

5.14.1 Scope of Chapter

The amount of the vested dual benefit (VDB) payable in a fiscal year depends on the funding appropriated by Congress. This chapter consolidates the many diverse areas upon which the vested dual benefit has an impact. This chapter explains the rules and regulations which must be adhered to when making payments involving a VDB. Before you use the rules and regulations outlined in this chapter you must understand the concepts explained in [5.14.3](#) and [5.14.4](#).

5.14.2 Principles Of Vested Dual Benefit Cutback

If a VDB is cutback for an entire fiscal year, or for any time within a fiscal year, the cutback percentage that applied in those months will always remain. The only way that percentage can be overridden is if Congress increases or decreases the funding for those months and overrides the previous reduction. This happened in fiscal year 1982. A 21 percent VDB cutback reduction was imposed due to funding. However, two months later Congress revised the funding so that only a 15% reduction need be used. They specified that this funding was retroactive to the start of the fiscal year, therefore cases where the 21% reduction had been applied needed to be redone, and an accrual paid. Later in fiscal year 1982, Congress again revised the funding to allow for no cutback effective July 1982 (August 2 payments). There have been several vested dual benefit cutbacks and restorations since 1982. A summary is included in 5.14, exhibit 1.

Unless the funds appropriated for the VDB are retroactive, a new cutback percentage does not override a previous reduction. This means that a previous reduction cannot be ignored, nor can it be changed. When different VDB reduction percentages are involved, this chapter will help to determine how the VDB should be considered. Each aspect of claims adjudication where the VDB is a factor is referred to individually.

5.14.3 Basic Philosophy Used in Payment of Vested Dual Benefit Accruals

When making payments involving a vested dual benefit, you must know:

- The percent of reduction in the voucher month, and
- The percent of reduction in the accrual month.

Voucher month is the month the payment is made in. Accrual month is the month for which the payment is due. For instance, a vested dual benefit payment is due for July and August 1979, and is paid in November 1982. The voucher month is November 1982, the accrual months are July and August 1979.

If both the voucher and accrual month are the same, there is no question that any vested dual benefit payment will be made at the reduction percentage that applies in that month. But if the voucher month and accrual month are different, our regulations provide that "if the application of the voucher month's reduction factor would result in a larger payment than would the application of the accrual month's reduction factor, the accrual month's reduction factor shall be applied."

In essence, this means that the reduction factors of the voucher month and accrual month should be compared, and the higher of the 2 factors should be used as the cutback percentage. This is the basic philosophy used in the payment of all vested dual benefit accruals.

5.14.4 Distinction Between "Retroactive Accruals" and "Replacement Payments"

The vested dual benefit regulations make a distinction between "accrual" and "replacement payment." A replacement payment is either:

- A lost check,
- A stolen check, or
- A check returned for any reason,

and reissued to (or for) the same annuitant. If such returned check prevents succeeding checks from being issued timely, these due payments are also considered replacement payments.

The regulations provide that:

- "The reduction factor imposed in the case of a replacement payment shall be that reduction factor which was applicable to the original payment."

5.14.5 Returned Payments and Replacement Checks

Returned payments and replacement checks which are paid out to the same payee as originally issued, should be paid at the rate effective at the time the original check was prepared. (Representative payee changes do not alter the fact that the check is reissued at the original rate.) In addition:

- Any payments that were not released because the returned payments suspended the annuity should be paid out at the cutback rate in effect at the time the check should have been released.

- Substitute checks issued by Treasury in response to a claim of non-receipt, lost, stolen or destroyed checks should be paid in the same amount as the original check.

The reinstatement accrual must be reduced by the appropriate cutback percentage if the annuity rate was not correct when the returned payment suspended the annuity.

5.14.6 Payment of Retroactive Accruals

Payment of VDB accrual involves two steps:

1. Determine the amount of the VDB accrual.
2. Determine at what cutback rate the VDB must be paid.

When determining the amount of the accrual, use the cutback percentage that applied in those particular months for which the accrual is due. The accrual can be paid out as computed if the voucher month's cutback percentage is less than the cutback percentage that is used to determine the accrual.

