)

3.2.1. Readjustment Pay Received Before September 15, 1981.

3.2.1.1. The Defense Finance and Accounting Service (DFAS) will deduct a total of 75 percent of the gross readjustment pay without interest immediately from retired pay.

3.2.1.2. There is no entitlement to retired pay until the recovery of 75 percent of the lump-sum readjustment pay. During the period that the member is not entitled to retired pay, the member must pay the cost for coverage under the **Survivor Benefit Plan (SBP)** by direct remittance to:

Defense Finance and Accounting Service, DFAS-CL
SBP and RSFPP Remittance
P.O. Box 979013
St. Louis, MO 63197-9000

3.2.2. Readjustment Pay Received September 15, 1981 or Later. A member who received readjustment pay on September 15, 1981 or later, and who subsequently qualifies for retired pay will have the retired pay reduced in accordance with section **0410** until the recovery of the full amount of the readjustment pay.

4.0 NONDISABILITY SEVERANCE PAY (0404)

4.1 General Provisions (040401)

Before September 15, 1981, certain provisions of law governing separation from the active list required recoupment of nondisability severance pay upon a member's retirement. See Table 4-2 for conditions governing recoupment of nondisability severance pay received before September 15, 1981. Members who receive nondisability severance pay on September 15, 1981 or later, and who subsequently qualify for retirement, are subject to recoupment under paragraph 040402.

4.2 Recoupment of Nondisability Severance Pay (040402)

The DFAS must recoup lump-sum nondisability severance pay by deducting from retired pay each month an amount as specified in section 0410 until the total deducted equals the amount of the nondisability severance pay received.

5.0 SEPARATION PAY (0405)

5.1 General Provisions (040501)

Separation pay has replaced readjustment pay and nondisability severance pay for involuntary separation of all members of the active and reserve forces other than those separated for disability. For information on eligibility requirements for separation pay, see Volume 7A, Chapter 35.

5.2 Recoupment of Separation Pay (040502)

5.2.1. A member who received separation pay and who later qualifies for retired or retainer pay under Titles 10 or 14 of the U.S.C. will have a monthly installment deducted from payment of such retired or retainer pay. See section 0410.

5.2.2. A member who receives separation pay, and who also is eligible for disability compensation from Department of Veteran Affairs (VA), will have an amount, equal to the total amount of separation pay received, deducted by the VA from the disability compensation awarded. The VA will not deduct separation pay from disability compensation if disability is based on service performed after receiving separation pay.

6.0 DISABILITY SEVERANCE PAY (DSP) (0406)

6.1 General Provisions (040601)

Upon determination by the Secretary concerned that a member of the Armed Forces is unfit to perform the duties of his office, grade, rank or rating because of physical disability rated less than 30 percent, the department may separate the member with disability severance pay. For information on eligibility requirements for disability severance pay, see Volume 7A, Chapter 35.

6.2 Recoupment of DSP (040602)

When the Secretary concerned approves a recommendation from the Physical Disability Board of Review (PDBR) to award military disability retirement, the DFAS must take action to recoup any disability severance pay previously paid to that member. Recoupment will be consistent with the parameters established in section 0410, except as noted in paragraph 040603 and subparagraphs 040602.A and B.

6.2.1. In most cases, members entitled to disability severance pay will also qualify for the VA disability compensation. In order to avoid duplicate collection, the DFAS will reduce the recovery amount of disability severance pay by any amount already separately recovered by the VA through reduction of the VA disability compensation. In such cases, the amount deducted by the VA from the disability compensation will reduce the gross amount of disability severance pay to be recouped by the DoD.

6.2.1.1. To determine the retroactive entitlement of retired pay that is payable to the member, offset the entire VA disability compensation amount that is awarded (prior to any reduction of such VA disability compensation to offset the collection of disability severance pay) from the total retroactive retired pay entitlement. This will result in an amount of the VA disability compensation plus military retired pay paid to the member that is equal to that which the member would have been entitled to had he/she originally been retired instead of separated.

