

## Determining the Tier 2 amount

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### Gross tier 2

The formula for the gross tier 2 amount is 7/10 of 1% of the employee's average monthly railroad earnings (up to the tier 2 taxable maximum earnings base) in the 60 months of highest earnings, times the years of service in the rail industry.

$$.007 \times \text{Average monthly earnings for highest 60 months of earnings} \times \text{Years of service} = \text{Tier 2}$$

Table 4 shows the tier 2 taxable maximum earnings base from 1973-2002.

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### Example 1

An employee retired in December 2001 with 40 years of service. His earnings for the 5 years ending in 2001 (which were also his highest 60 months of earnings) were:

1997 - \$42,000  
1998 - \$44,000  
1999 - \$45,000  
2000 - \$47,000  
2001 - \$50,000

His total earnings (\$228,000) divided by 60 equals average monthly earnings of \$3,800. Multiplied by .007 (7/10 of 1 percent) this yields \$26.60, which when multiplied by his years of service (40) provides a tier 2 of \$1,064.

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## Determining the Tier 2 amount, Continued

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### Example 2

An employee retired in December 2001 with 35 years of service. Her annual earnings for the 5 years ending in 2001 (which were also her highest 60 months of service) were:

1997 - \$58,000  
1998 - \$58,000  
1999 - \$60,000  
2000 - \$62,000  
2001 - \$65,000

As her earnings were over the tier 2 taxable maximums, and since only annual earnings up to the tier 2 tax base can be considered in computing tier 2, the following amounts would be used:

1997 - \$48,600  
1998 - \$50,700  
1999 - \$53,700  
2000 - \$56,700  
2001 - \$59,700

Her total creditable earnings for tier 2 purposes were \$269,400, which yield average monthly earnings of \$4,490. Multiplied by .007, this yields \$31.43, which when multiplied by 35 provides a tier 2 of \$1,100.05.

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### Effect of a vested dual benefit

Reduce the gross tier 2 component by 25% of any gross employee vested dual benefit payable.

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### Age reductions

Apply age reductions to tier 2 for those employees retiring between

- ages 62 and full retirement age with less than 30 years of service.

The 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.

Full retirement age is gradually rising as mentioned earlier. However, if an employee had any creditable railroad service before August 12, 1983, the retirement age for tier 2 purposes will remain 65.

No age reduction applies to employees who retire with 30 years of service.

**Note:** Employees with 5-9 years of creditable service after 1995 are eligible for tier II benefits the first full month they are age 62. Their tier II benefits are subject to the same reductions that apply to employees with 10 to 29 years of service. If they are eligible on the basis of total disability, a tier II benefit is not payable until age 62 and that amount is reduced for early retirement.

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## Determining the Vested Dual Benefit amount

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### **Amount payable**

*For employees meeting the vesting requirements*, the additional amount is determined by computing PIA's based solely on the individual's

- railroad service before 1975,
- social security covered earnings before 1975, and
- combined railroad and nonrailroad earnings before 1975.

The vested dual benefit is the amount by which the total of the first two PIA computations exceeds the third PIA computation.

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### **Cost-of-living increase**

Increase the vested dual benefit by the cumulative cost-of-living percentage applicable to tier 1 benefits that occurred between

- January 1, 1975 *and* the date of retirement  
*or*
- January 1, 1982, whichever was earlier.

The computed amount is then frozen; that is, no further cost-of-living increases are applied thereafter.

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### **Age reductions**

Apply the same formula for age reductions as used for the tier 1 component of those employees retiring at

- ages 62 through full retirement age with less than 30 years of service.

No age reduction applies to employees who retire with 30 years of service.

