Office of Inspector General, Railroad Retirement Board

Strategic Initiatives

Related to the

President's Management Agenda

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STRATEGIC INITIATIVES RELATED TO THE PRESIDENT'S MANAGEMENT AGENDA

The Office of Inspector General (OIG) has previously issued a series of proposals related to the Railroad Retirement Board (RRB) and its program activities. The RRB is an independent agency in the executive branch of the Federal government and administers the health and welfare provisions of the Railroad Retirement Act (RRA) and the Railroad Unemployment Insurance Act (RUIA).

AREAS OF CONCERN

Organizational Structure
Field Service
Tier I Benefits
Agency Structure

The President's Management Agenda cited five government-wide initiatives that are applicable to every department and agency within the Federal government. The specific initiatives include:

- Strategic Management of Human Capital
- Competitive Sourcing
- Improved Financial Performance
- Expanded E-Government
- Budget and Performance Integration

The following analysis considers the applicability of the President's Management Agenda to the Railroad Retirement Board.

The initial OIG proposals recommended that the Board Members of the agency concentrate their efforts on the organizational structure and the utilization of the agency's Field Service staff. Later proposals addressed the primary mission of the agency associated with tier I benefits and changing the structure of the agency.

The customer base of the RRB has declined substantially and technology gains are available but the agency continues to emphasize the same type of delivery system it used years ago.

STRATEGIC INITIATIVES

RAILROAD RETIREMENT AND SURVIVORS' IMPROVEMENT ACT OF 2001

The Railroad Retirement and Survivors' Improvement Act of 2001 (RRSIA), Public Law 107-90, was enacted on December 21, 2001. The legislation provides for changes to the benefit structure and financing of future benefits under the RRA. The financing provisions of RRSIA include the establishment of the National Railroad Retirement Investment Trust (NRRIT) that is responsible for the investments used to support retirement annuities, a pre-determined structure for establishing the tier II tax rate, and the elimination of the supplemental annuity tax.

Enactment of the RRSIA is significant because it represents a marked departure from the traditional role of the RRB. For the first time in the agency's history, a significant activity has been removed from the scope of the RRB. Essentially, the RRB has been relieved of its investment authority, and the primary responsibility for investment decisions has been transferred to a board of trustees that is independent of the Federal government.

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Previous Proposals

The OIG has issued several proposals over the past eight years that relate to the President's Management Agenda. These proposals and the specific recommendations were presented to foster strategic decision-making in light of changing demographic and environmental conditions. The OIG proposals focused on major initiatives that were intended to encourage significant changes in the way the agency conducts its operations rather than rely on the same methodology that has been employed over the past sixty years. The OIG believes it is appropriate, in light of this recent legislation and Administration initiatives to foster innovation, to revisit these recommendations.

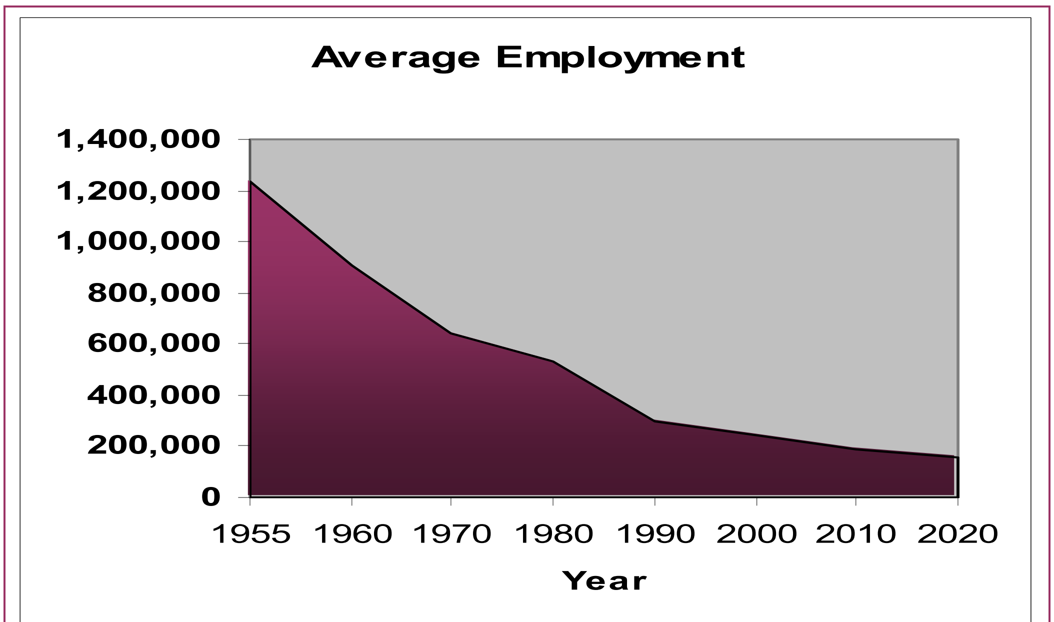
The previous proposals and major topics covered are indicated in the following table.

