OIG Report # 14-01 The Office of Inspector General's Report on the Railroad Retirement Board's Financial
December 16, 2013 Statements begins on page 101 of the RRB's FY 2013 Performance and Accountability Report.

RAILROAD RETIREMENT BOARD

PERFORMANCE AND ACCOUNTABILITY REPORT

FISCAL YEAR 2013

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Railroad Retirement Board
Performance and Accountability Report
Fiscal Year 2013

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RRB's fiscal year 2013 Performance and Accountability Report is available online at: www.rrb.gov

MESSAGE FROM THE BOARD MEMBERS

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Message from the Board Members

This fiscal year 2013 Performance and Accountability Report highlights the goals and accomplishments of the Railroad Retirement Board (RRB) in achieving its mission of administering the retirement, disability, and survivor benefit programs provided under the Railroad Retirement Act and the unemployment and sickness insurance benefit programs provided under the Railroad Unemployment Insurance Act (RUIA). This report describes our continuing efforts to provide timely and useful information to RRB managers, the Office of Management and Budget (OMB), the Congress, and our constituents. We are proud of the agency's dedicated employees whose achievements are reflected in this report.

New legislation, the American Taxpayer Relief Act of 2012 (ATRA), was signed into law by President Obama on January 2, 2013. The RRB began making extended unemployment benefit payments under this Act on January 2, 2013, and has paid approximately $4.5 million in these extended benefits through June 7, 2013, using remaining funds previously appropriated under the Worker, Homeownership, and Business Assistance Act of 2009. The latest date that an extended benefit period may begin under ATRA is December 31, 2013.

Under provisions of the Budget Control Act (BCA) of 2011, across-the-board cuts in Federal spending took effect March 1, 2013. While railroad retirement, survivor and disability payments are not affected by this measure, unemployment and sickness insurance benefits payable under the RUIA are impacted. Benefits payable for days March 1 through September 30, 2013, were reduced by 9.2 percent. The reduction was required by the sequestration order issued by the President in accordance with the BCA. Since Congress and the Administration did not eliminate sequestration for fiscal year 2014, a sequestration reduction was again applied on October 1, 2013.

We believe the performance and financial data presented in this report are complete and reliable in accordance with OMB guidance. The adequacy and effectiveness of our management controls and the compliance of our financial management systems with governmentwide requirements are delineated in the Systems and Controls part of the Management's Discussion and Analysis section. That part also provides the status of the actions we are taking and progress we are making to correct material weaknesses identified by the Office of Inspector General in the internal control environment for information security (risk management and configuration management).

We will continue to apply information technology and innovation to provide excellent customer service to the railroad employers, railroad employees, and the beneficiaries whom we serve. We are also committed to prudent stewardship over the agency trust funds and the administrative resources entrusted to us.

Original signed by:

Michael S. Schwartz, Chairman
Walter A. Barrows, Labor Member
Jerome F. Kever, Management Member

December 5, 2013

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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Management's Discussion and Analysis

Overview of the Railroad Retirement Board

Mission

The RRB is an independent agency in the executive branch of the Federal Government. The agency's mission statement is as follows:

> *The RRB's mission is to administer retirement/survivor and unemployment/sickness insurance benefit programs for railroad workers and their families under the Railroad Retirement Act and the Railroad Unemployment Insurance Act. These programs provide income protection during old age and in the event of disability, death or temporary unemployment and sickness. The RRB also administers aspects of the Medicare program and has administrative responsibilities under the Social Security Act and the Internal Revenue Code. In carrying out its mission, the RRB will pay benefits to the right people, in the right amounts, in a timely manner, and will take appropriate action to safeguard our customers' trust funds. The RRB will treat every person who comes into contact with the agency with courtesy and concern, and respond to all inquiries promptly, accurately and clearly.*

Major Program Areas

The RRB was created in the 1930s by legislation establishing a retirement benefit program for the nation's railroad workers. Private industrial pension plans had been pioneered in the railroad industry; the first industrial pension plan in North America was established on a railroad in 1874. By the 1930s, pension plans were far more developed in the rail industry than in most other businesses or industries, but these plans had serious defects which were magnified by the Great Depression.

The economic conditions of the 1930s demonstrated the need for retirement plans on a national basis because few of the nation's elderly were covered under any type of retirement program. While the social security system was in the planning stage, railroad workers sought a separate railroad retirement system which would continue and broaden the existing railroad programs under a uniform national plan. The proposed social security system was not scheduled to begin monthly benefit payments for several years and would not give credit for service performed prior to 1937, while conditions in the railroad industry called for immediate benefit payments based on prior service.

Legislation was enacted in 1934, 1935, and 1937 to establish a railroad retirement system separate from the social security program legislated in 1935. Such legislation, taking into account particular circumstances of the rail industry, was not without precedent. Numerous laws pertaining to rail operations and safety had already been enacted since the Interstate Commerce Act of 1887. Since passage of the Railroad Retirement Acts of the 1930s, numerous other railroad laws have been enacted.

While the railroad retirement system has remained separate from the social security system, the two systems are closely coordinated with regard to earnings credits, benefit payments, and taxes. The financing of the two systems is linked through a financial interchange under which, in effect, the portion of railroad retirement annuities that is equivalent to social security benefits is coordinated with the social security system. The purpose of this financial coordination is to place the social security trust funds in the same position they would be in if railroad service were covered by the social security program instead of the railroad retirement program.

Legislation enacted in 1974 restructured railroad retirement benefits into two tiers, so as to coordinate them more fully with social security benefits. The first tier is based on combined railroad retirement and social security credits, using social security benefit formulas. The second tier is based on railroad service only and is comparable to the private pensions paid over and above social security benefits in other industries.

The railroad unemployment insurance system was also established in the 1930s. The Great Depression demonstrated the need for unemployment compensation programs, and State unemployment programs had been established under the Social Security Act in 1935. While the State unemployment programs generally covered railroad workers, railroad operations which crossed State lines caused special problems. Unemployed railroad workers were denied compensation by one State because their employers had paid unemployment taxes in another State. Although there were cases where employees appeared to be covered in more than one State, they often did not qualify in any.

A Federal study commission, which reported on the nationwide State plans for unemployment insurance, recommended that railroad workers be covered by a separate plan because of the complications their coverage had caused the State plans. The Congress subsequently enacted the Railroad Unemployment Insurance Act (RUIA) in June 1938. The RUIA established a system of benefits for unemployed railroad workers, financed entirely by railroad employers and administered by the RRB. Sickness insurance benefits were added in 1946.

Railroad Retirement Act

Under the Railroad Retirement Act (RRA), retirement and disability annuities are paid to railroad workers with at least 10 years of service. Such annuities are also payable to workers with 5 years of service if performed after 1995.

Full age annuities are payable at age 60 to workers with 30 years of service. For those with less than 30 years of service, reduced annuities are payable at age 62 and unreduced annuities are payable at full retirement age, which is gradually rising from 65 to 67, depending on the year of birth. Disability annuities can be paid on the basis of total or occupational disability. Annuities are also payable to spouses and divorced spouses of retired workers and to widow(er)s, surviving divorced spouses, remarried widow(er)s, children, and parents of deceased railroad workers. Qualified railroad retirement beneficiaries are covered by Medicare at age 65, or earlier if disabled, in the same way as social security beneficiaries.

Jurisdiction over the payment of retirement and survivor benefits is shared by the RRB and the Social Security Administration (SSA). The RRB has jurisdiction over the payment of retirement benefits if the employee had at least 10 years of railroad service, or 5 years if performed after 1995; for survivor benefits, there is an additional requirement that the employee's last regular employment before retirement or death was in the railroad industry. If a railroad employee or his or her survivors do not qualify for railroad retirement benefits, the RRB transfers the employee's railroad retirement credits to SSA, where they are treated as social security credits.

Payroll taxes paid by railroad employers and their employees are the primary source of funding for the railroad retirement and survivor benefit programs. By law, railroad retirement taxes are coordinated with social security taxes. Employees and employers pay tier 1 taxes at the same rate as social security taxes. In addition, both employees and employers pay tier 2 taxes which are used to finance railroad retirement benefit payments over and above social security levels. Tier 2 taxes are based on the ratio of certain asset balances to the sum of benefit payments and administrative expenses. Historically, railroad retirement taxes have been considerably higher than social security taxes.

Revenues in excess of benefit payments are invested to provide additional trust fund income, and legislation enacted in 2001 allows for Railroad Retirement (RR) Account funds transferred to the National Railroad Retirement Investment Trust (NRRIT) to be invested in non-governmental assets, as well as in governmental securities. Funds transferred from the Social Security Equivalent Benefit (SSEB) Account to the NRRIT are allowed to be invested only in governmental securities. The legislation also established the NRRIT, whose Board of seven trustees oversees these investments. The Board of Trustees is comprised of three members selected by rail labor, three members selected by rail management, and one independent member selected by a majority of the other six members.

Another major source of income to the railroad retirement and survivor benefit program consists of transfers from the social security trust funds under a financial interchange between the two systems. The financial interchange is intended to place the social security trust funds in the same position in which they would have been had railroad employment been covered by the Social Security Act and Federal Insurance Contributions Act (FICA). In fiscal year 2013, the RRB trust funds realized a net of $4.0 billion, representing 41 percent of RRB financing sources (excluding transfers to/from the NRRIT and the change in NRRIT net assets), through the financial interchange.

Other sources of income currently include revenue resulting from Federal income taxes on railroad retirement benefits (tier I, tier II, and vested dual benefits), and appropriations from general Department of the Treasury (Treasury) revenues provided after 1974 as part of a phase-out of certain vested dual benefits.

Railroad Unemployment Insurance Act

Under the RUIA, unemployment insurance benefits are paid to qualified railroad workers who are unemployed but ready, willing, and able to work, and sickness insurance benefits are paid to railroad workers who are unable to work because of illness, injury, or pregnancy. The RRB also operates a placement service to assist unemployed railroad workers in securing employment.

A new unemployment and sickness insurance benefit year begins every July 1, with eligibility generally based on railroad service and earnings in the preceding calendar year. Up to 26 weeks of normal unemployment and 26 weeks of sickness insurance benefits are payable to an individual in a benefit year. Additional extended benefits are payable for up to 13 weeks to persons with 10 or more years of service.

The railroad unemployment and sickness insurance benefit program is financed by taxes on railroad employers under an experience rating system initiated in 1991. Each employer's payroll tax rate is determined annually by the RRB on the basis of benefit payments to the railroad's employees.

Reporting Components

The RRB, as an independent agency in the executive branch of the U.S. Government, is responsible for administering the RRA and the RUIA. The financial statements include the accounts of all funds under the control of the RRB and the Office of Inspector General (OIG). These funds consist of three administrative funds, four trust funds, two general funds, six American Recovery and Reinvestment Act of 2009 (ARRA) funds, and two Worker, Homeownership and Business Assistance Act of 2009 (WHBAA) funds.

RRB Organizational Structure

The RRB is headed by three Board Members appointed by the President of the United States, with the advice and consent of the Senate. One member is appointed upon recommendation of railroad employers; one is appointed upon recommendation of railroad labor organizations; and the third, who is the Chairman, is appointed to represent the public interest. The Board Members' terms of office are 5 years and are scheduled to expire in different years. The Chairman of the Board is Michael S. Schwartz, the Labor Member is Walter A. Barrows, and the Management Member is Jerome F. Kever. The President also appoints an Inspector General for the RRB; the Inspector General is Martin J. Dickman.

The primary function of the RRB is the determination and payment of benefits under the railroad retirement and survivor and the unemployment and sickness insurance programs. To this end, the RRB employs field representatives to assist railroad personnel and their families in filing claims for benefits, examiners to adjudicate the claims, and information technology staff, equipment, and programs to maintain earnings records, calculate benefits, and process payments. The RRB also employs actuaries to predict the income and outlays of the agency's trust funds and accounts, statisticians and economists to provide vital data, and attorneys to interpret legislation and represent the RRB in litigation. Internal administration requires a procurement staff, a budget and accounting staff, quality assurance staff, and personnel specialists. The Inspector General employs auditors and investigators to detect waste, fraud, or abuse in the benefit programs.

The RRB's headquarters is located at 844 North Rush Street in Chicago, Illinois. The RRB field structure is comprised of 53 offices located throughout the United States as shown on page 12.

U.S. RAILROAD RETIREMENT BOARD

THE BOARD
Chairman, Michael S. Schwartz
Labor Member, Walter A. Barrows
Management Member, Jerome F. Kever

OFFICE OF EQUAL OPPORTUNITY
Lynn E. Cousins

OFFICE OF INSPECTOR GENERAL
Martin J. Dickman

CHIEF ACTUARY *
BUREAU OF THE ACTUARY
Frank J. Buzzi

EXECUTIVE COMMITTEE

- **SENIOR EXECUTIVE OFFICER** George V. Govan
- **MEMBER** Karl T. Blank
- **MEMBER** Keith B. Earley
- **MEMBER** Martha M. Barringer
- **MEMBER** Daniel J. Fadden
- **MEMBER** Ram Murthy

CHIEF FINANCIAL OFFICER
BUREAU OF FISCAL OPERATIONS
George V. Govan

OFFICE OF GENERAL COUNSEL
Karl T. Blank
- **OFFICE OF LEGISLATIVE AFFAIRS** Margaret S. Lindsley
- **BUREAU OF HEARINGS AND APPEALS** Rachel L. Simmons
- **SECRETARY TO THE BOARD** Martha P. Rico

OFFICE OF ADMINISTRATION
Keith B. Earley
- **ACQUISITION MANAGEMENT** Paul T. Ahern
- **BUILDING AND SUPPORT OPERATIONS** Scott Rush
- **BUREAU OF HUMAN RESOURCES** Marguerite V. Daniels
- **PUBLIC AFFAIRS** Michael P. Freeman

OFFICE OF PROGRAMS
Martha M. Barringer
- **POLICY AND SYSTEMS** Ronald Russo
- **PROGRAM EVALUATION AND MANAGEMENT SERVICES** Janet M. Hallman
- **RETIREMENT BENEFITS** Cecilia A. Freeman
- **SURVIVOR BENEFITS** Valerie F. Allen
- **DISABILITY BENEFITS** John A. Bognar
- **UNEMPLOYMENT AND PROGRAMS SUPPORT** Micheal T. Pawlak

BUREAU OF FIELD SERVICE
Daniel J. Fadden

CHIEF INFORMATION OFFICER
BUREAU OF INFORMATION SERVICES
Ram Murthy

– – – – – – The Inspector General reports administratively to the Chairman.

- - - - - - The Director of Equal Opportunity reports administratively to the Director of Administration and programmatically to the Board.

*** Non-voting member of the Executive Committee**

OCTOBER 2013

U.S. RAILROAD RETIREMENT BOARD
District Office Map

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Financial Highlights

Amounts in the RR Account not needed to pay current benefits and administrative expenses are transferred to the NRRIT whose Board of seven trustees is empowered to invest NRRIT assets in non-governmental assets, such as equities and debt, as well as in governmental securities. Amounts in the SSEB Account not needed to pay current benefits and administrative expenses are transferred to either the RR Account or the NRRIT.

