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REPORT BY THE

Comptroller General

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OF THE UNITED STATES

Railroad Retirement Program -- How Does It Compare To Other Selected Retirement Programs?

This report compares the railroad retirement program with those of social security, civil service retirement, military retirement, and veterans pension. While they all provide family maintenance income, they vary widely in size, scope, eligibility requirements, benefits, employment and income restrictions, and employee contributions.

The railroad retirement program, which provides benefits to more than 1 million retired and disabled railroad workers, their spouses, and their survivors, is administered by the Railroad Retirement Board, an independent Federal agency.

The Subcommittee on Transportation and Commerce, House Committee on Interstate and Foreign Commerce, asked GAO to make this review.



HRD-79-41
JUNE 8, 1979



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20549

B-114817

The Honorable James J. Florio
Chairman, Subcommittee on Transportation
and Commerce
Committee on Interstate and
Foreign Commerce
House of Representatives

Dear Mr. Chairman:

In response to your request, we have compared the railroad retirement program's eligibility requirements, benefits, and financing with those of four other programs--social security, civil service retirement, military retirement, and veterans pension. As requested the report does not contain conclusions or recommendations.

As arranged with your office, copies are being sent to the Director, Office of Management and Budget; the Chairman, Railroad Retirement Board; the Administrator of Veterans Affairs; the Secretary of Health, Education, and Welfare; the Secretary of Defense; the Commissioner, Social Security Administration; the Director, Office of Personnel Management (formerly Civil Service Commission); and appropriate congressional committees.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "James A. Davis".

Comptroller General
of the United States

D I G E S T

In this report GAO compares the railroad retirement program's eligibility requirements, benefits, restrictions, and financing sources with those of social security, civil service retirement, military retirement, and veterans pension.

GAO was asked not to provide conclusions or recommendations, but rather to provide comparative information that could be used in making decisions as to the need for changing the benefits or structure of the railroad retirement program.

Because much of the data for fiscal year 1978 were not available, benefit amounts were compared using mostly fiscal year 1977 data.

SIZE OF PROGRAMS IN FISCAL YEAR 1977

Railroad retirement--

Paid about \$3.8 billion in benefits to about 1 million persons.

Social Security--

Paid over \$82 billion in benefits to 32.2 million persons.

Civil Service retirement--

Paid about \$9.4 billion in benefits to about 1.5 million persons.

Military retirement--

Paid about \$8.2 billion in benefits to about 1.2 million persons.

Veterans pension--

Paid about \$3.1 billion in benefits to 2.3 million persons.

SCOPE OF PROGRAMS

Railroad retirement and social security--

Offer comprehensive family coverage-- benefits to retired and disabled workers, their spouses, surviving spouses, children, and parents.

Civil service and military retirement--

Provide benefits to retired and disabled workers, their surviving spouses (if elected), and their children. The combination of full military retirement and social security benefits provides military retirees with benefits unmatched by most other pensions.

Veterans pension--

Provides benefits to needy veterans totally disabled by non-service-connected disabilities or to survivors of veterans who died from non-service-connected causes. Pensions are increased if the veterans have dependents.

ELIGIBILITY REQUIREMENTS

Railroad retirement--

Payable to employees who have completed at least 10 years of railroad service.

Social security--

Benefits are payable after 7 years of covered employment to workers retiring in 1979.

Civil service retirement--

Requires 5 years service for employee benefits.

Military retirement--

Personnel in most instances are required to serve 20 years to be eligible for retirement benefits other than disability.

Veterans pension--

Generally available after 90 days of military service.

BENEFIT AMOUNTS

Average benefits in 1977 to retired railroad employees were less than those for civil service and military retirees. However, when spouse benefits available under railroad retirement but not under the other two programs are considered, total family benefits were sometimes higher. Because benefits for retired railroad employees represent the equivalent of social security benefits supplemented by a railroad industry component, they are automatically higher than social security benefits. Average railroad retirement benefits were also considerably higher than those paid under the veterans pension program.

Based on maximum earnings and service creditable under each program, benefits beginning in 1978 for retired railroad employees are lower than civil service or military retirement benefits, and higher than social security or veterans pension benefits. For employees earning the maximum creditable under railroad retirement, however, railroad retirement benefits approached those of civil service and exceeded the military's. For retirees with spouses, railroad retirement benefits were higher than civil service or military retirement benefits.

Civil service and military retirement benefits are taxable, thus reducing the financial advantage they have over other programs.

DUAL BENEFIT REDUCTIONS

Dual benefit reductions for most of the retirement programs have offsets to prevent payments by two Federal agencies based on the same service. Because veterans pensions are need-oriented, however, they are reduced for most other pensions or benefits.

WORK AND INCOME RESTRICTIONS

Railroad retirement has the most work restrictions. The only work restriction under the social security program is for excess earnings. Unless civil service and military retirees return to Federal employment or active military duty, working will not reduce their benefits. Because the veterans pension program is intended to provide benefits for the financially needy, benefits are reduced for most types of income.

EMPLOYEE CONTRIBUTIONS

Railroad workers are subject to the same payroll tax for retirement benefits as workers covered by social security. The rate is lower than that paid by civil servants. Also, under railroad retirement and social security, workers pay taxes only on earnings up to a specified limit; civil servants make contributions on total wages. The military retirement and veterans pension programs require no employee contributions.

C o n t e n t s

| | | <u>Page</u> |
|----------|---|-------------|
| DIGEST | | i |
| CHAPTER | | |
| 1 | INTRODUCTION | 1 |
| | Size and scope of programs | 2 |
| | Characteristics of programs | 3 |
| | Scope of review | 9 |
| 2 | ELIGIBILITY REQUIREMENTS | 10 |
| | Retired employees | 10 |
| | Disabled employees | 11 |
| | Spouses and dependents | 13 |
| | Survivors | 14 |
| 3 | COMPARISON OF BENEFITS | 17 |
| | Average benefits | 18 |
| | Maximum benefits | 21 |
| | Maximum benefits for similar earnings | 22 |
| | Benefits railroad retirees would have received under the civil service or military retirement programs | 24 |
| | Comparing railroad and civil service retirement benefits | 25 |
| 4 | DUAL BENEFIT REDUCTIONS | 30 |
| 5 | WORK AND INCOME RESTRICTIONS | 32 |
| 6 | EMPLOYEE CONTRIBUTIONS | 34 |
| APPENDIX | | |
| I | Comparison of eligibility requirements for selected Federal retirement programs | 37 |
| II | Sources of financing for selected Federal retirement programs | 49 |
| III | Components of railroad retirement benefits | 51 |
| IV | Impact on railroad retirement benefits of receiving social security benefits | 52 |
| V | Fiscal year 1977 receipts and disbursements of the Railroad Retirement Account and the Railroad Retirement Supplemental Account | 53 |

CHAPTER 1

INTRODUCTION

This report compares the railroad retirement program with four other retirement programs,

- social security,
- civil service retirement,
- military retirement, and
- veterans pension.

Because much of the data for fiscal year 1978 were not available, benefit amounts were compared using mostly fiscal year 1977 data. These programs vary considerably in scope of coverage, types and amounts of benefits, restrictions, and methods of funding.

The railroad retirement program provides benefits to retired and disabled workers, their spouses, and their survivors. Its annuities are equivalent to social security benefits supplemented by railroad industry benefits. Railroad employees not eligible under this program receive social security credit for their railroad service and thus may receive social security benefits.

Social security--the Old-Age, Survivors, and Disability Insurance program--provides most of the Nation's workers and their families with a basic level of income when workers become disabled, retire, or die. Its coverage is comprehensive, providing benefits to retired and disabled workers, spouses and former spouses, dependent children, and survivors.

The civil service retirement program provides benefits to retired and disabled workers, their surviving spouse (if elected), and children. Based on fiscal year 1977 data, employee retirement benefits were generally higher under civil service retirement, but the availability of spouse benefits under railroad retirement reduced the difference between total benefits.

Military retirement provides benefits to retired and disabled service members, their surviving spouses (if elected), and children. Service members also receive

benefits from social security. 1/ The combination of full military retirement and social security benefits provides military retirees with benefits unmatched by most other public pension plans.

The veterans pension program provides benefits to veterans with non-service-connected disabilities or survivors of veterans who die of non-service-connected causes. Unlike the other retirement programs, it provides benefits only when the veterans or survivors have demonstrated financial need. 2/

Appendixes I and II summarize the eligibility requirements and sources of financing for the programs reviewed.

SIZE AND SCOPE OF PROGRAMS

The following tables show the magnitude and composition of the programs in fiscal year 1977.

| <u>Program</u> | Total benefits (note a) (millions) | Average number of beneficiaries (thousands) |
|---|---|---|
| Railroad retirement | \$ 3,787 | 1,030 |
| Social security | 82,084 | 33,243 |
| Civil service retirement | 9,381 | 1,467 |
| Military retirement (Department of Defense) | 8,219 | 1,175 |
| Veterans pension | 3,127 | <u>b/2,287</u> |

a/Excludes one-time payments and contribution refunds.

b/Number of cases only. Veterans' dependents are not counted separately; however, veterans receive higher benefits if they have dependents.

1/Our comparisons of military retirement benefits do not include the social security benefits to which service members would be entitled.

