FROM THE DESK OF

V. M. SPEAKMAN, JR.
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U.S. RAILROAD RETIREMENT BOARD

For Publication
October 2003

Medicare for Railroad Families

The Federal Medicare program provides hospital and medical insurance protection for railroad retirement annuitants and their families, just as it does for social security beneficiaries. Part A (hospital insurance) is financed through payroll taxes paid by employees and employers, while Part B (medical insurance) is financed by premiums paid by participants and by Federal general revenue funds.

The following questions and answers provide basic information on Medicare eligibility and coverage.

1. Full retirement age for unreduced social security benefits and some unreduced railroad retirement benefits is gradually increasing. Is Medicare eligibility based on age also changing?

No. Medicare eligibility based on age has not changed. Although the age requirements for some unreduced railroad retirement benefits are rising just like the social security requirements, **beneficiaries are still eligible for Medicare at age 65.** All railroad retirement beneficiaries age 65 or over, and other persons who are directly or potentially eligible for railroad retirement benefits, are covered by the program.

2. Who is eligible for Medicare coverage before age 65?

In general, coverage before age 65 is available for disabled employee annuitants who have been entitled to monthly benefits based on total disability (i.e., the employee must have met the Social Security Act's requirements for a disability benefit) for at least 24 months. Disabled widow(er)s under 65, disabled surviving divorced spouses under 65, and disabled children may also be eligible.

Medicare coverage before age 65 on the basis of permanent kidney failure is also available to employee annuitants, employees who have not retired but meet certain minimum service requirements, spouses, and dependent children who suffer from permanent kidney failure requiring hemodialysis or a kidney transplant. (Special rules also apply for individuals diagnosed with Amyotrophic Lateral Sclerosis.)

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3. How do persons enroll in Medicare?

If a retired employee or a family member is receiving a railroad retirement annuity, enrollment for both Part A (hospital insurance) and Part B (medical insurance) is generally automatic and coverage begins when the person reaches age 65. An individual may decline Part B if so desired, and this does not preclude him or her from applying for medical insurance at a later date. Premiums may be higher, however, if enrollment is delayed.

If an individual is **eligible for** but **not receiving** an annuity, **he or she should contact the nearest Board office approximately three months before attaining age 65 in order to apply for Medicare.** (This does not mean that the individual must retire if presently working.) The best time to apply is during the three months before the month in which the individual reaches age 65. He or she will then have both hospital and medical protection beginning with the month age 65 is reached. If the individual does not enroll for Part B in the three months before attaining age 65, he or she can enroll in the month age 65 is reached or during the next three months, but there will be a delay of one to three months before medical insurance is effective. Individuals who do not enroll during their initial enrollment period may sign up in any General Enrollment Period (January 1 - March 31 each year). Coverage for such individuals begins July 1 of the year of enrollment.

4. How much can Medicare Part B premiums increase for delayed enrollment?

Premiums for Part B are increased 10 percent for each 12-month period the individual could have been, but was not, enrolled. However, individuals who wait to enroll in Part B because they have group health plan coverage based on their own or their spouse's current employment may not have to pay higher premiums because they are eligible for special enrollment periods.

5. What should be considered by a person who can delay Part B enrollment because he or she is covered by an employer group health plan?

Individuals deciding when to enroll in Medicare Part B should consider how this will affect eligibility for health insurance policies, known as "Medigap" insurance, which supplement Medicare coverage.

Individuals can get more detailed information about Medigap policies from the publications *Medigap Policies* or *Guide to Health Insurance for People with Medicare*. To get a copy, they can call the Medicare toll-free number 1-800-MEDICARE (1-800-633-4227) or go to www.medicare.gov on the Internet and click on "Publications."

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6. What is covered by Part A (hospital insurance) of the Original Medicare Plan?

The hospital insurance program is designed to help pay the bills when an insured person is hospitalized. The program also provides payments for required professional services in a skilled nursing facility (but not for custodial care) following a hospital stay, home health services, and hospice care.

There is a limit on how many days of hospital or skilled nursing care Medicare helps pay for in each "benefit period." A benefit period begins the first day a patient receives services in a hospital. It ends after a person has been out of a hospital or other facility primarily providing skilled care for 60 days in a row.

Benefits are ordinarily paid only for services received in the United States or Canada. Hospital insurance also covers hospital stays in Mexico under very limited conditions.

7. What are the Medicare Part A deductible and coinsurance charges in 2003?

For the first 60 days in a benefit period, a Medicare patient is responsible for paying a deductible which for 2003 is the first $840 of all covered inpatient hospital services. The daily coinsurance charge that a Medicare beneficiary is responsible for paying for hospital care for the 61st through the 90th day is $210 in 2003. If a beneficiary uses "lifetime reserve" days, he or she will be responsible for paying $420 a day for each reserve day used in 2003. Lifetime reserve days are an extra 60 hospital days a beneficiary can use if illness keeps him or her in the hospital for more than 90 days; a beneficiary has only 60 reserve days during his or her lifetime and the beneficiary decides when to use them.

In addition, the daily coinsurance charge a beneficiary is responsible for paying for care in a skilled nursing facility for the 21st through the 100th day is $105 in 2003.

8. What are some of the services Part B (medical insurance) of the Original Medicare Plan covers?

Medicare medical insurance helps pay for doctors' services and many medical services and supplies that are not covered by the hospital insurance part of Medicare, such as certain ambulance services, outpatient hospital care, X-rays, laboratory tests, physical and speech therapy, blood, mammograms, Pap smears, and colorectal cancer screening.

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9. What are the basic Medicare Part B premium and medical insurance deductible in 2003?

The basic Medicare medical insurance premium deducted from railroad retirement or social security payments is $58.70 a month in 2003. Also, the annual medical insurance deductible for doctor bills a beneficiary must pay is $100 in 2003. After the deductible is paid, Medicare will generally pay 80 percent of the approved charges for covered services during the rest of the year; the beneficiary is responsible for paying the remaining 20 percent of the cost.

10. What does Medicare not cover?

Medicare provides basic protection against the high cost of illness, but it will not pay all health care expenses. Some of the services and supplies Medicare cannot pay for are custodial care, such as help with bathing, eating, and taking medicine; dentures and routine dental care; most eyeglasses, hearing aids, and examinations to prescribe or fit them; long-term care (nursing homes); personal comfort items, such as a phone or TV in a hospital room; most prescription drugs; and routine physical checkups and most related tests.

11. Besides the Original Medicare Plan, what other Medicare health care options are available?

The Medicare + Choice program was created to provide more health care options under the Medicare laws. To be eligible for these other options, the beneficiary must have Medicare Part A and Part B, must not have permanent kidney failure requiring hemodialysis or a kidney transplant, and must live in the service area of a health plan.

The plans must provide basic Medicare Part A and Part B services (except hospice services). They may charge additional amounts to provide extra services. In addition to the Original Medicare Plan and the Original Medicare Plan with a Medigap policy, Medicare Managed Care Plans and Medicare Private Fee-for-Service Plans are available.

The most common Managed Care Plans are health maintenance organizations (HMOs). Managed Care Plans that have contracts with the Medicare program must provide all hospital and medical benefits covered by Medicare. However, usually services must be obtained from the Managed Care Plan's network of health care providers (doctors, hospitals, skilled nursing facilities, for example). In most cases, neither the Managed Care Plan nor Medicare will pay for services not authorized by the Managed Care Plan (except emergency services or services urgently required while the patient is out of the Managed Care Plan service area).

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Many Managed Care Plans that have contracts with Medicare also provide benefits beyond those Medicare pays for. These include preventive care, prescription drugs, dental care, hearing aids and eyeglasses. The benefits may vary by Managed Care Plan.

Private Fee-for-Service Plans are also a health care choice in some areas of the country. A Private Fee-for-Service Plan is a Medicare health plan offered by a private insurance company. It is not the same as the Original Medicare Plan, which is offered by the Federal Government. In a Private Fee-for-Service Plan, Medicare pays a set amount of money every month to the private company. The private company provides health care coverage to people with Medicare on a pay-per-visit arrangement. The insurance company, rather than the Medicare program, decides how much the patient pays for the services received.

In any case, while more options are available, beneficiaries can remain with the Original Medicare Plan if they are satisfied with it.

12. Are there other sources that will provide additional information on Medicare?

A handbook, *Medicare & You,* is mailed to Medicare beneficiary households each fall by the Centers For Medicare & Medicaid Services. It describes the benefits, costs and health service options available. To get a copy, beneficiaries can call the Medicare toll-free number 1-800-MEDICARE (1-800-633-4227) or go to www.medicare.gov.

Medicare for Railroad Workers and Their Families (Form RB-20) provides general information on Medicare and is available at any Board field office. It is also available on the Board's Web site at www.rrb.gov.

Also, for information on enrollment before age 65 on the basis of disability, potential applicants should contact the nearest Board office. However, the Social Security Administration, rather than the Railroad Retirement Board, has jurisdiction of Medicare for those eligible on the basis of permanent kidney failure. For information on coverage for kidney disease, a social security office must be contacted.

Beneficiaries can find the address and phone number of the Board office serving their area by calling the automated toll-free RRB Help Line at 1-800-808-0772 or by checking the Board's Web site. Most Board field offices are open to the public from 9:00 a.m. to 3:30 p.m., Monday through Friday, except on Federal holidays.

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FROM THE DESK OF

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U.S. RAILROAD RETIREMENT BOARD

For Publication
November 2003

RRB Strategic Plan

The Railroad Retirement Board (RRB), like other Federal agencies, is required by the Government Performance and Results Act to submit a strategic plan to Congress and the Office of Management and Budget outlining the agency's mission and its general goals and objectives. These plans cover a six-year period, define how the agency will meet those goals and objectives, and are updated every three years. The RRB submitted its "Strategic Plan" for the years 2003-2008 to the Congress and the Office of Management and Budget in September 2003. Its previous Strategic Plan for the years 2000-2005 was submitted in September 2000.

The following questions and answers provide information on the RRB's Strategic Plan for the years 2003-2008.

1. What are the purposes of the Government Performance and Results Act?

In summary, the purposes of this Act are to improve the confidence of the American people in the Federal Government by holding agencies accountable for achieving program results; improve Federal program effectiveness and public accountability by focusing on results, service quality and customer satisfaction; enable Congress to more accurately evaluate an agency's performance by providing more objective information on the objectives and costs of Federal programs; and improve the internal management of the Federal Government.

To achieve these purposes, the Act requires that agencies set program goals and prepare plans for meeting those goals. The Act provides a framework whereby an agency's performance will be measured against the goals it has set and also requires each agency to publicly report on the progress it has made.

2. What are the goals and objectives of the RRB's Strategic Plan?

The RRB has two strategic goals; and for each goal several strategic objectives have been established to enable the agency to focus on achieving that goal.

The first strategic goal is to *provide excellent customer service.* The second strategic goal is to *serve as responsible stewards for its customers' trust funds and agency resources.*

3. What strategic objectives were established to achieve the goal of providing excellent customer service?

To satisfy its customers' expectation for quality service, both in terms of service delivery options and levels and manner of performance, the RRB has established the following four strategic objectives that focus on the specifics of achieving this goal.

- Pay benefits accurately and timely.
- Provide relevant, timely and accurate information which is easy to understand.
- Provide a range of choices in service delivery methods.
- Ensure efficient and effective business interactions with covered railroad employers.

4. What strategic objectives were established to achieve the goal of responsible stewardship?

Committed to fulfilling its fiduciary responsibilities to the rail community, the RRB has established the following four objectives that direct its focus on this goal.

- Ensure that trust fund assets are projected, collected, recorded, and reported appropriately.
- Ensure the integrity of benefit programs.
- Ensure effectiveness, efficiency, and security of operations.
- Effectively carry out the responsibilities of the Railroad Retirement Board under the Railroad Retirement and Survivors' Improvement Act of 2001 with respect to the activities of the National Railroad Retirement Investment Trust (NRRIT).

5. What is the NRRIT?

The NRRIT was created by the Railroad Retirement and Survivors' Improvement Act of 2001 in order to manage and invest railroad retirement assets. The RRB's responsibilities include reviewing the NRRIT's monthly reports, annual management reports, and annual audit reports of its financial statements in order to ensure the NRRIT's compliance with the provisions of the Railroad Retirement Act.

6. *How did the RRB develop this Strategic Plan?*

This plan continues a cooperative and intensive effort on the part of the RRB's management and staff and reflects input from its customers and other stakeholders.

The RRB's primary stakeholders are the employees and employers of the rail industry. Stakeholders also include Congressional committees, the Office of Management and Budget, other Federal agencies with whom the RRB interacts, and the National Railroad Retirement Investment Trust.

7. What steps does the RRB take to ensure achievement of the Strategic Plan's goals?

In order to ensure achievement of strategic goals, the Government Performance and Results Act requires that each agency also develop an annual performance plan, which is submitted along with the agency's budget request for a fiscal year. The annual performance plans lay out specific goals and objectives, along with performance indicators and specific measurable targets. After the fiscal year, each agency must also report on how well it met the plan's goals.

The RRB's latest performance report, for fiscal year 2002, was included with the agency's annual performance plan for fiscal year 2005. The report compared actual performance to goals, with the RRB meeting or exceeding 77 percent of the reportable indicators. In those areas where the agency fell short, a number of steps have been taken to ensure performance levels are met in subsequent years.

The RRB is proud of its strategic plan and expects that the plan will guide the agency as it continues its long and distinguished tradition of excellence in service to its customers. The RRB has a proven track record of carrying out its plans and achieving results. The RRB believes that this strategic plan, along with the annual performance plans and sufficient budget resources, will help the agency to achieve the results its customers need and deserve.

The complete plan is available on the RRB's Web site at www.rrb.gov.

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FROM THE DESK OF

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U.S. RAILROAD RETIREMENT BOARD

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For Publication
January 2004

New Medicare Legislation

Persons covered by the railroad retirement system participate in the Federal Medicare program on the same basis as those under the social security system. And, the Medicare Prescription Drug, Improvement and Modernization Act of 2003, enacted on December 8, 2003, affects railroad retirement annuitants in the same manner as social security beneficiaries.

A few of the major features of the new law are provisions for Medicare coverage of prescription drugs, the establishment of a Medicare Advantage Program to replace the current Medicare + Choice Program, provisions for new preventive benefits, and future increases in the Medicare Part B deductible and premium.

The following questions and answers summarizing these features are based on information provided by the Centers for Medicare & Medicaid Services (CMS), the Federal agency responsible for administering the Federal Medicare program.

1. When will the new law begin providing Medicare coverage for prescription drugs?

The actual prescription drug benefit will begin in 2006. In the interim, the new law provides a transitional program of Medicare-approved *prescription drug discount cards* to provide savings on prescription drugs. The discount card program will start in June 2004 and continue through December 2005.

2. How will the interim discount card program work?

Medicare beneficiaries, except for those who have Medicaid drug coverage, will have the opportunity in May 2004 to enroll for a Medicare-approved prescription drug discount card, which will help to lower their prescription drug costs. Beginning in June 2004, the cards will provide discounts off the regular price of prescription drugs.

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The discount card program is not intended to be a prescription drug benefit, but rather a temporary discount program to help people without outpatient prescription drug insurance until the Medicare drug benefit takes effect on January 1, 2006.

The cards will be issued by private-sector discount card sponsors who meet standards set by CMS. The cards will display a Medicare-approved mark.

Beginning in June 2004, Medicare will provide a $600 annual credit towards the purchase of prescription drugs for Medicare beneficiaries with incomes below $12,124 for single individuals or $16,363 for married individuals in 2003. To qualify for the credit, beneficiaries must not be receiving outpatient drug coverage from other sources, including Medicaid, TRICARE, group or individual health insurance coverage, or the Federal Employees Health Benefits Program. Generally, once a person qualifies for the $600 credit, he or she is qualified until the new Medicare drug benefit begins.

The credit will be reflected on the Medicare-approved drug discount cards of qualified beneficiaries. While Medicare-approved discount card programs can charge a beneficiary an enrollment fee of up to $30 per year, Medicare will pay the enrollment fee for beneficiaries who qualify for the $600 credit.

3. How will Medicare beneficiaries enroll in the discount card program in 2004?

After selecting the discount card program that best meets his or her needs, the beneficiary will submit basic information about his or her Medicare and Medicaid status on an enrollment form. If the beneficiary wants the $600 credit, he or she will also submit income information and information about retirement and health benefits. CMS will verify this information and notify the approved discount card program of the beneficiary's eligibility and enrollment status.

Enrolled beneficiaries may start obtaining discounts and, if receiving the $600 credit, using these funds to purchase prescription drugs as early as the first day of the month following enrollment.

4. How will the Medicare prescription drug benefit work when it takes effect?

Beginning in 2006, all Medicare beneficiaries will have access to prescription drug plans administered by private firms on a regional basis.

Beneficiaries will get the drug benefit in two ways: as separate policies for drugs or as part of private health plans that also provide the rest of their care. For example, a beneficiary who is enrolled

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in the Original Medicare Plan may voluntarily enroll in a drug benefit plan, while a beneficiary enrolled in an alternate plan, such as a HMO, may receive drug benefits as a part of that health plan.

5. What is the standard drug benefit under the new law?

Under the standard drug benefit plan, individuals with Medicare will pay a premium of about $35 a month and a deductible of $250 a year. Medicare will pay 75 percent of drug costs between the deductible and $2,250. Beneficiaries will pay drug costs between $2,250 and $5,100, and Medicare will pay 95 percent of drug costs above $5,100.

The drug benefit plan includes additional assistance for people with low incomes and limited assets. Most significantly, people with Medicare with incomes below $12,124 for individuals and $16,363 for couples will have no premiums, no deductibles, and minimal co-payments. Other beneficiaries with low incomes and limited assets will receive premium and deductible assistance and have limited cost sharing.

6. When will Medicare beneficiaries enroll in a Medicare prescription drug benefit plan?

Initially, there will be a 7-month open enrollment season for beneficiaries who are eligible for the drug benefit as of November 15, 2005. The initial 7-month open season is planned to begin May 1, 2005, and end November 30, 2005. Individuals who become eligible after November 15, 2005, will be able to enroll during an initial enrollment period or during a special enrollment period.

7. How does the new law otherwise provide more choices in health coverage and better health care benefits?

In 2004, the health plan option known as Medicare + Choice is replaced by the Medicare Advantage program. The legislation makes changes to the way Medicare pays these plans to help ensure beneficiaries have access to more health plan choices.

In 2006, Medicare Advantage plan choices will be expanded to include regional preferred provider organizations (PPOs). (A PPO is a plan under which a beneficiary uses doctors, hospitals, and providers belonging to a network; beneficiaries can use doctors, hospitals, and providers outside the network for an additional cost.) Regional PPOs are intended to ensure that beneficiaries in rural and urban areas have multiple choices of Medicare health coverage.

8. What new preventive benefits will be offered?

Beginning in 2005, preventive benefits coverage will expand to include:

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- A one-time preventive physical examination within six months of when a person becomes enrolled in Medicare Part B Medical Insurance;
- Screening blood tests for early detection of cardiovascular diseases; and
- Diabetes screening tests for people at risk of diabetes.

9. How and when will the Medicare Part B deductible and premium change?

The annual deductible for Medicare Part B will increase from $100 to $110 in 2005. After that, the deductible will be indexed and subject to annual increases.

All beneficiaries currently pay the same basic premium amount for Medicare Part B (currently $66.60), which covers outpatient care and doctor visits. Beginning in 2007, the premium will increase for individuals with annual incomes of more than $80,000, and for couples with annual incomes of more than $160,000. The amount of the premium increase will be based on a sliding income scale.

Premium changes will continue to be announced at the end of each calendar year. The actual Part B premium amounts for 2007 will not be available until the end of 2006.

10. What information will Medicare put out about these program changes?

CMS plans to mail letters to all Medicare beneficiaries in Spring 2004 to explain the prescription drug discount cards. In 2005, CMS plans to mail informational booklets to Medicare beneficiaries to explain the prescription drug benefit.

In the meantime, CMS will provide information about the prescription drug prices offered by the approved discount card programs, and other information about the Medicare-approved cards, through the Medicare toll-free number 1-800-MEDICARE (1-800-633-4227), and through their Web site at www.medicare.gov.

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FROM THE DESK OF

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U.S. RAILROAD RETIREMENT BOARD

For Publication
April 2004

Longevity of Railroad Retirement Beneficiaries

Every three years, the Railroad Retirement Board's Chief Actuary conducts a study of the longevity of its annuitants, as part of a valuation of future revenues and benefit payments. The following questions and answers summarize the results of the most recent longevity study.

1. What were the study's finding on the life expectancy of retired male railroaders?

The most recent data reflected a continued improvement in longevity. Using data through 2000, the study indicated that, on the average, a male railroader retiring at age 60 can be expected to live another 20.1 years, or approximately 241 months. Studies done three, six and nine years ago indicated life expectancies of 19.8, 19.5, and 19.1 years, respectively, for this category of beneficiary. The study also indicated that a male railroader retiring at age 62 can be expected to live another 18.5 years (222 months), while the previous three studies indicated life expectancies of 18.2, 17.9, and 17.5 years, respectively. A male railroader retiring at age 65 can be expected to live another 16.1 years (approximately 193 months). The previous studies indicated life expectancies of 15.8, 15.5, and 15.2 years, respectively, for this category of beneficiary.

2. How did these life expectancy figures compare to those of disabled annuitants?

As would be expected, disabled annuitants have a shorter average life expectancy, but the difference decreases with age. At age 60, a disabled railroader has an average life expectancy of 15.1 years, or 5 years less than a nondisabled male annuitant of the same age; at age 65, a disabled annuitant has an average life expectancy of 3.8 years less than a nondisabled 65-year-old annuitant; and at age 70 the difference is only 2.7 years.

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3. Are women still living longer than men?

In general, women still live longer than men. This is shown both in the Board's life expectancy studies of male and female annuitants and by other studies of the general United States population.

For example, at age 60 a retired female railroader is expected on the average to live 24.1 years, 4 years longer than a retired male railroader of the same age; and at age 65, a retired female railroader is expected on the average to live 19.4 years, 3.3 years longer than her male counterpart. Spouses and widows age 65 have average life expectancies of 19.8 years and 18.1 years, respectively.

4. Can individuals use life expectancy figures to predict how long they will live?

Life expectancy figures are averages for large groups of people. Any particular individual's lifetime may be much longer or shorter than the life expectancy of his or her age and group.

According to the study, from a group of 1,000 retired male employees at age 65, 905 will live at least 5 years, 752 at least 10 years, 555 at least 15 years, and 329 at least 20 years. Of female age annuitants at age 65, 502 will be alive 20 years later.

5. How do the life expectancies of railroad retirement annuitants compare with those of the general population?

While exact data were not available for direct comparison, data available to the Railroad Retirement Board did not indicate significant differences. The entire longevity study can be obtained by going to the Board's Web site at www.rrb.gov and clicking on "Statistics" under "News & Publications."

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U.S. RAILROAD RETIREMENT BOARD

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For Publication
May 2004

Public Service Pension Reduction Exemption Revised

Railroad Retirement Act spouse and widow(er)s' benefits, in addition to being reduced for social security entitlement, may also be reduced when a spouse or widow(er) is entitled to a public service pension unless certain exemption requirements are met.

These requirements for exemption from the public service pension reduction were, however, recently tightened by the Social Security Protection Act of 2004 (Public Law 108-203), signed into law on March 2, 2004.

The following questions and answers explain how the exemption requirements were changed for both social security and railroad retirement spouse and widow(er)s' benefits, and how the reduction is applied when the exemption requirement is not met.

1. For social security or railroad retirement purposes, what is considered a public service pension?

A public service pension is any periodic benefit payment, as well as lump-sum payments made in lieu of periodic pension payments, based on an individual's own employment with a Federal, State, or local government unit. Some examples are pensions paid to teachers, police officers, and civil service personnel on the basis of age or disability. Full salary benefits paid to a retired or resigned judge under the Federal Judiciary Retirement System are also considered public service pensions.

However, most military service pensions and payments from the Department of Veterans Affairs are not considered public service pensions and will not cause a reduction; and a pension paid by a foreign government or an interstate instrumentality also has no effect on a spouse or widow(er)'s annuity.

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2. How did the new legislation change the conditions under which a social security or railroad retirement spouse or widow(er)'s benefit could be exempt from the required public service pension reduction?

The new legislation requires that State and local government workers be covered by social security throughout their last 60 months of employment with the pension-paying government entity in order to be exempt from a reduction. Under prior law, a reduction generally did not apply to social security or railroad retirement spouse or widow(er)s' benefits if the government job that the public pension was based on was covered under the Social Security Act on the last day of public employment.

3. Does the new law have any effect on those who are already retired?

No. Those currently receiving social security or railroad retirement spouse or widow(er)s' benefits which have not been reduced because of the prior law's last-day-of-covered-employment exemption, will continue to receive their social security or railroad retirement benefits without any reduction.

4. How about those who are just about ready to retire?

Any State or local government worker who was eligible for a social security or railroad retirement spouse or widow(er)'s benefit and applied for that benefit before April 1, 2004, would avoid the reduction if her or his last day of government employment was covered by both social security and the government pension system, regardless of when that "last day" occurs.

Also, any State or local government worker whose last day of government employment was before July 1, 2004, and whose last day of employment was covered both by social security and the pension system would not have the reduction applied to her or his future claim for a railroad retirement spouse or widow(er)'s annuity.

5. Does the new law provide a transition or phase-in period for those who will not be retiring for a few years?

Yes. The new law also provides a transition for workers whose last day of government employment occurs within five years after the March 2, 2004, date of enactment. Any State or local government worker whose last day of government employment occurs after June 30, 2004, and before March 2, 2009, could have the requirement for 60 consecutive months of social security-covered government employment reduced. For these workers, the requirement for 60 consecutive months of social security-covered employment would be shortened by the total number of months that the worker

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had in social security-covered government service under the same retirement system before the date of enactment, but not to less than one month. If the 60-month period is shortened, the remaining months of social security-covered service needed to fulfill the requirement must be performed after March 2, 2004, and must continue through the worker's last day of public service employment.

6. What's an example of how this transition period would work?

For example, the spouse of a railroad employee was working for a State government in a position not covered by social security on March 2, 2004. However, she had previously worked in a social security-covered job in the same retirement system for 12 months in 1997. Because she had previously worked in a social security-covered position for 12 months, the requirement that her last 60 months of employment be in a social security-covered position would be shortened to 48 months, or four years. If the spouse begins working after March 2, 2004, in a social security covered-position under the same retirement system as her prior government work, **and** works continuously in the covered position for at least the final 48-month period of her employment, **and** her last day of employment is **before** March 2, 2009, she would be exempt from the public service pension reduction.

All other State and local government employees working in positions not covered by social security, and who first switch to government employment covered by social security and their pension plan after June 30, 2004, would have to work in that social security-covered government employment for the entire final 60-month period of their government employment in order to qualify for the exemption.

7. What is the background of the public service pension reduction in spouse and widow(er)s' benefits and how does it affect such payments?

The public service pension reduction in social security and railroad retirement spouse and widow(er)s' benefits was effected by 1977 social security legislation which also applied to the tier I benefits of railroad retirement spouses and widow(er)s. The tier I portion of a railroad retirement annuity is based on railroad retirement credits and any social security credits an employee has acquired. It is computed under social security formulas and approximates what social security would pay if railroad work were also covered by that system. Tier I benefits are, therefore, reduced in the same manner as social security benefits when certain other benefits are also payable.

Since a social security spouse or widow(er)'s benefit is reduced if the spouse or widow(er) is also entitled to a social security benefit based on her or his own earnings, it was considered equitable that a social security spouse or widow(er)'s benefit also be reduced for a public service pension based on the spouse's or widow(er)'s own non-social security earnings.

The recent change was made to correct a loophole in the law which was being exploited. An investigation in 2002 by the General Accounting Office (GAO) found almost 4,800 teachers in one State had switched or planned to switch to a clerical or janitorial position covered under social security on their last day of employment in order to avoid the reduction. The GAO found some school districts in that State even advertised and charged a fee ($100-$500) for teachers to take advantage of this loophole. One school district collected $280,000 by charging fees to teachers who wanted to work in that district for one day to take advantage of the loophole.

8. How is the public service pension reduction applied to social security and railroad retirement spouse and widow(er)s' benefits?

For spouses and widow(er)s subject to the public service pension reduction, the tier I reduction is, under current law, equal to 2/3 of the amount of the public pension. The amount of the public service pension is the current gross amount, **before** any deductions for income tax withholding, Medicare premiums, health insurance or other benefits.

9. Are there any other provisions that would exempt social security and railroad retirement spouse and widow(er)s' benefits from the public service pension reduction?