On January 2, 2013, President Obama signed the American Taxpayer Relief Act of 2012 (ATRA). For additional information on ATRA, see page 37.

Shown on the following page are snapshots of the net position, financing sources, and benefit payments (before elimination of inter-fund transactions) for the RRB accounts. All dollar amounts are in millions.

Net Position, Financing Sources, and Benefit Payments
(In millions)

	2013	2012
NET POSITION AT SEPTEMBER 30		
Social Security Equivalent Benefit Account	$141.0	$798.5
Railroad Retirement Account 1/	25,366.0	23,959.2
Railroad Retirement Administration Fund	16.1	8.0
Railroad Unemployment Insurance Trust Fund –		
Benefit Payments	172.8	162.5
Administrative Expenses	12.3	11.4
Limitation on the Office of Inspector General	.8	.7
Dual Benefits Payments Account	10.7	9.7
Federal Payments to the Railroad Retirement Accounts	16.6	24.9
American Recovery and Reinvestment Act of 2009		
Railroad Unemployment Insurance Extended Benefit Payments – Recovery Act (no year dollars)	9.6	9.6
Economic Recovery Payments – Recovery Act	5.0	5.0
Administrative Expenses – Recovery Act (no year dollars)	-	-
Administrative Expenses – Recovery Act	-	-
Limitation on Administration – Recovery Act (no year dollars)	-	-
Limitation on Administration – Recovery Act	.7	.7
Worker, Homeownership and Business Assistance Act of 2009		
Railroad Unemployment Insurance Extended Benefits Payments (no year dollars)	134.5	141.4
Administrative Expenses, Railroad Unemployment Insurance Extended Benefit Payments	-	
Total	$25,886.1	$25,131.6
FINANCING SOURCES FOR FISCAL YEAR		
Social Security Equivalent Benefit Account	$6,318.3	$7,232.8
Railroad Retirement Account 2/	6,162.3	6,142.6
Railroad Retirement Administration Fund	116.4	117.8
Railroad Unemployment Insurance Trust Fund –		
Benefit Payments	95.4	198.8
Administrative Expenses	.9	(0.3)
Limitation on the Office of Inspector General	8.3	8.6
Dual Benefits Payments Account	42.4	48.6
Federal Payments to the Railroad Retirement Accounts 3/	647.1	771.0
American Recovery and Reinvestment Act of 2009		
Railroad Unemployment Insurance Extended Benefit Payments – Recovery Act (no year dollars)	-	-
Economic Recovery Payments – Recovery Act	-	-
Administrative Expenses – Recovery Act (no year dollars)	-	-
Administrative Expenses – Recovery Act	-	-
Limitation on Administration – Recovery Act (no year dollars)	-	-
Limitation on Administration – Recovery Act	-	-
Worker, Homeownership, and Business Assistance Act of 2009		
Railroad Unemployment Insurance Extended Benefits Payments, (no year dollars)	7.0	6.5
Administrative Expenses, Railroad Unemployment Insurance Extended Benefit Payments	.3	.5
Total	$13,398.4	$14,526.9

1/ NRRIT-held net assets are a financing source and are included in the Railroad Retirement Account above.
2/ Change in NRRIT-held net assets is included in the Railroad Retirement Account above.
3/ Includes funds subsequently transferred to other accounts. Such inter-fund transfers are eliminated in the preparation of the consolidated statements.

	2013	2012
BENEFIT PAYMENTS FOR FISCAL YEAR 4/		
Social Security Equivalent Benefit Account	$6,862.6	$6,631.9
Railroad Retirement Account	4,750.6	4,648.7
Railroad Unemployment Insurance Trust Fund –		
Unemployment Insurance	42.5	34.6
Sickness Insurance	42.0	41.4
Dual Benefits Payments Account	42.6	48.6
American Recovery and Reinvestment Act of 2009		
Railroad Unemployment Insurance Extended Benefit Payments – Recovery Act (no year dollars)	(.1)	-
Economic Recovery Payments – Recovery Act	-	-
Worker, Homeownership, and Business Assistance Act of 2009		
Railroad Unemployment Insurance Extended Benefits Payments (no year dollars)	6.9	6.4
Total	$11,747.1	$11,411.6

4/ Net of recoveries and offsetting collections; excludes SSA benefit payments.

The RRB's financial statements are comprised of: Balance Sheet and Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Social Insurance and notes which are an integral part of the statements. We also present as required supplementary information a discussion of the actuarial outlook for the railroad retirement program and the Disaggregate of Budgetary Resources.

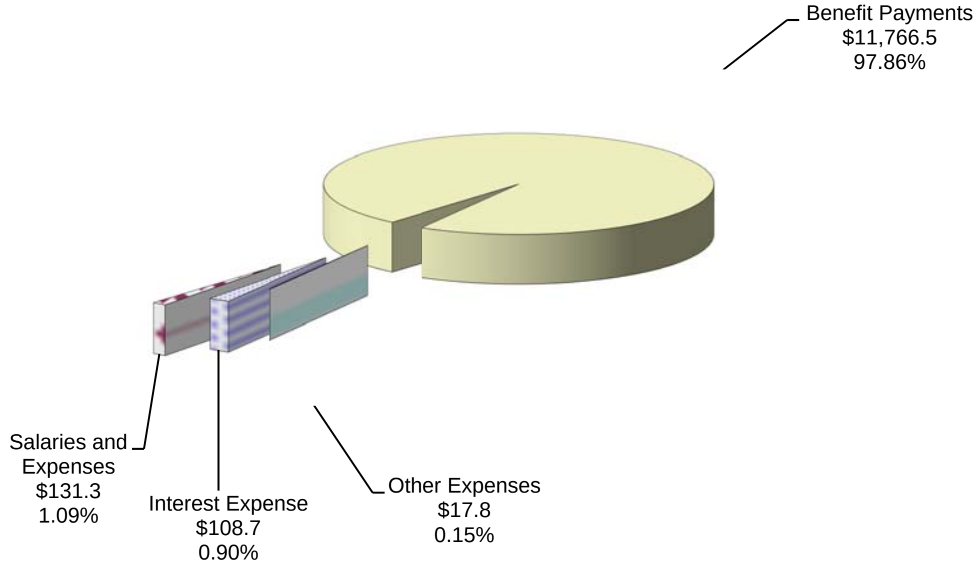
Comparison of Net Cost of Operations and Financing Sources

The net cost of operations for fiscal years 2013 and 2012 was $11,982.5 million and $11,657.7 million, respectively. The details of the net cost of operations by type, amount, increase or decrease, and percentage change from fiscal year 2012 to fiscal year 2013 are shown below. Additional information regarding the net cost of operations and financing sources for fiscal years 2013 and 2012 is shown on the following pages.

NET COST OF OPERATIONS
(In millions)

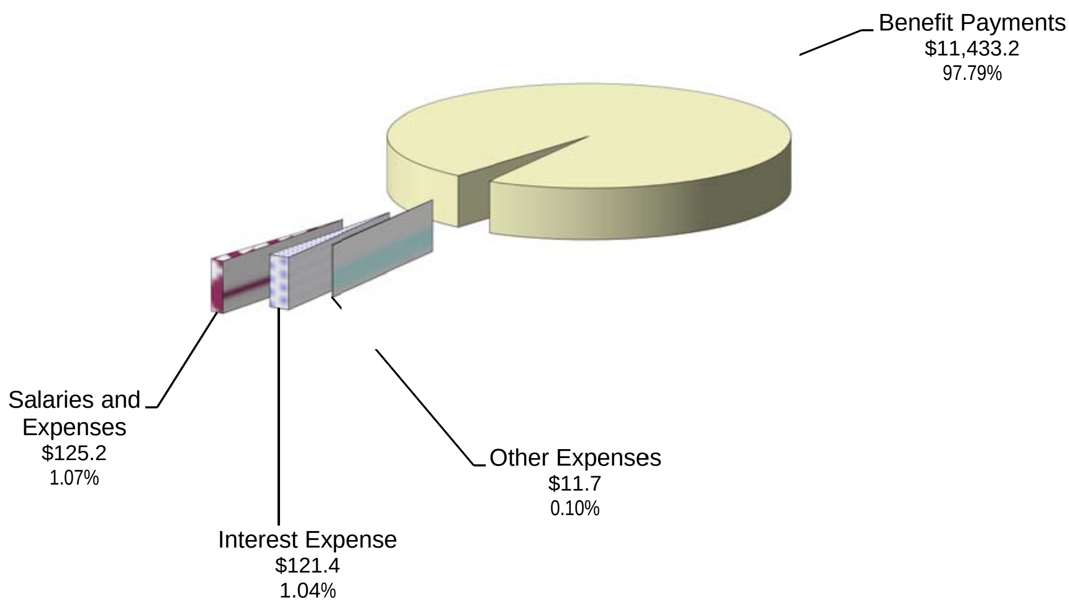
	FY 2013	FY 2012	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Interest expense – Treasury borrowing	$ 108.7	$ 121.4	($ 12.7)	(10.5%)
Salaries and expenses	131.3	125.2	6.1	4.9%
Benefit payments – RRB	11,766.5	11,433.2	333.3	2.9%
Other expenses	17.8	11.7	6.1	52.1%
Subtotal	12,024.3	11,691.5	332.8	2.8%
Less: Earned revenues	41.8	33.8	8.0	23.7%
Net cost of operations	$11,982.5	$11,657.7	$324.8	2.8%

FY 2013
NET COST OF OPERATIONS
(In millions)



Totals $12,024.3 million, excluding reimbursements and earned revenues of $41.8 million.

FY 2012
NET COST OF OPERATIONS
(In millions)



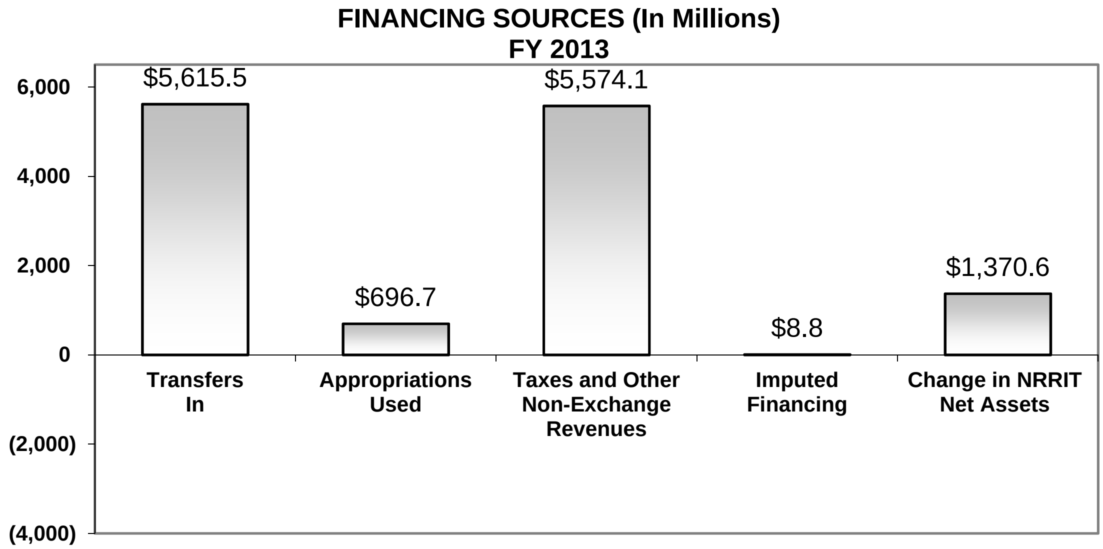
Totals $11,691.5 million, excluding reimbursements and earned revenues of $33.8 million.

The following table shows financing sources (excluding changes in unexpended appropriations) by type, amount, increase or decrease, and percentage change from fiscal year 2012 to fiscal year 2013.

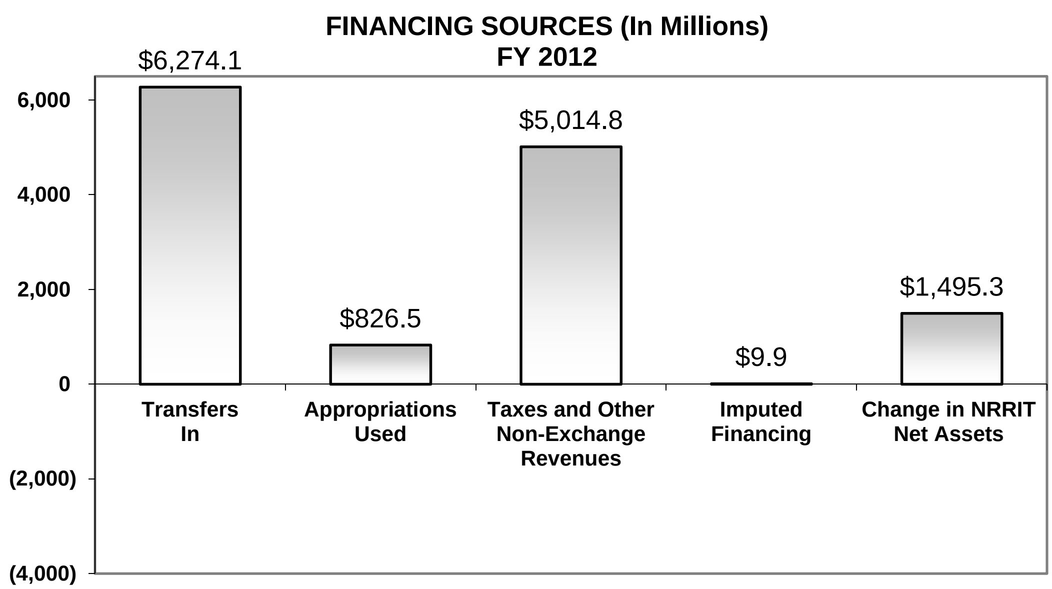
FINANCING SOURCES
(In millions)

	FY 2013	FY 2012	AMOUNT OF INCREASE (DECREASE)	PERCENT OF INCREASE (DECREASE)
Appropriations used	$ 696.7	$ 826.5	($ 129.8)	(15.7)
Taxes and other non-exchange revenues:				
Payroll taxes	5,475.3	4,768.6	706.7	14.8
Interest revenue and other income	52.1	42.2	9.9	23.5
Carriers refunds – principal	(64.0)	(5.7)	(58.3)	(1,022.8)
Railroad Unemployment Insurance (RUI) Revenue	110.7	209.7	(99.0)	(47.2)
Subtotal	$ 5,574.1	$ 5,014.8	$ 559.3	11.2
Imputed financing (amount to be provided by the Office of Personnel Management (OPM) to pay future retirement benefits to RRB employees)	8.8	9.9	(1.1)	(11.1)
Transfers in:				
Financial Interchange, net	4,034.5	4,248.1	(213.6)	(5.0)
NRRIT	1,581.0	2,026.0	(445.0)	(22.0)
Subtotal	$ 5,615.5	$ 6,274.1	($ 658.6)	(10.5)
Other:				
Change in NRRIT net assets	1,370.6	1,495.3	(124.7)	(8.3)
Subtotal	$13,265.7	$13,620.6	($ 354.9)	(2.6)
Less: Transfers out to NRRIT	0.0	0.0	0.0	0.0
Add: Gain/(Loss) in Contingency	(514.6)	134.8	(649.4)	(481.8)
Subtotal	(514.6)	134.8	(649.4)	(481.8)
Total	$12,751.1	$13,755.4	($1,004.3)	(7.3)

The most significant difference between the RRB's financial statements for fiscal year 2012 and fiscal year 2013 was the change in NRRIT net assets. The increase in NRRIT net assets of $1,370.6 million is due to market fluctuations during the past year. There is a section on page 20 that describes the NRRIT, and the NRRIT net assets balances for 2012 and 2013 are shown in the RRB's Financial Section of this publication.



