The Reporting Instructions for Creditable Sickness Payments provides instructions to sickness payers on reporting requirements under the Railroad Retirement Act (RRA). Such payers must file reports with the Railroad Retirement Board's Compensation and Employer Services Center (CESC) within the Office of Policy and Systems. These instructions cover forms and correspondence relating to the following subjects:

- annual tax and earnings reports of creditable sick pay;
- adjusted reports of creditable sick pay; and,
- clarification of reports of creditable sick pay in order to correctly credit payee records.

Creditable Sick Pay Compensation Defined

Creditable Sick Pay compensation is paid to an employee under a plan or agreement available on the same basis to employees in a like class and payable for days not worked on account of injury, illness, pregnancy, or childbirth. The term "Creditable Sick Pay" refers to an RRB-approved Supplemental Sick Pay Plan such that these sickness benefit payments are:

- limited to Tier I tax;
- creditable as Tier I compensation only;
- not creditable as to yield service months;
- not creditable as Tier II compensation; and,
- not creditable as compensation under the Railroad Unemployment Insurance Act (RUIA).

If you are making sickness payments to your employees through a plan that is not approved by the RRB it is creditable as regular compensation and should be reported as Tier I, Tier II and RUIA compensation on your annual reports. To have a plan approval determination, submit the plan to: Railroad Retirement Board, Chief of RUIA, Internet and Support, 844 N. Rush Street, Chicago Il, 60611-1275. If you have questions, contact a CESC Specialist.

Exceptions to Creditable Sick Pay Compensation

There are three exceptions where sick pay is not creditable or taxable as Tier I compensation. The exceptions are:

- Sick pay paid by the RRB under the Railroad Unemployment Insurance Act for an on-the-job injury;
- Sick pay paid subsequent to the sixth month following the month the employee last worked; and,
- Sick pay is paid in the year after the employee died.

The exception for crediting sick pay after the sixth month following the month the employee last work does not mean that creditable sick pay is limited to six months in a year. If the employee
returns to work and is off sick again, a new six month period is counted from the month following the latest date worked.

**Effects of Creditable Sick Pay Compensation on Retirement Benefit Payments**

It is helpful in completing railroad retirement reports to understand the relationships between creditable sick pay compensation, employment tax, and benefits under the RRA. Under the RRA, creditable compensation and retirement-survivor benefits are all based on a corresponding structure of two separate tiers. Railroad retirement taxes under the Railroad Retirement Tax Act are also computed using the tier structure. Consequently, a direct relationship exists between creditable compensation, the corresponding taxes paid to the Internal Revenue Service (IRS), and the benefits paid under the RRA. For creditable sick pay compensation only the Tier I relationship applies.

Tier I is the railroad retirement equivalent of social security. Railroad retirement and the social security systems are coordinated by law. The Tier I tax is computed on the same percentage rate and annual maximum tax base as social security. Like social security tax, Tier I tax is shared equally by employee and employer.

The Tier I portion of a railroad retirement annuity is calculated by using the social security benefit formula. It is based on an employee's lifetime combined Tier I compensation from creditable sick pay compensation, railroad employment earnings, and non-railroad social security credits.