



RRB News

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Railroad Retirement and Unemployment Insurance Taxes in 2012

The amounts of compensation subject to railroad retirement tier I and tier II payroll taxes will increase in 2012. The tier I and tier II tax rates will remain the same on railroad employers. Railroad employees will see their effective tier I rate increase from 5.65 percent to 7.65 percent, while their tier II rate will remain the same. Railroad unemployment insurance tax rates paid by employers will include a 1.5 percent surcharge in 2012.

Tier I and Medicare Tax.--The railroad retirement tier I payroll tax rate on covered rail employers for the year 2012 remains at 7.65 percent. However, railroad employees will see their effective tier I rate increase from 5.65 percent to 7.65 percent. Legislation enacted in 2010 provided for a temporary reduction of 2 percentage points in the social security payroll tax paid by employees, but that is currently scheduled to expire at the end of 2011. The railroad retirement tier I tax rate is the same as the social security tax, and for withholding and reporting purposes is divided into 6.20 percent for retirement and 1.45 percent for Medicare hospital insurance. The maximum amount of an employee's earnings subject to the 6.20 percent rate increases from \$106,800 to \$110,100 in 2012 but there is no maximum on earnings subject to the 1.45 percent Medicare rate.

Tier II Tax.--The railroad retirement tier II tax rate on employees will remain at 3.9 percent in 2012, and the rate on employers will stay at 12.1 percent. The maximum amount of earnings subject to railroad retirement tier II taxes will increase from \$79,200 to \$81,900 in 2012. Tier II tax rates under the 2001 Railroad Retirement and Survivors' Improvement Act are based on an average account benefits ratio reflecting railroad retirement fund levels. Depending on this ratio, the tier II tax rate for employees can be between 0 percent and 4.9 percent, while the tier II rate for employers can range between 8.2 percent and 22.1 percent.

Unemployment Insurance Tax.--Employers, but not employees, also pay railroad unemployment insurance taxes, which are experience-rated by employer. The basic tax rates range from a minimum

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of 0.65 percent to a maximum of 12 percent on monthly compensation up to \$1,365 in 2012, an increase from \$1,330 in 2011. However, the Railroad Unemployment Insurance Act also provides for a surcharge in the event the Railroad Unemployment Insurance Account balance falls below an indexed threshold amount. A surcharge of 2.5 percent applied in 2011. The accrual balance of the Railroad Unemployment Insurance Account was almost \$66.2 million on June 30, 2011. Because the balance was less than the indexed threshold of \$130.2 million, a 1.5 percent surcharge is added to the basic tax rates for 2012, but will not increase the maximum 12 percent rate. A surcharge of 1.5 percent also applied in 2004-2010.

The unemployment insurance tax rates on railroad employers in 2012 therefore will range from 2.15 percent (the minimum basic rate of 0.65 percent plus the 1.5 percent surcharge) to a maximum of 12 percent on monthly compensation up to \$1,365.

The 1.5 percent surcharge will not apply to new employers in 2012. During the year, new employers will pay an initial tax rate of 2.65 percent, which represents the average rate paid by all employers in the period 2008-2010.

For 69 percent of covered employers, the unemployment insurance rate assessed in 2012 will be the minimum 2.15 percent, while 13 percent of employers will pay the maximum of 12 percent.

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