LAW360 Employment Authority

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Railroad Worker Says Board Schemed To Overtax Retirees

By **Anna Scott Farrell**

Law360 (March 12, 2025, 2:57 PM EDT) -- Retired railroad workers were incorrectly directed by the federal retirement board overseeing their funds to report millions of dollars in nontaxable benefits as taxable income in a scheme to line the board's pockets, a retiree said in a proposed class action in Texas federal court.

In **a complaint Tuesday** against the U.S. Railroad Retirement Board, James Logan said he contributed nearly $100,000 after taxes into a retirement fund over 47 years of service and that, for at least the last seven years, the board told him the money was taxable when it was not.

Additionally, the board, an independent federal agency, kept the unfairly collected taxes for itself, Logan said.

Logan asked a court to order the board to pay restitution, plus interest, to retirees for the taxes and to bar it "from enriching itself with money rightfully belonging to the people it serves." The board should also be forced to clearly report to retirees — less than 500,000 of whom receive the nontaxable benefits — the taxable amount of their benefits, he said.

Logan said that for years, he and his tax preparer followed written instructions from the board on his RRB-1099-R tax form directing him to report the entirety of his retirement benefits as taxable income. The benefits are broken into two tiers, one of which includes a nontaxable portion comprising his own after-tax payroll contributions, he said.

While railroad retirees are entitled to fully recover those contributions, which were mandatory, the board didn't tell them that, he said. According to the board's annual report for 2024, revenue from those taxes is transferred to the board, Logan said.

"The additional revenue collected from this unauthorized scheme goes back to the board instead of remaining in retirees' pockets where it belongs," Logan said.

The retirement system for railroad workers was reorganized during the Great Depression with the establishment of the Railroad Retirement Board. Retirees receive Tier I benefits, which are the equivalent of Social Security and taxed like Social Security, and Tier II benefits, which are based on service and comprise amounts beyond what a retiree would have received under Social Security, according to the suit.

The Tier II benefits have been taxable since 1984 — shortly after employers stopped exclusively funding them — except for the portion made up of workers' mandatory after-tax payroll contributions, according to the suit.

Logan argued that Tier II benefits under U.S. Code Title 45, which governs railroads, are not subject to taxes "under any circumstances whatsoever" beyond what's required in the Internal Revenue Code. The Tier II taxes are calculated according to IRC Section 72, which "provides that such annuities are only taxed to the extent they represent income," Logan said.

The board has all the information necessary to annually report to retirees the taxable amount of their Tier II benefits, Logan said. He compared the handling of such reporting by the board to the handling of reporting by the Office of Personnel Management to federal retirees. Before 1999, OPM also did not

report the taxable portion of retirement benefits, leaving the more than 2.5 million retirees receiving annuities to figure out the calculation.

But after the U.S. General Accounting Office recommended it, OPM started calculating and reporting in 2000 the taxable annuity amounts to federal retirees, according to the complaint.

Calculating the taxable amount is something that can be done by easily programming a formula, as proven by OPM, Logan said. Ordinary railroad retirees don't know how to make the calculation, he said. They "would have to expend considerable time and effort studying multiple IRS publications (which are not legally binding) to attempt to unravel the tax scheme and complex calculations applicable to his or her Tier II benefits."

The railroad board breached its fiduciary duties in telling retirees to report the full amount of their benefits as taxable, Logan said. It also failed to ensure that retirees received their correct benefit amounts and took action "that subjected them to unauthorized tax on their contributions."

An attorney for Logan, Taryn E. Ourso of Waters Kraus Paul & Siegel, told Law360 that the case affects "everyone in the American railroad community who receives Tier II retirement benefits or expects to receive them in the future."

"Hundreds of thousands of hardworking men and women have paid into the Tier II system since the mid-1980's," Ourso said. "Those contributions—which the government required them to make—have already been taxed. Railroad retirees rely on their benefits. None of them should be paying unauthorized taxes every year during a phase of life when every dollar they have makes a difference."

The U.S. Railroad Retirement Board did not respond to a request for comment.

Logan is represented by Charles S. Siegel, Leslie C. MacLean and Taryn E. Ourso of Waters Kraus Paul & Siegel, Brant C. Martin and Colin P. Benton of Wick Phillips Gould & Martin, Jeffrey D. Lerner of The Dove Firm PLLC and John R. MacLean III of the MacLean Law Firm PC.

Counsel information for the Railroad Retirement Board was unavailable.

The case is Logan v. U.S. Railroad Retirement Board, case number 4:25-cv-00238, in the U.S. District Court for the Northern District of Texas.

--Editing by Emma Brauer.

Update: This article has been updated to include a comment from an attorney for Logan.

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