Title and Date	Topics and Recommendations
Reinvention Phase I ***January 24, 1995***	Addressed weaknesses in the overall control environment and recommended consolidating the bureaus in the agency into five and reducing the number of field offices.
Reinvention Phase II ***September 26, 1995***	Recommended the specific consolidation of existing bureaus into five functional entities, reiterated the recommendation for reducing the number of field offices and addressed changes to the organizational culture.
Reinvention Phase III ***September 27, 1996***	Recommended the transfer of tier I benefit responsibilities to Social Security Administration.
Reinvention Phase IV ***September 27, 1996***	Addressed the overall structure of the RRB and recommended that the Board pursue reorganization as a government corporation.
Reinvention 2001 ***May 25, 2001***	Evaluated the initial recommendations in light of changing demographics and the external environment as it related to the RRB. Each of the previous recommendations was repeated.

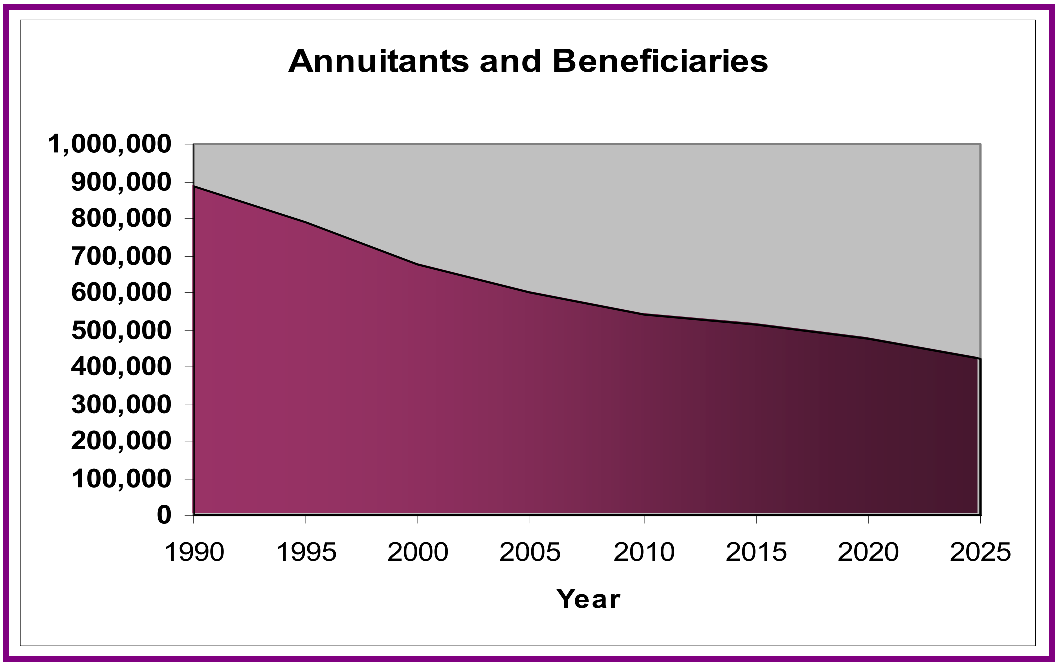
Reasons for Transformation of the Agency

The RRB has experienced a significant decline in the number of railroad workers covered by its programs, a reduction in the number of beneficiaries served by the programs it administers, and a projected decline in the resources available to it. In addition, there is continuing pressure from the Administration to reduce layers of management within Federal agencies, and to expand the use of technology to better serve the customers of Federal programs.

The average number of railroad employees covered by the RRA in 1991 was approximately 285,000. By June 2002, employment had dropped to 227,000. The reduction in the number of covered employees is no surprise. Railroad employment has steadily declined from over one million employees in 1955 to the current levels. Based on RRB projections, average railroad employment in 2020 could range from 116,000 to 189,000 although it is expected to be at 153,000. This pattern is reflected in the following chart.



