

# Short Primer on the Railroad Retirement Program

Steven Sass

Research Fellow, Center for Retirement Research at Boston College

# Railroads: First private sector employer plans

- Last quarter of the 19<sup>th</sup> century
- Pennsylvania Railroad plan of 1900
  - Mandatory retirement (at age 70)
  - Carrier funded
  - Pay-as-you-go

# The Federal Program Arrives

- Financial Stress
  - 1920s: Interstate trucking
  - 1930s: Depression
  - Political pressure from railroad retirees and workers
- 1934: Federal program
  - Pay-as-you-go
  - Tax on workers and carriers
  - Assets are government assets; government bonds.

# The 1974 Reform

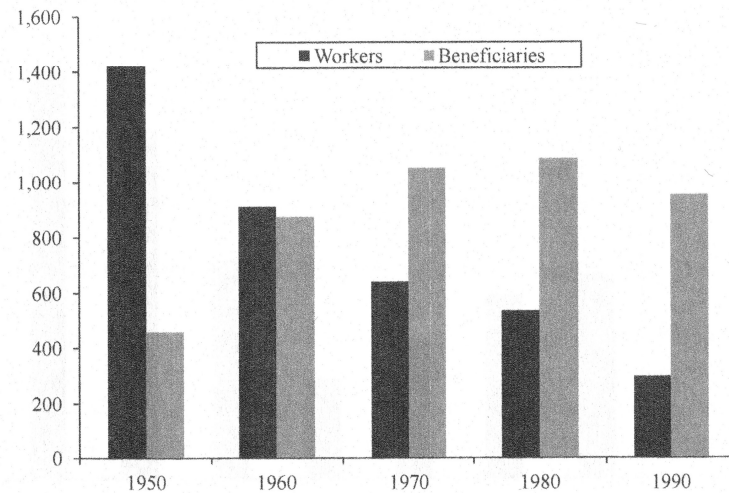
- The two-tier program
  - Tier I
    - Social Security pass through: Social Security benefits and taxes on workers and carriers
  - Tier II
    - Railroad Retirement benefits and excess Tier I benefits
      - Railroad Retirement benefits: 0.7 of final 5 x years of service
      - Excess Tier I benefits: full Social Security and RRR benefits at age 60 with 30 years of service
    - Initially taxes just on carriers



# Financial Stress and Staggers

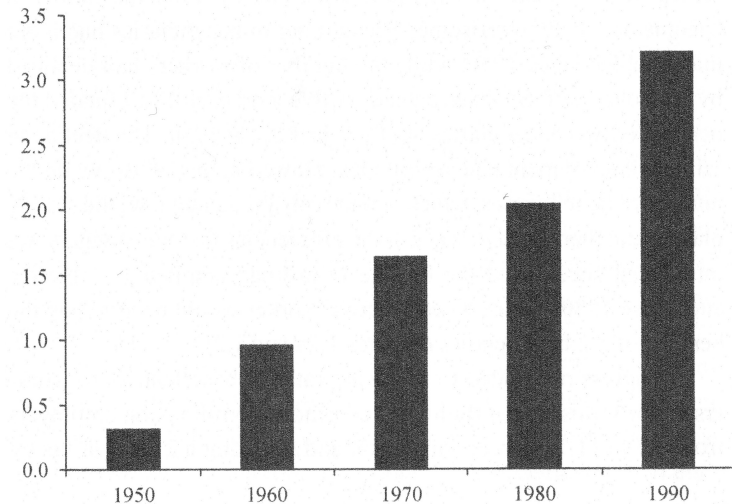
- Recessions and bankruptcies (Penn Central)
- Staggers Deregulation (1980): profits up, employment down.

**Figure 1.2a Railroad Retirement Beneficiaries and Active Railroad Employment, 1950–1990 (000s)**



SOURCE: Railroad Retirement Board *Annual Reports*, various years.

