

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 2023**

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 regarding rates of employer contributions. This report meets the requirements of Section 7105 for 2023.

II. Recent Developments

The maximum daily benefit of \$85 for the benefit year beginning July 1, 2022 will increase to \$87 for the benefit year beginning July 1, 2023. Beginning July 1, 2024, the maximum daily benefit rate will increase to \$94. The monthly tax base was \$1,710 in 2021, \$1,755 in 2022, and increased to \$1,895 in 2023, based on changes in the railroad retirement tier I creditable base.

There were short-term cash flow problems from September 2020 through April 2021 that required loans from the Railroad Retirement Account. These loans were fully repaid in August 2022.

There is currently a 1.5 percent surcharge in effect for calendar year 2023. This year's report indicates no surcharge for calendar year 2024, and with no surcharge predicted in 2025 or 2026 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 1.5 percent surcharge for calendar year 2023 are due April 2023 through March 2024. This timing causes higher contribution balances in fiscal years 2023 and 2024.

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 originally required reductions only through 2021. The mandatory sequestration provisions have been extended several times: through 2023 by the Bipartisan Budget Act (BBA) of 2013 (Public Law 113-67); through 2024 by the Military Retired Pay Restoration Act (Public Law 113-82); through 2025 by the BBA of 2015 (Public Law 114-74); through 2027 by the BBA of 2018 (Public Law 115-123); through 2029 by the BBA of 2019 (Public Law 116-37); through 2030 by the CARES Act (Public Law 116-136); and through 2031 by the Infrastructure Investment and Jobs Act (Public

Law 117-58). The Continued Assistance to Rail Workers Act of 2020 (Public Law 116-260) temporarily suspended sequestration from January 3, 2021 through May 9, 2023, 30 days after the Presidential declaration of the national emergency related to COVID-19 was terminated, with benefits currently sequestered at 5.7 percent through fiscal year 2031.

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 observed in 2020 and 2021 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 Social Security Administration's March 2023 Trustees Report, intermediate set of 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 2023-2033. 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, and (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, 2021 balance¹ of \$(46.2) million resulted in a 3.5 percent surcharge. By June 30, 2022, the balance had risen to \$112.7 million, still below the indexed \$100 million threshold; as a result, a 1.5 percent surcharge is in effect for calendar year 2023.

Under each assumption, the Account balance is expected to be above the indexed \$100 million surcharge thresholds in June 2023, resulting in no surcharge for calendar year 2024. For calendar years 2025 and 2026, no surcharge is predicted 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 rises to 6.33 percent for calendar year 2028. This high is below the 12 percent maximum rate allowable. Under the optimistic assumption, there is the possibility of a small pooled credit for 2025, which would be the first since 1994. The pessimistic assumption shows the possibility of a short-term loan in fiscal year 2027 that will be repaid in the same fiscal year.

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 Fund exceeds \$6 million at the end of a fiscal year, excess funds are transferred to the

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.

Account early in the next fiscal year. Under all employment assumptions, the accrual balance in the 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 2023 Report

Calendar Year	Average Employment (thousands)		
	A	B	C
2022	190	190	190
2023	195	193	191
2024	195	191	186
2025	195	189	182
2026	194	187	177
2027	194	184	173
2028	194	182	169
2029	193	180	165
2030	193	178	161
2031	193	176	157
2032	193	174	153
2033	192	172	149

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 44,000 under assumptions A and B, and to decline by 500 each year under assumption C.

Non-passenger employment is assumed to recover under all assumptions through CY 2023 and then decline at a constant annual rate of 0.2 percent, 1.5 percent, and 2.8 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]
2022	\$147,000	\$1,755	\$85
2023	160,200	1,895	87
2024	167,700	1,975	94
2025	174,900	2,050	98
2026	181,200	2,115	102
2027	188,700	2,195	105
2028	196,500	2,280	109
2029	204,600	2,365	114
2030	212,700	2,450	118
2031	221,400	2,545	122
2032	230,100	2,635	127
2033	239,400	2,735	131

[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)
2023	\$302.6	\$82.1	\$11.9	\$333.7	\$0.0	\$333.7	2023	6.23
2024	125.5	90.9	18.9	387.2	0.0	387.2	2024	0.71
2025	3.1	108.8	18.6	300.1	0.0	300.1	2025	0.72
2026	10.1	115.8	16.6	210.9	0.0	210.9	2026	0.99
2027	32.6	120.1	14.7	138.1	0.0	138.1	2027	1.59
2028	96.6	123.3	13.7	125.0	0.0	125.0	2028	3.37
2029	157.3	127.8	15.2	169.8	0.0	169.8	2029	3.73
2030	143.3	133.2	17.4	197.3	0.0	197.3	2030	2.70
2031	96.8	137.6	18.2	174.7	0.0	174.7	2031	1.95
2032	99.6	150.8	17.8	141.2	0.0	141.2	2032	2.65
2033	155.6	156.5	18.3	158.6	0.0	158.6	2033	3.63

[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, benefit amounts reflect a reduction of 5.7% under sequestration for days of unemployment and sickness after May 9, 2023 through September 30, 2031.

