RRB News

U.S. Railroad Retirement Board

Office of Public Affairs 844 North Rush Street Chicago, Illinois 60611-2092

312-751-4777
312-751-7154 (fax)
www.rrb.gov

No. 01-13

For Immediate Release
December 2001

Railroad Retirement Benefit and Financing Changes

President Bush signed the Railroad Retirement and Survivors' Improvement Act of 2001 into law on December 21, 2001.

The legislation liberalizes early retirement benefits for 30-year employees, eliminates a cap on monthly retirement and disability benefits, lowers the minimum service requirement from 10 years to 5 years of service if performed after 1995, and provides increased benefits for some widow(er)s. The financing sections of the new law provide 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 following is a summary of the changes in railroad retirement benefits and financing provided by the new law, which was based on joint recommendations to Congress negotiated by a coalition of rail labor organizations and rail freight carriers.

Railroad Retirement Benefit Provisions

60/30 retirement. The new law amends 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 would also be eligible for full annuities at age 60. Full 60/30 benefits have not been payable to 30-year employees retiring before age 62 since 1983 legislation reduced such early retirement benefits.

This provision is not retroactive and not applicable to 30-year employees who retired on the basis of age and service prior to January 1, 2002, or to their spouses, even if their spouses retire after 2001. However, if a disability annuitant is age 60 and has 30 years' service, his or her spouse can now receive an unreduced annuity as early as age 60 if the spouse's annuity beginning date is January 1, 2002, or later.

Maximum provision. The new law eliminates, effective January 1, 2002, a maximum on the amount of combined monthly employee and spouse benefit payments which had been intended to

(More)

prevent benefits from exceeding an employee's creditable earnings 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.

While not retroactive, the amendment will prospectively increase benefits, effective January 1, 2002, for almost 2,600 employee and 12,000 spouse annuitants on the Board's rolls whose benefits were reduced by the maximum provision prior to 2002.

In 2001, the average monthly employee benefit reduction under the maximum provision was $164, and the average spouse reduction was $78. The removal of any benefit reductions applied to affected annuitants should be completed by June 2002. Such annuitants can expect to receive accrual payments in late May 2002 retroactive to January, and increased regular monthly payments reflecting their new rates beginning with the monthly payment due on June 1, 2002. Notices are being sent by the Board to all affected annuitants in January 2002 advising them accordingly.

Notices will also be sent in January to employees whose spouses may have been previously advised by the Board to defer filing for spouse benefits because of the adverse effects of the maximum provision, as their spouses would now want to consider filing for railroad retirement benefits.

Basic service requirement. The new law lowers the minimum eligibility requirement for regular railroad retirement annuities from 10 years (120 months) of creditable railroad service to five years (60 months) of creditable railroad service for those with five years of service rendered **after 1995**. Benefits payable on the basis of this provision are not retroactive and are not payable earlier than January 1, 2002.

Also, for those with less than 10 years of service, additional earnings credits acquired under social security coverage would be required for a tier I benefit. A tier II benefit would be payable even if the employee never worked under social security coverage. Additional requirements apply in disability cases. In addition, a deceased employee with five years' service after 1995 must still have had a "current connection" with the rail industry in order for survivor annuities to be payable by the Board under this provision, rather than the Social Security Administration.

Anyone with five years of service performed after 1995, who was previously denied benefits because of the 10-year service requirement, will want to contact a Board office.

Widow(er)s' benefits. The new law establishes an "initial minimum amount" which is 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. The initial minimum amount is computed with a widow(er)'s tier II amount equal to 100 percent of the employee's tier II amount. Under prior law, the widow(er)'s tier II amount was equal to 50 percent of the employee's tier II amount; only the tier I amount equaled

100 percent. Widow(er)s' annuities computed on the basis of the new initial minimum amount will not be adjusted for annual cost-of-living increases until the annuity amount is exceeded by the annuity amount the widow(er) would have been paid under prior law, with all interim cost-of-living increases otherwise payable.

This provision is effective February 1, 2002, and is not payable retroactively. The Railroad Retirement Board estimates that about 20 to 25 percent of the widow(er)s on its rolls in 2001 will see some increase in their annuity.

