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Railroad Retirement Board Annuities for Widows and Widowers

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Abstract

[Excerpt] The Railroad Retirement and Survivors' Improvement Act of 2001 (P.L. 107-16) increased monthly annuities for many Railroad Retirement Board (RRB) widow and widower beneficiaries. The legislation added a guaranty amount — a temporary supplemental payment — to the initial annuities, making them greater than previously. However, the legislation also provided that the monthly annuities would not increase with annual cost-of-living adjustments (COLAs) while guaranty amounts are paid, in effect keeping them constant for several years.

The rules for widow(er) annuities are a source of confusion among RRB beneficiaries. Many believe they are worse off after the 2001 law. However, all widow(er)s who are eligible to receive the initial minimum amount provided by the 2001 law receive an annuity that is greater than or equal to the annuity they would have received under the prior law. This report explains the provisions of the 2001 law that affect widow(er) annuities and provides an illustration of the annuities under both prior law and current law. The report will not be updated.

Keywords

RRB, Railroad Retirement and Survivors' Improvement Act of 2001, widow, beneficiaries, legislation, annuities, cost-of-living adjustment, paid, law

Comments

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Railroad Retirement Board Annuities for Widows and Widowers

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Summary

The Railroad Retirement and Survivors' Improvement Act of 2001 (P.L. 107-16) increased monthly annuities for many Railroad Retirement Board (RRB) widow and widower beneficiaries. The legislation added a guaranty amount — a temporary supplemental payment — to the initial annuities, making them greater than previously. However, the legislation also provided that the monthly annuities would not increase with annual cost-of-living adjustments (COLAs) while guaranty amounts are paid, in effect keeping them constant for several years.

The rules for widow(er) annuities are a source of confusion among RRB beneficiaries. Many believe they are worse off after the 2001 law. However, all widow(er)s who are eligible to receive the initial minimum amount provided by the 2001 law receive an annuity that is greater than or equal to the annuity they would have received under the prior law. This report explains the provisions of the 2001 law that affect widow(er) annuities and provides an illustration of the annuities under both prior law and current law. The report will not be updated.

Background on the Railroad Retirement Board (RRB)

The Railroad Retirement Board (RRB), an independent federal agency, administers retirement, survivors, disability, unemployment, and sickness benefits for railroad workers and their families.[1] Workers covered by the RRB system include those employed by railroads engaged in interstate commerce and related subsidiaries, railroad associations, and railroad labor organizations.

The RRB system is separate from the Social Security system, but the two programs are closely coordinated. Lifelong railroad workers receive RRB annuities instead of Social Security benefits; railroad workers who also had non-railroad employment receive

[1] For more explanation of RRB, please see CRS Report RS22350, *Railroad Retirement Board: Retirement, Survivor, Disability, Unemployment, and Sickness Benefits*, by Kathleen Romig.

benefits from either RRB or the Social Security Administration, depending on the length of their railroad service. To be insured for an RRB annuity, a worker must generally have at least 10 years of covered railroad work, or five years performed after 1995. The family of an insured railroad worker receives RRB annuities equal to or greater than the Social Security benefits they would have received if the worker's railroad work had been covered by Social Security. If a worker does not qualify for an RRB annuity, his or her railroad work counts toward Social Security benefits.

There are two basic components of RRB annuities: tier I and tier II. Tier I amounts are equivalent to Social Security benefits. They are calculated using the Social Security benefit formula with the RRB age and service requirements, and are based on both RRB- and Social Security-covered employment. After tier I amounts are first paid, they increase annually with a cost-of-living adjustment (COLA) in the same manner as Social Security benefits.[2] Tier II retirement amounts are paid in addition to tier I amounts and any private pension and retirement savings plans offered by railroad employers.[3] They are similar to private pensions and are based solely on covered railroad service. Tier II amounts are increased annually by 32.5% of the Social Security COLA.

