



FROM THE DESK OF

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Private Railroad Pensions May Reduce RRB Supplemental Annuities

Railroad retirement annuitants are reminded that receipt of a private railroad pension may reduce the amount of a supplemental annuity payable by the Railroad Retirement Board (RRB). The following questions and answers provide information on this subject and how 401(k) plans are affected by the Railroad Retirement Act (RRA).

1. What are the eligibility requirements for a supplemental annuity?

Monthly supplemental annuities are payable to employee annuitants with 25 or more years of railroad service who have at least one month of creditable railroad service before October 1981, and a “current connection” with the railroad industry. Annuitants with 30 years or more of railroad service may begin receiving a supplemental annuity at age 60, whereas annuitants with 25-29 years of service may do so at age 65. (Disabled annuitants under full retirement age, which is age 67 for persons born in 1960 or later, must relinquish employment rights for a supplemental annuity to be paid by the RRB.) Monthly supplemental annuity rates vary based on an annuitant’s years of railroad service. The maximum monthly supplemental annuity rate is \$43.

2. How is a “current connection” determination made under the RRA?

A current connection determination is made when an employee files for a railroad retirement annuity. If an employee worked for a railroad in at least 12 months in the 30 months immediately preceding the beginning date of his or her railroad retirement annuity, the employee has a current connection.

Employees who do not meet this requirement, but who have at least 12 months of railroad service in an earlier 30-month period, *may* still qualify for a current connection. This alternative generally applies if an employee did not have any regular employment outside the railroad industry after the end of that last 30-month period that included 12 months of railroad service, and before the month his or her annuity begins.

A current connection can also be “deemed” for purposes of a supplemental annuity if the employee completed 25 years of railroad service, was involuntarily terminated without fault from his or her last job in the railroad industry, and did not thereafter decline an offer of employment in the same class or craft in the railroad industry regardless of the distance to the new position.

(More)

3. How does the receipt of a private railroad pension affect payment of a supplemental annuity?

If a retired employee also receives a private pension funded entirely, or in part, by a railroad employer, the supplemental annuity is permanently reduced by the amount of the monthly private pension that is based on the railroad employer's contributions. However, if the employer reduces the pension for the employee's entitlement to a supplemental annuity, the reduction amount is restored to the supplemental annuity (but does not raise it over the \$43 maximum). There is **no** reduction for a pension paid by a railroad labor organization.

4. What if an employee elects to receive a private railroad pension in a lump-sum payment instead of as a monthly benefit?

If a retired employee elects to receive his or her pension in a lump-sum payment instead of as a monthly benefit, the supplemental annuity is reduced in the same way as it would be if the employee was receiving the monthly benefit. If the lump sum is paid in installments, the installment payments are not considered monthly benefit payments, but part of the single lump-sum payment.

5. Does the receipt of a 401(k) plan distribution reduce the amount of a supplemental annuity?

No. In a legal opinion issued in January 2014, the RRB's General Counsel determined that 401(k) plans should not be considered supplemental pension plans as defined by the RRA and, therefore, employee supplemental annuities should **not** be reduced due to the receipt of 401(k) distributions.

6. Are employee contributions to a 401(k) plan subject to railroad retirement tier I and tier II payroll taxes?

Yes. The treatment of 401(k) plans under railroad retirement law conforms with the treatment of such plans under social security law. Consequently, employee contributions to 401(k) plans are subject to railroad retirement payroll taxes and are treated as creditable compensation for railroad retirement benefit purposes. (For example, an employee earning \$40,000 a year, but who has 10 percent of his earnings deferred under a 401(k) plan, would have only \$36,000 reported to the Internal Revenue Service as earnings subject to Federal income tax. However, the entire \$40,000 would be subject to railroad retirement payroll taxes and therefore creditable as compensation under the RRA.)

7. How can a person get more information about how private railroad pensions and 401(k) plan payments affect supplemental annuities?

More information is available by visiting the RRB's website, **RRB.gov**, or by calling an RRB office toll-free at 1-877-772-5772. Persons can find the address of the RRB office serving their area by clicking on the **Field Office Locator** tab at RRB.gov or by calling the agency's toll-free number. RRB field offices currently offer **limited in-person service by appointment**. To schedule an appointment, call 1-877-772-5772. Individuals should bring a photo ID when visiting a field office, and, depending on guidance from the Centers for Disease Control and Prevention for the county in which the field office is located, may be required to wear an appropriate face mask. In such circumstances, if visitors do not have a mask, one will be provided for them.