2/Another veterans program--compensation--indemnifies veterans and their survivors for service-connected disabilities or death. Because this is more akin to workmen's compensation-type programs, it is not included in this report.

| <u>Program</u> | <u>Percent of total recipients (note a)</u> | | | |
|--------------------------|---|-------------------------|-------------------|------------------|
| | <u>Retired workers</u> | <u>Disabled workers</u> | <u>Dependents</u> | <u>Survivors</u> |
| Railroad retirement | 35.4 | 9.7 | 22.2 | 32.8 |
| Social security | 52.4 | 8.1 | 16.8 | 22.6 |
| Civil service retirement | 52.6 | 20.4 | - | 27.0 |
| Military retirement | 83.4 | 13.1 | - | 3.5 |
| Veterans pension | - | 44.5 | (b) | 55.5 |

a/Total recipients may not equal 100 percent because of rounding.

b/Dependents are not beneficiaries under the veterans program. Rather, veterans' benefits are increased if they have dependents.

CHARACTERISTICS OF PROGRAMS

Railroad retirement

The railroad retirement program is administered by the Railroad Retirement Board. More than 1 million retired or disabled railroad employees, their spouses, or their survivors receive benefits. During 1977, an average of about 546,000 workers were employed in jobs covered by the program.

Established in 1935, the railroad retirement program began primarily as a staff retirement plan intended to provide annuities that would induce older workers to retire, making their jobs available to younger workers. Railroad workers were excluded from social security coverage. Originally, the program did not provide benefits to spouses, and survivors were entitled only to small payments. Over the years, most categories of beneficiaries included under social security--disabled workers, spouses and surviving spouses, children, and parents--were added to the railroad retirement program.

Benefit structure

The present structure of the railroad retirement program was established by the Railroad Retirement Act of 1974, Public Law 93-445, 88 Stat. 1305. ^{1/} Benefits consist of four components: tier I, tier II, supplemental, and windfall benefits.

^{1/}Effective in principal parts, January 1975.

Tier I, generally the equivalent of a social security benefit, is computed under the Social Security Act formulas using the employee's combined railroad and nonrailroad earnings. In some cases, benefits are more liberal than those provided under social security. For example, a railroad employee with 30 years of service can retire at age 60, whereas the minimum age under social security is 62. The tier I amount is reduced for any social security benefits the employee receives based on nonrailroad earnings.

Tier II represents a railroad industry pension (comparable to a private pension). Based solely on railroad service, the tier II amount consists of separate components for service before and after 1975.

Supplemental annuities are payable to employees who retire with at least 25 years of railroad service and a current connection. 1/

Windfall benefits 2/ are paid to retired employees, spouses, and survivors who were vested in the railroad retirement and social security systems as of December 31, 1974, and possess certain other qualifications. Based only on service before 1975, windfall benefits are the sum of separate social security benefits for railroad and non-railroad service minus social security benefits for combined railroad and nonrailroad service.

These windfall benefits result from provisions under prior law that allowed employees to receive benefits from both railroad retirement and social security (based on non-railroad service). Because the weighting factors in the social security benefit formula produce proportionately higher benefits for low wage earners and short-term employees, dual beneficiaries receive a proportionately higher return for their taxes.

The average amounts of each component for beneficiaries on the rolls at the end of fiscal year 1977 are shown in appendix III. The number of railroad retirement annuitants receiving social security benefits and their average retirement benefits are shown in appendix IV.

1/To have a "current connection," an employee must generally have had 12 months of railroad service in the 30-month period of employment preceding his retirement or death.

2/Our January 11, 1977, report to the Chairman, Senate Committee on Appropriations, discusses windfall benefits in more detail (HRD-79-33).

Although the tier II and supplemental annuity benefits constitute the industry pension portion of the program, some railroads also provide company pensions. In such cases, the supplemental annuity (limited to \$43 a month for current retirees) is reduced. 1/

Permanently and totally disabled employees are entitled to monthly benefits at any age after 10 years of railroad service. Occupationally disabled employees--those unable to work at their regular jobs--are entitled to full annuities at age 60 or at any age after 20 years of railroad service if they have a current connection with the railroad industry.

Spouse benefits generally equal one-half the employee's tier I benefit reduced for any social security benefit the spouse is entitled to, plus one-half the employee's tier II benefits. Total spouse tier I and II benefits are subject to a maximum (\$376.64 a month as of January 1979).

Unlike social security, the program provides no benefits for dependent children of living retirees. However, the railroad employee and his family are guaranteed to receive at least as much in total social security and railroad retirement benefits as would be payable to the family if all earnings were covered under social security.

Surviving spouses, children, and parents are entitled to railroad benefits if the employee had 10 years of railroad service and a current connection. If the deceased employee did not meet these qualifications, jurisdiction is transferred to the Social Security Administration and survivors are paid under the Social Security Act.

Like retiree benefits, survivor benefits are coordinated with social security benefits, only to a greater extent. Railroad retirement survivor benefits are generally equal to 130 percent of the social security benefit for comparable employee earnings.

Financing

Tier I financing is closely related to social security provisions. Railroad employees and employers pay the same

1/A supplemental annuity is not reduced for any portion of the company's pension that is based on the employee's contribution, or if offsets are made to the company pension for the supplemental annuity.

tax rate on the same earnings base as are paid by and for workers covered under social security. ^{1/} As the rates and earnings bases for social security change, so do those for tier I of railroad retirement.

Although payroll taxes under both programs are the same, a large portion of railroad retirement benefits is actually financed by transfers to the Railroad Retirement Account from the social security trust funds. This results from placing the social security trust funds in the same position they would have been in had railroad employment been covered under social security. Funds currently flow to the Railroad Retirement Account because the benefits social security would pay to railroad retirement beneficiaries are greater than the taxes social security would collect from current railroad employees and employers, were the railroad industry covered by social security. This imbalance is largely because (see p. 3) the number of beneficiaries far exceeds the number of current employees.

Tier II benefits and supplemental annuities are financed through taxes on railroad employers. Windfall benefits are funded by general revenue appropriations.

Fiscal year 1977 receipts and disbursements are shown in appendix V.

Social security

The social security program is administered by the Social Security Administration. In fiscal year 1977, it provided benefits to an average of about 33.2 million retired or disabled workers, their spouses, former spouses, dependent children, and survivors. In 1977, about 107 million employees (90 percent of the work force) paid social security taxes. Their employers matched their contributions. The self-employed pay a higher rate.

Social security is intended to assure that a basic level of family income will continue when workers encounter disability, old age, or death. Thousands of private and public retirement systems, like railroad retirement, use social security as a base level of benefits while providing supplementary benefits that are tailored to the special circumstances of the covered group.

^{1/}The railroad retirement program uses a monthly maximum earnings base equal to one-twelfth of the social security annual base.

Retired workers' benefits are based on their average career earnings that were subject to social security tax and on their years of covered employment. The benefit formulas provide proportionately greater benefits for lower income workers. Spouse, child, and survivor benefits are various percentages of the worker's benefits.

Civil service retirement

The civil service retirement program is administered by the Office of Personnel Management--formerly the Civil Service Commission. It provides benefits for about 1.5 million retired or disabled employees and their surviving spouses and children. About 2.7 million employees were contributing to the fund at the end of 1977. It serves to attract and retain qualified workers, open appointment and promotion opportunities, and facilitate changes in the size or composition of the work force. In addition, it has taken on insurance aspects, such as survivor protection for spouses and children.

Employee retirement benefits are based on years of service and on the employee's highest average annual pay during any 3 consecutive years. Benefits are payable on reaching certain minimum ages, which vary according to length of service. Disability benefits are available at any age after 5 years of service.

Most employees contribute 7 percent of their base salary toward retirement. Unlike railroad retirement and social security, the base for these contributions is unlimited. Employing agencies match employee contributions, and additional funding is provided by direct appropriations.

Military retirement

The military retirement program is administered by the Department of Defense and its component services--the Army, the Air Force, the Navy, and the Marine Corps. The military retirement program pays benefits to about 1.2 million retired and disabled service members and their survivors. Active military forces numbered about 2.1 million in fiscal year 1977.

According to the Department of Defense, the program is primarily intended to (1) assist in attracting and retaining qualified personnel, (2) help maintain a young and vigorous force, and (3) provide former service members some financial security after many years of service.

Benefits to retired active duty service members 1/ are based on years of service and final basic pay, 2/ with no age restrictions. Former service members and their survivors may be eligible for veterans' benefits if they are not eligible for military retirement benefits. Service members also qualify for benefits under social security. Military service can be credited toward railroad retirement when credits are not counted toward social security.

Military retirement benefits are funded by general revenue appropriations to the Department of Defense.

Veterans pension

The Veterans Administration manages the veterans pension program. Its purpose is to provide some income security for veterans totally disabled by non-service-connected disabilities and for survivors of veterans who die from non-service-connected causes. The program functions as a retirement program in that a veteran age 65 or older is presumed to be totally disabled. Unlike the other programs, it provides benefits only when the veterans and survivors have demonstrated financial need.

Benefits are based on fixed rates established by law and, unlike those in the other programs, are not affected by length of service or earnings history.

Veterans benefits are funded through general revenue appropriations to the Veterans Administration.

The Veterans' and Survivors' Pension Improvement Act of 1978 made substantial changes to the veterans pension program effective January 1, 1979. At the request of the Chairmen, House and Senate Veterans' Affairs Committees, we are currently reviewing these changes.

1/Members of the reserves can also receive retirement benefits, but not before age 60. Payments to retired reservists account for less than 4 percent of military retirement benefits.

2/Basic pay is only a portion of military compensation. Regular military compensation, consisting of basic pay plus other allowances, is generally considered to be equivalent of civilian salary or wages. The Report of the President's Commission on Military Compensation (April 1978) showed that basic pay ranged from 63 to 80 percent of regular military compensation, depending on grade and years of service.

