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Myths and Facts about Railroad Retirement

While the Railroad Retirement Board (RRB) attempts to make potential annuitants aware of the benefits available to them by regularly hosting pre-retirement seminars and issuing various news releases, booklets, and informational materials, there can still be misunderstandings. The following are some of the most common myths associated with the railroad retirement program.

MYTH: Working after leaving employment in the railroad industry will not affect your future entitlement to railroad retirement benefits.

FACT: Railroad employees who work in another industry after leaving rail employment may jeopardize their eligibility for certain benefits.

Under the Railroad Retirement Act (RRA), a *current connection* with the railroad industry is one of the eligibility requirements for occupational disability annuities and supplemental annuities, and is one of the factors that determine whether the RRB or the Social Security Administration (SSA) has jurisdiction over the payment of monthly benefits to survivors of a railroad employee.

Generally, you have a current connection with the railroad industry if you worked for a railroad in at least 12 of the 30 consecutive months before the month in which your annuity begins.

Full or part-time work for a nonrailroad employer before the month an employee's annuity begins may break a current connection.

However, there are exceptions to this. Please contact your local RRB field office if you plan to leave the industry before your retirement.

Railroad employees should know that their current connection status does not affect their eligibility for age and service (including 60/30 benefits) or total disability annuities. It also does not affect a spouse's eligibility for an annuity while the employee is alive, but as noted above, will determine whether the RRB or SSA has jurisdiction over survivor benefits.

MYTH: When calculating the tier II portion of an employee railroad retirement annuity, only the last 5 years of earnings are considered.

FACT: The formula for calculating the tier II portion of an employee annuity is based on the **60 months of highest earnings** (up to the annual tier II maximum taxable compensation) **and** total years of railroad service. While an employee's last 5 years of earnings often are his or her highest 60 months of earnings, it is not always the case.

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MYTH: Work performed under the Social Security Act prior to working for a railroad will not be considered when calculating an employee's railroad retirement annuity.

FACT: The tier I portion of an employee annuity is based on the employee's **combined** railroad retirement and social security earnings and is computed by using a social security benefit formula. For purposes of this computation, no differentiation is made between the employee's earnings from railroad employment and his or her earnings from employment covered by the Social Security Act. Rather, these earnings are treated as if they were one continuous earnings history. As a result, tier I represents the social security benefit that would be payable if all of the employee's earnings had been covered under the social security system.

MYTH: Railroad employees are only eligible for railroad retirement benefits, and may not file for social security benefits.

FACT: Railroad employees who have sufficient quarters of coverage under the Social Security Act to qualify for benefits may file for and receive those benefits. However, it is important to note that since social security earnings are already considered in calculating the tier I portion of the employee's railroad retirement annuity, this tier must be reduced by the exact amount of the social security benefit an annuitant receives to prevent a duplication in benefits based on the same earnings record. Tier I is also reduced in the event a social security benefit is payable to the employee on the basis of another person's earnings. This reduction follows principles of social security law under which the beneficiary receives only the higher of any two benefits payable.

Whether or not receipt of a social security benefit is financially advantageous for an employee depends upon the amount of that benefit and the railroad retirement annuity tier I amount. If the social security benefit exceeds the railroad retirement tier I amount, it would be beneficial to receive the social security benefit. However, if it is equal to or less than the railroad retirement tier I amount, receipt of the social security benefit will not increase the total monthly benefits.

MYTH: There is a maximum number of months of service a railroad employee can be credited with when calculating a railroad retirement annuity.

FACT: While earnings are creditable only up to certain annual maximums on the amount of compensation subject to railroad retirement taxes, there is no limit on the number of service months for which an employee may earn credit in a lifetime. However, an employee may never be credited with more than 12 service months in any calendar year.

Benefit calculations take into account creditable compensation and total months of service, and the longer an employee works and the more he or she earns, the higher the benefit amount.

MYTH: In order for military service to be credited as railroad retirement service months, the employee must have railroad service before and after the military service.

FACT: Active duty military service may be credited towards retirement benefits under certain conditions. To be creditable as compensation under the RRA, an employee's service in the U.S. Armed Forces must be preceded by railroad service in the same or preceding calendar year. With certain exceptions, the employee must also have entered active military service when the United States was at war or in a state of national emergency, or have served in the Armed Forces involuntarily.