Total Financing Sources $13,265.7 million, excluding $514.6 million loss contingency.



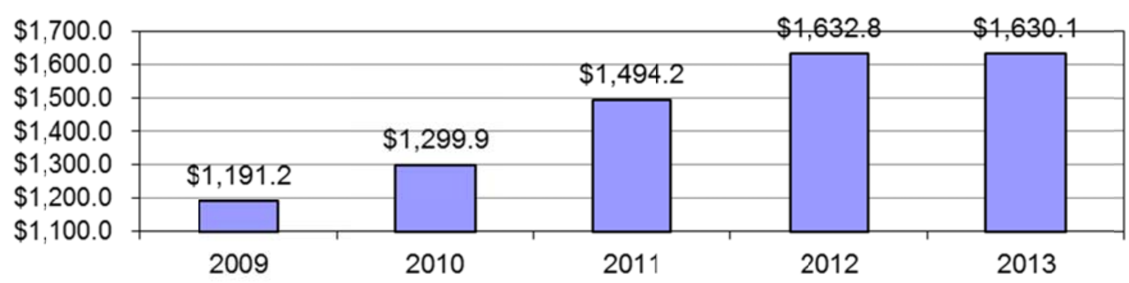
Total Financing Sources $13,620.6 million, excluding $134.8 million gain contingency.

Railroad Retirement Investments at Treasury

The book value of all railroad retirement investments, including accrued interest, decreased to $1,630.1 million as of September 30, 2013, from $1,632.8 million on September 30, 2012 (excludes NRRIT net assets). The graph below reflects the book value of the railroad retirement investments from September 30, 2009, through September 30, 2013.

INVESTMENT BALANCES HELD AT TREASURY (AT BOOK VALUE)
AT SEPTEMBER 30, 2009 - 2013

(In millions, excluding NRRIT net assets)

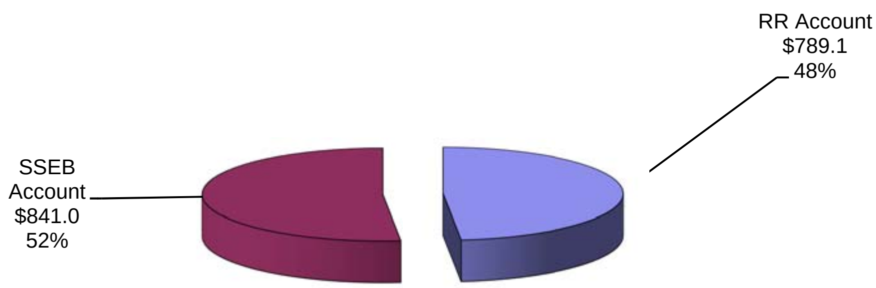


The following chart shows the portfolio of the railroad retirement investments as of September 30, 2013.

RAILROAD RETIREMENT INVESTMENTS HELD AT TREASURY
AS OF SEPTEMBER 30, 2013

AT BOOK VALUE
Total $1,630.1

(In millions, excluding NRRIT net assets)



Railroad Retirement Account

On September 30, 2013 and 2012, the book values of the RR Account investments, excluding NRRIT assets, including accrued interest, totaled $789,094,545 and $704,533,913, respectively. The balance on September 30, 2013, consisted of $787,983,000 in 3.000 percent par value specials (with market value equal to face value) maturing on October 1, 2013, and $1,111,545 in accrued interest. The balance on September 30, 2012, consisted of $703,531,000 in 3.000 percent par value specials (with market value equal to face value) maturing on October 1, 2012, and $1,002,913 in accrued interest. Par value specials mature on the first working day of the month following the month of issue and have a yield based on the average yield of marketable Treasury notes with maturity dates at least 3 years away.

Social Security Equivalent Benefit Account

On September 30, 2013 and 2012, the book values of the SSEB Account investments, including accrued interest, totaled $841,032,832 and $928,271,039, respectively. The balance on September 30, 2013, consisted of $839,635,000 in 3.000 percent par value specials maturing on October 1, 2013, and $1,397,832 in accrued interest. The balance on September 30, 2012, consisted of $926,882,000 in 3.000 percent par value specials maturing on October 1, 2012, and $1,389,039 in accrued interest.

National Railroad Retirement Investment Trust

The NRRIT was established by the Railroad Retirement and Survivors' Improvement Act of 2001 (RRSIA). The sole purpose of the NRRIT is to manage and invest railroad retirement assets. The NRRIT is a tax-exempt entity, independent from the Federal Government and not subject to Title 31, United States Code (USC). The NRRIT is domiciled in and subject to the laws of the District of Columbia.

The NRRIT is comprised of a Board of seven Trustees, three selected by railroad labor unions and three by railroad companies. The seventh Trustee is an independent Trustee selected by the other six. Members of the Board of Trustees are not considered officers or employees of the Government of the United States.

The RRSIA authorizes the NRRIT to invest railroad retirement assets in a diversified investment portfolio in the same manner as those of private sector retirement plans. Prior to the RRSIA, investment of railroad retirement assets was limited to U.S. Government securities.

The NRRIT and the RRB are separate entities. The RRB remains a Federal agency and continues to have full responsibility for administering the railroad retirement program, including eligibility determinations and the calculation of benefit payments. The NRRIT has no powers or authority over the administration of benefits under the railroad retirement program. Under the RRSIA, the NRRIT is required to act solely in the interest of the RRB, and through it, the participants and beneficiaries of the programs funded under the RRA. The RRSIA does not delegate any authority to the RRB with respect to day-to-day activities of the NRRIT, but the RRSIA provides that the RRB may bring a civil action to enjoin any act or practice of the NRRIT that violates the provisions of the RRSIA or to enforce any provision of the RRSIA.

Under the RRSIA, the financial statements of the NRRIT are required to be audited annually by an independent public accountant. In addition, the NRRIT must submit an annual management report to the Congress on its operations, including a Statement of Financial Position, a Statement of Operations, a Statement of Cash Flows, a Statement on Internal Accounting and Administrative Control Systems, the independent auditor's report, and any other information necessary to inform the Congress about the operations and financial condition of the NRRIT. A copy of the annual report must also be submitted to the President, the RRB, and the Director of OMB.

Program, Operations, and Financial Performance and Results

During fiscal year 2013 (ended September 30, 2013), railroad retirement and survivor benefit payments totaled $11.7 billion, net of recoveries and offsetting collections. Railroad unemployment and sickness insurance benefit payments totaled $84.5 million in fiscal year 2013, net of recoveries and offsetting collections. During fiscal year 2013, the RRB also paid benefits on behalf of SSA (for which the RRB is reimbursed) amounting to $1.4 billion to about 113,000 beneficiaries.

In fiscal year 2013, the RRB continued to focus its efforts on providing excellent customer service to current and former railroad workers and their family members. Our regular workloads in fiscal year 2013 included:

- Providing payments to 568,000 retirement and survivor beneficiaries.
- Providing payments to 11,000 unemployment insurance beneficiaries.
- Providing payments to 16,000 sickness insurance beneficiaries.
- Processing 28,764 retirement, survivor, and disability applications for benefits (through May 31, 2013).
- Processing 171,267 applications and claims for unemployment and sickness insurance benefits (through May 31, 2013).
- Issuing 268,190 certificates of employee railroad service and compensation (mailed on June 19, 2013.

During fiscal year 2013, the RRB used 18 specific program performance objectives, including several with multiple indicators, to manage and track progress in meeting its long-term strategic plan goals. These objectives were accomplished with a direct appropriation of $108,734,464 for ongoing administration of the RRB. (A breakdown of administrative expenses by strategic goal is not available at the time of this report.) Agency performance with respect to the key performance indicators is covered in the following section. For most performance measures, actual full-year performance results for fiscal year 2013 were not available at the time this report was published. For those objectives, we reported part-year performance information for fiscal year 2013, if available. We also reported actual results from prior years, as applicable.

Summary of Achievement by Strategic Goal

Strategic Goal I: Provide Excellent Customer Service. For fiscal year 2013, we expect to meet or exceed most of our timeliness goals and increase Internet services available to employers.

Strategic Goal II: Serve as Responsible Stewards for Our Customers' Trust Funds and Agency Resources. The RRB is committed to fulfilling its fiduciary responsibilities to the rail community. For fiscal year 2013, we expect that benefit payment accuracy rates will exceed 99 percent.

Strategic Goals and Objectives

The RRB has a long and distinguished tradition of excellence in serving our customers, and we will strive to continue that tradition in the coming years. We have achieved high levels of accuracy and timeliness in processing retirement/survivor and unemployment/sickness insurance benefits, while embracing new technology, especially in areas where it can improve customer service and efficiency. We have also achieved very high scores for customer service in independent assessments of our operations related to initial railroad retirement applications, unemployment and sickness insurance benefits, survivor applications and disability applications.

The two overriding strategic issues for the upcoming planning period relate to customer service and trust fund stewardship. The **service issue** involves our ability to continue to meet our customers' expectations for personal, high quality service, and our ability to position the agency to meet rising customer expectations for new and improved services in the future. The **stewardship issue** has multiple aspects, some of which arise from legislative changes and others which relate to our ongoing ability to meet our program integrity responsibilities and to maintain effective, efficient and secure agency operations. To effectively address these issues, we have established two strategic goals on which we will focus our efforts.

Provide excellent customer service

We aim to satisfy our customers' expectations for quality service both in terms of service delivery options and levels and manner of performance. Our Annual Performance Plan for Fiscal Year 2013 reflects two strategic objectives that focus on the specifics of achieving this goal.

- Pay benefits timely.
- Provide a range of choices in service delivery methods.

Serve as responsible stewards for our customers' trust funds and agency resources

The RRB is committed to fulfilling its fiduciary responsibilities to the rail community. Our performance budget reflects four objectives that direct our focus on this goal.

- Ensure that trust fund assets are protected, collected, recorded and reported appropriately.
- Ensure the accuracy and integrity of benefit programs.
- Ensure effectiveness, efficiency, and security of operations.
- Effectively carry out responsibilities with respect to the NRRIT.

The RRB of the future will continue to be customer-focused, quality-driven, and fiscally responsible. Our overall mission and responsibilities as a Federal agency will remain unchanged, even though our organization may be smaller in terms of staff and budget resources. We will use creativity, automation and innovation to continue to deliver best-in-class service while ensuring cost-effective and efficient operations.

Our customers will have a broad range of choices for conducting their business with the agency, including more Internet options that will allow for private, secure transactions from their homes at any time of the day. Railroad employers will be able to conduct most, if not all, of their routine transactions with the RRB through secure and efficient electronic systems. Direct customer feedback will shape our planning efforts and enhance our responsiveness. Our customer service levels will serve as a standard of excellence for the rest of the Federal community.

The agency's internal culture will reflect a strong commitment to its employees, and a drive to ensure continual learning at all levels. Given the large percentage of employees who will be eligible for retirement in the near future, senior employees will engage in knowledge transfer and sharing as a top priority.

Our ultimate measures of success will be the sustained satisfaction level of our customers and our ability to respond to their needs and concerns.

Validation of Performance Information. The RRB has implemented comprehensive administrative procedures to ensure that reported performance information is accurate and valid. Administrative Circular RRB-2 establishes standards and assigns responsibility for collecting, documenting, validating, certifying, reporting and retaining information related to the actual performance data reported for objectives in the RRB's Annual Performance Budget and Government Performance and Results Act Report.

The procedures require that reporting managers develop and maintain written procedures for:

- Collecting data related to each objective,
- Testing and validating performance data to ensure accuracy,
- Retaining source documents for future reference, and
- Attesting to the accuracy of performance information reported.

Members of the RRB's Planning Council review the certified performance data and attestations for completeness and identify any problems. The Planning Council also compiles the performance data for agency reports, and monitors compliance with the requirements of Administrative Circular RRB-2.

Members of the RRB's Executive Committee review performance issues related to their areas of responsibility and assign follow-up action, as necessary. The Executive Committee also reviews and approves performance reports before releasing the drafts for approval by the Board Members.

The following begins a discussion of our key performance indicators.

Discussion of Key Performance Indicators

The RRB has identified the following 10 key performance indicators, which represent our most important responsibilities.

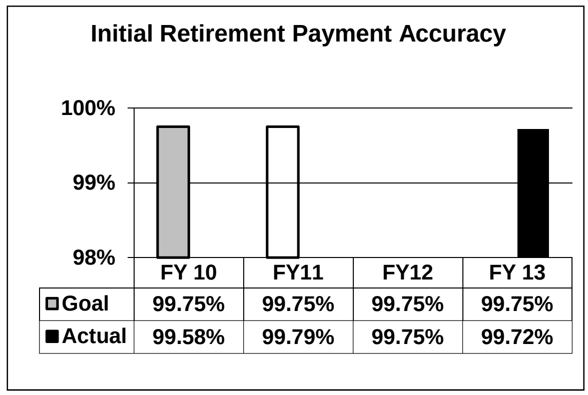
<u>Key performance indicator 1:</u> Initial recurring retirement payment accuracy (Objective II-B-1a)

Our overall strategic goal is to achieve a railroad retirement benefit payment recurring accuracy rate of at least 99 percent on our initial processing of applications for retirement (employee, spouse and widow) benefits.

FY 2013 goal: 99.75%
Our FY 2013 performance: 99.72% through the 2nd quarter

We are not yet achieving our goal, but we expect to meet the goal by the end of fiscal year 2013. Automation plays a key role in assuring initial benefit payment accuracy by reducing the number of erroneous payments.

FY 2012 goal: 99.75%
Our FY 2012 performance: 99.75%



Data definition: This is the percentage of the dollar value of initial recurring retirement benefit payments paid correctly as a result of adjudication actions performed, based on a review of a sample of cases.

<u>Key performance indicator 2:</u> Unemployment insurance payment accuracy (Objective II-B-2a)

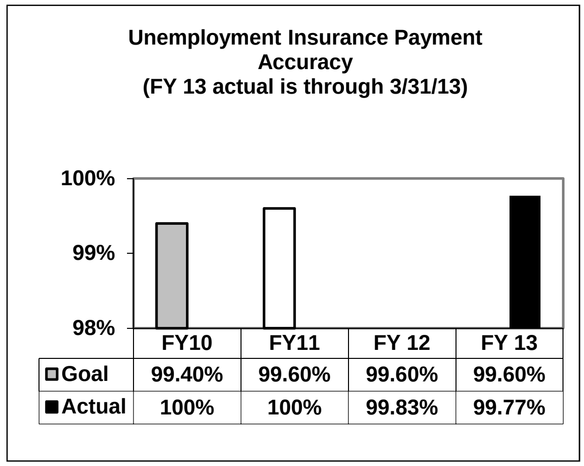
Our overall strategic goal is to achieve a railroad unemployment insurance benefit payment accuracy rate of at least 99 percent.