SCOPE OF REVIEW

We compared the railroad retirement program's eligibility requirements, benefits, restrictions, and financing methods with four other federally administered programs--social security, civil service retirement, military retirement, and veterans pension. Because much of the data for fiscal year 1978 were not available, our comparison of benefit amounts was based largely on program data for fiscal year 1977.

We obtained information from

- the United States Code,
- the Code of Federal Regulations,
- 1978 and 1979 Federal budgets,
- program legislation,
- congressional reports,
- appropriations hearings,
- publications by special congressional and presidential commissions,
- GAO reports,
- reports and documents by the administering agencies, and
- discussions with and comments by the administering agency personnel.

CHAPTER 2

ELIGIBILITY REQUIREMENTS

In terms of basic eligibility requirements--age and service--the railroad retirement program requirements are comparable to those of social security; however, they are generally more rigorous than those of the other programs.

The minimum age requirements for railroad retirement benefits are either less than or equal to those for social security. However, they generally exceed those for civil service retirement, military retirement, and veterans pension, especially for surviving spouse benefits.

RETIRED EMPLOYEES

Service requirements

The following are the service requirements for eligibility for retirement benefits.

| | |
|--------------------------|--------------------|
| Railroad retirement | <u>a</u> /10 years |
| Social security | <u>b</u> /7 years |
| Civil service retirement | 5 years |
| Military retirement | 20 years |
| Veterans pension | <u>c</u> /90 days |

a/Railroad workers not meeting railroad retirement requirements need only meet the lower social security requirements to receive social security benefits.

b/A worker must have one quarter of coverage for each year after 1950 that he or she was between ages 21 and 62. Thus, a worker retiring in 1979 at age 62 would need 28 quarters of covered employment. Workers reaching age 62 in 1991 or later will need 40 quarters of coverage.

c/The veteran must have served in the military for 90 days including service during specified wartime periods or have been discharged earlier due to disability. The veteran must have been discharged under other than dishonorable conditions. Spanish American War veterans are eligible for a reduced pension if they had 70 days of service.

Because those not eligible for railroad retirement benefits can count their railroad service toward social security eligibility, the railroad retirement program has the advantageous "portability-of-earnings" feature of social

security. That is, employees leaving the railroad industry before they are vested in railroad retirement will receive social security credits for their railroad service, which are added to credits they may earn in employment ordinarily covered by social security.

Similarly, since 1957 military personnel have contributed to social security during their military service. 1/ In contrast, people leaving civil service jobs before meeting the 5-year vesting requirement are entitled to refunds, but their years of service are lost as far as any retirement benefits are concerned unless they are reemployed in civil service jobs and they redeposit any refunds received.

Age requirements

Railroad employees can retire with full benefits at age 65, or at age 60 with 30 years of service. Social security requires age 65 for full retirement benefits. Under civil service retirement, full benefits are payable at age 62 with 5 years of service, at age 60 with 20 years of service, or at age 55 with 30 years of service. Military personnel (other than reservists) can retire at any age with 20 years of service and usually retire in their early or middle forties. Veterans are eligible for pension benefits at any age. 2/

Reduced benefits are available at age 62 to employees covered by railroad retirement or social security. Generally, civil service retirement does not provide early retirement except for involuntary separations resulting from other than misconduct or delinquency, and voluntary separations resulting from major reorganizations, transfers of functions, or reductions in personnel.

DISABLED EMPLOYEES

Service requirements

Employees with 10 years of railroad service are entitled to retirement annuities in case of permanent and total disability--a condition that is expected to last at least a year and precludes gainful employment. Benefits are available to present and former employees in the railroad industry

1/Noncontributory social security credits are described in appendix I.

2/However, age can affect eligibility because veterans are presumed totally disabled at age 65.

regardless of when their disabilities occur. As with retirement, a railroad employee not meeting the 10-year requirement could use his railroad service to meet social security disability requirements.

Railroad workers can also qualify for disability benefits with less than total disabilities if they meet additional age or service requirements. Workers occupationally disabled (unable to work at their regular jobs) may receive disability benefits if they (1) are at least age 60 or have 20 years of railroad service and (2) have a current connection. (See p. 4.)

Social security does not provide benefits for occupational disability; however, it does provide benefits for workers who are unable to do substantial work because of an impairment that has lasted or is expected to last at least 12 months, or results in death. Also, benefits are paid to the family members. To be eligible, the worker must have 20 quarters of coverage out of the 40 quarters immediately before the disability occurred. This requirement is reduced for disability before age 31. Unlike railroad disability, social security requires a 5-month waiting period before benefits begin.

Civil service and military retirement provide benefits for the totally or occupationally disabled. After 5 years of service, civil service workers are entitled to disability benefits if they are unable to perform useful and efficient service in their present positions. Similarly, military personnel are eligible for disability benefits if they are unfit to perform the duties of their rank. To be eligible, service members must have (1) 20 years of service or (2) disabilities of certain severity and either (a) 8 years of service, (b) a disability due to active duty, or (c) a disability incurred in the line of duty during a war or a national emergency. Under civil service or military retirement, the disability must occur while the employee or service member is still employed.

The veterans pension program provides no benefits for veterans who are less than totally disabled.

Age requirements

Disability benefits are not subject to minimum age restrictions; however, age can be an important factor. A railroad employee does not need to meet the 20-year service requirement for occupational disability if he has reached age 60. Also, the veterans pension program presumes veterans

age 65 or older are totally disabled and therefore entitled to benefits.

SPOUSES AND DEPENDENTS

Service requirements

Spouses of employees who receive railroad retirement benefits are entitled to benefits of their own. Under social security these benefits are extended to divorced spouses and to children. The railroad employee and his family, however, are guaranteed to receive at least as much in total social security and railroad retirement benefits as they would get from social security if all earnings had been covered under social security.

Neither civil service retirement 1/ nor military retirement provides benefits for spouses or any other dependents while the employee or service member is living. In fact, if the retired employee or service member has a spouse for whom he wants to provide survivor benefits, he must pay for them through a reduced annuity.

Veterans receiving pension benefits are entitled to additional benefits for their spouses and children.

Age requirements

As with retired employee annuities, the age requirements for spouse annuities are sometimes lower under railroad retirement than social security. Both programs provide full benefits for spouses who are age 65 or older, or are caring for a minor or disabled son or daughter. Under both programs, spouses are eligible for reduced benefits at age 62. However, spouses of railroad employees age 60 or older who retire with 30 or more years of service can receive full benefits at age 60.

If the retired civil service employee or service member elects to provide survivors' benefits, the surviving spouse is not required (1) to be a certain age or (2) to be caring for dependent children.

1/Public Law 95-366, 92 Stat. 600, 5 U.S.C. Section 8345 (1976), enacted on September 15, 1978, authorizes the Civil Service Commission to comply with the terms of a court decree, order, or property settlement in connection with the divorce, annulment, or legal separation of a Federal employee who is eligible for benefits under the civil service retirement system.

The veterans pension program has no age restrictions for spouses.

SURVIVORS

Service requirements

The railroad retirement program provides benefits for surviving spouses, children, and dependent parents. The same types of survivors are covered under social security except the railroad retirement program does not provide benefits to surviving divorced spouses or remarried widows or widowers. Survivors are entitled to railroad retirement benefits if the employee had 10 years of railroad service and a current connection with the railroad industry when he retired or died. If these requirements are not met, social security assumes jurisdiction for the survivor benefits.

Survivors of workers covered under social security are eligible for all survivor benefits if the worker was fully insured 1/ at the time of his death or retirement. If the worker was not fully insured, but currently insured (having 6 quarters of coverage in the 13 quarters before death), survivor benefits are payable only to a child or widowed spouse supporting a child.

Surviving spouses of civil servants and military personnel are entitled to survivor benefits if the employee died before retiring or chose an annuity with a survivor option. Survivors of civil servants are eligible after the employee has 18 months of service. Surviving children are eligible regardless of whether the employee or service member selected the survivor option. Survivor protection stops if the worker leaves Federal employment before retiring. 2/ Thus, civil service retirement does not provide the permanent survivor protection offered by social security and railroad retirement through transferring credits to social security.

Under the military retirement program, survivors are eligible for benefits only after the service member has

1/One-quarter of covered employment is required for each year after 1950 that the employee was over age 21, up to the year the worker died or became 62. A maximum of 40 quarters of coverage will be required for deaths occurring during or after 1991.

2/If the worker had 5 or more years of service, he can receive a deferred annuity at age 62, at which time the survivors option can be elected.

completed 20 years of service. If the service member dies while in the service before completing 20 years of service, his surviving dependents would be eligible for social security and veterans dependency and indemnity compensation. The spouse of a service member who died during active duty after 20 years of service is also entitled to military benefits. If the service member dies after retiring, the spouse is entitled to military benefits only if the member had elected a reduced annuity under the survivor benefit plan.

Surviving children are eligible for military benefits only under the survivor benefit plan and not concurrently with the surviving spouse. When retiring the service member may choose one of three options under the plan: (1) benefits for spouse only, (2) benefits for children only, or (3) benefits for spouse and children after the spouse becomes ineligible. In fiscal year 1977, survivors accounted for only 3.5 percent of military retirement beneficiaries, as opposed to 27 percent under the civil service retirement program.

Social security, civil service retirement, and military retirement continue to provide surviving spouse benefits if the spouse remarries at age 60 or older. All three programs also resume surviving spouse benefits to those whose remarriages end. Under railroad retirement, remarriage at any age permanently terminates surviving spouse benefits.

