An Overview of the Railroad Retirement Program

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Summary

In the 1930s, amidst concern about the ability of existing pension programs to provide former railroad workers with adequate assistance in old age, Congress established a national Railroad Retirement system. This system is primarily administered by the Railroad Retirement Board (RRB), which is an independent federal agency charged with providing benefits to eligible employees of the railroad industry and their families. Today, the Railroad Retirement program is closely tied to the far better-known Social Security program, and although the Railroad Retirement program and Social Security share a number of common elements, key differences also exist between the two in areas such as funding and benefit structure. This article aims to increase awareness and understanding of the Railroad Retirement program and its relationship with Social Security by examining the parallel development of these two retirement programs while illuminating areas where the two diverge. The history of the Railroad Retirement program, the benefits provided by the program, and RRB's financial operations are reviewed, using elements of the Social Security system as points of reference.

Historical Synopsis of the Railroad Retirement Program

The initiative for establishing a separate federal retirement program for railroad workers arose during the late 1920s as a response to the myriad problems facing the railroad industry's private pension plans. During this period, more than 80 percent of railroad workers were employed by companies with existing pension plans, but the benefits provided by these plans were generally inadequate, liable to capricious termination, and of little assistance to disabled employees. When the Great Depression drove the already unstable railroad pension system into a state of crisis, the railroad industry was beset by retirees who needed immediate assistance. However, the planned Social Security system would not cover work performed before 1937 and was not scheduled to begin paying benefits for several years (RRB 2006d).

Federal Railroad Retirement legislation was first enacted in 1934, with the passage of the Railroad Retirement Act. However, the legislation was declared unconstitutional by the Supreme Court based on concerns about violations of due process and the widespread power the act would implicitly provide to Congress to regulate interstate commerce (Roberts 1935). In 1935, Congress again attempted to introduce a national Railroad Retirement system through the Railroad Retirement and Carriers' Taxing Acts. The legislation passed, but again faced legal challenges, as a federal district court declared that neither railroad employees nor employers could be compelled to pay industry-specific retirement taxes. Nevertheless, as the court's decision did not preclude the payment of benefits, in July of 1936 RRB began paying annuities with the expectation that future legislation would resolve the remaining legal issues (RRB 2006d).

The revised Railroad Retirement and Carriers' Taxing Acts were formulated and passed in 1937, establishing a national Railroad Retirement program. Almost 50,000 private railroad pensions were transferred into the system, which covered employees for retirement and disability. Initially, disability regulations were extremely stringent, and minimal benefits were provided for spouses or dependents of deceased workers. The program was financed with a tax of 2.75 percent, paid by both the employer and the employee on the first $300 of monthly income (RRB 2006d).

In 1938, the program introduced unemployment benefits because existing state-based unemployment insurance programs did not effectively assist railroad workers who frequently crossed state lines while working. Amendments to the program in 1946 further expanded the scope of the Railroad Retirement system to include survivor benefits, sickness benefits, and occupational disability benefits. Spousal benefits were added in 1951 (RRB 2006d). The Railroad Retirement program's transition from a pension system for workers to a more comprehensive family social insurance program was akin to that which occurred in Social Security during the same period (Martin and Weaver 2005).

A financial interchange between the Railroad Retirement and Social Security programs was established by a provision of the 1951 amendments to the Railroad Retirement Act. The interchange was designed to allow the Social Security Trust Funds to operate as if railroad employees were covered under Social Security rather than their own system. The interchange provided Social Security with the tax revenues that would otherwise be collected directly from railroad workers, while Social Security provided to RRB the funds that would otherwise be paid directly to railroad beneficiaries (RRB 2006d).

