

**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 2014** is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Updated hyperlinks and formatting to comply with current administrative instructions.	Revision
230102	Added “Authoritative Guidance” paragraph.	Addition

Table of Contents

2301	GENERAL	3
	230101. Purpose	3
	*230102. Authoritative Guidance	3
2302	RESPONSIBILITIES.....	3
	230201. The Defense Finance and Accounting Service (DFAS)-Cleveland Site.....	3
	230202. Defense Manpower Data Center (DMDC).....	3
	230203. Secretary of the Treasury	3
	230204. Department of Defense (DoD) Board of Actuaries.....	4
2303	PAYMENT PROCESSING	4
	230301. VSI Payments	4
	230302. Effect of Disability Compensation	5
	230303. Withholding Requirements	5
	230304. Recoupment of SSB/VSI.....	6
2304	DEBT COLLECTION	6
	230401. General	6
	230402. Debt Collection	6
	230403. Garnishments.....	8
2305	BENEFICIARY PAYMENT	8
	230501. Designation of Beneficiaries	8
	230502. Notification of Death and Beneficiary Claim	8
	230503. Beneficiary Payment	9
	230504. Report of Existence	10
2306	RESERVISTS DEBT COLLECTION.....	10
	230601. General	10
	230602. Debt Collection	11
	230603. Garnishments.....	12
	BIBLIOGRAPHY	13

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 October 1995. Both options required member affiliation with a Reserve Component. See Volume 7A, Chapter 35 for detailed information on SSB/VSI benefits, entitlements, and eligibility requirements.

*230102. Authoritative Guidance

The bibliography at the end of this chapter lists the authoritative references.

2302 RESPONSIBILITIES

230201. The Defense Finance and Accounting Service (DFAS)-Cleveland Site

The DFAS-Cleveland Site 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 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.

230202. Defense Manpower Data Center (DMDC)

The DMDC will maintain a personnel database that identifies and tracks participation in the SSB/VSI programs. Because of the requirement for Reserve affiliation, the DMDC will provide advice of Reserve participation to the DFAS-Cleveland Site.

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, shall 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

A. Prior to January 1, 1993. The DoD Board of Actuaries (hereafter referred to as the Board”) determines an amount that 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.

B. On or after January 1, 1993 through September 30, 1999. The Board determines an amortization period and schedule for liquidating the original unfunded liability of the Fund. For members separated on or after January 1, 1993, the Secretary of Defense must deposit in the Fund during the period beginning on that date and ending on September 30, 1999:

1. The sums necessary to pay the current liabilities during that period, and

2. The amount equal to present value, as of September 30, 1999, of future benefits payable as determined by the Board.

C. For each fiscal year (FY) after September 30, 1999. The Board:

1. Carries out an actuarial valuation for the Fund and determines any new unfunded liabilities arising from gains and losses to the Fund,

2. Determines an amortization schedule for liquidating these new unfunded liabilities, and

3. 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, the Service member will complete a DoD (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 DD 2864, VSI Beneficiary Designation.

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

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, the DFAS-Cleveland Site will make the payment according to the same rules followed for regular active duty paydays.

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

A. Federal Income Tax Withholding (FITW)

1. Initial SSB and VSI Payments. FITW is withheld at the applicable flat rate percentage of the gross payment from the initial SSB and VSI 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. FITW is withheld 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, the tax withholding is computed as if the member is single, with no withholding exemptions. All anniversary payments are produced and reported by the DFAS-Cleveland Site to the member via IRS Form W-2 in January of the calendar year following the payment.

B. State Income Tax Withholding. All SSB and 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 initial VSI payment are 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 VSI anniversary payments, State income tax **is withheld** based upon the State of legal residence claimed on DD 2058, or if no new DD 2058 is submitted, State income tax **is withheld** based upon the State of legal residence claimed on the member's **most recent** DD 2058 on file.

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

230304. Recoupment of SSB/VSI

A member who has received SSB/VSI and who later qualifies for retired or retainer pay **will have the amount of SSB/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

230401. General

SSB/VSI payments are subject to offset for debt collection. When a Service member is released from active duty with debts due the United States (U.S.), the amount of the debt is offset from the initial SSB/VSI entitlement. In the case of VSI, if the debt is greater than the initial payment, then 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 SSB/VSI payments must be consistent with standard debt collection procedures and policies in Volume 16.