The public pension reduction does not apply to a spouse or widow(er) who filed for and became entitled to her or his benefits before December 1977, or to a spouse or widow(er) whose public pension is **not** based on her or his own earnings.

Spouses and widow(er)s may also be exempt from the public pension reduction if **both** of two requirements are met.

The first requirement is that they began to receive or were **eligible** to receive their Federal, State or local government pension before December 1982. This means they must have met the age and service requirements for their pensions before December 1982, even though they did not apply for their pensions before then.

The second is that they meet all requirements for spouse and widow(er)s' benefits in effect under social security law in January 1977. At that time, for example, a divorced woman's marriage must have lasted at least 20 years, rather than 10 years as required today. Also, a husband or widower must have received at least one-half support from his wife.

Even if spouses and widow(er)s do not meet these criteria, they still may be exempt from the reduction beginning with social security or railroad retirement benefits payable December 1982 if they received or were eligible to receive their Federal, State, or local government pensions before July 1, 1983; **and** they were receiving at least one-half support from their spouses at the time their spouses retired or died. This provision applies to men and women.

10. Where can more specific information be obtained on how these pension offsets affect railroad retirement benefits?

Individuals who may be affected should contact the nearest field office of the Railroad Retirement Board for information as to how their public service pensions could affect their railroad retirement benefits.

Persons can find the address and phone number of the Board office serving their area by calling the automated toll-fee RRB Help Line at 1-800-808-0772 or by checking the Board's Web site at www.rrb.gov. Most Board field offices are open to the public from 9:00 a.m. to 3:30 p.m., Monday through Friday, except on Federal holidays.

# # #

FROM THE DESK OF

V. M. SPEAKMAN, JR.
LABOR MEMBER

U.S. RAILROAD RETIREMENT BOARD

For Publication
July 2004

RRB Financial Reports

The Railroad Retirement Board is required by law to submit annual reports to Congress on the financial condition of the railroad retirement system and the railroad unemployment insurance system. These reports must also include recommendations for any financing changes which may be advisable in order to ensure the solvency of the systems. In June, the Board submitted its 2004 reports on the railroad retirement and unemployment insurance systems.

The following questions and answers summarize the findings of these reports.

1. What were the assets of the railroad retirement and railroad unemployment insurance systems last year?

As of September 30, 2003, total railroad retirement system assets, comprising assets managed by the National Railroad Retirement Investment Trust and the railroad retirement system accounts at the Treasury, equaled $24.2 billion. The Trust was established by the Railroad Retirement and Survivors' Improvement Act of 2001 to manage and invest railroad retirement assets. The balance of the railroad unemployment insurance system was $51.5 million at the end of the fiscal year.

2. What was the overall finding of the 2004 report on the financial condition of the railroad retirement system?

The 2004 report, which addressed railroad retirement financing during the next 25 years, was generally favorable, concluding that, barring a sudden, unanticipated, large decrease in railroad employment or substantial investment losses, the railroad retirement system will experience no cash-flow problems for at least 22 years. However, the 2004 report also indicated that the long-term stability of the system is still questionable. Under its current financing structure, actual levels of railroad employment and investment return over the coming years will largely determine whether corrective action is necessary.

3. What methods were used in forecasting the financial condition of the railroad retirement system?

The 2004 report projected the various components of income and outgo of the railroad retirement system under three employment assumptions, utilizing different patterns of changes and decreases in the railroad work force for the 25 calendar years 2004-2028. The projections of these components were combined and the investment income calculated to produce the projected balances in the railroad retirement accounts at the end of each projection year.

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Projecting income and outgo under optimistic, moderate and pessimistic employment assumptions, the 2004 report indicated no cash-flow problems occur throughout the 25-year projection period under the optimistic and moderate assumptions. Cash-flow problems arise only under the pessimistic assumption, and not until 2026.

4. How do the results of the 2004 report compare with those of the 2003 report?

The projected account balances are higher due primarily to the actual investment return of approximately 22.6 percent significantly exceeding the expected investment return of 6 percent in calendar year 2003. Projected benefit amounts are slightly lower due in part to the lower assumed cost-of-living increases in 2004 and 2005 in this year's report. Projected payroll tax income differs primarily due to projected decreases in tax rates resulting from higher account balances.

5. Did the 2004 report on the railroad retirement system recommend any financing changes?

The report did not recommend any railroad retirement financing changes. The payroll tax adjustment mechanism provided by the 2001 legislation will automatically increase or decrease tax rates in response to changes in fund balance. Even under a pessimistic employment assumption, this mechanism is expected to prevent cash-flow problems for at least 22 years.

6. What were the findings of the 2004 report on the financial condition of the railroad unemployment insurance system?

The Board's 2004 railroad unemployment insurance financial report was also generally favorable. Even as maximum benefit rates increase 35 percent (from \$55 to \$74) from 2003 to 2014, experience-based contribution rates are expected to maintain the unemployment insurance system's solvency.

Unemployment levels are the single most significant factor affecting the financial status of the railroad unemployment insurance system. However, the system's experience-rating provisions, which adjust contribution rates for changing benefit levels, and its surcharge trigger for maintaining a minimum balance help to ensure financial stability in the advent of adverse economic conditions.

Under experience-rating provisions, each employer's contribution rate is determined by the Railroad Retirement Board on the basis of benefit payments made to the railroad's employees. The report predicted that, even under the most pessimistic assumption, the average employer contribution rate remains well below the maximum throughout the projection period.

The report also predicted that the 1.5 percent surcharge that is in effect in calendar year 2004 would remain at 1.5 percent in calendar years 2005-2006. A 1.5 percent surcharge is also probable in calendar year 2007.

7. What methods were used to evaluate the financial condition of the railroad unemployment insurance system?

The economic and employment assumptions used in the unemployment insurance report corresponded to those used in the report on the retirement system. Projections were made for various components of income and outgo under each of three employment assumptions, but for the period 2004-2014, rather than a 25-year period.

8. Did the 2004 report on the railroad unemployment insurance system recommend any financing changes to the system?

No financing changes were recommended at this time by the report.

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The Railroad Retirement Board's 2004 financial reports on the retirement and unemployment insurance systems are available in their entirety on the Board's Web site at www.rrb.gov. Information on the National Railroad Retirement Investment Trust, including its quarterly and annual reports, is also available on the site.

FROM THE DESK OF

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U.S. RAILROAD RETIREMENT BOARD

VMSpeakman Jr

For Publication
August 2004

Railroad Retirement Service
Credits and Pay for Time Lost

The Railroad Retirement Board frequently receives questions from railroad employers, employees, and employees' legal advisors about the Board's treatment of pay for time lost in retirement cases. The most common type of pay for time lost arises out of personal injury settlements. Other types include dismissal allowances, guaranteed wages, displacement allowances paid for loss of earnings resulting from the employee being placed in a position or occupation paying less money, and reinstatement awards which include back pay.

It is important that agreements between employers and employees involving pay for time lost are structured correctly for railroad retirement purposes because they are often intended to provide an employee with additional months of creditable service needed to qualify for railroad retirement benefits. Crediting fewer service months than intended may leave an employee ineligible for benefits, while crediting an excessive number of months may delay the beginning date of those benefits. The following questions and answers describe the requirements for the railroad retirement crediting of pay for time lost.

1. How do the railroad retirement laws treat pay for time lost?

Pay for time lost attributable to lost earnings for an identifiable period of absence from active service is treated as compensation creditable under the Railroad Retirement and Railroad Unemployment Insurance Acts. Since the intent of an award for pay for time lost is to treat the employee as if he or she had actually performed compensated service during that period of time, the effect upon railroad retirement eligibility and benefits is identical to the effect of regular earnings for which service and compensation credit is received.

2. What factors should be taken into account to ensure that pay for time lost will be creditable for railroad retirement purposes?

A payment must be made with respect to an identifiable period of time. The specific months during the period of absence from active service must be identified, for example "the 12 month period beginning September 2003 and ending August 2004." In the case of a payment for personal injury, the entire amount is considered pay for time lost unless, at the time of payment, the employer states that a particular amount of the payment was for other reasons. The compensation is considered earned in, and therefore creditable to, the specified period.

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An employment relationship must exist in the months to be credited with pay for time lost. Allocation toward future months is permissible as long as an employment relation is retained for that period. If a settlement agreement requires that an employee resign to receive the payment, the employment relation ceases upon resignation. Allocation after the resignation date is not allowed because it cannot be considered time lost as an employee. With respect to pay for time lost allocated into the future, service months and compensation are not creditable until the time lost has actually elapsed.

The allocation must also relate to the actual period of absence from service for which payment is made. Pay for time lost due to personal injury may not be allocated to service months missing from an employee's record before the date of injury. Similarly, the amount of the pay for time lost must relate to an employee's normal monthly pay. A monthly allocation of at least ten times the employee's daily pay rate in effect on the date of injury is ordinarily considered a reasonable relationship to actual lost earnings. A lesser amount would be considered a token payment and would not be acceptable. For example, if an employee normally earns $120 a day, the amount of pay for time lost allocated to each month should be at least $1,200.

3. What other factors should be considered to ensure that pay for time lost correctly provides the total of railroad retirement service months intended?

It is of primary importance to have a precise breakdown of an employee's service prior to any allocation. As a starting point, an employee should check his or her most recent Form BA-6, or the employee may request a service and compensation statement from the Board. This will avoid allocating pay for time lost to a month or months already reported as service months. Occasionally, an employee will have service months reported for vacation pay, or by another railroad employer--for example, by reason of paid union activity. Credit can only be received once for any given month. Because the period specified is the period for which service credit is due, a month allocated to the same month already on record may result in a shortage of the total months desired.

In addition, deemed service months should not be considered in the number of total service months when an allocation period is determined if those deemed service months are within the allocation period. A pay for time lost allocation increasing service and compensation will generally eliminate or reduce the number of deemed service months on record for any affected year. Deemed service months are the product of a calculation. If the components of that calculation change as the result of an adjustment to service and compensation due to a payment for time lost, then the number of deemed service months to which an employee is entitled is likely to change.

Also, the possibility that an employee has creditable military service should be considered because such military service may not be reflected in the Board's records and may reduce the number of allocated months needed to attain annuity eligibility. Employees are encouraged to file proof of any military service well in advance of retirement so the Board can determine whether the military service is creditable as railroad service. The Board will include creditable military service in its records, which will expedite the annuity application process and also ensure that the Board's records of an employee's service are as complete as possible.

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4. Is pay for time lost subject to railroad retirement tier I and tier II payroll taxes?

As with all compensation, pay for time lost is subject to taxation under the Railroad Retirement Tax Act at the tier I and tier II tax rates and annual maximum earnings bases in effect when payment is made. Pay for time lost is not, however, creditable on the basis of when the payment is made, but to the period for which the payment is allocated. Therefore, the taxable amount and creditable amount will sometimes differ. The employee's portion of the railroad retirement tax liability is usually withheld from the gross amount of the award.

5. What effect would pay for time lost have on the payment of a railroad retirement annuity or unemployment or sickness benefits for the same days?

Because pay for time lost is considered earned in the month allocated, an employee is not entitled to an annuity under the Railroad Retirement Act with respect to any months to which pay for time lost has been allocated. If an employee applies for retirement benefits at the expiration of an allocation period, he or she should submit documentation of the period covered by the agreement with the application.

Similarly, an employee is not entitled to unemployment or sickness benefits under the Railroad Unemployment Insurance Act with respect to any months to which pay for time lost has been allocated. If a payment for time lost is made which covers a period for which benefits under the Railroad Unemployment Insurance Act were previously paid, the benefits would be subject to recovery.

6. Where can someone get more information about pay for time lost?

Additional information on pay for time lost, as well as other railroad retirement topics, is available on the Board's Web site at www.rrb.gov. In addition, specific questions can be directed to the Railroad Retirement Board's Quality Reporting Service Center, 844 North Rush Street, Chicago, Illinois 60611-2092. Their phone number is (312) 751-4992.

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FROM THE DESK OF

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U.S. RAILROAD RETIREMENT BOARD

For Publication
October 2004

Medicare for Railroad Families

The Federal Medicare program provides hospital and medical insurance protection for railroad retirement annuitants and their families, just as it does for social security beneficiaries. Part A (hospital insurance) is financed through payroll taxes paid by employees and employers, while Part B (medical insurance) is financed by premiums paid by participants and by Federal general revenue funds.

The following questions and answers provide basic information on Medicare eligibility and coverage, Medicare premium, deductible and coinsurance increases in 2005, as well as information on the changes in Medicare effected by legislation enacted in 2003.

1. Who is eligible for Medicare?

All railroad retirement beneficiaries age 65 or over, and other persons who are directly or potentially eligible for railroad retirement benefits, are covered by the program. Although the age requirements for some unreduced railroad retirement benefits are rising just like the social security requirements, beneficiaries are still eligible for Medicare at age 65.

2. Who is eligible for Medicare coverage before age 65?

In general, coverage before age 65 is available for disabled employee annuitants who have been entitled to monthly benefits based on total disability (i.e., the employee must have met the Social Security Act's requirements for a disability benefit) for at least 24 months. Disabled widow(er)s under 65, disabled surviving divorced spouses under 65, and disabled children may also be eligible.

Medicare coverage before age 65 on the basis of permanent kidney failure is also available to employee annuitants, employees who have not retired but meet certain minimum service requirements, spouses, and dependent children who suffer from permanent kidney failure requiring hemodialysis or a kidney transplant. (Special rules also apply for individuals diagnosed with Amyotrophic Lateral Sclerosis.)

3. How do persons enroll in Medicare?

If a retired employee or a family member is receiving a railroad retirement annuity, enrollment for both Part A (hospital insurance) and Part B (medical insurance) is generally automatic and coverage begins when the person reaches age 65. An individual may decline Part B if so desired, and this does not preclude him or her from applying for medical insurance at a later date. Premiums may be higher, however, if enrollment is delayed.

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If an individual is eligible for but not receiving an annuity, he or she should contact the nearest Board office about three months before attaining age 65 in order to apply for Medicare. (This does not mean that the individual must retire if presently working.) The best time to apply is during the three months before the month in which the individual reaches age 65. He or she will then have both hospital and medical protection beginning with the month age 65 is reached. If the individual does not enroll for Part B in the three months before attaining age 65, he or she can enroll in the month age 65 is reached or during the next three months, but there will be a delay of one to three months before medical insurance is effective. Individuals who do not enroll during their initial enrollment period may sign up in any General Enrollment Period (January 1 - March 31 each year). Coverage for such individuals begins July 1 of the year of enrollment.

4. How much can Medicare Part B premiums increase for delayed enrollment?

Premiums for Part B are increased 10 percent for each 12-month period the individual could have been, but was not, enrolled. However, individuals who wait to enroll in Part B because they have group health plan coverage based on their own or their spouse's current employment may not have to pay higher premiums because they are eligible for special enrollment periods. Nonetheless, individuals covered by an employer group health plan should consider how delaying enrollment will affect their eligibility for health insurance policies, known as "Medigap" insurance, which supplement Medicare coverage.

Individuals can get more detailed information about Medigap policies from the publications *Medigap Policies* or *Guide to Health Insurance for People with Medicare*. To get a copy, they can call the Medicare toll-free number 1-800-MEDICARE (1-800-633-4227) or go to www.medicare.gov on the Internet and click on "Publications."

5. What is covered by Part A (hospital insurance) of the Original Medicare Plan?

The hospital insurance program is designed to help pay the bills when an insured person is hospitalized. The program also provides payments for required professional services in a skilled nursing facility (but not for custodial care) following a hospital stay, home health services, and hospice care.

There is a limit on how many days of hospital or skilled nursing care Medicare helps pay for in each "benefit period." A benefit period begins the first day a patient receives services in a hospital. It ends after a person has been out of a hospital or other facility primarily providing skilled care for 60 days in a row.

Benefits are ordinarily paid only for services received in the United States or Canada. Hospital insurance also covers hospital stays in Mexico under very limited conditions.

6. What are the Medicare Part A deductible and coinsurance charges in 2004 and what will they be in 2005?

For the first 60 days in a benefit period, a Medicare patient is responsible for paying a deductible, which for 2004 is the first $876 of all covered inpatient hospital services. The Part A deductible will

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increase to \$912 in 2005. The daily coinsurance charge that a Medicare beneficiary is responsible for paying for hospital care for the 61st through the 90th day is \$219 in 2004, increasing to \$228 per day in 2005. If a beneficiary uses "lifetime reserve" days, he or she is responsible for paying \$438 a day for each reserve day used in 2004, and \$456 a day in 2005. Lifetime reserve days are an extra 60 hospital days a beneficiary can use if illness keeps him or her in the hospital for more than 90 days; a beneficiary has only 60 reserve days during his or her lifetime and the beneficiary decides when to use them.

In addition, the daily coinsurance charge a beneficiary is responsible for paying for care in a skilled nursing facility for the 21st through the 100th day is \$109.50 in 2004 and will be \$114 in 2005.

7. What are some of the services covered by Part B (medical insurance) of the Original Medicare Plan?

Medicare medical insurance helps pay for doctors' services and many medical services and supplies that are not covered by the hospital insurance part of Medicare, such as certain ambulance services, outpatient hospital care, X-rays, laboratory tests, physical and speech therapy, blood, mammograms, Pap smears, and colorectal cancer screening.

8. Will the Medicare Part B deductible and premium change next year and by how much?

The annual deductible for Medicare Part B will increase from \$100 in 2004 to \$110 in 2005. After that, the deductible will be indexed and subject to annual increases. After the deductible is paid, Medicare will generally pay 80 percent of the approved charges for covered services during the rest of the year; the beneficiary is responsible for paying the remaining 20 percent of the cost.

All beneficiaries currently pay the same basic premium amount for Medicare Part B (\$66.60 in 2004 and increasing to \$78.20 in 2005), which covers outpatient care and doctor visits. Beginning in 2007, the premium will increase for individuals with annual incomes of more than \$80,000, and for couples with annual incomes of more than \$160,000. The amount of the premium increase will be based on a sliding income scale.

9. What is not currently covered by the Original Medicare Plan?

The Original Medicare Plan provides basic protection against the high cost of illness, but it will not pay all health care expenses. Some of the services and supplies Part A or Part B cannot pay for are custodial care, such as help with bathing, eating, and taking medicine; dentures and routine dental care; most eyeglasses, hearing aids, and examinations to prescribe or fit them; long-term care (nursing homes); personal comfort items, such as a phone or TV in a hospital room; most prescription drugs; and routine physical checkups and most related tests.

10. What changes to Medicare were effected by the enactment of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003?

Among the major features of this legislation are provisions for Medicare coverage of prescription drugs, the establishment of a Medicare Advantage Program to replace the previous Medicare + Choice Program, and provisions for new preventive benefits.

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11. When will Medicare coverage for prescription drugs begin?

The actual prescription drug benefit will begin in 2006. In the interim, Medicare-approved drug discount cards became available in June 2004 to help beneficiaries save on prescription drugs. Medicare contracts with private companies to offer the drug discount cards which bear a Medicare-approved seal. Voluntary enrollment began May 2004 and continues through December 31, 2005.

The discount card program is not intended to be a prescription drug benefit, but rather a temporary discount program to help people without outpatient prescription drug insurance until the Medicare drug benefit takes effect on January 1, 2006.

In June 2004, Medicare also began providing a $600 annual credit towards the purchase of prescription drugs for Medicare beneficiaries with incomes in 2004 of not more than $12,569 for single individuals or $16,862 for married individuals. To qualify for the credit, beneficiaries must not be receiving outpatient drug coverage from other sources, including Medicaid, TRICARE, group or individual health insurance coverage, or the Federal Employees Health Benefits Program. Generally, once a person qualifies for the $600 credit, he or she is qualified until the new Medicare drug benefit begins.

The credit is reflected on the Medicare-approved drug discount cards of qualified beneficiaries. While Medicare-approved discount card programs can charge a beneficiary an enrollment fee of up to $30 per year, Medicare will pay the enrollment fee for beneficiaries who qualify for the $600 credit.

12. How will the Medicare prescription drug benefit work when it takes effect?

Beginning in 2006, all people with Medicare will be able to enroll in plans that cover prescription drugs. Plans might vary, but in general, this is how they will work:

- Beneficiaries will choose a prescription drug plan and pay a premium of about $35 a month.
- Beneficiaries will pay the first $250 (the deductible).
- Medicare then will pay 75% of the costs between $250 and $2,250 in drug spending. Beneficiaries will pay only 25% of these costs.
- Beneficiaries will pay 100% of the drug costs above $2,250 until they reach $3,600 in out-of-pocket spending.
- Medicare will pay about 95% of the costs after the beneficiary has spent $3,600.

Some prescription drug plans may have additional options to help pay the out-of-pocket costs.

Extra help will be available for people with low incomes and limited assets. Most significantly, people with Medicare who have incomes below a certain limit won't have to pay the premiums or deductible for prescription drugs. The income limits will be set in 2005. If a beneficiary qualifies, he or she will only pay a small co-payment for each prescription needed.

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Other people with low incomes and limited assets will get help paying the premiums and deductible. The amount they pay for each prescription will be limited.

13. What is Medicare Advantage?

In 2004, the health plan option known as Medicare + Choice was replaced by the Medicare Advantage Program.

Congress created the Medicare Advantage Program to give beneficiaries more choices, and sometimes, extra benefits, by letting private companies offer them their Medicare benefits. Persons who join a Medicare Advantage Plan may have the following choices:

- Medicare Managed Care Plans;
- Medicare Preferred Provider Organization Plans, and;
- Medicare Private Fee-for-Service Plans.

If Medicare Managed Care Plans, Medicare Preferred Provider Organization Plans, or Medicare Private Fee-for-Service Plans are available in a beneficiary's area, he or she can join one and get Medicare benefits through the plan. By joining one of these Medicare Advantage Plans, beneficiaries can often get extra benefits, like additional days in the hospital. The plan may have special rules that they need to follow. They may also have to pay a monthly premium for the extra benefits.

Medicare Advantage Plans are available in many areas of the country. For information about the Medicare Advantage Plans available in a particular area, beneficiaries should call Medicare's toll-free number 1-800-MEDICARE (1-800-633-4227) or visit Medicare's Web site at www.medicare.gov.

14. What new preventive benefits are being offered?

Beginning in 2005, preventive benefits coverage will be expanded to include: a one-time initial wellness physical examination; screening blood tests for early detection of cardiovascular diseases; and diabetes screening tests for people at risk of diabetes.

15. Will Medicare be putting out information about these program changes?

The Centers for Medicare & Medicaid Services (CMS), the Federal agency responsible for administering Medicare, mailed letters to all Medicare beneficiaries in Spring 2004 to explain the prescription drug discount cards. In 2005, CMS plans to mail informational booklets to Medicare beneficiaries to explain the prescription drug benefits.

In the meantime, CMS will provide information about the Medicare-approved drug discount cards through the Medicare toll-free number 1-800-MEDICARE (1-800-633-4227), and through their Web site at www.medicare.gov.

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FROM THE DESK OF

V. M. SPEAKMAN, JR.
LABOR MEMBER

U.S. RAILROAD RETIREMENT BOARD

For Publication
December 2004

RRB Customer Service Plan Update

The U.S. Railroad Retirement Board's Customer Service Plan promotes the principles and objectives of customer-driven quality service agency-wide. The RRB's plan states specifically the level of service that customers can expect, and an important part of the plan is a pledge to keep beneficiaries informed of how well the RRB is meeting the plan's standards. The plan is reviewed and updated periodically as the agency gains more experience with it, compares its service with the best in business and considers feedback received from its customers.

The following questions and answers provide information about the RRB's performance in the key areas of retirement applications, survivor applications, disability applications and payments, railroad unemployment and sickness benefit applications and claims, as well as the handling of correspondence during fiscal year 2004 (October 1, 2003 – September 30, 2004). Included are the customer service performance goals the RRB set for fiscal year 2004 in its Annual Performance Plan. These goals are revised annually based on such factors as projected workloads and available resources. Also included is information on the timeliness index recently developed by the RRB to measure overall performance in certain areas.

1. Does the RRB have an overall measure for customer service timeliness?

The RRB recently developed an index to measure the overall timeliness of its customer service in four benefit areas: retirement applications; survivor applications; disability applications and payments; and railroad unemployment and sickness benefit applications and claims. The agency believes that using this composite indicator, based on a weighted average, allows for a more concise and meaningful presentation of its customer service efforts in these benefit areas.

2. How timely, overall, was the customer service provided by the RRB in fiscal year 2004 in these four benefit areas, as measured by the timeliness index?

During fiscal year 2004, overall benefit timeliness was 98.5 percent. This means that the RRB's customers received benefit services within the timeframes promised in the Customer Service Plan 98.5 percent of the time.

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3. What standards were used by the RRB in fiscal year 2004 for processing applications for railroad retirement employee or spouse annuities and how well did it meet those standards?

Under the RRB's standards, if you filed for a railroad retirement employee or spouse annuity in advance, you will receive your first payment, or a decision, within 35 days of the beginning date of your annuity. If you have not filed in advance, you will receive your first payment, or a decision, within 65 days of the date you filed your application.

Of the cases processed during fiscal year 2004, 92.4 percent of employee and 96.3 percent of spouse applicants who filed in advance received a payment, or a decision, within 35 days of their annuity beginning date. Taking these employee and spouse cases together, 94.7 percent of this group met the agency's standard for fiscal year 2004. Average processing times for employee and spouse applications were 10.7 and 6.6 days, respectively; the combined average processing time for these cases was 8.2 days.

Also, of the cases processed, 98.6 percent of employee and 96.8 percent of spouse applicants who had not filed in advance received a payment, or a decision, within 65 days of their filing dates. Taken together, 97.8 percent of these cases met the agency's standard. In these cases, the average processing times for employee and spouse applications were 21.8 and 19.9 days, respectively; the combined average processing time was 20.9 days.

The RRB's goals in fiscal year 2004 were 93.0 percent for those filing in advance and 95.0 percent for those not filing in advance.

Composite timeliness for all retirement applications, both those filed in advance and those not filed in advance, was 96.2 percent for the fiscal year.

4. What standards were used in the area of survivor benefits in fiscal year 2004?

Under the standards, if you filed for a railroad retirement survivor annuity or a lump-sum benefit, you will receive your first payment, or a decision, within 65 days of the date you filed your application, or became entitled to benefits, if later. If you are already receiving a spouse annuity, you will receive your first payment, or a decision, within 35 days of the date the RRB receives notice of the employee's death.

Of the cases processed during fiscal year 2004, 84.5 percent of the applicants for an initial survivor annuity received a payment or a decision within 65 days. In addition, 95.4 percent of the applicants for a lump-sum benefit received a payment or a decision within 65 days. In cases where the survivor was already receiving a spouse annuity, 94.1 percent of the applicants received a payment or a decision within 35 days of the RRB being notified of the employee's death. Average processing time for all applications for recurring monthly benefits (initial survivor applications and spouse to survivor conversions) was 26 days. The average processing time for lump-sum applications was 12 days.

The goals for fiscal year 2004 were 80.0 percent for payment of a survivor annuity and 93.5 percent for payment of a lump sum. For those already receiving a spouse annuity, the goal was 89.0 percent for payment of the survivor annuity.

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Overall timeliness in the area of survivor benefits, as measured by the RRB's timeliness index, was 93.2 percent for fiscal year 2004.

5. What standards were used by the RRB in fiscal year 2004 for processing applications for disability annuities under the Railroad Retirement Act??

Under the Customer Service Plan, if you filed for a disability annuity, you will receive a decision within 105 days of the date you filed your application. If it is determined that you are entitled to disability benefits, you will receive your first payment within 25 days of the date of the RRB's decision, or the earliest possible payment date, whichever is later.

Of the cases processed during fiscal year 2004, 55.9 percent of those filing for a disability annuity received a decision within 105 days of the date they filed an application. The average processing time was 110.2 days. Of those entitled to disability benefits, 94.8 percent received their first payment within the Customer Service Plan's time frame. Average processing time was 7.7 days.

The agency's goals were 65.0 percent for disability decisions and 93.5 percent for payments.

Overall timeliness in the area of disability applications and payments, as measured by the RRB's timeliness index, was 75.2 percent for fiscal year 2004.

6. What were the standards for the handling of applications and claims for railroad unemployment and sickness benefits and how well did the RRB meet these standards?

Under the standards, if you filed an application for unemployment or sickness benefits, you will receive a claim form, or a decision, within 15 days of the date you filed your application. If you filed a claim for subsequent biweekly unemployment or sickness benefits, you will receive your payment, or a decision, within 15 days of the date the RRB receives your claim form.