**Figure 1.2b Ratio of Railroad Retirement Beneficiaries to Active Employees, 1950–1990**

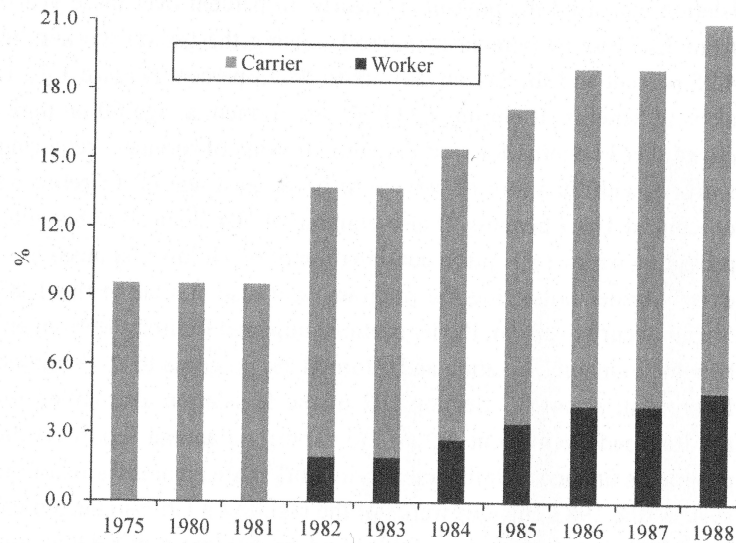


SOURCE: Railroad Retirement Board *Annual Reports*, various years.

# Response to Stress

- 60/30 cut to 62/30
- Taxes, taxes, taxes

Figure 1.3 Railroad Retirement Tier II Tax Rate, 1975–1988



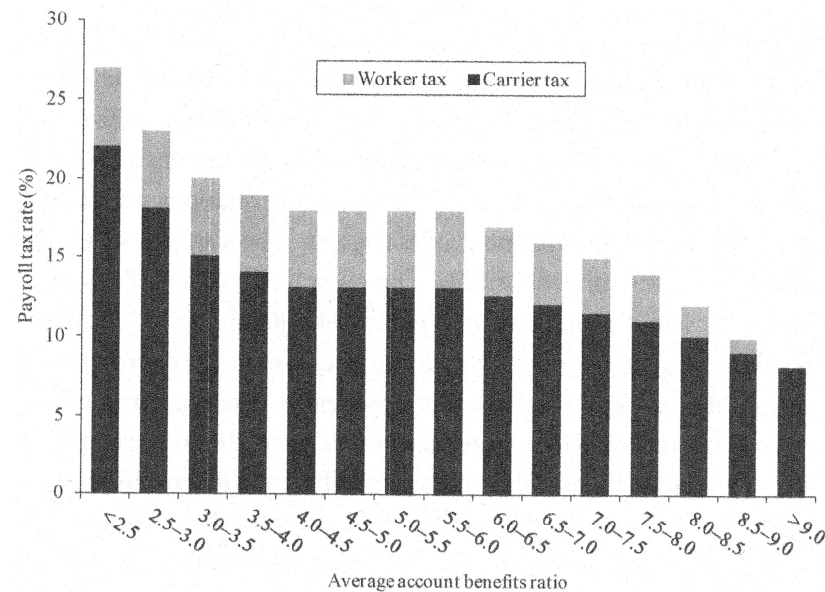
SOURCE: Railroad Retirement Board *Annual Reports*, various years.

# The 2001 Reform: Equity Investment

- Dividing the expected gains: Carriers get tax cut (16.1% to 13.1%)
- Dividing the expected gains: Labor gets benefit enhancements
  - Tax remains at 4.9%
  - 60/30 returns (very expensive and raises retiree/worker ratio).
  - New survivor benefit, the greater of:
    - Existing spousal benefit (which had been what survivors got):
      - Tier I spousal based on  $\frac{1}{2}$  of the worker Social Security FRA benefit, indexed to inflation
      - Tier II spousal based on 45% of the Tier II benefit, indexed 32.5% to inflation
    - New survivor benefit:
      - The worker's actual Tier I + Tier II at widowhood
      - New survivor benefit **not** indexed to inflation

