UNITED STATES OF AMERICA
RAILROAD RETIREMENT BOARD
844 NORTH RUSH STREET
CHICAGO, ILLINOIS 60611-2092

BOARD MEMBERS:

MICHAEL S. SCHWARTZ, CHAIRMAN
V.M. SPEAKMAN, JR., LABOR MEMBER
JEROME F. KEVER, MANAGEMENT MEMBER

FEB 09 2006

Honorable Richard B. Cheney
President of the Senate
Washington, D.C. 20510

Dear Mr. President:

In compliance with the Office of Management and Budget (OMB) Circular No. A-11, enclosed is our Congressional Justification of Budget Estimates for Fiscal Year 2007, which includes our Performance Budget for the year. This budget complies with OMB guidance and is in accordance with the President's proposals. The President's proposed budget provides for $103,517,570 for the Railroad Retirement Board's (RRB) administrative expenses in fiscal year 2007.

The Railroad Retirement Board is an independent agency in the executive branch of the Federal Government. The RRB's primary function is to administer comprehensive retirement/survivor and unemployment/sickness insurance benefit programs for the nation's railroad workers and their families under the Railroad Retirement and Railroad Unemployment Insurance Acts. In connection with the retirement program, the RRB has administrative responsibilities under the Social Security Act for certain benefit payments and railroad workers' Medicare coverage. It also assists in the administration of the Internal Revenue Code.

The President's proposed budget for fiscal year 2007 would provide $2 million more than our fiscal year 2006 appropriation. The additional funding is intended for information technology (IT) improvements, which are needed to maintain high-quality customer service. The RRB is currently engaged in a major multi-year project to transition our mainframe non-relational database management system to a current technology mainframe relational database system, DB2/CICS. We expect to complete the transition in fiscal year 2007, as well as begin the next phase of the project, to optimize the performance of our databases and further reduce data redundancy. The proposed budget would provide a total of $2.7 million for IT investments in fiscal year 2007, including $1,557,000 directly related to this project.

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In fiscal year 2005, we approved a plan to better position the agency's field service for the future. The plan calls for a hub and spoke structure with a number of service centers that will provide face-to-face and telephone service for the agency's customers. The plan would also facilitate consolidation of agency field offices, provide for co-location of field offices with other entities, and provide for introduction of virtual offices in the field. In fiscal year 2006, we contracted with Hewitt Associates LLC to review the plan and develop a 5-year plan for a reorganization which would demonstrate out-year savings without serious erosion of customer service. The next step would be to seek input from our stakeholders concerning their needs and to verify the costs and savings associated with adoption of the Hewitt proposal or some alternative structure.

To a large degree, these changes are required by budget-driven staffing reductions, which continue to be a major consideration for the RRB. Under current law, the President's proposed level of funding would be sufficient for a staffing level of only 895 full-time equivalent staff years (FTE's), which represents a decrease of 53 FTE's from our planned staffing in fiscal year 2006. To achieve this reduced staffing level, we would need to conduct a reduction-in-force of 31 employees at the beginning of fiscal year 2007.

A reduction-in-force could be avoided, however, if we are not required to contract with a nongovernmental disbursement agent in fiscal year 2007, at a cost of approximately $2.9 million, compared to the $800,000 cost of having the Department of the Treasury continue to disburse railroad retirement benefits. Although the Railroad Retirement and Survivors' Improvement Act of 2001 (P.L. 107-90) requires that the RRB enter into an arrangement with a nongovernmental financial institution to serve as disbursement agent for railroad retirement benefit payments, the Congress added language to the Departments of Labor, Health and Human Services, and Education, and Related Agencies Appropriations Act, 2006, prohibiting the expenditure of funds appropriated by that act for a nongovernmental disbursement agent. We submitted legislation to the House and Senate on May 5, 2005, to permit the Department of the Treasury to continue to make payments of railroad retirement benefits.

In addition to the requests for administrative expenses, the President's budget includes $88 million to fund the continuing phase-out costs for vested dual benefits. An additional amount, not to exceed $1,760,000, would also become available to pay for vested dual benefits if the product of recipients and the average benefit received exceeds $88 million. Also presented in the budget is a request for $150,000 for interest related to uncashed railroad retirement checks. The $150,000 is being requested for a 2-year period, and would be available through September 30, 2008. All of the amounts presented in this letter exclude

funding for the RRB's Office of Inspector General, which submits separate budget and performance information.

We believe that our request for fiscal year 2007 represents the minimal amount needed to maintain our benefit payment systems which are of great importance to the railroad public. We appreciate your consideration of our request for an administrative budget of $103,517,570.

Sincerely,

Michael S. Schwartz

V. M. Speakman, Jr.

Jerome F. Kever

Enclosure

cc: Honorable Joshua B. Bolten, Director
Office of Management and Budget