

Retired Employee and Spouse Benefits

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Railroad Employee Annual Taxes and Wage Bases

<u>Year</u>	<u>Tier I *</u>		<u>Tier II</u>		<u>Annual Tax *</u>
	<u>Tax Rate</u>	<u>Wage Base</u>	<u>Tax Rate</u>	<u>Wage Base</u>	
2018	7.65%	\$128,400	4.90%	\$95,400	\$14,497.20

* Tier I rate includes Medicare tax of 1.45% payable on all earnings. Employees earning over \$128,400 in 2018 will therefore have higher annual tax than shown above.

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- Tier I tax rate and wage base same as under social security.
- An additional 0.9% in hospital insurance taxes (2.35% in total) applies to an individual's income exceeding \$200,000, or \$250,000 for a married couple filing a joint tax return. While employers will begin withholding the additional Medicare tax as soon as an individual's wages exceed the \$200,000 threshold, the final amount owed or refunded will be calculated as part of the individual's Federal income tax return.
- Employer in 2018 pays tier I tax rate of 7.65% on \$128,400 wage base. Rate includes Medicare tax of 1.45% on all earnings. Employer in 2018 also pays tier II tax of 13.10% on \$95,400 wage base. 2018 employer tax on an employee earning \$128,400 is \$22,320.

Creditable Railroad Service

- Work for any railroad employer
 - Railroads
 - Railroad unions
- Service not necessarily consecutive

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- 120 months of service (or at least 60 months of post-1995 service) required to receive an annuity.
- Compensation can include earnings, vacation pay, pay for time lost, personal injury settlements, etc.
- Additional service months can sometimes be deemed when employee doesn't actually work in every month of the year and monthly earnings exceed 1/12 the annual tier II tax base. Maximum of 12 service months creditable in a year.

Military Service

- Creditable if
 - Preceded by rail service in same or preceding year, and
 - Entered involuntarily or during war or national emergency, or
 - Voluntarily served between 6-15-48 and 12-15-50 and returned directly to rail service

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- War and national emergency periods:

08-02-90 - ending date not yet determined	Persian Gulf/Current Conflict
12-16-50 - 09-14-78	Korea/Vietnam
09-08-39 - 06-14-48	World War II

- Compensation credited:

Years after 1974	Up to social security maximum
1968 - 1974	\$260 per month
1937 - 1967	\$160 per month

- If military service used by the RRB, cannot be used as quarters of coverage under social security.

Current Connection

- Current connection needed for:
 - Survivor annuities
 - Occupational disability annuities
 - Supplemental annuities

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- An employee has a current connection if he or she has 12 months of railroad service in 30-month period immediately preceding the employee's railroad retirement annuity beginning date or death, or, if there is no other nonrailroad work, between end of 30-month period and retirement or death.
- Once a current connection is established at the time of retirement, including disability cases, an employee never loses it, no matter what kind of work is performed thereafter.

Current Connection (Continued)

- Self-employment and certain Federal employment do not break a current connection
- Current connection can be broken by working for nonrailroad employer after leaving railroad and before railroad retirement annuity begins
- Under certain conditions, can be deemed for supplemental and survivor annuities

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- For current connection to be deemed, employee must have separated from railroad industry involuntarily since October 1, 1975, and must have had at least 25 years of service at separation.
- Generally, where employee has no option to remain in service of employer, termination of employment considered involuntary, regardless of whether or not a separation allowance was received. However, the RRB decides each case on an individual basis.
- Self-employment in an unincorporated business will not break a current connection; self-employment can break a current connection if the business is incorporated.
- Work for the following U.S. Government agencies will not break a current connection:
 - Department of Transportation
 - National Transportation Safety Board
 - Surface Transportation Board
 - National Mediation Board
 - Railroad Retirement Board
 - Transportation Security Administration

Retirement Benefits

- Retirement annuity
 - Age
 - Total disability
 - Occupational disability
- Supplemental annuity
- Spouse annuity

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- Annuities are payable on the first of the month for the previous month.
- An annuitant must be alive the entire month in order for an annuity to be payable for that month. Benefits are not prorated.