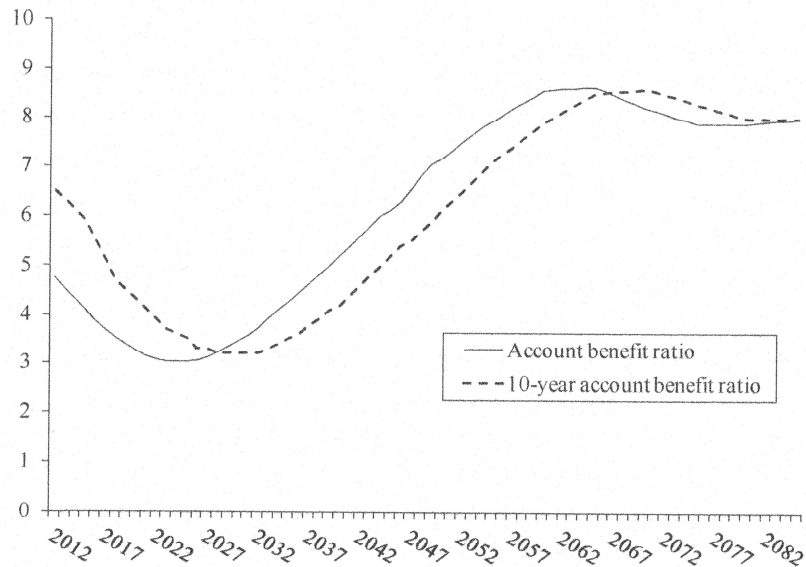
# The 2001 Reform: Addressing the Risks

- The risks:
  - The watermelon in the snake
  - Financial market risks
- The tax adjustment ratchet:

