

Labor Employer Reporting Instructions
Part VI - Reports Related to Service and Compensation
Chapter 6: Supplemental Annuity Benefits

Supplemental Annuity Background

Prior to calendar year 2002, the railroad retirement supplemental annuity program was financed by a work hour tax on a pay-as-you-go basis under 26 USC 3221 (C) of the Internal Revenue Code. The Railroad Retirement and Survivor's Improvement Act of 2001 (RRSIA) repealed the Railroad Retirement Supplemental Annuity Tax effective January 1, 2002. Supplemental annuities provided under the Railroad Retirement Act were not eliminated by the RRSIA, but are now funded through the National Railroad Retirement Investment Trust.

Who is Eligible for a Supplemental Annuity?

A supplemental annuity can be paid to a retired employee who:

- has at least 25 years of railroad service with at least one month of covered service before October 1981;
- is entitled to a railroad retirement annuity; and
- had a current connection or "deemed current connection" with the railroad industry on the annuity beginning date.

Supplemental Annuity Benefit Amount

The gross supplemental annuity rate is based on an individual's years and months of creditable railroad service. The minimum gross rate is \$23 for 25 years of railroad service. An additional \$4 is added for each full year of railroad service over 25 and up to 30. The maximum supplemental annuity is \$43 for employees with 30 or more years of railroad service.

Employees, who are entitled to a private pension from a railroad employer, will have their supplemental annuity reduced by that part of the private pension financed by employer contributions. Supplemental annuities are not payable to spouse or survivor annuitants.

When can a Supplemental Annuity begin?

The supplemental annuity can begin as early as:

- Age 60, if the employee has at least 360 months of creditable service; or,
- Age 65, if the employee has 300 - 359 months of creditable service.

Type of Employer Pension Which Will Reduce the Supplemental Annuity

The definition of an "employer pension" that will reduce a Supplemental Annuity can be found in RRB Regulations (20 CFR 216.42). The regulations state that an "employer pension" that will reduce the Supplemental Annuity is a pension, other than Railroad Retirement benefits, that a

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railroad employer provides the employee that is based wholly or in part on employer contributions. Employer contributions do not include amounts deducted from an employee's payroll or any contributions to the pension fund made by an employer in lieu of a wage increase under provisions of a collective bargaining agreement. A defined benefit plan is usually an "employer pension". A defined contribution plan can also be an "employer pension" if it meets the criteria listed below.

A defined benefit plan is an "employer pension" that will reduce the Supplemental Annuity if it:

- is a written plan or arrangement which is communicated to the employees to whom it applies;
- is established and maintained by an employer for a defined group of employees; and
- provides for the payment of definitely determinable benefits to employees over a period of years, usually for life, after retirement or disability.

A defined contribution plan is an "employer pension" that will reduce the Supplemental Annuity if:

- it meets the first two criteria listed above; and
- the employer is obligated to make fixed contributions to the plan, regardless of profits.

A defined contribution plan under which the employer's contributions are discretionary is not an employer pension that will reduce the Supplemental Annuity.

An employer-sponsored 401(k) plan under which the employer is obligated to match a percentage of the employee's pre-tax contributions, either in cash or shares of company stock, is a common example of a defined contribution plan that will reduce the Supplemental Annuity. This is true even if a third party, such as an investment firm, administers the plan.

Pension Plans Paid by Labor Organizations

Employer pensions paid by a labor organizations to their office employees or employee representatives are not considered to be supplemental pension plans and do not cause a reduction to RRB supplemental annuities. These pensions were excluded from the legislation that established the reduction to the supplemental annuity.

How RRB Obtains Employer Pension Information

RRB uses the forms listed below to obtain the necessary pension information to determine if a Supplemental Annuity should be reduced for an employer pension. The sections that follow contain instructions for completing Forms G-88p and G-88r.