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## Determining the Supplemental Annuity amount

### Amount payable

For employees meeting eligibility requirements, the amount payable is equal to

- \$23 for the first 25 years of service
- plus \$4 for each full year of service over 25, up to a maximum of \$43 (30 years of service)

**Note:** For any fractional years between 25 and 30, a fraction of \$4 is added to the minimum rate of \$23.00.

### Effect of receiving an employer private pension

If paid for by ...	Then ...
employer contributions	<p><b>reduced</b></p> <ul style="list-style-type: none"> <li>• by the amount of the pension based entirely or in part on the railroad employer's contributions.</li> </ul> <p><b>Exception:</b> If the <b>employer reduces</b> the private pension because of the supplemental annuity, then restore the amount of the employer reduction to the supplemental annuity but do not raise it over the \$43 maximum.</p> <p><b>not reduced</b></p> <ul style="list-style-type: none"> <li>• for a pension paid by a railroad labor organization.</li> </ul>
employee contributions	<p><b>not reduced</b></p> <ul style="list-style-type: none"> <li>• for any part of the amount of private pension based on the employee's contributions.</li> </ul>

## Appendix

### Railroad Retirement Employee Annuities and Pensions from Work Not Covered by Social Security or Railroad Retirement

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.

The reduction in the employee tier I benefit for receipt of a noncovered service pension is not based on deducting the pension from tier I. Instead, the reduction is built into the tier I benefit computation.

As explained earlier, 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"(AIME) 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%, the second by 32%, and the final level by 15%. The results are added to obtain the basic benefit rate.

For those first eligible in 2002, the gross tier I benefit is equal to 90% of the first \$592 of the AIME, plus 32% of the AIME over \$592 up to \$3,567, plus 15% of those earnings in excess of \$3,567.

Beginning with 1986, a reduction in the 90% factor was phased in until, for employees subject to the noncovered service pension reduction and who became eligible in 1990 or later, the 90% factor is reduced to 40%. For example, an employee born in 1940 is eligible for a noncovered service pension and has less than 30 years' service. Her annuity begins with the first full month she is age 62. Her AIME is \$1,500. She would receive, after the reduction for early retirement, a tier I benefit of \$410.62, rather than the \$641.26 otherwise payable.

The following illustrates how these amounts are computed:

<u>Without</u> reduction for noncovered service pension			<u>With</u> reduction for noncovered service pension		
AIME is...	PIA is...	Based on...	AIME is...	PIA is ...	Based on ...
\$1,500	\$823.36 rounded <u>\$823.30</u>	90% of \$592 (\$532.80); plus 32% of \$908 (\$290.56)	\$1,500	\$527.36 rounded <u>\$527.30</u>	40% of \$592 (\$236.80) plus 32% of \$908 (\$290.56)

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## Appendix, Continued

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Without the reduction for a noncovered service pension, the PIA is rounded down to \$823. It is then reduced by 22.083% (5/9 of 1% (0.0055555) multiplied by 36 months and 5/12 of 1% (0.0041666) multiplied by 5 months, with 41 being the number of months under her full retirement age of 65 years and 6 months). The resulting reduction, \$181.74, is subtracted from \$823 to obtain \$641.26. Use this amount to the exact cent.

With the reduction for a noncovered service pension, the reduced PIA is rounded down to \$527. It is then also reduced by 22.083%. The resulting reduction, \$116.38, is subtracted from \$527 to obtain \$410.62, which is used to the exact cent.

However, for employees with relatively low noncovered service pensions, there is a guarantee that the PIA cannot be reduced by more than 50% of the pension.

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.

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 pension is based entirely on noncovered employment before 1957; and

Also, railroad employees eligible for a noncovered service pension who have 30 or more years of substantial railroad retirement and/or social security earnings are generally exempt from the reduction (a year of substantial earnings is not the same as a year of service). Employees with 21 to 29 years of substantial earnings may be subject to a lesser reduction.