Neither civil service nor military retirement provides benefits for surviving divorced spouses or surviving parents. However, in both programs, an unmarried retiree can elect to provide survivor benefits for a person with an insurable interest in his or her life.

The veterans pension program provides benefits to spouses and children of deceased veterans who met the service requirements for pensions. It does not provide benefits to surviving divorced or remarried spouses or to surviving parents. Benefits are resumed, however, should the remarriage of a surviving spouse end.

Age requirements

The ages at which survivors are eligible for railroad retirement benefits are generally the same as those under social security. Surviving spouses may begin receiving full benefits at age 65, or permanently reduced benefits at age 60. Under railroad retirement, because those age 60 or 61 are deemed to be age 62, the benefit reduction for retirement at age 60 is 17 percent, and under social security it is 28-1/2 percent. Totally disabled widows can begin

receiving benefits at age 50, with the same permanent reductions as those under social security at age 50, which is 50 percent of the full rate payable at age 65. Surviving spouses caring for minor or disabled children are eligible at any age for benefits equal to three-fourths of the full rate payable at 65.

In contrast, the civil service retirement, military retirement, and veterans pension programs allow surviving spouses to receive benefits at any age.

Both railroad retirement and social security pay benefits to surviving parents who were dependents of the deceased employee. Such benefits are payable under railroad retirement at age 60 and under social security at age 62. Under railroad retirement, however, parents are eligible only if no surviving spouse or child is eligible for benefits.

Eligibility requirements for surviving children, generally the same for the five programs, include

- children under 18,
- disabled children over 18, and
- children under 22 (23 for veterans pension benefits) who are full-time students.

These eligibility requirements also apply to children of workers receiving social security benefits and of veterans receiving pension benefits. For all programs, the child must be unmarried.

CHAPTER 3

COMPARISON OF BENEFITS

In fiscal year 1977, the average benefits paid to retired railroad employees were considerably less than those paid to civil service and military retirees. When total family benefits are considered, however, spouse benefits available under railroad retirement but not under the other programs reduce the difference. Because benefits for retired railroad employees represent social security benefits supplemented by a railroad industry component, they were higher than social security benefits. Average railroad retirement benefits were also considerably higher than those paid under the veterans pension program.

Average survivor benefits paid under railroad retirement in fiscal year 1977 were almost equal to those of civil service retirement and were higher than those of the other programs.

Based on maximum earnings and service creditable under each program in 1978, benefits for retired railroad employees were considerably lower than civil service or military retirement benefits and higher than social security or veterans pension benefits. If maximum creditable railroad earnings are used as the basis for comparison, railroad retirement benefits approached civil service benefits and exceeded military retirement benefits. For railroad retirees with spouses, railroad retirement benefits were higher than civil service and military retirement benefits.

For the same service and earnings, actual benefits awarded in 1977 to long-service railroad retirees were less than what they would have received under civil service or military retirement--using respective program formulas. However, for railroad retirees with spouses, railroad retirement benefits were higher.

Among the programs reviewed, civil service retirement is the most comparable to railroad retirement because both provide the total retirement benefits employees will receive based on their civil service or railroad careers. Accordingly, we compared the average benefits for the two programs and found that, although they were higher under civil service retirement, the difference narrowed for benefits awarded in fiscal year 1977. For combined³ employee and spouse benefits awarded in fiscal year 1977, railroad retirement benefits were higher.

A final consideration in comparing the benefits is the effect of Federal income tax. With the exception of supplemental annuities (3 percent of total fiscal year 1977 payments), railroad retirement benefits, like social security and veterans pension benefits, are not subject to income taxes. Civil service and military retirement benefits are taxable, however, thus reducing the financial advantages they have over the other programs.

AVERAGE BENEFITS

In fiscal year 1977, the average retiree benefits paid under the railroad retirement program were substantially lower than those paid under the civil service and military retirement programs but higher than those under social security and the veterans pension program. When spouse benefits are considered, however, the differences between railroad retirement benefits and civil service and military retirement benefits to a family are narrowed, because the latter two programs do not provide spouse benefits.

Average survivor annuities under the railroad retirement program in fiscal year 1977 were almost equal to civil service survivor annuities and higher than those of the other three programs.

Retired employee annuities

Average annuities (excluding supplementals) paid to retired railroad employees at the end of fiscal year 1977 were 42 and 36 percent less than the average benefits paid under civil service and military retirement, respectively. However, the railroad annuities were 56 percent greater than the average benefits paid under social security and more than twice the average benefits to veterans under their pension program.

Number of Retirees on the Rolls and Their Average
Annual Annuities as of September 30, 1977

| | <u>Number</u> (thousands) | <u>Average annual annuity</u> |
|--------------------------|------------------------------|---------------------------------------|
| <u>All retirees</u> | | |
| Railroad retirement | 464 | \$4,560 |
| Social security | 20,430 | 2,932 |
| Civil service retirement | 1,097 | 7,848 |
| Military retirement | <u>a/1,155</u> | <u>b/7,142</u> |
| Veterans pension | 1,031 | <u>c/1,702</u> |
| <u>Disabled retirees</u> | | |
| Railroad retirement | 100 | 4,260 |
| Social security | 2,800 | 3,168 |
| Civil service retirement | 306 | 6,204 |
| Military retirement | <u>a/156</u> | <u>b/6,295</u> |
| Veterans pension | 1,031 | <u>c/1,702</u> |
| <u>Regular retirees</u> | | |
| Railroad retirement | 364 | 4,644 |
| Social security | 17,630 | 2,895 |
| Civil service retirement | 790 | 8,496 |
| Military retirement | <u>a/999</u> | <u>b/7,275</u> |
| Veterans pension | - | - |

a/Estimated.

b/Average payments for the year.

c/Includes small additional allowances veterans received when they had dependents.

Spouse annuities

As of September 30, 1977, 230,758 spouses were receiving railroad retirement benefits averaging \$2,136 a year. These benefits were 53 percent higher than the average benefit of \$1,392 being paid to 3,431,163 spouses (including divorced spouses) under social security. The veterans pension program

provided additional benefits to veterans who have spouses, but they were considerably less than railroad retirement or social security benefits. Neither civil service nor military retirement provides spouse benefits.

Dependent child's annuities

Benefits for dependent children are provided only under social security and the veterans pension program. At the end of fiscal year 1977, almost 2.2 million children of retired and disabled workers were receiving annual social security benefits averaging \$962. As with spouses, veterans received small additional allowances if they had dependent children.

Survivor annuities

In fiscal year 1977, average survivor annuities under the railroad retirement program were nearly equal to civil service retirement survivor annuities and greater than those of the other programs. The number of survivors receiving benefits at the end of fiscal year 1977 and their average benefits were as follows.

| <u>Program</u> | <u>Number</u> (thousands) | <u>Average annual benefits</u> |
|---------------------------------|------------------------------|--|
| Railroad retirement | 337 | \$3,173 |
| Social security | 7,518 | 2,352 |
| Civil service retirement | 406 | 3,216 |
| Military retirement (note a) | 44 | 2,894 |
| Veterans pension | 1,684 | 715 |

a/Benefits are not paid concurrently to surviving spouses and children. The retiring service member can choose one of three survivor options--spouse only, children only, or spouse and then children after spouse becomes ineligible.

The following were the average survivor benefits paid at the end of fiscal year 1977, by type of survivor.

| <u>Program</u> | <u>Widow(er)</u> | <u>Child</u> | <u>Parent</u> |
|--------------------------|------------------|----------------|---------------|
| Railroad retirement | \$3,196 | \$2,976 | \$2,676 |
| Social security | 2,582 | 1,973 | 2,375 |
| Civil service retirement | 3,550 | 1,620 | (a) |
| Military retirement | <u>b/2,894</u> | <u>b/2,894</u> | (a) |
| Veterans pension | <u>c/871</u> | <u>c/868</u> | (a) |

a/No benefit.

b/Amounts are the average benefits for all types of survivor beneficiaries.

c/Average benefit amounts are those paid when the particular beneficiary was the only survivor receiving benefits. Benefits vary considerably depending on the makeup of the survivor's family.

MAXIMUM BENEFITS

For benefits beginning in early 1978, maximum benefits for retired railroad employees were about one-third the maximum civil service and military retirement benefits. Railroad retirement maximums were much higher than those for social security or the veterans pension program.

| <u>Program</u> | Maximum annual annuity (for retiree only) |
|--------------------------|---|
| Military retirement | \$35,625 |
| Civil service retirement | <u>a/31,518</u> |
| Railroad retirement | 10,416 |
| Social security | 5,724 |
| Veterans pension | <u>b/2,364</u> |

a/Based on the maximum general schedule salary rates from March 1975 to February 1978.

b/Excludes additional allowances available for veterans needing aid and attendance or for those age 78 or older.

It should be recognized that, by comparing maximum benefits, we are highlighting extremes--categories to which relatively few civil servants or military personnel belong. The civil service and military retirement figures are based on maximum general schedule salaries and maximum military basic pay rates, which apply to few members of either system. Conversely, railroad retirement annuities are based on lower, more attainable maximum creditable earnings. In calendar year 1977, when the maximum creditable earnings were \$16,500, railroad workers earned an estimated average of \$18,100.

Railroad retirement spouse beneficiaries fare better than those of the other programs. The spouse of a railroad employee could receive a maximum benefit of \$4,108; however, under civil service and military retirement, spouses receive no benefits. Social security provided maximum spouse benefits of \$2,862, and the veterans pension program provided additional monthly benefits of up to \$1,152 to veterans with spouses. 1/

The pattern for survivor benefits is similar to that for retiree benefits. The maximum railroad retirement widow(er) benefit of \$7,440 was higher than the social security maximum of \$5,724 (in fact, railroad retirement survivor benefits are defined as 130 percent of the comparable social security benefit), but lower than civil service (\$17,334) or military retirement (\$19,594) maximums.

