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Railroad Retirement Annuity Increases

Most railroad retirement annuities, like social security benefits, increased in January 2003 as the result of a cost-of-living adjustment (COLA). However, almost all of those widow(er)s' annuities being paid under legislation enacted in December 2001 did not increase for the COLA. The following questions and answers provide information on the recent COLA and how it affected railroad retirement annuities.

1. When and how are COLAs calculated in railroad retirement and social security benefits?

COLAs are calculated in both the tier I and tier II benefits included in a railroad retirement annuity. These increases, effective December 1 and included in the January payment, are triggered under both the railroad retirement and social security programs when the Consumer Price Index (CPI) rises during the 12 months ending the previous September 30. Under certain circumstances, the increase can be based on average national wage increases rather than price increases. Generally, tier I benefits increase by the full amount of the rise in the CPI, while tier II benefits increase by 32.5% of the CPI rise. The vested dual benefit payments and supplemental annuities paid by the Railroad Retirement Board are not adjusted for the CPI rise.

2. How did the COLA payable in January 2003 affect most railroad retirement annuities?

Tier I benefits, like social security benefits, increased by 1.4 percent, which was the percentage of the CPI rise. Tier II benefits increased by 0.5 percent, which was 32.5 percent of the CPI rise.

Consequently, in January 2003, the average regular railroad retirement employee annuity increased $17 a month to $1,548 and the average of combined benefits for an employee and spouse increased $23 a month to $2,200. For aged widow(er)s whose annuities are not computed under the December 2001 legislation, the average annuity increased $10 a month to $820.

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For those beneficiaries covered by Medicare, the basic Part B premium generally deducted from monthly benefits increased from $54 to $58.70 in 2003.

3. Why did the railroad retirement widow(er)s' annuities that were either increased or awarded in 2002 under the recent legislation not increase for the COLA?

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 formula are not increased for COLAs until the amount payable under prior law plus interim COLAs, exceeds the amount payable under the new law.

Under prior law, the widow(er)'s tier I benefit, before any reductions for early retirement or other benefits, was generally equal to the unreduced tier I benefit the deceased employee had, or would have, received; 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, minus any applicable age reduction. 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 reduced each year by the dollar amount of the COLAs payable in both the tier I and tier II benefits provided under prior law. Consequently, until such time as the guaranty amount is reduced to zero, the amount of a widow(er)'s annuity paid under the new law will not increase for the COLA.

4. What would be a very basic example of how this formula 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.

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As the COLA payable in January 2003 provided a 1.4 percent increase in tier I benefits and a 0.5 percent increase in tier II benefits, the total dollar amount increase was $18. This amount is deducted from the $400 guaranty amount, reducing it to $382, 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. The average COLA paid over the last 10 years, including the COLA payable in January 2003, was 2.4 percent. If all future COLAs were at a steady 2.4 percent rate, this would occur with the COLA payable in January 2014.

5. 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.

6. What would be a very 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) was $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 began, her net annuity was $600 and her total combined social security and railroad retirement benefits were $1,700.

After the 1.4 percent increase in tier I and social security benefits and the 0.5 percent increase in tier II benefits, the total dollar amount of this widow's tier I and tier II benefit increase would be $13.50. This amount is subtracted from the $300 guaranty amount, reducing it to $286.50. 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 $588 (her increased tier II of $301.50 plus the reduced guaranty amount of $286.50). However, the total amount of the combined benefits payable rose to $1,703 because her social security benefit was increased by the 1.4 percent COLA to $1,115.

7. 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. Most 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.

8. Did the Railroad Retirement Board notify affected widow(er)s that they would not see a COLA in their January payments?

There are almost 50,000 widow(er)s on the Railroad Retirement Board's benefit rolls whose annuities were either awarded or recomputed under the new law. The Board released letters in November to these individuals advising them that their monthly payments would not change. The only change in their monthly payments would 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 received letters from the Board providing a breakdown of the annuity rates payable to them in January 2003.

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