

Labor Employer Reporting Instructions

Part IV – Particular types of Compensation Payments

Chapter 12: Sick Pay

Chapter Overview

This chapter provides basic information regarding sick pay. More detailed information can be found in the [Reporting Instructions for Creditable Sickness Payments](#) (RICSP). If you have questions, contact the Quality Reporting Service Center (QRSC):

Quality Reporting Service Center
Railroad Retirement Board
844 North Rush Street 7th Floor
Chicago, Illinois 60611-1275

Phone: (312)-751-4992

Fax: (312)-751-7123

Email: qrsc@rrb.gov

Distinguishing Sick Pay from Regular Compensation

If paid sick days or sickness benefits are provided to employees, the terms of the employer's policy will determine how payments are treated under the Railroad Retirement Tax Act (RRTA) and reported to the Railroad Retirement Board (RRB). Payments for when an employee is unable to work due to illness or injury may be reportable as sick pay or as regular compensation:

- Employers may establish sick pay plans that conform with the guidelines discussed below to receive special tax treatment as sick pay compensation under the RRTA and RUIA for payments made under such plans.
- Employers may also carry ill/injured employees on payroll and treat the employees as if they are still working while absent. Unless otherwise agreed, payments received under such agreements are considered regular compensation that should be reported as Tier I, Tier II, and RUIA compensation and grant service month credit.

Note the intent behind the sick leave policy and how it conforms with requirements for sick pay plans are key elements in determining how the compensation should be reported to the RRB. The RRB strongly recommends all sick leave policies clearly state whether absences allowed for injury/illness and the associated payments are part of a sick pay plan or are regular compensation when an employee will continue to be carried on payroll. If the RRB has questions about how compensation was reported for periods of sickness, agency staff may contact an employer for additional information.

Sick Pay Compensation

Sick pay generally means any compensation paid under a plan because of an employee's temporary absence from work due to injury, illness, pregnancy, or childbirth. Sick pay is provided through a plan or agreement established by an employer that is available to employees generally or to a class

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or classes of employees. Sick pay may be paid either by the employer or a third party, such as an insurance company. Sick pay includes both short- and long- term benefits. Sick pay is subject to different reporting requirements than regular compensation and has dedicated reporting fields on the BA-3/4 and CT-1. The RRB recognizes two categories of sick pay that have different characteristics and reporting requirements.

1) Sick Pay Plans

A sick pay plan follows guidelines established in the Railroad Retirement Act (RRA) and RRTA and has the following characteristics:

- The plan must be in writing or is otherwise made known to employees, such as through bulletin board notices or long-established practice.
- The plan covers a specified group of employees and may or may not be the result of a collective bargaining agreement.
- The plan confers upon employees an enforceable right to benefits and does not allow for management discretion whether benefits will be paid.

Compensation paid under a sick pay plan:

- Is creditable as Tier I compensation
- Is not creditable as Tier II compensation
- Does not yield service months
- Is considered “Remuneration” that must be reported under the Railroad Unemployment Insurance Act (RUIA) and disqualifies an employee from receiving benefits under the RUIA.

2) Supplemental Sickness Plans

The RUIA established a distinct category of sick pay plans referred to as “Non-governmental plans for sickness insurance.” These plans are established by employers for the purpose of supplementing the benefits that employees may receive under the RUIA. Payments under these plans are subject to additional criteria that allow the payments to be excluded from remuneration. Supplemental sickness plans have the following characteristics:

- The plan must be in writing and be published or otherwise communicated to covered employees prior to its inception.

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- The plan covers a specified group of employees and may or may not be the result of a collective bargaining agreement.
- Payment of benefits is conditioned upon a covered employee meeting the eligibility conditions governing payment of benefits under the RUIA.
 - Plans may provide for payments of benefits during the RUIA waiting period or after an employee has exhausted RUIA benefits.
- Payment of benefits is coordinated with benefit payments the employee is entitled to under the RUIA.
- The plan confers upon employees an enforceable right to benefits and does not allow for management discretion whether benefits will be paid.
- The sum of benefits paid by the employer plan and the employee's RUIA benefits cannot exceed the employee's normal salary when actively performing work.
- The plan must be submitted to and approved by the Railroad Retirement Board.