Disability Annuities

	Age	Service	Current Connection
Total Disability	Under full retirement age	10 years (or 5 years after 1995)	No
Occupational Disability	Under 60	20 years	Yes
	60 to full retirement age	10 years	Yes

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- For those with fewer than 10 years of railroad service, the employee must meet social security's insured status and have 20 quarters of coverage (railroad and/or social security) in the last 40 quarters preceding disability in order to receive a benefit.
- No age reduction if employee has at least 10 years of service.
- For those with fewer than 10 years of service, there is no tier I age reduction. However, a tier II benefit is not payable until the employee attains age 62, and it is reduced for early retirement.
- Total disability means a physical or mental disability that prevents **any** regular employment.
- Occupational disability means the employee is permanently disabled for his or her regular railroad occupation (generally, the job employee worked the longest in the last 5 years).
- Waiting period is 5 **full** months.
- Employee can be in compensated service while filing a disability application as long as compensated service terminates within 90 days from date of filing and the compensated service is not active service. In order for the supplemental annuity to be paid or for an eligible spouse to receive benefits, a disability annuitant under full retirement age must relinquish rights.

Regular Age Annuities

<u>Years of Service</u>	<u>Reduced Annuity</u>	<u>Full Annuity</u>
5 after 1995	Ages 62-66 *	Ages 65-67 *
10 – 29	Ages 62-66 *	Ages 65-67 *
30+		Age 60

* Depending on the year of the employee's birth.

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- In the case of an employee with 5 years of service after 1995, tier I payable only if employee has a social security insured status (using railroad and social security earnings).
- If an employee has fewer than 10 years of railroad service and is already entitled to an age-reduced social security benefit, the tier I reduction is based on the reduction applicable on the beginning date of the social security benefit, even if the employee is of full retirement age on the beginning date of the railroad retirement annuity.
- Full retirement age is 65-67 depending on the year of the employee's birth.
- 60/30 annuities beginning before January 1, 2002, are reduced for age.
- If fewer than 10 years (120 months) of service, or fewer than 5 years (60 months) after 1995, retirement credits transferred to social security at time of retirement or death.
- Age reductions are permanent.

Full Retirement Age

- Full retirement age for those with fewer than 30 years of service gradually rising from 65 to 67 and annuity reduction at 62 gradually increasing
- Age at which an employee can retire does not change, only the percentage of the reduction

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- The full retirement age for employees with fewer than 30 years of service is gradually rising from 65 to 67. The maximum annuity reduction for retirement at age 62 is gradually increasing from 20% to 30%. Tier II benefit reduction remains 20% if any railroad service before August 12, 1983. Affects those born in 1938 and later.

Employee Full Retirement Age

Retirement With Less Than 30 Years of Service

If Employee Born*	At Age 62 Annuity Will Be Reduced By	<u>OR</u>	For Unreduced Annuity To Be Payable, Retirement Age Must Be
1937 or earlier	20.00%		65
1938	20.833%		65 and 2 months
1939	21.667%		65 and 4 months
1940	22.50%		65 and 6 months
1941	23.333%		65 and 8 months
1942	24.167%		65 and 10 months
1943 through 1954	25.00%		66
1955	25.833%		66 and 2 months
1956	26.667%		66 and 4 months
1957	27.50%		66 and 6 months
1958	28.333%		66 and 8 months
1959	29.167%		66 and 10 months
1960 or later	30.00%		67

* A person attains a given age the day before his or her birthday. Consequently, someone born on January 1 is considered to have attained his or her given age on December 31 of the previous year.

Note.—Reduced annuities are still payable for those attaining age 62 with fewer than 30 years of service. However, the maximum reduction for an employee is gradually rising from 20% to 30% by the year 2022. The tier II reduction remains 20% for an employee if the employee had any railroad service before August 12, 1983.

If an employee has fewer than 10 years of railroad service and is already entitled to an age-reduced social security benefit, the tier I reduction is based on reduction applicable on beginning date of social security benefit, even if the employee is of full retirement age on beginning date of railroad retirement annuity.

Employee Tier Components

- Tier I
- Tier II
- Vested Dual Benefit
- Supplemental Annuity

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- Each annuity is made up of one or more components.

Tier I Amount

Approximates social security benefit payable if all work were performed under Social Security Act

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Social security credits combined with railroad retirement credits in computing tier I.

- calculated using social security formulas
- reduced for age or early retirement if required
- reduced for social security benefits
- if disability annuity and under full retirement age, may be reduced for worker's compensation or public disability benefits
- may be reduced for certain pensions from work not covered by social security after 1956, for those first eligible for a railroad retirement annuity and a Federal, State or local government pension after 1985

Tier I Computation

<u>Year</u>	<u>Max. Comp.</u>	<u>Index</u>	<u>Index Comp.</u>
2017	\$127,200	1.000	\$127,200
2007	97,500	1.204	117,375
1997	65,400	1.774	115,992
1987	43,800	2.640	115,662
1977	16,500	4.973	82,069

Lifetime earnings of \$4,173,386.55 divided by
420 months of service produces an AIME of \$9,936.

