



U.S. Railroad Retirement Board

**RAILROAD
RETIREMENT
HANDBOOK**

2006



U.S. Railroad Retirement Board

MISSION STATEMENT

*T*he Railroad Retirement Board's mission is to administer retirement/survivor and unemployment/sickness insurance benefit programs for railroad workers and their families under the Railroad Retirement Act and the Railroad Unemployment Insurance Act. These programs provide income protection during old age and in the event of disability, death or temporary unemployment and sickness. The Railroad Retirement Board also administers aspects of the Medicare program and has administrative responsibilities under the Social Security Act and the Internal Revenue Code.

In carrying out its mission, the Railroad Retirement Board will pay benefits to the right people, in the right amounts, in a timely manner, and will take appropriate action to safeguard our customers' trust funds. The Railroad Retirement Board will treat every person who comes into contact with the agency with courtesy and concern, and respond to all inquiries promptly, accurately and clearly.

*Visit the Railroad Retirement Board's Web Site at
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*Railroad Retirement and
Unemployment Insurance
Systems
Handbook*



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INTRODUCTION

This publication describes the history, operations and financing of the retirement, disability, survivor, and health insurance programs provided under Federal law for railroad workers and their families, as well as the unemployment and sickness insurance program provided for railroad employees.

For many years this book has been utilized by officials of railway management, rail labor, government and beneficiaries, as well as by students of social insurance programs and pension systems. It was designed to provide a convenient reference for those requiring a comprehensive single source of information on the development and character of the railroad retirement/survivor and unemployment/sickness benefit programs.

This edition reflects the laws in effect as of January 2006. Certain limitations, exceptions and special cases are not covered. Further information may be obtained by contacting the nearest Railroad Retirement Board field office, or the Board's headquarters in Chicago, Illinois. A toll-free Help Line is available at 800-808-0772, which, among many services, can be used to obtain the addresses and telephone numbers of the Board's field offices. The Board's Web site is www.rrb.gov.

We trust that this book will continue to serve as an authoritative and useful source of information on the railroad retirement and unemployment insurance systems.



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DEVELOPMENT OF THE RAILROAD RETIREMENT SYSTEM

Priate pension plans originated in the railroad industry in 1874 when the first formal industrial pension plan in North America was established. By 1927, over 80 percent of all railroad employees in the United States worked for employers who had formal plans in operation, but only a small proportion of the employees ever received benefits under these plans. The pension plans had a number of serious defects. They generally paid inadequate benefits and had limited provisions for disability retirement. Credits could not be transferred freely from employer to employer, and the employers could terminate the plans at will. With few exceptions, the plans were inadequately financed and could not withstand even temporary difficulties.

The Great Depression of the early 1930's led to movements for retirement plans on a national basis because few of the nation's elderly were covered under any type of retirement plan. Railroad employees were particularly concerned because the private railroad pension plans could not keep up with the demands made upon them by the general deterioration of employment conditions and by the great accumulation of older workers in the industry. While the social security system was in the planning stage, railroad workers sought a separate railroad retire-

ment system which would continue and broaden the existing railroad programs under a uniform national plan. The proposed social security system was not scheduled to begin monthly benefit payments for several years and would not give credit for service performed prior to 1937, while conditions in the railroad industry called for immediate benefit payments based on prior service.

Legislation was enacted in 1934, 1935 and 1937 to establish a railroad retirement system separate from the social security program legislated in 1935. Such legislation, taking into account the particular circumstances of the rail industry, was not without precedent. Numerous laws pertaining to rail operations and safety had already been enacted since the Interstate Commerce Act of 1887. Since passage of the Railroad Retirement Acts of the 1930's, numerous other railroad laws have subsequently been enacted.

RAILROAD RETIREMENT ACTS OF THE 1930'S

The Railroad Retirement Act of 1934 set up the first retirement system for nongovernmental workers in this country to be administered by the Federal Government. However, the Act was declared unconstitutional

by a Federal district court, and this decision was sustained by the Supreme Court. The Railroad Retirement and Carriers' Taxing Acts of 1935 were enacted to avoid the constitutional difficulties encountered by the 1934 Act. However, these Acts were also challenged in the courts, and a Federal district court held that neither the employees nor their employers could be compelled to pay railroad retirement taxes. The court, however, did not prohibit the payment of benefits, and the Railroad Retirement Board began awarding annuities in July 1936 under the provisions of the 1935 Act.

While an appeal was pending, railroad management and labor, at the request of President Roosevelt, formed a joint committee to negotiate their differences. The result was a memorandum of agreement which led to the Railroad Retirement and Carriers' Taxing Acts of 1937 establishing the railroad retirement system. The pensions of retired employees on the railroads' private pension rolls were transferred to the Board's rolls with pension reductions restored. The benefit payments of almost 50,000 pensioners were taken over by the Board in July 1937. There followed an immediate reduction in both the number of employed and unemployed older railroad workers. By the end of 1938, the number of workers age 65 and over in active railroad service was less than one-half of the number two years earlier. Almost 100,000 employees had retired under the system by that date, 80 percent of them under the nondisability annuity provisions.

Features of the 1937 Act

The 1937 Act set up a staff retirement plan which provided annuities to aged retired employees based on their creditable railroad earnings and service. The amounts of retirement annuities awarded were directly related to the employee's earnings and length of service, with a maximum of \$120 a month. Creditable earnings were limited to a maxi-

imum of \$300 a month, while no more than 30 years of service could be credited when service before 1937 was counted. Annuities could be paid at age 65 or later, regardless of length of service, or at ages 60-64 (on a reduced basis) after 30 years of service.

The conditions for paying annuities based on disability were severely restricted. The disability had to be total and permanent and 30 years of service were required for full annuities. Employees could receive disability annuities at ages 60-64 after less than 30 years of service, but on a reduced basis.

The Act made little provision for dependents of deceased employees and no provision for spouse annuities. A survivor could receive a lump sum equal to 4 percent of the employee's creditable earnings after 1936, less any annuity payments already made. In addition, a retiring employee could elect to receive a reduced annuity in order to provide an annuity to his surviving spouse.

The system was financed by a schedule of taxes beginning with 2.75 percent each on employers and employees applicable to the first \$300 of monthly compensation.

AMENDMENTS TO THE 1937 ACT

Numerous amendments after 1937 increased benefits and added, to what began as a staff retirement system, social insurance features similar to those provided by the social security system.

The first significant sets of amendments were enacted in 1946 and 1951. By initiating coordination in certain areas with the social security system, they laid the foundation for the evolution of the system's present structure. **Amendments enacted in 1946** added survivor benefits to the railroad retirement system which were similar to those provided under social security coverage, but approximately 25 percent higher.

These amendments also introduced the first step of coordination with the social security system by dividing jurisdiction over individual survivor benefits between the Board and the Social Security Administration. Benefits to survivors were thereafter based on combined railroad retirement and social security earnings credits.

Provisions for annuities based on occupational disability—a staff retirement feature—were also established by the 1946 amendments. The provision for occupational disability annuities recognized that employees who were not totally disabled could be prevented from earning a living because they could not perform their regular jobs. The 1946 amendments also reduced the service requirements for total disability annuities, making it possible for comparatively young disabled employees to receive benefits.

In addition, the amounts of disability retirement annuities were increased through the elimination of the reduction for employees with less than 30 years of service and the extension of new minimum provisions of the law to annuities based on disability. In 1954, annuities were provided for disabled children of deceased employees. And in 1968, disabled widows ages 50-59 were added to those who could receive benefits.

Amendments enacted in 1951 added annuities for the spouses of retired railroad employees. This legislation completed the addition of social insurance features to the railroad retirement system and expanded the coordination of the railroad retirement and social security systems.

Provision was made for social security to assume jurisdiction of benefits for employees not having at least 10 years of railroad service, and a minimum guaranty was provided to ensure that railroad retirement benefits would be no less than the benefit, or additional benefit, the social security system

would have paid on the basis of the railroad service involved. In addition, a financial interchange was established between the two systems to apportion the costs of benefits and taxes, related to railroad service, between the two systems on an equitable basis.

In 1965, provision was made to coordinate the railroad retirement tax base and tax rate with those of the social security system. This provision and the existing provisions for the financial interchange served as an operating vehicle through which the Medicare program was easily extended in 1965 to railroad employees and members of their families, on the same basis as it was provided for social security beneficiaries. The addition of a strictly staff benefit for career employees was provided **in 1966** in the form of supplemental railroad retirement annuities.

By 1970, amendments to the Act provided for regular annuities of more than double the amount provided under the original formula. The amounts of earnings creditable and taxable were \$650 a month in 1970 compared with \$300 originally. Tax rates had substantially increased in order to finance the new types of benefits, the increases in benefit amounts and other liberalizations in the program. The rate of regular railroad retirement taxes, still divided equally between employees and employers in 1971, was 9.95 percent on each as compared with 3.5 percent in 1946.

The annuities being paid in 1970 included a general benefit increase of 15 percent provided in that year following a social security benefit increase of 15 percent. In the following two years of an inflationary spiral in the national economy, social security and railroad retirement benefits were again substantially increased, by 10 percent in 1971 and 20 percent in 1972. However, these three increases were provided for railroad retirement annuities on a temporary basis only.

The costs of making these three increases, aggregating 51.8 percent, permanent without adequate financing would have jeopardized the solvency of the system. Congress directed that a Commission on Railroad Retirement be formed to study the railroad retirement system and its financing for the purpose of recommending to Congress changes in the system that would ensure adequate benefit levels on an actuarially sound basis.

Report of the Commission

The Commission's 1972 report proposed a restructuring of the railroad retirement system with two separate tiers of benefits, tier I being a social security-type benefit and tier II a supplemental staff benefit. It also recommended a phaseout of dual railroad retirement-social security benefits with some protection for the vested rights to such benefits already acquired by employees. Under the 1937 Act, an individual engaging in covered employment under both the Railroad Retirement Act and the Social Security Act was entitled to separate benefits under both Acts, assuming he or she met at least the minimum requirements for benefit eligibility. By the early 1970's, approximately 40 percent of all beneficiaries on the Board's rolls were also receiving social security benefits. Because of certain duplications in their dual benefits, considered a windfall element, the total of their benefits from both systems averaged more than the annuities of railroad employees who worked in the rail industry exclusively, and who had paid proportionally higher retirement taxes for the purpose of receiving higher benefits. At the same time, dual benefits were a cost to the railroad retirement system because they reduced the system's income from its financial interchange with the social security system. (By the mid-1970's, the costs to the railroad retirement system of dual benefits exceeded \$450 million per year and would have been a

major factor in bankrupting the railroad retirement system if allowed to continue. The cumulative total loss to the system by 1974 had been about \$4 billion.)

Upon the release of the Commission's report, Congress ordered that representatives of employees and representatives of carriers negotiate mutual recommendations for a restructuring of the railroad retirement system which would put it on a sound financial basis, taking into account the report and recommendations of the Commission on Railroad Retirement.

Preliminary Agreement

The preliminary recommendations of management and labor for revision of the railroad retirement system, recorded in a Memorandum of Understanding, were enacted by the Congress in 1973. The major provisions, which reflected components of an industry-wide wage settlement, effected a redistribution of railroad retirement taxes and earlier retirement as follows. Generally effective October 1, 1973, employee and employer tax rates under the Railroad Retirement Tax Act were revised so as to reduce the employee rate to the percentage rate paid by employees in social security covered employment, with the employer absorbing the difference so that total tax income to the program was maintained at the level in effect before the change. Employee rates consequently were lowered from 10.60 percent of creditable earnings to 5.85 percent; employer rates correspondingly increased from 10.60 percent to 15.35 percent. Effective July 1, 1974, all employees at least 60 years of age and having 30 years or more of creditable railroad service could retire without their annuities being subject to reduction for retirement before age 65. Under previous law, only female employees were granted this advantage.

RAILROAD RETIREMENT ACT OF 1974

The Railroad Retirement Act of 1974, reflecting the basic principles of the Commission Report and incorporating the subsequent management-labor agreement, was enacted on October 16, 1974.

Two-tier Formulas

The 1974 Act provided a tier I formula yielding amounts equivalent to social security benefits, taking into account both railroad retirement and nonrailroad social security credits. A tier II formula, based on railroad service exclusively, provides benefits comparable to those paid over and above social security benefits by other industrial pension systems. The total annuity yielded by the tier formulas continued traditional levels of railroad retirement benefits and reflected the three cost-of-living increases aggregating 51.8 percent, which had been provided between 1970 and 1972 on a temporary basis.

Dual Benefit Phase-out

The 1974 Act eliminated duplications in dual railroad retirement-social security benefits for new hires and individuals not vested as of December 31, 1974, under both programs. Dual benefits for vested employees were protected through provision for payment of an amount in their annuities referred to as a "vested dual benefit." However, such vested dual benefit amounts were not allowed to increase because of any social security credits earned after December 31, 1974.

For career employees, vesting was defined as having 10 years of railroad service on December 31, 1974, and, in addition, having enough quarters of coverage under the social security program to be entitled to a benefit at age 62 if no further social security

credits were acquired after December 31, 1974.

Vesting for employees who had fully qualified for benefits under both systems but had left the industry prior to 1974 presented a difficult problem. The 1974 Act favored employees who had remained in the railroad industry more than those who left railroad employment. Accordingly, active or long-term employees in the railroad industry, in a sense, were placed in the same situation as employees who had already retired, while former employees were made subject to more stringent requirements. The resulting vesting provisions were subsequently tested in the courts and upheld by the U.S. Supreme Court in 1980.

Cost-of-living Increases

The 1972 amendments to the Social Security Act introduced provisions for cost-of-living adjustments in social security benefits on the basis of changes in the Consumer Price Index. Under the two-tier plan, the first tier railroad retirement benefit increases automatically the same way social security benefits increase. Four separate tier II cost-of-living adjustments were provided during the six-year period commencing January 1, 1975. (A fifth increase was provided in subsequent legislation.)

Benefit Improvements

The 1974 Act also provided improvements in existing benefits. The initial agreement of labor and management had enabled employees to retire on or after July 1, 1974, on unreduced annuities if they met the eligibility requirements of attaining age 60 and completing 30 years of service. But an employee could not receive a supplemental annuity until age 65 nor could a spouse receive a spouse annuity until the employee reached age 65. The 1974 Act revised the eligibility

requirements for these benefits so that they were coordinated directly with the employee annuity requirements.

And under the 1937 Act, the vast majority of widows and other survivors received benefits based upon 110 percent of the comparable social security benefit, and the resulting amount was generally felt to be inadequate in relation to the level of other railroad benefits. The 1974 Act survivor formula increased the calculation basis to 130 percent from the former 110 percent.

Financing

It was anticipated that the changes in the benefit formulas, the reduction in dual benefits, higher investment earnings, plus provisions for additional funds from the Federal Government to pay the phase-out costs of dual benefits, together would place the railroad retirement system on a reasonably sound basis. However, the cost estimates made at that time did not anticipate the resurgence of substantial inflation in the latter part of the decade, which led to a recurrence of financial difficulties for the railroad retirement system.

With regard to financing the phase-out costs of dual benefits, the joint management-labor committee initially proposed that the cost of vested dual benefit payments be paid out of the social security trust funds, as this element was basically a social security benefit. However, Congress concluded that the cost should be borne by the General Treasury. It was thought that it would be unfair to impose this cost upon current and future employees who would not (except where vested rights are involved) be permitted to receive dual benefits upon retirement, or upon the railroads since the excess benefit arose out of nonrailroad employment performed by these individuals. Payment out of the General Treasury was supported by a precedent regarding military service and by

the fact that the dual benefit problem had been brought about by prior congressional action repealing past dual benefit restrictions over the objections of the railroads.

1981 RAILROAD RETIREMENT AMENDMENTS

By 1980, recurring inflation and recession combined with other factors placed financial stresses on the railroad retirement system which made it clear that further financial action was needed to maintain the system. Railroad retirement amendments were subsequently enacted on August 13, 1981, as part of an Omnibus Budget Reconciliation Act. The amendments were generally effective October 1, 1981.

These amendments increased railroad retirement taxes on both rail employers and employees. While tier I taxes on employers and employees remained at the same rate as social security taxes, 6.65 percent in 1981, the 9.5 percent tier II tax paid by employers was increased by 2.25 percent to 11.75 percent and employees assumed a tier II tax of 2 percent. The amendments also gave the Railroad Retirement Board the authority to borrow from U.S. Treasury general funds on the basis of forthcoming financial interchange income if Railroad Retirement Account funds were insufficient to pay benefits during a month.

Although the two-tier benefit structure provided by the 1974 Act was left intact, changes were made in the tier II formula and there were other changes in benefit provisions. For retirees whose annuities are awarded on or after October 1, 1981, a simplified formula yields awards that automatically keep pace with average wage increases in the last 60 months of service. The 1981 law continued tier II employee and spouse cost-of-living increases, while revising survivor cost-of-living increases to correspond

with those provided employees and spouses. It also broadened the current connection requirement applicable to certain career employee benefits. While the amended law eliminated future supplemental annuity closing dates, it restricted future supplemental annuity eligibility to employees with some service prior to October 1981. In addition, the amendments provided benefits for divorced spouses, surviving divorced spouses and remarried widow(er)s which are like those provided under the Social Security Act.

This legislation also required prorated adjustments in individual vested dual benefit payments, depending upon the amounts appropriated to the fund created for these payments, and the level of vested dual benefit payments was made contingent on the annual Federal budget and appropriations process. The amendments restricted the further award of vested dual benefit payments to vested employees with dual coverage on their own earnings, and precluded further awards of vested dual benefit payments to spouses or widows.

The 1981 amendments mandated, in the event of certain adverse financial indicators, that railway management and labor, and the White House, make further financing recommendations to Congress. And the new law required the Railroad Retirement Board to reduce annuity levels during any fiscal year in which it appears there would be insufficient funds with which to make full benefit payments on a timely basis for every month of the year.

In the first half of 1981, when the amendments were developed, it was anticipated that the financing arrangements would provide the railroad retirement system with adequate funding throughout the 1980's. However, the continuing recession in the national economy depressed rail traffic levels to the extent that large-scale layoffs were underway by the first quarter of 1982.

Average monthly employment in fiscal year 1982 dropped to 457,000 from the 512,000 average of the previous year, and it subsequently declined to 388,000 in the first quarter of 1983. The decline in employment limited payroll tax income accordingly. In addition, increased unemployment benefit payments resulting from the layoffs made such unprecedented demands on the Railroad Unemployment Insurance Account that it owed \$500 million to the Railroad Retirement Account by the end of March 1983.

The condition of the Railroad Retirement Account consequently deteriorated to the point that the Board was required to prepare to reduce annuity levels on October 1, 1983, by an estimated 40 percent of tier II portions, in the absence of remedial financial legislation.

RAILROAD RETIREMENT SOLVENCY ACT OF 1983

The scheduled annuity reductions were averted by enactment of the Railroad Retirement Solvency Act on August 12, 1983. The 1983 Act was based on negotiated recommendations of management and labor, and also incorporated recommendations of Congress and the Administration. The amendments were, in part, patterned after major social security amendments enacted earlier in the year, which had already effected changes in railroad retirement taxes and benefits through coordinating provisions in the Railroad Retirement Act.

Taxes

Under the Railroad Retirement Solvency Act, tier II taxes on employers increased from 11.75 percent to 12.75 percent in January 1984, to 13.75 percent in January 1985, and to 14.75 percent in January 1986. Tier II taxes on employees increased from

2 percent to 2.75 percent in 1984, to 3.50 percent in 1985, and to 4.25 percent in 1986. And since 1985, railroad retirement taxes are applied to earnings on an annual, rather than a monthly, basis. As a result of the 1983 social security amendments, tier I taxes on employers and employees increased from 6.70 percent to 7 percent in January 1984, to 7.05 percent in 1985, to 7.15 percent in 1986, to 7.51 percent in 1988 and to 7.65 percent in 1990.

The 1983 social security amendments subjected railroad retirement tier I annuity portions to Federal income taxes on the same basis as social security benefits and the Solvency Act made tier II benefits and vested dual benefit payments subject to Federal income tax on the same basis as private pensions, beginning with tax year 1984. The revenues raised from income taxes on tier I and vested dual benefits are used for benefit payments. Revenues raised by the tax on tier II benefits were to be used for benefit payments through fiscal year 1988, after which the revenues would remain in general Treasury funds. Subsequent legislation extended these transfers permanently.

Other Financing Provisions

The Railroad Retirement Account was reimbursed in three installments from the general fund of the Treasury for shortfalls in vested dual benefit appropriations between 1975 and 1981. The railroad retirement system's authority to borrow general U.S. Treasury funds until the Board receives financial interchange funds from the social security system was broadened to place financial interchange monies in the Railroad Retirement Account effectively on a current basis.

Benefit Provisions

The 1983 social security amendments deferred July 1983 cost-of-living increases to

January 1984 and required that future increases be made in January of subsequent years. This deferral applied to railroad retirement tier I annuity amounts as well as social security benefits. The Railroad Retirement Solvency Act correspondingly changed the future payment dates of tier II cost-of-living increases from July 1 to January 1, with the first increase payable on January 1, 1985. It also required an offset of the dollar amount of the next five percent of tier I cost-of-living increases from tier II benefits.

