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Railroad Retirement Board: Retirement, Survivor, Disability, Unemployment, and Sickness Benefits

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Summary

The Railroad Retirement Board (RRB) administers retirement, survivor, disability, unemployment, and sickness insurance for railroad workers and their families. Benefits provided by the RRB are separate from those provided by the Social Security system, although the railroad and Social Security systems share common features and are linked in several key ways. This report describes Railroad Retirement Act (RRA) and Railroad Unemployment Insurance Act (RUIA) eligibility requirements, benefit types and compensation amounts, and program financing.

During FY2015, the RRB paid \$12.3 billion in retirement and survivor benefits to approximately 558,000 beneficiaries. In FY2014, payroll taxes made up 49% of gross RRA revenue, with 33% of revenue from the Social Security system's financial interchange and 12% from the National Railroad Retirement Investment Trust (NRRIT)'s market investment earnings of certain asset accounts.

Unemployment and sickness benefits totaling \$83 million were paid to approximately 25,000 claimants. The railroad unemployment system remains affected by sequestration as unemployment benefits will continue to be reduced through at least September 30, 2016.

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Introduction

The Railroad Retirement Board (RRB), an independent federal agency, administers retirement, survivor, disability, unemployment, and sickness insurance for railroad workers and their families under the Railroad Retirement Act (RRA) and Railroad Unemployment Insurance Act (RUIA).¹ Workers covered by these acts include those employed by railroads engaged in interstate commerce and related subsidiaries, railroad associations, and railroad labor organizations. During FY2015, the RRB paid \$12.2 billion in retirement and survivor benefits to approximately 558,000 beneficiaries. Unemployment and sickness benefits totaling \$83 million were paid to approximately 25,000 claimants.² Lifelong railroad workers receive railroad retirement benefits instead of Social Security benefits; railroad workers with non-railroad experience receive benefits from either railroad retirement or from Social Security, depending on the length of their railroad service.

Railroad retirement is separate from the Social Security system, but the two programs are closely coordinated. The first legislation to establish a federal retirement program for railroad workers passed shortly before the Social Security Act of 1935. The funding of railroad retirement and Social Security was first linked in 1951, when a financial interchange was established. This annual exchange of funds places the Social Security trust funds in the same financial position they would have been in if railroad service had been covered by Social Security. The two programs' benefits are also coordinated. In 1974, railroad retirement benefits were divided into two tiers (discussed below). Tier I benefits are computed using the Social Security benefit formula based on earnings covered by either program. Tier II benefits are similar to private pension benefits and are based only on railroad work.

Railroad Retirement, Survivor, and Disability Benefits

The RRA authorizes retirement, survivor, and disability benefits for railroad workers and their families.³ To be insured for railroad benefits, a worker must generally have at least 10 years of covered railroad work, or 5 years performed after 1995 and “insured status” under Social Security rules (generally 40 quarters of coverage) based on combined railroad retirement and Social Security-covered earnings. The family of an insured railroad worker may be entitled to receive railroad retirement benefits. If a worker does not qualify for railroad retirement benefits, his or her railroad work counts toward Social Security benefits.

Table 1 provides current data on railroad retirement, survivor, and disability benefits.

¹ The Railroad Retirement Board (RRB) is governed by three board members: one recommended by railroad employers, one recommended by railroad labor organizations, and one appointed to represent the public interest.

² RRB, *An Agency Overview*, January 2016; http://www.rrb.gov/opa/agency_overview.asp.

³ 45 U.S.C. §§231 et seq.

Table I. Railroad Retirement, Survivor, and Disability Benefits
(June 2016)

Type of Annuity	Number of Benefits ^a	Percentage of Total Benefits	Average Monthly Benefit (\$)
Age-Based	190,161	29.1	2,662.86
Disability -Under Full Retirement Age (FRA)	32,201	4.9	2,348.91
Disability -At or Above FRA	44,186	6.8	2,672.59
Supplemental	122,659	18.8	41.56
Spouse	140,342	21.5	999.89
Divorced Spouse	4,805	0.7	619.95
Aged Widow(er)	91,574	14.0	1,607.64
Disabled Widow(er)	3,664	0.6	1,300.65
Widowed Mother and Father	649	0.1	1,853.34
Remarried Widow(er)	3,227	0.5	1,046.62
Divorced Widow(er)	9,686	1.5	1,049.46
Children	8,802	1.3	1,085.53
Partition Payments	1,493	0.2	305.40
Total Benefits	653,452	100.0	1,592.16^b

Source: Railroad Retirement Board, Bureau of the Actuary, Quarterly Benefit Statistics, April-June 2016, September 13, 2016, Table I, https://www.rrb.gov/pdf/act/stat_qbs0616.pdf.