The interchange was made retroactive to 1937 and resulted in the railroad system initially owing Social Security $488.2 million to account for previous tax payments to RRB that would have to be added to Social Security's Trust Funds (RRB 2006d). However, no legal mechanism existed for this amount to be transferred from RRB to Social Security, and only interest was paid on this amount, less any offsets in favor of RRB (Board of Trustees 1959). Since 1959, the transfers between the two programs have favored the railroad program.[1] The two primary factors in shifting the direction of the transfers from Social Security to RRB have been the growth of Social Security benefits and the decline in the railroad workforce, which has lowered tax receipts (RRB 2006d). The flows into and out of the Social Security Trust Funds as a result of the interchange are tabulated below for selected fiscal years:

Fiscal Year	Inflow/Outflow (dollars)
1954	11,595,000
1955	9,551,000
1956	7,439,000
1957	5,220,000
1958	1,588,000
1959	-124,441,000
1960	-600,437,000
1970	-589,257,000
1980	-1,429,879,000
1990	-3,049,144,000
2000	-3,697,579,000
2006	-3,846,311,000

SOURCES: Social Security Administration Office of the Chief Actuary and Annual Reports of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds. See http://www.ssa.gov/history/reports/trust/trustreports.html.

In 1965, the relationship between Social Security and Railroad Retirement was further strengthened by a provision to coordinate the tax rates used for both programs, allowing Medicare to easily expand to cover those in the railroad program (RRB 2006d).

In the following years, substantial benefit increases in Social Security and the railroad program, largely caused by inflation, raised the specter of insolvency. In response, Congress appointed a Commission on Railroad Retirement to formulate possible solutions (RRB 2006d). The Commission released its report in 1972, and following the general recommendations put forth, Congress enacted the Railroad Retirement Act of 1974. This legislation introduced a number of considerable changes to the program, such as splitting benefits into two tiers. The new Tier I benefit was designed to be equivalent to the annuity that would be offered by Social Security, while Tier II was structured to provide additional benefits comparable to private, multiemployer pension plans. In addition, the Tier I benefit was constructed in such a way that the annuity was reduced by any Social Security payments a beneficiary received, to prevent payment of dual benefits to railroad workers who also accrued sufficient time in jobs covered by Social Security. This dual-beneficiary arrangement was considered both unfair and financially untenable, with RRB incurring an interchange cost of roughly $450 million annually while it was in effect (RRB 2006d). The new provision was phased in gradually for those in or close to retirement, and the additional amount provided for this group of retirees was known as the vested dual benefit. The number of dually vested beneficiaries has decreased with time; as of September 30, 2007, RRB listed only 39,998 people in current payment status for this benefit (RRB 2008e).

Further reforms were made in 1981, after inflation and poor economic conditions negatively affected the railroad retirement system's financial position. These changes included increasing the Tier II tax rate and giving RRB the authority to borrow from the general fund of the U.S. Treasury to ensure an adequate cash flow during the time lag in the financial interchange.[2] The legislation also instituted nonrevenue-directed provisions, such as extending benefits to divorced spouses under the same conditions as those that apply under Social Security. However, as railroad employment fell precipitously in the face of a recession, these reforms ultimately proved insufficient to solve the financial problems confronting the program (RRB 2006d).

The Railroad Retirement Solvency Act of 1983 was enacted to deal with the crisis and was in many ways similar to contemporary legislation for Social Security, which faced its own severe financial difficulties (RRB 2006d). The act included provisions making Tier II benefits subject to the same federal income tax rules that applied to private pensions, reducing Tier I benefits for certain workers if retirement occurred between ages 60 and 62 (this was later repealed by 2001 legislation), establishing a 5-month waiting period for disability benefits, and limiting the retroactivity of retirement benefits to 6 months (RRB 2006d). Additionally, as a result of the Social Security legislation passed at the same time, Tier I benefits became subject to federal income tax under the same rules that applied to Social Security benefits.

Although minor changes were made to the program throughout the latter half of the 1980s and 1990s, the next significant modification of the system came with the passage of the Railroad Retirement and Survivors' Improvement Act of 2001. The act eliminated the benefit reduction for fully vested workers who retired between ages 60 and 62 (though not retroactively); removed the maximum cap on combined employee and spouse benefits; and lowered the basic service requirement so that, effective January 1, 2002, workers become vested in the Railroad Retirement program with at least 5 years of service in the railroad industry, all accruing after December 31, 1995. The law also provided an initial temporary supplemental annuity for widows or widowers equal to 50 percent of the deceased spouse's Tier II benefit,[3] reduced the Tier II tax rate on employers and unions serving as employers, and allowed the investment of funds from the Railroad Retirement Accounts into nongovernmental assets (RRB 2006d).[4] The investment element of the program is discussed in more detail later in this article.

