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RAILROAD RETIREMENT BOARD

PERFORMANCE AND ACCOUNTABILITY  
REPORT



FISCAL YEAR 2008

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**Railroad Retirement Board  
Performance and Accountability Report  
Fiscal Year 2008**

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RRB's fiscal year 2008 Performance and Accountability Report is available on the Internet at: [www.rrb.gov](http://www.rrb.gov)

***MESSAGE FROM THE BOARD MEMBERS***

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## **Message from the Board Members**

This fiscal year 2008 Performance and Accountability Report highlights the goals and accomplishments of the Railroad Retirement Board (RRB) in achieving its mission of administering the retirement, disability, and survivor benefit program provided under the Railroad Retirement Act (RRA) and the unemployment and sickness insurance benefit program provided under the Railroad Unemployment Insurance Act (RUIA). This report describes our continuing efforts to provide timely and useful information to RRB managers, the Office of Management and Budget (OMB), the Congress, and our constituents. We are proud of the agency's dedicated employees whose achievements are reflected in this report.

The RRB has a long and distinguished tradition of excellence in serving our customers and safeguarding the agency's trust funds. In recent years, we have achieved high levels of accuracy and timeliness in the benefit programs we administer. In fiscal year 2007, the RRB's two benefit programs (the RRA and RUIA) were evaluated for the first time under the Program Assessment and Rating Tool (PART) process. Each program earned an overall performance rating of "Effective", which is the highest rating a program can achieve. According to OMB, "Programs rated Effective set ambitious goals, achieve results, are well-managed and improve efficiency." In fiscal year 2008, the agency continued to perform well; we posted online updates to our short and long-term program performance targets, and are continuing to improve agency operations and customer service.

We believe the performance and financial data presented in this report are complete and reliable in accordance with OMB guidance. The adequacy and effectiveness of our management controls and the compliance of our financial management systems with governmentwide requirements is delineated in the Systems and Controls part of the Management's Discussion and Analysis section. That part also provides the status of the actions we are taking and progress we are making to correct Office of Inspector General identified material weaknesses in information technology security and financial reporting.

We will continue to apply information technology and innovation to provide excellent customer service to the railroad employers, railroad employees, and the beneficiaries whom we serve. We are also committed to prudent stewardship over the agency trust funds and the administrative resources entrusted to us.

Original signed by:

Michael S. Schwartz, Chairman  
V. M. Speakman, Jr., Labor Member  
Jerome F. Keever, Management Member

November 6, 2008

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***MANAGEMENT'S DISCUSSION AND ANALYSIS***

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## **Management's Discussion and Analysis**

### **Overview of the Railroad Retirement Board (RRB)**

#### **Mission**

The RRB is an independent agency in the executive branch of the Federal Government. The agency's mission statement is as follows:

*The RRB's mission is to administer retirement/survivor and unemployment/sickness insurance benefit programs for railroad workers and their families under the Railroad Retirement Act and the Railroad Unemployment Insurance Act. These programs provide income protection during old age and in the event of disability, death or temporary unemployment and sickness. The RRB also administers aspects of the Medicare program and has administrative responsibilities under the Social Security Act and the Internal Revenue Code. In carrying out its mission, the RRB will pay benefits to the right people, in the right amounts, in a timely manner, and will take appropriate action to safeguard our customers' trust funds. The RRB will treat every person who comes into contact with the agency with courtesy and concern, and respond to all inquiries promptly, accurately and clearly.*

#### **Major Program Areas**

The RRB was created in the 1930's by legislation establishing a retirement benefit program for the nation's railroad workers. Private industrial pension plans had been pioneered in the railroad industry; the first industrial pension plan in North America was established on a railroad in 1874. By the 1930's, pension plans were far more developed in the rail industry than in most other businesses or industries, but these plans had serious defects which were magnified by the Great Depression.

The economic conditions of the 1930's demonstrated the need for retirement plans on a national basis because few of the nation's elderly were covered under any type of retirement program. While the social security system was in the planning stage, railroad workers sought a separate railroad retirement system which would continue and broaden the existing railroad programs under a uniform national plan. The proposed social security system was not scheduled to begin monthly benefit payments for several years and 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.

Legislation was enacted in 1934, 1935, and 1937 to establish a railroad retirement system separate from the social security program legislated in 1935. Such legislation, taking into account particular circumstances of the rail industry, was not without precedent. Numerous laws pertaining to rail operations and safety had already been enacted since the Interstate Commerce Act of 1887. Since passage of the Railroad Retirement Acts of the 1930's, numerous other railroad laws have subsequently been enacted.

While the railroad retirement system has remained separate from the social security system, the two systems are closely coordinated with regard to earnings credits, benefit payments, and

taxes. The financing of the two systems is linked through a financial interchange under which, in effect, the portion of railroad retirement annuities that is equivalent to social security benefits is coordinated with the social security system. The purpose of this financial coordination is to place 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.

Legislation enacted in 1974 restructured railroad retirement benefits into two tiers, so as to coordinate them more fully with social security benefits. The first tier is based on combined railroad retirement and social security credits, using social security benefit formulas. The second tier is based on railroad service only and is comparable to the private pensions paid over and above social security benefits in other industries.

The railroad unemployment insurance system was also established in the 1930's. The Great Depression demonstrated the need for unemployment compensation programs, and State unemployment programs had been established under the Social Security Act in 1935. While the State unemployment programs generally covered railroad workers, railroad operations which crossed State lines caused special problems. Unemployed railroad workers were denied compensation by one State because their employers had paid unemployment taxes in another State. Although there were cases where employees appeared to be covered in more than one State, they often did not qualify in any.

A Federal study commission, which reported on the nationwide State plans for unemployment insurance, recommended that railroad workers be covered by a separate plan because of the complications their coverage had caused the State plans. The Congress subsequently enacted the Railroad Unemployment Insurance Act (RUIA) in June 1938. The RUIA established a system of benefits for unemployed railroad workers, financed entirely by railroad employers and administered by the RRB. Sickness insurance benefits were added in 1946.

### *Railroad Retirement Act*

Under the Railroad Retirement Act (RRA), retirement and disability annuities are paid to railroad workers with at least 10 years of service. Such annuities are also payable to workers with 5 years of service if performed after 1995.

Full age annuities are payable at age 60 to workers with 30 years of service. For those with less than 30 years of service, reduced annuities are payable at age 62 and unreduced annuities are payable at full retirement age, which is gradually rising from 65 to 67, depending on the year of birth. Disability annuities can be paid on the basis of total or occupational disability. Annuities are also payable to spouses and divorced spouses of retired workers and to widow(er)s, surviving divorced spouses, remarried widow(er)s, children, and parents of deceased railroad workers. Qualified railroad retirement beneficiaries are covered by Medicare at age 65, or earlier if disabled, in the same way as social security beneficiaries.

Jurisdiction over the payment of retirement and survivor benefits is shared by the RRB and the Social Security Administration (SSA). The RRB has jurisdiction over the payment of retirement benefits if the employee had at least 10 years of railroad service, or 5 years if performed after 1995; for survivor benefits, there is an additional requirement that the employee's last regular employment before retirement or death was in the railroad industry. If a railroad employee or his or her survivors do not qualify for railroad retirement benefits, the RRB transfers the employee's railroad retirement credits to SSA, where they are treated as social security credits.

Payroll taxes paid by railroad employers and their employees are the primary source of funding for the railroad retirement and survivor benefit programs. By law, railroad retirement taxes are coordinated with social security taxes. Employees and employers pay tier 1 taxes at the same rate as social security taxes. In addition, both employees and employers pay tier 2 taxes which are used to finance railroad retirement benefit payments over and above social security levels. Tier 2 taxes are based on the ratio of certain asset balances to the sum of benefit payments and administrative expenses. Historically, railroad retirement taxes have been considerably higher than social security taxes.

Revenues in excess of benefit payments are invested to provide additional trust fund income, and the legislation enacted in 2001 allows for Railroad Retirement Account funds transferred to the National Railroad Retirement Investment Trust (NRRIT) to be invested in non-governmental assets, as well as in governmental securities. Funds transferred from the Social Security Equivalent Benefit Account to the NRRIT are allowed to be invested only in governmental securities. The legislation also established the NRRIT, whose Board of seven trustees oversees these investments. The Board of Trustees is comprised of three members selected by rail labor to represent the interests of labor; three members likewise selected by rail management to represent management interests; and one independent member selected by a majority of the other six members.

Another major source of income to the railroad retirement and survivor benefit program consists of transfers from the social security trust funds under a financial interchange between the two systems. The financial interchange is intended to place the social security trust funds in the same position in which they would have been had railroad employment been covered by the Social Security Act and Federal Insurance Contributions Act (FICA). In fiscal year 2008, the RRB trust funds realized a net of \$3.6 billion, representing 39 percent of RRB financing sources (excluding transfers to/from the NRRIT and the decrease in NRRIT net assets), through the financial interchange.

Other sources of income currently include revenue resulting from Federal income taxes on railroad retirement benefits (tier I, tier II and vested dual benefits), and appropriations from general Treasury revenues provided after 1974 as part of a phase-out of certain vested dual benefits.

#### *Railroad Unemployment Insurance Act*

Under the RUIA, unemployment insurance benefits are paid to qualified 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 operates a placement service to assist unemployed railroad workers in securing employment.

A new unemployment and sickness insurance benefit year begins every July 1, with eligibility generally based on railroad service and earnings in the preceding calendar year. Up to 26 weeks of normal unemployment and 26 weeks of sickness insurance benefits are payable to an individual in a benefit year. Additional extended benefits are payable for up to 13 weeks to persons with 10 or more years of service.

The railroad unemployment and sickness insurance benefit program is financed by taxes on railroad employers under an experience rating system initiated in 1991. Each employer's payroll tax rate is determined annually by the RRB on the basis of benefit payments to the railroad's employees.

## Reporting Components

The RRB, as an independent agency in the executive branch of the U.S. Government, is responsible for administering the RRA and the RUIA. The financial statements include the accounts of all funds under the control of the RRB and the Office of Inspector General (OIG). These funds consist of two administrative funds, three trust funds, two general funds and one deposit fund.

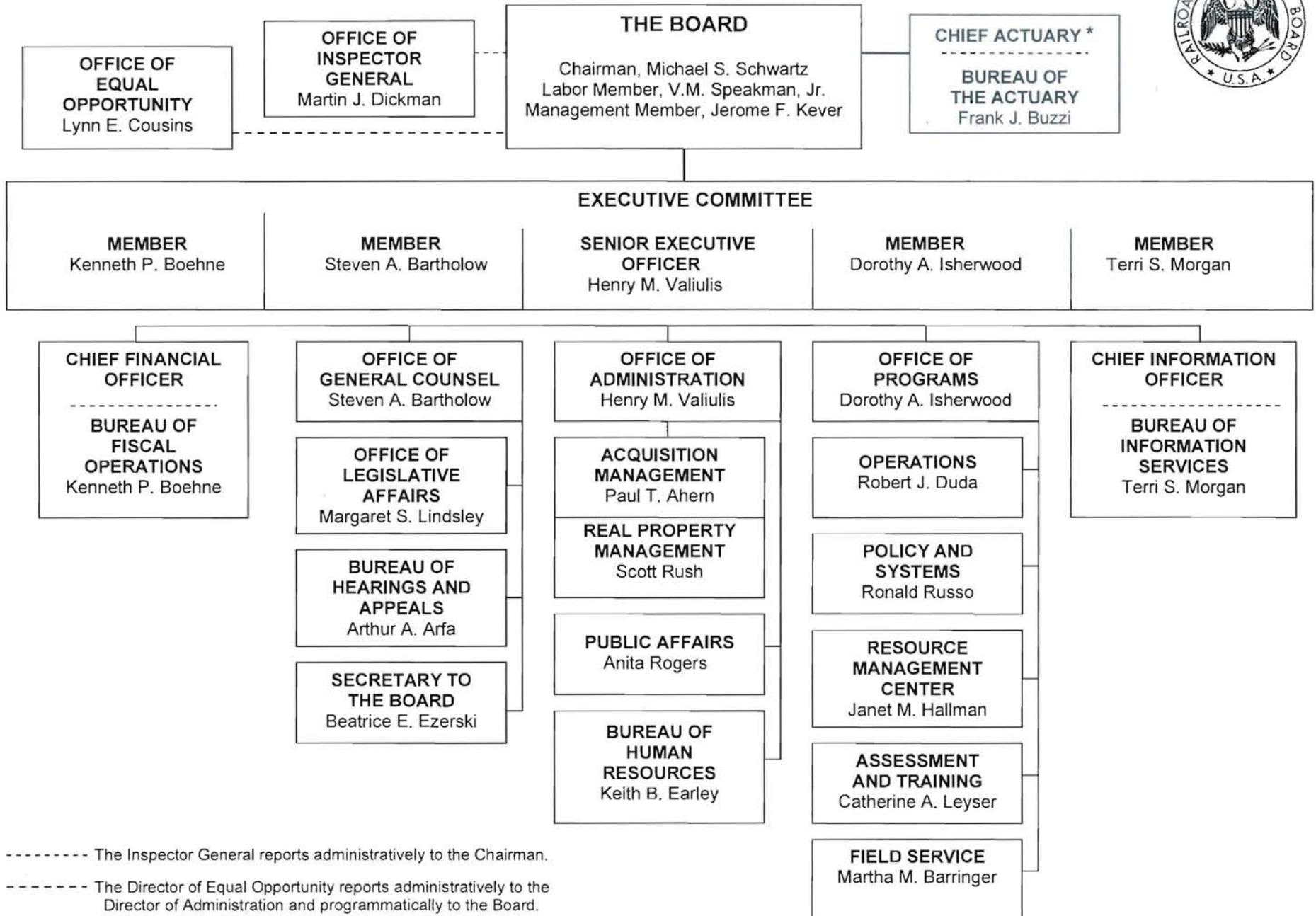
## RRB Organizational Structure

The RRB is headed by three Board Members appointed by the President of the United States, with the advice and consent of the Senate. One member is appointed upon recommendation of railroad employers; one is appointed upon recommendation of railroad labor organizations; and the third, who is the Chairman, is appointed to represent the public interest. The Board Members' terms of office are 5 years and are scheduled to expire in different years. The Chairman of the Board is Michael S. Schwartz, the Labor Member is V. M. Speakman, Jr., and the Management Member is Jerome F. Keever. The President also appoints an Inspector General for the RRB; the Inspector General is Martin J. Dickman.

The primary function of the RRB is the determination and payment of benefits under the railroad retirement and survivor and the unemployment and sickness insurance programs. To this end, the RRB employs field representatives to assist railroad personnel and their families in filing claims for benefits, examiners to adjudicate the claims, and information technology staff, equipment, and programs to maintain earnings records, calculate benefits, and process payments. The RRB also employs actuaries to predict the future income and outlays of the agency's trust funds and accounts, statisticians and economists to provide vital data, and attorneys to interpret legislation and represent the RRB in litigation. Internal administration requires a procurement staff, a budget and accounting staff, quality assurance staff, and personnel specialists. The Inspector General employs auditors and investigators to detect waste, fraud, or abuse in the benefit programs.

The RRB's headquarters is located at 844 North Rush Street in Chicago, Illinois. The RRB field structure is comprised of 53 offices located throughout the United States as shown on page 12.

# U.S. RAILROAD RETIREMENT BOARD



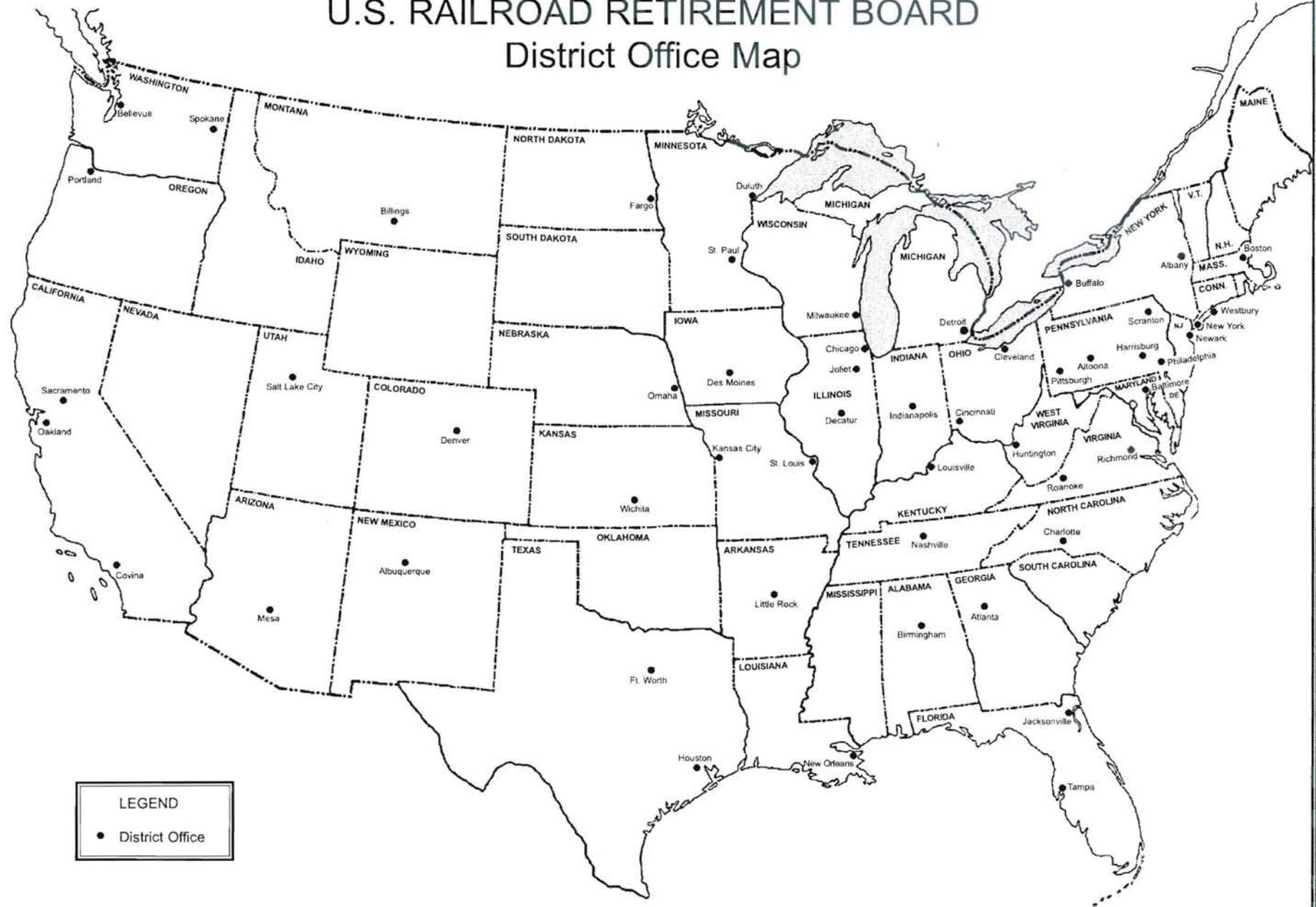
----- The Inspector General reports administratively to the Chairman.

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

\* Non-voting member of the Executive Committee.

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# U.S. RAILROAD RETIREMENT BOARD District Office Map



- 12 -

LEGEND  
● District Office

## Financial Highlights

Amounts in the Railroad Retirement (RR) Account not needed to pay current benefits and administrative expenses are transferred to the NRRIT whose Board of seven trustees is empowered to invest NRRIT assets in non-governmental assets, such as equities and debt, as well as in governmental securities. Amounts in the Social Security Equivalent Benefit (SSEB) Account not needed to pay current benefits and administrative expenses are transferred to either the RR Account or the NRRIT. Amounts transferred from the SSEB Account to the NRRIT may be used only to pay benefits or to purchase obligations that are backed by the full faith and credit of the United States.

Shown below are snapshots of the net position, financing sources, and benefit payments (before elimination of inter-fund transactions) for the RRB accounts. All dollar amounts are in millions.

### Net Position, Financing Sources, and Benefit Payments (In millions)

	2008	2007
<u>NET POSITION AT SEPTEMBER 30</u>		
Social Security Equivalent Benefit Account	\$ 456.8	\$ 450.4
Railroad Retirement Account <sup>1/</sup>	25,610.8	32,954.2
Railroad Retirement Administration Fund	3.5	6.2
Railroad Unemployment Insurance Trust Fund --		
Benefit Payments	99.9	100.7
Administrative Expenses	10.0	9.1
Limitation on the Office of Inspector General	.5	.2
Dual Benefits Payments Account	5.7	6.1
Federal Payments to the Railroad Retirement Accounts	.5	.5
Total	\$26,187.7	\$33,527.4
<u>FINANCING SOURCES FOR FISCAL YEAR</u>		
Social Security Equivalent Benefit Account	\$ 6,130.5	\$ 6,010.8
Railroad Retirement Account <sup>2/</sup>	(3,305.7)	7,544.7
Railroad Retirement Administration Fund	109.2	111.4
Railroad Unemployment Insurance Trust Fund --		
Benefit Payments	79.2	78.0
Administrative Expenses	.9	(.3)
Limitation on the Office of Inspector General	7.4	7.5
Dual Benefits Payments Account	77.7	86.5
Federal Payments to the Railroad Retirement Accounts <sup>3/</sup>	359.1	460.1
Total	\$ 3,458.3	\$14,298.7
<u>BENEFIT PAYMENTS FOR FISCAL YEAR <sup>4/</sup></u>		
Social Security Equivalent Benefit Account	\$ 5,945.2	\$5,701.6
Railroad Retirement Account	4,036.2	4,034.4
Railroad Unemployment Insurance Trust Fund --		
Unemployment Insurance	35.3	28.5
Sickness Insurance	44.7	46.1
Dual Benefits Payments Account	77.7	86.5
Total	\$10,139.1	\$9,897.1

<sup>1/</sup> NRRIT-held net assets are a financing source and are included in the Railroad Retirement Account above.

<sup>2/</sup> Change in NRRIT-held net assets is included in the Railroad Retirement Account above.

<sup>3/</sup> Includes funds subsequently transferred to other accounts. Such inter-fund transfers are eliminated in the preparation of the consolidated statements.

<sup>4/</sup> Net of recoveries and excludes SSA benefit payments.

The RRB's financial statements are comprised of: Balance Sheet and Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Social Insurance and notes which are an integral part of the statements. We also present as required supplementary information a discussion of the actuarial outlook for the railroad retirement program and the Disaggregate of Budgetary Resources.

Comparison of Net Cost of Operations and Financing Sources

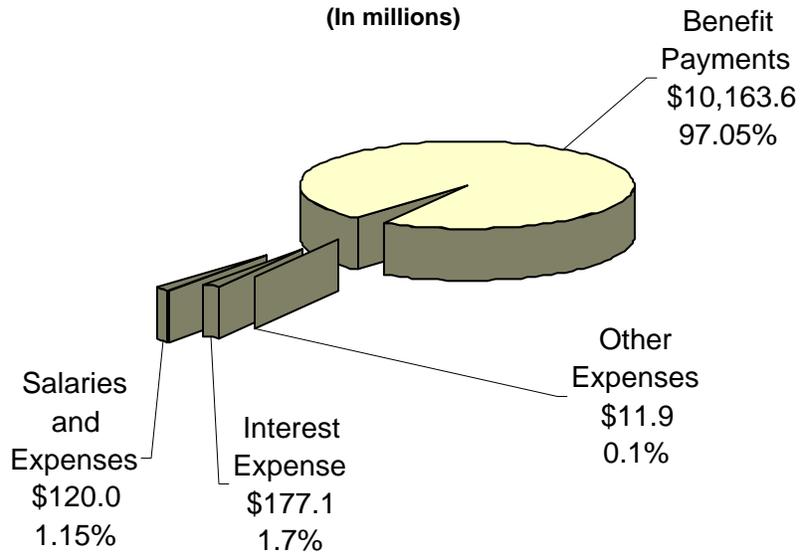
The net cost of operations for fiscal years 2008 and 2007 were \$10,438.6 million and \$10,195.1 million, respectively. The details of the net cost of operations by type, amount, increase or decrease, and percentage change from fiscal year 2007 to fiscal year 2008 are shown below. Additional information regarding the net cost of operations and financing sources for fiscal years 2008 and 2007 is shown on the following pages.

**NET COST OF OPERATIONS  
(In millions)**

	FY 2008	FY 2007	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Interest expense – Treasury borrowing	\$ 177.1	\$ 179.8	(\$2.7)	(1.5%)
Salaries and expenses	120.0	117.5	2.5	2.1%
Benefit payments – RRB	10,163.6	9,922.4	241.2	2.4%
Other expenses	11.9	9.0	2.9	32.2%
Subtotal	10,472.6	10,228.7	243.9	2.4%
Less: Earned revenues	34.0	33.6	0.4	1.2%
Net cost of operations	\$10,438.6	\$10,195.1	\$243.5	2.4%

**FY2008  
NET COST OF OPERATIONS**

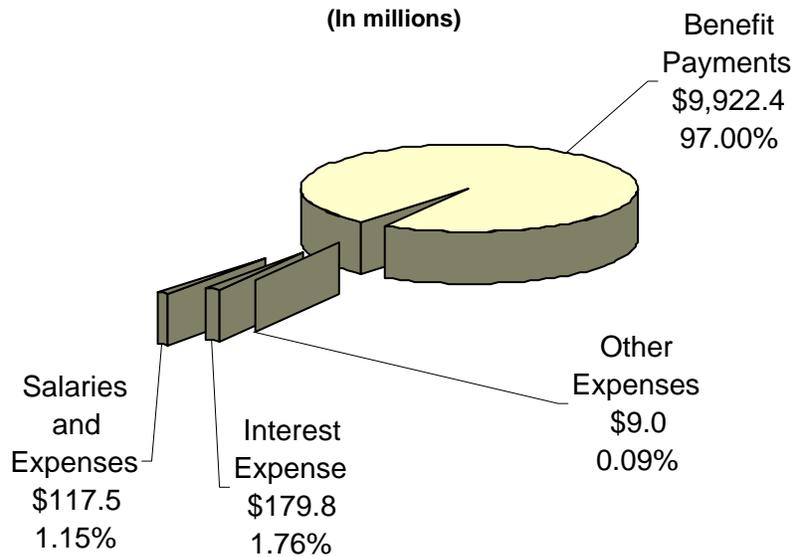
(In millions)



Totals \$10,472.6 million, excluding reimbursements and earned revenues of \$34 million.

**FY2007  
NET COST OF OPERATIONS**

(In millions)



Totals \$10,228.7 million, excluding reimbursements and earned revenues of \$33.6 million.

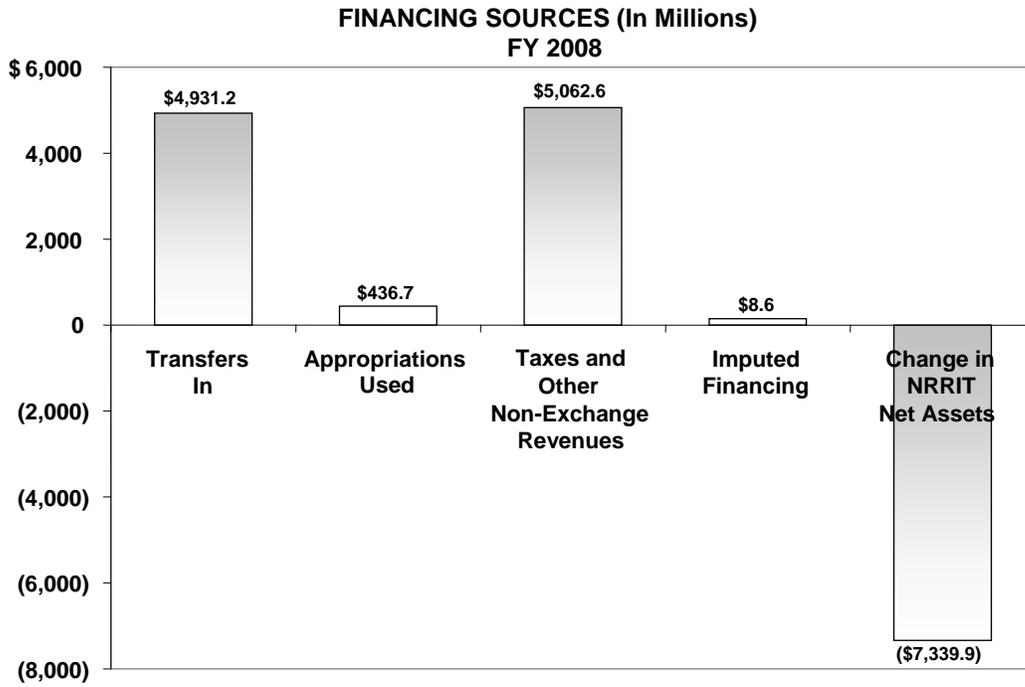
The following table shows financing sources (excluding changes in unexpended appropriations) by type, amount, increase or decrease, and percentage change from fiscal year 2007 to fiscal year 2008.

**FINANCING SOURCES**  
(In millions)

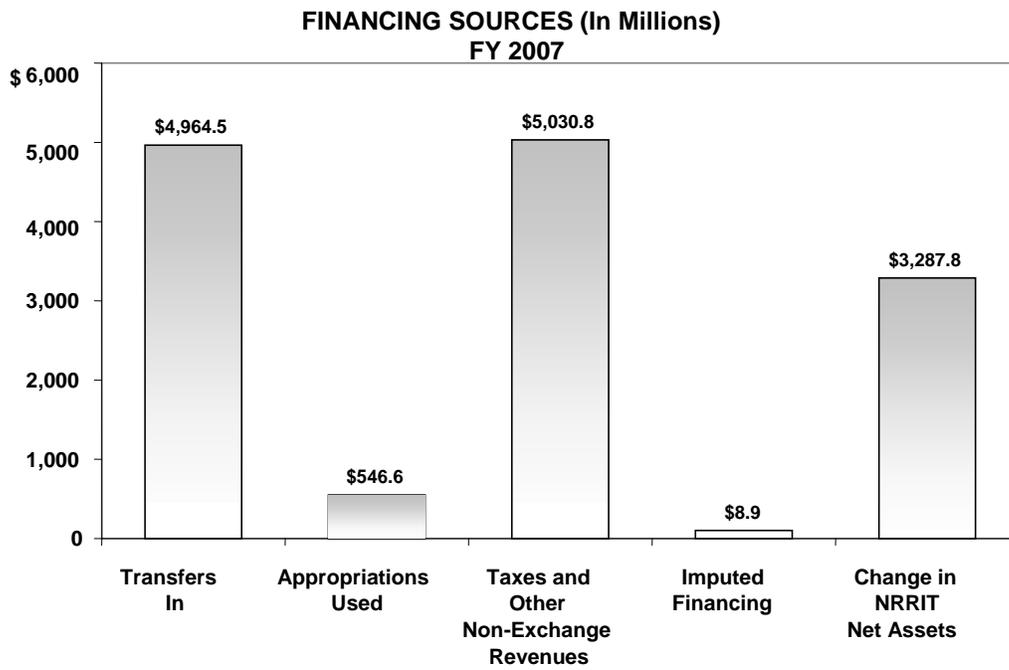
	FY 2008	FY 2007	AMOUNT OF INCREASE (DECREASE)	PERCENT OF INCREASE (DECREASE)
Appropriations used	\$ 436.7	\$ 546.6	(\$109.9)	(20.1)
Taxes and other non-exchange revenues:				
Payroll taxes	4,938.9	4,717.9	221.0	4.7
Interest revenue and other income	45.3	58.3	(13.0)	(22.3)
Carriers refunds – principal*	(15.5)	164.3	(179.8)	(109.4)
RUI revenue	93.9	90.3	3.6	4.0
Subtotal	<u>\$5,062.6</u>	<u>\$ 5,030.8</u>	<u>\$31.8</u>	<u>0.6</u>
Imputed financing (amount to be provided by the Office of Personnel Management to pay future retirement benefits to RRB employees)	8.6	8.9	(0.3)	(3.4)
Transfers in:				
Financial Interchange, net	3,633.2	3,573.5	59.7	1.7
NRRIT	1,298.0	1,391.0	(93.0)	(6.7)
Subtotal	<u>\$4,931.2</u>	<u>\$ 4,964.5</u>	<u>(33.3)</u>	<u>(0.7)</u>
Other:				
Change in NRRIT net assets	<u>(7,339.9)</u>	<u>3,287.8</u>	<u>(10,627.7)</u>	<u>(323.2)</u>
Subtotal	<u>\$3,099.2</u>	<u>\$13,838.6</u>	<u>(\$10,739.4)</u>	<u>(77.6)</u>
Less: Transfers out to NRRIT	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total	<u>\$3,099.2</u>	<u>\$13,838.6</u>	<u>(\$10,739.4)</u>	<u>(77.6)</u>

\* Carriers refunds include the reversal of a contingent liability in 2007.

