

# Notes and Brief Reports

## Railroad Retirement Act, As Amended in 1961\*

On September 22, 1961, President Kennedy signed Public Law 87-285 amending the Railroad Retirement Act. The changes are summarized below, and the principal provisions of the Railroad Retirement Act as amended are outlined in the accompanying chart.

The purpose of the amendments is to conform certain provisions of the Railroad Retirement Act to changes made in the Social Security Act by the 1961 and other recent amendments. Actually, many of the changes made in the old-age, survivors, and disability insurance program either are not pertinent to the railroad retirement program (extension of coverage, for example) or, under the "minimum guarantee" provisions of the Railroad Retirement Act, automatically affect that program (for example, increases in benefit amounts).

### CHANGES IN ELIGIBILITY REQUIREMENTS

The principal change made by Public Law 87-285, first effective for October 1961, is to permit men to retire at age 62 with actuarially reduced annuities—a liberalization similar to that in the 1961 amendments to the Social Security Act. Retirement at age 60 (with reduced

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annuities for men) continues to be available only to railroad employees with at least 30 years of service.

Three of the changes made in the Railroad Retirement Act by Public Law 87-285 correspond to the revisions in certain eligibility requirements under the Social Security Act. They are as follows:

1. A spouse is eligible for a spouse's annuity after being married only 1 year (instead of 3 years).
2. A recipient aged 62 or over of a survivor annuity who marries a retired railroad worker aged 65 or over is eligible for a spouse's annuity immediately upon such marriage.
3. A woman who was qualified for a widow's annuity and who married another employee who died within 1 year of the marriage is not disqualified for an annuity as the widow of the second employee because she had been married to him for less than 1 year.

### AUTOMATIC EFFECT OF SOCIAL SECURITY ACT AMENDMENTS

The "minimum guarantee" assures that the total amount payable in a month to the retired railroad employee and his dependents or to his survivors, on the basis of his earnings record since 1937, will be at least 110 percent of the amount that would be payable under old-age, survivors, and disability insurance if service as a railroad employee were included in the term "employment" as defined in the Social Security Act. In cases of entitlement to monthly benefits

TABLE 1.—Illustrative monthly retirement annuities under the Railroad Retirement Act, as amended in 1961

Average monthly compensation	10 years' service				20 years' service		30 years' service		40 years' service <sup>3</sup>	
	Minimum guarantee applicable <sup>1</sup>		Minimum guarantee not applicable							
	Retired worker only	Retired worker and spouse <sup>2</sup>	Retired worker only	Retired worker and spouse <sup>2</sup>	Retired worker only	Retired worker and spouse <sup>2</sup>	Retired worker only	Retired worker and spouse <sup>2</sup>	Retired worker only	Retired worker and spouse <sup>2</sup>
\$100.....	\$64.90	\$97.40	<sup>4</sup> \$50.00	<sup>4</sup> \$75.00	<sup>4</sup> \$83.50	<sup>4</sup> \$125.30	\$87.90	\$131.90	\$117.20	\$175.80
150.....	80.30	120.50	<sup>4</sup> 50.00	<sup>4</sup> 75.00	83.70	125.60	125.60	188.40	167.40	237.30
200.....	92.40	138.60	50.20	75.30	100.40	150.60	150.60	220.50	200.80	270.70
250.....	104.50	156.80	58.60	87.90	117.10	175.70	175.70	245.60	234.20	304.10
300.....	115.50	173.30	66.90	100.40	133.80	200.70	200.70	270.60	267.60	337.50
350.....	127.60	191.40	75.30	113.00	150.50	220.40	225.80	295.70	301.00	370.90
400 <sup>5</sup> .....	139.70	209.60	83.60	125.40	167.20	237.10	250.80	320.70	334.40	404.30

<sup>1</sup> OASDI average monthly wage assumed to be the same as the average monthly compensation shown.

<sup>2</sup> Spouse assumed to be age at least 65.

<sup>3</sup> Not payable until 1977.

<sup>4</sup> Railroad retirement minimum.

<sup>5</sup> All service must be after May 31, 1959.

under both programs, the sum payable under both programs is considered in determining whether the minimum guarantee provision is applicable.

The 1961 increase in the widow's benefit under the old-age, survivors, and disability insurance program automatically raised the amount payable to widows under the railroad retirement program, since for survivors of completely insured railroad employees the minimum guarantee is generally applicable.