Today, RRB remains an independent federal agency, headquartered in Chicago, Illinois. Much like the Social Security Administration (SSA), the agency interacts with recipients through field offices throughout the United States. There are currently over 50 offices providing services (although not every state is represented), and locations in northern border states also serve Canadian citizens who work on U.S. railroads. The agency also maintains a legislative affairs office in Washington, DC (RRB 2006d).[5]

The following sections provide a summary of RRB's current benefit structure, financing, and beneficiary population.

Railroad Retirement Benefits

Both RRB and Social Security offer retirement, disability, spousal, and survivor benefits that are generally calculated in the same manner. However, the benefits provided by each program are not identical. For example, RRB offers unique unemployment and sickness benefits, as well as Tier II benefits that resemble private pensions.[6] RRB's benefits are discussed below but this analysis is not meant to be a comprehensive description of every aspect of Railroad Retirement program benefit structure and calculation methodology. Instead, this section provides a useful overview. For readers interested in greater detail about RRB benefits or programs, the agency offers numerous publications in print and on its Web site.

Tier I Benefits

The Tier I benefits that RRB provides for its beneficiaries are designed to take the place of Social Security. Consequently, benefits under the two programs exhibit considerable similarities. It is worth emphasizing that some workers who have paid Railroad Retirement taxes will not receive benefits through the Railroad Retirement program. Workers with fewer than 10 years of service in positions subject to railroad specific taxes, or fewer than 5 years after 1995, are not vested under the Railroad Retirement program and have their accounts transferred into Social Security. All survivor claims with railroad involvement require a determination of jurisdiction (jurisdiction in this sense refers to the agency that is responsible for administering the benefit). RRB has jurisdiction if the deceased worker met the aforementioned vesting requirements for time in railroad service and was employed in a railroad industry job covered by RRB until retirement or death. If these conditions are not met, RRB awards jurisdiction to SSA (RRB 2007c).[7]

Retirement Benefits. By design, Tier I retirement benefits are generally calculated to mimic comparable Social Security benefits, and employ the same benefit formula, based on the highest 35 years of indexed earnings.[8] To be eligible for aged retirement benefits through RRB, a worker must have worked at least 10 years in covered service for the railroad industry, or at least 5 years after 1995.[9] Credit for a month's service is recorded if any time during the month was spent in railroad employment, even as little as one day (RRB 2006c). As with Social Security, Railroad Retirement benefits are generally first payable at age 62, with the full retirement age ranging from 65 to 67, depending on a recipient's year of birth. Benefit reductions for early retirement between age 62 and the full retirement age for those with less than 30 years of service are the same as those for Social Security (RRB 2007b). A retirement earnings test also applies to Railroad Retirement benefits prior to the full retirement age, and is calculated using the same thresholds and reductions as the Social Security test.[10]

However, retirement benefits under RRB differ from Social Security in two critical ways. First, early retirement reductions do not apply if the worker has at least 30 years of service in RRB-covered employment. In these cases, an individual can begin receiving benefits as early as age 60 with no age-based reduction. Second, a supplemental annuity is payable if an employee had at least 25 years of service which began before October 1, 1981, and has a current connection to the railroad. Eligibility for this annuity begins at age 60 if the employee has at least 30 years of creditable service, and at age 65 if the employee has 25 to 29 years of service. The fixed maximum amount of a supplemental annuity is $43 a month (RRB 2007b).

Disability Benefits. RRB and Social Security both use the same definition of total disability, and the same formula to calculate the disability annuity. The annuity for total and permanent disability is payable under the full retirement age for any employee with at least 10 years of railroad service, or with 5 years of service after 1995—as long as the individual's combined credits for work under Social Security and the Railroad Retirement program meet the eligibility requirements for Social Security disability benefits. In addition, the substantial gainful activity (SGA) amount that may disqualify a person from receiving a total disability annuity is the same as the one used in Social Security and is wage-indexed annually.[11]

In addition to the total disability benefit, RRB offers an occupational disability benefit that does not exist under Social Security. Whereas total disability refers to a limitation that prevents regular employment in any job, the occupational disability benefit covers disabilities preventing work in an individual's regular railroad position (that is, the occupational disability annuity is payable to disabled workers who cannot perform his or her regular duties, even if he or she could perform another job). This annuity is payable at any age to workers with at least 20 years of service and a current connection to the railroad industry and to workers between age 60 and the full retirement age with at least 10 years of service and a current connection to the railroad industry (RRB 2007b). The occupational disability annuity is calculated in the same manner as the total disability annuity.