The significant difference between the RRB's financial statements for fiscal year 2007 and fiscal year 2008 was the change in NRRIT net assets. The decrease in NRRIT net assets of \$7,339.9 million is due to market fluctuations during the past year. There is a section on page 19 that describes the NRRIT, and the NRRIT net assets balances for 2007 and 2008 are shown in the RRB's Financial Section on page 58 of this publication.



**Total Financing Sources \$3,099.2 million**



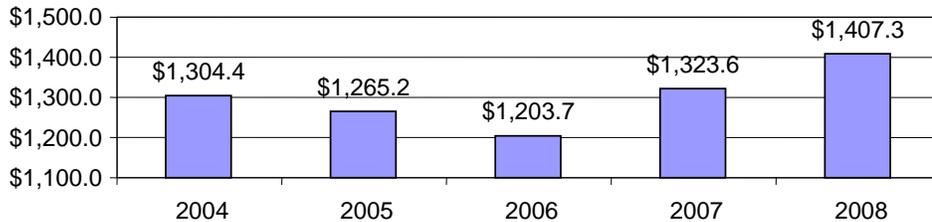
**Total Financing Sources \$13,838.6 million**

## Railroad Retirement Investments at Treasury

The book value of all railroad retirement investments, including accrued interest, increased to \$1,407.3 million as of September 30, 2008, from \$1,323.6 million on September 30, 2007 (excludes NRRIT net assets). The graph below reflects the book value of the railroad retirement investments from September 30, 2004, through September 30, 2008.

### **INVESTMENT BALANCES HELD AT TREASURY (AT BOOK VALUE) AT SEPTEMBER 30, 2004 - 2008**

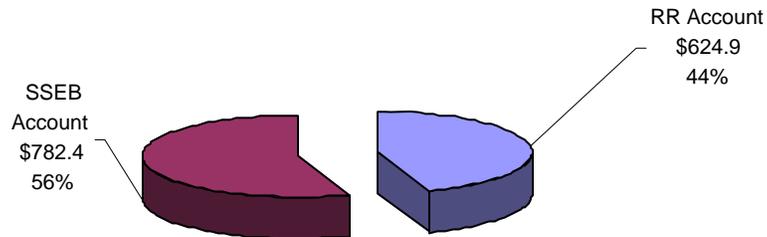
(In millions, excluding NRRIT net assets)



The following chart shows the portfolio of the railroad retirement investments as of September 30, 2008.

### **RAILROAD RETIREMENT INVESTMENTS HELD AT TREASURY AS OF SEPTEMBER 30, 2008**

(In millions, excluding NRRIT net assets)



**AT BOOK VALUE**  
Total \$1,407.3

### Railroad Retirement Account

On September 30, 2008 and 2007, the book values of the RR Account investments, excluding NRRIT assets, including accrued interest, totaled \$624,855,271 and \$597,361,803, respectively. The balance on September 30, 2008, consisted of \$623,809,000 in 3.125 percent par value specials (with market value equal to face value) maturing on October 1, 2008, and \$1,046,271 in accrued interest. The balance on September 30, 2007, consisted of \$596,181,000 in 4.375 percent par value specials (with market value equal to face value) maturing on October 1, 2007, and \$1,180,803 in accrued interest. Par value specials mature on the first working day of the month following the month of issue and have a yield based on the average yield of marketable Treasury notes with maturity dates at least 3 years away.

### Social Security Equivalent Benefit Account

On September 30, 2008 and 2007, the book values of the SSEB Account investments, including accrued interest, totaled \$782,456,367 and \$726,234,578, respectively. The balance on September 30, 2008, consisted of \$781,162,000 in 3.125 percent par value specials maturing on October 1, 2008, and \$1,294,367 in accrued interest. The balance on September 30, 2007, consisted of \$724,734,000 in 4.375 percent par value specials maturing on October 1, 2007, and \$1,500,578 in accrued interest.

### National Railroad Retirement Investment Trust

The NRRIT was established by the Railroad Retirement and Survivors' Improvement Act of 2001 (RRSIA). The sole purpose of the NRRIT is to manage and invest railroad retirement assets. The NRRIT is a tax-exempt entity, independent from the Federal government and not subject to Title 31, United States Code. The NRRIT is domiciled in and subject to the laws of the District of Columbia.

The NRRIT is comprised of a Board of seven Trustees, three selected by railroad labor unions and three by railroad companies. The seventh Trustee is an independent Trustee selected by the other six. Members of the Board of Trustees are not considered officers or employees of the Government of the United States.

The RRSIA authorizes the NRRIT to invest railroad retirement assets in a diversified investment portfolio in the same manner as those of private sector retirement plans. Prior to the RRSIA, investment of railroad retirement assets was limited to U.S. Government securities.

The NRRIT and the RRB are separate entities. The RRB remains a Federal agency and continues to have full responsibility for administering the railroad retirement program, including eligibility determinations and the calculation of benefit payments. The NRRIT has no powers or authority over the administration of benefits under the railroad retirement program. Under the RRSIA, the NRRIT is required to act solely in the interest of the RRB, and through it, the participants and beneficiaries of the programs funded under the Railroad Retirement Act. The RRSIA does not delegate any authority to the RRB with respect to day-to-day activities of the NRRIT, but the RRSIA provides that the RRB may bring a civil action to enjoin any act or practice of the NRRIT that violates the provisions of the RRSIA or to enforce any provision of the RRSIA.

Under the RRSIA, the financial statements of the NRRIT are required to be audited annually by an independent public accountant. In addition, the NRRIT must submit an annual management report to the Congress on its operations, including a Statement of Financial Position, a Statement of Cash Flows, a Statement on Internal Accounting and Administrative Control Systems, the independent auditor's report, and any other information necessary to inform the Congress about the operations and financial condition of the NRRIT. A copy of the annual report must also be submitted to the President, the RRB, and the Director of the Office of Management and Budget.

### **Program, Operations, and Financial Performance and Results**

During fiscal year 2008 (ended September 30, 2008), railroad retirement and survivor benefit payments totaled \$10.1 billion, net of recoveries. Unemployment and sickness insurance benefit payments totaled \$80.0 million in fiscal year 2008, net of recoveries. During fiscal year 2008, the RRB also paid benefits on behalf of SSA (for which the RRB is reimbursed) amounting to almost \$1.2 billion to about 118,000 beneficiaries.

In fiscal year 2008, the RRB continued to focus its efforts on providing excellent customer service to current and former railroad workers and their family members. Our regular workloads in fiscal year 2008 included:

- Providing payments to 598,000 retirement and survivor beneficiaries.
- Providing payments to 11,000 unemployment insurance beneficiaries.
- Providing payments to 19,000 sickness insurance beneficiaries.
- Processing 30,288 (through May 2008) retirement, survivor, and disability applications for benefits and then determining eligibility.
- Processing 175,218 (through May 2008) applications and claims for unemployment and sickness insurance benefits.
- Issuing 271,953 (as of June 13, 2008) certificates of employee railroad service and compensation.

During fiscal year 2008, the RRB used 46 specific program performance objectives, including several with multiple indicators, to manage and track progress in meeting its long-term strategic plan goals. These objectives were accomplished with direct appropriations of \$101.882 million for administration of the RRB. (A breakdown of administrative expenses by strategic goal is not available at the time of this report.) Agency performance with respect to the key performance indicators is covered in the following section. For most performance measures, actual full-year performance results for fiscal year 2008 were not available at the time this report was published. For those objectives, we reported part-year performance information for fiscal year 2008, if available. We also reported actual results from prior years, as applicable.

### **Summary of Achievement by Strategic Goal**

**Strategic Goal I: Provide Excellent Customer Service.** We aim to satisfy our customers' expectations for quality service both in terms of service delivery options and levels and manner of performance. For fiscal year 2008, we expect that benefit payment accuracy rates will exceed 98 percent, and we are striving to meet or exceed the timeliness goals by year-end.

**Strategic Goal II: Serve as Responsible Stewards for Our Customers' Trust Funds and Agency Resources.** The RRB is committed to fulfilling its fiduciary responsibilities to the rail community. For fiscal year 2008, we expect to meet or exceed our performance goals.

### **Strategic Goals and Objectives**

The RRB has a long and distinguished tradition of excellence in serving our customers, and we will strive to continue that tradition in the coming years. We have achieved high levels of accuracy and timeliness in the processing of retirement and survivor benefits, while embracing new technology, especially in areas where it can improve customer service and efficiency. We have also achieved very high scores for customer service in independent assessments of our operations related to initial railroad retirement applications, unemployment and sickness insurance benefits, survivor applications and disability applications.

The two overriding strategic issues for the upcoming planning period relate to customer service and trust fund stewardship. The **service issue** involves our ability to continue to meet our customers' expectations for personal, high quality service, and our ability to position the agency to meet rising customer expectations for new and improved services in the future. The **stewardship issue** has multiple aspects, some of which arise from legislative changes and others which relate to our ongoing ability to meet our program integrity responsibilities and to maintain effective, efficient and secure agency operations. To effectively address these issues, we have established two strategic goals on which we will focus our efforts. These goals form the basis of our Strategic Plan for 2006-2011.

#### *Provide excellent customer service*

We aim to satisfy our customers' expectations for quality service both in terms of service delivery options and levels and manner of performance. We have established four strategic objectives that focus on the specifics of achieving this goal.

- Pay benefits accurately and timely.
- Provide relevant, timely, and accurate information which is easy to understand.
- Provide a range of choices in service delivery methods.
- Ensure efficient and effective business interactions with covered railroad employers.

#### *Serve as responsible stewards for our customers' trust funds and agency resources*

The RRB is committed to fulfilling its fiduciary responsibilities to the rail community. We have established four objectives that direct our focus on this goal.

- Ensure that trust fund assets are projected, collected, recorded and reported appropriately.
- Ensure the integrity of benefit programs.
- Ensure effectiveness, efficiency, and security of operations.
- Effectively carry out the responsibilities of the RRB under the RRSIA with respect to the activities of the NRRIT.

The RRB has committed to a number of management strategies that will guide our efforts to accomplish our stated strategic goals and objectives. These strategies, which will encompass many areas, also reflect the President's Management Agenda, which is designed to promote management improvements throughout the Federal government in six key areas:

- Expanded E-Government
- Budget and performance integration
- Financial management improvements
- Strategic management of human capital
- Competitive sourcing and partnerships
- Freedom of Information Act planning, processing and reporting

Additional information on the President's Management Agenda is available on the Internet at [www.results.gov](http://www.results.gov).

The RRB of the future will continue to be customer-focused, quality-driven, and fiscally responsible. Our overall mission and responsibilities as a Federal agency will remain unchanged, even though our organization may be smaller in terms of staff and budget resources. We will use creativity, automation and innovation to continue to deliver best-in-class service while ensuring cost-effective and efficient operations.

Our customers will have a broad range of choices for conducting their business with the agency, including more Internet options that will allow for private, secure transactions from their homes at any time of the day. Railroad employers will be able to conduct most, if not all, of their routine transactions with the RRB through secure and efficient electronic systems. Direct customer feedback will shape our planning efforts and enhance our responsiveness. Our customer service levels will serve as a standard of excellence for the rest of the Federal community.

The agency's internal culture will reflect a strong commitment to its employees, and a drive to ensure continual learning at all levels. Given the large percentage of employees who will be eligible for retirement in the near future, senior employees will engage in knowledge transfer and sharing as a top priority.

Our ultimate measures of success will be the sustained satisfaction level of our customers and our ability to respond to their needs and concerns.

Validation of Performance Information. RRB has implemented comprehensive administrative procedures to ensure that reported performance information is accurate and valid. Administrative Circular RRB-2 establishes standards and assigns responsibility for collecting, documenting, validating, certifying, reporting and retaining information related to the actual performance data reported for objectives in RRB's Annual Performance Budget and Government Performance and Results Act Report.

The procedures require that reporting managers develop and maintain written procedures for:

- Collecting data related to each objective,
- Testing and validating performance data to ensure accuracy,
- Retaining source documents for future reference, and
- Attesting to the accuracy of performance information reported.

Members of RRB's Planning Council review the certified performance data and attestations for completeness and to identify any problems. The Planning Council also compiles the performance data for agency reports, and monitors compliance with the requirements of Administrative Circular RRB-2.

Members of RRB's Executive Committee review performance issues related to their areas of responsibility and assign follow-up action, as necessary. The Executive Committee also reviews and approves performance reports before releasing the drafts for approval by the Board Members.

The following begins a discussion of our key performance indicators.

### Discussion of Key Performance Indicators

The RRB has identified the following 10 key performance indicators, which represent our most important responsibilities.

#### **Key performance indicator 1: Initial recurring retirement payment accuracy (Objective I-A-1a)**

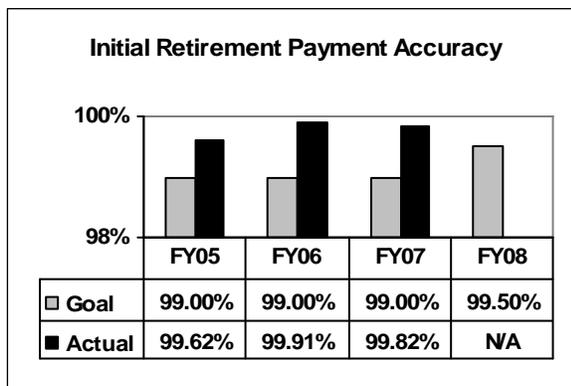
Our overall strategic goal is to achieve a railroad retirement benefit payment recurring accuracy rate of at least 99 percent on our initial processing of applications for retirement (employee, spouse and widow) benefits.

**FY 2008 goal:** 99.50%  
**Our FY 2008 performance:** Not available

Full-year data will be available in fiscal year 2009.

**FY 2007 goal:** 99.00%  
**Our FY 2007 performance:** 99.82%

**We met our goal.** Automation plays a key role in assuring initial benefit payment accuracy by reducing the number of erroneous payments. Automation will become more critical in this area as experienced personnel retire in the coming years.



**Data definition:** This is the percentage of the dollar value of initial recurring retirement benefit payments paid correctly as a result of adjudication actions performed, based on a review of a sample of cases.

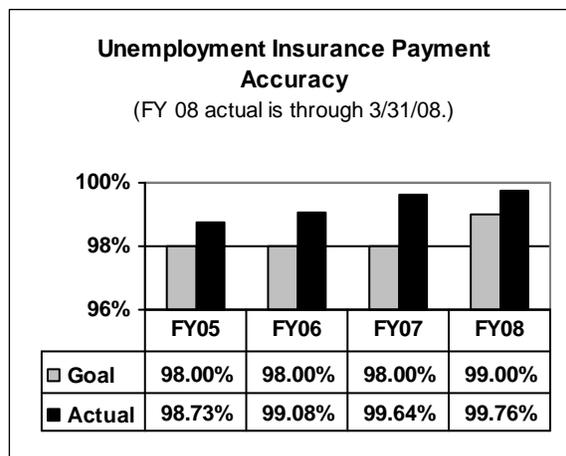
**Key performance indicator 2: Unemployment insurance payment accuracy (Objective I-A-2a)**

Our overall strategic goal is to achieve a railroad unemployment insurance benefit payment accuracy rate of at least 99 percent.

**FY 2008 goal:** 99.00%  
**Our FY 2008 performance:** 99.76%  
 through the 2<sup>nd</sup> quarter

**We are meeting our goal.** Automation plays a key role in assuring benefit payment accuracy by reducing the number of erroneous payments. The performance data shown is through the second quarter of fiscal year 2008. Full-year data will be available in fiscal year 2009.

**FY 2007 goal:** 98.00%  
**Our FY 2007 performance:** 99.64%



**Data definition:** This is the percentage of the dollar value of unemployment insurance benefit payments paid correctly as a result of adjudication actions performed, based on a review of a sample of cases.

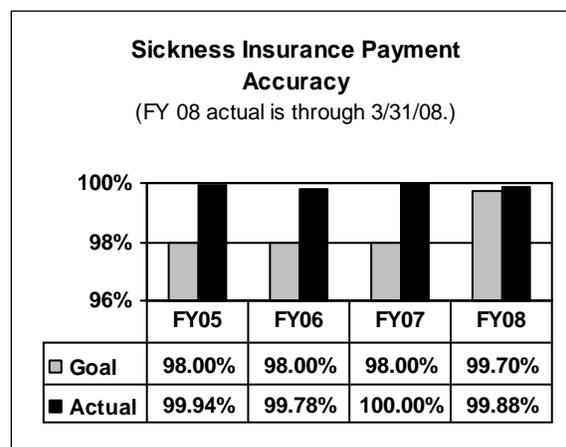
**Key performance indicator 3: Sickness insurance payment accuracy (Objective I-A-2b)**

Our overall strategic goal is to achieve a railroad sickness insurance benefit payment accuracy rate of at least 99 percent.

**FY 2008 goal:** 99.70%  
**Our FY 2008 performance:** 99.88%  
 through the 2<sup>nd</sup> quarter

**We are meeting our goal.** Automation plays a key role in assuring benefit payment accuracy by reducing the number of erroneous payments. The performance data shown is through the second quarter of fiscal year 2008. Full-year data will be available in fiscal year 2009.

**FY 2007 goal:** 98.00%  
**Our FY 2007 performance:** 100%



**Data definition:** This is the percentage of the dollar value of sickness insurance benefit payments paid correctly as a result of adjudication actions performed, based on a review of a sample of cases.

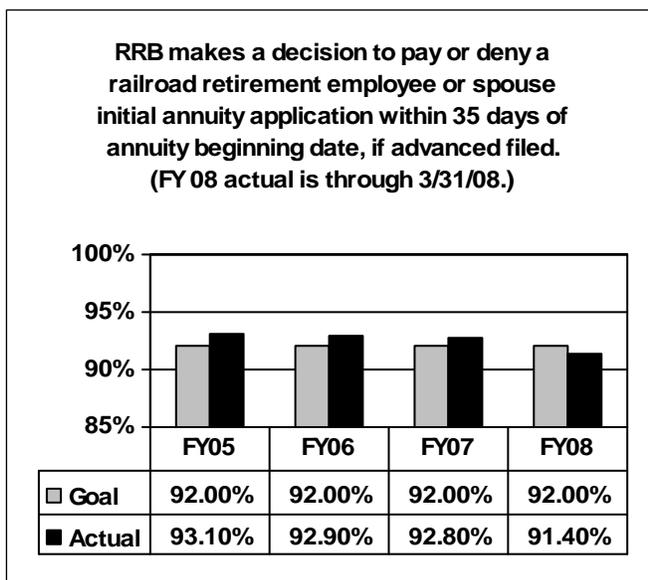
**Key performance indicator 4: Timeliness of initial railroad retirement annuity payments, when advanced filed (Objective I-A-5)**

**FY 2008 goal:** 92.00%  
**Our FY 2008 performance:** 91.40%  
 through the 2<sup>nd</sup> quarter

**We are near our goal.** Automation plays a key role in assuring benefit payment timeliness for this performance indicator. The performance data shown is through the second quarter of fiscal year 2008. We expect to meet or exceed the target by year-end.

**FY 2007 goal:** 92.00%  
**Our FY 2007 performance:** 92.80%

**Data definition:** This goal is included in the RRB Customer Service Plan. Prior to fiscal year 2008, the goal was stated from the customer's perspective and attempted to measure timeliness to the point of delivery by reporting performance as the percent of retirement age and service applications for which all RRB processing was completed within 30 days, allowing 5 days to account for handling by the Department of the Treasury (Treasury) or U.S. Postal Service (USPS). An audit by the RRB's OIG (05-05, dated May 17, 2005), however, found technical problems with the data. Beginning in fiscal year 2005, we qualified the performance report to indicate that, due to system limitations, our tracking did not include all internal processing time, but only measured the retirement adjudicative processing time. In fiscal year 2008, we reworded the goal to more precisely measure only RRB adjudicative processing time. The new goal is stated in the chart above.



We plan to replace our retirement adjudicative system, which will allow us to track our performance for the entire internal processing time. Until the new system is implemented, we will continue to annotate our performance data to reflect that our tracking includes only adjudicative processing time. We believe that the data reported remains a fair representation of the basic service our customers receive.

In its audit, the RRB's OIG also found a reporting flaw in our measurement process for 3<sup>rd</sup> party payment cases, which affected 2 out of 150 cases in the sample. We are working on the correction of this system problem. Until the system problem is corrected, the performance level reported is inaccurate for the few cases of this type processed during the reporting period.

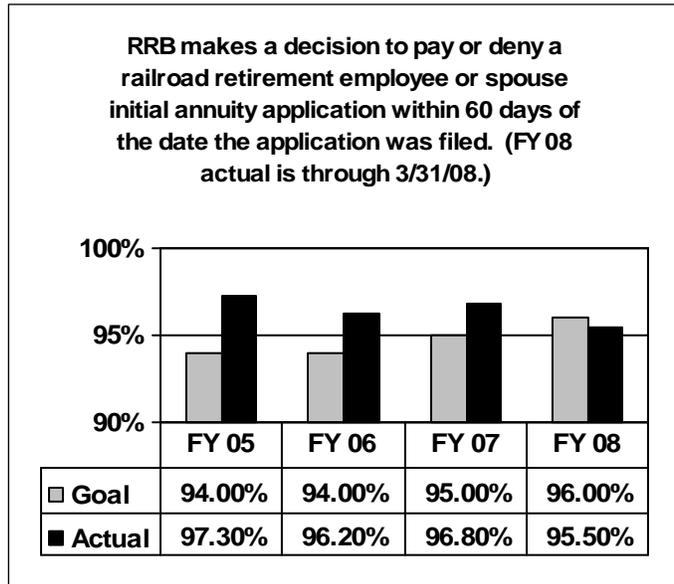
**Key performance indicator 5: Timeliness of initial railroad retirement annuity payments, if not advanced filed (Objective I-A-6)**

**FY 2008 goal:** 96.00%  
**Our FY 2008 performance:** 95.50%  
 through the 2<sup>nd</sup> quarter

**We are near our goal.** Automation plays a key role in assuring benefit payment timeliness for this performance indicator. The performance data shown is through the second quarter of fiscal year 2008. We expect to meet or exceed our goal by year-end.

**FY 2007 goal:** 95.00%  
**Our FY 2007 performance:** 96.80%

**Data definition:** This goal is included in the RRB Customer Service Plan. Prior to fiscal year 2008, the goal was stated from the customer's perspective and attempted to measure timeliness to the point of delivery by reporting performance based on the percent of retirement age and service applications for which all RRB processing was completed within 60 days, allowing 5 days to account for handling by the Treasury or USPS. An audit by the RRB's OIG (05-05, dated May 17, 2005), however, found technical problems with the data. Beginning in fiscal year 2005, we qualified our performance report to indicate that, due to system limitations, our tracking did not include all internal processing time, but only measured the retirement adjudicative processing time. In fiscal year 2008, we reworded the goal to more precisely measure only RRB adjudicative processing time. The new goal is stated in the chart above.



We plan to replace our retirement adjudicative system, which will allow us to track our performance for the entire internal processing time. Until the new system is implemented, we will continue to track only adjudicative processing time. We believe that the data reported remains a fair representation of the basic service our customers receive.

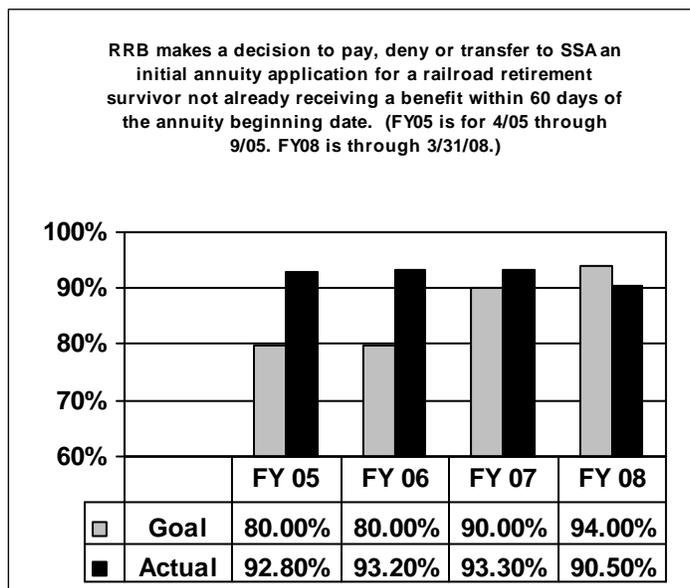
**Key performance indicator 6: Timeliness of new survivor benefit payments**  
**(Objective I-A-7)**

**FY 2008 goal:** 94.00%  
**Our FY 2008 performance:** 90.50%  
 through the 2<sup>nd</sup> quarter

**We are not yet achieving our goal.**  
 Automation plays a key role in assuring benefit payment timeliness for this performance indicator. We are monitoring this workload and expect to meet or exceed our target by year-end.

**FY 2007 goal:** 90.00%  
**Our FY 2007 performance:** 93.30%

**Data definition:** This goal is included in the RRB Customer Service Plan. Prior to fiscal year 2008, the goal was stated from the customers' perspective and attempted to measure timeliness to the point of delivery by reporting performance based on the percent of applications where all RRB processing is completed within 60 days, allowing 5 days to account for Treasury or USPS handling. In fiscal year 2008, we reworded the goal to more precisely measure only RRB internal processing time. The new goal is stated in the chart above.



In fiscal year 2005, measurement and reporting inconsistencies, which resulted in a net understatement of actual performance, were identified by the RRB's OIG. These inconsistencies were corrected effective with April 2005 data. Results reported for fiscal year 2005 represent the last 6 months of the year only, after the inconsistencies were eliminated.

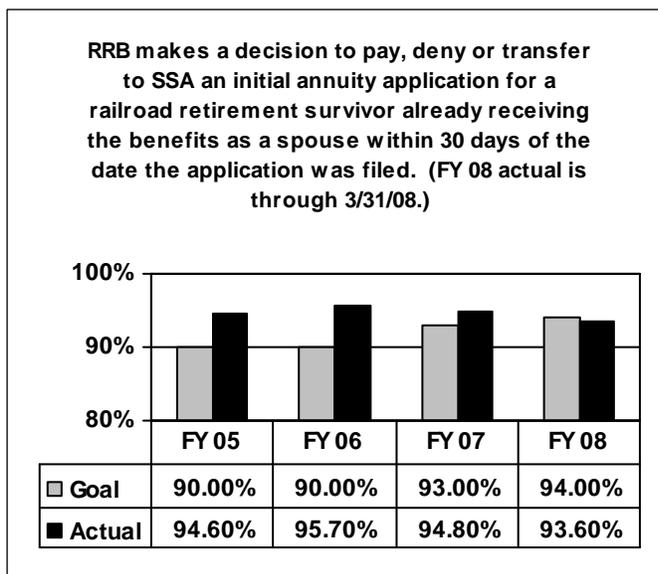
**Key performance indicator 7: Timeliness of spouse to survivor benefit payment conversions (Objective I-A-8)**

**FY 2008 goal:** 94.00%  
**Our FY 2008 performance:** 93.60%  
 through the 2<sup>nd</sup> quarter

**We are near our goal.** Automation plays a key role in assuring benefit payment timeliness for this performance indicator. We expect to meet or exceed our goal by year-end.

**FY 2007 goal:** 93.00%  
**Our FY 2007 performance:** 94.80%

**Data definition:** This goal is included in the RRB Customer Service Plan. Prior to fiscal year 2008, the goal was stated from the customer's perspective and attempted to measure timeliness to the point of delivery by reporting performance based on the percent of applications where all RRB processing is completed within 30 days, allowing 5 days to account for Treasury or USPS handling. In fiscal year 2008, we reworded the goal to more precisely measure only RRB internal processing time. The new goal is stated in the chart above.



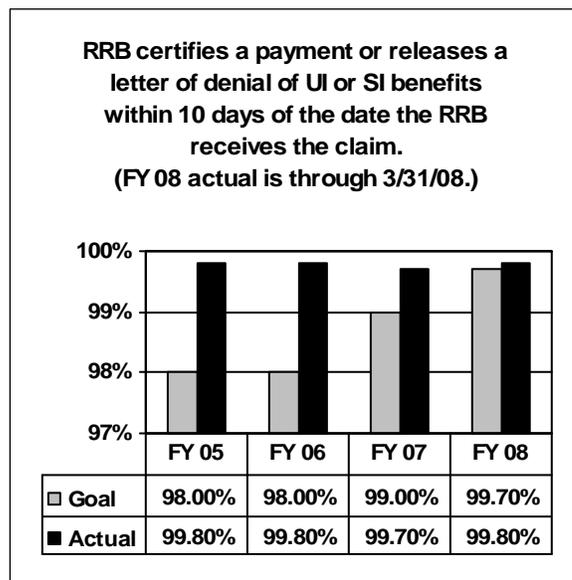
**Key performance indicator 8: Timeliness of unemployment or sickness insurance payments (Objective I-A-12)**

**FY 2008 goal:** 99.70%  
**Our FY 2008 performance:** 99.80%  
 through the 2<sup>nd</sup> quarter

**We are meeting our goal.** Automation plays a key role in assuring benefit payment timeliness for this performance indicator.

**FY 2007 goal:** 99.00%  
**Our FY 2007 performance:** 99.70%

**Data definition:** This goal is included in the RRB Customer Service Plan. Prior to fiscal year 2008, the goal was stated from the customer's perspective and attempted to measure timeliness to the point of delivery by reporting performance based on the percent of claims where all RRB processing was completed within 10 days, allowing 5 days to account for Treasury or USPS handling. In fiscal year 2008, we reworded the goal to more precisely measure only RRB internal processing time. The new goal is stated in the chart above.



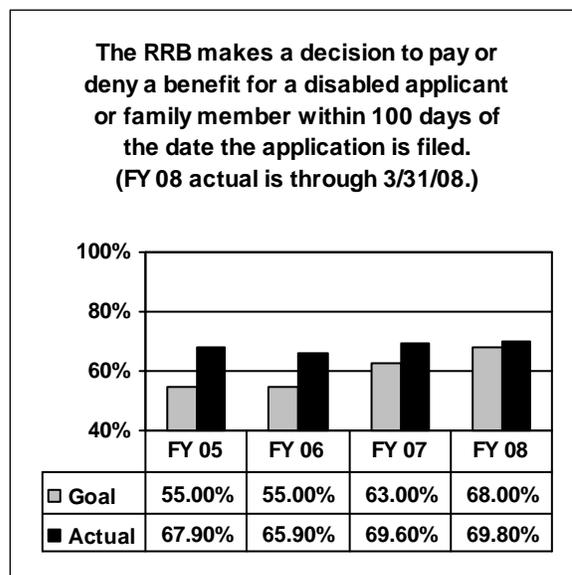
**Key performance indicator 9: Timeliness of disability decisions (Objective I-A-13)**

**FY 2008 goal:** 68.00%  
**Our FY 2008 performance:** 69.80%  
 through the 2<sup>nd</sup> quarter

**We are exceeding our goal.** We have been able to exceed our goal due to an increase in the number of staff resources dedicated to the disability workload and the timely performance by the contractor for consultative medical examinations needed to make disability decisions.