The increase from \$33 to \$40 in the minimum survivor family benefit affects railroad retirement survivor annuities for the same reason. The increase in the minimum benefit payable upon retirement at age 65 or over has little effect, however, because the railroad minimum rather than the minimum guarantee is usually applicable.

The liberalization of the insured-status requirements, contained in the 1960 and 1961 amendments to the Social Security Act, is in effect incorporated in the Railroad Retirement Act, which provides that an individual is "completely insured" when he would be "fully insured" if railroad employment were treated as employment covered under the Social Security Act.

The increase in the tax rate provided by the Social Security Amendments of 1961 raised by  $\frac{1}{4}$  of 1 percent the railroad tax rate beginning in 1965. The Railroad Retirement Tax Act, as amended in 1959, provides for increasing the basic tax rate for railroad retirement in 1965 and thereafter by the number of percentage points that combined employer-employee tax rates under the old-age, survivors, and disability insurance program exceed  $5\frac{1}{2}$  percent.

## FINANCIAL INTERCHANGE

Amendments to the Social Security Act may also affect the railroad retirement system through the financial interchange between the old-age, survivors, and disability insurance trust funds and the railroad retirement account. Benefit increases provided by such amendments favor the railroad retirement system, and increases in the tax rate represent a gain to the old-age, survivors, and disability insurance trust funds. In June 1961, \$336.9 million was transferred from the two trust funds to the railroad retirement account as a result of financial interchange calculations for the fiscal year 1959-60. It is estimated that substantial amounts—more than \$300 million—will be transferred annually from the trust funds to the account for a number of years in the future.

## ILLUSTRATIVE ANNUITIES

Illustrative amounts of monthly retirement and survivor annuities are given in tables 1 and 2 for various combinations of average monthly compensation, years of service, and family composition. Some of the annuities shown cannot be awarded in 1961, however, because (1) it is now impossible to have had 30 or 40 years of service since 1936 and (2) average monthly compensation of \$350 or \$400 could not have been achieved by 1961. It will be several years before a railroad employee retiring with more than 10 years of service can have had average monthly compensation of \$400.

In table 1, persons with 10 years of service are considered in two categories: those who would have been fully insured under the Social Security

TABLE 2.—Illustrative monthly survivor annuities under the Railroad Retirement Act, as amended in 1961 <sup>1</sup>

Average monthly remuneration	10 years' service		20 years' service		30 years' service		40 years' service	
	Widow aged 60 or over	Two children and mother	Widow aged 60 or over	Two children and mother	Widow aged 60 and over	Two children and mother	Widow aged 60 and over	Two children and mother
\$100.....	\$53.60	<sup>2</sup> \$102.20	\$53.60	<sup>2</sup> \$111.30	\$53.60	<sup>2</sup> \$120.70	<sup>2</sup> \$55.70	<sup>2</sup> \$129.00
150.....	66.30	132.00	66.30	132.00	66.30	<sup>2</sup> 138.90	66.30	<sup>2</sup> 149.50
200.....	76.30	177.90	76.30	177.90	76.30	177.90	76.30	177.90
250.....	86.30	222.90	86.30	222.90	86.30	222.90	86.30	222.90
300.....	95.30	260.10	95.30	260.10	95.30	260.10	95.30	260.10
350.....	105.30	279.60	105.30	279.60	105.30	279.60	105.30	279.60
400.....	115.30	279.60	115.30	279.60	115.30	279.60	115.30	279.60

<sup>1</sup> All service assumed to be after 1936, with earnings of at least \$200 for each year of service. Minimum guarantee applies, unless otherwise indicated. Where minimum guarantee is applicable, OASDI average monthly wage

assumed to be same as average monthly remuneration shown.

<sup>2</sup> Minimum guarantee not applicable.

## Principal provisions of the Railroad Retirement Act, 1961

### Initial qualifications for benefits:

At least 10 years of railroad service is required to qualify for all but one type of benefit under the Railroad Retirement Act (see item A (8)). Persons with less than 10 years of service are transferred, in essence, to OASDI system.