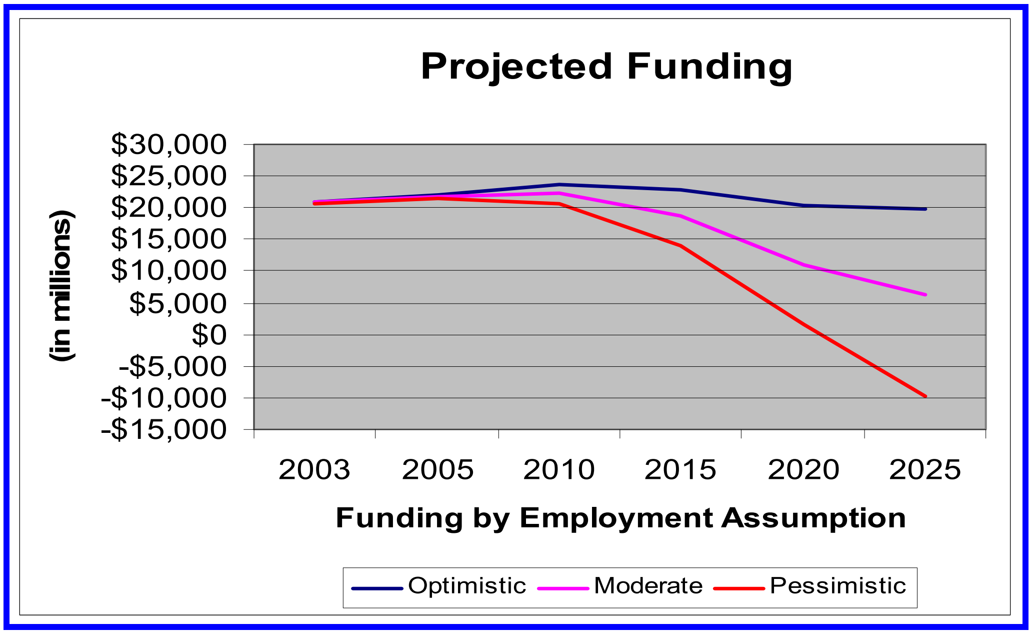
The number of annuitants and beneficiaries receiving payments under the RRA is also expected to decline from the present level of 644,000 to less than 421,000 by 2025. The total decline over a 35 year period indicates that approximately half the number of customers will be served by the agency than was the case just over ten years ago. The following chart illustrates the decline in the number of annuitants and beneficiaries.



The financial projections for the RRB trust funds indicate that the resources available for the payment of benefits and administrative expenses will decline or at best grow modestly over the next 25 years. This potential solvency problem means the RRB will become dependent on the Social Security Equivalent Account to fund tier II benefits that are supposed to mirror the private employer equivalent of benefits in other industries. The projected funding shortfall also means that there will be an increase in the unfunded liability to provide for future benefit entitlements.

Recent funding projections made by the agency indicate that, in two of the three employment assumptions used, the account balance in the Railroad Retirement Account and the NRRIT will continue to decline and, in one case, result in a deficit.

The following chart depicts the projected funding decline under the employment assumptions that the agency describes as optimistic, moderate and pessimistic.



The projected demographic and financial situation should be sufficient to warrant a major strategic initiative to change the operating environment of the RRB. The agency is also required to respond to Administration directives to become more results oriented, citizen-centered rather than bureaucratic by reducing managerial layers, and to expand the use of technology to better serve customers.

Organizational Structure

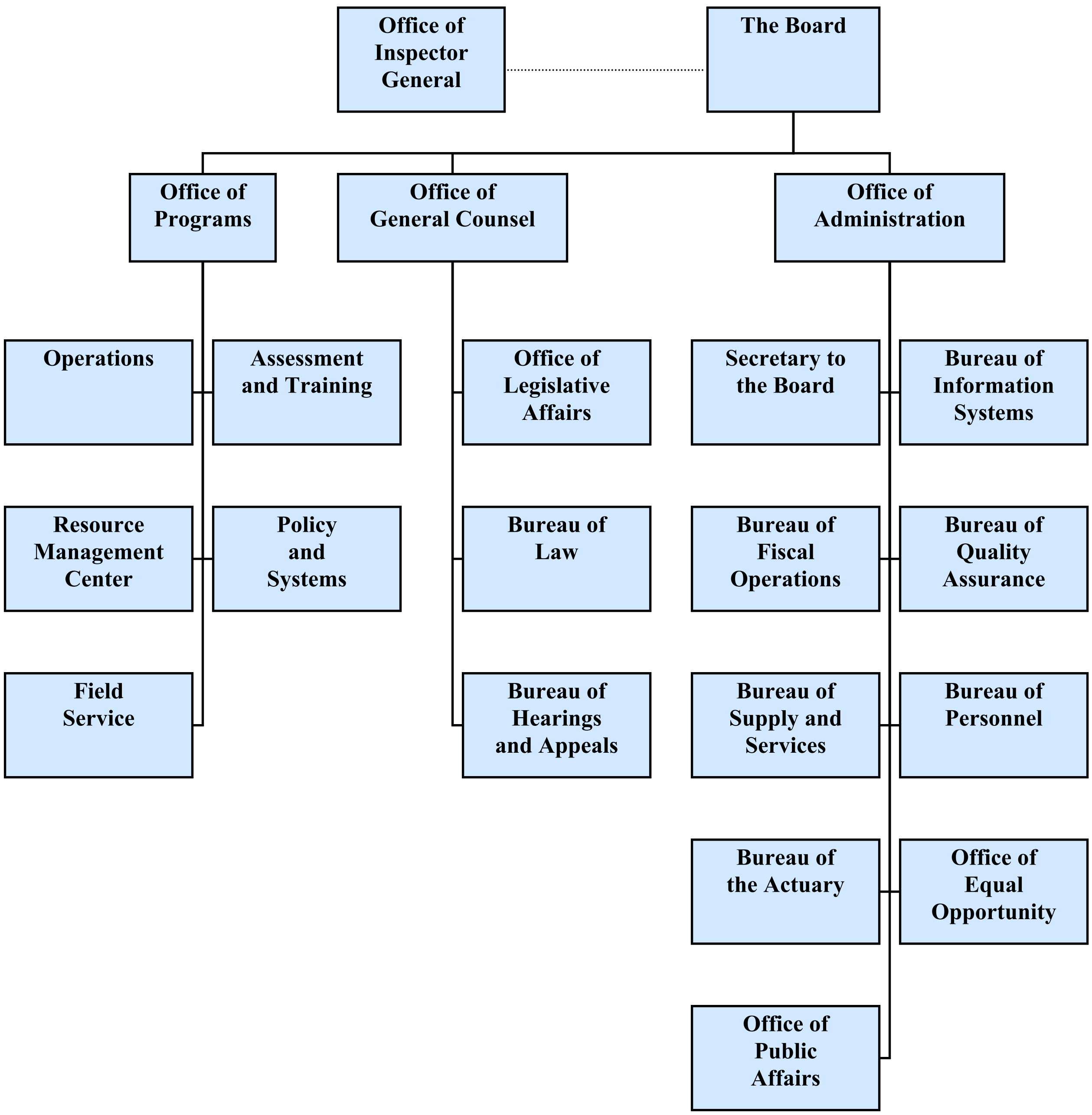
The OIG recommended, in previously issued proposals, that the RRB adopt a different organizational structure, consolidate the routine agency operations under the direction of a Chief Executive Officer, and that the three-member Board concentrate on the strategic issues facing the agency.