During fiscal year 2004, 99.25 percent of unemployment benefit applications sampled for timeliness and 99.4 percent of sickness benefit applications processed met the RRB's standard. Average processing times for unemployment and sickness benefit applications were 1.37 and 1.55 days, respectively.

In addition, 99.7 percent of subsequent claims processed for unemployment and sickness benefits met the RRB's standard for fiscal year 2004. Payments are issued within two business days of processing. The average processing time for claims was 3.86 days.

The goals for processing unemployment and sickness applications in fiscal year 2004 were 98.0 percent for both unemployment and sickness. The payment or decision goal for subsequent claims was 99.0 percent.

Overall timeliness in the area of unemployment and sickness applications and claims, as measured by the RRB's timeliness index, was 99.7 percent for fiscal year 2004.

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7. What was the standard for replying to correspondence in fiscal year 2004?

The Customer Service Plan states that when you inquire by letter, you will receive a reply within 15 days of the date the agency receives your inquiry. If for any reason the RRB cannot reply within that time frame, it will acknowledge the letter and tell you how long it will be before your questions can be answered fully.

In fiscal year 2004, 99.3 percent of all correspondence the RRB received was responded to, either with an acknowledgement or with a final reply, within the standard.

The goal for 2004 was set at 97.0 percent.

8. How did the RRB's performance in meeting its standards in fiscal year 2004 compare to its performance in fiscal year 2003?

Fiscal year 2004 performance remained the same or improved when compared to fiscal year 2003 for seven of the 11 customer service workloads tracked by the agency. Even with declines in four areas, the agency still exceeded the customer service performance goals it had set for the year in its Annual Performance Plan in all but the area of disability decisions.

Performance remained the same or improved for retirement applications not filed in advance, disability payments, spouse to survivor conversions, lump-sum death benefits, sickness benefit applications, unemployment and sickness benefit claims, and correspondence.

Small performance declines were noted for the handling of retirement applications filed in advance, initial survivor applications, unemployment benefit applications, and disability decisions.

9. Can beneficiaries provide feedback to the RRB about the service they receive?

A Customer Assessment Survey form is available in every field office allowing beneficiaries to evaluate the service they received and suggest how the agency can improve its service. Persons not satisfied with the service they received may contact the manager of the office with which they have been dealing or the regional director who is responsible for that office. Their names and addresses are available in each office.

The addresses and phone numbers of all the RRB's field offices are also available on the agency's Web site at www.rrb.gov or by calling the toll-free RRB Help Line at 1-800-808-0772. The RRB Help Line is an automated telephone service available 24 hours a day, 7 days a week.

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FROM THE DESK OF

V. M. SPEAKMAN, JR.
LABOR MEMBER

U.S. RAILROAD RETIREMENT BOARD

For Publication
January 2005

Federal Income Tax and Railroad Retirement Benefits

The following questions and answers describe the tax statements issued by the Railroad Retirement Board (RRB) each January for Federal income tax purposes. Railroad retirement beneficiaries needing information about these statements, or tax withholding from their benefits, should contact the nearest office of the RRB. For further Federal income tax information, railroad retirement beneficiaries should contact the nearest office of the Internal Revenue Service.

1. How are the annuities paid under the Railroad Retirement Act treated under the Federal income tax laws?

A railroad retirement annuity is a single payment comprised of one or more of the following components, depending on the annuitant's age, the type of annuity being paid, and other factors: a Social Security Equivalent Benefit (SSEB) portion of tier I, a Non-Social Security Equivalent Benefit (NSSEB) portion of tier I, a tier II benefit, a vested dual benefit, and a supplemental annuity.

In most cases, part of a railroad retirement annuity is treated like a social security benefit for Federal income tax purposes, while other parts of the annuity are treated like private pensions for tax purposes. Consequently, most annuitants are sent two tax statements from the RRB each January, even though they receive only a single annuity payment each month.

2. Which railroad retirement benefits are treated as social security benefits for Federal income tax purposes?

The SSEB portion of tier I (the part of a railroad retirement annuity equivalent to a social security benefit based on comparable earnings) is treated for Federal income tax purposes the same way as a social security benefit. The amount of these benefits that may be subject to Federal income tax, if any, depends on the beneficiary's income.

If taxable pensions, wages, interest, dividends, and other taxable income, plus tax-exempt interest income, plus half of the amount of the social security equivalent benefit payments exceed:

- $25,000 for an individual, $32,000 for a married couple filing jointly, and zero for a married individual who files separately but lived with his or her spouse any part of the year, up to 50 percent of these railroad retirement benefit payments may be considered taxable income;
- $34,000 for an individual, $44,000 for a married couple filing jointly, and zero for a married individual who files separately but lived with his or her spouse any part of the year, up to 85 percent of these benefits may be taxable.

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3. Which railroad retirement benefits are treated like private pensions for Federal income tax purposes?

The NSSEB portion of tier I, along with tier II benefits, vested dual benefits, and supplemental annuities are all treated like private pensions for Federal income tax purposes. In some cases, primarily those in which early retirement benefits are payable to retired employees and spouses between ages 60 and 62, and some occupational disability benefits, the entire annuity may be treated like a private pension. This is because social security benefits based on age and service are not payable before age 62 and social security disability benefit entitlement requires total disability.

4. What information is shown on the railroad retirement tax statements sent to annuitants in January?

One statement, the blue and white Form RRB-1099 for U.S. citizens or residents (or black and white Form RRB-1042S for nonresident aliens), shows the SSEB portion of tier I or special minimum guaranty payments made during the tax year, the amount of any such benefits that an annuitant may have repaid to the RRB during the tax year, and the net amount of these payments after subtracting the repaid amount. The amount of any offset for workers' compensation and the amount of Federal income tax withheld from these payments are also shown. Illustrations and explanations of items found on Form RRB-1099 and Form RRB-1042S can be found in IRS Publication 915, *Social Security and Equivalent Railroad Retirement Benefits.*

The other statement, the green and white Form RRB-1099-R (for both U.S. citizens and nonresident aliens), shows the NSSEB portion of tier I, tier II, vested dual benefit, and supplemental annuity paid to the annuitant during the tax year, as well as the employee contributions amount. **The NSSEB portion of tier I along with tier II are considered contributory pension amounts and are shown as a single combined amount in the Contributory Amount Paid box item on the statement.** The vested dual benefit and supplemental annuity are considered noncontributory pension amounts and are shown as separate box items on the statement. Also shown is the amount of Federal income tax withheld from these payments. In addition, the statement shows the amount of any of these prior year benefits repaid by the annuitant to the RRB during the tax year, but this amount is not subtracted from the gross amounts shown because its treatment depends on the years to which the repayment applies and its taxability in those years. To determine the year or years to which the repayment applies, annuitants should contact the RRB. Illustrations and explanations of items found on Form RRB-1099-R can be found in IRS Publication 575, *Pension and Annuity Income.*

If the annuitant is taxed as a nonresident alien of the United States, Form RRB-1042S and/or Form RRB-1099-R will show the rate of tax withholding (0%, 15% or 30%) and country of permanent residence.

The total Part B Medicare premiums deducted from the railroad retirement annuity may also be shown on either Form RRB-1099 (Form RRB-1042S for nonresident aliens) or Form RRB-1099-R.

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The statements also include the annuitant's name, current mailing address, RRB claim number and payee code, United States taxpayer identifying number (social security number or individual taxpayer identification number), detailed explanations of all the items on the statements, and the toll-free telephone numbers and Web site addresses of the RRB, the Internal Revenue Service, and the Social Security Administration.

Copy B and/or Copy 2 of Form RRB-1099-R must be submitted with the annuitant's tax return. Annuitants should retain copy C of all statements for their records, especially if they may be required to verify their income in connection with other Government programs.

5. What is the significance of the employee contributions amount?

For railroad retirement annuitants, the employee contributions amount is considered the amount of railroad retirement payroll taxes paid by the employee that exceeds the amount that would have been paid in social security taxes if the employee's railroad service had been covered under the Social Security Act. The employee contributions amount is referred to by the IRS as an employee's investment, or cost, in the contract. Employee contributions are **not** a payment or income received during the tax year. Only employee and survivor annuitants have an employee contributions amount shown on their Form RRB-1099-R.

The use and recovery of the employee contributions amount is important for annuitants since it affects the amount of taxable income to be reported on income tax returns for a tax year. There is a tax savings advantage in using (recovering) employee contributions since it will reduce the amount of taxable income. Annuitants should refer to IRS Publication 575, *Pension and Annuity Income*, and Publication 939, *General Rule for Pensions and Annuities*, for more information concerning the tax treatment of the contributory amount paid (see item 6 below) and use of the employee contributions amount.

6. How are contributory and noncontributory pension amounts taxed?

Amounts shown on Form RRB-1099-R are treated like private pensions and taxed either as contributory pension amounts or as noncontributory pension amounts. The NSSEB portion of tier I and tier II (shown as the contributory amount paid on the statement) are contributory pension amounts. Contributory pension amounts may be fully taxable or partially taxable. Vested dual benefits and supplemental annuities are considered noncontributory pension amounts. Noncontributory pension amounts are always fully taxable.

For annuitants with annuity beginning dates **before July 2, 1986,** the contributory amount paid is fully taxable. For annuitants with annuity beginning dates from **July 2, 1986, through December 31, 1986**, the contributory amount paid is partially nontaxable for the life of the annuitant. For annuitants with annuity beginning dates effective **January 1, 1987, and later**, the contributory amount paid is partially nontaxable for a specified period of time based on life expectancy as determined by IRS actuarial tables.

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The contributory amounts paid of disabled employee annuitants **under** minimum retirement age are fully taxable. (Minimum retirement age is generally the age at which individuals could retire based on age and service.) Employees who retired based on age and service and disabled employee annuitants who reach minimum retirement age may use the employee contributions amount shown on their Form RRB-1099-R to compute a tax-free portion of their contributory amount paid.

The RRB does not calculate the nontaxable amount of the contributory amount paid for annuitants. Annuitants should contact the IRS or their own tax preparer for assistance in calculating the nontaxable amount of their contributory amount paid. For more information on the tax treatment of the contributory amount paid, vested dual benefits, supplemental annuities, the employee contributions amount, and how to use the IRS actuarial tables, annuitants should refer to IRS Publication 939, *General Rule for Pensions and Annuities,* and IRS Publication 575, *Pension and Annuity Income.*

7. Does Form RRB-1099-R show the taxable amount of any contributory railroad retirement benefits or just the total amount of such benefits paid during the tax year?

Since 1993 (tax year 1992), Form RRB-1099-R shows the **total** amount of any contributory railroad retirement benefits (NSSEB and tier II) paid during the tax year. The RRB does **not** calculate the taxable amounts. It is up to the annuitant to determine the taxable and tax-free amounts of the contributory amount paid using the employee contributions amount.

8. Can an employee's contributions amount change?

Yes. The employee contributions amount shown on Form RRB-1099-R is based on the latest railroad service and earnings information available on the RRB's records. Railroad service and earnings information (and the corresponding employee contributions amount) often changes in the first year after an employee retires from railroad service. That's when the employee's final railroad service and earnings information is furnished to the RRB by his or her employer. As a result, the employee contributions amount shown on the most recent Form RRB-1099-R may have increased or decreased from a previously-issued Form RRB-1099-R.

Any change in an employee contributions amount is fully retroactive to the railroad retirement annuity beginning date. This could affect the taxable amounts reported to the IRS on prior income tax returns. Generally, an increase in the employee contributions amount is advantageous, as it will yield a larger tax-free amount. However, a decrease in the employee contributions amount may be disadvantageous since it may result in an increased tax liability. In any case, annuitants should determine if any change in their employee contributions amount would require them to file original or amended Federal income tax returns for prior tax years.

9. What if a person receives social security as well as railroad retirement benefits?

Railroad retirement annuitants who also received social security benefits during the tax year receive a Form SSA-1099 (or Form SSA-1042S if they are nonresident aliens) from the Social Security Administration. They should add the net social security equivalent or special guaranty amount shown on Form RRB-1099 (or Form RRB-1042S) to the net social security income amount shown on Form SSA-1099 (or Form SSA-1042S) to get the correct total amount of these benefits. They should then enter this total on the Social Security Benefits Worksheet in the instructions for Form 1040 or 1040A to determine if part of their social security and railroad retirement social security equivalent benefits is taxable income.

Additional information on the taxability of these benefits can be found in IRS Publication 915, *Social Security and Equivalent Railroad Retirement Benefits.*

10. Are the residual lump sums, lump-sum death payments or separation allowance lump-sum amounts paid by the RRB subject to Federal income tax?

No. These amounts are nontaxable and are not subject to Federal income tax. The RRB does not report these amounts on statements.

11. Are Federal income taxes withheld from railroad retirement annuities?

Yes, and the amounts withheld are shown on the statements issued by the RRB each year. However, an annuitant may request that Federal income taxes not be withheld, unless the annuitant is a nonresident alien or a U.S. citizen living outside the United States.

Annuitants can voluntarily choose to have Federal income tax withheld from their SSEB payments. To do so, they must complete IRS Form W-4V, *Voluntary Withholding Request*, and send it to the RRB. They can choose withholding from their SSEB payments at the following rates: 7 percent, 10 percent, 15 percent, or 25 percent.

Annuitants who wish to have Federal income taxes withheld from their NSSEB and tier II (contributory amount paid), vested dual benefit, and supplemental annuity payments must complete a tax withholding election on Form RRB W-4P, *Withholding Certificate For Railroad Retirement Payments,* and send it to the RRB. An annuitant is **not** required to file Form RRB W-4P. If that form is not filed, the RRB will withhold taxes only if the combined portions of the NSSEB and tier II (contributory amount paid), vested dual benefit and supplemental annuity payments are equal to or greater than $1,472.01. In that case, the RRB withholds taxes as if the annuitant were married and claiming three allowances.

12. How is tax withholding applied to the railroad retirement benefits of nonresident aliens?

Under the Internal Revenue Code, nonresident aliens are subject to a 30-percent tax on income from sources within the United States not connected to a U.S. trade or business. The 30-percent rate applies to all annuity payments exceeding social security equivalent payments and to 85 percent of the annuity portion treated as a social security benefit. The Code also requires the RRB to withhold the tax. The tax can be at a rate lower than 30 percent or can be eliminated entirely if a tax treaty between the United States and the country of residence provides such an exemption, and the nonresident alien completes and sends Form RRB-1001, *Nonresident Questionnaire,* to the RRB. Form RRB-1001 secures citizenship, residency and tax treaty claim information for nonresident beneficiaries (nonresident aliens or U.S. citizens residing outside the United States).

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Form RRB-1001 is sent by the RRB to nonresident aliens every three years to renew the claim for a tax treaty exemption. **Failure by a nonresident alien to complete Form RRB-1001 will cause loss of the exemption until the exemption is renewed.** Such renewals have no retroactivity. Also, a nonresident alien must include his or her United States taxpayer identifying number on Form RRB-1001. Otherwise, any tax treaty exemption claimed on the form is not valid. The majority of nonresident aliens receiving annuities from the RRB are citizens of Canada, which has a tax treaty with the United States.

If a Canadian citizen claims an exemption under the tax treaty, no tax is withheld from the annuity portion equivalent to a social security benefit and a withholding rate of only 15 percent is applied to those annuity payments exceeding social security equivalent payments.

Additional information concerning the taxation of nonresident aliens can be found in IRS Publication 519, *U.S. Tax Guide for Aliens.*

13. Are unemployment benefits paid under the Railroad Unemployment Insurance Act subject to Federal income tax?

All unemployment benefit payments are subject to Federal income tax. Each January the RRB sends Form 1099-G to individuals, showing the total amount of railroad unemployment benefits paid during the previous year.

14. Are sickness benefits paid by the RRB subject to Federal income tax?

Sickness benefits paid by the RRB, except for sickness benefits paid for on-the-job injuries, are subject to Federal income tax under the same limitations and conditions that apply to the taxation of sick pay received by workers in other industries. Each January the RRB sends Form W-2 to affected beneficiaries. This form shows the amount of sickness benefits that each beneficiary should include in his or her taxable income.

15. Does the Board withhold Federal income tax from unemployment and sickness benefits?

The RRB withholds Federal income tax from unemployment and sickness benefits only if requested to do so by the beneficiary. A beneficiary can request withholding of 10 percent of his or her unemployment benefits by filing Form W-4V with the Board. A beneficiary can request withholding from sickness benefits by filing Form W-4S.

16. Are railroad retirement and railroad unemployment and sickness benefits paid by the RRB subject to State income taxes?

The Railroad Retirement and Railroad Unemployment Insurance Acts specifically exempt these benefits from State income taxes.

17. Can a railroad employee claim a tax credit on his or her Federal income tax return if the employer withheld excess railroad retirement taxes during the year?

If any one railroad employer withheld more than the annual maximum amount, the employee must ask that employer to refund the excess. It cannot be claimed on the employee's return.

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18. Can a railroad employee working two jobs during the year get a tax credit if excess retirement payroll taxes were withheld by the employers?

Railroad employees who also worked for a nonrailroad social security covered employer in the same year may, under certain circumstances, receive a tax credit equivalent to any excess social security taxes withheld.

Employees who worked for two or more railroads during the year, or who had tier I taxes withheld from their RRB sickness benefits in addition to their railroad earnings, may be eligible for a tax credit of any excess tier I or tier II railroad retirement taxes withheld. The amount of tier I taxes withheld from sickness benefits paid by the RRB is shown on Form W-2 issued to affected beneficiaries. Employees who had tier I taxes withheld from their supplemental sickness benefits may also be eligible for a tax credit of any excess tier I tax.

Such tax credits may be claimed on an employee's Federal income tax return.

Employees who worked for two or more railroads, received sickness benefits, or had both railroad retirement and social security taxes withheld from their earnings should see IRS Publication 505, *Tax Withholding and Estimated Tax*, for information on how to figure any excess railroad retirement or social security tax withheld.

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Notice to RRB Customers Making Payments by Check

Sometimes people have to remit money to the RRB and do so by writing a check. This generally happens when someone incurs a benefit overpayment and elects to settle the debt by refunding the overpaid amount. Also, some persons pay their Part B Medicare premiums by check. Those who need to remit money to the RRB should be aware of changes to the way the RRB, along with all other Federal agencies, will be processing their paper checks.

A new system, called Electronic Check Processing, was developed by the Department of the Treasury to provide Federal agencies with a centralized, secure, and enhanced paper check clearing process. Under this new system, if you send us a check, it will be converted into an electronic funds transfer. This means we will copy your check and use the account information on it to electronically debit your account for the amount of the check. You will not receive your original check back. The debit from your account will usually occur within 24 hours, and will be shown on your regular account statement. Consequently, it is very important that you have enough money in your account when you mail your check. Under the old system, it could take several days (often called the "float") before a payer's account was debited.

FROM THE DESK OF

V. M. SPEAKMAN, JR.
LABOR MEMBER

U.S. RAILROAD RETIREMENT BOARD

VM Speakman Jr

For Publication
February 2005

Railroad Retirement Spouse Benefits

In addition to the retirement annuities payable to employees, the Railroad Retirement Act, like the Social Security Act, also provides annuities for the spouses of retired employees. Payment of a spouse annuity is made directly to the wife or husband of the employee. Divorced spouses may also qualify for benefits.

The following questions and answers describe the benefits payable to spouses and the eligibility requirements.

1. How are railroad retirement spouse annuities computed?

Regular railroad retirement annuities are computed under a two-tier formula. The spouse annuity formula is based on certain percentages of the employee's tier I and tier II amounts.

The tier I portion of an employee's annuity is based on both railroad retirement credits and any social security credits that the employee also earned. Computed using social security benefit formulas, an employee's tier I benefit approximates the social security benefit that would be payable if all the employee's work were performed under the Social Security Act.

The tier II portion of the employee's annuity is based on railroad retirement credits only, and may be compared to the retirement benefits paid over and above social security benefits to workers in other industries.

The first tier of a spouse annuity is generally 50 percent of the railroad employee's tier I amount. The second tier amount is 45 percent of the employee's tier II amount.

2. How does a railroad retirement spouse annuity compare to a social security spouse benefit?

The average annuity awarded to spouses in fiscal year 2004, excluding divorced spouses, was $761 a month, while the average monthly social security spouse benefit was about $335.

Annuities awarded in fiscal year 2004 to the spouses of employees who were of full retirement age or over and who retired directly from the rail industry with at least 25 years of service averaged $867 a month; and the average award to the spouses of employees retiring at age 60 or over with at least 30 years of service was $1,062 a month.

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3. What are the age requirements for a railroad retirement spouse annuity?

The age requirements for a spouse annuity depend on the employee's age and date of retirement and the employee's years of railroad service. The following requirements apply if the employee's annuity began **after** 1974.

If a retired employee with 30 or more years of service is age 60 and receiving an annuity, the employee's spouse is also eligible for an annuity the first full month the spouse is age 60. Certain early retirement reductions are applied if the employee first became eligible for a 60/30 annuity July 1, 1984, or later and retired at age 60 or 61 before 2002. If the employee was awarded a disability annuity, has attained age 60 and has 30 years of service, the spouse can receive an unreduced annuity the first full month she or he is age 60, regardless of whether the employee annuity began before or after 2002 as long as the spouse's annuity beginning date is after 2001.

If a retired employee with less than 30 years of service is age 62 and receiving an annuity, the employee's spouse is also eligible for an annuity the first full month the spouse is age 62. Early retirement reductions are applied to the spouse annuity if the spouse retires prior to full retirement age. Full retirement age for a spouse is gradually rising to age 67, just as for an employee, depending on the year of birth. Reduced benefits are still payable at age 62, but the maximum reduction will be 35 percent rather than 25 percent by the year 2022. However, the tier II portion of a spouse annuity will not be reduced beyond 25 percent if the employee had any creditable railroad service before August 12, 1983.

4. What if the spouse is caring for a child of the retired employee?

A spouse of an employee receiving an age and service annuity (or a spouse of a disability annuitant who is otherwise eligible for an age and service annuity) is eligible for a spouse annuity at any age if caring for the employee's unmarried child, and the child is under age 18 or the child became disabled before age 22.

5. What are some of the other general eligibility requirements?

The employee must have been married to the spouse for at least one year, unless the spouse is the natural parent of their child; the spouse was eligible or potentially eligible for a railroad retirement widow(er)'s, parent's or disabled child's annuity in the month before marrying the employee; or the spouse was previously married to the employee and received a spouse annuity. However, entitlement to a surviving divorced spouse, surviving divorced young mother (father), or remarried widow(er) annuity does not waive the one-year marriage requirement.

6. Under what conditions can the divorced spouse of a rail employee receive a spouse annuity?

A spouse annuity may also be payable to the divorced wife or husband of a retired employee if their marriage lasted for at least 10 years, both have attained age 62 for a full month, and the divorced spouse is not currently married. The amount of a divorced spouse's annuity is, in effect, equal to what social security would pay in the same situation (tier I only) and therefore less than the amount of the spouse annuity otherwise payable. The average divorced spouse annuity awarded in fiscal year 2004 was $416.

7. Would the award of an annuity to a divorced spouse affect the monthly annuity rate payable to a retired employee and/or the current spouse?

No. If a divorced spouse becomes entitled to an annuity based on the employee's railroad service, the award of the divorced spouse's benefit would not affect the amount of the employee's annuity, nor would it affect the amount of the railroad retirement annuity that may be payable to the current spouse.

8. Are spouse annuities subject to offset for the receipt of other benefits?

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. This reduction follows principles of social security law which, in effect, 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 any Federal, State or local 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 public service pension is based was covered under the Social Security Act throughout the last 60 months of public employment. (This 60-month requirement is being phased in over a five-year period ending March 1, 2009, and there are some exceptions.) Most military service pensions and payments from the Department of Veterans Affairs will not cause a reduction. For spouses subject to the public service pension reduction, the tier I reduction is equal to 2/3 of the amount of the public service pension.

In addition, if the employee was first eligible for a railroad retirement annuity and a Federal, State or local government pension after 1985, there may be a reduction in the employee's tier I amount for receipt of a public pension based, in part or in whole, on employment not covered by social security or railroad retirement after 1956. If the employee's tier I benefit is offset for a noncovered service pension, the spouse tier I amount is 50 percent of the employee's tier I amount **after the offset.**

The spouse tier I portion may also be reduced if the employee is under age 65 and is receiving a disability annuity as well as worker's compensation or public disability benefits.

9. What if a husband and wife are both railroad employees?

If both the husband and wife are qualified railroad employees and either had some railroad service before 1975, both can receive separate railroad retirement employee and spouse annuities, without a full dual benefit reduction. If both the husband and wife started railroad employment after 1974, the amount of any spouse or divorced spouse annuity is reduced by the amount of the employee annuity to which the spouse is also entitled.

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10. Are railroad retirement annuities subject to garnishment or property settlements?

Certain percentages of any railroad retirement annuity (employee, spouse or survivor) may be subject to legal process (i.e., garnishment) to enforce an obligation for child support and/or alimony payments.

Also, with the exception of the tier I portion of a railroad retirement annuity, all other portions of an **employee's** annuity are subject to court-ordered property settlements in proceedings related to divorce, annulment or legal separation.

11. How can a person get more information about railroad retirement spouse annuities?

For more information and/or a benefit estimate, a person should contact the nearest office of the Railroad Retirement Board. Most Board offices are open to the public from 9:00 a.m. to 3:30 p.m., Monday through Friday, except on Federal holidays.

Persons can find the address and phone number of the Board office serving their area by calling the automated toll-free RRB Help Line at 1-800-808-0772. They can also get this information from the Board's Web site at www.rrb.gov.

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FROM THE DESK OF

V. M. SPEAKMAN, JR.
LABOR MEMBER

U.S. RAILROAD RETIREMENT BOARD

For Publication
April 2005

Railroad Retirement Annuities and Pensions From Work Not Covered by Social Security or Railroad Retirement

Railroad Retirement Act employee annuities are subject to dual benefit reductions when social security benefits are also payable; and, they may be subject to reduction when certain public, non-profit or foreign pension payments are also due a retired employee.

The following questions and answers describe how railroad retirement annuities are affected when retired rail employees are also entitled to pensions from employers not covered by railroad retirement or social security.

1. When was the noncovered service pension reduction in employee annuities legislated and how did it come about?

The noncovered service pension reduction in railroad retirement benefits was introduced by 1983 social security legislation which also applied to the tier I benefits of railroad retirement employee annuities.

Social security and railroad retirement tier I benefits replace a percentage of a worker's pre-retirement earnings. The formula used to compute benefits includes factors that ensure lower-paid workers get a higher return than highly-paid workers. For example, lower-paid workers could get a social security or tier I benefit that equals about 55 percent of their pre-retirement earnings. The average replacement rate for highly-paid workers is about 25 percent. Before 1983, such benefits for people who worked in jobs not covered by railroad retirement or social security were computed as if they were long-term, low-wage workers. They received the advantage of the higher percentage benefits in addition to their other pension. The modified formula eliminated this advantage.

2. In general terms, which employees are affected by this reduction and what types of benefits would cause a reduction?

For employees first eligible for a railroad retirement annuity **and** a Federal, State or local government pension after 1985, there may be a reduction in their tier I benefits for receipt of a public pension based, in part or in whole, on employment not covered by social security or railroad retirement after 1956. This may also apply to certain other payments not covered by railroad retirement or social security, such as from a non-profit organization or from a foreign government or a foreign employer. It includes both periodic payments, as well as lump-sum payments made in lieu of periodic payments. It does **not** include military service pensions, payments by the Department of Veterans Affairs, or certain benefits payable by a foreign government as a result of a totalization agreement between that government and the United States.

3. If a noncovered service pension reduction is required in a railroad retirement employee annuity, how would it be applied?

Unlike the dual benefit offset for social security entitlement applied by deducting the amount of the social security benefit from the annuitant's tier I railroad retirement benefit, an alternate factor is used in the tier I benefit computation of annuitants with such pensions.

A tier I benefit is calculated in the same way as a social security benefit. In computing a tier I benefit, an employee's creditable earnings are adjusted to take into account the changes in wage levels over a worker's lifetime. This procedure, called indexing, increases creditable earnings from past years to reflect average national wage levels at the time of the employee's retirement. The adjusted earnings are used to calculate the employee's "average indexed monthly earnings" and a formula is applied to determine the gross tier I amount.

This benefit formula has three levels. Each level of earnings is multiplied by a specified percentage. The first level of earnings is multiplied by 90 percent, the second by 32 percent, and the final level by 15 percent. The results are added to obtain the basic benefit rate. For those first eligible in 2005, the gross tier I benefit is equal to: 90 percent of the first $627 of average indexed monthly earnings, plus 32 percent of the amount of those earnings over $627 up to $3,779, plus 15 percent of those earnings in excess of $3,779.