However, if the voucher month's cutback percentage is greater than the cutback percentage used to determine the accrual, then the accrual must be further cutback. When this situation occurs, a percentage will be provided which when multiplied by an already cutback vested dual benefit, will give you the correct WAC in the voucher month. In remarks, multiply the vested dual benefit for this purpose, and round to the nearest cent. This amount should be entered in the "Deductions" section of the G-363. Notate this deduction "Additional Vested Dual Benefit Cutback."

5.14.7 Accrued Annuities Due but Unpaid at Death

An accrued annuity is not considered a replacement payment, and must be paid out the same way a retroactive accrual is paid as explained in [5.14.6](#).

5.14.8 Calculating Overpayments When a Vested Dual Benefit Cutback is Involved

This section is divided into four parts:

- How to determine an overpayment when the annuity includes a VDB.
- What VDB amount to use when recovering an overpayment when no VDB accrual is involved.
- What VDB amount to use when recovering an overpayment when a VDB accrual amount is involved.

- Reinstating overpayment cases when the annuity includes a VDB.

The basic rule of thumb to remember is that:

- The VDB amount to use when determining an overpayment (O/P) is the applicable WAC rate in the month(s) in which the O/P occurred, and
- The VDB amount to use when recovering an O/P is the applicable WAC in the months of recovery.

A. How To Determine An Overpayment When the Annuity Includes a VDB -
Generally, overpayments are caused by one of the following three situations:

- Incorrect payment of tier 1 and/or tier 2
- Incorrect payment of the vested dual benefit
- Incorrect payment of tier 1 and/or tier 2, and the VDB

Any overpayment caused by incorrect payment in tier 1 and/or tier 2 is determined by comparing the correct tiers to the incorrect tiers; the difference is the overpayment. If there is a VDB that was paid correctly, it has nothing to do with determining the O/P.

If the overpayment is caused (in part or in full) by an incorrect payment of the vested dual benefit, determine what the correct gross vested dual benefit is. Determine what the WAC rate should have been in each month the vested dual benefit was paid incorrectly. Do not use the current month's reduction factor. Use the reduction factor which actually applied in the overpaid months.

Use this vested dual benefit amount when comparing the correct annuity rate to the incorrect annuity rate; the difference is the overpayment.

B. VDB Amount to Use When Recovering an Overpayment When no VDB Accrual is Involved - Once the amount of the O/P has been determined, the method of recovery needs to be resolved. These methods include (but are not limited to):

- Full recovery
- Partial withholding
- Actuarial adjustment

If full recovery will be used to recover the O/P, the WAC rate applicable in the months the annuity is being withheld should be used for recovery purposes. The problem with this is, the WAC rate used to decide how many withholding months

are necessary can change once the annuity is in suspense. When determining the number of withholding months, if you know there will be a new WAC, and can identify when it will be effective and what it will be, use it. Otherwise, determine the number of withholding months on information currently available.

If partial withholding will be used to recover the O/P, use the WAC rate when determining the amount to withhold. If actuarial adjustment will be used to recover the O/P, use the full VDB before cutback (after age and/or military service reduction).

- C. VDB Amount to Use When Recovering an Overpayment When a VDB Accrual is Involved - Sometimes all or part of an O/P can be recovered from an accrual due the annuitant. Once you have figured out the correct VDB accrual payable (See [RCM 5.14.6](#)), this amount can be used to offset the O/P.
- D. Reinstating Overpayment Cases - If an annuity in an overpayment case was in suspense (to recover the O/P) during a vested dual benefit cutback adjustment, the overpayment recovery date and accrual must be recomputed to properly apply the new cutback percentage to the vested dual benefit. The cutback percentage to use is the one applicable in each particular month in which the annuity was in suspense.

Prior to reinstating the annuity, recompute the annuity rate considering the WAC on Form G-354.1, G-355.1 or G-364.1. Recalculate the overpayment recovery date using the new annuity rate on Form G-363.