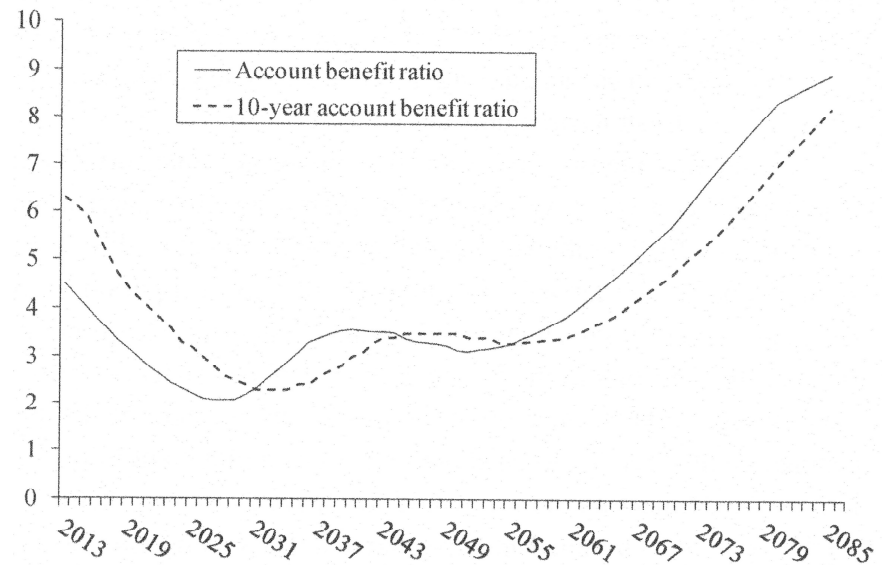


# Projected Assets-to-Outlays (2012)

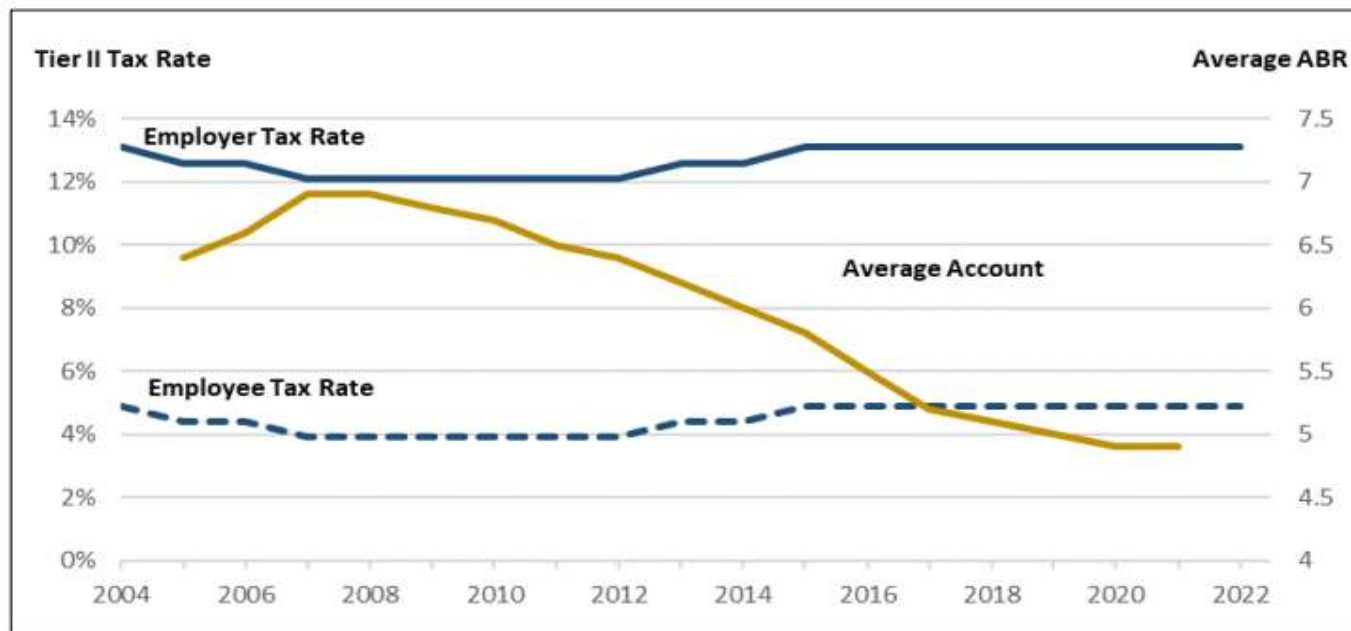
Panel A: Optimistic Employment Projection



Panel B: Intermediate Employment Projection



# Financial Performance to 2022



**Source:** National Railroad Retirement Investment Trust, *Annual Management Report for Fiscal Year 2006-2021*; and Railroad Retirement Board, *RRB Reminders for 2020 and 2022*.

# Railroad Retirement Basics

*Spouse, Widow(er) and Divorced Spouse Benefits*

Matthew Morley, Esquire  
KLM Attorneys LLC  
West Chester, Pennsylvania

1

## Outline

Spousal Benefits

Divorced Spouse Annuity

*Partition Orders*

Widower

Divorced Spouse Annuities

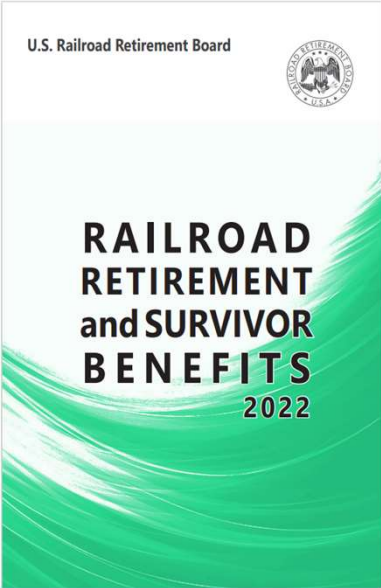
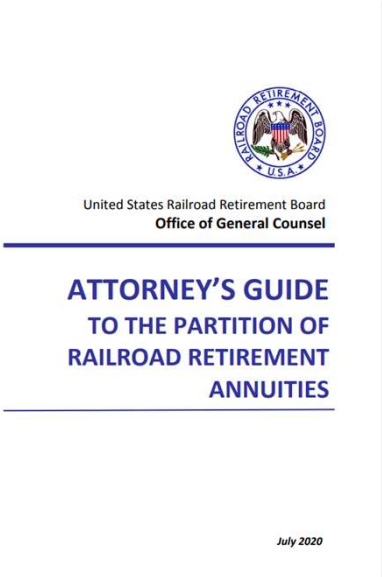
Eligibility Requirements