Compensation paid under supplemental sickness plans:

- Is creditable as Tier I compensation
- Is not creditable as Tier II compensation
- Does not yield service months
- Is not creditable as compensation under the RUIA.

Cashouts of Unused Sick Time

If an employer's sickness plan allows employees to cash out unused sick time at the end of the leave year or at separation from the company, a payment for the unused sick time is considered an "in lieu of" payment that should be reported as regular compensation. The cashout payment is creditable as Tier I, Tier II and RUIA compensation, but does not grant a service month because the payment is not attributable to a day worked.

Exceptions to Creditable Sick Pay Compensation

Sick pay is not creditable or taxable as Tier I compensation when:

- paid under a worker's compensation law.
- paid by the RRB under the Railroad Unemployment Insurance Act for an on-the-job injury.
- paid in the year after the employee died.
- paid after the sixth month following the month the employee last worked.

NOTE: The exception of not crediting sick pay after the sixth month following the month the employee last worked does not mean that creditable sick pay is limited to six months

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in a year. If an employee returns to work and is off sick again, a new six-month period of creditability begins from the month following the latest date worked.

Example Scenarios

Example 1: An employee works for an employer January – March 2026. The employee is unable to work April – August 2026 and is covered under a plan where they receive a partial salary while unable to work. The plan is an RRB-Approved Supplemental Sickness plan. The partial salary paid to the employee during the time they were unable to work is considered Sick Pay and is creditable as Tier I compensation only. No service months should be granted based on the payments.

Example 2: An employee works for an employer January – March 2026. The employee is unable to work April – August 2026 and is covered under a plan where they receive a partial salary while unable to work. The plan satisfies the criteria for a Sick Pay Plan under the RRA and RRTA, but is not an RRB-Approved Supplemental Sickness Plan. The partial salary paid to the employee during the time they were unable to work is considered Sick Pay and is creditable as Tier I compensation and RUIA compensation. No service months should be granted based on the payments.

Example 3: An employee works for an employer January – March 2026. The employee is unable to work April – August 2026 and is carried on payroll at 75% salary. The employer does not have a Sick Pay Plan or an RRB-Approved Supplemental Sickness Plan. The partial salary paid to the employee during the time they were unable to work is considered regular earnings and is creditable as Tier I, Tier II, and RUIA Compensation. Service months should be granted to the employee based on the payments.

Example 4: Employees are granted a total of 10 sickness days that can be used throughout the calendar year through a plan that satisfies the guidelines for a Sick Pay Plan. The employee takes 5 of these days throughout the year due to minor illnesses and cashes out the remaining 5 days at the end of the year for lump sum payment of \$1250.00. Payments made to the employee for the 5 days taken throughout the year are creditable as Sick Pay and RUIA compensation and would not grant a service month if no other days were worked in the corresponding month. The \$1250.00 lump sum cashout is creditable as Tier I, Tier II and RUIA compensation and does not grant a service month.

Example 5: An employee works for an employer January – March 2026. The employee is unable to work April – November 2026 and is covered under a plan where they receive a partial salary while unable to work. The plan is an RRB-approved supplemental sick pay plan. The partial salary paid to the employee in April – September, the 6 months following the month the employee last worked, is considered Sick Pay and is creditable as Tier I compensation only. No service months should be granted based on the payments. The partial salary paid to the employee in October and November is considered Sick Pay but is not creditable or taxable, because it is paid after the sixth month following the month the employee last worked.

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Example 6: An employee works for an employer in January 2026. The employee is unable to work February – June 2026 and receives a partial salary while unable to work under an RRB-Approved Supplemental Sickness Plan during that time. The employee returns to work July 2026 but is again unable to work August – November 2026 and receives a partial salary under the RRB-approved plan. The partial salary paid to the employee during all months they were unable to work in 2026 is considered Sick Pay and is creditable and taxable as Tier I compensation only. No service months should be granted based on the payments.