Notes: Numbers may not add due to rounding.

- a. Total number of benefits paid, including multiple benefits paid to individual beneficiaries.
- b. Estimated based on total number and amount of benefits.

Tier I Retirement Annuities

Tier I benefits are designed to be nearly equivalent to Social Security benefits. Tier I benefits are calculated using the Social Security benefit formula and are based on both railroad retirement and Social Security-covered employment.⁴ However, tier I benefits are more generous than Social Security benefits in that, at the age of 60, railroad workers with at least 30 years of covered railroad work may receive unreduced retirement annuities. At the full retirement age (FRA), which is gradually increasing from 65 to 67 for Social Security and railroad retirement beneficiaries, insured workers with fewer than 30 years of service may receive full retirement annuities.⁵ Alternatively, workers with fewer than 30 years of service may, starting at the age of 62, receive annuities that have been reduced actuarially for the additional years the worker is expected to spend in retirement. Tier I benefit reductions for early retirement are similar to those in the Social Security system. As the FRA rises, so will the reduction for early retirement.⁶

⁴ For additional information on the Social Security benefit formula, see CRS Report R43542, *How Social Security Benefits Are Computed: In Brief*.

⁵ Full retirement age (FRA) is rising from 65 for those born before 1938 to 67 for those born after 1959. For additional information on the FRA see CRS Report R41962, *The Social Security Retirement Age: In Brief*.

⁶ The reduction at the age of 62, Social Security's earliest eligibility age, is rising from 20% to 30% as the FRA rises (continued...)

In general, Social Security benefits are subtracted from tier I benefits, because work covered by Social Security is counted toward tier I benefits. Beneficiaries insured by both systems receive a single check from the RRB. Railroad retirement benefits may also be reduced for certain pensions earned through federal, state, and local government work that is not covered by Social Security. For early retirees who continue to work while receiving the retirement benefit, tier I benefits are reduced by \$1 for every \$2 earned above an exempt amount (\$15,720 in 2016).⁷ If a beneficiary has his or her tier I annuity reduced because of earnings, his or her tier I annuity will be recomputed at FRA to provide a higher annuity to account for these lost benefits in the same manner that Social Security benefits are recomputed to account for benefits lost due to earnings.⁸ After tier I benefits are first paid, they increase annually with a cost-of-living adjustment (COLA) in the same manner as Social Security benefits.⁹

Retirement annuities are not payable to workers who continue to work in a covered railroad job or who return to railroad work after retirement.

Tier II Retirement Annuities

Tier II retirement annuities are paid in addition to tier I annuities and any private pension and retirement savings plans offered by railroad employers. They are similar to private pensions and based solely on covered railroad service. Tier II benefits for current retirees are equal to seven-tenths of 1% of the employee's average monthly earnings in the 60 months of highest earnings, times the total number of years of railroad service. Tier II benefits are increased annually by 32.5% of the Social Security COLA.

Tier II benefits are not (in contrast to tier I benefits) reduced if a worker receives Social Security benefits or a pension from government employment that was not covered by Social Security. In general, the early retirement reductions for tier II benefits are the same as for tier I benefits. The reductions for earnings are different. For railroad retirees who continue to work while receiving retirement benefits, tier II benefits are reduced by \$1 for every \$2 earned, up to 50% of the tier II benefit. There is no cap to the earnings-related reduction in railroad tier I or Social Security benefits. In addition, the earnings-related reduction applies to all tier II beneficiaries regardless of age, whereas for railroad tier I and Social Security benefits, the earnings-related reduction applies only until the beneficiary reaches FRA.

(...continued)

from age 65 to age 67.

⁷ During the calendar year that a retiree will reach the FRA, the formula for calculating the early retirement reduction changes: benefits are reduced \$1 for every \$3 earned above an exempt amount (\$41,880 in 2016) until the beneficiary reaches FRA. Earnings while a tier I annuitant may be used to recompute a beneficiary's annuity, which may result in the beneficiary receiving a higher annuity after FRA due to these earnings.

⁸ For additional information on the increase in Social Security benefits at FRA to account for benefits lost due to earnings, see CRS Report R41242, *Social Security Retirement Earnings Test: How Earnings Affect Benefits*.