The Act modified early retirement provisions for 30-year employees attaining age 60 after June 1984 by applying certain reductions to the tier I portions of their annuities if they retired before age 62. The reductions did not affect tier II benefits, and employees who acquired 30 years of service and attained age 60 before July 1, 1984, could still retire at any time with full benefits, as under prior law. (The Railroad Retirement and Survivors' Improvement Act of 2001 as described on pages 10-11 eliminated these reductions for 60/30 employees retiring after 2001.) The 1983 law established a five-month waiting period for railroad retirement disability annuities, just as for social security disability benefits, and altered the tier I computation of annuities subject to reduction for certain non-covered service pensions. It required the Board to honor court orders that treat non-tier I railroad retirement benefits as property subject to division in proceedings related to divorce, annulment or legal separation. And the Act limited the retroactivity of applications for benefits to a maximum of six months to conform to the Social Security Act, except for disability benefit applications, which can retroact 12 months.

The Solvency Act eliminated annuity reductions made under prior law when military service was counted as railroad service and was also the basis for benefits under

another Federal law. It conformed railroad retirement student benefit provisions to social security student benefit provisions and eliminated age reductions applied to disabled widow(er)s' annuities for months they were under age 60 when their annuities began.

LEGISLATION ENACTED 1985-2000

The **Balanced Budget and Emergency Deficit Control Act of 1985**, known as the Gramm/Rudman/Hollings Act, enacted in December 1985, required decreases in vested dual benefit payments during the 1986 fiscal year and suspension of the January 1986 cost-of-living increase in the tier II portions of railroad retirement annuities.

Gramm/Rudman and/or related budget legislation reduced vested dual benefits and supplemental annuities periodically in subsequent years.

Budget reconciliation legislation enacted in April 1986 included changes in Internal Revenue Code provisions increasing income taxes on some railroad retirement annuities. Effective with tax year 1986, the tier I portion of a railroad retirement annuity, which is treated as a social security benefit for Federal income tax purposes, was limited for tax purposes to amounts actually equivalent to social security benefits. This primarily affected tier I early retirement benefits payable between ages 60 and 62 and some occupational disability benefits that are now treated like private pensions. The **Tax Reform Act of October 1986** eliminated, for annuities beginning after July 1, 1986, the three-year recovery rule for contributory pensions, making railroad retirement benefits exceeding social security equivalent levels taxable immediately upon retirement. For tax reporting purposes, benefit payments are prorated on the basis of estimated life expectancies to exempt an employee's previously-taxed pension contributions.

In 1987, the continuing decline in railroad employment led to concern over the system's financing in the next century. A Federal budget deficit reduction bill consequently increased tier II tax rates in January 1988 to 16.10 percent on employers and 4.90 percent on employees, and extended for one year, until October 1, 1989, the time during which revenues from Federal income taxes on tier II railroad retirement benefits could be transferred to the Railroad Retirement Account for use in paying benefits.

Amendments enacted in 1988 eliminated the provision suspending annuities of retired employees and spouses who work for their last pre-retirement nonrailroad employers, but provided for tier II earnings deductions in such cases. These amendments also increased the amount disabled railroad retirement annuitants can earn without reducing their benefits from \$200 per month to \$400 per month, exclusive of work-related expenses.

In addition, these amendments provided a lump sum, equal to railroad retirement tier II payroll taxes deducted from separation or severance payments made after 1984, to be paid upon retirement to employees meeting minimum service requirements if the separation or severance payments did not yield additional railroad retirement service or earnings credits.

The **1989 budget laws effective in 1990** increased the amount of earnings subject to social security and railroad retirement payroll taxes, and specified that 401(k) contributions and some employer-paid life insurance premiums are subject to railroad retirement payroll taxes, conforming railroad retirement with social security.

Omnibus budget legislation in 1990 permanently exempted supplemental annuities from reductions under the Gramm/Rudman Act. It also increased the maximum compensation subject to Medicare

hospital insurance payroll tax and mandated an expedited payroll tax deposit schedule for large employers covered by social security or railroad retirement. **Budget legislation enacted in 1993** made all earnings subject to the Medicare payroll tax and, for those in high tax brackets, made a larger amount of social security and railroad retirement tier I benefits subject to Federal income tax.

The time during which revenues from Federal income taxes on tier II railroad retirement benefits could be transferred to the Railroad Retirement Account for use in paying benefits was extended one year in 1989, and 1990 budget legislation further extended the date until October 1, 1992. In **1994, legislation** extended the transfers, retroactive to October 1992, on a permanent basis which improved the financing of the railroad retirement system.

Legislation enacted in April 2000 eased the earnings restrictions affecting social security beneficiaries working after full retirement age. The legislation also applied to railroad retirement annuitants but it did not change the railroad retirement work restrictions applying to last pre-retirement employment which are not included in the Social Security Act.

THE RAILROAD RETIREMENT AND SURVIVORS' IMPROVEMENT ACT OF 2001

The Railroad Retirement and Survivors' Improvement Act of 2001, signed into law December 21, 2001, liberalized early retirement benefits for 30-year employees and their spouses, eliminated a cap on monthly retirement and disability benefits, lowered the minimum service requirement from 10 years to 5 years of service if performed after 1995, and provided increased benefits for some widow(er)s. Financing sections in the

law provided for the investment of railroad retirement funds in nongovernmental assets, adjustments in the payroll tax rates paid by employers and employees, and the repeal of a supplemental annuity work-hour tax. The law was based on joint recommendations to Congress negotiated by a coalition of rail labor organizations and rail freight carriers.

60/30 Retirement

The law amended the Railroad Retirement Act by eliminating the early retirement reduction applied to the annuities of 30-year employees retiring between the ages of 60 and 62 if their annuities begin January 1, 2002, or later. The spouses of such employees are also eligible for full annuities at age 60. Full 60/30 benefits had not been payable since 1983 legislation reduced such early retirement benefits.

Maximum Provision

The law eliminated, effective January 1, 2002, a maximum on the amount of combined monthly employee and spouse benefit payments which had been intended to prevent benefits from exceeding an amount based on an employee's earnings immediately prior to retirement. This maximum provision had the unintended effect of reducing benefits for former employees with no earnings, or low earnings, in the 10-year period prior to retirement, and for long-service employees with moderate earnings.

Basic Service Requirement

The legislation lowered the minimum eligibility requirement for regular railroad retirement annuities from 10 years (120 months) of creditable railroad service to 5 years (60 months) of creditable railroad service for those with 5 years of service rendered after 1995. This provision was effective January 1, 2002, and was not retroactive.

Widow(er)s' Benefits

The legislation established an "initial minimum amount" based on the two-tier annuity amount that would have been payable to the railroad employee at the time the widow(er)'s annuity is awarded, minus any applicable reductions. Widow(er)s' annuities computed on the basis of the initial minimum amount will not increase until the amount payable under previous law plus cost-of-living increases is higher than the initial minimum amount.

This provision was effective February 1, 2002, and was not retroactive. It applied to widow(er)s on the rolls before the effective date only if the annuity the widow(er) was receiving on the effective date was less than she or he would have received had the legislation been in effect on the date the widow(er)'s annuity began.

Investment Changes

The legislation provided for the transfer of railroad retirement funds from the Railroad Retirement Accounts to the National Railroad Retirement Investment Trust, whose Board of seven trustees is empowered to invest Trust assets in non-governmental assets, such as equities and debt, as well as in governmental securities.

The Trust is a tax-exempt entity independent from the Federal Government and its trustees are subject to fiduciary standards similar to those required by the Employee Retirement Income Security Act. The Trust must submit an annual report to Congress on its operations.

Effect on Payroll Tax Rates

The legislation reduced tier II tax rates on rail employers, including rail labor unions, in calendar years 2002 and 2003, and

beginning with 2004 provides automatic adjustments in the tier II tax rates for both employers and employees. It also repealed the supplemental annuity work-hour tax rate paid by employers, beginning with calendar year 2002.

While there was no change in the tier II tax rate of 4.90 percent on employees in the years 2002 and 2003, beginning with calendar year 2004 tier II taxes on both employers and employees are based on the ratio of certain asset balances to the sum of benefits and administrative expenses (the average accounts benefits ratio). Depending on the average account benefits ratio, tier II taxes for employers range between 8.20 percent and 22.10 percent, while the tier II tax rate for employees ranges between 0 percent and 4.90 percent. In 2005, as a result of this provision, the tier II tax rate on employees decreased from 4.9 percent to 4.4 percent, while the rate of employers decreased from 13.1 percent to 12.6 percent. These rates remained in effect in 2006.

Supplemental Annuity Funding

In addition to repealing the supplemental annuity work-hour tax, the legislation eliminated the separate Supplemental Annuity Account. Supplemental annuities are now funded through the National Railroad Retirement Investment Trust.

PROVISIONS OF THE RAILROAD RETIREMENT ACT

CREDITABLE SERVICE AND EARNINGS

Service performed for a covered employer or as an employee representative is creditable toward all types of benefits under the Railroad Retirement Act. Covered employers include interstate railroads and their affiliates engaged in railroad-connected operations, as well as employer associations and national railroad labor organizations and their subordinate units. In some cases, military service may be counted as railroad service.

Service to an employer is creditable if it is compensated and the employee is subject to the continuing supervision of the employer. Benefits are based on earnings credits and months of service. Earnings are creditable up to certain annual maximums on the amount of compensation subject to railroad retirement taxes. Credit for a month of railroad service is given for every month in which an employee had some compensated service for an employer covered by the Railroad Retirement Act, even if only one day's service is performed in the month. (However, local lodge compensation earned after 1974 is disregarded for any calendar month in which it is less than \$25.)

The basic requirement for railroad retirement annuities is 120 months (10 years) of creditable railroad service or 60 months (5 years) of creditable railroad service if such service was performed after 1995. Service months need not be consecutive.

Additional service months may be deemed in some cases where an employee does not actually work in every month of the year. For additional service months to be deemed, the employee's compensation for the year, up to the tier II maximum, must exceed an amount equal to 1/12 of the tier II maximum multiplied by the number of service months actually worked.

Except for on-the-job injuries, the first six months of sickness benefits payable by the Board are subject to tier I taxes and credited as compensation for tier I benefits, but are not credited as service months.

Military service may be credited towards retirement benefits under certain conditions. To be creditable as compensation under the Railroad Retirement Act, service in the U.S. Armed Forces must be preceded by railroad service in the same or preceding calendar year. With the exceptions noted, the employee must also have entered active military service when the United States was at war or in a state of national emergency or have served in the Armed Forces involuntarily.

The war and national emergency periods that affect current retirements are:

- September 8, 1939, to June 14, 1948.
- December 16, 1950, to September 14, 1978.
- August 2, 1990, to date as yet undetermined.

If military service began during a war or national emergency period, any active duty service the employee was required to continue in beyond the end of the war or national emergency is creditable, except that voluntary service extending beyond September 14, 1978, is not creditable. Railroad workers who voluntarily served in the Armed Forces between June 15, 1948, and December 15, 1950, when there was no declared national state of emergency, can be given railroad retirement credit for their military service if they performed railroad service in the year they entered or the year before they entered military service and if they returned to rail service in the year their military service ended or in the following year, and had no intervening nonrailroad employment.

Service and Earnings Records

The Railroad Retirement Board maintains a record of all covered railroad service and creditable earnings after 1936. The information is recorded under the employee's social security account number used by the employer to report service and compensation to the Board.

Each year, employees in the industry receive a *Certificate of Service Months and Compensation* (Form BA-6) from the Board. This statement is important because it provides both a current and cumulative record of an employee's railroad service and compensation. It includes deemed service months, separation allowances and severance payments

as well as miscellaneous compensation, such as taxable sickness payments. It also includes the cumulative amounts of railroad retirement payroll taxes paid by the employee over and above social security equivalent payroll taxes, and reflects creditable military service if the service has previously been reported to the Board. The BA-6 form should be carefully reviewed to make sure that it is correct. Employees can view their individual railroad retirement records of service months and compensation via the Board's Web site. This service, called "Service and Compensation History," can be accessed by visiting the Board's Web site at www.rrb.gov and clicking on "Benefit Online Services." This electronic alternative does not replace Form BA-6, but makes the same information available online.

If an employee disagrees with the information shown on the BA-6 form, he or she should write the Board as early as possible. The law limits to 4 years the period during which corrections can be made. All letters concerning BA-6 forms must show the employee's social security number and should be addressed to:

***Protest Unit - CESC
U.S. Railroad Retirement Board
844 North Rush Street
Chicago, Illinois 60611-2092***

EMPLOYEE AND SPOUSE ANNUITIES

Age and Service, Disability and Supplemental Annuities

An *AGE AND SERVICE ANNUITY* can be paid to:

- *Employees with 30 or more years of creditable railroad service.* They are eligible

for regular annuities based on age and service the first full month they are age 60. Early retirement reductions are applied if the employee first became eligible for a 60/30 annuity July 1, 1984, or later and retired at ages 60 or 61 *before 2002*.

- *Employees with 10 to 29 years of creditable railroad service, or 5-9 years, if at least 5 years were after 1995.* They are eligible for regular annuities based on age and service the first full month they are age 62. Early retirement annuity reductions are applied to annuities awarded before the employee's full retirement age which ranges from age 65 for those born before 1938 to age 67 for those born in 1960 or later, the same as under social security. Reduced annuities are still payable at age 62 but the maximum reduction will be 30 percent rather than 20 percent by the year 2022. The tier II portion of an annuity (as defined on page 19) is not reduced beyond 20 percent if the employee had any creditable railroad service before August 12, 1983. (See pages 32-34 for a detailed explanation of age reductions.)

An annuity based on age cannot be paid until the employee stops railroad employment, files an application and gives up any rights to return to work for a railroad employer.

A *DISABILITY ANNUITY* can be paid for:

- *Total disability*, at any age, if an employee is permanently disabled for *all regular work* and has at least 10 years (120 months) of creditable railroad service. Employees with 5-9 years of creditable railroad service, if at least 5 years were after 1995, may qualify for tier I only (as defined on page 19) before retirement age on the basis of total disability if they also meet certain social security earnings requirements. An age reduced tier II amount would be payable at age 62.

- *Occupational disability*, at age 60, if an

employee has at least 10 years of creditable railroad service or at any age if the employee has at least 20 years (240 months) of service, when the employee is permanently disabled for his or her *regular railroad occupation*. A "current connection" with the railroad industry is also required for an annuity based on *occupational*, rather than *total*, disability.

A five-month waiting period beginning with the month after the month of the onset of disability is required before any disability annuity payments can begin.

While an annuity based on disability is not paid until an employee has stopped working for a railroad, employment rights need not be relinquished until the employee attains full retirement age. However, in order for a supplemental annuity to be paid by the Board, or for an eligible spouse to begin receiving annuity payments, a disabled annuitant under full retirement age must relinquish employment rights.

A *SUPPLEMENTAL ANNUITY* can be paid at:

- *Age 60*, if the employee has at least 30 years of creditable railroad service.
- *Age 65*, if the employee has 25-29 years of creditable railroad service.

In addition to the service requirements, a "current connection" with the railroad industry is required for all supplemental annuities. An employee must also be receiving a railroad retirement age and service or disability annuity before a supplemental annuity can be paid. Eligibility is further limited to employees who had some rail service before October 1981.

Current Connection Requirement

An employee who worked for a railroad in at least 12 months in the 30 months immediately preceding the month his or her railroad retirement annuity begins will meet the cur-

rent connection requirement for a supplemental annuity, occupational disability annuity or the survivor benefits described later in this publication. (If the employee died before retirement, railroad service in at least 12 months in the 30 months before the month of death will meet the current connection requirement for the purpose of paying survivor benefits.)

If an employee does not qualify on this basis, but has 12 months of service in an earlier 30-month period, he or she may still meet the current connection requirement. This alternative generally applies if the employee did not have any regular employment outside the railroad industry after the end of the last 30-month period which included 12 months of railroad service and before the month the annuity begins or the date of death. Full or part-time work for a nonrailroad employer in the interval between the end of the last 30-month period including 12 months of railroad service and the beginning date of an employee's annuity, or the month of death if earlier, can break a current connection.

Self-employment in an unincorporated business will not break a current connection; however, self-employment can break a current connection if the business is incorporated.

Working for certain U.S. Government agencies -- Department of Transportation, National Transportation Safety Board, Surface Transportation Board (the former Interstate Commerce Commission), National Mediation Board, Railroad Retirement Board, Transportation Security Administration (as long as work began before TSA was transferred to Department of Homeland Security on March 1, 2003) -- will *not* break a current connection. Neither State employment with the Alaska Railroad, so long as that railroad remains an entity of the State

of Alaska, nor non-creditable Canadian railroad service will break a current connection.

A current connection can also be maintained, for purposes of supplemental and survivor annuities, if the employee completed 25 years of railroad service, was involuntarily terminated without fault from the railroad industry, and did not thereafter decline an offer of employment in the same class or craft in the railroad industry regardless of the distance to the new position. A termination of railroad service is considered voluntary unless there was no choice available to the individual to remain in service. Generally, where an employee has no option to remain in the service of his or her employer, the termination of the employment is considered involuntary, regardless of whether the employee does or does not receive a separation allowance. However, each case is decided by the Board on an individual basis. This exception to the normal current connection requirements became effective October 1, 1981, but only for employees still living on that date who left the rail industry on or after October 1, 1975, or who were on leave of absence, on furlough, or absent due to injury on October 1, 1975.

Once a current connection is established at the time the railroad retirement annuity begins, an employee never loses it, no matter what kind of work is performed thereafter.

Spouse Annuities

The requirements for a spouse annuity depend on the employee's age and date of retirement and the employee's years of railroad service.

If a retired employee with 30 years of service is age 60, the employee's spouse is also eligible for an annuity the first full month the spouse is age 60. Certain early retirement reductions are applied if the employee

first became eligible for a 60/30 annuity July 1, 1984, or later and retired at ages 60 or 61 *before 2002*. If the employee was awarded a disability annuity, has attained age 60 and has 30 years of service, the spouse can receive an unreduced annuity the first full month she or he is age 60, regardless of whether the employee annuity began before or after 2002 as long as the spouse's annuity beginning date is after 2001.

If a retired employee with less than 30 years of service is age 62, the employee's spouse is also eligible for an annuity the first full month the spouse is age 62. Early retirement reductions are applied to the spouse annuity if the spouse retires prior to full retirement age. Full retirement age for a spouse is gradually rising to age 67, just as for an employee, depending on the year of birth. Reduced benefits are still payable at age 62, but the maximum reduction will be 35 percent rather than 25 percent by the year 2022. The tier II portion of a spouse annuity is not reduced beyond 25 percent if the employee had any creditable railroad service before August 12, 1983.

A spouse of an employee receiving an age and service annuity (or a spouse of a disability annuitant who is otherwise eligible for an age and service annuity) is eligible for a spouse annuity at any age *if caring for the employee's unmarried child*, and the child is under age 18 or a disabled child of any age who became disabled before age 22.

The employee must have been married to the spouse for at least one year, unless the spouse is the natural parent of their child, the spouse was eligible or potentially eligible for a railroad retirement widow(er)'s, parent's or disabled child's annuity in the month before marrying the employee or the spouse was previously married to the employee and received a spouse annuity. However, entitlement to a surviving divorced spouse, surviv-

ing divorced young mother (father), or remarried widow(er) annuity does not waive the one-year marriage requirement.

An annuity may also be payable to the *divorced wife or husband* of a retired employee if their marriage lasted for at least 10 years, both have attained age 62 for a full month and the divorced spouse is not currently married. The amount of a divorced spouse's annuity is, in effect, equal to what social security would pay in the same situation and therefore less than the amount of the spouse annuity otherwise payable (tier I only).

Employee and Spouse Annuity Estimates

Railroad employees can get estimates of future annuities for themselves and their spouses through the Board's Web site at www.rrb.gov. The estimates are based on the service and earnings records maintained by the Board and show the earliest date the employee can receive a full annuity and, if applicable, the earliest date he or she can receive a reduced annuity. Employees who want estimates can also contact the nearest field office of the Railroad Retirement Board for approximate figures. Each Board field office can furnish estimates for employees with at least 10 years of railroad service, or 5 years after 1995. It is not possible to provide a precise amount if the employee is not currently eligible.

The tables on the next page illustrate average amounts awarded to employees and spouses in fiscal year 2005.

Two-tier Annuities and Dual Benefits

Regular railroad retirement annuities are calculated under a two-tier formula. The annuity formula components for employees and spouses are described later in this chapter.

(Text continued on page 19.)

**Table 1.--Fiscal Year 2005 Annuity Awards
to 30-year Employees Retiring Before Full Retirement Age**

	<u>Average award</u>	<u>Average years of service</u>
Employee	\$2,829	35.6
Employee and spouse	\$4,013	35.7

NOTE.--For employees with at least 25 years of service and a current connection, a supplemental annuity may be payable. The supplemental annuity amount, for awards after 1974, is \$23 plus \$4 for each year of service over 25 years, up to a maximum of \$43 for employees with 30 or more years of service. Figures in the tables on this page include supplemental annuity amounts.

**Table 2.--Fiscal Year 2005 Annuity Awards Based on
Service Averaging Less than 30 Years**

	<u>Average award</u>	<u>Average years of service</u>
Employee full retirement age or over	\$1,714	22.4
Employee full retirement age or over and spouse	\$2,404	23.9
Employee under full retirement age with less than 30 years of service	\$1,263	17.4
Employee under full retirement age with less than 30 years of service and spouse	\$1,700	17.7
Employee retiring because of disability	\$2,211	24.3

The first tier is based on railroad retirement credits and any social security credits an employee has acquired. The amount of the first tier is calculated using social security formulas, but with railroad retirement age and service requirements.

