

# Notes and Brief Reports

## Railroad Retirement Amendments of 1966\*

Two amendments to the Railroad Retirement Act were enacted on October 30, 1966. Public Law 89-699 institutes a temporary system of supplemental annuities for certain career railroad employees and provides a 7-percent increase in annuities for those not eligible for the supplemental annuities, reduced by the amount of increase in annuities or social security benefits as a result of the Social Security Amendments of 1965. Public Law 89-699 also contains financing provisions for these benefit changes. Public Law 89-700 makes a number of changes in the railroad retirement system, brings it into closer conformity with the social security program, and corrects some inequities.

### Temporary Supplemental Annuities

A temporary supplemental annuity is provided for railroad employees aged 65 or over whose regular railroad retirement annuity is awarded after June 30, 1966, who have a current connection with the railroad industry (generally 12 months of service in the 30 months preceding retirement); and who have at least 25 years of service. It should be noted that eligibility is based on administrative action (date of award) rather than on demographic items (such as date of birth) or on the individual's action (date of filing claim).

The monthly supplemental annuity is \$45 plus \$5 for each year of service in excess of 25, with a maximum of \$70 (produced by 30 years of service). The supplemental annuity is reduced by the amount of any private railroad pension based on employer contributions. If the private pension is reduced because the employee is eligible for the supplemental annuity, the latter remains not less than such reduction, so that the employee will not receive less in total amount as a result of the reduction.

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The temporary supplemental program is financed by a tax on employers of 2 cents per manhour paid for, with each employer's tax liability reduced by any reduction in supplemental annuities as a result of the employer's pension payments. Taxes are deposited in a new fund, the Railroad Retirement Supplemental Account, from which the supplemental annuities and the applicable administrative expenses are paid. This account may borrow such funds as are needed for the first 6 months of operation from the railroad retirement account, with repayment to be made with interest by the end of the first year.

The temporary supplemental annuities may begin as early as November 1966. The law provides that these annuities shall cease after October 1971. The amounts of the supplemental annuities may be reduced proportionately for the last 12 months of operation of the program if funds available in the new account will not be sufficient to pay the full amount. The supplemental annuities are subject to income tax, unlike the situation for regular railroad retirement benefits and social security benefits.

If the temporary supplemental annuity program is extended beyond the 5-year period—so that its beneficiaries do not suffer a reduction in total benefit income then—the cents-per-man-hour contribution rate would obviously have to be increased above the 2-cent level. The cost in the early years of the 5-year period is low because only new awards after June 30, 1966, receive these benefits, and the pension roll of eligibles increases only gradually. If the program is made permanent, the cents-per-man-hour cost, expressed in a current-cost manner, will increase for several decades.

### Annuitant Increase of 7 Percent

Annuitants not eligible for the temporary supplemental annuities (after October 1971, including those who previously had received the temporary supplemental annuities) receive a 7-percent increase, reduced by the amount of increase in any social security benefits payable that is attributable to the increased benefit formula contained in the Social Security Amendments of 1965. For example, a man receiving a railroad

retirement annuity of \$150 and a social security benefit of \$107 for October 1966 would receive a railroad retirement annuity for November of \$153.50 because the 7-percent increase (\$10.50) would be reduced by \$7, representing the increase in his social security benefit as a result of the 1965 amendments. If a supplemental annuity is reduced for receipt of a private pension, the employee is guaranteed at least a 7-percent increase. Benefits based on the social security minimum guarantee generally will not be increased, and the increase in spouse's annuities (and widow's annuities based thereon) may not bring the total to more than 110 percent of the maximum wife's benefit payable under the Social Security Act. The increase is financed by an increase of  $\frac{1}{2}$  of 1 percent in the combined employer-employee tax rate for all future years. The new schedule of contribution rates is shown in table 1.

### Changes Conforming to Social Security Program

These changes provide annuities for children who are in regular attendance at school up to age 22; continue disability annuities for 2 months after recovery; provide separate reduction for any subsequent increase in an actuarially reduced annuity on the basis of the annuitant's age at the time the increase becomes payable; allow adoption of a child by his brother or sister without terminating his annuity; and permit payment of the lump-sum death payment to a funeral home or to cover burial expenses if there is no eligible widow or widower.

### OASDI Minimum Guarantee

This guarantee formerly provided that a railroad retirement annuity should be not less than

TABLE 1.—Combined employer-employee tax rates (percent) under railroad retirement system

Period	Cash benefits	Hospital benefits	Total
1966.....	15.2	0.7	15.9
1967.....	16.3	1.0	17.3
1968.....	16.8	1.0	17.8
1969-72.....	18.3	1.0	19.3
1973-75.....	19.2	1.1	20.3
1976-79.....	19.2	1.2	20.4
1980-86.....	19.2	1.4	20.6
1987 and after.....	19.2	1.6	20.8

110 percent of the amount (or the additional amount) that would be payable under the Social Security Act based on the combined earnings record under the two systems. Annuitants receiving benefits under both programs and subject to this guarantee could thus receive a smaller total amount as the result of an increase in the social security benefit. For example, if an individual's combined earnings record would produce a social security benefit of \$122 and he actually received a social security benefit of \$50, then his railroad retirement annuity under the social security minimum guarantee provision was \$79.20—110 percent of \$72 (\$122 minus \$50)—and he received a total from both systems of \$129.20. If a recomputation increased the social security benefit to \$60, then the railroad retirement annuity became \$68.20—110 percent of \$62 (\$122 minus \$60)—and the total from both systems was \$128.20, a reduction of \$1.00.