Beginning with 1986, a reduction in the 90 percent factor was phased in until, for employees subject to the noncovered service pension reduction and who became eligible in 1990 or later, the 90 percent factor is reduced to as low as 40 percent. For example, an employee born in 1943 is eligible for a noncovered service pension and has 20 years of railroad service. Her railroad retirement annuity begins with the first full month she is age 62 and her average indexed monthly earnings are $1,800. She would receive, after the reduction for early retirement, a tier I benefit of $472.11, rather than the $708.17 otherwise payable.

However, for employees with relatively low noncovered service pensions, there is a guarantee that the amount of the reduction in tier I cannot be more than 50 percent of the pension.

4. Are there any provisions exempting retired railroad employees who also receive noncovered service pensions from this reduction?

Railroad retirement employee annuitants also receiving a noncovered service pension who attained age 62 before 1986, or who became entitled to a railroad retirement disability annuity before 1986 and remained entitled to it in any of the 12 months before attaining age 62 (even if the employee attained age 62 after 1985) are not affected by the noncovered service pension reduction.

Railroad retirement employee annuitants who received, or were eligible to receive, their noncovered service pensions before 1986 would not be affected. They are considered eligible if they met the requirements of the pension plan before January 1986, even if they continued to work.

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The reduction also does not apply to:

- Federal workers hired after December 31, 1983;
- Persons employed on December 31, 1983, by a nonprofit organization that was exempt from social security and became mandatorily covered under social security on that date;
- Railroad employees whose pensions are based entirely on noncovered employment before 1957; and
- Railroad employees eligible for a noncovered service pension who have 30 or more years of "substantial railroad retirement and/or social security earnings." They are generally exempt from the reduction. Also, employees with 21 to 29 years of substantial earnings may be subject to a lesser reduction. In such cases, the 90 percent factor is reduced in increments of 5 percent, providing factors ranging from 85 percent for employees with 29 years of substantial earnings to 45 percent for those with 21 years.

5. What is considered a year of "substantial earnings" for purposes of exempting a person from the reduction for a noncovered service pension?

A year of "substantial earnings" is not the same as a year of service. For 1951-78, the amount of earnings needed for a year of coverage is 25 percent of the annual social security maximum creditable earnings bases in effect for those years. For years after 1978, the amounts are 25 percent of what the maximum earnings bases would have been if the 1977 social security amendments had not been enacted. For example, in 1975, earnings of $3,525 would be considered a year of substantial earnings; in 1985, earnings of $7,425 would be needed; in 1995, earnings of $11,325; and in 2005, earnings of $16,725.

6. Are any reductions made in railroad retirement spouse or widow(er)s' benefits if a public service pension is also payable?

Yes. The tier I portion of a spouse or widow(er) annuity may also be reduced for receipt of any Federal, State or local pension separately payable to the spouse or widow(er) based on her or his own earnings. The reduction generally does not apply if the employment on which the public pension is based was covered under the Social Security Act throughout the last 60 months of public employment. (This 60-month requirement is being phased in over a 5-year period ending March 1, 2009, and there are some exceptions.) Most military service pensions and payments from the Department of Veterans Affairs will not cause a reduction. For spouses and widow(er)s subject to the public pension reduction, the tier I reduction is equal to 2/3 of the amount of the public pension.

7. Where can more specific information on how noncovered pensions affect railroad retirement benefits be obtained?

For more information, individuals who may be affected should contact the nearest office of the Railroad Retirement Board. Most Board offices are open to the public from 9:00 a.m. to 3:30 p.m., Monday through Friday, except on Federal holidays.

(More)

Persons can find the address and phone number of the Board office serving their area by calling the automated toll-free RRB Help Line at 1-800-808-0772. They can also get this information from the Board's Web site at www.rrb.gov.

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FROM THE DESK OF

V. M. SPEAKMAN, JR.
LABOR MEMBER

U.S. RAILROAD RETIREMENT BOARD

For Publication
June 2005

New Benefit Year for
Railroad Unemployment and Sickness Benefits

A new benefit year under the Railroad Unemployment Insurance Act begins July 1, 2005. Administered by the U.S. Railroad Retirement Board, this Act provides two kinds of benefits for qualified railroaders: unemployment benefits for those who become unemployed but are ready, willing and able to work; and sickness benefits for those who are unable to work because of sickness or injury. Sickness benefits are also payable to female rail workers for periods of time when they are unable to work because of pregnancy and childbirth.

The following questions and answers describe these benefits, their eligibility requirements, and how to claim them.

1. What is the daily benefit rate payable in the new benefit year beginning July 1, 2005?

The maximum daily benefit rate payable for claims under the Railroad Unemployment Insurance Act remains at $56 in the new benefit year. Benefits are generally payable for days of unemployment or sickness in excess of four in biweekly claim periods, which yields $560 for each two full weeks of unemployment or sickness. However, sickness benefits resulting from other than on-the-job injuries are subject to tier I railroad retirement payroll taxes for the first six months after the employee last worked.

2. What are the eligibility requirements for railroad unemployment and sickness benefits in the new benefit year?

To qualify for normal railroad unemployment or sickness benefits, an employee must have had railroad earnings of at least $2,825 in calendar year 2004, not counting more than $1,130 for any month. Those who were first employed in the rail industry in 2004 must also have at least five months of creditable railroad service in 2004.

Under certain conditions, employees with 120 or more months of railroad service who do not qualify on the basis of their 2004 earnings may still be able to receive benefits in the new benefit year. Employees with 120 or more months of service who received normal benefits in the benefit year ending June 30, 2005, may be eligible for extended benefits, and employees with 120 or more months of service might qualify for accelerated benefits if they have rail earnings of at least $2,875 in 2005, not counting earnings of more than $1,150 a month.

(More)

3. How long are these benefits payable?

Normal unemployment or sickness benefits are each payable for up to 130 days (26 weeks) in a benefit year. The total amount of each kind of benefit which may be paid in the new benefit year cannot exceed the employee's railroad earnings in calendar year 2004, not counting earnings of more than $1,460 per month.

If normal benefits are exhausted, extended benefits are payable for up to 65 days (13 consecutive weeks) to employees with 10 or more years of service.

4. What is the waiting-period requirement for unemployment and sickness benefits?

Benefits are normally paid for the number of days of unemployment or sickness over four in 14-day claim periods. However, during the first 14-day claim period in a benefit year, benefits are only payable for each day of unemployment or sickness in excess of seven which, in effect, provides a one-week waiting period. Separate waiting periods are required for unemployment and sickness benefits. However, only one seven-day waiting period is generally required during any period of continuing unemployment or sickness, even if that period continues into a subsequent benefit year.

Initial sickness claims must also begin with four consecutive days of sickness.

5. Are there special waiting-period requirements if unemployment is due to a strike?

If a worker is unemployed because of a strike conducted in accordance with the Railway Labor Act, benefits are payable for days of unemployment during 14-day claim periods **after** the first claim period, but no benefits are payable for days of unemployment during the first 14 days of the strike.

If a strike is in violation of the Railway Labor Act, unemployment benefits are not payable to employees participating in the strike. However, employees not among those participating in such an illegal strike, but who are unemployed on account of the strike, may receive benefits after the first two weeks of the strike.

While a benefit year waiting period cannot count toward a strike waiting period, the 14-day strike waiting period may count as the benefit year waiting period if a worker subsequently becomes unemployed for reasons other than a strike later in the benefit year.

6. Can employees in train and engine service receive unemployment benefits for days when they are standing by or laying over between scheduled runs?

No, not if they are standing by or laying over between regularly assigned trips or they missed a turn in pool service.

7. Can extra-board employees receive unemployment benefits between jobs?

Yes, but only if the miles and/or hours they actually worked were less than the equivalent of normal full-time work in their class of service during the 14-day claim period. Entitlement to benefits would also depend on the employee's earnings.

(More)

8. How would an employee's earnings in a claim period affect his or her eligibility for unemployment benefits?

If a claimant's earnings for days worked, and/or days of vacation or paid leave, in a 14-day claim period are more than a certain indexed amount, no benefits are payable for any days of unemployment in that period. That claim, however, can be used to satisfy the waiting period.

Earnings include pay from railroad and nonrailroad work, as well as part-time work and self-employment. Earnings also include pay that an employee would have earned except for a failure to mark up or report for duty on time, or because he or she missed a turn in pool service or was otherwise not ready or willing to work. For the benefit year that begins July 2005 the amount is $1,130, which corresponds to the base year monthly compensation amount used in determining eligibility for benefits in the new benefit year.

9. How does a person apply for, as well as claim, unemployment benefits?

Claimants can file their applications for unemployment benefits, as well as their subsequent biweekly claims, by mail or online.

To apply by mail, claimants must obtain an application from their labor organization, employer, local Railroad Retirement Board office or the Board's Web site at www.rrb.gov. The completed application should be mailed to the local Board office as soon as possible and, in any case, must be filed within 30 days of the date on which the claimant became unemployed or the first day for which he or she wishes to claim benefits. Benefits may be lost if the application is filed late.

To file their applications -- or their biweekly claims -- online, claimants should go to the Board's Web site and click on "MainLine Services" for directions on establishing an RRB Internet Services account. Once they establish their online accounts, they will be able to file their applications and claims for unemployment benefits, as well as conduct other business with the Board, over the Internet. However, to ensure security, they must first go online to get a Password Request Code, which they will receive by mail in about 7 to 10 days. Employees are encouraged to establish online accounts while still employed so the account is ready if they ever need to apply for these benefits or use other Internet services. Employees who have already established online accounts do not need to do so again.

The local Board office reviews the completed application, whether it was submitted by mail or online, and notifies the claimant's current railroad employer, and base-year employer if different. The employer has the opportunity to provide information about the benefit application.

After the Board office processes the application, biweekly claim forms are mailed to the claimant, and are also made available on the Board's Web site, as long as he or she remains unemployed and eligible for benefits. The time for filing a claim is 15 days from the last day of the claim period or 15 days from the date the claim form is mailed to the claimant or made available on the Board's Web site, whichever is later. Claimants should **not** file both a paper claim and an online claim for the same period.

Only one application needs to be filed during a benefit year, even if a claimant becomes unemployed more than once. However, a claimant must, in such a case, request a claim form from a Board field office within 30 days of the first day for which he or she wants to resume claiming benefits. These claims may also be filed by mail or online.

10. How does a person apply for sickness benefits?

An application for sickness benefits can be obtained from railroad labor organizations, railroad employers, any Board office or the Board's Web site. An application and a doctor's statement of sickness are required at the beginning of each period of continuing sickness for which benefits are claimed.

The Board suggests that employees keep an application on hand for use in claiming sickness benefits, and that family members know where the form is kept and how to use it. If an employee becomes unable to work because of sickness or injury, the employee should complete the application and then have his or her doctor complete the statement of sickness. If the employee is too sick to complete the application, someone else may do so. In such cases, a family member should also complete the "Statement of Authority to Act for Employee," which accompanies the statement of sickness.

After completion, the forms should be mailed to the Board's headquarters in Chicago by the seventh day of the illness or injury for which benefits are claimed. After the Board receives the application and statement of sickness and determines eligibility, biweekly claim forms are mailed to the claimant for completion and return to a Board field office for processing. The claim forms must be received at the Board within 30 days of the last day of the claim period, or within 30 days of the date the claim form was mailed to the claimant, whichever is later. Benefits may be lost if an application or claim is filed late.

Although claimants cannot file applications or biweekly claims for railroad sickness benefits over the Internet, the Board is planning to add the online filing of sickness claims in the future.

11. Is a claimant's employer notified each time a biweekly claim for unemployment or sickness benefits is filed?

The Railroad Unemployment Insurance Act requires the Board to notify the claimant's base-year employer each time a claim for benefits is filed, and to give that employer an opportunity to submit information relevant to the claim before the Board makes an initial determination on the claim. In addition, the claimant's current employer is also notified. The Board must also notify the claimant's base-year employer each time benefits are paid to a claimant. The base-year employer may protest the decision to pay benefits. Such a protest does not prevent the timely payment of benefits. However, a claimant may be required to repay benefits if the employer's protest is successful.

The Board also checks with other Federal agencies and all 50 States, as well as the District of Columbia and Puerto Rico, to detect fraudulent benefit claims; and it checks with physicians to verify the accuracy of medical statements supporting sickness benefit claims.

12. How long does it take to receive payment?

Persons who file an application for benefits may expect to receive a claim form, or a decision on their application, within 15 days of the date they filed their application. When they file biweekly claims, they may expect to receive a payment, or a decision on a claim, within 15 days of the date a Board office receives the claim form. However, claims for some benefits may take longer to handle than others if they are more complex, or if a Board office has to get information from other people or organizations. If this happens, claimants may expect an explanation and an estimate of the time required to make a decision.

Claimants who think a Board office made the wrong decision about their benefits have the right to ask for review and to appeal. They will be notified of these rights each time an unfavorable decision is made on their claims.

13. How are payments made?

Railroad unemployment and sickness insurance benefits are paid by Direct Deposit. With Direct Deposit, benefit payments are made electronically to an employee's bank, savings and loan, credit union or other financial institution. New applicants for unemployment and sickness benefits will be asked to provide information needed for Direct Deposit enrollment. Waivers are available to individuals who determine that Direct Deposit would cause a hardship, and to individuals without bank accounts.

14. How can claimants receive more information on railroad unemployment or sickness benefits?

Claimants with questions about unemployment or sickness benefits should contact the nearest Board office. Most Board offices are open to the public from 9:00 a.m. to 3:30 p.m., Monday through Friday, except on Federal holidays. Claimants can find the address and phone number of the Board office serving their area, and also get information about their claims and benefit payments, by calling the toll-free RRB Help Line at 1-800-808-0772. The RRB Help Line is an automated telephone service available 24 hours a day, 7 days a week. Information about unemployment or sickness claims and benefit payments is available on the Help Line for those who have a Personal Identification Number (PIN), which is printed on the back of each claim form.

In addition, most of the toll-free Help Line services are available through the Board's Web site at www.rrb.gov, which also includes publications that may be downloaded.

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FROM THE DESK OF

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U.S. RAILROAD RETIREMENT BOARD

VMSpeakman Jr

For Publication
August 2005

Railroad Retirement Age Reductions

Railroad retirement benefits are subject to reduction if an employee with less than 30 years of service retires before attaining full retirement age. Employees with less than 30 years of service may still retire at age 62. However, the age at which full retirement benefits are payable was increased by 1983 social security legislation first effective in the year 2000. This legislation affected railroad retirement benefits through coordinating provisions of the Railroad Retirement Act, and the age requirements for some unreduced railroad retirement benefits changed just like the social security requirements.

The following questions and answers explain how these early retirement age reductions are applied to railroad retirement annuities.

1. What is the full retirement age for employees with less than 30 years of service and is it the same for all employees?

Full retirement age, the earliest age at which a person can begin receiving railroad retirement or social security benefits without any reduction for early retirement, ranges from age 65 for those born before 1938 to age 67 for those born in 1960 or later, the same as for social security.

2. How are the changes in the maximum age reduction being phased in?

Since 2000, the age requirements for some unreduced railroad retirement benefits have been rising just like the social security requirements. For employees with less than 30 years of service and their spouses, full retirement age increases from 65 to 66, and from 66 to 67, at the rate of two months per year over two separate six-year periods. This also affects how reduced benefits are computed for early retirement.

The gradual increase in full retirement age from age 65 to age 66 affects those people who were born in the years 1938 through 1942. The full retirement age will remain age 66 for people born in the years 1943 through 1954. The gradual increase in full retirement age from age 66 to age 67 affects those who were born in the years 1955 through 1959. For people who were born in 1960 or later the full retirement age will be age 67.

3. How does this affect the early retirement age reductions applied to the annuities of those who retire before full retirement age?

The early retirement annuity reductions applied to annuities awarded before full retirement age are increasing. For employees retiring between age 62 and full retirement age with less than 30 years of service, the maximum reduction will be 30 percent by the year 2022. Under prior law, the maximum reduction was 20 percent.

(More)

Age reductions are applied separately to the tier I and tier II components of an annuity. The tier I reduction is 1/180 for each of the first 36 months the employee is under full retirement age when his or her annuity begins and 1/240 for each additional month. This will result in a gradual increase in the reduction at age 62 to 30 percent for an employee once the age 67 retirement age is in effect.

These same reductions apply to the tier II component of the annuity. However, if an employee had any creditable railroad service before August 12, 1983, the retirement age for tier II purposes will remain 65, and the tier II benefit will not be reduced beyond 20 percent.

The following chart shows how the gradual increase in full retirement age will affect employees.

Employee Retires with Less than 30 Years of Service

Year of Birth*	Full Retirement Age	Annuity Reduction at Age 62
1937 or earlier	65	20.00%
1938	65 and 2 months	20.833%
1939	65 and 4 months	21.667%
1940	65 and 6 months	22.50%
1941	65 and 8 months	23.333%
1942	65 and 10 months	24.167%
1943 through 1954	66	25.00%
1955	66 and 2 months	25.833%
1956	66 and 4 months	26.667%
1957	66 and 6 months	27.50%
1958	66 and 8 months	28.333%
1959	66 and 10 months	29.167%
1960 or later	67	30.00%

* A person attains a given age the day before his or her birthday. Consequently, someone born on January 1 is considered to have been born on December 31 of the previous year.

4. What are some examples of how this will affect the amounts payable to employees retiring before full retirement age with less than 30 years of service?

Take the example of an employee born on June 2, 1950, who retires in 2012 at the age of 62. In terms of today's dollars and current benefit levels, not counting future increases in creditable earnings, assume this employee is eligible for monthly tier I and tier II benefits, before age reductions, of $1,200 and $800, respectively, for a total monthly benefit of $2,000.

Upon retirement at age 62, the employee's tier I benefit would be reduced by 25 percent, the maximum age reduction applicable in 2012. This would yield a tier I monthly benefit of $900; the employee's tier II benefit would also be reduced by 25 percent, providing a tier II amount of $600 and a total monthly rate of $1,500. However, if the employee had any rail service before August 12, 1983, the tier II benefit would be subject to a maximum reduction of only 20 percent, providing a tier II amount of $640, and a total monthly rate of $1,540.

As a second example, take an employee born on June 2, 1960, and also eligible for monthly tier I and tier II benefits, before age reductions, of $1,200 and $800, respectively, for a total monthly benefit of $2,000. This employee retires in 2022 at age 62 with no service before August 12, 1983.

(More)

Consequently, a 30 percent reduction is applied to both the tier I and tier II benefits and the net total annuity would be $1,400.

5. How are railroad retirement spouse benefits affected by this change?

If an employee retiring with less than 30 years of service is age 62, the employee's spouse is also eligible for an annuity the first full month the spouse is age 62. Early retirement reductions are applied to the spouse annuity if the spouse retires prior to full retirement age. Beginning in the year 2000, full retirement age for a spouse gradually began to rise to age 67, just as for an employee, depending on the year of birth. While reduced spouse benefits are still payable at age 62, the maximum reduction will be 35 percent by the year 2022. However, if an employee had any creditable rail service prior to August 12, 1983, the increased age reduction is applied only to the spouse's tier I benefit.

Take for an example the spouse of a railroader with less than 30 years of service, none of it prior to August 12, 1983, retiring in 2022 at age 62, with a spouse annuity, in terms of today's dollars and current benefit payments and before any reductions for age, of $1,000 a month. With the maximum reduction of 35 percent applicable in 2022, her net monthly benefit would be $650, while if this same spouse were retiring in 2005 at age 62 with the maximum age reduction of 30 percent, her net monthly benefit would be $700.

The following chart shows how this will affect the spouses of railroad employees if the employee retires with less than 30 years of service.

Spouse Age Reductions

Year of Birth*	Full Retirement Age	Annuity Reduction at Age 62
1937 or earlier	65	25.00%
1938	65 and 2 months	25.833%
1939	65 and 4 months	26.667%
1940	65 and 6 months	27.50%
1941	65 and 8 months	28.333%
1942	65 and 10 months	29.167%
1943 through 1954	66	30.00%
1955	66 and 2 months	30.833%
1956	66 and 4 months	31.667%
1957	66 and 6 months	32.50%
1958	66 and 8 months	33.333%
1959	66 and 10 months	34.167%
1960 or later	67	35.00%

* A person attains a given age the day before his or her birthday. Consequently, someone born on January 1 is considered to have been born on December 31 of the previous year.

6. What age reductions are applied to employees who retired with 30 years of service prior to 2002?

Under the Railroad Retirement and Survivors' Improvement Act of 2001, employees with 30 or more years of creditable service are eligible for full age and service annuities the first full month they are age 60, if their annuities begin January 1, 2002, or later. The spouses of such employees are likewise eligible for full annuities, which can also begin with the first full month the spouse is age 60. Also, if a disability annuitant is age 60 and has 30 years of service, his or her spouse can receive an annuity at age 60 without any age reduction if the spouse's annuity beginning date is January 1, 2002, or later.

However, early retirement reductions are applied to the tier I portion of an employee's annuity if the employee first became eligible for a 60/30 annuity July 1, 1984, or later and retired at ages 60 or 61 before 2002. The tier I benefit awarded such an employee's spouse will also be reduced for early retirement, regardless of whether the spouse retires at age 60 or 62, and regardless of the date the spouse's annuity begins.

7. Are age reductions applied to employee disability annuities?

Employee annuities based on disability are not subject to age reductions **except** for employees with less than 10 years of service, but who have 5 years of service after 1995. Such employees may qualify for a tier I benefit before retirement age based on total and permanent disability, but only if they have a disability insured status (also called a "disability freeze") under Social Security Act rules, counting both railroad retirement and social security-covered earnings. Unlike with a 10-year employee, a tier II benefit is not payable in these disability cases until the employee attains age 62. And, the employee's tier II benefit will be reduced for early retirement in the same manner as the tier II benefit of an employee who retired at age 62 with less than 30 years of service.

8. Do these changes also affect survivor benefits?

Yes. The eligibility age for a full widow(er)'s annuity is also gradually rising from age 65 for those born before 1940 to age 67 for those born in 1962 or later. A widow(er), surviving divorced spouse or remarried widow(er) whose annuity begins at full retirement age or later will generally receive an annuity unreduced for early retirement. However, if the deceased employee received an annuity that was reduced for early retirement, a reduction would be applied to the tier I amount payable to the widow(er), surviving divorced spouse or remarried widow(er). The maximum age reductions will range from 17.1 percent to 20.36 percent, depending on the widow(er)'s date of birth. For a surviving divorced spouse or remarried widow(er), the maximum age reduction is 28.5 percent. For a disabled widow(er), disabled surviving divorced spouse or disabled remarried widow(er), the maximum reduction is also 28.5 percent, even if the annuity begins at age 50.

9. How can individuals get more information about railroad retirement annuities and their eligibility requirements?

Employees should contact the nearest field office of the Board for information or refer to the Board's Web site at www.rrb.gov.

Persons can find the address and phone number of the Board office serving their area by calling the automated toll-free RRB Help Line at 1-800-808-0772, or from the Board's Web site. Most Board offices are open to the public from 9:00 a.m. to 3:30 p.m., Monday through Friday, except on Federal holidays.

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FROM THE DESK OF

V. M. SPEAKMAN, JR.
LABOR MEMBER

U.S. RAILROAD RETIREMENT BOARD

VMSpeakman Jr

For Publication
September 2005

Deemed Service Month Credits

Railroad retirement benefits are based on months of service and earnings credits. Earnings are creditable up to certain annual maximums on the amount of compensation subject to railroad retirement taxes.

Credit for a month of railroad service is given for every month in which an employee had some compensated service for an employer covered by the Railroad Retirement Act, even if only one day's service is performed in the month. (However, local lodge compensation earned after 1974 is disregarded for any calendar month in which it is less than $25.) Also, under certain circumstances, additional service months may be deemed in some cases where an employee does not actually work in every month of the year.

The following questions and answers describe the conditions under which an employee may receive additional railroad retirement service month credits under the deeming provisions of the Railroad Retirement Act.

1. What requirements must be met before additional service months can be deemed?

The employee must be in an "employment relation" with a covered railroad employer, or be an employee representative, during a deemed service month. (An employee representative is a labor official of a noncovered labor organization who represents employees covered under the Acts administered by the Railroad Retirement Board.)

For this purpose, an "employment relation" generally exists for an employee on an approved leave of absence (e.g., furlough, sick leave, suspension, etc.). An "employment relation" is severed by retirement, resignation, relinquishing job rights in order to receive a separation allowance, or termination.

2. How is credit for additional service months computed?

For additional service months to be deemed, the employee's compensation for the year, up to the annual tier II maximum, must exceed an amount equal to 1/12 of the tier II maximum multiplied by the number of service months actually worked. The excess amount is then divided by 1/12 of the tier II maximum; the result, rounded up to the next whole number, yields the number of deemed service months.

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3. An employee works eight months in 2005 before being furloughed, but earns compensation of $68,000. How many additional service months could be credited to the employee?

The employee could be credited with four additional service months. One-twelfth of the 2005 $66,900 tier II maximum ($5,575) times the employee's actual service months (eight) equals $44,600. The employee's compensation in excess of $44,600 up to the $66,900 maximum is $22,300, which divided by $5,575 yields four. Therefore, four deemed service months could be added to the eight months actually worked and the employee would receive credit for 12 service months in 2005.

4. Another employee works for eight months in 2005 and earns a total of $52,000. How many additional service months could be credited to this employee?

In this case, the excess amount ($52,000 minus $44,600) is $7,400, which divided by $5,575 equals 1.327. After rounding, this employee could receive credit for two deemed service months and be credited with a total of 10 months of service in 2005.

5. Should an employee preparing to retire take deemed service months into account when designating the date his or her railroad retirement annuity is to begin?

Credit for deemed service months is a factor an employee may wish to consider in selecting an annuity beginning date. For instanee, in some cases, a designated annuity beginning date could be used to establish basic eligibility for certain benefits, increase the tier II amount, or establish a current connection.

6. What would be an example of using deemed service months to establish benefit eligibility?

An example would be an employee under age 60 who might be able to use deemed service months to establish the 240 months of service needed to qualify for an occupational disability annuity.

For instance, a 48-year-old employee applying for an occupational disability annuity last performed service on May 15, 2005, and received $38,000 in compensation in 2005. She is credited with 238 months of creditable railroad service through May 2005. The employee designates an annuity beginning date of November 1, 2005, because she needs at least two additional months of service to establish eligibility for an occupational disability annuity and because she is eligible for other benefits before that time through her employer.

The employee's excess amount ($38,000 minus $27,875) is $10,125, which divided by $5,575 yields 1.816. Therefore, two deemed service months could be added to the five months actually worked and the employee would receive credit for seven service months in 2005 for a total of 240 service months.

In any case, a designated annuity beginning date should be considered in disability cases because, except in the case of a traumatic event, it is difficult to predict the onset date of a disability and the resultant annuity beginning date. In addition, as in the preceding example, other benefits may be involved.

(More)

7. How could deemed service months be used to increase an employee's tier II amount?

An employee worked in the first five months of 2005 and received compensation of $33,450. He does not relinquish his rights until June 2, 2005, and he applies for an annuity to begin on that date.

The excess amount ($33,450 minus $27,875) is $5,575, which yields an additional service month and provides the employee with a total of six service months in 2005. Had he relinquished his rights and applied for an annuity to begin on June 1, he would have been given credit for only five service months.

The employee had maximum earnings during the last five years and had 360 months of service through 2004. The additional service and compensation increases his tier II from $1,111.42 to $1,117.67. However, delaying the annuity beginning date past the second day of the month after the date last worked solely to increase the tier II amount would ordinarily not be advisable.

8. Can deemed service months help an employee establish a current connection?

Yes. For example, an employee left the railroad industry in 1993 and engaged in employment covered by the Social Security Act. In August 2004 she returned to railroad employment and worked through June 28, 2005. She received compensation of $34,000 in 2005. She does not relinquish her rights until July 2, 2005, and she applies for an annuity to begin on July 2, 2005.

In this case, the excess amount ($34,000 minus $33,450) is $550, which yields one deemed service month. Consequently, the employee is given credit for seven service months in 2005. With her five months of service in 2004 and seven months in 2005, the employee establishes a current connection. Had she designated the earliest annuity beginning date permitted by law, she would not have met the 12-in-30-month requirement for a current connection. (An employee who worked for a railroad in at least 12 months in the 30 months immediately preceding the month his or her railroad retirement annuity begins will meet the current connection requirement for a supplemental annuity, occupational disability annuity or survivor benefits.)

9. Can an employee ever receive credit for more than 12 service months in any calendar year?

No. Twelve service months are the maximum that can be credited for any calendar year.

10. Where can an employee get additional or more specific information on how deemed service months could affect his or her own annuity?