The second tier is based on railroad retirement credits only, and may be compared to the retirement benefits paid over and above social security benefits to workers in other industries.

An additional amount may also be payable as part of the regular annuity if an employee had at least 120 months of railroad service and acquired sufficient quarters of coverage for an insured status under the Social Security Act before 1975, and also met certain vesting requirements.

Employees with Railroad Retirement and Social Security Benefits

Since 1975, if a retired or disabled railroad retirement annuitant is also awarded social security benefits, the Social Security Administration determines the amount due, but a combined monthly benefit payment is issued by the Railroad Retirement Board.

Since the tier I portion of an employee annuity is based on combined railroad retirement and social security credits, it is reduced by the amount of any actual social security benefit paid on the basis of the employee's nonrailroad employment in order to prevent a duplication of benefits based on those earnings. The tier I amount is also reduced in the event a social security benefit is payable to the employee on the basis of another person's earnings. This reduction follows principles of social security law which, in effect, limit payment to the higher of any two or more benefits payable to an individual at one time. An annuitant is required to advise the Railroad Retirement Board if any benefits are received directly from the Social Security

Administration or if those benefits increase (other than for an annual cost-of-living increase).

If an employee *qualified for dual benefits before 1975 and met certain vesting requirements*, he or she can receive an additional annuity amount, which offsets, in part, the dual benefit reduction. This additional amount, which reflects the dual benefits payable prior to 1975, is called the vested dual benefit payment. The vested dual benefit cannot be paid prior to the date the employee could begin to receive a social security benefit if he or she were to file for such a benefit.

Employees who do not qualify for a vested dual benefit may be eligible for a refund of any excess social security taxes they paid (see page 30).

Employees with Public, Non-profit or Foreign Pensions

For employees first eligible for a railroad retirement annuity *and* a Federal, State or local government pension after 1985, there may be a reduction in the tier I amount for receipt of a public pension based, in part or in whole, on employment not covered by social security or railroad retirement after 1956. This may also apply to certain other payments not covered by railroad retirement or social security, such as from a non-profit organization or from a foreign government or a foreign employer, but it does not include military service pensions, payments by the Department of Veterans Affairs, or certain benefits payable by a foreign government as a result of a totalization agreement between that government and the United States.

Workers' Compensation

If an employee is receiving a *disability* annuity, the tier I portion may, under certain circumstances, be reduced for receipt of

workers' compensation or public disability benefits.

If an annuitant becomes entitled to any pensions or benefits as described above, the Board must be notified immediately.

Spouses with Dual Benefits

Social Security Benefits

The tier I portion of a spouse annuity is reduced for any social security entitlement, regardless of whether the social security benefit is based on the spouse's own earnings, the employee's earnings or the earnings of another person. This reduction follows principles of social security law which, in effect, limit payment to the higher of any two or more benefits payable to an individual at one time.

Public Pensions

The tier I portion of a spouse annuity may also be reduced for receipt of any Federal, State or local government pension separately payable to the spouse based on the spouse's own earnings. The reduction generally does not apply if the employment on which the pension is based was covered under the Social Security Act throughout the last 60 months of public employment. (This 60-month requirement is being phased in over a 5-year period ending March 1, 2009, and there are some exceptions.) Most military service pensions and payments from the Department of Veterans Affairs will not cause a reduction. For spouses subject to the public pension reduction, the tier I reduction is equal to 2/3 of the amount of the public pension.

Employee Annuity

If both the husband and wife are qualified railroad employees and either had some railroad service before 1975, both can receive

their own railroad retirement employee and spouse annuities, without a full dual benefit reduction.

If both the husband and wife started railroad employment after 1974, the amount of any spouse or divorced spouse annuity is reduced by the amount of the employee annuity to which the spouse is also entitled.

Minimum Guaranty for Employee and Spouse Annuities

Under a special minimum guaranty provision, railroad families will not receive less in monthly benefits than they would have if railroad earnings were covered by social security rather than railroad retirement laws. This guaranty is intended to cover situations in which one or more members of a family would otherwise be eligible for a type of social security benefit which is not provided under the Railroad Retirement Act.

For example, social security provides children's benefits when an employee is totally disabled, retired, or deceased. The Railroad Retirement Act only provides children's benefits if the employee is deceased. Therefore, if a retired rail employee has children who would otherwise be eligible for a benefit under social security, the employee's annuity would be increased to reflect what social security would pay the family, unless the annuity is already more than that amount.

Cost-of-living Increases in Employee and Spouse Retirement Benefits

After retirement, the *tier I* portions of both employee and spouse annuities are generally increased for higher living costs at the same time, and by the same percentage, as social security benefits. These increases, effective December 1 and included in the January payment, are triggered under both programs when the Consumer Price Index

rises during the 12 months ending the previous September 30. Generally, if the Index increases by five percent, for example, the tier I portion increases by five percent.

If an annuitant is receiving both railroad retirement and social security benefits, the increased tier I portion is reduced by the increased social security benefit.

The *tier II* portions of retired employee and spouse annuities are normally increased annually by 32.5 percent of the increase in the Consumer Price Index.

Tier II cost-of-living increases are generally payable at the same time as tier I cost-of-living increases. Vested dual benefit payments and supplemental annuities are not increased by these cost-of-living adjustments.

Working After Retirement

Neither a regular annuity, a supplemental annuity nor a spouse annuity is payable for any month in which a retired employee works for an employer covered under the Railroad Retirement Act, including labor organizations. However, compensation of less than \$25 a month by a local lodge employee will not prevent payment of the annuity for that month.

Retired employees and spouses who work for their last pre-retirement nonrailroad employer are subject to an earnings deduction. Such employment will reduce tier II benefits and supplemental annuity payments, which are not otherwise subject to earnings deductions, by \$1 for each \$2 of earnings received, subject to a maximum reduction of 50 percent. These reductions continue after full retirement age.

Retired employees and spouses who have not yet attained full social security retirement age, which ranges from age 65 for those born before 1938 to age 67 for those born in 1960 or later, may also be subject to additional earnings deductions for any earnings,

in or outside the rail industry, that exceed certain exempt amounts. The tier I and vested dual benefits of these employee and spouse annuities are subject to deductions if earnings exceed the exempt amounts applicable to social security beneficiaries. Prior to the calendar year in which full social security retirement age is attained, the deduction is \$1 in benefits for every \$2 of annual earnings exceeding an exempt amount (\$12,480 in 2006).

If the employee or spouse has a tier I reduction for social security benefits, the tier I benefit is not reduced for excess earnings.

In the first year in which an employee subject to these earnings deductions is both entitled to an annuity and has a *non-work* month, a full annuity can be paid for those months in which the employee had low earnings or did not have substantial self-employment, no matter what total earnings for the year were. A non-work month is one in which the employee neither earns over 1/12th of the annual exempt amount nor has substantial self-employment. Non-work months can be claimed in only one calendar year, which need not necessarily be the first year of entitlement.

In the calendar year in which an individual attains full social security retirement age, deductions of \$1 are made in tier I and vested dual benefits for every \$3 earned in excess of an exempt amount (\$33,240 in 2006), but only counting those earnings in the months prior to the month full retirement age is attained. These tier I and vested dual benefit deductions stop effective with the month full retirement age is attained.

Earnings received for services rendered, plus any net earnings from self-employment, are considered when assessing deductions for earnings. Interest, dividends, certain rental income or income from stocks, bonds, or other

investments are not generally considered earnings for this purpose.

Annuitants under full retirement age who work after retirement and expect that their earnings for a year will be more than the annual exempt amount must promptly notify the Board and furnish an estimate of their expected earnings in order to prevent an overpayment and penalties. They should also notify the Board if their original estimate changes significantly.

Retired employees and spouses who return to work for a railroad or for their last pre-retirement nonrailroad employer must notify the Board, regardless of earnings or age.

A spouse benefit is subject to reductions not only for the spouse's earnings, but also for the earnings of the employee, regardless of whether the earnings are from service for the last pre-retirement nonrailroad employer or other post-retirement employment.

A spouse annuity is not payable for any month in which the employee's annuity is not payable, or for any month in which the spouse works for an employer covered under the Railroad Retirement Act.

Disability work restrictions.—If an annuity is based on disability, there are certain work restrictions that can affect payment, depending on the amount of earnings. The annuity is not payable for any month in which the annuitant works for an employer covered under the Railroad Retirement Act. The annuity is not payable for any month in which the annuitant earns more than \$400 in any employment or net self-employment, exclusive of disability-related work expenses. Withheld payments will be restored if earnings for the year are less than \$5,000 after deduction of disability-related work expenses. Otherwise, the annuity is subject to a deduction of one month's benefit for each multiple of \$400 earned over \$4,800 (the last \$200 or

more of earnings over \$4,800 counts as \$400). Failure to report such earnings could involve a penalty charge.

These disability work restrictions cease upon a disabled employee annuitant's attainment of full retirement age. This transition is effective no earlier than full retirement age even if the annuitant had 30 years of service. Earnings deductions continue to apply to those working for their last pre-retirement nonrailroad employer.

If a disabled annuitant works before full retirement age, this may also raise a question about the possibility of that individual's recovery from disability, regardless of the amount of earnings. Consequently, any earnings must be reported promptly to avoid overpayments, which are recoverable by the Board and may also include penalties.

When Annuities Stop

Payment of any annuity stops upon the annuitant's death, and the annuity is not payable for any day in the month of death. A *disability annuity* stops if the annuitant recovers from his or her disability. A *spouse annuity* stops if the employee's annuity terminates. While a *divorce* ends eligibility for a spouse annuity, a divorced spouse may, under conditions described previously, qualify for a divorced spouse's annuity. A *divorced spouse's annuity* stops upon remarriage or upon entitlement to a social security benefit, based on her or his own earnings, if the unreduced social security benefit is equal to or greater than one-half of the employee's unreduced tier I amount. A divorced spouse's annuity may be reduced or stopped if the divorced spouse is also entitled to a railroad retirement annuity.

It is important to notify the Railroad Retirement Board promptly if one of the above changes occurs. Failure to report can result in an overpayment, which the

Board will take action to recover, sometimes with interest or penalties. Failure to report changes promptly or making a false statement can also result in a fine or imprisonment.

SURVIVOR BENEFITS

Annuities are payable to surviving widows and widowers, children and certain other dependents. Lump-sum benefits are payable after the death of a railroad employee only if there are no qualified survivors of the employee immediately eligible for annuities. With the exception of a residual lump-sum death benefit, eligibility for survivor benefits depends on whether or not the employee was “insured” under the Railroad Retirement Act at the time of death.

An employee is insured if he or she has at least 10 years of railroad service, or 5 years performed after 1995, and a “current connection” with the railroad industry as of the earlier of the month the annuity begins or the month of death. The current connection requirement is described earlier in this chapter.

If a deceased employee was not so insured, jurisdiction of any survivor benefits payable is transferred to the Social Security Administration and any survivor benefits are paid by that agency instead of the Board. Regardless of which agency has jurisdiction, the deceased employee’s railroad retirement and social security credits will be combined for the purpose of benefit computations.

Types of Survivor Benefits

Annuities are payable to widows, widowers and unmarried children; in certain cases, benefits are also payable to parents, remarried widow(er)s, grandchildren and surviving divorced spouses.

WIDOWS’ and WIDOWERS’ ANNUITIES are payable at:

- *Age 60*; age reductions are applied to annuities awarded before full retirement age. The eligibility age for unreduced annuities is gradually rising from 65 to 67, depending on the year of birth.

- *Ages 50-59 if the widow(er) is totally and permanently disabled* and unable to work in any regular employment. The disability must have begun within seven years after the employee’s death or within seven years after the termination of an annuity based on caring for a child of the deceased employee. A five-month waiting period is required after the onset of disability before a disability annuity can begin.

- *Any age if the widow(er) is caring for an unmarried child* of the deceased employee under age 18 or a disabled child of any age who became disabled before age 22.

Generally, the widow(er) must have been married to the employee for at least nine months prior to death, unless she or he was the natural parent of their child, the employee’s death was accidental or while on active duty in the U.S. Armed Forces, the widow(er) was potentially entitled to certain railroad retirement or social security benefits in the month before the month of death, or the marriage was postponed due to State restrictions on divorce due to mental incompetence or similar incapacity.

Survivor annuities may also be payable to a *surviving divorced spouse, or remarried widow(er)*. Benefits are limited to the amount social security would pay and therefore are less than the amount of the survivor annuity otherwise payable.

A surviving divorced spouse may qualify if she or he was married to the employee for at least 10 years, is unmarried or remarried

under the conditions described in the next paragraph, and is age 60 or older (50 if disabled). A surviving divorced spouse who is unmarried can qualify at any age if caring for the employee's child and the child is under age 16 or disabled, in which case the 10-year marriage requirement does not apply.

The portion of a survivor annuity equivalent to a social security benefit (tier I) may be paid to a widow(er) or surviving divorced spouse who remarries after age 60, or to a disabled widow(er) or disabled surviving divorced spouse who remarries after age 50; however, remarriage prior to age 60 (or age 50 if disabled) would not prevent eligibility if such remarriage ends. Such social security level benefits may also be paid to a younger widow(er) or surviving divorced spouse caring for the employee's child who is under age 16 or disabled, if the remarriage is to a person receiving railroad retirement or social security benefits or the remarriage ends.

OTHER SURVIVOR ANNUITIES are payable to:

- *An unmarried child under age 18.*
- *An unmarried child age 18 in full-time attendance at an elementary or secondary school or in approved homeschooling, until the student attains age 19 or the end of the school term in progress when the student attains age 19. In most cases where a student attains age 19 during the school term, benefits are limited to the two months following the month age 19 is attained.*
- *An unmarried disabled child over age 18 if the child became totally and permanently disabled before age 22.*
- *An unmarried dependent grandchild meeting any of the requirements described above for a child, if both the grandchild's parents are deceased or disabled.*
- *A parent at age 60 who was dependent on the employee for at least half of the par-*

ent's support. If the employee was also survived by a widow(er), surviving divorced spouse or child who could ever qualify for an annuity, the parent's annuity is limited to the amount that social security would pay (tier I).

Survivor Annuity Estimates

The best way for survivors to obtain an annuity estimate is to visit or telephone the nearest Board field office. Active or retired employees who are concerned about the amount of benefits which would be payable to their survivors may also receive estimates from the nearest Board field office.

The average annuity awarded to widow(er)s in fiscal year 2005, excluding remarried widow(er)s and surviving divorced spouses, was \$1,412 a month. Children received \$1,023 a month, on the average. Total family benefits for widow(er)s with children averaged \$2,916 a month. The average annuity awarded to remarried widow(er)s or surviving divorced spouses in fiscal year 2005 was \$802 a month.

Survivor Annuity Tiers

Survivor annuities, like retirement annuities, consist of tier I and tier II components.

Tier I is based on the deceased employee's combined railroad retirement and social security credits, and is generally equivalent to the amount that would have been payable under social security.

Tier II amounts are percentages of the deceased employee's tier II amount, as described later in this chapter.

Survivor annuity amounts may also be determined under certain minimum provisions which guarantee that a widow(er)'s annuity will be at least equal to the two-tier benefit the deceased employee would have received at the time of the award of the widow(er)'s annuity, minus certain reduc-

tions including those for age and receipt of social security benefits, and no less than the spouse annuity she or he was receiving just prior to the employee's death.

Survivors with Dual Benefits

Social Security Benefits

The tier I portion is reduced by the amount of any social security benefits received by a survivor annuitant, even if the social security benefits are based on the survivor's own earnings. This reduction follows the principles of social security law which, in effect, limit payment to the higher of any two or more benefits payable to an individual at one time. When both railroad retirement annuities and social security benefits are payable, they are generally combined into a single payment issued through the Board. A survivor annuitant must notify the Board if any benefits are received directly from the Social Security Administration or if those benefits increase (other than for an annual cost-of-living increase).

Public Pensions

The tier I portion of a widow(er)'s annuity may be reduced for receipt of any Federal, State or local government pension based on the widow(er)'s own earnings. The reduction generally does not apply if the employment on which the pension is based was covered under the Social Security Act throughout the last 60 months of public employment. (This 60-month requirement is being phased in over a 5-year period ending March 1, 2009, and there are some exceptions.)

Most military service pensions and payments from the Department of Veterans Affairs will not cause a reduction. For those subject to the public pension reduction, the tier I reduction is equal to 2/3 of the amount of the public pension.

Employee Annuity

If a widow(er) is qualified for a railroad retirement employee annuity as well as a survivor annuity, a special guaranty applies in some cases. If both the widow(er) and the deceased employee started railroad employment after 1974, the survivor annuity payable to the widow(er) is reduced by the amount of the employee annuity.

If either the deceased employee or the survivor annuitant had some service before 1975 but had not completed 120 months of railroad service before 1975, the employee annuity and the tier II portion of the survivor annuity would be payable to the widow(er). The tier I portion of the survivor annuity would be payable only to the extent that it exceeds the tier I portion of the employee annuity.

If either the deceased employee or the survivor annuitant completed 120 months of railroad service before 1975, the widow or dependent widower may receive both an employee annuity and a survivor annuity, without a full dual benefit reduction.

Cost-of-living Increases in Survivor Annuities

Cost-of-living increases, effective December 1 and included in the January payment, are made on the basis of increases in national prices or, in some circumstances, average national wages, and calculated the same way as cost-of-living increases in employee and spouse annuities.

However, in the case of widow(er)s' annuities computed on the basis of the initial minimum amount provided under 2001 legislation, the monthly payment will not increase until the amount payable under previous law plus subsequent cost-of-living increases is higher than the initial minimum amount.

Work and Earnings Limitations

A survivor annuity is not payable for any month the survivor works for an employer covered under the Railroad Retirement Act.

Survivors who are receiving social security benefits have their railroad retirement annuity and social security benefit combined for earnings limitations purposes. Prior to the calendar year in which full retirement age is attained, there is a deduction of \$1 in benefits for every \$2 earned over an exempt amount (\$12,480 in 2006). The deduction is \$1 for every \$3 earned over an exempt amount (\$33,240 in 2006) for the months in the calendar year in which the individual attains full retirement age, up to the month of attainment. Work deductions stop effective with the month full retirement age is attained. In the first year in which a survivor is both entitled to an annuity and has a non-work month, a full annuity can be paid for those months in which the survivor had low earnings or did not have substantial self-employment, no matter what total earnings for the year were.

As work and earnings may affect the payment of an annuity, they must be reported promptly to the Board in order to prevent potential overpayments.

These earnings restrictions do not apply to disabled widow(er)s under age 60 or to disabled children. However, any work or earnings by a disability annuitant must be reported and are reviewed to determine whether they indicate recovery from the disability.

When Survivor Payments Stop

Payment stops upon death, and no annuity is payable for the month of death. An annuity based on disability stops if the annuitant recovers from the disability. Remarriage will reduce a widow(er)'s or parent's annuity rate and, in some cases, prevent pay-

ment. A child's or grandchild's annuity will stop if he or she marries, reaches age 18, or, if attending elementary or secondary school full-time, reaches age 19. Any of the above occurrences must be reported promptly to the Board in order to prevent an overpayment.

Lump-sum Death Benefits

A lump-sum death benefit is payable to certain survivors of an employee with 10 or more years of railroad service, or less than 10 years if at least 5 years were after 1995, and a current connection with the railroad industry if there is no survivor immediately eligible for an annuity upon the employee's death.

The amount payable depends primarily on whether the deceased employee was credited with 10 years of service before January 1, 1975, in which case the average benefit payable is about \$900. In all other cases where a lump sum is payable, the benefit is \$255.

If the employee had 10 years of service prior to 1975, the lump-sum benefit is payable to the widow(er) if she or he were either living with or supported by the employee at the time of death, or if the employee were under a court order for support. If the employee was not survived by a qualified widow(er), the benefit may be paid to the funeral home or the payer of the funeral expenses, but the amount paid cannot exceed the actual costs involved. If the employee did not have 10 years of service before 1975, the lump sum is payable *only* to the widow(er) living in the same household as the employee at the time of the employee's death.

If the employee had less than 10 years of service but had 5 years after 1995, he or she must have met social security's insured status requirement for the lump sum to be payable.

If a widow(er) is eligible for monthly benefits at the time of the employee's death, but the widow(er) had excess earnings deductions which prevented annuity payments or for any other reason did not receive monthly benefits in the 12-month period beginning with the month of the employee's death totaling at least as much as the lump sum, the difference between the lump-sum benefit and monthly benefits actually paid, if any, is payable in the form of a deferred lump-sum benefit.

Residual lump-sum payment.—The railroad retirement system also provides, under certain conditions, a residual lump-sum death benefit which ensures that a railroad family receives at least as much in benefits as the employee paid in railroad retirement taxes before 1975. This benefit is, in effect, a refund of an employee's pre-1975 railroad retirement taxes, after subtraction of any benefits previously paid on the basis of the employee's service. This benefit is seldom payable.