The surviving spouses (and in some cases former spouses) of railroad workers may be eligible to receive widow or widower annuities from RRB after the worker's death. RRB survivor annuities are generally higher than comparable Social Security benefits since families of railroad workers may be entitled to tier II amounts as well as tier I amounts (which are equivalent to Social Security benefits). At full retirement age, a surviving spouse may be eligible for up to 100% of the worker's RRB annuity (or his or her own Social Security benefit, if higher). As early as age 60 (or age 50, if disabled), widows and widowers may receive a reduced annuity. At any age, a widow(er) caring for a deceased worker's child under age 16 may receive an annuity of up to 75% of the worker's tier I amount plus 100% of the worker's tier II amount.

Railroad Retirement and Survivors' Improvement Act of 2001

The Railroad Retirement and Survivors' Improvement Act of 2001 (P.L. 107-16, hereafter cited as "the 2001 law") was based on joint recommendations negotiated by railroad labor and management. The 2001 law increased initial annuities for the widow(er)s of qualifying railroad employees. Other provisions in the 2001 law, which are not covered in this report, include (1) allowing railroad retirement funds to be invested in non-governmental assets; (2) removing the early retirement reduction from tier I amounts for employees with 30 years of railroad experience who retire at age 60 or 61; (3) reducing the number of years required to be fully vested for tier II annuities; (4) repealing a maximum limitation on annuities; and (5) phasing in changes to the tier II tax structure.[4]

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[2] See CRS Report 94-803, *Social Security: The Cost-of-Living Adjustment in January 2007*, by Gary Sidor.

[3] Annual tier II annuities are 7/10% of a workers' average taxable monthly compensation for the highest 60 months of earnings times their years of service, less 25% of any vested dual benefit.

[4] For more information on the 2001 law, see Railroad Retirement Board, *The Railroad Retirement*

(continued...)

Widows and Widowers Affected by the 2001 Law. The changes to widow(er)'s annuities in the 2001 law apply to all widow(er)s who receive annuities starting in February 2002 or later. The new rules also apply to some widow(er)s who began to receive annuities before that date, if they would have received a higher benefit had the 2001 law been in effect on the day they began to receive annuities. For many widow(er)s who began to receive annuities before 2002, the new rules would not have increased their annuities because previous cost-of-living adjustments raised their annuities to a higher amount.

Changes to Widow and Widower Annuities. The 2001 law added a new guaranty amount that increased initial annuities for qualifying widow(er)s. Under prior law, widow(er)s received 100% of the employee's tier I amount and 50% of the employee's tier II amount. The 2001 law added a supplemental *guaranty amount*, initially set at 50% of the employee's tier II amount, to the amounts provided under prior law. The total *initial minimum amount* after the 2001 law (i.e., current law) is 100% of the tier I and tier II amounts the employee would have received at the time the widow(er) begins to receive an annuity, minus any applicable reductions (e.g., for early retirement).

Table 1. Initial Minimum Annuities for RRB Widow and Widower Beneficiaries Under Prior Law and Current Law

	Prior Law	Current Law
Tier I Amount	100% of deceased spouse's tier I amount	100% of deceased spouse's tier I amount
Tier II Amount	50% of deceased spouse's tier II amount	100% of deceased spouse's tier II amount (i.e., the sum of 50% of the deceased spouse's tier II amount and the guaranty amount)

Source: Railroad Retirement Board.

Notes: These initial amounts are subject to any applicable reductions (e.g., early retirement or family maximum). Prior law is before the 2001 law; current law is after the 2001 law.

