1035.5 Overview of RRA Maximum Prior to November 01, 2005

The RRA Maximum limited the total benefits paid to an employee and a spouse when the ABD was after June 1, 1977. Introduced in the 1974 Railroad Retirement Act, this provision ensured that monthly retirement annuities did not exceed an employee's pre-retirement earnings, which are the basis for these benefits. The RRA Maximum was repealed effective January 1, 2002. However, in certain cases, it was necessary for examiners to review payments made prior to January 1, 2002, to see if the RRA Maximum calculations were correct.

Legal Opinion 2005-09 has now made testing and retesting of the RRA Maximum obsolete. Beginning November 1, 2005, examiners will no longer review payments made prior to January 1, 2002 for this purpose. The previously determined RRA Maximum reductions for the date breaks before January 1, 2002, will continue to apply; even if the previous reduction was erroneous or was determined that it should not have applied.

IMPORTANT: FOM 1035.5 through 1035.35 remains in procedure for historical reference and to explain how the previous RRA Maximum reduction was computed.

The RRA maximum was one of three amounts:

1. $1200.00, **or**

2. the employee's Final Average Monthly Compensation (FAMC), **or**

3. the sum of:

    - 80% of the FAMC, and

    - 10% of a monthly taxable earnings limit for tier 1.

The RRA maximum may could be tested several times as an employee and spouse had changes in entitlement to annuities or other benefits. However, annuity components compared in each test were always treated as if they were in effect on the employee's ABD.

Annuity components considered in the maximum test are tier 1, tier 2 and the supplemental annuity. When used in the test, these components exclude reductions for early retirement and most cost-of-living increases. However, the components must sometimes reflect reductions for other benefits.

An estimated RRA maximum was shown on MARC files.

Reductions for the RRA maximum are applied to annuities in this order:

- Spouse tier 2

- Supplemental annuity
- Employee tier 2.

1035.10 When the RRA maximum was tested

Unless a case met an exception listed in subsection 1035.10.1, the RRA maximum was tested on the following annuity beginning dates:

- the employee's ABD
- the spouse's ABD
- the employee's supplemental annuity beginning date.

When these beginning dates coincide, it was possible for an RRA maximum test to be made only once. However, changes in components or in entitlement required retesting of the RRA maximum as follows:

Tier 1 Event	Effective Date for Test
WC/PDB	• the employee's initial offset date for workers compensation or public disability benefits • the benefit termination date
NCSP	• the effective date of the employee's noncovered service pension • the date PIA 1 is no longer reduced for the NCSP
PSP	• the spouse's initial offset date for a public service pension • the pension termination date
Alien Nonresidence	• the date from which the spouse's tier 1 is not payable for alien nonresidence • when tier 1 is again payable
T1 DOE	• the tier 1 date of entitlement, if later than the ABD (This was possible in 1981 Amendment cases with applications filed before 9/1/1983.)

End of Nonpayment Period for EE Imprisonment	• the date from which tier 1 is again payable, if the employee had been incarcerated on the ABD. (Prisoner/felony nonpayment periods were possible from May 1983 through January 1995.)
Other events	**Effective Date for Test**
VDB DOE	• the employee's RIB/DIB vested dual benefit date of entitlement
Own EE Annuity	• the ABD of the spouse's own employee annuity
Spouse Termination	• the termination date of the spouse annuity, when the employee's annuity remains payable.

1035.10.1 Test exceptions

- There was no need to test the RRA maximum if: the effective date of the annuity calculation is after December 31, 2001 (The RRA maximum was repealed effective January 1, 2002.); or
- the employee's ABD is before June 1, 1977, or
- the ABD PIA is less than $450.00, or
- the sum of annuity components in the test is $1200.00 or less, or
- the only consideration is the entitlement of a divorced spouse. A divorced spouse's tier 1 is not included in the RRA maximum test.

1035.10.2 Annuity components in the RRA maximum test

Although the RRA maximum could be retested after the employee's ABD, annuity components for each test were always treated as if they were in effect on the employee's ABD. All components in the test were the amounts before any COL increase or tier 2 solvency reduction (takeback).