6.2.1.2. The DFAS will first apply the entire amount of any retroactive retired pay and/or Combat-Related Special Compensation (CRSC) entitlement to any required recoupment of disability severance pay without regard to the percentage limitations specified in section 0410. In determining the retroactive entitlement to retired pay, service members must be treated as though they were retired on the original date of separation, without regard to any disability severance payment received or any reduction in the VA disability compensation to recoup previously paid disability severance pay. In order to determine the amount subject to recoupment, as well as any amount payable to a member, the DFAS will determine the amount of retired pay that would have been available had the member originally been retired instead of separated. The total amount to recoup will be the full gross amount of disability severance pay originally paid to the member.

6.2.1.3. As stated in subparagraph 040602.A, the VA deducts disability severance compensation from any VA compensation for the same disability to which the member or member's dependents become entitled under any law administered by the VA. There are two exceptions:

6.2.1.3.1. The VA will make no deduction in the case of disability severance pay received by a member for a disability incurred in the line of duty in a combat zone or incurred during performance of duty in combat-related operations as designated by the Secretary of Defense.

6.2.1.3.2. The VA will make no deduction from any death compensation to which a member's dependents become entitled after the member's death.

6.2.2. Members must be promptly notified that future payments of disability retired pay will be subject to reduction until the gross amount of the disability severance pay has been recovered.

6.3 Collection of DSP – Board for Correction of Military Record Cases (040603)

The Secretary concerned may change a military record pursuant to the authority at [10 U.S.C. § 1552](#) in order to award military disability retirement to a member who has previously received DSP. If this occurs, any DSP previously paid to the member must be established as a debt and collected from the member. The DSP amount must first be offset from any military retired pay or CRSC payments due the military retiree as a result of the record correction. If the DSP debt cannot be fully collected from retroactive amounts due, then collection of the remainder of the debt must be made pursuant to the authority under Volume 16.

6.4 Survivor Benefit Plan (SBP) Participation (040604)

6.4.1. Members whose record is corrected to a military disability retirement under the PDBR process, and who were married on the retirement effective date, will receive automatic full spouse coverage under the SBP, unless the member makes an affirmative election on a DoD (DD) [DD Form 2656](#), Data for Payment of Retired Personnel, for less than full spouse coverage within 90 days of being provided a DD Form 2656. If the member elects less than full spouse coverage, including an election not to participate in SBP program or an election for child-only coverage, the election must include a spousal concurrence signed by the person who was the member's spouse on the effective retirement date, as determined by the PDBR, unless such person is deceased. If the member was married on the effective retirement date, but has since divorced that spouse, the member must still submit a concurrence to elect less than full spouse coverage signed by the person who was the member's spouse on the effective retirement date, unless the whereabouts of the member's now former spouse are unknown and the member submits an affidavit verifying that the former spouse's whereabouts are unknown, along with a copy of the parties' divorce decree. The spouse's concurrence on the DD Form 2656 must be signed on or after the date of the member's signature and otherwise conform to an election regarding spouse coverage.

6.4.2. A spouse who was married to the member on the effective date of retirement, who was subsequently divorced from the member and who has not signed the spousal concurrence on DD Form 2656, has 1 year from the date of the approved PDBR recommendation authorizing disability retirement to make a deemed former spouse SBP election, provided there is already in effect a court-approved written agreement or court order requiring the member to elect to provide such an annuity to the former spouse.

6.4.3. If the member had a former spouse on the effective retirement date, the member may elect former spouse SBP coverage. There is no requirement for spousal concurrence for a former spouse election, although the member's current spouse should be provided written notice of the former spouse election. A member who was not married and had no dependent child on the effective date of retirement, who remarries or acquires a dependent child subsequent to the

effective date of retirement, may elect to participate in the SBP. The member has 1 year from either the date of acquiring a spouse or dependent child or the date of the approved PDBR recommendation authorizing disability retirement, whichever is later.

6.4.4. If the member had no spouse or dependent child on the effective retirement date and is not otherwise required to provide former spouse coverage, the member may elect to provide an annuity for an insurable interest person if such individual would have been qualified on the effective date of retirement.

6.4.5. Monthly SBP premiums for automatic or properly elected coverage must be charged from the effective retirement date, with the exception that no SBP premiums will be due if the member elects not to participate in the SBP program with proper spousal concurrence within 90 days of the PDBR action awarding a disability retirement or 90 days of the date that the member has been provided a DD Form 2656 to elect SBP participation.