RETIREMENT-SURVIVOR INFORMATION

Applying for an Annuity

Applications for railroad retirement or survivor benefits are generally filed at one of the Board's field offices, or with a traveling Board representative at a customer outreach program service location or by telephone and mail. The Board accepts applications up to three months in advance of an annuity beginning date. However, applications for employee disability annuities may not be filed until an employee is no longer in compensated service. Compensated service includes the receipt of pay for time lost, some wage continuation payments, or any other employer compensation preventing the payment of railroad retirement benefits.

Railroad employees can also get estimates of their future annuities over the Internet. Employees can access this service by visiting the Board's Web site at www.rrb.gov and clicking on "Benefit Online Services" for directions on establishing an RRB Internet Services account.

Persons applying for railroad retirement benefits will be automatically enrolled in the U.S. Treasury's Direct Deposit Program, which electronically transfers Federal payments into individuals' checking or savings accounts. However, Direct Deposit waivers are available to individuals who state that Direct Deposit would cause a hardship, and to individuals without bank accounts.

Under the Board's Customer Service Plan, the standard is that employees and spouses who file for their annuity in advance will receive their first payment, or a decision, within 35 days of the beginning date of their annuity. If they did not file in advance, they will receive their first payment, or a decision, within 65 days of the date the application was filed. Applicants for disability annuities will receive a decision within 105 days of the date they filed their application; if they are entitled to disability benefits, they will receive their first payment within 25 days of the date of the decision or the earliest payment date, whichever is later. Those filing for a railroad retirement survivor annuity or lump-sum benefit will receive the first payment, or a decision, within 65 days of the date the application was filed, or entitlement to benefits began, if later. Those already receiving a spouse annuity will receive the first payment, or a decision, within 35 days of the date the Board receives notice of the employee's death.

To expedite filing, applicants should contact their local Board office for a pre-retirement consultation. Certain documents

are required when filing a railroad retirement annuity application, such as:

For employees and spouses:

√ Proof of an employee's *age*.

√ Proof of any *military service*.

√ Proof of *marriage* if the spouse is eligible or will shortly become eligible for a spouse annuity. A divorced spouse must also furnish proof of *divorce* from the employee.

√ Proof of the spouse's or divorced spouse's *age*.

√ Proof of a *child's relationship and age*, if the spouse is applying for an annuity based on caring for the employee's child.

√ Notice of any social security *benefit award* or other social security claim determination.

√ Information about any *public service pension* for which the applicant qualifies.

√ Banking information for Direct Deposit of benefit payments.

The best proof of age is a certified copy of a civil or church document recorded at or close to the time of birth. The best proof of marriage is a certified copy of the public or church record or the original marriage certificate. A divorced spouse would be expected to furnish a certified copy of the final divorce decree. Proof of military service may be a certificate of discharge, or any official military record that shows the dates of service.

Applicants for disability annuities are required to submit supporting medical information. They are sometimes asked to take a special medical examination given by a doctor named by the Board.

An annuity is payable as of the first full month throughout which the employee and/or spouse is age 60, or age 62 in the case of reduced annuities. An annuity is payable the

first day of the month full retirement age is attained in the case of unreduced annuities with less than 30 years of service.

The *retroactivity of a retirement annuity application* is limited to one year for disability annuities and six months for full age annuities. There is generally no retroactivity for reduced age annuities.

For survivors:

√ A widow(er) must furnish proof of age, proof of marriage and proof of the employee's death. A surviving divorced spouse must furnish proof of divorce from the employee. If applying for a disability annuity, the widow(er) must also provide supporting medical evidence. A parent must furnish proof of relationship to the employee and proof of support from the employee.

√ If children are eligible for benefits, proof of the relationship and age of each child is needed. If a child is over age 18 and disabled, supporting medical evidence is required. Eighteen-year-old students must provide proof of full-time elementary or high school attendance. A stepchild of the employee must provide proof of dependency on the employee.

Retroactivity of a survivor annuity application is one year for disabled widow(er)s and six months for full retirement age widow(er)s, mothers (fathers), children and parents. Retroactivity for widow(er)s ages 60-61 is six months if it does not increase the age reduction (this does not apply to surviving divorced spouses or remarried widow(er)s). Otherwise, there is generally no retroactivity for reduced age widow(er)s' annuities. Lump-sum death benefit applications must be filed within two years after the death of the employee. There is no time limit on filing for a residual payment.

Garnishment/Property Settlements

Garnishment.—Certain percentages of an employee, spouse or survivor annuity may be subject to legal process (*i.e.*, garnishment) to enforce an obligation for child support and/or alimony payments.

Property settlements.—Employee tier II benefits, vested dual benefits and supplemental annuities are subject to court-ordered property settlements in proceedings related to divorce, annulment or legal separation. Tier I benefits are not subject to property settlements.

Representative Payees

Railroad retirement or health insurance benefit payments can be made to a representative payee for a beneficiary if it would best serve the interests of the beneficiary. Payments made in this way are generally for a child, or an adult incapable of using the benefits in his or her own interest. The representative payee must use the benefits for the beneficiary's best interest. The benefits are generally used to provide for basic needs. The representative payee must report events which could affect the payment of the benefits and be able to account for the benefits.

If Requirements for Benefits Are not Met

Retirement annuities are not payable by the Board unless the employee has 5 years (60 months) of creditable service after 1995 or 10 years (120 months) of service at any time. Service includes any creditable military service.

Survivor annuities are not payable unless the employee had a current connection with the railroad industry and either 5 years (60 months) of creditable service after 1995 or 10 years (120 months) of service at any time.

In either of the above circumstances, if the requirements are not met, the employee's railroad retirement credits are transferred to the Social Security Administration and treated as social security credits. Benefits paid by that agency would accordingly take into account both railroad and social security covered earnings.

The Railroad Retirement Act does not allow a former railroad employee to withdraw his or her retirement taxes. Like social security taxes, railroad retirement taxes are not refundable unless retirement tax withholding has exceeded annual maximums.

Railroad Retirement Taxes

By law, railroad retirement tier I payroll taxes are coordinated with social security taxes and increase automatically when social security taxes rise. Employees and employers pay tier I taxes which are the same as social security taxes. In addition, both employees and employers pay tier II taxes to finance railroad retirement benefit payments over and above social security levels.

Railroad retirement taxes apply to earnings on an annual basis. The amounts of earnings subject to these taxes are determined annually on the basis of national wage levels.

Table 3.--2006 Regular Railroad Retirement Taxes

	<u>Tax rate</u>	<u>Maximum annual taxable earnings</u>	
Tier I			
Employees and employers	7.65%*	\$94,200	
Tier II			
Employees	4.40%	\$69,900	
Employers	12.60%	\$69,900	
Annual regular taxes on employees earning \$94,200			
	<u>Tier I</u>	<u>Tier II</u>	<u>Total</u>
Employees	\$7,206.30	\$3,075.60	\$10,281.90
Employers	\$7,206.30	\$8,807.40	\$16,013.70

* The tier I tax rate is divided into 6.20% for railroad retirement and 1.45% for Medicare hospital insurance. The 2006 maximum earnings base for railroad retirement is \$94,200 and the Medicare hospital insurance tax is applied to all earnings. Consequently, employee and employer contributions continue to be made at the 1.45% rate, even after the employee has earned \$94,200.

Dual Tax Payments

Since 1975, railroad employees who also worked for a social security covered employer in the same year may, under certain circumstances, receive a tax credit equivalent to any excess social security taxes withheld.

Employees who worked for two or more railroads in a year, or who had tier I taxes withheld from their Railroad Retirement Board sickness benefits in addition to their railroad earnings, may be eligible for a tax credit of any excess tier I or tier II railroad retirement taxes withheld. Employees who had tier I taxes withheld from their supplemental sickness benefits may also be eligible for a tax credit of any excess tier I tax. Such tax credits may be claimed on an employee's Federal income tax return.

Employees who worked for two or more

railroads, or had both railroad retirement and social security taxes withheld from their earnings, should see Internal Revenue Service publication 505, *Tax Withholding and Estimated Tax*, for information on how to figure any excess railroad retirement or social security tax withheld.

Dual Railroad Retirement-Social Security Taxes Paid, 1951-74

An employee with 10 or more years of railroad service who is not entitled to a vested dual benefit payment may be entitled to a refund of excess social security taxes if his or her combined taxable earnings from the railroad retirement and social security systems in any year in the period 1951-74 exceeded a maximum annual amount creditable under the Railroad Retirement Act. Eligible

employees will receive their refunds from the Board at retirement without applying for them. In the event an employee should die before receiving the refund, payment will be made to the employee's survivors.

Separation or Severance Payments

A lump sum, approximating railroad retirement tier II payroll taxes deducted from separation or severance payments, may be paid upon retirement to employees meeting minimum service requirements, or their survivors, to the extent that the separation or severance payments did not yield additional railroad retirement service or earnings credits. The lump-sum provision applies to separation and severance payments made after 1984.

Federal Income Tax on Railroad Retirement Benefits

The tier I portion of a railroad retirement annuity that is actually equivalent to a social security benefit is treated as a social security benefit for Federal income tax purposes. Depending on the amount of other income received in the taxable year, a portion of these benefit payments may be subject to Federal income tax.

Tier I benefits exceeding social security benefits, such as retirement benefits payable between ages 60 and 62, and many occupational disability annuities, plus the tier II portions of railroad retirement annuities, vested dual benefits, and supplemental annuities paid by the Board are treated like private pensions for Federal income tax purposes. The Railroad Retirement Act specifically exempts benefits paid by the Board from State and local income tax.

The Railroad Retirement Board issues tax information statements to annuitants each January. In the absence of a request not to withhold, taxes are withheld from U.S.

citizens or residents whose railroad retirement benefits in excess of the social security equivalent level total more than certain annual threshold amounts. Any amounts withheld during the taxable year are reflected on the annual statements.

Monitoring Retirement and Survivor Benefit Payments

Under several monitoring programs now in effect, the Board maintains contact with retirement and survivor beneficiaries in order to ensure the reporting of events which would require suspension or termination of monthly benefits. The records of beneficiaries are also checked with the Social Security Administration because annuities may be affected by nonrailroad earnings and because entitlement to social security benefits affects the amount of all annuities.

Representative payees.—Each person who is paid on behalf of another periodically receives a questionnaire. The purpose of the questionnaire is to determine whether the beneficiary is still living, how much of the benefits were used for support of the beneficiary and how any savings were invested.

Disability annuitants.—Disability annuitants receive a notice annually reminding them of their obligation to report all events which may affect their continuing entitlement to a disability annuity. They must notify the Board if they perform *any* work (including self-employment). They must also notify the Board if their doctor tells them their condition has improved and they are able to work.

If a disability annuitant had substantial earnings, his or her physical condition is reviewed in order to determine whether or not there was a recovery from the disability. Notices are sent annually until the annuitant reaches full retirement age.

EMPLOYEE AND SPOUSE ANNUITY FORMULA COMPONENTS

The following describes railroad retirement annuity formula components as applied to new awards. The cost-of-living adjustments applied to annuities are described in previous pages of this chapter.

Employee Retirement Annuity

The amount of a regular annuity is the total of portions which are computed separately under different formulas and called tiers, plus any vested dual benefit payment also due.

Tier I

The first tier is calculated in generally the same way as a social security benefit. Any social security credits of an employee are combined with his or her railroad retirement credits for tier I computational purposes.

In computing tier I, an employee's creditable earnings are adjusted to take into account the changes in wage levels over a worker's lifetime. This procedure, called indexing, increases creditable earnings from past years to reflect average national wage levels just prior to the employee's first year of eligibility. The adjusted earnings are used to calculate "average indexed monthly earnings," and a formula is applied to determine the gross tier I amount.

For employees with less than 10 years of railroad service, tier I benefits are calculated only if the employee has at least 5 years of service after 1995 and an "insured status" under social security rules (usually 40 quarters of coverage), counting both railroad retirement and social security covered earnings.

Delayed retirement credits.—Tier I benefits are increased for each month an employee delays retirement past full retirement age

up until age 70. For those who attain full retirement age on January 1, 2005, or later with a date of birth January 2, 1940, through January 1, 1941, the delayed retirement credit is $\frac{7}{12}$ of 1 percent per month. For those with a date of birth of January 2, 1941, through January 1, 1943, the delayed retirement credit is $\frac{5}{8}$ of 1 percent per month. For those who attain full retirement age in later years, the delayed retirement credit gradually increases every other year until it becomes 8 percent per year beginning in 2008 (earned in 2008 but payable effective 2009).

Age reductions.—For employees retiring between age 62 and full retirement age with less than 30 years of service, age reductions are applied separately to the components of an annuity. As mentioned earlier, the full retirement age is gradually rising from 65 to 67, depending on the year of birth. The maximum annuity reduction for retirement at age 62 is gradually increasing from 20 percent to 30 percent.

The full retirement age for employee and spouse benefits increases from 65 to 66 and from 66 to 67 at the rate of two months per year over two separate six-year periods. These changes also affect how reduced benefits are computed for early retirement. The increase in full retirement age from age 65 to age 66 affects those people who were born in the years 1938 through 1942. The full retirement age will remain at age 66 for people born in the years 1943 through 1954. The increase in full retirement age from age 66 to age 67 affects those who were born in the years 1955 through 1959. For people who were born in 1960 or later, the full retirement age will be 67.

Reduced benefits continue to be available but at greater reductions. The early retirement reduction factor for an employee is $\frac{1}{180}$ for each of the first 36 months of the

Table 4.--Employee Retiring with Less Than 30 Years of Service

Year of birth	Full retirement age	Annuity reduction at age 62
1937 or earlier	65	20.00%
1938	65 and 2 months	20.833%
1939	65 and 4 months	21.667%
1940	65 and 6 months	22.50%
1941	65 and 8 months	23.333%
1942	65 and 10 months	24.167%
1943 through 1954	66	25.00%
1955	66 and 2 months	25.833%
1956	66 and 4 months	26.667%
1957	66 and 6 months	27.50%
1958	66 and 8 months	28.333%
1959	66 and 10 months	29.167%
1960 or later	67	30.00%

reduction period regardless of the age of initial entitlement and will decrease to 1/240 for each month (if any) over 36. This will result in a gradual increase in the reduction at age 62 to 30 percent for an employee once the age 67 retirement age is in effect.

Age reductions are required in the tier I annuity amounts of 30-year employees who retired at ages 60-61 before 2002 and attained age 60 or completed 30 years of service after June 1984. The age reductions are applied *only* to the tier I annuity portion. If an employee affected by this provision was born before 1938 and attained 60/30 eligibility after December 1985, tier I is permanently reduced by approximately 20 percent. For those born after 1937 who retired before 2002, the reduction gradually increased as described earlier. In both cases, the tier I amount is frozen until the first month throughout which the employee is age 62. It is then recomputed to reflect interim increases in national wage levels and will become subject to future cost-of-living increases. No reduction will apply if the employee retired

at age 62 or older with 30 years of service, or at age 60 with 30 years of service and retirement is after 2001.

Workers' compensation or public disability benefit reductions.—For employees who are under age 65 and receiving a *disability* annuity, the tier I amount is, under certain circumstances, reduced for receipt of workers' compensation or public disability benefits.

Social security reductions.—After any required age reduction, the tier I amount is reduced by the amount of any social security benefits also payable but not to an amount below zero.

Reductions for public, non-profit or foreign pensions.—For employees who attain eligibility for both tier I benefits and certain government pension or other payments after 1985, a reduction may be required for receipt of a public pension based, in part or in whole, on employment not covered by railroad retirement or social security after 1956. This also applies to payments from a non-profit organization or from certain foreign govern-

ments or employers. Usually, an employee's tier I benefit will not be reduced by more than 1/2 of his or her pension from noncovered employment. However, if the employee is under age 65 and is receiving a disability annuity, the tier I benefit may be reduced by an additional amount if the pension from noncovered employment is a public disability benefit.

Tier II

The second tier of a regular annuity is computed under a separate formula, and is based on railroad service alone. Tier II benefits are equal to seven-tenths of 1 percent of the product which is obtained by multiplying an individual's years of service by such individual's average monthly compensation using the tier II tax base in the 60 months of highest earnings. The tier II component is reduced by 25 percent of any gross employee vested dual benefit amount due.

Age reductions.—Age reductions required for those employees retiring between age 62 and their full retirement age with less than 30 years of service are also applied to the tier II component of an annuity. The reduction is 1/180 for each of the first 36 months the employee is under full retirement age when his or her annuity begins and 1/240 for each additional month.

Full retirement age is gradually rising as mentioned earlier. However, if an employee had any creditable railroad service before August 12, 1983, full retirement age for tier II purposes will remain 65.

Employees with 5-9 years of creditable railroad service, if at least 5 years were after 1995, are eligible for tier II benefits the first full month they are age 62. Their tier II benefits are subject to the same age reductions that apply to employees with 10 to 29 years of service. If they are eligible on the basis of total disability, a tier II benefit is not

payable until age 62 and that amount is reduced for early retirement.

Amount of Vested Dual Benefit Payment

To determine this additional annuity amount for a retired employee meeting the vesting requirements, the Railroad Retirement Board computes a social security benefit based solely on the individual's railroad service before 1975, and a social security benefit based solely on social security covered earnings before 1975. The vested dual benefit is the amount by which the total of these two computations exceeds a social security benefit based on combined railroad and social security covered earnings before 1975.

The vested dual benefit is increased by the cumulative cost-of-living percentage increases applicable to tier I benefits that occurred between January 1, 1975, and the date of retirement or January 1, 1982, whichever was earlier. The computed amount is then frozen; that is, no further cost-of-living increases are applied thereafter. The amount of any vested dual benefit due is added to the tier portions and paid as part of the regular annuity.

The same age reduction applied to the tier I component is applied to the vested dual benefit component of an annuity for those employees retiring before full retirement age with less than 30 years of service.

Supplemental Annuity Formula

The amount of a supplemental annuity awarded after 1974 is equal to \$23 plus \$4 for each year of service over 25, up to a maximum of \$43. A fraction of \$4 is added for each fractional year of service.

If a retired employee also receives a private pension paid for entirely or in part by a railroad, the supplemental annuity is subject to reduction. The reduction is equal to the amount of the pension paid for by the

employer. If the employer reduces the private pension because of the supplemental annuity, the amount of the reduction is restored to the supplemental annuity but does not raise it over the \$43 maximum. There is no reduction in the supplemental annuity for any part of a private pension paid for by the employee alone nor is there a reduction for a pension paid by a railroad labor organization.

Spouse Annuity

The spouse annuity formula is based on certain percentages of the employee's tier I and tier II amounts.

Tier I

The first tier of a spouse annuity is generally 1/2 of the employee's tier I amount after any reduction for the employee's non-covered service pension but before any reduction in the employee's annuity for early retirement or entitlement to a social security benefit.

Spouse age reductions.—Age reductions required for those spouses between age 62 and full retirement age of employees retiring with less than 30 years of service are applied separately to each annuity component. Full retirement age for a spouse is gradually rising, just as for an employee. Actuarially reduced benefits continue to be available but at greater reductions. The tier I reduction is 1/144 for each of the first 36 months the spouse is under full retirement age when her or his annuity begins and will decrease to 1/240 for each month (if any) over 36. This will result in a gradual increase in the reduction at age 62 from 25 percent to 35 percent for a spouse once the age 67 retirement age is in effect.

December 2001 legislation eliminated the tier I age reduction for employees ages 60 or 61 with 30 or more years of service whose railroad retirement annuities begin

January 1, 2002, or later. The spouses of these employees are also eligible for full annuities at age 60.

Age reductions required for spouses of employees with 30 years of service who attained 60/30 eligibility after June 1984 but whose annuities began before January 2002 are applied only to the tier I portion of the spouse annuity. If the employee attained 60/30 eligibility before July 1984, retired at age 62 with 30 years of service, or begins receiving an annuity at ages 60 or 61 after 2001 with 30 years of service, the spouse tier I portion is not subject to these reductions.

If the employee's annuity is subject to 60/30 age reductions, the spouse of such an employee may receive a reduced tier I benefit, even if the spouse does not retire until age 62.

In reduced 60/30 spouse cases, the tier I benefit is equal to 1/2 of the employee's reduced tier I on the employee's annuity beginning date and is also frozen until the first full month throughout which *both* the employee and spouse are age 62. Then it is recomputed based on 1/2 of the employee's age 62 gross tier I amount and reduced for each month the spouse is under full retirement age at that time. If at the time of recomputation the spouse is already at full retirement age, or the spouse has a minor or disabled child in care, no age reduction would apply.

The spouse of a disability annuitant who is otherwise eligible for a 60/30 age annuity receives an age reduction if the spouse's annuity beginning date was before 2002. If the spouse's annuity beginning date is January 1, 2002, or later, the spouse can receive an unreduced annuity as early as age 60. If the spouse is entitled based on having a minor or disabled child in care, there is no age reduction.

Reductions for other benefits.—After any applicable age reduction required for the spouse’s early retirement, the spouse tier I amount is reduced by the amount of *any social security benefit to which the spouse is entitled*.

The tier I amount may *also be reduced for certain Federal, State or local government pension payments* based on the spouse’s own earnings. For spouses subject to the public pension reduction, the tier I reduction is equal to 2/3 of the public pension.

The spouse tier I amount may also be reduced if the employee under age 65 is receiving a disability annuity and a workers’ compensation or public disability benefit.

Divorced spouse.—The annuity of a divorced spouse is limited to the tier I amount and thus equal to what social security would pay.

