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Commerce Clearing House, Inc.
4025 West Peterson Avenue
Chicago, Illinois 60646

Attention: Mr. Paul Mueller

Dear Sirs:

The Railroad Retirement Board subscribes to the Commerce Clearing House publication "Unemployment Insurance Reports with Social Security." In issue number 707 of this publication, dated April 21, 1975, paragraph 12,513, "Credits for Railroad Employment," contains references to the Railroad Retirement Act of 1937 which were made as if that Act were currently in effect. However, the Railroad Retirement Act of 1974 (45 U.S.C. § 231, et seq.), enacted by Public Law No. 93-445, replaced the Railroad Retirement Act of 1937 effective January 1, 1975. The 1974 Act contains numerous changes which substantially alter many provisions of the 1937 Act, and therefore renders some of the information contained in paragraph 12,513 out of date and incorrect.

The eligibility requirements for regular employee age and disability annuities under the Railroad Retirement Act of 1974 remain the same as under the 1937 Act. The eligibility conditions for an employee's entitlement to a supplemental annuity differ from those contained in the previous law only in that under the new Act an employee who has completed 30 years of service is eligible for a supplemental annuity at age 60 rather than at age 65; the applicability of this liberalization, however, is confined to employees whose regular annuities first began to accrue on or after July 1, 1974.

In the case of spouses, the 1937 Act provided that a spouse of an employee could be eligible for a spouse's annuity only if the employee had attained age 65. Furthermore a spouse who did not have a child of the employee in her care could receive an unreduced spouse's annuity only if she had attained age 65 or a reduced annuity if she had attained age 62. These eligibility requirements were liberalized under the 1974 Act to provide: (1) that a spouse of an employee who has 30 years of service is eligible for an unreduced annuity when both she and the employee have attained age 60 [this liberalization is applicable only in cases where the employee's annuity first began to accrue on or after July 1, 1974] and (2) that a spouse of an employee who has less than

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30 years of service can receive an unreduced spouse's annuity when the employee has attained age 62 and the spouse has either attained age 65 or has a child of the employee in her care or a reduced spouse's annuity when the employee and the spouse have both attained age 62 [this liberalization is applicable only in cases where the employee's annuity first begins to accrue on or after January 1, 1975].

The eligibility requirements for survivor annuities under the 1974 Act are generally the same as those set forth in the 1937 Act.

Finally, the new Act contains a provision which provides automatic adjustments in the eligibility requirements for social security level annuity amounts or health care benefits provided under the Act whenever amendments to the Social Security Act become effective after December 31, 1974, to liberalize the eligibility requirements for similar benefits under that Act. No person can become entitled to an annuity under the Railroad Retirement Act by reason of this provision if: (1) the Social Security Act provided benefits for such a person prior to 1975 but the Railroad Retirement Act did not [examples of such persons would be divorced wives and children of living employees] or (2) the person does not satisfy a requirement contained in the new Railroad Retirement Act of a kind which was either not imposed by the Social Security Act on December 31, 1974, or was not liberalized by the amending legislation. Furthermore, the provision in question does not operate to provide annuities to an employee, and those deriving from him, who has less than 10 years of railroad service or to survivors in a case where the employee did not have a current connection with the railroad industry at the time of his death.

An employee's regular annuity under the new Railroad Retirement Act consists of two basic components--a social security level component computed under the social security benefit formulas on the basis of the employee's combined railroad and nonrailroad earnings (this component is reduced by the amount of any monthly social security benefit actually paid to the employee) and a staff level component based on railroad service only. The staff level component is composed of subcomponents based on past service (service prior to January 1, 1975, the effective date of the new Act) and future service. The past service subcomponent consists of two pieces: (1) an amount computed under the Railroad Retirement Act of 1937 on the basis of railroad service through December 31, 1974, less an imputed social security benefit amount based only on railroad service through December 31, 1974; and (2) \$1.50 for each of the employee's first 10 years of railroad service prior to 1975 plus \$1.00 for each year of the employee's railroad service prior to 1975 in excess of 10 years of service--this amount is provided only for employees who engage in railroad service after 1974. The future service portion of the employee's staff level

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benefit is equal to the sum of one-half percent of the employee's average monthly compensation after 1974 plus \$4.00 multiplied by the employee's years of service after 1974. Both the first piece of the employee's past service subcomponent and the future service subcomponent are subject to cost-of-living adjustments due to increases in the unadjusted Consumer Price Index during the period from September 30, 1976, through the earlier of September 30 of the year preceding the year in which the employee's annuity begins or September 30, 1980.