Starting in 1979, veterans may choose an option that provides substantially higher pension benefits but has more offsets for other income (most notably spouses' income, which is not otherwise considered).

MAXIMUM BENEFITS FOR SIMILAR EARNINGS

Comparing annual benefits for people who had the maximum creditable railroad earnings show that railroad retirement benefits can exceed military retirement benefits but would be slightly lower than civil service retirement benefits. For employees who began receiving benefits in March 1978 and had been earning the maximum (\$16,500 in 1977 and \$17,700 in 1978) that can be credited under railroad retirement, benefits would be:

1/Veterans who received the maximum benefits, however, would have received only an additional \$180 a year if they had spouses.

| | |
|--------------------------|----------------|
| Railroad retirement | \$10,416 |
| Civil service retirement | 12,400 |
| Military retirement | <u>a/9,558</u> |

a/Basic pay is only one portion of the military equivalent of a salary. (See p. 8.) In this example, to compensate for the other allowances, the basic pay on which retirement pay is based is 72 percent of the maximum creditable earnings under railroad retirement in 1978. The 72-percent figure is based on estimates for fiscal year 1976 made during the Third Quadrennial Review of Military Compensation.

A military retiree, however, would reach this level of benefits after 30 years of service, as opposed to about 40 years of service in the other two programs.

As a second example, consider married retirees. Total retiree and spouse benefits (when the civil service and military retirees choose reduced annuities to provide protection for surviving spouses) would be:

| | <u>Railroad retirement</u> | <u>Civil service retirement</u> | <u>Military retirement</u> |
|---|--------------------------------|---|--------------------------------|
| Retiree benefit | \$10,416 | \$12,400 | \$9,558 |
| Reduction to provide maximum benefit for surviving spouse (optional) | - | -970 | -686 |
| Spouse benefit | <u>4,108</u> | <u>-</u> | <u>-</u> |
| Total employee and spouse benefit | <u>\$14,524</u> | <u>\$11,430</u> | <u>\$8,872</u> |

Railroad retirement annual benefits for employee and spouse would be 27 percent higher than civil service retirement benefits and would be 64 percent higher than military retirement benefits.

Using the earnings histories above, maximum survivor benefits beginning March 1978 would also be higher under railroad retirement than under civil service or military retirement.

| | <u>Railroad retirement</u> | <u>Civil service retirement</u> | <u>Military retirement (note a)</u> |
|------------------------------------|--------------------------------|---|---|
| Widow(er) | \$7,440 | \$ 6,820 | \$5,257 |
| Child, surviving widow(er) | 5,580 | 1,730 | 5,257 |
| Child, no surviv- ing widow(er) | 5,580 | 2,079 | 5,257 |
| Parent | 6,138 | - | - |
| Other | - | (b) | (b) |
| Family maximum | 13,032 | 12,009 | 5,257 |

a/Under military retirement, benefits are not paid concurrently to the surviving spouse and children. The retiring service member can choose one of three survivor options-- spouse only, children only, or spouse and then children after the spouse becomes ineligible. The amounts shown above for the child would be divided among the eligible children.

b/A retiring, unmarried civil servant or a retiring, unmarried service member with no dependent children can name a person with an insurable interest as a survivor beneficiary. The retiree's annuity is reduced based on the difference in the ages of the retiree and the named beneficiary.

BENEFITS RAILROAD RETIREES WOULD
HAVE RECEIVED UNDER THE CIVIL
SERVICE OR MILITARY RETIREMENT
PROGRAMS

How do actual railroad retirement benefits for career employees--those who retire after more than 30 years of service--compare with the benefits those individuals would have received had their service been covered by the civil service or military retirement programs? Basically, retirees would receive higher benefits under the civil service and military retirement programs than under the railroad retirement program. Retirees with spouses, however, would receive higher benefits under the railroad retirement program than under the other two programs.

The following table compares the average benefits received by a sample of railroad workers who retired in calendar year 1977 with the benefits those individuals would have received had their employment been covered under the civil service or military retirement programs.

| | <u>Railroad retirement</u> | <u>Civil service retirement</u> | <u>Military retirement</u> |
|---|--------------------------------|---|--------------------------------|
| Retiree (note a) | <u>\$8,424</u> | <u>\$11,088</u> | <u>\$10,392</u> |
| Retiree and spouse: | | | |
| Retiree | 8,424 | 11,088 | 10,392 |
| Spouse | 3,912 | - | - |
| Reduction to provide for surviving spouses (optional) | <u>-</u> | <u>-839</u> | <u>-769</u> |
| | <u>\$12,336</u> | <u>\$10,249</u> | <u>\$9,623</u> |

a/Based on a 1-percent sample (116 cases) by the Railroad Retirement Board of employees retiring with more than 30 years of service, the average length of service was 34.5 years.

Benefits to retirees would average 32 percent and 23 percent more under the civil service and military retirement programs, respectively, than under the railroad retirement program.

For retirees with spouses, however, benefits would be 17 percent and 22 percent lower under the former two programs than under the railroad retirement program.

COMPARING RAILROAD AND CIVIL SERVICE RETIREMENT BENEFITS

Of the programs reviewed, civil service retirement is the most comparable to railroad retirement. Both provide the total retirement benefits employees will receive for their civil service or railroad careers. Civil servants are not covered by social security, so they must look to the civil service retirement program for all their retirement benefits. The railroad retirement benefit structure, by combining social security and private, employer-funded pension aspects, provides the worker with a single benefit based on his railroad career. The other programs are either not meant to provide the sole retirement benefit, or are meant to provide benefits for only special circumstances.

- Social security provides basic benefits that are often supplemented by private retirement programs.
- Military personnel participate in social security, as well as military retirement. Some benefits are also coordinated with veterans compensation benefits.
- Veterans pensions are more like social welfare benefits than retirement benefits because they are directed at the needy.

The following are comparisons of benefits under the railroad and civil service retirement programs.

Average annual annuities

The following table compares civil service and railroad retirement annuitants on the rolls at the end of fiscal year 1977 and their average annual annuities.

| | <u>Railroad retirement</u> | | <u>Civil service retirement</u> | |
|----------------------|----------------------------|-------------------------------|---------------------------------|-------------------------------|
| | <u>Number</u> | <u>Average annual annuity</u> | <u>Number</u> | <u>Average annual annuity</u> |
| Retiree | 464,074 | \$4,560 | 1,096,561 | \$7,848 |
| Retiree supplemental | 169,257 | 684 | - | - |
| Spouse | 230,758 | 2,136 | - | - |
| Surviving spouse | 305,157 | 3,196 | 334,129 | 3,550 |
| Surviving children | 31,566 | 2,976 | 71,041 | 1,620 |

Annuities awarded during fiscal year 1977

In comparing fiscal year 1977 awards, we found that the difference between civil service and railroad retirement benefits is narrowing. When average spouse benefits are added to railroad retirement annuities, the result exceeds benefits for an average civil service retiree.

| | <u>Railroad retirement</u> | | <u>Civil service retirement</u> | |
|----------------------|----------------------------|-------------------------------|---------------------------------|-------------------------------|
| | <u>Number</u> | <u>Average annual annuity</u> | <u>Number</u> | <u>Average annual annuity</u> |
| Retiree | 29,220 | \$6,120 | 85,568 | \$8,052 |
| Retiree supplemental | 16,555 | 492 | - | - |
| Spouse | 26,292 | 2,616 | - | - |
| Surviving spouse | 20,770 | 3,651 | 23,498 | 4,202 |
| Surviving children | 3,145 | 3,324 | 8,460 | 1,506 |

Civil Service Average Annuities as Percentages of Railroad Retirement Average Annuities

| | <u>On rolls at end of fiscal year 1977</u> | <u>Awarded during fiscal year 1977</u> |
|-----------------------------------|--|--|
| Retiree | 172 | 132 |
| Retiree supplemental | - | - |
| Retiree and supplemental | 150 | 122 |
| Spouse | - | - |
| Retiree and spouse | 117 | 92 |
| Retiree, supplemental, and spouse | 106 | 87 |
| Surviving spouse | 111 | 115 |
| Surviving children | 54 | 48 |

Awards to long-service employees

The difference between the average benefits for railroad and civil service retirement results partly because they represent a wide spectrum of career patterns. The following table compares fiscal year 1977 employee annuity awards for employees with similar career patterns--those with at least 30 years of service retiring at age 60 or older.

| | Railroad retirement (<u>note a</u>) | Civil service retirement (<u>note b</u>) |
|-------------------|---|--|
| Annuity amount | \$7,908 | \$11,256 |
| Years of service | 34.7 | 35.0 |
| Age at retirement | 61.6 | 63.4 |
| Number awarded | 12,500 | 9,300 |

a/This only included awards to employees age 60 to 64.

b/Excludes retiring employees whose annuities are calculated under special provisions--law enforcement officials, fire-fighters, air traffic controllers, and Members of Congress. Their annuities were considerably higher, averaging \$16,815

In addition to the regular annuity, railroad retirees with at least 25 years of service can receive supplemental annuities which averaged \$492 for fiscal year 1977 awards. Adding this to the regular annuity shown above, the career employee would receive a total annuity of \$8,400.

