



Railroad Retirement Information

U.S. Railroad Retirement Board

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Railroad Retirement Annuities and Pensions from Work Not Covered by Railroad Retirement or Social Security

Employee annuities paid under the Railroad Retirement Act are subject to dual benefit reductions when social security benefits are also payable, and they may be subject to reduction when certain public, non-profit, or foreign pension payments are also due a retired employee.

The following questions and answers describe how railroad retirement annuities are affected when retired rail employees are also entitled to pensions from employers not covered by railroad retirement or social security.

1. When and how did the noncovered service pension reduction in employee annuities come about?

The noncovered service pension reduction in railroad retirement benefits was introduced by 1983 social security legislation which also applied to the tier I benefits of railroad retirement employee annuities. (Regular railroad retirement annuities are computed under a two-tier formula.)

Social security and railroad retirement tier I benefits replace a percentage of a worker's pre-retirement earnings. The formula used to compute benefits includes factors that ensure lower-paid workers get a higher return than highly-paid workers. For example, lower-paid workers could get a social security or tier I benefit that is about 55 percent of their pre-retirement earnings. The average replacement rate for highly-paid workers is about 25 percent. Before 1983, such benefits for people who worked in jobs not covered by railroad retirement or social security were computed as if they were long-term, low-wage workers. They received the advantage of the higher percentage benefits in addition to their other pension. The noncovered service pension reduction eliminated this advantage.

2. In general terms, which employees are affected by this reduction and what types of benefits would cause a reduction?

For employees first eligible for a railroad retirement annuity **and** a Federal, State or local government pension after 1985, there may be a reduction in the tier I portion of their annuity for receipt of a public pension based, in part or in whole, on employment not covered by social security or railroad retirement after 1956. This may also apply to certain other payments not covered by railroad retirement or social security, such as from a non-profit organization or from a foreign government or a foreign employer. It does **not** include military service pensions, payments by the Department of Veterans Affairs, or certain benefits payable by a foreign government as a result of a totalization agreement between that government and the United States.

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3. How is a noncovered service pension reduction applied to the tier I benefit?

Unlike the dual benefit offset for social security entitlement applied by deducting the amount of the social security benefit from the annuitant's tier I railroad retirement benefit, an alternate factor is used to compute the tier I benefit of annuitants with noncovered service pensions.

A tier I benefit is calculated in the same way as a social security benefit. An employee's creditable earnings are adjusted to consider the changes in wage levels over a worker's lifetime. This procedure, called indexing, increases creditable earnings from past years to reflect average national wage levels at the time of the employee's retirement. The adjusted earnings are used to calculate the employee's "average indexed monthly earnings," and a benefit formula is then applied to determine the gross tier I amount.

An employee's average indexed monthly earnings are separated into three earnings levels. Each level is multiplied by a specified percentage. The first level is multiplied by 90 percent, the second by 32 percent, and the final level by 15 percent. The results are added to obtain the basic tier I benefit rate. For those first eligible in 2019, the gross tier I benefit is equal to: 90 percent of the first \$926 of average indexed monthly earnings, plus 32 percent of the amount of those earnings over \$926 up to \$5,583, plus 15 percent of those earnings in excess of \$5,583.

Beginning with 1986 - for employees subject to the noncovered service pension reduction - the 90 percent factor is reduced in increments of 5 percent, providing factors ranging from 85 percent for employees with 29 years of "substantial railroad retirement and/or social security earnings" to 40 percent for those with 20 years (or less) of substantial earnings. Substantial earnings amounts usually vary from year to year. In 2019, earnings of \$24,675 would be considered a year of substantial earnings. In 2009, the figure was \$19,800. In 1999, it was \$13,425, and, in 1989, it was \$8,925. It is important to understand that a year of substantial earnings is not the same as a year of service. (Railroad employees eligible for a noncovered service pension who have 30 or more years of substantial railroad retirement and/or social security earnings are generally exempt from the reduction.)

For employees with relatively low noncovered service pensions, there is a guarantee that the amount of the tier I reduction cannot be more than 50 percent of the pension.

4. What is an example of how a noncovered service pension reduction affects an employee's annuity rate?

An employee born in 1957 is eligible for a noncovered service pension and has 20 years of service. His railroad retirement annuity begins with the first full month he is age 62 and his average indexed monthly earnings are \$1,800. The gross tier I amount, after reduction for the noncovered service pension, would be \$650, rather than the \$1,113 otherwise payable. A reduction for early retirement would also be applied to his annuity.

5. Are there exemptions from the noncovered service pension reduction?

As stated earlier, railroad employees eligible for a noncovered service pension who have 30 or more years of substantial railroad retirement and/or social security earnings are generally exempt from the reduction.

The noncovered service pension reduction also does not apply to Federal workers hired after December 31, 1983, and persons employed on December 31, 1983, by a nonprofit organization that was exempt from social security and became mandatorily covered under social security on that date.

6. Are any reductions made in railroad retirement spouse or widow(er)s' benefits if a public service pension is also payable?

Yes. The tier I portion of a spouse or widow(er) annuity may also be reduced for receipt of certain Federal, State or local government pensions separately payable to the spouse or widow(er) based on her or his own earnings. The reduction generally does not apply if the employment on which the public pension is based was covered under the Social Security Act throughout the last 60 months of public employment. Most military service pensions and payments from the Department of Veterans Affairs will **not** cause a reduction. Pensions paid by a foreign government or interstate instrumentality will also not cause a reduction. For spouses and widow(er)s subject to the public pension reduction, the tier I reduction is equal to 2/3 of the amount of the public pension.

7. Where can more specific information be obtained on how noncovered service pensions affect railroad retirement benefits?

More information is available by contacting an RRB field office. **Field Office Locator** at **RRB.gov** provides easy access to every field office webpage where the street address and other service information is posted, as well as the option to email an office directly using the feature labeled *Send a Secure Message*. The agency's toll-free number, 1-877-772-5772, is equipped with an automated menu offering a variety of service options, including being transferred to an office to speak with a representative, leave a message, or find the address of a local field office. The agency also maintains a TTY number, 312-751-4701, to accommodate those with hearing or speech impairments. Most RRB offices are open to the public on weekdays from 9:00 a.m. to 3:30 p.m., except on Wednesdays when offices are open from 9:00 a.m. to 12:00 p.m. RRB offices are closed on Federal holidays.

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