



CRS Report for Congress

Railroad Retirement Board: Retirement, Survivor, Disability, Unemployment, and Sickness Benefits

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Summary

The Railroad Retirement Board (RRB) administers retirement, survivor, disability, unemployment, and sickness insurance for railroad workers and their families. This report describes RRB eligibility requirements, benefit types and compensation amounts, and program financing. The report will be updated annually.

The Railroad Retirement Board (RRB), an independent federal agency, administers retirement, survivor, disability, unemployment, and sickness insurance for railroad workers and their families. Workers covered by RRB include those employed by railroads engaged in interstate commerce and related subsidiaries, railroad associations, and railroad labor organizations.¹ In FY2006, RRB paid about \$9.4 billion in retirement, survivor, and disability benefits to about 619,000 beneficiaries and \$73 million in unemployment and sickness benefits to 28,000 beneficiaries.² Lifelong railroad workers receive RRB benefits instead of Social Security benefits; railroad workers with non-railroad experience receive benefits from either RRB or from Social Security, depending on the length of their railroad service.

RRB is separate from the Social Security system, but the two programs are closely coordinated. The first legislation to establish a federal retirement program for railroad workers passed shortly before the Social Security Act of 1935.³ The funding of RRB and Social Security was first linked in 1951, when a financial interchange was established.

¹ RRB is governed by three board members: one recommended by railroad employers, one recommended by railroad labor organizations, and one appointed to represent the public interest.

² Railroad Retirement Board, *2007 Annual Report for Fiscal Year Ended September 30, 2006*, at [<http://www.rrb.gov/pdf/opa/AnnualRprt/AnnualReport.pdf>]. (Hereafter, *RRB Annual Report*.)

³ RRB was created to stabilize the railroads when their finances were troubled. (See Ways and Means Committee, *2004 Green Book*, at [<http://www.gpoaccess.gov/wmprints/green/2004.html>].)

This annual exchange of funds places the Social Security Trust Funds in the same financial position they would have been in if railroad service had been covered by Social Security. The two programs' benefits are also coordinated. In 1974, railroad retirement benefits were divided into two tiers (discussed below). Tier I benefits are computed using the Social Security benefit formula based on earnings covered by either program. Tier II benefits are similar to private pension benefits and are based only on railroad work.

This report provides general information on railroad benefits. Certain exceptions and special cases are not covered. Individual railroad workers and beneficiaries should contact RRB for more specific information on their benefits.⁴

Railroad Retirement, Survivor, and Disability Benefits

The Railroad Retirement Act (45 U.S.C. § 231) authorizes retirement, survivor, and disability benefits for railroad workers and their families. To be *insured* for RRB benefits, a worker must generally have at least 10 years of covered railroad work, or five years performed after 1995. The family of an insured railroad worker receives RRB benefits equal to or greater than the Social Security benefits they would have received if the worker's railroad work had been covered by Social Security. If a worker does not qualify for RRB benefits, his or her railroad work counts toward Social Security benefits.

Retirement Benefits for Railroad Workers. At age 60, railroad workers with at least 30 years of covered railroad work may receive full retirement annuities. At full retirement age, which is gradually increasing from 65 to 67, insured workers with fewer than 30 years of service may also receive full retirement annuities.⁵ These workers may receive *reduced* retirement annuities starting at age 62. Retirement annuities are not payable to workers who continue to work in a covered railroad job or who return to railroad work after retirement. At the end of FY2007, about one-third of RRB beneficiaries (193,000) received age-based annuities. The average retirement annuity was about \$1,880 per month, including both tier I and tier II benefits (described below).⁶

Tier I Annuities. Tier I benefits are equivalent to Social Security benefits. Tier I benefits are calculated using the Social Security benefit formula with the RRB age and service requirements, and are based on both RRB- and Social Security-covered employment. After tier I benefits are first paid, they increase annually with a cost of living adjustment (COLA) in the same manner as Social Security benefits.⁷

Tier I benefits may be reduced for retirees who receive Social Security benefits or government pensions, retire early, or continue to work after retirement. Generally, Social Security benefits are subtracted from tier I benefits, since work covered by Social Security

⁴ To find the nearest RRB office, see [<http://www.rrb.gov/field/field.asp>] or call 1-800-808-0772.