The agency made several attempts to adopt a functional organizational structure similar to the one that the OIG recommended but remains a primarily bureaucratic form of entity. The functional design matches activities with related technical expertise and is the most prevalent in business and most other organizations. The existing agency structure, however, is intended to route all activity through an Executive Committee with input from the Assistants to the Board Members, and then defer to the full Board for the final decision. The RRB cannot effectively improve the decision-making process because the current structure is so top-heavy. Interim efforts to become less bureaucratic have not been successful because change was not initiated at the top of the organization.

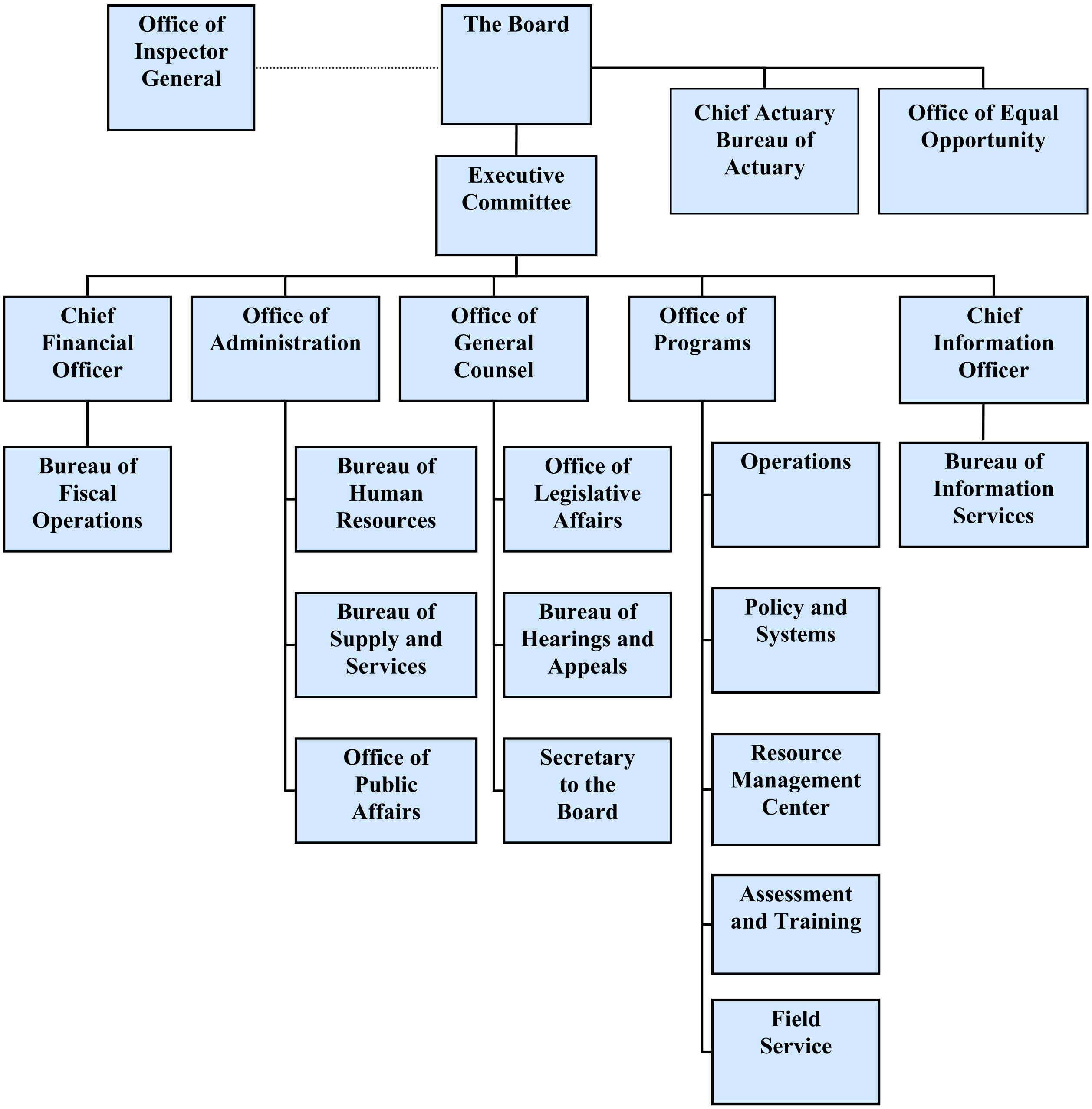
The initial OIG proposal recommended the adoption of a functional organizational structure and the elimination of 167 full-time equivalent employees at an estimated cost savings of $9.7 million annually. In addition, the OIG recommended a reduction of 255 field office employees with an annual savings of $10.6 million in salaries and benefits. The agency did not accept the recommendations regarding the staff reductions at that time contending that such radical reductions in staffing would seriously erode the quality of services being provided to the agency's customers.

