



FROM THE DESK OF

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Receipt of 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 explain 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 varies depending on an individual’s year of birth, 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 is the term the RRB uses to describe an employee’s maintenance of a relationship to the railroad industry. A current connection is demonstrated by an employee having earned 12 months of railroad service in a 30-month period under the conditions explained below. The current connection determination is made when an employee files for a railroad retirement annuity. Once a current connection is established at the time that the annuity begins, an employee never loses it, no matter what kind of work is performed thereafter.

The current connection requirement is normally met if the employee worked for a railroad in at least 12 of the 30 months immediately preceding the employee's annuity beginning date.

If an employee does not qualify for a current connection on this basis but has 12 months of service in an earlier 30-month period, the current connection requirement may still be met. This alternative generally applies if the employee did not have any regular employment outside the railroad industry after the end of the last 30-month period which included 12 months of railroad service and before the month the annuity begins. Full or part-time work for a nonrailroad employer in the time between the end of the last 30-month period including 12 months of railroad service and the month an employee's annuity begins can break a current connection.

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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 their 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.

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

If a retired employee also receives a private pension funded entirely, or partly, 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 is paid a private railroad pension as a lump sum instead of a monthly benefit?

If a retired employee is paid a private railroad pension as a lump sum, either as a one-time payment or in installments, the supplemental annuity is reduced by the monthly pension amount the employee *would* have received if they had not taken the lump-sum payment.

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

No. The RRB's General Counsel determined in a legal opinion 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 annuity purposes. (For example, an employee earning \$40,000 a year 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. RRB field offices also offer in-person service. While individuals 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

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should bring a photo ID when visiting a field office. Office addresses can be found by visiting RRB.gov and clicking on Field Office Locator or by calling 1-877-772-5772. RRB field offices are generally open Monday through Friday from 9:00 a.m. to 3:00 p.m., except for federal holidays. 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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