In addition to his regular annuity, an eligible employee will receive a supplemental annuity (which is considered a part of his total staff level annuity component) ranging in amount from \$23.00 to \$43.00. Finally, an employee with "vested rights" to benefits under both the Railroad Retirement Act and the Social Security Act as of a specified date (December 31, 1974, in the case of some employees and December 31 of the year in which the employee last performed railroad service in the case of other employees) receives an additional benefit amount based on his employment prior to 1975. This amount is intended to preserve an eligible employee's "right" to such dual benefits as had accrued prior to the effective date of the new Railroad Retirement Act.

Employee annuitants receiving annuities under the 1937 Act continue to draw the same amounts they were receiving before the effective date of the new Act, but their annuities are divided into social security level components and staff components. Up to four automatic cost-of-living adjustments in the staff level annuity components will be provided for employees whose annuities began to accrue on or before the effective date of any particular increase--these increases, which would be 32.5 percent of the applicable annual increase in the unadjusted Consumer Price Index, would become effective June 1, 1977, June 1, 1978, June 1, 1979, and June 1, 1980, respectively.

Spouses' annuities, like employee annuities, consist of a social security level component plus a staff level component. Generally speaking, the amount of each component is equal to one-half of the employee's corresponding component (exclusive of the employee's supplemental annuity), subject to the same spouse maximum as was contained in the 1937 Act. This spouse maximum provision specifies that the maximum payable under the Act to a spouse cannot exceed 110 percent of the maximum possible wife's insurance benefit payable to any wife under the Social Security Act. The social security level component is reduced if the spouse is entitled to a social security benefit based on either the employee's earnings or her own earnings. The spouse will, however, receive an additional benefit amount if she had "vested rights" to benefits under the Railroad Retirement Act and the Social Security Act as of the effective date of the 1974 Act. This additional amount compensates, with respect to benefit rights accrued prior to 1975, for the reduction in the social security level

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component of the spouse's annuity because of her entitlement to a benefit under the Social Security Act. Spouses' annuities being paid at the time the new Act became effective are continued at the same rates but, like employee annuities, are divided into components in accordance with the provisions of the new Act.

The employee and spouse annuities described above are subject to a maximum which, in a case where the employee had maximum earnings, will, generally speaking, limit the combined employee and spouse annuities to the greater of (1) \$1200.00 a month or (2) 90 percent of the employee's taxable earnings. In addition to this maximum provision, the new Act contains two minimum provisions applicable to employee and spouse annuities. The first of these minimums guarantees that, in cases where the employee's annuity begins to accrue before 1983, the total of the annuities and supplemental annuity payable to the employee and his spouse for any month under the new Act cannot be less than the total amount that would have been payable to them for that month under the 1937 Act as in effect on December 31, 1974, on the basis of the maximum monthly compensation creditable at that time. The second minimum provision is similar to the so-called social security minimum guaranty provision contained in the 1937 Act. Generally speaking, it assures that the total monthly benefits to a retired employee and his spouse will not be less than 100 percent (under the 1937 Act the guaranty was 110 percent) of the amount that would have been payable to the employee's family under the Social Security Act on the basis of his combined railroad and nonrailroad earnings.

A survivor, like an employee and a spouse, is entitled to a social security level benefit under the new Act computed on the basis of the deceased employee's combined railroad and nonrailroad earnings. This benefit, like a social security survivor benefit, is subject to reduction if the survivor becomes entitled to a social security benefit based on his or her own earnings. It is also subject to reduction by the amount of the social security level component of any employee annuity to which the survivor may be entitled. The staff component of the survivor annuity is equal to 30 percent of the social security level annuity component prior to any reduction due to receipt of a benefit based on the survivor's own earnings. An additional benefit amount may be payable to a widow or widower who had "vested rights" to benefits under both the Railroad Retirement Act and the Social Security Act on December 31, 1974. The new survivor annuity formulas are applicable to survivors on the benefit rolls when the new Act became effective. These formulas provide an increase in benefits for most survivors since survivors who are not entitled to benefits based on their own earnings previously received survivor annuities equal to 110 percent of the amount that would have been payable to them under the Social Security Act whereas under the new Act those same survivors receive 130 percent of that amount. Those survivors on the rolls who did not receive an increase under the new formulas were assured that there would be no decrease in the benefit amounts to which they are entitled.

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For your information, the provisions crediting railroad service under the Social Security Act where the employee has less than 10 years of such service are contained in section 18 of the Railroad Retirement Act of 1974. Other sections of the 1974 Act relevant to your acticle include section 2 concerning eligibility requirements, section 3 which contains the computation provisions for employee annuities, section 4 which contains the computation provisions for spouse and survivor annuities, and section 6 concerning lump-sum death benefit payments.

I trust that the above information will be of assistance to you.

Very truly yours,

Dale G. Zimmerman
General Counsel

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