

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

SUMMARY OF MAJOR CHANGES

All changes are 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 **September 2016** is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Updated hyperlinks and formatting to comply with current administrative instructions.	Revision
230101	Changed the applicable period for Special Separation Benefit and VSI from January 1992 through October 1995 to January 1992 through December 2001.	Revision
230204	Deleted information concerning the amortization of the VSI prior to September 30, 1999.	Deletion
230301	Deleted instructions for filling out required forms upon separation.	Deletion
230303	Deleted information concerning withholding taxes from the initial payment.	Deletion
230502	Added information concerning an exception to making a VSI payment.	Addition
230502.B	Updated mailing address for beneficiary claims.	Revision
2306	Deleted section for reservist separation incentive pay and collection procedures.	Deleted
Bibliography	Changed the name from “Bibliography” to “References” to comply with new requirements.	Revision
References	Added a reference concerning an exception for paying VSI to a beneficiary.	Addition

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CHAPTER 23

SPECIAL AND VOLUNTARY SEPARATION INCENTIVE (VSI) PAY

2301 GENERAL

*230101. Purpose

The purpose of this chapter is to provide policy for the authorization, administration, and payment of the Special Separation Benefits (SSB) and VSI programs to mid-career Service members of the military services in over-strength inventories. See Title 10, United States Code (U.S.C.), sections [1174a](#) and [1175](#). The applicable period for SSB and VSI was January 1992 through [December 2001](#). Both options required member affiliation with a Reserve Component.

230102. Authoritative Guidance

[The authoritative references are listed at the end of this chapter.](#)

2302 RESPONSIBILITIES

230201. Defense Finance and Accounting Service (DFAS), Cleveland (CL)

DFAS-CL will:

A. Maintain the VSI account until all annual installments are paid, or until the death of the VSI member recipient. A member's entitlement to VSI is not transferable, except that the member may designate beneficiaries to receive the payments in the event of the member's death, in accordance with paragraph 230501; and

B. Make all VSI annual beneficiary payments. Following the death of a VSI member recipient, DFAS-CL will provide customer service support for designated beneficiaries and be the primary source for VSI member beneficiary account assistance and maintenance.

230202. Defense Manpower Data Center (DMDC)

DMDC will:

[A.](#) Maintain a personnel database that identifies and tracks participation in the VSI programs; [and](#)

[B.](#) Provide information concerning Reserve participation to DFAS-CL [due to the](#) requirement of Reserve affiliation.

230203. Secretary of the Treasury

The Secretary of the Treasury administers the VSI Fund (hereafter referred to as the “Fund”). All VSI payments made by the Secretary of Defense after December 31, 1992, pursuant to 10 U.S.C. § 1175, are to be paid out of the Fund. The Fund is classified as a trust fund and has been designated as account number 97X8335. This fund consists of a receipt and expenditure account.

*230204. Department of Defense (DoD) Board of Actuaries

For each fiscal year (FY) after September 30, 1999, the Board:

- A. Carries out an actuarial valuation for the Fund and determines any new unfunded liabilities arising from gains and losses to the Fund;
- B. Determines an amortization schedule for liquidating these new unfunded liabilities; and
- C. Determines for the upcoming FYs the amount of DoD contributions to the Fund necessary to comply with the amortization schedules for the Fund’s original and new unfunded liabilities in sufficient time to be included in the FY budget requests.

2303 PAYMENT PROCESSING

*230301. VSI Payments

A. Upon Separation. A Service member completed a DoD (DD) Form 2058, State of Legal Residence Certificate, and Internal Revenue Service (IRS) Form W-4, Employee’s Withholding Allowance Certificate at the time of separation and a DD 2864, VSI Beneficiary Designation in order to designate any beneficiaries if desired.

B. Annual Payments. DFAS-CL issues annual payments on the anniversary of the member’s separation. In the event that the anniversary date falls on a weekend or holiday, DFAS-CL will make the payment according to the same rules followed for regular active duty paydays. DFAS-CL will send annual VSI payments to the VSI recipient’s bank via Electronic Funds Transfer (EFT). The Service member should complete an updated Standard Form (SF) 1199A, Direct Deposit Sign-Up Form, as information changes. If an SF 1199A is not available, the VSI recipient must submit the routing transit number of the financial institution, a canceled check that shows his/her account number and bank address, and the member’s signature.

230302. Effect of Disability Compensation

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

A. Deduction. The amount of any such disability compensation concurrently received must be deducted from VSI payments.

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

*230303. Withholding Requirements [for Members](#)

A. Federal Income Tax Withholding (FITW) is withheld from 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 [has](#) not [submitted](#) an IRS Form W-4, the tax withholding is computed as if the member is single, with no withholding exemptions. All payments are produced and reported by DFAS-CL to the member via IRS Form W-2 in January of the calendar year following the payment.

B. State Income Tax Withholding. VSI payments are subject to state income tax withholding for residents of states that have entered into an agreement with the Secretary of the Treasury. State withholding and reporting for the SSB and the initial VSI payment [was](#) based on the member's legal residence at the time of separation from active duty. See Volume 7A, Chapter 44 for those states that have entered into an agreement with the Secretary of the Treasury. For [annual](#) VSI payments, state income tax is withheld based upon the state of legal residence claimed on [the member's](#) DD Form 2058.

