

Calculating Voluntary Separation Incentive Pay (VSIP)

Introduction

Voluntary separation incentive pay (VSIP) is offered to encourage eligible employees to retire or resign voluntarily from Federal service. Paid in a lump sum, a VSIP is equal to an employee's severance pay entitlement up to a maximum of \$25,000. An employee does not have to be eligible for severance pay to receive a VSIP.

Severance Pay Formula Used to Compute VSIP

Severance pay is determined on the basis of an employee's weekly rate of basic pay at the time of separation, years of creditable service, and age if over 40. (5 CFR 550.707)

Definitions

Rate of basic pay includes locality pay, annual premium pay for standby duty, availability pay, night differential for FWS employees only, continued pay, and special pay adjustment for law enforcement officers. (5 CFR 550.703)

A **severance pay fund** is the sum of an employee's basic severance pay allowance and, where applicable, an age adjustment allowance. (5 CFR 550.703)

Lifetime Limitation on Severance Pay

An employee may receive 1 week of severance pay or as much as 52 weeks of severance pay, but, in no case, may the total amount of severance pay exceed 1 year's pay at the rate received at the time of separation. This limitation has two effects: 1) an employee's severance pay fund is capped at his/her annual salary, and 2) if an employee has received severance pay at any time in the past, the number of weeks the employee is eligible to receive severance pay (based on service and age) will be reduced by the number of weeks the employee already received severance pay. The Department of Defense applies all provisions of the severance pay law in calculating VSIPs for its employees.

Example

This example illustrates how a VSIP is calculated following severance pay rules.
(See 5 CFR 550.707)

Annual Salary:	\$38,568
Hourly Rate of Pay:	\$18.48
Separation Date:	08-01-97
Date of Birth:	05-25-39
Service Computation Date:	06-18-74
Creditable Years of Service:	23.0 years
Age Over 40 Years:	18.0 years
Weeks of Severance Pay Previously Paid:	26.75 weeks

Basic Severance Pay Allowance	Calculations
Compute 1 week of basic pay for each full year of creditable service through first 10 years.	$\$18.48 \times 40 = \739.20 $\$739.20 \times 10 \text{ years} = \$7,392.00$
Compute 2 weeks of basic pay for each full year of creditable service beyond 10 years.	$\$739.20 \times 26 \text{ (2 weeks} \times 13 \text{ years)} =$ $\$19,219.20$
Compute 25 % of the applicable amount (1 week or 2 weeks of pay) for each full 3 months of creditable service beyond final full year.	None

The Employee's Basic Allowance equals \$26,611.20.

Age Adjustment Allowance	Calculations
Compute 2.5 percent of the basic severance pay allowance for each full 3 months of age over 40 years.	$.025 \times 72 \text{ (18 years} \times 4 \text{ quarters)} = 180\%$ $\text{(1.8 multiplication factor)}$ $\$26,611.20 \text{ (basic severance pay allowance)} \times 1.8 = \$47,900.16$

The Employee's Age Adjustment Allowance equals \$47,900.16.

THE EMPLOYEE'S TOTAL SEVERANCE PAY FUND EQUALS \$74,511.

DISCUSSION/ANALYSIS:

1. How long would it take to exhaust the employee's severance pay fund?

It would take 100.8 weeks to exhaust the employee's severance pay fund, but total severance pay is limited to one year's pay (52 weeks) at the rate received immediately before separation. Therefore, the employee's maximum amount of severance pay is equal to \$38,438.40 (\$739.20 x 52 weeks). (See 5 U.S.C. 5595(c).)

2. What effect does previous severance payments have on later severance payments?

If an employee previously received severance pay, the number of weeks for which the employee received severance pay must be deducted from the number of weeks it would take the employee to exhaust his severance pay fund. In this case, since the employee previously received 26.75 weeks of severance pay (\$19,773.60), he is entitled only to 25.25 weeks of severance pay at \$739.20 a week, for a total of \$18,664.80. This is the employee's actual severance pay entitlement. (See 5 CFR 550.712(b))

3. What is the total amount of VSIP the employee is eligible to receive?

Since a VSIP is equal to the lesser of an amount equal to severance pay or \$25,000, the employee is eligible to receive a VSIP in the amount of \$18,664.80. (See 5 U.S.C. 5597(d))

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