For Publication
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RRB Financial Reports

The Railroad Retirement Board (RRB) is required by law to submit annual financial reports to Congress on the financial condition of the railroad retirement system and the railroad unemployment insurance system. These reports must also include recommendations for any financing changes which may be advisable in order to ensure the solvency of the systems. In June, the RRB submitted its 2017 reports on the railroad retirement and railroad unemployment insurance systems.

The following questions and answers summarize the findings of these reports.

1.   What were the assets of the railroad retirement and railroad unemployment insurance systems last year?

As of September 30, 2016, total railroad retirement system assets, comprising assets managed by the National Railroad Retirement Investment Trust and the railroad retirement system accounts at the Treasury, equaled $26.5 billion. The Trust was established by the Railroad Retirement and Survivors' Improvement Act of 2001 to manage and invest railroad retirement assets. The cash balance of the railroad unemployment insurance system was $81.2 million at the end of fiscal year 2016.

2.   What was the conclusion of the 2017 report of the financial condition of the railroad retirement system?

The conclusion was that, barring a sudden, unanticipated, large decrease in railroad employment or substantial investment losses, the railroad retirement system will experience no cash-flow problems during the next 25 years. Under the current financing structure, actual levels of railroad employment and investment return over the coming years will largely determine whether corrective action is necessary.

3.   What methods were used in forecasting the financial condition of the railroad retirement system?

The 2017 report projected the various components of income and outgo of the railroad retirement system under three employment assumptions, intended to provide an optimistic, intermediate and pessimistic outlook, for the 25 calendar years 2017-2041. The projections of these components were combined and the investment income calculated to produce the projected balances in the railroad retirement accounts at the end of each projection year.

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Projecting income and outgo under optimistic, intermediate and pessimistic employment assumptions, the report indicated no cash-flow problems occur throughout the 25-year projection period under any of the three employment assumptions.

4. How do the results of the 2017 report compare with the 2016 report?

The overall results do not differ substantially from last year's. The projected tier II tax rates are the same as in last year's report in each calendar year under the optimistic and pessimistic employment assumptions. Under an intermediate employment assumption, the projected tier II tax rate differs only in being one percent higher in calendar years 2032-2034. (Railroad retirement payroll taxes, like railroad retirement benefits, are calculated on a two-tier basis.)

Actual investment return in calendar year 2016 met expectations, and actual employment fell within the assumed range falling just below the intermediate assumption in last year's report.

5. Did the 2017 report of the railroad retirement system recommend any railroad retirement payroll tax rate changes?

The report did not recommend any change in the rate of tax imposed by current law on employers and employees.

6. What were the findings of the 2017 report on the financial condition of the railroad unemployment insurance system?

The RRB's 2017 railroad unemployment insurance financial report was generally favorable. Even as maximum benefit rates increase 46 percent (from $72 to $105) from 2016 to 2027, experience-based contribution rates maintain solvency. While a small, short-term cash flow problem is possible in fiscal year 2019 under the pessimistic assumption, projections show quick repayment of any loan by the end of the fiscal year.

Unemployment levels are the single most significant factor affecting the financial status of the railroad unemployment insurance system. However, the system's experience-rating provisions, which adjust contribution rates for changing benefit levels, and its surcharge trigger for maintaining a minimum balance help to ensure financial stability in the advent of adverse economic conditions.

Under experience-rating provisions, each employer's contribution rate is determined by the RRB on the basis of benefit payments made to the railroad's employees. Even under the pessimistic assumption, the report predicted that the average employer contribution rate remains well below the maximum throughout the projection period.

A 1.5 percent surcharge is in effect in calendar year 2017. Under all three employment assumptions, the report projects a surcharge of 1.5 percent in 2018, with a surcharge of 1.5 percent predicted for 2019 under each assumption, with a possibility of a 2.5 percent surcharge under the pessimistic assumption. A surcharge of 1.5 percent is likely for 2020 under the intermediate and pessimistic assumptions.

7.   What methods were used to evaluate the financial condition of the railroad unemployment insurance system?

The economic and employment assumptions used in the unemployment insurance report corresponded to those used in the 2017 report of the retirement system. Projections were made for various components of income and outgo under each of the three employment assumptions, but for the period 2017-2027, rather than a 25-year period.

8.   Did the 2017 report on the railroad unemployment insurance system recommend any financing changes to the system?

No financing changes were recommended at this time by the report.

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The RRB's 2017 financial reports on the retirement and unemployment insurance systems are available in their entirety on the agency's website at www.rrb.gov. Information on the National Railroad Retirement Investment Trust, including its quarterly and annual reports, is also available on the site.