230402. Debt Collection

A. VSI Overpayment

1. Overpayment of Initial VSI Installment. For collecting VSI overpayments, the servicing DFAS-Site will pursue collection action using out-of-service debt collection procedures. If the VSI account has already been transferred to the DFAS-Cleveland Site VSI pay system, the DFAS-Cleveland Site, Department Code **JFBAAE**, must be notified within **5** days with the correct payment information. If debt collection actions prove unsuccessful, the provisions of subparagraph 230402.C.2 must be followed.

2. VSI Anniversary Overpayment. The DFAS-Cleveland Site will pursue a debt incurred as a result of an anniversary overpayment, as an out-of-service debt. If the debt cannot be collected through these procedures, the amount owed is offset from subsequent installment payments. This offset will include any applicable interest, administrative, and/or penalty charges.

B. SSB Overpayment. The Service member's servicing DFAS-Site will treat a debt incurred as a result of overpayment of SSB entitlement as an out-of-service debt. This DFAS-Site must pursue the overpayment according to standard debt collection procedures in Volume 16.

C. Active Duty Debts

1. Amounts due the U.S. should be offset against the initial SSB/VSI payment at the time of the member's separation. The Service member's servicing DFAS-Site will pursue any uncollectible amounts using out-of-service debt collection procedures in Volume 16.

2. The DFAS-Cleveland Site will retain debts for VSI recipients as long as collection efforts are successful. If collection efforts prove unsuccessful, the servicing DFAS-Site will forward the debt to the DFAS-Cleveland Site for administrative offset against the next VSI installment payment at the following address:

Defense Finance and Accounting Service
Attn: VSI (Department Code JFBAAE)
P.O. Box 998011
Cleveland, OH 44199-8011

Such debts should be transferred to the DFAS-Cleveland Site no later than 90 days before the next VSI installment payment using a DD 139, Pay Adjustment Authorization. The DD 139 must state that due process has been afforded the member. Once offset action has been taken, the DFAS-Cleveland Site will credit the proper military personnel appropriation and notify the appropriate 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 a demand for immediate payment in full of the debt.

2. To begin collection, the NAFI must send a DD 139 to the DFAS-Cleveland Site to the address listed in subparagraph 230402.C.2.

3. The entire amount of 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. 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 139 or letter of transmittal, to the member's 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 transfers to the DFAS-Cleveland Site refer any debts to the DFAS-Cleveland Site for offset against future VSI installments.

230403. Garnishments

Garnishment orders remain in effect. Garnishment cases for VSI recipients **must be transferred** to the DFAS-Cleveland Site 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.

1. The VSI recipient should make designations using DD 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.

2. After separation, the VSI recipient may change his/her beneficiary information by sending a **signed and dated** DD 2864 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.

230502. 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 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:

Defense Finance and Accounting Service
Attn: VSI
PO Box 998011
Cleveland, OH 44199-8011

230503. Beneficiary Payment

A. Death of the Member. Upon the death of the member, the DFAS-Cleveland Site will make all remaining annual installments 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 following list living on the date of death \(see 10 U.S.C. § 2771\)](#):

1. Beneficiary designated by the member in writing, if the designation is received by the Military Department concerned before the member's death;

2. Surviving spouse;

3. 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.

c. Illegitimate Child. An illegitimate child may not be paid unpaid pay and allowances of a deceased retiree unless that child is recognized for inheritance purposes under the laws of the jurisdiction involved.

4. Father and mother in equal parts or, if either is dead, the survivor;

5. Legal representative; or

6. 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. 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. Garnishment of Beneficiary Payments. The DFAS-Cleveland Site 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

The DFAS-Cleveland Site will send a Report of Existence letter annually to each beneficiary. For additional information on Report of Existence, see Chapters 15, 37, and 46.