⁹ For additional information on the Social Security COLA, see CRS Report 94-803, *Social Security: Cost-of-Living Adjustments*.

Other Retired Worker Benefits: Supplemental Annuities and Vested Dual Benefits

Tier II payroll taxes also finance a supplemental annuity program. Supplemental annuities are payable to employees first hired before October 1981, aged 65 and older, with at least 25 years of covered railroad service and a current connection with the railroad industry.¹⁰

In addition, general revenues finance a vested dual benefit for those who were insured for both railroad retirement and Social Security in 1974 when the two-tier railroad retirement benefit structure was established. Neither supplemental annuities nor vested dual benefits are adjusted for changes in the cost of living during retirement. Supplemental annuities are subject to the same earnings reductions as tier II benefits; vested dual benefits are subject to the same earnings reductions as tier I benefits.

Retirement Benefits for Railroad Workers' Families

In any month that a worker collects a railroad retirement benefit, his or her spouse may also be eligible for a retirement benefit equal to or greater than the benefits he or she would have received if the worker's railroad work had been covered by Social Security.¹¹ A spouse is eligible for a retirement annuity when he or she reaches the same minimum age required for the worker (i.e., either at the age of 60 or 62, depending on years of service). At any age, a spouse may be eligible for a retirement annuity if he or she cares for the retired worker's unmarried child under the age of 18 (or a child disabled before the age of 22). A qualifying spouse receives 50% of the worker's tier I benefit before reductions (or, if higher, a Social Security benefit based on his or her own earnings). Spouses may also receive 45% of the worker's tier II benefit before reductions.

For spouses, as for railroad workers, Social Security benefits are subtracted from tier I benefits. Benefit reductions for post-retirement earnings and pensions from government employment not covered by Social Security also apply to spouses and workers as under Social Security. Spouses are subject to reductions based on the primary worker's earnings as well as on their own earnings. As for early retirement, spouses are subject to different benefit reductions than are workers.¹² Finally, spouses' benefits are reduced by the amount of any railroad benefits earned based on their own work.

Survivor Benefits for Railroad Workers' Families

After the worker's death, surviving spouses, former spouses, children, and other dependents of railroad workers may be eligible to receive survivor benefits, which are paid in addition to any private life insurance offered by railroad employers. To be insured for survivor benefits, the worker must have had a current connection with the railroad industry at the time of death.

¹⁰ Workers have a current connection with the railroad industry if they worked in a covered railroad job for at least 12 months of the 30 months before death or receipt of a railroad annuity. The current connection is not broken during employment at certain U.S. government agencies, or in other special circumstances.

¹¹ Divorced spouses of retired railroad workers may also be eligible for retirement annuities. A divorced spouse may receive 50% of the worker's tier I benefit before reductions, but no tier II benefits. To qualify, the former spouse must have been married to the worker for at least 10 years and must not be remarried; both the worker and former spouse must be at least 62 years old.

¹² For spouses, the reduction at the age of 62 is gradually rising from 25% to 35% as the FRA increases to 67.

Railroad survivor benefits are generally higher than comparable Social Security benefits because families of railroad workers may be entitled to tier II benefits as well as tier I benefits (as noted above, tier I benefits are equivalent to Social Security benefits). In cases where no monthly survivor benefits are paid, a lump-sum payment may be made to certain survivors.¹³

The widows and widowers of railroad workers may be eligible to receive survivor benefits. At FRA, a surviving spouse may be eligible for 100% of the worker's tier I benefit (or his or her own Social Security or railroad retirement tier I benefit, if higher). The widow(er) may also receive up to 100% of the worker's tier II benefit. As early as the age of 60 (or age 50, if disabled), widows and widowers may receive reduced survivor benefits.¹⁴ At any age, a widow(er) caring for a deceased worker's child under the age of 18 may receive a survivor benefit equal to 75% of the worker's tier I benefit, as well as up to 100% of the worker's tier II benefit.

Children of railroad workers may also receive survivor benefits. To qualify, a child must be unmarried and under the age of 18 (or 19 if still in high school). Disabled adult children may qualify if their disability began before the age of 22. Eligible children receive 75% of the worker's tier I benefit and 15% of the worker's tier II benefit. In addition, if a parent of a railroad worker was dependent on the worker for at least half of the parent's support, he or she may receive 82.5% of the worker's tier I benefit and 35% of the worker's tier II benefit.