6.4.6. If a member, who is retired for disability as a result of an approved PDBR action, had previously made a Reserve Component Survivor Benefit Plan (RCSBP) election, that RCSBP election will be considered of no effect if the PDBR action is approved prior to the date that the member would have become eligible for reserve retired pay under [10 U.S.C., Chapter 1223](#).

7.0 VOLUNTARY SEPARATION INCENTIVE (VSI) (0407)

7.1 General Provisions (040701)

Certain members who voluntarily separated before December 31, 2001, received annual payments of VSI based on their grade or rank at separation and number of years of service creditable for retirement purposes. See Volume 7A, Chapter 35 for eligibility requirements.

7.2 Beneficiary Payment Procedures (040702)

Upon the death of the member, the DFAS Cleveland Site will pay all remaining VSI installments to the designated beneficiaries. The DFAS will distribute VSI installment payments according to the legal order of precedence if there is no valid designation on file and maintained at the DFAS Cleveland Site. See Chapter 23 for more information regarding beneficiary payment procedures.

8.0 SPECIAL SEPARATION BENEFIT (SSB) (0408)

8.1 General Provisions (040801)

Under conditions prescribed by the Secretary of the Military Department concerned (or designee), a member who separated voluntarily from a Military Service before December 31, 2001, could elect to receive an SSB.

8.2 Recoupment of SSB (040802)

If a member who has received an SSB payment later qualifies for retired or retainer pay under Titles 10 or 14 of the U.S.C., the DFAS will recoup the gross amount of SSB received through a monthly installment from each payment of such retired or retainer pay as specified in section 0410.

7.3 Recoupment of VSI (040703)

7.3.1. A member who has received VSI, who later qualifies for retired or retainer pay under Titles 10 or 14 of the U.S.C., must have the amount of VSI deducted from each payment of such retired or retainer pay by a monthly installment not to exceed 40 percent of the member's gross retired pay as specified in paragraph 041004. The gross retired pay 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.

7.3.2. In a case in which a member is receiving simultaneous VSI and retired pay, the member may elect to terminate the receipt of VSI. Such election is permanent and irrevocable. Under these circumstances, effective after such election to terminate VSI, the DFAS will reduce the rate of monthly recoupment from retired pay of VSI received in accordance with subparagraph 040703.A. The rate of recoupment will 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. Multiply the resulting fraction, which is a percentage rate of reduction, by the percentage in subparagraph 040703.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 040703.A to determine the reduced rate of recoupment from retired pay.

7.3.3. A member who is receiving VSI payments will not be deprived of this incentive by reason of entitlement to disability compensation under the laws administered by the VA, but there will be deducted from VSI payments an amount equal to the amount of any such disability compensation concurrently received. Notwithstanding the preceding sentence, the DFAS will make no deduction from VSI payments for any disability compensation received because of an earlier period of active duty if the member receives VSI because of discharge or release from a later period of active duty.

7.3.3.1. Any reduction in VSI as a result of receipt of the VA disability compensation will reduce the gross amount of VSI paid, as described in subparagraph 040703.A, and will not be recovered through recoupment from retired pay.

7.3.3.2. In a case in which a member is receiving simultaneous VSI and retired pay, the DFAS will reduce the VSI payment by the amount of any VA disability compensation. In addition, the member's election to waive retired pay, as described under Chapter 12, subparagraph 120101.A.1, will also still apply. Furthermore, the DFAS will reduce the member's retired pay as described in subparagraph 040703.A.

9.0 VOLUNTARY SEPARATION PAY (VSP) (0409)

9.1 General Provisions (040901)

Certain members who voluntarily separate between October 17, 2006 and December 31, 2025, may receive a lump-sum VSP in an amount up to four times the full amount of the separation pay a member may receive. See Volume 7A, Chapter 35 for more information on separation pay.

*9.2 Recoupment of VSP (040902)

* 9.2.1. A member who is paid VSP and who later qualifies for retired or retainer pay under Titles 10 or 14 of the U.S.C., will 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 will equal the total amount paid to the member. See also Volume 7A, paragraph 350809.

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

9.2.3. 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 will forward a copy of all waivers to the Deputy Under Secretary of Defense, Military Personnel Policy.