- 1. Reinstatement Date Remains The Same - If after recomputing the recovery date, it remains the same but the accrual is more/less than previously calculated, reinstate the annuity and pay out the newly computed accrual.
- 2. Reinstatement Date Changes
 - a. Reinstatement Date is Later - If after recomputing the recovery date, it is later than stated in the overpayment letter, write a letter which informs the annuitant of the new cutback and explains that because the annuity rate is lower than originally computed, the annuity cannot be reinstated until a later date. Do not include any appeals paragraph.
 - b. Reinstatement Date is Earlier - If after recomputing the recovery date, it is earlier than stated in the overpayment letter, reinstate the annuity. Include a paragraph explaining the new cutback percentage and explain that because the annuity rate is higher than

originally computed, the annuity can be reinstated at an earlier date.

When processing the award after recovering the overpayment, be sure to code the G-354, G-355 or G-364 as a "Reinstate/Recert" since the rate after vested dual benefit cutback will not be the same as when it was suspended.

5.14.9 Work Deduction When a Vested Dual Benefit Cutback is Involved

- A. Temporary Work Deductions (TWD's) - In retirement cases, the vested dual benefit cutback has no effect on applying TWD'S because the entire work deduction component is withheld all year.

When applying TWD's in survivor cases, use the monthly rate which includes the WAC to determine the number of months necessary to recover the excess earnings and when the annuity can be reinstated. If the case is being handled at a time when two or more WAC rates are applicable in the TWD year, consider the WAC rate that applies to each particular month. This will most likely happen in September through December, when the WAC may change due to a new fiscal year.

Example: If applying TWD's in March 1982, use the 15% vested dual benefit cutback reduction even though the percentage might change later in the year.

If applying TWD's in November 1982, use the 15% vested dual benefit cutback for those months for which it is applicable, and the new percentage of vested dual benefit cutback for those months in which the new reduction percentage applies.

- B. Permanent Work Deductions (PWD's) - When assessing permanent work deductions to a previous year, use the vested dual benefit cutback percentage applicable in each month of that year. If the cutback percentages changes, the new reduction figures should be used effective with that month.

Example 1: Assessing PWD's for excess earnings in 1980:

January 1980 through December 1980 - Use the full vested dual benefit since no cutback was in effect during 1980.

Example 2: Assessing PWD's for excess earnings in 1981:

January 1981 through August 1981 - Use the full vested dual benefit. September 1981 through December 1981 - Use 15% reduction.

- C. Paying the Accrual - If any accrual is due after assessing permanent work deductions, the vested dual benefit portion should be paid at the cutback rate applicable in the voucher month, the entire vested dual benefit accrual can be paid.

Example 3: An accrual is due for 1980 after assessing PWD's and will be paid out in FY-82 (10-1-81 to 9-30-82.) The vested dual benefit accrual should be cut back by 15%.

Example 4: An accrual is due for 1980 after assessing PWD's, and will be paid out in FY-83 (10-1-82 to 9-30-83). The vested dual benefit accrual should be paid out at the full vested dual benefit rate.

Example 5: An accrual is due for 1988 after assessing PWD's and will be vouched in FY-92 (10-1-91 to 9-30-92). The vested dual benefit accrual from 3/88 through 8/88 should be cut back 5.3%.

- D. Apportioning VDB Portion of Accrual for a Partial Month - In order to properly pay the vested dual benefit accrual in the partial month, compare the reduction factor in the partial month to the reduction factor in the voucher month. If the reduction factor in the partial month is equal to or greater than the reduction factor in the voucher month, the partial payment can be made without further computations.

However, if the reduction factor in the partial month is less than the reduction factor in the voucher month, the accrual for the partial month must be apportioned to the components. In order to understand this, keep in mind that vested dual benefit accrual is always paid out at the WAC rate applicable in the month of payment (month of voucher), even though work deductions are assessed at the WAC rate which applied in that particular month. Therefore, it becomes necessary to know how much of the partial payment is tier 1, tier 2, and vested dual benefit.