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Tier I Computation (Continued)

90% of first \$895 of AIME = \$805.50

32% of AIME over \$895
through \$5,397 = \$1,440.64

15% of AIME over \$5,397 = \$680.85

\$2,926.90 (rounded)

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Tier II Calculation

- Paid in addition to tier I benefit and based solely on railroad work
- Based on:
 - 60 months of highest earnings (up to tier II maximum)
 - and
 - Total years of railroad service

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Tier II

- computed under a special formula
- comparable to an industrial pension
- reduced for age if required
- reduced by 25% of employee vested dual benefit amount

Requirements for Vested Dual Benefit

Insured for social security retirement benefit as of December 31, 1974, 10 years of railroad service before 1975, and certain other conditions

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- If not insured for social security by December 31, 1974, cannot be vested.

Supplemental Annuities

- 25 years (300 months) of railroad service
- Railroad service before 10-1-81
- Current connection
- Payable at age 60 if 30 years of service; otherwise age 65
- \$43 maximum monthly amount

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- Formula for awards after 1974 is \$23 plus \$4 for each year of service over 25, up to a maximum of \$43.
- If employee also receives private pension paid for entirely or in part by a railroad, supplemental annuity subject to reduction.
- Private pensions paid by railway labor organizations **will not** cause a reduction in supplemental annuities.

Property Settlements

Employee tier II benefits, vested dual benefits and supplemental annuities subject to property settlements in annulment, separation or divorce cases

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- Railroad Retirement Board must honor court orders that treat non-tier I benefits as property subject to division in proceedings related to divorce, annulment or legal separation, and which order the RRB to make payments to the divorced spouse. The *Attorney's Guide to the Partition of Railroad Retirement Annuities* covers this subject in greater detail and is available at **RRB.gov** under the **Resources** tab (**Legal Information**) on the main menu.
- Certain percentages of an annuity may be subject to legal process to enforce an obligation for child support and/or alimony payments.
- Payment of a partition amount as part of a court-ordered property distribution can be made, or continue, after the employee's death unless a court order requires termination of payments upon the employee's death.
- Court-ordered payment of a partition amount can be made even if no survivor benefits are payable by the RRB.
- Partitions may be paid to a divorced spouse even if the employee is not receiving an annuity, under the condition that both the employee and divorced spouse are 62 and have been divorced for at least 2 years.

Spouse Annuities

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- Spouses can be male or female.
- Benefits can be paid to eligible spouses in same-sex marriages.

Requirements for Spouse Annuity

- Employee retired, receiving annuity, meets age requirements
- Spouse married at least 1 year to employee and meets age requirements, or is natural parent of their child
- Spouse gives up railroad employment, if any

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- Exception to 1 year marriage requirement - spouse was eligible to receive certain railroad retirement survivor annuity before marrying employee.

Spouse Eligibility Provisions-- Employee Age 60 With 30 Years of Service

- Employee annuity begins January 1, 2002, or later
 - spouse can receive annuity at age 60
 - or
 - at any age with child in care
- Spouse annuity is unreduced

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- In order for a spouse to qualify for benefits based on caring for a child, the child must be under 18 or have become disabled before age 22. Children not paid directly when employee retired.
- If employee was awarded a disability annuity, has attained age 60, and has over 30 years of service, the spouse can receive a full annuity at age 60, regardless of whether the employee annuity began before or after 2002 as long as the spouse's annuity beginning date is after 2001.

Spouse Eligibility Provisions- Employee Age 62 With Fewer Than 30 Years of Service

- Spouse can receive reduced annuity
 - at age 62
 - Spouse can receive full annuity
 - at full retirement age (65-67) *
 - at any age with child in care
- * Depending upon the spouse's date of birth

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- If employee retired with fewer than 10 years of service, 5 of which are after 1995, reduced tier II benefit is payable to spouse at 62. Reduced tier I amount is only payable to spouse if employee had insured status under social security based on combined railroad and social security earnings.
- If employee has fewer than 10 years of railroad service and the spouse is already entitled to an age-reduced social security benefit, the age reduction in her or his tier I will be based on the age reduction applicable on the beginning date of the spouse's social security benefit, even if the spouse is already of full retirement age on the beginning date of her or his railroad retirement annuity.

