

## **RAILROAD RETIREMENT BOARD**

### **Social Security Equivalent Benefit Account** **Budget Account - 60-8010-0-7-601**

The Railroad Retirement Solvency Act of 1983 amended the Railroad Retirement Act to establish a Social Security Equivalent Benefit (SSEB) Account beginning October 1, 1984. The SSEB Account, which is separate from other railroad retirement accounts, is used to record revenues and expenditures related to social security equivalent portions (similar to "tier I" amounts) of railroad retirement annuities. Accordingly, funds in the SSEB Account are used to pay social security equivalent benefits and related administrative expenses. A social security equivalent benefit is the portion of a railroad retirement annuity that corresponds to an amount calculated under social security formulas, but is based on combined railroad retirement and social security credits.

The following amounts are included as revenue to the SSEB Account:

- (1) payroll taxes,
- (2) income taxes attributable to taxation of the social security portion of railroad retirement annuities,
- (3) financial interchange transfers from the social security trust funds provided by Section 7(c) of the Railroad Retirement Act,
- (4) interest on uncashed checks, and
- (5) interest on investments.

In a relatively small number of cases, the railroad retirement system does not pay benefits when social security would pay benefits. In these cases, mainly dependent children of retired railroad employees, the SSEB Account collects an amount through the financial interchange but does not pay a corresponding benefit. This imbalance between outgo and income is relatively small in any particular year. Section 107(c) of the Railroad Retirement and Survivors' Improvement Act of 2001 provides that amounts in the SSEB Account not needed for payment of current benefits and administrative expenses will be transferred to the National Railroad Retirement Investment Trust.

### **Requested appropriation**

The table on pages 2 and 3 identifies the estimated budget authority and outlays for this account for fiscal years 2003 through 2013, which are based on the Office of Management and Budget's (OMB) June 2003 mid-session economic assumptions. The estimates reflect current law.

**RAILROAD RETIREMENT BOARD**

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**Social Security Equivalent Benefit Account**  
**(Budget Account - 60-8010-0-7-601)**

**Analysis of Resources**  
**(in thousands of dollars)**

	<u>2003</u>	<u>2004</u>	<u>2005</u>		
			<b><u>Current</u></b>		
			<b><u>services</u></b>		
Budget authority.....	6,820,000	5,599,000	5,703,000		
Outlays.....	6,808,000	5,590,000	5,692,000		
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Budget authority:					
Current services.....	5,644,000	5,753,000	5,906,000	6,028,000	6,165,000
Outlays:					
Current services.....	5,636,000	5,743,000	5,891,000	6,009,000	6,150,000

Notes: In March 2003, the RRB paid tier I benefits to 530,000 beneficiaries. The RRB estimates that in March 2004 and 2005, the agency will pay these benefits to 522,000 and 510,000 beneficiaries, respectively.

Outlay amounts reflect anticipated transfers to the National Railroad Retirement Investment Trust (NRRIT).

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**Social Security Equivalent Benefit Account**  
**(Budget Account - 60-8010-0-7-601)**

**Analysis of Resources**  
**(in thousands of dollars)**

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Budget authority:			
Current services.....	6,258,000	6,435,000	6,640,000
Outlays:			
Current services.....	6,243,000	6,419,000	6,622,000

## **RAILROAD RETIREMENT BOARD**

### **Railroad Retirement Account** **Budget Account - 60-8011-0-7-601**

Under the Railroad Retirement Act, the RRB pays retirement and disability annuities to qualified railroad workers. Supplemental annuities are payable to career railroad employees with service before October 1981. Annuities are also payable to spouses and divorced spouses of retired workers and to widows, widowers, children, and certain other survivors of deceased railroad workers. There are also provisions for lump-sum benefits. Qualified railroad retirement beneficiaries are also covered by Medicare in the same way as social security beneficiaries.

The Railroad Retirement Account funds the above-described benefits in excess of social security benefits. Funding is primarily from payroll taxes on railroad employers and employees, interest on trust fund investments and income taxes attributable to these benefits.

The Railroad Retirement and Survivors' Improvement Act of 2001 (P.L. 107-90) made a number of major changes to the Railroad Retirement Act. In addition to other provisions, P.L. 107-90 provides for the transfer of railroad retirement funds from the Railroad Retirement Account to the National Railroad Retirement Investment Trust (NRRIT), whose Board of Trustees is empowered to invest Trust assets in non-governmental assets, such as equities and debt, as well as in governmental securities. NRRIT is not treated as an agency or instrumentality of the Federal Government.