This provision applies to widow(er)s on the rolls before the effective date only if the annuity the widow(er) is currently receiving is less than she or he would have received had the new law been in effect on the date the widow(er)'s annuity began. Most widow(er)s' annuities awarded before October 1986 will not be increased. Many of the widow(er)s' annuities currently being paid are already higher than the annuity that would be payable under the new law because of previous cost-of-living adjustments.

Widow(er)s affected by this change can expect to receive any accrual payments, retroactive to February, in late April of 2002, and increased regular monthly payments reflecting their new rates beginning with the payment they receive on May 1, 2002. Letters will be sent in January to affected widow(er)s on the Board's rolls, advising them as to whether they will receive an increase. As a result, widow(er)s do not need to take any action or contact the Board.

Railroad Retirement Financing Provisions

Investment changes. The new law provides for the transfer of railroad retirement funds from the Railroad Retirement Accounts to a new 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 will not be treated as an agency or instrumentality of the Federal Government. Its Board of Trustees will be comprised of seven members: three members selected by rail labor to represent the interests of labor; three members likewise selected by rail management to represent management interests; and one independent member selected by a majority of the other six members. The new law also provides that if the parties involved cannot agree on the selection of Trustees within 60 days of the law's enactment date, an impartial umpire shall, at the petition of a party to the dispute, be appointed by the District Court of the United States for the District of Columbia. The Trustees will be appointed only from among persons who have experience and expertise in the management of financial investments and pension plans. The Trustees will be subject to reporting and fiduciary standards similar to those under the Employee Retirement Income Security Act.

The new law also allows for railroad retirement benefit payments in the future to be issued by a qualified non-governmental financial institution, rather than the Treasury Department. The selection

(More)

of the financial institution would be made by the Railroad Retirement Board, after consulting with the Board of Trustees and the Secretary of the Treasury. Railroad retirement payments will continue to be processed through the U.S. Treasury in the meantime.

Effect on payroll tax rates. The new law reduces the 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 repeals the supplemental annuity work-hour tax rate paid by employers, beginning with calendar year 2002.

The tier II tax rate on rail employers and rail labor organizations is reduced from 16.10 percent to 15.60 percent in 2002 and to 14.20 percent in 2003, but the tier II earnings base is not changed; and for 2002, that amount remains at $63,000. The tier II tax rate for rail employee representatives will be 14.75 percent in calendar year 2002 and 14.20 percent in 2003.

While there will be no change in the tier II tax rate of 4.90 percent on employees in the years 2002 and 2003, beginning with the taxes payable for calendar year 2004 tier II taxes on both employers and employees will be based on the ratio of certain asset balances to the sum of benefits and administrative expenses (the average account benefits ratio). Depending on the average account benefits ratio, tier II taxes for employers will range between 8.20 percent and 22.10 percent, while the tier II tax rate for employees will be between 0 percent and 4.90 percent.

The new law does not affect tier I social security equivalent tax rates. The tier I tax on employees and employers remains the same as for social security covered employees and employers.

Other revenue provisions. While supplemental railroad retirement annuities provided by the Railroad Retirement Act continue to be due and payable, the new law, in addition to repealing the supplemental annuity work-hour tax, also eliminates the separate Supplemental Annuity Account under the Railroad Retirement Act. Supplemental annuities provided under the Railroad Retirement Act will now be funded through the new National Railroad Retirement Investment Trust.

No changes were effected in railroad unemployment insurance taxes on employers.

# # #

The Board is making every effort to notify by mail all parties affected by this legislation as soon as possible. Therefore patience on the part of annuitants would be appreciated when contacting Board offices, as a higher than usual volume of calls is expected as a result of the passage of this legislation.

Railroad Retirement Board offices are open to the public Monday through Friday, except on Federal holidays. Persons can find the address and telephone number of the Board office serving their area by calling the Board's automated toll-free Help Line at 1-800-808-0772, or from the Board's Web site at www.rrb.gov. E-mail inquiries about this legislation can be sent to the RRB by going to the Board's Web site. Under "Latest News!" on the opening page, click on "Send us a secure message about the new Law or its effect on you."