Spousal Benefits. Tier I benefits are also provided to spouses of employees qualifying for Railroad Retirement benefits. These spousal annuities are initially computed to equal half of the worker's unreduced Tier I benefit, but can be reduced based on applicable factors such as early receipt. To be eligible based on a current marriage, the marriage generally must be at least 1 year old or the couple must have conceived a child and the spouse must cease any employment covered by RRB (RRB 2006c). Spousal payments are subject to the same age and service rules as retirement benefits; however, for spouses of employees with less than 30 years of service, reductions are generally slightly larger than those applied to workers' retirement benefits (RRB 2006c).[12] Consistent with Social Security, a spouse can also receive benefits at any age if he or she is caring for a child under age 16 or a child who became disabled prior to age 22. Divorced spouses are eligible for Tier I spousal benefits under the same conditions as those that apply to Social Security.

Survivor Benefits. Tier I survivor benefits are generally computed to match the Social Security benefit that would be received under similar circumstances. For survivors to be eligible for benefits from RRB, the deceased employee must have at least 10 years of covered service, or 5 years of covered service after 1995, and had a current connection to the railroad at the time of retirement or death. If these conditions are not met, the credits for work earned in RRB-covered employment used in computing survivor benefits are transferred to Social Security (RRB 2007c).

As with Social Security, RRB survivor benefits can be paid to widows, widowers, divorced spouses, dependent parents, and children who are under age 18, 18–19 years old and a full-time student (12th grade or below), or disabled prior to age 22. Dependent grandchildren are also eligible for benefits if both parents are disabled or deceased (RRB 2007c). The percentage of the deceased worker's Tier I benefit that survivors can receive varies depending on the type of survivor. The maximum survivor benefit per family under Social Security also applies to RRB survivor benefits (RRB 2006b).

Surviving divorced spouses are eligible to receive benefits if the marriage lasted at least 10 years, up to the Tier I amount (RRB 2006c). Surviving divorced spouses can also receive a payment for dependent children under age 16, or for a child in their care who became disabled prior to age 22 (in such cases, the length-of-marriage rule does not apply). To be eligible for widow or widower benefits, the recipient must not have remarried, unless the remarriage occurred after age 60, or after age 50 if disabled before the remarriage (RRB 2007c).

An important distinction between Social Security and RRB benefits is that, as noted above, children can only receive railroad benefits if the parent is deceased. Under Social Security, children of retired or disabled annuitants can also receive benefits. However, the families of workers covered by the Railroad Retirement program do not receive less in benefits than if they were under Social Security, because RRB includes a special minimum guaranty provision. The provision increases the employee's benefit to account for any differences between the total benefits a Railroad Retirement worker's family is receiving and those a family with the same circumstances would receive through Social Security (RRB 2006c).

Unemployment and Sickness Benefits. RRB also provides recipients with benefits in cases of unemployment or sickness. Analogous benefits do not exist under Social Security, and railroad employers pay an additional tax dedicated to this purpose (RRB 2006d). For 2008, an employee must have earned at least \$3,075 in 2007—with no more than \$1,230 counted in a single month—to receive unemployment or sickness benefits. Additionally, for new employees to be eligible for these benefits, they must also have at least 5 months of creditable service.[13] The maximum benefit amount for the benefit year beginning July 2008 is \$61 a day, and is payable for up to 130 days in this period (a benefit year runs from July 1st to June 30th). The amount received in sickness benefits varies depending on the physical location where the sickness or injury occurred. Sickness benefits arising from an injury that occurred on the job are not reduced from the \$61 daily maximum, but sickness benefits that fall outside this category are subject to the Tier I tax of 7.65 percent for the first 6 months following the last date of employment.[14] With unemployment and sickness benefits, exhausting eligibility for one type does not affect eligibility for the other, so each benefit is generally payable for up to 26 weeks a year; however, benefits can be paid beyond 26 weeks in certain situations for employees with over 10 years of covered employment. Unemployment benefits are subject to an earnings test that suspends payment if a certain income threshold is met or exceeded during any 2-week benefit period. For benefit year 2008, this earnings test amount is \$1,230 (RRB 2007d).

