

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 2022**

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 2022.

II. Recent Developments

The maximum daily benefit of \$82 for the benefit year beginning July 1, 2021 will increase to \$85 for the benefit year beginning July 1, 2022. Beginning July 1, 2023, the maximum daily benefit rate will increase to \$87. The monthly tax base was \$1,655 in 2020, \$1,710 in 2021, and increased to \$1,755 in 2022, based on changes in the railroad retirement tier I creditable base.

There is currently a 3.5 percent surcharge in calendar year 2022. This year's report predicts a 1.5 percent surcharge in calendar year 2023, likely followed by no surcharge in 2024 or 2025 under all assumptions.

Quarterly employer taxes are due the month after the quarter in which employee compensation is paid. The employer contributions that include a 3.5 percent surcharge will be received April 2022 through March 2023. This timing causes higher contribution balances in fiscal years 2022 and 2023. Additionally, the predicted calendar year 2023 surcharge of 1.5 percent along with high individual employer contribution rates will carry the increase in contributions into the first half of fiscal year 2024.

Due to a short-term cash flow problem, a total of \$120.0 million was borrowed from the Railroad Retirement Account during fiscal years 2020 and 2021. These loans are expected to be fully repaid by the end of fiscal year 2022.

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; Public Law 116-136, and the Coronavirus

Aid, Relief, and Economic Security Act of 2020 extended sequestration until September 30, 2030. The Continued Assistance to Rail Workers Act of 2020 suspended sequestration beginning January 3, 2021 until 30 days after a Presidential declaration of the end to the COVID-19 national emergency. For purposes of this report, sequestration resumes in April 2023 and benefit amounts through fiscal year 2030 reflect a reduction of 5.7 percent.

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 and/or sickness levels, as occurred in the late 2000s and as we have seen due to the COVID-19 pandemic, 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 Office of Management and Budget January 2022 economic assumptions. Table 2 shows the tier I creditable limit, unemployment monthly earnings base, and maximum 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 2022-2032. 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 experience-based tax rates have a 12 percent maximum, or a 12.5 percent maximum if a 3.5 percent surcharge is in effect. Included in the rate is the basic rate, an administration tax rate of 0.65 percent, and, if either is applicable, the surcharge rate or the rate of the pooled credit. Since the basic employer tax rate plus any pooled credit cannot be less than zero, 0.65 percent is the minimum rate which any employer can pay.

The June 30, 2020 balance¹ of \$53.7 million was below the indexed \$50 million surcharge threshold of \$73.7 million. As a result, a 2.5 percent surcharge was in effect for calendar year 2021. By June 30, 2021, the balance had fallen to (\$46.2) million; consequently, a 3.5 percent surcharge is in effect for calendar year 2022.

Under each assumption, the Account balance is predicted to be between the indexed \$50 million and the indexed \$100 million surcharge thresholds in June 2022, resulting in a 1.5 percent surcharge, and decreasing the maximum rate to 12 percent for calendar year 2023. For calendar years 2024 and 2025, no surcharge is likely under all assumptions. Surcharges of 1.5 percent will occur intermittently thereafter. The highest average contribution rate in the 11-year projection period is under the pessimistic assumption, where it falls to 6.20 percent for calendar year 2023 from the high of 9.43 percent in calendar year 2022. This high is below the 12 percent maximum rate allowable.

There were short-term cash flow problems from September 2020 through April 2021 that required loans from the Railroad Retirement Account. Under all assumptions, full repayment of the loans occurs by the end of fiscal year 2022. Under the pessimistic assumption, there is the possibility of a short term loan in fiscal year 2027 that will be repaid in the same fiscal year.

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.

Administrative expenses are assumed to be above current levels in every fiscal year. 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.