Employees can contact the nearest field office of the Railroad Retirement Board for more information.

The address and phone number of the Board office serving a particular area can be found by calling the automated toll-free RRB Help Line at 1-800-808-0772 or by checking the Board's Web site at www.rrb.gov. Most Board field offices are open to the public from 9:00 a.m. to 3:30 p.m., Monday through Friday, except on Federal holidays.

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FROM THE DESK OF

V. M. SPEAKMAN, JR.
LABOR MEMBER

U.S. RAILROAD RETIREMENT BOARD

VM Speakman Jr

For Publication
October 2005

Reporting Events That Can Affect Railroad Retirement Benefits

Rights to benefits under the Railroad Retirement Act also carry responsibilities for reporting events that may affect the payment of these benefits to the employee or to members of the employee's family. If these events are not reported, benefit overpayments can occur that have to be repaid, sometimes with interest and penalties.

Events that can affect the payment of a railroad retirement annuity and result in overpayments if not promptly reported include:

- social security or certain other benefit awards, and changes in the amount of such benefit payments;
- post-retirement work and earnings;
- the death of an annuitant;
- changes in marital status;
- a child leaving the care of a spouse or widow(er);
- a student ceasing full-time attendance.

The following questions and answers describe how these events affect railroad retirement benefits and what should be done to prevent overpayments.

1. How can the award of social security benefits result in a railroad retirement annuity overpayment?

The tier I portion of a railroad retirement annuity is based on both the railroad retirement and social security credits acquired by an employee and reflects what social security would pay if railroad work were covered by social security. Tier I benefits are, therefore, reduced by the amount of any actual social security benefit paid on the basis of nonrailroad employment, in order to prevent a duplication of benefits based on the same earnings.

The tier I dual benefit reduction also applies to the annuity of an employee qualified for social security benefits on the earnings record of another person, such as a spouse. And, the tier I portion of a spouse or survivor annuity is reduced for **any** social security entitlement, even if the social security *benefit is based on the spouse's or survivor's own earnings.* These reductions follow principles of social security law which, in effect, limit payment to the higher of any two or more benefits payable to an individual at one time.

Since 1975, if a railroad retirement annuitant is also awarded a social security benefit, the Social Security Administration determines the amount due, but a combined monthly dual benefit payment should, in most cases, be issued by the Railroad Retirement Board after the railroad retirement annuity has been reduced for the social security benefit.

A person should notify the Board when he or she files for social security benefits. If the Social Security Administration begins paying benefits directly to a railroad retirement annuitant without the Board's knowledge, an overpayment will occur. This frequently happens when a railroad employee's spouse or widow(er) is awarded social security benefits not based on the employee's earnings.

Also, annuitants who are receiving their social security benefits directly from the Social Security Administration must notify the Board if their social security benefits are subsequently increased for any reason **other** than annual cost-of-living increases, such as a recomputation to reflect post-retirement earnings. As such recomputations are usually retroactive, they can result in substantial overpayments.

While social security benefit information is provided to the Railroad Retirement Board as a result of routine information exchanges between the Board and the Social Security Administration, it will generally not be provided in time to avoid such a benefit overpayment.

2. What other types of benefit payments, besides social security benefits, require dual benefit reductions in a railroad retirement annuity?

For **employees** first eligible for a railroad retirement annuity **and** a Federal, State or local government pension after 1985, there may be a reduction in tier I for receipt of a public pension based, in part or in whole, on employment not covered by social security or railroad retirement after 1956. This also applies to certain other payments not covered by social security, such as payments from a non-profit organization or from a foreign government or a foreign employer. However, it does not include military service pensions, payments by the Department of Veterans Affairs, or certain benefits payable by a foreign government as a result of a totalization agreement between that government and the United States.

The tier I portion of a **spouse** or **widow(er)'s** annuity may also be reduced for receipt of any Federal, State or local pension separately payable to the spouse or widow(er) based on her or his own earnings. The reduction generally does not apply if the employment on which the public pension is based was covered under the Social Security Act throughout the last 60 months of public employment.

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(This 60-month requirement is being phased in over a 5-year period ending March 1, 2009, and there are some exceptions.) In addition, most military service pensions and payments from the Department of Veterans Affairs will not cause a reduction.

If an employee is receiving a **disability** annuity, tier I benefits for the employee and spouse may, under certain circumstances, be reduced for receipt of workers' compensation or public disability benefits.

If annuitants become entitled to any of the above payments, they should promptly notify the Board. If there is any question as to whether a payment requires a reduction in an annuity, a Board field office should be contacted.

3. Can earnings cause railroad retirement overpayments?

Unreported post-retirement work and earnings in nonrailroad employment are a major cause of overpayments in railroad retirement annuities. Like social security benefits, railroad retirement tier I benefits and vested dual benefits paid to employees and spouses, plus tier I, tier II, and vested dual benefits paid to survivors, are subject to earnings deductions if post-retirement earnings exceed certain exempt amounts, which increase annually.

These earnings deductions do not apply to those who have attained full social security retirement age. Full retirement age for employees and spouses ranges from age 65 for those born before 1938 to age 67 for those born in 1960 or later. Full retirement age for survivor annuitants ranges from age 65 for those born before 1940 to age 67 for those born in 1962 or later.

For those under full retirement age throughout 2005, the exempt earnings amount is $12,000. For beneficiaries attaining full retirement age in 2005, the exempt earnings amount is $31,800 for the months before the month full retirement age is attained.

For those under full retirement age throughout the year, the earnings deduction is $1 in benefits for every $2 of earnings over the exempt amount. For those attaining full retirement age in 2005, the deduction is $1 for every $3 of earnings over the exempt amount in the months before the month full retirement age is attained.

Annuitants who work after retirement and expect that their earnings for a year will be more than the annual exempt amount must promptly notify the nearest Board field office and furnish an estimate of their expected earnings. This way their annuities can be adjusted to take the excess earnings into consideration and prevent an overpayment. Annuitants whose original estimate changes significantly during the year, either upwards or downwards, should also notify the Board.

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Retired employees and spouses, regardless of age, who work for their last pre-retirement nonrailroad employer are also subject to an earnings deduction in their tier II and supplemental benefits of $1 for every $2 in earnings up to a maximum reduction of 50 percent. This earnings restriction does not change from year to year and does not allow for an exempt amount. Retired employees and spouses should therefore promptly notify the Board if they return to employment for their last pre-retirement nonrailroad employer, or if the amount of their earnings from such employment changes.

A spouse benefit is subject to reductions not only for the spouse's earnings, but also for the earnings of the employee, regardless of whether the earnings are from service for the last pre-retirement nonrailroad employer or any other post-retirement employment.

4. How do post-retirement earnings affect disability annuities?

Special restrictions limiting earnings to $400 per month, exclusive of disability-related work expenses, apply to disabled railroad retirement employee annuitants.

In addition, any work performed by a disabled annuitant may be considered an indication of an individual's recovery from disability, regardless of the amount of earnings. Therefore, any earnings by a disability annuitant must be reported promptly to avoid potential overpayments.

These disability work restrictions apply until the disabled employee annuitant attains full retirement age. This transition is effective no earlier than full retirement age even if the annuitant had 30 years of service. Also, a disabled employee annuitant who works for his or her last pre-retirement nonrailroad employer would be subject to the additional earnings deduction that applies in these cases.

5. What effect does railroad work have on an annuity?

No railroad retirement annuity is payable for any month in which an employee, spouse or survivor annuitant performs compensated service for a railroad or railroad union. This includes local lodge compensation totaling $25 or more for any calendar month, and work by a local lodge or division secretary collecting insurance premiums, regardless of the amount of salary.

6. What should be done when a railroad retirement annuitant dies?

The Board should be notified immediately upon the death of any retirement or survivor annuitant. Payment of a railroad retirement annuity stops upon an annuitant's death and the annuity is not payable for any day in the month of death. This is true regardless of how late in the month death occurs and there is no provision for prorating such a payment. Any payments received after the annuitant's death must be returned. The sooner the Board is notified, the less chance there is of

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payments continuing and an overpayment accruing. The Board would also determine whether any survivor benefits due are payable by the Board or the Social Security Administration.

7. What are some other events that can affect payments to auxiliary beneficiaries, such as spouses and widow(er)s?

A spouse or divorced spouse must immediately notify the Board if the railroad employee upon whose service the annuity is based dies. A spouse must notify the Board if her or his marriage ends in divorce or annulment and a widow(er) or divorced spouse must notify the Board if she or he remarries.

Also, benefits paid to spouses, widow(er)s and surviving divorced spouses that are based on the beneficiary caring for an unmarried child of the employee are normally terminated by the Board when the child attains age 18 (16 for a surviving divorced spouse) or if a disabled child over age 18 (16 for a surviving divorced spouse) recovers from the disability. Therefore, the Board must be notified if the child leaves the beneficiary's care or marries.

Benefits are also payable to an unmarried child age 18 in full-time attendance at an elementary or secondary school or in approved home schooling until the student attains age 19 or the end of the school term in progress when the student attains age 19. (In most cases where a student attains age 19 during the school term, benefits are limited to the two months following the month age 19 is attained.) The Board must be notified if the student marries, graduates, or ceases full-time attendance.

8. Can an annuitant contest a decision that he or she has been overpaid?

Annuitants who believe a decision regarding a benefit overpayment is incorrect may ask for reconsideration and/or waiver of the overpayment. If not satisfied with the initial review, the annuitant may appeal to the Board's Bureau of Hearings and Appeals. Further appeals can be carried to the three-member Board itself, and beyond the Board to Federal courts.

Annuitants are told about these appeal rights any time a decision is made regarding a benefit overpayment.

9. How can an annuitant find out if an event might affect his or her railroad retirement benefit payments?

Annuitants should contact the nearest field office of the Board for information. If they write they should be sure to include their railroad retirement claim number. In any situation, the best rule is "If in doubt, report."

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Annuitants can find the address and phone number of the Board office serving their area by calling the automated toll-free RRB Help Line at 1-800-808-0772. They can also get this information from the Board's Web site at www.rrb.gov. Most Board offices are open to the public from 9:00 a.m. to 3:30 p.m., Monday through Friday, except on Federal holidays.

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FROM THE DESK OF

V. M. SPEAKMAN, JR.
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U.S. RAILROAD RETIREMENT BOARD

VMSpeakman Jr

For Publication
November 2005

Medicare Prescription Drug Plans

Persons covered by the railroad retirement system participate in the Federal Medicare program on the same basis as those under the social security system. And, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 affects railroad retirement annuitants in the same manner as social security beneficiaries.

As a result of the Act, on January 1, 2006, Medicare will offer voluntary insurance coverage for prescription drugs through Medicare prescription drug plans and other health plan options. Insurance companies and other private companies will work with Medicare to provide a choice of drug plans that must meet, at the least, a minimum standard of coverage as determined by Medicare. These plans are different from the Medicare-approved drug discount cards that became available in May 2004 and which will be phased out as the new drug plans become available.

The following questions and answers explain how Medicare prescription drug plans work and other aspects of the drug plans. They are based on information provided by the Centers for Medicare & Medicaid Services (CMS), the Federal agency responsible for administering the Federal Medicare program.

1. How does a Medicare prescription drug plan work?

Enrollment in a Medicare prescription drug plan is voluntary. (However, Medicare beneficiaries may have to pay a higher premium if they wait to enroll.) To enroll, beneficiaries must have Medicare Part A and/or Part B and, generally, will pay a monthly premium (estimated at an average of $32.20 in 2006) and an annual deductible of up to $250. The beneficiary's plan will pay 75 percent of drug costs between the deductible and $2,250. Beneficiaries will pay drug costs from $2,251 until their out-of-pocket costs reach $3,600. The beneficiary's plan will then pay 95 percent of drug costs above $3,600 for the rest of the calendar year.

While Medicare prescription drug plans will vary, all drug plans will offer coverage that, at the very least, meets Medicare's minimum standard of coverage as described above. Some plans might offer more coverage and additional drugs for a higher monthly premium. Medicare beneficiaries should compare Medicare prescription drug plans and select the drug plan that best meets their needs.

Beneficiaries must contact the plan they want to join and ask how to enroll. They may be able to enroll by telephone, mail, fax or via the Internet. They can also enroll in a plan by using the Medicare Prescription Drug Plan Finder at Medicare's Web site www.medicare.gov or by calling Medicare's toll-free number 1-800-MEDICARE (1-800-633-4227).

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2. What types of prescription drugs will be covered by Medicare prescription drug plans?

Most Medicare prescription drug plans will have a formulary, which is a list of the prescription drugs that the plan covers. Drug plans will cover generic and brand name drugs and may have rules about what drugs are covered in different categories.

When drug plans get new information, they can change their formulary as long as it continues to meet Medicare's requirements. Drug plans must let a beneficiary know at least 60 days before a drug that he or she uses is removed from a formulary or if a drug's cost is changing. If a beneficiary's doctor thinks the beneficiary needs a drug that is not on the formulary, or if one of the beneficiary's drugs is being removed from the formulary, the beneficiary, or his or her doctor, can apply for an exception or appeal the decision.

3. When can people enroll in a Medicare prescription drug plan?

When people first become eligible for Medicare, they can enroll in a Medicare prescription drug plan during the period that starts 3 months before the month they turn age 65 and ends 3 months after the month they turn age 65.

Railroad retirement annuitants receiving benefits due to total and permanent disability or due to occupational disability (if they have been granted a disability freeze) can generally join a plan during the period that begins 3 months before and ends 3 months after their 24th month of cash disability benefits. Railroad retirement annuitants receiving benefits due to occupational disability who have not been granted a disability freeze are generally eligible to join a drug plan at age 65. (The standards for a freeze determination follow social security law and are comparable to the medical criteria for granting total disability.)

Current Medicare beneficiaries can enroll in a Medicare prescription drug plan from November 15, 2005, through May 15, 2006. This is called the "initial open enrollment period." Coverage will begin on January 1, 2006, for beneficiaries who join by December 31, 2005. If a beneficiary joins after December 31, 2005, during this initial period, his or her coverage will be effective the first day of the month after the month he or she joins. **Beneficiaries who do not join a Medicare prescription drug plan when they are first eligible may have to pay a higher premium if they choose to join a plan later.** They will have to pay this higher premium for as long as they have a Medicare prescription drug plan.

After this initial open enrollment period, Medicare beneficiaries can join or change to a different plan during an "open enrollment period" from November 15 through December 31 each year. Coverage will begin January 1 of the following year. Under special circumstances, beneficiaries may be able to join a Medicare prescription drug plan at times other than those listed above.

4. How does a Medicare prescription drug plan work with a beneficiary's Medicare health care plan?

Beneficiaries can get Medicare prescription drug coverage in one of two ways. They can get a Medicare prescription drug plan that adds coverage to the health care provided by the Original Medicare Plan, and some Medicare Cost Plans and Medicare Private Fee-for-Service Plans. These

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prescription drug plans will be offered by insurance companies and other private companies approved by Medicare.

A second option allows beneficiaries to get Medicare prescription drug coverage as part of Medicare Advantage Plans and other Medicare Health Plans. Beneficiaries would get all of their Medicare health care through these plans.

5. How can beneficiaries pay their Medicare prescription drug plan premiums?

Each month, Medicare prescription drug plans will send beneficiaries a bill for their premiums. Generally, beneficiaries can pay for their premiums by check or money order, or by having the amount of their premiums automatically withdrawn from their bank accounts.

In the future, railroad retirement annuitants will be able to have their drug plan premiums deducted from their railroad retirement annuities. **Even though this payment option is not currently available, the eligibility of railroad retirement annuitants to enroll in Medicare prescription drug plans is not affected.**

6. Can beneficiaries get help to pay for a Medicare prescription drug plan?

Yes. Medicare beneficiaries with limited income and resources (including their savings and stocks, but not counting their home or car) of less than $11,500 in 2005 for a single individual or $23,000 in 2005 for a married individual (who lives with his or her spouse) may qualify for extra help to pay for their drug plan's monthly premium, annual deductible, and prescription copayments. The amount of assistance a beneficiary receives depends on his or her income and resources.

7. What if a beneficiary already has prescription drug coverage?

Beneficiaries who already have prescription drug coverage from other insurance, such as a Medigap (Medicare Supplement Insurance) policy or coverage provided by an employer or union, can keep that coverage. If that coverage offers the same or better benefits than Medicare's minimum standard of coverage, beneficiaries will **not** have to pay a higher premium to join a Medicare prescription drug plan at a later date.

In many cases, beneficiaries will receive a notice from their other insurance provider telling them if their current prescription drug plan covers as much or more than a Medicare prescription drug plan. Beneficiaries who do not receive a notice should check with their other provider to see how their coverage compares to a Medicare prescription drug plan. Beneficiaries whose current drug coverage is not as good as a Medicare prescription drug plan should contact their other insurance provider to find out about their coverage options before they make any changes to their prescription drug coverage.

8. How are Medicare Prescription Drug Plans different from Medicare-approved drug discount cards?

Medicare prescription drug plans are insurance provided by private companies. Like other insurance, beneficiaries pay a monthly premium, an annual deductible and a copayment or coinsurance for their prescriptions.

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The Medicare-approved drug discount cards that became available in May 2004 work like grocery store or other pharmacy discount cards that allow beneficiaries to get a discount on their prescriptions at the pharmacy. The cards were intended as a temporary discount program to help people without outpatient prescription drug insurance until the Medicare prescription drug plans became available.

9. Are Medicare-approved drug discount cards still available?

Yes. Medicare beneficiaries who do not have outpatient prescription drug insurance through Medicaid can sign up for Medicare-approved drug discount cards until December 31, 2005. Beneficiaries can continue to use their drug discount cards until May 15, 2006, or until they join a Medicare prescription drug plan, whichever is first. Once a beneficiary has a Medicare prescription drug plan, he or she can no longer use a Medicare-approved drug discount card.

10. Is more information about Medicare prescription drug plans available?

Yes. More information about Medicare prescription drug plans is available from the CMS publications *Medicare and You 2006* and *Your Guide to Medicare Prescription Drug Coverage*. CMS mailed copies of *Medicare and You 2006* to Medicare beneficiary households in October 2005. These publications, and others, are also available by calling the Medicare toll-free number 1-800-MEDICARE (1-800-633-4227) or by visiting Medicare's Web site at www.medicare.gov.

Persons can also use Medicare's toll-free number and Web site to get free personalized information to help them choose a Medicare prescription drug plan. Free personalized counseling is also available from a State Health Insurance Assistance Program (SHIP). Individuals can check *Medicare and You*, call Medicare's toll-free number or access its Web site to learn how to contact their nearest State Health Insurance Assistance Program.

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FROM THE DESK OF

V. M. SPEAKMAN, JR.
LABOR MEMBER

U.S. RAILROAD RETIREMENT BOARD

For Publication
January 2006

Federal Income Tax and Railroad Retirement Benefits

The following questions and answers describe the tax statements issued by the Railroad Retirement Board (RRB) each January for Federal income tax purposes. Railroad retirement beneficiaries needing information about these statements, or tax withholding from their benefits, should contact the nearest office of the RRB. For further Federal income tax information, railroad retirement beneficiaries should contact the nearest office of the Internal Revenue Service (IRS).

1. How are the annuities paid under the Railroad Retirement Act treated under the Federal income tax laws?

A railroad retirement annuity is a single payment comprised of one or more of the following components, depending on the annuitant's age, the type of annuity being paid, and eligibility requirements: a Social Security Equivalent Benefit (SSEB) portion of tier I, a Non-Social Security Equivalent Benefit (NSSEB) portion of tier I, a tier II benefit, a vested dual benefit, and a supplemental annuity.

In most cases, part of a railroad retirement annuity is treated like a social security benefit for Federal income tax purposes, while other parts of the annuity are treated like private pensions for tax purposes. Consequently, most annuitants are sent two tax statements from the RRB each January, even though they receive only a single annuity payment each month.

2. Which railroad retirement benefits are treated as social security benefits for Federal income tax purposes?

The SSEB portion of tier I (the part of a railroad retirement annuity equivalent to a social security benefit based on comparable earnings) is treated for Federal income tax purposes the same way as a social security benefit. The amount of these benefits that may be subject to Federal income tax, if any, depends on the beneficiary's income.

If taxable pensions, wages, interest, dividends, and other taxable income, plus tax-exempt interest income, plus half of the amount of the social security equivalent benefit payments exceed:

- $25,000 for an individual, $32,000 for a married couple filing jointly, and zero for a married individual who files separately but lived with his or her spouse any part of the year, up to 50 percent of these railroad retirement benefit payments may be considered taxable income;
- $34,000 for an individual, $44,000 for a married couple filing jointly, and zero for a married individual who files separately but lived with his or her spouse any part of the year, up to 85 percent of these benefits may be taxable.

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3. Which railroad retirement benefits are treated like private pensions for Federal income tax purposes?

The NSSEB portion of tier I, tier II benefits, vested dual benefits, and supplemental annuities are all treated like private pensions for Federal income tax purposes. In some cases, primarily those in which early retirement benefits are payable to retired employees and spouses between ages 60 and 62, and some occupational disability benefits, the entire annuity may be treated like a private pension. This is because social security benefits based on age and service are not payable before age 62 and social security disability benefit entitlement requires total disability.

4. What information is shown on the railroad retirement tax statements sent to annuitants in January?

One statement, the blue and white Form RRB-1099 for U.S. citizens or residents (or black and white Form RRB-1042S for nonresident aliens), shows the SSEB portion of tier I or special minimum guaranty payments made during the tax year, the amount of any such benefits that an annuitant may have repaid to the RRB during the tax year, and the net amount of these payments after subtracting the repaid amount. The amount of any offset for workers' compensation and the amount of Federal income tax withheld from these payments are also shown. Illustrations and explanations of items found on Form RRB-1099 and Form RRB-1042S can be found in IRS Publication 915, *Social Security and Equivalent Railroad Retirement Benefits*.

The other statement, the green and white Form RRB-1099-R (for both U.S. citizens and nonresident aliens), shows the NSSEB portion of tier I, tier II, vested dual benefit, and supplemental annuity paid to the annuitant during the tax year, as well as the employee contributions amount. **The NSSEB portion of tier I along with tier II are considered contributory pension amounts and are shown as a single combined amount in the Contributory Amount Paid box item (Item 4) on the statement.** The vested dual benefit and supplemental annuity are considered noncontributory pension amounts and are shown as separate box items on the statement. Also shown is the amount of Federal income tax withheld from these payments. In addition, the statement shows the amount of any of these prior year benefits repaid by the annuitant to the RRB during the tax year, but this amount is not subtracted from the gross amounts shown because its treatment depends on the years to which the repayment applies and its taxability in those years. To determine the year or years to which the repayment applies, annuitants should contact the RRB. Illustrations and explanations of items found on Form RRB-1099-R can be found in IRS Publication 575, *Pension and Annuity Income*.

If the annuitant is taxed as a nonresident alien of the United States, Form RRB-1042S and/or Form RRB-1099-R will show the rate of tax withholding (0%, 15% or 30%) and country of permanent residence.

The total Part B Medicare premiums deducted from the railroad retirement annuity may also be shown on either Form RRB-1099 (Form RRB-1042S for nonresident aliens) or Form RRB-1099-R.

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The statements also include the annuitant's name, current mailing address, RRB claim number and payee code, United States taxpayer identifying number (social security number or individual taxpayer identification number or employer identification number), detailed explanations of all the items on the statements, and the toll-free telephone numbers and Web site addresses of the RRB, the IRS, and the Social Security Administration.

Copy B and/or Copy 2 of Form RRB-1099-R must be submitted with the annuitant's tax return. Annuitants should retain copy C of all statements for their records, especially if they may be required to verify their income in connection with other Government programs.

5. What is the significance of the employee contributions amount?

For railroad retirement annuitants, the employee contributions amount is considered the amount of railroad retirement payroll taxes paid by the employee that exceeds the amount that would have been paid in social security taxes if the employee's railroad service had been covered under the Social Security Act. The employee contributions amount is referred to by the IRS as an employee's investment, or cost, in the contract. Employee contributions are **not** a payment or income received during the tax year. Only employee and survivor annuitants have an employee contributions amount shown in Item 3 of their Form RRB-1099-R.

The contributory amount paid (NSSEB portion of tier I and/or tier II) is considered income and is reported to the IRS. The contributory amount paid is either fully taxable or partially taxable depending on whether the employee contribution amount has been used to compute a tax-free (nontaxable) portion of the contributory amount paid. If **no** employee contribution amount is shown on Form RRB-1099-R, then the contributory amount paid is fully taxable.

The use and recovery of the employee contributions amount is important for annuitants since it affects the amount of taxable income to be reported on income tax returns for a tax year. There is a tax savings advantage in using (recovering) employee contributions since it may reduce the taxability of the contributory amount paid and in turn the amount of taxable income.

Annuitants should refer to IRS Publication 575, *Pension and Annuity Income*, and Publication 939, *General Rule for Pensions and Annuities*, for more information concerning the tax treatment of the contributory amount paid (see item 6 below) and use of the employee contributions amount.

6. If an employee contribution amount is shown on my Form RRB-1099-R, may I use the entire amount?

The employee contribution amount shown is attributable to the railroad account number. This means that the employee contribution amount must be shared by all eligible annuitants under that same railroad account number.

If an employee contribution amount is shown on your Form RRB-1099-R, you are an eligible annuitant who may use some or all of the employee contribution amount shown to compute the nontaxable (tax-free) amount of your contributory amount paid. Therefore, your contributory amount paid and total gross paid shown on your Form RRB-1099-R may be partially taxable.

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If an employee contribution amount is **not** shown on your Form RRB-1099-R, you are **not** an eligible annuitant and you **cannot** use or share the employee contribution amount. Therefore, your contributory amount paid and total gross paid shown on your Form RRB-1099-R are fully taxable.

When more than one annuitant is or was entitled to a contributory amount paid under the same railroad account number, any eligible annuitant may **not** use the entire employee contribution amount shown on their Form RRB-1099-R for themselves. They must first determine the amount of the total employee contribution amount they are individually entitled to use. That means determining:

1. The portion of the total employee contribution amount still potentially available for use, and
2. The portion of that amount that must be shared by those eligible annuitants currently receiving contributory amounts paid.

7. How are contributory and noncontributory pension amounts taxed?

Amounts shown on Form RRB-1099-R are treated like private pensions and taxed either as contributory pension amounts or as noncontributory pension amounts. The NSSEB portion of tier I and tier II (shown as the contributory amount paid on the statement) are contributory pension amounts. Contributory pension amounts may be fully taxable or partially taxable depending on the presence and use (recovery) of the employee contribution amount. Vested dual benefits and supplemental annuities are considered noncontributory pension amounts. Noncontributory pension amounts are always fully taxable.

For annuitants with annuity beginning dates **before July 2, 1986**, the contributory amount paid is fully taxable. These annuitants cannot use the employee contribution amount to compute a nontaxable amount of their contributory amount paid because their employee contribution amount has been fully recovered. Since the contributory amount paid is fully taxable, the total gross pension paid in Item 7 of Form RRB-1099-R is fully taxable.

For annuitants with annuity beginning dates from **July 2, 1986, through December 31, 1986**, the contributory amount paid is partially nontaxable for the life of the annuitant. These annuitants may use some or all of the employee contribution amount to compute the nontaxable amount of their contributory amount paid. Once that nontaxable amount is computed, it does not need to be recomputed and can be used for each tax year unless there is a change in the employee contribution amount, annuity beginning date, date of birth used to determine life expectancy, or the number of eligible annuitants receiving contributory amounts paid. Therefore, the total gross pension paid in Item 7 of Form RRB-1099-R may be partially taxable.

For annuitants with annuity beginning dates effective **January 1, 1987, and later**, the contributory amount paid is partially nontaxable for a specified period of time based on life expectancy as determined by IRS actuarial tables. These annuitants may use some or all of the employee contribution amount to compute the nontaxable amount of their contributory amount paid. Once that nontaxable amount is computed, it does not need to be recomputed and can be used for each tax year unless there is a change in the employee contribution amount, annuity beginning date, date of birth used to determine life expectancy, or the number of eligible annuitants receiving contributory amounts

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paid. Therefore, the total gross pension paid in Item 7 of Form RRB-1099-R may be partially taxable. **However, once the specified life expectancy is met, the employee contribution amount is considered fully used up, and the contributory amount paid and total gross pension paid are now fully taxable.**

The contributory amounts paid of disabled employee annuitants **under** minimum retirement age are fully taxable and these annuitants **cannot** use the employee contribution amount. Therefore, the total gross pension paid in Item 7 of Form RRB-1099-R is fully taxable. (Minimum retirement age is generally the age at which individuals could retire based on age and service, which is age 60 with 30 or more years of railroad service or age 62 with less than 30 years of railroad service.) **However, once the disabled employee annuitant reaches minimum retirement age, the annuitant may use the employee contribution amount shown on Form RRB-1099-R to compute the nontaxable amount of his or her contributory amount paid.**

The RRB does not calculate the nontaxable amount of the contributory amount paid for annuitants. Annuitants should contact the IRS or their own tax preparer for assistance in calculating the nontaxable amount of their contributory amount paid. For more information on the tax treatment of the contributory amount paid, vested dual benefits, supplemental annuities, the employee contributions amount, and how to use the IRS actuarial tables, annuitants should refer to IRS Publication 939, *General Rule for Pensions and Annuities,* and IRS Publication 575, *Pension and Annuity Income.*

8. Does Form RRB-1099-R show the taxable amount of any contributory railroad retirement benefits or just the total amount of such benefits paid during the tax year?