Tier II Benefits

The most obvious difference between the benefits that the Railroad Retirement program and Social Security provide is the additional Tier II benefit available for railroad workers. As noted previously, the Tier II benefit is designed to resemble a comparable private defined benefit pension.

Tier II benefits are calculated by computing average monthly earnings (up to the annual Tier II taxable maximum—\$75,900 in 2008) for an employee's 60 months of highest earnings. That figure is then multiplied by seven-tenths of 1 percent, and then again by the number of years spent in railroad employment. Tier II benefits generally have the same age restrictions as those for Tier I. The Tier II benefit is also reduced by 25 percent for dually vested beneficiaries (RRB 2008b).[15] As with Tier I benefits, Tier II benefits have cost of living adjustments. Tier II benefits increase annually by 32.5 percent of any increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers, known as the CPI-W (RRB 2006c).

In addition to workers, Tier II benefits are provided to current spouses and survivors, while divorced spouses can only receive these benefits as part of a property settlement. Tier II spousal benefits are equal to 45 percent of the employee's Tier II benefits, while Tier II survivor benefits vary depending on the type of survivor (RRB 2007b).

Stylized Worker Comparison

The example of a hypothetical worker is useful to illustrate how Tier I and Tier II components compare with Social Security using a scaled medium earner. A scaled earner, as constructed by Social Security's Office of the Chief Actuary, is a stylized worker designed to reflect the changes in earnings that occur over a person's lifetime. For example, an individual's earnings generally begin at age 21, at a point lower than the average earnings seen in the overall economy. Earnings, relative to the economy-wide average, then rise steadily before reaching a plateau in middle age and ultimately declining in the final years prior to retirement. The scaled medium earnings profile is more realistic than a steady medium earner assumed to earn the average wage in each year he or she is employed (SSA 2005).

A scaled medium earner born in 1943 and retiring at the full retirement age of 66 in 2009 would receive an annual Social Security benefit of $17,208, or $1,434 per month. Were the same hypothetical worker employed in positions covered under the Railroad Retirement program from age 21–65, his or her total annual benefit would be $26,736 (or $2,228 per month), the combination of an annual Tier I benefit of $17,208 and a Tier II benefit of $9,528. This example assumes the worker did not claim benefits until age 66, even though under RRB rules, an individual with 30 years or more of covered employment can, in certain situations, retire as early as age 60 without any age-based reduction in benefits.

Were the hypothetical worker to spend part of his or her career in employment covered under Social Security and part covered under the Railroad Retirement program, the benefits received could be affected, based on which years were spent working under each program. If the second part of this worker's career (age 44–65) was spent under Railroad Retirement, the annual Tier I benefit would still be $17,208 and the Tier II benefit would be $4,656. This worker's Tier II amount is lower because of the shorter period spent in railroad employment. If the first part of the worker's career (age 22–43) was spent in RRB-covered employment, the annual Tier I benefit would remain at $17,208 but the Tier II benefit would fall to $2,484.[16] This lower Tier II benefit results from the combined effect of the lower value of the highest 5 years of earnings in employment covered by the Railroad Retirement program and the shorter time working in the industry.[17]

A real worker's earning history and benefit amounts could vary substantially from this example, but the scaled medium earner profile provides an indication of how overall benefits can change based on individual circumstances (although Tier I benefits remain the same in the cases discussed here). This example also demonstrates how Social Security and Railroad Retirement benefits can differ, despite the programs' similarity. When analyzing the difference that the Tier II pension can make in the amount of monthly benefits received, it should be noted that many workers covered under Social Security would have their own private defined benefit or defined contributions pensions, which are not included in this example.