FY 2013 goal: 99.60%
Our FY 2013 performance: 99.77% through the 2nd quarter

We are achieving our goal. Automation plays a key role in assuring benefit payment accuracy by reducing the number of erroneous payments.

FY 2012 goal: 99.60%
Our FY 2012 performance: 99.83%

Data definition: This is the percentage of the dollar value of unemployment insurance benefit payments paid correctly as a result of adjudication actions performed, based on a review of a sample of cases.



	FY10	FY11	FY 12	FY 13
Goal	99.40%	99.60%	99.60%	99.60%
Actual	100%	100%	99.83%	99.77%

<u>Key performance indicator 3:</u> Sickness insurance payment accuracy (Objective II-B-2b)

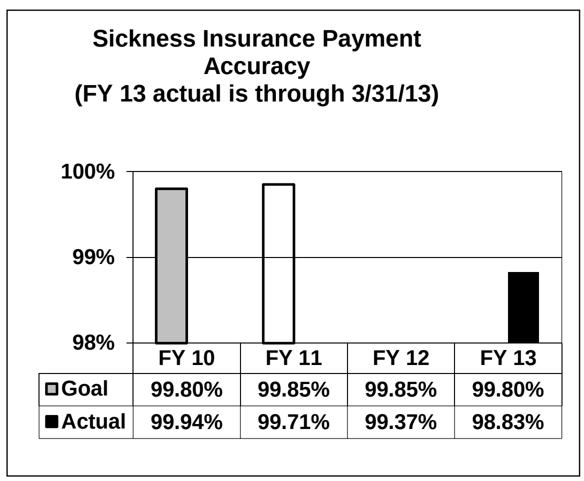
Our overall strategic goal is to achieve a railroad sickness insurance benefit payment accuracy rate of at least 99 percent.

FY 2013 goal: 99.80%
Our FY 2013 performance: 98.83% through the 2nd quarter

We are not yet achieving our goal, but we expect to meet the goal by the end of fiscal year 2013. Automation plays a key role in assuring benefit payment accuracy by reducing the number of erroneous payments.

FY 2012 goal: 99.85%
Our FY 2012 performance: 99.37%

Data definition: This is the percentage of the dollar value of sickness insurance benefit payments paid correctly as a result of adjudication actions performed, based on a review of a sample of cases.



	FY 10	FY 11	FY 12	FY 13
Goal	99.80%	99.85%	99.85%	99.80%
Actual	99.94%	99.71%	99.37%	98.83%

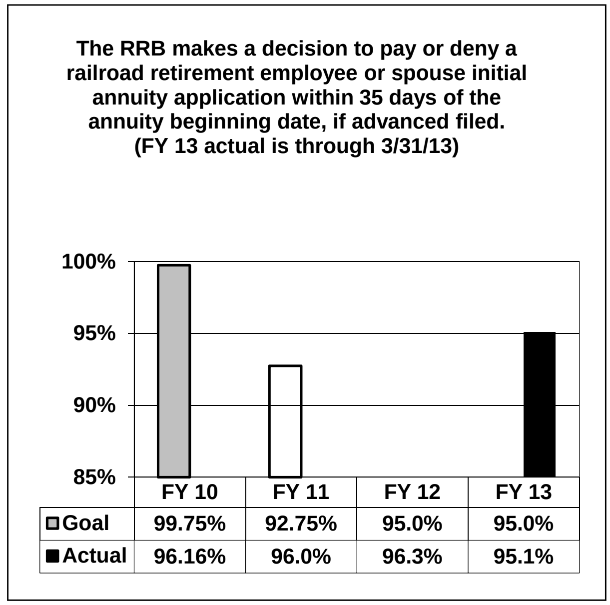
<u>Key performance indicator 4:</u> Timeliness of initial railroad retirement annuity payments, when advanced filed (Objective I-A-1)

FY 2013 goal: 95.0%
Our FY 2013 performance: 95.1% through the 2nd quarter

We are meeting our goal. Automation plays a key role in assuring benefit payment timeliness for this performance indicator.

FY 2012 goal: 95.0%
Our FY 2012 performance: 96.3%

Data definition: This goal is included in the RRB Customer Service Plan.



	FY 10	FY 11	FY 12	FY 13
Goal	99.75%	92.75%	95.0%	95.0%
Actual	96.16%	96.0%	96.3%	95.1%

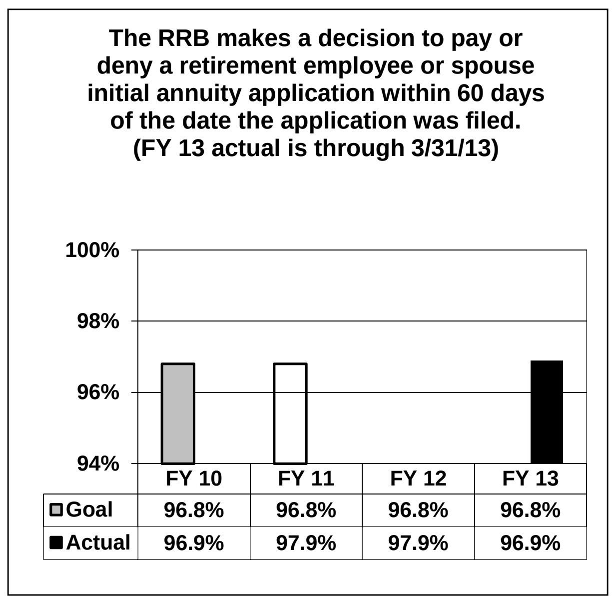
<u>Key performance indicator 5:</u> Timeliness of initial railroad retirement annuity payments, if not advanced filed (Objective I-A-2)

FY 2013 goal: 96.8%
Our FY 2013 performance: 96.9% through the 2nd quarter

We are meeting our goal. Automation plays a key role in assuring benefit payment timeliness for this performance indicator.

FY 2012 goal: 96.8%
Our FY 2012 performance: 97.9%

Data definition: This goal is included in the RRB Customer Service Plan.



	FY 10	FY 11	FY 12	FY 13
Goal	96.8%	96.8%	96.8%	96.8%
Actual	96.9%	97.9%	97.9%	96.9%

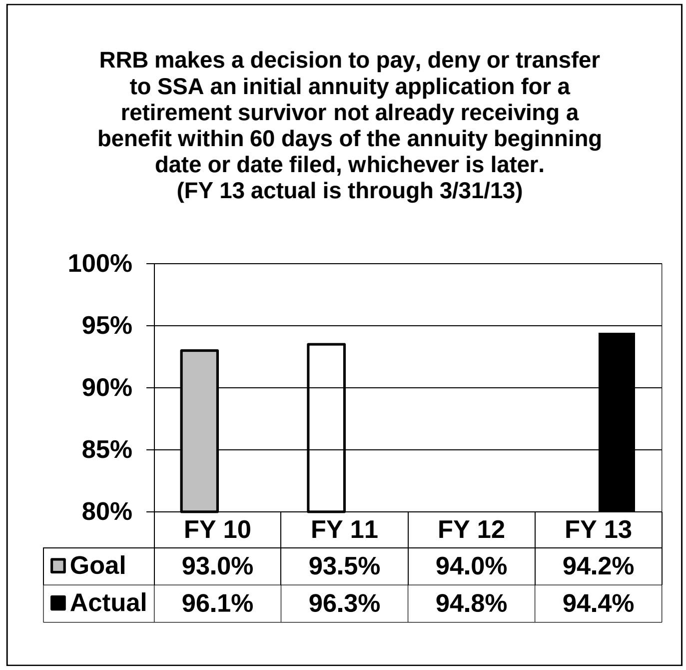
<u>Key performance indicator 6:</u> Timeliness of new survivor benefit payments (Objective I-A-3)

FY 2013 goal: 94.2%
Our FY 2013 performance: 94.4% through the 2nd quarter

We are meeting our goal. Automation plays a key role in assuring benefit payment timeliness for this performance indicator.

FY 2012 goal: 94.0%
Our FY 2012 performance: 94.8%

Data definition: This goal is included in the RRB Customer Service Plan.



	FY 10	FY 11	FY 12	FY 13
Goal	93.0%	93.5%	94.0%	94.2%
Actual	96.1%	96.3%	94.8%	94.4%

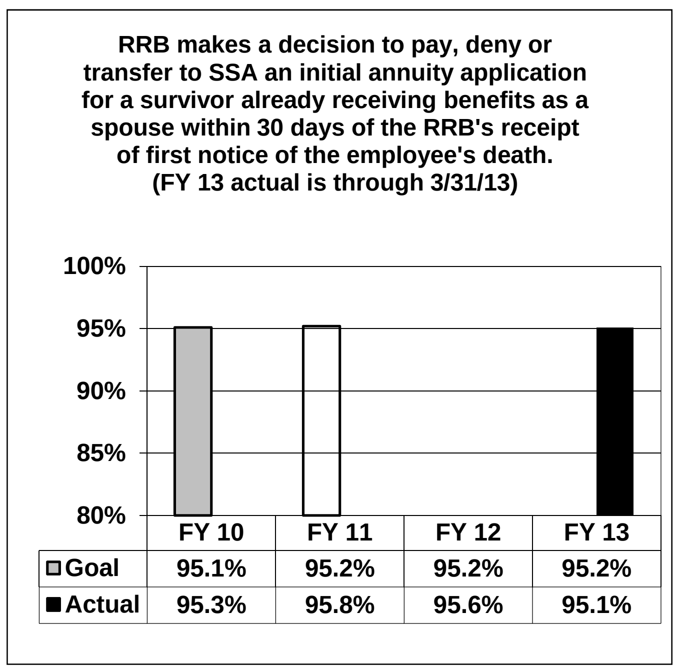
<u>Key performance indicator 7:</u> Timeliness of spouse to survivor benefit payment conversions (Objective I-A-4)

FY 2013 goal: 95.2%
Our FY 2013 performance: 95.1% through the 2nd quarter

We are not yet achieving our goal, but we expect to meet the goal by the end of fiscal year 2013. Automation plays a key role in assuring benefit payment timeliness for this performance indicator.

FY 2012 goal: 95.2%
Our FY 2012 performance: 95.6%

Data definition: This goal is included in the RRB Customer Service Plan.



	FY 10	FY 11	FY 12	FY 13
Goal	95.1%	95.2%	95.2%	95.2%
Actual	95.3%	95.8%	95.6%	95.1%

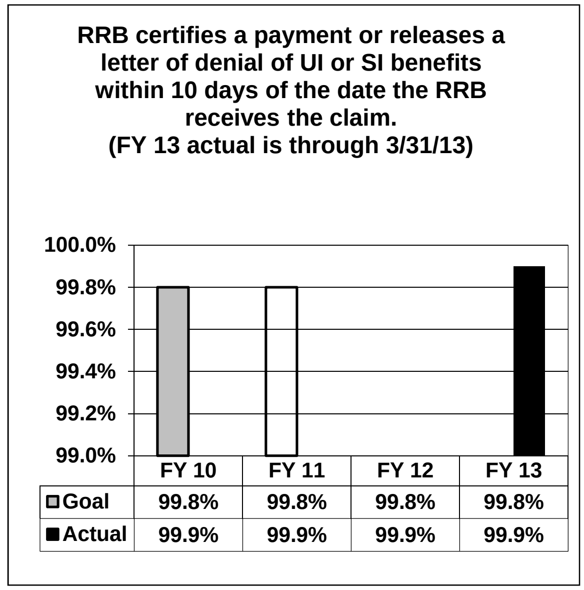
<u>Key performance indicator 8:</u> Timeliness of unemployment or sickness insurance payments (Objective I-A-6)

FY 2013 goal: 99.8%
Our FY 2013 performance: 99.9% through the 2nd quarter

We are meeting our goal. Automation plays a key role in assuring benefit payment timeliness for this performance indicator.

FY 2012 goal: 99.8%
Our FY 2012 performance: 99.9%

Data definition: This goal is included in the RRB Customer Service Plan.



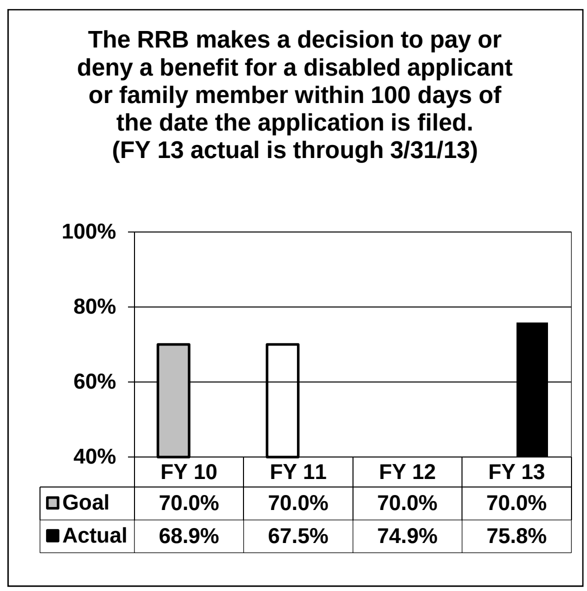
<u>Key performance indicator 9:</u> Timeliness of disability decisions (Objective I-A-7)

FY 2013 goal: 70.0%
Our FY 2013 performance: 75.8% through the 2nd quarter

We are exceeding our goal.

FY 2012 goal: 70.0%
Our FY 2012 performance: 74.9%

Data Definition: This goal is included in the RRB Customer Service Plan.

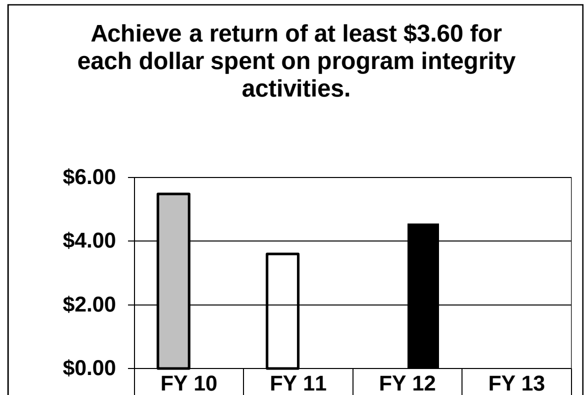


<u>Key performance indicator 10:</u> Return on investment in program integrity activities (Objective II-B-4)

FY 2013 goal: $4.28 : $1
Our FY 2013 performance: Not available

FY 2013 data will be available in FY 2014.

FY 2012 goal: $4.28 : $1
Our FY 2012 performance: $4.55 : $1



	FY 10	FY 11	FY 12	FY 13
Goal	$5.48	$3.60	$4.28	$4.28
Actual	$5.51	$5.46	$4.55	

We exceeded our goal. In November 2010, we discovered that not all program integrity cost information was being used to compile the program integrity ratio – most significantly, the cost of a major monitoring activity was not being captured, even though the benefits of that process were included. As a result, we adjusted the fiscal year 2011 target for this indicator from $5.48: $1.00, to an adjusted level of $3.60: $1.00, which is consistent with the initial statement of the objective.