P.L. 107-90 also repealed the railroad retirement supplemental annuity tax paid by rail employers beginning with calendar year 2002, and eliminated the separate Railroad Retirement Supplemental Account. While supplemental railroad retirement annuities provided by the Railroad Retirement Act continue to be due and payable, they are now funded through the Railroad Retirement Account, and NRRIT. Section 107(a) of P.L. 107-90 provides for the transfer of available funds to NRRIT for the purpose of maximizing investment returns.

### **Requested appropriation**

The table on pages 5 and 6 identifies estimated budget authority and outlays for this account for fiscal years 2003 through 2013. The estimates are based on OMB's June 2003 mid-session economic assumptions and reflect current law.

**RAILROAD RETIREMENT BOARD**

**Railroad Retirement Account**  
**(Budget Account - 60-8011-0-7-601)**

**Analysis of Resources**  
**(in thousands of dollars)**

	<u>2003</u>	<u>2004</u>	<u>2005</u>		
			<u>Current</u>		
			<u>services</u>		
Budget authority.....	21,346,000	4,497,000	2,462,000		
Outlays.....	21,348,000	4,492,000	2,462,000		
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Budget authority:					
Current services.....	2,494,000	2,537,000	2,578,000	2,622,000	2,658,000
Outlays:					
Current services.....	2,494,000	2,537,000	2,578,000	2,622,000	2,658,000

Notes: The RRB paid tier II benefits to 599,000 beneficiaries in March 2003. The agency expects to pay these benefits to 589,000 beneficiaries in March 2004, and 576,000 beneficiaries in March 2005. The RRB also paid supplemental annuities to 130,000 beneficiaries in March 2003. The agency expects to pay supplemental annuities to 127,000 beneficiaries in March 2004, and 124,000 beneficiaries in March 2005.

Budget authority and outlay amounts for fiscal years 2003 and 2004 include tier II benefits, supplemental annuities, and actual and potential transfers to NRRIT. Assuming NRRIT begins to pay benefits in fiscal year 2005, the Railroad Retirement Account estimates for fiscal years 2005 through 2013 reflect anticipated transfers to NRRIT and exclude payments of tier II benefits and supplemental annuities.

**RAILROAD RETIREMENT BOARD****Railroad Retirement Account**  
**(Budget Account - 60-8011-0-7-601)****Analysis of Resources**  
**(in thousands of dollars)**

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Budget authority:			
Current services.....	2,695,000	2,735,000	2,776,000
Outlays:			
Current services.....	2,695,000	2,735,000	2,776,000

## **RAILROAD RETIREMENT BOARD**

### **Federal Payments to the Railroad Retirement Accounts** **Budget Account - 60-0113-0-1-601**

This account was established in conjunction with the implementation of the Railroad Retirement Solvency Act of 1983. It facilitates the administration of the Railroad Retirement Act by maintaining accurate accounting of, and control over, various financial transactions involving the railroad retirement trust funds. This account acts as a conduit for various financial transactions, such as interfund transfers and fund transfers from the Department of the Treasury (Treasury).

#### **Interest on uncashed checks**

Section 417 of the Railroad Retirement Solvency Act of 1983 amended the Railroad Retirement Act to provide for the reimbursement of principal and interest for unnegotiated railroad retirement benefit checks to the extent that such reimbursements are provided for in advance in appropriation acts. Beginning in fiscal year 1991, the principal amount of uncashed railroad retirement and railroad unemployment insurance checks and checks for administrative expenses, under provisions of the Competitive Equality Banking Act of 1987, are made available by Treasury. Treasury transfers principal amounts directly to the appropriate trust fund or administrative limitation. As a result, the RRB is no longer required to seek prior appropriation authority for the principal amount of the uncashed check transfers. Interest on uncashed checks, however, must still be appropriated in advance. This account is the vehicle through which such appropriations are made. Under current law, the RRB requests \$150,000 for estimated interest related to uncashed checks in fiscal year 2005, which shall remain available through September 30, 2006.

