

RAILROAD RETIREMENT BOARD

SUMMARY OF APPROPRIATION ESTIMATES
FOR FISCAL YEARS 2009 and 2010

Account	Fiscal Year 2009		Fiscal Year 2010		Page	
	FTEs	Amount	FTEs	Amount		
Limitation on Administration	910	\$105,463,000	<u>a/</u>	920	\$109,073,000	9
Dual Benefits Payments Account	—	\$ 72,000,000	<u>a/</u>	—	\$ 64,000,000	<u>b/</u> 57
Federal Payments to the Railroad Retirement Accounts	—	\$ 150,000	<u>a/</u>	—	\$ 150,000	<u>c/</u> 65
Limitation on the Office of Inspector General	51	\$ 7,806,000	<u>a/</u>	54	\$ 8,186,000	<u>d/</u> —

a/ The amounts for fiscal year 2009 reflect the level of funding provided by the Omnibus Appropriations Act, 2009 (P.L. 111-8).

b/ The appropriation language provides for \$64,000,000 to fund vested dual benefits from general revenues of which \$3,000,000 is expected from income taxes on vested dual benefits. The appropriation language provides for an additional 2 percent reserve (\$1,280,000) which will become available only if the product of recipients and the average benefit received exceeds the amount available to pay vested dual benefits.

c/ This amount reflects our latest estimate for interest related to uncashed railroad retirement checks and will remain available through September 30, 2011.

d/ This limitation is for the Railroad Retirement Board's Office of Inspector General, which submits a separate budget justification document and annual performance budget.

AGENCY OVERVIEW

The Railroad Retirement Board (RRB) is an independent agency in the executive branch of the Federal Government. The RRB's primary function is to administer comprehensive retirement/survivor and unemployment/sickness insurance benefit programs for the nation's railroad workers and their families under the Railroad Retirement and Railroad Unemployment Insurance Acts. In connection with the retirement program, the RRB has administrative responsibilities under the Social Security Act for certain benefit payments and railroad workers' Medicare coverage. It also assists in the administration of the Internal Revenue Code.

The RRB is headed by three Board Members appointed by the President of the United States with the advice and consent of the Senate. By law, one member is appointed upon recommendations made by railroad labor organizations and one upon recommendations of railroad employers. The third member, the Chairman, represents the public interest. The Board Members' terms of office are 5 years and expire in different years. The President also appoints an independent statutory Inspector General for the RRB (who functions outside the control of the Board Members, but who reports directly to the Chairman for administrative purposes) who is to prevent and detect waste, fraud, and abuse in RRB programs and operations. Additional information on the Board Members is provided on page 7. A current organization chart of the RRB is shown on page 8.

During fiscal year 2008, the RRB paid \$10.1 billion, net of recoveries, in retirement and survivor benefits and \$80 million, net of recoveries, in unemployment and sickness insurance benefits. During fiscal year 2008, about 598,000 beneficiaries received retirement and survivor benefits, about 11,000 railroad workers received unemployment insurance benefits, and nearly 19,000 received sickness insurance benefits. During fiscal year 2008, the RRB also paid benefits on behalf of the Social Security Administration amounting to \$1.2 billion to about 118,000 beneficiaries.

Programs Administered by the RRB

Railroad Retirement Act

Under the Railroad Retirement Act, the RRB makes monthly benefit payments to qualified railroad employees who retire because of age or disability, to eligible spouses of such employees, and to survivors of deceased employees. Total and permanent disability annuities are payable to employees unable to work at any job, and occupational disability annuities are payable to career railroad employees unable to work at their regular railroad jobs. Supplemental annuities are payable to career railroad employees with service prior to October 1981. There are also provisions for lump-sum payments.

