

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 2016**

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 2016.

II. Recent Developments

The maximum daily benefit of \$72 for the benefit year beginning July 1, 2015 will remain the same for the benefit years beginning July 1, 2016 and July 1, 2017. The monthly tax base increased from \$1,440 in 2014 to \$1,455 in 2015 and remained at \$1,455 in 2016 based on changes in the railroad retirement tier I creditable base.

Average employment in calendar year 2015 was 246,000 (subject to later revision), which is above the optimistic assumption in last year's report. During calendar year 2015, employment peaked at an estimated 252,000 in April 2015 and then declined. The decline continued into 2016 reaching an estimated 225,000 in April 2016 which is the latest available. Actual net unemployment and sickness benefits in fiscal year 2015 were \$4.6 million (5.8 percent) more than last year's projection. There is currently a 1.5 percent surcharge in calendar year 2016. This year's report predicts that there will be a surcharge of 1.5 percent in calendar years 2017 and 2018 under each assumption. A surcharge of 1.5 percent is predicted for 2019 under the pessimistic assumption and is likely for 2019 under the intermediate and optimistic assumptions.

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. Benefit estimates for fiscal years 2016 and 2017 reflect amounts after sequestration. However, since the actual sequestration percentages applicable to future years are unknown, benefit estimates for fiscal years 2018 and later are not reduced for possible sequestration.

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. Due to the unavailability of the Social Security Administration's 2016 Trustees 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 December 2015 economic 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 2016-2026. 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 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 June 30, 2014 balance¹ of \$140.8 million was above the indexed \$50 million surcharge threshold of \$70.6 million but below the indexed \$100 million surcharge threshold of \$141.2 million. As a result, a 1.5 percent surcharge was in effect for calendar year 2015. By June 30, 2015, the balance had fallen to \$120.1 million, which was below the indexed \$100 million surcharge threshold of \$152.9 million but above the indexed \$50 million surcharge threshold of \$76.5 million. Consequently, a 1.5 percent surcharge is in effect for calendar year 2016.

Under each employment assumption, the Account balance is expected to be below the indexed \$100 million threshold in June 2016 and June 2017, resulting in a 1.5 percent surcharge in calendar years 2017 and 2018. A surcharge of 1.5 percent is predicted for 2019 under the pessimistic assumption and is likely for 2019 under the intermediate and optimistic assumptions. Surcharges of 1.5 percent are likely to intermittently occur thereafter. The highest average contribution rate needed in the 11-year projection period is under employment assumption C, where it rises to 5.09 percent for calendar year 2019. This is well below the 12 percent maximum rate allowable.

Administrative expenses are assumed to be above current levels 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.

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.

Table 1: Employment Assumptions Used in 2016 Report

Calendar Year	Average Employment (thousands)		
	A	B	C
2015	246	246	246
2016	229	226	223
2017	228	223	216
2018	227	219	210
2019	226	216	204
2020	225	212	197
2021	225	209	192
2022	224	206	186
2023	223	203	180
2024	222	199	175
2025	221	196	170
2026	220	193	165

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 46,000 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. While actual average employment of 246,000 was used for 2015 to calculate contributions and qualified employees, the rates of decline for all assumptions were applied to a 2015 base of 230,000 to more accurately reflect the current employment environment.

**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]
2015	\$118,500	\$1,455	\$72
2016	118,500	1,455	72
2017	126,000	1,535	72
2018	129,000	1,565	76
2019	132,900	1,605	78
2020	137,700	1,655	80
2021	142,800	1,710	82
2022	148,500	1,770	85
2023	154,500	1,835	88
2024	160,800	1,900	91
2025	167,400	1,970	95
2026	174,600	2,050	98

[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)
2016	\$90.0	\$130.7	\$14.3	\$68.6	\$0.0	\$68.6	2016	3.02
2017	105.9	115.1	12.3	71.7	0.0	71.7	2017	3.42
2018	125.5	105.1	12.8	104.9	0.0	104.9	2018	3.79
2019	125.2	96.9	14.8	148.0	0.0	148.0	2019	3.31
2020	84.3	97.7	16.3	150.9	0.0	150.9	2020	1.83
2021	50.0	99.8	16.6	117.7	0.0	117.7	2021	1.67
2022	73.9	102.2	15.7	105.2	0.0	105.2	2022	2.76
2023	111.2	105.5	16.8	127.7	0.0	127.7	2023	3.13
2024	112.3	108.7	18.5	149.8	0.0	149.8	2024	2.68
2025	90.4	112.3	19.6	147.5	0.0	147.5	2025	2.14
2026	87.4	116.4	19.9	138.4	0.0	138.4	2026	2.43

[1] 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 by the Budget Control Act of 2011, the fiscal year 2016 amount reflects a reduction of 6.8% under sequestration for days of unemployment and sickness after September 30, 2015. The fiscal year 2017 amount reflects a reduction of 6.9% under sequestration for days after September 30, 2016.