These annuity components were:

Component	Qualification
EE tier 1	1. gross amount on: • the ABD,

	• the NCSP effective date, or • the tier 1 DOE, or • the termination date of a WC/PDB offset 2. gross amount after reduction for WC/PDB 3. zero if tier 1 was not payable (incarceration for felony before February 1995)
EE tier 2	• gross tier 2 on the ABD, or • tier 2 after reduction for VDB on the vested dual benefit date of entitlement
Supplemental annuity	• gross amount before reduction for employer pension
Spouse tier 1	1. gross amount after reduction for: • a public service pension, or • the spouse's own EE annuity 2. zero if tier 1 was not payable for alien nonresidence
Spouse tier 2	gross amount: • on the EE's ABD, or • on the EE's vested dual benefit date of entitlement, or • after inclusion of a restored amount, or • after reduction for a potential RIB/DIB VDB before 8/13/1981

Historical Note: When a legal spouse and a deemed spouse were entitled to annuities at the same time, both spouses' tiers were added in the test.

1035.10.3 Component changes in RRA maximum tests

The RRA maximum was recalculated as an "initial" test when the ABD was changed, when lag earnings were credited from the ABD, etc.

When the RRA maximum was retested after the ABD, usually only one annuity component changed. If two or more events coincided, each corresponding component below may could change:

Event	**Component Changing in Test**
Supplemental annuity entitlement	• Gross supplemental annuity
Spouse entitlement	• Spouse gross tier 1 • Spouse tier 2
EE entitlement to WC/PDB	• Employee gross tier 1 after workers compensation or public disability benefits
WC/PDB termination	• Employee gross tier 1
NCSP effective date	• Employee gross tier 1 (PIA 1 reduced for NCSP) • Spouse gross tier 1
Termination of NCSP reduction	• Employee gross tier 1 • Spouse gross tier 1
PSP entitlement	• Spouse tier 1 after public service pension
PSP termination	• Spouse gross tier 1
Tier 1 not payable for alien nonresidence	• Spouse tier 1 (zero)
Tier 1 is again payable (alien residence)	• Spouse gross tier 1
Tier 1 date of entitlement (1981 Amendment case filed before 9/1/1983)	• Gross tier 1
Tier 1 not payable for a felony nonpayment period (5/1983 through 1/1995), if the A&S employee was incarcerated on the ABD and was not undergoing court approved rehabilitation	• Employee tier 1 (zero)

Tier 1 is again payable after a felony nonpayment period	• Employee gross tier 1
VDB date of entitlement	• Employee tier 2 after reduction for vested dual benefit • Spouse tier 2
Spouse entitled to own employee annuity	• Spouse tier 1 after reduction for own EE annuity • Spouse tier 2, with a restored amount not exceeding one-half the EE's ABD PIA
Spouse annuity terminates (and the employee's annuity remains payable)	• Employee tier 1 • Employee tier 2 • Supplemental annuity • Deemed spouse tier 1, if any • Deemed spouse tier 2, if any

1035.10.4 Special rules for including components

In some circumstances, the RRA maximum test included an annuity component, even though it was reduced or not payable:

Type of Case	**Amount Used in Test**
Spouse WC/PDB	The spouse's gross tier 1 was the amount before reduction for workers compensation or public disability benefit offset.
Male Spouse with Child in Care	Tier 2 for a male spouse was included when the annuity is based on a child in care, and the spouse will attain full age (60 or FRA) by the month the child attains age 18. This procedure applied even though the spouse may not have been entitled to the tier 2 when the RRA maximum was being tested.
Spouse Tier 1 not payable for a	From 5/1983 through 1/1995, if the spouse was in