The Railroad Retirement and Survivors' Improvement Act of 2001 (P.L. 107-90), enacted on December 21, 2001, made a number of major changes to the Railroad Retirement Act. The legislation provided for full early retirement eligibility at age 60 for railroad employees with 30 or more years of service; eliminated the maximum provision that had previously capped some

employee and spouse railroad retirement benefits; reduced the basic eligibility requirement for an employee annuity from 10 to 5 years if performed after 1995; and provide increased benefits for some widow(er)s. The Act also authorized the National Railroad Retirement Investment Trust to manage and invest the assets of the railroad retirement system in the same array of investment alternatives available to private sector pension plans.

The RRB also administers certain vested dual benefits financed by annual appropriations from general funds. As of September 30, 2008, nearly 39,000 beneficiaries received vested dual benefits.

Railroad Unemployment Insurance Act

Under the Railroad Unemployment Insurance Act, the RRB pays unemployment insurance benefits to railroad workers who are unemployed but ready, willing, and able to work, and sickness insurance benefits to railroad workers who are unable to work because of illness, injury, or pregnancy. The RRB also assists unemployed railroad workers in securing employment.

Financing of Railroad Retirement Benefits

The primary source of income for the railroad retirement/survivor benefit program is payroll taxes paid by covered employers and their employees. By law, railroad retirement taxes are coordinated with social security taxes. Employees and employers pay tier I taxes at the same rate as social security taxes. In addition, both employees and employers pay tier II taxes, which are used to finance railroad retirement benefit payments over and above social security benefit levels.

Other sources of income currently include Federal income taxes on railroad retirement annuities, appropriations from general funds of the Department of the Treasury (Treasury) provided to phase-out vested dual benefits, interest on investments, and the financial interchange with the social security trust funds. The financial interchange places the social security trust funds in the same position they would be in if railroad service were covered by the social security program instead of the railroad retirement program. In effect, through the financial interchange, the portion of railroad retirement annuities that is equivalent to social security benefits is reinsured through the social security system, thereby extending social security protection to railroad workers. The Social Security Equivalent Benefit Account is charged with railroad retirement benefit payments equivalent to social security benefits, and credited with taxes and transfers associated with those benefits.

Vested dual benefits are funded by annual appropriations from general funds of the Treasury and paid from a separate account, the Dual Benefits Payments Account. Since October 1, 1988, revenue from income taxes on these benefits has also been credited to the Dual Benefits Payments Account. If the appropriation in a fiscal year does not cover total benefits, individual payments must be reduced by proration.

Amounts needed to administer these programs are authorized by the Congress in annual appropriation acts. In addition, the Centers for Medicare and Medicaid Services and others reimburse the RRB for certain activities. In fiscal year 2010, it is estimated that the RRB will be reimbursed \$9.5 million for such costs.

Financing Provisions of the Railroad Retirement and Survivors' Improvement Act of 2001

Investment changes. The Railroad Retirement and Survivors' Improvement Act of 2001 (RRSIA) provides for the transfer of railroad retirement funds from the Railroad Retirement Accounts to the National Railroad Retirement Investment Trust, whose Board of Trustees is empowered to invest Trust assets in nongovernmental assets, such as equities and debt, as well as in governmental securities. The Railroad Retirement Board also receives transfers from the Trust, as needed, to pay railroad retirement and survivor benefits.

The Trust is not an agency or instrumentality of the Federal Government. Its Board of Trustees is comprised of seven members: three members selected by rail labor to represent the interests of labor; three members selected by rail management to represent management interests; and one independent member selected by a majority of the other six members. The Trustees are appointed only from persons who have experience and expertise in the management of financial investments and pension plans. The Trustees are subject to reporting and fiduciary standards similar to those under the Employee Retirement Income Security Act.

The RRB transferred \$1.502 billion, \$19.188 billion, and \$586 million to the Trust in fiscal years 2002, 2003, and 2004, respectively. The Trust has invested the transferred funds and the results of these investments are reported to the RRB and posted periodically on the RRB's website. The market value of Trust-managed assets on September 30, 2008, was approximately \$25.3 billion. Through fiscal year 2008, the Trust has transferred \$6.309 billion to the RRB to pay railroad benefits, including \$1.391 billion and \$1.298 billion, respectively, in fiscal years 2007 and 2008. Trust-managed assets have declined as a result of the general economic downturn in 2008 and the early part of 2009. The Trust reported that Trust-managed assets amounted to \$19.1 billion as of March 31, 2009.