[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)
2016	\$89.4	\$130.7	\$14.3	\$68.0	\$0.0	\$68.0	2016	3.02
2017	103.9	121.7	11.9	62.1	0.0	62.1	2017	3.42
2018	124.8	111.0	11.9	87.8	0.0	87.8	2018	3.94
2019	133.0	107.9	13.2	126.1	0.0	126.1	2019	3.78
2020	107.5	108.1	14.5	140.0	0.0	140.0	2020	2.66
2021	72.0	109.1	14.8	117.7	0.0	117.7	2021	2.03
2022	74.4	110.4	13.7	95.5	0.0	95.5	2022	2.69
2023	105.8	112.6	13.6	102.3	0.0	102.3	2023	3.38
2024	124.3	114.7	14.6	126.5	0.0	126.5	2024	3.43
2025	111.8	117.1	15.8	137.0	0.0	137.0	2025	2.74
2026	91.2	120.0	15.8	124.0	0.0	124.0	2026	2.44

[1] 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 by the Budget Control Act of 2011, the fiscal year 2016 amount reflects a reduction of 6.8% under sequestration for days of unemployment and sickness after September 30, 2015. The fiscal year 2017 amount reflects a reduction of 6.9% under sequestration for days after September 30, 2016.

[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)
2016	\$88.7	\$130.7	\$14.3	\$67.3	\$0.0	\$67.3	2016	3.02
2017	101.8	136.7	11.5	43.9	0.0	43.9	2017	3.43
2018	128.9	138.8	10.2	44.2	0.0	44.2	2018	4.36
2019	160.5	134.8	10.8	80.7	0.0	80.7	2019	5.09
2020	159.8	134.2	11.8	118.1	0.0	118.1	2020	4.35
2021	119.6	133.5	12.7	116.9	0.0	116.9	2021	3.04
2022	94.1	133.2	11.4	89.3	0.0	89.3	2022	3.03
2023	109.1	133.9	10.3	74.8	0.0	74.8	2023	3.76
2024	135.3	134.5	10.0	85.6	0.0	85.6	2024	4.32
2025	143.4	135.2	10.7	104.5	0.0	104.5	2025	4.13
2026	130.5	136.5	10.9	109.4	0.0	109.4	2026	3.63

[1] 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 by the Budget Control Act of 2011, the fiscal year 2016 amount reflects a reduction of 6.8% under sequestration for days of unemployment and sickness after September 30, 2015. The fiscal year 2017 amount reflects a reduction of 6.9% under sequestration for days after September 30, 2016.

[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 Surcharge Threshold	Account Balance	1.5 Percent Surcharge Threshold	Account Balance	1.5 Percent Surcharge Threshold
2016	\$102.4	\$152.8	\$101.6	\$152.3	\$100.8	\$151.8
2017	102.6	146.9	93.9	144.6	77.8	142.0
2018	135.4	153.0	118.9	148.9	79.8	144.1
2019	176.2	155.6	155.4	149.6	113.9	142.7
2020	179.5	159.1	169.4	151.2	150.7	142.2
2021	146.5	163.5	147.0	153.5	148.4	142.3
2022	134.9	168.4	125.2	156.2	120.7	142.7
2023	158.0	173.7	132.3	159.3	106.1	143.4
2024	180.6	179.3	156.4	162.5	116.6	144.2
2025	179.4	184.9	167.1	165.7	135.2	144.9
2026	171.3	191.2	154.5	169.3	139.6	146.0

The June 30, 2015 accrual balance was \$120,082,848.11. The indexed 1.5 percent surcharge threshold was \$152,936,377.00 and the indexed 2.5 percent surcharge threshold was \$76,468,188.50.

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