Railroad retirement also provides spouse benefits that are not available under civil service retirement. Spouses of retiring employees age 60 or older with at least 30 years of service are entitled to full benefits at age 60. In fiscal year 1977, 4,500 spouses age 60 to 64 were awarded average benefits of \$3,792 concurrently with benefits to the retiring employees. Thus, family annuities for career railroad employees (those with at least 30 years of service) retiring in fiscal year 1977 averaged \$12,192 (\$8,400 + \$3,792).

Unmarried civil service retirees received average benefits 34 percent higher than unmarried railroad retirees. However, married railroad retirees and their spouses received 8 percent more than married civil service retirees, whose spouses are not eligible for benefits while retirees are alive.

This comparison does not consider the effect of Federal income taxes. Except for the supplemental annuities (3 percent of the total fiscal year 1977 benefit payments), railroad retirement annuities are not subject to income tax. Civil service retirement annuities are completely taxable once the annuitants recoup their contributions (which were

taxed when made). 1/ Civil service retirees in this comparison contributed an average of \$15,000; therefore, their benefits would be taxable after 16 months.

1/If the annuitant will not recover his contributions within 3 years, the annuity is taxed from its start with deductions for contributions made on a prorated basis.

CHAPTER 4

DUAL BENEFIT REDUCTIONS

Often, individuals are covered under more than one retirement program. To prevent these persons from receiving dual benefits for the same service, each retirement program reduces its payments to those who receive certain benefits from other programs. Railroad retirement benefits are reduced for

- beneficiaries who are entitled to social security benefits;
- disabled beneficiaries who are entitled to workmen's compensation;
- spouses and widows (widowers) who are entitled to public pensions based on their own service; 1/ and
- beneficiaries who are entitled to supplemental annuities and receive private railroad pensions, unless the private pensions were offset for the supplemental annuities.

Also, railroad retirement benefits are reduced for any Federal benefit that is based on military service that was also credited toward railroad retirement, but the railroad retirement benefits are not reduced below what they would have been without crediting the military service.

Social security disability benefits are offset for workmen's compensation, and spouse and widow(er) benefits are offset for public pensions based on the spouse or widow(er)'s own public service. Credit for military service toward social security benefits is provided for military service before

1/This restriction applies to nondependent husbands and widowers who applied for benefits after November 1977, and will apply to wives, widows, dependent husbands, and dependent widowers who become eligible for public pensions after November 1982.

1957, 1/ as long as no benefit is payable by another Federal agency except the Veterans Administration.

Civil service retirement annuities cannot be paid concurrently with Federal workmen's compensation benefits. Military service is creditable toward civil service retirement but (with some exceptions) not if it is used as a basis for nondisability military retirement or social security benefits. Credit is not allowed for military service performed after 1956 if the employee or his family becomes entitled to social security benefits based on the employee's earnings.

Military retirement benefits are reduced by the amount of veterans benefits (disability compensation and pension) individuals receive. Military survivor benefits are reduced by the amount of social security benefits individuals receive which are attributable to military service.

Veterans pension benefits are reduced for the receipt of most other pensions or benefits.

1/Since 1957, military earnings have been taxable under social security.

CHAPTER 5

WORK AND INCOME RESTRICTIONS

Except for the veterans pension program, restrictions in the programs reviewed concern work rather than income or financial need. The railroad retirement program has the most work restrictions:

- Retirees are not eligible for benefits during any month they work for a railroad.
- Retirees are subject to the excess earnings restrictions applicable to social security recipients (discussed below).
- Retirees and spouses (but not surviving spouses) are ineligible for benefits during any month they work for their last employer before retirement.
- Disability annuitants lose their annuity for any month their earnings exceed \$200, unless yearly earnings do not exceed \$2,400.

The only work restriction under social security is excess earnings. For 1979, benefits of beneficiaries 65 and over are reduced by \$1 for each \$2 of wages or self-employment income over \$4,500. ^{1/} Benefits are reduced only for wages and income from working, not the worker's total income from all sources. No reductions are made for beneficiaries age 72 or older.

This earnings restriction also applies to some components of railroad retirement benefits:

- Retiree and spouse tier I and windfall benefits that are based on nonrailroad earnings and post-1974 railroad earnings.
- All survivor benefits (tier I, tier II, and windfall).

^{1/}The exempt amount is different for beneficiaries under age 65. The 1979 amount for them is \$3,480.

Work restrictions for civil service and military retirees are more limited. Unless they return to Federal employment or active military duty, working will not reduce their benefits. 1/

The veterans pension program differs from the others because its purpose is to provide benefits for the financially needy. Accordingly, both veteran and survivor benefits are reduced not only for earnings from work, but for most types of income as well.

1/Generally, civil servants reemployed in Federal service continue to receive their benefits, but their salaries are correspondingly reduced by the full amount of their benefits. In case of military retirees, the Dual Compensation Act of 1964, 5 U.S.C. Section 5532 (1976), was amended by the Civil Service Reform Act of 1978, Public Law 95-454, October 13, 1978, to provide that uniformed service members may not receive retired pay and salary in excess of the rate of pay for level V of the executive schedule, currently \$47,500. This limitation applies only to members retiring after the effective date of the Reform Act.

CHAPTER 6

EMPLOYEE CONTRIBUTIONS

Railroad workers are subject to the same payroll tax for retirement benefits as workers covered by social security, a rate lower than that paid by civil servants. Also, under railroad retirement and social security, workers pay taxes only on earnings up to a specified limit, whereas civil servants make contributions on total wages. In contrast, the military retirement and veterans pension programs require no employee contributions.

The following table shows the contributions employees will make to the retirement and survivor benefit programs during 1979.

| <u>Program</u> | <u>Tax/ contribution rate</u> (percent) | <u>Maximum annual earnings subject to tax/contribution</u> |
|-----------------------------|--|--|
| Railroad retirement | <u>a</u> /5.08 | <u>b</u> /\$22,900 |
| Social security | <u>a</u> /5.08 | 22,900 |
| Civil service retirement | <u>c</u> /7.00 | (d) |
| Military retirement | (e) | (f) |
| Veterans pension | (e) | (f) |

a/Paid by both employee and employer, it excludes 1.05 percent paid for Medicare hospital insurance.

b/The railroad retirement maximum is on a monthly basis equal to one-twelfth the social security annual maximum.

c/Members of Congress contribute 8 percent of their pay; congressional employees, law enforcement personnel, and firefighters contribute 7.5 percent.

d/No limit

e/No contributions.

f/Not applicable.

From the program's beginning until October 1973, railroad workers and employers contributed an equal percentage of the worker's earnings to the Railroad Retirement Account.

Those rates rose from 2.75 percent in 1937 to 9.60 percent in 1973. Since October 1973, both pay tier I contributions equal to the social security rate, but employers pay an additional 9.5 percent of the employee's taxable wages as tier II contributions. Through 1978, the taxable wage bases for tier I and tier II were the same. After 1978 the tier II wage base is targeted to rise but not as much as the tier I base.

Railroad retirement supplemental annuities are financed entirely by employer contributions. Effective January 1979, employers pay \$.125 for each employee hour worked.

Since 1966, the maximum taxable wage base under social security has been equal to the railroad retirement's--subject to an annual rather than a monthly limit. Since October 1973, the social security tax rate has also been equal to the railroad employee tax rate. In agreement with the Social Security Amendments of 1977, tax rates for employees and employers, each exclusive of Medicare, for both programs will progressively increase to 5.35 percent by 1981 and 6.20 percent by 1990. In 1981, maximum annual earnings of \$29,700 will be taxable. After 1981, the taxable earnings base will be adjusted automatically according to average wage levels, reaching an estimated \$50,700 in 1990.

Since January 1970, the civil service retirement contribution rate has been 7 percent of salary with no limit on the wage base. Certain groups--Members of Congress, congressional employees, law enforcement personnel, and firefighters--pay at higher rates and receive benefits calculated at higher rates.

Thus, workers covered by railroad retirement contribute less than workers covered by civil service retirement. A railroad employee earning the maximum taxable wage in 1979--\$22,900--would contribute \$1,163 to the Railroad Retirement Account, while a civil servant earning the same amount would contribute \$1,603 to the Civil Service Retirement and Disability Fund. This difference should narrow, however, because of the scheduled increases in the taxable rate under the railroad retirement program.

