

Railroad Unemployment Insurance System

**Annual Report Required by Section 7105
of the Technical and Miscellaneous
Revenue Act of 1988**



**U.S. Railroad Retirement Board
Bureau of the Actuary and Research
June 2020**

ANNUAL REPORT REQUIRED BY THE TECHNICAL AND MISCELLANEOUS REVENUE ACT OF 1988

I. Introduction

Section 7105 of the Technical and Miscellaneous Revenue Act of 1988 (Public Law 100-647) requires the Railroad Retirement Board to submit an annual report to the Congress on the financial status of the railroad unemployment insurance system. The report must contain recommendations for financing changes that might be advisable, specifically with regard to rates of employer contributions. This report meets the requirements of Section 7105 for 2020.

II. Recent Developments

The maximum daily benefit of \$78 for the benefit year beginning July 1, 2019 will increase to \$80 for the benefit year beginning July 1, 2020. Beginning July 1, 2021, the maximum daily benefit rate will increase to \$82. The monthly tax base was \$1,560 in 2018, \$1,605 in 2019, and increased to \$1,655 in 2020, based on changes in the railroad retirement tier I creditable base.

Average employment in calendar year 2019 was 214,000 (subject to later revision), which is lower than the pessimistic employment assumption in last year's report. There is currently no surcharge in calendar year 2020. In addition to a trend of declining industry employment, unemployment levels are currently much higher than previously anticipated due to the current global pandemic, which has affected demand for both freight and passenger rail services.

This year's report predicts that there will be a 2.5 percent surcharge in calendar year 2021, a 3.5 percent surcharge is expected in 2022, and a 1.5 percent surcharge is likely in 2023.

Benefits payable under the Railroad Unemployment Insurance Act are subject to sequestration under Public Law 99-177, the Balanced Budget and Emergency Deficit Control Act of 1985, as amended by Public Law 112-25, the Budget Control Act of 2011, which was further amended by Public Law 112-40, the American Taxpayer Relief Act of 2012; Public Law 113-67, the Bipartisan Budget Act of 2013, Public Law 113-82, the Military Retired Pay Restoration Act of 2014; Public Law 114-74, the Bipartisan Budget Act of 2015; Public Law 115-123, the Bipartisan Budget Act of 2018; Public Law 116-37, the Bipartisan Budget Act of 2019; and Public Law 116-136, CARES Act. Benefit estimates for fiscal years 2020 through 2030 reflect amounts after sequestration.

III. Economic and Employment Assumptions

The economic and employment assumptions used in this report correspond to those used in the report required by Section 502 of the Railroad Retirement Solvency Act of 1983. Unemployment levels are the single most significant factor affecting the financial status of the railroad unemployment insurance system. Rapidly declining employment coupled with high unemployment levels, as occurred in the early 1980s and more recently in the late 2000s, can put the system into debt. Conversely, cash balances can accumulate if employment declines are moderate and unemployment levels remain low. The experience-rating system is designed to tie individual employer contribution rates to their level of benefit claims, thereby adjusting the overall account balance to an appropriate level.

The three railroad employment assumptions used, denoted A, B, and C, are shown in Table 1 at the end of the report. The projected tier I creditable limits, which determine both the railroad unemployment monthly wage base and the maximum daily benefit rate, are from the Social Security Administration's April 2020 Trustees Report, intermediate set of assumptions. Table 2 shows the tier I creditable limit, unemployment monthly earnings base, and daily benefit rate assumptions.

IV. Results

Projections were made for the various components of income and outgo under each set of assumptions for the 11 fiscal years 2020-2030. The results are summarized in Table 3. Average employer contribution rates under the experience-rated contribution system are weighted averages based on the relative size of each railroad's payroll.

Table 3 consists of three tables A, B, and C, one for each assumption projection: (A) optimistic, (B) intermediate, (C) pessimistic. The tables show (1) contributions, excluding the portion allocated to the Railroad Unemployment Insurance Administration Fund (Fund), (2) net benefit payments, (3) other income and outgo, (4) the cash balance in the Railroad Unemployment Insurance Account (Account) at the end of each fiscal year, (5) the loan balance, if any, including accrued interest, (6) the Account balance at the end of each fiscal year, less loans due and (7) the average employer contribution rate for each calendar year.