#### A. Benefits payable to—

- (1) **Age annuitant:**  
Aged 62 or over, but with annuity reduced 1/180 for each month under age 65 at time of retirement; or aged 60 or over if 30 or more years of service, but for men, annuity reduced 1/180 for each month under age 65 at time of retirement.
- (2) **Disability annuitant:**  
Unable to engage in any regular employment, regardless of age or current connection with railroad industry, or unable to engage in usual occupation if having "current connection" with railroad industry when disabled and either 20 or more years of service or aged 60 or over.
- (3) **Spouse of annuitant aged 65 or over:**  
Aged 65 or over or any age with child (including disabled child) in care, if child would qualify for survivor benefit on death of annuitant; or aged 62-64 (with reduction of 1/180 for each month under age 65).
- (4) **Widow:**  
Aged 60 or over, or with dependent child under age 18 (or aged 18 or over if child is disabled and disability began before that age). Dependent widower aged 60 or over.
- (5) **Children of deceased individual:**  
Under age 18 (or aged 18 or over if disabled and disability began before that age).
- (6) **Dependent parent:**  
Aged 60 or over, and no surviving spouse or child who could ever receive monthly benefits.
- (7) **Lump-sum death payment:**  
Generally for deaths when no monthly benefits are payable immediately.
- (8) **Residual death payment:**  
Payable after all benefit rights, including those of survivors, have terminated—to assure total payments of at least employee contributions paid plus some allowance for interest. Suitable modifications for those with less than 10 years' service. (See item on initial qualification.)

#### B. Insured status for survivor benefits

- (1) **"Quarter of coverage":**  
In general, calendar quarters with \$50 or more of railroad compensation after 1936 or similar credits under OASDI.
- (2) **"Current connection":**  
In general, exists at time of retirement or death if worker had 1 year of railroad service in preceding 2½ years.
- (3) **Completely insured status:**
  - (a) Current connection, and (i) 1 quarter of coverage<sup>1</sup> for each 2 quarters after 1936 (or after age 21 if later) and before age 65 (or death or retirement if earlier), with minimum of 6 quarters of coverage; or (ii) 40 quarters of coverage;<sup>1</sup> or (iii) would be fully insured, on the basis of combined earnings, under OASDI; or
  - (b) Retirement annuity based on at least 10 years of service accrued before 1948, or pension payable from former railroad private plans.
- (4) **Partially insured status:**  
Current connection, and 6 quarters of coverage in year of death or retirement and 3 preceding years.
- (5) **Transfer of credits to OASDI system:**  
If not insured as in items (3) and (4), railroad credits used in determining survivor benefits under OASDI.

#### C. Amount of retirement benefits

- (1) **"Years of service":**  
All service after 1936 plus (for those in specified "employment relation" on Aug. 29, 1935) service before 1937 that together total not more than 30 years.
- (2) **"Average monthly compensation":**  
Average of creditable compensation paid in period of service counted; maximum of \$300 creditable for any month before July 1954, \$350 for any month July 1954-May 1959, and \$400 for any month after May 1959. For retirement after end of year in which age 65 is attained, amount computed as of end of such year is used if larger. Special method used for determining average earnings for services before 1937.
- (3) **Monthly benefit amount:**  
3.35% of first \$50 of monthly compensation, plus 2.51% of next \$100, plus 1.67% of next \$250, all multiplied by years of service.
- (4) **Minimum benefit amount:**
  - (a) If having current connection at retirement, amount determined under item (3) shall not be less than the least of \$83.50, \$5.00 times years of service, or 110% of average monthly compensation.
  - (b) "OASDI minimum guarantee" (see item F (9)).

#### D. Basic amount of survivor benefits

- (1) **"Average monthly remuneration":**  
Based on railroad compensation and OASDI credits from 1937 to first day of calendar year (a) employee attained age 65 and was completely insured, or (b) employee died, or (c) following year of employee's death, divided by elapsed period to applicable date (omitting periods during which a retirement annuity was payable to him)—whichever provides the highest average. Maximum combined earnings are \$3,600 a year through 1954 (compensation alone creditable to a maximum of \$3,900 in 1954); \$4,200 for 1955-1958; and \$4,800 thereafter.
- (2) **"Basic amount":**  
49% of first \$75 of average monthly remuneration, plus 12% of remainder, all increased by 1% for each year after 1936 with \$200 or more of remuneration. Minimum basic amount is \$16.95. For individuals completely insured as under item B (3) (b), basic amount alternatively computed from average monthly compensation (item C (2)) or from average monthly earnings of pensioner but without 1% increase for years after 1936, and higher amount used.
- (3) **Maximum family benefits:**  
\$193.60 or 2½ times the basic amount, whichever is less, but not less than \$36.30 or the OASDI minimum guarantee (see item F (9)); a dollar maximum of \$279.40 can thus be produced.
- (4) **Minimum family benefits:**  
\$16.95; also OASDI minimum guarantee (see item F (9)).