Since 1993 (tax year 1992), Form RRB-1099-R shows the **total** amount of any contributory railroad retirement benefits (NSSEB and tier II) paid during the tax year. The RRB does **not** calculate the taxable amounts. It is up to the annuitant to determine the taxable and nontaxable (tax-free) amounts of the contributory amount paid using the employee contributions amount.

9. Can an employee's contributions amount change?

Yes. The employee contributions amount shown on Form RRB-1099-R is based on the latest railroad service and earnings information available on the RRB's records. Railroad service and earnings information (and the corresponding employee contributions amount) often changes in the first year after an employee retires from railroad service. That is when the employee's final railroad service and earnings information is furnished to the RRB by his or her employer. As a result, the employee contributions amount shown on the most recent Form RRB-1099-R may have increased or decreased from a previously-issued Form RRB-1099-R.

Any change in an employee contributions amount is fully retroactive to the railroad retirement annuity beginning date. Therefore, the nontaxable amount of the contributory amount paid should be recomputed. This could affect the taxable amounts reported to the IRS on prior income tax returns. Generally, an increase in the employee contributions amount is advantageous, as it will yield a larger tax-free amount. However, a decrease in the employee contributions amount may be disadvantageous

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since it may result in an increased tax liability. In any case, annuitants should determine if any change in their employee contributions amount would require them to file original or amended Federal income tax returns for prior tax years.

10. What if a person receives social security as well as railroad retirement benefits?

Railroad retirement annuitants who also received social security benefits during the tax year receive a Form SSA-1099 (or Form SSA-1042S if they are nonresident aliens) from the Social Security Administration. They should add the net social security equivalent or special guaranty amount shown on Form RRB-1099 (or Form RRB-1042S) to the net social security income amount shown on Form SSA-1099 (or Form SSA-1042S) to get the correct total amount of these benefits. They should then enter this total on the Social Security Benefits Worksheet in the instructions for Form 1040 or 1040A to determine if part of their social security and railroad retirement social security equivalent benefits is taxable income.

Additional information on the taxability of these benefits can be found in IRS Publication 915, *Social Security and Equivalent Railroad Retirement Benefits.*

11. Are the residual lump sums, lump-sum death payments or separation allowance lump-sum amounts paid by the RRB subject to Federal income tax?

No. These amounts are nontaxable and are not subject to Federal income tax. The RRB does not report these amounts on statements.

12. Are Federal income taxes withheld from railroad retirement annuities?

Yes, and the amounts withheld are shown on the statements issued by the RRB each year. However, an annuitant may request that Federal income taxes not be withheld, unless the annuitant is a nonresident alien or a U.S. citizen living outside the United States.

Annuitants can voluntarily choose to have Federal income tax withheld from their SSEB payments. To do so, they must complete IRS Form W-4V, *Voluntary Withholding Request*, and send it to the RRB. They can choose withholding from their SSEB payments at the following rates: 7 percent, 10 percent, 15 percent, or 25 percent.

Annuitants who wish to have Federal income taxes withheld from their NSSEB and tier II (contributory amount paid), vested dual benefit, and supplemental annuity payments must complete a tax withholding election on Form RRB W-4P, *Withholding Certificate For Railroad Retirement Payments*, and send it to the RRB. An annuitant is **not** required to file Form RRB W-4P. If that form is not filed, the RRB will withhold taxes only if the combined portions of the NSSEB and tier II (contributory amount paid), vested dual benefit and supplemental annuity payments are equal to or greater than $1,497. In that case, the RRB withholds taxes as if the annuitant were married and claiming three allowances.

13. How is tax withholding applied to the railroad retirement benefits of nonresident aliens?

A nonresident alien is a person who is neither a citizen nor a resident of the United States. Under the Internal Revenue Code, nonresident aliens are subject to a 30-percent tax on income from sources within the United States not connected to a U.S. trade or business. The 30-percent rate applies to all

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annuity payments exceeding social security equivalent payments and to 85 percent of the annuity portion treated as a social security benefit. The Code also requires the RRB to withhold the tax. The tax can be at a rate lower than 30 percent or can be eliminated entirely if a tax treaty between the United States and the country of residence provides such an exemption, and the nonresident alien completes and sends Form RRB-1001, *Nonresident Questionnaire,* to the RRB. Form RRB-1001 secures citizenship, residency and tax treaty claim information for nonresident beneficiaries (nonresident aliens or U.S. citizens residing outside the United States).

Form RRB-1001 is sent by the RRB to nonresident aliens every three years to renew the claim for a tax treaty exemption. **Failure by a nonresident alien to complete Form RRB-1001 will cause loss of the exemption until the exemption is renewed.** Such renewals have no retroactivity. Also, a nonresident alien must include his or her United States taxpayer identifying number on Form RRB-1001. Otherwise, any tax treaty exemption claimed on the form is not valid. The majority of nonresident aliens receiving annuities from the RRB are citizens of Canada, which has a tax treaty with the United States.

If a Canadian citizen claims an exemption under the tax treaty, no tax is withheld from the annuity portion equivalent to a social security benefit and a withholding rate of only 15 percent is applied to those annuity payments exceeding social security equivalent payments.

Additional information concerning the taxation of nonresident aliens can be found in IRS Publication 519, *U.S. Tax Guide for Aliens.*

14. Are unemployment benefits paid under the Railroad Unemployment Insurance Act subject to Federal income tax?

All unemployment benefit payments are subject to Federal income tax. Each January the RRB sends Form 1099-G to individuals, showing the total amount of railroad unemployment benefits paid during the previous year.

15. Are sickness benefits paid by the RRB subject to Federal income tax?

Sickness benefits paid by the RRB, except for sickness benefits paid for on-the-job injuries, are subject to Federal income tax under the same limitations and conditions that apply to the taxation of sick pay received by workers in other industries. Each January the RRB sends Form W-2 to affected beneficiaries. This form shows the amount of sickness benefits that each beneficiary should include in his or her taxable income.

16. Does the Board withhold Federal income tax from unemployment and sickness benefits?

The RRB withholds Federal income tax from unemployment and sickness benefits only if requested to do so by the beneficiary. A beneficiary can request withholding of 10 percent of his or her unemployment benefits by filing Form W-4V with the Board. A beneficiary can request withholding from sickness benefits by filing Form W-4S.

17. Are railroad retirement and railroad unemployment and sickness benefits paid by the RRB subject to State income taxes?

The Railroad Retirement and Railroad Unemployment Insurance Acts specifically exempt these benefits from State income taxes.

18. Can a railroad employee claim a tax credit on his or her Federal income tax return if the employer withheld excess railroad retirement taxes during the year?

If any one railroad employer withheld more than the annual maximum amount, the employee must ask that employer to refund the excess. It cannot be claimed on the employee's return.

19. Can a railroad employee working two jobs during the year get a tax credit if excess retirement payroll taxes were withheld by the employers?

Railroad employees who also worked for a nonrailroad social security covered employer in the same year may, under certain circumstances, receive a tax credit equivalent to any excess social security taxes withheld.

Employees who worked for two or more railroads during the year, or who had tier I taxes withheld from their RRB sickness benefits in addition to their railroad earnings, may be eligible for a tax credit of any excess tier I or tier II railroad retirement taxes withheld. The amount of tier I taxes withheld from sickness benefits paid by the RRB is shown on Form W-2 issued to affected beneficiaries. Employees who had tier I taxes withheld from their supplemental sickness benefits may also be eligible for a tax credit of any excess tier I tax.

Such tax credits may be claimed on an employee's Federal income tax return.

Employees who worked for two or more railroads, received sickness benefits, or had both railroad retirement and social security taxes withheld from their earnings should see IRS Publication 505, *Tax Withholding and Estimated Tax*, for information on how to figure any excess railroad retirement or social security tax withheld.

# # #

FROM THE DESK OF

V. M. SPEAKMAN, JR.
LABOR MEMBER

U.S. RAILROAD RETIREMENT BOARD

For Publication
February 2006

Railroad Retirement Survivor Benefits

Monthly benefits may be payable under the Railroad Retirement Act to the surviving widow(er), children, and certain other dependents of a railroad employee if the employee was "insured" under that Act at the time of death. Lump-sum death benefits may also be payable to qualified survivors in some cases.

The following questions and answers describe the survivor benefits payable by the Railroad Retirement Board (RRB) and the eligibility requirements for these benefits.

1. What are the general service requirements for railroad retirement survivor benefits?

With the exception of one type of lump-sum death benefit, eligibility for survivor benefits depends on whether or not a deceased employee was "insured" under the Railroad Retirement Act. An employee is insured if he or she has at least 10 years of railroad service, or 5 years performed after 1995, and a "current connection" with the railroad industry at the time of retirement or death, whichever occurs first.

Generally, an employee who worked for a railroad in at least 12 months in the 30 months immediately preceding the month his or her railroad retirement annuity begins will meet the current connection requirement. If an employee dies before retirement, railroad service in at least 12 months in the 30 months before death will meet the current connection requirement for the purpose of paying survivor benefits.

If an employee does not qualify on this basis, but has 12 months of service in an earlier 30-month period, he or she may still meet the current connection requirement. This alternative generally applies if the employee did not have any regular employment outside the railroad industry after the end of the last 30-month period which included 12 months of railroad service and before the month the annuity begins or the date of death.

Full or part-time work for a nonrailroad employer in the interim between the end of the last 30-month period including 12 months of railroad service and the beginning date of an employee's annuity, or the date of death if earlier, can break a current connection.

Self-employment in an unincorporated business will not break a current connection; however, self-employment can break a current connection if the business is incorporated.

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Working for certain U.S. Government agencies -- Department of Transportation, National Transportation Safety Board, Surface Transportation Board (the former Interstate Commerce Commission), National Mediation Board, Railroad Retirement Board, Transportation Security Administration -- will not break a current connection. Neither State employment with the Alaska Railroad, so long as that railroad remains an entity of the State of Alaska, nor non-creditable Canadian railroad service will break a current connection.

In some cases, a current connection may be deemed for survivor benefit purposes for employees with 25 years of service who were involuntarily terminated without fault from the rail industry on or after October 1, 1975, and did not thereafter decline an offer of employment in the same class or craft in the rail industry, regardless of the distance to the new position.

Once a current connection is established at the time the railroad retirement annuity begins, an employee never loses it no matter what kind of work is performed thereafter.

2. What if these service requirements are not met?

If a deceased employee did not have an insured status, jurisdiction of any survivor benefits payable is transferred to the Social Security Administration and survivor benefits are paid by that agency instead of the RRB. Regardless of which agency has jurisdiction, the deceased employee's railroad retirement and social security credits will be combined for benefit computation purposes.

3. What are the age and other eligibility requirements for widow(er)s?

Widow(er)s' benefits are payable at age 60 or over. They are payable at any age if the widow(er) is caring for an unmarried child under age 18 of the deceased employee or a disabled child of any age who became permanently disabled before age 22. Widow(er)s' benefits are also payable at ages 50-59 if the widow(er) is permanently disabled and unable to work in any regular employment. The disability must have begun within 7 years after the employee's death, 7 years after the termination of an annuity based on caring for a child, or 7 years after the termination of an earlier entitlement to a disability annuity. A 5-month waiting period is required after the onset of disability before disability payments can begin.

Generally, the widow(er) must have been married to the employee for at least 9 months prior to death, unless she or he was the natural parent of their child, the employee's death was accidental or while on active duty in the U.S. Armed Forces, the widow(er) was potentially entitled to certain railroad retirement or social security benefits in the month before the month of death, or the marriage was postponed due to State restrictions on divorce due to mental incompetence or similar incapacity.

4. Can surviving divorced spouses and remarried widow(er)s also qualify for benefits?

Survivor benefits may also be payable to a surviving divorced spouse or remarried widow(er) under certain conditions, but benefits are limited to social security level tier I amounts and therefore are generally less than the total of the tier I and tier II benefit amounts otherwise payable by the RRB.

(More)

A surviving divorced spouse may qualify for social security level tier I benefits if she or he was married to the employee for at least 10 years, and is age 60 or older (age 50 if disabled). A surviving divorced spouse who is unmarried can qualify at any age if caring for the employee's child and the child is under age 16 or disabled, in which case the 10-year marriage requirement does not apply. A widow(er) or surviving divorced spouse who remarries after age 60, or a disabled widow(er) or disabled surviving divorced spouse who remarries after age 50 may also receive benefits; however, remarriage prior to age 60 (or age 50 if disabled) would not prevent eligibility if that remarriage ended. Such social security level benefits may also be paid to a younger widow(er) or surviving divorced spouse caring for the employee's child who is under age 16 or disabled, if the remarriage is to a person receiving railroad retirement or social security benefits or the remarriage ends.

5. When are survivor benefits payable to children and other dependents?

Monthly survivor benefits are payable to an unmarried child under age 18, and to an unmarried child age 18 in full-time attendance at an elementary or secondary school until the student attains age 19 or the end of the school term in progress when the student attains age 19. In most cases where a student attains age 19 during the school term, benefits are limited to the two months following the month age 19 is attained. An unmarried disabled child over age 18 may qualify if the child became totally and permanently disabled before age 22. An unmarried dependent grandchild meeting any of these requirements may also qualify if both the grandchild's parents are deceased or disabled.

Monthly survivor benefits are also payable to a surviving parent at age 60 who was dependent on the employee for at least half of the parent's support. If the employee was also survived by a widow(er), surviving divorced spouse or child who can qualify for benefits, the parent's annuity is limited to the tier I amount.

6. How are railroad retirement widow(er)s' benefits computed?

The tier I amount of a two-tier survivor benefit is based on the deceased employee's combined railroad retirement and social security earning credits, and is computed using social security formulas. In general, the survivor tier I amount is equal to the amount of survivor benefits that would have been payable under social security.

December 2001 legislation established an "initial minimum amount" which yields, in effect, a widow(er)'s tier II benefit equal to the tier II benefit the employee would have received at the time of the award of the widow(er)'s annuity, minus any applicable age reduction.

However, such a tier II benefit will not receive annual cost-of-living increases until such time as the widow(er)'s annuity, as computed under prior law with all interim cost-of-living increases otherwise payable, exceeds the widow(er)'s annuity as computed under the initial minimum amount formula.

The average annuity awarded to widow(er)s in fiscal year 2005, excluding remarried widow(er)s and surviving divorced spouses, was $1,412 a month. Children received $1,023 a month, on the average. Total family benefits for widow(er)s with children averaged $2,916 a month. The average annuity awarded to remarried widow(er)s or surviving divorced spouses in fiscal year 2005 was $802 a month.

In any case, a widow(er) who received a spouse annuity from the RRB is guaranteed that the amount of any widow(er)'s benefit payable will never be less than the annuity she or he was receiving as a spouse in the month before the employee died.

7. Are survivor benefits subject to any reduction for early retirement or disability retirement?

Yes. The eligibility age for a full widow(er)'s annuity is gradually rising from 65 to 67. A widow(er), surviving divorced spouse or remarried widow(er) whose annuity begins at full retirement age or later receives the full tier I amount unless the deceased employee received an annuity that was reduced for early retirement. For a disabled widow(er), disabled surviving divorced spouse or disabled remarried widow(er), the maximum reduction is 28.5 percent, even if the annuity begins at age 50. For a surviving divorced spouse or remarried widow(er), full retirement age increases but the maximum reduction is 28.5 percent. The eligibility age for a full widow(er)'s annuity is gradually rising from age 65 to age 67. The maximum age reductions will range from 17.1 percent to 20.36 percent, depending on the widow(er)'s date of birth. For survivor annuitants, full retirement age ranges from age 65 for those born before 1940 to age 67 for those born in 1962 or later.

8. Are these benefits subject to offset for the receipt of other benefits?

Under the Railroad Retirement Act, the tier I portion of a survivor annuity is subject to reduction if any social security benefits are also payable, even if the social security benefit is based on the survivor's own earnings. This reduction follows the principles of social security law which, in effect, limit payment to the highest of any two or more benefits payable to an individual at one time.

The tier I portion of a widow(er)'s annuity may also be reduced for the receipt of any Federal, State or local government pension based on the widow(er)'s own earnings. The reduction generally does not apply if the employment on which the public pension is based was covered under the Social Security Act throughout the last 60 months of public employment. (This 60-month requirement is being phased in over a 5-year period ending March 1, 2009, and there are some exceptions.) However, most military service pensions and payments from the Department of Veterans Affairs will not cause a reduction. For those subject to the public pension reduction, the tier I reduction is equal to 2/3 of the amount of the public pension.

A survivor annuitant should notify the RRB promptly if she or he becomes entitled to any such benefits.

9. What if a widow(er) was also a railroad employee and is eligible for a railroad retirement employee annuity as well as monthly survivor benefits?

If both the widow or widow(er) and the deceased employee started railroad employment after 1974, the survivor annuity payable to the widow(er) is reduced by the amount of the employee annuity.

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If either the deceased employee or the survivor annuitant had some service before 1975 but had not completed 120 months of railroad service before 1975, the employee annuity and the tier II portion of the survivor annuity would be payable to the widow(er). The tier I portion of the survivor annuity would be payable only to the extent that it exceeds the tier I portion of the employee annuity.

A special guaranty applies if either the deceased employee or the survivor annuitant completed 120 months of railroad service before 1975. In effect, the widow, or dependent widower, would receive both an employee annuity and a survivor benefit, without a full dual benefit reduction.

10. What types of lump-sum death benefits are payable under the Railroad Retirement Act?

There are two kinds of lump-sum death benefits payable in some cases to survivors. A lump-sum death benefit for burial expenses is payable to certain survivors of an employee with an "insured" status under the Railroad Retirement Act if no survivor is immediately eligible for a monthly benefit when the employee dies. If the employee had 10 years of service prior to 1975, this lump-sum death benefit is payable to the widow(er) if she or he were either living with or supported by the employee at the time of death, or if the employee were under a court order for support. Also, if such an employee was not survived by a qualified widow(er), the lump-sum may be paid to the funeral home or the payer of the funeral expenses, but the amount paid cannot exceed the actual costs involved. However, if the employee did not have 10 years of service before 1975, the lump-sum may be paid only to the widow(er) living in the same household as the employee at the time of the employee's death.

The amount payable depends primarily on whether the deceased employee was credited with 10 years of service before 1975, in which case the average benefit is about $900. In all other cases where a lump sum is payable, the lump-sum benefit is $255.

The Railroad Retirement Act also provides, under certain conditions, a residual lump-sum death benefit which ensures that a railroad family receives at least as much in benefits as the employee paid in railroad retirement taxes before 1975. An "insured" status under the Railroad Retirement Act is not required for payment of this benefit, which is, in effect, a refund of an employee's pre-1975 railroad retirement taxes, after subtraction of any benefits previously paid on the basis of the employee's service. This benefit is seldom payable.

11. How does a person get an estimate of, or apply for, survivor benefits?

To apply for any railroad retirement benefit, call or visit the nearest RRB field office. Active or retired employees who are concerned about the amount of benefits which would be payable to their survivors may also receive estimates from the nearest RRB field office.

Applications for railroad retirement or survivor benefits are generally filed at one of the RRB's field offices, or with an RRB representative at one of the office's Customer OutReach Program (CORP) service locations, or by telephone and mail. Persons can find the address and phone number of the RRB office serving their area by calling the automated toll-free RRB Help Line at 1-800-808-0772, or from the RRB's Web site at www.rrb.gov. Most RRB offices are open to the public from 9:00 a.m. to 3:30 p.m. Monday through Friday, except on Federal holidays.

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FROM THE DESK OF

V. M. SPEAKMAN, JR.
LABOR MEMBER

U.S. RAILROAD RETIREMENT BOARD

V M Speakman Jr

For Publication
March 2006

Benefits Under Railroad Retirement and Social Security

Employers and employees covered by the Railroad Retirement Act pay higher retirement taxes than those covered by the Social Security Act, so that railroad retirement benefits remain higher than social security benefits, especially for career employees.

The following questions and answers show the differences in railroad retirement and social security benefits payable at the close of the fiscal year ending September 30, 2005. It also shows the differences in age requirements and payroll taxes under the two systems.

1. How do the average monthly railroad retirement and social security benefits paid to retired employees and spouses compare?

The average age annuity being paid by the Railroad Retirement Board (RRB) at the end of fiscal year 2005 to career rail employees was $2,165 a month, and for all retired rail employees the average was $1,659. The average age retirement benefit being paid under social security was just under $960 a month. Spouse benefits averaged $640 a month under railroad retirement compared to $465 under social security.

The Railroad Retirement Act also provides supplemental railroad retirement annuities of between $23 and $43 a month, which are payable to employees who retire directly from the rail industry with 25 or more years of service.

2. Are the benefits awarded to recent retirees generally greater than the benefits payable to those who retired years ago?

Yes, because recent awards are based on higher average earnings. For career railroad employees retiring at the end of fiscal year 2005, regular annuity awards averaged nearly $2,815 a month while monthly benefits awarded to workers retiring at full retirement age under social security averaged some $1,305. If spouse benefits are added, the combined benefits for the employee and spouse would approximate $4,000 under railroad retirement coverage, compared to $1,960 under social security. Adding a supplemental annuity to the railroad family's benefit increases average total benefits for current career rail retirees to $4,035 a month.

3. How much are the disability benefits currently awarded?

Disabled railroad workers retiring directly from the railroad industry at the end of fiscal year 2005 were awarded more than $2,435 a month on the average while awards for disabled workers under social security averaged over $970.

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While both the Railroad Retirement and Social Security Acts provide benefits to workers who are totally disabled for any regular work, the Railroad Retirement Act also provides disability benefits specifically for career employees who are disabled for work in their regular railroad occupation. Career employees may be eligible for such an occupational disability annuity at age 60 with 10 years of service, or at any age with 20 years of service.

4. Can railroaders retire at earlier ages than workers under social security?

Railroad employees with 30 or more years of creditable service are eligible for regular annuities based on age and service the first full month they are age 60, and rail employees with less than 30 years of creditable service are eligible for regular annuities based on age and service the first full month they are age 62.

No early retirement reduction applies if a rail employee retires at age 60 or older with 30 years of service and his or her retirement is after 2001, or if the employee retired before 2002 at age 62 or older with 30 years of service.

Early retirement reductions are otherwise applied to annuities awarded before full retirement age—the age at which an employee can receive full benefits with no reduction for early retirement. This ranges from age 65 for those born before 1938 to age 67 for those born in 1960 or later, the same as under social security.

Under social security, a worker cannot begin receiving retirement benefits based on age until age 62, regardless of how long he or she worked, and social security retirement benefits are reduced for retirement prior to full retirement age regardless of years of coverage.

5. Does social security offer any benefits that are not available under railroad retirement?

Social security does pay certain types of benefits that are not available under railroad retirement. For example, social security provides children's benefits when an employee is disabled, retired or deceased. Under current law, the Railroad Retirement Act only provides children's benefits if the employee is deceased.

However, the Railroad Retirement Act includes a special minimum guaranty provision which ensures that railroad families will not receive less in monthly benefits than they would have if railroad earnings were covered by social security rather than railroad retirement laws. This guaranty is intended to cover situations in which one or more members of a family would otherwise be eligible for a type of social security benefit that is not provided under the Railroad Retirement Act. Therefore, if a retired rail employee has children who would otherwise be eligible for a benefit under social security, the employee's annuity can be increased to reflect what social security would pay the family.

6. How much are monthly benefits for survivors under railroad retirement and social security?

Survivor benefits are generally higher if payable by the RRB rather than social security. At the end of fiscal year 2005, the average annuity **being paid** to all aged and disabled widow(er)s averaged $1,065 a month, compared to $910 under social security.

Benefits **awarded** by the RRB at the end of fiscal year 2005 to aged and disabled widow(er)s of railroaders averaged $1,410 a month, compared to $745 under social security.

The annuities **being paid** at the end of fiscal year 2005 to widowed mothers/fathers averaged $1,390 a month and children's annuities averaged $790, compared to $695 and $630 a month for widowed mothers/fathers and children, respectively, under social security.

Those **awarded** at the end of fiscal year 2005 averaged $1,250 a month for widowed mothers/fathers and $1,000 a month for children under railroad retirement, compared to $680 and $635 for widowed mothers/fathers and children, respectively, under social security.

The benefits to aged and disabled widow(er)s and widowed mothers/fathers at the end of fiscal year 2005 reflect a provision of the Railroad Retirement and Survivors' Improvement Act of 2001.

7. How do railroad retirement and social security lump-sum death benefit provisions differ?

Both the railroad retirement and social security systems provide a lump-sum death benefit. The railroad retirement lump-sum benefit is generally payable only if survivor annuities are not immediately due upon an employee's death. The social security lump-sum benefit may be payable regardless of whether monthly benefits are also due. Both railroad retirement and social security provide a lump-sum benefit of $255. However, if a railroad employee completed 10 years of creditable railroad service before 1975, the average railroad retirement lump-sum benefit payable is $970. Also, if an employee had less than 10 years of service, but had at least 5 years of such service after 1995, he or she would have to have had an insured status under social security law (counting both railroad retirement and social security credits) in order for the $255 lump-sum benefit to be payable.

The social security lump sum is generally only payable to the widow or widower living with the employee at the time of death. Under railroad retirement, if the employee had 10 years of service before 1975, and was not survived by a living-with widow or widower, the lump sum may be paid to the funeral home or the payer of the funeral expenses.

The railroad retirement system also provides, under certain conditions, a residual lump-sum death benefit which ensures that a railroad family receives at least as much in benefits as the employee paid in railroad retirement taxes before 1975. This benefit is, in effect, a refund of an employee's pre-1975 railroad retirement taxes, after subtraction of any benefits previously paid on the basis of the employee's service. This death benefit is seldom payable.

8. How do railroad retirement and social security payroll taxes compare?

Railroad retirement payroll taxes, like railroad retirement benefits, are calculated on a two-tier basis. Rail employees and employers pay tier I taxes at the same rate as social security taxes, 7.65 percent, consisting of 6.20 percent for retirement on earnings up to $94,200 in 2006 and 1.45 percent for Medicare hospital insurance on all earnings.

In addition, rail employees and employers both pay tier II taxes which are used to finance railroad retirement benefit payments over and above social security levels.

Beginning with the taxes payable for calendar year 2004, tier II taxes on both employers and employees are based on an average account benefits ratio. Depending on that ratio, the tier II tax rate for employers will range between 8.20 percent and 22.10 percent, while the tier II tax rate for employees will be between 0 percent and 4.90 percent.

In 2006, the tier II tax rate on employees is 4.40 percent and on rail employers it is 12.60 percent on employee earnings up to $69,900.

9. How much are regular railroad retirement taxes for an employee earning $94,200 in 2006 compared to social security taxes?

The maximum amount of regular railroad retirement taxes that an employee earning $94,200 can pay in 2006 is $10,281.90, compared to $7,206.30 under social security. For railroad employers, the maximum annual regular retirement taxes on an employee earning $94,200 are $16,013.70 compared to $7,206.30 under social security. Employees earning over $94,200, and their employers, will pay more in retirement taxes than the above amounts because the Medicare hospital insurance tax of 1.45 percent is applied to all earnings.

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FROM THE DESK OF

V. M. SPEAKMAN, JR.
LABOR MEMBER

U.S. RAILROAD RETIREMENT BOARD

V M Speakman Jr

For Publication
April 2006

Credit for Military Service Under the Railroad Retirement Act

Many railroad employees have at some time served in the Armed Forces of the United States. Under certain conditions, their military service may be credited as rail service under the Railroad Retirement Act.

The following questions and answers provide information on how military service may be credited towards railroad retirement benefits.

1. Under what conditions can military service be credited as railroad service?

The intent behind the crediting of military service under the Railroad Retirement Act is to prevent career railroad employees from losing retirement credits while performing active duty military service during a war or national emergency period. Therefore, to be creditable as railroad service under the Railroad Retirement Act, active duty service in the U.S. Armed Forces must be preceded by railroad service in the same or preceding calendar year. With the exceptions noted later, the employee must also have entered military service when the United States was at war or in a state of national emergency or have served in the Armed Forces involuntarily. Military service is involuntary when an employee is required by law, such as Selective Service System conscription or troop call-up from a reserve unit, to leave railroad service to perform active duty military service.