Divorced Spouse Requirements

- Employee 62 or over
- Divorced spouse:
 - Married to employee at least 10 years
 - Not presently married
 - Age 62 or over
- Divorced spouse receives tier I only
- Child in care does not qualify divorced spouse for benefits

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- The employee need not be receiving an annuity for a divorced spouse to receive one as long as the employee is at least 62 and fully insured under the Social Security Act and they have been divorced for at least 2 years.
- Payment of divorced spouse annuity has no effect on annuity payable to employee or current spouse.
- If employee retired with 5 years of service after 1995, benefit payable only if employee had insured status under social security.

Eligibility Requirements Divorced Spouse

- Receives reduced tier I at age 62
- Receives full tier I at full retirement age *

* 65-67 depending on year of birth

Spouse Tier Components

- Tier I 50% of employee tier I
- Tier II 45% of employee tier II
(Not payable to divorced spouses)

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If Employee and Spouse Both Railroad Employees

Each may receive both an employee annuity based on own service and a spouse annuity based on the other's service

IF

Either the employee or spouse had at least one month of railroad service prior to January 1, 1975

**ALWAYS CHECK WITH RRB BEFORE FILING
FOR SOCIAL SECURITY BENEFITS**

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- If either had some railroad service before 1975, the spouse tier I amount is reduced by the amount of the railroad employee tier I to which the spouse is entitled, and that reduction is restored in the spouse tier II amount.
- If both started after 1974, the amount of any spouse or divorced spouse annuity is reduced by the amount of the employee annuity to which the spouse is also entitled.

Annuity Reductions

- Tier I
 - age
 - social security benefits
 - public service pension
- Tier II
 - age

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Working After Retirement

- Annuity not payable if employee or spouse working for railroad or rail union - must relinquish rights
- Prior to full retirement age, part or all of tier I and all of vested dual benefit reduced if earnings are over annual exempt amount

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- Earnings include all wages received for service plus any net earnings from self-employment. Interest, dividends, etc. not considered earnings for this purpose.
- Earnings of \$25 or more a month by a local lodge employee will prevent payment of the annuity for that month.
- A deduction of \$1 for every \$3 of earnings over the annual exempt amount (\$45,360 in 2018) applies to beneficiaries for all months in the calendar year in which they reach full retirement age, up until the month full retirement age is attained. In the years before the year of full retirement age, the earnings deduction is \$1 in benefits for every \$2 over the exempt amount (\$17,040 in 2018).
- Excess earnings are a major cause of overpayments.
- Earnings restrictions are most likely to apply to recent retirees.
- No deduction once full retirement age attained. However, work for last pre-retirement nonrailroad employer is subject to work deductions, regardless of age (see next slide).
- An annuity to a divorced spouse or a partition payment may be made despite the employee's work activity.

Working After Retirement - Last Nonrailroad Employer

- If employee or spouse continues work for last pre-retirement nonrailroad employer:
 - Tier I and vested dual benefit subject to reduction if earnings over exempt amount.
 - In addition, tier II and supplemental payments reduced by \$1 for each \$2 of earnings – maximum reduction of 50%. Applies to all earnings and continues after full retirement age.

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- Self employment, and work that begins on or after the same day as the annuity beginning date, is not considered last pre-retirement nonrailroad employment.
- Spouse benefit subject to tier II reductions not only for spouse's earnings, but also for employee's. However, spouse's earnings have no effect on employee's annuity.

Working After Retirement - Disability

- Work by disability annuitant must be consistent with disabled status
- Disability annuity not payable for any month with earnings over \$920 in 2018, exclusive of disability-related work expenses
- All earnings must be reported

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- Withheld payments restored if earnings for 2018 less than \$11,500.
- Any work or earnings reviewed to determine whether it indicates recovery from disability.
- Considered a disability annuitant until attainment of full retirement age.

A disability annuitant considering employment must first contact an RRB field office.

Filing for Social Security Benefits

Railroad workers and retirees should contact an RRB field office before filing for any social security benefits

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- A major cause of overpayments is the lack of information about the coordination between railroad retirement and social security benefits.
- It may be advantageous to file a claim with social security if
 - an employee has minor or disabled children; or
 - an employee is still working for a railroad and has attained full retirement age; or
 - a spouse has reached full retirement age.
- It is generally disadvantageous to file a claim with social security if the employee and spouse are both railroad employees.

RRB field offices can help annuitants decide if and when they should file for social security benefits.

Survivor Benefits

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- Benefits include annuities (monthly benefits) and lump-sum payments.