[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.

[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)
2023	\$296.9	\$82.1	\$11.8	\$327.9	\$0.0	\$327.9	2023	6.23
2024	122.4	97.3	17.9	370.9	0.0	370.9	2024	0.71
2025	3.4	116.9	17.2	274.6	0.0	274.6	2025	0.74
2026	13.1	129.7	14.4	172.3	0.0	172.3	2026	1.12
2027	43.8	133.4	11.8	94.5	0.0	94.5	2027	2.01
2028	123.7	135.6	10.7	93.2	0.0	93.2	2028	4.33
2029	193.4	139.1	12.3	159.9	0.0	159.9	2029	4.70
2030	163.7	143.6	14.5	194.5	0.0	194.5	2030	3.01
2031	100.0	146.8	14.8	162.5	0.0	162.5	2031	2.11
2032	99.5	159.4	13.5	116.0	0.0	116.0	2032	2.87
2033	160.5	163.8	13.3	126.0	0.0	126.0	2033	4.22

[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, benefit amounts reflect a reduction of 5.7% under sequestration for days of unemployment and sickness after May 9, 2023 through September 30, 2031.

[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.

[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)
2023	\$295.4	\$82.1	\$11.8	\$326.4	\$0.0	\$326.4	2023	6.23
2024	120.8	115.3	17.3	349.2	0.0	349.2	2024	0.71
2025	4.2	150.2	15.2	218.4	0.0	218.4	2025	0.78
2026	23.6	167.7	11.2	85.4	0.0	85.4	2026	1.58
2027	111.0	166.4	7.9	37.9	0.0	37.9	2027	4.65
2028	220.1	167.0	8.3	99.2	0.0	99.2	2028	6.33
2029	233.6	169.1	10.5	174.3	0.0	174.3	2029	5.14
2030	156.8	172.2	11.7	170.6	0.0	170.6	2030	2.92
2031	106.4	173.9	10.3	113.4	0.0	113.4	2031	2.90
2032	144.2	186.4	8.4	79.5	0.0	79.5	2032	4.44
2033	206.5	189.0	8.3	105.3	0.0	105.3	2033	5.42

[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, benefit amounts reflect a reduction of 5.7% under sequestration for days of unemployment and sickness after May 9, 2023 through September 30, 2031.

[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.

[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	
2023	\$353.6	\$149.9	\$75.0	\$347.4	\$147.3	\$73.7	\$345.6	\$146.8	\$73.4
2024	408.2	163.0	81.5	392.4	158.6	79.3	373.1	156.0	78.0
2025	324.2	169.4	84.7	299.0	163.2	81.6	247.6	158.5	79.3
2026	237.0	175.3	87.7	199.3	167.2	83.6	117.6	160.3 *	80.2
2027	165.3	180.9 *	90.4	122.2	170.8 *	85.4	69.5	161.6	80.8 *
2028	153.9	187.5 *	93.7	121.5	175.2 *	87.6	130.4	163.7 *	81.9
2029	199.6	194.4	97.2	188.3	179.9	89.9	205.1	165.9	82.9
2030	227.8	201.2	100.6	223.3	184.4	92.2	201.2	167.9	83.9
2031	206.3	208.3 *	104.1	192.0	189.0	94.5	144.4	169.8 *	84.9
2032	175.8	215.8 *	107.9	147.9	193.9 *	96.9	113.0	172.0 *	86.0
2033	194.3	223.2 *	111.6	158.0	198.6 *	99.3	138.9	173.9 *	86.9

The June 30, 2022 accrual balance was \$112,720,355.93 which resulted in a 1.5 percent surcharge in calendar year 2023. The indexed 1.5 percent surcharge threshold was \$137,906,353.00 and the indexed 2.5 percent surcharge threshold was \$68,953,176.50.

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 is less than zero.

* *Account balance below surcharge threshold*