Tier II

The spouse tier II amount is 45 percent of the employee’s tier II amount before any age reductions. If the employee is awarded a vested dual benefit, the employee tier II amount used in computing the spouse benefit is the amount after the 25 percent reduction for the employee’s vested dual benefit entitlement.

Age reductions.—As mentioned earlier, age reductions are gradually increasing. The tier II age reduction for spouses of employees retiring with less than 30 years of service is 1/144 for each of the first 36 months the spouse is under full retirement age when her or his annuity begins and decreases to 1/240 for each month (if any) over 36. However, if a railroad employee had any creditable railroad service before August 12, 1983, the employee and spouse retirement age for tier II purposes will remain age 65. Age reductions are not applied to spouse annuities based on the spouse’s caring for a child.

Dual Annuities

If both the employee and spouse are railroad employees and either one had some railroad service before 1975, the spouse tier I amount is reduced by the amount of the railroad employee tier I to which the spouse is entitled and that initial reduction is restored in the spouse tier II amount. The spouse tier I amount cannot be reduced below zero.

If a spouse is also a railroad employee annuitant and both the employee and spouse started railroad employment after 1974, the amount of any spouse or divorced spouse annuity is reduced by the amount of the employee annuity to which the spouse is also entitled.

A spouse who is also entitled to a survivor annuity on a different earnings record will likewise receive only the higher benefit unless the smaller benefit is chosen.

SURVIVOR ANNUITY FORMULA COMPONENTS

Tier I

The survivor tier I amount is based on the deceased employee’s combined railroad retirement and social security credits, and is computed using social security formulas. In general, the survivor tier I amount is equal to the amount of survivor benefits that would have been payable under social security.

The *gross survivor tier I amount* (before reductions for early retirement, or other benefits) is generally equivalent to the unreduced tier I retirement benefit the deceased employee had, or would have, received.

For surviving aged or disabled widow(er)s, remarried widow(er)s and surviving divorced spouses whose annuities begin a year or more after the employee’s death, the “average indexed monthly earnings,” upon which the tier I benefit is based, may be rein-

dexed using a later year if it would result in a higher benefit provided the employee died before age 62. The reindexing takes into account changes in national earnings levels which occur after the employee's death but before the survivor becomes eligible for benefits. This provides a benefit consistent with earnings levels at the time of the survivor's eligibility, rather than the time of the employee's death.

A widow(er), surviving divorced spouse or remarried widow(er) whose annuity begins at full retirement age or later receives the full tier I amount unless the deceased employee received an annuity that was reduced for early retirement. The eligibility age for a full widow(er)'s annuity is gradually rising from 65 to 67. The maximum age reductions will range from 17.1 percent to 20.36 percent, depending on the widow(er)'s date of birth. For a surviving divorced spouse or remarried widow(er), the maximum age reduction is 28.5 percent. For a disabled widow(er), disabled surviving divorced spouse or disabled remarried widow(er), the maximum reduction is 28.5 percent, even if the annuity begins at age 50.

A widow(er) or surviving divorced spouse whose eligibility is based on caring for a child of the employee receives 75 percent of the full tier I amount. Benefits to a surviving divorced spouse end when the child is 16. An eligible child also receives 75 percent of the full tier I amount. The total amount the family can receive is subject to a maximum (usually applicable if there are three or more family members, not counting aged or disabled surviving divorced spouses, entitled to survivor annuities).

A dependent parent can receive 82.5 percent of the full tier I amount, but if both parents are eligible, the total amount cannot be more than 150 percent of the full tier I amount.

Dual benefit reduction.—The tier I

amount described above is reduced by the amount of any social security benefit or by the tier I amount of any railroad retirement employee annuity the survivor also receives. If either the deceased employee or the widow(er) had some railroad service before 1975 but less than 120 months, the survivor tier I portion is payable only to the extent that it exceeds the tier I portion of the widow(er)'s own employee annuity. In the case of a widow or dependent widower who is also a railroad employee annuitant, and either the widow(er) or the deceased employee had 120 months of railroad service before 1975, the tier I reduction may be partially restored in the survivor tier II amount. If the widow(er) qualifies for a railroad retirement employee annuity and neither the widow(er) nor the deceased employee had any railroad service before 1975, the survivor annuity payable to the widow(er) is reduced by the amount of the widow(er)'s own employee annuity.

The tier I amount may also be reduced by certain *Federal, State or local government pensions* which are based on a widow(er)'s own earnings. For widow(er)s subject to the government pension reduction, the tier I reduction is equal to 2/3 of the public pension.

Tier II

Widow(er)s.—December 2001 legislation established an “initial minimum amount” which yields, in effect, a widow(er)'s tier II benefit equal to the tier II benefit the employee would have received at the time of the award of the widow(er)'s annuity, minus any applicable age reduction. It does this by adding a “guaranty amount,” initially set at 50 percent of the employee's tier II, to the 100 percent tier I and 50 percent tier II benefits provided under prior law.

This “guaranty amount” is offset each year by the dollar amount of the cost-of-living increases payable in both the tier I and

tier II benefits provided under prior law. Consequently, such a widow(er)'s net benefit payment will not increase until such time as the widow(er)'s annuity, as computed under prior law with all interim cost-of-living increases otherwise payable, exceeds the widow(er)'s annuity computed under the initial minimum amount formula.

The widow(er)s' guaranty provision applies to all widow(er)s whose annuities begin February 1, 2002, or later, and to some, but not all, widow(er)s on the rolls before that date. If, because of previous cost-of-living adjustments, annuities awarded before February 2002 were already higher than the annuity that would be payable under the December 2001 legislation, the guaranty did not apply.

The same *age reductions* that apply to tier I amounts also apply to tier II amounts.

If a widow(er) is also a railroad employee annuitant and both the widow(er) and the deceased employee started railroad employment after 1974, the amount of any survivor annuity is reduced by the amount of the employee annuity to which the survivor is also entitled.

Other survivors.—Each child receives 15 percent of the deceased employee's tier II amount, and each surviving parent receives 35 percent. The minimum total tier II amount payable to a family is 35 percent of the employee's tier II amount, and the maximum, 130 percent.

A tier II benefit is not provided for a surviving divorced spouse or a remarried widow(er). A tier II benefit is not payable to surviving parents if other family members may receive benefits or if the parent has remarried.

APPEALS

A railroad worker, spouse, or survivor whose application for a benefit under the

Railroad Retirement Act is denied, or one who is dissatisfied with the decision, has the right of appeal; that is, he or she may ask for a reconsideration of the decision. The notification letter sent to the applicant at the time of the original award or denial of the claim informs him or her of the right to appeal.

An individual has 60 days, from the date of the initial notice of a decision on his or her claim, to file a written statement requesting reconsideration from the Board unit that denied the claim. This step is mandatory before a decision may be appealed to the Board's Bureau of Hearings and Appeals. In cases involving overpayments, requests for waiver of recovery of the overpayment must be filed within 60 days of the date of the overpayment notice. In such cases, recovery of the overpayment will be deferred and a personal conference may be held, if requested. A request for waiver received after 60 days will be considered but will not defer collection of the overpayment, and any amount of the overpayment recovered prior to the date on which the waiver request is filed will not be subject to waiver.

An individual has 60 days from the date of the reconsideration or waiver decision to file an appeal with the Board's Bureau of Hearings and Appeals, a bureau independent of the units responsible for reconsideration decisions. The Bureau of Hearings and Appeals may, if necessary, further investigate the case and obtain reports through the Board's field representatives, designated medical examiners, and others who may be in a position to furnish information pertinent to the appellant's claim. The appellant has the right to request an oral hearing. If one is held, it may be conducted in the Board office closest to the appellant's home. In some cases, video conferencing or phone hearings are held.

If an appellant is not satisfied with the Bureau of Hearings and Appeals' decision, he or she may appeal to the three-member Board within 60 days from the date on which notice of the Bureau of Hearings and Appeals' decision is mailed. The three-member Board will base its decision on the evidence before the hearings officer and

ordinarily will not accept additional evidence or conduct a hearing. An appellant who is not satisfied with the Board's final decision may apply for a review of the case by a U.S. Circuit Court of Appeals. The petition for review must be filed within one year after notice of the three-member Board's decision has been mailed to the appellant.

FINANCING OF THE RAILROAD RETIREMENT SYSTEM

Railroad retirement and survivor benefits are financed by the following sources of income:

1. Payroll taxes on railroad earnings paid by covered employees and employers.
2. Investments. Funds not needed immediately for benefit payments or administrative expenses are transferred to the National Railroad Retirement Investment Trust for investment as explained on pages 42-43.
3. Income from a financial interchange with the social security trust funds.
4. Borrowing from general revenues related to certain features of the financial interchange mentioned in (3).
5. Revenues from Federal income taxes on railroad retirement benefits.
6. Appropriations from general revenues.

Each of these income sources is described briefly on the following pages.

PAYROLL TAXES

Payroll taxes levied on covered employers and their employees are the primary source of income to the railroad retirement system.

The tax rate equivalent to that which would be paid under social security is commonly called the tier I tax. The tier I tax rate of 7.65 percent is divided into 6.20 percent for railroad retirement and 1.45 percent for Medicare hospital insurance. Payroll taxes in excess of the tier I rate are called tier II taxes. In 2006, tier II taxes are 12.60 percent on employers and employee representatives and 4.40 percent on employees.

The Railroad Retirement and Survivors' Improvement Act of 2001 significantly revised the financing of the railroad retirement system through provisions for the investment of railroad retirement funds in nongovernmental assets, adjustments in the payroll tax rates paid by employers and employees, and the repeal of a supplemental annuity work-hour tax. Supplemental annuities continue to be payable and are funded by the National Railroad Retirement Investment Trust.

Tier II taxes on both employers and employees are based on an "average account benefits ratio." Depending on the average account benefits ratio, the tier II tax rate for employers will range between 8.20 percent and 22.10 percent, while the tier II tax rate for employees ranges between 0 percent and 4.90 percent.

The “account benefits ratio” is, with respect to any fiscal year, the amount determined by the Railroad Retirement Board by dividing the fair market value of the assets in the Railroad Retirement Account and the National Railroad Retirement Investment Trust (and for years before 2002, the Social Security Equivalent Benefit Account) as of the close of such fiscal year by the total benefits and administrative expenses paid from the Railroad Retirement Account and the National Railroad Retirement Investment Trust during such fiscal year. If the ratio is not an exact multiple of 0.1, it is raised to the next highest multiple of 0.1.

Likewise, the term “average account benefits ratio” means, with respect to any calendar year, the average determined by the Secretary of the Treasury of the account benefits ratios for the 10 most recent fiscal years ending before such calendar year.

Tier I taxes are ultimately transferred to the social security and hospital insurance trust funds through the financial interchange. The tier II tax is used to finance tier II benefits, supplemental annuity benefits, and also the portion of tier I benefits not reimbursed through the financial interchange.

Earnings Base

The taxable amounts of an employee’s earnings are subject to tier I and tier II maximums, which are both indexed to annual increases in national wage levels. The tier I maximum is the same as the social security wage base and is higher than the tier II base as a result of 1977 social security amendments, which provided for a series of yearly increases in the social security tax base that effected corresponding increases in the railroad retirement tier I tax base.

INVESTMENTS

The National Railroad Retirement

Investment Trust was established by the Railroad Retirement and Survivors’ Improvement Act of 2001. The Trust, a tax-exempt entity independent from the Federal Government, became effective February 1, 2002.

The sole purpose of the Trust is to manage and invest railroad retirement assets. The Railroad Retirement and Survivors’ Improvement Act authorizes the Trust to invest the assets of the Railroad Retirement Account in a diversified investment portfolio in the same manner as those of private sector retirement plans. Prior to the Act, investment of Railroad Retirement Account assets was limited to U.S. Government securities. For the fiscal year ended September 30, 2005, the investment portfolio managed by the National Railroad Retirement Investment Trust achieved a 14 percent rate of return.

The Board of Trustees is comprised of seven individuals, three selected by railroad labor unions and three by railroad companies. The seventh is an independent Trustee selected by the other six Trustees. The terms are for 3 years and are staggered.

The Trustees are required to discharge their duties solely in the interest of the Railroad Retirement Board, and through it, the participants and beneficiaries of the programs funded under the Railroad Retirement Act. The Trustees are subject to fiduciary rules similar to those required by the Employee Retirement Income Security Act (ERISA).

The financial statements of the Trust are required to be audited annually by an independent public accountant. In addition, the Trust must submit an annual report to Congress on its operations, including a statement of financial position, a statement of cash flows, a statement on internal accounting and administrative control systems, the independent auditor’s report, and any other

information necessary to inform Congress about the operations and financial condition of the Trust. All National Railroad Retirement Investment Trust annual management reports and quarterly updates are available on the Railroad Retirement Board's Web site www.rrb.gov.

FINANCIAL INTERCHANGE

Purpose and History of Financial Interchange

The financial interchange between the railroad retirement and social security systems is intended to put the Social Security Old-Age, Survivors, and Disability Insurance (OASDI) and Hospital Insurance (HI) trust funds in the same position they would have been had railroad employment been covered under the Social Security and Federal Insurance Contributions Acts. It follows that all computations under the financial interchange are performed according to social security law. The amount of benefits payable under the Railroad Retirement Act has no effect on the results.

The financial interchange provision was introduced by the 1951 amendments to the Railroad Retirement Act and was made retroactive to January 1, 1937. The initial determination covered the period from January 1937 through June 1952 and indicated a balance of \$488.2 million in favor of the social security system. Only interest was paid on that amount until the debt was liquidated by subsequent offsets in favor of the railroad retirement system. Since the liquidation of the original balance, annual transfers reflecting the experience of the preceding fiscal year have always favored railroad retirement.

The experience under the financial interchange proved to be more favorable to the railroad retirement system than was origi-

nally anticipated. There were two primary causes for this. The first was a series of successive amendments to the Social Security Act which raised benefits immediately while tax increases were deferred. The second factor was the decline in railroad employment, which reduced the taxes payable to social security but had little immediate effect on the benefit reimbursements.

Financial Interchange Determinations

Placing the social security trust funds in the same position they would have been had railroad employment been covered under social security since its inception involves computing the amount of social security payroll and income taxes relating to railroad employment and computing the amount of additional benefits which social security would have paid to railroad retirement beneficiaries during the same fiscal year. In the computation of the latter amount, credit is given for any social security benefits actually paid to railroad retirement beneficiaries. When benefit reimbursements exceed payroll and income taxes, the difference, with an allowance for interest and administrative expenses, is transferred from the social security trust funds to the railroad retirement trust funds. If taxes exceed benefit reimbursements (this has not happened since 1951), a transfer would be made in favor of the social security trust funds.

BORROWING FROM GENERAL REVENUES RELATED TO THE FINANCIAL INTERCHANGE

Financial interchange transfers are made in a lump sum for a whole fiscal year in the June following the close of a fiscal year. At any time, therefore, there are between 9 and 21 months' worth of financial interchange transfers which, in a sense, are owed the Board. The Board receives interest on

this money, so this practice does no long-term harm to the financial condition of the railroad retirement trust funds. The lag in the transfers, however, periodically caused short-term cash-flow problems in past years.

In order to avoid any further cash-flow problems from this lag, the 1983 Solvency Act provided for monthly loans from U.S. Treasury general funds. Each loan is equal to an estimate of the transfer the Board would have received in the preceding month if the financial interchange with social security were on an up-to-date basis, with interest adjustments. The Board must repay these loans when it receives the transfer from social security against which the money was advanced.

INCOME TAXES ON RAILROAD RETIREMENT BENEFITS

Social security amendments in 1983 subjected railroad retirement tier I benefits to Federal income taxes on the same basis as social security benefits, and subsequent railroad retirement legislation subjected benefits over and above social security levels to Federal income tax on the same basis as private and public service pensions, beginning with taxable year 1984. Revenues from income taxes on tier I, tier II and vested dual benefits are used for benefit payments.

APPROPRIATIONS FROM GENERAL REVENUES

Prior to the Railroad Retirement Act of 1974, concurrent social security benefits (dual benefits) payable to railroad retirement annuitants had a significant effect on the amount of the financial interchange. Consider the example of two hypothetical employees shown on the next page.

The size of the benefits is appropriate to the early 1970's. The employees are assumed to have identical dates of birth,

dates of retirement, and histories of railroad earnings. One employee, however, is assumed to have had just enough covered employment under social security to qualify for a social security benefit. (The difference in railroad retirement benefits arises from minor reductions in the 1937 Act formula for receipt of a social security benefit.)

Two conclusions are apparent. First, the employee with benefits under both systems received an advantage over the career railroad worker, which many considered unfair. In the example, the employee who is eligible for social security collects \$80 more than the employee who is not eligible (the difference in line C); while, under a completely integrated system, the social security earnings would have added only \$20 (the difference in line D). Second, because social security subtracted the social security benefit in calculating the financial interchange transfer, railroad retirement paid most of the cost of these benefits. In the example on the next page, this is represented by the \$60 difference in line F.

This situation was a major cause of the poor financial condition of the railroad retirement system in the early 1970's. In order to improve the system's financial condition, the Railroad Retirement Act of 1974 provided that the tier I component of the railroad retirement annuity be reduced by any social security benefit. This essentially integrated the two systems and eliminated the advantage of qualifying for benefits under both systems.

However, it was generally considered unfair to eliminate this advantage entirely for those already retired or close to retirement when the 1974 Act became effective. The 1974 Act, therefore, provided for a restoration of social security benefits which were considered vested at the end of 1974. The restored amount is known as the "vested dual benefit." This benefit was initially available to qualifying spouses and survivors

Table 5.--Example of Effects of Dual Benefits on Financial Interchange

Item	Employee eligible for social security	Employee not eligible for social security
(A) Railroad retirement benefit	\$380	\$400
(B) Social security benefit	100	-
(C) Total benefit, A + B	480	400
(D) Social security benefit on combined earnings (gross tier I)	240	220
(E) Financial interchange transfer from social security to railroad retirement, D - B	140	220
(F) Amount to be financed by excess of railroad retirement taxes over social security taxes, A - E	240	180

as well as to qualifying employees. The vested dual benefit was explained in the previous chapter on benefit provisions. Eventually, after a period of several decades, the vested dual benefit will be entirely phased out.

Under the 1974 Act, appropriations had been authorized from general revenues for the phase-out costs of vested dual benefits. The amounts were to be sufficient to fund (on a level payment basis over the years 1976-2000) the vested dual benefit for new accruals and for beneficiaries on the rolls. The yearly amount was to be reviewed every three years at the time of each actuarial valuation.

The costs of these vested dual benefit payments, which were intended to be funded solely from general revenues, were substantially more than the amount estimated at the time the 1974 Act was passed, and substantially more than the funds that were appropriated between 1974 and 1981. To stop the resulting drain on the Railroad Retirement

Account, the 1981 amendments established a Dual Benefits Payments Account. This account is credited with the general revenue appropriations, and it is charged with vested dual benefit payments. The Board is required to adjust vested dual benefit payments from this account so that the amounts paid to annuitants do not exceed the amounts appropriated.

FINANCIAL POSITION OF THE RAILROAD RETIREMENT SYSTEM

The financial condition of the railroad retirement system is closely related to the size of the railroad work force. This is because, as mentioned previously, the payroll taxes on covered employers and their employees are the primary source of income to the system. Clearly, a large labor force will generate more revenue for the system than a small labor force. Railroad employment has declined steeply over the years and the drop in employment necessitated the strong cor-

rective action taken in the 1981 and 1983 amendments. In the absence of these amendments, substantial reductions in payments would have been required.

The omnibus budget legislation enacted December 22, 1987, increased railroad retirement payroll tax rates in January 1988 by a total of 2 percent, and it provided for revenues from Federal income taxes on certain railroad retirement benefits to be transferred to the railroad retirement system for an additional year, fiscal year 1989. Subsequent legislation extended these income tax transfers on a permanent basis.

Legislation in 2001 provided for the investment of railroad retirement funds in non-governmental assets, adjustments in the payroll tax rates paid by employers and employees, and the repeal of a supplemental annuity work-hour tax.

The Board's 2005 railroad retirement financial report to Congress, which addressed the 25-year period 2005-2029, contained gen-

erally favorable information concerning railroad retirement financing. It concluded that, barring a sudden, unanticipated, large decrease in railroad employment or substantial investment losses, the railroad retirement system will experience no cash-flow problems during the next 25 years. However, the 2005 report also indicated that the long-term stability of the system is still questionable. Under its current financing structure, actual levels of railroad employment and investment return over the coming years will largely determine whether corrective action is necessary. No railroad retirement financing changes were recommended by the Board.

As of September 30, 2005, total railroad retirement system assets, comprising assets managed by the National Railroad Retirement Investment Trust and the railroad retirement system accounts at the Treasury, equaled approximately \$29 billion.

HEALTH INSURANCE FOR THE AGED AND DISABLED

Amendments to the Social Security Act enacted in 1965 established a broad program of health insurance, known popularly as “Medicare,” for people age 65 or older, including railroad workers and members of their families. Part A provides hospital insurance and related benefits financed through payroll taxes. Part B provides medical insurance benefits on a voluntary basis, with the cost shared by the participants and the Federal Government. Both parts of the program have been modified and liberalized several times since 1967, principally in the 1973 extension of coverage to persons under age 65 who are totally disabled or have permanent kidney failure. In 2003, legislation was enacted which provided prescription drug coverage for Medicare beneficiaries beginning in 2006, among other changes.