As part of our fiduciary responsibilities to the rail community, we must ensure that the correct benefit amounts are being paid to the right people. We match our benefit payments against SSA's earnings and benefits database, the Centers for Medicare & Medicaid Services' utilization and death records, the Office of Personnel Management's benefit records, and State wage reports, usually via computer tapes, and administer other benefit monitoring programs to identify and prevent erroneous payments. We also refer some cases to the RRB's OIG for investigation. After investigation, the OIG may pursue more aggressive collection methods, which include civil and criminal prosecution.

Data definition: This is the ratio of the sum of the dollar recoveries and savings, to the labor dollars spent.

Future Plans/Objectives

Program Improvements

- **Patient Protection and Affordable Care Act** The Patient Protection and Affordable Care Act of 2010 provides for an Income-Related Monthly Adjustment Amount (IRMAA) to be added to the Medicare prescription drug plan (Part D) premiums paid by high-income beneficiaries beginning in January 2011. This provision allows for the collection of Part D IRMAA through withholding from railroad retirement benefit checks or through direct billing. We implemented Part D IRMAA collection in January 2011 through direct billing, utilizing the existing Program Accounts Receivable system as a temporary approach to effect timely compliance with the law. Work is now proceeding to implement premium withholding from railroad retirement benefit checks with the support of contractual staff from Booz, Allen and Hamilton. Implementation is projected for fiscal year 2014.

- **Employer Reporting System (ERS) – Internet Site** In fiscal year 2014, we will develop Form G-88p which is required for the payment of supplemental annuities. We also plan to develop an automated referral process to notify employers of the agency's right to reimbursement of benefits paid under sections 12(o) and 2(f) of the RUIA.

  Beginning in fiscal year 2015, we plan to develop Form BA-9, Report of Separation Allowance or Severance Pay, which is another on-line employer reporting form. We will also create Forms G-73a.1, Notice of Death; RL-5a, Notice of Annuity Award to provide employers with information about benefit payment and eligibility; and Form GL-132, Notice of Service after ABD, a data correction form that allows employers to update their employee records on-line. Replacing these paper-based processes will improve customer service by providing information to employers that affects their own benefit payments to their employees. These processes will also further our efforts to enhance stewardship by securing and protecting personally identifiable information.

Improper Payments Information Act (IPIA)

- **Improper Payment Related Initiatives** To improve the accuracy of our benefit payments, we are pursuing the following initiatives:

  - development of an enhanced automated retirement payment system to replace the current legacy system that processes retirement applications, planned for fiscal year 2014,
  - development of an interface between systems to ensure accurate use of military service in the calculation of benefits, tentatively scheduled for completion in fiscal year 2014,
  - expansion of a Medicare premium collection database to include Part B premium withholding history, tentatively scheduled to begin in fiscal year 2014,
  - development of an interface between ORCS (Overpayment Recovery Correspondence System) and payment programs to ensure that the most current data is retrieved and used in the development of cases involving overpayment recovery. Current plans are to complete this initiative by the end of fiscal year 2013, with similar enhancements to RUIA and Medicare overpayment recovery to follow during fiscal year 2014,
  - continued development in fiscal year 2013 of SPEED (System Processing Excess Earnings Data), a multi-phase automation initiative designed to process annuity

adjustments resulting from excess earnings and work deductions on a timely basis, and

- continued development in fiscal year 2013 of enhanced electronic data processing (EDP) policing to monitor earnings information and reduce manual handlings of records.

See the IPIA reporting details for further discussion of these automation initiatives.

Systems and Controls

The RRB continually evaluates the effectiveness and efficiency of its operations using ongoing assessments and reviews of management controls, internal and external audits, quality control and assurance reviews, program integrity activities, and customer satisfaction surveys.

Under the direction of a Management Control Review Committee (MCRC) composed of senior managers from its legal, program, information services, administrative, and financial operations, the RRB has divided these operations functionally into 44 assessable units. The number of assessable units can vary from year to year as operations are restructured to accommodate changes precipitated by such factors as new and revised missions, reduced resources, and increased automation.

The mission, key performance indicators, workflow, control objectives and techniques, guidance, automated systems support, impact, and vulnerability of each assessable unit are documented. The RRB maintains and annually updates a 5-year plan for review of the assessable units. The official responsible for each assessable unit prepares an annual assessment of key indicators and open or new issues requiring management's attention. High impact and vulnerable assessable units are scheduled for more frequent, in-depth reviews as deemed necessary by the MCRC in consultation with senior management. During fiscal year 2013, responsible officials performed in-depth reviews of 14 assessable units, assessed all 44, and certified 40**.**

In fiscal year 2011, the OIG identified Budgetary Reporting as a material weakness. In fiscal year 2013 budgetary training was conducted and the OIG identified a significant improvement in the preparation of the statement of budgetary resources. As a result, the OIG made a decision to downgrade the material weakness to a significant deficiency.

During the fiscal year 2011 evaluation of the agency's information security pursuant to the provisions of the Federal Information Security Management Act (FISMA), the OIG identified a new significant deficiency regarding Information Technology Security – Configuration Management. FISMA significant deficiencies are reported as material weaknesses for the financial statement audit. In fiscal year 2013 OIG auditors found that weaknesses associated with the configuration management of some agency systems continue to be found. Although agency managers are working to remediate these weaknesses, management action had not been completed as of the end of the current period.

In fiscal year 2013, the OIG evaluated the RRB's information security program pursuant to the provisions of FISMA. OIG auditors found that weaknesses regarding the review of contractor deliverables associated with the risk management continue to be found. Although agency managers are working to strengthen controls, management action had either not been completed as of the end of the current reporting period, or had not been in place long enough to permit evaluation.

The agency is committed to resolving these reported weaknesses and will closely monitor progress during fiscal year 2014.

Management Assurances

The Railroad Retirement Board states and assures that to the best of our knowledge:

1. In accordance with OMB Circular No. A-123, Section VI (B), we are issuing a qualified statement of assurance considering the OIG-identified material weaknesses indicated under paragraph (4). Except as indicated under (4), the system of internal control of this agency is functioning and provides reasonable assurance as to the: efficiency and effectiveness of programs and operations; reliability of financial and performance information; and compliance with laws and regulations. These controls satisfy the requirements of the Federal Managers' Financial Integrity Act (FMFIA) §2.

2. The financial management systems of this agency maintain accountability for assets and provide reasonable assurance that obligations and costs are in compliance with applicable law, and that performance data and proprietary and budgetary accounting transactions applicable to the agency are properly recorded and accounted for to permit the timely preparation of accounts and reliable performance information. The financial management systems at this agency satisfy the requirements of the FMFIA §4.

3. The financial management systems of this agency provide the agency with reliable, timely, complete, and consistent performance and other financial information to make decisions and efficiently operate and evaluate programs and substantially satisfy the requirements of the GPRA and OMB Circular No. A-11.

4. The RRB's Inspector General, in his auditor's report, identifies Information Technology Security – Risk Management, and Information Technology Security – Configuration Management as material weaknesses. Budgetary Reporting has been downgraded to a significant deficiency.

Description of OIG-Identified Material Weaknesses

1. During fiscal year 2011, the OIG inspected the internal control environment regarding the authorization and continuous monitoring process, which includes risk assessments and testing and evaluation of security controls and is still considered to be a material weakness for Information Technology Security – Risk Management Framework.

   In fiscal year 2012, the RRB continued to strengthen the information security review process but the material weakness still exists and will continue to be reported as such for fiscal year 2013.

2. The OIG recently identified Information Technology Security – Configuration Management as a material weakness in fiscal year 2011. Corrective actions are in place but the material weakness still exists and will continue to be reported as such for fiscal year 2013.

3. During fiscal year 2011, the OIG identified Budgetary Reporting as a material weakness. The agency has added additional controls for the budgetary reporting process, and the material weakness has been downgraded to a significant deficiency for fiscal year 2013.

Original signed by:

Michael S. Schwartz, Chairman
Walter A. Barrows, Labor Member
Jerome F. Kever, Management Member

Financial Management Systems Strategy

The RRB has continually upgraded its financial system structure to meet evolving standards and requirements. Our strategy is, and has been, to continually upgrade and improve the financial management systems structure. The RRB is committed to an integrated and automated financial management system that focuses on the agency's mission and accountability. Our goals are to (1) achieve compliance with applicable laws, regulations, standards, and requirements; (2) identify requirements for financial systems support; (3) improve and facilitate user access to financial information; (4) reduce redundant data entry, storage, and processing; and (5) improve security, control, and disaster recovery capability for information processed and stored on mainframe, local area network, and personal computer systems.

During fiscal year 2013, core financial management functions continued to be centralized in a mainframe-based system (the Federal Financial System (FFS)) under a maintenance contract between the RRB and CGI. At the same time, RRB stakeholders and CGI staff began work to migrate the RRB's financial system (FFS) to a new cloud-based platform called the Financial Management Integrated System (FMIS) based on CGI's proprietary software – Momentum Financials. Momentum Financials represents the next generation of financial management software after FFS.

The migration to FMIS will close performance gaps with Federal Systems Integration Office (FSIO) requirements and meet a large number of RRB-specific requirements. In addition, automated functionality will be added in the areas of contract writing, fixed asset recording and financial reporting. It will also enable RRB to meet Treasury due dates for major initiatives including the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) and Payment Application Modernization (PAM) which will enable RRB to become a GWA reporter.

RRB staff, including major stakeholders along with functional and technical subject matter experts, are conducting migration activities with CGI according to a comprehensive project plan centering on requirements analysis, data conversion, training and testing. Production in the new cloud-based system will commence in October 2013 (fiscal year 2014) with final sunset of FFS in November, following all fiscal year 2013 processing.

Summary of Actuarial Forecast

The Statement of Social Insurance presents an actuarial analysis of the financial position of the railroad retirement system as of January 1, 2013, under our intermediate employment assumption. The Required Supplementary Information presents sensitivity analyses showing the impact of changes in employment and investment return assumptions. Although under our intermediate assumption no cash flow problems arise over the period 2013-2087, the sensitivity analyses show that, under the current financing structure, actual levels of railroad employment and investment return over the coming years will determine whether additional corrective action is necessary.

Section 7105 of the Technical and Miscellaneous Revenue Act of 1988 requires the RRB to submit an annual report to Congress on the financial status of the railroad unemployment insurance system. Projections were made for the various components of income and outgo under each of 3 employment assumptions for the 11 fiscal years 2013-2023. The results indicate that, except for small short-term cash flow problems in fiscal years 2015 and 2016 under the pessimistic assumption, the Railroad Unemployment Insurance (RUI) Account will be solvent during the 11-year projection period.

Social Insurance: Key Measures

Balance Sheet: The Balance Sheet displayed in the Financial Section presents our assets, liabilities, and net position. Total assets for fiscal year 2013 are $31.6 billion, a 5.2% increase over last year. Of the total assets, $25.0 billion relates to funds held by the National Railroad Retirement Investment Trust (NRRIT). The net asset value of funds held by the NRRIT increased from fiscal year 2012 by 5.8%. Our investments total $1.6 billion and we invest those funds not needed to pay current expenses or benefits in interest bearing Treasury securities. A chart of investment balances held at Treasury can be found on page 19. Total liabilities for fiscal year 2013 are $5.7 billion. Liabilities increased in fiscal year 2013 principally because of an increase of borrowing from Treasury. Also, benefits due increased by $52.1 million. By statute, benefits due in September are not paid until October.

Statement of Net Cost: The Statement of Net Cost displayed in the Financial Section presents the annual cost of operating our two major programs: railroad retirement and railroad unemployment insurance. In fiscal year 2013, our net cost of operations was $12.0 billion, an increase over last year of $324.8 million, or 2.8%. A chart for the net cost of operations for fiscal years 2013 and 2012 can be found on page 15.

Statement of Changes in Net Position: The Statement of Changes in Net Position displayed in the Financial Section reflects the changes that occurred within cumulative results of operations and unexpended appropriations. Total net position for 2013 is $25.9 billion. The statement shows an increase in the net position of the agency of $754.4 million attributable to the change in cumulative results of operations. Total financing sources for 2013 are $12.8 billion. A chart for financing sources for fiscal years 2013 and 2012 can be found on page 17.

Statement of Social Insurance: Federal accounting standards require the presentation of a Statement of Social Insurance as a basic financial statement. The Statement of Social Insurance presents estimates of the present value of the income to be received from or on behalf of current and future participants of the Railroad Retirement program, the present value of the cost of providing scheduled benefits to those same individuals, and the difference between the income and cost. The Statement of Social Insurance covers a period of 75 years in the future, and the information and disclosures presented are deemed essential to the fair presentation of this statement.

The open group as of the valuation date includes current participants who have attained retirement age under the Railroad Retirement program, current participants who have not yet attained retirement age, and those expected to become participants, or new entrants. The closed group as of the valuation date includes only current participants: (1) those who have not yet retired but are active workers paying payroll taxes, (2) those who have retired and are receiving benefits, and (3) those who are not currently working but have sufficient service to be eligible for future benefits. The closed group measure represents a reasonably good estimate of the extent to which benefits of the closed group are funded by members of the closed group. The open group measure is inherently more sensitive to assumptions about the distant future than the closed group measure. The open group measure gives a more complete assessment of the long-term financial stability of the program because it includes all those who are projected to be participants in the program over the given projection period, whether paying payroll taxes or receiving benefits.

The net present value (NPV) of future expenditures less future revenue (net expenditures) for all participants over the next 75 years (open group) increased from $22.7 billion as of December 31, 2011 to $23.9 billion as of December 31, 2012, a net change in the open group measure of $1.2 billion.

As can be seen on the Statement of Changes in Social Insurance Amounts, the largest change in the open group measure, $1.5 billion, is due to changes in economic data and assumptions. Select assumptions for COLA and investment return were updated in 2013, as described in the footnotes to the Statement of Changes. The change in the valuation period (from 2012-2086 to 2013-2087) had a lesser effect, resulting in a change of about $0.3 billion in the open group measure. There were no changes in demographic assumptions, but there were updates to demographic data. These had a relatively small effect, resulting in a change of less than $0.1 billion. This year there were no changes in law, policy, or methodology and programmatic data.

TABLE OF KEY MEASURES

Dollars in ***MILLIONS***	FY 2013	FY 2012	Increase / $	(Decrease) %
COSTS[1]				
Total Financing Sources	$12,751.1	$13,755.4	(1,004.3)	(7.30)
Less: Net Cost	11,982.5	11,657.7	324.8	2.79
Net Change of Cumulative Results of Operations	768.6	2,097.7	(1,329.1)	(63.36)
NET POSITION[2]				
Assets	$31,625.4	$30,054.9	1,570.5	5.23
Liabilities	5,739.3	4,923.3	816.0	16.57
Net Position (Assets minus Liabilities)	25,886.1	25,131.6	754.5	3.00

Dollars in ***BILLIONS***	1/1/2013	1/1/2012	Increase / $	(Decrease)[3] %
SOCIAL INSURANCE[4]				
Social Insurance Net Expenditures (Open Group)	$23.9	$22.7	$1.2	5.3%

1 Source: Consolidated Statement of Net Cost and Statement of Changes in Net Position.

2 Source: Consolidated Balance Sheet.

3 Based on unrounded figures.

4 Source: Statement of Social Insurance (SOSI). Social insurance amounts cover calendar year time frames January 1 through December 31. Amounts equal estimated present value of projected revenues and expenditures for scheduled benefits over the next 75 years. The Statement of Social Insurance shows future revenue less future expenditures while the Key Measure above shows future expenditures less future revenue. This change in presentation is done to eliminate any ambiguity in the interpretation of percentage changes in negative amounts.