COMPARISON OF ELIGIBILITY REQUIREMENTS
FOR SELECTED FEDERAL RETIREMENT PROGRAMS

| | <u>Railroad retirement</u> | <u>Social security</u> | <u>Civil service retirement</u> | <u>Military retirement</u> | <u>Veterans pension</u> |
|--|---|--|--|---|---|
| Retirement benefits: General vesting requirements | 10 years of railroad service. If less, credits transferred for social security benefits. Current connection (12 months of railroad work during the employee's last 2-1/2 years of work before retirement) required for some types of benefits. | Fully insured status-- 40 quarters of coverage, or one quarter of coverage for each year after 1950 (or each year after attaining age 21, if later) with a minimum of 6 quarters. | 5 years of service. | 20 years of service or 30 percent disability. | 90 days' active military service during specified wartime periods, or separated earlier for service-connected disability. |
| Eligibility requirements: Retiree | Full annuity at 65, or at 60 with 30 years' service. Reduced benefits at 62. | Full benefit at 65. Reduced benefits at 62. | Full annuity at: 62 with 5 years' service, 60 with 20 years' service, 55 with 30 years' service. Annuities deferred until age 62 if not eligible as above. Special provisions for Members of Congress, law enforcement officials, fire fighters, and air traffic controllers. Reduced benefits at earlier ages for involuntary separations (through no fault of the employee) and certain voluntary separations such as those resulting from major reorganization, transfers of function, or reduction-in-force. | Full annuity at any age with 20 years' service. No reduced annuities for less service. | See "disabled employee." |
| Disabled employee | Total disability: 10 years' service, no age requirement, no current connection needed. Work occupational disability (unable to work at his regular job): age 60 with 10 years' service or with 20 years' service at any age. Current connection required. | Total disability only. Must have 20 quarters of coverage out of the last 40 preceding disability. Reduced work credit requirements for disability prior to age 31. Fully insured status also required. | Disabled if unable to perform in position occupied. Five years' service, no age restriction. | Disabled if unable to perform duties of that grade. 20 years' service, or 30 percent of more disability and 8 years' service, or disability proximate result of performing active duty, or incurred in the line of duty during war or national emergency. | Total disability, only. |

| | <u>Railroad retirement</u> | <u>Social security</u> | <u>Civil service retirement</u> | <u>Military retirement</u> | <u>Veterans pension</u> |
|---|--|--|---|--|--|
| Retirement benefits: Eligibility requirements (continued): Spouse | Employee awarded age or disability benefit. Spouse of employee aged 60 or older with 30 or more years' service: full benefit at age 60 or any age if caring for minor or disabled child. Spouse of employee aged 62 or older with less than 30 years' service: full benefit at 65 or any age if caring for child, reduced benefit at age 62. | Employee awarded age or disability benefit. Full benefit at 65 or any age with child in wife's care. Reduced benefit at 62. | No benefit. | No benefit. | Veterans receiving benefit. No age restrictions. |
| Divorced wife | No benefit. | Must have been married to employee for 20 years (10 years starting in 1979). Age requirements same as for spouse. | No benefit unless authorized by court decree, order, or property settlement in terminating marriage. | No benefit. | No benefit. |
| Child | No benefit, but some guarantees that family benefits are comparable to those under social security. | Employee entitled to age or disability benefit. Under age 18, or full-time student, age 18 through 21 or age 18 or older with total disability beginning before age 22. | No benefit. | No benefit. | Veterans meet requirements described under spouse. Child is unmarried, under age 18, or student age 18 through 22 or 18 or older if permanently disabled before reaching 18. |
| Survivor benefits: General vesting requirements | Employees had at least 10 years' service and current connection with railroad industry at time of retirement or death. If not, jurisdiction transferred to social security. | Employee fully insured. Lump-sum, widowed parent of child, and child survivor benefits available if the employee was only currently insured--6 quarters of coverage in the 13 preceding death. | Death of employee while employee: survivors eligible after employee had 18 months' service. Surviving spouse of deceased annuitant eligible only if employee had elected reduced annuity and coverage for surviving spouse. | 20 years' employee service, or if service-connected death, survivor benefits paid by the Veterans Administration regardless of years of service. Surviving spouse of deceased annuitant eligible only if employee had elected reduced annuity and coverage for surviving spouse. | Veterans had 90 days' wartime service, or less if separated for disability. |
| Eligibility requirements: Aged widow(er) | Full benefit at age 65. Benefits are reduced 17 percent at age 60. Widow(er)s aged 60 or 61 are deemed to be age 62 for purposes of computing benefits. | Full benefit at 65. Benefits are reduced 28-1/2 percent at age 60. | Death of employee while an employee: full benefit regardless of age. Death of retired employee: benefit (regardless of age) only if the employee chose a reduced annuity. Otherwise, no benefit to the widow(er). | Death of employee while on active duty: full benefit regardless of age. Death of retired employee: benefit (regardless of age) only if the employee chose a reduced annuity. Otherwise, no benefit. | Benefits available without regard to age. |

| | <u>Railroad retirement</u> | <u>Social security</u> | <u>Civil service retirement</u> | <u>Military retirement</u> | <u>Veterans pension</u> |
|--|---|---|---|---|---|
| Survivor benefits: | | | | | |
| Eligibility requirements (continued): | | | | | |
| Disabled widow(er) | Age 50, and totally disabled. Benefits are reduced to 50 percent of the full rate payable at age 65. | Age 50, and totally disabled. Benefits are reduced to 50 percent of the full rate payable at age 65. | Not applicable-- eligible regardless of age or disability. | Not applicable-- eligible regardless of age or disability. | Additional benefits regardless of age if widow(er) requires regular aid and attendance of another person. |
| Divorced wife | No benefit. | Must have been married to employee for 20 years (10 years starting in 1979). Age requirements the same as those for aged, disabled, or widow(er) with children. | No benefit unless authorized by court decree, order, or property settlement in terminating marriage. | No benefit. | No benefit. |
| Remarried widow(er) | No benefit. | If remarriage occurs after age 60, benefits continue. No benefits if under age 60, but if remarriage terminates, benefits resume. | If remarriage occurs after age 60, benefits continue. No benefits if under 60, but if remarriage terminates, benefits resume. | If remarriage occurs after age 60, benefits continue. No benefits if under 60, but if remarriage terminates, benefits resume. | No benefit, but if remarriage terminates, benefits are resumed. |
| Widowed parent of employee's child | Caring for a child under 18 or a disabled child. | Caring for a child under 18 or a disabled child. | Covered subject to the provision under "aged widow(er)." | Covered subject to the provisions under "aged widow(er)." However, survivor benefits cannot be paid concurrently to spouse and children. | Covered subject to the provisions under "aged widow(er)." |
| Child | Unmarried, under age 18 or full-time student 18 through 21, or over 18 and became disabled before 22. | Unmarried, under age 18 or full-time student 18 through 21, or over 18 and became disabled before 22. | Unmarried under 18 or full-time student 18 through 21, or over 18 and became disabled before age 18. (No restrictions concerning reduced employee annuity as is the case with surviving spouses.) | Unmarried, under 18 or full-time student 18 through 21, or over 18 and became disabled before age 18 (or before age 22 for full-time students). Benefits only if employee elects reduced annuity to provide benefits to: (1) surviving spouse and then dependent children, or (2) dependent children only. | Unmarried, under 18 or full-time student 18 through 22, or over 18 and became disabled before age 18. |
| Employee's parents | Age 60, unremarried, dependent of employee at time of employee's death. Payable only if no other survivors eligible for benefits. | Age 62, unremarried, dependent of employee at time of employee's death. | No benefit. | No benefit. | No benefit. |

| | <u>Railroad retirement</u> | <u>Social security</u> | <u>Civil service retirement</u> | <u>Military retirement</u> | <u>Veterans pension</u> |
|--|--|---|--|--|---|
| Survivor benefits: Eligibility requirements (contined): Person with an insurable interest designated by employee | No benefit. | No benefit. | An unmarried employee in good health can elect a reduced annuity which provides survivor benefits for a named person having an insurable interest. | An unmarried person with no dependent children can elect a reduced annuity which provides survivor benefits for a named person having an insurable interest. | No benefit. |
| Other benefits: Supplemental | Additional employee retirement benefits for employees who retire with current connection and 25 years' service at age 65 or 30 years' service at age 60. Tier I benefits (social security equivalent) increased for delayed retirement. | Benefits increased by 1/12 of 1 percent for each month between age 65-72 that employee delays retirement. This delayed retirement credit is increased to 1/4 of 1 percent for workers reaching 62 after 1978. | Additional benefits available if employee makes voluntary contributions to the retirement fund. | Additional benefits to enlisted personnel for extraordinary heroism in line of duty (but total retirement pay cannot exceed the 75 percent maximum). | Veterans 78 or older receive 25 percent increase in pension. Additional benefits generally available to beneficiaries needing regular aid and attendance. |
| Insurance lump-sum | Payable if employee leaves no survivor in the month of his death. | Payable for all deaths of insured employees. | No benefit. | Death gratuity if death while on active duty or within 120 days thereafter from causes related to active service. | Burial and plot allowances for most veterans. |
| Residual payment (return of contributions) | Pre-1975 railroad retirement taxes paid (plus interest) by employee (less any benefits paid based on the earnings) returned to heirs if no monthly benefits are payable at the time of the employee's death or in the future. In certain cases, widow(er)s or parents can waive future rights to benefits and receive residual payments. | No benefit. | Employee contributions (less any benefit payments paid) are returned to heirs when no survivors are eligible for annuities. | Not applicable--no employee contributions. | Not applicable--no contributions by veterans. |