Cost-of-Living Adjustments. The components of a widow(er)'s regular annuity change over time. Both the widow(er)'s tier I amount and regular tier II amount (i.e., not including the guaranty amount) are increased each year: tier I amounts are increased by the same amount as the Social Security COLA, and regular tier II amounts are increased by 32.5% of the Social Security COLA. However, the dollar amount of each year's COLA is offset by an equal reduction to the guaranty amount. Since the COLA increase and the guaranty reduction are equal, the total amount of a widow(er)'s monthly annuity will not change for several years. Thus, a widow(er)'s annuity in this period will stay the same in nominal terms, but decline in real terms (i.e., after adjusting for inflation). When the guaranty amount is ultimately reduced to zero, the widow(er) will begin to receive an

[4] (...continued)
and Survivors' Improvement Act of 2001, T-35, Jan. 2002, at [www.rrb.gov/pdf/opa/t35.pdf].

increase in his or her total monthly annuity for the first time, as the tier I and regular tier II annuities continue to increase each year by the applicable COLA.

Higher Widow and Widower Annuities After the 2001 Law. All widow(er)s who are eligible to receive the initial minimum amount provided by the 2001 law receive annuities that are greater than or equal to the annuities they would have received under prior law. In 2001, before the changes to widow(er) annuities took effect, the average aged widow(er) annuity awarded was $1,138 per month in real 2005 dollars.[5] In 2005, four years after the change, the average aged widow(er) annuity awarded was $1,416 per month in real 2005 dollars.[6]

Illustration of a Widow Annuity Under Prior and Current Law

To see how widow(er) annuities are calculated under current law and prior law, consider a widow who has reached the full retirement age whose husband died in 2006. This illustration is based on a hypothetical widow; other widow(er)s' outcomes will vary.

Initial Annuity Amount. As shown in **Table 2**, the widow's initial annuity under prior law (had it applied in 2006) would have been $1,150 ($1,000 tier I and $150 tier II). Under current law, the widow's initial minimum amount would be $1,300 per month ($1,000 tier I and $300 tier II). Her tier II annuity under current law is composed of a regular tier II amount of $150 as well as a guaranty amount of $150 (each representing 50% of the tier II annuity her husband would have received in 2006). Because of the addition of the guaranty amount to her regular annuity, her total annuity amount is $150 more than she would have received under prior law.

Cost-of-Living Adjustments. **Table 2** also shows that the widow's total annuity will not increase due to COLAs until her tier I and regular tier II amounts begin to exceed her initial minimum amount. Thus, her total annuity ($1,300) would not increase during the years between 2006 and 2012. Though the total amount of her annuity stays the same, the components would change each year. The widow's tier I amount would increase from $1,000 in 2006 to $1,023 in 2007 (i.e., by $23), and her regular tier II amount would increase from $150 in 2006 to $151 in 2007 (i.e., by $1). This increase of $24 in the regular annuity mirrors what the widow would have received under prior law. At the same time, the widow's guaranty amount would decrease by $24, from $150 to $126, because of the annual offset to the guaranty amount. As a result, her total tier II annuity under current law (i.e., her regular tier II amount plus her guaranty amount) would be $277 in 2007. Even though the widow does not receive a COLA, her annuity is greater than it would have been under prior law.

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[5] Railroad Retirement Board, *Annual Railroad Retirement Act & Railroad Unemployment Insurance Act Data, Statistical Tables: Data through Fiscal Year 2005*, Table B2, Sept. 2006, at [http://www.rrb.gov/pdf/act/ST05partb1.pdf].

[6] This figure applies only to aged survivors. However, widow(er)s of any age caring for a qualifying child may also receive the higher initial minimum amount.

Table 2. Illustration of RRB Monthly Annuities for a Widow Awarded Benefits in 2006, Under Prior Law and Current Law

Year	Prior Law			Current Law				Difference
	Tier I	**Tier II**	**Total**	**Tier I**	**Tier II**	***Guaranty***	**Total**	**Total**
2006	$1,000	$150	$1,150	$1,000	$300	*$150*	$1,300	**$150**
2007	$1,023	$151	$1,174	$1,023	$277	*$126*	$1,300	**$126**
2008	$1,046	$152	$1,198	$1,046	$254	*$102*	$1,300	**$102**
2009	$1,073	$153	$1,226	$1,073	$227	*$74*	$1,300	**$74**
2010	$1,103	$155	$1,258	$1,103	$197	*$42*	$1,300	**$42**
2011	$1,134	$156	$1,290	$1,134	$166	*$10*	$1,300	**$10**
2012	$1,165	$158	$1,323	$1,165	$158	*$0*	$1,323	**$0**
2013	$1,198	$159	$1,357	$1,198	$159	*$0*	$1,357	**$0**
2014	$1,232	$161	$1,392	$1,232	$161	*$0*	$1,392	**$0**
2015	$1,266	$162	$1,428	$1,266	$162	*$0*	$1,428	**$0**