Effect on payroll taxes. Under the RRSIA, the tier II tax rate on covered employers, including rail labor unions, was reduced from 16.1 percent to 15.6 percent in 2002, and to 14.2 percent in 2003. There was no change in the tier II tax rate of 4.9 percent on employees. Beginning with the taxes payable for calendar year 2004, tier II taxes on both employers and employees are based on the ratio of certain asset balances to the sum of benefits and administrative expenses (the average account benefits ratio). Depending on the average account benefits ratio, tier II taxes for employers will range between 8.2 percent and 22.1 percent, while the tier II tax rate for employees will be between 0 percent and 4.9 percent. The calendar year 2009 tier II tax rates are 12.1 percent and 3.9 percent for rail employers and employees, respectively. The maximum amount of earnings subject to tier II taxes is \$79,200 in 2009. The RRSIA does not affect tier I social security equivalent tax rates. The tier I tax on employees and employers remains the same as for social security covered employees and employers.

Supplemental annuities. The RRSIA also repealed the railroad retirement supplemental annuity tax paid by covered employers, and eliminated the separate Railroad Retirement Supplemental Account. While supplemental railroad retirement annuities provided by the Railroad Retirement Act continue to be due and payable, they are now funded from the Railroad Retirement Account.

Financing of Unemployment and Sickness Insurance Benefits

The railroad unemployment and sickness insurance program is financed by payroll taxes paid by covered employers. The Railroad Unemployment Insurance and Retirement Improvement Act of 1988 (Public Law 100-647) amended the Railroad Unemployment Insurance Act to provide for an experience-rated employer contribution system responsive to fluctuations in railroad employment and benefit usage.

For calendar year 2009, the minimum employer contribution rate is 2.15 percent, including a 1.5 percent surcharge. However, the 1.5 percent surcharge does not apply to new employers. New employers in 2009 will pay a tax of 2.61 percent, which represents the average rate paid by all employers in the period 2005-2007. For 80 percent of covered employers, the unemployment insurance rate assessed will be 2.15 percent in 2009.

The 2009 rate is applied to the first \$1,330 earned monthly by each employee. In accordance with Public Law 100-647, the wage base is indexed each year to approximately two-thirds of the cumulative growth in average national wages since 1984. An employer's overall rate under the system cannot exceed 12 percent, or 12.5 percent if the maximum surcharge described below is in effect. These rates include a component to cover costs shared by all employers and 0.65 percent of the employers' taxable payroll is permanently appropriated to the RRB for administrative expenses. In addition, a surcharge is added to employers' unemployment contributions for any calendar year when the balance in the Railroad Unemployment Insurance Account on the previous June 30 is less than a certain amount. Depending on the account balance, the surcharge rate may be 1.5, 2.5, or 3.5 percent of the wage base.

Description of Appropriation Requests

Limitation on Administration

This is the single administrative account for the RRB, which provides funding for the administration of both the railroad retirement/survivor and the unemployment/sickness insurance benefit programs. Amounts needed for this limitation are derived from the Railroad Retirement Account, the Social Security Equivalent Benefit Account, and the Railroad Unemployment Insurance Administration Fund.

Dual Benefits Payments Account

Section 15(d) of the Railroad Retirement Act provides for a Dual Benefits Payments Account which is separate from other railroad retirement accounts. The vested dual benefit portion of railroad retirement annuities is paid from this account and is funded by appropriations from general revenues. Background on this account is presented on pages 63 and 64.

