Railroad Retirement Information

U. S. Railroad Retirement Board

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For Publication October 2000

Railroad Retirement Annuities and Pensions From Work Not Covered by Social Security or Railroad Retirement

Railroad Retirement Act employee annuities are subject to dual benefit reductions when social security benefits are also payable; and, they may be subject to reduction when certain public, non-profit or foreign pension payments are also due a retired employee.

The following questions and answers describe how railroad retirement annuities are affected when retired rail employees are also entitled to pensions from employers not covered by railroad retirement or social security.

1. When was the noncovered service pension reduction in employee annuities legislated and how did it come about?

The noncovered service pension reduction in railroad retirement benefits was introduced by 1983 social security legislation which also applied to the tier I benefits of railroad retirement employee annuities.

Social security and railroad retirement tier I benefits replace a percentage of a worker’s pre-retirement earnings. The formula used to compute benefits includes factors that ensure lower-paid workers get a higher return than highly-paid workers. For example, lower-paid workers could get a social security or tier I benefit that equals about 60 percent of their pre-retirement earnings. The average replacement rate for highly-paid workers is about 25 percent. Before 1983, such benefits for people who spent time in jobs not covered by railroad retirement or social security were computed as if they were long-term, low-wage workers. They received the advantage of the higher percentage benefits in addition to their other pension. The modified formula eliminated this advantage.

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2. In general terms, which employees are affected by this reduction and what types of benefits would cause a reduction?

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 their tier I benefits 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. It includes both periodic payments, as well as lump-sum payments made in lieu of periodic payments. 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.

3. If a noncovered service pension reduction is required in a railroad retirement employee annuity, how would it be applied?

Unlike the dual benefit offset for social security entitlement applied by deducting the amount of the social security benefit from the annuitant's tier I railroad retirement benefit, an alternate factor is used in the tier I benefit computation of annuitants with such pensions.

A tier I benefit is calculated in the same way as a social security benefit. In computing a tier I benefit, 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 at the time of the employee's retirement. The adjusted earnings are used to calculate the employee's "average indexed monthly earnings" and a formula is applied to determine the gross tier I amount.

This benefit formula has three levels. Each level of earnings is multiplied by a specified percentage. The first level of earnings is multiplied by 90 percent, the second by 32 percent, and the final level by 15 percent. The results are added to obtain the basic benefit rate.

For those first eligible in 2000, the gross tier I benefit is equal to: 90 percent of the first $531 of average indexed monthly earnings, plus 32 percent of the amount of those earnings over $531 up to $3,202, plus 15 percent of those earnings in excess of $3,202.

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Beginning with 1986, a reduction in the 90 percent factor was phased in until, for employees subject to the noncovered service pension reduction and who became eligible in 1990 or later, the 90 percent factor is reduced to as low as 40 percent. Consequently, a 62-year old employee retiring this year, who is eligible for a noncovered service pension and whose average indexed monthly earnings are $1,200, would receive, after the reduction for early retirement, a tier I benefit of $337.26, rather than the $547.06 otherwise payable.

However, for employees with relatively low noncovered service pensions, there is a guarantee that the amount of the reduction in tier I cannot be more than 50 percent of the pension.

4. Are there any provisions exempting retired railroad employees who also receive noncovered service pensions from this reduction?

Railroad retirement employee annuitants also receiving a noncovered service pension who attained age 62 before 1986, or who became entitled to a railroad retirement disability annuity before 1986 and remained entitled to it in any of the 12 months before attaining age 62 (even if the employee attained age 62 after 1985) are not affected by the noncovered service pension reduction.

Railroad retirement employee annuitants who received, or were eligible to receive, their noncovered service pensions before 1986 would not be affected. They are considered eligible if they met the requirements of the pension plan before January 1986, even if they continued to work.

The reduction also does not apply to:

- Federal workers hired after December 31, 1983;
- Persons employed on December 31, 1983, by a nonprofit organization that was exempt from social security and became mandatorily covered under social security on that date;
- Railroad employees whose pension is based entirely on noncovered employment before 1957; and
- Railroad employees eligible for a noncovered service pension who have 30 or more years of substantial railroad retirement and/or social security earnings are generally exempt from the reduction. Also, employees with 21 to 29 years of substantial earnings may be subject to a lesser reduction. In such cases, the 90 percent factor is reduced in increments of five percent, providing factors ranging from 85 percent for employees with 29 years of substantial earnings to 45 percent for those with 21 years.

5. What is considered a year of "substantial earnings" for purposes of exempting a person from the reduction for a noncovered service pension?

A year of "substantial earnings" is not the same as a year of service. For 1951-78, the amount of earnings needed for a year of coverage is 25 percent of the annual social security maximum creditable earnings bases in effect for those years. For years after 1978, the amounts are 25 percent of what the maximum earnings bases would have been if the 1977 Social Security Amendments had not been enacted. For example, in 1975, earnings of $3,525 would be considered a year of substantial earnings; in 1985, earnings of $7,425 would be needed; in 1995, earnings of $11,325; and in 2000, earnings of $14,175.

6. Are any reductions made in railroad retirement spouse or widow(er) benefits if a public service pension is also payable?

Yes. The tier I portion of a spouse or widow(er) annuity may also be reduced for receipt of any Federal, State or local pension separately payable to the spouse or widow(er) based on her or his own earnings. The reduction generally does not apply if the employment on which the public pension is based was covered under the Social Security Act on the last day of public employment. (A special rule applies to Federal employees who switch from the Civil Service Retirement System to the Federal Employees Retirement System.) Most military service pensions and payments from the Department of Veterans Affairs will not cause a reduction. For spouses and widow(er)s subject to the public pension reduction, the tier I reduction is equal to 2/3 of the amount of the public pension.

7. Where can more specific information on how noncovered pensions affect railroad retirement benefits be obtained?

Individuals who may be affected should contact the nearest field office of the Railroad Retirement Board for information as to how their noncovered service pensions could affect their railroad retirement benefits.

For the phone number or address of the nearest Board field office, persons should look in the telephone directory under "United States Government," or check with their local union official, rail employer, post office, or Federal Information Center. They can also find the address and phone number of the Board office serving their area by calling the automated toll-free RRB Help-Line at 1-800-808-0772 or by checking the Board's Web site at www.rrb.gov. Most Board field offices are open to the public from 9:00 a.m. to 3:30 p.m., Monday through Friday.

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