⁵ Full retirement age is rising from 65 for those born before 1938 to 67 for those born after 1959.

⁶ Railroad Retirement Board, Bureau of the Actuary, *Quarterly Benefit Statistics*, December 2007, at [http://www.rrb.gov/pdf/act/stat_qbs907.pdf]. All FY2007 benefit figures are in this document.

⁷ For more on Social Security's benefit formula and COLA, see CRS Report 94-27, *Social Security: Brief Facts and Statistics*, by Gary Sidor.

is counted towards tier I benefits. (Beneficiaries insured by both systems receive a single check from the RRB.) Railroad retirement benefits may also be reduced for certain pensions earned through federal, state, and local government work. Tier I benefit reductions for early retirement are similar to those in the Social Security system. As the full retirement age rises, so will the reduction for early retirement.⁸ For early retirees who continue to work outside the railroad industry, tier I benefits are reduced by \$1 for every \$2 earned above the exempt amount (\$13,560 in 2008).⁹ The reductions for earnings do not apply if a railroad retiree's annuity is reduced due to Social Security benefit receipt.

Tier II Annuities. Tier II retirement annuities are paid in addition to tier I annuities and any private pension and retirement savings plans offered by railroad employers.¹⁰ They are similar to private pensions and based solely on covered railroad service. Tier II benefits are increased annually by 32.5% of the Social Security COLA.

Tier II benefits are *not* reduced if a worker receives Social Security benefits or a government pension. Generally, the early retirement reductions for tier II benefits are the same as for tier I benefits. The reductions for earnings are different. For railroad retirees who continue to work at the non-railroad job they held at the time they retired, tier II benefits are reduced by \$1 for every \$2 earned, up to 50% of the benefit. The benefit reduction for earnings applies to all tier II beneficiaries, regardless of age.

Other Retired Worker Benefits. Railroad employers finance a *supplemental annuity* program. Supplemental annuities are payable to employees hired before October 1981, with at least 25 years of covered railroad service and a *current connection* to the railroad industry.¹¹ At the end of FY2007, about 121,000 railroad retirees received supplemental annuities, which averaged \$42 a month. In addition, general revenues finance a windfall benefit to *vested dual beneficiaries*. Vested dual beneficiaries were insured for both RRB and Social Security in 1974 when the two-tier benefit structure was established. In FY2006, about 44,200 retirees received vested dual benefits, averaging \$160 per month.¹² Neither supplemental annuities nor vested dual benefits are adjusted for the cost of living. Supplemental annuities are subject to the same earnings reductions as tier II benefits; vested dual benefits are subject to the same earnings reductions as tier I benefits.

Retirement Benefits for Railroad Workers' Families. In any month that a worker collects a railroad retirement benefit, his or her spouse may also be eligible for a

⁸ The reduction at age 62, Social Security's earliest eligibility age, is rising from 20% to 30%.

⁹ During the calendar year that a retiree will reach the full retirement age, the formula for calculating the early retirement reduction changes: benefits are reduced \$1 for every \$3 earned above the exempt amount (\$36,120 in 2008) until the beneficiary reaches full retirement age.

¹⁰ Annual tier II benefits are 7/10% of a workers' average taxable monthly compensation for the highest 60 months of earnings times their years of service, less 25% of any vested dual benefit.

¹¹ People have a *current connection* if they worked in a covered railroad job for at least 12 of the 30 months before death or receipt of a railroad annuity. The current connection is not broken during employment at certain U.S. government agencies, or in other special circumstances.

¹² *RRB Annual Report*.

retirement benefit.¹³ A spouse qualifies for a retirement annuity when he or she reaches the same minimum age required for the worker to collect a retirement annuity (i.e., either age 60 or 62, depending on years of service). At any age, a spouse may be eligible for a retirement annuity if he or she cares for the retired worker's unmarried child under age 18 (or a child disabled before age 22). A qualifying spouse receives 50% of the worker's tier I benefit before reductions (or, if higher, a Social Security benefit based on his or her own earnings). Spouses may also receive 45% of the worker's tier II benefit before reductions. At the end of FY2007, about a quarter of RRB beneficiaries (137,000) received spouse annuities. The average spouse annuity was \$712 per month.