| | <u>Railroad retirement</u> | <u>Social security</u> | <u>Civil service retirement</u> | <u>Military retirement</u> | <u>Veterans pension</u> |
|---|--|---|---|--|--|
| Other benefits (continued): Military service credits | Non-contributory railroad retirement wage credits allowed for military service preceded by railroad service. Annuity reduced for receipt of any other Federal benefit based on the same service (but not below what annuity would have been without military service). | Non-contributory wage credits allowed for military service before 1957, but not if a benefit is payable by another Federal agency (other than the Veterans Administration) based on the same period of service. Military earnings have been taxable under social security since 1957. Military personnel receive additional, non-contributory credits of up to \$1,200 per year for service after 1957. | Non-contributory credits generally allowed for military service. No credit allowed if the employee receives military retired pay (but he can waive the pay and receive civil service credit) except if the pay is based on certain war-time disabilities. No credit if military service was performed after 1956, and the employee or his family is eligible for social security benefits--commonly begins at age 62. | Retired pay based on years of military service, only. | Not applicable--other than the general 90 days' service requirement, benefits are not affected by length of service. |
| Restrictions to benefits: Work and income restrictions | No benefits payable for any months when the beneficiary worked for a railroad or the last employer before retirement (last employer provision does not apply to survivors). Social security earnings restrictions apply to Tier I and windfall benefits, except for employee and spouse benefits based on pre-1975 railroad earnings. Earnings restrictions apply to all survivor benefits except those based on disability. Disability annuitants lose one month's benefit for each \$200 of earnings above \$2,400. No reductions for months with earnings of less than \$200. | Benefits reduced \$1 for each \$2 of earnings above annual exempt amounts, unless over age 71. No special restrictions for disability benefits. | If annuitant is re-employed by the Federal Government, the annuity continues but a like amount is withheld from the salary. Disability discontinued 1 year after the second consecutive year the annuitant had wages or self-employment income of 80 percent or more of the current compensation for the position occupied immediately prior to retirement. No other earnings restrictions. | Retirement benefits suspended if member reenters active duty. Regular officer's retired pay partially reduced if employed by the Federal Government (no effect for regular officers whose retirements were based on combat disabilities). Starting in 1979, a military retiree cannot receive an annuity and a Federal salary in excess of the pay rate for level V of the Executive Schedule, currently \$47,500 (this limitation generally applies only to those retiring from the military after January 1979). No restrictions for non-Federal earnings. | Benefits reduced or eliminated based on income (not just salaries and wages) or net worth. Income generally includes earnings, profits, rents, interest, other retirement benefits (including social security) and insurance payments. In addition, the veterans' net worth or size of his estate can affect eligibility. Starting in 1979, veterans may choose an option that provides substantially higher pension benefits but has more offsets for other income (most notably spouses income which is not otherwise considered). |

| Restrictions to benefits (continued): Dual benefit restrictions | <u>Railroad retirement</u> | <u>Social security</u> | <u>Civil service retirement</u> | <u>Military retirement</u> | <u>Veterans pension</u> |
|--|---|---|---|---|---|
| | Tier I reduced by amount of any social security benefit payable. Social security reductions for public pensions and workmen's compensation benefits apply to Tier I benefits. Supplemental annuities subject to reduction for private pension benefits paid by railroads. | Individuals entitled to more than one social security benefit receive only the highest one. Certain spouse and widow(er) benefits reduced by amount of public pensions based on their own earnings. Disabled worker's benefits reduced, in some cases, for workmen's compensation benefits (both benefits together cannot exceed 80 percent of final earnings). | No restrictions, except annuities cannot be paid concurrently with compensation under the Federal Employees Compensation Act (compensation for disability incurred in the performance of duty). | Retirement benefits reduced for any Veterans Administration compensation or pension. Survivor benefits reduced for Veterans Administration survivor compensation and for social security benefits based on the military service. Retirement benefits can be waived so that the military service is credited towards civil service retirement. | In effect, offset for most other pensions. See "work restrictions." |

SOURCES OF FINANCING
FOR SELECTED FEDERAL RETIREMENT PROGRAMS

| | <u>Railroad retirement</u> | <u>Social security</u> | <u>Civil service retirement</u> | <u>Military retirement</u> | <u>Veterans pension</u> |
|---------------------------------------|--|--|---|--|---|
| Employee contributions | For 1979, 6.13 percent of monthly earnings up to \$1,908 per month (1/12 the social security yearly contribution base. Includes 1.05 percent for Health Insurance. | For 1979, 6.13 percent of yearly earnings up to \$22,900 (includes 1.05 percent for Health Insurance). | Seven percent of salary with no maximum. Members of Congress contribute 8 percent. Congressional employees, law enforcement officials and fire fighters contribute 7.5 percent. | None. | None. |
| Employer contributions | Employer matches employee contributions plus, for 1979, an additional 9.5 percent of employee monthly earnings up to \$1,575 per month. To finance supplemental annuities, employers pay 12.5 cents for each employee hour worked. | Employer matches employee contributions. | Employing agency matches employee contributions. | See below. | See below. |
| General revenue appropriations | Direct appropriations for (1) phase-out of "windfall" portion of dual railroad retirement/social security benefits, (2) military service credits. | Direct appropriations for (1) military service credits, (2) benefits to certain uninsured individuals over age 72. | Direct Appropriations or Treasury transfers for (1) interest on unfunded liability, (2) military service credits, (3) amortization of increases in unfunded liability. Cost-of-living adjustments are not funded. | Totally funded through general revenue appropriations to Department of Defense. | Totally funded through appropriations to Veterans Administration. |
| Other | Payments from social security trust funds for (1) financial interchanges, and (2) social security benefits paid by the Railroad Retirement Board. Income from investments. | Income from investments. | Income from investments. | None. | None. |
| Separate trust funds? | Yes--Railroad Retirement Account and Railroad Retirement Supplemental Account. | Yes--Federal Old-Age and Survivors Insurance Trust Fund, and the Federal Disability Insurance Trust Fund. | Yes--Civil Service Retirement and Disability Fund. | None. Funded on pay-as-you-go basis--funds appropriated only for current benefit payments. | None. Funds appropriated only for current benefit payments. |

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COMPONENTS OF RAILROAD RETIREMENT BENEFITS

The rationale behind the railroad retirement benefit structure is to

- (1) provide basic social security benefits based on total railroad and nonrailroad earnings and
- (2) supplement the social security benefit level with benefits based on service in the railroad industry only.

The following shows the components of railroad retirement benefits for annuitants on the rolls at the end of fiscal year 1977.

| | <u>Type of annuitant</u> | | |
|--|--------------------------|---------------|------------------------------|
| | <u>Employee</u> | <u>Spouse</u> | <u>Survivor (note a)</u> |
| Total annuities: | | | |
| Number | 464,100 | 230,800 | 335,100 |
| Average annual amount | \$4,560 | \$2,136 | \$3,168 |
| Tier I (social security benefit, net of actual social security benefits paid): | | | |
| Number | 438,000 | 171,900 | 310,700 |
| Average annual amount | \$3,012 | \$1,272 | \$2,352 |
| Tier II (railroad industry pensions): | | | |
| Number | 420,000 | 207,500 | 335,100 |
| Average annual amount | \$1,344 | \$708 | \$900 |
| Supplemental (railroad industry supplemental pension for long-service employees): | | | |
| Number | 169,400 | - | - |
| Average annual amount | \$684 | - | - |
| Windfall benefit for dual railroad retirement/social security entitlement: | | | |
| Number | 185,200 | 148,600 | 56,800 |
| Average annual amount | \$1,272 | \$1,020 | \$504 |

a/Excludes about 1,900 widows temporarily being paid at the spouse rate and about 400 survivors (option) annuitants.

Thus, not including social security benefits (tier I), retired railroad employees are receiving an average of \$1,344 a year in basic railroad pensions, while the long-service retired employees are receiving an additional \$684 a year.

IMPACT ON RAILROAD RETIREMENT BENEFITS
OF RECEIVING SOCIAL SECURITY BENEFITS

Tier I benefits are based on both railroad and non-railroad earnings. To avoid paying duplicate benefits, social security benefits based on nonrailroad earnings are subtracted from tier I benefits. The following table compares average annual annuities received at the end of fiscal year 1977 by railroad retirement annuitants who receive social security benefits, with annuities received by those who receive only railroad retirement benefits.

| | <u>Employees</u> | <u>Spouses</u> | <u>Survivors</u> (note a) |
|---|------------------|----------------|------------------------------|
| Total annuitants: | | | |
| Number | 464,000 | 231,000 | 335,000 |
| Average railroad retirement benefit | \$4,560 | \$2,136 | \$3,168 |
| Annuitants receiving social security benefit: | | | |
| Number | 190,000 | 150,000 | 134,000 |
| Percent of total | 41 | 65 | 40 |
| Average railroad retirement benefit | \$3,288 | \$1,800 | \$2,196 |
| Average social security benefit | <u>2,184</u> | <u>1,776</u> | <u>2,052</u> |
| Average total benefit | <u>\$5,472</u> | <u>\$3,576</u> | <u>\$4,248</u> |
| Annuitants not receiving social security benefit: | | | |
| Number | 274,000 | 81,000 | 201,000 |
| Percent of total | 59 | 35 | 60 |
| Average railroad retirement benefit | \$5,448 | \$2,760 | \$3,828 |

a/Excludes widows temporarily being paid at the spouse rates, survivor (option) annuitants, and parents.

FISCAL YEAR 1977 RECEIPTS AND DISBURSEMENTS
OF THE RAILROAD RETIREMENT ACCOUNT AND
THE RAILROAD RETIREMENT SUPPLEMENTAL ACCOUNT

a/(millions)

RECEIPTS:

| | |
|---|------------------|
| Employee and employer contributions | b/\$1,908.5 |
| Transfers from social security trust funds under the financial interchange | 1,207.5 |
| Dual benefit appropriations | 250.0 |
| Income from investments | 233.6 |
| Advances for payment of social security benefits | <u>117.7</u> |
| Total receipts | <u>\$3,717.3</u> |

DISBURSEMENTS:

| | |
|--------------------------------------|--------------------|
| Benefit payments: | |
| Employee | \$2,096.1 |
| Supplemental | 116.7 |
| Spouse | 499.1 |
| Widow(er) | 953.7 |
| Child | 99.7 |
| Other survivor | 1.2 |
| Lump sum | <u>20.3</u> |
| Total benefit payments | 3,786.9 |
| Payments of social security benefits | 117.6 |
| Administration | <u>31.6</u> |
| Total disbursements | <u>c/\$3,936.2</u> |

a/Totals may not add due to rounding.

b/Includes collection of Medicare Hospital Insurance taxes.

c/Disbursements in excess of receipts were paid from the fund balances.

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