#### **Military service credits**

In accordance with, and pursuant to, Section 15(b) of the Railroad Retirement Act, the RRB also requests appropriations to the Federal Payments to the Railroad Retirement Accounts for reimbursement of costs (including interest, administrative expenses, and an actuarial adjustment) for crediting military service not reimbursed under the financial interchange. Both the railroad retirement system and the social security system are entitled to reimbursement for the cost of military service credits. Depending on the period during which the military service was rendered, the reimbursement may be made on either a benefit or prepaid tax basis. Reimbursement on a tax basis is accomplished by paying payroll taxes for individuals in military service. No additional reimbursement is due at retirement for military service credits reimbursed on a tax basis. Reimbursement on a benefit basis is accomplished by computing the value of retirement and survivor benefits with and without military service and requesting reimbursement based on this difference.

The Railroad Retirement Account has received full reimbursement for the tax basis periods. No reimbursements from general revenue have been received for the benefit basis periods:

- June 15, 1948, through December 15, 1950, creditable under P.L. 100-647, and
- July 1, 1963, and later.

We sought concurrence with our methodology for computing the reimbursable amount from the Social Security Administration (SSA), Treasury and OMB. We received responses from SSA and Treasury. SSA concurred with our methodology while Treasury stated that they had no role in this particular process. Section 15(b) requires that these reimbursements from the general funds be authorized in advance by an appropriation act. The fiscal year 2005 appropriation request includes \$195,892,062 for applicable military service credits through December 1999, with interest through August 1, 2003. Excluded are all costs for which the RRB has already received credits.

### **Other transfers**

Appropriations are not necessary for other amounts that flow through this account to the appropriate trust fund accounts under authorizing legislation. Amounts expected to be transferred through this account in fiscal year 2005 that do not require appropriation action include \$117 million in income taxes on tier I benefits and \$301 million in income taxes on tier II benefits.

### **Requested appropriation**

The table on pages 9 and 10 shows the estimated budget authority and outlays for this account for fiscal years 2003 through 2013. The estimates are based on OMB's June 2003 mid-session economic assumptions. The current services level includes interest amounts on uncashed checks for all years.

**RAILROAD RETIREMENT BOARD**

**Federal Payments to the Railroad Retirement Accounts**  
**(Budget Account - 60-0113-0-1-601)**

**Analysis of Resources**  
**(in thousands of dollars)**

	<u>2003</u>	<u>2004</u>	<u>2005</u>		
			<b><u>Current</u></b>		
			<b><u>services</u></b>		
Budget authority.....	444,285	431,290	614,042		
Outlays.....	444,285	431,290	614,042		
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Budget authority:					
Current services.....	434,150	454,150	482,150	501,150	520,150
Outlays:					
Current services.....	434,150	454,150	482,150	501,150	520,150

Note: Fiscal year 2005 budget authority and outlay amounts for current services include \$195,892,062 for military service credits through December 1999, with interest through August 1, 2003.

**RAILROAD RETIREMENT BOARD**

**Federal Payments to the Railroad Retirement Accounts**  
**(Budget Account - 60-0113-0-1-601)**

**Analysis of Resources**  
**(in thousands of dollars)**

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Budget authority:			
Current services.....	557,150	591,150	624,150
Outlays:			
Current services.....	557,150	591,150	624,150

## **RAILROAD RETIREMENT BOARD**

### **Dual Benefits Payments Account** **Budget Account - 60-0111-0-1-601**

Section 15(d) of the Railroad Retirement Act provides for a Dual Benefits Payments Account which is separate from other railroad retirement accounts. The vested dual benefit portion of railroad retirement annuities is paid from this account and is funded by appropriations from general revenues.

#### **Legislative history**

Under laws in effect prior to 1975, a worker engaging in covered employment under both the Railroad Retirement Act and Social Security Act could receive benefits separately under both Acts. Because the social security benefit formula is weighted in favor of the low wage earner, the total of a worker's benefits from both systems averaged more than annuities of railroad employees who worked in the rail industry exclusively, and who had paid proportionally higher retirement taxes for the purpose of receiving higher benefits. The cost of the dual benefits was borne by the railroad retirement system since they reduced the system's income from its financial interchange with the social security system.

This situation was the major cause of the poor financial condition of the railroad retirement system in the early 1970's. In order to improve the system's financial condition, the Railroad Retirement Act of 1974 provided that the tier I component of the railroad retirement annuity be reduced by any social security benefit. This essentially integrated the two systems and eliminated the advantage of qualifying for benefits under both systems.

