



RRB News

U.S. Railroad Retirement Board

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Revised Year 2002 Railroad Retirement Payroll Taxes

The Railroad Retirement and Survivors' Improvement Act of 2001, signed into law by President Bush on December 21, 2001, among other provisions, amended the Internal Revenue Code to reduce tier II railroad retirement tax rates on rail employers, including rail labor organizations, in 2002 and 2003, and provided for future adjustments in the tier II railroad retirement tax rates assessed on both rail employers and rail employees, depending on railroad retirement fund levels. The new law also repealed the railroad retirement supplemental annuity tax paid by rail employers.

Under the new law, rail employers and rail labor organizations will pay a tier II retirement tax of 15.60 percent in 2002 and 14.20 percent in 2003. Under prior law, the rate was 16.10 percent. The tier II tax rate for rail employee representatives will be 14.75 percent in 2002 and 14.20 percent in 2003. The new law does **not** affect the tier II earnings bases, and the maximum amount of an employee's railroad earnings subject to the tier II tax will be \$63,000 in 2002, as previously announced.

While there is **no** change in the tier II tax rate of 4.90 percent for rail employees in the years 2002 and 2003, the new law provides future automatic adjustments in the tier II tax rates for employees as well as for employers. Beginning with the taxes payable for calendar year 2004, tier II taxes will be based on the ratio of certain asset balances to the sum of benefits and administrative expenses. Depending on this ratio, tier II tax rates for employers will range between 8.20 percent and 22.10 percent, while the tier II tax rates for employees will be between 0 percent and 4.90 percent.

The new law does **not** change the railroad retirement tier I tax on rail employers and employees. The tier I tax rate remains at 7.65 percent for rail employers and employees, which is the same as the social security tax, and for withholding and reporting purposes is divided into 6.20 percent for retirement and 1.45 percent for Medicare hospital insurance. The maximum amount of an employee's earnings subject to the 6.20 percent rate is still \$84,900 in 2002; there is no maximum on earnings subject to the 1.45 percent Medicare rate.

In 2002, a rail employer's tier I and tier II retirement taxes on an employee earning \$84,900 will be \$16,322.85. Under prior law, the amount would have been \$16,637.85 in 2002.

(More)

The new law also repealed the railroad retirement supplemental annuity tax, which is no longer payable for years after 2001. This work-hours tax had been paid solely by rail employers and employee representatives and at a rate determined quarterly by the Board, 26 cents per work-hour throughout 2001.

The new law does **not** affect railroad unemployment insurance taxes in any way. These taxes, paid by rail employers, are experience-rated by employer, and in 2002, the unemployment insurance tax rates range from 3.15 percent (the minimum basic rate of 0.65 percent plus a 2.50 percent surcharge) to a maximum of 12 percent on monthly compensation up to \$1,100.

The 2.50 percent surcharge does not apply to new employers in 2002. New employers pay an unemployment insurance tax rate of 2.71 percent, which represents the average rate paid by all employers in the period 1998-2000.

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