2306 RESERVISTS DEBT COLLECTION

230601. General

Reservists' Special Separation Pay/Reservists' VSI (RSSP/RISP) payments are subject to offset for debt collection. Any debts remaining at time of separation/retirement **are** offset from the amount of the RSSP/RISP payment. In the case of RSSP, if the debt is greater than the initial payment, the remaining debt may be collected from any subsequent installment payments. Collections are made according to the administrative offset provisions contained in 31 U.S.C. § 3716.

A. RSSP. RSSP may be paid to Reservists who have performed more than 20 years of service and are under 60 years of age, provided the members receive the approval of the Secretary concerned and meets the eligibility requirements in Volume 7A, Chapter 58.

B. RISP. Subject to the approval of the Secretary concerned and restrictions contained in Volume 7A, Chapter 58, a member of the Selected Reserve may be paid RISP. RISP may be paid to a member who is separated from service on or after March 11, 1993, and has performed 6 years or more, but less than 15 years of service prior to date of discharge from a Reserve Component or involuntary transfer from the Selected Reserve.

230602. Debt Collection

A. RSSP Overpayment

1. Overpayment of the Initial RSSP Payment. The DFAS-Cleveland Site pursues collection action against the RSSP recipient. If the RSSP account has been transferred to the DFAS-Cleveland Site RSSP pay system, that Site, Department Code JFBAAE, will be notified of the correct payment information within 5 days. If debt collection actions prove unsuccessful, follow the provisions of subparagraph 230602.C.1. If the debt cannot be satisfied through RSSP offset, the DFAS-Cleveland Site forwards the uncollectible amount to the DFAS-Indianapolis Site for collection action. The offset from retired pay includes all appropriate interest, administrative, and/or penalty charges.

2. RSSP Anniversary Overpayments. The DFAS-Cleveland Site collects RSSP anniversary overpayments as an out-of-service debt. In the event the debt cannot be collected through these procedures, the DFAS-Cleveland Site offsets it 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 pursues all RISP overpayments according to out-of-service debt procedures.

C. Other DoD Debts

1. RSSP Payments. The Reserve member's servicing DFAS-Site offsets debts against the initial RSSP payment.

a. If debts are established after the initial payment, the RSSP recipient's servicing DFAS-Site pursues collection using out-of-service debt collection procedures. The RSSP recipient's servicing DFAS-Site retains the debt as long as collection actions are successful.

b. If collection actions prove unsuccessful, notice of the debt is forwarded to the DFAS-Cleveland Site, Department Code JFBAAE, for administrative offset against any remaining RSSP installment payments. The DFAS Site transfers the debt to the DFAS-Cleveland Site no later than 90 days from the next RSSP installment payment using a DD 139. Once offset action has been taken, the DFAS-Cleveland Site credits the proper Military Personnel Appropriation and notifies the appropriate DFAS-Site of the amount collected.

c. If the total debt cannot be liquidated from a single RSSP anniversary installment, the appropriate DFAS-Site resubmits the remaining debt for offset until the total debt has been satisfied.

d. If the debt is not satisfied by offset from the last RSSP payment, the RSSP recipient's servicing DFAS-Site collects against the Reserve member's retired pay.

2. RISP Payments. The DFAS-Site offsets amounts due the U.S. against the RISP payment at the time of the Reserve member's separation. If debts are established after an RISP payment, the DFAS-Site pursues the debt using out-of-service debt collection procedures.

D. Debts from non-DoD Federal Agencies. The DFAS-Cleveland Site/Department Code ABA receives and certifies all requests for administrative offset from non-DoD Federal Agencies. Once certified, the DFAS-Cleveland Site/Department Code ABA sends the requests to the DMDC 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 are transmitted to the DFAS-Cleveland Site, Department Code JFBAAE, for offset against any future RSSP installment payments.

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 VA will have such compensation deducted from 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.

230603. Garnishments

Garnishment 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 INCENTIVE SEPARATION 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

230302.	10 U.S.C. § 1175(e)(4)
230304.	10 U.S.C. § 1175(e)(3)(A)
	10 U.S.C. §§ 1174a(g) and 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
----------	------------------

2306 – RESERVIST DEBT COLLECTION

230601.	Public Law 102-484, section 4416, October 23, 1992 Volume 7A, Chapter 58
---------	--