

Railroad Retirement

At the time of the Great Depression of the early 1930's, few of the Nation's elderly were covered under any type of retirement plan. The situation was better for workers in the railroad industry: 80% were covered by some type of private pension plan by 1927. However, these plans were inadequate to the demands made by the general deterioration of employment conditions in the 1930's. While the Social Security system was in the planning stage, railroad workers sought a separate Railroad Retirement system to continue and broaden the existing railroad programs under a uniform national plan. As a result, legislation was enacted in 1934, 1935, and 1937 establishing a railroad retirement system separate from the Social Security program legislated in 1935.

Also based on social insurance principles, the Railroad Retirement program provides monthly benefits to retired and disabled workers and their dependents and to survivors of deceased workers. Coverage under the Railroad Retirement system has declined in the years since the program was established, paralleling the decline in the railroad industry itself. In 1939, the system covered 1.2 million employees: by the mid-1990's that number was 266,000. There were 799,000 beneficiaries on the rolls at the end of fiscal year 1995, of whom 548,000 were employee or spouse annuitants and 251,000 were survivor annuitants.

The specific benefit provisions of the program have changed a number of times since 1937, as the shrinking of the railroad system caused various financial problems. The structure of the current system was established by the Railroad Retirement Act of 1974, although amendments were made in 1981 and later years.

Eligibility for Benefits

To be eligible for Railroad Retirement benefits, an employee must have 10 years (120 months) of creditable railroad service. Those with less time in service have their railroad employment credited under the Social Security system.

A special minimum guarantee provision ensures that railroad families will not receive less in monthly benefits than they would have if their earnings had been covered under Social Security. In addition, persons covered by the Railroad Retirement program participate in Medicare on the same basis as those covered by Social Security.

Annuities are calculated under a two-tier formula. The first tier is calculated generally the same as for a Social Security benefit and is based on railroad credits and any Social Security credits an employee has accrued. This Tier I portion is the equivalent of a Social Security benefit. The second tier is based on railroad credits only, and it may be compared to pensions paid over and above Social Security benefits to workers in other industries.

Types and Amounts of Benefits

When the employee's annuity begins, the amount of Railroad Retirement benefits payable is limited to a family maximum based on the highest 2 years of creditable earnings in the previous 10-year period. Benefits are subsequently increased for the cost of living, and the maximum increases every year as the amounts of creditable earnings rise.

For workers first entitled to a railroad annuity and a Federal, State, or local government pension after 1985, the Tier I amount is reduced for receipt of a public pension based on employment not covered by Social Security. There is a guarantee that the Tier I amount cannot be reduced by more than 50% of the public pension amount. Similar provisions apply to spouse annuities.

The Tier I and vested dual benefit components of employee and spouse annuities may also be subject to limitations based on any earnings outside the railroad industry, although no reduction is made after the annuitant attains age 70. In 1997, annual earnings of up to \$13,500 for those aged 65-69 and \$8,640 for those under age 65 are exempt from such work deductions.

The Tier I portion of a disability annuity may, under certain circumstances, be reduced for receipt of workers' compensation or public disability benefits. The annuity is not payable for any month in which the annuitant earns more than \$400 from employment or self-employment, although withheld payments will be restored if earnings for the year are less than \$5,000.

Types of benefits and qualifying conditions

Employee and spouse annuities

Age 62 with 10-29 years of service, with actuarial reduction for annuities awarded before age 65.

or

Age 60 with 30 or more years of service, with actuarial for annuities awarded before age 62.

Total disability annuities

Ten years service and permanent disability for all regular work.

Occupational disability annuities

Age 60 with 10 years of service, or any age with 20 or more years of service, a current connection to the railroad industry,* and permanent disability for one's regular railroad occupation.

Vested dual benefits

Qualification for both Railroad Retirement and Social Security benefits as of December 31, 1975, and a current connection to the railroad industry.*

Supplemental annuities

Age 65 with 25-29 years of service, or age 60 with 30 or more years service of service, and a current connection to the railroad industry.*

Survivor annuities

Ten or more years of service and a current connection to the railroad industry.* Paid to widows, widowers, children, and certain other dependents of the deceased employee.

Lump-sum benefits

Ten or more years of service and a current connection to the railroad industry.* Paid when there is no survivor eligible for an annuity.