Under the change, such individuals receive, as a railroad retirement annuity, 110 percent of the total amount, less any social security benefit payable. Under the foregoing example, the railroad retirement annuity would be \$84.20 (110 percent of \$122, less \$50 received in social security benefits). When the latter increased to \$60, the railroad retirement benefit would be reduced to \$74.20, and the total payment from both systems would remain the same, \$134.20.

### Other Changes

One anomaly that is eliminated concerns the widow who was previously not eligible for a railroad retirement annuity because she was not living with her husband at the time of his death and who was not eligible for a social security benefit even though the deceased worker had sufficient covered earnings under the social security program to so qualify her, because the railroad retirement system had jurisdiction of the case. The "living with" requirement was removed by the 1966 amendments. Similarly, wives' annuities may be paid based on having in her care a child who would otherwise be eligible for a survivor benefit upon the death of the retired employee, even if he did not have a current connection with the railroad industry at the time of retirement (as was formerly required).

Computation of the residual amount (which is, in essence, a refund of the employee contributions plus an allowance for interest minus benefits paid, after all rights to monthly benefits have terminated) was changed to continue to assure that it will accomplish its purpose. This change was necessitated by increases in tax rates enacted in 1965 and 1966. Taxes to cover hospital insurance benefits are not considered, however.

### Financing

The temporary supplemental annuity program is assumed to be adequately financed for the 5-year period that it is intended to be in existence, with a reduction in annuities provided in the last 12 months if the tax income proves insufficient. The cost of the 7-percent increase is estimated to range between .52 and .85 percent of taxable payroll. The latter figure is based on the law as it was enacted in regard to the temporary supplemental annuity program—that is, that it will end after October 1971. The first figure is based on the assumption that the temporary system will be made permanent. The additional financing provided is a combined employer-employee contribution rate of .5 percent of payroll.

The changes contained in Public Law 89-700 are estimated to cost .16 percent of payroll, increasing the lack of actuarial balance to .78 percent of payroll (before considering the effect of Public Law 89-699). No additional financing is provided for these changes.

### Illustrative Annuities

Table 2 shows separately the amount of monthly retirement annuities for a retired railroad employee with and without eligibility for a supplemental annuity. The amount of the spouse's annuity, also shown in table 2 is the same in either case (being based on what the retired worker would receive if he were not receiving a supplemental annuity).

It may be noted that two individuals born on the same day, retiring on the same day, applying for annuities on the same day, and having identi-

TABLE 2.—Illustrative monthly retirement annuities under the Railroad Retirement Act as amended in 1966

Average monthly compensation	10 years of service		20 years of service	25 years of service	30 years of service	40 years of service <sup>2</sup>
	OASDHI minimum guarantee applicable <sup>1</sup>	OASDHI minimum guarantee not applicable				
Retired worker not eligible for supplemental annuity						
\$100-----	\$69.60	<sup>3</sup> \$53.50	<sup>3</sup> \$89.35	<sup>3</sup> \$89.35	\$94.05	\$125.45
150-----	86.10	<sup>2</sup> 53.50	89.65	112.05	134.45	179.25
200-----	98.90	53.75	107.55	134.45	161.25	215.05
250-----	111.90	62.75	125.45	156.75	188.15	250.85
300-----	123.70	71.65	143.35	179.15	214.95	286.65
350-----	136.70	80.65	161.25	201.55	241.85	322.45
400-----	149.50	89.55	179.15	223.95	268.65	358.25
450-----	160.60	98.55	197.05	246.25	295.55	394.05
500-----	172.70	106.85	213.75	267.15	320.55	427.45
550 <sup>4</sup> -----	184.80	115.25	230.45	288.05	345.65	460.85
Spouse (aged at least 65) of retired worker						
\$100-----	\$34.80	\$26.75	\$44.75	\$44.75	\$47.05	\$62.75
150-----	43.10	26.75	44.85	56.05	67.25	89.65
200-----	49.50	26.95	53.85	67.25	80.65	92.40
250-----	56.00	31.45	62.75	78.45	92.40	92.40
300-----	61.90	35.85	71.75	89.65	92.40	92.40
350-----	68.40	40.35	80.65	92.40	92.40	92.40
400-----	74.80	44.85	89.65	92.40	92.40	92.40
450-----	80.30	49.35	92.40	92.40	92.40	92.40
500-----	86.40	53.45	92.40	92.40	92.40	92.40
550 <sup>4</sup> -----	92.40	57.65	92.40	92.40	92.40	92.40
Retired worker eligible for supplemental annuity						
\$100-----	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	\$128.50	\$157.95	\$187.25
150-----	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	149.65	195.55	237.45
200-----	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	170.55	220.65	270.85
250-----	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	191.45	245.65	304.25
300-----	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	212.25	270.75	337.65
350-----	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	233.15	295.75	371.05
400-----	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	254.05	320.85	404.45
450-----	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	274.95	345.85	437.85
500-----	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	295.75	370.95	471.25
550 <sup>4</sup> -----	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	316.65	395.95	504.65

<sup>1</sup> Average monthly wage under OASDHI assumed to be the same as the average monthly compensation under railroad retirement.

<sup>2</sup> Not payable before 1977.

<sup>3</sup> Railroad retirement minimum.

<sup>4</sup> All service must be after 1965.

<sup>5</sup> Not possible to be eligible.

cal wage records, may receive total benefits that differ by more than \$60 (when one receives a \$70 supplemental annuity and the other receives only a 7-percent increase on his regular annuity) simply because one annuity was awarded by the Railroad Retirement Board on June 30, 1966, and the other on the next day.

Or a man who retires on October 31, 1966, may fail to receive the supplemental annuity because he has only 293 months of service; had he worked on November 1, for one day, and then retired, he would have been eligible for a supplemental annuity of \$45 per month, instead of the 7-percent increase, which might be only about \$10 per month.