The experience-rating formula is designed to keep the accrual balance of the Account, as of June 30, between \$100 million and \$250 million, indexed for changes in the system compensation base. If the balance exceeds an indexed \$250 million, contributions are reduced by a pooled credit. If the balance falls below an indexed \$100 million but is at least an indexed \$50 million, contributions are increased by a surcharge of 1.5 percent. If the Account balance is less than an indexed \$50 million, but greater than zero, the

surcharge will be 2.5 percent. A maximum surcharge of 3.5 percent applies if the Account balance is less than zero.

The June 30, 2018 balance¹ of \$118.1 million was above the indexed \$50 million surcharge threshold of \$75.1 million but below the indexed \$100 million surcharge threshold of \$150.1 million. As a result, a 1.5 percent surcharge was in effect for calendar year 2019. By June 30, 2019, the balance had risen to \$157.5 million, which was above the indexed \$100 million surcharge threshold of \$152.3 million. Consequently, no surcharge is in effect for calendar year 2020.

Under each assumption, the Account balance is expected to be below the indexed \$50 million threshold in June 2020, showing a 2.5 percent surcharge in calendar year 2021. For June 2021, due to the current unemployment levels caused by the global health crisis that will likely carry into next year, the balance is expected to be below zero under all three assumptions, resulting in a 3.5 percent surcharge in 2022, and increasing the maximum rate to 12.5 percent for the year. A 1.5 percent surcharge is likely for 2023 under the optimistic and intermediate assumptions, and a 2.5 percent surcharge is expected under the pessimistic assumption. Surcharges of 1.5 percent may occur thereafter. As a result of the current global pandemic, short-term cash flow problems are expected through fiscal year 2021, with full repayment of the loans by the end of fiscal year 2022 under assumptions A and B, and during fiscal year 2023 under assumption C. The highest average contribution rate in the 11-year projection period is under employment assumption C, where it rises to 10.68 percent for calendar year 2022. This is below the 12.5 percent maximum rate allowable while a 3.5 percent surcharge is in effect.

Administrative expenses are assumed to be above current levels in every fiscal year. Nevertheless, the 0.65 percent of taxable payroll allocated to the Fund is sufficient to finance administrative expenses during the projection period. When the accrual balance in the Administration Fund exceeds \$6 million at the end of a fiscal year, excess funds are transferred to the Account early in the next fiscal year. Under all employment assumptions, the accrual balance in the Administration Fund exceeds \$6 million at the end of each year in the 11-year projection period.

¹ The balance referred to here and in the following paragraph is the accrual balance of the Account as of June 30, on which calculations of pooled credits and surcharges are based. Cash balances shown on Tables 3A-C are not used in these calculations. June 30 accrual balances are shown in Table 4.

V. Recommendation

As stated in the introduction, the Congress directed the Railroad Retirement Board to make recommendations for financing changes that might be advisable, specifically with regard to rates of employer contributions.

No financing changes are recommended at this time. Projections under three different assumptions indicate that experience-based contribution rates will respond to fluctuating employment and unemployment levels and with short-term borrowing, will maintain fund solvency.

Table 1: Employment Assumptions Used in 2020 Report

Calendar Year	Average Employment (thousands)		
	A	B	C
2019	214	214	214
2020	205	201	196
2021	204	198	190
2022	203	195	185
2023	202	192	179
2024	202	189	174
2025	201	186	169
2026	200	183	164
2027	199	181	160
2028	199	178	155
2029	198	175	151
2030	197	173	147

Assumptions A and B reflect the stability of employment in passenger service (Amtrak and commuter service) as distinguished from freight service. Assumption A has the most optimistic employment of the three assumptions. Assumption B is intended to provide a "moderate" assumption. Assumption C, the most pessimistic, has declines in both passenger and freight employment.

Passenger employment is assumed to remain level at 48,000 under assumptions A and B, and to decline by 500 each year under assumption C. Non-passenger employment is assumed to decline at a constant annual rate of 0.5 percent, 2.0 percent, and 3.5 percent under assumptions A, B, and C, respectively.

**Table 2: Annual Tier I Creditable Limit, Monthly RUI
Taxable Limit, and Maximum Daily Benefit Rate**

Calendar Year	Annual Tier I Limit	Monthly RUI Limit	Maximum Daily Benefit Rate [1]
2019	\$132,900	\$1,605	\$78
2020	137,700	1,655	80
2021	141,900	1,700	82
2022	147,000	1,755	85
2023	153,600	1,825	87
2024	159,900	1,890	91
2025	165,900	1,955	94
2026	172,200	2,020	97
2027	178,800	2,090	101
2028	185,700	2,165	104
2029	192,900	2,240	108
2030	200,400	2,320	112

[1] Effective for registration periods beginning after June 30 in the calendar year.