Timing

Amount of Benefit

Benefit End Date

2

	<h2>Practitioner Resources</h2>	
<p><a href="https://rrb.gov/sites/default/files/2022-02/2022%20IB-2%20%28web%29.pdf">https://rrb.gov/sites/default/files/2022-02/2022%20IB-2%20%28web%29.pdf</a></p>		<p><a href="https://www.rrb.gov/sites/default/files/2020-10/partition.pdf">https://www.rrb.gov/sites/default/files/2020-10/partition.pdf</a></p>

3

## Warning: Social Security Benefits!

- Spouse, Widower, Divorced Spouse Annuities and former spouse survivor annuities can be reduced for social security earnings of the RR Employee or the Spouse/Widower/Divorced Spouse.
- Also can be reduced for pensions that due not pay into social security (e.g. police pensions, CSRS, etc.)
- Very technical.

4



## Spouse Annuities

- Eligibility
  - RR Employee must be retired
  - Must be married to RR employee at least 1 year (some exceptions)
- Timing
  - If RR Employee has 30 years of service, Spouse must be age 60. – Full retirement benefit.
  - If RR Employee < 30 years of service, Spouse must be age 62 (reduced if not full retirement age).
  - Earlier if RR employee is receiving age and service annuity or disability annuity and Spouse is caring for unmarried minor child.
- Amount
  - Based on 50 % of unreduced Tier I
  - Based on 45% of unreduced Tier II

5

Spouse Age Reductions		
Year of Birth*	Full Retirement Age**	Annuity Reduction at Age 62
1937 or earlier	65	25.00%
1938	65 and 2 months	25.833%
1939	65 and 4 months	26.667%
1940	65 and 6 months	27.50%
1941	65 and 8 months	28.333%
1942	65 and 10 months	29.167%
1943 through 1954	66	30.00%
1955	66 and 2 months	30.833%
1956	66 and 4 months	31.667%
1957	66 and 6 months	32.50%
1958	66 and 8 months	33.333%
1959	66 and 10 months	34.167%
1960 or later	67	35.00%

\*A person attains a given age the day before her or his birthday. Consequently, someone born on January 1 is considered to have attained his or her given age on December 31 of the previous year.

\*\*If the employee has less than 10 years of railroad service and the spouse is already entitled to an age-reduced social security benefit, the age reduction in her or his tier I will be based on the age reduction applicable on the beginning date of the spouse's social security benefit, even if the spouse is already of full retirement age on the beginning date of her or his railroad retirement annuity.

Source:

<https://rrb.gov/Newsroom/NewsReleases/RailroadRetirementAgeReductions>

6

## Cost of Living Adjustments

- Tier I is generally indexed to the Consumer Price Index
- Tier II is generally 32.5% of the CPI Increase

7

## Spouse Annuities: Benefit End Date

- Spouse's death
- RR Employee's death
- Divorce/Annulment
- If based on disability, if RR Employee recovers
- If based on caring for unmarried minor child, when child no longer qualifies.

8

## `Warning: Working After Retirement

- If RR Employee goes back to work in covered employment, no spouse annuity is payable (neither is the employee annuity)
- If RR Employee or spouse work outside of RR covered employment, benefits may be reduced
  - Depending on the situation, reductions can be permanent!

9

## Divorced Spouse Annuity

- Eligibility
  - RR Employee must have SSA Insured status (40 quarters of coverage or disability freeze)
  - RR Employee need not be retired
  - Marriage > 10 years
  - Divorced Spouse not currently married
- Timing
  - Can commence immediately if RR Employee is receiving an annuity
  - OR, if RR Employee is not receiving annuity
    - RR Employee and Former Spouse at least 62.
    - Divorce > or = 2 years
- Amount
  - Based 50 % of the RR Employee's unreduced Tier I
  - Reductions apply for commencement prior to Full Retirement Age.