For spouses, as for railroad workers, Social Security benefits are subtracted from tier I benefits. The benefit reductions for government pensions and post-retirement earnings are also the same for spouses and workers, but spouses are subject to reductions based on workers' earnings as well as on their own earnings. As for early retirement, spouses are subject to different benefit reductions than are workers.¹⁴ Finally, spouses' benefits are reduced by the amount of any railroad benefits they earned based on their own work.

Retired workers may also receive benefits on behalf of their children, if the children are unmarried and under the age of 18 (or 19 if still in high school). These benefits are subject to certain maximums based on the total benefits paid to the worker's family.

Survivor Benefits for Railroad Workers' Families. Surviving spouses, former spouses, children, and other dependents of railroad workers may be eligible to receive survivor benefits after the worker's death. These benefits are paid in addition to any private life insurance offered by railroad employers. To be insured for survivor benefits, a worker must have had a current connection to the railroad industry at the time of death. Railroad survivor benefits are generally higher than comparable Social Security benefits since families of railroad workers may be entitled to tier II benefits as well as tier I benefits (which are equivalent to Social Security benefits). In cases where no monthly survivor benefits are paid, a lump-sum payment may be made to certain survivors.

The widows and widowers of railroad workers may receive survivor benefits. At full retirement age, a surviving spouse may be eligible for 100% of the worker's tier I benefit (or his or her own Social Security benefit, if higher). The widow(er) may also receive 50% to 100% of the worker's tier II benefit. As early as age 60 (or age 50, if disabled), widows and widowers may receive *reduced* survivor benefits.¹⁵ At any age, a widow(er) caring for a deceased worker's child under age 16 may receive a survivor benefit of 75% of the worker's tier I benefit, as well as 50% to 100% of the worker's tier II benefit. At the end of FY2007, about a quarter of RRB beneficiaries received aged widow(er) benefits, which averaged \$1,168 per month. Less than 1% of RRB beneficiaries (867) received benefits for widowed mothers and fathers, which averaged \$1,464 per month.

¹³ Divorced spouses of retired railroad workers may also be eligible for retirement annuities. A divorced spouse may receive 50% of the worker's tier I benefit before reductions, but no tier II benefits. To qualify, the former spouse must have been married to the worker for at least 10 years and must not be remarried; both the worker and former spouse must be at least age 62.

¹⁴ For spouses, the reduction at age 62 is gradually rising from 25% to 35%.

¹⁵ For widow(er)s, the reduction at age 60 (Social Security's earliest eligibility age for widowed spouses) is rising from about 17% to 20%.

Children of railroad workers may also receive survivor benefits. To qualify, a child must be unmarried and under the age of 18 (or 19 if still in high school). Disabled adult children may qualify if their disability began before age 22. Eligible children receive 75% of the worker's tier I benefit and 15% of the worker's tier II benefit. At the end of FY2007, about 2% of RRB beneficiaries (11,000) received children's survivor benefits, which averaged \$850 per month. In addition, if the parents of a railroad worker were dependent on the worker for at least half of their support, they may receive 82.5% of the worker's tier I benefit and 35% of the worker's tier II benefit.

Survivor benefits are not payable to a current railroad employee, and survivor benefits are reduced by any RRB benefit the survivor has earned through his or her own railroad work. Survivors receive the same reductions as retired workers for Social Security benefit receipt, government pension receipt, and earnings (unless they are disabled). A family maximum applies to survivor benefits, usually applicable when three or more survivors receive benefits on a worker's record (not counting divorced spouses).

Disability Benefits for Railroad Workers. Railroad workers may be eligible for benefits if they become disabled. The Railroad Retirement Board determines whether a worker is disabled based on the medical evidence provided during the application process. Railroad workers found to be totally and permanently disabled from all work may be eligible for *total disability annuities*. Totally disabled workers may receive tier I benefits after a five-month waiting period and tier II benefits at age 62. *Occupational disability annuities* are also payable to workers found to be permanently disabled from their regular railroad occupations, at least 60 years old with 10 years of service (or any age with 20 years of service), and with a current connection to the railroad industry. At the end of FY2007, about 15% of RRB beneficiaries (84,000) received disability benefits. The average disability annuity paid to workers younger than the full retirement age was about \$2,200; the average paid to those above the full retirement age was about \$1,700.

