



FROM THE DESK OF

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## **RRB Financial Reports**

As required by law, the Railroad Retirement Board (RRB) submits 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 that 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, 2019, total railroad retirement system assets, comprising assets managed by the National Railroad Retirement Investment Trust (NRRIT) and the railroad retirement system accounts at the Treasury, equaled \$27.3 billion. The Railroad Retirement and Survivors' Improvement Act of 2001 established NRRIT to manage and invest railroad retirement assets. The cash balance of the railroad unemployment insurance system was \$137.5 million at the end of fiscal year 2019.

### **2. What did the RRB conclude in the 2020 report of the financial condition of the railroad retirement system?**

The RRB concluded in the report 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 did the RRB use in forecasting the financial condition of the railroad retirement system?**

In the report, the RRB 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 2020-2044 (Projection Period). The RRB combined

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the projections of these components and calculated anticipated investment income to project balances in the railroad retirement accounts at the end of each year of the Projection Period.

The RRB indicated no cash-flow problems will occur throughout the Projection Period under any of the three employment assumptions.

**4. How do the results of the 2020 report compare with the 2019 report?**

Due to favorable investment returns in calendar year 2019, the RRB projected that the Railroad Retirement Account, Social Security Equivalent Benefit Account, and NRRIT will have a higher starting combined balance under each employment assumption. Lower projected employment, however, resulted in generally lower projected payroll tax income, but lower projected benefit payments partially offset the lower tax income projection. Under each employment assumption, the RRB projected lower combined account balances at the end of the Projection Period than in last year's report.

The tax rate projections are the same or within 1 percent of last year's report under each employment assumption, except in 2036 and 2039, for which the RRB projects rates to be 3 and 4 percent higher, respectively, under the pessimistic employment assumption.

**5. Did the RRB recommend any railroad retirement payroll tax rate changes in the 2020 report of the railroad retirement system?**

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

**6. What were the RRB's findings in the 2020 report on the financial condition of the railroad unemployment insurance system?**

The RRB's 2020 railroad unemployment insurance financial report was also generally favorable. Even as maximum benefit rates increase 44 percent (from \$78 to \$112) from 2019 to 2030, the RRB projected that the unemployment insurance system's experience-based contribution rates will maintain solvency. Under experience-rating provisions, the RRB determines each employer's contribution rate based on changing benefit levels. The RRB expects short-term cash flow problems through fiscal year 2021 because of the COVID-19 pandemic. As a result of these cash flow issues, the RRB projects that the unemployment insurance system will require loans in fiscal years 2020 and 2021 under all three assumptions, and for fiscal year 2022 under only the pessimistic assumption. The RRB projects that the unemployment insurance system will fully repay any loans by the end of fiscal year 2022 using the optimistic or moderate assumptions and the end of fiscal year 2023 using the pessimistic assumption.

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 during periods of adverse economic conditions.

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Due to higher than normal unemployment applications and claims, the RRB is projecting higher future experience-rated contributions. While there is no surcharge in calendar year 2020, the RRB projects a high likelihood of a 2.5 percent surcharge in calendar year 2021, and an expected surcharge of 3.5 percent in calendar year 2022. The RRB projects that a 1.5 percent surcharge is likely in 2023 under the optimistic and intermediate employment assumptions, with the pessimistic assumption showing a 2.5 percent surcharge that year.

**7. What methods did the RRB use to evaluate the financial condition of the railroad unemployment insurance system?**

The economic and employment assumptions that the RRB used in the unemployment insurance report correspond to those used in the 2020 report of the retirement system. The RRB made projections for various components of income and outgo under each of the three employment assumptions for the period 2020-2030.

**8. Did the RRB recommend any financing changes in the 2020 report on the railroad unemployment insurance system?**

The RRB did not recommend any financing changes in the report.

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The RRB's 2020 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.