

# **Rail Employer Reporting Instructions**

## **Part I - Prerequisite Knowledge for Employer Reporting**

### **Chapter 5: Compensation, Tax and Benefit Relationships**

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#### **Introduction to Tier I and Tier II**

Under the RRA, creditable compensation and retirement-survivor benefits are based on a two-tier structure, Tier I and Tier II. Railroad retirement taxes under the Railroad Retirement Tax Act (RRTA) are also computed using the tier structure. Consequently, a direct relationship exists between creditable compensation, the corresponding taxes paid to the Internal Revenue Service (IRS), and the benefit formula under the RRA.

#### **What is Tier I Compensation?**

Tier I is the railroad retirement equivalent of social security wages and benefit amounts.

#### **Taxable Tier I Compensation**

Employees and employers pay Tier I taxes based on the employee's earnings. The Tier I taxable amount is based on the following:

- **Tax:** The Tier I tax is computed on the same percentage rate and annual maximum tax base as the social security tax. The Tier I tax is composed of three tax components; Old Age & Survivors (OASI), Disability (DI), and Health (HI) Insurance or Medicare. For example, the 2025 Tier I rate of 7.65% is composed of 5.35% OASI; .85% DI; and 1.45% Medicare. Like social security tax, employee and employer share Tier I tax equally.
- **Earnings Base:** Employees receive Tier I compensation credit up to the same annual maximum earnings base as that year's social security wage base.

#### **Tier I Benefit Calculation**

The Tier I portion of regular railroad retirement annuities is calculated by using the social security benefit formula. It yields amounts equivalent to social security benefits, based on combined Tier I compensation and non-railroad social security wage credits.

#### **What is Tier II Compensation?**

Tier II is comparable to a private pension. The benefit financing, earnings credit, and annuity benefit formula are based on employment solely in the railroad industry.

#### **Taxable Tier II Compensation**

Employees and employers pay Tier II taxes based on the employee's earnings. The Tier II taxable amount is based on the following.

- **Tax:** Both employee and employer pay an additional tax, called Tier II tax, to finance railroad retirement benefit payments over social security levels. The rail employer's share of the Tier II tax is higher than the employee's share.

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- **Earnings Base:** The annual Tier II maximum earnings base is lower than the social security wage base. When the Tier II maximum is attained, additional earnings remain taxable and creditable up to the Tier I maximum.

#### **Tier II Benefit Calculation**

The Tier II portion of regular railroad retirement annuities is calculated in such a way as to yield benefits comparable to private pensions. The Tier II portion is based solely on railroad service and Tier II compensation.

#### **Tier Amounts Earned Over the Tier Maximum**

Amounts earned over and above the Tier I and Tier II maximums are not creditable under the RRA even though additional amounts earned are taxable for Medicare purposes. Taxable Medicare earnings beyond the creditable Tier I maximum are not reported to the RRB, except on Form BA-11, Gross Earnings Report.

For example, in 2025 the Tier I annual earnings maximum was \$176,100, and the Tier II annual earnings maximum was \$130,800. If an employee earned \$180,000, the employer should report \$176,100 as creditable Tier I compensation and \$130,800 as creditable Tier II compensation. The entire \$180,000 is taxable for Medicare purposes.

#### **RUIA Taxes, Earnings and Benefit Relationships**

The three areas of taxes, earnings, and benefits are also related under the Railroad Unemployment Insurance Act (RUIA), but the structure of the *RUIA is not based on tiers*.

- **Tax:** The railroad unemployment-sickness benefit program is financed by contributions (taxes) paid solely by railroad employers and is currently based on taxable earnings of their employees. The unemployment and sickness insurance contribution rate is experience-rated. This means that each employer pays contributions at a rate that takes into consideration the employer's actual incidence of benefit usage by its employees.
- **Earnings Base:** An employee's taxable earnings base is subject to a monthly limit. The earnings base is indexed each year by a formula related to the annual rate of increase in the maximum base for Tier I taxes.
- **Benefits:** A new unemployment-sickness benefit year begins every July 1, with eligibility generally based on railroad service and earnings in the preceding calendar year.

#### **Two Taxation Authorities under RUIA**

The RRB collects employer contributions (taxes) under the RUIA. The Tier I and Tier II taxes are collected by the IRS under the authority of the Railroad Retirement Tax Act (26 USC 3221).