**FY 2007 goal:** 63.00%  
**Our FY 2007 performance:** 69.60%

**Data Definition:** This goal is included in the RRB Customer Service Plan. Prior to fiscal year 2008, the goal was stated from the customer's perspective and attempted to measure timeliness to the point of delivery by reporting performance based on the percent of applications where all RRB processing is completed within 100 days, allowing 5 days to account for USPS handling. In fiscal year 2008, we reworded the goal to more precisely measure only RRB internal processing time. The new goal is stated in the chart above.



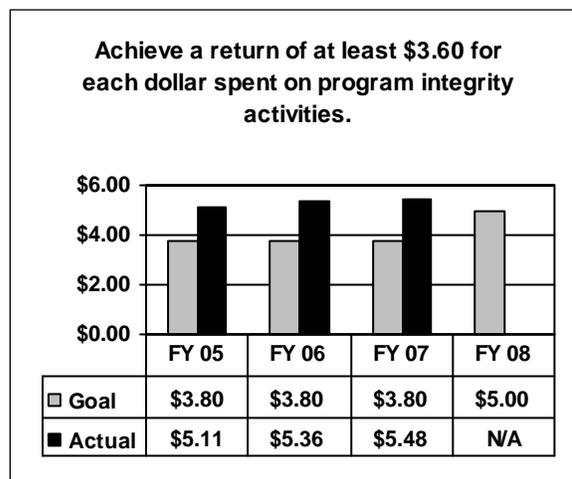
**Key performance indicator 10: Return on investment in program integrity activities (Objective II-B-1)**

**FY 2008 goal:** \$5.00 : \$1  
**Our FY 2008 performance:** Not available

FY 2008 data will be available in FY 2009.

**FY 2007 goal:** \$3.80 : \$1  
**Our FY 2007 performance:** \$5.48 : \$1

**We exceeded our goal.** Our fiscal year 2007 goal was to achieve a return of \$3.80 for each dollar spent on program integrity activities. We achieved a rate of return of \$5.48 for each dollar spent.



As part of our fiduciary responsibilities to the rail community, we must ensure that the correct amount of benefits is being paid to the right people. We match our benefit payments against SSA's earnings and benefits database, the Centers for Medicare & Medicaid Services' utilization and death records, the Office of Personnel Management's benefit records, and State wage reports, usually via computer tapes, and administer other benefit monitoring programs to identify and prevent erroneous payments. We also refer some cases to the RRB's OIG for investigation. After investigation, the OIG may pursue more aggressive collection methods, which include civil and criminal prosecution.

**Data definition:** This is the ratio of the sum of the dollar recoveries and savings to the labor dollars spent.

## Future Plans/Objectives

### Program Improvements

- **Medicare Modernization Act (MMA)** The Medicare Prescription Drug, Improvement and Modernization Act of 2003, otherwise known as the Medicare Modernization Act (MMA), added a prescription drug benefit (Part D) to the Medicare program effective January 2006. The MMA provides beneficiaries the option to pay Parts C (Medicare Advantage Plan) and D premiums directly to their plans or to have premiums withheld from benefits paid by the Social Security Administration (SSA), the Office of Personnel Management, or the Railroad Retirement Board.

The RRB has been working with the Centers for Medicare & Medicaid Services (CMS) to implement Medicare Parts C and D premium withholding and other provisions of the MMA. We have not completed work on processes and automated systems changes that will allow beneficiaries to have Parts C and D premiums withheld from the monthly benefits paid by the RRB. (Railroad retirement beneficiaries who currently have monthly Parts C and D premiums pay their premiums by direct bill arrangements with their plans.) Work on Parts C and D premium withholding was temporarily suspended while we focused available resources on implementing provisions of the MMA that require certain beneficiaries to pay higher Part B premiums beginning January 2007, and to allow time for CMS to review and resolve problems with the withholding of Parts C and D premiums from benefits paid by SSA.

We are resuming work with CMS in 2008 on the data exchange needed to support Parts C and D premium withholding from RRB benefits. Along with CMS, we have established a target implementation date of January 2010.

- **Nationwide Toll-Free Service and RRB HelpLine Improvements** In fiscal year 2007, the agency awarded a contract through GSA-Network Universal to Qwest Government Services, Inc. for a managed nationwide toll-free telephone service. The features of the service will include a single nationwide toll-free number, automatic distribution of customer calls, interactive voice response (IVR) functionality, an upgrade of the existing data network, and implementation of Voice over Internet Protocol (VoIP) telephone service at all RRB field offices. The toll-free number will provide a single access point to claims representatives in the agency's field service offices and to IVR services. The first 12 Pilot Offices are scheduled to be implemented in fiscal year 2008, with the roll-out for the balance of the RRB field offices to be completed by December 31, 2008.

The design of the nationwide toll-free service will support all of the existing self-service options and features of the current RRB HelpLine, facilitate a number of enhancements and allow for expansion of services into other areas in the future.

- **Internet Unemployment and Sickness Insurance Benefit Services** In 2004, the RRB made applications and claims for unemployment insurance benefits available on-line at [www.rrb.gov](http://www.rrb.gov). In calendar year 2005, the RRB completed a project to automate the processing of unemployment insurance benefit claims that pass mechanical screening for eligibility. In 2005, the RRB also implemented a service enabling unemployment and sickness insurance beneficiaries to view their account statement online. The account statement lists recent forms filed and unemployment and sickness insurance benefit

payments. In 2009, the RRB plans to implement a process to allow beneficiaries to submit online biweekly claims for sickness insurance benefits.

**Employer Reporting System (ERS) – Internet Site** We continue to use contractor assistance to work on the Employer Reporting System (ERS). In 2008, we are automating the pre-payment and post-payment verification notices (Forms ID-4k and ID-4e) sent to employers for benefits we pay under the Railroad Unemployment Insurance Act (RUIA). The agency is also converting the current system and forms to a software language which is compatible with existing standards, and which should enable in-house staff to add new functionality to the system without the need to obtain contractor support.

In 2009, the ERS Internet-based version of Form BA-3, Annual Report of Service and Compensation, will be introduced, yielding 7 additional services and replacing several post-reporting requests for information from employers. We will also include the functionality for two notification processes: RL-5a, Notice of Annuity Award; and the Notice of Tier I Tax Liability on Sickness Payments (Forms ID-6 and ID-6y). Employers need information about former and retired employees to make the necessary adjustments in their insurance and other health and welfare benefits afforded retired employees. Distributing these notifications to employers via the ERS provides for a secure, efficient method of transmitting this information.

The focus for 2010 will be on providing additional automated notifications to employers, including the G-73a.1, Notice of Death of Annuitant, and the RL-10, Notice of Medicare Entitlement. In fiscal year 2010, we also plan to develop an automated referral process in ERS to notify employers of errors or the need for additional information and provide a means for correcting the data.

### Systems and Controls

The RRB continually evaluates the effectiveness and efficiency of its operations using ongoing assessments and reviews of management controls, internal and external audits, quality control and assurance reviews, program integrity activities, and customer satisfaction surveys.

Under the direction of a Management Control Review Committee (MCRC) composed of senior managers from its program, information services, administrative, and financial operations, the RRB has divided these operations functionally into 42 assessable units. The number of assessable units can vary from year to year as operations are restructured to accommodate changes precipitated by such factors as new and revised missions, reduced resources, and increased automation.

The mission, key performance indicators, workflow, control objectives and techniques, guidance, automated systems support, impact, and vulnerability of each assessable unit are documented. The RRB maintains and annually updates a 5-year plan for review of the assessable units. The official responsible for each assessable unit prepares an annual assessment of key indicators and open or new issues requiring management's attention. High impact and vulnerable assessable units are scheduled for more frequent, in-depth reviews as deemed necessary by the MCRC in consultation with senior management. During fiscal year 2008, responsible officials performed in-depth reviews of 12 assessable units, assessed all 42, and certified 41.

The RRB reported a material weakness relating to deficiencies in Information Technology Security in fiscal year 2002; the remaining action needed to close out these deficiencies is implementation of access control recommendations.

In fiscal year 2005, the OIG identified Information Technology Security as a significant deficiency, which it reported as a material weakness in the fiscal year 2005 Performance and Accountability Report. This included two new deficiencies in meeting FISMA requirements for risk assessments, and testing and evaluation. The Responsible Official certification for fiscal year 2008 includes information about actions underway to address these deficiencies.

In fiscal year 2008, the OIG-identified material weakness, Actuarial Projection Process–Fund Balance, was addressed and closed out. On September 30, 2008, the OIG identified Financial Reporting as a material weakness. The agency has implemented actions to improve the financial reporting process, such as issuing additional reporting guidance and implementing an enhanced year-end financial statement review. Additional actions are being evaluated and planned.

The agency is committed to resolving these deficiencies. We will continue to monitor progress during fiscal year 2009.

## **Management Assurances**

The Railroad Retirement Board states and assures that to the best of our knowledge:

1. In accordance with Office of Management and Budget Circular No. A-123, Section VI (B), we are issuing a qualified statement of assurance considering the OIG-identified material weaknesses indicated under paragraph (4). Except as indicated under (4), the system of internal control of this agency is functioning and provides reasonable assurance as to the: efficiency and effectiveness of programs and operations; reliability of financial and performance information; and compliance with laws and regulations. These controls satisfy the requirements of the Federal Managers' Financial Integrity Act §2.
2. The financial management systems of this agency maintain accountability for assets and provide reasonable assurance that obligations and costs are in compliance with applicable law, and that performance data and proprietary and budgetary accounting transactions applicable to the agency are properly recorded and accounted for to permit the timely preparation of accounts and reliable performance information. The financial management systems at this agency satisfy the requirements of the Federal Managers' Financial Integrity Act §4.
3. The financial management systems of this agency provide the agency with reliable, timely, complete, and consistent performance and other financial information to make decisions and efficiently operate and evaluate programs and substantially satisfy the requirements of the Government Performance and Results Act and OMB Circular No. A-11.
4. The RRB's Inspector General, in his auditor's report, identifies Information Technology Security and Financial Reporting as material weaknesses. A previously reported material weakness, Actuarial Projection Process–Fund Balance, was addressed and closed out in fiscal year 2008.

## **Description of OIG-Identified Material Weaknesses**

1. Information technology security at the RRB is weakened by deficiencies in risk assessment, testing and evaluation, and access controls in both the general support and major application systems.

In fiscal year 2009, the plan is to resolve the remaining audit recommendations. We will then evaluate the Information Technology Security material weakness to determine whether it has been eliminated.

2. The OIG also identified financial reporting as a material weakness. The Bureau of Fiscal Operations will work with the OIG to implement necessary enhancements to the financial reporting process.

Original signed by:

Michael S. Schwartz, Chairman  
V. M. Speakman, Jr., Labor Member  
Jerome F. Keever, Management Member

## Summary of Actuarial Forecast

The Statement of Social Insurance presents an actuarial analysis of the financial position of the railroad retirement system as of January 1, 2008. Our intermediate employment assumption is used for the Statement of Social Insurance. The Required Supplementary Information presents sensitivity analyses showing the impact of changes in employment and investment return assumptions. Although under our intermediate assumption no cash flow problems arise over the period 2008-2082, the sensitivity analyses show that, under the current financing structure, actual levels of railroad employment and investment return over the coming years will determine whether additional corrective action is necessary.

Subsequent to January 1, 2008, the effective date of the Statement of Social Insurance, market fluctuations resulted in a reduction in the value of the fund balance, which directly affects projected future cash flows. See Note 15.

Section 7105 of the Technical and Miscellaneous Revenue Act of 1988 requires the RRB to submit an annual report to the Congress on the financial status of the railroad unemployment insurance system. Projections were made for the various components of income and outgo under each of 3 employment assumptions for the 11 fiscal years 2008-2018. The results indicate that the Railroad Unemployment Insurance (RUI) Account will be solvent during the 11-year projection period.

## **Limitations of the Financial Statements**

The limitations of the principal financial statements are as follows:

1. The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515(b).
2. While the statements have been prepared from the books and records of the entity in accordance with U.S. generally accepted accounting principles for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.
3. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

***PERFORMANCE SECTION –  
GOVERNMENT PERFORMANCE AND RESULTS ACT (GPRA)  
REPORT***

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## **Performance Section - Government Performance and Results Act (GPRA) Report**

The following performance report is based on the major goals and objectives from the RRB's Strategic Plan for 2006 – 2011. The indicators we developed support our mission and communicate our intentions to meet challenges and seek opportunities for greater efficiency, effectiveness, and economy.

To achieve our performance goals, the RRB holds managers accountable for achieving program results and improving program effectiveness by focusing on results, service quality, and customer satisfaction. In addition, the annual performance budget is used to help managers improve service delivery by requiring that they plan for meeting program objectives and by providing them with information about program results and service quality. To provide reasonable assurance that the reported performance information is relevant and reliable, performance goals are incorporated into performance standards for managers and supervisors, and monitored on an agency-wide basis. We have also implemented an initiative to conduct validation studies on selected indicators, and developed an administrative circular regarding documentation, validation and retention of performance data.

During fiscal year 2007, the RRB's two benefit programs (the RRA and the RUIA) were evaluated for the first time under the Program Assessment and Rating Tool (PART) process. Each program earned an overall performance rating of "Effective," which is the highest rating a program can achieve. As a result of the PART process, the agency set more ambitious annual performance targets, defined several long-term goals and laid out three program improvement initiatives which are discussed below. The agency's Performance Improvement Officer, appointed in fiscal year 2008 in response to Executive Order 13450: "Improving Government Program Performance," monitors the progress of those initiatives as well as reviews and evaluates ongoing program performance.

### **PART program improvement plans**

**Data optimization** – During 2006 and 2007, RRB completed a major infrastructure improvement project to change its database environment to allow for more effective and efficient systems. In 2008, the RRB is optimizing the data in the new relational environment to better enable various system modernization initiatives in subsequent years.

**Expansion of field imaging** – In 2007, the RRB conducted a pilot project to image documents in four field offices. The purpose of the project was to determine the feasibility of using the technology to make field office documents available on-line to all RRB staff for processing benefit payments and responding to inquiries from our beneficiaries. The pilot was successful and the technology is being expanded to all RRB field offices during fiscal years 2008 and 2009.

**Nationwide toll-free service** – As discussed on page 30, in 2007, the RRB entered into a contract with Qwest Government Services, Inc. to provide state-of-the-art toll-free telephone service. This contract was one of the first in the Federal Government under the GSA-Network Universal program. RRB's new system combines voice and data transmission and will automatically distribute incoming calls efficiently to available claims representatives, providing enhanced service to our customers. The new nationwide toll-free service will also replace the RRB's current Help Line, which provides interactive voice response service for the public. System development and implementation began in 2008, and will be completed in fiscal year 2009.

## **Automation and e-Government initiatives**

In addition to the initiatives being tracked under the PART, over the last several years, the RRB has also implemented significant automation initiatives and other improvements. Because of these accomplishments, the RRB is able to operate with reduced resources and continue to streamline its operations with the assistance of information technology. We believe that significant new investments in information technology and further management improvements will help us to meet or exceed our customer service goals efficiently.

In January 2008, the RRB implemented use of a new application that allows its Medicare Part B carrier, Palmetto GBA, to electronically report beneficiary address changes, beneficiary dates of death, and requests for replacement Medicare cards to the agency. The secure application is accessed through the Internet by authorized Palmetto GBA customer service representatives (CSR). The new application and related procedures eliminate the need for Palmetto's CSRs to refer callers to the RRB, and helps ensure that the agency receives up-to-date information on a timely basis.

During fiscal years 2007 and 2008, the RRB worked closely with the approximately 600 rail employers to expand the format for annual reports of service and compensation. Several enhancements were also incorporated into this massive project which will eventually eliminate some duplicate reporting. One consequence of this change was that some of the rail employers were not able to submit accurate reports within the designated time frame. While this resulted in the RRB missing its performance goal for timely processing, this was a one-time situation, and there was no lasting negative impact.

The RRB expanded its web-based training facility during fiscal year 2008 in order to provide brief presentations to the public and to rail employers on [www.rrb.gov](http://www.rrb.gov). Through May 2008, there were 10 presentations available for viewing on topics of interest to those applying for benefits, filing reports, or anticipating retirement. We will increase this number extensively during the coming months.

## **Succession planning**

The agency has continued to make good progress on workforce and succession planning. The Executive Committee completed workforce planning documents that identify the current staffing levels, projected attrition and planned hiring in fiscal years 2008, 2009 and 2010. Each executive has also completed a gap analysis for his/her organization that identifies skills that need to be developed in order to prepare employees to fill critical positions in the future.

While the planning progresses, budget restrictions have hampered our ability to fill some vacancies and postponed certain training. In fiscal year 2008, the RRB's budget was reduced by about \$1.8 million due to a rescission. This adversely impacted the execution of our workforce plan, with separations significantly exceeding accessions during the year. When additional funding becomes available, training and hiring will resume in accordance with the succession plan.

## **Systems security**

Information security is a critical consideration for government agencies where maintaining the public's trust is essential. The RRB relies extensively on computerized systems to support its mission operations and store the sensitive information that it collects. The RRB's information

security program is established and maintained to reasonably protect systems data and resources against internal failures, human errors, attacks and natural catastrophes that might cause improper disclosure, modification, destruction, or denial of services. To ensure mission continuity and connect with the agency's overall business processes, we have a comprehensive training program that utilizes the OPM-sponsored GoLearn.gov's Karta computer security curriculum. For the fourth consecutive year, all employees with computer security responsibilities are enrolled in this role-based training program. Additional specialized technical education is also provided as necessary for the computer analysts, software developers and network/system engineers to maintain their skills and enhance proficiency.

Federal agencies are required to provide annual computer security awareness training for employees and contractors. Security awareness efforts are designed to change behavior or reinforce good security practices by focusing attention on security. We continue to develop new approaches for refreshing the awareness initiative by providing updated and innovative presentations for the agency staff. This year the new "Physical Information Security Awareness" pamphlet, prepared to be read by all employees or contractors without RRB network access, was used as part of the awareness program. Additionally, the "Information Systems Security Awareness Training for the Railroad Retirement Board" pamphlet was updated and expanded with additional information to make it a comprehensive security awareness training document. The agency supplements the formal awareness training program with the weekly Security News feature story that is prominently headlined on the Intranet's home page. Every year, the RRB's awareness program has been able to report exemplary levels of participation measures by all employees and contractors.

Faced with an increasingly dangerous threat environment, the RRB relies on a sophisticated hardware and software defense that utilizes carefully monitored and maintained firewall technology, anti-virus software and intrusion detection systems to prevent viruses, worms, spam and malicious content from infiltrating the network, as well as to ensure that critical data and sensitive information are not compromised. To buttress these proactive threat management resources in the event of a successful malware attack, the agency has implemented a robust incident response capability. With the fully operational forensic analysis workstation that is now in place, the RRB Computer Emergency Response Team has the ability to conduct forensic collection and analysis of electronic evidence from almost any type of digital media in use today.

Certification and accreditation are important activities integral to the information security programs of Federal agencies. Performing certification and accreditation helps provide an understanding of the risks and other factors that could adversely affect agency missions. Last year, the RRB's LAN/PC general support system underwent security certification, an assessment of the information system's management, operational and technical security controls, to determine whether controls are implemented properly, operating as intended and satisfy system security requirements. After evaluating the certification results, the Chief Information Officer, as the designated accrediting authority, authorized operation of the LAN/PC system through a formal accreditation decision that affirmed the operation of that system was an acceptable risk to agency operations, agency assets, or individuals based upon the implementation of the defined set of security controls. This year, the RRB's mainframe general support system and five of the major applications of the agency are being assessed in a similar certification and accreditation process. The completion of this major project will place the agency in full compliance with a major provision of the Federal Information Security Management Act, a fiscal responsibility law holding agencies to a high degree of responsibility and accountability for the information resources they manage.

## Program Evaluations

Program Evaluation	Results in Fiscal Year 2008
Federal Managers' Financial Integrity Act Reports	See "Systems and Controls" in the "Management's Discussion and Analysis" section.
Annual actuarial report required by the Railroad Retirement Act of 1974 and the Railroad Retirement Solvency Act of 1983	The report, which was completed in June 2008, addresses the 25-year period 2008-2032, and contains generally favorable information concerning railroad retirement financing. It indicates that no cash flow problems arise over the 25-year projection period. The report recommends no change in the rate of tax imposed on employers and employees.
Railroad Unemployment Insurance System, annual report required by section 7105 of the Technical and Miscellaneous Revenue Act of 1988	The report, which was released in June 2008, contains generally favorable information. Experience-based contribution rates are expected to maintain solvency, and no new loans are expected even under our most pessimistic assumption. The report did not include any recommendations for financing changes.
Program Assessment and Rating Tool (PART) Review	In fiscal year 2007, OMB conducted a comprehensive assessment of RRB programs and operations through the PART review. The PART review resulted in a rating of "effective" for both the railroad retirement/survivor program and the unemployment/ sickness insurance program. Annual updates are provided according to OMB guidance.
Customer service performance reports	The RRB continuously monitors the timeliness and accuracy of our performance in managing program workloads. These results are reflected in the performance objectives shown in the chart on the following pages.
Program integrity report	The RRB's program integrity report for fiscal year 2007, released in October 2007, showed that program integrity activities resulted in the establishment of about \$12.4 million in recoverables, recovery of \$9.9 million, benefit savings of \$942,000, and referral of 90 cases to the Office of Inspector General.
Quality assurance reviews and special studies	RRA adjudicative and payment accuracy is measured in regular diagnostic reviews conducted by quality assurance staff within the RRB's Assessment and Training (A&T) component. A&T also evaluates policies and processes through special studies, as needed. A&T reports to the Director of Programs.
Occupational disability reviews	Advisory doctors, representing the rail industry (labor and management), are authorized by law to review agency medical decisions. An audit was done in 2000; another audit was completed in 2008. In addition, consulting physicians from Consultative Examinations, Ltd. perform a quarterly quality review of disability documentation to ensure it is adequate to support medical decisions.
RRB Office of Inspector General audits	See "Inspector General's Statement on Management and Performance Challenges" and "Management's Comments" in the "Other Accompanying Information" section.

Program Evaluation	Results in Fiscal Year 2008
Performance budget monitoring	Results of performance budget monitoring are shown in the chart of performance objectives on the following pages. Actual performance data are reviewed, validated and certified prior to inclusion in this report. Validation and certification processes are documented as part of the RRB's management control review process.
Enterprise architecture assessment	The RRB completed an enterprise architecture assessment in February 2008, reporting a total assessment value of 2.93 out of a possible 5.00.
Computer security and privacy assessment	See performance goals II-C-2, II-C-3, II-C-4 and II-C-13 in the chart of performance objectives on the following pages. During fiscal year 2008, we are using contractual assistance to perform certification and accreditation of major application systems, as required under the Federal Information Security Management Act.
Electronic government (E-Gov) activities	See "Program Improvements" in the "Management's Discussion and Analysis" section.
Improper payment evaluation	See "Improper Payments Information Act (IPIA)" in the "Management's Discussion and Analysis" section.

The next page begins a consolidated presentation of our actual performance in fiscal year 2005 through March 31, 2008 (except as noted), followed by a discussion of our unmet performance goals and objectives for fiscal year 2007. At the time this report was prepared, we had incomplete information on our fiscal year 2008 performance. The discussion of any unmet fiscal year 2008 performance goals and indicators will be presented in next year's report. This performance report was prepared by RRB employees.

RAILROAD RETIREMENT BOARD FY 2008 ANNUAL PERFORMANCE REPORT		2005 Actual (At \$102.5m) <sup>1/</sup>	2006 Actual (At \$101.5m) <sup>1/</sup>	2007 Actual (At \$103.7m) <sup>1/</sup>	2008 Projected (At \$101.9m) <sup>1/</sup>	2008 Actual (At \$101.9m) <sup>1/</sup>
<b>Strategic Goal I: Provide Excellent Customer Service</b>						
<b>Performance Goal I-A: Pay benefits accurately and timely.</b>						
I-A-1. Achieve a railroad retirement benefit payment accuracy rate <sup>2/</sup> of at least 99%. (Measure: % accuracy rate)	a) Initial recurring payments:	99.62%	99.91%	99.82%	99.50%	Data not available
	recurring payments:	99.89%	99.94%	100%	99.50%	Data not available
I-A-2. Achieve a railroad unemployment/sickness insurance benefit payment accuracy rate <sup>2/</sup> of at least 99%. (Measure: % accuracy rate)	a) Unemployment:	98.73%	99.08%	99.64%	99.00%	99.76%
	b) Sickness:	99.94%	99.78%	100%	99.70%	99.88%
I-A-3. Achieve a railroad retirement case accuracy rate <sup>2/</sup> of at least 94%. (Measure: % of case accuracy)	a) Initial	95.5%	94.5%	94.9%	94.0%	Data not available
		95.8%	96.3%	98.7%	96.0%	Data not available
I-A-4. Achieve a railroad unemployment/sickness insurance case accuracy rate <sup>2/</sup> of at least 98%. (Measure: % of case accuracy)	a) Unemployment:	98.01%	97.5%	98.01%	97.5%	99.0%
	b) Sickness:	99.51%	99.03%	100%	99.0%	98.97%
I-A-5. Railroad retirement employee or spouse receives initial annuity payment, or a decision, within 35 days of annuity beginning date, if advanced filed. (Measure: % ≤ 30 adjudicative processing days <sup>3/4/</sup> )		93.1%	92.9%	92.8%		

b) Post cases:

<b>RAILROAD RETIREMENT BOARD FY 2008 ANNUAL PERFORMANCE REPORT</b>	<b>2005 Actual (At \$102.5m) <sup>1/</sup></b>	<b>2006 Actual (At \$101.5m) <sup>1/</sup></b>	<b>2007 Actual (At \$103.7m) <sup>1/</sup></b>	<b>2008 Projected (At \$101.9m) <sup>1/</sup></b>	<b>2008 Actual (At \$101.9m) <sup>1/</sup></b>
<i>Revised goal for 2008 and later</i> I-A-5. RRB makes a decision to pay or deny a railroad retirement employee or spouse initial annuity application within 35 days of the annuity beginning date, if advanced filed. (Measure: % ≤ 30 adjudicative processing days <sup>3/</sup> )				92.0%	91.4%
I-A-6. Railroad retirement employee or spouse receives initial annuity payment, or notice of denial, within 65 days of the date the application was filed, if not advanced filed. (Measure: % ≤ 60 adjudicative processing days <sup>3/4/</sup> )	97.3%	96.2%	96.8%		
<i>Revised goal for 2008 and later</i> I-A-6. RRB makes a decision to pay or deny a railroad retirement employee or spouse initial annuity application within 60 days of the date the application was filed. (Measure: % ≤ 60 adjudicative processing days <sup>3/</sup> )				96.0%	95.5%
I-A-7. Survivor annuitant not already receiving a benefit receives initial payment, a decision, or notice of transfer to SSA within 65 days of the annuity beginning date, or date filed (whichever is later). (Measure: % ≤ 60 processing days <sup>4/</sup> )	92.8% <sup>5/</sup>	93.2%	93.3%		
<i>Revised goal for 2008 and later</i> I-A-7. RRB makes a decision to pay, deny or transfer to SSA an initial annuity application for a railroad retirement survivor not already receiving a benefit within 60 days of the annuity beginning date. (Measure: % ≤ 60 days)				94.0%	90.5%
I-A-8. Survivor annuitant receiving benefits as spouse receives payment as survivor, notice of denial, or notice of application transfer to SSA, within 35 days of RRB receipt of the notice of employee's death. (Measure: % ≤ 30 processing days <sup>4/</sup> )	94.6%	95.7%	94.8%		

RAILROAD RETIREMENT BOARD FY 2008 ANNUAL PERFORMANCE REPORT	2005 Actual (At \$102.5m) <sup>1/</sup>	2006 Actual (At \$101.5m) <sup>1/</sup>	2007 Actual (At \$103.7m) <sup>1/</sup>	2008 Projected (At \$101.9m) <sup>1/</sup>	2008 Actual (At \$101.9m) <sup>1/</sup>
<p><i>Revised goal for 2008 and later</i></p> <p>I-A-8. RRB makes a decision to pay, deny or transfer to SSA an initial annuity application for a railroad retirement survivor already receiving the benefits as a spouse within 30 days of the date the application was filed. (Measure: % ≤ 30 days)</p>				94.0%	93.6%
<p>I-A-9. Applicant for any railroad retirement death benefit receives payment, or notice of denial, within 65 days of date filed. (Measure: % ≤ 60 processing days <sup>4/</sup>)</p>	96.9%	97.5%	97.5%		
<p><i>Revised goal for 2008 and later</i></p> <p>I-A-9. RRB makes a decision to pay or deny a railroad retirement death benefit application within 60 days of RRB's receipt of the first notice of death. (Measure: % ≤ 60 days)</p>				97.0%	95.5%
<p>I-A-10. Unemployed railroad worker receives UI claim form, or notice of denial, within 15 days of the date application filed. (Measure: % ≤ 10 processing days <sup>4/</sup>)</p>	99.8%	99.5%	99.5%		
<p><i>Revised goal for 2008 and later</i></p> <p>I-A-10. RRB releases a UI claim form or letter of denial within 10 days of receiving an application for unemployment benefits. (Measure: % ≤ 10 processing days)</p>				99.5%	99.5%
<p>I-A-11. Railroad employee unable to work due to temporary illness or injury receives SI claim form, or notice of denial, within 15 days of the date application filed. (Measure: % ≤ 10 processing days <sup>4/</sup>)</p>	99.6%	99.5%	99.2%		

<b>RAILROAD RETIREMENT BOARD FY 2008 ANNUAL PERFORMANCE REPORT</b>	<b>2005 Actual (At \$102.5m) <sup>1/</sup></b>	<b>2006 Actual (At \$101.5m) <sup>1/</sup></b>	<b>2007 Actual (At \$103.7m) <sup>1/</sup></b>	<b>2008 Projected (At \$101.9m) <sup>1/</sup></b>	<b>2008 Actual (At \$101.9m) <sup>1/</sup></b>
<i>Revised goal for 2008 and later</i> I-A-11. RRB releases an SI claim form or letter of denial within 10 days of receiving an application for sickness insurance benefits. (Measure: % ≤ 10 processing days)				99.0%	99.2%
I-A-12. Railroad employee, unemployed or unable to work due to temporary illness or injury, receives a payment for unemployment or sickness insurance benefits, or a decision, within 15 days of claim receipt. (Measure: % ≤ 10 processing days <sup>4/</sup> )	99.8%	99.8%	99.7%		
<i>Revised goal for 2008 and later</i> I-A-12. RRB certifies a payment or releases a letter of denial of UI or SI benefits within 10 days of the date RRB receives the claim. (Measure: % ≤ 10 processing days)				99.7%	99.8%
I-A-13. Disabled applicant or family member receives notice of decision to pay or deny within 105 days of the date application for disability is filed. (Measure: % ≤ 100 processing days <sup>4/</sup> )	67.9%	65.9%	69.6%		
<i>Revised goal for 2008 and later</i> I-A-13. RRB makes a decision to pay or deny a benefit for a disabled applicant or family member within 100 days of the date the application is filed. (Measure: % ≤ 100 days)				68.0%	69.8%
I-A-14. Disabled applicant receives payment within 25 days of decision or earliest payment date (whichever is later). (Measure: % ≤ 20 processing days <sup>4/ 6/</sup> )	94.4%	95.2%	95.3%	94.5%	93.5%

