

Required Supplementary Information



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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^a: income, as defined above, excluding the interest income from assets of the trust fund.

^a 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.

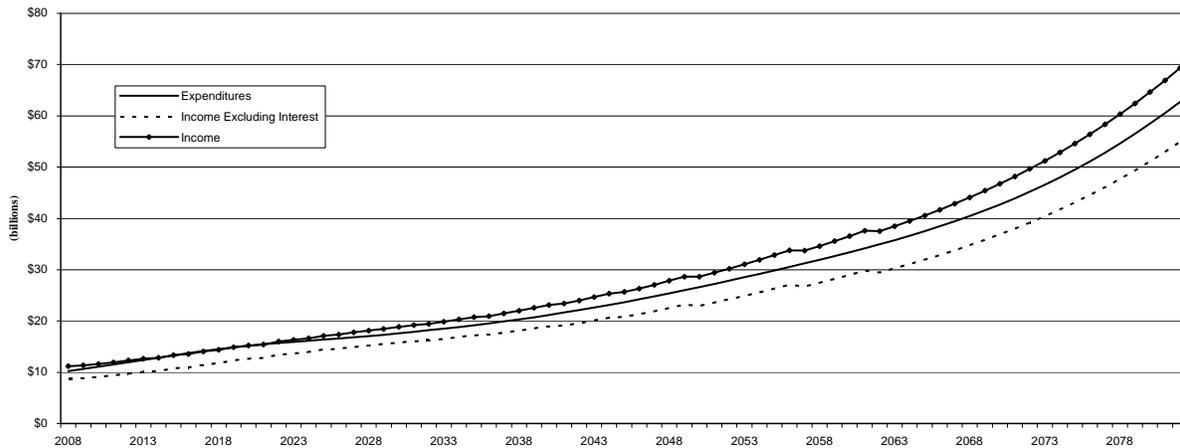
The Statement of Social Insurance and the required supplementary information below are based on actuarial and economic assumptions used in the 2008 Section 502 Report extended through calendar year 2082, the RRA, and the Railroad Retirement Tax Act. This information includes:

- (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



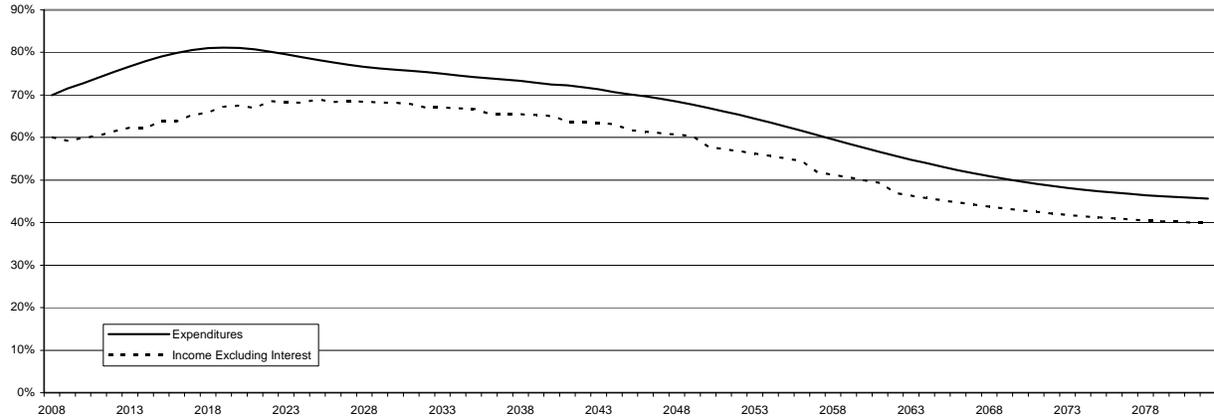
Cashflow Projections – Chart 1 shows actuarial estimates of railroad retirement annual income, income excluding interest, and expenditures for 2008-2082 in nominal dollars. The estimates are for the open-group population, which includes all persons projected to participate in the railroad retirement 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.

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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 ^a	13.3%	15.0%	17.3%