American Taxpayer Relief Act of 2012

The American Taxpayer Relief Act of 2012 (ATRA), was signed into law by President Obama on January 2, 2013.

ATRA includes a 1-year extension of previous legislative provisions, offering extended unemployment benefits to anyone who claims regular unemployment benefits through June 30, 2013, and exhausts rights to regular benefits. Under the previous extensions, including the American Recovery and Reinvestment Act (ARRA) of 2009, the Worker, Homeownership, and Business Assistance Act (WHBAA) of 2009, and the Middle Class Tax Relief and Job Creation Act of 2012, railroad workers with less than 10 years of service were eligible for up to 65 days of extended unemployment benefits, while workers with 10 or more years of service could receive up to 130 days of extended benefits. To qualify for these benefits, the employee had to claim regular unemployment benefits between July 1, 2008, and June 30, 2013.

The RRB began making payments under this Act on January 2, 2013, and has paid approximately $4.5 million of these extended benefits through June 7, 2013, using remaining funds previously appropriated under the WHBAA. The latest date that an extended benefit period may begin under the ATRA is December 31, 2013.

Limitations of the Financial Statements

The limitations of the principal financial statements are as follows:

1. The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 USC 3515(b).

2. While the statements have been prepared from the books and records of the entity in accordance with U.S. generally accepted accounting principles for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

3. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

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PERFORMANCE SECTION –

GOVERNMENT PERFORMANCE AND RESULTS ACT (GPRA) REPORT

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Performance Section - Government Performance and Results Act (GPRA) Report

The following performance report is based on the major goals and objectives for fiscal year 2013 from the RRB's Annual Performance Plan. The indicators we developed support our mission and communicate our intentions to meet challenges and seek opportunities for greater efficiency, effectiveness and economy.

To achieve our performance goals, the RRB holds managers accountable for achieving program results and improving program effectiveness by focusing on results, service quality and customer satisfaction. In addition, the annual performance plan is used to help managers improve service delivery by requiring that they plan for meeting program objectives and by providing them with information about program results and service quality. To provide reasonable assurance that the reported performance information is relevant and reliable, performance goals are incorporated into performance standards for managers and supervisors and monitored on an agency-wide basis.

Automation, e-Government and Customer Service Initiatives

The RRB is continuing with long-term plans to implement significant automation initiatives and other improvements. These changes have enabled the agency to operate with reduced resources in recent years and continue to streamline our operations with the assistance of information technology. We believe that significant new investments in information technology and further management improvements will help us to meet or exceed our customer service goals efficiently.

In fiscal year 2013, we initiated the next phase of the ERSNet project to develop automated processes to notify employers of the need for additional information and to provide a means for correcting the data. These include the Form G-88a.2, which requests annuity eligibility information from rail employers and Form G-88a.1, for verification of last date on the payroll. Development of these forms will provide two additional services in fiscal year 2013.

We are also completing contractor-assisted enhancements to the ERSNet system that improve the functionality of the forms already in use. Finally, we plan to implement enhanced system accessibility so employers who file reports for multiple companies can access the ERSNet system with one multi-user account.

Work continued on SPEED (System Processing Excess Earnings Data), an automation initiative designed to process post-entitlement annuity adjustments in both retirement and survivor cases that result from excess earnings and work deductions. SPEED allows the RRB to adjust annuity payments for earnings on a timely basis, which minimizes any underpayments or overpayments that may result from changes in earnings. SPEED is being built in a multi-phase approach. The first five phases of this initiative automated the handling of several survivor year-end actions; annuity adjustments when Last Person Earnings (LPE) work deductions are removed; and adjustments for cases that involve both retirement regular and LPE cease work reports. During fiscal year 2013 we will automate the download of current survivor earnings estimates from the Survivor Payments System to perform the necessary survivor annuity adjustments and notifications and permanent work deductions. In future phases, we plan to automate the process to initiate LPE and regular temporary work deductions in response to earnings estimates from retirement beneficiaries, which will support our long range plan of automating permanent work deductions for both retirement and survivor beneficiaries.

Work continued during fiscal years 2012 and 2013 on an enhanced automated retirement payment system which will replace the current legacy system that processes retirement applications (commonly referred to as Retirement Adjudication System Initial to Application Express [RASI to APPLE] Conversion). The enhanced process will improve the accuracy and efficiency of retirement initial claims, as it will automatically interface with the Social Security Administration's (SSA) benefit payment system to provide real-time offset data. The new system will also allow for the payment of such application types as divorced spouse annuitants, which previously could not be processed automatically. As of June 2013, the target for completion of the enhanced system is fiscal year 2014. Future enhancements include the development of a system interface to ensure the accurate use of military service in the calculation of benefits.

Work also continued during fiscal years 2012 and 2013 on an initiative to redesign the Overpayment Recovery and Correspondence System (ORCS) to automatically interface with other on-line and mainframe applications. The redesigned system will completely automate the retrieval of overpayment recovery data for benefits under the Railroad Retirement Act (RRA), RUIA and Medicare. The system will also include a letter writing and calculation summary process. The RRA enhancements are targeted for implementation during fiscal year 2013 followed by RUIA and Medicare during fiscal year 2014.

The Patient Protection and Affordable Care Act of 2010 provides for an Income-Related Monthly Adjustment Amount (IRMAA) to be added to the Medicare Part D premiums paid by high-income beneficiaries beginning in January 2011. This provision allows for the collection of Part D IRMAA through withholding from railroad retirement benefit checks or through direct billing. We implemented Part D IRMAA collection in January 2011 through direct billing, utilizing the existing Program Accounts Receivable system. During fiscal year 2013, work continued on implementing premium withholding from railroad retirement benefit checks. Work on this project is expected to be completed in fiscal year 2014.

Treasury regulations require recipients of Federal nontax payments to receive payment by electronic funds transfer (EFT). In 2011, the RRB introduced the Direct Direct Express® program to beneficiaries who do not have a bank account or who do not choose direct deposit of their payments to an account at a financial institution. The Direct Express® Debit Master Card® program is a prepaid card program established pursuant to terms and conditions approved by Treasury. As of June 1, 2013, there were 2,007 beneficiaries enrolled in the program. The RRB also began offering International Direct Deposit (IDD) in April 2011, to RRA beneficiaries who reside in foreign countries. As of June 1, 2013, there were 1,639 beneficiaries enrolled in the IDD program. Additionally, the RRB worked with Treasury to complete program changes that will allow child support payments that are withheld from RRB benefits and paid to State agencies to be made by EFT. Work to convert the RRA and RUIA daily payments is underway and expected to be completed by October 1, 2014.

In fiscal year 2012, work began on a project to enhance our Electronic Data Processing (EDP) policing program, which will address the internal handling and automated matching of earnings information received from our data match with the Social Security Administration. The first phase of the project, which involved the automation and capture of earnings information stored in the Retirement On-Line Calculations (ROC) system (an on-line system for calculating and paying retirement annuities), has been completed. Work continues on updating the LPE process to capture the latest monthly earnings and average monthly earnings amounts. The information will be used in the EDP process to monitor earnings information, eliminate redundant information, and reduce the number of records referred to the claims adjudication units.

Sequestration of Railroad Unemployment Insurance Act (RUIA) Benefits

Under provisions of the Budget Control Act (BCA) of 2011, across-the-board cuts in Federal spending took effect March 1, 2013. While railroad retirement, survivor and disability payments are not affected by this measure, unemployment and sickness insurance benefits payable under the RUIA are impacted. Benefits payable for days March 1 through September 30, 2013, are being reduced by 9.2 percent. The reduction is required by the sequestration order issued by the President in accordance with the BCA. In the event that Congress and the Administration do not eliminate sequestration for fiscal year 2014, a sequestration reduction will be applied starting on October 1, 2013, and beyond.

Succession Planning and Training

Like many agencies, the RRB has an aging workforce. About 65 percent of our employees have 20 or more years of service and nearly 28 percent of the current workforce will be eligible for retirement by fiscal year 2014. To prepare for the expected turnover, the agency is placing increased emphasis on strategic management of human capital. Each organization has completed workforce planning documents that identify staffing levels, projected attrition and planned hiring through fiscal year 2015, subject to available funding. Each executive also completed a gap analysis for his/her organization that identified potential areas of skills and knowledge gaps that will need to be addressed, identified areas where additional training may be necessary or where mentoring may be desirable to prepare employees for more senior positions, and identified areas of new skills that may need to be addressed through outside hires.

Recently, the agency has been able to utilize the re-employment of retirees to allow retirees under the Civil Service Retirement System and the Federal Employees Retirement System to be temporarily rehired without losing entitlement to their retirement annuities under Section 1122(a) of Public Law 111-84, which amended sections 8344 and 8468 of Title 5 of the United States Code. The agency has been able to rehire several annuitants on a temporary basis to assist in areas that have knowledge gaps due to attrition.

The RRB is also devoting more attention and resources to training and has provided meaningful training programs for our employees. We have offered courses in the areas of performance management, and managerial and supervisory development, and we recently provided negotiation training and “train the trainer” sessions for employees. We also make use of technology in this area, utilizing our on-line presentation facility, *RRBVision,* which allows employees to view training, including a video component, in an online format. In addition, all field managers now have ready access to the latest webinar technology to facilitate the remote training of new employees, as well as the ongoing training of experienced field staff. Lastly, we have purchased and implemented a new computer-based software package – Learning Management System (LMS), which effectively formalizes all aspects of training for all agency employees, while also providing self-assessments to the student and feedback to supervisors on their progress. These initiatives are particularly useful to employees and managers in the agency’s field offices.

Systems Security

Information security is a critical consideration for government agencies where maintaining the public's trust is essential. The RRB relies extensively on computerized systems to support its mission operations and store the sensitive information that it collects. The RRB's information security program is established and maintained to reasonably protect systems data and resources against internal failures, human errors, attacks and natural catastrophes that might cause improper disclosure, modification, destruction, or denial of services.

To ensure mission continuity, plans and procedures exist to maintain continuity of operations after a calamity for information systems that support the operations and assets of the RRB. The RRB's Continuity of Operations plan consists of a number of components, including an Occupant Emergency Plan, a Business Continuity Plan, a Crisis Management Communication Plan, and technically specific plans for mainframe, local area network (LAN), data communications, and desktop recovery. The agency regularly conducts semi-annual off-site disaster recovery exercises. System programmers restore the systems and applications of the agency from back-ups retrieved from an alternate data storage facility. Program libraries are re-created and production databases established. Finally, business analysts verify that the systems recovered correctly.

Federal agencies are required to provide annual computer security awareness training for employees and contractors. Security awareness efforts are designed to change behavior or reinforce good security practices by focusing attention on security. We continue to develop new approaches for refreshing the awareness initiative by providing updated and innovative presentations for the agency staff. We have a full training program that combines a security awareness presentation with additional role-based training appropriate to the RRB's information technology environment. Every employee and contractor with computer network access participates in this annual event. Individuals who do not use a computer receive physical security awareness information. In addition to the awareness presentation, computer analysts, software developers and network/system engineers also receive specialized technical education necessary to maintain their skills and enhance proficiency. The formal awareness-training program is supplemented by a weekly Security News feature story, prominently headlined on the Intranet's home page, reminding people to protect their computers and information throughout the year. Every year, the RRB awareness program has been able to report exemplary levels of participation.

The RRB kicked off its basic awareness training in April of 2013 using a web based basic awareness program offered by SANS (an industry leader in security training called "Securing the Human." Employees and contractors were required to complete 9 assigned training topics such as how to identify social engineering, how to perform safe browsing, and more. Additionally, employees with increased security responsibilities in performing the security authorization and continuous monitoring of their respective information systems were required to complete (ISC)2™ Certified Authorization Professional (CAP)® Certification Prep Course available on the virtual training environment provided at www.fedvte-fsi.gov. This training will enhance their understanding in systems security analysis, computer network defense, and vulnerability assessment and management. Other staff with increased security responsibilities will also be required to complete specific training for their respective roles and responsibilities later in the year.

Faced with an increasingly dangerous threat environment, the RRB relies on a sophisticated hardware and software defense that utilizes carefully monitored and maintained firewall technology, anti-virus software, and intrusion detection systems to prevent viruses, worms, spam and malicious content from infiltrating the network, as well as to ensure that critical data and sensitive information are not compromised. To buttress these proactive threat management resources in the event of a successful malware attack, the agency has implemented a robust incident response capability. Utilizing the capabilities of a special forensic analysis workstation, the RRB Computer Emergency Response Team has the ability to conduct forensic collection and analysis of electronic evidence from almost any type of digital media in use today. The RRB has also established an Agency Core Response Group to determine if there is a reasonable expectation that an incident may be a data breach with the potential for identity theft, and notifies the Board members who will make the final decisions regarding breach notification.

The Security Authorization process is integral to the information security programs of Federal agencies. Performing the security authorization process helps provide an understanding of the risks and other factors that could adversely affect the agency's mission for all of the agency information systems. The RRB developed a Security Authorization strategy for fiscal year 2013 that is in line with the National Institute for Standards and Technology (NIST) Risk Management Framework (RMF) strategy. The agency will employ a continuous monitoring strategy that will increase the effectiveness of our current information security program, performing annual risk assessments, as well as testing all security controls applicable to the information system.

Integrating security into the System Development Life Cycle (SDLC) in the RRB Information System program is essential. To ensure that all RRB applications are developed securely, standards need to be established using industry standards identified by security professionals. The RRB has implemented a secure RRB SDLC procedure, implementing standards from guidelines such as:

- Microsoft Security Development Lifecycle,
- Open Web Application Security Project (OWASP) Guide to Building Secure Web Applications, and
- The OWASP secure coding practices.