felony nonpayment period	prison and not undergoing court approved rehabilitation, the spouse's gross tier I was used in the RRA maximum test, even though tier I was not payable.
Spouse with child in care age 16-17, spouse attains full age before child is 18	Before 1/1986: a spouse gross tier 1 was included in the RRA maximum test, even though not payable, if: • a female spouse's annuity was initially based on a minor child age 16-17 in care, and • the spouse attained full age (60 or 65) by the month the child attained age 18.
Spouse Tier 2 Reduced for Future VDB	Before 8/13/1981, a spouse's tier 2 in the RRA maximum test was reduced for future RIB/DIB vested dual benefit entitlement. This tier 2 reduction was not removed in subsequent tests, even if the spouse's VDB was never paid. (The 1981 amendments eliminated auxiliary vested dual benefits.)
Waiver	Annuity components were included in the RRA maximum test, even if the employee or spouse waived all or part of an annuity.

1035.10.5 Excluding spouse T1 component

Before 1986, under the 1981 amendments, a spouse entitled on the basis of a child in care had no tier 1 component after the child reached age 16.

In the RRA maximum test, the spouse's tier 1 is excluded (i.e., tier 1 is zero), if:

- the spouse was initially entitled based on a minor child who was age 16 to 17, <u>and</u>
- the spouse was not entitled to a full age (60 or 65) spouse annuity before the child attained age 18.

1035.10.6 "Spouse Invokes Max" estimate

Before the RRA maximum was repealed effective January 1, 2002, if a spouse had not yet filed an application for an annuity, the RRA maximum was tested twice on the employee's ABD:

- as an employee-only computation, <u>and</u>

- as an employee and spouse computation, using an estimated spouse annuity.

If an RRA maximum reduction applied with the spouse's components, the employee's case was coded with an indicator that the spouse invoke the RRA maximum reduction.

1035.15 How the RRA Maximum was Calculated Prior to November 01, 2005

The RRA maximum was one of three amounts:

1. $1200.00, **or**

2. the Final Average Monthly Compensation (FAMC), **or**

3. the sum of:

   - 80% of the FAMC, <u>and</u>

   - 10% of a monthly taxable earnings limit for tier 1.

The procedure for how the maximum was once determined is discussed in sections 1035.15.1 through 1035.15.6.

1035.15.1 Step 1- Final Average Monthly Compensation

The Final Average Monthly Compensation (FAMC) is an amount based on recent earnings under railroad retirement and social security, but limited to taxable limits for tier 2. The FAMC is calculated as follows:

A. Find the employee's creditable RR and SS covered earnings in the employee's ABD year and the 9 preceding calendar years. Limit each year's amount to the maximum taxable <u>tier 2</u> compensation (see the table following "C." below).

   In cases paid before April 28, 1994, the FAMC was based on the <u>monthly</u> maximum for tier 2 and the number of months the employee worked in each year. For example, if an employee worked only 11 months in 1982, his tier 2 creditable compensation for the year was $22,275.00 (11 months times $2,025.00).

B. Select the two highest earnings years in the 10-year period.

   <u>Exception for Indexed FAMC</u>: if the employee's annuity is initially awarded after 9/30/1983, and the AMC is indexed for government service, as discussed in FOM-I-214.1, there is no ten year limit for selecting the two highest indexed earnings years.

C. Divide the total of the earnings in those 2 years by 24. The result is the FAMC.

Year	T2 Taxable Earnings Monthly Maximum	T2 Taxable Earnings Annual Maximum
2001	4,975	59,700
2000	4,725	56,700
1999	4,475	53,700
1998	4,225	50,700
1997	4,050	48,600
1996	3,875	46,500
1995	3,775	45,300
1994	3,750	45,000
1993	3,575	42,900
1992	3,450	41,400
1991	3,300	39,600
1990	3,175	38,100
1989	2,975	35,700
1988	2,800	33,600
1987	2,725	32,700
1986	2,625	31,500
1985	2,475	29,700
1984	2,350	28,200
1983	2,225	26,700
1982	2,025	24,300
1981	1,850	22,200
1980	1,700	20,400
1979	1,575	18,900

1978	1,475	17,700

1035.15.2 Step 2 - T1 earnings limit comparison

In the table below, find the EE's ABD year and note the amount in column 3 (50% of Monthly Limit).

