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U.S. RAILROAD RETIREMENT BOARD

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Deemed Service Month Credits

Railroad retirement benefits are based on months of service and earnings credits. Earnings are creditable up to certain annual maximums on the amount of compensation subject to railroad retirement taxes.

Credit for a month of railroad service is given for every month in which an employee had some compensated service for an employer covered by the Railroad Retirement Act, even if only one day's service is performed in the month. (Local lodge compensation is disregarded for any calendar month in which it is less than \$25. However, work by a local lodge or division secretary collecting insurance premiums, regardless of the amount of salary, is creditable railroad work.) Also, under certain circumstances, additional service months may be deemed in some cases where an employee does not actually work in every month of the year.

The following questions and answers describe the conditions under which an employee may receive additional railroad retirement service month credits under the deeming provisions of the Railroad Retirement Act.

1. What requirements must be met before additional service months can be deemed?

In order for a month to be deemed a service month, an employee must be in an "employment relation" with a covered railroad employer, or be an employee representative, during that month. (An employee representative is a labor official of a noncovered labor organization who represents employees covered under the Acts administered by the Railroad Retirement Board.)

For this purpose, an "employment relation" generally exists for an employee on an approved leave of absence (for example, furlough, sick leave, suspension, etc.). An "employment relation" is severed by retirement, resignation, relinquishing job rights in order to receive a separation allowance, or termination.

2. How is credit for additional service months computed?

For additional service months to be deemed, the employee's compensation for the year, up to the annual tier II maximum, must exceed an amount equal to 1/12 of the tier II maximum multiplied by the number of service months actually worked. The excess amount is then divided by 1/12 of the tier II maximum; the result, rounded up to the next whole number, equals the maximum number of months that may be deemed as service months for that year. Fewer months may be deemed, if an employment relation, as defined in question 1, does not exist.

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3. An employee works eight months in 2011 before being furloughed, but earns compensation of \$80,300. How many additional service months could be credited to the employee?

The employee could be credited with four additional service months. One-twelfth of the 2011 \$79,200 tier II maximum (\$6,600) times the employee's actual service months (eight) equals \$52,800. The employee's compensation in excess of \$52,800 up to the \$79,200 maximum is \$26,400, which divided by \$6,600 equals four. Therefore, four deemed service months could be added to the eight months actually worked and the employee would receive credit for 12 service months in 2011.

4. Another employee works for eight months in 2011 and earns compensation of \$64,300. How many additional service months could be credited to this employee?

In this case, the excess amount (\$64,300 minus \$52,800) is \$11,500, which divided by \$6,600 equals 1.742. After rounding, this employee could receive credit for two deemed service months and be credited with a total of 10 months of service in 2011.

5. Another employee works for nine months in 2011 before resigning on September 15, but earns compensation of \$91,000. How many additional service months could be credited to this employee?

In this case, the excess amount (\$79,200 minus \$59,400) is \$19,800, which divided by \$6,600 equals three. However, since the employee resigned in September, there is no employment relationship for the remaining months and no additional service months may be deemed and credited.

6. Should an employee preparing to retire take deemed service months into account when designating the date his or her railroad retirement annuity is to begin?

Credit for deemed service months is a factor an employee may wish to consider in selecting an annuity beginning date. For instance, in some cases, a designated annuity beginning date could be used to establish basic eligibility for certain benefits, increase the tier II amount, or establish a current connection. It should be noted that service months cannot be deemed after the annuity beginning date.

7. What would be an example of using deemed service months to establish benefit eligibility?

An example would be an employee under age 60 who might be able to use deemed service months to establish the 240 months of service needed to qualify for an occupational disability annuity.

For instance, a 48-year-old employee applying for an occupational disability annuity last performed service on May 15, 2011, and received \$45,000 in compensation in 2011. She is credited with 238 months of creditable railroad service through May 2011. The employee designates an annuity beginning date of November 1, 2011, because she needs at least two additional months of service to establish eligibility for an occupational disability annuity and because she is eligible for other benefits before that time through her employer.

The employee's excess amount (\$45,000 minus \$33,000) is \$12,000, which divided by \$6,600 equals 1.818. Therefore, two deemed service months could be added to the five months actually

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worked and the employee would receive credit for seven service months in 2011 for a total of 240 service months.

In any case, a designated annuity beginning date should be considered in disability cases because, except in the case of a traumatic event, it is difficult to predict the onset date of a disability and the resultant annuity beginning date. In addition, as in the preceding example, other benefits may be involved.

8. How could deemed service months be used to increase an employee's tier II amount?

An employee worked in the first five months of 2011 and received compensation of \$39,600. He does not relinquish his rights until June 2, 2011, and applies for an annuity to begin on that date.

The excess amount (\$39,600 minus \$33,000) is \$6,600, which yields one additional service month for a total of six service months in 2011. Had the employee relinquished his rights and applied for an annuity to begin on June 1, he would have been given credit for only five service months.

The employee received the maximum compensation in all of the last five years and had 360 months of service through 2010. The additional service and compensation increases his tier II from \$1,350.80 to \$1,357.25. However, delaying the annuity beginning date past the second day of the month after the date last worked solely to increase the tier II amount would not generally be to the employee's advantage.

9. Can deemed service months help an employee establish a current connection?

Yes. For example, an employee left the railroad industry in 1999 and engaged in employment covered by the Social Security Act. In August 2010, she returned to railroad employment and worked through June 28, 2011. She received compensation of \$40,150 in 2011. She does not relinquish her rights until July 2, 2011, and applies for an annuity to begin on July 2, 2011.

In this case, the excess amount (\$40,150 minus \$39,600) is \$550, which yields one deemed service month. Consequently, the employee is given credit for seven service months in 2011. With five months of service in 2010 and seven months in 2011, the employee establishes a current connection. Had she designated the earliest annuity beginning date permitted by law, she would not have met the 12-in-30-month requirement for a current connection. (An employee who worked for a railroad in at least 12 months in the 30 months immediately preceding the month his or her railroad retirement annuity begins will meet the current connection requirement for a supplemental annuity, occupational disability annuity or survivor benefits.)

10. Can an employee ever receive credit for more than 12 service months in any calendar year?

No. Twelve service months are the maximum that can be credited for any calendar year.

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11. Where can an employee get more information on how deemed service months could affect his or her own annuity?

Claimants with questions about deemed service months should contact an RRB office by calling toll-free at 1-877-772-5772. Claimants can also find the address of the RRB office serving their area and get information about their claims and benefit payments by calling this toll-free number. 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. Field office locations can also be found by visiting www.rrb.gov.

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