The charts on the following pages show the agency structure in 1996, the current organization, and the OIG proposal. Only minimal changes have been made as a result of several reorganization efforts by the agency.

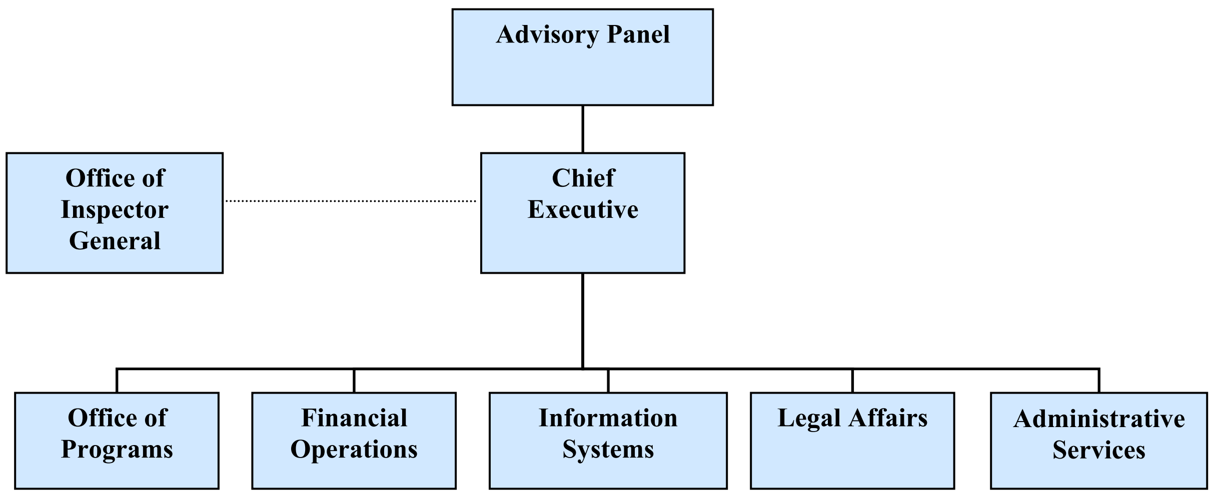
Agency Structure 1996



Current Agency Structure



OIG Proposed Agency Structure



Budgetary restrictions in subsequent years forced the RRB to implement staff reductions. In FY 1995, the RRB utilized 1,483 full-time equivalent positions compared to the usage of 1,101 in FY 2002. The overall reduction of 382 employees approximated that of the total staff reduction of 422 recommended by the OIG. At current cost levels, the salary and benefits savings related to the elimination of 382 positions approximates $28 million annually. The OIG believes an additional 30 positions, outside of the Field Service, can be eliminated by reducing management layers and delegating authority to the lowest possible levels. The elimination of those positions should produce annual savings of over $2 million that could be used to fund technology investments.

The OIG has recently issued a report evaluating the overall control environment of the RRB. That evaluation identifies the organizational structure of the agency as a contributing factor for citing the overall control environment as a material weakness in internal control. The report also specifies that the current emphasis of the Board on routine administrative matters precludes the timely resolution of issues impacting financial reporting.

STRATEGIC INITIATIVES

Part of the President's Management Agenda is directed to improving the strategic management of human capital and includes the following specific initiatives:

● *Make government citizen-centered by redistributing more staff to front line service delivery;*

● *Reshape organizations to reduce the number of managers, reduce organizational layers, reduce the time required to make decisions, change the span of control and increase the number of employees who provide services to citizens; and*

● *Adopt information technology systems to capture some of the knowledge and skills lost as a result of increased retirements.*

Estimates suggest that nearly 50% of the Federal workforce will be eligible to retire within the next five years. In the case of the RRB, nearly 40% of the agency's employees will be eligible to retire within the next five years. The agency has estimated that the number of employees retiring will be substantially below the number of those eligible.