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 2022 Report

Calendar Year	Average Employment (thousands)		
	A	B	C
2021	188	188	188
2022	190	188	186
2023	192	189	184
2024	194	189	182
2025	194	187	177
2026	194	184	173
2027	194	182	169
2028	193	180	165
2029	193	178	161
2030	193	176	157
2031	192	174	153
2032	192	172	150

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 45,000 under assumptions A and B, and to decline by 500 each year under assumption C.

Non-passenger employment is assumed to recover and stabilize under assumptions A and B through calendar year 2024. Assumptions A and B then reflect a constant annual rate of decline of 0.2 percent and 1.5 percent, respectively. Assumption C reflects an initial 1.2 percent decline through calendar year 2024 and then a constant annual decline of 2.8 percent thereafter.

**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]
2021	\$142,800	\$1,710	\$82
2022	147,000	1,755	85
2023	156,300	1,855	87
2024	164,700	1,945	92
2025	171,600	2,015	97
2026	178,200	2,085	100
2027	184,500	2,150	104
2028	191,400	2,225	107
2029	198,600	2,300	111
2030	206,400	2,385	115
2031	214,500	2,470	119
2032	223,500	2,565	123

[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)
2022	\$255.9	\$110.2	(\$101.6)	\$88.1	\$0.0	\$88.1	2022	9.43
2023	290.2	100.6	9.6	287.3	0.0	287.3	2023	6.14
2024	126.8	99.8	14.5	328.8	0.0	328.8	2024	1.12
2025	15.2	108.8	15.9	251.0	0.0	251.0	2025	0.85
2026	19.0	113.5	15.8	172.3	0.0	172.3	2026	1.25
2027	46.7	117.1	15.4	117.3	0.0	117.3	2027	1.96
2028	107.9	121.2	15.7	119.7	0.0	119.7	2028	3.61
2029	154.8	124.7	17.7	167.5	0.0	167.5	2029	3.66
2030	130.5	129.2	20.2	189.0	0.0	189.0	2030	2.53
2031	91.3	141.7	21.2	159.8	0.0	159.8	2031	2.07
2032	104.4	146.4	21.4	139.2	0.0	139.2	2032	2.85

[1] Quarterly employer taxes are due the month after the quarter in which employee compensation is paid. 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 2021 amount reflects a reduction of 5.7% under sequestration for days of unemployment and sickness after September 30, 2020 and before January 3, 2021. Beginning January 3, 2021, the Continued Assistance to Rail Workers Act of 2020 temporarily suspended sequestration until 30 days after a Presidential declaration of an end to the national emergency concerning the COVID-19 pandemic. For projection purposes, sequestration resumes in April 2023 and amounts through fiscal year 2030 reflect a reduction of 5.7%.

[3] Income includes interest on investments and transfers from the Administration Fund of amounts in excess of \$6 million at the end of the previous fiscal year. Outgo includes funding for the Office of Inspector General and repayment of loans from the Railroad Retirement Account, 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)
2022	\$254.1	\$110.2	(\$101.7)	\$86.2	\$0.0	\$86.2	2022	9.43
2023	286.7	108.0	9.3	274.2	0.0	274.2	2023	6.17
2024	127.0	107.6	13.7	307.3	0.0	307.3	2024	1.22
2025	18.9	117.4	14.5	223.2	0.0	223.2	2025	0.94
2026	25.6	126.2	13.8	136.4	0.0	136.4	2026	1.49
2027	76.4	128.9	13.1	97.0	0.0	97.0	2027	3.11
2028	144.6	132.2	13.8	123.2	0.0	123.2	2028	4.32
2029	162.8	134.7	15.8	167.1	0.0	167.1	2029	3.75
2030	120.6	138.2	17.3	166.8	0.0	166.8	2030	2.46
2031	91.4	150.0	17.4	125.6	0.0	125.6	2031	2.46
2032	123.1	153.5	17.2	112.4	0.0	112.4	2032	3.58

[1] Quarterly employer taxes are due the month after the quarter in which employee compensation is paid. 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 2021 amount reflects a reduction of 5.7% under sequestration for days of unemployment and sickness after September 30, 2020 and before January 3, 2021. Beginning January 3, 2021, the Continued Assistance to Rail Workers Act of 2020 temporarily suspended sequestration until 30 days after a Presidential declaration of an end to the national emergency concerning the COVID-19 pandemic. For projection purposes, sequestration resumes in April 2023 and amounts through fiscal year 2030 reflect a reduction of 5.7%.

