

Understanding Edit Checks of Tier I and Tier II Compensation

Why is there a referral “Tier II compensation appears to be under-reported” when there is no reporting instruction that Tier I and Tier II compensation must be equal?

The Railroad Retirement Board does various reasonableness checks on the reported service and compensation data to help insure the accuracy of our records. For example, there is a check that the sum of the reported service months equals the reported service month total. Similarly, if Tier II compensation is less than the Tier II maximum, then Tier II should equal Tier I compensation. There is an exception which is discussed at the end.

Because sick pay is reported separately, all payments reported on the annual service and compensation report are taxable and creditable as both Tier I and Tier II. A single payment subject to Tier I and Tier II taxes can yield only a single amount creditable as Tier I and Tier II compensation. This applies until a payment is no longer subject to Tier II tax because the maximum has been reached.

But what if sick pay is paid first? Won't the Tier I maximum be reached before the Tier II maximum?

Let's look at some examples of compensation as it is paid, month by month.

Example 1

An employee has a 1999 salary of \$60,000; is covered under a sick pay plan paying \$2,000 bimonthly; and is off sick for 6 months.

Type	J	F	M	A	M	J	J	A	S	O	N	D	Total
SP	4000	4000	4000	4000	4000								24000
T-1						5000	5000	5000	5000	5000	5000	5000	30000
T-2						5000	5000	5000	5000	5000	5000	5000	30000

Neither the Tier I nor Tier II annual maximum is reached. The annual service and compensation report will show Tier I and Tier II compensation of \$30,000, thus passing the edit check. The annual sick pay report will show \$24,000. The combined Tier I compensation, which does not appear on any report to the RRB, is \$54,000.

Example 2

An employee has a 1999 salary of \$84,000; is covered under a sick pay insurance plan paying 100% salary; and is off sick for 2 months.

Type	J	F	M	A	M	J	J	A	S	O	N	D	Total
SP	7000	7000											14000
T-1			7000	7000	7000	7000	7000	7000	7000	7000	2600		58600
T-2			7000	7000	7000	7000	7000	7000	7000	4700			53700

The employee reached both annual maximums during the year so the payments made after that point are no longer subject to the Tier tax. The annual service and compensation reported will show Tier I compensation of \$58,600 and Tier II compensation of \$53,700, thus passing the edit check. The annual sick pay report will show \$14,000. The combined Tier I, which does not show on any report to the RR, is \$72,000.

NOTE: If the employee worked in every month, service is credited for November and December. Since RUIA is based on monthly maximums, RUIA tax and credit would apply to all 12 months.

Is there a situation where Tier I is less than the Tier II maximum and Tier I and Tier II are not equal?

Yes, but the circumstances occur very rarely. In the last example, we will extend the employee's sick time to 3 months.

Example 3

Type	J	F	M	A	M	J	J	A	S	O	N	D	Total
SP	7000	7000	7000										21000
T-1				7000	7000	7000	7000	7000	7000	7000	2600		51600
T-2				7000	7000	7000	7000	7000	7000	7000	4700		53700

The annual service and compensation report will show Tier I compensation of \$51,600 and Tier II compensation of \$53,700. These amounts will fail the edit check but are correct. What is unique about the Example 3? This employee has high earnings and high sick pay coverage and received sick pay in the early part of the year.

The specific criteria where Tier II may correctly exceed Tier I are:

- Sick pay exceeds the difference between the Tier I and Tier II maximums.
- Sick pay is paid before non-sick pay earnings reach the Tier II maximum.
- Combined sick pay and other Tier I compensation exceed the Tier II maximum.