9.2.4. 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, will review, in coordination with the DoD Office of General Counsel, any waiver by a Secretary of the Military Department (or designee) that applies to more than one individual. This review process will ensure a consistent consideration of the equities in such cases throughout DoD.

*9.3 Repayment For Members Who Return to Active Duty (040903)

See Volume 7A, paragraph 350811.

10.0 RECOUPMENT OF SEPARATION PAY, NONDISABILITY SEVERANCE PAY, READJUSTMENT PAY, OR DISABILITY SEVERANCE PAY (0410)

10.1 Members Affected (041001)

Service members who received separation pay, nondisability severance pay, readjustment pay, or DSP under any provision of law based on service in the Armed Forces, or a member awarded disability retirement from the PDBR, as described in paragraph 040602, who subsequently qualify under Titles 10 or 14 of the U.S.C. for retired or retainer pay will have deducted an amount equal to the total amount of separation pay, nondisability severance pay, readjustment pay, or DSP, without regard to any withholding for taxes. The DFAS will make such deductions from each payment of retired or retainer pay until the total amount recouped is equal to the total amount of separation pay, nondisability severance pay, readjustment pay, or DSP. The member may authorize a deduction in an amount greater than that required by law.

10.2 Veterans Administration (VA) Disability Compensation (041002)

10.2.1. In some cases, members entitled to disability retired pay will also qualify for the VA disability compensation. In such cases, the amount deducted to recoup the separation payment by the VA will reduce the gross amount of separation, severance or readjustment pay to be recouped by DoD.

10.2.2. The DFAS will subtract the gross monthly amount of the VA disability compensation from the gross monthly amount of the retired pay subject to recoupment. The DFAS will then use this adjusted gross retired pay in place of gross retired pay for members with a VA waiver. In cases where the amount of the VA disability compensation award is greater than military retired pay, recoupment of disability severance pay will be suspended until, when or if, the amount of gross retired pay exceeds the monthly VA disability compensation except as provided in paragraph 041003.

10.3 Concurrent Receipt Programs (041003)

Members who meet all the eligibility criteria for the CRSC program or the Concurrent Retired and Disability Pay (CRDP) program must have their CRSC or CRDP entitlement computed based on the full amount of retired pay and the full amount of the applicable VA disability compensation (i.e., before any reductions for recoupment of separation, nondisability severance, readjustment pay, or DSP). In other words, the DFAS must compute the CRSC or CRDP entitlement amount without regard to the recoupment of separation, severance, or readjustment pay. The DFAS must add the CRSC or CRDP entitlement to the adjusted gross retired pay remaining after the VA disability compensation offset in determining the amount of the monthly disability severance pay recoupment and must be, along with the adjusted gross retired pay, available for reduction.

10.4 Recoupment Rates (041004)

The maximum rate of recoupment will be no more than an amount equal to 40 percent of the member's gross retired pay.

10.4.1. The DFAS will re-compute the monthly recoupment rate when there is an increase in gross or adjusted gross retired pay for cost-of-living adjustments, except when the member has authorized withholding at a higher monthly rate.

10.4.2. The DFAS will make no income tax withholding from retired pay used for satisfying the recoupment of separation pay, nondisability severance pay, readjustment pay, or DSP. Neither is such pay included on Internal Revenue Service Form 1099-R, Distribution from Pensions, Annuities, Retirement Profit Sharing Plans, IRAs, Insurance Contracts, nor is it reported as taxable income. The gross taxable income is the difference between the amount of the recoupment and adjusted gross retired pay.

10.4.3. The DFAS will provide written notification to members subject to recoupment. The DFAS sends this notice 90 days in advance of the initial collection from the member's retired pay. The written notification will provide the current outstanding balance and the proposed monthly recoupment amount and explain the options of a more lenient repayment request if the member asserts that the maximum rate of recoupment imposes a financial hardship. See paragraph 041006. The written notification will also explain the requirement for concurrent recoupment of the separation or nondisability severance pay by both the DFAS and the VA.

10.5 Exceptions (041005)

10.5.1. Those members whose recoupment rates were suspended in May 2009, by the direction of the Office of the Under Secretary of Defense (Comptroller) memorandum, dated May 18, 2009, and whose recoupment rates under the previous formula were less than the new maximum percentage will be reinstated at the previously established lower rate.