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## Appendix, Continued

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The following table lists the amount of earnings considered substantial for each year:

<i>Year</i>	<i>Substantial Earnings</i>
1937-50	<sup>1</sup> \$900
1951-54	900
1955-58	1,050
1959-65	1,200
1966-67	1,650
1968-71	1,950
1972	2,250
1973	2,700
1974	3,300
1975	3,525
1976	3,825
1977	4,125
1978	4,425
1979	4,725
1980	5,100
1981	5,550
1982	6,075
1983	6,675
1984	7,050
1985	7,425
1986	7,875
1987	8,175
1988	8,400
1989	8,925
1990	9,525
1991	9,900
1992	10,350
1993	10,725
1994	11,250
1995	11,325
1996	11,625
1997	12,150
1998	12,675
1999	13,425
2000	14,175
2001	14,925
2002	15,750

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<sup>1</sup>Total credited earnings from 1937-50 are divided by \$900 to get the number of years of coverage (maximum of 14 years).

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**Appendix, Continued**

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The following table shows the percentage used depending on the number of years of substantial earnings:

<i>Years of Substantial Earnings</i>	<i>Percentage</i>
<i>30 or more</i>	90 percent
<i>29</i>	85 percent
<i>28</i>	80 percent
<i>27</i>	75 percent
<i>26</i>	70 percent
<i>25</i>	65 percent
<i>24</i>	60 percent
<i>23</i>	55 percent
<i>22</i>	50 percent
<i>21</i>	45 percent
<i>20 or less</i>	40 percent

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Table 1.—*Indexing Factors and Average Wages*  
1951 - 2002

Year	National Wage Series	Indexing Factors for worker where first year of eligibility is in			
		1999	2000	2001	2002
1951	2,799.16	9.7979394	10.3107504	10.8853513	11.4873105
1952	2,973.32	9.2240324	9.7068059	10.2477500	10.8144498
1953	3,139.44	8.7359529	9.1931809	9.7055016	10.2422152
1954	3,155.64	8.6911054	9.1459862	9.6556768	10.1896351
1955	3,301.44	8.3072841	8.7420762	9.2292575	9.7396348
1956	3,532.36	7.7642143	8.1705828	8.6259158	9.1029284
1957	3,641.72	7.5310568	7.9252221	8.3668816	8.8295695
1958	3,673.80	7.4652948	7.8560183	8.2938211	8.7524688
1959	3,855.80	7.1129208	7.4852015	7.9023393	8.3393381
1960	4,007.12	6.8443171	7.2025395	7.6039250	8.0244215
1961	4,086.76	6.7109397	7.0621813	7.4557449	7.8680471
1962	4,291.40	6.3909214	6.7254136	7.1002097	7.4928508
1963	4,396.64	6.2379453	6.5644310	6.9302558	7.3134985
1964	4,576.32	5.9930250	6.3066918	6.6581533	7.0263487
1965	4,658.72	5.8870248	6.1951437	6.5403888	6.9020718
1966	4,938.36	5.5536656	5.8443370	6.1700322	6.5112345
1967	5,213.44	5.2606341	5.5359686	5.8444789	6.1676782
1968	5,571.76	4.9223226	5.1799503	5.4686203	5.7710346
1969	5,893.76	4.6533961	4.8969486	5.1698474	5.4557396
1970	6,186.24	4.4333876	4.6654252	4.9254216	5.1977970
1971	6,497.08	4.2212809	4.4422171	4.6897745	4.9491187
1972	7,133.80	3.8445148	4.0457316	4.2711935	4.5073902
1973	7,580.16	3.6181294	3.8074975	4.0196830	4.2419711
1974	8,030.76	3.4151189	3.5938616	3.7941415	4.0039573
1975	8,630.92	3.1776450	3.3439587	3.5303119	3.7255379
1976	9,226.48	2.9725312	3.1281095	3.3024339	3.4850582
1977	9,779.44	2.8044551	2.9512365	3.1157040	3.2880022
1978	10,556.03	2.5981359	2.7341188	2.8864867	3.0461092
1979	11,479.46	2.3891368	2.5141810	2.6542921	2.8010743
1980	12,513.46	2.1917200	2.3064316	2.4349652	2.5696186
1981	13,773.10	1.9912728	2.0954934	2.2122717	2.3346102
1982	14,531.34	1.8873690	1.9861513	2.0968362	2.2127911
1983	15,239.24	1.7996960	1.8938897	1.9994330	2.1100015
1984	16,135.07	1.6997757	1.7887397	1.8884232	1.9928528
1985	16,822.51	1.6303156	1.7156441	1.8112541	1.9114163
1986	17,321.82	1.5833209	1.6661898	1.7590438	1.8563188
1987	18,426.51	1.4883991	1.5662999	1.6535871	1.7450304
1988	19,334.04	1.4185344	1.4927785	1.5759686	1.6631196
1989	20,099.55	1.3645082	1.4359247	1.5159464	1.5997781
1990	21,027.98	1.3042622	1.3725256	1.4490141	1.5291445
1991	21,811.60	1.2574043	1.3232152	1.3969557	1.4742073
1992	22,935.42	1.1957924	1.2583785	1.3285059	1.4019721
1993	23,132.67	1.1855960	1.2476485	1.3171778	1.3900177
1994	23,753.53	1.1546073	1.2150379	1.2827500	1.3536860
1995	24,705.66	1.1101100	1.1682117	1.2333141	1.3015163
1996	25,913.90	1.0583509	1.1137436	1.1758107	1.2408329
1997	27,426.00	1.0000000	1.0523387	1.1109837	1.1724211
1998	28,861.44	1.0000000	1.0000000	1.0557283	1.1141100
1999	30,469.84	1.0000000	1.0000000	1.0000000	1.0552999
2000	32,154.82	1.0000000	1.0000000	1.0000000	1.0000000
2001		1.0000000	1.0000000	1.0000000	1.0000000
2002		1.0000000	1.0000000	1.0000000	1.0000000