Coordinating Supplemental Benefits with the RRB

If you intend to provide supplemental sick pay under a plan whereby you pay the difference between the sick benefits paid by the RRB and a set amount, such as the employee's regular salary, you will need to have your plan approved by the RRB. You may also want to establish a procedure to receive notification from the RRB of sickness benefit payments so that your payments are coordinated with RRB Sickness benefits. Contact the below section for information on getting a plan approved and on receiving benefit notification.

Director of Policy & Systems
Railroad Retirement Board
844 North Rush Street
Chicago, Illinois 60611-1275

Phone: (312)-751-4992
QRSC@rrb.gov

Sick Pay Compensation Used in Annuity Calculation

Because sick pay is creditable only as Tier I compensation under the RRA, it is reported separately on Form BA-3 from regular earnings to help ensure the integrity of our records. Although sick pay is reported and maintained at the RRB separately from regular service and compensation, all Tier I compensation is considered together when calculating the Tier I component of an employee's annuity.

Sick pay is reported on [Form BA-3](#), *Annual Report of Creditable Compensation*, and adjustments to previously reported sick pay are made using [Form BA-4](#), *Report of Creditable Compensation Adjustments*.

Compensation Reporting Responsibilities

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The responsibility for reporting compensation and the liability for depositing and reporting taxes depend on the type of sickness benefit being paid and who is making the payment. The responsibilities for the three types of sickness benefit payers are explained below.

Sick Pay Paid by the Rail Employer

Employers who pay sickness benefits to their employees are responsible for filing compensation reports and for withholding and paying all applicable taxes in regard to the sick pay. The employer files the reports under the employer's regular BA and EIN numbers. The employer can include the sick pay compensation with the other compensation on the employee's Form W-2.

Sick Pay Paid by the RRB and Third Parties with Established Sick Payer Status

The RRB will assign insurance companies who pay creditable sick pay with a BA number for accounting purposes. Insurance companies having BA numbers are referred to in these instructions as Sick Pay Employers. The RRB and Sick Pay Employers are not considered agents of the covered railroad employer. Reporting of sickness benefits paid by the RRB is handled as follows:

RRB Responsibilities	Railroad Employer Reporting Responsibilities
1. Withhold the employee Tier I tax from taxable sick pay.	1. Pay the employer matching Tier I tax, up to the annual Tier I maximum on combined earnings, when notified of taxable sick pay.
2. Deposit the tax withheld with the IRS.	2. Include on Form CT-1 filed with IRS the employer matching Tier I tax on sick pay.*
3. Notify the employer of taxable sick pay paid to its employees on Form ID-6 and ID-6Y.	Note: Sick pay reported to an employer on Form ID-6 or ID-6Y should not be included on the employer's BA-3/4 report.
4. File Form CT-1 with the IRS to report the employee Tier I tax on sick pay using RRB's filing information.	
5. File an in-house BA-3/4 to post creditable sick pay compensation to the employees' RRB record.	
6. File Forms W-2 and W-3 with the SSA.	

Sick Pay Employers are responsible for filing a BA-3/4 report with the RRB that details any creditable sick pay they provided using their assigned BA Number. In general, Sick Pay Employers are responsible for withholding and depositing employer and employee Tier I taxes from any sick pay they provide; however, the IRS allows employers and third parties to make alternate

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arrangements. Please consult [IRS Publication 15-A, Employer's Supplemental Tax Guide](#) for additional information.

Sick Pay Paid by Other Third Parties Acting as an Agent of the Employer

An employer's agent is a third party that bears no insurance risk and is reimbursed on a cost-plus-fee basis for payment of sick pay. The RRB does not assign BA numbers to third parties in this category. Any payment made by a third party acting as the employer's agent must be reported to the RRB under the employer's BA number using Form BA-3. The employer may or may not arrange for the third party to provide services, such as filing Form BA-3. In general, a third party acting as an agent of an employer has no responsibility to collect and deposit Tier taxes or file Form CT-1, that responsibility rests with the employer; however, the IRS allows employers and third parties to make alternate arrangements. Please consult [IRS Publication 15-A, Employer's Supplemental Tax Guide](#) for additional information.