Only active duty military service is creditable under the Railroad Retirement Act. A person is considered to have been on active duty while commissioned or enrolled in the active service of the Armed Forces of the United States (including the U.S. Coast Guard); or while ordered to Federal active duty from any reserve component of the uniformed Armed Forces.

2. What are some examples of creditable service performed by a member of a reserve component, such as the Army Reserve?

Any military service a reservist was required to perform as a result of a call-up to active duty, such as during the current partial mobilization, would be creditable under the Railroad Retirement Act, so long as the military service was preceded by railroad service in the same or preceding year.

Annual training duty as a member of a reserve component of a uniformed service is also considered active duty and may be creditable, provided the employee service requirement is met. The

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period of active duty for training also includes authorized travel time to and from any such training duty. However, weekend alone or evening reserve duty is not creditable.

Active duty in a State National Guard or State Air National Guard unit may be creditable only while the reservist was called to Federal active duty by the Congress or President of the United States. Emergency call-up of the National Guard by a governor for riot or flood control would not be creditable.

3. What are the dates of the war or national emergency periods?

The creditable periods that affect current retirements are:

- September 8, 1939, through June 14, 1948.
- December 16, 1950, through September 14, 1978.
- August 2, 1990, to date as yet undetermined.

If military service began during a war or national emergency period, any active duty service the employee was required to continue in beyond the end of the war or national emergency is creditable, except that voluntary service extending beyond September 14, 1978, is not creditable.

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, 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;
- returned to rail service in the year their military service ended or in the following year, and;
- had no intervening nonrailroad employment.

4. How can military service be used to increase benefits paid by the Railroad Retirement Board?

Railroad retirement annuities are based on length of service and earnings. If military service is creditable as railroad service, a person will receive additional compensation credits for each month of creditable military service and railroad service credit for each active military service month not already credited by actual railroad service.

Creditable military service may be used in addition to regular railroad service to meet certain service requirements, such as the basic 10-year or 5-year service requirements for a regular annuity, the 20-year requirement for an occupational disability annuity before age 60, the 25-year requirement for a supplemental annuity, or the 30-year requirement for early retirement benefits.

5. Can United States Merchant Marine service be creditable for railroad retirement purposes?

No. Service with the Merchant Marine or civilian employment with the Department of Defense is not creditable, even if performed in wartime.

6. Are railroad retirement annuities based in part on military service credits reduced if other benefits, such as military service pensions or payments from the Department of Veterans Affairs, are also payable on the basis of the same military service?

No. While railroad retirement employee annuities are subject to reductions for dual entitlement to social security benefits and, under certain conditions, Federal, State, or local government pensions, as well as certain other payments, railroad retirement employee annuities are always exempt from reduction for military service pensions or payments by the Department of Veterans Affairs.

7. Are the unemployment and sickness benefits payable by the Railroad Retirement Board affected if an employee is also receiving a military service pension?

Yes. The unemployment and sickness benefits payable by the Board are affected if a claimant is also receiving a military service pension. However, payments made by the Department of Veterans Affairs will not affect railroad unemployment or sickness benefits.

When a claimant is receiving a military service pension or benefits under any social insurance law for days in which he or she is entitled to benefits under the Railroad Unemployment Insurance Act, railroad unemployment or sickness benefits are payable only to the extent to which they exceed the other payments for those days. In many cases, the amount of a military service pension precludes the payment of unemployment or sickness benefits by the Board. Examples of other such social insurance payments are civil service pensions, firefighters' and police pensions, and workers' compensation payments. Claimants should report all such payments promptly to avoid having to refund benefits later.

8. Can proof of military service be filed in advance of retirement?

Railroad employees are encouraged to file proofs of their military service well in advance of retirement. The information will be recorded and stored electronically until they actually retire. This will expedite the annuity application process and avoid any delays resulting from inadequate proofs.

If employees do not have an official record of their military service, their local Railroad Retirement Board office will explain how to get acceptable evidence. All evidence brought or mailed to a Board office will be handled carefully and returned promptly.

9. How can an employee get more information about the crediting of military service by the Railroad Retirement Board?

For more information, an employee should contact the nearest office of the Railroad Retirement Board. Most Board offices are open to the public from 9:00 a.m. to 3:30 p.m., Monday through Friday, except on Federal holidays.

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Employees can find the address and phone number of the Board office serving their area by calling the automated toll-free RRB Help Line at 1-800-808-0772. They can also get this information from the Board's Web site at www.rrb.gov.

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FROM THE DESK OF

V. M. SPEAKMAN, JR.
LABOR MEMBER

U.S. RAILROAD RETIREMENT BOARD

VM Speakman Jr

For Publication
May 2006

Acting for Impaired Railroad Retirement Beneficiaries

The Railroad Retirement Board's policy is that every annuitant has the right to manage his or her own benefits. However, when physical or mental impairments make a railroad retirement annuitant incapable of properly handling benefit payments, or where the Board determines that the interests of the annuitant so require, the Board can appoint a representative payee to act on the annuitant's behalf. A representative payee may be either a person or an organization selected by the Board to receive benefits on behalf of an annuitant.

The following questions and answers provide information for family members, or others, who may have to act on behalf of an annuitant.

1. Does the Railroad Retirement Board have legal authority to appoint a representative payee for an annuitant?

The Railroad Retirement Act gives the Board authority to determine whether direct payment of benefits, or payment to a representative payee, will best serve an annuitant's interest. The Board can appoint a representative payee regardless of whether there has been a legal finding of incompetence or commitment and, depending on the circumstances in a particular case, the Board can select someone other than the individual's legal representative to be the representative payee.

2. What if a person has been given power of attorney by a beneficiary?

Power of attorney is a legal process where one person grants another the authority to transact certain business on his or her behalf; but the Railroad Retirement Board, like the Social Security Administration, does not recognize power of attorney for purposes of managing benefit payments for a beneficiary. For this purpose, the Board uses the position of representative payee.

3. Why doesn't the Board recognize power of attorney?

The Railroad Retirement Act protects a person's right to receive benefits directly and to use them as he or she sees fit by prohibiting the assignment of benefits. Power of attorney creates an assignment-like situation that is contrary to the protections given by this law. The Act likewise gives the Board exclusive jurisdiction in determining whether to appoint a representative payee for an annuitant. If the Board recognized power of attorney, the Board would be deferring to a designation made by someone outside of the agency and would, in effect, be abdicating its responsibility to the annuitant.

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Also, events often occur which may affect an annuitant's eligibility for benefits. The responsibility for reporting these events to the Board is placed, by law, directly on the annuitant or the annuitant's representative payee. When benefits are accepted, the annuitant or his or her payee attests to a continued eligibility for such benefits. And if payments are misused, they can be recouped from the payee. This is not true with power of attorney.

4. How are these representative payees selected?

Generally, the Board's local field offices determine the need for a representative payee and interview potential payees. The field office also advises the payee of his or her duties, monitors the payee, investigates any allegations of misuse of funds, and changes the method of payment, or the payee, when appropriate.

The Board provides 15 days' advance notice to an annuitant of its intent to appoint a representative payee, and the name of the payee, in order to allow the annuitant a period of time in which to contest the appointment.

5. What are the primary duties and responsibilities of a representative payee?

The payee must give first consideration to the annuitant's day-to-day needs. This includes paying for food, shelter, clothing, medical care and miscellaneous personal needs. Beyond day-to-day needs, railroad retirement benefits may be used for other expenses.

The payee is also responsible for reporting events to the Board that affect the individual's annuity, and is required to account for the funds received on behalf of the annuitant.

In addition, since railroad retirement benefits are subject to Federal income tax, a representative payee is responsible for delivering the benefit information statements issued each year by the Board to the person handling the annuitant's tax matters.

Periodically, the payee will be asked to complete a report which includes questions regarding how much of the railroad retirement benefits available during the year were used for the support of the beneficiary, how much of the benefits were saved, and how the savings were invested. In order to complete the questionnaire correctly, a payee must keep current records of the railroad retirement benefits received and how the benefits were used. The records should be retained for four years.

6. What are a representative payee's primary responsibilities for an annuitant's Medicare coverage?

When an annuitant requires covered medical services, the payee must have the annuitant's Medicare card available. The payee must also keep records of the services received and the expenses incurred or paid, just as for any other usage of railroad retirement benefits.

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7. What if an annuitant is confined to an institution?

When annuitants are in a nursing home, hospital or other institution, their railroad retirement benefit payments should be used to meet the charges for their current maintenance. Current maintenance includes the usual charges the institution makes for providing care and services.

The payee should use the benefit payments to aid in the annuitant's possible recovery or release from the institution, or to improve his or her living conditions while confined. Payments may be used to provide such items as clothing, personal grooming supplies, transportation of relatives to visit the patient, trial visits to relatives, medical and dental care, and reading materials and hobby supplies.

8. How should railroad retirement benefits not immediately required to meet an annuitant's needs be handled?

Benefit payments which will not be needed in the near future must be saved or invested unless they are needed for the support of the annuitant's legally dependent spouse or child, or to pay creditors under certain circumstances. It is recommended that conserved funds be held in interest-bearing accounts. Preferred investments are Federally-insured or State-insured accounts at financial institutions and obligations of, or those backed by, the Federal Government, such as U.S. Savings Bonds.

Funds should not be kept in the home where they may be lost or stolen, nor can they be mingled with the payee's own funds or other funds.

9. How can a person get more information about being appointed as a representative payee, or whether the use of railroad retirement benefits for a particular purpose would be proper?

For more information, a person should contact the nearest office of the Railroad Retirement Board. Most Board offices are open to the public from 9:00 a.m. to 3:30 p.m., Monday through Friday.

Persons can find the address and phone number of the Board office serving their area by calling the automated toll-free RRB Help-Line at 1-800-808-0772. They can also get this information from the Board's Web site at www.rrb.gov.

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FROM THE DESK OF

V. M. SPEAKMAN, JR.
LABOR MEMBER

U.S. RAILROAD RETIREMENT BOARD

V M Speakman Jr

For Publication
June 2006

New Benefit Year for Railroad Unemployment and Sickness Benefits

A new benefit year under the Railroad Unemployment Insurance Act begins July 1, 2006. Administered by the Railroad Retirement Board (RRB), this Act provides two kinds of benefits for qualified railroaders: unemployment benefits for those who become unemployed but are ready, willing and able to work; and sickness benefits for those who are unable to work because of sickness or injury. Sickness benefits are also payable to female rail workers for periods of time when they are unable to work because of pregnancy and childbirth.

The following questions and answers describe these benefits, their eligibility requirements, and how to claim them.

1. What is the daily benefit rate payable in the new benefit year beginning July 1, 2006?

Almost all employees will qualify for the new maximum daily benefit rate of $57, which increased from $56 under indexing provisions reflecting the growth in average national wages. Benefits are generally payable for days of unemployment or sickness in excess of four in biweekly claim periods, which yields $570 for each two full weeks of unemployment or sickness. However, sickness benefits resulting from other than on-the-job injuries are subject to tier I railroad retirement payroll taxes for the first six months after the employee last worked.

2. What are the eligibility requirements for railroad unemployment and sickness benefits in the new benefit year?

To qualify for normal railroad unemployment or sickness benefits, an employee must have had railroad earnings of at least $2,875 in calendar year 2005, not counting more than $1,150 for any month. Those who were first employed in the rail industry in 2005 must also have at least five months of creditable railroad service in 2005.

Under certain conditions, employees with 120 or more months of railroad service who do not qualify on the basis of their 2005 earnings may still be able to receive benefits in the new benefit year. Employees with 120 or more months of service who received normal benefits in the benefit year ending June 30, 2006, may be eligible for extended benefits, and employees with 120 or more months of service might qualify for accelerated benefits if they have rail earnings of at least $2,987.50 in 2006, not counting earnings of more than $1,195 a month.

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In order to qualify for extended unemployment benefits, a claimant must not have voluntarily quit work without good cause and not have voluntarily retired. To qualify for extended sickness benefits, a claimant must not have voluntarily retired and must be under age 65.

To be eligible for accelerated benefits, a claimant must have 14 or more consecutive days of either unemployment or sickness; not have voluntarily retired or, if claming unemployment benefits, quit work without good cause; and be under age 65 when claiming sickness benefits.

3. How long are these benefits payable?

Normal unemployment or sickness benefits are each payable for up to 130 days (26 weeks) in a benefit year. The total amount of each kind of benefit which may be paid in the new benefit year cannot exceed the employee's railroad earnings in calendar year 2005, not counting earnings of more than $1,485 per month.

If normal benefits are exhausted, extended benefits are payable for up to 65 days (13 consecutive weeks) to employees with 10 or more years of service.

4. What is the waiting-period requirement for unemployment and sickness benefits?

Benefits are normally paid for the number of days of unemployment or sickness over four in 14-day claim periods. However, during the first 14-day claim period in a benefit year, benefits are only payable for each day of unemployment or sickness in excess of seven which, in effect, provides a one-week waiting period. Separate waiting periods are required for unemployment and sickness benefits. However, only one seven-day waiting period is generally required during any period of continuing unemployment or sickness, even if that period continues into a subsequent benefit year.

Initial sickness claims must also begin with four consecutive days of sickness.

5. Are there special waiting-period requirements if unemployment is due to a strike?

If a worker is unemployed because of a strike conducted in accordance with the Railway Labor Act, benefits are payable for days of unemployment during 14-day claim periods **after** the first claim period, but no benefits are payable for days of unemployment during the first 14 days of the strike.

If a strike is in violation of the Railway Labor Act, unemployment benefits are not payable to employees participating in the strike. However, employees not among those participating in such an illegal strike, but who are unemployed on account of the strike, may receive benefits after the first two weeks of the strike.

While a benefit year waiting period cannot count toward a strike waiting period, the 14-day strike waiting period may count as the benefit year waiting period if a worker subsequently becomes unemployed for reasons other than a strike later in the benefit year.

6. Can employees in train and engine service receive unemployment benefits for days when they are standing by or laying over between scheduled runs?

No, not if they are standing by or laying over between regularly assigned trips or they missed a turn in pool service.

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7. Can extra-board employees receive unemployment benefits between jobs?

Yes, but only if the miles and/or hours they actually worked were less than the equivalent of normal full-time work in their class of service during the 14-day claim period. Entitlement to benefits would also depend on the employee's earnings.

8. How would an employee's earnings in a claim period affect his or her eligibility for unemployment benefits?

If a claimant's earnings for days worked, and/or days of vacation or paid leave, in a 14-day claim period are more than a certain indexed amount, no benefits are payable for any days of unemployment in that period. That claim, however, can be used to satisfy the waiting period.

Earnings include pay from railroad and nonrailroad work, as well as part-time work and self-employment. Earnings also include pay that an employee would have earned except for a failure to mark up or report for duty on time, or because he or she missed a turn in pool service or was otherwise not ready or willing to work. For the benefit year that begins July 2006 the indexed amount is $1,150, which corresponds to the base year monthly compensation amount used in determining eligibility for benefits in the new benefit year.

9. How does a person apply for, as well as claim, unemployment benefits?

Claimants can file their applications for unemployment benefits, as well as their subsequent biweekly claims, by mail or online.

To apply by mail, claimants must obtain an application from their labor organization, employer, local RRB office or the agency's Web site at www.rrb.gov. The completed application should be mailed to the local RRB office as soon as possible and, in any case, must be filed within 30 days of the date on which the claimant became unemployed or the first day for which he or she wishes to claim benefits. Benefits may be lost if the application is filed late.

To file their applications -- or their biweekly claims -- online, claimants must first get a PIN/Password and then establish an RRB Internet Services account. To do this, they should click on "Benefit Online Services (MainLine)" and then click on the "Create an account" link for directions on establishing an RRB Internet Services account. At that time, to ensure security, they must apply for a Password Request Code, which they will receive by mail in about 7 to 10 days. Once they establish their online accounts, they will be able to file their applications and biweekly claims for unemployment benefits as well as conduct other business with the RRB over the Internet. Employees are encouraged to establish online accounts while still employed so the account is ready if they ever need to apply for these benefits or use other select RRB Internet services. Employees who have already established online accounts do not need to do so again.

The local RRB office reviews the completed application, whether it was submitted by mail or online, and notifies the claimant's current railroad employer, and base-year employer if different. The employer has the opportunity to provide information about the benefit application.

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After the RRB office processes the application, biweekly claim forms are mailed to the claimant, and are also made available on the RRB's Web site, as long as he or she remains unemployed and eligible for benefits. The time for filing a claim is 15 days from the last day of the claim period or 15 days from the date the claim form is mailed to the claimant or made available on the RRB's Web site, whichever is later. Claimants should **not** file both a paper claim and an online claim for the same period.

Only one application needs to be filed during a benefit year, even if a claimant becomes unemployed more than once. However, a claimant must, in such a case, request a claim form from an RRB field office within 30 days of the first day for which he or she wants to resume claiming benefits. These claims may also be filed by mail or online.

10. How does a person apply for sickness benefits?

An application for sickness benefits can be obtained from railroad labor organizations, railroad employers, any RRB office or the agency's Web site. An application and a doctor's statement of sickness are required at the beginning of each period of continuing sickness for which benefits are claimed.

The RRB suggests that employees keep an application on hand for use in claiming sickness benefits, and that family members know where the form is kept and how to use it. If an employee becomes unable to work because of sickness or injury, the employee should complete the application and then have his or her doctor complete the statement of sickness. If the employee is too sick to complete the application, someone else may do so. In such cases, a family member should also complete the "Statement of Authority to Act for Employee," which accompanies the statement of sickness.

After completion, the forms should be mailed to the RRB's headquarters in Chicago by the seventh day of the illness or injury for which benefits are claimed. After the RRB receives the application and statement of sickness and determines eligibility, biweekly claim forms are mailed to the claimant for completion and return to an RRB field office for processing. The claim forms must be received at the RRB within 30 days of the last day of the claim period, or within 30 days of the date the claim form was mailed to the claimant, whichever is later. Benefits may be lost if an application or claim is filed late.

Although claimants cannot currently file applications or biweekly claims for railroad sickness benefits over the Internet, the RRB is planning to add the online filing of sickness claims in the future.

11. Is a claimant's employer notified each time a biweekly claim for unemployment or sickness benefits is filed?

The Railroad Unemployment Insurance Act requires the RRB to notify the claimant's base-year employer each time a claim for benefits is filed, and to give that employer an opportunity to submit information relevant to the claim before the RRB makes an initial determination on the claim. In addition, the claimant's current employer is also notified. The RRB must also notify the claimant's base-year employer each time benefits are paid to a claimant. The base-year employer may protest the decision to pay benefits. Such a protest does not prevent the timely payment of benefits. However, a claimant may be required to repay benefits if the employer's protest is successful.

The RRB also checks with other Federal agencies and all 50 States, as well as the District of Columbia and Puerto Rico, to detect fraudulent benefit claims and it checks with physicians to verify the accuracy of medical statements supporting sickness benefit claims.

12. How long does it take to receive payment?

Persons who file an application for benefits may expect to receive a claim form, or a decision on their application, within 15 days of the date they filed their application. When they file biweekly claims, they may expect to receive a payment, or a decision on a claim, within 15 days of the date an RRB office receives the claim form. However, claims for some benefits may take longer to handle than others if they are more complex, or if an RRB office has to get information from other people or organizations. If this happens, claimants may expect an explanation and an estimate of the time required to make a decision.

Claimants who think an RRB office made the wrong decision about their benefits have the right to ask for review and to appeal. They will be notified of these rights each time an unfavorable decision is made on their claims.

13. How are payments made?

Railroad unemployment and sickness insurance benefits are paid by Direct Deposit. With Direct Deposit, benefit payments are made electronically to an employee's bank, savings and loan, credit union or other financial institution. New applicants for unemployment and sickness benefits will be asked to provide information needed for Direct Deposit enrollment. Waivers are available to individuals who determine that Direct Deposit would cause a hardship, and to individuals without bank accounts.

14. Can claimants access information online about their railroad unemployment and sickness benefit payments?

Claimants can access information about their individual railroad unemployment insurance account statements via the Internet. These account statements provide a summary of the unemployment and sickness benefits paid under the Railroad Unemployment Insurance Act to rail employees.

This online service, called "RUIA Account Statement," displays the type and amount of a claimant's last five benefit payments, the claim period for which the payments were made, and the dates that the payments were approved. Claimants can also confirm the RRB's receipt of their latest application or claim for unemployment or sickness benefits, along with the receipt of any supplemental doctor's statement required to continue the payment of sickness benefits. In addition, the service allows claimants to view the address currently on record for them and, if applicable, their direct deposit information.

To use this service, claimants must get a PIN/Password and establish an Internet Services account, as described in the answer to question 9.

15. How can claimants receive more information on railroad unemployment or sickness benefits?

Claimants with questions about unemployment or sickness benefits should contact the nearest RRB office. Most RRB offices are open to the public from 9:00 a.m. to 3:30 p.m., Monday through Friday, except on Federal holidays. Claimants can find the address and phone number of the RRB office serving their area, and also get information about their claims and benefit payments, by calling the toll-free RRB Help Line at 1-800-808-0772. The RRB Help Line is an automated telephone service available 24 hours a day, 7 days a week. Information about unemployment or sickness claims and benefit payments is available on the Help Line for those who have a Personal Identification Number (PIN), which is printed on the back of each claim form mailed to the claimant.

In addition, most of the toll-free Help Line services are available through the RRB's Web site at www.rrb.gov, which also includes publications that may be downloaded.

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FROM THE DESK OF

V. M. SPEAKMAN, JR.
LABOR MEMBER

U.S. RAILROAD RETIREMENT BOARD

For Publication
August 2006

Dual Benefit Payments

The payment of a railroad retirement annuity can be affected by entitlement to social security benefits, as well as certain other government benefits. Such dual entitlement, if not reported to the Railroad Retirement Board (RRB), can result in benefit overpayments which have to be repaid, sometimes with interest and penalties. The following questions and answers describe how dual benefit payments are adjusted by the RRB for annuitants eligible for social security benefits and/or other benefit payments.

1. How are dual benefits paid to persons entitled to both railroad retirement and social security benefits?

Since 1975, if a railroad retirement annuitant is also awarded a social security benefit, the Social Security Administration determines the amount due, but a combined monthly dual benefit payment should, in most cases, be issued by the RRB after the railroad retirement annuity has been reduced for the social security benefit.

2. Why is a railroad retirement annuity reduced when a social security benefit is also payable?

The tier I portion of a railroad retirement annuity is based on both the railroad retirement and social security credits acquired by an employee and reflects what social security would pay if railroad work were covered by social security. Tier I benefits are, therefore, reduced by the amount of any actual social security benefit paid on the basis of nonrailroad employment, in order to prevent a duplication of benefits based on the same earnings.

The tier I dual benefit reduction also applies to the annuity of an employee qualified for social security benefits on the earnings record of another person, such as a spouse. And, the tier I portion of a spouse or survivor annuity is reduced for any social security entitlement, even if the social security benefit is based on the spouse's or survivor's own earnings. These reductions follow principles of social security law which, in effect, limit payment to the higher of any two or more benefits payable to an individual at one time.

However, the tier II portion of a railroad retirement annuity is based on railroad service and earnings alone, is computed under a separate formula, and is not reduced for entitlement to a social security benefit.

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3. Are there any exceptions to the railroad retirement annuity reduction for social security benefits?

No. However, if an employee qualified for dual benefits before 1975 and meets certain vesting requirements, he or she can receive an additional annuity amount which offsets, in part, the dual benefit reduction. This additional amount, reflecting the dual benefits payable prior to 1975, is called a *vested dual benefit payment*. Legislation enacted in 1974 coordinated dual railroad retirement and social security benefit payments to eliminate certain duplications, but this legislation also included a grandfather provision to preserve the pre-1975 dual benefits of persons meeting certain vesting requirements by including vested dual benefit payments in their annuities.

Awards of these vested dual benefit amounts are now limited only to vested railroad employees with dual coverage on their own earnings. Spouses and widow(er)s retiring since 1981 no longer qualify. Of the almost 12,400 employee annuities awarded in fiscal year 2005, only 62 included vested dual benefit payments.

4. Are there any funding limitations on the payment of vested dual benefits?

Vested dual benefit payments are funded by annual appropriations from general U.S. Treasury revenues, rather than the railroad retirement payroll taxes and other revenues that finance almost 99% of the railroad retirement system's benefit payments. Payment of these vested dual benefits is dependent on the time and amount of such appropriations. If the appropriation in a fiscal year is for less than the estimated total vested dual benefit payments, individual payments must be reduced by proration. Vested dual benefits are not increased by cost-of-living adjustments.

5. Can Federal, State, or local government pensions also result in dual benefit reductions in a railroad retirement annuity?

Tier I benefits for employees first eligible for a railroad retirement annuity and a Federal, State or local government pension after 1985 may be reduced for receipt of a public pension based, in part or in whole, on employment not covered by social security or railroad retirement after 1956. This also applies to certain other payments not covered by social security, such as payments from a non-profit organization or from a foreign government or a foreign employer.

However, it does not include military service pensions, payments by the Department of Veterans Affairs, or certain benefits payable by a foreign government as a result of a totalization agreement between that government and the United States.

This reduction is made by adjusting certain weighting factors in the social security and tier I benefit formulas. These factors increase benefits for workers with low lifetime social security and/or railroad retirement earnings. The weighting factors were not, however, intended to increase benefits for those whose major employment was not covered by social security or railroad retirement.

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6. How does the public service pension apply to spouse or widow(er)s' benefits?

The tier I portion of a spouse's or widow(er)'s annuity may be reduced for receipt of any Federal, State or local government pension separately payable to the spouse or widow(er) based on her or his own earnings. The reduction generally does not apply if the employment on which the public service pension is based was covered under the Social Security Act throughout the last 60 months of public employment. (This 60-month requirement is being phased in over a 5-year period ending March 1, 2009, and there are some exceptions.) For spouses and widow(er)s subject to the public service pension reduction, the tier I reduction is equal to 2/3 of the amount of the public service pension. The public service pension reduction in railroad retirement spouse and widow(er) benefits was brought about by 1977 social security legislation which also applied to the tier I portion of railroad retirement spouse and widow(er) annuities. Since a social security spouse or widow(er) benefit is reduced if the beneficiary is also entitled to a social security benefit based on her or his own earnings, it was considered equitable that a social security spouse or widow(er) benefit also be reduced for a public service pension based on the beneficiary's own non-social security earnings.

7. What dual benefit restrictions apply when both a husband and wife are rail employees entitled to railroad retirement annuities?

If both the employee and spouse are qualified railroad employees and either one had some railroad service before 1975, the spouse tier I amount is reduced by the amount of the railroad employee tier I to which the spouse is entitled and that reduction is restored in the spouse tier II amount. The spouse tier I amount cannot be reduced below zero.

If both the employee and spouse started railroad employment after 1974, the amount of any spouse or divorced spouse annuity is reduced by the amount of the employee annuity to which the spouse is also entitled.

In survivor cases, if a widow or dependent widower is also a railroad employee annuitant, and either the widow(er) or the deceased employee had 120 months of railroad service before 1975, the tier I reduction may be partially restored in the survivor tier II amount.

If either the deceased employee or the widow(er) had some railroad service before 1975 but less than 120 months of service, the widow(er)'s own employee annuity and the tier II portion of the survivor annuity would be payable to the widow(er). The tier I portion of the survivor annuity would be payable only to the extent that it exceeds the tier I portion of the widow(er)'s own employee annuity.

If the widow(er) qualifies for a railroad retirement employee annuity and neither the widow(er) nor the deceased employee had any railroad service before 1975, the survivor annuity payable to the widow(er) is reduced by the total amount of the widow(er)'s own employee annuity.

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8. Can workers' compensation or public disability benefits affect railroad retirement benefits?

If an employee is receiving a disability annuity, tier I benefits for the employee and spouse may, under certain circumstances, be reduced for receipt of workers' compensation or public disability benefits.

9. How can an annuitant find out if receipt of any dual benefits might affect his or her railroad retirement annuity?

If an annuitant becomes entitled to any of the previously discussed dual benefit payments, or if there is any question as to whether a dual benefit payment requires a reduction in an annuity, an RRB field office should be contacted. In any situation, the best rule is, "When in doubt-report."

Annuitants can find the address and phone number of the RRB office serving their area by calling the automated toll-free RRB Help-Line at 1-800-808-0772 or by visiting www.rrb.gov. RRB field offices are open to the public from 9:00 a.m. to 3:30 p.m., Monday through Friday, except on Federal holidays.