Persons covered by the railroad retirement system participate in the health insurance program on the same basis as those under the social security system. Amendments to the railroad retirement laws in 1965 and to the social security laws in 1972 gave the Railroad Retirement Board an important role in the administration of the health insurance program and made possible the collection of hospital insurance taxes on

the same basis as retirement taxes under the Railroad Retirement Tax Act. The 1965 amendments also empowered the Board to make payments from the Railroad Retirement Account for hospital insurance services provided anywhere in Canada to persons receiving or qualified to receive railroad retirement benefits. Such payments apply only to the charges in excess of the amounts payable for hospital and related services under Canadian public health insurance laws.

Social security legislation in 1972 gave the Board direct legislative authority to collect Medicare premiums from railroad retirement beneficiaries and to select a carrier to process medical insurance claims for all railroad retirement beneficiaries. Previously, authority in these areas had been delegated to the Board by the Social Security Administration.

ELIGIBILITY

All railroad retirement beneficiaries age 65 or over and other persons who are directly or potentially eligible for railroad retirement benefits are covered by the program. Although the age requirements for some unreduced railroad retirement benefits are rising just like the social security requirements,

beneficiaries are still eligible for Medicare at age 65. Coverage before age 65 is available for disabled employee annuitants who have been entitled to monthly benefits based on total disability for at least 24 months. There is no 24-month waiting period for those who have ALS (Amyotrophic Lateral Sclerosis), also known as Lou Gehrig's disease. If entitled to monthly benefits based on an occupational disability, and the individual has been granted a disability freeze, he or she is eligible for Medicare hospital insurance 29 months after the freeze date. If receiving benefits due to occupational disability and the person has not been granted a disability freeze, he or she is generally eligible for Medicare hospital insurance at age 65. The standards for a freeze determination follow social security law and are comparable to the medical criteria for granting total disability. Disabled widow(er)s under 65, disabled surviving divorced spouses under 65, and disabled children may also be eligible.

Medicare coverage before age 65 on the basis of permanent kidney failure is also available to employee annuitants, employees who have not retired but meet certain minimum service requirements, spouses, and dependent children who suffer from permanent kidney failure requiring hemodialysis or a kidney transplant. The Social Security Administration has jurisdiction of Medicare for those eligible on the basis of permanent kidney failure.

PART A AND PART B ENROLLMENT

If a retired employee or a family member is receiving a railroad retirement annuity, enrollment for both hospital and medical insurance is generally automatic and coverage begins when the person reaches age 65. Even though enrollment is automatic, an

individual may decline medical insurance, if so desired; this does not preclude him or her from applying for medical insurance at a later date. Premiums may be higher if enrollment is delayed.

If an individual is eligible for but not receiving an annuity, he or she should contact the nearest Board office before attaining age 65 and apply for both hospital and medical insurance. (This does not mean that the individual must retire if presently working.) The best time to apply is during the 3 months before the month in which the individual reaches age 65. He or she will then have both hospital and medical protection beginning with the month age 65 is reached. If the individual does not enroll for medical insurance in the 3 months before attaining age 65, he or she can enroll in the month age 65 is reached or during the next 3 months, but there will be a delay of 1 to 3 months before medical insurance is effective. Individuals who do not enroll during this Initial Enrollment Period may sign up in any General Enrollment Period (January 1 - March 31 each year). Coverage for such individuals begins July 1 of the year of enrollment.

Premiums for medical insurance are increased 10 percent for each 12-month period the individual could have been, but was not, enrolled. However, individuals age 65 or older who wait to enroll in Part B because they have group health plan coverage based on their own or their spouse's current employment may not have to pay higher premiums because they may be eligible for special enrollment periods. The same special enrollment period rules apply to disabled individuals, except that the group health insurance may be based on the current employment of the individual, his or her spouse, or a family member.

Individuals deciding when to enroll in Medicare Part B must consider how this will affect eligibility for health insurance policies which supplement Medicare coverage. These include “Medigap” insurance and prescription drug coverage and are explained later in this chapter.

For information on enrollment before age 65 on the basis of disability, potential applicants should contact the nearest Board office. For information on coverage for kidney disease, a Social Security office should be contacted.

EXPLANATION OF HOSPITAL INSURANCE BENEFITS (Part A of Medicare)

The hospital insurance program is designed to help pay the bills when an insured person is hospitalized. The program also provides payments for required professional services in a skilled nursing facility (but not for custodial care) following a hospital stay, home health services, and hospice care.

Benefits under this program cover medically necessary care in hospitals and skilled nursing facilities, home health visits and hospice care. Coverage also includes blood, after the first three pints, when the person is an inpatient at a hospital or skilled nursing facility during a covered stay.

There is a limit on how many days of hospital or skilled nursing care Medicare helps pay for in each “benefit period.” A benefit period begins the day a patient goes to a hospital or skilled nursing facility. It ends after a person has not received any hospital or skilled nursing care for 60 days in a row. There is no limit to the number of benefit periods a person can have.

Benefits are ordinarily paid only for services received in the United States or Canada.

Hospital insurance also covers hospital stays in Mexico under very limited conditions.

What Medicare Part A Covers

1. If a patient is hospitalized, Medicare will pay for all covered hospital services during the first 60 days of a benefit period except for a deductible. From the 61st through the 90th day, Medicare hospital insurance pays for all covered services except for a coinsurance charge. A lifetime reserve of 60 days may be used if a patient is in the hospital for more than 90 days in a benefit period; the patient pays a coinsurance charge for these additional days. Covered hospital services include almost all those ordinarily furnished by a hospital to its patients. (More information on specific services is available by calling 800-MEDICARE (800-633-4227) or by looking at www.medicare.gov and selecting “Find Out What Medicare Covers.”) However, payments will not be made for private-duty nursing or personal comfort items. Inpatient psychiatric hospital services are covered, but there is a lifetime limitation of 190 days.

2. Under certain conditions, the cost of skilled nursing care in a facility approved by Medicare for services of a professional level (not custodial care) is covered for the first 20 days in each benefit period plus up to 80 additional days with the patient paying a coinsurance charge for the 21st through the 100th day. These benefits are payable only if the patient was in a hospital for at least 3 days in a row, not counting the day of discharge, before transferring to a skilled nursing facility.

3. Under certain conditions, Medicare pays the cost of medically necessary home health care. This is limited to reasonable and necessary part-time or intermittent skilled nursing care and home health aide

services as well as physical therapy, occupational therapy, and speech-language therapy which are ordered by a doctor. It also includes medical social services, durable medical equipment (such as wheelchairs, hospital beds, oxygen, and walkers), medical supplies, and other services.

4. Hospice care is a service provided to terminally-ill persons. It includes drugs for symptom control and pain relief, medical and support services from a Medicare-approved hospice, and other services not otherwise covered by Medicare.

Financing

Railroad employers and employees each pay hospital insurance taxes with their railroad retirement taxes. The hospital insurance tax on each is 1.45 percent on all earnings.

EXPLANATION OF MEDICAL INSURANCE BENEFITS

(Part B of Medicare)

The medical insurance program is designed to help pay the bills for doctors' services and for a number of other medical costs not covered by the hospital insurance program.

The medical insurance program is voluntary, but eligible persons who wish to participate pay a monthly premium. For persons who are receiving railroad retirement benefits (including those also in receipt of social security benefits), the monthly premium is deducted from their railroad retirement checks; others make payments or, in some cases, have their premiums paid under a State assistance program.

The medical insurance plan covers physicians' services, outpatient medical and surgical services, and many other medical and health services in and out of medical institutions.

There is an annual deductible for Part B services. After the deductible is paid, Medicare will generally pay 80 percent of the approved charges for covered services during the rest of the year; the beneficiary is responsible for paying the remaining 20 percent of the cost.

Medicare provides basic protection against the high cost of illness, but it will not pay all health care expenses. Some of the services and supplies Medicare cannot pay for are custodial care, such as help with bathing, eating, and taking medicine; dentures and routine dental care; most eyeglasses, hearing aids and routine examinations to prescribe or fit them, and long-term care (nursing homes).

What Medicare Part B Covers

Medical and Other Services

Doctors' services (not routine physical exams), outpatient medical and surgical services and supplies, diagnostic tests, ambulatory surgery center facility fees for approved procedures, and durable medical equipment are usually covered.

Clinical Laboratory Services

Blood tests, urinalysis, and some screening tests can be covered.

Home Health Care

This is limited to reasonable and necessary part-time or intermittent skilled nursing care and home health aide services as well as physical therapy, occupational therapy, and speech-language therapy ordered by a doctor, and some other services.

Outpatient Hospital Services

This includes hospital services and supplies received as an outpatient as part of a doctor's care.

Blood

Part B helps pay for blood as an outpatient or as part of a Part B covered service.

Preventive Services

These include bone mass measurements, cardiovascular screening, colorectal cancer screening, diabetes services, glaucoma testing, screening mammograms, Pap test and pelvic examination, prostate cancer screening, and shots (Flu, Pneumococcal and Hepatitis B) and a one-time “Welcome to Medicare” physical examination.

Many other services are covered. More information on specific services is available by calling 800-MEDICARE (800-633-4227) or by looking at www.medicare.gov and selecting “Find Out What Medicare Covers.”

Medical insurance generally does not pay for services outside the United States. There are rare emergency cases where medical insurance can pay for care in Canada or Mexico.

Financing

Part B medical insurance is paid for in part by premiums from persons who enroll in the program. Some individuals also pay premium surcharges because they enrolled late for Part B. Beginning in 2007, the premium will increase for individuals with annual incomes of more than \$80,000, and for couples with annual incomes of more than \$160,000.

MEDICARE PLAN CHOICES

Medicare beneficiaries have choices for receiving health care services. The Original Medicare Plan is the traditional fee-for-service Medicare plan that is available nationwide. A beneficiary can see any doctor or provider who accepts Medicare and is accepting new Medicare patients. Or a bene-

ficiary can choose a Medicare Advantage Plan. In limited instances, other Medicare Health Plans may be available. To find out which plans are available in an area, look at www.medicare.gov on the Web and select “Search Tools” at the top of the page and then “Compare Health Plan Options in Your Area.” Or, call 800-MEDICARE (800-633-4227).

A beneficiary must have both Medicare Part A and Part B to join a Medicare Advantage Plan, and the individual must live in the plan’s service area. Under Medicare Advantage, a beneficiary may pay lower copayments and receive extra benefits.

Original Medicare Plan

Under the Original Medicare Plan, patients visit the hospital, doctor, or health care provider of their choice who accepts Medicare patients. Medicare pays a set percentage of the expenses, and patients are responsible for certain deductible and coinsurance payments.

Persons enrolled in the Original Medicare Plan who want prescription drug coverage must join a Medicare Prescription Drug Plan as described on the next page, unless they already have drug coverage from a current or former employer or union that is at least as good as the standard Medicare prescription drug coverage.

When a patient receives hospital insurance benefits, he or she is billed by the hospital only for the deductible amount, any coinsurance amount and any noncovered services. The remainder of the bill from the hospital, as well as bills for services in skilled nursing facilities or home health visits, is sent to the intermediary selected to serve the area.

Claims for medical insurance benefits filed on behalf of railroad retirement benefi-

carriers in the Original Medicare Plan are generally handled by the Board's carrier on a nationwide basis:

**Palmetto GBA
Railroad Medicare Part B Office
P.O. Box 10066
Augusta, GA 30999-0001
800-833-4455**

Medigap

Many private insurance companies sell insurance to help pay for services not covered by Medicare. This kind of insurance is called "Medigap" for short. Policies may cover deductibles, coinsurance, copayments, health care outside the United States and more. Generally, individuals need Medicare Part A and Part B to enroll. A monthly premium is charged.

When someone first enrolls in Medicare Part B at age 65 or older, he or she has a 6-month "Medigap open enrollment period." During that time, the individual has a right to buy the Medigap policy of his or her choice regardless of any health problems. The company cannot refuse a policy or charge the individual more than all other open enrollment applicants. If an individual does not buy a policy when first eligible, the cost may go up or the desired policy may not be available.

More detailed information about Medigap policies is available in the publication *Choosing a Medigap Policy: A Guide to Health Insurance for People with Medicare*, available by calling the Medicare toll-free number 800-633-4227 or going to www.medicare.gov on the Internet and clicking on "Find a Medicare Publication."

Medicare Advantage Plans

Medicare Advantage Plans are available in most areas of the country. A beneficiary must have both Medicare Part A and Part B

to join a Medicare Advantage Plan, and the individual must live in the plan's service area. In 2006, Medicare Advantage Plan choices include regional preferred provider organizations (PPOs), health maintenance organizations (HMOs), private fee-for-service plans and others. A PPO is a plan under which a beneficiary uses doctors, hospitals, and providers belonging to a network; beneficiaries can use doctors, hospitals, and providers outside the network for an additional cost. Under Medicare Advantage, a beneficiary may pay lower copayments and receive extra benefits. Most plans include prescription drug coverage.

For those in a Medicare Advantage Plan, information on out-of-pocket costs is available by calling 800-MEDICARE (800-633-4227) or by going to www.medicare.gov, selecting "Search Tools" and then "Compare Health Plan Options in Your Area."

PRESCRIPTION DRUG COVERAGE

The 2003 Medicare legislation provided a prescription drug benefit for Medicare beneficiaries beginning in 2006. Medicare is contracting with private companies to offer this drug coverage. These companies offer a variety of options, with different covered prescriptions, and different costs. Beneficiaries pay a monthly premium, a yearly deductible and part of the cost of prescriptions. Those with limited income and resources may qualify for help in paying some prescription drug costs.

Medicare prescription drug plans are voluntary. To enroll, individuals must have Medicare Part A and/or Part B. Beneficiaries can first join starting November 15, 2005, through May 15, 2006, or until 3 months after the month their Medicare coverage starts, whichever is later. There may be a higher premium if an individual doesn't join

a Medicare drug plan when first eligible. In most cases, there is no automatic enrollment to get a Medicare prescription drug plan. Individuals enrolled in Medicare Advantage Plans will generally get their prescription drug coverage through their Plan.

More information about Medicare prescription drug plans is available in the publication *Your Guide to Medicare Prescription Drug Coverage*. The *Medicare and You* handbook lists the Medicare prescription drug plans available in a beneficiary's area. Free personalized information is available on the Web or by calling the Medicare toll-free number. Free personalized counseling is also available from the local State Health Insurance Assistance Program (SHIP) and other local and community-based organizations.

APPEALS

If a patient disagrees with a decision on the amount Medicare will pay on a claim or whether services received are covered by Medicare, he or she has the right to appeal the decision. Under the Original Medicare Plan, the notice received from Medicare stating the decision made on a claim tells a

patient what appeal steps can be taken. This information is also in Medicare Advantage Plan materials.

ADVANCE DIRECTIVES

Individuals have the right to make a health care "advance directive." This directive contains written instructions stating the person's choices for health care or names someone to make those choices. The instructions are to be used if the person is unable to make his or her own health care decisions. Laws governing advance directives vary from State to State.

OTHER MEDICARE PUBLICATIONS

A handbook, *Medicare & You*, is mailed to Medicare beneficiary households each fall by the Centers for Medicare & Medicaid Services. It describes the Medicare benefits, costs and health service options available.

Medicare for Railroad Workers and Their Families (Form RB-20) provides general information on Medicare and is available at any Board field office. It is also available on the Board's Web site www.rrb.gov.

Help Lines/Web Sites

Medicare Toll-Free Number and Web Site

800-MEDICARE (800-633-4227)

TTY/877-486-2048

www.medicare.gov

Palmetto GBA Toll-Free Number and Web Site

800-833-4455

TTY/TDD 877-566-3572

www.palmettogba.com

DEVELOPMENT OF THE RAILROAD UNEMPLOYMENT INSURANCE SYSTEM

The railroad unemployment insurance system, like the railroad retirement system, was established in the 1930's. The Great Depression demonstrated the need for unemployment compensation programs, and State unemployment programs had been established under the Social Security Act in 1935. While the State unemployment programs generally covered railroad workers, railroad operations which crossed State lines caused special problems. Unemployed railroad workers were denied compensation by one State because they became unemployed while working in another State or because their employers had paid unemployment taxes in another State. Although there were cases where employees appeared to be covered in more than one State, they often did not qualify in any.

RAILROAD UNEMPLOYMENT INSURANCE ACT OF 1938

A Federal study commission, which reported on the nationwide State plans for unemployment insurance, recommended that railroad workers be covered by a separate plan because of the complications their coverage had caused the State plans. Congress subsequently enacted the Railroad

Unemployment Insurance Act in June 1938. The Act established a system of benefits for unemployed railroaders, financed entirely by railroad employers and administered by the Board. Sickness benefits were added in 1946.

The Act of 1938 established a system of benefits for unemployed railroad workers, plus a free placement service, to be financed by a payroll tax of 3 percent, payable entirely by employers. After some minor changes in the following year, the law went into operation on July 1, 1939.

Benefits were payable to qualified railroad employees according to a scale of daily rates geared to base-year earnings. Initially, the daily rates ranged from \$1.75 to \$3 and were payable for a maximum of 80 days in each benefit year, after an initial waiting period. In 1940, the maximum daily rate was raised to \$4 and the maximum duration to 100 days in 20 weeks; the waiting period was reduced from 15 days to 7 days and a uniform benefit year was established.

MAJOR AMENDMENTS TO THE RAILROAD UNEMPLOYMENT INSURANCE ACT

The first set of major amendments was enacted in 1946. The maximum duration

was increased to 26 weeks and the maximum daily benefit rate to \$5. The most important feature of these amendments was the program of cash sickness benefits (including maternity benefits) for railroad workers, paralleling unemployment benefits and financed from the same taxes. At that time, only two States, Rhode Island and California, had sickness plans. Three additional States (New Jersey, New York and Hawaii) and Puerto Rico later adopted similar plans.

As a result of the very low rate of unemployment and relatively high payrolls during the war years, the balance in the Railroad Unemployment Insurance Account mounted rapidly. Consequently, in 1948 the principle of a fixed contribution rate was abandoned and a sliding scale of contribution rates substituted. The rates were to range from 0.5 percent to 3 percent of taxable payroll, depending on the current balance in the Railroad Unemployment Insurance Account.

1950's.—Amendments enacted in 1952 and 1954 raised the maximum daily benefit rate to \$7.50 and then to \$8.50, the base year earnings needed by an employee to qualify for benefits to \$300 and then to \$400, and the taxable limit on monthly earnings from \$300 to \$350. The amendments also provided that the benefit rate, subject to the maximum amount, should not be less than half the claimant's daily wage rate. In addition, normal benefits for unemployment or sickness in a benefit year were each limited in total to the employee's creditable base year earnings.

Legislation in 1959 increased the maximum daily benefit rate to \$10.20, raised the benefit rate guaranty to 60 percent of the daily wage rate, and provided extended unemployment benefits for 13 weeks to employees with at least 10 years of service and 26 weeks of extended benefits to 15-year employees. These amendments also raised

the base year qualifying amounts from \$400 to \$500, and the limit on creditable and taxable earnings from \$350 to \$400 a month. They removed the waiting period for unemployment benefits and the Sunday and holiday disqualification provision, and increased the maximum contribution rate to 3.75 percent. In addition, the Board received authority to borrow money from the Railroad Retirement Account when necessary in order to pay benefits when due. Such loans were to bear the same interest rate as was being earned by other investments of the Railroad Retirement Account. After the borrowing authority was first used in July 1959, additional sums were subsequently borrowed in succeeding years as required. Payments on the debts to the Railroad Retirement Account were made whenever excess unemployment funds were available.

1960's.—Amendments enacted in 1963 were designed to improve the financing of the system. The maximum contribution rate was increased to 4 percent, and the amount of base-year earnings needed by an employee to qualify for benefits was raised from \$500 to \$750. Also, a minimum base-year service requirement of 7 months was added for employees having no previous railroad service, and the disqualification for quitting work voluntarily without good cause was made more stringent. Following these amendments, indebtedness to the Railroad Retirement Account gradually declined from a then peak level of nearly \$330 million and was liquidated in September 1973.

In 1968, legislation increased the maximum daily benefit rate to \$12.70 and provided extended benefits for sickness on essentially the same basis as for unemployment, except that these extended sickness benefits could not be paid to employees age 65 or older. These amendments also raised the base-year qualifying amount to \$1,000, elimi-

nated the special maternity benefit provisions (benefits were still payable for pregnancy and childbirth under the sickness benefit provisions), and added a disqualification for employees who receive separation allowances.

1970's.—Amendments in 1975 increased the maximum daily benefit rate to \$24 beginning on July 1, 1975, and to \$25 starting on July 1, 1976. The 60 percent daily benefit rate guaranty was retained in the amended law up to the amount of the new daily maximum, and a new daily minimum rate of \$12.70 was established. The amendments liberalized the basic eligibility requirements for new employees by lowering the 7-month base-year service requirement to 5 months. In addition, the 1975 amendments mandated a 7-day waiting period for benefit payments resulting from strikes. The tax rate schedule was increased, starting in 1976, from a maximum of 4 percent to a maximum of 8 percent, depending on the balance in the account, in order to finance the increased benefits. This legislation also lowered the waiting period for sickness benefits.

