Railroad Retirement Information
U.S. Railroad Retirement Board
844 North Rush Street Chicago, Illinois 60611-1275

RRB.gov
877-772-5772 general information

Public Affairs
312-751-4777
opa@rrb.gov media inquiries

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RRB Financial Reports

The Railroad Retirement Board (RRB) is required by law to submit annual reports to Congress on the financial condition of the railroad retirement and railroad unemployment insurance systems. 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 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, 2018, 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 $28.3 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 $109.3 million at the end of fiscal year 2018.

2. What was the conclusion of the 2019 report of the financial condition of the railroad retirement system?

The overall 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 valuation projected the various components of income and outgo of the railroad retirement system under three employment assumptions, intended to provide an optimistic, moderate and pessimistic outlook, for the 25 calendar years 2019-2043. 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.

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

4. How do the results of the 2019 report compare with the 2018 report?

An **actual** investment return of - 3.9 percent in calendar year 2018 fell below the 7 percent **expected** return resulting in lower account balances and higher projected tax rates in some years.

Overall payroll taxes increased due to favorable employment and wage increase experience. A change in the definition of railroad compensation resulted in expected refunds in calendar year 2019 for prior year payroll taxes and a small reduction in future payroll taxes. Lower cost-of-living increases assumed for 2020 and 2021 resulted in lower projected benefits.

5. Did the 2019 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 2019 report on the financial condition of the railroad unemployment insurance system?

The RRB's 2019 railroad unemployment insurance financial report was also generally favorable. Even as maximum benefit rates increase 44 percent (from $77 to $111) from 2018 to 2029, the unemployment insurance system's experience-based contribution rates maintain solvency. (Under experience-rating provisions, each employer's contribution rate is determined by the RRB on the basis of changing benefit levels.) Under a pessimistic assumption, a small, short-term cash flow problem is possible during fiscal year 2022, with full repayment of any resulting loan by the end of the same fiscal year. However, even under a pessimistic assumption, the report predicted average employer contribution rates well below the maximum throughout the projection period.

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 and its surcharge trigger for maintaining a minimum balance help ensure financial stability in the advent of adverse economic conditions.

The 1.5 percent surcharge in calendar year 2019 is expected to be followed by no surcharge in calendar year 2020, and a 1.5 percent surcharge in calendar years 2021 and 2022.

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 2019 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 2019-2029, rather than a 25-year period.

(More)

8. Did the 2019 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 2019 financial reports on the retirement and unemployment insurance systems are available in their entirety at **RRB.gov** under the **Financial and Reporting** tab (**Financial, Actuarial and Statistical**), as is information on the National Railroad Retirement Investment Trust, including its quarterly and annual reports.