If an employee's military service began during a war or national emergency period, any active duty service he or she was required to continue in beyond the end of the war or national emergency is creditable, except any voluntary service extending beyond September 14, 1978, is not creditable. Pertinent war and national emergency periods are August 2, 1990, to a date as yet undetermined, and December 16, 1950, to September 14, 1978.

It should be noted that railroad workers who voluntarily served in the Armed Forces between June 15, 1948, and December 15, 1950, when there was no declared national state of emergency in force, can be given railroad retirement credit for their military service if they performed railroad service in the year they entered or the year before they entered military service and if they returned to rail service in the year their military service ended or in the following year, and had no intervening nonrailroad employment.

If military service is not creditable under the RRA, the employee's military service earnings will be included as social security wages in the calculation of the tier I portion of his or her annuity.

MYTH: Any age reduction applied to an employee's annuity is removed once the individual reaches full retirement age.

FACT: For employees retiring between age 62 and their full retirement age with less than 30 years of service, age reductions are applied separately to the components of an annuity. **These age reductions are permanent.**

Full retirement age is gradually rising to age 67, depending on the year of birth. The maximum annuity reduction for retirement at age 62 is gradually increasing from 20 percent to 30 percent. This does not affect those who retire at ages 60 or 61 with 30 years of service.

MYTH: If you are the spouse of a railroad retirement annuitant, and you are receiving social security benefits, you shouldn't apply for an annuity with the RRB because no benefits will be payable.

FACT: While certain benefits can cause a reduction in a portion of the railroad retirement annuity otherwise payable, **it is to the spouse's financial advantage to apply for a railroad retirement spouse annuity.**

The tier I portion of a spouse annuity is reduced for any social security entitlement, regardless of whether the social security benefit is based on the spouse's own earnings, the employee's earnings, or the earnings of another person. As previously stated, this reduction follows principles of social security law, which limit payment to the higher of any two or more benefits payable to an individual at one time. The tier I portion of a spouse annuity may also be reduced for receipt of a public service pension (see next myth).

While these offsets can reduce or even erase the tier I benefit amount otherwise payable to a spouse, **they do not affect the tier II benefit** potentially payable to that spouse.

MYTH: If the spouse of a railroad retirement annuitant is entitled to a teacher's pension, his or her railroad retirement spouse annuity is not reduced.

FACT: The tier I portion of a spouse annuity may be reduced for receipt of any Federal, State, or local government pension, including a teacher's pension, separately payable to the spouse based on the spouse's own earnings. The reduction generally does not apply if the employment on which the pension is based was covered under the Social Security Act throughout the last 60 months of public employment.

Most military service pensions and payments from the Department of Veterans Affairs will not cause a reduction. Pensions paid by a foreign government or interstate instrumentality will also not cause a reduction. For spouses subject to the public pension reduction, the tier I reduction is equal to 2/3 of the amount of the public pension.

MYTH: Tier II is the railroad employee's spouse's benefit.

FACT: Employee and spouse railroad retirement annuities are computed under a tier format established by the 1974 RRA. Tier I is based on the employee's combined railroad retirement and social security earnings and is computed by using a social security benefit formula. The basic tier I of a spouse annuity is equal to 50 percent of the employee's tier I. Tier II is based on the employee's average monthly earnings and years of service in the railroad industry. The basic tier II of a spouse annuity is 45 percent of the employee's tier II amount. Benefits payable to a spouse are separate from those payable to the employee, and do not affect the employee's annuity.

MYTH: A spouse must have been married to the employee prior to his or her retirement in order to be eligible for a railroad retirement spouse annuity.

FACT: Requirements for a spouse annuity based on age depend on the employee's age and years of creditable railroad service, and the spouse's age. The employee must be receiving an annuity, and the spouse must file an application for benefits.

The employee and his or her spouse need to have been married for at least one year, but they **do not** need to have been married prior to the employee's retirement.

*The information presented here is general in nature. For answers to specific questions, please contact an RRB field office by calling toll-free, 1-877-772-5772. Additional information on the topics presented here is also available by visiting **RRB.gov**.*