10.5.2. Members may, at their personal discretion, request to increase their recoupment to a rate greater than the maximum, in order to shorten the term of recoupment.

10.6 Financial Hardship (041006)

A member whose retired pay is subject to recoupment based on paragraph 041001 may, at any time, request a review of the amount recouped based upon materially changed circumstances such as disability, divorce, or illness that results in the imposition of undue financial hardship on the member and the member's dependents. A member requesting such a review will submit the basis for claiming that the current rate of recoupment results in an undue financial hardship along with supporting documentation. The DFAS will consider any information submitted and make a determination in accordance with the following procedures and standards.

10.6.1. A rate of recoupment results in an undue financial hardship for a member and his dependents if the recoupment amount prevents the member from meeting the costs necessarily

incurred for essential subsistence expenses of the member and the member's dependents. These essential subsistence expenses include costs incurred for food, housing, necessary public utilities, clothing, transportation and medical care.

10.6.2. In determining whether the recoupment amount prevents the member from meeting the essential subsistence expenses described in subparagraph 041006.A, the DFAS will consider the following:

10.6.2.1. The income from all sources of the member, the member's spouse, and dependents;

10.6.2.2. Whether these essential subsistence expenses have been minimized to the greatest extent possible; and

10.6.2.3. The extent to which the member and the member's spouse and dependents have other exceptional expenses that the DFAS should take into account and whether these expenses have been minimized to the greatest extent possible.

10.6.3. If there is an undue financial hardship, the DFAS will reduce the recoupment rate based on the member's financial condition. Any reduction of the recoupment rate will be effective for 1 year. Upon the expiration of 1 year, the recoupment rate will revert back to 40 percent unless the member has reapplied for a reduction in rate and can again demonstrate financial hardship.

10.6.4. The DFAS will adjust the rate of recoupment based on the following formula:

10.6.4.1. Subtract the total monthly living expenses from the total monthly income. The result is the net income available for monthly recoupment.

10.6.4.2. The net income available for monthly recoupment will be divided by the gross monthly retired pay to determine the actual recoupment percentage. If the result is 40 percent or greater, the recoupment is limited to 40 percent. A result of 10 percent or less limits the recoupment to 10 percent. The DFAS will apply any factor within the range of 10 to 39 percent as the actual percentage with any fractional portions of a percentage point rounded down to the lower whole percentage point.

Figure 4-1 provides two typical calculation examples.

Figure 4-1. Financial Hardship Calculation Examples

EXAMPLE A:**Gross Monthly Income:**

Retired Pay	\$ 3,000.00
Other income	460.00
Spouse's income	<u>\$ 500.00</u>
Total Income	\$ 3,960.00

Actual Monthly Expenses:

Rent/Mortgage	\$ 1,500.00
Electric	\$ 80.00
Natural Gas	\$ 125.00
Telephone	\$ 35.00
Water	\$ 20.00
Food	\$ 400.00
Car Payment	\$ 280.00
Health Care	<u>\$ 500.00</u>
Total Expenses	\$ 2,940.00

Total Income	\$ 3,960.00	
Total Expenses	<u>\$ 2,940.00</u>	
Net Income	\$ 1,020.00	(Available for recoupment)

Divide the member's Net Income (\$1,020.00) by the gross retired pay (\$3,000.00) which equals .34 or a recoupment rate of 34%.

EXAMPLE B:**Gross Monthly Income:**

Retired Pay	\$ 2,000.00
Spouse's income	<u>\$ 500.00</u>
Total Income	\$ 2,500.00

Actual Monthly Expenses:

Rent/Mortgage	\$ 800.00
Electric	\$ 80.00
Natural Gas	\$ 125.00
Telephone	\$ 35.00
Water	\$ 20.00
Food	\$ 200.00
Car Payment	\$ 280.00
Health Care	<u>\$ 900.00</u>
Total Expenses	\$ 2,440.00

Total Income	\$ 2,500.00	
less: Total Expenses	<u>\$ 2,440.00</u>	
Net Income	\$ 60.00	(Available for recoupment)

Divide the member's Net Income (\$60.00) by the gross retired pay (\$2,000.00) which equals .03. In this case, it defers to the minimum recoupment rate of 10% or \$200.00 as referenced in subparagraph 041006.D.2.

