



RRB News

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The Railroad Retirement System: Its First Seventy-Five Years

The 75th anniversary of the enactment of the Railroad Retirement Act of 1935 is being observed during 2010. Part of President Franklin Delano Roosevelt's New Deal legislation, the Act was signed into law on August 29, 1935.

It was in the rail industry that the first formal industrial pension plan in North America was established in 1874. By 1925, more than three-fourths of all railroad workers in the United States were covered by pension plans. However, relatively few employees actually received benefits under these plans, and during the Great Depression of the 1930s the plans had difficulty meeting their obligations. Older workers consequently exercised seniority rights to continue working, and accounted for a disproportionate number of the industry's employees. Railway labor sought legislation to continue railroad pensions as part of a reliable and equitable national program.

Legislation was enacted in 1934, 1935 and 1937 to establish a railroad retirement system separate from the social security program enacted in 1935. The social security program would not credit past service and was not scheduled to begin monthly benefit payments until the 1940s. Legislation taking into account the particular circumstances of the rail industry was not without precedent. Numerous laws pertaining to rail operations and safety had already been enacted since the Interstate Commerce Act of 1887. Since passage of the Railroad Retirement Acts of the 1930s, numerous other railroad laws have been enacted.

The 1934 Act was declared unconstitutional by the Supreme Court and the 1935 Act was also challenged in the Courts. Nonetheless, the Railroad Retirement Board (RRB) made its first annuity payments 11 months after passage of the 1935 legislation. While an appeal was pending, railroad management and labor, at the urging of President Roosevelt, resolved their differences in a memorandum of agreement which led to the Railroad Retirement and Carriers' Taxing Acts of 1937. In July 1937, the benefit payments of almost 50,000 pensioners were taken over by the RRB and by the end of 1938, almost 100,000 employees had retired under the system.

This legislation set up a staff retirement plan providing annuities based on an employee's creditable railroad earnings and service. Annuities could be paid at age 65 or later, regardless of length of service, or at ages 60-64 (on a reduced basis) after 30 years of service. Disability benefits were payable after 30 years of service or at age 60.

Numerous amendments after 1937 increased benefits and added benefits for dependents. Amendments enacted in 1946 and 1951 added survivor and spouse benefits, liberalized disability benefit requirements and established jurisdictional coordination with the Social Security Administration.

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In addition, a financial interchange was established between the two systems to equitably apportion the costs of benefits and taxes based on rail service. This financial interchange, which ensures that the Social Security Trust Funds neither gain nor lose from the existence of the railroad retirement system, became an integral source of railroad retirement funding in subsequent decades. In 1965, the financial interchange served as an operating vehicle through which the Medicare program was extended to railroad retirement beneficiaries.

The recurring inflation and recession in the national economy during the 1970s and 1980s created formidable actuarial problems for pension systems, particularly those providing substantial cost-of-living protection for beneficiaries. Railroad retirement annuities, like social security benefits, were increased by an aggregate of 52 percent between 1970 and 1972 alone. The cost of these increases jeopardized the solvency of the system and Congress directed that a Commission on Railroad Retirement study the system and its financing for the purpose of recommending changes that would ensure adequate benefit levels on an actuarially sound basis.

Following the Commission's study, railway labor and management proposed a restructuring of the railroad retirement system that was enacted into law as the Railroad Retirement Act of 1974. The 1974 Act provided a two-tier system with a first tier formula yielding amounts equivalent to social security benefits, taking into account both railroad retirement and nonrailroad social security credits. A second tier formula, based on railroad service exclusively, provided benefits comparable to those paid over and above social security benefits by other industrial pension systems. The Act eliminated duplications in dual railroad retirement-social security benefits for new hires and individuals not vested as of December 31, 1974, under both programs, but protected the equities of employees vested for dual benefits before 1975. It was anticipated that the changes in the benefit formulas, the reduction in dual benefits, higher investment earnings, plus provisions for additional funds from the Federal Government to pay the phase-out costs of dual benefits would place the railroad retirement system on a reasonably sound basis.

However, neither industry nor government at that time anticipated the resurgence of double digit inflation in the latter part of the 1970s and the recession of 1981. Financial amendments were subsequently enacted in 1981 as part of the Omnibus Budget Reconciliation Act and in 1983 under the Railroad Retirement Solvency Act. These amendments raised retirement taxes, deferred cost-of-living increases, reduced early retirement benefits, limited future vested dual benefits, and subjected annuities to Federal income tax. These amendments also simplified benefit formulas, provided protection for divorced spouses and remarried widow(er)s, liberalized the current connection requirement for career employee benefits, and increased benefits for disabled widow(er)s and employees with military service.

Legislation in 1988 liberalized work restrictions and the crediting of military service in certain cases. It also provided more equitable treatment of separation or severance pay for railroad retirement purposes.

In 2001, the Railroad Retirement and Survivors' Improvement Act, the most significant railroad retirement legislation in almost 20 years, and the first in almost three decades not to involve tax increases or benefit reductions, was signed into law. The benefit and financing provisions of the legislation, like those of most previous railroad retirement legislation, were based on joint recommendations negotiated by a coalition of rail freight carriers and rail labor organizations.

The Act liberalized early retirement benefits for 30-year employees and their spouses, eliminated a cap on monthly retirement and disability benefits, lowered the minimum service requirement from 10 years to 5-9 years, if at least 5 years were after 1995, and provided increased benefits for some

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widow(er)s. Financing sections in the law provided for adjustments in the payroll tax rates paid by employers and employees, and the repeal of a supplemental annuity work-hour tax.