The potential threat remains that the RRB could face a shortage of qualified staff if adequate selection, training and retention programs are not initiated in the near term. The existing organizational structure and the inability to resolve issues could be an impediment to human capital management efforts.

The previously discussed environmental issues facing the agency, the need to fully implement the provisions of the RRSIA, compliance with Administration directives and the potential that a large number of current RRB employees can elect retirement within the next several years necessitate dramatic organizational changes in the manner previously recommended by the OIG.

Field Service

The initial proposal issued by the OIG questioned the need for over 80 field service locations and recommended that the number of locations be reduced to ten. That initial recommendation prompted a review of the field service operations by the agency, and ultimately the number of locations was reduced to 53. Nearly 330 employees remain in the field service providing services in a similar manner to that utilized in the early years of the agency's history. The initial OIG proposal was made in light of demographic trends showing a rapid decline in the agency's direct customer base.

More detailed work is being handed off to the field service on the presumption that face to face contact is the primary and most beneficial form of customer service. This approach is contrary to the trends in most industries where centralization of services and greater use of electronic communications have been the trend.

PRIVATE SECTOR PRACTICES

Many private sector businesses have taken advantage of electronic processing capabilities to centralize customer service operations. In addition, the increasing utilization of the Internet has substantially eliminated the need for direct intervention between customer and provider for many consumer products. Companies are able to leverage the advantages of electronic processing to provide greater business to business services such as the administration of savings and health insurance plans.

Recently, a large international consulting firm announced that it has developed a program that can handle the entire retirement process for clients and has installed the service for a large financial holding company. The firm utilizes Internet access that allows employees to consider retirement options and choices at their own pace and on a schedule most convenient to their needs.

AGENCY PRACTICES

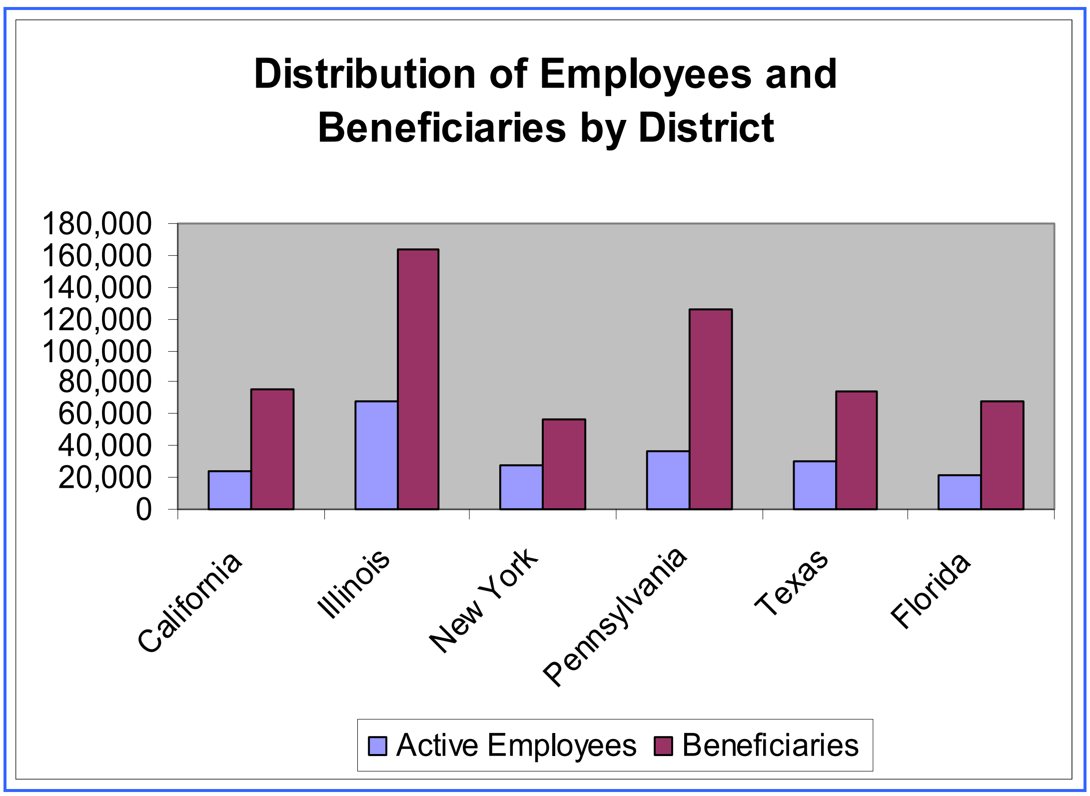
Despite the technological gains being achieved in private industry and other government organizations, the RRB maintains that its customers are either unable or unwilling to utilize automated systems for enhanced service delivery. This seems ironic in comparison to the general population since most railroad workers are highly skilled professional workers.

The existing field service structure is antiquated. Maintaining a presence that purports to provide individualized personal service is counter productive to the technological gains that are being used by most businesses. Nearly two-thirds of the United States population has used the Internet. Government initiatives to encourage e-business processes and work from home programs for employees also support changing the methods and structure of the field service operations.

