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Railroad Retirement Widow(er)s' Benefits

The Railroad Retirement and Survivors' Improvement Act of 2001 (P.L. 107-90), enacted on December 21, 2001, among other provisions, provided increased benefits for some widow(er)s through a new formula for computing their annuities. However, widow(er)s' annuities computed under this new "initial minimum amount" formula are not increased for annual cost-of-living adjustments (COLAs) until the amount payable under prior law plus interim COLAs, exceeds the initial minimum amount.

The following questions and answers provide information on how widow(er)s' annuities are computed under this provision and how they are affected by COLAs.

1. How was the formula for computing railroad retirement widow(er)s' benefits changed by the Railroad Retirement and Survivors' Improvement Act of 2001?

Under prior law, the widow(er)'s tier I benefit, before any reductions for other benefits, was generally equal to the amount of the tier I benefit that the employee received at the time of his or her death; and a widow(er)'s tier II benefit was generally equal to 50 percent of the tier II benefit that was payable to the employee at the time of his or her death.

The new law 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. 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" will be offset each year by the dollar amount of the COLAs 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 COLAs otherwise payable, exceeds the widow(er)'s annuity computed under the initial minimum amount formula.

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2. What would be a basic example of how this initial minimum amount works?

Assume that a 68 year-old widow became entitled in June 2002 to a railroad retirement widow's annuity. The widow is not entitled to any social security benefits. The employee had been receiving a railroad retirement annuity of $2,000 a month, comprised of a tier I benefit of $1,200 and a tier II benefit of $800. Consequently, the widow's tier I benefit on her annuity beginning date was $1,200. Her tier II benefit under prior law (50 percent of the employee's tier II) was $400; and, under the new law, her "guaranty amount" was $400. Her railroad retirement widow's annuity as of June 2002 was $2,000.

Next, assume the COLA payable in January 2003 yields a 4 percent increase in tier I benefits and a 1.3 percent increase in tier II benefits, for a total dollar amount increase of $53.20. This amount is deducted from the $400 guaranty amount, reducing it to $346.80, so that the $2,000 amount payable to the widow (before any deduction for the Part B Medicare premium) does not change. The amount payable to the widow will increase only when the tier I and tier II amounts computed under prior law with subsequent COLAs exceed $2,000. Assuming that the COLA remains at a steady 4 percent, this would occur with the COLA payable in January 2010. The average COLA paid over the last five years, including the COLA payable in January 2002, was 2.4 percent.

3. What if the widow(er) is also entitled to social security benefits?

Widow(er)s' tier I benefits continue to be reduced for entitlement to social security, certain public service pensions and dual railroad retirement entitlement. However, while widow(er)s' railroad retirement annuities will be reduced by subsequent social security and applicable public service pension COLAs, the total amount of combined benefits will not decrease from the total payable before the COLA.

4. What would be a basic example of how this would work?

Assume that a 67 year-old widow became entitled in June 2002 to a railroad retirement widow's annuity. The employee had been receiving a railroad retirement annuity of $1,500 a month, comprised of a tier I benefit of $900 and a tier II benefit of $600. This widow's tier I benefit on her annuity beginning date (and before any dual benefit reduction) was $900. Her tier II benefit under prior law (50 percent of the employee's tier II) was $300; and, under the new law, her "guaranty amount" was $300. Her widow's initial minimum amount on her annuity beginning date (before any reduction for dual benefits) is $1,500. The widow is also entitled to a social security benefit, based on her own earnings, of $1,100 a month.

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Thus, at the time her railroad retirement widow's annuity begins, her net annuity was $600 and her total combined social security and railroad retirement benefits was $1,700.

Again assume that the COLA payable in January 2003 yields a 4 percent increase in tier I and social security benefits and a 1.3 percent increase in tier II benefits.

The total dollar amount of this widow's tier I and tier II benefit increases would be $39.90. This amount is subtracted from the $300 guaranty amount, reducing it to $260.10. In this case, tier I is not actually payable because it is reduced to zero for the social security benefit. The guaranty amount is reduced by the tier I and tier II cost-of-living increases, not the social security increase. Her net railroad retirement widow's annuity (before any deduction for the Part B Medicare premium) would be $564 (her increased tier II of $303.90 plus the reduced guaranty amount of $260.10). However, the total amount of combined benefits payable rises to $1,708 because her social security benefit was increased by the 4 percent COLA to $1,144.

5. When was this provision effective and to which widow(er)s did it apply?

This provision was effective February 1, 2002, and was not payable retroactively.

The provision applied to widow(er)s on the rolls before the effective date only if the annuity the widow(er) was receiving was less than she or he would have received had the new law been in effect on the date the widow(er)'s annuity began. Many of the widow(er)s' annuities being paid were already higher than the annuity that would have been payable under the new law because of previous COLAs.

6. Will the Railroad Retirement Board notify affected widow(er)s that they will not see a COLA in their January payments?

There are about 45,000 widow(er)s on the Railroad Retirement Board's benefit rolls whose annuities were either awarded or recomputed under the new law. The Board will be releasing letters in early November to these individuals advising them that their monthly payments will not change. The only change in their monthly payments will be due to changes in the amount of their Federal income tax withholding, their Part B Medicare premium, or increases in their social security benefit or public service pension.

In addition, in late December all annuitants will receive letters from the Board providing a breakdown of the annuity rates payable to them in January 2003.

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