The legislation also created the National Railroad Retirement Investment Trust, which manages and invests railroad retirement funds in non-governmental assets, as well as in governmental securities.

The **railroad unemployment insurance system** was also established in the 1930s. While the State unemployment programs first provided in 1935 generally covered railroad workers, railroad operations which crossed State lines caused special problems. Unemployed railroad workers were denied compensation by one State because they became unemployed while working in another State or because their employer had paid unemployment taxes in another State. Although there were cases where employees appeared to be covered in more than one State, they often did not qualify in any.

A National Security Commission reporting on the nationwide State unemployment plans recommended that railroad workers be covered by a separate plan because of the complications their coverage had caused the State plans. Congress subsequently enacted the Railroad Unemployment Insurance Act in 1938, which established a system of benefits for unemployed railroad workers, plus a free placement service, financed by a payroll tax payable by employers. Benefits became payable on July 1, 1939.

Amendments enacted in 1946 increased the maximum daily benefit rate and the maximum duration to 26 weeks. They also provided sickness benefits; at that time, only two States, Rhode Island and California, had sickness plans.

Amendments enacted in the 1950s raised the maximum daily benefit rate in stages, provided extended unemployment benefits for 13 weeks to employees with at least 10 years of service and 26 weeks of extended benefits to 15-year employees. In 1968, legislation increased the daily benefit rate and provided extended benefits for sickness on essentially the same basis as for unemployment.

Amendments in 1975 increased the maximum daily benefit rate and liberalized the basic eligibility requirements for new employees by lowering the 7-month base-year service requirement to 5 months. In addition, the 1975 amendments mandated a 7-day waiting period for benefit payments resulting from strikes. The tax rate schedule was increased, starting in 1976, depending on the balance in the account, in order to finance the increased benefits. This legislation also lowered the waiting period for sickness benefits.

The national economic recession of the early 1980s caused large-scale railroad layoffs. The layoffs increased unemployment benefit payments to record levels which far exceeded unemployment tax income and necessitated high levels of loans from the Railroad Retirement Account. The Railroad Unemployment Insurance Account owed the Railroad Retirement Account a peak amount of over \$850 million at the end of fiscal year 1986. Financial measures to assist the Railroad Unemployment Insurance Account were included in the Railroad Retirement Solvency Act enacted in 1983.

The Solvency Act raised the taxable limit on monthly earnings and the base-year qualifying amount. The waiting period for benefits during strikes was increased from 7 to 14 days. A temporary repayment tax on railroad employers was scheduled to begin July 1, 1986, to initiate repayment of loans made by the Railroad Retirement Account. Sickness benefits, other than those resulting from on-the-job injuries, were made subject to Federal income tax. The legislation also mandated the establishment of a Railroad Unemployment Compensation Committee to review the unemployment and sickness benefits programs and submit a report to Congress.

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Legislation in 1986 amended the repayment tax and provided for an automatic surtax on rail employers if further borrowing took place.

In 1988, the most significant railroad unemployment insurance legislation in decades was enacted. Based on the recommendations of the Railroad Unemployment Compensation Committee, the Railroad Unemployment Insurance and Retirement Improvement Act of 1988 increased the railroad unemployment and sickness daily benefit rate, and indexed future benefit rates and qualifying earnings requirements to national wage levels. This legislation improved the railroad unemployment insurance system's financing by indexing the tax base to increased wage levels, experience rating employer contributions and assuring repayment of the system's debt to the Railroad Retirement Account. In June 1993, the \$180 million loan balance was repaid in its entirety from cash reserves in the Railroad Unemployment Insurance Account and the loan repayment tax was terminated.

The 1988 amendments also required the RRB to make annual financial reports to Congress on the status of the unemployment insurance system. The reports have been favorable.

Legislation enacted in 1996 increased the railroad unemployment and sickness insurance daily benefit rate and revised the formula for indexing future benefit rates. It also reduced the waiting period for initial benefit payments and eliminated duplicate waiting periods in continuing periods of unemployment and sickness. In addition, the legislation applied an earnings test to claims for unemployment and reduced the duration of extended benefit periods for long-service employees.

By the beginning of the 2010 anniversary year, railroad retirement benefits of \$281 billion had been paid by the RRB to 2,000,000 retired employees, 1,100,000 spouses and 2,400,000 survivors; unemployment and sickness benefits had totaled some \$8 billion. The first retirement annuities awarded under the 1935 Railroad Retirement Act averaged \$60 a month and no monthly benefits were payable to spouses or survivors. Currently, employee annuity awards average about \$2,700 a month, annuities for spouses average over \$900 a month, and annuities to aged and disabled widow(er)s just over \$1,700 a month.

In 2010, nearly 600,000 beneficiaries will receive retirement and survivor benefits of about \$11 billion, and about 42,000 persons will receive unemployment and sickness benefits of about \$300 million.

Originally headquartered in Washington, D.C., the RRB was moved during World War II to the railroad crossroad of the nation, Chicago, Illinois. Since 1942, the agency's headquarters have been at 844 N. Rush Street, just north of the Chicago Loop. The RRB also maintains field offices across the country in railroad localities.

Established in a time of national crisis, and periodically challenged during the past 75 years, the railroad retirement system has nonetheless continued to serve railroad employees and their families through programs affording protection against the economic hazards of old age, disability, unemployment and sickness.

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