

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
June 2011

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 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 2011.

II. Recent Developments

The maximum daily benefit increased from \$64 to \$66 beginning July 1, 2010, and will remain the same for the benefit years beginning July 1, 2011 and July 1, 2012. The monthly tax base was \$1,330 in 2009, and remained unchanged in 2010 and 2011. It is based on the railroad retirement tier I creditable base, which remained the same during that period.

Average employment in calendar year 2010 was 221,000 (subject to later revision), which is above the optimistic assumption in last year's report. Actual net unemployment and sickness benefits in fiscal year 2010 were \$15.2 million (9.8 percent) less than last year's projection. This year's report predicts that the 2.5 percent surcharge in calendar year 2011 will be followed by either a 1.5 percent surcharge or a 2.5 percent surcharge for calendar year 2012. Under all assumptions, no surcharge is predicted for calendar years 2013 and 2014.

Due to short-term cash flow problems, \$46.5 million was borrowed from the Railroad Retirement Account during fiscal year 2010. The loans are expected to be fully repaid by the end of fiscal year 2011.

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 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 May 2011 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 employment assumption for the 11 fiscal years 2011-2021. 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, one for each employment projection A, B, and C. The tables show (1) contributions, excluding the portion allocated to the Administration 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 taxable 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, contributions are increased by a surcharge.

The June 30, 2009 balance¹ was \$73.5 million, above the indexed \$50 million surcharge threshold of \$67.2 million but below the indexed \$100 million surcharge threshold of \$134.4 million. As a result, a 1.5 percent surcharge was in effect for calendar year 2010. By June 30, 2010, the balance had fallen to \$0.1 million, which was above zero but below the indexed \$50 million surcharge threshold of \$63.5 million. Consequently, a 2.5 percent surcharge is in effect for calendar year 2011.

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.

Under each employment assumption, the Account balance is expected to be slightly below the indexed \$50 million threshold in June of 2011, resulting in a 2.5 percent surcharge² in calendar year 2012. All three assumptions show no surcharge in calendar years 2013 and 2014. For all three assumptions, a surcharge of at least 1.5 percent is likely to occur periodically after calendar year 2014. All assumptions show full repayment of the loans by the end of fiscal year 2011. The highest average contribution rate needed is 6.36 percent for calendar year 2011. This is well below the 12 percent maximum rate allowable.

Administrative expenses are assumed to be above the current level in every fiscal year. Nevertheless, the 0.65 percent of taxable payroll allocated to the Administration 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 employment assumptions indicate that experience-based contribution rates will respond to fluctuating employment and unemployment levels and thereby maintain fund solvency.

² The difference between the expected June 30, 2011, balance and the expected indexed \$50 million threshold is quite small, between \$2.4 million and \$5.2 million. Consequently, based on actual amounts which will be calculated later this year, it is entirely possible that the surcharge in calendar year 2012 will be only 1.5 percent rather than 2.5 percent. If that were to happen, we would expect no surcharge in calendar year 2013, with only a moderate chance of a surcharge in 2014 under the pessimistic assumption. Surcharges would occur periodically thereafter. Under all assumptions in this scenario, there would be no cash flow problems.

Table 1: Employment Assumptions Used in 2011 Report

Calendar Year	Average Employment (thousands)		
	A	B	C
2010	221	221	221
2011	220	218	214
2012	219	214	208
2013	218	211	202
2014	218	207	196
2015	217	204	190
2016	216	201	184
2017	215	198	179
2018	214	195	173
2019	213	192	168
2020	212	189	163
2021	212	186	158

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 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]
2010	\$106,800	\$1,330	\$66
2011	106,800	1,330	66
2012	110,700	1,370	66
2013	114,900	1,415	68
2014	120,000	1,470	70
2015	125,400	1,525	73
2016	130,800	1,585	76
2017	135,900	1,640	79
2018	141,300	1,695	82
2019	146,700	1,750	84
2020	153,300	1,820	87
2021	159,600	1,890	91