Disability annuities are not payable if a worker is currently employed in a covered railroad job. Disability benefits are suspended for beneficiaries who earn more than \$730 a month in 2008 before the full retirement age.¹⁶ After the full retirement age, the earnings reductions for retired railroad workers apply. The tier I portion of disability benefits may be reduced for the receipt of workers compensation or government disability benefits.

Financing of Benefits Under the Railroad Retirement Act. Payroll taxes are a major funding source for railroad retirement, survivor, and disability benefits. RRB payroll taxes are divided into two tiers. The tier I tax is the same as the Social Security payroll tax: railroad employers and employees each pay 6.2% on earnings up to \$102,000 in 2008. Tier I taxes are transferred to the Social Security trust funds in a financial interchange, then used to pay tier I benefits. The tier II tax is set each year based on RRB's asset balances as well as benefit and administrative costs. The tier II tax is 12.1% for employers and 3.9% for employees on earnings up to \$75,900 in 2008. Tier II taxes are used to finance tier II benefits, supplemental annuities, and a portion of tier I benefits.

¹⁶ P.L. 109-478, passed in 2006, increased the earnings limit for RRB disability beneficiaries from \$400 to \$700 and indexed future disability earnings limits to the Average Wage Index.

In addition to payroll taxes, which provided about 48% of RRB funding in FY2006, railroad benefits are funded from several other sources.¹⁷ The financial interchange with Social Security provided 36% of RRB funding in FY2006. Revenues not needed to pay current benefits and administrative costs are held in the National Railroad Retirement Investment Trust, which is invested in both government securities and private equities. Transfers and interest from this fund provide another revenue source for railroad benefits, and were about 10% of RRB's funding in FY2006. Federal income taxes levied on RRB benefits made up about 5% of funding. General fund transfers to pay the costs of phasing out vested dual benefits amounted to about 1% of funding.

Railroad Unemployment and Sickness Benefits

Railroad workers may qualify for daily unemployment and sickness benefits under the Railroad Unemployment Insurance Act (45 U.S.C. § 351-369). These benefits are paid in addition to any paid leave or private insurance an employee may have. Eligibility for RRB unemployment and sickness benefits is based on recent railroad service and earnings. Each year, the *benefit year* begins on July 1. Eligibility is based on work in the prior year, or the *base year*. To qualify, railroad workers must have a minimum amount of creditable earnings in the base year (\$3,200 in the 2008 base year), not counting earnings above a *monthly* maximum (\$1,653 in the 2008 base year). New railroad workers must also have at least five months of covered railroad work in the base year. To receive unemployment benefits, a worker must be willing and able to work. For sickness benefits, a worker must be unable to work because of illness or injury. Workers may not earn any money while receiving unemployment or sickness benefits.

Unemployment and sickness beneficiaries will receive \$61 a day for benefit year 2008 (beginning in July 2008). Railroad workers only receive these benefits to the extent that they are higher than other benefits they receive under the Railroad Retirement Act, the Social Security Act, or certain other public programs, including workers compensation. Unemployment and sickness beneficiaries may receive *normal benefits* for up to 26 weeks in a benefit year, or until the benefits they receive equal their creditable earnings in the base year (if sooner).¹⁸ Employees with at least 10 years of covered railroad service may qualify for *extended benefits* for 13 weeks after they have exhausted normal benefits. Workers who apply for unemployment benefits will be enrolled automatically in a free job placement service run by railroad employers.

Financing of Benefits Under the Railroad Unemployment Insurance Act.

Railroad unemployment and sickness benefits are financed solely by railroad employers. Employers' contributions are based on the taxable earnings of their employees. The tax rate depends on the past rates of unemployment and sickness claims by employees, and ranges from 2.15% to 12.0%. Employers also pay a 1.5% surcharge to build up the railroad unemployment insurance trust fund. Railroad unemployment funds not needed immediately are deposited into an account that is part of the national unemployment insurance trust fund; the railroad account receives interest based on these deposits.

¹⁷ *RRB Annual Report*.

¹⁸ There is essentially a one-week waiting period for unemployment and sickness benefits. There is a two-week waiting period for unemployment benefits if a worker participates in a legal strike.