Survivor benefits are not payable to a current railroad employee, and survivor benefits are reduced by any railroad retirement benefit the survivor has earned through his or her own railroad work. Survivors receive the same reductions as retired workers for Social Security benefit receipt; they also have reductions for government pension receipt and earnings. A family maximum applies to survivor benefits, usually applicable when three or more survivors receive benefits on a worker's record (not counting divorced spouses).

Disability Benefits for Railroad Workers

Railroad workers may be eligible for benefits if they become disabled. The RRB determines whether a worker is disabled based on the medical evidence provided during the application process. Railroad workers found to be totally and permanently disabled from all work may be eligible for total disability annuities. Totally disabled workers may receive tier I benefits after a five-month waiting period and tier II benefits at the age of 62 if they have 10 or more years of service. Occupational disability annuities are also payable to workers found to be permanently disabled from their regular railroad occupations, at least 60 years old with 10 years of service (or any age with 20 years of service), and with a current connection to the railroad industry.

Disability annuities are not payable if a worker is currently employed in a covered railroad job. Disability benefits are suspended if a beneficiary earns more than \$880 in a month in 2016 after deducting certain disability-related work expenses. The tier I portion of disability benefits may be reduced for the receipt of workers compensation or government disability benefits.

¹³ A lump-sum payment is made in cases in which the worker had at least 10 years of railroad service; or if less than 10 years, at least five years of service after 1995 and a current connection to the railroad industry; and there is no person eligible for monthly survivors benefits either because there are no eligible survivors or the widow(er) has not reached the minimum age for benefits.

¹⁴ For widow(er)s, the reduction at the age of 60 (Social Security's earliest eligibility age for widowed spouses) is rising from 17.10% to 20.36%.

Financing of Retirement, Survivor, and Disability Benefits Under the Railroad Retirement Act

Payroll taxes, which provided 49% of gross RRA funding in FY2014, are the largest funding source for railroad retirement, survivor, and disability benefits.¹⁵ Railroad retirement payroll taxes are divided into two tiers. The tier I tax is the same as the Social Security payroll tax: railroad employers and employees each pay 6.2% on earnings up to \$118,500 in 2016.¹⁶ Tier I payroll taxes are deposited in the Social Security Equivalent Benefit Account (SSEBA), which pays the Social Security-level of benefits and administrative expenses allocable to those benefits. The SSEBA also receives or pays the financial interchange transfers between the railroad retirement and Social Security systems. The financial interchange with Social Security provided 33% of gross RRA funding in FY2014.¹⁷

The tier II tax is set each year based on the railroad retirement system's asset balances, benefit payments and administrative costs. In 2016, the tier II tax is 13.1% for employers and 4.9% for employees on earnings up to \$88,200. Tier II taxes are used to finance tier II benefits, "excess" tier I benefits (the portion of tier I benefits that are more generous than Social Security retirement benefits), and supplemental annuities.

Revenues not needed to pay current tier I benefits in excess of Social Security benefits, tier II benefits, supplemental annuities, and associated administrative costs are held in the National Railroad Retirement Investment Trust (NRRIT), which is invested in both government securities and private equities.¹⁸ Transfers and interest from the NRRIT provide another revenue source for railroad benefits, and were 12% of gross RRA funding in FY2014.¹⁹ Prior to the Railroad Retirement and Survivors' Improvement Act of 2001, P.L. 107-90, surplus railroad retirement assets could only be invested in U.S. government securities—just as the Social Security trust funds must be invested in securities issued or guaranteed by the U.S. government. The 2001 act established the NRRIT to manage and invest the assets in the Railroad Retirement Account in the same way that the assets of private-sector and most state and local government pension plans are invested. The Railroad Retirement Account is used to pay tier I benefits in excess of Social Security benefits (such as unreduced early retirement benefits), tier II benefits, and supplemental annuities. The remainder of the railroad retirement system's assets continues to be invested solely in securities issued or guaranteed by the U.S. government.

The NRRIT is designed to maintain four years' to six years' worth of benefits in case of lower-than-expected returns. The tier II tax is set to automatically adjust to maintain the fund balance as needed. This tax adjustment does not require congressional action.

¹⁵ RRB, *2015 Annual Report*, p. 8, <https://www.rrb.gov/pdf/opa/AnnualRprt/AnnualReport.pdf>. Gross RRA funding does not include funding sources offset by reductions in National Railroad Retirement Investment Trust (NRRIT) assets, salaries and expenses for the RRB Office of the Inspector General, and reductions in contingency liability and unexpended appropriations.