Insured Status

- Railroad Retirement Board pays survivor annuities if deceased employee had
 - 10 years of service or, if fewer than 10 years, at least 5 years after 1995 and
 - Current connection at retirement or at death
- Otherwise, railroad retirement credits transferred to social security

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- If employee had fewer than 10 years of service but at least 5 years of service after 1995, tier II benefits are payable to the survivor. Tier I is payable only if the employee was insured under social security (usually 40 quarters of coverage).
- 10 years of service, or, if fewer than 10 years, at least 5 years after 1995 also required for lump-sum benefits, except residual payment.
- Survivor benefits based on combined railroad retirement and social security credits. Benefits payable by either Railroad Retirement Board or Social Security Administration but not both, even if employee received benefits under both programs.
- Railroad Retirement Act survivor benefits normally higher than those paid under social security.

Survivor Annuities

- Widow, widower, surviving divorced spouse or mother (father)
- Unmarried child
- Dependent parent

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- Reductions are applied to widow(er)s' annuities awarded before full retirement age, which ranges from 65 to 67 depending on the widow(er)'s year of birth. Reduced annuities are payable at age 60.
- Child must be either under age 18, age 18 in elementary or high school, or 18 or over if totally disabled before age 22.
- Parent must have been dependent on the employee for at least half of the parent's support.

Survivor Tier Components

- TIER I
 - Amount social security would generally pay, less any social security benefit
- TIER II
 - Based on percentage of employee's tier II

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- Tier I based on employee's combined railroad retirement and social security credits. Reduced if employee had early retirement reduction.
- For widow(er)s, surviving divorced spouses and remarried widow(er)s--tier I may also be reduced by 2/3 of certain public pensions.
- Reduced for social security benefit or other railroad retirement annuity.
- Widow(er)s, surviving divorced spouses and remarried widow(er)s receive unreduced tier I amount if annuity begins at full retirement age.
- Full retirement age is increasing from age 65 to age 67 and reductions at age 60 will range from 17.10% to 20.36% depending on the widow(er)'s year of birth.

Widow(er)'s Initial Minimum Amount

- Widow(er)'s annuity equal to approximately what employee would have received when widow(er)'s annuity awarded
 - Widow(er)'s age reductions may apply if payable before full retirement age

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- Minimum amount equal to employee's tier I and tier II minus any applicable reductions, such as for age.
 - Does not include employee's supplemental annuity or vested dual benefit if paid to employee.
- Usually applies to widow(er)s, including widowed mothers and fathers, whose annuities begin February 1, 2002, or later.

Widow(er)'s Initial Minimum Amount - Continued

- Created by
 - Adding an additional amount (50% of employee's tier II)
to
 - the widow(er)'s benefit provided under previous law (100% of employee's tier I and 50% of tier II)
- Calculated before any applicable reductions, such as for age

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Widow(er)'s Initial Minimum Amount - Continued

- Widow(er)s' benefits that include additional amounts are not increased until amount paid under previous law plus cost-of-living increases exceed new initial minimum amount

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- Each time the previous law tier I and tier II amounts change for cost-of-living adjustments, they are compared to the initial minimum amount. As long as that amount is higher, it will continue to be paid. When previous law amounts exceed initial minimum amount due to subsequent tier I and tier II cost-of-living increases, initial minimum amount will no longer apply.

Income Taxes

- Tier I benefits equivalent to social security benefits may be subject to Federal income tax
 - Depends on amount of certain other income
- Tier I benefits exceeding social security levels, as well as tier II benefits, vested dual benefits and supplemental annuities are subject to Federal income tax
 - Treated like private pensions

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- Additional information on the tax treatment of railroad retirement benefits can be found in IRS Publication 525, *Taxable and Nontaxable Income*, Publication 575, *Pension and Annuity Income*, Publication 915, *Social Security and Equivalent Railroad Retirement Benefits*, and Publication 939, *General Rule for Pensions and Annuities*.
- Railroad retirement benefits are *not* subject to State or local income tax.
- The RRB issues tax statements each January and notifies the Internal Revenue Service and annuitant of amounts paid and withheld.

RRB Toll-Free Service 1-877-772-5772

- Provides easy access to RRB field office representatives
- Also includes automated menus available 24 hours a day, 7 days a week

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- Automated menus can be used to obtain:
 - Statements of current monthly retirement benefit rate;
 - Replacement Medicare cards and duplicate tax statements;
 - Statements of creditable railroad service and compensation;
 - Addresses of RRB field offices;
 - Information about unemployment/sickness claims;
 - Special announcements.

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