10

## Divorced Spouse Annuity: Benefit End Date

- Death of the Former Spouse
- RR Employee's death
- Former Spouse remarries
- Former Spouse becomes entitled to Social Security benefits on own earnings that are greater than the divorced spouse annuity
- Former Spouse becomes entitled to a RR survivor annuity "on another claim number" that exceeds the amount of the divorced spouse annuity.
- Can be suspended if former spouse also is a RR Employee or annuitant.

11

## Divorced Spouse Annuity: what about Tier II?

- No Tier II Divorced Spouse Annuity!
- RR Employee Tier II benefit can be divided by a partition order, but the Spouse Tier II does not "revert" to the RR Employee.

12

## Partition Orders, Generally

- Never applies to Tier I.
- Reduces the benefit payable to the RR Employee
- Must be incident to a final decree of divorce, legal separation or annulment and a final disposition of property.
- Award for a percentage, dollar amount, or marital fraction.
- State law governs the assignment amount, but cannot exceed total benefits subject to division.

13

## Partition Order: Divisible Components

- Tier II
- Disability (but state law)
- Supplemental Retirement Annuity (25 years of service with RR prior to 1981; 23-43 USD per month)
- Vested dual benefit (additional amount available to RR Employee who were vested and fully insured under both RRA and SS prior to 1975).
- Overall Minimum Increase – RR employee cannot receive less than what he or she would have rec'd under Social Security; Overall Minimum Increase is the "Catchup".
  - OMI ends at death of the RR Employee

14

## Partition Order: Timing and Benefit End Date

- Can begin before the RR Employee commences if RR Employee and former spouse > or = 62.
  - But terms of Partition Order govern
  - Can not begin before Partition Order is received by RRB Office of General Counsel
- End date:
  - Death of Former Spouse (death of RR Employee does not end benefits)

15

## Widow(er) Benefits

- Eligibility
  - RR EE Must be insured:
    - 10 years of service (or 5 years after 1995);
    - Current connection with RR industry
      - Generally, 12 months of service in the preceding 30 months
  - Widow(er) must have been married to RR Employee > 9 months. Exceptions (Accidental death, death while active duty, etc.)
- Timing:
  - Age 60 (with reduction for commencement prior to Full Retirement Age)
  - If disabled, age 50-59 (other requirements apply)
  - Any age, if widow(er) is caring for minor child of RR Employee

16

## Widow(er) Benefit: Amounts

- Tier I
  - Amount of survivor benefits that would be payable under social security; generally equivalent to the unreduced tier I benefit the RR employee was entitled to.
  - Reduction for commencement before full retirement age.
- Tier II
  - 100 % of the Tier II benefit that RR Employee was entitled to.
  - Reduction for commencement before full retirement age.
- Cost of Living Adjustments – generally not available (at least not until COLAs > or = 50% of Tier II)

17

## Widow(er) Minimum Guarantees

- No less than:
  - If not retired: the two-tier benefit the employee would have received at the time of the award:
    - Including reductions for age and Social Security
  - If retired: the spouse annuity widow(er) was receiving just prior to the employee's death.

18

## Widower Benefits: Benefits End Date

- Death of Widower
- Remarriage prior to Age 60 (or 50 if disabled)
  - but can resume if that marriage ends
- If eligibility based on caring for a minor child, when minor child reaches age of majority.

19

## Divorced Spouse Survivor Annuity

- Qualifications:
  - Marriage to RR Employee > 10 years (or caring for RR Employee's child < 16 or disabled)
  - Not remarried prior to age 60
- Timing:
  - Age 60 (with reduction for commencement prior to Full Retirement Age).
  - At any time if caring for RR Employee's child (child must be < 16 or disabled).
- Amount:
  - Tier I: Same as Widow(er) annuities
  - Tier II: No benefit (but could be provided for in partition order)

20



## Divorced Spouse Survivor Annuity: Benefits End Date

- Death of Former Spouse
- Remarriage of Former Spouse
- If eligibility based on caring for a minor child, when minor child reaches age 16