A. If the FAMC is less than 50% of the monthly tier I taxable earnings limit, the RRA maximum is the higher of:

- the FAMC, **or**
- $1,200.00.

B. If the FAMC is greater than 50% of the monthly tier I taxable earnings limit, proceed with step 3.

ABD Year	Monthly T1 Taxable Earnings Limit	50% of Monthly Limit	10% of Monthly Limit
2001	6,700.00	3,350.00	670.00
2000	6,350.00	3,175.00	635.00
1999	6,050.00	3,025.00	605.00
1998	5,700.00	2,850.00	570.00
1997	5,450.00	2,725.00	545.00
1996	5,225.00	2,612.50	522.50
1995	5,100.00	2,550.00	510.00
1994	5,050.00	2,525.00	505.00
1993	4,800.00	2,400.00	480.00
1992	4,625.00	2,312.50	462.50
1991	4,450.00	2,225.00	445.00
1990	4,275.00	2,137.50	427.50
1989	4,000.00	2,000.00	400.00

1988	3,750.00	1,875.00	375.00
1987	3,650.00	1,825.00	365.00
1986	3,500.00	1,750.00	350.00
1985	3,300.00	1,650.00	330.00
1984	3,150.00	1,575.00	315.00
1983	2,975.00	1,487.50	297.50
1982	2,700.00	1,350.00	270.00
1981	2,475.00	1,237.50	247.50
1980	2,158.33	1,079.17	215.83
1979	1,908.33	954.17	190.83
1978	1,475.00	737.50	147.50

1035.15.3 Step 3 - 80% of FAMC

If the FAMC is greater than 50% of the monthly tier 1 taxable earnings limit, multiply the FAMC by .80.

1035.15.4 Step 4 - 10% of monthly T1 limit

If the FAMC is greater than 50% of the monthly tier 1 taxable earnings limit, take 10% of the monthly tier 1 taxable earnings limit. (The product for this step is shown above in step 2, column 4.)

In some calculation instructions, this calculation is expressed as 20% times 50% of the monthly tier I taxable earnings limit.

1035.15.5 Step 5 - Add results for RRA maximum

Add the results of steps 3 and 4. The total is the RRA maximum.

Examples of the RRA maximum computation are shown below, followed by a table of the upper limits of RRA maximum amounts.

1035.15.6 Example 1: RRA maximum equals FAMC

This example summarizes the initial calculation of the RRA maximum for an employee with:

- an ABD of 1/1/2000, and
- last RR service in 1987, and
- SS wages reported through 1998, and
- the highest earnings years in 1998 and 1992. (When lag wages are reported, the FAMC may be recomputed with 1999 replacing 1992.)

Computation Step	Description	Amount
1. FAMC	1998 Taxable Earnings	24,420.05
	1992 Taxable Earnings	21,670.26
	Sum	46,090.31
	Divisor	/ 24
	FAMC	1,920.43
2. T1 Limit Comparison	50% of 2000 monthly T1 Earnings Limit	3,175.00
3. RRA Maximum	Step 2 exceeds step 1. The RRA maximum is the FAMC, which exceeds $1200.	1,920.43

1035.15.7 Example 2 - Full RRA maximum calculation

The calculation of the 1999 upper limit of the RRA maximum is summarized below (the complete table of upper limits is in subsection 1035.15.8):

Computation Step	Description	Amount
1. FAMC	1999 T2 Taxable Earnings Limit	53,700
	1998 T2 Taxable Earnings Limit	50,700
	Sum	104,400
	Divisor	/ 24
	FAMC	4,350

2. T1 Limit Comparison	50% of 1999 monthly T1 Earnings Limit (Since less than FAMC, go to Step 3.)	3,025
3. 80% of FAMC	FAMC	4,350
	Multiplier	* .8
	Product	3,480
4. 10% T1 Limit	20% of Step 2 amount (or 10% of 1999 monthly taxable T1 earnings limit)	605
5. RRA Maximum	Sum of Step 3 and Step 4	4,085