RAILROAD RETIREMENT BOARD FY 2008 ANNUAL PERFORMANCE REPORT	2005 Actual (At \$102.5m) <sup>1/</sup>	2006 Actual (At \$101.5m) <sup>1/</sup>	2007 Actual (At \$103.7m) <sup>1/</sup>	2008 Projected (At \$101.9m) <sup>1/</sup>	2008 Actual (At \$101.9m) <sup>1/</sup>
I-A-15. Reduce the number of days elapsed between the date the appeal is filed and a decision is rendered. (Measure: average elapsed days)	207	206	159	190	180
<b>Performance Goal I-B: Provide relevant, timely, and accurate information which is easy to understand.</b>					
I-B-1. Achieve quality and accuracy of correspondence, publications, and voice communications. (Measure: surveys and reviews; number of valid challenges to published data)	The final report on the widow(er)s survey was completed in August 2005. RRB's score of 90 was highest of Federal agencies.	Completed a survey of initial disability decisions. RRB's score was 85.	ACSI survey deferred	ACSI survey deferred	ACSI survey deferred
	No challenges to published data	No challenges to published data	No challenges to published data	No more than two valid challenges to published data in FY 2008	No challenges to published data
<b>Performance Goal I-C: Provide a range of choices in service delivery methods.</b>					
I-C-1. Offer electronic options to our customers, allowing them alternative ways to perform primary services via the Internet or interactive voice response systems. (Measure: # of services available through electronic media)	14 services available	16 services available	16 services available	18 services available	17 services available
<b>Performance Goal I-D: Ensure efficient and effective business interactions with covered railroad employees.</b>					
I-D-1. Improve timeliness and efficiency in posting service and compensation data to agency records. (Measure: % of service and compensation records posted by April 15)	99.7%	99.6%	99.81%	99.0%	70.4% (through 4/15/08)
I-D-2. Improve accuracy in posting service and compensation data to agency records. (Measure: % of service and compensation records posted accurately)	99.0%	99.9%	99.5%	99.0%	93.3%

RAILROAD RETIREMENT BOARD FY 2008 ANNUAL PERFORMANCE REPORT	2005 Actual (At \$102.5m) <sup>1/</sup>	2006 Actual (At \$101.5m) <sup>1/</sup>	2007 Actual (At \$103.7m) <sup>1/</sup>	2008 Projected (At \$101.9m) <sup>1/</sup>	2008 Actual (At \$101.9m) <sup>1/</sup>
I-D-3. Covered employer annual reports of employees filed electronically, or on magnetic media. (Measure: % of employee records filed electronically, or on magnetic media)	98.0%	97.8%	98.2%	95.0%	98.8%
I-D-4. Enable employers to use the Internet to conduct business with the RRB, in support of the Government Paperwork Elimination Act. (Measure: % of employers who use the new online reporting process; # of services available through electronic media)	55.0% 4 Internet services available	58.0% 6 Internet services available	62.0% 7 Internet services available	65.0% 9 Internet services available	67.0% 7 Internet services available
<b>Strategic Goal II: Serve as Responsible Stewards for Our Customers' Trust Funds and Agency Resources</b>					
<b>Performance Goal II-A: Ensure that trust fund assets are projected, collected, recorded and reported appropriately.</b>					
II-A-1. Debts will be collected through billing, offset, reclamation, referral to outside collection programs and a variety of other collection efforts. (Measure: funds collected vs. total debts outstanding)	66%	62%	59%	55%	41%
II-A-2. Release quarterly and annual notices accurately and timely to employers regarding their experience rating-based contributions. (Measure: Yes/No)	Yes	Yes	Yes	Yes	Yes
II-A-3. Complete compensation reconciliations at least 1 year before the statute of limitations expires. (Compensation reconciliations involve a comparison of compensation reported by railroad employers to the RRB for benefit calculation purposes with compensation reported to the IRS for tax purposes.) (Measure: % completed)	100% of the 2002 reconciliations by 12/17/04	100% of the 2003 reconciliations by 2/15/05	100% of the 2004 reconciliations by 12/11/06	100% of the 2005 reconciliations by 2/28/08	100% of the 2005 reconciliations were completed by 2/26/08
II-A-4. Perform monthly reasonableness tests comparing railroad retirement taxes deposited electronically, which represent over 99 percent of all railroad retirement taxes, against tax receipts transferred to the RRB trust funds by the Department of the Treasury (Treasury) to provide reasonable assurance the RRB trust funds are receiving appropriate tax funds. (Measure: reasonableness test performed and anomalies reconciled with Treasury (Yes/No))	Yes	Yes	Yes	Yes	Yes, through February 2008

<b>RAILROAD RETIREMENT BOARD FY 2008 ANNUAL PERFORMANCE REPORT</b>	<b>2005 Actual (At \$102.5m) <sup>1/</sup></b>	<b>2006 Actual (At \$101.5m) <sup>1/</sup></b>	<b>2007 Actual (At \$103.7m) <sup>1/</sup></b>	<b>2008 Projected (At \$101.9m) <sup>1/</sup></b>	<b>2008 Actual (At \$101.9m) <sup>1/</sup></b>
II-A-5. Prepare annual Performance and Accountability Report (including audited financial statements and other financial and performance reports) by the required due dates. (Measure: Yes/No)	Yes. The FY 2004 Performance and Accountability Report was released on 11/10/04.	Yes. The FY 2005 Performance and Accountability Report was released on 11/10/05.	Yes. The FY 2006 Performance and Accountability Report was released on 11/15/06.	Yes	Yes. The FY 2007 Performance and Accountability Report was released on 11/15/07.
II-A-6. Take prompt corrective action on audit recommendations. (Measure: % of audit recommendations implemented by target date)	90.3% <sup>2/</sup>	97.2%	93.2%	95.0%	91.1%
<b>Performance Goal II-B: Ensure the integrity of benefit programs.</b>					
II-B-1. Achieve a return of at least \$3.60 for each dollar spent on program integrity activities. (Measure: \$ recoveries & savings per \$ spent)	\$5.11 : \$1.00	\$5.36 : \$1.00	\$5.48 : \$1.00	\$5.00 : \$1.00	Data will be not be available until November 2008.
<b>Performance Goal II-C: Ensure effectiveness, efficiency, and security of operations.</b>					
II-C-1. Continue succession planning by ensuring there is a cadre of highly skilled employees available for key positions. (Measure: Number of position types (descriptions) for which core competencies have been defined. Number of employees whose skills have been assessed. Number of employees involved with skills-enhancement programs.)	6 positions 73 employees 31 employees				
(Measure for FY 2006 and later: Structured succession planning activities are continuing. (Yes/No))		Yes	Yes	Yes	Yes

<b>RAILROAD RETIREMENT BOARD FY 2008 ANNUAL PERFORMANCE REPORT</b>	<b>2005 Actual (At \$102.5m) <sup>1/</sup></b>	<b>2006 Actual (At \$101.5m) <sup>1/</sup></b>	<b>2007 Actual (At \$103.7m) <sup>1/</sup></b>	<b>2008 Projected (At \$101.9m) <sup>1/</sup></b>	<b>2008 Actual (At \$101.9m) <sup>1/</sup></b>
II-C-2. Annually assess/update all computer security, disaster recovery, and business resumption plans for the agency. (Measure: Yes/No)	Yes. The agency completed a Business Impact Analysis and a Business Continuity Plan (BCP).	No. The BCP was updated with alternate non-IT site information in January 2006, and Appendix H of the BCP, the Emergency Management Organization, was updated in February 2006. An IT Disaster Recovery Plan was in draft status at the end of the fiscal year.	RRB met its performance goal for fiscal year 2007. RRB certified and accredited one general support system. The agency also hired an information availability analyst and completed a training test and exercise of the Continuity of Operations Plan.	RRB has acquired contractor assistance to certify and accredit other systems. Self-assessments will be performed on selected control components of the systems. Contingency planning and related training material will also be updated.	Yes. As of 7/02/08, the certification and accreditation project team has completed work on the test and evaluation of security controls for the Mainframe General Support System and five major applications. An exercise of the Disaster Recovery Plan was successfully performed in March 2008.
II-C-3. Develop and implement new procedures for responding to and reporting computer security incidents. (Measure: Yes/No)	Yes. The IDS was installed on 11/19/04, and was placed in operation on 02/12/05. The IDS tuning phase was completed by 06/30/05. Computer security incident procedures are in place and reports of incidents are documented.	Yes. The Department of Energy's Computer Incident Advisory Center began vulnerability assessment testing in January 2006, and completed testing of the RRB's LAN general support system.	Yes. The Intrusion Detection System was upgraded to Intrusion Prevention. A network access control device was installed on the agency LAN/WAN general support system to provide increased security management capabilities.	A Network Access Control appliance will be fine-tuned. The Computer Security Incident Response Plan will be reviewed and updated as necessary.	Yes. Components of the Core Intrusion Detection/Prevention System were updated to improve the stability and uptime of back-end processes. As of 7/02/08, tuning of Network Access Control has been completed. A Vulnerability Remediation Task Force has been formed to improve the RRB's security incident response capability.

<b>RAILROAD RETIREMENT BOARD FY 2008 ANNUAL PERFORMANCE REPORT</b>	<b>2005 Actual (At \$102.5m) <sup>1/</sup></b>	<b>2006 Actual (At \$101.5m) <sup>1/</sup></b>	<b>2007 Actual (At \$103.7m) <sup>1/</sup></b>	<b>2008 Projected (At \$101.9m) <sup>1/</sup></b>	<b>2008 Actual (At \$101.9m) <sup>1/</sup></b>
II-C-4. Assess computer security training requirements and implement an ongoing training program for agency staff. (Measure: Yes/No)	Yes. The agency established two training tracks. Track one provides technical expertise and functional skills for IT technical staff, and track two focuses on knowledge of security assessments, planning, policy development and safeguard controls. All employees requiring IT security education participate in track two; however, technical employees use both tracks.	Yes. A total of 181 RRB employees with computer security responsibilities received Web-based training at the OPM USALearning site, with a second training track for specialized technical education. All RRB staff annually complete a computer security awareness program.	Yes. All staff with computer security responsibilities received role-based security training at OPM's GoLearn.gov. Technical IT specialists participate in a track that requires security-specific technical education associated with their job. The annual computer awareness program for all employees and contractors with network access was completed.	The two-track training concept will be maintained. All agency staff and contractors with computer security responsibilities will receive role-based security training with a second training track for specialized technical education. Also, all RRB staff will complete a computer security awareness program.	Yes. The annual RRB computer security awareness program was launched in March 2008. As of 7/02/08, the OPM GoLearn.gov role-based security training program has been completed. Specialized technical education has been approved for all training designated as critical or vital for achieving performance goals.
II-C-5. Implement a methodology to successfully estimate, track and monitor total costs and time schedules for information technology investments through the project life cycle, incorporating both web and mainframe investments. (Measure: Yes/No)	The pilot portion of this multi-phase project was completed at the end of FY 2005. All projects are now being entered and tracked in MS Project.	A post-implementation review was completed in FY 2006 to tune the system to ensure that project measures were working in the IT environment. Some best practices were developed.	This objective has been completed with full implementation of the project management system in the Bureau of Information Services.	Completed	Completed
II-C-6. Assemble and publicize an annual inventory of RRB commercial activities on the RRB Website. (Measure: Yes/No)	Yes	Yes	Yes	Yes	Yes
II-C-7. Complete public-private competitions on the required activities listed on the Federal Activities Inventory Reform (FAIR) Act inventory. (Measure: % of the FTEs listed on the FAIR Act inventory for which competitions completed)	5% (cumulative)	OMB did not establish a target for FY 2006. RRB has competed about 5% of the FTEs on the FAIR Act inventory.	OMB did not establish a target for FY 2007. RRB has competed about 5% of the FTEs on the FAIR Act inventory.	Meet target level established by OMB	OMB did not establish a target for FY 2008. RRB has competed about 3.5% of the FTEs on the FAIR Act inventory.

<b>RAILROAD RETIREMENT BOARD FY 2008 ANNUAL PERFORMANCE REPORT</b>	<b>2005 Actual (At \$102.5m) <sup>1/</sup></b>	<b>2006 Actual (At \$101.5m) <sup>1/</sup></b>	<b>2007 Actual (At \$103.7m) <sup>1/</sup></b>	<b>2008 Projected (At \$101.9m) <sup>1/</sup></b>	<b>2008 Actual (At \$101.9m) <sup>1/</sup></b>
II-C-8. Meet government percentage goal for use of performance-based contracting techniques for eligible service contract funds. (Measure: Yes/No)	Yes	Yes	Yes	Yes	Yes
II-C-9. Support government-wide procurement of E-Government initiatives using the point of entry vehicle of <a href="http://www.FedBizOpps.gov">www.FedBizOpps.gov</a> for all eligible actions. (Measure: Yes/No)	Yes	Yes	Yes	Yes	Yes
II-C-10. Complete migration from the agency's current mainframe database management system (IDMS) to DB2, and initiate efforts to optimize the performance of those databases and further reduce data redundancy. (Measure: Meet target dates for the migration. Yes/No)	New indicator for FY 2007	New indicator for FY 2007	Yes. The IDMS/DB2 database conversion was successfully completed as of 8/13/07.	Completed	Completed
II-C-11. Complete data optimization to optimize the performance of DB2 databases for future developmental efforts, and to further reduce and document the data. (Measure: Meet target dates for the project. Yes/No)	New indicator for FY 2007	New indicator for FY 2007	Yes. RRB contracted for this effort.	Yes	Yes
II-C-12. Complete modernization of RRB processing systems in accordance with long-range planning goals. (Measure: Meet target dates for each phase of the project. Yes/No)	New indicator for FY 2009	New indicator for FY 2009	New indicator for FY 2009	New indicator for FY 2009	New indicator for FY 2009
II-C-13. Complete 16 corrective actions to correct the RRB's material weakness related to information security. (Measure: Meet target dates for the project. Yes/No)	New indicator for FY 2008	New indicator for FY 2008	New indicator for FY 2008	Most projects that do not require funding will be completed. Others will be completed if funding is available.	Three corrective actions have been completed and implemented. We plan to have nine additional corrective actions completed in FY 2008 and all the corrective actions completed and implemented in FY 2009.
<b>Performance Goal II-D: Effectively carry out the responsibilities of the Railroad Retirement Board under the Railroad Retirement and Survivors' Improvement Act of 2001 with respect to the activities of the National Railroad Retirement Investment Trust.</b>					
II-D-1. Review monthly reports submitted by the Trust. (Measure: Yes/No)	Yes	Yes	Yes	Yes	Yes
II-D-2. Review annual management reports submitted by the Trust. (Measure: Yes/No)	Yes	Yes	Yes	Yes	Yes

RAILROAD RETIREMENT BOARD FY 2008 ANNUAL PERFORMANCE REPORT	2005 Actual (At \$102.5m) <sup>1/</sup>	2006 Actual (At \$101.5m) <sup>1/</sup>	2007 Actual (At \$103.7m) <sup>1/</sup>	2008 Projected (At \$101.9m) <sup>1/</sup>	2008 Actual (At \$101.9m) <sup>1/</sup>
II-D-3. Review annual audit reports of the Trust's financial statements. (Measure: Yes/No)	Yes	Yes	Yes	Yes	Yes

<sup>1/</sup> Dollar amounts shown are funds obligated or appropriated for the fiscal year. Actual results for fiscal year 2008 represent status as of 3/31/08 unless otherwise noted.

<sup>2/</sup> Payment Accuracy Rate – the percentage of **dollars** paid correctly as a result of adjudication actions performed. Case Accuracy Rate – the percentage of **cases** that do not contain a material payment error. Case accuracy rates reflect only those errors that are detected as a result of reviewing award actions performed during the fiscal year being studied. (A material error is (1) an incorrect payment of \$5.00 or more at the point the error is identified, (2) an incorrect payment of less than \$5.00 totaling 1 percent or more of the monthly rate, or (3) any situation in which a non-entitled benefit is paid.)

<sup>3/</sup> In audit report 05-05, dated May 17, 2005, the OIG found problems with the performance data for these indicators. One significant problem has been resolved, allowing us to report performance for fiscal year 2005, and later. However, there are still some system limitations that prevent inclusion of all internal processing time in the performance data. We are addressing them. Until the system changes are in place, performance will be calculated as the percent of cases adjudicated within the time specified in the measure. Another program error causes a small number (less than 1 percent) of spouse applications to be calculated incorrectly. The performance data includes these cases.

<sup>4/</sup> Measure does not include the time for customer receipt (from U.S. Treasury or Postal Service).

<sup>5/</sup> Measurement and reporting inconsistencies, which resulted in a net understatement of actual performance, were identified during the reporting period. These inconsistencies have been corrected effective with April 2005 data. Therefore, the fiscal year 2005 performance is for the last 6 months only.

<sup>6/</sup> This indicator includes both retirement and survivor disability payments. The retirement payments are impacted by the system limitations identified in footnote 3 above. When the system limitations for retirement cases are corrected, this inconsistency will be eliminated.

<sup>7/</sup> The percentage has been adjusted from 88.4 percent to reflect two audit recommendations implemented at the end of the fiscal year.

**Discussion of Unmet Performance Goals and Indicators for Fiscal Year 2007**

INDICATOR	DISCUSSION OF VARIANCE
<p><b>Performance indicator I-C-1.</b> Offer electronic options to our customers, allowing them alternative ways to perform primary services via the Internet or interactive voice response systems. (Measure: number of services available through electronic media.)</p> <p>Our goal for fiscal year 2007 was to provide 17 services. We provided 16 services.</p>	<p>A new application to enable Palmetto GBA staff to perform transactions via the Internet was deployed on January 18, 2008, and the system has been successfully implemented. The previous target completion date was September 21, 2007, but the project was delayed due to competition for limited information technology resources.</p>
<p><b>Performance indicator II-A-6.</b> Take prompt corrective action on audit recommendations. (Measure: percent of audit recommendations implemented by target date.)</p> <p>Our goal for fiscal year 2007 was to complete 95 percent of audit recommendations by the target date. We completed 93.2 percent.</p>	<p>The agency implemented 41 recommendations out of 44 with target dates in fiscal year 2007. Had one additional recommendation been completed before the end of the fiscal year, the agency would have exceeded the target. Of the three not completed, two were extended into fiscal year 2008, while implementation of the remaining one proved cost prohibitive.</p>

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***FINANCIAL SECTION***

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## **Financial Section**

### **Message from the Chief Financial Officer**

I am pleased to present the RRB's Performance and Accountability Report for fiscal year 2008. This report incorporates the annual performance report under the Government Performance and Results Act of 1993, the internal control report under the Federal Managers' Financial Integrity Act, and audited consolidated financial statements under OMB guidance.

The RRB is committed to integrated and automated financial management systems that focus on the agency's mission and accountability. RRB strives to maintain an environment in which program and financial managers work in partnership to ensure the integrity of financial information and use that information to make decisions, measure performance, and monitor outcomes. In this environment, we envision integrated financial management systems with appropriate internal review and controls that provide agency managers with timely, accurate, and easily accessible information. We expect managers throughout the agency to use that information to achieve program objectives in a cost-effective manner and to ensure accountability.

The RRB continued to provide high quality financial management and financial reporting during fiscal year 2008. The RRB:

- Achieved an unqualified, or clean, audit opinion on its consolidated financial statements for fiscal year 2008. We also continued to prepare unaudited quarterly financial statements and met the accelerated schedule of releasing these statements to OMB.
- Continued its planning for the transition to a new financial management system. Initial efforts have focused on evaluating the potential costs and monitoring the progress of other Federal agencies that are migrating to a Financial Management Line of Business Shared Service Provider. During fiscal years 2009 and 2010, we intend to further evaluate various migration options.
- Implemented audit recommendations as follows:

At the beginning of fiscal year 2008, the agency's audit follow-up tracking system reported 189 audit recommendations as being open. During the fiscal year, audit reports containing another 51 recommendations were issued. As a result, the total number of open recommendations during the year was 240. At the same time, final action was completed on 72 audit recommendations and 4 audit recommendations were rejected, resulting in a balance at the end of the fiscal year of 164 open recommendations. Many of the open recommendations deal with information technology, including several security-related recommendations, and require ongoing, long-term corrective actions to bring them to closure. Additionally, the status of the OIG-identified material weaknesses and planned corrective actions are presented in the Management's Discussion and Analysis' Management Assurance section.

The RRB will continue to provide financial information that is timely, accurate and useful in the coming years. We are committed to continuing our tradition of providing high quality financial services to agency management, the Congress, OMB, and the constituents we serve.

Original signed by:

Kenneth P. Boehne  
Chief Financial Officer

**RAILROAD RETIREMENT BOARD  
CONSOLIDATED BALANCE SHEET  
AS OF SEPTEMBER 30, 2008 AND 2007  
(in dollars)**

	<u>FY 2008</u>	<u>FY 2007</u>
<b>ASSETS</b>		
<b>Intragovernmental:</b>		
Fund Balance with Treasury (Note 3)	\$40,683,215	\$61,178,489
Investments (Note 4)	1,407,311,638	1,323,596,381
Accounts Receivable (Note 6)	4,047,203,316	3,911,000,908
<b>Total Intragovernmental</b>	<b>5,495,198,169</b>	<b>5,295,775,778</b>
NRRIT Net Assets (Note 5)	25,320,737,474	32,660,594,000
Accounts Receivable, Net (Note 6)	32,248,714	32,521,516
Inventory and Related Property, Net (Note 7)	97,452	101,517
General Property, Plant and Equipment, Net (Note 8)	1,432,927	1,371,309
Other	32,936	29,660
<b>TOTAL ASSETS</b>	<b><u>\$30,849,747,672</u></b>	<b><u>\$37,990,393,780</u></b>
<b>LIABILITIES (Note 9)</b>		
<b>Intragovernmental:</b>		
Accounts Payable	\$509,991,700	\$484,330,000
Debt	3,164,768,904	3,017,472,732
Other	1,094,480	992,347
<b>Total Intragovernmental</b>	<b>3,675,855,084</b>	<b>3,502,795,079</b>
Accounts Payable	619,370	883,223
Benefits Due and Payable	874,547,337	849,154,891
Other	111,055,144	110,158,446
<b>TOTAL LIABILITIES</b>	<b><u>4,662,076,935</u></b>	<b><u>4,462,991,639</u></b>
<b>COMMITMENTS AND CONTINGENCIES (Note 10)</b>		
<b>NET POSITION</b>		
Unexpended Appropriations - Earmarked Funds (Note 17)	504,921	495,477
Unexpended Appropriations - Other Funds	5,699,982	6,132,482
Cumulative Results of Operations - Earmarked Funds (Note 17)	26,181,465,834	33,520,774,182
<b>TOTAL NET POSITION</b>	<b><u>26,187,670,737</u></b>	<b><u>33,527,402,141</u></b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b><u>\$30,849,747,672</u></b>	<b><u>\$37,990,393,780</u></b>

The accompanying notes are an integral part of these financial statements.

**RAILROAD RETIREMENT BOARD  
CONSOLIDATED STATEMENT OF NET COST  
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007  
(in dollars)**

	<u>FY 2008</u>	<u>FY 2007</u>
<b>Program Costs</b>		
<b>Railroad Retirement Program</b>		
Gross Costs (Note 11)	\$10,350,267,409	\$10,111,342,675
Less: Earned Revenue	<u>9,663,267</u>	<u>8,536,491</u>
Net Program Costs	10,340,604,142	10,102,806,184
 <b>Railroad Unemployment and Sickness Insurance Program</b>		
Gross Costs (Note 11)	122,293,690	117,351,269
Less: Earned Revenue	<u>24,054,840</u>	<u>24,854,898</u>
Net Program Costs	98,238,850	92,496,371
 <b>Costs Not Assigned to Programs</b>	 0	 0
<b>Less: Earned Revenues Not Attributed to Programs</b>	<u>290,031</u>	<u>241,770</u>
 <b>NET COST OF OPERATIONS</b>	 <u><u>\$10,438,552,961</u></u>	 <u><u>\$10,195,060,785</u></u>

The accompanying notes are an integral part of these financial statements.

RAILROAD RETIREMENT BOARD  
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION  
FOR THE YEAR ENDED SEPTEMBER 30, 2008  
(in dollars)

FY 2008

	<u>Earmarked Funds</u>	<u>All Other Funds</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
<b>Cumulative Results of Operations:</b>				
Beginning Balances	\$33,520,774,182			\$33,520,774,182
<b>Budgetary Financing Sources:</b>				
Appropriations Used	359,073,113	77,657,616		436,730,729
Non-Exchange Revenue	5,421,697,351	1,915	(359,073,113)	5,062,626,153
Transfers in from NRRIT (Note 12)	1,298,000,000			1,298,000,000
Transfers in/out Without Reimbursement	3,633,185,000			3,633,185,000
<b>Other Financing Sources (Non-Exchange):</b>				
Imputed Financing	8,559,257			8,559,257
Change in NRRIT Assets	<u>(7,339,856,526)</u>			<u>(7,339,856,526)</u>
Total Financing Sources	3,380,658,195	77,659,531	(359,073,113)	3,099,244,613
Net Cost of Operations	<u>10,719,966,543</u>	<u>77,659,531</u>	<u>(359,073,113)</u>	<u>10,438,552,961</u>
Net Change	<u>(7,339,308,348)</u>			<u>(7,339,308,348)</u>
<b>Cumulative Results of Operations</b>	<b>26,181,465,834</b>			<b>26,181,465,834</b>
<b>Unexpended Appropriations:</b>				
Beginning Balances	495,477	6,132,482		6,627,959
<b>Budgetary Financing Sources:</b>				
Appropriations Received	\$359,150,000	\$80,404,670		\$439,554,670
Other Adjustments	(67,443)	(3,179,554)		(3,246,997)
Appropriations Used	<u>(359,073,113)</u>	<u>(77,657,616)</u>		<u>(436,730,729)</u>
Total Budgetary Financing Sources	<u>9,444</u>	<u>(432,500)</u>		<u>(423,056)</u>
<b>Total Unexpended Appropriations</b>	<b>504,921</b>	<b>5,699,982</b>		<b>6,204,903</b>
<b>Net Position</b>	<b><u>\$26,181,970,755</u></b>	<b><u>\$5,699,982</u></b>		<b><u>\$26,187,670,737</u></b>

The accompanying notes are an integral part of these financial statements.

RAILROAD RETIREMENT BOARD  
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION  
FOR THE YEAR ENDED SEPTEMBER 30, 2007  
(in dollars)

FY 2007

	<u>Earmarked Funds</u>	<u>All Other Funds</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
<b>Cumulative Results of Operations:</b>				
Beginning Balances	\$29,877,180,462			\$29,877,180,462
<b>Budgetary Financing Sources:</b>				
Appropriations Used	460,089,400	86,486,517		546,575,917
Non-Exchange Revenue	5,490,878,777	2,460	(460,089,400)	5,030,791,837
Transfers in from NRRIT (Note 12)	1,391,000,000			1,391,000,000
Transfers in/out Without Reimbursement	3,573,541,000			3,573,541,000
<b>Other Financing Sources (Non-Exchange):</b>				
Imputed Financing	8,904,879			8,904,879
Change in NRRIT Assets	3,287,842,000			3,287,842,000
Other	(1,128)			(1,128)
Total Financing Sources	14,212,254,928	86,488,977	(460,089,400)	13,838,654,505
Net Cost of Operations	10,568,661,208	86,488,977	(460,089,400)	10,195,060,785
Net Change	3,643,593,720			3,643,593,720
<b>Cumulative Results of Operations</b>	<b>33,520,774,182</b>			<b>33,520,774,182</b>
<b>Unexpended Appropriations:</b>				
Beginning Balances	434,877	8,469,010		8,903,887
<b>Budgetary Financing Sources:</b>				
Appropriations Received	460,150,000	88,000,000		548,150,000
Other Adjustments		(3,850,011)		(3,850,011)
Appropriations Used	(460,089,400)	(86,486,517)		(546,575,917)
Total Budgetary Financing Sources	60,600	(2,336,528)		(2,275,928)
<b>Total Unexpended Appropriations</b>	<b>495,477</b>	<b>6,132,482</b>		<b>6,627,959</b>
<b>Net Position</b>	<b><u>\$33,521,269,659</u></b>	<b><u>\$6,132,482</u></b>		<b><u>\$33,527,402,141</u></b>

The accompanying notes are an integral part of these financial statements.

**RAILROAD RETIREMENT BOARD  
 COMBINED STATEMENT OF BUDGETARY RESOURCES  
 FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007  
 (in dollars)**

	FY 2008	RESTATED FY 2007
<b>BUDGETARY RESOURCES</b>		
Unobligated balance, brought forward, October 1	\$10,693,589	\$12,048,208
Recoveries of prior year unpaid obligations	315,745	1,497,036
Budget authority		
Appropriation	11,082,467,857	11,234,210,880
Borrowing authority (Note 19)	3,385,800,000	3,232,600,000
Spending authority from offsetting collections		
Earned		
Collected	34,065,154	32,122,746
Change in receivables from Federal sources	(776)	19
Expenditure transfers from trust funds (Note 19)	108,930,154	110,866,564
Subtotal	14,611,262,389	14,609,800,209
Nonexpenditure transfers, net, anticipated and actual (Note 19)	(13,514)	(13,266)
Temporarily not available pursuant to Public Law	(445,444,583)	(574,373,107)
Permanently not available	(3,232,812,162)	(3,244,129,804)
<b>TOTAL BUDGETARY RESOURCES</b>	<b>\$10,944,001,464</b>	<b>\$10,804,829,276</b>
<b>STATUS OF BUDGETARY RESOURCES</b>		
Obligations incurred (Notes 18 and 19)		
Direct	\$10,925,290,386	\$10,785,440,556
Reimbursable	9,073,058	8,695,131
Subtotal	10,934,363,444	10,794,135,687
Unobligated balance		
Apportioned	1,489,724	1,959,099
Unobligated balance not available	8,148,296	8,734,490
<b>TOTAL STATUS OF BUDGETARY RESOURCES</b>	<b>\$10,944,001,464</b>	<b>\$10,804,829,276</b>
<b>CHANGE IN OBLIGATED BALANCE</b>		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	\$910,619,388	\$875,906,704
Uncollected customer payments from Federal sources, brought forward, October 1	(5,794,654)	(2,219,668)
<b>Total unpaid obligated balance, net</b>	<b>\$904,824,734</b>	<b>\$873,687,036</b>
Obligations incurred, net	\$10,934,363,444	\$10,794,135,687
Gross outlays	(10,912,440,273)	(10,755,707,056)
Recoveries of prior year unpaid obligations, actual	(315,745)	(1,497,036)
Change in uncollected customer payments from Federal sources	(999,224)	(5,793,897)
Obligated balance, net, end of period		
Unpaid Obligations (Note 13)	\$926,432,936	\$910,619,388
Uncollected customer payments from Federal sources	(1,000,000)	(5,794,654)
<b>Total, unpaid obligated balance, net, end of period</b>	<b>\$925,432,936</b>	<b>\$904,824,734</b>
<b>NET OUTLAYS (Note 14)</b>		
Gross outlays	\$10,912,440,273	\$10,755,707,056
Offsetting collections	(141,995,308)	(137,195,432)
Distributed offsetting receipts	(3,992,185,000)	(4,033,541,000)
<b>Net Outlays</b>	<b>\$6,778,259,965</b>	<b>\$6,584,970,624</b>

The accompanying notes are an integral part of these financial statements.