The nature of the services provided to the customers of the agency should also dictate a change in the methodology applied. The decline in the number of railroad workers covered by the RRA and the decline in the number of annuitants and beneficiaries is one indication that a continued presence in 53 field locations is inefficient. In addition, the time required to service an existing annuitant or beneficiary should be far less than the time required to service employees who are about to submit an initial application for benefits.

A review of the customer demographics for the RRB shows that approximately 90% of the active employees and beneficiaries could be serviced through six district administrative centers.

These centers could be located in or near six states in the proximity of the highest concentrations of active employees and program beneficiaries as shown in the following chart.



The RRB explores new methods of service delivery but continues to rely on a personal presence in multiple locations as a primary method of communicating with its customers. The attempts to provide additional service options become duplicative and have not replaced or diminished the field service.

Potential alternatives to replace the current field service structure include:

Expanding electronic service capabilities to replace personal contact.

Pursuing options to co-locate offices with other government facilities, railroad employers and employee representatives.

Developing additional opportunities for field service employees to telecommute.

Providing expanded telecommunications services such as a centralized 800 telephone center.

The above alternatives for service delivery encompass the primary goals of the Administration's E-Government initiative to:

- Make it easy for citizens to obtain service and interact with the Federal government.
- Improve government efficiency and effectiveness.
- Improve government's responsiveness to citizens.

The initial proposal recommended the elimination of 255 field service positions. The original cost savings related to the reduction in staffing was in excess of $10 million per year. In current terms, the elimination of 255 positions would provide annual savings in excess of $18 million for salaries and related expenses.

Tier I Benefits

The Railroad Retirement Act of 1974 established the present two-tiered system of providing retirement benefits to railroad employees covered by the RRA. The tier I benefits were intended to be the equivalent of social security benefits while the tier II benefits were intended to parallel the structure of benefits provided by other industrial retirement plans. At the time the two-tiered system was designed, provisions were made to protect the benefits accrued by some workers who had sufficient work credits to be vested in both the social security system and the railroad retirement system.

Over time, most of the differences between the tier I portion of an annuity and the benefit that would have been paid under the social security system have dissipated. For the most part, a worker covered by either tier I or social security will pay the same taxes, the worker's employer will have remitted the same amount of taxes, and the benefit coverage will be identical for the worker and any covered dependents.

During FY 2002, the total financing sources available to the agency, plus the reimbursement for Social Security Administration (SSA) related benefits paid by the RRB, totaled $9.5 billion. Of this total, $6.6 billion, or 70%, related to social security benefits or the tier I equivalent. Similarly, the RRB processed almost $10 billion in benefit payments during FY 2002. Social security equivalent benefits and payments made on behalf of SSA were $6.3 billion or 63% of the total. Regardless of the measure used, benefits or revenue, the tier I benefit structure and related benefits represent the most significant portion of the work performed by the RRB.

The table on the following page illustrates the relationship of social security type benefits to total activity of the agency during the fiscal years noted. Financing sources and benefits have been adjusted to reflect the inclusion of payments made by the RRB on behalf of SSA.

RRB Financing

	2002	2000	1995
SSA related financing sources	$6,628	$6,098	$6,725
Total financing sources	$9,465	$10,917	$10,836
SSA % of total financing	70.0%	55.9%	62.1%
RRB Benefits			
SSA related benefit payments	$6,285	$6,227	$5,976
Total benefit payments	$9,948	$9,507	$9,230
SSA % of total benefits	63.2%	65.5%	64.8%

(Dollar amounts in millions.)

Because of the similarities in structure between tier I annuities and social security benefits, the RRB must duplicate the reporting, recordkeeping and benefit payment capability that SSA has in place.

Typical of the redundancy that exists between the RRB and SSA is the maintenance and continuing development of separate employer reporting procedures and forms. Employers are required to submit reports to both agencies including the reporting of employee service and compensation, remittance of withholding taxes and payment of employment taxes. The RRB is currently revising its paper-based employer reporting procedures and developing an Internet application that perpetuates the duplication in reporting systems and procedures.

ALTERNATIVE SOLUTION

Rather than continue the parochial interest in developing separate reporting systems, the RRB should be taking the initiative to identify how employer reporting can be simplified. A cross agency reporting task force including the RRB, Internal Revenue Service, and SSA should be able to substantially reduce or eliminate separate employer reporting related to the Railroad Retirement Act. Minor differences may exist in program requirements, such as the RRB crediting service in months versus calendar quarters for SSA, but these differences could be resolved without destroying the original intent of reducing the reporting burden.

Social Security Administration Operations

The SSA currently pays retirement benefits to over 39 million people every month compared to the 644,000 being paid by the RRB. The SSA estimates that 153 million people worked in covered employment during 2002. It defies logic to suggest that the RRB can achieve greater economy of scale in providing services to 227,000 covered workers as SSA can in providing coverage to 153 million workers.