Table 2.—*Employee Full Retirement Age  
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.

Table 3.—*Tier 1 Maximum Annual Taxable Earnings*  
1937-2002

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1937 - 1950	\$ 3,000
1951 - 1954	3,600
1955 - 1958	4,200
1959 - 1965	4,800
1966 - 1967	6,600
1968 - 1971	7,800
1972	9,000
1973	10,800
1974	13,200
1975	14,100
1976	15,300
1977	16,500
1978	17,700
1979	22,900
1980	25,900
1981	29,700
1982	32,400
1983	35,700
1984	37,800
1985	39,600
1986	42,000
1987	43,800
1988	45,000
1989	48,000
1990	51,300
1991	53,400
1992	55,500
1993	57,600
1994	60,600
1995	61,200
1996	62,700
1997	65,400
1998	68,400
1999	72,600
2000	76,200
2001	80,400
2002	84,900

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Table 4.—*Tier 2 Maximum Annual Taxable Earnings Base \**  
1973-2002

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1973	\$ 900
1974	1,100
1975	1,175
1976	1,275
1977	1,375
1978	1,475
1979	1,575
1980	1,700
1981	1,850
1982	2,025
1983	2,225
1984	2,350
1985	29,700
1986	31,500
1987	32,700
1988	33,600
1989	35,700
1990	38,100
1991	39,600
1992	41,400
1993	42,900
1994	45,000
1995	45,300
1996	46,500
1997	48,600
1998	50,700
1999	53,700
2000	56,700
2001	59,700
2002	63,000

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\* Earnings bases are monthly through 1984 and annual for 1985 and later.

Table 5.—*Bend Point Table*  
*Dollar amounts (bend points) in PIA formula, 1979-2002*

Year	First	Second
1979	\$180	\$1,085
1980	194	1,171
1981	211	1,274
1982	230	1,388
1983	254	1,528
1984	267	1,612
1985	280	1,691
1986	297	1,790
1987	310	1,866
1988	319	1,922
1989	339	2,044
1990	356	2,145
1991	370	2,230
1992	387	2,333
1993	401	2,420
1994	422	2,545
1995	426	2,567
1996	437	2,635
1997	455	2,741
1998	477	2,875
1999	505	3,043
2000	531	3,202
2001	561	3,381
2002	592	3,567