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| Form G-88p, Employer's Supplemental Pension Report | See the following sections for information about this form. |
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| Form G-88r, Request for Information About New or Revised Employers Pension Plan | Released to employers when RRB receives information about a new or revised pension plan. The form is mostly self-explanatory. However, instructions specific to 401(k) plans are included at the end of this chapter. |
| Form G-88r.1, Request for Additional Information About Employer Pension Plan in Case of Change of Employer Status or Termination of Pension Plan | Released to employers when RRB receives information about an employer's termination of status or the termination of a pension. The form requests information about the distribution of pension funds at the change in employer status or termination of a pension plan. It is self-explanatory and not included in this chapter. |

Form G-88p, Employer's Supplemental Pension Report

RRB releases Form G-88p, Employer's Supplemental Pension Report, to the employer when it does not have sufficient information to determine if an employee is receiving an “employer pension”, as defined above, or if additional information is needed to properly reduce the Supplemental Annuity. It is released when any of the following apply:

- The employee indicates he or she is receiving or will receive a pension from a defined benefit plan and RRB does not have the plan in file.
- The employee indicates he or she is not receiving or will not receive a pension from a defined benefit plan and our records indicate the employee worked in a job category covered under such a plan.
- The employee indicates he or she elected or will elect a lump-sum payment in lieu of monthly benefits from a defined benefit plan.
- The employee indicates he or she did or will involuntarily receive a lump-sum payment (value of the account is less than the minimum required to receive monthly payments).
- The employee indicates he or she participates in an employer-sponsored 401(k) or other defined contribution plan to which the employer contributes and RRB does not have the plan in file.
- The employee indicates he or she has received or will receive a distribution from a 401(k) or other defined contribution plan that RRB has determined qualifies as an “employer pension”. The form is sent in these cases to obtain the amount of the distribution attributable to employer contributions (see the instructions for completing the form for a defined contribution plan, below).

The instructions for completing Form G-88p are divided into three sections:

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- Items completed by RRB.
- Completing G-88p for a defined benefit plan.
- Completing G-88p for a defined contribution plan

If required items are not completed, the form may be returned to you to complete those items.

Items completed by RRB

RRB completes items 1 - 7. Items 1 - 5 are self-explanatory.

Item 6: RRB enters the job category that best applies to the employee based on the following general definitions:

- Salaried - Employees in management, professional and administrative positions.
- Non-agreement - Employees, other than "salaried" employees, who work in positions not covered by a collective bargaining agreement.
- Agreement - Employees whose wages and benefits are covered under a collective bargaining agreement. This includes supervisors in operations divisions whose positions are covered by such an agreement.

Item 7: An employer pension may be reduced by a percentage of the employee's railroad retirement annuity. If this is the case, RRB also completes this item. Otherwise, it is left blank. This item only applies to defined benefit plans.

Completing Form G-88p, for a Defined Benefit Plan

Employee will receive monthly payments.

If the employee will receive monthly payments from a defined benefit plan, complete the form as follows:

Item 8: If the employee is entitled to a pension based partly or entirely on employer contributions, check "Yes". Otherwise, check "No".

Item 9: If item 8 is "Yes", enter the name(s) of the pension(s).

Item 10: If the employee has filed for the pension, check "Yes". If not, check "No" and retain a copy of this form in the employee's file. Complete and send the form to RRB when he or she files.

Item 11: Skip

Items 12 through 19: Self-explanatory.

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Employee will receive a lump-sum payment followed by monthly payments.

If an initial lump-sum payment is made for a specific period, followed by regular monthly payments, the monthly payment amount will be used to determine the reduction to the RRB Supplemental Annuity.

Item 8: Complete as above.

Item 9: Enter the name of the pension plan(s).

Item 11b: In the row for Pension 1, enter the beginning date of the lump-sum period. If the pension also includes employee contributions, complete either 11c or 11d.

- Complete Item 11(c) with the lump-sum including employee contributions and also provide the yearly breakdown of the employee contributions in Item 17(b).
- Complete Item 11(d) with the lump-sum amount after subtracting out the total employee contributions plus any interest.

Item 16e: Divide the lump-sum amount by the number of months for which it is paid. Enter that amount in the row for Pension 1.

Example: An employee retired on March 1, 2008 and is entitled to an initial lump-sum payment of \$1,050.00 covering the first three months of retirement, after which he began receiving a monthly pension of \$95.00 a month. The lump-sum payment of \$1,050.00 is prorated to \$350 for each of the three months. Enter \$350.00 in the row for Pension 1 row in Item 16e.

If the employee will receive monthly payments after the lump-sum payment:

Complete Items 12 (check “Yes”), 13 (Pension 2), 14, 15, 16 (Pension 2), 17a, 17b, 18 and 19.

Employee is paid a lump-sum in lieu of a monthly pension.

If a lump-sum payment is made in lieu of monthly employer pension payments, the Supplemental Annuity is reduced by the monthly benefit amount the employee would have received had he or she not elected the lump-sum. For example, if an employee retired on March 1, 2008 and was entitled to a monthly employer pension of \$250.00, but elected to receive a lump-sum payment of \$15,000.00, the RRB Supplemental Annuity will be permanently reduced by the monthly pension rate of \$250.00.