Program Evaluations

Program Evaluation	Results in Fiscal Year 2013
Federal Managers' Financial Integrity Act Reports	See "Systems and Controls" in the "Management's Discussion and Analysis" section.
Twenty-Fifth Actuarial Valuation of the Assets and Liabilities Under the Railroad Retirement Act as of December 31, 2010	The Chief Actuary's report describes the results of three valuations, each differing from the others as to the employment assumption on which it is based. Cash flow problems arise only under the most pessimistic employment assumption. Even under that assumption, the cash flow problems do not occur until the year 2035.
Railroad Unemployment Insurance System, annual report required by section 7105 of the Technical and Miscellaneous Revenue Act of 1988	The report, which was released in June 2013, addressed the fiscal year period 2013 through 2023. The report indicated that even as maximum benefits are expected to increase 70 percent from 2012 to 2023, experience-based contribution rates are expected to keep the unemployment insurance system solvent. The report did not include any recommendations for financing changes at this time.
Customer service performance reports	The RRB continuously monitors the timeliness and accuracy of our performance in managing program workloads. These results are reflected in the performance objectives shown in the chart on the following pages, and published on our website at www.rrb.gov.
Program integrity report	The RRB's program integrity report for fiscal year 2012, released in January 2013, showed that program integrity activities resulted in the establishment of about $11.7 million in recoverables, recovery of $13.9 million, benefit savings of $798,000, and the referral of 34 cases to the Office of Inspector General.
Quality assurance reviews and special studies	RRA adjudicative and payment accuracy is measured in regular diagnostic reviews conducted by quality assurance staff within the RRB's Program Evaluation and Management Services (PEMS) component. PEMS also evaluates policies and processes through special studies, as needed. PEMS reports to the Director of Programs.
Occupational disability reviews	Advisory doctors, representing the rail industry (labor and management), are authorized by law to review agency medical decisions. An audit was done in 2000; another audit was completed in 2008. In addition, consulting physicians from Consultative Examinations, Ltd. perform a quarterly quality review of disability documentation to ensure it is adequate to support medical decisions.
RRB Office of Inspector General audits	See "Inspector General's Statement on Management and Performance Challenges" and "Management's Comments" in the "Other Accompanying Information" section.

Program Evaluation	Results in Fiscal Year 2013
Performance budget monitoring	Results of performance budget monitoring are shown in the chart of performance objectives on the following pages. Actual performance data are reviewed, validated and certified prior to inclusion in this report. Validation and certification processes are documented as part of the RRB's management control review process.
Computer security and privacy assessment	All of the RRB's general support systems and all major applications are authorized to operate in compliance with the Federal Information Security Management Act, Office of Management and Budget directives and National Institute of Standards and Technology guidance.
Electronic government (e-Gov) activities	See pages 41 and 42 of this section.
Improper payment evaluation	See "Improper Payments Information Act (IPIA)" in the "Other Accompanying Information" section.

The next page begins a consolidated presentation of our actual performance in fiscal year 2010 through March 31, 2013 (except as noted), followed by a discussion of our unmet performance goals and objectives for fiscal year 2013. At the time this report was prepared, we had incomplete information on our fiscal year 2013 performance. The discussion of any unmet fiscal year 2013 performance goals and indicators will be presented in next year's report. This performance report was prepared by RRB employees.

Railroad Retirement Board FY 2013 Performance Plan	2010 Actual (At $109.1m)	2011 Actual (At $108.9m)	2012 Actual (At $108.6m)	2013 Planned [1/] (At $108.6m)	2013 Actual [1/] (At $108.7m)
STRATEGIC GOAL I: Provide Excellent Customer Service					
Performance Goal I-A: Pay benefits timely. Goal leader for objectives I-A-1 through I-A-8: Martha M. Barringer, Director of Programs Goal leader for objective I-A-9: Rachel L. Simmons, Director of Hearings and Appeals					
I-A-1. RRB makes a decision to pay or deny a railroad retirement employee or spouse initial annuity application within 35 days of the annuity beginning date, if advanced filed. (Measure: % ≤ 35 days)	96.16%	96.0%	96.3%	95.0%	95.1%
1-A-2. RRB makes a decision to pay or deny a railroad retirement employee or spouse initial annuity application within 60 days of the date the application was filed. (Measure: % ≤ 60 days)	96.9%	97.9%	97.9%	96.8%	96.9%
I-A-3. RRB makes a decision to pay, deny or transfer to SSA an initial annuity application for a railroad retirement survivor not already receiving a benefit within 60 days of the annuity beginning date, or date filed (whichever is later). (Measure: % ≤ 60 days)	96.1%	96.3%	94.8%	94.2%	94.4%

Railroad Retirement Board FY 2013 Performance Plan	2010 Actual (At $109.1m)	2011 Actual (At $108.9m)	2012 Actual (At $108.6m)	2013 Planned [1/] (At $108.6m)	2013 Actual [1/] (At $108.7m)
I-A-4. RRB makes a decision to pay, deny or transfer to SSA an initial annuity application for a railroad retirement survivor already receiving the benefits as a spouse within 30 days of the RRB's receipt of first notice of the employee's death. (Measure: % ≤ 30 days)	95.3%	95.8%	95.6%	95.2%	95.1%
I-A-5. RRB makes a decision to pay or deny a lump sum death benefit within 60 days of the date the application was filed. (Measure: % ≤ 60 days)	98.3%	98.3%	98.4%	98.1%	98.8%
I-A-6. RRB certifies a payment or releases a letter of denial of UI or SI benefits within 10 days of the date RRB receives the claim. (Measure: % ≤ 10 days)	99.9%	99.9%	99.9%	99.8%	99.9%
I-A-7. RRB makes a decision to pay or deny a benefit for a disabled applicant or family member within 100 days of the date the application is filed. (Measure: % ≤ 100 days)	68.9%	67.5%	74.9%	70.0%	75.8%
I-A-8. RRB makes a payment to a disabled applicant within 25 days of the date of decision or earliest payment date, whichever is later. (Measure: % ≤ 25 days)	96.2%	96.0%	96.8%	95.0%	93.4%
I-A-9. Reduce the number of days elapsed between the date an appeal is filed and a decision is rendered. (Measure: average elapsed days)	252	300	336 [2/]	316 [3/]	310

Railroad Retirement Board FY 2013 Performance Plan	**2010 Actual (At $109.1m)**	**2011 Actual (At $108.9m)**	**2012 Actual (At $108.6m)**	**2013 Planned [1/] (At $108.6m)**	**2013 Actual [1/] (At $108.7m)**
Performance Goal I-B: Provide a range of choices in service delivery methods. Goal leader: Martha M. Barringer, Director of Programs					
I-B-1. Offer electronic options to our customers, allowing them alternative ways to perform primary services via the Internet or interactive voice response systems. (Measure: Number of services available through electronic media)	18 services available	19 services available	19 services available	19 services available	19 services available
I-B-2. Enable employers to use the Internet to conduct business with the RRB, in support of the Government Paperwork Elimination Act. (Measures: percentage of employers who use the on-line Employer Reporting System (ERS); number of services available through electronic media) a) Employers using ERS:	81.2%	84.0%	85.0%	84.0%	85.0%
b) Internet services:	10 Internet services available	17 Internet services available	19 Internet services available	25 Internet services available	19 Internet services available
STRATEGIC GOAL II: Serve as Responsible Stewards for Our Customers' Trust Funds and Agency Resources					
Performance Goal II-A: Ensure that trust fund assets are protected, collected, recorded, and reported appropriately. Goal leader: George V. Govan, Chief Financial Officer					
II-A-1. Debts will be collected through billing, offset, reclamation, referral to outside collection programs, and a variety of other collection efforts. (Measure for fiscal years through 2011: funds collected / total debts outstanding. Measure for fiscal years after 2011: total overpayments recovered in the fiscal year / total overpayments established in the fiscal year.)	59.0%	54.0%	97.7%	85.0%	96.3%

Railroad Retirement Board FY 2013 Performance Plan		2010 Actual (At $109.1m)	2011 Actual (At $108.9m)	2012 Actual (At $108.6m)	2013 Planned [1/] (At $108.6m)	2013 Actual [1/] (At $108.7m)
Performance Goal II-B: ***Ensure the accuracy and integrity of benefit programs.*** Goal leader: Martha M. Barringer, Director of Programs						
II-B-1. Achieve a railroad retirement benefit payment recurring accuracy rate [4/] of at least 99%. (Measure: percent accuracy rate)	a) Initial payments:	99.58%	99.79%	99.75%	99.75%	99.72%
	b) Sample post recurring payments:	Deferred [5/]	Deferred [5/]	99.97 %	99.75%	99.80%
II-B-2. Achieve a railroad unemployment/sickness insurance benefit payment accuracy rate [4/] of at least 99%. (Measure: percent accuracy rate)	a) Unemployment:	100%	100%	99.83%	99.60%	99.77%
	b) Sickness:	99.94%	99.71%	99.37%	99.80%	98.83%
II-B-3. Maintain the level of Railroad Retirement Act (RRA) improper payments below 2.5% of RRA outlays. (Measure: percent of improper RRA payments as reported for the Improper Payments Information Act)		New indicator for fiscal year 2012	New indicator for fiscal year 2012	0.59%	0.59%	0.54%
II-B-4. Achieve a return of at least $3.60 for each dollar spent on program integrity activities. (Measure for fiscal years 2010 - 2011: recoveries and savings per dollar spent. Measure for fiscal years 2012 and following: recoverables and savings per dollar spent.)		$5.51: $1.00	$5.46: $1.00	4.55: $1.00	$4.28: $1.00	FY 13 data not available

Railroad Retirement Board FY 2013 Performance Plan	**2010 Actual (At $109.1m)**	**2011 Actual (At $108.9m)**	**2012 Actual (At $108.6m)**	**2013 Planned [1/] (At $108.6m)**	**2013 Actual [1/] (At $108.7m)**
Performance Goal II-C: Ensure effectiveness, efficiency, and security of operations. Goal leader: Frank Cassarino, Acting Chief Information Officer					
II-C-1. Complete modernization of RRB processing systems in accordance with long-range planning goals. (Measure: Meet target dates for the project. Yes/No)	Yes. The Medicare database was converted on 9/26/10.	Yes. We expect to finish the RUIA database conversion by 2/29/12.	Yes. The RUIA conversion was completed in October 2012. We began conversion work on the Employment Data Maintenance (EDM) database.	Yes. The conversion of the Employment Data Maintenance database was completed in January 2013.	Yes. The design phase of the Payment Rate and Entitlement History (PREH) database will be completed in December 2013, and the target date for the conversion of the database is December 2014.
Performance Goal II-D: Effectively carry out responsibilities with respect to the National Railroad Retirement Investment Trust. Goal leader: Karl T. Blank, General Counsel					
II-D-1. Timely review information reported by the National Railroad Retirement Investment Trust to carry out RRB's oversight responsibility under section 15(j)(5)(F) of the Railroad Retirement Act. Reports are to be reviewed within 30 days of receipt. (Measure: Yes/No)	New indicator for fiscal year 2012	New indicator for fiscal year 2012	Yes	Yes	Yes

Footnotes are on the following page.

1/ Planned amounts reflect the fiscal year 2013 performance targets shown in the RRB's Congressional Justification of Budget Estimates, released on April 11, 2013. Actual results represent status as of March 31, 2013, unless otherwise noted.

2/ The original target for FY 2012 was 250 days but adjusted to 336 days due to expected retirement of experienced staff in this area.

3/ The target for FY 2013 is 310. In July 2012, staff hiring took place to replace retired personnel and restore the workload process.

4/ The payment accuracy rate is the percentage of dollars paid correctly as a result of adjudication actions performed.

5/ The quality review of post recurring payments was deferred in fiscal year 2010 because the accuracy rates historically had been very high, and the findings minimal. The return on measuring this area every year had diminished over time. Review was deferred again in fiscal year 2011 to allow staff to complete work on a special quality assurance case review started in fiscal year 2010.

Discussion of Unmet Performance Goals and Indicators for Fiscal Year 2012

INDICATOR	DISCUSSION OF VARIANCE
Performance indicator I-B-2(b). Enable employers to use the Internet to conduct business with the RRB, in support of the Government Paperwork Elimination Act. (Measure: number of services available through electronic media) Our fiscal year 2012 goal was 20 services, and the actual was 19 services.	We could not fully implement our 20th service, the electronic Web version of Form G-88a.2, which is used to report railroad service information needed for benefit eligibility, because additional mainframe interface programming is required in APPLE, one of our claims adjudication systems. Completion of this programming is scheduled for fiscal year 2013.
Performance indicator II-B-2 (b). Achieve a railroad sickness insurance benefit payment accuracy rate of at least 99%. (Measure: percent accuracy rate) Our fiscal year 2012 goal was 99.85%, and the actual was 99.37%.	Our payment accuracy is determined by a sample review. The performance goal was set at an approximate target level, and the deviation of 0.48% was not statistically significant related to our projected accuracy range. There was no effect on overall program or activity performance

FINANCIAL SECTION

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Financial Section

Message from the Chief Financial Officer

I am pleased to present the RRB's Performance and Accountability Report for fiscal year 2013. This report incorporates the annual performance report under the Government Performance and Results Act of 1993, the internal control report under the Federal Managers' Financial Integrity Act, and audited consolidated financial statements under OMB guidance.

The RRB is committed to integrated and automated financial management systems that focus on the agency's mission and accountability. We strive to maintain an environment in which program and financial managers work in partnership to ensure the integrity of financial information and use that information to make decisions, measure performance, and monitor outcomes. In this environment, we envision integrated financial management systems with appropriate internal review and controls that provide agency managers with timely, accurate, and easily accessible information. We expect managers throughout the agency to use that information to achieve program objectives in a cost-effective manner and to ensure accountability.

The RRB continued to provide high quality financial management and financial reporting during fiscal year 2013.

- We received a disclaimer audit opinion on our consolidated financial statements for fiscal year 2013. We continued to prepare unaudited quarterly financial statements and met the revised schedule of releasing these statements to OMB.

- We implemented audit recommendations as follows:

  At the beginning of fiscal year 2013, the agency's audit follow-up tracking system reported 194 audit recommendations as being open. During the fiscal year, audit reports containing another 72 recommendations were issued. As a result, the total number of open recommendations during the year was 266. At the same time, final action was completed on 49 audit recommendations and 12 audit recommendations were rejected, resulting in a balance at the end of the fiscal year of 205 open recommendations. Additionally, the status of the OIG-identified material weaknesses and planned corrective action are presented in the Management's Discussion and Analysis' Management Assurances section.

In fiscal year 2013, the RRB completed on schedule and within budget the migration from its legacy Federal Financial System (FFS) to a new core financial system, the Financial Management Integrated System (FMIS), hosted by the shared service provider, CGI Federal.

The RRB will continue to provide financial information that is timely, accurate and useful in the coming years. We are committed to continuing our tradition of providing high quality financial services to agency management, the Congress, OMB, and the constituents we serve.