[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	Other Income and Outgo [2]	Account Cash Balance Year End	Loan Balance Year End [3]	Account Cash Balance Less Loans Due Year End	Calendar Year	Average Employer Contribution Rate (Percent)
2011	\$148.5	\$97.5	(\$39.9)	\$40.4	\$0.0	\$40.4	2011	6.36
2012	197.6	86.6	11.6	163.0	0.0	163.0	2012	5.81
2013	110.7	86.2	15.0	202.6	0.0	202.6	2013	1.48
2014	24.0	87.8	15.8	154.6	0.0	154.6	2014	1.07
2015	23.2	90.3	14.7	102.2	0.0	102.2	2015	1.39
2016	67.9	93.7	14.2	90.7	0.0	90.7	2016	3.17
2017	118.1	97.2	15.8	127.4	0.0	127.4	2017	3.67
2018	110.7	100.6	18.6	156.1	0.0	156.1	2018	2.69
2019	73.8	103.6	19.7	146.0	0.0	146.0	2019	1.89
2020	68.4	106.0	19.1	127.5	0.0	127.5	2020	2.34
2021	99.2	109.7	19.4	136.4	0.0	136.4	2021	3.06

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

[2] 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, including interest.

[3] 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	Other Income and Outgo [2]	Account Cash Balance Year End	Loan Balance Year End [3]	Account Cash Balance Less Loans Due Year End	Calendar Year	Average Employer Contribution Rate (Percent)
2011	\$147.2	\$97.5	(\$39.9)	\$39.1	\$0.0	\$39.1	2011	6.36
2012	194.4	97.5	11.1	147.1	0.0	147.1	2012	5.83
2013	111.7	96.6	13.8	176.1	0.0	176.1	2013	1.67
2014	30.4	97.8	13.8	122.5	0.0	122.5	2014	1.28
2015	43.5	99.5	12.5	79.0	0.0	79.0	2015	2.31
2016	94.7	102.1	12.1	83.8	0.0	83.8	2016	3.88
2017	128.9	104.5	13.7	121.9	0.0	121.9	2017	3.96
2018	108.1	106.9	16.0	139.1	0.0	139.1	2018	2.74
2019	74.1	108.9	15.9	120.2	0.0	120.2	2019	2.20
2020	79.1	110.1	14.9	104.1	0.0	104.1	2020	2.89
2021	109.2	112.5	15.1	115.9	0.0	115.9	2021	3.53

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

[2] 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, including interest.

[3] 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	Other Income and Outgo [2]	Account Cash Balance Year End	Loan Balance Year End [3]	Account Cash Balance Less Loans Due Year End	Calendar Year	Average Employer Contribution Rate (Percent)
2011	\$145.8	\$97.5	(\$39.9)	\$37.7	\$0.0	\$37.7	2011	6.36
2012	190.4	109.9	10.6	128.8	0.0	128.8	2012	5.84
2013	113.1	115.2	12.3	139.1	0.0	139.1	2013	1.94
2014	41.2	122.4	11.2	69.1	0.0	69.1	2014	1.71
2015	80.8	122.5	9.0	36.4	0.0	36.4	2015	4.15
2016	150.4	123.9	9.3	72.3	0.0	72.3	2016	5.59
2017	161.5	125.1	11.7	120.4	0.0	120.4	2017	4.73
2018	116.2	126.1	13.0	123.5	0.0	123.5	2018	3.04
2019	81.6	126.5	11.9	90.5	0.0	90.5	2019	2.79
2020	98.1	126.1	10.2	72.7	0.0	72.7	2020	3.92
2021	133.0	127.0	10.1	88.8	0.0	88.8	2021	4.66

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

[2] 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, including interest.

[3] 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	Account Balance	1.5 Percent Surcharge Threshold	Account Balance	1.5 Percent Surcharge Threshold
2011	\$63.1	\$131.0	\$61.6	\$130.6	\$59.9	\$130.2
2012	181.7	130.8	166.9	128.8	149.7	126.5
2013	221.3	134.3	195.8	130.7	160.5	126.4
2014	173.9	138.3	142.9	133.0	91.7	126.8
2015	122.7	143.1	100.1	136.0	59.4	127.8
2016	111.7	147.9	105.2	138.9	94.8	128.6
2017	148.8	153.0	143.4	141.9	142.5	129.5
2018	177.5	157.6	160.5	144.5	145.4	130.0
2019	167.5	162.2	141.7	147.0	112.0	130.3
2020	150.2	167.1	126.3	149.7	94.2	130.8
2021	160.5	173.0	138.7	153.3	110.3	131.9

The June 30, 2010 accrual balance was \$109,226.81. The indexed 1.5 percent surcharge threshold was \$126,999,354 and the indexed 2.5 percent surcharge threshold was \$63,499,677.

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 (not shown) is indexed from a \$50 million base.