The volume of records processed by the SSA and its network of over 1,300 field offices strongly supports the idea that greater efficiency can be achieved by the merger of the RRB's tier I benefit program. The potential for future changes to the social security program and the mirrored changes to the tier I program also suggest that change can best be accommodated by a single program administrator.

The OIG remains convinced that a transfer of the tier I program to the SSA would best serve the RRB's customers. The Board should become proactive in soliciting support for this recommendation as a long-term strategic issue. The existing Medicare administration and programs of the Railroad Unemployment and Insurance Act (RUIA) should remain under the RRB for the immediate future. The current administrative mechanisms in place for these programs represent a seamless, one-stop shopping opportunity for program beneficiaries. Changes to these programs could be considered later, but these programs should not become an excuse or impediment for undertaking meaningful strategic changes to the mission of the RRB.

RRB Workforce

The internal demographics of the RRB's workforce also support the recommendation that a radical change from the historical way of doing business is in order. The agency is facing the potential that nearly 40% of the agency's employees could retire within the next five years. Although historical retirement patterns may suggest that a massive number of retirements are not likely, this situation still presents the threat of a critical manpower shortage. As a smaller agency, the RRB may also face greater challenges to replace the retiring workforce than larger agencies may encounter.

Agency Structure

In the previous proposals, the OIG recommended that the Board pursue a revision in its basic entity structure to become a government corporation. The OIG continues to believe that a change in structure is desirable for the RRB to focus on the narrower mission of providing the tier II benefits and administering the RUIA programs.

Passage of the RRSIA has provided a structure and oversight capability that may accommodate the longer term administrative needs of the RRB. Congress passed the RRSIA with the agreement and support of railroad management, rail labor and many of the annuitants and beneficiaries of the RRA programs. The legislation provides that the Trustees of the NRRIT are responsible for investing RRB trust funds, which impacts the long-term solvency of the RRA programs.

If the long-term solvency can be placed under the direction of the Trustees, the oversight of a reduced administrative function could also exist under a similar type of trust structure. The existing Board should become strictly an advisory panel with administration of the RRB delegated to a Chief Executive Officer.

The Board should initiate the necessary dialogue to effect the change in entity as part of the effort to transfer the tier I program to the SSA. This proposal is consistent with those previously made regarding the ongoing structure of the RRB but recognizes the current environment with the passage of the RRSIA.

The appointment of a Chief Executive Officer is consistent with the general agreement of a recent roundtable discussion sponsored by the United States General Accounting Office. The general agreement, referring to a Chief Operating Officer, was that a single responsible individual could:

Elevate attention on management issues,

Integrate at a single point key management efforts, and

Institutionalize accountability for addressing issues and leading changes in organizational culture.

Recommendations

The OIG updates and restates its position by recommending that the Board:

1. ***Complete the redesign of the organizational structure by eliminating management layers and delegating decision-making authority to a Chief Executive Officer and senior agency managers.***

2. ***Reduce the size and scope of the field service operations and utilize existing technology to provide an expanded menu of services to the customers of the agency.***

3. ***Develop and present to appropriate oversight officials a strategic plan to identify the steps needed to transfer the administration of tier I benefits to the Social Security Administration*.**

4. ***Request a change in the entity structure of the RRB to function as a government corporation under the direction of a Chief Executive Officer. Alternatively, the agency could be reorganized as part of the NRRIT.***

The President's Management Agenda

Implementation of these recommendations is compatible with the principles of the President's Management Agenda to improve the management and performance of the Federal government. The President has emphasized the need to streamline government services and eliminate duplication in program operations. His objectives focus on the need for government to be citizen-centered, results-oriented and market-based.

The RRB must review its current organizational structure to address the President's objectives. The expected number of employee retirements over the next five years could have a tremendous impact on agency operations. In addition, previous OIG recommendations to eliminate unnecessary layers of management should be given serious consideration. The agency should create a more streamlined and efficient organizational structure that emphasizes technology for providing the most efficient customer service alternatives.

Improved financial performance and more effective use of human capital resources can also be achieved through the elimination of the overlap that exists between the tier I structure of the RRB and Social Security. As stated previously, the RRB should initiate action to identify how employer reporting can be simplified by coordinating a comprehensive review with the Social Security Administration and the Internal Revenue Service. The President's Management Agenda describes an allocation of budget resources to achieve the most effective return. Clearly, the elimination of a duplicative program is consistent with this objective. Such an initiative by several agencies that reduces the reporting burden on employers and maximizes utilization of technology is consistent with the goals of the President's Management Agenda.

The RRB should also address the continuing decline in its direct customer base by concentrating on program provisions that are unique to the railroad industry, and function more like a commercial enterprise and focus on results.

A radical redesign of the field service is consistent with the E-Government initiative of the President's Management Agenda, cost effective in light of declining fiscal resources, and compatible with the other OIG proposals made in this analysis. The implementation of increased use of electronic processes can significantly increase the efficiency of field service operations. The RRB should eliminate its archaic procedures for field service offices.

The implementation of the above recommendations will allow the RRB to directly address the objectives established by the President, and become a more efficient and effective agency.