Items 8 through 10: Complete as above.

Item 11: Check “Yes”.

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Item 11b: Enter the date the lump-sum was or will be paid. If paid in multiple payments, enter the date the first payment was or will be paid. If part of the lump-sum is based on employee contributions, complete either 11c or 11d.

- Complete Item 11(c) with the lump-sum including employee contributions and also provide the yearly breakdown of the employee contributions in Item 17(b).
- Complete Item 11(d) with the lump-sum amount after subtracting out the total employee contributions plus any interest.

Items 12 through 16: Provide the monthly pension information, as indicated.

Employee is paid a lump-sum and a monthly pension amount cannot be computed.

In some cases, a lump-sum payment is made, but a monthly pension amount cannot be computed. In these cases, the Supplemental Annuity reduction will be computed by dividing the lump-sum payment, adjusted for employee contributions, by the Supplemental Annuity rate. This will result in a \$1.00 for \$1.00 reduction. After the lump-sum payment is reduced to zero, the employee will begin to receive the RRB Supplemental Annuity.

Items 8 through 10: Complete as above.

Item 11: Check “Yes”.

Item 11(b): Enter the date the lump-sum was or will be paid. If paid in multiple payments, enter the date the first payment was or will be paid.

Items 11c and 11d: If part of the lump-sum is based on employee contributions, complete either 11(c) or 11(d).

- Complete Item 11(c) with the lump-sum including employee contributions and also provide the yearly breakdown of the employee contributions in Item 17(b).
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- Complete Item 11(d) with the lump-sum amount after subtracting out the total employee contributions plus any interest.

Item 12: Check “No”.

Items 13 through 16: Skip.

Item 17: Complete only if Item 11(c) is completed.

Items 18 and 19: Self-explanatory.

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Completing Form G-88p for a Defined Contribution (401k) Plan

A Supplemental Annuity is reduced only by the portion of a 401(k) distribution that is attributable to the employer's contributions. RRB computes the reduction in these cases by dividing the amount of the distribution amount attributable to the employer's contributions by the Supplemental Annuity rate. This will result in a \$1.00 for \$1.00 reduction. After the lump-sum payment is reduced to zero, the employee will begin to receive the RRB Supplemental Annuity.

Item 8: If the employee participates in an employer-sponsored 401(k) plan under which the employer is obligated to make contributions, check “Yes”. If the employee does not participate in an employer-sponsored 401(k) plan or the employer is not obligated to make contributions to the plan, check “No”.

Item 9: Enter the name of the 401(k) plan.

Item 10: If the employee has submitted his or her distribution election, check “Yes”. If not, check “No” and retain a copy of this form in the employee's file. Complete and send the form to RRB when he or she makes the distribution election.

Item 11: If the account is payable in a single, lump-sum, check “Yes”.

Item 11b: Enter the date the lump-sum was or will be distributed or directly rolled over to a qualifying account.

Item 11c: Skip.

Item 11d: Enter the amount of the total lump-sum, before direct rollover or other type of distribution that is attributable solely to employer contributions. NOTE: If the entire amount of the lump-sum is entered instead of only the amount attributable to employer contributions, the employee's Supplemental Annuity will not be payable until the entire lump-sum amount is reduced to zero.

Items 12 through 17: Skip.

Items 18 and 19: Self-explanatory.

Completing Form G-88r for a Defined Contribution (401k) Plan

RRB will complete Items 1 through 3.

Item 4: Check “New Pension Plan” if a copy of the 401(k) plan summary plan description has not been previously submitted to the RRB.

Item 5: Enter the name of the 401(k) plan. List all subsidiaries that participate in the plan in Section 3 – Remarks (a separate Form G-88r for each of the listed subsidiaries then will not be needed).

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Item 6: Enter the effective date of the 401(k) plan.

Item 7: Enter the specific group(s) of employees eligible to participate in the plan. In the case of agreement employees, if not all agreement employees are eligible to participate due to separately negotiated contracts, specify which employees are eligible, e.g., “All agreement except BLET”, “UTU, BMW & BRS only”, etc.

Item 8: Enter employer contribution information, e.g., “Employer contributions required”, “Employer contributions optional”, “No employer contributions”, etc.

Items 9 through 12: Skip.

Section 3: Optional.

Section 4: Always complete.

Return the completed form, along with a copy of the most recent summary plan description, to the address shown in Section 4.