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Private Rail Pensions May Reduce Supplemental Annuities

Railroad retirement beneficiaries are reminded that receipt of a private railroad pension may reduce the amount of a supplemental annuity payable by the Railroad Retirement Board (RRB). The following questions and answers provide information on this subject and how 401(k) plans are affected by the Railroad Retirement Act (RRA).

1. What are the eligibility requirements for a supplemental annuity?

Monthly supplemental annuities are payable to employee annuitants with 25 or more years of rail service, a “current connection” with the railroad industry, and at least one month of creditable rail service before October 1981. Individuals with 30 years or more of rail service may begin receiving a supplemental annuity at age 60, whereas individuals with 25-29 years of service may do so at age 65. (Disabled annuitants under full retirement age, which is gradually rising to age 67 for those born in 1960 or later, must relinquish employment rights in order for a supplemental annuity to be paid by the RRB.) Monthly supplemental annuity rates vary based on an annuitant’s years of rail service. The maximum monthly supplemental annuity rate is \$43.

2. How does the receipt of a private railroad pension affect payment of a supplemental annuity?

If a retired employee also receives a private pension funded entirely, or in part, by a railroad employer, the supplemental annuity is permanently reduced by the amount of the monthly pension that is based on the railroad employer’s contributions. However, if the employer reduces the pension for the employee’s entitlement to a supplemental annuity, the amount by which the pension is reduced is restored to the supplemental annuity (but does not raise it over the \$43 maximum). There is **no** reduction for a pension paid by a railroad labor organization.

3. What if an employee elects to receive the pension in a lump-sum payment instead of as a monthly benefit?

If a retired employee elects to receive his or her pension in a lump-sum payment instead of as a monthly benefit, the supplemental annuity is reduced in the same way as it would be if the employee was receiving the monthly benefit. (If the lump sum is paid in installments, the installment payments are not considered monthly benefit payments, but part of the single lump-sum payment.)

(More)

4. Does the receipt of a 401(k) plan distribution reduce the amount of a supplemental annuity?

No. In Legal Opinion L-2014-2, issued January 13, 2014, the RRB's General Counsel determined that 401(k) plans should not be considered supplemental pension plans as defined by the Railroad Retirement Act and, therefore, employee supplemental annuities should not be reduced due to the receipt of 401(k) distributions.

5. Are employee contributions to a 401(k) plan subject to railroad retirement tier I and tier II payroll taxes?

Yes. Federal budget legislation enacted in 1989 and effective January 1, 1990, provided that employee contributions to 401(k) plans are subject to railroad retirement payroll taxes and brought the treatment of 401(k) plans under railroad retirement law into conformity with the treatment of such plans under social security law. Consequently, employee contributions to a 401(k) plan are also treated as creditable compensation for railroad retirement benefit purposes. (For example, an employee earning \$40,000 a year, but who has 10 percent of his earnings deferred under a 401(k) plan, would have only \$36,000 reported to the IRS as earnings subject to Federal income tax. However, the entire \$40,000 would be subject to railroad retirement payroll taxes and therefore creditable as compensation under the Railroad Retirement Act.)

6. How can a person get more information about how private rail pensions and 401(k) plan payments affect supplemental annuities?

More information is available on **RRB.gov** or by contacting an RRB field office. It is important to know that while nearly all of the RRB's 53 field offices are physically closed to the public until further notice because of the COVID-19 virus outbreak, they remain accessible by e-mail and phone. Customers are encouraged to send a secure e-mail to their local office by accessing **Field Office Locator** and clicking on the link at the bottom of their local office's page. Customers who prefer talking to an RRB employee can call the agency's toll-free number (1-877-772-5772); however, they may experience lengthy wait times due to increased call volume caused by COVID-19 related issues.

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