Table 3A. Progress of the Railroad Unemployment Insurance Account Under Assumption A
(Dollar Amounts in Millions)

Fiscal Year	Account Contributions [1]	Net Benefit Payments [2]	Other Income and Outgo [3]	Account Cash Balance Year End	Loan Balance Year End [4]	Account Cash Balance Less Loans Due Year End	Calendar Year	Average Employer Contribution Rate (Percent)
2020	\$53.2	\$206.8	\$39.6	\$14.6	\$29.4	(\$14.8)	2020	0.95
2021	96.6	163.8	75.6	23.0	98.5	(75.5)	2021	5.00
2022	267.2	101.1	(88.2)	100.9	0.0	100.9	2022	8.91
2023	280.8	92.8	16.7	305.6	0.0	305.6	2023	5.35
2024	121.8	95.1	20.7	353.0	0.0	353.0	2024	1.42
2025	24.0	98.8	21.5	299.7	0.0	299.7	2025	0.92
2026	17.5	101.6	21.3	236.9	0.0	236.9	2026	1.11
2027	32.6	104.7	21.0	185.7	0.0	185.7	2027	1.51
2028	55.8	108.4	20.7	153.8	0.0	153.8	2028	1.98
2029	91.2	111.4	21.6	155.2	0.0	155.2	2029	2.79
2030	111.2	115.1	23.1	174.4	0.0	174.4	2030	2.63

[1] Excludes 0.65 percent of taxable payroll allocated to the Administration Fund.

[2] In accordance with the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, the fiscal year 2020 amount reflects a reduction of 5.9% under sequestration for days of unemployment and sickness after September 30, 2019. Fiscal years 2021 thru 2030 amounts reflect a reduction of 5.7% under sequestration for days after September 30, 2020.

[3] Income includes interest on investments, transfers from the Administration Fund of amounts in excess of \$6 million at the end of the previous fiscal year, and loans from the Railroad Retirement Account. Outgo includes funding for the Office of Inspector General and repayment of loans, including interest.

[4] Includes accrued interest.

NOTE: Detail may not add to totals due to rounding.

Table 3B. Progress of the Railroad Unemployment Insurance Account Under Assumption B
(Dollar Amounts in Millions)

Fiscal Year	Account Contributions [1]	Net Benefit Payments [2]	Other Income and Outgo [3]	Account Cash Balance Year End	Loan Balance Year End [4]	Account Cash Balance Less Loans Due Year End	Calendar Year	Average Employer Contribution Rate (Percent)
2020	\$53.0	\$206.8	\$39.6	\$14.4	\$29.5	(\$15.1)	2020	0.95
2021	93.6	204.6	120.4	23.8	144.5	(120.7)	2021	5.00
2022	277.7	112.8	(136.4)	52.3	0.0	52.3	2022	9.93
2023	311.1	103.1	14.7	275.0	0.0	275.0	2023	6.42
2024	151.2	104.5	18.9	340.6	0.0	340.6	2024	2.06
2025	40.4	107.3	19.5	293.2	0.0	293.2	2025	1.12
2026	24.0	109.2	18.9	226.9	0.0	226.9	2026	1.27
2027	37.3	111.2	17.9	170.8	0.0	170.8	2027	1.69
2028	62.8	113.8	17.4	137.2	0.0	137.2	2028	2.35
2029	95.3	115.7	17.6	134.4	0.0	134.4	2029	3.03
2030	113.2	118.3	18.5	147.8	0.0	147.8	2030	3.03

[1] Excludes 0.65 percent of taxable payroll allocated to the Administration Fund.

[2] In accordance with the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, the fiscal year 2020 amount reflects a reduction of 5.9% under sequestration for days of unemployment and sickness after September 30, 2019. Fiscal years 2021 thru 2030 amounts reflect a reduction of 5.7% under sequestration for days after September 30, 2020.

[3] Income includes interest on investments, transfers from the Administration Fund of amounts in excess of \$6 million at the end of the previous fiscal year, and loans from the Railroad Retirement Account. Outgo includes funding for the Office of Inspector General and repayment of loans, including interest.

[4] Includes accrued interest.

NOTE: Detail may not add to totals due to rounding.