¹⁶ During 2011 and 2012, Congress provided a temporary reduction of two percentage points in the payroll tax rate paid by employees, from 6.2% to 4.2%.

¹⁷ RRB, *2015 Annual Report*, p. 8. The railroad retirement system and the Social Security system have been coordinated financially since 1951. The purpose of the financial interchange is to place the Social Security trust funds in the same position they would have been in, if railroad employment had been covered under Social Security since that program's inception.

¹⁸ For additional information on the NRRIT, see CRS Report RS22782, *Railroad Retirement Board: Trust Fund Investment Practices*.

¹⁹ RRB, *2015 Annual Report*, p. 8.

Federal income taxes levied on railroad retirement benefits, interest on RRB investments, and general fund transfers to pay the costs of phasing out vested dual benefits combined to make up less than 6% of gross RRA funding in FY2015.²⁰

Railroad Unemployment and Sickness Benefits

Railroad workers may qualify for daily unemployment and sickness benefits under the Railroad Unemployment Insurance Act.²¹ These benefits are paid in addition to any paid leave or private insurance an employee may have. For sickness benefits, a worker must be unable to work because of illness or injury. Sickness benefits are distinct from disability benefits because they are intended to cover a finite, temporary period of time. Workers may not earn any money while receiving unemployment or sickness benefits.

Eligibility for railroad unemployment and sickness benefits is based on recent railroad service and earnings. The annual benefit year begins on July 1. Eligibility is based on work in the prior year, or the base year. To qualify, railroad workers must have a minimum amount of creditable annual earnings in the base year (\$3,637.50 in the 2016 base year), not counting earnings above a monthly maximum (\$1,879 in the 2016 base year). New railroad workers must also have at least five months of covered railroad work in the base year. To receive unemployment benefits, a worker must be ready, willing, and able to work.

The maximum daily benefit payable in the benefit year that began July 1, 2016, is \$72, and maximum benefits for biweekly claims is \$720. However, due to sequestration pursuant to the Budget Control Act of 2011, the maximum daily benefit is reduced 6.9% to \$67.03 and the maximum biweekly benefit is reduced 6.9% to \$670.32 through September 30, 2017.²² Railroad workers only receive these benefits to the extent that they are higher than other benefits they receive under the RRA, the Social Security Act, or certain other public programs, including workers compensation.

Unemployment and sickness beneficiaries may receive normal benefits for up to 26 weeks in a benefit year, or until the benefits they receive equal their creditable earnings in the base year if sooner.²³ Employees with at least 10 years of covered railroad service may qualify for extended benefits for 13 weeks after they have exhausted normal benefits.

Workers who apply for unemployment benefits are enrolled automatically in a free job placement service run by railroad employers and the RRB.

Financing of Unemployment and Sickness Benefits Under the Railroad Unemployment Insurance Act

Railroad unemployment and sickness benefits are financed solely by railroad employers. Employers' contributions are based on the taxable earnings of their employees. Employers' tax rates depend on the past rates of unemployment and sickness claims by employees. For calendar

²⁰ Ibid.

²¹ 45 U.S.C. §§351-369.

²² Railroad unemployment benefits are paid biweekly for up to 10 days of unemployment. The rate of reduction due to sequestration is set annually and may continue past September 30, 2016.

²³ There is essentially a one-week waiting period for unemployment and sickness benefits. There is a two-week waiting period for unemployment benefits if a worker participates in a legal strike.

year 2016, the tax rate ranges from 2.15% to 12% on the first \$1,555 paid to each employee per month due to a 1.5% surcharge.

The RUIA provides for a surcharge to be paid by employers if the Railroad Unemployment Insurance Account falls below an indexed threshold amount.²⁴ The surcharge is added to the tax rate paid by employers. However, the total tax rate plus the surcharge cannot exceed the maximum rate of 12%, unless the surcharge is 3.5%, in which case the maximum tax rate is increased to 12.5%. From 2004 through 2010, the surcharge was 1.5%. The surcharge in 2011 was 2.5% and 1.5% in 2012 with no surcharges in 2013 or 2014. The surcharge in 2016 is 1.5%, the same as it was in 2015.

Railroad unemployment funds not needed immediately are deposited into an account that is part of the national unemployment insurance trust fund and the railroad account receives interest based on these deposits.

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²⁴ 45 U.S.C. §358(a)(14).