^aAverage 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

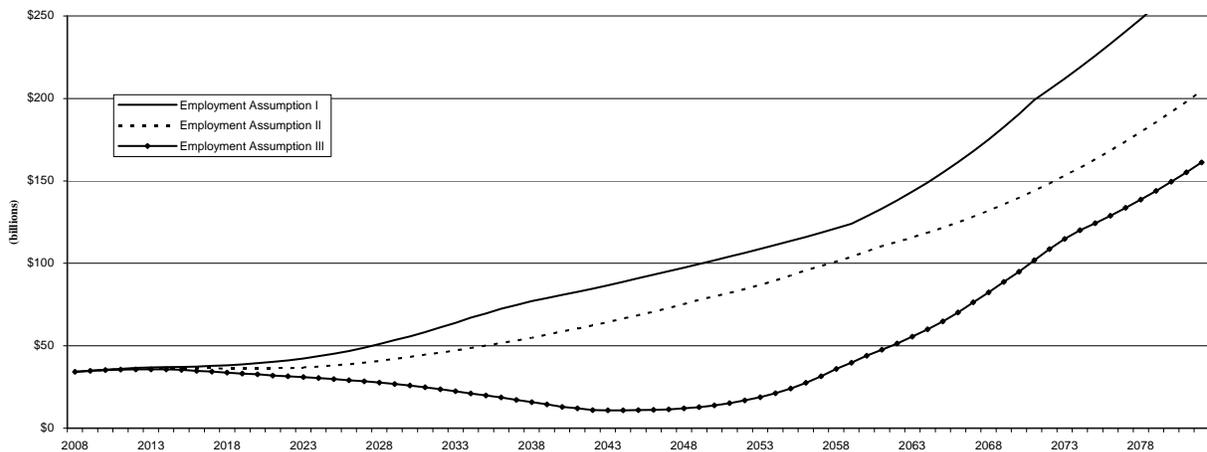
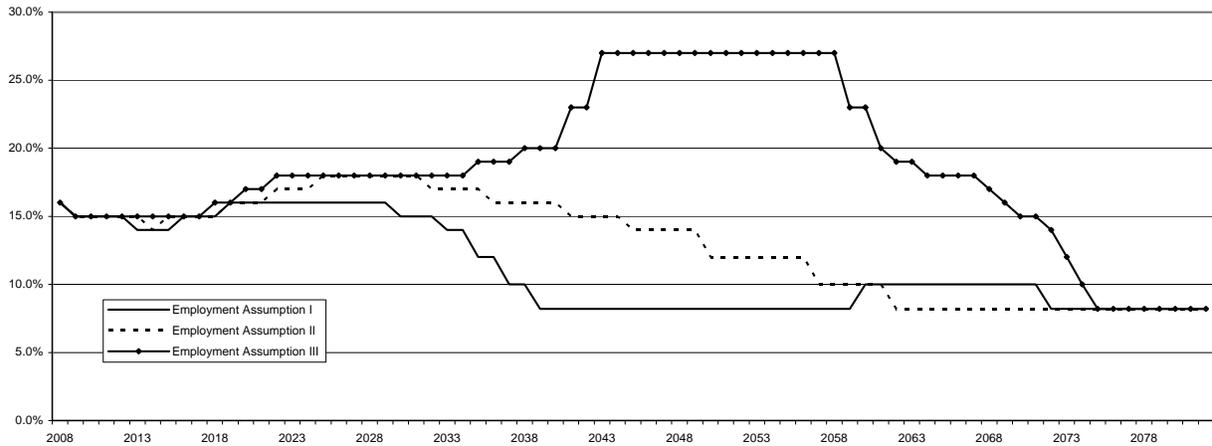


Chart 3a shows the combined balance of the accounts under each of the three employment assumptions. Note that the combined account balance is positive throughout the entire period for all three assumptions.

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.

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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

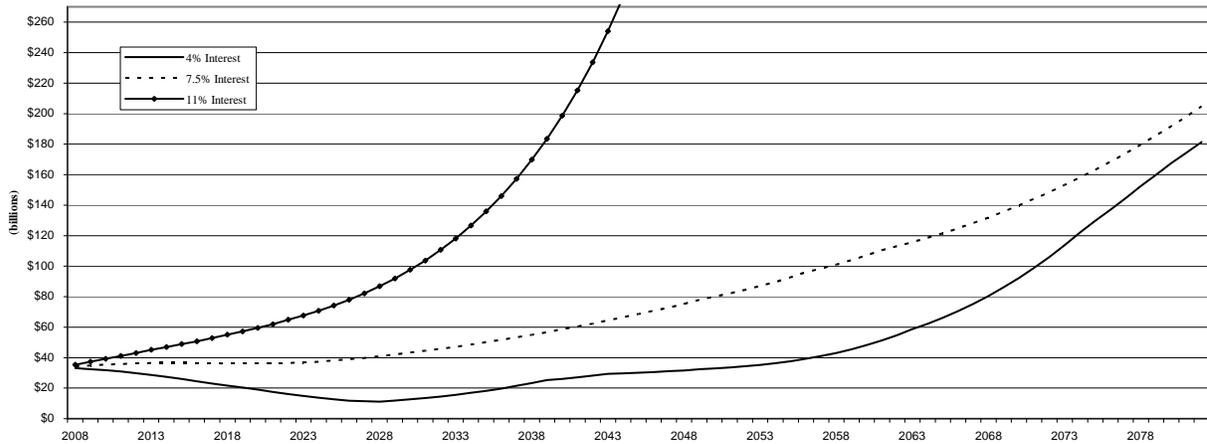
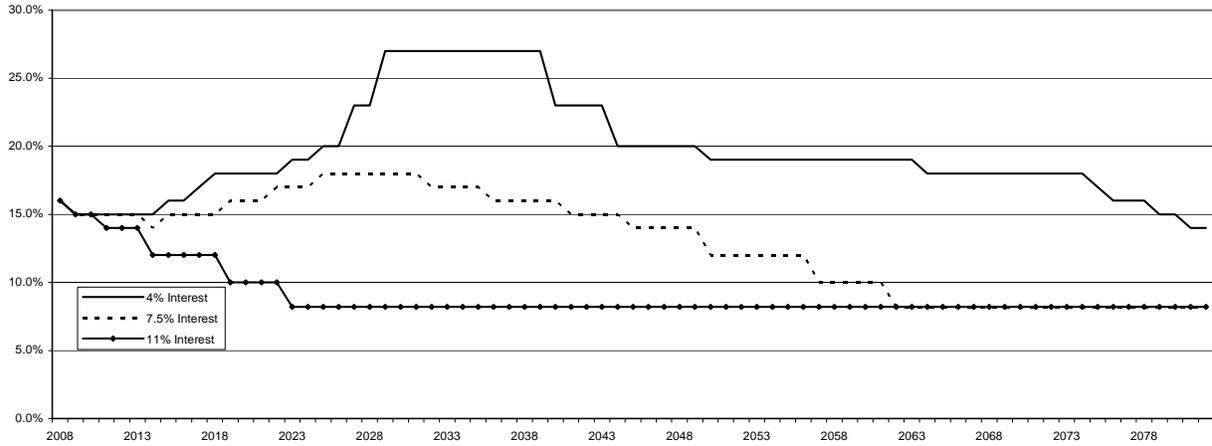