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FROM THE DESK OF

V. M. SPEAKMAN, JR.
LABOR MEMBER

U.S. RAILROAD RETIREMENT BOARD

For Publication
September 2006

Applying for a Railroad Retirement Annuity

Railroad employees who are planning to retire should be aware of what steps to take and what documents are required when applying for an annuity from the Railroad Retirement Board (RRB). Being prepared can prevent needless delays and ensure that payments from the RRB begin as soon as possible after retirement. The following questions and answers describe the application process and other related items that retiring employees should be aware of.

1. How are railroad retirement annuity applications filed?

Applications are filed through the RRB's field offices. Applicants may file in person or by telephone and mail. Those filing in person may do so at any RRB office or at one of the office's Customer OutReach Program (CORP) service locations. Applicants filing by telephone receive the same information and instructions that are provided to those filing in person; forms requiring signatures and other documents are then handled by mail.

The addresses and phone numbers of all the RRB's field offices are available on the agency's Web site at www.rrb.gov or by calling the toll-free RRB Help Line at 1-800-808-0772. The RRB Help Line is an automated telephone service available 24 hours a day, 7 days a week. RRB field offices are open to the public from 9:00 a.m. to 3:30 p.m., Monday through Friday, except on Federal holidays.

2. Can an application be filed prior to a person's actual retirement date?

The RRB accepts annuity applications up to 3 months in advance of an annuity beginning date, which allows the RRB to complete the processing of most new claims by a person's retirement date. Also, effective for applications filed on or after January 1, 2006, an employee can be in compensated service while filing a disability application provided that the compensated service terminates within 90 days from the date of filing. When an employee files a disability application while still in compensated service, it will be necessary for the employee to provide a specific ending date of the compensation. Compensated service includes not only compensation with respect to active service performed by an employee for an employer, but also includes pay for time lost, wage continuation payments, certain employee protection payments and any other payment for which the employee will receive additional creditable service.

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To expedite the filing process, applicants should contact the RRB to schedule time for a pre-retirement consultation and also to confirm their eligibility and be advised as to the required documents. The consultation can be conducted in person, or by telephone, with an RRB representative who will provide an annuity estimate, explain a retiree's benefit rights and responsibilities, and answer related questions.

Railroad employees can also get estimates of their future annuities over the Internet. Employees can access this service, called "Retirement Planner," by visiting www.rrb.gov and clicking on "Benefit Online Services (MainLine)" for directions on establishing an RRB Internet Services account.

3. What are some of the documents required with an application?

- All supporting forms requested on the annuity application.
- All applicants have to furnish proof of their age.
- All applicants should be prepared to furnish the notice of any social security benefit award or other social security claim determination.
- An employee may be required to submit information regarding any other Federal, State or local government pension for which he or she also qualifies, as well as certain other payments not covered by railroad retirement or social security, such as from a non-profit organization or from a foreign government or a foreign employer.
- An employee or survivor filing for a disability annuity is required to submit supporting medical information from his or her treating physician, as well as any reports or records from recent hospitalizations. He or she may also be asked to go for one or more specialized medical examinations. If an employee disability applicant is receiving workers' compensation or public disability benefits, notice of the amount and beginning date of such payments must be submitted.
- An employee will have to furnish proof of any military service claimed.
- A spouse, divorced spouse or widow(er) applying for a railroad retirement annuity must furnish proof of marriage to the employee. A divorced spouse must furnish proof of a final divorce from the employee, as well as proof that any subsequent marriages have terminated.
- A spouse, divorced spouse or survivor also qualified to receive a public service pension must submit information regarding that pension.
- All applicants have to provide banking information necessary for the Direct Deposit of their benefit payments.

A booklet, "Furnishing Evidence to Support Your Claim" (Form RB-3), gives detailed information as to the types of proofs that are required when filing for an annuity, as well as sources from which these documents can be obtained. The booklet is available free of charge at any RRB office or at www.rrb.gov.

(More)

4. Can proofs be filed in advance of retirement?

Railroad employees are encouraged to file proofs of their correct birth date and their military service well in advance of retirement. The information will be recorded and stored electronically until they actually retire. This will expedite the annuity application process and avoid any delays resulting from inadequate proofs.

If employees do not have an official record of their birth or military service, their local RRB office will explain how to get acceptable evidence. All evidence brought or mailed to an RRB office will be handled carefully and returned promptly.

5. What is the retroactivity of a railroad retirement application?

The retroactivity of a railroad retirement annuity application is limited to 1 year for disability annuities and 6 months for full age annuities. There is generally no retroactivity for reduced age annuities.

Retroactivity of a survivor annuity application is 1 year for disabled widow(er)s and 6 months for full retirement age widow(er)s, mothers (fathers), children and parents. Retroactivity for widow(er)s ages 60-61 is 6 months if it does not increase the age reduction (this does not apply to surviving divorced spouses or remarried widow(er)s). Otherwise, there is generally no retroactivity for reduced age widow(er)s' annuities.

6. Are retiring railroad employees required to relinquish their rights to their railroad jobs?

An employee annuity **based on age** cannot be paid until the employee stops railroad employment **and** gives up any rights to return to work for a railroad employer. While an annuity **based on disability** is not paid until an employee has stopped working for a railroad, employment rights need not be relinquished until the employee attains full retirement age. However, in order for a supplemental annuity to be paid by the RRB, or for an eligible spouse to begin receiving annuity payments, a disabled annuitant under full retirement age must relinquish employment rights. And, regardless of age and/or earnings, no railroad retirement annuity is payable for any month in which a retired or disabled employee annuitant, a spouse annuitant or a survivor annuitant works for an employer covered under the Railroad Retirement Act. However, service for less than $25 a month to a local lodge will not prevent payment of the annuity for that month.

Railroad retirement annuitants may work in nonrailroad employment, but benefits may be reduced if a beneficiary under full retirement age works after retirement and earnings exceed annual exempt amounts. Additional earnings deductions are assessed if a retired or disabled employee annuitant, or a spouse annuitant, works for his or her last pre-retirement nonrailroad employer, regardless of age or the level of earnings.

Special restrictions also apply to any earnings by disabled employees.

7. How soon after filing can an applicant expect payment?

Under the RRB's Customer Service Plan, persons who filed for their railroad retirement employee or spouse annuity in advance will receive their first payment, or a decision, within 35 days of the beginning date of their annuity. Persons who did not file in advance will receive their first payment, or a decision, within 65 days of the date they filed their application. Those who filed for a railroad retirement survivor annuity or lump-sum benefit will receive their first payment, or a decision, within 65 days of the date they filed their application, or became entitled to benefits, if later. Widows or widow(er)s who are already receiving a spouse annuity will receive their first payment, or a decision, within 35 days of the date the RRB receives notice of the employee's death.

For disability annuities, no payment can be made until all medical evidence has been evaluated. Consequently, an annuity based on disability takes longer to process than an annuity based on age and service. And, a waiting period of 5 months is required after the onset of disability before disability annuity payments can begin. Under the Customer Service Plan, persons who filed for a railroad retirement disability annuity will receive a decision on their claim within 105 days from the date they filed their application. If they are entitled to disability benefits, they will receive their first payment within 25 days of the date of that decision, or earliest payment date, whichever is later.

Of course, claims for some benefits may take longer to handle than others if they are more complex, or if information from other people or organizations is needed. If this happens, the RRB will provide an explanation and an estimate of the time required to make a decision.

8. How are railroad retirement payments made?

Persons applying for railroad retirement benefits will be automatically enrolled in the U.S. Treasury's Direct Deposit Program, which electronically transfers Federal payments into individuals' checking or savings accounts. Direct Deposit waivers are, however, available to individuals who determine that Direct Deposit would cause a hardship, and to individuals without bank accounts.

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FROM THE DESK OF

V. M. SPEAKMAN, JR.
LABOR MEMBER

U.S. RAILROAD RETIREMENT BOARD

For Publication
October 2006

Railroad Retirement Spouse and Widow(er)s' Annuities and Public Service Pensions

Railroad Retirement Act spouse and widow(er)s' annuities (including divorced spouse, surviving divorced spouse and remarried widow(er)s' annuities) are subject to reduction when social security benefits or dual railroad retirement annuities are also payable. Such railroad retirement benefits may also be reduced when a spouse or widow(er) is entitled to a public service pension unless certain exemption requirements are met.

Since the payment of railroad retirement spouse or widow(er)s' annuities can be affected by entitlement to certain other government benefits, such dual entitlement, if not reported to the Railroad Retirement Board (RRB), can result in benefit overpayments which have to be repaid, sometimes with interest and penalties. The following questions and answers describe how payments are adjusted by the RRB for spouse and widow(er) annuitants entitled to public service pensions.

1. For social security or railroad retirement purposes, what is considered a public service pension?

A public service pension is any periodic benefit payment, as well as lump-sum payments made in lieu of periodic payments, based on an individual's own employment with a Federal, State, or local government unit. Some examples are pensions paid to teachers, police officers, and civil service personnel on the basis of age or disability. Full salary benefits paid to a retired or resigned judge under the Federal judiciary retirement system are also considered public service pensions.

Most military service pensions and payments from the Department of Veterans Affairs will not cause a reduction. A pension paid by a foreign government or an interstate instrumentality also has no effect on a spouse or widow(er)'s annuity.

2. How is the public service pension reduction applied to railroad retirement spouse or widow(er)s' annuities?

For spouses and widow(er)s subject to the public service pension reduction, the tier I reduction is, under current law, equal to 2/3 of the amount of the public pension. The amount of the public service pension is the current gross amount, before any deductions for income tax withholding, Medicare premiums, health insurance or other benefits.

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3. What is the background of the public service reduction in spouse and widow(er)s' annuities and how does it affect such payments?

The public service pension reduction in social security and railroad retirement spouse and widow(er)s' benefits was brought about by 1977 social security legislation which also applied to the tier I benefits of railroad retirement spouses and widow(er)s. The tier I portion of a railroad retirement annuity is based on railroad retirement credits and any social security credits an employee has acquired. It is computed under social security formulas and approximates what social security would pay if railroad work were also covered by that system. Tier I benefits are, therefore, reduced in the same manner as social security benefits when certain other benefits are also payable.

Since a social security spouse or widow(er)'s benefit is reduced if the spouse or widow(er) is also entitled to a social security benefit based on her or his own earnings, it was considered equitable that a social security spouse or widow(er)'s benefit also be reduced for a public service pension based on the spouse's or widow(er)'s own non-social security earnings.

The exemption requirements were subsequently tightened by legislation enacted in March 2004. That legislation required that State and local government workers be covered by social security throughout their last 60 months of employment with the pension-paying government entity in order to be exempt from a reduction. This 60-month requirement is being phased in over a 5-year period ending March 1, 2009, and there are some exceptions. Under prior law, a reduction generally did not apply to social security or railroad retirement spouse or widow(er)s' benefits if the government job that the public pension is based on was covered under the Social Security Act on the last day of public employment.

4. How does the public pension reduction law provide a transition or phase-in period for those who will not be retiring for a few years?

The law provides a transition for workers whose last day of government employment occurs within 5 years after March 2, 2004. Any State or local government worker whose last day of government employment occurs after June 30, 2004, and before March 2, 2009, could have the requirement for 60 consecutive months of social security-covered government employment reduced. For these workers, the requirement for 60 consecutive months of social security-covered employment would be shortened by the total number of months that the worker had in social security-covered government service under the same retirement system before March 2, 2004, but not to less than 1 month. If the 60-month period is shortened, the remaining months of social security-covered service needed to fulfill the requirement must be performed after March 2, 2004, and must continue through the worker's last day of public service employment.

5. Are there any other provisions that would exempt railroad retirement spouse or widow(er) annuitants from the public pension offsets?

The public pension reduction does not apply to a spouse or widow(er) who filed for and became entitled to her or his railroad retirement annuity before December 1977, or to a spouse or widow(er) whose public pension is **not** based on her or his own earnings.

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Annuities payable for any months after November 1977 to spouses and widow(er)s may also be exempt from the public pension reduction at the time of filing if **both** of the following two requirements are met.

The first requirement is that they began to receive or were **eligible** to receive their Federal, State or local government pension before December 1982. This means they must have met the age and service requirements for their pensions before December 1982, even though they did not apply for their pensions before then.

The second is that they meet all requirements for spouse and widow(er)s' benefits in effect under social security law in January 1977. At that time, for example, a divorced woman's marriage must have lasted at least 20 years, rather than 10 years as required today. Also, a husband or widower must have received at least one-half support from his wife.

Even if spouses and widow(er)s do not meet these criteria, they still may be exempt from the reduction beginning with railroad retirement benefits payable December 1982 if they received or were eligible to receive their Federal, State, or local government pensions before July 1, 1983, **and** they were receiving at least one-half support from their spouses at the time their spouses retired or died. This provision applies to men and women.

6. Where can more specific information on how these pension offsets affect railroad retirement benefits be obtained?

Individuals should contact the nearest field office of the RRB for information as to how their public service pensions could affect their railroad retirement benefits.

They can find the address and phone number of the RRB office serving their area by calling the automated toll-free RRB Help Line at 1-800-808-0772 or by visiting www.rrb.gov. RRB field offices are open to the public from 9:00 a.m. to 3:30 p.m., Monday through Friday, except on Federal holidays.

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FROM THE DESK OF

V. M. SPEAKMAN, JR.
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U.S. RAILROAD RETIREMENT BOARD

VMSpeakman Jr

For Publication
November 2006

The Importance of a Current Connection for Railroad Retirement Benefits

Under the Railroad Retirement Act, 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 criteria for determining whether the Railroad Retirement Board (RRB) or the Social Security Administration has jurisdiction over the payment of monthly benefits to survivors of a railroad employee.

The following questions and answers describe the current connection requirement and the ways the requirement can be met.

1. How is a current connection determined under the Railroad Retirement Act?

To meet the current connection requirement, an employee must generally have been credited with railroad service in at least 12 months of the 30 months immediately preceding the month his or her railroad retirement annuity begins. If the employee died before retirement, railroad service in at least 12 months in the 30 months before death will meet the current connection requirement for the purpose of paying survivor benefits.

However, if an employee does not qualify on this basis, but has 12 months' service in an earlier 30-month period, he or she may still meet the current connection requirement. This alternative generally applies if the employee did not have any regular employment outside the railroad industry in the period between the end of the last 30-month period including 12 months of railroad service and the month the annuity begins, or the month of death if earlier.

A current connection established at the time the railroad retirement annuity begins is permanent. The employee never loses it no matter what kind of work is performed thereafter.

2. Can nonrailroad work before retirement break a former railroad employee's current connection?

Full or part-time work for a nonrailroad employer in an interim between the end of the last 30-month period including 12 months of railroad service and the beginning date of an employee's annuity, or the date of death if earlier, can break a current connection.

Self-employment in an unincorporated business will not break a current connection. However, if the business is incorporated, compensated service may break a current connection.

Federal employment with the Department of Transportation, the National Transportation Safety Board, the Surface Transportation Board (the former Interstate Commerce Commission), the National

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Mediation Board, the Railroad Retirement Board, or the Transportation Security Administration (as long as the work began before the TSA was transferred to the Department of Homeland Security on March 1, 2003) will not break a current connection. State employment with the Alaska Railroad, as long as that railroad remains an entity of the State of Alaska, will not break a current connection. Also, non-creditable railroad service in Canada for a Canadian railroad will neither break nor preserve a current connection.

3. Are there any exceptions to these normal procedures for determining a current connection?

A current connection can be maintained for purposes of supplemental and survivor annuities if the employee completed 25 years of railroad service, was involuntarily terminated without fault from his or her last job in the railroad industry, and did not thereafter decline an offer to return to work in the same class or craft as his or her most recent railroad service, regardless of the location of the work offered.

If all of these requirements are met, an employee's current connection may not be broken, even if the employee works in regular nonrailroad employment after the 30-month period and before retirement or death. This exception to the normal current connection requirement became effective October 1, 1981, but only for employees still living on that date who left the rail industry on or after October 1, 1975, or who were on leave of absence, on furlough, or absent due to injury on October 1, 1975.

4. Would the acceptance of a buy-out have any effect on determining whether an employee could maintain a current connection under this exception provision?

In cases where an employee has no option to remain in the service of his or her railroad employer, the termination of the employment is considered involuntary, regardless of whether the employee does or does not receive a buy-out.

However, if an employee has the choice of either accepting a position in the same class or craft in the railroad industry or termination with a buy-out, accepting the buy-out is a part of his or her voluntary termination, and the employee would not maintain a current connection under the exception provision.

5. An employee with 25 years of service is offered a buy-out with the option of either taking payment in a single lump sum or of receiving monthly payments until retirement age. Could the method of payment affect the employee's current connection under the exception provision?

The employee must always relinquish job rights to accept the buy-out, regardless of whether it is paid in a lump sum or in monthly payments. Neither payment option would extend the 30-month period. The determining factor for the exception provision to apply when a buy-out is paid is not the payment option. It is whether or not the employee stopped working involuntarily.

An employee considering accepting a buy-out should also be aware that if he or she relinquishes job rights to accept the buy-out, the compensation cannot be used to credit additional service months beyond the month in which the employee severed his or her employment relation, regardless of whether payment is made in a lump sum or on a periodic basis.

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6. What if the buy-out agreement allows the employee to retain job rights and receive monthly payments until retirement age?

The RRB considers the buy-out to be a dismissal allowance. When a monthly dismissal allowance is paid the employee retains job rights, at least until the end of the period covered by the dismissal allowance. If the period covered by the dismissal allowance continues up to the beginning date of the railroad retirement annuity, railroad service months would be credited to those months. These railroad service months would provide at least 12 railroad service months in the 30 months immediately before the annuity beginning date and maintain a regular current connection. They will also increase the number of railroad service months used in the calculation of the railroad retirement annuity.

7. Could the exception provision apply in cases where an employee has 25 years of railroad retirement coverage and a company reorganization results in the employee's job being placed under social security coverage?

The exception provision has been considered applicable by the RRB in cases where a 25-year employee's last job in the railroad industry changed from railroad retirement coverage to social security coverage and the employee had, in effect, no choice available to remain in railroad retirement covered service. Such 25-year employees have been deemed to have a current connection for purposes of supplemental and survivor annuities.

8. Where can a person get more specific information on the current connection requirement?

Railroaders and former employees can contact the nearest field office of the RRB for information on how their eligibility for benefits is affected by this requirement.

Persons can find the address and phone number of the RRB office serving their area by calling the automated toll-free RRB Help Line at 1-800-808-0772 or by checking the RRB's Web site at www.rrb.gov. Most RRB field offices are open to the public from 9:00 a.m. to 3:30 p.m., Monday through Friday, except on Federal holidays.

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FROM THE DESK OF

V. M. SPEAKMAN, JR.
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U.S. RAILROAD RETIREMENT BOARD

VM Speakman Jr

For Publication
December 2006

RRB Customer Service Plan Update

The U.S. Railroad Retirement Board's Customer Service Plan promotes the principles and objectives of customer-driven quality service agency-wide. The RRB's plan states specifically the level of service that customers can expect, and an important part of the plan is a pledge to keep beneficiaries informed of how well the RRB is meeting the plan's standards. The plan is reviewed and updated periodically as the agency gains more experience with it, compares its service with the best in business and considers feedback received from its customers.

The following questions and answers provide information about the RRB's performance in the key areas of retirement applications, survivor applications, disability applications and payments, railroad unemployment and sickness benefit applications and claims, as well as the handling of correspondence during fiscal year 2006 (October 1, 2005 – September 30, 2006). Included are the customer service performance goals the RRB set for fiscal year 2006 in its Annual Performance Plan. These goals are revised annually based on such factors as projected workloads and available resources. Also included is information on the RRB's overall performance, as measured by the timeliness index developed by the agency.

1. How does the RRB measure overall timeliness for customer service?

The RRB developed an index to measure the overall timeliness of its customer service in four benefit areas: retirement applications; survivor applications; disability applications and payments; and railroad unemployment and sickness benefit applications and claims. This composite indicator, based on a weighted average, allows for a more concise and meaningful presentation of its customer service efforts in these benefit areas.

2. How timely, overall, was the customer service provided by the RRB in fiscal year 2006, as measured by this timeliness index?

During fiscal year 2006, the overall benefit timeliness index stood at 98.6 percent. This means that the RRB provided benefit services within the timeframes promised in the Customer Service Plan 98.6 percent of the time. More detailed performance information for specific benefit areas is presented in the questions and answers that follow.

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3. What standards were used by the RRB in fiscal year 2006 for processing applications for railroad retirement employee or spouse annuities and how well did it meet those standards?

Under the RRB's standards, if you filed for a railroad retirement employee or spouse annuity in advance, you will receive your first payment, or a decision, within 35 days of the beginning date of your annuity. If you have not filed in advance, you will receive your first payment, or a decision, within 65 days of the date you filed your application.

Of the cases processed during fiscal year 2006, 92.9 percent of both employee and spouse applicants who filed in advance received a payment, or a decision, within 35 days of their annuity beginning date. Average processing times for employee and spouse applications were 15.2 and 9.6 days, respectively; the combined average processing time for these cases was 12.5 days.

Also, of the cases processed, 98.1 percent of employee and 95.1 percent of spouse applicants who had not filed in advance received a payment, or a decision, within 65 days of their filing dates. Taken together, 96.2 percent of these cases met the agency's standard. In these cases, the average processing times for employee and spouse applications were 19.2 and 19.7 days, respectively; the combined average processing time was 19.5 days.

The RRB's goals in fiscal year 2006 were 92.0 and 94.0 percent timeliness, respectively, for those filing in advance and those not filing in advance.

4. What standards were used in the area of survivor benefits in fiscal year 2006?

Under the standards, if you filed for a railroad retirement survivor annuity or a lump-sum benefit, you will receive your first payment, or a decision, within 65 days of the date you filed your application, or became entitled to benefits, if later. If you are already receiving a spouse annuity, you will receive your first payment, or a decision, within 35 days of the date the RRB receives notice of the employee's death.

Of the cases considered during fiscal year 2006, 93.2 percent of the applicants for an initial survivor annuity received a payment or a decision within 65 days. In addition, 97.5 percent of the applicants for a lump-sum benefit received a payment or a decision within 65 days. In cases where the survivor was already receiving a spouse annuity, 95.7 percent of the applicants received a payment or a decision within 35 days of the RRB being notified of the employee's death. Average processing time for all applications for recurring monthly benefits (initial survivor applications and spouse to survivor conversions) was 20.2 days. The average processing time for lump-sum applications was 9.6 days.

The goals for fiscal year 2006 were 80.0 percent and 90.0 percent timeliness, respectively, for payment of a survivor annuity and for payment of a lump sum. For those already receiving a spouse annuity, the goal was 90.0 percent timeliness for payment of the survivor annuity.

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5. What standards were used by the RRB in fiscal year 2006 for processing applications for disability annuities under the Railroad Retirement Act?

Under the Customer Service Plan, if you filed for a disability annuity, you will receive a decision within 105 days of the date you filed your application. If it is determined that you are entitled to disability benefits, you will receive your first payment within 25 days of the date of the RRB's decision, or the earliest possible payment date, whichever is later.

Of the cases processed during fiscal year 2006, 65.9 percent of those filing for a disability annuity received a decision within 105 days of the date they filed an application. The average processing time was 92.1 days. Of those entitled to disability benefits, 95.2 percent received their first payment within the Customer Service Plan's time frame. Average processing time was 7.9 days.

The agency's goals were 55.0 percent and 92.0 percent timeliness, respectively, for disability decisions and disability payments.

6. What were the standards for the handling of applications and claims for railroad unemployment and sickness benefits and how well did the RRB meet these standards?

Under the standards, if you filed an application for unemployment or sickness benefits, you will receive a claim form, or a decision, within 15 days of the date you filed your application. If you filed a claim for subsequent biweekly unemployment or sickness benefits, you will receive your payment, or a decision, within 15 days of the date the RRB receives your claim form.

During fiscal year 2006, 99.5 percent of unemployment benefit applications sampled for timeliness and 99.5 percent of sickness benefit applications processed met the RRB's standard. Average processing times for unemployment and sickness benefit applications were 0.3 and 1.4 days, respectively.

In addition, 99.8 percent of subsequent claims processed for unemployment and sickness benefits met the RRB's standard for fiscal year 2006. The average processing time for claims was 3.9 days.

The agency's goals for processing unemployment and sickness applications in fiscal year 2006 were 96.0 percent timely for both unemployment and sickness. The payment or decision goal for subsequent claims was 98.0 percent timeliness.

7. What was the standard for replying to correspondence in fiscal year 2006?

The Customer Service Plan states that when you inquire by letter, you will receive a reply within 15 days of the date the agency receives your inquiry. If for any reason the RRB cannot reply within that time frame, it will acknowledge the letter and tell you how long it will be before your questions can be answered fully.

In fiscal year 2006, 98.4 percent of all correspondence the RRB received was responded to, either with an acknowledgement or with a final reply, within the standard.

The goal for 2006 was set at 95.0 percent.

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8. How did the RRB's performance in meeting its standards in fiscal year 2006 compare to its performance in fiscal year 2005?

Fiscal year 2006 performance improved when compared to fiscal year 2005 for initial survivor applications, lump-sum death benefits, spouse to survivor conversions, and disability payments. Also, the agency exceeded all of the customer service performance goals it had set for the year in its Annual Performance Plan.

9. Can beneficiaries provide feedback to the RRB about the service they receive?

A Customer Assessment Survey form is available in every field office allowing beneficiaries to evaluate the service they received and suggest how the agency can improve its service. Persons not satisfied with the service they received may contact the manager of the office with which they have been dealing or the regional director who is responsible for that office. Their names and addresses are available in each office.

The addresses and phone numbers of all the RRB's field offices are also available on the agency's Web site at www.rrb.gov or by calling the toll-free RRB Help Line at 1-800-808-0772. The RRB Help Line is an automated telephone service available 24 hours a day, 7 days a week.

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FROM THE DESK OF

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U.S. RAILROAD RETIREMENT BOARD

V M Speakman Jr

For Publication
February 2007

Longevity of Railroad Retirement Beneficiaries

Every three years, the Railroad Retirement Board's Chief Actuary conducts a study of the longevity of its annuitants, as part of a valuation of future revenues and benefit payments. The following questions and answers summarize the results of the most recent longevity study.

1. What were the study's finding on the life expectancy of retired male railroaders?

The most recent data reflected a continued improvement in longevity. Using data through 2003, the study indicated that, on the average, a male railroader retiring at age 60 can be expected to live another 20.7 years, or approximately 248 months. Studies done three, six and nine years ago indicated life expectancies of 20.1, 19.8, and 19.5 years, respectively, for this category of beneficiary. The study also indicated that a male railroader retiring at age 62 can be expected to live another 19 years (228 months), while the previous three studies indicated life expectancies of 18.5, 18.2, and 17.9 years, respectively. A male railroader retiring at age 65 can be expected to live another 16.6 years (approximately 199 months). The previous studies indicated life expectancies of 16.1, 15.8, and 15.5 years, respectively, for this category of beneficiary.

2. How did these life expectancy figures compare to those of disabled annuitants?

As would be expected, disabled annuitants have a shorter average life expectancy, but the difference decreases with age. At age 60, a disabled railroader has an average life expectancy of 15.8 years, or 4.9 years less than a nondisabled male annuitant of the same age; at age 65, a disabled annuitant has an average life expectancy of 3.6 years less than a nondisabled 65-year-old annuitant; and at age 70 the difference is only 2.7 years.

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3. Are women still living longer than men?

In general, women still live longer than men. This is shown both in the Railroad Retirement Board's life expectancy studies of male and female annuitants and by other studies of the general United States population.

For example, at age 60 a retired female railroader is expected on the average to live 24.2 years, 3.5 years longer than a retired male railroader of the same age; and at age 65, a retired female railroader is expected on the average to live 19.8 years, 3.2 years longer than her male counterpart. Spouses and widows age 65 have average life expectancies of 20 years and 18.1 years, respectively.

4. Can individuals use life expectancy figures to predict how long they will live?

Life expectancy figures are averages for large groups of people. Any particular individual's lifetime may be much longer or shorter than the life expectancy of his or her age and group.

According to the study, from a group of 1,000 retired male employees at age 65, 915 will live at least 5 years, 774 at least 10 years, 579 at least 15 years, and 352 at least 20 years. Of female age annuitants at age 65, 519 will be alive 20 years later.

5. How do the life expectancies of railroad retirement annuitants compare with those of the general population?

While exact data were not available for direct comparison, data available to the Railroad Retirement Board did not indicate significant differences. The entire longevity study is available on the agency's Web site at www.rrb.gov.

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