**Statement of Social Insurance (Note 15, Note 16)**

Actuarial Surplus or (Deficiency)

75-year Projection as of January 1, 2008

(Present values in billions of dollars)\*

	<u>1/1/2008</u>	<u>1/1/2007</u>	<u>1/1/2006</u>	Unaudited <u>1/1/2005</u>	Unaudited <u>1/1/2004</u>
Estimated future income (excluding interest) received from or on behalf of:					
Current participants not yet having attained retirement age	\$69.6	\$66.7	\$65.0	\$56.8	\$55.8
Current participants who have attained retirement age	66.2	63.4	62.5	56.9	54.9
Those expected to become participants	43.3	43.1	44.3	31.3	30.3
Subtotal - future income for the 75-year period	179.1	173.1	171.8	145.0	141.0
Estimated future expenditures:					
Current participants not yet having attained retirement age	88.4	86.0	84.1	72.9	71.8
Current participants who have attained retirement age	97.0	92.8	91.7	84.1	81.1
Those expected to become participants	26.0	25.5	25.0	15.8	13.9
Subtotal - future expenditures for the 75-year period	211.5	204.2	200.8	172.8	166.8
Estimated future excess of income over expenditures:	(32.3)	(31.1)	(29.0)	(27.8)	(25.9)
Fund balance:	33.2	32.0	30.0	28.6	26.6
Fund balance plus estimated future excess of income over expenditures:	0.9	0.9	1.0	0.8	0.8

\*Present values changed from millions of dollars to billions. See explanation in Note 15.

## **Notes to the Financial Statements: Fiscal Years Ended September 30, 2008 and 2007**

### 1. Summary of Significant Accounting Policies

#### A. Basis of Presentation

Public Law 107-289, the Accountability of Tax Dollars Act of 2002, added the Railroad Retirement Board (RRB) as an agency required to prepare audited financial statements for fiscal year 2003 and subsequent years. Office of Management and Budget (OMB) guidance requires that Performance and Accountability Reports (P&AR) for fiscal year 2008 are to be submitted to the President, the Congress, and the Director of OMB by November 17, 2008. As required by law, OMB has also prescribed the form and content of financial statements under OMB Circular A-136. The RRB's financial statements were prepared in accordance with the form and content prescribed by OMB and with generally accepted accounting principles and standards prescribed by the Federal Accounting Standards Advisory Board (FASAB).

The principal statements (prepared on a consolidated basis, except for the Statement of Budgetary Resources which was prepared on a combined basis, and eliminating all significant interfund balances and transactions) are comprised of the Balance Sheet and Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Social Insurance. These statements are different from the financial reports, also prepared by the RRB pursuant to OMB directives, used to monitor and control the RRB's use of budgetary resources.

#### B. Reporting Entity

The railroad retirement and the railroad unemployment and sickness insurance programs are financed through the following accounts:

- Railroad Retirement (RR) Account (8011) funds retirement, survivor, and disability benefits in excess of social security equivalent benefits from payroll taxes on employers and employees and other income sources. Account 8011 is considered an earmarked fund. Our authority to use these collections is 45 United States Code (USC) §231(F)(c)(1).
- Social Security Equivalent Benefit (SSEB) Account (8010) funds the portion of railroad retirement benefits equivalent to a social security benefit from various income sources related to these benefits. Account 8010 is considered an earmarked fund. Our authority to use these collections is 45 USC §231N-1(c)(1).
- Dual Benefits Payments (DBP) Account (0111) funds the phase-out costs of certain vested dual benefits from general appropriations. Account 0111 is considered a general fund. Our authority to use these collections is 45 USC §231(N)(d).
- Federal Payments to the Railroad Retirement Accounts (0113) was established by OMB, not by legislation, and is used as a conduit for transferring certain income taxes on benefits and receiving credit for the interest portion of uncashed check transfers. Account 0113 is considered an earmarked fund. This account has no basis in law.
- Limitation on Administration Account (8237) pays salaries and expenses to administer the railroad retirement program and the railroad unemployment and sickness insurance program. This account is financed by the RR Account, the SSEB Account, and the Railroad

Unemployment Insurance Trust Fund, Administrative Expenses. Account 8237 is considered an earmarked fund. Our authority to use these collections is 45 USC §231N-1(c) and 45 USC §231N-(H).

- Railroad Unemployment Insurance Trust Fund, Benefit Payments (8051.001) funds railroad unemployment and sickness insurance benefits from contributions by railroad employers. Account 8051.001 is considered an earmarked fund. Our authority to use these collections is 45 USC §360.
- Railroad Unemployment Insurance Trust Fund, Administrative Expenses (8051.002) was established to pay salaries and expenses to administer the program. Account 8051.002 is considered an earmarked fund. This fund is financed by contributions from railroad employers. Monies are transferred from this fund, based on cost accounting estimates and records, to the Limitation on Administration Account (8237) from which salaries and expenses are paid for both the railroad retirement program and the railroad unemployment and sickness insurance program. Our authority to use these collections is 45 USC §361.
- Limitation on the Office of Inspector General (8018) was established to fund the administration of the Inspector General's Office. Account 8018 is considered an earmarked fund. Our authority to use these collections is Public Law 110-161.
- City and State Taxes (6275) was established as a holding account for amounts withheld from employees' salaries but not yet paid to the appropriate institutions.

#### C. Budgets and Budgetary Accounting

Budget requests are prepared and submitted by the RRB in accordance with OMB Circular A-11 and other specific guidance issued by OMB. The RRB prepares and submits to OMB Apportionment and Reapportionment Requests (SF-132) in accordance with OMB Circular A-11 for all funds appropriated by the Congress or permanently appropriated. Although OMB may apportion funds by category, time period, or object class of expense, the RRB controls and allocates all apportioned funds by three-digit object class codes of expense. For budgetary accounting, all receipts are recorded on a cash basis of accounting and obligations are recorded against the object class codes when they are incurred, regardless of when the resources acquired are to be consumed. Obligations are amounts of orders placed, contracts awarded, services received, and similar transactions during a given period that will require payments during the same or a future period. Quarterly, the RRB prepares and submits Reports on Budget Execution (SF-133) to OMB, reporting all obligations incurred against the amounts apportioned.

#### D. Basis of Accounting

As required by law, the DBP Account is on a cash basis of accounting. Payroll taxes and unemployment contributions are recorded on a modified cash basis in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 7. All other transactions are recorded on an accrual basis of accounting and a budgetary basis. Under the accrual method, revenues (except payroll taxes and unemployment contributions which are on a modified cash basis) are recognized when earned and expenses are recognized when a liability is incurred. For budgetary accounting, financial transactions are recorded when obligations are incurred, regardless of when the resources acquired are to be consumed.

The accompanying consolidated financial statements of the RRB include all funds maintained by the RRB, after elimination of all significant interfund balances and transactions.

## E. Concepts

The Fund Balance with Treasury (FBWT) is the aggregate amount of funds on deposit with the Treasury, excluding seized cash deposited. The FBWT is increased by (1) receiving appropriations, reappropriations, continuing resolutions, appropriation restorations, and allocations; and (2) receiving transfers and reimbursements from other agencies. It also is increased by amounts borrowed from the Bureau of the Public Debt (BPD), the Federal Financing Bank, or other entities, and amounts collected and credited to appropriation or fund accounts. The FBWT is reduced by (1) disbursements made to pay liabilities or to purchase assets, goods, and services; (2) investments in U.S. securities (securities issued by BPD or other Federal Government agencies); (3) cancellation of expired appropriations; (4) transfers and reimbursements to other entities or to the General Fund of the Treasury; and, (5) sequestration or rescission of appropriations.

## 2. Related Parties

The RRB has significant transactions with the following governmental and nongovernmental entities:

- The Department of the Treasury (Treasury) collects payroll taxes from the railroads on behalf of the RRB. The taxes collected are credited by Treasury to the RRB's trust fund account via an appropriation warrant. In fiscal years 2008 and 2007, net payroll taxes transferred to the RRB by Treasury were \$4.9 billion and \$4.7 billion, respectively.

Treasury provides payment services to Federal agencies and operates collections and deposit systems. The RRB invests in government account securities through BPD. In fiscal years 2008 and 2007, investments, including accrued interest, totaled \$1.4 billion and \$1.3 billion, respectively. In addition, Treasury advances funds to the RRB for the financial interchange which are repaid annually. The amount paid by the RRB to Treasury in fiscal year 2008 due to the financial interchange advances during fiscal year 2007 included principal of \$3.2 billion and interest of \$181.4 million. The amount paid by the RRB to Treasury in fiscal year 2007 due to the financial interchange advances during fiscal year 2006 included principal of \$3.2 billion and interest of \$178.7 million.

- The Social Security Administration (SSA) and RRB participate in an annual financial interchange. The financial interchange is intended to place the social security trust funds in the same position in which they would have been had railroad employment been covered by the Social Security Act and Federal Insurance Contributions Act (FICA). In fiscal year 2008, the RRB trust funds realized \$4.0 billion through the financial interchange.

Under Section 7(b)(2) of the Railroad Retirement Act of 1974, the RRB is required to pay certain individuals, described in this section, monthly social security benefits on behalf of SSA. SSA reimburses the RRB for benefits paid on behalf of SSA. The amounts reimbursed in fiscal years 2008 and 2007 were almost \$1.2 billion, each year.

- The Centers for Medicare & Medicaid Services (CMS) participates in the annual financial interchange in the same manner as described for SSA. The RRB transferred \$526 million

and \$483 million to CMS in fiscal years 2008 and 2007, respectively. In addition to the financial interchange transactions, CMS reimburses the RRB for certain expenses it incurs associated with administering the Medicare program. The amounts reimbursed in fiscal years 2008 and 2007 were \$9.2 million and \$8.0 million, respectively.

- The General Services Administration (GSA) provides payroll processing and human resources services to the RRB. In addition, the RRB paid rent to GSA in the amount of \$3.4 million for fiscal years 2008 and 2007.
- The Department of Labor (DOL) invests Railroad Unemployment Insurance Act (RUIA) contributions. Accounts receivable with the DOL amounted to \$110 million and \$109 million for fiscal years 2008 and 2007, respectively.
- The National Railroad Retirement Investment Trust (NRRIT) transfers funds to the RRB for payment of railroad retirement benefits. During fiscal years 2008 and 2007, the NRRIT transferred \$1,298 million and \$1,391 million, respectively, to the RR Account. The NRRIT holds and invests funds not immediately needed to pay benefits under the RRA. The net assets of the NRRIT are reported on the RRB's balance sheet as a non-governmental investment. The RRB reports this information based on information provided by the NRRIT for that purpose.

### 3. Fund Balances with Treasury

Fund balances with Treasury at September 30 consisted of:

	<u>2008</u>	<u>2007</u>
A. Fund Balances:		
(1) Trust Funds	\$34,467,960	\$54,540,225
(2) General Funds	6,204,903	6,627,959
(3) Other Fund Types	<u>10,352</u>	<u>10,305</u>
Total	<u>\$40,683,215</u>	<u>\$61,178,489</u>
B. Status of Fund Balance with Treasury (FBWT)		
(1) Unobligated Balance		
(a) Available	\$ 1,489,724	\$ 1,959,099
(b) Unavailable	8,148,296	8,734,490
(2) Obligated Balance not yet Disbursed	31,034,843	50,474,595
(3) Non-Budgetary FBWT	<u>10,352</u>	<u>10,305</u>
Total	<u>\$40,683,215</u>	<u>\$61,178,489</u>

C. Other Information: The above represents cash held in Treasury. Unobligated and obligated funds not held in cash are invested in Treasury securities.

### 4. Investments

The investments in Treasury securities represent the investments of two of the RRB's earmarked funds, the RR and the SSEB Accounts.

	Amounts for Balance Sheet Reporting		
	Cost	Interest Receivable	Investments Net
Intragovernmental Securities:			
Non Marketable Par Value 2008	\$1,404,971,000	\$2,340,638	\$1,407,311,638
Non Marketable Par Value 2007	\$1,320,915,000	\$2,681,381	\$1,323,596,381

The balance on September 30, 2008, consisted of investments in 3.125 percent par value specials (with market value equal to face value) maturing on October 1, 2008. The balance on September 30, 2007, consisted of investments in 4.375 percent par value specials (with market value equal to face value) maturing on October 1, 2007. Par value specials mature on the first working day of the month following the month of issue and have a yield based on the average yield of marketable Treasury notes with maturity dates at least 3 years away.

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with the RR and SSEB Accounts. The cash receipts from the railroads for the RR and SSEB Accounts are deposited in the Treasury, which uses the cash for general government purposes. Treasury securities are issued to the RRB as evidence of its receipts. Treasury securities are an asset to the RRB and a liability to the Treasury. Because the RRB and the Treasury are both parts of the government, these assets and liabilities offset each other from the standpoint of the government as a whole. For this reason, they do not represent an asset or a liability in the U.S. government-wide financial statements.

Treasury securities provide the RRB with authority to draw upon the Treasury to make future benefit payments or other expenditures. When the RRB requires redemption of these securities to make expenditures, the government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the government finances all other expenditures.

## 5. NRRIT Net Assets

The balance sheet amounts represent the net asset value of NRRIT assets, at market value, as of September 30, 2008 and 2007. These figures were provided to the RRB by the NRRIT for the fiscal years ended September 30, 2008 and 2007.

Readers of these financial statements should be aware that the RRSIA authorizes the NRRIT to invest railroad retirement assets in a diversified investment portfolio in the same manner as those of private sector retirement plans.

## 6. Accounts Receivable

### • *Intragovernmental*

Accounts receivable - Intragovernmental at September 30 consisted of:

	2008	2007
Financial Interchange – Principal	\$3,826,800,000	\$3,688,700,000
Financial Interchange – Interest	109,700,000	113,100,000
Department of Labor	110,455,311	108,973,750
Social Security Administration - OASI/DI Benefits (Old Age and Survivors Insurance/Disability Insurance)	248,005	227,158
Total	\$4,047,203,316	\$3,911,000,908

- *Accounts Receivable, Net*

Accounts receivable, net at September 30 consisted of:

	<u>2008</u>	<u>2007</u>
Accounts receivable - Benefit overpayments	\$40,161,656	\$39,509,459
Accounts receivable – Past due RUI contributions and taxes	54,511	68,352
Accounts receivable – Interest, penalty & administrative costs	<u>241,736</u>	<u>252,460</u>
Total	\$40,457,903	\$39,830,271
Less: Allowances for doubtful accounts	<u>8,209,189</u>	<u>7,308,755</u>
Net Total	<u>\$32,248,714</u>	<u>\$32,521,516</u>

The RRB's September 30, 2008, accounts receivable balance (after writing-off currently not collectible (CNC) receivables but prior to the application of the allowance for doubtful accounts) of \$40,457,903 includes \$36,490,471 (90%) in railroad retirement program receivables and \$3,967,432 (10%) in railroad unemployment insurance program receivables. The total allowance for doubtful accounts is \$8,209,189. This includes \$7,250,657 (88%) for the railroad retirement program and \$958,532 (12%) for the unemployment insurance program receivables.

The allowance for doubtful accounts for the railroad retirement program was calculated, excluding debts classified as CNC, as follows: (1) categorizing the accounts receivable by cause and age, (2) analyzing each category using historical data, (3) determining the percentage of amounts due the RRB that would probably not be collected, and (4) applying the determined percentages against accounts receivable.

## 7. Inventory and Related Property

Operating materials and supplies are valued on the cost basis. The recorded values are adjusted for the results of physical inventories taken periodically. Expenditures are recorded when inventories are consumed.

## 8. General Property, Plant and Equipment

These assets are stated at cost less accumulated depreciation/amortization. Acquisitions are capitalized if the cost is \$5,000 or more and the service life is 2 years or greater. Depreciation/amortization is computed on the straight-line method. These assets consisted of:

Classes of Fixed Assets	Service Lives	At September 30, 2008		
		Cost	Accumulated Depreciation	Net Book Value
Structures, facilities and leasehold improvements	15 years	\$ 2,723,731	\$ 2,612,979	\$ 110,752
ADP software	5 years	19,578,768	19,521,668	57,100
Equipment	5-10 years	5,412,577	5,250,276	162,301
Internal-Use Software in Development		<u>1,102,774</u>	<u>0</u>	<u>1,102,774</u>
		<u>\$28,817,850</u>	<u>\$27,384,923</u>	<u>\$1,432,927</u>

Classes of Fixed Assets	Service Lives	At September 30, 2007		
		Cost	Accumulated Depreciation	Net Book Value
Structures, facilities and leasehold improvements	15 years	\$ 2,651,787	\$ 2,580,470	\$ 71,317
ADP software	5 years	19,578,768	19,484,356	94,412
Equipment	5-10 years	5,538,068	5,292,068	246,000
Internal-Use Software in Development		959,580	0	959,580
		<u>\$28,728,203</u>	<u>\$27,356,894</u>	<u>\$1,371,309</u>

## 9. Liabilities

Liabilities at September 30 consisted of:

	2008	2007
Intragovernmental:		
Other – Unfunded Federal Employees' Compensation Act Liability	<u>\$ 343,470</u>	<u>\$ 385,281</u>
Public:		
Other – Accrued Unfunded Leave	<u>\$ 6,888,788</u>	<u>\$ 6,756,781</u>
Total Liabilities Not Covered by Budgetary Resources	<u>\$ 7,232,258</u>	<u>\$ 7,142,062</u>
Total Liabilities Covered by Budgetary Resources	<u>4,654,844,677</u>	<u>4,455,849,577</u>
Total Liabilities	<u><u>\$4,662,076,935</u></u>	<u><u>\$4,462,991,639</u></u>

- *Debt*

Intragovernmental debt results from borrowing from Treasury to fund benefit payments from the SSEB Account.

	2008	2007
Beginning Balance, Principal	\$2,944,600,000	\$2,958,200,000
New Borrowing	3,381,000,000	3,226,400,000
Repayments	<u>(3,229,400,000)</u>	<u>(3,240,000,000)</u>
Ending Balance, Principal	3,096,200,000	2,944,600,000
Accrued Interest	<u>68,568,904</u>	<u>72,872,732</u>
Total	<u><u>\$3,164,768,904</u></u>	<u><u>\$3,017,472,732</u></u>

- *Benefits Due and Payable*

Benefits due and payable are accrued for all benefits to which recipients are entitled for the month of September, which, by statute, are not paid until October. Also, liabilities are accrued on benefits for past periods that have not completed processing, such as benefit payments due but not paid. The amounts include uncashed checks of \$11,132,404 and \$10,557,048, at September 30, 2008 and 2007, respectively. Under Public Law 100-86, the amount of RRB benefits represented by checks which remain uncashed for 12 months after the check issue date are credited (including interest thereon) to the accounts from which the checks were drawn. The principal amount of uncashed checks must remain in a liability account until the

RRB determines that entitlement no longer exists or another check is issued to the beneficiary. Finally, a special workload of approximately 16,000 benefit cases, estimated at \$6 to \$10 million, has been identified and will be processed over the next few years.

- *Other Liabilities*

Other liabilities at September 30 consisted of:

	Non-Current	Current	FY 2008 Total
Intragovernmental:			
Employer Contributions & Payroll Taxes Payable	\$ 0	\$ 751,010	\$ 751,010
Unfunded FECA Liability	0	343,470	343,470
Total Intragovernmental	0	1,094,480	1,094,480
Accrued Unfunded Liabilities	0	6,888,788	6,888,788
Accrued Payroll	0	3,514,699	3,514,699
Accrued RRB Contributions – Thrift Savings Plan	0	74,070	74,070
Withholdings Payable	0	26,618	26,618
Contingent Liability (see Note 10 for details)	100,000,000		100,000,000
Capital Lease Liability	0	1,446	1,446
Other	0	549,523	549,523
Total Other Liabilities	<u>\$100,000,000</u>	<u>\$12,149,624</u>	<u>\$112,149,624</u>

	Non-Current	Current	FY 2007 Total
Intragovernmental:			
Employer Contributions & Payroll Taxes Payable	\$ 0	\$ 607,066	\$ 607,066
Unfunded FECA Liability	0	385,281	385,281
Total Intragovernmental		992,347	992,347
Accrued Unfunded Liabilities	0	6,756,782	6,756,782
Accrued Payroll	0	2,867,018	2,867,018
Accrued RRB Contributions – Thrift Savings Plan	0	55,148	55,148
Withholdings Payable	0	29,719	29,719
Contingent Liability (see Note 10 for details)	100,000,000		100,000,000
Capital Lease Liability	1,653	2,479	4,132
Other	0	445,647	445,647
Total Other Liabilities	<u>\$100,001,653</u>	<u>\$ 11,149,140</u>	<u>\$111,150,793</u>

## 10. Commitments and Contingencies

The RRB is involved in the following actions:

- A transportation company filed a claim for refund of Railroad Retirement Tax Act (RRTA) or FICA taxes paid on lump-sum separation payments on the theory that such payments were supplemental unemployment benefits. Since the period during which the United States Supreme Court can be petitioned has expired, the RRB's legal counsel has determined that it is remote that the RR and SSEB Accounts are contingently liable.
- Several Class 1 railroads have filed suits claiming a refund of RRTA or FICA taxes paid on lump-sum separation payments on the theory that such payments are supplemental unemployment benefits. The suits are pending the outcome of the above case and the RRB's legal counsel has determined that it is reasonably possible that the RR and SSEB Accounts are contingently liable for an estimated amount of \$82 million.
- A transportation company filed a claim for refund of RRTA or FICA taxes paid on separation payments and productivity fund distributions on the theory that such payments were not wages for services rendered. This claim has been pending the outcome of the transportation company case disclosed above and the RRB's legal counsel has determined that it is reasonably possible that the RR and SSEB Accounts are contingently liable for an estimated amount of \$4.6 million, exclusive of interest.
- Resulting from an earlier claim for tax offset and refund by a transportation company, a Court of Appeals decision affirming an earlier District Court judgment in favor of the Government became final when no further appeal was filed by the June 2008 deadline. The RRB's legal counsel has determined that it is remote that the RR and SSEB Accounts are contingently liable.

No provision has been made in the accompanying financial statements regarding the above four claims other than this disclosure.

- In fiscal year 2005, we recorded a contingent liability in the amount of \$100,000,000, for an estimated forthcoming adjustment to the financial interchange for military service credits due SSA.

The total fiscal year 2008 contingent liability recorded is \$100 million.

- Several Class 1 railroads have filed claims for refund of taxes with the Internal Revenue Service (IRS). Of the \$2.3 billion in claims, the RRB's legal counsel has determined that it is reasonably possible that the RR and SSEB Accounts are contingently liable for an estimated amount of \$1.4 billion, and the \$0.9 billion is remote. Under the anti-disclosure provision of the IRS code, we are not permitted to disclose any details related to these claims. No provision has been made in the accompanying financial statements regarding these claims other than this disclosure.

## 11. Intragovernmental Costs and Exchange Revenue

	<u>2008</u>	<u>2007</u>
Railroad Retirement (RR) Program		
Intragovernmental Costs	\$ 208,857,878	\$ 207,049,278
Public Costs	<u>10,141,409,531</u>	<u>9,904,293,397</u>
Total RR Program Costs	<u>\$10,350,267,409</u>	<u>\$10,111,342,675</u>
Intragovernmental Earned Revenue	\$ 9,172,230	\$ 8,015,913
Public Earned Revenue	<u>491,037</u>	<u>520,578</u>
Total RR Program Earned Revenue	<u>\$ 9,663,267</u>	<u>\$ 8,536,491</u>
Railroad Unemployment and Sickness Insurance (RUIA) Program		
Intragovernmental Costs	\$ 4,689,312	\$ 4,495,995
Public Costs	<u>117,604,378</u>	<u>112,855,274</u>
Total RUIA Program Costs	<u>\$ 122,293,690</u>	<u>\$ 117,351,269</u>
Intragovernmental Earned Revenue	\$ 0	\$ 0
Public Earned Revenue	<u>24,054,840</u>	<u>24,854,898</u>
Total RUIA Program Earned Revenue	<u>\$ 24,054,840</u>	<u>\$ 24,854,898</u>

These totals do not include \$290,031 and \$241,770 of earned revenues not attributable to either program for fiscal years 2008 and 2007, respectively.

Intragovernmental costs (exchange transactions made between two reporting entities within the Federal government) are being reported separately from costs with the public (exchange transactions made between the reporting entity and a non-Federal entity). Intragovernmental exchange revenues (exchange transactions made between two reporting entities within the Federal government) are reported separately from exchange revenues with the public (exchange transactions made between the reporting entity and a non-Federal entity). Intragovernmental expenses relate to the source of goods and services purchased by the reporting entity, not to the classification of related revenue.

## 12. Transfers To/From NRRIT

The RRB received a total of \$1,298 million and \$1,391 million from the NRRIT during fiscal years 2008 and 2007, respectively. These funds were received into the RR Account. Transfers were to fund the payment of benefits.

## 13. Undelivered Orders at the End of the Period

	<u>2008</u>	<u>2007</u>
Undelivered Orders	<u>\$6,225,572</u>	<u>\$7,988,215</u>

14. Explanation of Material Differences Between the Combined Statement of Budgetary Resources and the Budget of the United States Government

A reconciliation was completed of budgetary resources, obligations incurred, distributed offsetting receipts, and outlays, as presented in the Restated Statement of Budgetary Resources for the year ended September 30, 2007, to amounts included in the Budget of the United States Government. A reconciliation was not performed for the period ended September 30, 2008, since the RRB's Performance and Accountability Report is published in November 2008, and OMB's MAX system will not have actual budget data available until mid-December 2008.

The Budget of the United States Government and the RRB's Statement of Budgetary Resources differ because of the following transaction types:

		Fiscal Year 2007 (in millions)			
		Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
1.	Restated Combined Statement of Budgetary Resources – September 30, 2007	\$10,805	\$10,794	\$4,034	\$6,585
2.	Expenditure Transfers from Trust Funds due to Restatement	(111)	(111)		
3.	Unobligated Balance, Brought Forward October 1, 2006	(12)			
4.	Recoveries of Prior Year Unpaid Obligations	(1)			
5.	Sickness Insurance Benefit Recoveries	(24)			
6.	Administrative Expense Reimbursement	(9)			
7.	Cancelled Authority	4			
8.	Interfund Transfers: Federal Payment Obligations – Income Taxes Collected on Benefits (0113)	(460)			
9.	Intrafund Transfers: Receipts from the Old-Age and Survivors Insurance (OASI) Trust Fund	(3,575)			
10.	Intrafund Transfers: Receipts from the Disability Insurance (DI) Trust Fund	(445)			
<u>Financial Interchange</u>					
11.	Accrued Receipts from the OASI and DI Trust Funds			(48)	48
12.	RRB Transfers to the Federal Hospital Insurance Trust Fund			494	(494)
<u>NRRIT</u>					
13.	NRRIT Obligations / Outlays	1,446	1,446		1,446
14.	Intrafund Transfers: NRRIT Transfer to RRA	(1,391)		1,391	(1,391)
15.	Proprietary Receipts: NRRIT – Gains and Losses	(4,248)		4,248	(4,248)
16.	Proprietary Receipts: NRRIT – Interest and Dividends	(462)		462	(462)
17.	Rounding		(1)		(1)
18.	Budget of the United States Government FY 2007 Actuals	<u>\$1,517</u>	<u>\$12,128</u>	<u>\$10,581</u>	<u>\$1,483</u>

## 15. Social Insurance

- Actuarial Surplus or (Deficiency) represents combined values for the RR Account, SSEB Account, and NRRIT.
- Estimated future income (excluding interest) includes tier 1 taxes, tier 2 taxes, income taxes on benefits, financial interchange income, advances from general revenues, and repayments of advances from general revenues.
- Estimated future expenditures include benefit and administrative costs.
- A closed group estimate of the future excess of income over expenditures using the projected tax rates under employment assumption II may be obtained by subtracting future expenditures for current participants from future income for current participants.
- Detail may not add to totals due to rounding. Employee and beneficiary status are determined as of 1/1/2007, whereas present values are as of 1/1/2008.
- The figures in the Statement of Social Insurance, formerly rounded to millions of dollars, have been rounded to tenths of billions. The practice of displaying the figures in the Statement of Social Insurance in millions of dollars implies a degree of accuracy that 75-year projections do not possess.

### Fund Balance

The fund balance appears on the face of the statement because the size of the balance directly affects projected future cash flows. Lower fund balances lead to higher future tier 2 tax rates and consequently higher tax income, while higher fund balances lead to lower tier 2 tax rates and lower tax income.

The tier 2 tax rate is based on the Average Account Benefits Ratio (AABR). At the end of each fiscal year (September 30), an Account Benefits Ratio (ABR) is calculated by dividing the fair market value of the assets in the RR Account and the NRRIT (and for years before 2002, the SSEB Account) as of the close of such fiscal year by the total benefits and administrative expenses paid from the RR Account and the NRRIT during such fiscal year. The AABR, with respect to any calendar year, is then calculated as the average of the account benefits ratios for the 10 most recent fiscal years ending before such calendar year.

The January 1, 2007, fund balance does not include less than \$0.1 billion of accrued interest and dividends and miscellaneous adjustments related primarily to operating expenses of the NRRIT. The January 1, 2006, fund balance was not reduced for certain payables of the NRRIT, which were estimated to be less than \$1 billion.

Prior to 2006, certain accrual adjustments were included in the fund balances. In 2006, they were excluded to promote clarity and to be consistent with the account benefit ratio calculation, wherein the asset values do not include these accrual adjustments. If the accrual adjustments had been made as in prior years, the 1/1/2006 fund balance would have been \$0.4 billion higher.

As stated earlier, a higher fund balance results in lower tax rates and consequently lower future tax income and a lower balance results in higher rates and income. This self-adjusting tax rate mechanism mitigates the effects of changes in the fund balance on the program's net actuarial position.

Subsequent to January 1, 2008, the effective date of the Statement of Social Insurance, market fluctuations resulted in a significant reduction in the value of the fund balance, which directly affects projected future cash flows. Based on the decrease in asset value through September 30, 2008, the combined balance of the NRRIT, RR Account, and SSEB Account is still not expected to become negative over the 75-year projection period under the current financing structure, because automatic changes in the tier 2 tax rate help to keep the system in actuarial balance. However, future levels of railroad employment and investment return will determine whether corrective action may be necessary in the future.

## 16. Significant Assumptions

The estimates used in the Statement of Social Insurance and Required Supplementary Information are based on the assumption that the program will continue as presently constructed. The calculations assume that all future transfers required by current law under the financial interchange will be made.

The estimates are also based on various economic, employment, and other actuarial assumptions. The ultimate economic assumptions are a 7.5 percent interest rate, a 3 percent annual increase in the cost of living, and a 4 percent annual wage increase.

The employment assumption for the Statement of Social Insurance is employment assumption II, the intermediate employment assumption, as used in the 2008 Section 502 Report. Under employment assumption II, starting with an average 2007 employment of 236,000, (1) railroad passenger employment is assumed to remain level at 43,000, and (2) the employment base, excluding passenger employment, is assumed to decline at a constant annual rate of 2.5 percent for 25 years, at a reducing rate over the next 25 years, and remain level thereafter.