System Financing

The various benefits paid by RRB, as well as its modest administrative expenditures, are financed primarily by taxes. The 2008 employee tax rates for Tier I and Tier II benefits are 6.20 percent and 3.90 percent, respectively (RRB 2007b). The maximum taxable wage base in 2008 for Tier I benefits is $102,000, the same as for Social Security, and $75,900 for Tier II benefits. Employees also pay 1.45 percent of all earnings for Medicare; and, as with Social Security, there is no cap for the taxes paid to cover Medicare among Railroad Retirement program participants. A worker earning $102,000 in 2008 would pay $10,763.10 in combined taxes for Tier I, Tier II, and Medicare (RRB 2008d).

Taxes are also levied on employers. Covered employers are those railroad companies that are engaged in interstate commerce, their related subsidiaries, railroad associations, and railroad labor organizations (RRB 2006c). The 2008 tax rate for employers is 6.20 percent for Tier I benefits, 1.45 percent for Medicare, and 12.10 percent for Tier II benefits (RRB 2008d). The Tier I employer tax rate is tied to Social Security, but the Tier II tax rate can fluctuate significantly based on RRB asset levels (RRB 2005b). In 2008, an employer would pay $16,986.90 for an employee making $102,000, the maximum amount subject to the payroll tax (RRB 2008d).[18]

The National Railroad Retirement Investment Trust

One unique aspect of the Railroad Retirement system is the private investment of some of its funds through the National Railroad Retirement Investment Trust (NRRIT). The trust is an independent organization, separate from the federal government. It is run by a board of trustees composed of three members selected by rail labor, three members selected by rail management, and an independent member selected by the other trustees (RRB 2007a). In fiscal year 2007, the NRRIT transferred $1.39 billion to the Treasury for payment of benefit obligations (NRRIT 2007).

The program's investments are diversified among a variety of asset classes. The NRRIT's investment guidelines are frequently reexamined and adjusted, but the targeted investment allocations for the NRRIT in fiscal year 2007 are:

U.S. Equity	40 percent
Non-U.S. Equity	28 percent
U.S. Fixed Income	21 percent
Non-U.S. Fixed Income	7 percent
Convertibles	2 percent
Cash	2 percent

In fiscal year 2007, the net rate of return on assets managed by the NRRIT was 16.38 percent, compared with the 5.3 percent return experienced by the Social Security Trust Fund—which is limited to investments in federal securities—during calendar year 2007 (Board of Trustees 2008).

Although this type of return is not guaranteed, the NRRIT has developed safeguards to help ensure solvency when market returns are lower than expected for an extended time. This is done by maintaining reserve funds sufficient to pay 4 to 6 years' worth of benefits. Additionally, as discussed previously, the Tier II tax rate for employers is variable, increasing whenever the reserve funds fall below the 4 to 6 year threshold (RRB 2005a).

The Future Funding Outlook

According to RRB reports to Congress, the financial outlook for RRB remains stable for the next 25 years. However, the decline in railroad employment is a potential concern. The number of individuals in RRB-covered employment fell from 640,000 in 1970 to 236,000 in 2007, a shift that presents a sizable demographic obstacle for a pay-as-you-go system. The current beneficiary-to-worker ratio for those covered under the Railroad Retirement Act is about 2.4 to 1. However, between 2000 and 2007, railroad employment has held fairly constant in the low- to mid-two hundred thousands (RRB 2008c).

Current projections make it reasonable to expect that RRB will remain solvent, at least in the near term. Nevertheless, RRB notes "[u]nder the current financing structure, actual levels of railroad employment and investment returns over the coming years will largely determine whether corrective action is necessary" (RRB 2008c).

Current Beneficiary Statistics

The majority of the funds RRB receives in a year are used to fund benefit payments for railroad workers. In fiscal year 2007, RRB paid $9.8 billion for retirement and survivor benefits to roughly 616,000 beneficiaries. Another $27.8 million, net, went to 10,100 beneficiaries receiving unemployment benefits and $46.2 million, net, was paid to 19,500 sickness beneficiaries (RRB 2008a). RRB's most recent breakdown of beneficiaries and average payments by benefit type is provided in Table 1.[19]

Conclusion

Because of their often parallel development, the Railroad Retirement program and Social Security share a number of programmatic similarities, the most substantive of which is the coordination of RRB's Tier I benefits with Social Security benefits. At the same time, the two programs possess some noteworthy differences in terms of both benefit structure and funding. For example, RRB provides a unique Tier II benefit designed to replicate a private pension, and the agency has introduced innovative features to increase program income, such as investing a portion of its funds in equities.