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

R U L E	If a member was a	and received before September 15, 1981 (note 1)	and later qualifies for retirement	then 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 O-4	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	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).
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	recouped immediately upon retirement at the rate of 75 percent of the gross readjustment pay (note 3).

NOTES:

1. For recoupment of readjustment pay received September 15, 1981, or later, see subparagraph **040302.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.

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

R U L 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	nondisability severance pay	retired pay	do not deduct nondisability severance pay.
2	a Regular commissioned Air Force or Army officer	because of moral or professional dereliction, or unsatisfactory performance	nondisability severance pay	retired pay	do not deduct nondisability severance pay.
3	a Regular commissioned officer of the Navy, Marine Corps, or Coast Guard	because of unsatisfactory performance with less than 20 years	nondisability severance pay	retired pay	deduct full amount of nondisability severance pay.
4	a Regular commissioned officer of the Navy, Marine Corps, or Coast Guard	because of failure of selection for promotion to grade O-3 or above	nondisability severance pay	retired pay	deduct full amount of nondisability severance pay.
5	a Regular warrant officer of any Military Service	because of unfitness or unsatisfactory performance of duty and did not reenlist	nondisability severance pay	retired pay	deduct full amount of nondisability severance pay.
6	a Regular warrant officer of any Military Service	because of failure of selection for promotion and did not reenlist or was not retained on active duty as a regular warrant officer	nondisability severance pay	retired pay	deduct full amount of nondisability severance pay.
7	an officer of the Navy or Marine Corps	because found not qualified from causes arising from own misconduct upon reexamination for promotion	nondisability severance pay	retired pay	do not deduct nondisability severance pay.
8	a female 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	nondisability severance pay		

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

R U L E	If a member was	and was discharged	and received before September 15, 1981 (note)	and later qualifies for	then
9	a female 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	nondisability severance pay	retired pay	do not deduct nondisability severance pay.
10	an ensign in the Navy or a second lieutenant in the Marine Corps	because found not professionally qualified upon reexamination for promotion	nondisability severance pay	retired pay	do not deduct nondisability severance pay.
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	nondisability severance pay	retired pay	do not deduct nondisability severance pay.
12	a Regular commissioned officer of the Coast Guard	because performance is below standard or because of moral or professional dereliction	nondisability severance pay	retired pay	do not deduct nondisability severance pay.

NOTE: For recoupment of nondisability severance pay received September 15, 1981 or later, see paragraph 040402.

*REFERENCES

CHAPTER 4 – RECOUPMENT OF SEPARATION PAYMENTS

2.0 – DEFINITIONS (0402)

- 2.1 Public Law 96-513, section 631, December 12, 1980
10 U.S.C. § 611 note
- 2.2 Public Law 96-513, section 631, December 12, 1980
10 U.S.C. §611 note
- 2.3 10 U.S.C. § 1174
- 2.4 10 U.S.C. § 1212
- 2.5 10 U.S.C. § 1175
- 2.6 10 U.S.C. § 1174a
- 2.7 Public Law 114-328, section 508, December 23, 2016
10 U.S.C. § 1175a(k)
- 2.8 Public Law 102-484, section 4416, October 23, 1992
10 U.S.C. § 1331
10 U.S.C. § 12732

3.0 – READJUSTMENT PAY (0403)

- 3.1.1 10 U.S.C. § 687(f) (repealed)
Public Law 96-513, section 109, December 12, 1980
10 U.S.C. § 611 note
50 U.S.C. § 1016 (repealed)
43 Comptroller General (Comp Gen) 402
Public Law 96-513, December 12, 1980
10 U.S.C. § 611 note
- 3.1.2 Public Law 93-558, December 30, 1974
10 U.S.C. § 3814a (repealed)
Public Law 96-513, section 631, December 12, 1980
10 U.S.C. § 611 note
- 3.1.3 46 Comp Gen 107
Public Law 96-513, December 12, 1980
10 U.S.C. § 611 note
- 3.1.4 Public Law 96-513, section 631, December 12, 1980
10 U.S.C. § 611 note
10 U.S.C. § 1174(h)(1)
- 3.2.1.2 10 U.S.C. § 1452
- 3.2.2 10 U.S.C. § 1174(h)

