



Railroad Retirement Information

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

For Publication

January 2002

Railroad Retirement Benefit Changes

The Railroad Retirement and Survivors' Improvement Act of 2001 (P.L. 107-90), enacted on December 21, 2001, makes a number of major changes to the Railroad Retirement Act. The legislation restores full early retirement eligibility at age 60 for railroad employees with 30 or more years of service; eliminates the maximum provision that had previously capped some employee and spouse railroad retirement benefits; reduces the basic eligibility requirement for an employee annuity from 10 to 5 years of service if performed after 1995; and provides increased benefits for some widow(er)s.

The following questions and answers describe the changes in railroad retirement benefit provisions brought about by this legislation.

1. Why have the early retirement provisions of the new law been called a restoration of 60/30?

Legislation effective in 1974 provided for full annuities for all employees who were age 60 and had 30 years of service and full annuities at age 60 for their spouses. Prior to this legislation, only female employees were eligible for full 60/30 benefits. While 1983 legislation retained the provision for early retirement at age 60 for employees with 30 years of railroad service and for their spouses, the 1983 law imposed a reduction for early retirement in the social security level tier I railroad retirement benefits awarded employees retiring before age 62 and their spouses. Tier II railroad retirement benefits, paid over and above tier I benefits, remained payable for both employees and spouses at age 60 without an age reduction.

The new law amends the Railroad Retirement Act by eliminating the tier I age reduction in 60/30 cases for employees whose railroad retirement annuities begin January 1, 2002, or later, even if they retire before they attain age 62. The spouses of such employees will also be eligible for full annuities at age 60. Such 60/30 annuities can begin with the first full month the employee and/or spouse is age 60.

(More)

The Railroad Retirement Board estimates that the average annuity payable to an employee retiring in 2002 with 30 or more years of service would be about \$2,400 under the new law. Under prior law, the amount would have been about \$2,100 because of the required reduction in the tier I benefit.

2. Will the beginning date of an employee's annuity determine whether his or her annuity is computed under the new law?

If the employee's annuity began before January 1, 2002, and was awarded when the employee was under age 62, his or her tier I benefit will remain reduced for early retirement after December 31, 2001. The tier I benefit awarded such an employee's spouse will also be reduced for early retirement, regardless of whether the spouse retires at age 60 or 62, and regardless of the date the spouse's annuity begins.

However, if a disability annuitant is age 60 and has 30 years' service, his or her spouse can now receive an annuity at age 60 without any age reduction if the spouse's annuity beginning date is January 1, 2002, or later.

3. What was the railroad retirement maximum provision eliminated by the new law?

Under prior law, the total amount of monthly annuities payable under the Railroad Retirement Act to an employee and spouse was limited to a maximum geared to the employee's average monthly earnings prior to retirement. This maximum provision was intended to create a "reasonable cap" based on an employee's earnings immediately prior to retirement.

However, the provision had the unintended effect of reducing benefits for long-service employees with moderate earnings and those with no earnings, or low earnings, in the 10-year period ending with the year the employee's annuity began. In an extreme case, it could cap benefits at an amount precluding payment of most, or even all, of the tier II benefits and supplemental annuity otherwise due.

In 2001, the average monthly employee benefit reduction under the maximum provision was \$164, and the average spouse reduction was \$78.

4. Will those employees and spouses affected by the maximum provision, but whose annuities began before January 1, 2002, see an increase in their monthly annuity rates?

If an employee's annuity began before January 1, 2002, any annuity reduction required by the

railroad retirement maximum will be removed effective January 1, 2002, but no retroactive payments will be made for months prior to 2002. The removal of any benefit reductions applied to affected annuitants, about 2,600 retired employees and 12,000 spouses, 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 are also being 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.

5. How has the basic service requirement of 10 years of creditable rail service been changed by the new law?

The new law provides railroad retirement annuities to employees with less than ten years (120 months) of railroad service if they are credited with at least five years (60 months) of railroad service **after** 1995. Benefits payable on the basis of this provision are not retroactive and are not payable for months prior to January 2002, but are payable beginning January 1, 2002, to those with five years of service after 1995. Employees previously denied benefits for insufficient service would have to file a new application for benefits.