As a result of the coordination between the two programs, the future of Social Security has a direct impact on RRB, and any alterations to Social Security tax rates or benefit levels will have an effect on annuitants receiving funds through RRB. Understanding the historical experience of RRB, its policy features, and its financial relationship with Social Security can help guide policymakers seeking to ensure long-term solvency for both systems.

Table 1.
Summary of Railroad Retirement Program benefits and beneficiaries

Type of benefit	Number or amount
Retirement and survivor benefits, fiscal year 2007	
Employee age annuities	
New awards	9,600
Beneficiaries at end of period	193,300
Average payment at end of period (dollars)	1,890
Employee disability annuities	
New total disability benefit awards	1,100
New occupational disability benefit awards	2,500
Total disability beneficiaries at end of period	20,300
Occupational disability beneficiaries at end of period	64,000
Average total disability payment at end of period (dollars)	1,346
Average occupational disability payment at end of period (dollars)	2,213
Supplemental employee annuities	
New awards	7,300
Beneficiaries at end of period	121,200
Average payment at end of period (dollars) [a]	42
Spouse and divorced spouse annuities	
New awards, total	10,100
Divorced spouse beneficiaries at end of period	3,500
Beneficiaries at end of period, total	137,400
Average payment to divorced spouses at end of period (dollars)	443
Average payment at end of period, all beneficiaries (dollars)	709
Survivor annuities	
New awards to aged widow(er)s	6,500
New awards, total	8,100
Aged widow(er) beneficiaries at end of period	129,400
Beneficiaries at end of period, total	160,300
Average payments as of end of period (dollars)	
Aged widow(er)s	1,173
Disabled widow(er)s	989
Widowed mothers (fathers)	1,471
Remarried widow(er)s	781
Divorced widow(er)s	773
Children	853
Lump-sum survivor benefits awarded	
Number of lump-sum death benefits	4,200
Average lump-sum death benefit (dollars)	905
Number of residual payments	< 50
Average residual payment (dollars)	2,674

(Continued)

Table 1.
Continued

Type of benefit	Number or amount
Unemployment and sickness benefits, benefit year 2006-2007	
Unemployment benefits	
Net amount paid (dollars in millions)	29.6
Beneficiaries	9,500
Number of payments	56,600
Number of normal benefit accounts exhausted	1,800
Average payment per 2-week registration period (dollars)	499
Sickness benefits	
Net amount paid (dollars in millions)	43.5
Beneficiaries	19,000
Number of payments	128,300
Number of normal benefit accounts exhausted	3,500
Average payment per 2-week registration period (dollars)	503

SOURCE: Railroad Retirement Board, 2008a.

a. Includes 300 supplemental annuities averaging $66 awarded under the 1937 Act.

Notes

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[1] Prior to 1963, railroad employees were assigned a Social Security number starting with three digits ranging from 700 to 728. This was in contrast to the normal assignment of Social Security numbers based on geographic location. On July 1, 1963, the 700 series for railroad workers was discontinued and these individuals received Social Security numbers consistent with those assigned to the rest of the populace (SSA 2008).

[2] The time lag occurs because financial interchange payments are made at the end of the fiscal year in a lump sum.

[3] The new widow or widower supplemental annuity is reduced each year by the same dollar amount as the total Tier I and Tier II benefit increases resulting from cost-of-living adjustments, until the supplemental benefit reaches zero. At that point, total benefits begin to increase. A comprehensive overview of this provision of the Railroad Retirement and Survivors' Improvement Act of 2001 can be found in *Railroad Retirement Board Annuities for Widows and Widowers* (Romig 2007).

[4] The Railroad Retirement Accounts cover Tier I and Tier II benefits that exceed Social Security.

