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For Publication
December 2024

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

January 8, 2025
DISCLAIMER:
The Social Security Fairness Act (SSFA), concerning the Windfall Elimination Program and Government Pension Offset, was signed into law on January 6, 2025. Upon implementation, the SSFA eliminates the reduction applied to the tier I portion of railroad retirement annuities and social security benefits for those entitled to public pensions from work not covered by railroad retirement or social security. The Railroad Retirement Board is currently evaluating how to implement the SSFA. Once more information is posted to RRB.gov, the agency will add a link showing where to find SSFA updates/information.

The following Q&A is from the historical policy and does not reflect provisions of the SSFA.

Railroad retirement employee annuities may be reduced when a railroad retirement annuitant is also entitled to certain public, non-profit, or foreign pensions.

The following questions and answers detail how entitlement to pension payments from employers not covered by railroad retirement or social security (known as noncovered service pensions) affects railroad retirement annuities.

1. When and why was the noncovered service pension reduction established?

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

The legislation's intent was to remove a benefit advantage enjoyed by recipients of non-covered service pensions as the following text explains. Social security benefits and tier I components replace a percentage of a worker's pre-retirement earnings. Both benefit compensation formulas include factors that ensure lower-paid workers get a higher return of their pre-retirement earnings than highly-paid workers. For example, lower-paid workers could get a social security or tier I component that is about 55 percent of their pre-retirement earnings. The average replacement rate for highly-paid workers is about 25 percent. Before 1983, 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. Generally, which employees are affected by this reduction and what types of benefits would cause a reduction?

Employees who became first eligible for a railroad retirement annuity **and** a federal, state or local government pension after 1985 may have the tier I portion of their annuity reduced due to their receipt of a public pension based, in part or in whole, on employment not covered by social security or railroad retirement after 1956. This reduction may also apply to certain other payments not covered by railroad retirement or social security, such as from a non-profit organization, 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.

3. How is a noncovered service pension reduction applied to the tier I portion of an annuity?

A tier I component 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 those earnings 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 gross tier I amount. For those first eligible in 2024, the gross tier I amount is equal to: 90 percent of the first $1,174 of average indexed monthly earnings, plus 32 percent of the amount of those earnings over $1,174 up to $7,078, plus 15 percent of those earnings in excess of $7,078.

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 2024, earnings of $31,275 would be considered a year of substantial earnings. In 2014, the figure was $21,750. In 2004, it was $16,275, and, in 1994, it was $11,250. 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 1962 has 20 years of railroad service and begins receiving an age-reduced railroad retirement annuity the first full month they are age 62. The employee is also eligible for a noncovered service pension of $800. Without consideration of the employee's noncovered servicepension, the employee's gross tier I amount would be $1,256. However, due to the employee's entitlement to a noncovered service pension, their gross tier I amount would drop to $669 after the application of the noncovered service pension reduction formula detailed in the answer to Question 3. In addition, a reduction for early retirement would subsequently be applied to the gross tier I amount of $699.

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

Yes. 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 reductions made to the annuities of railroad retirement spouses or widow(er)s who receive their own public service pension?

Yes. The tier I portion of a spouse or widow(er) annuity may be reduced for receipt of certain federal, state or local government pensions separately payable to the spouse or widow(er) based on **their 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 annuities?

More information is available by visiting the RRB's website, **RRB.gov**, clicking on **FAQ**, and then selecting **Public Service Pensions**, or by calling an RRB office toll-free at 1-877-772-5772. RRB field offices also offer in-person service. While persons seeking in-office assistance are encouraged to schedule an appointment with their local field office by calling the agency's toll-free number, those without appointments will not be refused service. However, they may be asked to schedule an appointment for a later time if there is no immediate availability. Individuals should bring a photo ID when visiting a field office. Office addresses and hours of operation can be found by clicking on **Field Office Locator** at RRB.gov, selecting an office from the drop-down menu, and then clicking on **Get Info**, or by calling 1-877-772-5772. Individuals can also **send a secure message** to their local RRB field office by accessing Field Office Locator and clicking on the link at the bottom of their local office's page.

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