The 1975 legislation also provided extended unemployment benefit periods of up to 13 weeks for employees with less than 10 years of service during “periods of high unemployment.” Under the pre-existing law, extended benefits were payable only to employees with 10 or more years of service. However, subsequent 1981 legislation repealing the “high unemployment” extended benefit provisions in the State unemployment programs nullified the related railroad unemployment insurance provisions, and the Board was required to cease awarding extended benefits to employees with less than 10 years of service.

The Revenue Act of 1978 made unemployment benefits and sickness benefits paid in lieu of unemployment benefits subject to Federal income tax.

1980's.—Amendments enacted in 1981 subjected the first six months of sickness benefits to tier I railroad retirement taxes, provided the benefits did not result from on-the-job injury. Legislation enacted in March 1983 provided unemployed railroad workers with less than 10 years of service, who exhausted normal railroad unemployment benefits, up to 10 weeks of temporary supplemental extended unemployment benefits, but these temporary benefits were financed from Federal general revenue funds.

After 1973, the Railroad Unemployment Insurance Account balance fluctuated into and out of the red until the early 1980's when the continuing recession in the national economy depressed rail traffic levels to the extent that large-scale layoffs were underway by early 1982. The layoffs increased unemployment benefit payments to record levels which far exceeded unemployment tax income and necessitated high levels of loans from the Railroad Retirement Account. The Railroad Unemployment Insurance Account owed the Railroad Retirement Account a peak amount of over \$850 million at the end of fiscal year 1986. Financial measures to assist the Railroad Unemployment Insurance Account were included in the Railroad Retirement Solvency Act enacted August 12, 1983.

The Solvency Act raised the taxable limit on monthly earnings from \$400 to \$600 and the base-year qualifying amount from \$1,000 to \$1,500. The waiting period for benefits during strikes was increased from 7 to 14 days. A temporary repayment tax on railroad employers was scheduled to begin July 1, 1986, to initiate repayment of the loans made by the Railroad Retirement Account. Sickness benefits, other than those resulting from on-the-job injuries, were made subject to Federal income tax.

The 1983 legislation also mandated the establishment of a Railroad Unemployment Compensation Committee to review the unemployment and sickness benefit programs and submit a report to Congress. The Committee reviewed all aspects of the railroad unemployment insurance system, in particular, repayment of the system's debt to the Railroad Retirement Account, and the viability of transferring railroad unemployment benefit payments to State programs.

The Consolidated Omnibus Budget Reconciliation Act of April 1986 revised the 1983 law which had set a temporary unemployment insurance loan repayment tax beginning July 1, 1986, at a 2 percent rate with increases of 0.3 percent a year until 1990. The amended schedule required rates of 4.3 percent on wages up to \$3,500 beginning July 1986, 4.7 percent in calendar year 1987 on wages up to \$7,000, and 6 percent in 1988. This budget legislation also continued authority for borrowing by the Railroad Unemployment Insurance Account from the Railroad Retirement Account, but provided for an automatic unemployment insurance surtax on rail employers of 3.5 percent on annual wages up to \$7,000 if further borrowing took place.

As a result of the Gramm/Rudman Act, unemployment and sickness benefits were reduced in fiscal year 1986 and were reduced periodically in subsequent years.

The 1986 Tax Reform Act made all unemployment benefits subject to Federal income tax, beginning with taxable year 1987.

1988 LEGISLATION AND LATER AMENDMENTS

The Railroad Unemployment Insurance and Retirement Improvement Act, based on the recommendations of the Railroad Unemployment Compensation Committee,

was included in the Technical and Miscellaneous Revenue Act of 1988, enacted November 10, 1988. The legislation raised the unemployment and sickness daily benefit rate from \$25 to \$30 retroactively to July 1988 and indexed benefit rates and earnings requirements to national wage levels. The daily benefit rate subsequently rose to \$31 in July 1989, \$33 in July 1992, and \$36 in July 1994. (Legislation enacted in 1996 raised the rate to \$42 effective October 9, 1996, \$43 in July 1997, \$44 in July 1998, \$46 in July 1999, \$48 in July 2000, \$50 in July 2001, \$52 in July 2002, \$55 in July 2003 and \$56 in July 2004. It remained \$56 in July 2005 and will increase to \$57 in July 2006 and \$59 in July 2007.) A 2-week waiting period was established and employers were provided the right to appeal claims of their employees after 1989. Also, the amount of subsidiary remuneration from part-time work which unemployment benefit claimants can earn without affecting their benefits was increased from \$10 to \$15 a day.

Under the indexing provisions of the 1988 amendments, the taxable earnings base in calendar year 1989 increased from \$600 to the first \$710 of each employee's monthly earnings, and by 2006 to \$1,195. For 1989 and 1990, the contribution rate for most employers was set at 8 percent. Experience-based tax rates were phased in during 1991, with rates ranging from 5.55 percent to 12 percent.

The 1988 amendments assured repayment of the unemployment system's debt to the retirement system by fixing the loan repayment tax at 4 percent in January 1989, with that rate remaining in force until the debt was fully repaid with interest. And the previous \$7,000 annual base for this tax was changed to conform to the indexed monthly taxable compensation base. In June 1993 the \$180 million loan balance was repaid in

its entirety from cash reserves in the Railroad Unemployment Insurance Account and the loan repayment tax was terminated.

A contingency surtax of 3.5 percent, effective in the event of further borrowing by the Railroad Unemployment Insurance Account, was eliminated in 1991. Instead, a surcharge can be added to employers' unemployment insurance taxes for a calendar year if the balance in the unemployment insurance account on the previous June 30 goes below \$100 million (as indexed). The 1988 amendments also require the Board to make annual financial reports to Congress on the status of the unemployment insurance system. The reports have been favorable.

The Omnibus Budget Reconciliation Act of 1989 revised Federal indexing procedures, which raised the maximum on monthly compensation subject to railroad unemployment insurance taxes and the qualifying earnings requirement. This legislation also revised fiscal year 1990 unemployment and sickness benefit sequestrations under the Gramm/Rudman Act.

1990's.—Under 1991, 1992 and 1993 emergency unemployment compensation legislation providing temporary extended State unemployment benefits, unemployed railroad workers were made eligible for extended benefits, on a temporary basis, regardless of years of service. These temporary extended benefits were made available for specified periods in 1991, 1992, 1993 and 1994 if previous benefit rights were exhausted by certain dates.

RAILROAD UNEMPLOYMENT INSURANCE AMENDMENTS ACT OF 1996

The Railroad Unemployment Insurance Amendments Act of 1996, signed into law on October 9, 1996, increased the railroad unemployment and sickness insurance daily

benefit rate and revised the formula for indexing future benefit rates. It also reduced the waiting period for initial benefit payments and eliminated duplicate waiting periods in continuing periods of unemployment and sickness. In addition, the Act applied an earnings test to claims for unemployment and reduced the duration of extended benefit periods for long-service employees. The Act's provisions were based on joint recommendations to Congress negotiated by rail labor and management in order to update the railroad unemployment insurance system along the lines of State unemployment insurance systems. The following provisions were effective upon the October 9, 1996, enactment date.

The maximum railroad unemployment and sickness insurance daily benefit rate increased to \$42 from \$36. The formula for indexing future benefit rates was modified so that rates increase more frequently, generally with the start of each new benefit year in July. By July 2004, the rate had risen to \$56; it remained \$56 in July 2005 and will increase to \$57 in July 2006 and \$59 in July 2007.

The Act eliminated the full 2-week waiting period and made benefits payable for each day of unemployment or sickness in excess of 7 during an employee's first 14-day registration period in a benefit year. It also eliminated a second waiting period previously required when a new benefit year began during a continuing period of unemployment or sickness.

An earnings test was made applicable to claims for intermittent unemployment. If an employee's earnings for days worked in a 14-day registration period are more than a certain indexed amount, no benefits are payable for any days of unemployment in that period.

The Act eliminated the second 13-week period of extended benefits for those with 15 or more years of service.

PROVISIONS OF THE RAILROAD UNEMPLOYMENT INSURANCE ACT

BENEFIT PROVISIONS

The Railroad Unemployment Insurance Act provides benefits for qualified railroad employees. The Act is designed to restore part of their wage loss arising from unemployment or sickness (including maternity). Payments are made for days of unemployment or sickness in a benefit year, which begins on July 1, to employees who had sufficient earnings in the preceding calendar year (called the base year) to meet the qualifying conditions.

Qualifications

Qualified employee.—A “qualified employee” is one who earns qualifying creditable compensation in a base year counting no more than a certain amount in any month. In addition, a new employee must have some employment in at least five months of the first year worked in the railroad industry in order to draw benefits in the following benefit year.

General eligibility requirements.—To be eligible for unemployment benefits, a qualified employee must be able to work and be available for work. A “day of unemployment” is a day on which he or she meets these con-

ditions and does not receive any pay, is not disqualified, and has properly registered for unemployment benefits. Any calendar day on which the employee does not work solely because of mileage-limitation or work-restriction agreements or solely because he or she is between regularly assigned trips or tours of duty or because a turn in pool service was missed is not considered a day of unemployment.

To be eligible for sickness benefits, a qualified employee must be unable to work because of illness or injury. A “day of sickness” is a day on which the employee meets these conditions and for which he or she does not receive any pay and has filed a “statement of sickness” providing evidence of the employee’s medical condition and its expected duration signed by the employee’s doctor (or other authorized individual).

Benefits

The maximum daily benefit payable in benefit year 2005-2006 (July 2005 - June 2006) is \$56; and, for biweekly claims, maximum benefits can total \$560. The maximum daily benefit rate increases to \$57 in July 2006 and \$59 in July 2007 and may increase at the beginning of each future benefit year depending on the growth in average national wages.

Sickness benefits payable for the first six months after the employee last worked are subject to tier I railroad retirement payroll taxes, unless benefits are being paid for an on-the-job injury.

Registration and waiting period.—Benefits are normally paid for the number of days of unemployment or sickness over 4 in 14-day registration periods. Initial sickness claims must also begin with 4 consecutive days of sickness. However, during the first 14-day claim period in a benefit year, benefits are only payable for each day of unemployment or sickness in excess of 7 which, in effect, provides a 1-week waiting period. Separate waiting periods are required for unemployment and sickness benefits. However, only one 7-day waiting period is required during any period of continuing unemployment or sickness, even if that period continues into a subsequent benefit year.

Strike benefits.—If someone is unemployed because of a strike conducted in accordance with the Railway Labor Act, benefits are not payable for days of unemployment during the first 14 days of the strike, but benefits are payable during subsequent 14-day periods. If a strike is in violation of the Railway Labor Act, no unemployment benefits are payable to employees participating in the strike; however, employees not among those participating in such an illegal strike, but who are unemployed on account of the strike, may receive benefits after the first two weeks of the strike.

While a benefit year waiting period cannot count toward a strike waiting period, the 14-day strike waiting period may count as the benefit year waiting period if the employee subsequently becomes unemployed for reasons other than a strike later in the benefit year.

Normal benefits.—Normal benefits are paid for up to 130 days (26 weeks) in a benefit year. Benefit rights are exhausted when a

benefit year ends (normally June 30) or earlier if benefit payments equal base year creditable earnings. For purposes of determining maximum normal benefits payable in benefit year 2005-2006, monthly earnings of up to \$1,460 for base year 2004 are counted; this allows employees who qualify with relatively low earnings to be eligible for more days of benefits. In benefit year 2006-2007, monthly earnings of up to \$1,485 for base year 2005 are counted and in benefit year 2007-2008, monthly earnings up to \$1,544 for base year 2006 are counted.

In order to qualify for normal unemployment benefits, the employee must not have voluntarily quit work without good cause and not have voluntarily retired. However, these restrictions do not apply to normal sickness benefits.

Extended benefits.—If an employee has at least 10 years of service and exhausts normal unemployment or sickness benefits, he or she may be eligible to receive extended benefits for up to 65 days (13 consecutive weeks). Also, if the employee is not qualified for normal benefits in the current benefit year, but received normal benefits in the previous year, he or she may still be eligible for extended benefits.

In order to qualify for extended unemployment benefits, the employee must not have voluntarily quit work without good cause and not have voluntarily retired. To qualify for extended sickness benefits, a beneficiary must not have voluntarily retired and must be under age 65.

Accelerated benefits.—Employees with 10 or more years of service whose earnings do not qualify them for unemployment or sickness benefits in the current benefit year, but will qualify them in the next benefit year, may be able to receive normal unemployment or sickness benefits before the regular beginning date of the next benefit year. To be eligible, they must have 14 or more consecutive

days of unemployment or sickness and not have voluntarily retired, or quit work without good cause if claiming unemployment benefits, and be under age 65 when claiming sickness benefits.

Maternity benefits.—Maternity benefits are not payable as such. However, a qualified employee may receive sickness benefits if she is unable to work or if working would be injurious to her health because of pregnancy, miscarriage, or childbirth. Such benefits are paid in the same amounts as any other sickness benefits.

Effects of Work and Earnings

A claimant may not receive benefits for any day for which pay is received. This includes railroad and nonrailroad wages, salary, pay for time lost, pay while sick, dismissal allowances, wage guaranty payments, vacation pay, holiday pay, or remuneration other than subsidiary remuneration. However, payments received under an approved nongovernmental supplemental unemployment or sickness plan, an employee's own health or accident insurance policy or a group insurance policy will not affect entitlement to benefits and should not be reported on claims.

An earnings test is applied to unemployment claims. If a claimant's earnings for days worked, and/or days of vacation, paid leave, or other pay, in a 14-day registration period are more than a certain indexed amount, no benefits are payable for *any* days of unemployment in that period. That registration period, however, can be used to satisfy the waiting period requirement described earlier. Earnings include pay from self-employment and railroad, nonrailroad, and part-time work. Earnings also include pay that would have been earned except for failure to mark up or report for duty on time, or because the employee missed a turn in pool

service or was otherwise not ready or willing to work. For the benefit year that began July 2005, the amount is \$1,130; for the benefit year that begins July 2006, the amount will be \$1,150; and for the benefit year that begins July 2007, the amount will be \$1,195. These amounts correspond to the base year monthly compensation amounts used in determining eligibility for benefits in each year. Also, even if an earnings test applies on the first claim in a benefit year, this will not prevent the first claim from satisfying the waiting period in a benefit year.

On the other hand, earnings of no more than \$15 a day from work which is substantially less than full-time and not inconsistent with the holding of normal full-time employment may be considered subsidiary remuneration and may not prevent payment of any days in a claim. However, a claimant must be sure to report all full and part-time work on each claim, regardless of the amount of earnings, so the Board can determine whether the work affects benefits.

Disqualifications

A claimant for unemployment benefits may be disqualified for 30 days if he or she refuses to accept suitable work or fails to follow instructions to apply for work or to report to a Board office or State unemployment office for an interview.

A claimant who leaves either railroad or nonrailroad work voluntarily without good cause is disqualified, starting with the day he or she leaves work, until he or she has returned to railroad employment and earned wages sufficient to qualify for benefits again. This disqualification also applies to a claimant who leaves work voluntarily with good cause, but only with respect to periods in which he or she could receive unemployment benefits under another law.

A claimant is also disqualified for any day on which he or she takes part in a strike begun in violation of the Railway Labor Act or in violation of the established rules and practices of a labor organization of which he or she is a member. This disqualification only applies to claimants who work on the premises where the strike occurs *and* who do the same kind of work as the employees participating or directly involved in the strike.

An employee who is paid a separation allowance is disqualified for both unemployment and sickness benefits for roughly the period of time it would have taken to earn the amount of the allowance.

A claimant may be disqualified for sickness benefits if he or she fails to take a medical examination when required by the Board.

If a claimant makes a false or fraudulent statement or claim to obtain unemployment or sickness benefits, he or she will be disqualified for 75 days and may also be subject to a fine or imprisonment. The Board checks with Federal agencies and all 50 States, the District of Columbia, and Puerto Rico as well as railroads in order to detect fraudulent benefit claims. The Board also checks with physicians to verify the accuracy of medical statements supporting sickness benefit claims.

Payments Under Other Laws or Systems

If an employee receives a retirement, disability or survivor benefit under the Railroad Retirement Act, Social Security Act, or any other social insurance law for days for which he or she is also entitled to benefits under the Railroad Unemployment Insurance Act, unemployment or sickness benefits are payable only to the extent to which they exceed the other payments for those days. Examples of other such social insurance pay-

ments are military pensions other than VA benefits, firefighters' and police pensions, or certain workers' compensation payments. Claimants should report all such other payments promptly to avoid having to refund benefits later.

There is no reduction in unemployment or sickness benefits for benefits paid under a Board-approved nongovernmental sickness insurance plan, such as a supplemental sickness plan established by a railroad. Similarly, there is no reduction in benefits if an employee receives supplemental unemployment benefits under a Board-approved nongovernmental unemployment benefit plan. But unemployment and sickness benefits provided under the Railroad Unemployment Insurance Act are not payable if Federal/State unemployment or sickness benefits under other laws, including Canadian law, are paid for the same period of time.

If an employee is awarded damages or receives a settlement because of an injury, any sickness benefits already paid for the same injury will have to be deducted from the settlement and refunded to the Board. Any benefits due for the same injury for later periods may be withheld. The amount recoverable or withheld in such cases cannot, however, exceed the net amount of the damages or settlement after medical (even if covered by insurance) and legal expenses have been deducted.

Unemployment benefits are normally not paid if an employee is fully protected by a wage guaranty plan. If an employee receives unemployment or sickness benefits, however, and is later paid a guaranty or other pay for time lost for the same period, the employer will be asked to withhold an amount equal to the unemployment or sickness benefits. The employer must then pay this amount to the Board.

PAYMENT PROCESS

Claiming Unemployment Benefits

Claimants can apply for unemployment benefits by mail or online.

To apply by mail, claimants must obtain an application from their labor organization, employer, local Railroad Retirement Board office or the Board's Web site at www.rrb.gov. The completed application should be mailed to the local Board office as soon as possible and, in any case, must be filed within 30 days of the date on which the claimant became unemployed or the first day for which he or she wishes to claim benefits. Benefits may be lost if the application is filed late.

To apply online, claimants should go to the Board's Web site and click on "Benefit Online Services" for directions on establishing an RRB Internet Services account. Employees are encouraged to establish online accounts while still employed so the account is ready if they ever need to apply for these benefits or use other select Internet services.

The local Board office reviews the completed application, whether it was submitted by mail or online, and notifies the claimant's current railroad employer, and base-year employer if different. The employer has the opportunity to provide information about the benefit application.

After the Board processes the application, biweekly claim forms are mailed to the claimant, and are also available on the Board's Web site, as long as he or she remains unemployed and eligible for benefits. Claim forms should be signed and sent on or after the last day of the claim. This can be done by mail or electronically. The completed claim must be received by a Board office within 15 days of the end of the claim or the date the claim was mailed to the claimant, whichever is later.

Only one application need be filed during a benefit year, even if a claimant becomes unemployed more than once. However, a claimant must, in such a case, request a new claim form from a Board office or via the Board's Web site within 30 days of the first day for which he or she wants to resume claiming benefits.

Claiming Sickness Benefits

An application for sickness benefits can be obtained from railroad employers, railroad labor organizations, any Board office or the Board's Web site. An application and a doctor's statement of sickness are required at the beginning of each period of continuing sickness for which benefits are claimed. The Board suggests that employees keep an application form on hand for use in claiming sickness benefits. If the employee is too sick to complete the application, someone else may do so. In that case, a family member should also complete form SI-10, *Statement of Authority to Act for Employee*, and include it with the application. Attached to each application is a statement of sickness which must be completed by the employee's doctor.

The forms should be completed and mailed to the Board in Chicago by the seventh day of illness or injury. Applications received at the Board within 30 days of the first day for which an employee wishes to claim benefits are generally considered timely filed unless there is evidence to the contrary. After the Board receives the application and statement of sickness and determines eligibility, biweekly claim forms are mailed to the claimant for completion and return to a Board field office for processing.

The claim forms must be received at the Board within 30 days of the last day of the claim period, or within 30 days of the date the claim form was mailed to the claimant, whichever is later. Benefits may be lost if an application or claim is filed late.

Payments

Claimants who file an application for benefits may expect to receive a claim form, or a decision on their application, within 15 days of the date the application was filed. When filing biweekly claims, claimants may expect to receive a payment, or a decision on their claim, within 15 days of the date a Board office receives the claim form.

However, some claims for benefits may take longer to handle than others if they are more complex, or if a Board office has to get information from other people or organizations. If this happens, the claimant may expect an explanation and an estimate of the time required to make a decision.

Railroad unemployment and sickness insurance benefits are paid by Direct Deposit. With Direct Deposit, benefit payments are made electronically to an employee's bank, savings and loan, credit union, or other financial institution. New applicants for unemployment and sickness benefits will be asked to provide information needed for Direct Deposit enrollment. Waivers are available to individuals who determine that Direct Deposit would cause a hardship, and to individuals without bank accounts.

Unemployment and sickness claimants can conveniently check on the status of their claims or payments at any time by calling the toll-free RRB Help Line at 800-808-0772. Information may also be available online.

Free Placement Service

The Railroad Unemployment Insurance Act authorizes the Board to operate a free placement service. The primary purpose of the placement service is to secure new employment for experienced railroad workers who have lost their jobs.