Actuarial assumptions are those published in the Technical Supplement to the "Twenty-Third Actuarial Valuation of the Assets and Liabilities Under the Railroad Retirement Acts as of December 31, 2004." This may be found on the RRB's website, [www.rrb.gov](http://www.rrb.gov). Actuarial assumptions published in the Twenty-Third Actuarial Valuation include:

Table S-1.	2004 RRB Annuitants Mortality Table
Table S-2.	2004 RRB Disabled Mortality Table for Annuitants with Disability Freeze
Table S-3.	2004 RRB Disabled Mortality Table for Annuitants without Disability Freeze
Table S-4.	1994 RRB Active Service Mortality Table
Table S-5.	2004 RRB Spouse Total Termination Table
Table S-6.	Probability of a retired employee having a spouse eligible for railroad retirement benefits
Table S-7.	1995 RRB Mortality Table for Widows
Table S-8.	1997 RRB Remarriage Table
Table S-9.	2004 RRB Total Termination Table for Disabled Children
Table S-10.	Calendar year rates of immediate age retirement

- Table S-11. Rates of immediate disability retirement and of eligibility for disability freeze
- Table S-12. Calendar year rates of final withdrawal
- Table S-13. Service months and salary scales
- Table S-14. Family characteristics of railroad employees assumed for the valuation of survivor benefits

Note 17 Earmarked Funds

	8010 SSEB	8011 RRA	8051.001 RUIA Benefit Payments	0113 Federal Payments to RR Accounts	8237 Limitation on Administration	8051.002 RUIA Admin Expenses	8018 Limitation on OIG	Eliminations	Total Earmarked Funds
<b>Balance Sheet as of September 30, 2008</b>									
Assets									
Fund Balance with Treasury	\$10,067,681	\$8,210,187	\$4,960,920	\$504,921	\$9,898,615	\$298,067	\$1,032,492		\$34,972,883
Investments	782,456,367	624,855,271							1,407,311,638
NRRIT Net Invested Assets		25,320,737,474							25,320,737,474
Taxes and Interest Receivable	3,936,500,000	29,510,605	103,335,214		3,868,978	10,128,996	1,409	(3,893,173)	4,079,452,029
Other Assets					1,419,844		143,468		1,563,312
<b>Total Assets</b>	<b>4,729,024,048</b>	<b>25,983,313,537</b>	<b>108,296,134</b>	<b>504,921</b>	<b>15,187,437</b>	<b>10,427,063</b>	<b>1,177,369</b>	<b>(3,893,173)</b>	<b>30,844,037,336</b>
Liabilities Due and Payable									
Other Liabilities	4,172,225,078	371,939,988	8,432,372		771,682	407,918	26,534	(3,893,173)	4,549,910,399
	100,000,000	549,522			10,910,616		696,044		112,156,182
<b>Total Liabilities</b>	<b>4,272,225,078</b>	<b>372,489,510</b>	<b>8,432,372</b>		<b>11,682,298</b>	<b>407,918</b>	<b>722,578</b>	<b>(3,893,173)</b>	<b>4,662,066,581</b>
Unexpended Appropriations									
Cumulative Results of Operations	456,798,970	25,610,824,027	99,863,762	504,921	3,505,139	10,019,145	454,791		26,181,465,834
<b>Total Liabilities and Net Position</b>	<b>\$4,729,024,048</b>	<b>\$25,983,313,537</b>	<b>\$108,296,134</b>	<b>\$504,921</b>	<b>\$15,187,437</b>	<b>\$10,427,063</b>	<b>\$1,177,369</b>	<b>(\$3,893,173)</b>	<b>\$30,844,037,336</b>
<b>Statement of Net Cost for the Period Ended September 30, 2008</b>									
Gross Program Costs	\$6,124,100,298	\$4,038,150,045	\$104,112,719	\$359,073,113	\$121,394,045		\$7,582,838	(\$359,509,575)	\$10,394,903,483
Less Earned Revenues		491,037	24,054,840		9,210,607		400,000	(438,377)	33,718,107
<b>Net Program Costs</b>	<b>\$6,124,100,298</b>	<b>\$4,037,659,008</b>	<b>\$80,057,879</b>	<b>\$359,073,113</b>	<b>\$112,183,438</b>		<b>\$7,182,838</b>	<b>(\$359,071,198)</b>	<b>\$10,361,185,376</b>
Costs Not Attributable to Program Costs									
Less Earned Revenues Not Attributable to Program Costs					289,816		215		290,031
<b>Net Cost of Operations</b>	<b>\$6,124,100,298</b>	<b>\$4,037,659,008</b>	<b>\$80,057,879</b>	<b>\$359,073,113</b>	<b>\$111,893,622</b>		<b>\$7,182,623</b>	<b>(\$359,071,198)</b>	<b>\$10,360,895,345</b>
<b>Statement of Changes in Net Position for the Period Ended September 30, 2008</b>									
Net Position Beginning of Period	\$450,419,400	\$32,954,170,376	\$100,685,579	\$495,477	\$6,182,923	\$9,084,314	\$231,590		\$33,521,269,659
Appropriations Received				359,150,000					359,150,000
Expended Appropriations				359,073,113					359,073,113
Other Adjustments				(67,443)					(67,443)
Appropriations Used				(359,073,113)					(359,073,113)
Taxes and Non-Exchange Revenue	2,675,562,851	2,650,226,884	72,074,657			23,832,959		(359,071,198)	5,062,626,153
Other Financing Sources	3,454,917,017	85,942,301	7,161,405		109,215,838	(22,898,128)	7,405,824		3,641,744,257
Transfers In From NRRIT		1,298,000,000							1,298,000,000
Change in NRRIT Assets		(7,339,856,526)							(7,339,856,526)
<b>Net Cost of Operations</b>	<b>(6,124,100,298)</b>	<b>(4,037,659,008)</b>	<b>(80,057,879)</b>	<b>(359,073,113)</b>	<b>(111,893,622)</b>		<b>(7,182,623)</b>	<b>359,071,198</b>	<b>(10,360,895,345)</b>
<b>Change in Net Position</b>	<b>6,379,570</b>	<b>(7,343,346,349)</b>	<b>(821,817)</b>	<b>9,444</b>	<b>(2,677,784)</b>	<b>934,831</b>	<b>223,201</b>		<b>(7,339,298,904)</b>
<b>Net Position End of Period</b>	<b>\$456,798,970</b>	<b>\$25,610,824,027</b>	<b>\$99,863,762</b>	<b>\$504,921</b>	<b>\$3,505,139</b>	<b>\$10,019,145</b>	<b>\$454,791</b>		<b>\$26,181,970,755</b>

**Note 17 Earmarked Funds**

	8010 SSEB	8011 RRA	8051.001 RUIA Benefit Payments	0113 Federal Payments to RR Accounts	8237 Limitation on Administration	8051.002 RUIA Admin Expenses	8018 Limitation on OIG	Eliminations	Total Earmarked Funds
<b>Balance Sheet as of September 30, 2007</b>									
<b>Assets</b>									
Fund Balance with Treasury Investments	\$19,537,468	\$20,647,722	\$6,527,507	\$495,477	\$6,960,401	\$97,612	\$769,515		\$55,035,702
NRRIT Net Invested Assets	726,234,578	597,361,803							1,323,596,381
Taxes and Interest Receivable		32,660,594,000			8,992,777	9,921,139	1,408	(8,994,925)	3,943,522,424
Other Assets	3,801,800,000	29,432,764	102,369,261		1,392,290		110,196		1,502,486
<b>Total Assets</b>	<b>4,547,572,046</b>	<b>33,308,036,289</b>	<b>108,896,768</b>	<b>495,477</b>	<b>17,345,468</b>	<b>10,018,751</b>	<b>881,119</b>	<b>(8,994,925)</b>	<b>37,984,250,993</b>
<b>Liabilities Due and Payable</b>									
Other Liabilities	3,997,152,646	353,420,218	8,211,189		1,073,995	934,437	26,376	(8,994,925)	4,351,823,936
	100,000,000	445,695			10,088,550		623,153		111,157,398
<b>Total Liabilities</b>	<b>4,097,152,646</b>	<b>353,865,913</b>	<b>8,211,189</b>		<b>11,162,545</b>	<b>934,437</b>	<b>649,529</b>	<b>(8,994,925)</b>	<b>4,462,981,334</b>
<b>Unexpended Appropriations</b>									
Cumulative Results of Operations	450,419,400	32,954,170,376	100,685,579	495,477	6,182,923	9,084,314	231,590		495,477
<b>Total Liabilities and Net Position</b>	<b>\$4,547,572,046</b>	<b>\$33,308,036,289</b>	<b>\$108,896,768</b>	<b>\$495,477</b>	<b>\$17,345,468</b>	<b>\$10,018,751</b>	<b>\$881,119</b>	<b>(\$8,994,925)</b>	<b>\$37,984,250,993</b>
<b>Statement of Net Cost for the Period Ended September 30, 2007</b>									
Gross Program Costs	\$5,881,443,284	\$4,034,919,838	\$99,414,487	\$460,089,400	\$119,546,625		\$7,318,181	(\$460,524,388)	\$10,142,207,427
Less Earned Revenues		520,578	24,854,898		8,453,361			(437,448)	33,391,389
<b>Net Program Costs</b>	<b>\$5,881,443,284</b>	<b>\$4,034,399,260</b>	<b>\$74,559,589</b>	<b>\$460,089,400</b>	<b>\$111,093,264</b>		<b>\$7,318,181</b>	<b>(\$460,086,940)</b>	<b>\$10,108,816,038</b>
<b>Costs Not Attributable to Program Costs</b>									
Less Earned Revenues Not Attributable to Program Costs					241,770				241,770
<b>Net Cost of Operations</b>	<b>\$5,881,443,284</b>	<b>\$4,034,399,260</b>	<b>\$74,559,589</b>	<b>\$460,089,400</b>	<b>\$110,851,494</b>		<b>\$7,318,181</b>	<b>(\$460,086,940)</b>	<b>\$10,108,574,268</b>
<b>Statement of Changes in Net Position for the Period Ended September 30, 2007</b>									
Net Position Beginning of Period	\$321,059,509	\$29,443,814,247	\$97,261,348	\$434,877	\$5,587,732	\$9,420,743	\$36,883		\$29,877,615,339
Appropriations Received				460,150,000					460,150,000
Expended Appropriations				460,089,400					460,089,400
Appropriations Used				(460,089,400)					(460,089,400)
Taxes and Non-Exchange Revenue	2,650,328,563	2,746,734,584	70,621,637			23,193,993		(460,086,940)	5,030,791,837
Other Financing Sources	3,360,474,612	119,178,805	7,362,183		111,446,685	(23,530,422)	7,512,888		3,582,444,751
Transfers In From NRRIT		1,391,000,000							1,391,000,000
Change in NRRIT Assets		3,287,842,000							3,287,842,000
<b>Net Cost of Operations</b>	<b>(5,881,443,284)</b>	<b>(4,034,399,260)</b>	<b>(74,559,589)</b>	<b>(460,089,400)</b>	<b>(110,851,494)</b>		<b>(7,318,181)</b>	<b>460,086,940</b>	<b>(10,108,574,268)</b>
<b>Change in Net Position</b>	<b>129,359,891</b>	<b>3,510,356,129</b>	<b>3,424,231</b>	<b>60,600</b>	<b>595,191</b>	<b>(336,429)</b>	<b>194,707</b>		<b>3,643,654,320</b>
<b>Net Position End of Period</b>	<b>\$450,419,400</b>	<b>\$32,954,170,376</b>	<b>\$100,685,579</b>	<b>\$495,477</b>	<b>\$6,182,923</b>	<b>\$9,084,314</b>	<b>\$231,590</b>		<b>\$33,521,269,659</b>

## 18. Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations

All RRB direct and reimbursable obligations are incurred against Category B apportionments. There are no RRB direct or reimbursable obligations incurred against Categories A or Exempt apportionments.

The amounts of Category B direct and reimbursable obligations are reported on the face of the Statement of Budgetary Resources for fiscal years 2007 and 2008.

This disclosure agrees with the aggregate of RRB direct and reimbursable obligations as reported on the RRB's fiscal year 2008 year-end SF-133, *Report on Budget Execution and Budgetary Resources*, and lines 8A and 8B in the Statement of Budgetary Resources.

## 19. Change in Statement of Budgetary Resources Presentation

In fiscal year 2008, changes in the RRB's approved apportionment caused corresponding changes in reporting on the Statement of Budgetary Resources. The RRB borrowing authority from the U.S. Treasury related to the financial interchange is reported as borrowing authority on the Statement of Budgetary Resources whereas in fiscal year 2007, this borrowing authority was reported as nonexpenditure transfers. In addition, the method of transferring funds between the parent and limitation trust funds was changed from nonexpenditure to expenditure transfers.

## 20. Subsequent Events

Notes from the audited financial statements of the NRRIT as of and for the fiscal year ended September 30, 2008, contain information on subsequent events with respect to investment valuation and securities lending. Excerpts from the NRRIT notes are presented below:

- "The ability of issuers of the debt securities held by the Trust to meet their obligations may be affected by economic developments in a specific industry or region. The values of the securities can be significantly affected by changes in interest rates or in the financial condition of the issuer or market conditions generally. The Trust invests a portion of its assets in mortgage-backed securities and debentures. The value and related income of these securities is sensitive to change in economic conditions, including delinquencies and/or defaults. Recent instability in the markets for fixed-income securities, particularly mortgage-backed securities, has resulted in increased volatility of market prices and periods of illiquidity have adversely impacted the valuation of certain securities held by the Trust. The values of such investments are reported in the accompanying financial statements at their fair value determined based upon the market conditions as of September 30, 2008. Due to continued market instability since year end, the fair values of such investments have decreased from the amounts reported in the accompanying financial statements."
- "The Trust engages in a securities lending program with its custodian, as lending agent, to enhance the return on its investments."

"The current market conditions have led to the Trust's custodian placing liquidity restrictions on the immediate withdrawal of investment in the securities lending collateral pool. Subsequent to the Trust's fiscal year end, the Trust began a staged withdrawal program to take place over a period of approximately 12 months to terminate participation in its custodian's securities lending program."

**Note 21 Reconciliation of Net Cost of Operations to Budget**

For the Years Ended September 30, 2008 and 2007

(in dollars)

	<u>2008</u>	<u>RESTATED 2007</u>
<b>Resources Used to Finance Activities:</b>		
<b>Budgetary Resources Obligated</b>		
Obligations Incurred	\$10,934,363,444	\$10,794,135,687
Less: Spending Authority from Offsetting Collections and Recoveries	<u>(143,310,277)</u>	<u>(144,486,365)</u>
Obligations Net of Offsetting Collections and Recoveries	10,791,053,167	10,649,649,322
Less: Offsetting Receipts	<u>(3,992,185,000)</u>	<u>(4,033,541,000)</u>
Net Obligations	<u>6,798,868,167</u>	<u>6,616,108,322</u>
<b>Other Resources</b>		
Imputed Financing from Costs Absorbed by Others	8,559,257	8,904,879
Other	<u>(7,339,856,526)</u>	<u>3,287,840,872</u>
Net Other Resources Used to Finance Activities	<u>(7,331,297,269)</u>	<u>3,296,745,751</u>
Total Resources Used to Finance Activities	<u>(532,429,102)</u>	<u>9,912,854,073</u>
<b>Resources Used to Finance Items Not Part of the Net Cost of Operations:</b>		
Change in Budgetary Resources Obligated for Goods, Services & Benefits Ordered but not yet Provided	1,791,158	(151,398)
Budgetary Offsetting Collections & Receipts That Do Not Affect Net Cost of Operations	<u>(3,883,265)</u>	<u>(3,623,700)</u>
Resources That Finance the Acquisition of Assets	7,339,400,228	(3,288,358,958)
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	<u>3,633,185,000</u>	<u>3,573,541,000</u>
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	<u>10,970,493,121</u>	<u>281,406,944</u>
Total Resources Used to Finance the Net Cost of Operations	<u>10,438,064,019</u>	<u>10,194,261,017</u>
<b>Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:</b>		
<b>Components Requiring or Generating Resources in Future Periods:</b>		
Increase in Annual Leave Liability	132,007	193,310
Other	<u>197,054</u>	<u>309,116</u>
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	<u>329,061</u>	<u>502,426</u>
<b>Components Not Requiring or Generating Resources:</b>		
Depreciation and Amortization	153,520	296,214
Revaluation of Assets or Liabilities	0	1,128
Other	<u>6,361</u>	<u>0</u>
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	<u>159,881</u>	<u>297,342</u>
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	<u>488,942</u>	<u>799,768</u>
<b>Net Cost of Operations</b>	<u><u>\$10,438,552,961</u></u>	<u><u>\$10,195,060,785</u></u>

## 22. Restatements

The FY 2007 Statement of Budgetary Resources (SBR) was restated for the following reasons: 1) to change advances against the Financial Interchange from nonexpenditure transfers to borrowing authority; and 2) to change transfers from the trust funds to the limitation accounts by using expenditure transfers instead of nonexpenditure transfers. Both of these changes were at the direction of the Office of Management and Budget. The effects of the material changes on the restated SBR are: 1) Borrowing authority went from \$0 to \$3,232,600,000; 2) Expenditure transfers went from \$0 to \$110,866,564; 3) Nonexpenditure transfers went from a credit of \$7,693,059 to a credit of \$13,266; 4) Funds permanently not available went from a credit of \$3,850,011 to a credit of \$3,244,129,804; 5) Obligations incurred—direct went from \$10,674,573,992 to \$10,785,440,556; 6) Gross outlays went from \$10,650,634,370 to \$10,755,707,056; 7) Change in uncollected customer payments from Federal sources went from a credit of \$19 to a credit of \$5,793,897; 8) Unpaid obligations went from \$904,825,510 to \$910,619,388; 9) Uncollected customer payments from Federal sources went from a credit of \$776 to a credit of \$5,794,654; and, 10) Offsetting collections went from a credit of \$32,122,746 to a credit of \$137,195,432.

In addition, SBR changes affected the RRB's FY 2007 Reconciliation of Net Cost of Operations to Budget (see Note 21) as follows: 1) obligations incurred increased from \$10,683,269,123 to \$10,794,135,687; and 2) spending authority from offsetting collections and recoveries increased from \$33,619,801 to \$144,486,365.

These changes had no effect on the cumulative results of operations. The effect was limited to the Statement of Budgetary Resources and the Reconciliation of Net Cost of Operations to Budget. Since the changes were not known until 90 days prior to the publication of the RRB's FY 2008 Performance and Accountability Report, notification to primary users of the FY 2007 financial statements was not required.

## 23. Terms of Borrowing Authority Used

The Railroad Retirement Solvency Act of 1983 provided for monthly advances of the Financial Interchange (FI) from Treasury to be repaid when the FI is settled each June. Prior to 2008, these advances were reported as nonexpenditure transfers, but are now reported as borrowing authority. Section 7(c)(4) of the RRA provides the rules for repayment of the FI advances and references Section 7(c)(3) for the interest rate to be used. The interest rate on the repayment of the advances is the same as that used in the actual FI determination from the close of the prior fiscal year until the date of transfer.

## 24. Legal Arrangements Affecting Use of Unobligated Balances

The portion of RRB trust fund receipts collected in the current fiscal year that exceed the amount needed to pay benefits or other valid obligations remain in the RRB trust funds as unobligated balances. These receipts can become available in the current year if needed for valid obligations. RRB receipts are assets of the trust fund and available for obligation as needed in the future.

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### Required Supplementary Information

#### Social Insurance

##### Program Financing

Payroll taxes paid by railroad employers and their employees are the primary source of funding for the railroad retirement-survivor benefit programs. Railroad retirement taxes, which have historically been higher than social security taxes, are calculated, like benefit payments, on a two-tier basis. Railroad retirement tier 1 payroll taxes are coordinated with social security taxes so that employees and employers pay tier 1 taxes at the same rate as social security taxes. In addition, both employees and employers pay tier 2 taxes that are used to finance railroad retirement benefit payments over and above social security levels. The tier 2 tax rate is based on the ratio of certain asset balances to the sum of benefit payments and administrative expenses.

Revenues in excess of benefit payments are invested to provide additional trust fund income. The NRRIT oversees most investments, including all investments in non-governmental assets.

Additional trust fund income is derived from the financial interchange (FI) with the social security trust funds, revenues from Federal income taxes on railroad retirement benefits, and appropriations from general treasury revenues provided after 1974 as part of a phase-out of certain vested dual benefits.

The financial interchange between the railroad retirement and social security systems is intended to put the Social Security Administration (SSA) Federal Old-Age, Survivors, and Disability Insurance (FOASI/DI) trust funds and the Centers for Medicare & Medicaid Services (CMS) Federal Hospital Insurance (FHI) trust fund in the same position they would have been had railroad employment been covered under the Social Security and Federal Insurance Contributions Acts. It follows that all computations under the FI are performed according to social security law. The amount of benefits payable under the RRA has no effect on the results.

Placing the social security trust funds in the same position they would have been had railroad employment been covered under social security since its inception involves computing the amount of social security payroll and income taxes relating to railroad employment and computing the amount of additional benefits which social security would have paid to railroad retirement beneficiaries during the same fiscal year. In the computation of the latter amount, credit is given for any social security benefits actually paid to railroad retirement beneficiaries. When benefit reimbursements exceed payroll and income taxes, the difference, with an allowance for interest and administrative expenses, is transferred from the social security trust funds to the SSEB Account. If taxes exceed benefit reimbursements, a transfer would be made in favor of the social security trust funds.

On a present value basis, funds provided through the FI are expected to equal \$77.0 billion, or 43.0 percent of the estimated future income of \$179.1 billion.

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### Benefits

Full age annuities are payable at age 60 to workers with 30 years of service. For those with less than 30 years of service, reduced annuities are payable at age 62 and unreduced annuities are payable at full retirement age, which is gradually rising from 65 to 67, depending on year of birth. Disability annuities can be paid on the basis of total or occupational disability. Annuities are also payable to spouses and divorced spouses of retired workers and to widow(er)s, surviving divorced spouses, remarried widow(er)s, children, and parents of deceased railroad workers. Qualified railroad retirement beneficiaries are covered by Medicare in the same way as social security beneficiaries.

Jurisdiction over the payment of retirement and survivor benefits is shared by the RRB and SSA. The RRB has jurisdiction over the payment of retirement benefits if the employee had at least 10 years of railroad service, or 5 years if performed after 1995; for survivor benefits, there is an additional requirement that the employee's last regular employment before retirement or death was in the railroad industry. If a railroad employee or his or her survivors do not qualify for railroad retirement benefits, the RRB transfers the employee's railroad retirement credits to SSA, where they are treated as social security credits.

### Program Finances and Sustainability

The RRB must submit to the President and the Congress a report on the actuarial status of the railroad retirement system. Projections are made of the various components of income and outgo under three employment assumptions.

The Statement of Social Insurance presents an actuarial analysis of the financial position of the railroad retirement system as of January 1, 2008. The figures in the table are based on the 2008 Section 502 Report extended through calendar year 2082. The present values in the table are based on estimates of income and expenditures through the year 2082. The estimates include income and expenditures related to future participants as well as to former and present railroad employees. The present values are computed on the basis of economic and demographic assumptions and employment assumption II, the intermediate employment assumption, as used in the 2008 Section 502 Report. Under employment assumption II, starting with an average 2007 employment of 236,000, (1) railroad passenger employment is assumed to remain level at 43,000, and (2) the employment base, excluding passenger employment, is assumed to decline at a constant annual rate of 2.5 percent for 25 years, at a reducing rate over the next 25 years, and remain level thereafter.

Actuarial Estimates: Actuarial estimates of the long-range financial condition of the railroad retirement program are presented here. Throughout this section, the following terms will generally be used as indicated:

- Income: sources of income are payroll taxes, income taxes, interest income, and financial interchange transfers.
- Income excluding interest<sup>a</sup>: income, as defined above, excluding the interest income from assets of the trust fund.

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<sup>a</sup> References to interest income in this section may be considered as referring to total investment income including dividends and capital gains.

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- Expenditures: benefit payments and administrative expenses.
- Cashflow: either(1) income excluding interest or (2) expenditures, depending on the context, expressed in nominal dollars.
- Net Cashflow: income excluding interest less expenditures, expressed in nominal dollars.

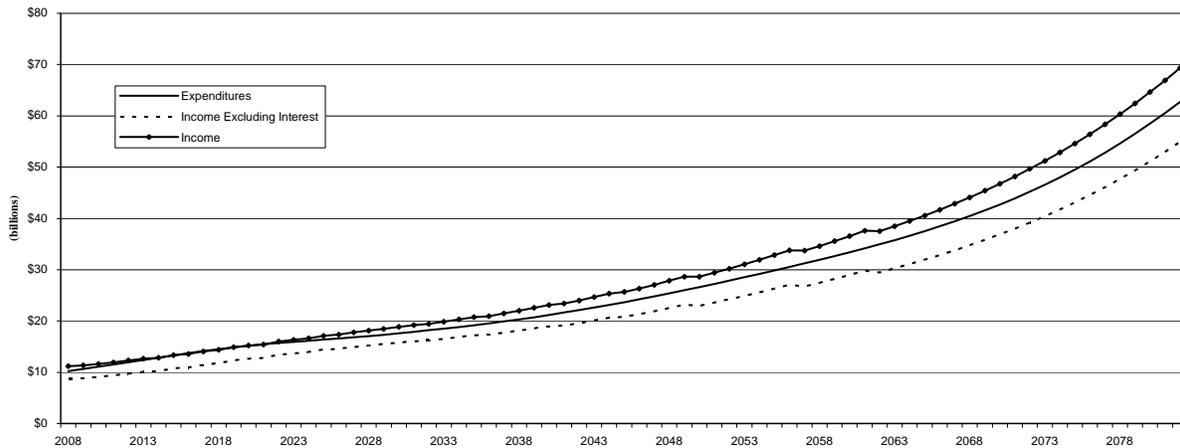
The Statement of Social Insurance and the required supplementary information below are based on actuarial and economic assumptions used in the 2008 Section 502 Report extended through calendar year 2082, the RRA, and the Railroad Retirement Tax Act. This information includes:

- (1) actuarial present values of future estimated expenditures for and estimated income from, or on behalf of, current and future program participants;
- (2) estimated annual income excluding interest and expenditures in nominal dollars and as a percentage of taxable payroll;
- (3) the ratio of estimated annuitants to estimated full-time employees, showing the relationship between the program's benefit recipients and taxpayers; and
- (4) an analysis of the sensitivity of the projections to changes in selected assumptions, which is included in recognition of the inherent uncertainty of those assumptions.

Estimates are generally based on a 75-year projection period. Estimates extending far into the future are inherently uncertain, with uncertainty greater for the more distant years.

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Chart 1: Estimated Income and Expenditures



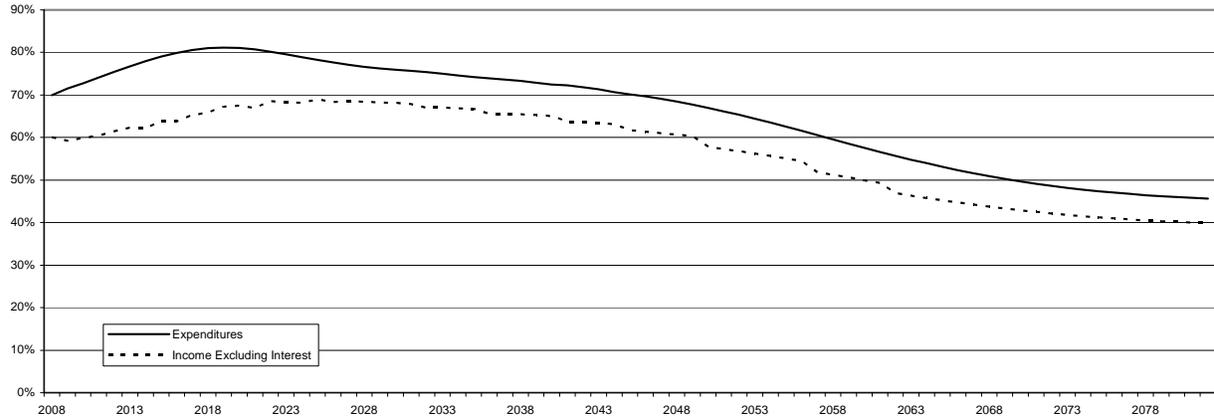
Cashflow Projections – Chart 1 shows actuarial estimates of railroad retirement annual income, income excluding interest, and expenditures for 2008-2082 in nominal dollars. The estimates are for the open-group population, which includes all persons projected to participate in the railroad retirement program as railroad workers or beneficiaries during the period. Thus, the estimates include payments from, and on behalf of, those who will be employed by the railroads during the period as well as those already employed at the beginning of the period. They also include expenditures made to, and on behalf of, such workers during that period.

As Chart 1 shows, annual expenditures exceed annual income in 2014 and again in 2016-2018 and 2021. By 2022, income is once again greater than expenditures. This remains true throughout the remainder of the projection period. Without investment income, however, annual expenditures are always greater than annual income. Reasons for this pattern include participant demographics, the assumed drop in railroad employment, and the automatic tier 2 tax rate adjustment mechanism. The combined balance of the NRRIT, RR Account, and SSEB Account never becomes negative largely because (i) a sufficient balance exists at the beginning of the projection period and (ii) tier 2 tax rates respond automatically to changing account balances.

Percentage of Taxable Payroll – Chart 2 shows estimated annual income excluding interest and expenditures for the railroad retirement program expressed as percentages of taxable payroll. Expenditures as a percentage of payroll increase through 2019 primarily due to the anticipated retirement of a large percentage of the current workforce combined with the projected decline in railroad employment. Except for the income from tier 1 payroll taxes, the sources of income vary as a percentage of payroll.

# UNAUDITED

Chart 2: Estimated Railroad Retirement Income Excluding Interest and Expenditures as a Percent of Taxable Tier 2 Payroll



**Sensitivity Analysis** – The projections of the future financial status of the railroad retirement program depend on many economic and demographic assumptions including rail employment, inflation, wage increase, investment return, age retirement, disability retirement, withdrawal, active service mortality, beneficiary mortality, total termination, probability of spouse, remarriage, family composition, disability freeze, service patterns, and salary scales. Because perfect long-range projections are impossible, this section is included to illustrate the sensitivity of the long-range projections to changes in certain key assumptions that have the greatest impact on the results. All present values are calculated as of January 1, 2008, and are based on estimates of income and expenditures during the projection period 2008-2082.

**Employment.** Average employment in the railroad industry has generally been in decline for some years. This decline is expected to continue. Since employment is a key consideration, projections of income and expenditures using three different employment assumptions have been made. The Statement of Social Insurance uses employment assumption II, the intermediate assumption, but this section compares results under the three assumptions. For all three cases, the average employment for the year 2007 is equal to 236,000. Employment assumptions I and II, based on a model developed by the Association of American Railroads, assume that (1) passenger employment will remain at the level of 43,000, and (2) the employment base, excluding passenger employment, will decline at a constant annual rate (1.0 percent for assumption I and 2.5 percent for assumption II) for 25 years, at a reducing rate over the next 25 years, and remain level thereafter. Employment assumption III differs from employment assumptions I and II by assuming that (1) passenger employment will decline by 500 per year until a level of 35,000 is reached and then remain level, and (2) the employment base, excluding passenger employment, will decline at a constant annual rate of 4.0 percent for 25 years, at a reducing rate over the next 25 years, and remain level thereafter. Employment assumptions I, II, and III are intended to provide an optimistic, moderate, and pessimistic outlook, respectively.

Under all three employment assumptions, no cashflow problems occur throughout the entire period. Table 1 shows the excess of assets and the present value of income over the present value of expenditures for the three employment assumptions.

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**Table 1**  
**Excess of Assets and Present Value of Income over Present Value of Expenditures for**  
**Three Employment Assumptions, 2008-2082**  
 (in billions)

Employment Assumption	I	II	III
Present Value	\$1.2	\$0.9	\$0.7
Average Tier 2 tax rate <sup>a</sup>	13.3%	15.0%	17.3%

<sup>a</sup>Average combined employer/employee tier 2 tax rate is calculated by dividing the present value of tier 2 taxes by the present value of tier 2 payroll.

