



FROM THE DESK OF

V. M. SPEAKMAN, JR.
LABOR MEMBER



U.S. RAILROAD RETIREMENT BOARD

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Private Rail Pensions, 401(k) Plan Payments May Reduce Supplemental Annuities

Railroad retirement beneficiaries are reminded that receipt of a private railroad pension or a distribution from an employer-sponsored 401(k) plan may reduce the amount of a supplemental annuity payable by the Railroad Retirement Board. The following questions and answers provide information on this subject.

1. What are the eligibility requirements for a supplemental annuity?

Individuals receiving a railroad retirement age and service or disability annuity can be paid a monthly supplemental annuity at age 60 if the employee has at least 30 years of creditable railroad service, or at age 65 with at least 25 years of service. A current connection with the railroad industry is required, as is at least one month of rail service before October 1981. The maximum monthly supplemental annuity rate is \$43.

2. What effect does the receipt of a private railroad pension have on the payment of a supplemental annuity?

If a retired employee also receives a private pension funded entirely or in part by a railroad employer, the supplemental annuity is permanently reduced by the amount of the monthly pension benefit that is based on the railroad employer's contributions. However, if the employer reduces the pension for the employee's entitlement to a supplemental annuity, the amount by which the pension is reduced is restored to the supplemental annuity (but does not raise it over the \$43 maximum). There is no reduction for a pension paid by a railroad labor organization.

3. What if an employee elects to receive the pension in a lump-sum instead of as a monthly benefit?

If a retired employee elects to receive his or her pension in a lump-sum payment instead of as a monthly benefit, the supplemental annuity is reduced the same as it would be if the employee was receiving the monthly benefit. If the lump sum is paid in installments, the installment payments are not considered monthly benefit payments.

(More)

4. What effect does the receipt of a 401(k) plan distribution have on the payment of a supplemental annuity?

The supplemental annuity is reduced dollar-for-dollar by the amount of an employee's 401(k) distribution that is attributable to the railroad **employer's** contributions, which is the total of the employer's actual contributions plus or minus the earnings or losses on those contributions.

If the only payment option under a 401(k) plan is a lump-sum distribution, whether in the form of cash, stock, a rollover to an Individual Retirement Account (IRA) or any combination of the three, the supplemental annuity is withheld until the amount of the distribution attributable to the employer's contributions is recovered. For example, if an individual receives a \$100,000 distribution and \$15,050 of that amount is attributable to the employer's contributions, the supplemental annuity would be withheld for 350 months (\$15,050 divided by the monthly supplemental annuity rate of \$43).

If a monthly benefit is payable or an option under a 401(k) plan, the supplemental annuity is permanently reduced by the amount of the monthly benefit attributable to the employer's contributions. This is true no matter how the employee actually elects to receive the distribution of the plan.

5. Why is a rollover to an IRA considered a distribution?

Any funds withdrawn from an employer-sponsored 401(k) plan are considered a distribution. Although an employee usually does not actually receive the funds when they are rolled over to an IRA, the funds still must be withdrawn from the 401(k) account before being deposited into the IRA. This is true even if the IRA is with the same firm the employer contracted to administer its 401(k) plan.

6. If the individual has not taken a distribution from an employer-sponsored 401(k) plan, is the supplemental annuity still reduced?

No. The supplemental annuity may be reduced only when an individual takes a distribution from an employer-sponsored 401(k) plan.

7. What about 401(k) plans that do not require employer contributions?

A distribution from a 401(k) plan under which the railroad employer is not obligated to make contributions will not cause a reduction in the supplemental annuity. A distribution from a 401(k) plan sponsored by a railroad labor organization also will not cause a reduction in the supplemental annuity.

Persons can contact an RRB field office for more information via the agency's website, www.rrb.gov, or by calling toll-free at 1-877-772-5772. Most RRB offices are open to the public from 9:00 a.m. to 3:30 p.m., Monday through Friday, except on Federal holidays.