When a claimant applies for unemployment benefits, he or she also applies for employment service. The claimant will probably be interviewed by a Board representative who will try to help secure employment if he or she does not have good prospects of returning to his or her former job. The claimant may be referred by the representative to a suitable railroad job; otherwise, an effort will be made towards placement in a nonrailroad job for which the claimant appears qualified.

As part of its placement service, the Board maintains a list of job openings reported by railroads. The list is available for review at all offices of the Board and on the Board's Web site.

APPEALS

Employees

If a claimant disagrees with a decision made on a claim, he or she has 60 days from the date of the initial notice of the decision in which to file a written statement requesting reconsideration from the Board office that made the decision. This step is mandatory before a decision may be appealed to the Board's Bureau of Hearings and Appeals. Failure to request reconsideration within 60 days will result in forfeiture of further appeal rights.

If the case involves a benefit overpayment of more than 10 times the maximum daily benefit rate, the claimant may request a waiver of repayment. A request for waiver filed within 60 days will, in certain cases, defer recovery of the overpayment from subsequent benefit payments. If waiver is requested, the claimant may be asked to complete a financial statement on a form provided by the Board.

If dissatisfied with the reconsideration or waiver decision, a claimant may, within 60 days, appeal to the Board's Bureau of Hearings and Appeals.

If not satisfied with the Bureau of Hearings and Appeals' decision, a claimant may further appeal, within 60 days, to the three-member Board.

If not satisfied with the three-member Board's decision, a claimant may file a petition for a review of the decision by a U.S. Court of Appeals. A petition for review must be filed within 90 days of the notice of the Board's decision.

Employers

When an employer is a party to a claim for benefits, that employer may protest the payment of benefits, but such protests do not prevent the timely payment of benefits. However, employees may be required to repay benefits if their employers' protests are ultimately successful. The employer also has the right to appeal an unfavorable decision to the Bureau of Hearings and Appeals.

INCOME TAXES

Unemployment benefits paid by the Board are subject to Federal income taxes, just like unemployment benefits paid under State government programs.

Sickness benefits paid by the Board, except for sickness benefits resulting from on-the-job injuries, are subject to Federal income tax under the same limitations and conditions that apply to the taxation of sick pay received by workers in other industries.

The Railroad Unemployment Insurance Act specifically provides that railroad unemployment and sickness benefits are not subject to State income taxes. In January of each year, the Board sends railroad employees Form 1099-G showing the total amount of unemployment benefits paid during the previous year and/or a Form W-2 showing the net amount of sickness benefits paid.

FINANCING UNEMPLOYMENT AND SICKNESS INSURANCE

Under the Railroad Unemployment Insurance Act, an employee's eligibility for benefits is based on taxable earnings in a calendar year and normally applies only to benefits in the benefit year starting the following July 1. Given this limited period of potential benefits, the financing of railroad unemployment and sickness benefits is essentially a short-term proposition in comparison to the financing of retirement benefits. An employee's eligibility for unemployment or sickness benefits ceases within two years after he or she leaves railroad work, while eligibility for railroad retirement annuities continues for decades after an employee leaves the industry. Consequently, in a given series of benefit years, gradually declining rail employment is less of a factor than major recessions or work stoppages causing industry-wide unemployment on a temporary basis.

CONTRIBUTIONS

The railroad unemployment and sickness benefit programs are financed exclusively by contributions of railroad employers, based on the taxable earnings of their employees. The employees themselves do not contribute.

Experience-based tax rates were phased in during 1991. Each employer pays contri-

butions at a rate which takes into consideration the employer's actual incidence of benefit usage. Under experience rating, employers whose employees have low incidences of unemployment and sickness pay contributions at a lower rate than employers with higher levels of benefit usage. Each employer's rate also has a component for administrative expenses and a component to cover costs shared by all employers.

In 2006, the basic tax rates on railroad employers, including covered commuter railroads, range from a minimum of 0.65 percent to a maximum of 12 percent. Also, a surcharge of 1.5 percent is added to the basic tax rates, as the Railroad Unemployment Insurance Account accrual balance of \$113.1 million was less than an indexed threshold of \$114.9 million but greater than a threshold of \$57.4 million on June 30, 2005. About 76 percent of employers are being assessed 2.15 percent in 2006 (the 0.65 percent minimum rate plus the 1.5 percent surcharge). New employers initially pay a tax of 4.03 percent in 2006, which represents the average rate paid by all employers in the period 2002-2004.

A surcharge is added to each employer's tax rate during any calendar year in which the balance in the Railroad Unemployment Insurance Account on the preceding June 30

is less than an indexed threshold amount. If the account balance is less than \$100 million (as indexed), but at least \$50 million (as indexed), the surcharge will be 1.5 percent. If the account balance is less than \$50 million (as indexed), but greater than zero, the surcharge will be 2.5 percent. A maximum surcharge of 3.5 percent applies if the account balance is less than zero. If the account balance on the preceding June 30 is above \$250 million (as indexed), the excess will be refunded to the employers in the form of a rate reduction for the year through a pooled credit. Each employer's tax rate (prior to application of individual maximum and minimum limitations) will be reduced by the ratio of the excess amount to the taxable payroll of all employers.

The experience-based tax rates have a 12 percent maximum, or a 12.5 percent maximum if a 3.5 percent surcharge is in effect. Included in the rate is the basic rate, an administration tax rate of 0.65 percent, and, if either is applicable, the surcharge rate or the rate of the pooled credit. Since the basic employer tax rate plus any pooled credit cannot be less than zero, 0.65 percent is the minimum rate which any employer can pay.

RAILROAD UNEMPLOYMENT INSURANCE ACCOUNT

Railroad unemployment insurance funds not needed immediately for the payment of benefits are deposited in the Railroad Unemployment Insurance Account maintained by the Treasury. This account, together with similar accounts for each State, forms a national unemployment trust fund. Deposits in the unemployment trust fund are invested by the Treasury in securities of the U.S. Government. Every quarter, the Railroad Unemployment Insurance Account and the Railroad Unemployment Insurance Administration Fund each receive a propor-

tionate share of the interest earnings of the trust fund, based on average daily balances.

The Railroad Unemployment Insurance Administration Fund, separate from the Railroad Unemployment Insurance Account, pays the costs of administering the railroad unemployment insurance system. An amount equal to 0.65 percent of taxable payroll is set aside from railroad contributions for the Railroad Unemployment Insurance Administration Fund. Any amount in the Railroad Unemployment Insurance Administration Fund in excess of \$6 million (on an accrual basis) on September 30 of any year is transferred to the Railroad Unemployment Insurance Account.

Borrowing Authority

To ensure adequate funds in periods of high unemployment, Congress gave the Board authority in 1959 to borrow money from the Railroad Retirement Account for the payment of benefits from the Railroad Unemployment Insurance Account.

FINANCIAL REPORT

The Railroad Retirement Board is required to report annually to the Congress on the financial status of the railroad unemployment insurance system. The reports must include any recommendations for financing changes which might be advisable, including any adjustment the Board recommends regarding the rates of employer contributions.

The Board's 2005 railroad unemployment insurance financial report was generally favorable. Even as projected maximum benefit rates increase 39 percent from \$56 to \$78 from 2004 to 2015, experience-based contribution rates are expected to maintain solvency, except for small, short-term cash-flow problems in 2007 and 2008. Projections show quick repayment of the loans even under the

most pessimistic assumption. The report also predicted average employer contribution rates well below the maximum throughout the projection period, except for a periodic

resumption of the surcharge required to maintain a minimum account balance. No financing changes were recommended by the Board.

ADMINISTRATION OF THE RAILROAD RETIREMENT SYSTEM

ADMINISTRATION

The railroad retirement system is based on three Federal laws: the Railroad Retirement Act, the Railroad Unemployment Insurance Act, and the Railroad Retirement Tax Act. The first two of these Acts are administered by the Railroad Retirement Board, and the third, by the Internal Revenue Service of the U.S. Treasury. The Board also participates in the administration of the Federal Medicare health insurance program. In past years, the Board assisted in the administration of certain employee protection provisions of the Regional Rail Reorganization Act, the Northeast Rail Service Act, the Milwaukee Railroad Restructuring Act, and the Bankrupt Railroad Service Preservation and Employee Protection Act.

An independent agency in the executive branch of the Federal Government, the Board is administered by three members appointed by the President, with the advice and consent of the Senate. By law, one member is appointed upon recommendation of railroad labor organizations, one upon recommendation of railroad employers, and the third member, the Chairman, is, in effect, independent of employees and employers and

represents the public interest. The terms of office are five years and are arranged so as to expire in different calendar years. The President also appoints an Inspector General for the Board.

The primary function of the Board is the determination and payment of benefits under the retirement-survivor and unemployment-sickness programs. To this end, the Board employs field representatives to assist railroad personnel and their families in filing claims for benefits, examiners to adjudicate the claims, and information technology staff to operate the data processing equipment and administer the automated programs needed to maintain earnings records, calculate benefits and process payments.

The Board also employs actuaries to predict the future income and outlays of the railroad retirement trust funds, statisticians and economists to provide vital data, and attorneys to interpret legislation and represent the Board in litigation. Internal administration requires a procurement staff, a budget and accounting staff, and personnel specialists. The Inspector General employs auditors and investigators to detect any waste, fraud or abuse in the benefit programs.

The headquarters of the Board is located at 844 North Rush Street, Chicago, Illinois

60611-2092 and the Board maintains field offices across the United States in localities easily accessible to large numbers of railroad workers.

Relations Between the Board and Other Government Agencies

As an independent agency in the executive branch of the Federal Government, the Board has many dealings with a number of other Federal agencies and with some State agencies. Its dealings with some of these agencies, such as the President's Office of Management and Budget, the Office of Personnel Management, the Government Accountability Office, and the Department of the Treasury, are similar to the dealings of other executive branch agencies with these units. The Board's relations with certain others—principally, the Social Security Administration, the Centers for Medicare & Medicaid Services, State employment security departments and, on a smaller scale, the Department of Labor—are related directly or indirectly to the various benefit programs.

The Board's relationship with the Social Security Administration is particularly extensive because of the coordination between the two systems. Railroad retirement annuities may be based in part on social security credits and social security benefit amounts awarded after 1974 to railroad retirement annuitants are made through the Board as part of combined railroad retirement-social security monthly benefit payments.

The Board and the Social Security Administration have an interagency agreement providing for system-to-system access between the two agencies. This allows Board computer systems to access information as it is needed, thus improving customer service and reducing errors.

Relations Between the Board and Congress

The Board has numerous contacts with the Congress as a whole and with its individual members and committees. It sends the President and Congress an annual report on its operations and, on request, supplies additional information on the Board's programs. Officials of the Board testify at congressional hearings on proposed legislation to amend the Railroad Retirement and Railroad Unemployment Insurance Acts, and the Board prepares reports on such legislation. Congress has jurisdiction over the amounts available to the railroad retirement system for benefit payments and for administration.

Relations Between the Board and Railroads

The administrative organization of the Board fosters close relations with railroad employers, employees and their representatives. As mentioned earlier, two of the Board's three members are appointed on the recommendations of railway labor and management associations, and labor and management officials have been active in the development of the railroad retirement and unemployment insurance programs since their inception.

In addition, the Board relies on labor groups and railroad employers for assistance in keeping railroad personnel informed about the Board's benefit programs. The Board conducts informational programs for railroad labor and management officials to acquaint them with the details of the benefit programs and their reporting responsibilities. These officials, in turn, educate railroad workers as to their benefit rights and responsibilities.

Railroad employers and railway labor groups also cooperate with the Board in a

joint placement program to find jobs for unemployed personnel. These joint placement efforts help to reduce the costs of the unemployment insurance program.

The Board has direct contact with railroad employees through its field offices where its personnel explain benefit rights and responsibilities on an individual basis, assist employees in applying for benefits, provide related services for annuitants and answer any questions related to the benefit programs.

Through various publications and press releases, the Board disseminates, as widely as possible, information on its operations and the provisions of the laws it administers. Its publications include annual reports, triennial actuarial valuations, and benefit booklets and leaflets.

Relations Between the Board and the National Railroad Retirement Investment Trust

The National Railroad Retirement Investment Trust was established by the Railroad Retirement and Survivors' Improvement Act of 2001. The sole purpose of the Trust is to manage and invest railroad retirement assets. The Trust is a tax-exempt entity independent from the Federal Government.

The Act authorizes the Trust to invest the assets of the Railroad Retirement Account in a diversified investment portfolio in the same manner as those of private sector retirement plans. Prior to the Act, investment of Railroad Retirement Account assets was limited to U.S. government securities.

The Trust has no powers or authority over the administration of benefits under the Railroad Retirement Act. The Trust is required to act solely in the interest of the Railroad Retirement Board, and through it,

the participants and beneficiaries of the programs funded under the Railroad Retirement Act. The Act does not delegate any authority to the Railroad Retirement Board with respect to day-to-day activities of the Trust, but the Act does provide that the Board may bring a civil action to enjoin any act or practice of the Trust that violates the provisions of the Act or to enforce any provision of the Act.

Budget Estimates

Each year, Congress specifies in an appropriation act how much of the money derived from employer and employee taxes the Board may spend to administer the benefit programs. The appropriation is based on budget estimates prepared by the Board. The requested appropriation is sent to the Congress at the same time it is sent to the President's Office of Management and Budget. In addition, as explained in the retirement financing chapter, the level of certain dual benefit payments for a fiscal year is determined by the Federal budget and appropriations process.

Relation of Administrative Costs to Benefit Payments

The Board has always had an exceptionally good record of administrative economy. Total administrative expenses currently average about one percent of benefit payments, despite the complexity of the Railroad Retirement Board's programs.

KEEPING BENEFICIARIES INFORMED

The Board conducts informational programs to keep railroad employees informed of their benefit rights and responsibilities under the Railroad Retirement and Railroad Unemployment Insurance Acts, with emphasis on the necessity of prompt application for

benefits. Yet cases still occur in which qualified railroad employees or their family members forfeit benefits either because they do not know that these benefits are available or because they are unaware of the steps they themselves must take to claim them.

The Railroad Retirement Act limits the retroactivity of retirement and survivor annuity applications. Depending on the type of annuity application, the retroactivity can be as long as one year or there can be no retroactivity at all. The Board's regulations do allow the granting of an earlier annuity beginning date if an annuitant can establish that he or she was deterred from filing an application at an earlier date by some action or statement of a Board employee. However, while the Board attempts to keep potential annuitants informed of their rights under the Railroad Retirement Act through press releases, informational bulletins and booklets, that information might not reach everyone. This is especially true when an individual left the railroad industry well in advance of retirement. Ultimately, the burden falls on the individual to secure benefit information.

Likewise under the Railroad Unemployment Insurance Act, while the Board may permit retroactive registration beyond the normal period when it can be shown that the employee was not at fault and that failure to apply for benefits was due to circumstances beyond the employee's control, it cannot approve delayed claims if the only reason for a delay in filing was lack of knowledge of the law.

PROGRAM INTEGRITY

Railroad employees, by and large, are honest and law-abiding, but any large group may include a few persons who either deliberately or through lack of knowledge seek benefits to which they are not entitled. Various procedures for detecting and discour-

aging such actions include reviews of employer records for work on days claimed as days of unemployment or sickness and checks with State agencies to detect duplication of benefit payments. The Board has wage matching agreements with all 50 States, the District of Columbia and Puerto Rico, covering the entire rail population. Electronic data exchange programs with railroads as well as Federal and State agencies have significantly enhanced the Board's capability to detect fraud and abuse of the railroad unemployment and sickness insurance system. A 75-day disqualification is applied in all cases in which fraud is discovered. In some cases, prosecution is also recommended.

Other program activities designed to protect the railroad retirement trust funds include the investigation of uncashed annuity checks, matches with the Social Security Administration and the Centers for Medicare & Medicaid Services, and development of an online system to monitor railroad retirement/social security trust fund transfers. In addition to conducting audits of the Board's operations, the Inspector General's Office identifies and refers cases for prosecution of individuals who commit fraud against the Board's benefit programs.

ADMINISTRATIVE IMPROVEMENTS

The Board has implemented a number of other initiatives to improve operations, make the most of financial resources and provide the best possible service to the public. These include a toll-free Help Line (800-808-0772), an Internet Web site (www.rrb.gov), e-mail and voice mail in all field offices, and other technological improvements for better customer service.

CUSTOMER SERVICE PLAN

The Board's Customer Service Plan is centered on the following principles of cus-

customer service: standards; openness; accessibility; and accountability. In arriving at this plan, the Board considered the findings of a customer satisfaction survey, the results of focus group research, and responses received on point-of-service evaluation forms. The plan described here is periodically reviewed and updated to ensure that the agency is providing realistic service delivery expectations to its customers.

Standards

- We will be courteous and treat you with respect every time you contact us.
- The information you provide us is protected under the provisions of the Privacy Act.
- When you inquire with us by letter, you will receive a reply within 15 days of the date we receive your inquiry. If for any reason we cannot reply within that time frame, we will acknowledge your letter and tell you how long it will be before we can answer your questions fully.
- If you filed for a railroad retirement employee or spouse annuity in advance, you will receive your first payment, or a decision, within 35 days of the beginning date of your annuity. If you have not filed in advance, you will receive your first payment, or a decision, within 65 days of the date you filed your application.
- If you filed for a railroad retirement survivor annuity or lump-sum benefit, you will receive your first payment, or a decision, within 65 days of the date you filed your application, or became entitled to benefits, if later. If you are already receiving a spouse annuity, you will receive your first payment, or a decision, within 35 days of the date we receive notice of the employee's death.
- If you filed an application for unemployment or sickness insurance benefits, you will receive a claim form, or a decision, with-

in 15 days of the date you filed your application.

- If you filed a claim for unemployment or sickness insurance benefits, you will receive your payment, or a decision, within 15 days of the date we receive your claim form.
- If you filed for a railroad retirement disability annuity, you will receive a decision within 105 days of the date you filed your application. If you are entitled to disability benefits, you will receive your first payment within 25 days of the date of our decision, or earliest payment date, whichever is later.
- If you think we made the wrong decision about your benefits, you have the right to ask for review and to appeal. We will tell you about these rights each time we make an unfavorable decision about your benefits.
- Claims for some benefits may take longer to handle than others if they are more complex, or if we have to get information from other people or organizations. If this happens, we will give you an explanation and an estimate of the time required to make a decision.

Openness

- We will display in each office how well we are meeting the established standards.
- When you visit our offices, the staff you see will identify themselves by name.
- When you telephone us, we will identify ourselves by name.
- Our letters will be easy to understand, and, unless the letter is a computer notice, the person writing to you will give you his or her name.

Accessibility

- When you telephone us, you will reach us on the first try.

- When visiting us, you will be helped within 5 minutes of your scheduled appointment.
- You will not have to wait more than 30 minutes if you do not have an appointment.
- If you cannot come to our office, we may be able to visit you at home or at one of our regularly scheduled service locations.

Accountability

- If things go wrong, at the very least you are entitled to a good explanation and an apology.

- A Customer Assessment Survey form is available in every office for you to tell us how we did and how we can improve our service.
- If you are not satisfied with our service, you may contact the manager of the office with which you have been dealing, or the Regional Director who is responsible for that office. Their names and addresses are available in each office.

NONDISCRIMINATION ON THE BASIS OF DISABILITY

Under Section 504 of the Rehabilitation Act of 1973 and Railroad Retirement Board regulations, no qualified person may be discriminated against on the basis of disability. The Board's programs and activities must be accessible to all qualified applicants and beneficiaries, including those with impaired vision and/or hearing. Individuals with disabilities needing assistance (including auxiliary aids or program information in accessible formats) should contact the nearest Board office. Complaints of alleged discrimination by the Board on the basis of disability must be filed within 90 days in writing with the Director of Administration, Railroad Retirement Board, 844 North Rush Street, Chicago, Illinois 60611-2092. Questions about individual rights under this regulation may be directed to the Board's Director of Equal Opportunity at the above address.

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FRAUD AND ABUSE HOT LINE

Call the toll-free Hot Line if you have reason to believe that someone is receiving railroad retirement or unemployment-sickness benefits to which he or she is not entitled; that a person responsible for the financial affairs of a minor or other benefit recipients who are unable to manage their own affairs is misappropriating benefits; or that a doctor, hospital or other provider of health care services is performing unnecessary or inappropriate services or billing Medicare for services not provided. You may also use the Hot Line to report any suspected misconduct by a Railroad Retirement Board employee. The Hot Line has been installed by the Railroad Retirement Board's Inspector General to receive any evidence of such fraud or abuse of the Board's benefit programs.

The toll-free Hot Line number nationwide is 800-772-4258. Or you may send your complaints in writing to RRB, OIG, Hot Line Officer, 844 North Rush Street, Chicago, Illinois 60611-2092 or via e-mail at hotline@oig.rrb.gov.

Please do not call or write the Inspector General's Hot Line with questions about eligibility requirements, delayed payments, or similar problems. Such matters should be directed to the nearest Railroad Retirement Board office.

Comments? If you have any comments or suggestions regarding the presentation of information in this publication, please let us know. You can fax us at 312-751-7154, e-mail us at opa@rrb.gov or write us at the following address: Public Affairs, U.S. Railroad Retirement Board, 844 North Rush Street, Chicago, IL 60611-2092.



*U.S. Railroad Retirement Board
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Chicago, IL 60611-2092*

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