4.0 – NONDISABILITY SEVERANCE PAY (0404)

- 4.2 53 Comp Gen 921, id: 923

REFERENCES (continued)

5.0 – SEPARATION PAY (0405)

- 5.1 10 U.S.C. § 1174
- 5.2.1 Public Law 96-513, section 631, December 12, 1980
- 10 U.S.C. § 611 note
- 5.2.2 10 U.S.C. § 1174(h)(2)

6.0 – DISABILITY SEVERANCE PAY (DSP) (0406)

- 6.1 10 U.S.C. § 1212
Deputy Under Secretary of Defense,
Military Personnel Policy ((DUSD (MPP))
Policy Memorandum, August 10, 2010
- 6.2 10 U.S.C. § 1554a(e)(2)
DUSD (MPP) Policy Memorandum, August 10, 2010
- 6.2.1.2 10 U.S.C. § 1413a
10 U.S.C. § 1554a
DUSD (MPP) Policy Memorandum, August 10, 2010
- 6.2.1.3 10 U.S.C. § 1212(d)(1)
- 6.2.1.3.1 10 U.S.C. § 1212(d)(2)
- 6.2.1.3.2 10 U.S.C. § 1212(d)(3)
- 6.3 10 U.S.C. § 1552(a) and (e)
- 6.4 DUSD (MPP) Policy Memorandum, August 10, 2010
- 6.4.6 10 U.S.C., Chapter 1223
DUSD (MPP) Policy Memorandum, August 10, 2010

7.0 – VOLUNTARY SEPARATION INCENTIVE (VSI) (0407)

- 7.1 10 U.S.C. § 1175(d)(3)
- 7.2 10 U.S.C. § 1175(f)
10 U.S.C. § 2771(a)
- 7.3.1 10 U.S.C. § 1175(e)(3)(A)
- 7.3.2 10 U.S.C. § 1175(e)(3)(B)
- 7.3.3 10 U.S.C. § 1175(e)(4)
38 U.S.C. § 5305

8.0 – SPECIAL SEPARATION BENEFIT (SSB) (0408)

- 8.1 10 U.S.C. § 1174a(g)
10 U.S.C. § 1174(h)

REFERENCES (continued)

9.0 – VOLUNTARY SEPARATION PAY (VSP) (0409)

- 9.1 Public Law 114-328, section 508, December 23, 2016
10 U.S.C. § 1175a(k)
Principal Deputy Under Secretary of Defense for
Personnel and Readiness ((PDUSD) (P&R)) Policy
Memorandum, April 14, 2008
- 9.2 PDUSD (P&R) Policy Memorandum, April 14, 2008
- * 9.3 10 U.S.C. § 1175a(j)

10.0 – RECOUPMENT OF SEPARATION PAY, NONDISABILITY SEVERANCE PAY, READJUSTMENT PAY, OR DISABILITY SEVERANCE PAY (0410)

- 10.1 10 U.S.C. § 1174(h)(1)
DUSD (MPP) Policy Memorandum, March 19, 2010
- 10.2 10 U.S.C. § 1174(h)(2)
DUSD (MPP) Policy Memorandum, March 19, 2010
Public Law 111-32, section 318, June 24, 2009
DUSD (MPP) Policy Memorandum, August 17, 2010
- 10.3 DUSD (MPP) Policy Memorandum, March 19, 2010
OUSD (Compt) Memo, May 18, 2009
DUSD (MPP) Policy Memorandum, August 17, 2010
- 10.4 DUSD (MPP) Policy Memorandum, March 19, 2010
Public Law 111-32, section 318, June 24, 2009
- 10.5 DUSD (MPP) Policy Memorandum, March 19, 2010
DUSD (MPP) Policy Memorandum, August 17, 2010
- 10.6 DUSD (MPP) Policy Memorandum, March 19, 2010
DUSD (MPP) Policy Memorandum, August 17, 2010

Table 4-1

- Rule 1 10 U.S.C. § 687(f) (repealed)
Public Law 96-513, section 631, December 12, 1980
10 U.S.C. § 611 note
- Rule 2 10 U.S.C. § 3814a (repealed)
Public Law 96-513, December 12, 1980
- Rule 3 46 Comp Gen 107
Public Law 96-513, 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

REFERENCES (continued)

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