**Chart 3a: Combined Balance of the RR Account, NRRIT and SSEB Account under Three Employment Assumptions**

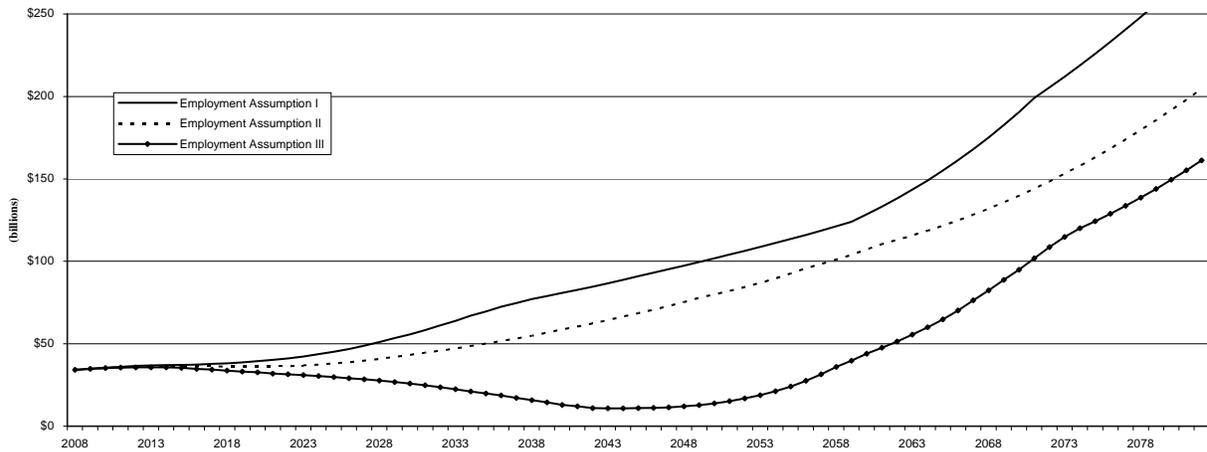
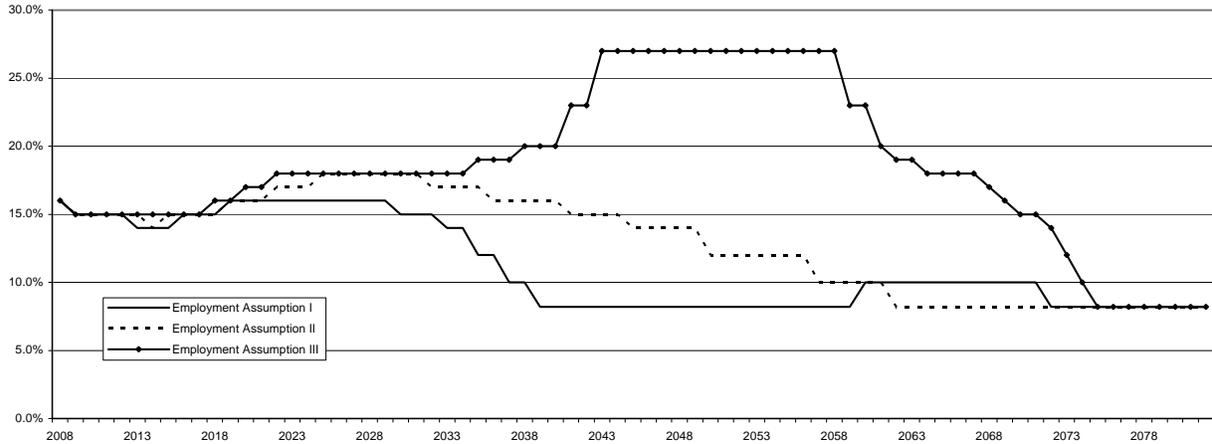


Chart 3a shows the combined balance of the accounts under each of the three employment assumptions. Note that the combined account balance is positive throughout the entire period for all three assumptions.

Chart 3b shows the tier 2 tax rate under these employment assumptions. The tax rate reaches the minimum in 2039 under employment assumption I but then increases again slightly starting in 2060 through 2071 before dropping back down to the minimum again in 2072. The tax rate does not reach the minimum until 2062 under employment assumption II. Under employment assumption III, the tax rate reaches the maximum in 2043, remaining at that level through 2058, and then decreases until it reaches the minimum in 2075.

# UNAUDITED

Chart 3b: Tier 2 Tax Rate under Three Employment Assumptions



The tier 2 tax rate for each year is determined by the average account benefits ratio, which is the average for the ten most recent fiscal years of the ratio of fair market value of assets in the RR Account and NRRIT (and for years before 2002, the SSEB Account) to the total benefits and administrative expenses paid from the RR Account and the NRRIT. Therefore, the tier 2 tax rate will be affected by employment assumption. The tier 2 tax rate adjustment mechanism promotes but does not guarantee solvency. The tier 1 tax rate does not vary by employment assumption.

*Interest rates:* Since investments may include non-governmental assets such as equity and debt securities as well as governmental securities, it is worthwhile to examine the effects of future rates of investment return. In addition to the interest rate of 7.5 percent used for our projections, we show the effect on the combined accounts of an interest rate of 4 percent and an interest rate of 11 percent. Table 2 shows the excess of assets and the present value of income over the present value of expenditures for the three interest rate assumptions. If the tier 2 tax rate were fixed, the actuarial surplus would increase with increasing investment return. However, the tier 2 tax rate adjusts to changing account balances, resulting in the highest average tax rate under the 4 percent scenario and the lowest average tax rate under the 11 percent scenario. Under the 7.5 percent scenario, the tax rate adjustment mechanism keeps the system in close actuarial balance. Under the 11 percent scenario, the tax rate is limited to a minimum value, resulting in a higher surplus. Under the 4 percent scenario, the tax rate reaches a maximum value and then remains at that value longer than is needed, resulting in the highest actuarial surplus.

The tier 2 tax rate remains at the maximum longer than is needed largely because of the 10-year average in the Average Account Benefits Ratio, as required by law. Use of the 10-year averaging effectively sacrifices some responsiveness for the sake of stability and smoothness.

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**Table 2**  
**Excess of Assets and Present Value of Income over Present Value of Expenditures for**  
**Three Interest Rate Assumptions, 2008-2082**  
 (in billions)

Interest Rate Assumption	<u>4%</u>	<u>7.5%</u>	<u>11%</u>
Present Value	\$9.6	\$0.9	\$4.4
Average Tier 2 tax rate	19.4%	15.0%	11.7%

**Chart 4a: Combined Balance of the RR Account, NRRIT and SSEB Account under Three Interest Assumptions**

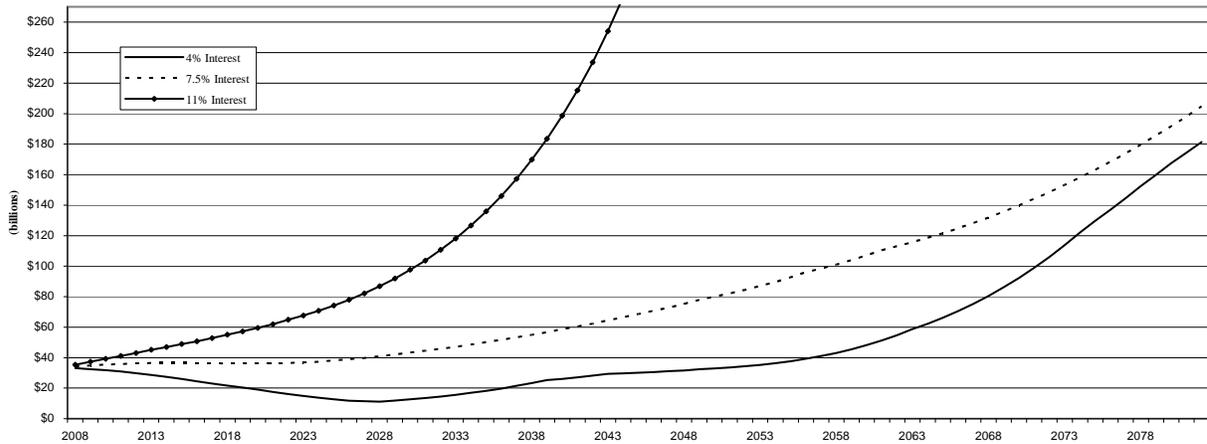
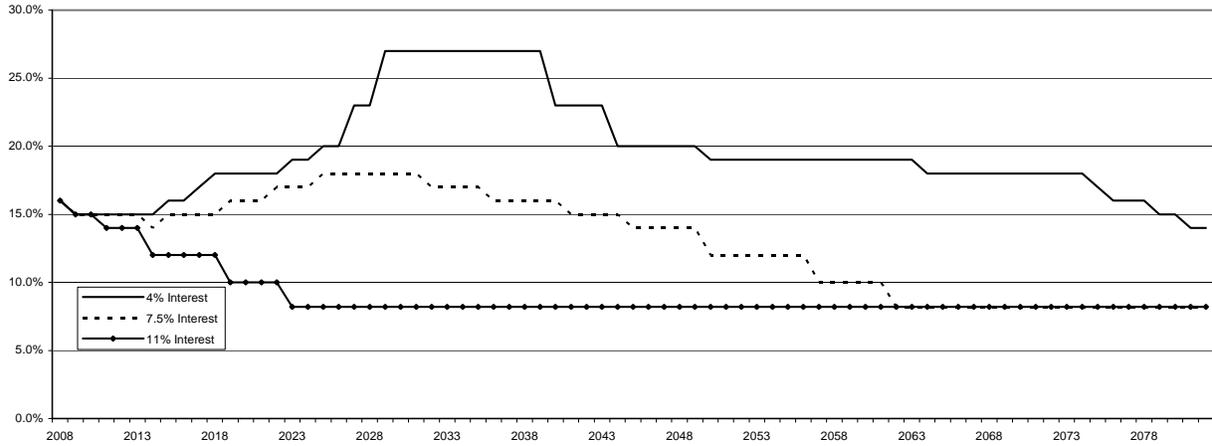


Chart 4a shows the combined account balance under the three interest rate assumptions for the projection period. At a 4 percent interest rate, the account balance reaches its lowest value in 2028, although it never becomes negative. After that it continues to increase. With a 7.5 percent interest rate, the account balance increases through 2013, remains relatively level through 2021, and increases thereafter. An 11 percent interest rate results in a combined balance that increases throughout the projection period. Although the 4 percent scenario shows the lowest account balance at the end of the projection period, the concurrent use of a 4 percent discount rate results in the highest surplus on January 1, 2008.

Chart 4b shows the tier 2 tax rate under the same three interest assumptions. With a 4 percent interest rate, the maximum tier 2 tax rate applies from 2029 until 2039. With the 7.5 percent interest rate, the maximum tax rate will never be paid, and the minimum tax rate is paid starting in 2062. With an 11 percent interest rate, the maximum tax rate is never applicable, and the minimum tax rate is paid beginning in 2023. As mentioned above, the tier 2 tax rate is determined based on the ratios of asset values to benefits and administrative expenses, so it will be affected by investment return, but tier 1 tax rates will not.

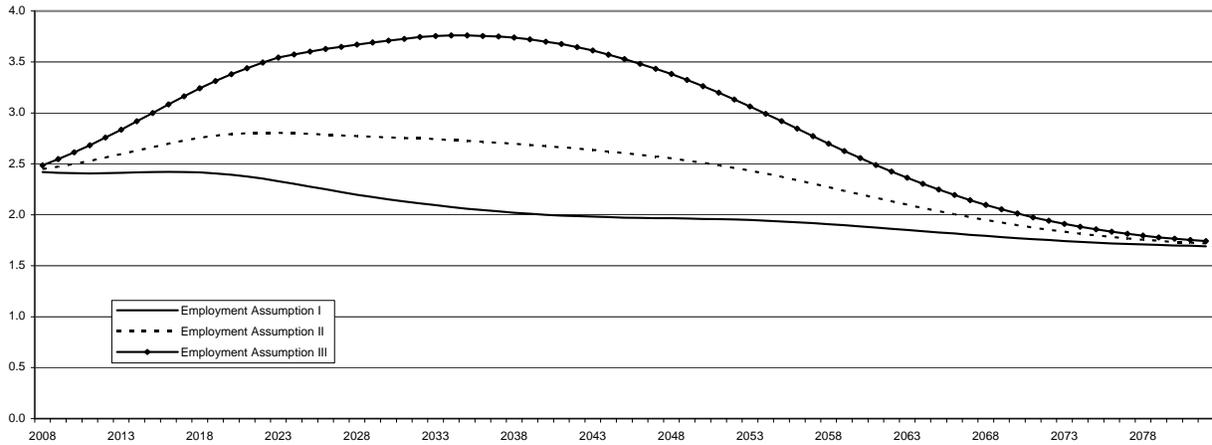
UNAUDITED

Chart 4b: Tier 2 Tax Rate under Three Interest Assumptions



*Ratio of Beneficiaries to Workers:* Chart 5 shows the estimated number of annuitants per full-time employee under all three employment assumptions. The average number of annuitants per employee for employment assumption I is highest in 2016. For assumptions II and III, the ratio is highest in 2022 and 2035, respectively. For all three employment assumptions, the average number of annuitants per employee declines to around 1.7 by the end of the projection period. The convergence in number of annuitants per employee at the end of the projection period results primarily from level employment projected in the latter years under all three employment assumptions.

Chart 5: Average Number of Annuitants per Full-Time Employee



**RAILROAD RETIREMENT BOARD  
DISAGGREGATE OF BUDGETARY RESOURCES  
FOR THE YEAR ENDED SEPTEMBER 30, 2008  
(in dollars)**

	<b>COMBINED RAILROAD RETIREMENT PROGRAM</b>	<b>COMBINED RAILROAD UNEMPLOYMENT AND SICKNESS INSURANCE PROGRAM</b>	<b>LIMITATION ON THE OFFICE OF INSPECTOR GENERAL</b>	<b>COMBINED TOTALS</b>
<b>BUDGETARY RESOURCES</b>				
Unobligated balance, brought forward, October 1	\$10,427,196	\$0	\$266,393	\$10,693,589
Recoveries of prior year unpaid obligations	312,170	0	3,575	315,745
Budget authority:				
Appropriation	10,874,330,183	208,137,674	0	11,082,467,857
Borrowing authority	3,385,800,000	0	0	3,385,800,000
Spending authority from offsetting collections:				
Earned:				
Collected	9,807,332	23,857,607	400,215	34,065,154
Change in receivables from Federal sources	(776)	0	0	(776)
Expenditure transfers from trust funds	101,882,466	0	7,047,688	108,930,154
Subtotal	14,371,819,205	231,995,281	7,447,903	14,611,262,389
Nonexpenditure transfers, net, anticipated and actual:	(221,378)	210,510	(2,646)	(13,514)
Temporarily not available pursuant to Public Law	(336,738,541)	(108,705,827)	(215)	(445,444,583)
Permanently not available	(3,232,812,162)	0	0	(3,232,812,162)
<b>TOTAL BUDGETARY RESOURCES</b>	<b>\$10,812,786,490</b>	<b>\$123,499,964</b>	<b>\$7,715,010</b>	<b>\$10,944,001,464</b>
<b>STATUS OF BUDGETARY RESOURCES</b>				
Obligations incurred:				
Direct	\$10,794,376,293	\$123,501,480	\$7,412,613	\$10,925,290,386
Reimbursable	9,073,058	0	0	9,073,058
Subtotal	10,803,449,351	123,501,480	7,412,613	10,934,363,444
Unobligated balance:				
Apportioned	1,434,992	(1,516)	56,248	1,489,724
Unobligated balance not available	7,902,147	0	246,149	8,148,296
<b>TOTAL STATUS OF BUDGETARY RESOURCES</b>	<b>\$10,812,786,490</b>	<b>\$123,499,964</b>	<b>\$7,715,010</b>	<b>\$10,944,001,464</b>
<b>CHANGE IN OBLIGATED BALANCES</b>				
Obligated balance, net				
Unpaid obligations, brought forward, October 1	\$903,382,713	\$6,732,144	\$504,531	\$910,619,388
Uncollected customer payments from Federal sources, brought forward, October 1	(5,794,654)	0	0	(5,794,654)
<b>Total unpaid obligated balance, net</b>	<b>\$897,588,059</b>	<b>\$6,732,144</b>	<b>\$504,531</b>	<b>\$904,824,734</b>
Obligations incurred, net	\$10,803,449,351	\$123,501,480	\$7,412,613	\$10,934,363,444
Gross outlays	(10,782,566,593)	(122,691,399)	(7,182,281)	(10,912,440,273)
Recoveries of prior year unpaid obligations, actual	(312,170)	0	(3,575)	(315,745)
Change in uncollected customer payments from Federal sources	(999,224)	0	0	(999,224)
Obligated balance, net, end of period:				
Unpaid obligations	\$918,159,423	\$7,542,225	\$731,288	\$926,432,936
Uncollected customer payments from Federal sources	(1,000,000)	0	0	(1,000,000)
<b>Total, unpaid obligated balance, net, end of period</b>	<b>\$917,159,423</b>	<b>\$7,542,225</b>	<b>\$731,288</b>	<b>\$925,432,936</b>
<b>NET OUTLAYS</b>				
Gross outlays	\$10,782,566,593	\$122,691,399	\$7,182,281	\$10,912,440,273
Offsetting collections	(110,689,798)	(23,857,607)	(7,447,903)	(141,995,308)
Distributed offsetting receipts	(3,992,185,000)	0	0	(3,992,185,000)
<b>NET OUTLAYS</b>	<b>\$6,679,691,795</b>	<b>\$98,833,792</b>	<b>(\$265,622)</b>	<b>\$6,778,259,965</b>



## UNITED STATES RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

To the Board Members:

The following report presents the results of the Office of Inspector General's (OIG) audits of the financial statements of the Railroad Retirement Board (RRB) as of and for the fiscal years ended September 30, 2008 and 2007.

### **OPINION ON THE FINANCIAL STATEMENTS**

We have audited the accompanying balance sheet of the RRB as of September 30, 2008 and 2007; the related statements of net cost, changes in net position, and budgetary resources for the years then ended; and the statements of social insurance as of January 1, 2008, 2007, and 2006.

We did not audit the financial statements of the National Railroad Retirement Investment Trust (NRRIT). The net assets of the NRRIT represent approximately 82% and 86% of the total assets reported by the RRB for fiscal years 2008 and 2007, respectively. NRRIT assets represent approximately 97% of the reported railroad retirement program's social insurance fund balance as of January 1, 2008 and 2007. Related changes in the net value of investments held by the NRRIT are reported as a source of financing which contributed a net loss of \$7.3 billion during FY 2008 and a net gain of \$3.3 billion during FY 2007.

Pursuant to the Railroad Retirement and Survivors' Improvement Act of 2001, the NRRIT retains the services of an independent auditor to opine on its financial statements. With respect to the assets of the NRRIT as of September 30, 2008 and 2007; and January 1, 2008, 2007, and 2006, the financial statements of the NRRIT were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the NRRIT, is based solely on the report of the other auditors.

In our opinion, the financial statements of the RRB referred to above, including the accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, the financial position of the RRB, its consolidated net cost of operations and changes in net position, and combined budgetary resources as of and for the fiscal years ended September 30, 2008, and 2007; and the financial condition of the Railroad Retirement program as of January 1, 2008, 2007, and 2006.

As described in the statement and related notes, the statement of social insurance presents the actuarial present value of the future income to be received, and expenditures to be paid to or on behalf of participants in the Railroad Retirement

program during a period sufficient to illustrate the program's long-term sustainability. In preparing the statement of social insurance, management considers and selects assumptions and data that it believes provide a reasonable basis for the assertions in the statement. However, because of the large number of factors that affect the statement of social insurance and the fact that future events and circumstances cannot be known with certainty, there will be differences between the estimates in the statement of social insurance and the actual results, and those differences may be material.

The RRB's statement of social insurance presents the fund balance of the Railroad Retirement program and the related estimate of actuarial surplus which is computed by adding the fund balance to the estimated excess (or shortfall) of the present value of future income over the present value of future expenditures for the 75 year projection period. These additional line items are presented to ensure that a reader would not be misled about the financial condition of the program. The program's current financing structure creates an inverse relationship between income and program assets; thus, the financial condition of the program cannot be understood without direct reference to the fund balance and the related actuarial surplus or deficiency. This relationship is disclosed in Note 15 to the financial statements.

#### Emphasis of Matters

##### *NRRIT*

Pursuant to the Railroad Retirement and Survivors' Improvement Act of 2001, the NRRIT is authorized to invest railroad retirement assets in a diversified investment portfolio. As of September 30, 2008, the reported value of the net assets of the NRRIT was approximately \$7.3 billion lower than reported at September 30, 2007. The RRB discusses its relationship with the NRRIT in Note 2 and Note 5 to the financial statements, and describes the impact of changes in the social insurance fund balance on actuarial projections in Note 15.

##### *Financial Interchange*

The RRB discloses transactions with related parties in Note 2 to the financial statements. The RRB, Social Security Administration and Centers for Medicare and Medicaid Services are parties to a financing arrangement described as a financial interchange. Under this arrangement, transfers-in from the Social Security Administration's Old-Age and Survivors Insurance and Disability Insurance trust funds and transfers-out to the Federal Health Insurance trust fund represent approximately \$3.6 billion (net), or approximately 26% of the nearly \$13.8 billion in total financing sources reported on the RRB's statement of changes in net position for FY 2007. For FY 2008, financial interchange transfers of \$3.6

billion (net) represented about 35% of the financing sources before considering the reduction in the reported value of NRRIT assets.

### *Restatement*

The RRB has restated the FY 2007 statement of budgetary resources to reflect changes in accounting for (1) trust fund transfers that fund the agency's administrative appropriations and (2) cash advances received from the U.S. Treasury under the financial interchange. Both transactions were previously reported as nonexpenditure transfers.

For FY 2008, The Office of Management and Budget (OMB) directed the RRB to report the transfers funding administrative appropriations as expenditure transfers and Treasury advances as borrowing authority for budgetary purposes. The FY 2007 statement of budgetary resources was restated to permit comparability.

The OIG rendered an unqualified opinion on the RRB's FY 2007 financial statements. The aforementioned restatements would not have altered that opinion. RRB management discloses the restatement in Note 21 to the financial statements.

## **REPORT ON INTERNAL CONTROL**

In planning and performing our audit, we considered the RRB's internal control over financial reporting and compliance.<sup>1</sup> We did this to determine our procedures for auditing the financial statements and to comply with OMB audit guidance, not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting and compliance or on management's assertion on internal control included in Management's Discussion and Analysis.

With respect to previously reported control deficiencies, our current-year evaluation disclosed that RRB management has completed action to strengthen controls over the social insurance fund balance. Agency efforts to correct weaknesses in its information security program are not yet complete and the previously reported material weakness continues to exist. We have also concluded that the previously reported weakness in internal control over financial reporting, previously classified as a significant deficiency, now represents a material weakness.<sup>2</sup>

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<sup>1</sup> The definition of internal control as it relates to the basic financial statements is presented in the footnotes on page 6.

<sup>2</sup> A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or

In addition evaluation of internal control during FY 2008 disclosed a significant deficiency as a result of the lack of reconciliation of benefit payment subsystems with the general ledger.

Although not considered to be material weaknesses or significant deficiencies, we will report other matters involving internal control and its operation to RRB management in a separate letter.

## **Material Weaknesses**

### Information Security

During FY 2008, the OIG evaluated information security pursuant to the provisions of the Federal Information Security Management Act.<sup>3</sup> Our review disclosed continued weaknesses in many areas of the RRB's information security program. Significant deficiencies in program management and access controls make the agency's information security program a source of material weakness in internal control.

RRB efforts to strengthen information security continue and progress is being made; however, previously identified significant deficiencies in access controls, risk assessments, and periodic testing and evaluation continue to exist. In addition, the agency's information security program is not yet fully compliant with current requirements for risk based policies and procedures, a certification and accreditation program, or a comprehensive remedial action process.

Agency management is working to address the weaknesses in its information security program. Although some progress has been made, much work remains to be completed.

### Financial Reporting

We first reported this control deficiency in the report on internal control issued with our opinion on the RRB's FY 2006 audit of the RRB's financial statements. Management action has not fully addressed the underlying cause and the condition has deteriorated. Although we observed notable efforts to strengthen internal control over financial accounting during FY 2007, we find that the RRB has been unable to sustain that improvement during FY 2008. In addition, a quality

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report financial data reliably in accordance with generally accepted accounting principles (GAAP) such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

<sup>3</sup> "Fiscal Year 2008 Evaluation of Information Security at the Railroad Retirement Board," OIG Report #08-05, September 30, 2008.

assurance process implemented during FY 2007 has not proven to be fully effective.

An effective control structure allows management and/or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

The Bureau of Fiscal Operations (BFO) is responsible for preparing agency financial statements and publishing the RRB's annual performance and accountability report. During our FY 2006 audit, we observed that existing procedures and controls over the financial reporting process needed to be updated to fully ensure the quality of the RRB's response to the expanding responsibilities and short timeframes inherent to the Federal financial reporting process. We also observed that the existing control framework was overly reliant on the OIG's annual audit of the financial statements to ensure the completeness and accuracy of the performance and accountability report.

During FY 2007, we found the agency-reporting process much improved by the efforts of BFO management and staff. BFO responded to the OIG's prior year finding by implementing OIG-recommended corrective actions and by implementing an enhanced year-end financial statement review process of their own design.

During our FY 2008 audit, we identified material transactions that were recorded incorrectly which were not detected and corrected timely because the primary control, supervisory review and approval of transactions, is not operating as designed. As a result, financial accounting controls cannot be relied upon to ensure that material errors will be detected to prevent misstatements in financial reporting. In addition, controls over financial statement preparation are not fully effective.

### **Significant Deficiency**

#### Reconciliation of Benefit Payment Subsystems with the General Ledger

Current accounting procedures do not provide for periodic reconciliation of the general ledger with the benefit payment systems in which those transactions originate. There is no compensating control that would provide similar assurance concerning the completeness of recording and reporting for benefit payment expense which exceeded \$10 billion during FY 2008.

Significant accounts should be reconciled to the general ledger timely; the lack of such reconciliations represents a control deficiency. The detailed records concerning payments adjudicated and issued is stored in various automated systems that support the benefit payment process. Benefit payment activity is

manually recorded in the general ledger from summary data originating in other systems.

This weakness was brought to management's attention in connection with earlier audits.<sup>4</sup> Upon detailed review, management did not implement the recommended reconciliation process citing the inability of existing benefit payment subsystems to support a cost-effective control and reconciliation process. Since that time, the OIG has identified a more cost-effective reconciliation process. RRB financial managers have been receptive to reconsidering the issue and have agreed to study the OIG's suggestion.

## COMPLIANCE WITH LAWS AND REGULATIONS

Our tests of compliance with selected provisions of laws and regulations disclosed no instances of non-compliance that are reportable under U.S. generally accepted government auditing standards or OMB guidance. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

## CONSISTENCY OF OTHER INFORMATION

Management's Discussion and Analysis, required supplementary information, and other accompanying information contain a wide range of data, some of which are not directly related to the financial statements. We did not audit and do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with RRB officials. Based on this limited work, we found no material inconsistencies with the financial statements or nonconformance with OMB guidance.

## OBJECTIVES, SCOPE, AND METHODOLOGY

RRB management is responsible for (1) preparing the annual financial statements in conformity with U.S. generally accepted accounting principles, (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act (FMFIA) are met, and (3) complying with applicable laws and regulations.<sup>5</sup>

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<sup>4</sup> "Review of Internal Control Over Financial Accounting for Debt Recoveries," OIG Report #00-16, September 29, 2000, page 10.

"Letter to Management," OIG Report #02-07, February 8, 2002, page 5.

<sup>5</sup> **Internal Control** as it relates to the financial statements is a process, affected by the agency's management and other personnel, designed to provide reasonable assurance that the following objectives are met: (1) Reliability of financial reporting - transactions are properly recorded, processed, and summarized to permit the preparation of the Basic Statements in accordance with generally accepted accounting principles, and assets are safeguarded against loss from

We are responsible for obtaining reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We are also responsible for (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit, (2) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements, and any other laws for which OMB audit guidance requires testing; and (3) performing limited procedures with respect to certain other information appearing in these annual financial statements. In order to fulfill these responsibilities, we:

- examined, on a test basis, evidence supporting the amounts and disclosures in the proprietary and budgetary financial statements;
- assessed the accounting principles used and significant estimates made by management in preparing the proprietary and budgetary financial statements;
- assessed the factors, data, assumptions and model used to prepare the long-term actuarial projections presented in the statement of social insurance;
- evaluated the overall presentation of the financial statements;
- obtained an understanding of the entity and its operations, including its internal control related to financial reporting, compliance with laws and regulations (including execution of transactions in accordance with budget authority);
- tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal control;
- considered the process for evaluating and reporting on internal control and financial management systems under the FMFIA; and
- performed tests of compliance with selected provisions of laws and regulations, including laws governing the use of budget authority, and other laws and regulations that could have a direct and material effect on the RRB's basic financial statements:
  - Anti-Deficiency Act, as amended;
  - provisions of the Railroad Retirement Act governing financing and the payment of benefits;

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unauthorized acquisition, use, or disposition; and (2) Compliance with applicable laws, regulations, and government-wide policies - transactions are executed in accordance with laws governing the use of budget authority, government-wide policies, and laws identified by OMB, and other laws and regulations that could have a *direct and material effect on the Basic Statements*.

- provisions of the Railroad Unemployment Insurance Act governing financing and the payment of benefits; and
- provisions of the Social Security Act that provide for certification of benefits to the RRB for payment (42 U.S.C. § 405(i)).

We did not evaluate all internal controls relevant to operating objectives as broadly defined by the FMFIA, such as controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected by our audit. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. We also caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to the RRB. We limited our tests of compliance to those laws and regulations that had a direct and material impact on the RRB's financial statements or that we deemed otherwise applicable to the financial statements for the fiscal year ended September 30, 2008. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

The NRRIT was established pursuant to the Railroad Retirement and Survivors' Improvement Act of 2001 (Public Law 107-90). Under that law, the NRRIT is not a department, agency or instrumentality of the Government of the United States. In addition, the law specifically exempts the NRRIT from compliance with Title 31, United States Code which governs the monetary and financial operations of the Federal government. The law also provides that the NRRIT annually engage an independent, qualified public accountant to audit the financial statements of the NRRIT. Accordingly, the OIG has not audited the books and records of the NRRIT, nor had any input into the selection of the independent accountant retained by the NRRIT, nor provided oversight to that firm in the execution of their responsibilities. Our opinion on the RRB's financial statements, insofar as it relates to the amounts included for the NRRIT, is based solely on the report of the auditor retained by the NRRIT, and our assessments of internal control and compliance do not extend to the operations of the NRRIT.

Except to the extent that the foregoing arrangement may have affected the planning and execution of our audit, we performed our work in accordance with U.S. generally accepted government auditing standards and OMB audit guidance.

**RRB MANAGEMENT'S COMMENTS**

The offices of the Chief Financial Officer and the Board Members have reviewed our report and offered comments expressing management's intention to address the material weakness described in our report.

With respect to internal control, management notes that information security is a significant challenge to which they have devoted substantial effort and resources and that they will continue to do so. Regarding financial reporting, management notes that they have implemented actions to improve the agency's financial accounting and reporting processes, such as issuing additional written guidance to the accounting staff and implementing a more comprehensive year-end financial statement review. Additional actions are being evaluated and planned. In response to the significant deficiency regarding the reconciliation of benefit payment subsystems with the general ledger, management has agreed to review the suggested reconciliation process and determine what action to take.

In their reply, they also thank OIG management and staff for working closely and cooperatively with agency personnel to help ensure that the RRB would be able to meet this year's reporting deadline of November 17, 2008.

The full text of management's response follows as an attachment to this report.



Martin J. Dickman  
Inspector General

November 6, 2008, except for matters relating to the fair market value of the net assets of the NRRIT as of September 30, 2008, as to which the date is November 17, 2008.