Table 3C. Progress of the Railroad Unemployment Insurance Account Under Assumption C
(Dollar Amounts in Millions)

Fiscal Year	Account Contributions [1]	Net Benefit Payments [2]	Other Income and Outgo [3]	Account Cash Balance Year End	Loan Balance Year End [4]	Account Cash Balance Less Loans Due Year End	Calendar Year	Average Employer Contribution Rate (Percent)
2020	\$52.9	\$206.8	\$39.7	\$14.4	\$29.6	(\$15.2)	2020	0.95
2021	90.4	230.8	144.2	18.2	169.2	(151.0)	2021	5.01
2022	279.7	140.8	(132.6)	24.5	30.7	(6.2)	2022	10.68
2023	355.2	128.8	(18.6)	232.3	0.0	232.3	2023	8.80
2024	208.7	128.6	16.8	329.2	0.0	329.2	2024	3.11
2025	68.6	130.3	17.3	284.8	0.0	284.8	2025	1.66
2026	40.6	130.6	16.1	210.9	0.0	210.9	2026	1.68
2027	52.2	131.3	14.5	146.2	0.0	146.2	2027	2.23
2028	83.4	132.4	13.3	110.5	0.0	110.5	2028	3.22
2029	116.8	132.7	13.2	107.8	0.0	107.8	2029	3.86
2030	130.0	133.8	13.4	117.4	0.0	117.4	2030	3.84

[1] Excludes 0.65 percent of taxable payroll allocated to the Administration Fund.

[2] In accordance with the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, the fiscal year 2020 amount reflects a reduction of 5.9% under sequestration for days of unemployment and sickness after September 30, 2019. Fiscal years 2021 thru 2030 amounts reflect a reduction of 5.7% under sequestration for days after September 30, 2020.

[3] Income includes interest on investments, transfers from the Administration Fund of amounts in excess of \$6 million at the end of the previous fiscal year, and loans from the Railroad Retirement Account. Outgo includes funding for the Office of Inspector General and repayment of loans, including interest.

[4] Includes accrued interest.

NOTE: Detail may not add to totals due to rounding.

**Table 4. June 30 Accrual Balance of the Railroad Unemployment Insurance Account
(Dollar Amounts in Millions)**

Year	Assumption A			Assumption B			Assumption C		
	Account Balance	1.5 Percent	2.5 Percent	Account Balance	1.5 Percent	2.5 Percent	Account Balance	1.5 Percent	2.5 Percent
		Surcharge Threshold	Surcharge Threshold		Surcharge Threshold	Surcharge Threshold		Surcharge Threshold	
2020	\$61.7	\$147.2	\$73.6	\$61.4	\$146.4	\$73.2	\$61.0	\$145.6	\$72.8
2021	(32.5)	148.0	74.0	(71.7)	144.6	72.3	(98.8)	140.7	70.4
2022	134.3	151.6	75.8	87.4	146.4	73.2	32.3	140.5	70.3
2023	337.0	156.2	78.1	307.5	149.2	74.6	267.2	141.1	70.6
2024	385.5	161.7	80.8	373.5	152.6	76.3	363.8	142.4	71.2
2025	333.3	166.7	83.4	326.7	155.6	77.8	319.6	143.1	71.6
2026	271.7	171.8	85.9	261.3	158.5	79.3	246.2	143.8	71.9
2027	222.1	176.9	88.4	206.5	161.4	80.7	182.5	144.4	72.2
2028	191.6	182.3	91.2	173.7	164.6	82.3	146.9	145.1	72.6
2029	194.3	188.1	94.1	171.8	168.0	84.0	144.5	146.0	73.0
2030	214.7	193.9	97.0	185.8	171.3	85.7	154.3	146.8	73.4

The June 30, 2019 accrual balance was \$157,488,983.12. The indexed 1.5 percent surcharge threshold was \$152,277,818.00 and the indexed 2.5 percent surcharge threshold was \$76,138,909.00.

The experience rating system provides for a surcharge in the employer contribution rate when the Railroad Unemployment Insurance Account balance falls below certain thresholds. The 1.5 percent surcharge threshold is the greater of \$100 million or the amount that bears the same ratio to \$100 million as the system compensation base as of that June 30 bears to the system compensation base as of June 30, 1991. The 2.5 percent surcharge threshold is indexed from a \$50 million base. The maximum surcharge of 3.5 percent applies if the Railroad Unemployment Insurance Account balance is less than zero.