However, it was generally considered unfair to eliminate this advantage entirely for those already retired or close to retirement when the 1974 Act became effective. The 1974 Act, therefore, provided for a restoration of benefits which were considered vested at the end of 1974. The restored amount was known as the "vested dual benefit."

After considering various alternatives, the Congress authorized general fund appropriations to finance the cost of phasing out dual benefits. The Congress considered it unfair to impose this cost on current and future railroad employees because such employees would not be permitted to receive dual benefits upon retirement (except where vested rights were involved). Similarly, the Congress believed that it would be unfair to impose this cost on railroads because railroads had not benefited and had consistently opposed the creation and expansion of dual benefits. Financing the vested dual benefit component of railroad retirement annuities from general revenues was supported by a precedent regarding military service and by the fact that the dual benefit problem had been brought about by prior Congressional action repealing past dual benefit restrictions over the objections of the railroads.

Under the 1974 Act, appropriations had been authorized from general revenues for the phase-out costs of vested dual benefits. The amounts were to be sufficient to fund vested dual benefits on a level payment basis over the years 1976 through 2000. Because there was no provision in the law to reduce vested dual benefits to a level that would be fully covered by the amount appropriated, railroad retirement taxes were being used to cover the shortfall in the appropriation from general revenues. This led to a drain on the Railroad Retirement Account and contributed to a cash flow crisis.

To stop the resulting drain on the Railroad Retirement Account, the 1981 amendments changed vested dual benefits to a pay-as-you-go basis rather than a level-payment system. Starting in fiscal year 1982, vested dual benefits were to be reduced so as not to exceed the amount of the annual appropriation.

The Railroad Retirement Solvency Act of 1983 provided that revenues generated from income taxes on vested dual benefits be credited to the Railroad Retirement Account for fiscal years 1984 through 1988, and thereafter to the Dual Benefits Payments Account. Thus, since fiscal year 1989, these taxes have been credited to the Dual Benefits Payments Account and applied as an offset to the amount of funding needed from general revenues.

### **Requested appropriation**

The table on pages 13 and 14 identifies the estimated budget authority and outlays for the Dual Benefits Payments Account for fiscal years 2003 through 2013.

The estimate for fiscal year 2004 includes \$119,000,000 for the payment of vested dual benefits, as shown in the table on the following page, plus a 2 percent reserve (\$2,380,000) to become available "proportional to the amount by which the product of recipients and the average benefit received exceeds \$119,000,000."

For fiscal year 2005, the RRB requests an appropriation of \$108,000,000 to pay vested dual benefits, plus a 2 percent reserve of \$2,160,000 to become available in proportion to the amount by which the product of recipients and the average benefit exceeds \$108,000,000. An estimated \$7,000,000 in income taxes on these benefits will be credited to the Dual Benefits Payments Account.

The estimates for fiscal years 2003 through 2013 are based on OMB's mid-session economic assumptions as of June 2003.

**RAILROAD RETIREMENT BOARD**

**Dual Benefits Payments Account**  
**(Budget Account - 60-0111-0-1-601)**

**Analysis of Resources**  
**(in thousands of dollars)**

	<u>2003</u>	<u>2004</u>	<u>2005</u>		
			<b><u>Current</u></b>		
			<b><u>Services</u></b>		
Budget authority.....	131,147	119,003	108,003		
Outlays.....	131,147	119,003	108,003		
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Budget authority:					
Current services.....	97,003	87,002	77,002	69,002	60,002
Outlays:					
Current services.....	97,003	87,002	77,002	69,002	60,002

Note: The budget estimates for this account include its share of interest on unnegotiated checks.

The RRB paid vested dual benefits to 73,000 beneficiaries in March 2003. The agency expects to pay these benefits to 65,000 beneficiaries in March 2004 and 59,000 beneficiaries in March 2005.

**RAILROAD RETIREMENT BOARD**

**Dual Benefits Payments Account**  
**(Budget Account - 60-0111-0-1-601)**

**Analysis of Resources**  
**(in thousands of dollars)**

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Budget authority:			
Current services.....	53,001	46,001	40,001
Outlays:			
Current services.....	53,001	46,001	40,001