WHY RAIL WORKERS SHOULD CARE ABOUT THE FIGHT OVER SOCIAL SECURITY

As you are all aware, the future solvency and structure of the social security system has become a major issue in the media and in the federal government. Various proposals to restructure the system have been made and the intensity of this national debate will undoubtedly increase during these coming months. Many of you may have already been getting questions from your members as to if and how any changes to social security benefits affect railroad retirement.

The impact changes to social security law have on the railroad retirement system can be summarized in a single general statement--tier 1 railroad retirement benefits are calculated in the same manner as social security benefits. Although differences in eligibility and early retirement may exist, any changes in social security benefit structure or financing will directly affect railroad retirement.

Under the two-tier system provided by the Railroad Retirement Act, tier 1 railroad retirement benefits and their funding are interrelated and coordinated with the benefits and funding provided under the Social Security Act. While tier 2 railroad retirement benefits and their funding are generally determined by rail labor and management bargaining agreements, tier 1 benefits are basically social security benefits. Fundamental changes in the social security system consequently affect tier 1 benefits as well as tier 1 payroll taxes on rail employees and employers. Railroad workers and their families; therefore have a direct and vital interest in any future changes made to the social security system.

Background

Financing - The vast majority of tier 1 benefits are funded through a financial interchange with the social security trust funds. As part of this financial interchange, the tier 1 payroll tax rates for railroad employees and employers are the same as the rates by the Federal Insurance Contributions Act (FICA) for social security purposes, and the annual amounts of railroad compensation subject to the tier 1 tax are the same as the amounts under social security. Any changes to the social security tax rate and/or the amount of compensation subject to tax automatically apply to the railroad retirement tier 1 payroll tax.

Computation of Benefits - Tier 1 benefits are based on an employee's combined railroad retirement and social security credits and are computed under Social Security Act benefit formulas. Any change in the computation of benefits under the Social Security Act or in the amounts of creditable earnings used in computation will carry over to the Railroad Retirement Act and apply to the computation of tier 1 benefits.

COLA's - The Social Security Act provisions that determine social security COLA's on the basis of the Consumer Price Index also determine corresponding increases in both tier 1 and tier 2 benefits. Changes in social security COLA provisions will directly affect the amount of future railroad retirement COLA's.

Age Requirements and other Definitions - Except for individuals who have 30 years of service, retirement age is referenced in the Railroad Retirement Act as being the same as the definition of retirement age in the Social Security Act. Determining who is a widow, widower, child, divorced wife or husband of a railroad employee for railroad retirement benefit purposes is also based on the definitions of those terms in the Social Security Act. Disabled railroaders needing to qualify for Medicare coverage prior to age 65 must meet the definitions of disability contained in the Social Security Act. Changes in any of these social security provisions would directly affect qualifying conditions for railroad retirement benefits.

Social Security Restructuring Proposals

Many proposals have been advanced for addressing the future financing needs of social security. They include changes in revenues as well as in benefits and many of the proposals include a combination of the two. There have also been different proposals to restructure social security by creating either mandatory or voluntary investment accounts that would supplement or replace part of the current social security system. The proposals incorporating individual investment accounts are the ones that have gotten the most attention recently and are favored by the Bush Administration. They involve a privatization or semi-privatization of the system and a switch, in part, from the current defined benefit plan to a defined contribution plan.

The President's Commission to Strengthen Social Security, in its 2001 report, presented three models for modifying social security. Each of the three models includes provisions for voluntary individual accounts and associated offsets to social security retirement benefits based on the earnings of the workers who elect to have such individual accounts. The second and third models would also make modifications to some current social security benefit provisions.

In the first model developed by the Commission, the current benefit provisions of the Social Security Act would not be changed. However, workers would voluntarily invest 2 percent of their taxable earnings in an individual account.

The second model would allow workers to direct 4 percent of their taxable earnings into an individual account, up to an annually indexed maximum (set at $1,000 in 2002).

The third model would allow workers to have an amount equal to 2.5 percent of their taxable earnings, up to an annually indexed maximum (set at $1,000 in 2002), deposited annually in an individual account. Participation in this option would require that the worker contribute an additional 1 percent of taxable earnings to the individual account each year.

The foregoing is only meant to provide a brief summary of the Commission's proposals. The entire report of the Commission is available on their web site at www.csss.gov. An actuarial analysis of the 3 models is available on social security's web site at www.ssa.gov/OACT/solvency/PresComm_2002131.html.

Other methods involve reducing benefits by changing the calculation of benefits, reducing COLA increases, and in numerous other ways limiting benefits. Some of the methods that have been suggested for addressing the future financing of social security include:

- Reducing social security COLA's by revising the way the Consumer Price Index (CPI) is calculated. Last year the COLA was 2.7 percent.
- Reducing benefits by increasing the number of years used in calculating social security benefits from 35 to 38 years.
- Reducing benefits by modifying the benefit formula used to initially calculate social security benefits by lowering the percentage of earnings that is replaced by benefits.
- Speeding up the increase in "full retirement age" that is already happening under current law or increasing full retirement age beyond the currently scheduled age 67.
- Reducing or eliminating benefits for workers with higher incomes by introducing a "means" test for beneficiaries.
- Raising social security payroll tax rates.
- Increasing the portion of social security benefits subject to Federal income tax.
- Increasing the amount of earnings subject to the social security payroll tax.
- Extending social security coverage to all new employees of State and Local Government.
- Investing social security reserves in the stock market.

Conclusion

The debate over social security will undoubtedly become more intense in the upcoming months. All of those in the railroad community, both active and retired, are urged to carefully follow this debate and to learn about the issues involved. If someone on the radio or TV is discussing his or her ideas as to what should be done with social security, see if that person belongs to any organization or think-tank that may have its own agenda.

Rail labor will lend its support in the fight to protect railroad retirement and social security benefits both now and into the future and will oppose any reduction in railroad retirement and social security benefits.