#### E. Normal amounts of dependent and survivor benefits

- (1) **Spouse:**  
50% of full retirement or disability annuity (disregarding any reduction made for retirement before age 65 or joint-and-survivor option election), with the maximum 110% of the maximum wife's benefit under OASDI.
- (2) **Widow:**  
100% of basic amount. Not less than any spouse's annuity received immediately before widow's annuity becomes payable.
- (3) **Child of deceased worker:**  
66⅔% of basic amount.
- (4) **Dependent parent:**  
66⅔% of basic amount.

<sup>1</sup> Includes "compensation quarters of coverage" not creditable under the Social Security Act.

(5) Lump-sum death payment:  
10 times basic amount.

(6) Residual death payment:  
Specified percentages of compensation, less total benefits paid on basis of such earnings.

#### F. Miscellaneous benefit provisions

(1) Employment permitted retired workers and spouses:  
None for any railroad or for last employer before retirement. No other restriction except where OASDI minimum guarantee applies (and then only with respect to the additional amount payable).

(2) Employment permitted disability annuitants:  
None for any railroad or for last employer. Earnings of \$1,200 a year in wages and self-employment permitted while under age 65; 1 month's benefit withheld for every \$100 of annual earnings in excess of \$1,200, but no deductions for months with earnings of \$100 or less. After age 65, same as F(1).

(3) Employment permitted survivor beneficiaries:  
None for any railroad. Otherwise to the same extent as for OASDI beneficiaries (full benefits if earnings from wages and self-employment are \$1,200 or less a year, but in any event for months with \$100 or less of wages and no substantial service in self-employment).

(4) Effect of railroad work on benefits of OASDI beneficiaries:  
Railroad earnings counted in determining if benefits are payable.

(5) Duplication of benefits under railroad system:  
Survivor beneficiary may also receive retirement annuity concurrently.

(6) Duplication of retirement annuity with OASDI benefits:  
Allowed with no reduction in benefit.

(7) Duplication of spouse's annuity with OASDI benefits:  
When individual is eligible only for OASDI wife's benefit, no reduction made in annuity; when eligible for other type or types of OASDI benefit, annuity reduced by any excess of all OASDI benefits over full amount of wife's benefit (if any).

(8) Duplication of survivor benefits with OASDI benefits:  
Allowed (except benefits not payable under both systems on basis of wage record of a deceased individual).

(9) "OASDI minimum guarantee" provision:

Retirement or survivor benefits under railroad system, plus any OASDI benefits payable, will not be less than 110% of OASDI benefits on basis of combined credits under both systems.

(10) Credit for military service:

Given at rate of \$160 a month for service during a war-service period if in railroad service in year of entry into military service or in preceding year. Special provisions for crediting military service rendered before 1937. Provisions against using same service under more than one Federal system.

(11) Time within which benefits must be claimed:

Lump-sum death payment within 2 years. No limit for residual death payment. Monthly benefits retroactive for 12 months.

(12) Work restrictions:

Same for survivor beneficiaries working outside the United States as for those working in the United States.

#### G. Financing

(1) Tax rates:

Combined rates, shared equally by employer and employee, paid on maximum compensation of \$400 a month: 13½% (June 1959–December 1961); 14½% (1962–64); 1965 and thereafter rates will be increased by number of percentage points that OASDI rates exceed 5½%. Current schedule provides for a 16¼% rate in 1965, 17¼% in 1966 and 1967, and 18¼% in 1968 and thereafter.

(2) Government contribution for military service:

Actuarially determined cost of additional benefits for military service rendered before 1937. Regular employer and employee taxes on other creditable military service based on imputed earnings of \$160 a month.

(3) Interest rate on investments:

Minimum of 3% a year prescribed.

(4) OASDI "financial interchange":

OASDI trust funds to be put in same position in which they would have been if railroad employment after 1936 had been covered under OASDI, by transfers in appropriate direction. Takes into account, among other matters, payment of benefits on basis of combined earnings credits.