**MEMORANDUM**

RAILROAD RETIREMENT BOARD

**NOV 14 2008**

**TO :** Letty Benjamin Jay  
Assistant Inspector General for Audit

**FROM :** Kenneth P. Boehne *Kenneth P. Boehne*  
Chief Financial Officer

**SUBJECT:** FY 2008 Financial Statement Audit – Auditor’s Report;  
Re: Your memorandum dated November 12, 2008

My office, and those of the Board Members, have reviewed the Office of Inspector General’s draft report and have the following comments.

You reported material weaknesses in your draft report dealing with information security and financial reporting. Regarding the former, the Railroad Retirement Board continues to recognize that information security is a significant challenge. We have devoted substantial effort and resources to correct weaknesses in the agency’s information security program. We will continue to do so in order to address the weaknesses identified by the Office of Inspector General. Regarding the latter, we have implemented actions to improve the agency’s financial accounting and reporting processes, such as issuing additional written guidance to the accounting staff and implementing a more comprehensive year-end financial statement review. Additional actions are being evaluated and planned.

You also reported a significant deficiency regarding the reconciliation of benefit payment subsystems with the general ledger. We will review with you the suggested reconciliation process and determine what action to take.

We again thank you and your staff for working closely and cooperatively with us these past few months to help ensure that the RRB will be able to meet this year’s reporting deadline of November 17.

cc: The Board  
Executive Committee

***OTHER ACCOMPANYING INFORMATION***

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## UNITED STATES RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

### **MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE RAILROAD RETIREMENT BOARD**

This statement has been prepared pursuant to the Reports Consolidation Act of 2000 and the requirements of Office of Management and Budget Circular A-136 which require that the Inspectors General identify what they consider to be the most serious management challenges facing the agency and briefly assess the agency's progress in addressing those challenges. Our identification of challenges facing Railroad Retirement Board (RRB) management is based on recent audits, evaluations and our general knowledge of the RRB's programs and operations.

The RRB, as a Federal agency in the 21<sup>st</sup> century, faces many challenges. These challenges may arise through internal management processes or be the result of external influences. The most readily identifiable challenges are those that management has set for themselves through internal processes. The RRB has identified its organizational objectives in its annual performance report. Meeting and sustaining these goals is a challenge that management has set for itself. Less obvious, are the challenges posed by changes in the environment in which management must operate to meet its organizational objectives. These challenges may arise from legislative and regulatory mandates as well as advances in technology and the economic environment.

The RRB faces the greatest challenge from this latter category. The U.S. Government, through the standards and guidance of the Office of Management and Budget (OMB), Government Accountability Office (GAO) and the National Institute of Standards and Technology (NIST) have set high goals for Federal managers in performance reporting, financial accountability and in the way that we use information technology to accomplish organizational goals. In addition, legislative changes have altered the oversight framework for asset management. The OIG has identified areas in which the RRB's faces significant management and oversight challenges.

#### **Oversight For Invested Assets of the Railroad Retirement Act Program**

During FY 2008 the Office of Inspector General (OIG) raised concerns about the effectiveness of oversight for the National Railroad Retirement Investment Trust (NRRIT), a multi-billion dollar investment enterprise.<sup>1</sup> The legislation that created the trust precludes agency management and its Inspector General from exercising their traditional roles as stewards of program assets and independent watchdog, respectively. Recent turmoil in the national financial markets makes this matter an acute concern since the NRRIT holds and invests substantially all

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<sup>1</sup> On March 31, 2008, the OIG released a "Statement of Concern" discussing this issue in detail.

program assets upon which the retirement, survivor and disability programs rely for future solvency.

December 2001 amendments to the Railroad Retirement Act (RRA) created the NRRIT, independent of the RRB, to manage and invest railroad retirement assets in a diversified investment portfolio in the same manner as those of private sector retirement plans.<sup>2</sup> At the end of FY 2007, the NRRIT reported net assets of \$32.6 billion representing approximately 97% of the RRB's \$33.5 billion net position and was ranked 45<sup>th</sup> in total assets among U.S. pension funds.

The NRRIT is not a Federal agency and the members of the Board of Trustees are not officers or employees of the government. The Railroad Retirement Survivor's Improvement Act, which created the NRRIT, provides that "the Trust is not a department, agency, or instrumentality of the Government of the United States and shall not be subject to title 31, United States Code." Although the NRRIT is independent of the RRB, the RRB has enforcement authority with respect to compliance with RRA. That is, the RRB has legal standing to bring the Trust, its Board of Trustees, its employees, or agents to court if the agency believes that the Trust is not in compliance with the requirements of the Act. However, that authority is not supported by an adequate oversight program.

The RRA includes specific language concerning independent oversight of the Trust which requires only an annual audit of the Trust's financial statements but does not require, or otherwise provide for, audits of compliance with laws and regulation or evaluations of management performance. As a result, although the RRB has enforcement authority, no provision has been made to provide RRB management with the information it needs to determine whether any enforcement action may be necessary. An annual financial statement audit is not adequate to support the RRB's enforcement responsibility because such audits are not intended to provide information about all areas of risk that could indicate the need for enforcement action.

The specific requirement for an annual financial audit and lack of provision for any other type of audit or oversight activity has been understood by the RRB's OIG to exclude the Trust from the OIG's audit and investigative responsibilities. No other organization, public or private, has assumed what would otherwise be the OIG's oversight role.

### **Financial Accounting and Reporting**

During FY 2008, the OIG reclassified a previously reported significant deficiency in controls over financial reporting as a material weakness for FY 2008 because the originally cited condition had not been corrected. The inability to correct, or sustain correction, of a significant deficiency is an indicator of material weakness.

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<sup>2</sup> Public Law 107-90, December 21, 2001, codified in 45 U.S.C. § 231n(j)

The OIG first reported this control weakness as a significant deficiency in connection with its opinion on the RRB's FY 2006 financial statements. Subsequently, we described the various individual matters that, in the aggregate, created that deficiency in a separate letter to management. These matters included errors and inconsistencies in the financial statements and supporting documentation, including support for general ledger accounting, which indicated that existing controls were not fully effective.

Although we observed notable efforts to strengthen internal control over financial accounting and reporting during FY 2007, we find that the RRB has been unable to sustain that improvement during FY 2008, to ensure that employees, in the normal course of performing their assigned functions, can prevent or detect misstatements on a timely basis.

### **Information Technology Security**

Information security means protecting information and information systems from unauthorized access, use, disclosure, disruption, modification or destruction in order to provide confidentiality, integrity, and availability.

The RRB is still in the process of developing an information security management program that complies with the requirements of the Federal Information Security Management Act (FISMA) and the National Institute of Standards and Technology (NIST). Although the agency is making progress, this is a significant undertaking and can be expected to present a challenge during the near future.

The RRB expects to complete the certification and accreditation of its general support and major application systems during FY 2009. Agency managers have been working with technical specialists under contract to the RRB to achieve a NIST-compliant certification and accreditation process. This process includes risk assessments, updated security plans, security testing and evaluation, as well as development of a plan of action and milestones to address control deficiencies. Once completed, the certification and accreditation process will better position the RRB for full FISMA compliance in the future.

### **Safeguarding Privacy**

The RRB collects and retains sensitive personally identifiable information about its beneficiaries and employees which needs to be safeguarded from unauthorized disclosure.

The Privacy Act of 1974 requires Federal agencies to establish appropriate administrative, technical and physical safeguards to insure the security and confidentiality of records and to protect against any anticipated threats or

hazards to their security or integrity which could result in substantial harm, embarrassment, inconvenience, or unfairness to any individual on whom information is maintained. The RRB has implemented a privacy program and appointed a Chief Privacy Officer to oversee its operation.

During FY 2007, OIG audits identified weaknesses in the physical security of sensitive information stored on paper, in computers and other electronic and non-electronic media. The OIG has recommended that the RRB develop a more comprehensive security program and offered additional, more specific recommendations to strengthen the agency's privacy program. RRB management responded positively to OIG recommendations to strengthen that program, agreeing to take corrective action in all areas.

Also in FY 2007, the RRB established two committees charged with responding to losses of personal information in the event of a data breach and providing oversight to the agency's privacy program.

Information technology security is a critical part of an effective privacy program. As the RRB moves toward FISMA compliance, it will also strengthen its privacy program. Corrective action remains pending on many prior OIG audit recommendations concerning privacy issues.

### **Improper Payments**

During FY 2007, the RRB paid nearly \$10 billion in retirement, survivor and disability benefits under the provisions of the RRA. The Improper Payments Information Act of 2002 (IPIA) (Pub. L. No. 107-300) established requirements for measuring and reporting improper payments in Federal programs. Appendix C, Part I. to OMB Circular A-123, *Management's Responsibility for Internal Controls* provides guidance to agencies implementing IPIA requirements.

Pursuant to the IPIA, the RRB reports annually on agency progress in reducing improper payments and has reported a reduction in the rate of RRA improper payments as compared with outlays, dropping from 1.64% in FY 2004 to .95% in FY 2007, and a reduction in RUIA improper payments from 2.11% in FY 2004 to 2.00% in FY 2007. During that same period, benefit-related accounts receivables grew from \$30.3 million to \$39.5 million.

Monitoring and reducing improper payments is inherently challenging in a business environment that makes benefit entitlement payments of such magnitude under complex entitlement and computational regulations.

### Occupational Disabilities

Like the Social Security Act, the RRA provides for the payment of benefits to railroad workers who have been totally and permanently disabled from all work. Unlike the Social Security Act, the RRA also includes a provision that permits certain longtime railroad workers to qualify for an annuity if they are disabled from work in their regular railroad occupation.

The occupational disability annuity is a unique benefit in that it is a Federal program managed by a government agency serving workers in a single industry. The occupational disability provision of the RRA provides an annuity for life to workers in the railroad industry who have at least 20 years of service and are medically disqualified from performing his or her regular railroad occupation.

Occupational disability benefits remain payable as long as the disabled worker is unable to return to their railroad occupation even though they may be able to perform other types of work. This threshold for qualification, which is lower than the standard for determining total and permanent disability under the Social Security Act, makes the occupational disability program susceptible to fraud and abuse.

The entitlement to occupational disabilities is established by federal statute. That statute also requires the RRB to establish occupational disability standards with the cooperation of railroad employers and railroad employees. As a result, any successful reform initiative will require negotiation by both rail labor and rail management and possibly legislative change.



Martin J. Dickman  
Inspector General

October 17, 2008

## Management's Comments

These are Management's comments on the Management and Performance Challenges identified by the Railroad Retirement Board Inspector General.

### Oversight for Invested Assets of the Railroad Retirement Act Program

The Inspector General, in Management and Performance Challenges Facing the Railroad Retirement Board, restates his concern that the Railroad Retirement and Survivors' Improvement Act of 2001 (RRSIA) does not provide for adequate Federal oversight of the investment operations of the National Railroad Retirement Investment Trust (NRRIT).

As the Inspector General notes, the RRSIA created the NRRIT as a non-Federal entity with responsibility for investment of railroad retirement trust funds. The Board of Trustees of the NRRIT is comprised of seven members: three who represent railroad carriers, three who represent railroad labor, and an independent member who is selected by the other six Trustees. The statute provides that these Trustees "shall discharge their duties ... with respect to the assets of the Trust solely in the interest of the Railroad Retirement Board and through it, the participants and beneficiaries of the programs funded under this Act..." The Act requires the NRRIT to engage an independent auditor to conduct an annual audit of the NRRIT's financial statements. The financial statements and the auditor's report are included in NRRIT's annual management report, which is required to be submitted to the Congress, with copies to the President, the Railroad Retirement Board, and the Office of Management and Budget. Enforcement authority is delegated to the Railroad Retirement Board to:

bring a civil action –

- (i) to enjoin any act or practice by the Trust, its Board of Trustees, or its employees or agents that violates any provision of this Act; or
- (ii) to obtain any other appropriate relief to redress such violations, or to enforce any provisions of this Act.

The statute clearly delegates authority to audit to an independent public accountant, not to the Railroad Retirement Board or to the Railroad Retirement Board Office of Inspector General. The NRRIT has engaged Deloitte & Touche to conduct annual audits, as well as an update of the annual audit to provide information for the Statement of Social Insurance. The NRRIT has always met the statutory deadline for submission of the management report to the Congress and other entities, and each such report has contained all information called for by the statute.

The Inspector General suggests that the information provided in the Trust's annual financial statement and audit report is not sufficient for the Railroad Retirement Board to perform its delegated enforcement responsibilities under the Act. The Board does not agree with the Inspector General's opinion in this regard, but also wishes to point out that the annual financial statements and the audit report are not the only information available to the Board. Subsequent to enactment of the legislation and creation of the NRRIT, the Railroad Retirement Board, Department of the Treasury, Office of Management and Budget, and the NRRIT reached agreement on a Memorandum of Understanding calling for the NRRIT to provide additional financial information to the Railroad Retirement Board and other entities on a monthly basis. NRRIT information is incorporated in accounting records as appropriate and is disseminated within the agency and to the Department of the Treasury. Moreover, the three-member Board that heads the agency meets twice a year with the Trustees and key NRRIT staff to get updates

on NRRIT investment activities and performance. Finally, the agency's General Counsel meets with the NRRIT's Chief Executive Officer/Chief Investment Officer and Counsel to the Trust following each meeting of the Board of Trustees to discuss the agenda of the meeting and other issues of interest.

The Board takes its responsibilities under the Railroad Retirement and Survivors' Improvement Act very seriously and the agency believes that we have sufficient information available to us to effectively carry out those responsibilities.

### Financial Accounting and Reporting

We continue to enhance the financial accounting and reporting processes. The agency has implemented actions to improve these processes, such as issuing additional written guidance to the accounting staff and implementing a more comprehensive year-end financial statement review. Additional actions are being evaluated and planned.

### Information Technology Security

As noted by the Inspector General, the Railroad Retirement Board is making progress in developing an information security management program. We expect to make significant progress in further developing this program in fiscal year 2009. Our work to improve our information security management program focuses on NIST-compliant security training and security awareness programs. Additionally, we plan to build upon the successful completion in fiscal years 2007/2008 of the certification and accreditation process of our two general support systems and five major applications. The certification and accreditation of our one remaining major application will be completed in fiscal year 2009, as will the NIST-required annual self-assessments of our accredited systems. Also, we plan to complete the final NIST Risk Management Framework phase by conducting control monitoring on the accredited systems.

We will continue to find new ways to improve information technology security and heighten security awareness among our workers. As a recent example of such efforts, we upgraded our Intrusion Detection System, which produced a 60 percent reduction in malware infections. To maintain this progress, we need to continue our succession planning efforts so that we retain a team of highly qualified security specialists.

### Safeguarding Privacy

In fiscal year 2008, we worked on the foundation of our privacy program. Specifically, we updated the agency's privacy guidance regarding the Privacy Act. We also revised the agency's System Development Life Cycle to embed Privacy Impact Assessment requirements in business processes, thereby raising awareness of privacy for all who are involved in systems development.

We recently increased the agency's privacy program staffing. This will allow us to more aggressively establish priorities, promote critical safeguards to protect personally identifiable information, and address audit recommendations and other privacy issues.

### Improper Payments

We agree that monitoring and reducing improper payment rates is challenging. The agency has made concerted efforts to pay out only benefits due, and has increased its efforts to recognize

and prevent overpayments due to excess earnings after retirement in the past few years. The results of those efforts are reflected in increases in the benefit-related accounts receivables and the reductions in rates of improper payments since our earlier reports. We will continue to focus on reducing improper payments in the coming year.

### Occupational Disabilities

The Inspector General states his opinion that the occupational disability program is susceptible to fraud and abuse. He states that this is because the threshold for finding entitlement to an occupational disability annuity is lower than the standard for finding total and permanent disability.

The Railroad Retirement Act was amended in 1946 to provide for the payment of an annuity to a railroad employee who is at least 50 years of age with 20 years of railroad service, or age 60, who is no longer able to perform his or her regular railroad occupation. The Act provides that the Board is to work with railroad labor and management in the establishment of standards for determining occupational disability. The Board has done that with the resulting product being occupational disability regulations and the occupational disability manual, both of which were adopted in 1998. The regulations established the Occupational Disability Advisory Committee, comprised of a physician representing railroad labor and a physician representing railroad management, with the function of reviewing the Board's regulations and the occupational disability claims manual and making recommendations for changes.

Since the Occupational Disability Committee was established in 1998, the Board has requested that the Committee conduct two audits of occupational disability cases. The first, conducted in 2000, resulted in the Board approving several changes in the occupational disability adjudication process to tighten up that process. The second audit was just completed and the report is being reviewed by railroad labor and railroad management as well as the Railroad Retirement Board.

The Railroad Retirement Board is administering the occupational disability program consistent with the provisions of the Railroad Retirement Act and the regulations adopted there under in consultation with railroad labor and railroad management.

## Improper Payments Information Act (IPIA) Reporting Details

**I. Describe the risk assessment(s), performed subsequent to completing the full program inventory. List the risk-susceptible programs (i.e., programs that have a significant risk of improper payments based on OMB guidance thresholds) identified through risk assessments. Be sure to include the programs previously identified in the former Section 57 of OMB Circular A-11 (now located in Circular A-123, Appendix C).**

The RRB's Office of Programs reviewed each of the two benefit payment programs the agency administers which are both listed in the former Section 57 of OMB A-11: Retirement and Survivor Benefits (referred to as RRA) and Railroad Unemployment Insurance Benefits (referred to as RUIA). The agency used the process described below to calculate the amount of improper payments made in fiscal year 2007.

### **Results of Fiscal Year 2007 Improper Payment Review**

<b>Program</b>	<b>Improper Payment Amt. &gt;\$10 million</b>	<b>Improper Payment Rate &gt;2.5%</b>	<b>Action Plan or Targets Needed?</b>
RRA	Yes	No	No
RUIA	No	No	No

**II. Describe the statistical sampling process conducted to estimate the improper payment rate for each program identified.**

The agency has an established methodology for identifying improper payments in the RRA and RUIA benefit payment programs. It is based on determining both the known overpayments and underpayments, which have since been recovered or paid out, and estimating those which result from adjudicative error, but have not been identified or corrected. It also uses information from quality assurance reviews. These reviews employ statistical sampling to study railroad retirement awards and unemployment and sickness insurance claims. Also included are projections of improper payments from audits and special studies.

**III. Describe the Corrective Action Plans for reducing the estimated rate and amount of improper payments for *each* type of category of error. This discussion must include the corrective action(s) for each different type or cause of error, and the corresponding steps necessary to prevent future recurrence. If efforts are ongoing, it is appropriate to include that information in this section.**

There are several ongoing activities and projects aimed at improving the accuracy of the payments and reducing erroneous payments.

Improper payments in the RRA and RUIA programs typically fall into two categories: *adjudicative error* (i.e., benefit payment decisions that are inconsistent with the law or regulations) and *out-of-date information* that impacts benefit entitlement.

- To detect improper payments due to *adjudicative error*, the agency conducts quality assurance programs and validation reviews, which identify activities that are susceptible to error and suggests process improvements and procedures to prevent further errors. The initiatives to minimize specific types of improper payments in the RRA program include:
- A system which evaluates employer-reported changes to the employee service and compensation records and adjusts annuities, if needed. The initial implementation of this process in fiscal year 2006 handled the evaluation of record changes posted in January 2006. In fiscal year 2007, the system evaluated adjustments posted prior to January 2006. This initiative identified specific RRA improper underpayments and paid out additional benefits due. Therefore, this resolved many of the improper payments that have been included in previous years' estimates. This system is being run quarterly so that annuity adjustments are made timely, and properly.
  - A special project to resolve unverified SSN's of railroad employees. This will ensure that the correct earnings are recorded to the correct SSN which serves as a basis of the calculation of benefits.
  - A project to resolve inconsistencies related to the SSN on records of auxiliary beneficiaries (Spouse, Children and Widow(er)s). This will allow the agency to match to the SSA earnings database to identify earnings and to match to files containing death information.
  - A multiphase process which allows users to enter any annuitant's earnings information online, and store the information in a database. This system allows the RRB to adjust annuity payments for earnings on a timely basis, which minimizes any underpayments or overpayments that may result from changes in earnings.
  - Better procedures to identify unreported last pre-retirement employment earnings after the annuity beginning date.
- To detect improper payments due to *out-of-date information*, the agency conducts comprehensive monitoring and program integrity efforts which aim to validate continued entitlement to benefits. In fiscal year 2007, the agency achieved a return of \$5.48 for every dollar in staff time invested in program integrity activities.

Preventing improper unemployment and sickness payments is accomplished through pre-payment and post-payment verifications with the rail employers. These processes determine if benefits are being claimed for days the rail employee also receives payment or is otherwise not entitled to RUIA benefits. Currently, some of the largest rail employers actively participate in an automated 3-day prepayment verification process which prevents improper payments *before* they are made. During fiscal year 2007, pre-payment verification prevented payment of over \$900,000 in benefits. Because payment was prevented, this amount was not considered improper. Since the current pre-payment verification process is not available to most rail employers, the majority have to take exception to improper claims *after* they are paid. Those payments are recorded as improper, requiring a recoverable to be established. During fiscal year 2008, the RRB is expanding the Employer Reporting System to enable more employers to participate in pre-payment verification through an Internet-based process. To the extent that employers make use of the new system, the level of improper payments will be further reduced through prevention.

Furthermore, the agency maintains a management control review process for all benefit payment programs. Responsible officials identify and report weaknesses in annual certifications required under the Federal Managers' Financial Integrity Act.

Additionally, during fiscal years 1999 through 2008, the OIG presented RRB management with 117 recommendations for process improvement and corrective action pertaining to improper payments. Agency management has implemented or plans to implement 111 of the 117 recommendations. The agency will continue to work with the OIG to address the issue of improper payments in its benefit programs.

#### IV. Program improper payment reporting.

a. The table below is required for each reporting agency.

**Improper Payment (IP) Reduction Outlook FY 2006 – FY 2011  
(\$ in millions)**

<i>Program</i>	FY 06 \$ Outlays (actual)	FY 06 IP %	FY 06 IP \$	FY 07 \$ Outlays (actual)	FY 07 IP %	FY 07 IP \$	FY 08 \$ Outlays (estimated)	FY 08 IP %	FY 08 IP \$
<i>RRA</i>	\$9,457.4	1.36	\$128.6	\$9,812.5	0.95	\$92.7	\$10,108.2	0.95	\$95.5
<i>RUIA</i>	\$105.6	2.6	\$2.8	\$107.0	2.0	\$2.1	\$115.5	2.0	\$2.3

<i>Program</i>	FY 09 \$ Outlays (estimated)	FY 09 IP %	FY 09 IP \$	FY 10 \$ Outlays (estimated)	FY 10 IP %	FY 10 IP \$	FY 11 \$ Outlays (estimated)	FY11 IP %	FY 11 IP \$
<i>RRA</i>	\$10,433.3	0.95	\$98.6	\$10,766.7	0.95	\$101.8	\$11,105.4	0.95	\$105.0
<i>RUIA</i>	\$123.2	2.0	\$2.5	\$130.8	2.0	\$2.6	\$136.0	2.0	\$2.7

**Note:** The absolute value of the over and under-paid dollars and the rates is shown—the figures are not netted.

At the time this report was prepared, the latest actual data available was for fiscal year 2007. The estimates for fiscal year 2008 through 2011 are based on the December 2007 OMB budget review estimates. For the RRA program, the improper payment rates for fiscal year 2007 and beyond reflect implementation in fiscal year 2007 of the processing improvements discussed above.

For the RUIA program, the agency has applied the fiscal year 2007 percentage rate to estimated outlays to estimate improper payment amounts for future years.

**b. Discuss your agency's recovery of improper payments, if applicable. Include in your discussion the dollar amount of cumulative recoveries collected beginning with FY 2004.**

Despite all the agency's best efforts to prevent improper payments, some will always occur, due to lack of timely information, etc. In overpayment situations, the agency is diligent in its recovery efforts. The RRB's account receivable balance for the RRA program at the end of fiscal year 2007 was \$44,554,432. This balance includes debts classified as currently not collectible. We estimate that approximately 79.3 percent of these receivables will be collected and that the remaining 20.7 percent will eventually be closed as uncollectible. The RRB's collection program is in full compliance with the Debt Collection Improvement Act of 1996. For the period of fiscal years 2003 through 2007, the RRB recovered \$129,836,137 in RRA program receivables. Recoveries are made through offset of future benefits, reclamation from the financial institution of benefits erroneously paid after the death of a beneficiary, and direct payment from debtors. Fraudulent payments are referred to the Office of Inspector General for prosecution through the Department of Justice. Delinquent accounts are referred to the Department of the Treasury for cross-servicing and offset of Federal payments.

The RRB's account receivable balance for the RUIA program at the end of fiscal year 2007 was \$11,203,081. This balance includes debts classified as currently not collectible. We estimate that approximately 72.9 percent of these receivables will be collected and that the remaining 27.1 percent will eventually be closed as uncollectible. The RRB's RUIA collection program is in full compliance with the Debt Collection Improvement Act of 1996. For the period of fiscal years 2003 through 2007, the RRB recovered \$184,845,720 in RUIA program receivables. Recoveries were received from settlements by railroads for injury and time lost claims filed by rail employees, through offset of future benefits, and direct payment from debtors. Fraudulent payments are referred to the Office of Inspector General for prosecution through the Department of Justice. Delinquent accounts are referred to the Department of the Treasury for cross-servicing and offset of Federal payments.

**V. Recovery auditing reporting.**

This does not apply to RRB's benefit programs.

**VI. Describe the steps the agency has taken and plans to take (including time line) to ensure that agency managers (including the agency head) are held accountable for reducing and recovering improper payments.**

Paying benefits accurately and timely, and providing prudent stewardship over agency trust funds are the agency's two strategic goals. Agency managers have links to those goals in their performance plans.

**VII. Agency information systems and other infrastructure.**

- a. Describe whether the agency has the information systems and other infrastructure it needs to reduce improper payments to the levels the agency has targeted.**

**b. If the agency does not have such systems and infrastructure, describe the resources the agency requested in its most recent budget submission to Congress to obtain the necessary information systems and infrastructure.**

The agency requested fiscal year 2009 funding for System Modernization, which will contribute to achieving the agency's target architecture and to meeting its performance goals, including accuracy of benefit payments, and stewardship of the trust funds. The modernization process will help reduce redundancy, improve accuracy and speed, and transition our computing environment to more modern technologies and methodologies.

**VIII. Describe any statutory or regulatory barriers which may limit the agencies' corrective actions in reducing improper payments and actions taken by the agency to mitigate the barriers' effects.**

In the past, the agency has explored using the National New Hire Directory (NNHD) in order to obtain information not available through our current matching programs with the States, which would have the potential to further reduce improper payments in the RUIA program. However, the RRB stopped seeking legal authority to access the NNHD because the administrative costs of participating in that program were prohibitive. Until such time as we can get access and sufficient funding to cover the costs of utilizing the NNHD, there is little more the RRB can do to reduce or prevent the already low level of RUIA improper payments. Recently, we have inquired with OMB whether there might be future potential for some cost relief in this area.

**IX. Additional comments, if any, on overall agency efforts, specific programs, best practices, or common challenges identified, as a result of IPIA implementation.**

The RRB has made concerted efforts to reduce improper payments over the years. Payment accuracy rates are at consistently high levels and the return on investment for program integrity activities has been high as well. Both have been set as annual performance goals and reported each year since the Government Performance and Results Act has been in effect. The agency monitors progress on implementing recommendations from the quality assurance process, and is vigilant about pursuing OIG recommendations which impact the quality and timeliness of payments. The agency has also worked closely with the OIG in referring potential fraud cases for its investigation and prosecution. The agency hopes to be able to maintain adequate staffing so that it can continue this important effort.

**Summaries of Financial Statement Audit and Management Assurances**

*Summary of Financial Statement Audit*

Audit Opinion	Unqualified				
Restatement	Yes, Statement of Budgetary Resources				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Information Technology Security	1				1
Actuarial Projection Process – Fund Balance	1		1		
Financial Reporting		1			1
<i>Total Material Weaknesses</i>	2				2

*Summary of Management Assurances*

Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Qualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Information Technology Security	1					1
Actuarial Projection Process – Fund Balance	1		1			
Financial Reporting		1				1
<i>Total Material Weaknesses</i>	2					2

Conformance with Financial Management System Requirements (FMFIA § 4)	
Statement of Assurance	Systems conform

***APPENDICES***

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## Appendices

### Glossary of Acronyms and Abbreviations

#### A

ACSI American Customer Satisfaction Index  
AMS American Management Systems, Inc.

#### B

BCP Business Continuity Plan  
BIA Business Impact Analysis  
BIPA Benefits Improvement and Protection Act of 2000  
BIS Bureau of Information Services  
BPD Bureau of the Public Debt  
BRM Business Reference Model

#### C

CHRIS Comprehensive Human Resources Integrated System  
CMS Centers for Medicare & Medicaid Services  
CNC Currently Not Collectible  
COA Change of Address  
COOP Continuity of Operations Plan  
CPI-W Consumer Price Index for Urban Wage Earners and Clerical Workers

#### D

DCIA Debt Collection Improvement Act of 1996  
DOJ Department of Justice  
DOL Department of Labor

#### E

ERS Employer Reporting System

#### F

FAIR Act Federal Activities Inventory Reform Act  
FASAB Federal Accounting Standards Advisory Board  
FBWT Fund Balance With Treasury  
FECA Federal Employees' Compensation Act  
FFS Federal Financial System  
FHI Federal Hospital Insurance  
FI Financial Interchange  
FICA Federal Insurance Contributions Act  
FMFIA Federal Managers' Financial Integrity Act  
FMS Financial Management Service  
FY Fiscal Year  
FOASI/DI Federal Old-Age and Survivors Insurance/Disability Insurance  
FTE Full-time Equivalent

**G**

GAO Government Accountability Office  
GISRA Government Information Security Reform Act  
GPRA Government Performance and Results Act  
GSA General Services Administration

**H**

HIPAA Health Insurance Portability and Accountability Act

**I**

IAE Integrated Acquisition Environment  
IPIA Improper Payments Information Act  
IRM Information Resources Management  
IRS Internal Revenue Service  
ISSO Information System Security Officer  
IT Information Technology

**M**

MAC Medicare Administrative Contractor  
MCR Medicare Contracting Reform  
MCRC Management Control Review Committee  
MEDCOR Medicare Correction System  
MMA Medicare Prescription Drug, Improvement and Modernization Act of 2003  
MOU Memorandum of Understanding

**N**

N/A Not Applicable  
NRRIT National Railroad Retirement Investment Trust

**O**

OIG Office of Inspector General  
OMB Office of Management and Budget  
OPM Office of Personnel Management

**P**

P&AR Performance and Accountability Report  
PBSC Performance-based Service Contracting  
PDP Prescription Drug Plan  
P&F Program and Financing  
PIN Personal Identification Number

**Q**

QRRB Qualified Railroad Retirement Beneficiary

**R**

RR	Railroad Retirement
RRA	Railroad Retirement Act
RR Account	Railroad Retirement Account
RRB	Railroad Retirement Board
RRS Account	Railroad Retirement Supplemental Account
RRSIA	Railroad Retirement and Survivors' Improvement Act of 2001
RRTA	Railroad Retirement Tax Act
RUI	Railroad Unemployment Insurance
RUIA	Railroad Unemployment Insurance Act
RUSI	Railroad Unemployment and Sickness Insurance

**S**

SBR	Statement of Budgetary Resources
SCHIP	State Children's Health Insurance Program
SFFAS	Statement of Federal Financial Accounting Standards
SPEED	System Processing Excess Earnings Data
SSA	Social Security Administration
SSEB	Social Security Equivalent Benefit

**T**

TOP	Treasury Offset Program
Treasury	Department of the Treasury
Trust	National Railroad Retirement Investment Trust
TSP	Thrift Savings Plan

**U**

USPS	United States Postal Service
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**V**

VAN	Virtual Area Network
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