[5] Three laws constitute the railroad retirement system: the Railroad Retirement Act, the Railroad Unemployment Insurance Act, and the Railroad Retirement Tax Act. RRB administers the Railroad Retirement Act and the Railroad Unemployment Insurance Act, while the Internal Revenue Services (IRS) administers the Railroad Retirement Tax Act (RRB 2006d). The RRB is under split jurisdiction in Congress through which the Transportation and Infrastructure Committee has responsibility for railroad retirement policy, while the Committee on Ways and Means has responsibility for the revenue aspects of the program (Committee on Ways and Means 1996).

[6] Another unique characteristic of RRB's benefit structure is that to receive benefits under the Railroad Retirement Act an individual must cease all employment in RRB-covered positions.

[7] Some workers are eligible for both Social Security and RRB benefits. When this occurs, the RRB retains jurisdiction, but SSA authorizes the RRB to make payment on its behalf. In most cases, SSA certifies Social Security benefits to the RRB whenever the recipient is also eligible for an RRB annuity (SSA 2002). If a RRB recipient is eligible for, and requests, Social Security benefits, the RRB reduces the Tier I annuity to account for the Social Security benefit and in most cases, there is no change in total monthly benefit payments. The RRB cannot alter the calculated Social Security benefit amount, as these computations remain the authority of SSA, regardless of certification (SSA 2002).

[8] For an example of how Social Security benefits are calculated, see http://www.socialsecurity.gov/OACT/ProgData/retirebenefit1.html.

[9] 1995 is the cutoff for the new vesting requirements included in the Railroad Retirement and Survivors' Improvement Act of 2001.

[10] Again, any earnings from railroad employment preclude an individual from receiving retirement benefits, but benefit reductions apply to all early retirees who have non-RRB-covered earnings over a certain limit. Prior to the year when the full retirement age is attained, benefits are reduced

$1 for every $2 earned over the annual exempt amount, which in 2008 is $13,560. In the year full retirement age is attained, the reduction is $1 for every $3 earned over the annual exempt amount, which in 2008 is $36,120 (RRB 2008d). These benefit reductions are the same as those that apply under the earnings test used by Social Security. Previously, benefits could be reduced by the retirement earnings test between the full retirement age and age 70, but this provision was removed by the Senior Citizens' Freedom to Work Act of 2000.

[11] The 2008 SGA amount is $1,570 for blind individuals and $940 for nonblind individuals. However, as noted previously, in order to receive a disability annuity there can be no earnings from RRB-covered positions.

[12] A full list of the varying spousal reductions under different circumstances is available at http://www.rrb.gov/forms/PandS/rb30/rb30early.asp.

[13] There are further, distinct claiming requirements for unemployment and sickness benefits; for example, to receive unemployment benefits the employee must be able, available, and looking for work (RRB 2007d).

[14] This comprehensive Tier I tax rate of 7.65 percent includes the 1.45 percent tax rate for Medicare.

[15] For those employees who accept benefits before the full retirement age without at least 30 years of service, Tier II benefits are reduced 1/180 for every month up to 36 months that the beneficiary is under the full retirement age and then 1/240 for every month past this point (RRB 2006a). If any RRB-covered work was performed prior to August 12, 1983, Tier II benefit reductions cannot be larger than 20 percent. After 2001, once a recipient reaches age 60 or older and has 30 years of covered service, benefits are not reduced (RRB 2007b).

[16] The stylized worker is assumed to work from age 21 through 65, so the years of work cannot be divided evenly into a whole number. Thus for purposes of comparison, the examples in which the worker works either the first or second part of his or her career in RRB-covered employment assume 22 years of work (ages 22–43 or 44–65), with employment at age 21 assumed to be in a non-RRB-covered position.

[17] Under the full career in RRB-covered employment and the first half of career in RRB employment examples, the worker would have a full retirement age of 65 for Tier II benefits because of RRB-covered employment prior to August 12, 1983. However, for purposes of simplification, it is assumed that the stylized worker took both Tier I and Tier II benefits at age 66 in all of the examples.

[18] An additional amount would be charged for unemployment insurance.

[19] The unemployment benefit and sickness benefit figures reported in Table 1 are for benefit year 2006–2007. However, the unemployment benefit and sickness benefit figures cited in this paragraph are for fiscal year 2007.

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