1035.15.8 Upper limit of RRA maximum

The upper limit of the RRA Maximum is based on maximum creditable earnings in the ABD year and the 2 preceding calendar years:

ABD	Upper Limit of RRA Maximum	ABD	Upper Limit of RRA Maximum
2002 or later	Not applicable	Jan - Oct 1987	2,405.00
2001	4,550.00	December 1986	2,390.00
2000	4,315.00	November 1986	2,302.50
1999	4,085.00	Jan - Oct 1986	2,280.00
1998	3,880.00	December 1985	2,260.00
1997	3,715.00	November 1985	2,177.50
December 1996	3,582.50	Jan - Oct 1985	2,160.00
Jan - Nov 1996	3,532.50	December 1984	2,145.00
December 1995	3,520.00	November 1984	2,066.67
Jan - Nov 1995	3,440.00	Jan - Oct 1984	2,015.00
December 1994	3,435.00	December 1983	1,997.50
Jan - Nov 1994	3,315.00	November 1983	1,923.33

December 1993	3,290.00	Jan - Oct 1983	1,847.50
Jan - Nov 1993	3,180.00	December 1982	1,820.00
December 1992	3,162.50	November 1982	1,752.50
Jan - Nov 1992	3,052.50	Jan - Oct 1982	1,690.00
December 1991	3,035.00	December 1981	1,667.50
November 1991	2,925.00	November 1981	1,605.83
Jan - Oct 1991	2,905.00	Jan - Oct 1981	1,557.50
December 1990	2,887.50	December 1980	1,523.83
November 1990	2,781.67	November 1980	1,469.17
Jan - Oct 1990	2,737.50	Jan - Oct 1980	1,435.83
December 1989	2,710.00	December 1979	1,410.83
November 1989	2,610.83	November 1979	1,358.33
Jan - Oct 1989	2,610.00	Jan - Oct 1979	1,330.83
December 1988	2,585.00	December 1978	1,287.50
Jan - Nov 1988	2,515.00	November 1978	1,238.33
December 1987	2,505.00	Jan - Oct 1978	1,207.50
November 1987	2,414.17	Before 1978	1,200.00

1035.15.9 Comparing the RRA maximum to annuity totals

The RRA maximum was computed based on the individual circumstances of each case. The upper limits in the table above were only possible when the employee had consistent maximum earnings in the two-year period ending with the ABD year.

Annuitants would sometimes question the discrepancy between the upper limit of the RRA maximum and the total of annuities actually payable to the employee and spouse. Below are some reasons that annuities could be smaller than the annual upper limits:

- The FAMC was based on the two highest earnings years in the ten-year period ending with and including the ABD year. An employee with maximum earnings often had his highest two earnings years before the ABD year. For example, an employee

retiring in the first half of the year was unlikely to have the ABD year as one of his two highest earnings years.

- There were two maximum earnings limits in the RRA maximum formula. An employee might have had earnings exceeding the taxable earnings limit for tier 2 but not for tier 1. For example, an employee earning $60,000 in 1999 exceeded the tier 2 limit but not the tier 1 limit.

- The upper limit of the RRA maximum was based on total family benefits. The employee comparing his regular annuity to the maximum total benefit would have had to consider his supplemental annuity and his spouse's annuity, even if she was not yet receiving benefits.

  Historical Note: A reduction for the RRA maximum was based only on the components actually payable at the time of the test. Therefore, the RRA maximum calculation in an employee-only case excluded the spouse.

- The RRA maximum did not include reductions for early retirement, social security benefits, work deductions, etc. The employee could not necessarily compare the RRA maximum formula to the net annuity amounts payable to the family.

- Annuity components might not have credited lag earnings until a later date. When an employee annuity was initially calculated, tier 1 and tier 2 are based on reported earnings, which sometimes omitted up to two years of lag earnings. RRB mass adjustments eventually recomputed annuities to include these additional earnings.