C. Withholding of Federal Insurance Contributions Act (FICA). FICA (or any other payroll taxes) is not withheld from VSI payments.

230304. Recoupment of SSB or VSI

A member who has received SSB or VSI and who later qualifies for retired or retainer pay will have the amount of the SSB or VSI received deducted from each payment of such retired or retainer pay. SSB will also be deducted from disability compensation under the laws administered by the VA. See Chapter 4 for detailed information on recoupment.

2304 DEBT COLLECTION

SSB and VSI [initial](#) payments were subject to offset for debt collection. If a Service member [separated](#) from active duty with debts due to the United States ([including non-appropriated fund instrumentalities and non-DoD debts](#)), the amount of the debt [was subject to](#) offset from the SSB and [initial](#) VSI entitlement. In the case of VSI, if the debt was greater than the initial payment, the remaining debt will be collected from subsequent installments. Collections

are made according to the administrative offset provisions contained in 31 U.S.C. [§ 3716](#) and 10 U.S.C. §1007 and are subject to standard debt collection procedures and policies in Volume 16. Garnishment orders remain in effect for VSI recipients and must be transferred to DFAS-CL for administration.

2305 BENEFICIARY PAYMENT

230501. Designation of Beneficiaries

A. Service members may designate beneficiaries to receive VSI installments that remain unpaid after the death of the member using a DD Form 2864. The VSI recipient may designate different percentages for multiple recipients to receive. In the event percentage elections are not made, payments are divided evenly among the designated beneficiaries. The VSI recipient may change his/her beneficiary information by sending a signed and dated DD Form 2864 to DFAS-CL at any time after separation.

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

*230502. Notification of Death and Beneficiary Claim

A. DFAS-CL 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, DFAS-CL will close out the member account and establish the beneficiary account. [If the beneficiary is responsible for the death of the retiree, the annuity may not be paid to that person unless evidence is received which clearly absolves the beneficiary of any felonious intent.](#)

* B. No specific form is required for making claim for beneficiary payments. A statement signed by the beneficiary claiming future VSI payments will be sufficient. The statement should include the beneficiary's social security number. Mail beneficiary claims to DFAS-CL, Retired and Annuitant Pay (R&A):

DFAS Indianapolis
Attn: Uniques
8899 East 56th Street
Indianapolis, IN 46249-1300

230503. Beneficiary Payment

A. Death of the Member. Upon the death of the member, DFAS-CL will make all remaining annual payments to the member's designated beneficiaries for the remainder of the deceased VSI recipient's entitlement period. If a valid designation was not made or received, payments will be distributed to the person highest on the list, living on the date of death (see [10 U.S.C. § 2771](#)) as follows:

1. The Beneficiary designated by the member in writing, if the

designation is received by the Military Department concerned before the member's death;

2. The surviving spouse;
3. The children and their descendants, by representation:
 - a. Adopted Child. An adopted child is a legal heir in every state and, therefore, is entitled to payment of unpaid pay and allowances, if otherwise proper. If others adopt the deceased member's child, the child is a beneficiary only in those states where an adopted child inherits from its natural parent.
 - b. Stepchild. A stepchild is not an eligible beneficiary unless adopted by the deceased retiree.

Note: In certain instances, evidence of paternity may be required to determine eligibility.

4. The father and mother in equal parts or, if either is dead, the survivor;
5. The legal representative; or
6. The person entitled under the law of the domicile of the deceased retiree.

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

C. Withholding Requirements

1. A payment to beneficiary is subject to FITW. The 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. DFAS-CL will issue an IRS Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., to each beneficiary recipient.

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

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

230504. Report of Existence (ROE)

DFAS-CL may send an ROE letter annually to each beneficiary. If a letter is sent, it must be completed, signed, and returned to DFAS, U.S. Military Annuitant Pay, 8899 E 56th Street, Indianapolis, IN 46249-1300. Failure to complete the letter may result in payments being withheld.

*REFERENCES

CHAPTER 23 – SPECIAL AND VOLUNTARY SEPARATION INCENTIVE (VSI) PAY

2302 – RESPONSIBILITIES

230201	10 U.S.C. § 1174a(h)(2)
	10 U.S.C. § 1175
230202.A	10 U.S.C. § 1175(f)
230202.C and D	10 U.S.C. § 1175(h)

2303 – PAYMENT PROCESSING

*	230301	Comptroller General Decision, B-187743, July 7, 1977
	230302	10 U.S.C. § 1175(e)(4)
	230304	10 U.S.C. § 1175(e)(3)(A)
		10 U.S.C. § 1174a(g)
		10 U.S.C. § 1174(h)(1)
		10 U.S.C. § 1175(e)(3)
		10 U.S.C. § 1174(g) and 1174(h)

2305 – BENEFICIARY PAYMENT

230503.A	10 U.S.C. § 2771
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