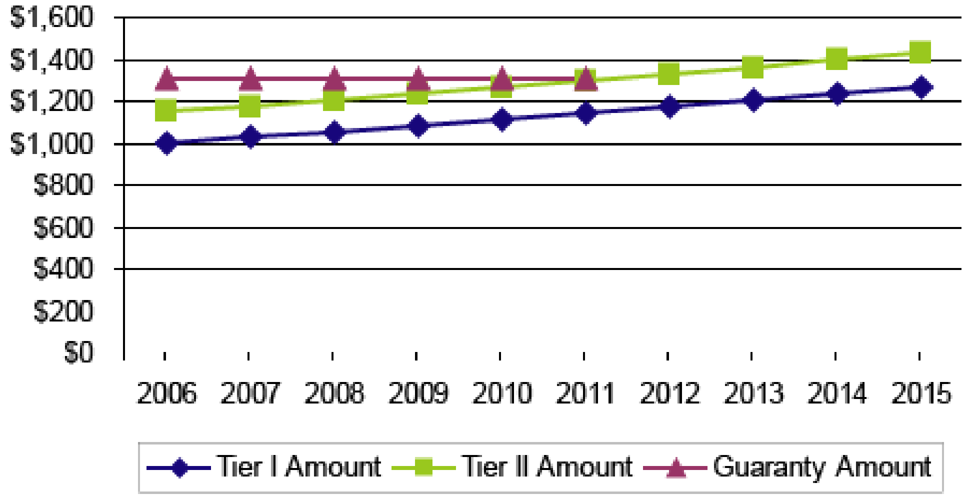
Source: Congressional Research Service calculations using the intermediate projections of cost-of-living adjustments from the *2006 Social Security Trustees Report*.

Notes: The guaranty amounts are included in the tier II annuities under current law. They are also presented separately in this table for illustrative purposes.

In 2012, the amount of the widow's total monthly annuity would begin to increase due to COLAs. At that point, her guaranty amount will have been reduced to zero, after gradually declining each year to offset the amount of the annual COLA. In other words, starting in 2012, her tier I and regular tier II amounts would begin to exceed her initial minimum amount. Under current law the widow's total monthly annuity would be $1,323 in 2012, higher than her 2011 annuity amount of $1,300. In 2012 and for each year thereafter, the amount of the widow's total monthly annuity under current law is the same as it would have been under prior law. For example, in 2012, her annuity would be $1,323 under both current law and prior law.

Figure 1 presents the differences between current and prior law, using the amounts shown in **Table 2**. Under prior law, the widow's monthly annuity in 2006 would have been the sum of the tier I amount ($1,000) and the tier II amount ($150), or $1,150, shown at the top of the tier II line in the figure. Under current law, however, the widow also receives the guaranty amount ($150), bringing her total annuity in 2006 to $1,300, shown at the top of the guaranty amount line in the figure. After 2006, the guaranty amount shrinks each year as the tier I and tier II amounts increase, because of the annual offset to the guaranty amount.

Figure 1. Illustration of RRB Monthly Annuity for a Widow Awarded Benefits in 2006, Current Law



Source: Congressional Research Service calculations using the intermediate projections of cost-of-living adjustments from the *2006 Social Security Trustees Report*.

Notes: In this figure, the widow's current law annuity is equal to the top line. Under prior law, the widow would have received the same tier I and regular tier II amounts, but not the guaranty amount; thus, the prior law annuity is equal to the top of the green line.