  ABD year wages and compensation are not credited in PIA 1 until January of the year after the ABD. (In reduced 60/30 cases, the recalculation does not occur until the first full month the employee is age 62. If the spouse is not yet 62, her recalculation is delayed until she is age 62 for a full month.)

  Lag compensation for a given year is not posted until May of the following year. The RRA maximum was be retested when tier 2 is recalculated from the ABD. The updated FAMC may include a higher two-year sum of tier 2 taxable earnings limits.

  Therefore, annuitants were advised not compare total family maximum benefits to annuity components that are likely to increase after lag earnings are reported.

1035.20 Reductions for the RRA maximum

Annuities payable to an employee or the spouse had to be adjusted when the affected portions exceed the RRA maximum applicable to the case. Reductions were made only to certain components of the annuity, in the following order:

1. Spouse tier 2

2. Supplemental annuity

3. Employee tier 2.

1035.20.1 Components reduced for RRA maximum

The reduction for the RRA maximum is subtracted from components as follows:

1. Spouse tier 2

   - ABD after 1983: tier 2 after restored amount and takebacks, but before COL increases and age reduction.

   - ABD before 1984: tier 2 after reduction for RIB/DIB VDB, COL increase before 1984, and restored amount, but before age reduction, takebacks, and COL increases after 1983.

   - Deemed and legal spouses: the tier 2 reduction is divided equally between the spouses. However, after one spouse's tier 2 has been reduced to zero, a second spouse with a greater tier 2 is subject to further reductions for the RRA maximum.

2. Gross supplemental annuity before reduction for an employer pension.

3. Employee tier 2 after reduction for a RIB/DIB VDB.

   If the employee annuity was awarded under the 1974 RR Act, the reduction in tier 2 is applied in sequential order to components 1, 2, and 3.

   The RRA maximum reduction could not exceed the sum of the components listed above. No other annuity components, such as tier 1 or the vested dual benefit, were reduced for the RRA maximum.

1035.20.2 Example of RRA maximum reduction

In this example, total benefits to the employee and spouse exceed the RRA maximum by $164.00. Reductions are made as follows:

COMPONENT SUBJECT TO REDUCTION	COMPONENT BEFORE REDUCTION	RRA MAX REDUCTION	COMPONENT AFTER REDUCTION
Spouse tier 2	$144.00	$144.00	0
Supplemental Annuity	$43.00	$20.00	$23.00
Employee tier 2	$323.00	0	$323.00

1035.20.3 RRA maximum reduction and employer tax credits

When the employee's supplemental annuity had to be reduced for the RRA maximum, the reduction was applied to the gross amount, before any reduction for a railroad pension. In some cases, the railroad will lose tax credits equaling the RRA maximum reduction amount.

In the example above, the gross supplemental annuity is $43.00, but the railroad employer's tax credit would be $23.00.

1035.25 RRA maximum and ABD selection before 2002

When selecting an ABD before 2002, a railroad employee had to consider:

- what his maximum would be in a possible month of retirement
- how much his family's benefit will be adjusted for the maximum
- if retiring earlier or later would result in a different maximum reduction.

The employee also had to consider tier I and tier 2 COL increases. The next two sections provide information about how the ABD and COL increases affected the RRA maximum.

1035.30 Advantages of January ABD before 2002

Before the RRA maximum was repealed effective January 1, 2002, an employee considering retirement in December or January usually maximized family benefits by selecting an ABD in January. The RRA maximum may be higher in January if the employee has maximum earnings in the ABD year and the 2 preceding years.

1035.35 Advantages of May ABD before 1983

Before 1983, an employee had to consider the RRA maximum in selecting an ABD in May or June. An ABD before June 1 was generally advantageous to certain employees who had spouses. The RRA maximum was considered before the June COL increase was added to tier 1. This tended to lessen the impact of the maximum reduction.

When selecting an ABD in May or June, an employee no longer needed to consider the interaction of the cost-of-living increase and the RRA maximum. Annual COL increases have been applied in December since 1983.