Act had railroad service always been covered, and all others. An individual in the first category receives from both systems benefits that, combined, are at least equal to 110 percent of the benefit that would be payable under the Social Security Act on the basis of his combined employment records. The annuities shown for 10 years' service in the first category are the amounts that would be payable for the same average monthly wage under the old-age, survivors, and disability insurance program increased by 10 percent.<sup>1</sup> For individuals with 20 or more years of service the railroad retirement formula yields a higher retirement annuity than does the old-age, survivors, and disability in-

surance benefit formula for the same average monthly wage.

As shown in table 2, practically all monthly survivor annuities are paid in accordance with the provisions of the Social Security Act, with the benefits increased by 10 percent, even when benefits are based on as many as 40 years of service. In general, only survivors of employees with relatively low pay will receive survivor annuities based on the formula in the Railroad Retirement Act. It is assumed in this table that the average monthly wage to which the old-age, survivors, and disability insurance formula applies is the same as the average monthly remuneration shown.

#### EFFECT ON PROGRAM COSTS

At the time the 1961 amendments to the Rail-

<sup>1</sup> It is assumed that the employee is not simultaneously entitled to an old-age, survivors, and disability insurance benefit, since the guarantee seldom applies in such instances.

road Retirement Act were passed, the railroad retirement system showed an actuarial deficiency of 1.69 percent of payroll on a level-cost basis, according to the eighth actuarial valuation of the railroad retirement system. This deficiency has developed primarily because of the rapid decline in railroad payrolls. The level cost of the amendments is estimated at 0.04 percent of payroll—partly because men may now retire at earlier ages and receive sufficient additional earnings to qualify for separate old-age, survivors, and disability insurance benefits. The result is a loss to the railroad retirement system under the financial interchange provisions. It will be recalled that the railroad retirement employee annuity is payable even if the annuitant has substantial employment, so long as it is not for a railroad or for the current employer at the time the annuity is claimed.

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## 1961 Amendments Affecting the Civil Service Retirement Act\*

Public Law 87-350, approved October 4, 1961, contains several provisions of interest to civil-service employees and annuitants:

(1) A discontinued disability annuity may now be restored, if the disability recurs or if earning capacity is lost.

(2) Employees mandatorily retired for age and then immediately reemployed before July 12, 1960, are allowed special credit toward additional benefits or refunds for retirement contributions made after earning the maximum 80-percent annuity entitlement.

(3) Employees involuntarily separated with immediate annuities who are reemployed for 5 years or more may have their annuity benefits recomputed under the law in effect at the time of their final retirement.

(4) A new formula provides for interest on special public debt obligations issued to the retirement fund at a rate equal to the current

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\* Prepared by John P. Jones, Division of the Actuary.

average market yield on all outstanding U.S. marketable obligations not due or callable until after 4 years from such issuance; the fund's entire special issue portfolio is to be converted to the new rates in 10 years, beginning in 1962.

(5) Prior service credit is provided for agricultural stabilization and conservation county committee employees (first covered under the civil-service retirement program on July 1, 1960) on the same basis as that used for all other employees.

(6) The special congressional employee retirement formula is to apply to any congressional service of an employee retired from a general civil-service position.

Two other laws enacted in 1961 affect the civil-service retirement program. Public Law 87-114 makes permanent the temporary cost-of-living increases provided earlier for employees retiring before October 1, 1956. Public Law 87-299 restores certain Federal retirement benefits that had been denied under earlier law to employees who had been convicted of comparatively minor offenses having no relation to national security.

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## Recent Publications\*

### SOCIAL SECURITY ADMINISTRATION

CHILDREN'S BUREAU. *Research in Child Welfare*. (Bureau Publication No. 389-1961.) Washington: U.S. Govt. Print. Off., 1961. 50 pp. 25 cents.

Conference on the 1960 amendment to the Social Security Act providing grants for research in child welfare.

OFFICE OF THE COMMISSIONER. DIVISION OF THE ACTUARY. *Actuarial Cost Estimates for Health Insurance Benefits Bill*, by Robert J. Myers. (Actuarial Study No. 52.) Washington: The Division, 1961. 22 pp. Processed.

Data and methods used to develop estimates for H. R. 4222 (87th Cong., 1st sess.). Limited free distribution; apply to the Division of the Actuary, Social Security Administration, Washington 25, D.C.

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