* An employee with 12 or more months of service in the 30 months preceding retirement or death is deemed to have a current connection to the railroad industry.

The Tier I portion of railroad annuities is usually increased for the rise in the cost of living at the same time, and by the same percentage, as are Social Security benefits. Tier II annuities are normally increased annually by 32.5% of the increase in the Consumer Price Index.

Financing and Administration

The financial interchange between the Railroad Retirement and Social Security programs is intended to put the Social Security trust funds in the same position they would have been in if railroad employment had been covered under the Social Security Act. It follows that all computations under the financial interchange are performed according to Social Security law.

If a retired or disabled railroad annuitant is also awarded Social Security benefits, the amount of his or her Tier I payment is

Benefits and beneficiaries under the Railroad Retirement system, January 1996

| Type of benefit | Number | Average benefit amount |
|-----------------------------------|-----------|------------------------|
| Total | 7,900,100 | ... |
| Regular employee annuities | 349,300 | \$1,173 |
| Age | 271,000 | 1,163 |
| Disability | | |
| Age 65 or older | 43,300 | 1,017 |
| Under age 65 | 35,000 | 1,440 |
| Spouses and divorced spouses | 192,400 | 467 |
| Widow(ers)s—aged and disabled | 216,900 | 697 |
| Widowed mothers and fathers | 1,600 | 865 |
| Widow(er)s—remarried and divorced | 14,600 | 491 |
| Children | 15,300 | 605 |
| Other survivors | 100 | 465 |

Note: Data are on a cash basis (unaudited) and are partly estimated. Detail may not add to total due to rounding. Total for regular retirement and survivor benefit payments totals includes Hospital Insurance benefits for services in Canada.

Source: U.S. Railroad Retirement Board, *Benefits and Beneficiaries Under the Railroad Retirement and Unemployment Insurance Systems—January 1996*.

reduced by the amount of the Social Security benefit. This reduction occurs because the Tier I portion is based on combined railroad and Social Security credits, figured under Social Security formulas, and reflects what Social Security would pay if railroad work were covered by that system. This dual benefit reduction follows the principles of Social Security, under which the beneficiary receives only the higher of any two benefits payable.

Railroad Retirement Tier I taxes are coordinated with Social Security taxes and are increased at the same time. Employers and employees pay Tier I taxes at the Social Security rate—7.65% in 1996. In addition, both employers and employees pay Tier II taxes to finance the industry pension segment of the annuities. In 1996, the employer tax rate was 16.10%, and the employee tax rate was 4.90%. The earnings base for Tier I taxes is the same as for Social Security—\$62,700 in 1996. The Tier II earnings base for the same year was \$46,500. As of 1993, tax contributions to the Medicare program are levied on all earnings. Tier I benefits are taxed like Social Security benefits; Tier II benefits are taxed like other private pensions.

The Railroad Retirement Board is an independent agency in the Executive Branch of the Federal Government. It is administered

by three members appointed by the President, with the advice and consent of the Senate. One member is appointed on the recommendation of railroad labor organizations, one on the recommendation of railroad employers, and the third—the chairman—represents the public interest. The term of office is 5 years and the three terms are arranged to expire in different calendar years.

Unemployment Insurance and Sickness Benefits

Like the retirement system, the railroad unemployment insurance system was established in the 1930's. The Great Depression demonstrated the need for unemployment compensation programs, and State programs were established under the Social Security Act.

State unemployment programs generally covered railroad workers, but railroad operations that crossed State lines caused special problems. Because of differences in State laws, railroad employees working in the same jobs on the same railroad in different States received different treatment and different benefits when they became unemployed. Workers whose jobs required that they cross State lines sometimes found that they were not eligible for benefits in any of the States in which they worked.

It was therefore recommended that railroad workers be covered by a separate plan. Congress enacted the Railroad Unemployment Insurance Act in June 1938. The Act established a system of benefits for unemployed railroad workers, financed by railroad employers and administered by the Railroad Retirement Board.

In 1946, Congress extended the railroad unemployment insurance program to include cash payments for temporary sickness and special maternity benefits. Both programs are financed by the contributions of railroad employers only, based on the taxable earnings of their employees. In 1996, the taxable earnings base was the first \$865 of each employee's monthly salary.