Federal Payments to the Railroad Retirement Accounts

This account was established in conjunction with the implementation of the Railroad Retirement Solvency Act of 1983. Section 417 of the act amended the Railroad Retirement Act to provide for the reimbursement of unnegotiated benefit checks to the extent that such reimbursements are provided for, in advance, in appropriations acts. This account is the vehicle through which such appropriations are made.

Beginning in fiscal year 1991, the RRB no longer receives credit to this account for the principal amount of uncashed railroad retirement checks. Under provisions of the Competitive Equality Banking Act of 1987, funds for the principal amount of uncashed checks are appropriated to the Treasury and then transferred directly to the appropriate RRB accounts. As a result, in fiscal year 1991, the RRB began receiving credits to this account for only the interest portion of the uncashed check transfers. This account also acts as a conduit for transferring income taxes on benefits to the other railroad retirement accounts.

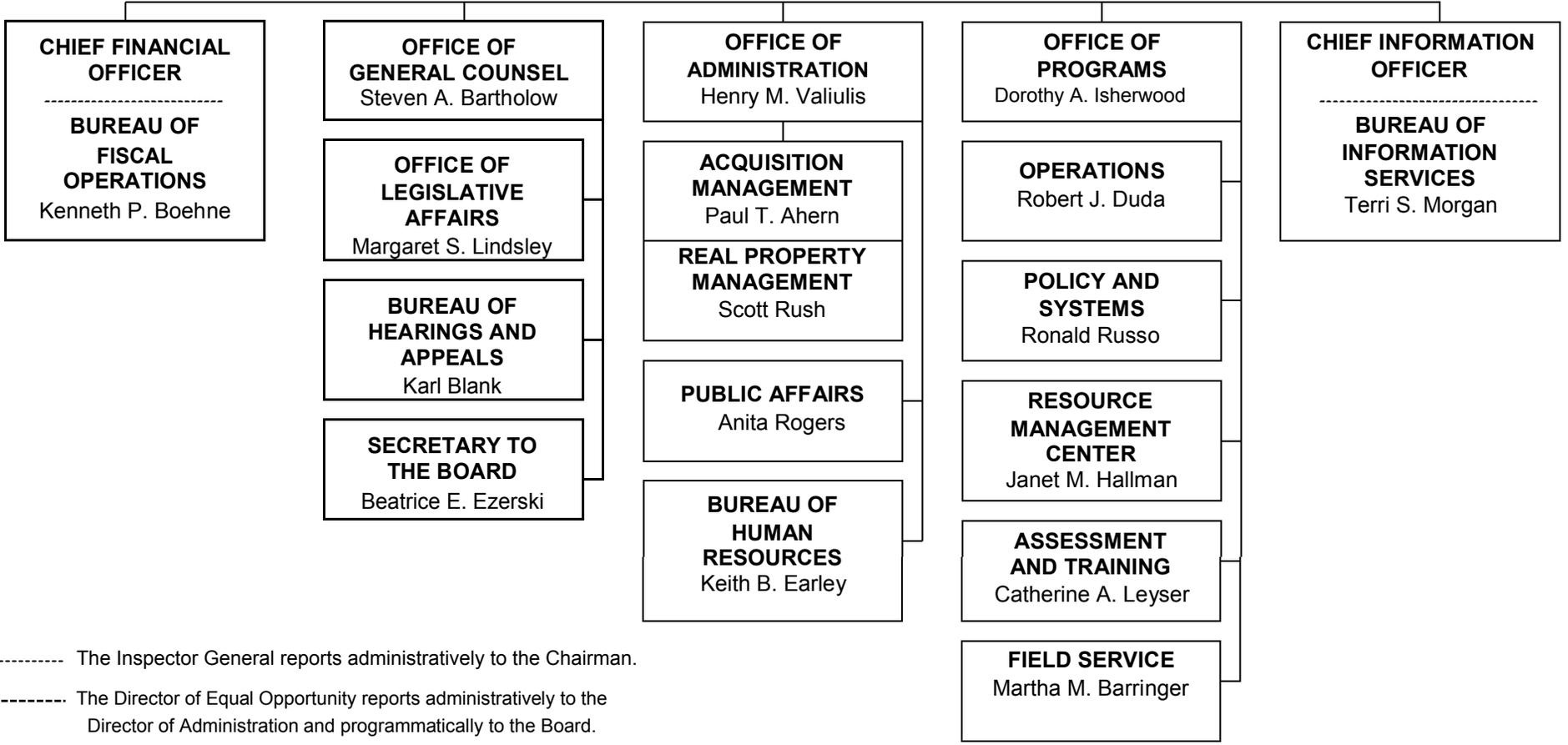
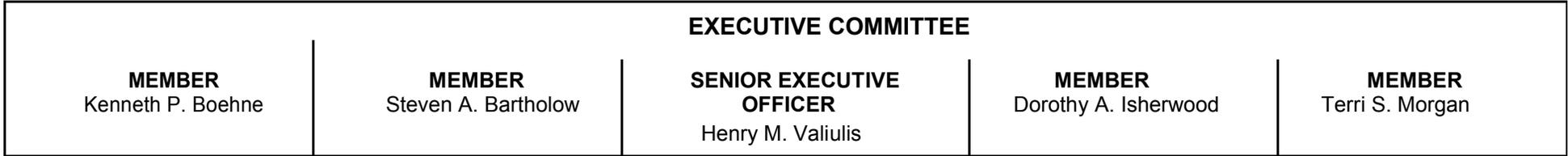
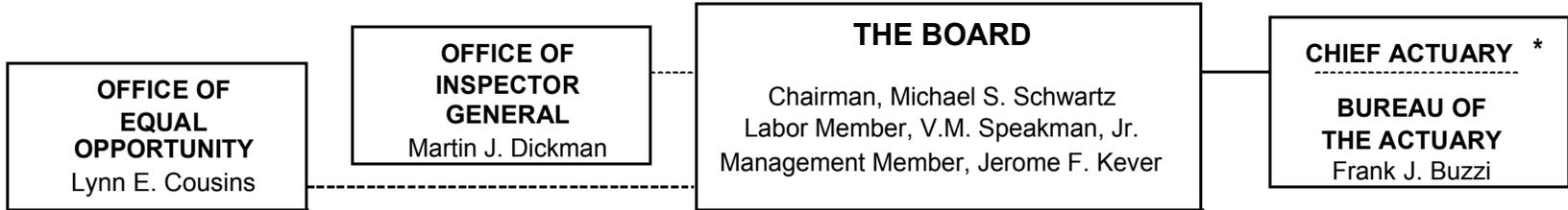
Limitation on the Office of the Inspector General

This appropriation request, which is described in a separate justification document, is for the Office of the Inspector General. The 1988 amendments to the Inspector General Act of 1978 (Public Law 100-504) included the RRB as an "establishment" covered by the Inspector General Act and specified the Chairman of the RRB as the head of the establishment for purposes of the act. Previously, the Railroad Retirement Solvency Act of 1983 had amended the Railroad Retirement Act of 1974 to provide for an Office of Inspector General at the RRB.

The Board Members

<u>Incumbent's name/ (Title)</u>	<u>Term expiration date</u>	<u>RRB compensation rate effective January 2009</u>	<u>Professional affiliations</u>
Michael S. Schwartz (Chairman)	08-28-12	\$162,900	None
Jerome F. Kever (Management Member)	08-28-08	\$153,200	American Institute of Certified Public Accountants
Virgil M. Speakman, Jr. (Labor Member)	08-28-09	\$153,200	Brotherhood of Railroad Signalmen Federal Managers' Association

U.S. RAILROAD RETIREMENT BOARD



----- The Inspector General reports administratively to the Chairman.

----- The Director of Equal Opportunity reports administratively to the Director of Administration and programmatically to the Board.

* Non-voting member of the Executive Committee.