HISTORICAL BACKGROUND OF RAILROAD PENSIONS

Private pension plans began in 1874 in the railroad industry when the first formal industrial pension plan in America was established on the Grand Trunk Railroad in Canada. By 1927, 82% of all railroad employees worked on railroads that were covered by a railroad pension plan. However, only small proportions of the employees received benefits under these plans. It was very difficult to qualify for these pensions under their rules on continuity, length of service, etc. The result was that only about 17% of the employees drew a pension.

The pension plan had a number of serious defects. They generally paid inadequate benefits and had limited provisions for disability retirement. With few exceptions, the plans were inadequately financed and could not withstand even temporary difficulties.

It became obvious that a new retirement system was needed. In 1932 the railroads reduced pensions by up to 40% creating a situation where older workers could not afford to retire, and younger workers with less seniority were laid off or worked marginal jobs.

The depression of the 1930's led to movements for retirement plans on a national basis because few of the nation's elderly were covered under any type of retirement plan. Railroad employees were particularly concerned because the private railroad pension plans could not keep up with the demands made upon them by the general deterioration of employment conditions and by the great accumulation of older workers in the industry. Railroad workers sought a separate retirement system which would continue and broaden the existing railroad programs under the general social security system which was in the planning stages. The proposed social security system was not scheduled to begin monthly benefit payments for several years. It would not give credit for service performed prior to 1937, while conditions in the railroad industry called for immediate benefit payments based on prior service.

In 1932, with backing from the Rail Labor Unions, Senator Wagner introduced the Wagner-Hatfiled Bill in Congress to create a retirement system to include all railroad employees. It provided that each employee would contribute from 2-5% of wages to a retirement fund each year; for voluntary retirement at age 65 or with 30 years of service. The employee would receive an annuity equal to 2% of average annual wages multiplied by years of service.

On June 23, 1934, Senator Robert F. Wagner wrote to President Franklin Delano Roosevelt urging him to sign the Wagner-Hatfiled Bill giving the President three reasons:

1.) By retiring some 50,000 workers immediately, the legislation would reduce unemployment.
2.) It would provide a testing ground for a general program of Social Security.
3.) There was an overwhelming public interest.

The reasons given began the first cycle of recovery from the depression by assuring working people they would receive consideration under the New Deal. This Bill did create a retirement system that included all railroad employees. It established a Railroad Retirement Board, imposed a tax on employee and employer to pay the pension, and would treat all railroads as if they were one employer. It was passed into law June 15, 1934.

This law was challenged as unconstitutional by 137 railroads. The Supreme Court agreed. On October 30, 1935, Congress passed a revised retirement bill which took effect in the spring of 1936. Again the railroads challenged the laws as unconstitutional and took their case to the District Court. The District Court's decision, upholding the law, had three parts:

1.) A tax could be placed on employees and employers but could not be collected.
2.) Annuities could be paid with money coming from the U.S. General Fund.
3.) Railroads were not obligated to spend money to furnish employment records.

The railroads appealed this decision to the U.S. Court of Appeals. (This pending ruling still could have rendered the Bill unconstitutional.)

All railroad service from February 4 1887, up to 30 years later could be used, but verifying service time was very difficult. Records were stored in shops and division points all over the United States and railroads offered little help. On December 28 1936, the President sent identical letters to Rail Labor and Management instructing them to work out an agreement by-passing the Court. By February 1937 they had a new bill. It was passed in Congress and signed into law June 24, 1937-the real beginning of Railroad Retirement. During the whole process, railroads claimed the retirement system was too expensive and that they would not be able to compete with buses, trucking, waterways and pipelines. Therefore, they were always against the new Law.

While an appeal to the U.S. Court of Appeals was pending, railroad management and labor, at the request of President Roosevelt, formed a joint committee to negotiate their differences. The result was a memorandum of agreement which led to the Railroad Retirement and Carriers' Taxing Acts of 1937 establishing the Railroad Retirement System. The pensions of retired employees on the railroads' private pension rolls were transferred to the Board's rolls with pension reductions restored. The benefit payments of almost 50.000 pensioners were taken over by the Board in July 1937.

There followed an immediate reduction in both the number of employed and unemployed older railroad workers. By the end of 1938 the number of employees age 65 and older in active railroad service was less than one-half the number two years earlier. Almost 100,000 employees had retired under the system by that date, 80% of them under the non-disability annuity provision.

The 1937 Act set up a staff retirement plan which provided annuities to aged retired employees based on their creditable railroad earnings and service. The amounts of retirement annuities awarded were directly related to the employees' earnings and lengths of service, with a maximum of $120 a month per annuitant. Creditable earnings were limited to a maximum of $300 a month, while no more than 30 years of service could be credited when service before 1937 was counted. An annuity could be paid at age 65 or later, regardless of length of service, or at ages 60-64 (on a reduced basis) after 30 years of service.

In order to receive a full annuity the disability had to be total and permanent, and 30 years of service were required. Employees could receive disability annuities at age 60-64 with less than 30 years of service, but on reduced basis.

The act made little provision for dependents of deceased employees and it made no provision for spouse annuities, with the following exception: A retiring employee could elect to receive a reduced annuity in order to provide an annuity to his surviving spouse. A survivor could receive a lump sum equal to 4% of the employee's creditable earnings after 1936, less any annuity payments already made.

The system was financed by a schedule of taxes beginning with 2.75% each on employers and employees applicable to the first $300 of monthly compensations.

The tax rates and earnings bases under Railroad Retirement and Social Security are listed in Table 1.