[3] Income includes interest on investments and transfers from the Administration Fund of amounts in excess of \$6 million at the end of the previous fiscal year. Outgo includes funding for the Office of Inspector General and repayment of loans from the Railroad Retirement Account, 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)
2022	\$251.9	\$110.2	(\$101.7)	\$84.0	\$0.0	\$84.0	2022	9.43
2023	282.3	126.0	8.7	249.0	0.0	249.0	2023	6.20
2024	129.7	132.2	12.4	258.9	0.0	258.9	2024	1.48
2025	30.5	154.0	12.3	147.6	0.0	147.6	2025	1.27
2026	54.0	157.8	10.5	54.3	0.0	54.3	2026	2.56
2027	145.5	159.1	9.5	50.2	0.0	50.2	2027	5.51
2028	221.7	161.0	11.2	122.1	0.0	122.1	2028	6.03
2029	191.2	162.0	13.4	164.7	0.0	164.7	2029	4.03
2030	123.5	164.0	13.7	137.9	0.0	137.9	2030	2.87
2031	111.3	175.8	12.9	86.3	0.0	86.3	2031	3.41
2032	156.0	177.6	12.2	76.9	0.0	76.9	2032	4.78

[1] Quarterly employer taxes are due the month after the quarter in which employee compensation is paid. 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 2021 amount reflects a reduction of 5.7% under sequestration for days of unemployment and sickness after September 30, 2020 and before January 3, 2021. Beginning January 3, 2021, the Continued Assistance to Rail Workers Act of 2020 temporarily suspended sequestration until 30 days after a Presidential declaration of an end to the national emergency concerning the COVID-19 pandemic. For projection purposes, sequestration resumes in April 2023 and amounts through fiscal year 2030 reflect a reduction of 5.7%.

[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 Surcharge Threshold	2.5 Percent Surcharge Threshold	Account Balance	1.5 Percent Surcharge Threshold	2.5 Percent Surcharge Threshold	Account Balance	1.5 Percent Surcharge Threshold	2.5 Percent Surcharge Threshold
2022	\$116.8	\$139.8 *	\$69.9	\$114.9	\$139.4 *	\$69.7	\$112.6	\$139.0 *	\$69.5
2023	311.6	145.8	72.9	299.3	144.0	72.0	276.4	141.7	70.9
2024	354.5	155.5	77.8	333.5	152.0	76.0	288.3	147.7	73.9
2025	279.4	163.9	81.9	252.1	158.6	79.3	181.1	152.1	76.1
2026	202.1	169.4	84.7	166.9	162.4	81.2	88.2	153.8 *	76.9
2027	148.9	174.9 *	87.4	128.8	166.0 *	83.0	84.8	155.1 *	77.6
2028	152.2	180.2 *	90.1	155.5	169.3 *	84.7	156.3	156.3	78.1
2029	201.2	186.2	93.1	200.3	173.2	86.6	199.4	157.8	78.9
2030	224.0	192.3	96.2	201.0	177.2	88.6	173.5	159.3	79.7
2031	197.9	199.1 *	99.5	162.4	181.6 *	90.8	124.1	161.2 *	80.6
2032	179.2	206.0 *	103.0	150.6	186.1 *	93.1	115.2	163.1 *	81.5

The June 30, 2021 accrual balance was (\$46,213,371.39) which resulted in a 3.5 percent surcharge in calendar year 2022. The indexed 1.5 percent surcharge threshold was \$136,738,945.00 and the indexed 2.5 percent surcharge threshold was \$68,369,472.50.

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 below surcharge threshold*