Chart 4a shows the combined account balance under the three interest rate assumptions for the projection period. At a 4 percent interest rate, the account balance reaches its lowest value in 2028, although it never becomes negative. After that it continues to increase. With a 7.5 percent interest rate, 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.

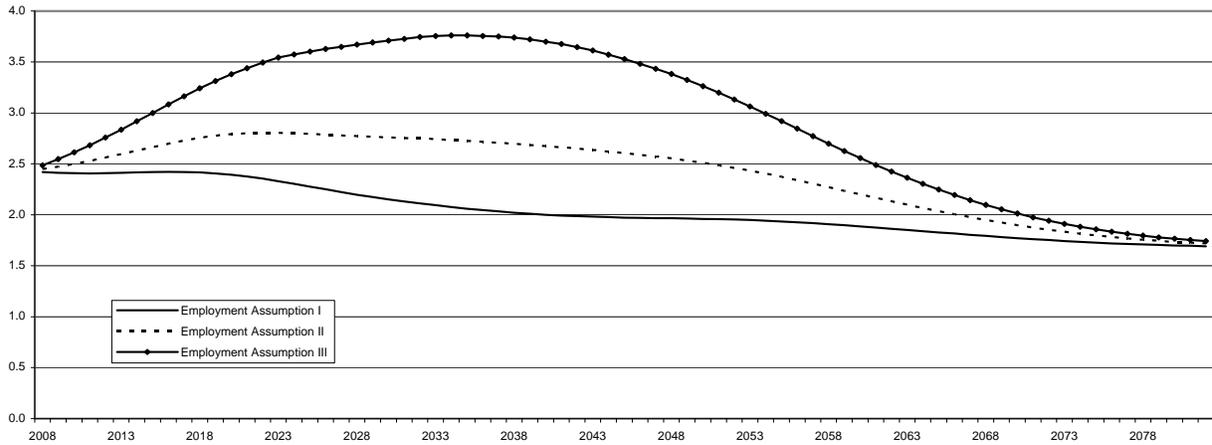
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Chart 4b: Tier 2 Tax Rate under Three Interest Assumptions



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)**

	COMBINED RAILROAD RETIREMENT PROGRAM	COMBINED RAILROAD UNEMPLOYMENT AND SICKNESS INSURANCE PROGRAM	LIMITATION ON THE OFFICE OF INSPECTOR GENERAL	COMBINED TOTALS
BUDGETARY RESOURCES				
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)
TOTAL BUDGETARY RESOURCES	\$10,812,786,490	\$123,499,964	\$7,715,010	\$10,944,001,464
STATUS OF BUDGETARY RESOURCES				
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
TOTAL STATUS OF BUDGETARY RESOURCES	\$10,812,786,490	\$123,499,964	\$7,715,010	\$10,944,001,464
CHANGE IN OBLIGATED BALANCES				
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)
Total unpaid obligated balance, net	\$897,588,059	\$6,732,144	\$504,531	\$904,824,734
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)
Total, unpaid obligated balance, net, end of period	\$917,159,423	\$7,542,225	\$731,288	\$925,432,936
NET OUTLAYS				
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)
NET OUTLAYS	\$6,679,691,795	\$98,833,792	(\$265,622)	\$6,778,259,965