Employees with five years of service after 1995 may qualify for a tier II benefit based on age and service at age 62. A tier I benefit is also payable by the Board, but only if the employee has an “insured status” under Social Security Act rules (usually 40 quarters of coverage), counting both railroad retirement and social security-covered earnings. In such a case, the retiree would qualify for a social security benefit based on nonrailroad social security earnings credits alone, and a tier I railroad retirement benefit based on combined social security and railroad retirement earnings credits. The tier I benefit would, however, be reduced by any social security benefit also payable.

If a retiree has no qualifying social security coverage, only a tier II benefit would be payable. Examples of persons without social security coverage could be Federal civil service employees hired prior to 1984, or some state or municipal employees previously not covered by social security.

(More)

6. Will employees with five years of service also be eligible for railroad retirement disability annuities?

Such employees may qualify for an annuity based on total and permanent, but not occupational, disability, and only if they have a disability insured status (also called a “disability freeze”) under Social Security Act rules, counting both railroad retirement and social security-covered earnings. Unlike with a 10-year employee, a tier II benefit is not payable in disability cases until the employee attains age 62. And, the employee’s tier II benefit will be reduced for early retirement in the same manner as the tier II benefit of an employee who retired at age 62 with less than 30 years of service.

7. Will the survivors of employees with five years of service after 1995 be eligible for benefits?

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, rather than the Social Security Administration. For both a tier I and a tier II benefit to be payable, an “insured status” under Social Security Act rules at the time of the employee’s death, using combined railroad retirement and social security covered earnings, is also required. Otherwise, only a tier II survivor benefit would be payable in these cases.

8. How are railroad retirement widow(er)s’ benefits affected by the new law?

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 establishes 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 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.

(More)

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

Assume that a 68 year-old widow becomes 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 is \$1,200. Her tier II benefit under prior law (50 percent of the employee's tier II) is \$400; and, under the new law, her "guaranty amount" is \$400. Her railroad retirement widow's annuity as of June 2002 would be \$2,000.

Next, assume a cost-of-living adjustment (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 of \$53.20. This amount is offset 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 cost-of-living increases 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.

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

Widow(er)s' tier I benefits will 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 cost-of-living increases, the total amount of combined benefits will not decrease from the total payable before the cost-of-living adjustment.

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

Assume that a 67 year-old widow becomes 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) is \$900. Her tier II benefit under prior law (50 percent of the employee's tier II) is \$300; and, under the new law, her "guaranty amount" is \$300. Her

(More)

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.

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

Again assume that a cost-of-living adjustment (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.

12. When is this provision effective and to which widow(er)s does it apply?

Effective February 1, 2002, but **not** retroactively payable before that date, 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 the effective date.

While legislation enacted in 1981 provided a new formula for computing tier II benefits, most awards to widow(er)s continued to be made under the pre-1981 formula during a subsequent 5-year transition period. Those widow(er)s' annuities reflecting this pre-1981 formula are not affected by the new amendments. Also, many of the widow(er)s' annuities currently being paid under the 1981 amendment formula are, because of subsequent cost-of-living adjustments, already higher than the annuity that would be payable under the new law.

The Railroad Retirement Board estimates that between one-fourth and one-third of the widow(er)s on its rolls will have an initial minimum amount, computed as of their annuity beginning date, that still exceeds their regular annuity computation with cost-of-living increases.

(More)

13. When can these widow(er)s expect to see this increase in their monthly benefit?

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

14. How can individuals find out more information about how these changes affect them?

The Board is making every effort to notify by mail all parties affected by this legislation as soon as possible.

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. 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 this legislation. E-mail inquiries about this legislation can be sent to the Board by going to the Board's Web site and clicking on "Send us a secure message" under "Latest News."

###