Original signed by:

George V. Govan
Chief Financial Officer

RAILROAD RETIREMENT BOARD
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2013 AND 2012
(in dollars)

	FY 2013	FY 2012
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$247,567,952	$239,740,171
Investments (Note 4)	1,630,127,377	1,632,804,952
Accounts Receivable (Note 6)	4,692,789,232	4,497,442,952
Total Intragovernmental	**6,570,484,561**	**6,369,988,075**
NRRIT Net Assets (Note 5)	25,011,942,697	23,641,360,813
Accounts Receivable, Net (Note 6)	38,019,007	41,426,279
Inventory and Related Property, Net (Note 7)	0	91,118
General Property, Plant and Equipment, Net (Note 8)	4,439,124	1,992,640
Other	521,029	50,289
TOTAL ASSETS	**$31,625,406,418**	**$30,054,909,214**
LIABILITIES (Note 9)		
Intragovernmental:		
Accounts Payable	$571,088,990	$504,725,619
Debt	3,629,533,607	3,445,603,447
Other	1,025,794	1,122,091
Total Intragovernmental	**4,201,648,391**	**3,951,451,157**
Accounts Payable	61,441	415,677
Benefits Due and Payable	1,003,032,809	950,926,348
Other	534,581,328	20,481,001
TOTAL LIABILITIES	**5,739,323,969**	**4,923,274,183**
COMMITMENTS AND CONTINGENCIES (Note 10)		
NET POSITION		
Unexpended Appropriations - Funds from Dedicated Collections (Note 17)	16,609,802	24,889,493
Unexpended Appropriations - All Other Funds	159,884,958	165,734,487
Cumulative Results of Operations - Funds from Dedicated Collections (Note 17)	25,708,930,611	24,940,353,973
Cumulative Results of Operations - All Other Funds	657,078	657,078
Total Net Position-Funds from Dedicated Collections	25,725,540,413	24,965,243,466
Total Net Position-All Other Funds	160,542,036	166,391,565
TOTAL NET POSITION	**25,886,082,449**	**25,131,635,031**
TOTAL LIABILITIES AND NET POSITION	**$31,625,406,418**	**$30,054,909,214**

The accompanying notes are an integral part of these financial statements

RAILROAD RETIREMENT BOARD
CONSOLIDATED STATEMENT OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012
(in dollars)

	FY 2013	FY 2012
Program Costs:		
Railroad Retirement Program		
Gross Costs (Note 11)	$11,895,638,573	$11,569,123,333
Less: Earned Revenue	23,486,121	13,208,883
Net Program Costs	11,872,152,452	11,555,914,450
Railroad Unemployment and Sickness Insurance Program		
Gross Costs (Note 11)	128,668,333	122,457,724
Less: Earned Revenue	18,268,983	20,611,899
Net Program Costs	110,399,350	101,845,825
Costs Not Assigned to Programs	0	0
Less: Earned Revenues Not Attributed to Programs	24,879	28,071
NET COST OF OPERATIONS	**$11,982,526,923**	**$11,657,732,204**

The accompanying notes are an integral part of these financial statements.

RAILROAD RETIREMENT BOARD
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2013
(in dollars)

	FY 2013			
	Funds from Dedicated Collections	All Other Funds	Eliminations	Consolidated Total
Cumulative Results of Operations:				
Beginning Balances	$24,940,353,973	$657,078		$24,941,011,051
Budgetary Financing Sources:				
Appropriations Used	647,088,939	49,655,315		696,744,254
Non-Exchange Revenue	6,221,075,209	127,091	(647,088,939)	5,574,113,361
Transfers in from NRRIT (Note 12)	1,581,000,000			1,581,000,000
Transfers in/out Without Reimbursement	4,034,737,999		(250,000)	4,034,487,999
Other Financing Sources (Non-Exchange):				
Imputed Financing	8,750,053			8,750,053
Change in NRRIT Assets	1,370,581,884			1,370,581,884
Loss Contingency	(514,573,990)			(514,573,990)
Total Financing Sources	13,348,660,094	49,782,406	(647,338,939)	12,751,103,561
Net Cost Of Operations	12,580,083,456	49,782,406	(647,338,939)	11,982,526,923
Net Change	**768,576,638**			**768,576,638**
Cumulative Results of Operations	**25,708,930,611**	**657,078**		**25,709,587,689**
Unexpended Appropriations:				
Beginning Balances	24,889,493	165,734,487		190,623,980
Budgetary Financing Sources:				
Appropriations Received	638,886,050	45,250,000		684,136,050
Other Adjustments	(76,802)	(1,444,214)		(1,521,016)
Appropriations Used	(647,088,939)	(49,655,315)		(696,744,254)
Total Budgetary Financing Sources	(8,279,691)	(5,849,529)		(14,129,220)
Total Unexpended Appropriations	**16,609,802**	**159,884,958**		**176,494,760**
Net Position	**$25,725,540,413**	**$160,542,036**		**$25,886,082,449**

The accompanying notes are an integral part of these financial statements

RAILROAD RETIREMENT BOARD
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2012
(in dollars)

	FY 2012			
	Funds from Dedicated Collections	**All Other Funds**	**Eliminations**	**Consolidated Total**
Cumulative Results of Operations:				
Beginning Balances	$22,842,686,914	$658,236		$22,843,345,150
Budgetary Financing Sources:				
Appropriations Used	771,007,122	55,491,483		826,498,605
Non-Exchange Revenue	5,785,741,383	118,149	(771,007,122)	5,014,852,410
Transfers in from NRRIT (Note 12)	2,026,000,000			2,026,000,000
Transfers in/out Without Reimbursement	4,248,582,000		(500,000)	4,248,082,000
Other Financing Sources (Non-Exchange):				
Imputed Financing	9,851,806			9,851,806
Change in NRRIT Assets	1,495,323,282			1,495,323,282
Other Gains	134,790,002			134,790,002
Total Financing Sources	14,471,295,595	55,609,632	(771,507,122)	13,755,398,105
Net Cost Of Operations	12,373,628,536	55,610,790	(771,507,122)	11,657,732,204
Net Change	**2,097,667,059**	**(1,158)**		**2,097,665,901**
Cumulative Results of Operations	**24,940,353,973**	**657,078**		**24,941,011,051**
Unexpended Appropriations:				
Beginning Balances	21,045,822	171,324,503		192,370,325
Budgetary Financing Sources:				
Appropriations Received	774,911,855	51,500,000		826,411,855
Other Adjustments	(61,062)	(1,598,533)		(1,659,595)
Appropriations Used	(771,007,122)	(55,491,483)		(826,498,605)
Total Budgetary Financing Sources	3,843,671	(5,590,016)		(1,746,345)
Total Unexpended Appropriations	**24,889,493**	**165,734,487**		**190,623,980**
Net Position	**$24,965,243,466**	**$166,391,565**		**$25,131,635,031**

The accompanying notes are an integral part of these financial statements

RAILROAD RETIREMENT BOARD
COMBINED STATEMENT OF BUDGETARY RESOURCES
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012
(in dollars)

	FY 2013	FY 2012
Budgetary Resources		
Unobligated balance brought forward, October 1	$193,106,537	$190,388,577
Adjustment to unobligated balance brought forward, October 1 (+ or -) (Note 23)	205,736	4,133,792
Unobligated balance brought forward, October 1, as adjusted	193,312,273	194,522,369
Recoveries of prior year unpaid obligations	1,722,115	1,660,283
Other changes in unobligated balance (+ or -)	(364,317)	(1,574,543)
Unobligated balance from prior year budget authority, net	194,670,071	194,608,109
Appropriations (discretionary and mandatory)	8,702,401,636	8,653,710,195
Borrowing authority (discretionary and mandatory) (Note 19 and Note 20)	3,913,121,381	3,768,500,000
Spending authority from offsetting collections (discretionary and mandatory)	160,348,852	152,990,225
Total budgetary resources	**$12,970,541,940**	**$12,769,808,529**
Status of Budgetary Resources		
Obligations incurred (Note 18)	$12,791,504,773	$12,576,701,992
Unobligated balance, end of year:		
Apportioned	160,554,582	155,436,231
Unapportioned	18,482,585	37,670,306
Total unobligated balance, end of year	179,037,167	193,106,537
Total budgetary resources	**$12,970,541,940**	**$12,769,808,529**
Change in Obligated Balance		
Unpaid obligations:		
Unpaid obligations, brought forward, October 1	$975,391,901	$986,741,632
Adjustment to unpaid obligations, start of year (+ or -) (Note 23)	(29,920,140)	(119,255)
Obligations incurred	12,791,504,773	12,576,701,992
Outlays (gross) (-)	(12,831,660,935)	(12,586,272,185)
Recoveries of prior year unpaid obligations (-)	(1,722,115)	(1,660,283)
Unpaid obligations, end of year	903,593,484	975,391,901
Uncollected payments:		
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(221,330)	(252,120)
Adjustment to uncollected pymts, Fed Sources, start of year (+ or -)	23,472	0
Change in uncollected pymts, Fed Sources (+ or -)	220,002	30,790
Uncollected pymts, Fed sources, end of year (-)	22,144	(221,330)
Memorandum (non-add) entries		
Obligated balance, start of year (+ or -)	$945,273,903	$986,489,513
Obligated balance, end of year (+ or -)	$903,615,628	$975,170,571
Budget Authority and Outlays, Net (Note 14)		
Budget authority, gross (discretionary and mandatory)	$12,775,871,868	$12,575,200,420
Actual offsetting collections (discretionary and mandatory) (-)	(161,588,854)	(153,021,015)
Change in uncollected customer payments from Federal sources (discretionary and mandatory) (+ or -)	220,002	30,790
Budget authority, net(discretionary and mandatory)	**$12,614,503,016**	**$12,422,210,195**
Outlays, gross (discretionary and mandatory)	$12,831,660,935	$12,586,272,185
Actual offsetting collections (discretionary and mandatory) (-)	(161,588,854)	(153,021,015)
Outlays, net (discretionary and mandatory)	12,670,072,081	12,433,251,170
Distributed offsetting receipts (-)	(4,681,535,209)	(5,014,643,867)
Agency outlays, net (discretionary and mandatory)	**$7,988,536,872**	**$7,418,607,303**

The accompanying notes are an integral part of these financial statements.

Railroad Retirement Board

Statement of Social Insurance (Note 15, Note 16)

Actuarial Surplus or (Deficiency)

75-year Projection as of January 1, 2013

(Present values in billions of dollars)

	1/1/2013	1/1/2012	1/1/2011	1/1/2010	1/1/2009
Current participants who have attained retirement age:					
Contributions and earmarked taxes	$81.1	$79.0	$73.1	$70.3	$69.0
Expenditures for scheduled future benefits	122.6	118.8	109.3	104.8	102.1
Present Value of future revenue less future expenditures	(41.5)	(39.8)	(36.2)	(34.6)	(33.1)
Current participants not yet having attained retirement age:					
Contributions and earmarked taxes	84.2	81.3	71.7	72.9	75.9
Expenditures for scheduled future benefits	96.2	94.7	86.2	88.0	91.2
Present Value of future revenue less future expenditures	(12.0)	(13.4)	(14.6)	(15.0)	(15.3)
Net present value of future revenue less future expenditures for current participants (closed group measure)	(53.5)	(53.1)	(50.8)	(49.6)	(48.5)
Plus: Treasury securities and assets held by the program	25.5	24.2	26.3	24.9	21.8
Closed group surplus/(unfunded obligation)	($28.1)	($29.0)	($24.6)	($24.7)	($26.6)
Future participants:					
Contributions and earmarked taxes	$64.0	$64.0	$53.2	$53.2	$57.2
Expenditures for scheduled future benefits	34.3	33.5	27.6	27.4	29.5
Present Value of future revenue less future expenditures	29.7	30.5	25.6	25.8	27.7
Net present value of future revenue less future expenditures for current and future participants (open group measure)	(23.9)	(22.7)	(25.2)	(23.8)	(20.7)
Plus: Treasury securities and assets held by the program	25.5	24.2	26.3	24.9	21.8
Open group surplus/(unfunded obligation)	$1.6	$1.5	$1.0	$1.0	$1.1

Detail may not add to totals due to rounding.
The accompanying notes are an integral part of these financial statements.

Railroad Retirement Board

Statement of Changes in Social Insurance Amounts

Open Group Measure

For the Two-Year Period Ended December 31, 2012

(in billions of dollars)

Net Present Value beginning of year 2011	$	(25.2)
Reasons for changes in the NPV during the year:		
Changes in valuation period		0.1
Changes in demographic data and assumptions[1]		0.3
Changes in economic data and assumptions[2]		2.2
Changes in law or policy[3]		NA
Changes in methodology and programmatic data[4]		NA
Changes in Medicare healthcare and other healthcare assumptions[5]		NA
Other changes		NA
Net change during 2011		2.5
Net Present Value end of year 2011/beginning of year 2012	$	(22.7)
Reasons for changes in the NPV during the year:		
Changes in valuation period		0.3
Changes in demographic data and assumptions[1]		0.1
Changes in economic data and assumptions[2]		(1.5)
Changes in law or policy[3]		NA
Changes in methodology and programmatic data[4]		NA
Changes in Medicare healthcare and other healthcare assumptions[5]		NA
Other changes		NA
Net change during 2012		(1.2)
Net Present Value end of year 2012	$	(23.9)

Detail may not add to totals due to rounding.
The accompanying notes are an integral part of these financial statements.

NOTES:

1. Changes in demographic data and assumptions –

   Between 1/1/2011 and 1/1/2012:
   Some demographic assumptions, such as the Annuitants Mortality Table, the Disabled Mortality Table for Annuitants with Disability Freeze, the Disabled Mortality Table for Annuitants without Disability Freeze, the Active Service Mortality Table, the Spouse Total Termination Table, the probability of a spouse, the rates of immediate age retirement, the rates of immediate disability retirement, the rates of eligibility for disability freeze, the rates of final withdrawal, service months, salary scales, and family characteristics, were changed between the Statement of Social Insurance as of 1/1/2011 and the Statement of Social Insurance as of 1/1/2012. These changes and the changes in demographic data had a relatively small effect (about 0.3 billion) on the open group measure between 1/1/2011 and 1/1/2012.

   Between 1/1/2012 and 1/1/2013:
   Demographic assumptions were not changed between the Statement of Social Insurance as of 1/1/2012 and the Statement of Social insurance as of 1/1/2013. Changes in demographic data had a minimal effect (less than 0.1 billion) on the open group measure between 1/1/2012 and 1/1/2013.

2. Changes in economic data and assumptions –

   Between 1/1/2011 and 1/1/2012:
   Both select and ultimate economic assumptions were changed between 1/1/2011 and 1/1/2012. The actual COLA of 3.6% was used for 2012 in place of the 3.0% COLA assumed for 2012 in the prior year's report. Assumed COLAs of 2.0% in 2013, 2.4% in 2014, and 2.8% in 2015 and thereafter were used rather than the 3.0% COLA assumed in the prior year's report. A wage increase rate of 3.5% was used for 2011 rather than the assumed 4% wage increase rate used for 2011 in the prior year's report. A wage increase rate of 3.8% was used for 2012 and thereafter rather than the 4% wage increase rate used in the prior year's report. Also, the actual 2011 investment return of (1.6%) was lower than the assumed 7.5% investment rate used for 2011 in the prior year's report. An assumed investment return of 7% was used for 2012 and all subsequent years rather than the 7.5% rate used in the prior year's report. Economic data and assumptions had the greatest effect on the open group measure, resulting in a change of about $2.2 billion from 1/1/2011 to 1/1/2012.

   Between 1/1/2012 and 1/1/2013:
   Ultimate economic assumptions were not changed between the Statement of Social Insurance as of 1/1/2012 and the Statement of Social Insurance as of 1/1/2013, but select economic assumptions were. The actual COLA of 1.7% was used for 2013 in place of the 2.0% COLA assumed for 2013 in the prior year's report. A 1.8% COLA was assumed for 2014 instead of a 2.4% COLA, and a 2.3% COLA was assumed for 2015 instead of a 2.8% COLA. Also, the actual 2012 investment return of 13.9% was higher than the assumed 7.0% investment rate used for 2012 in the prior year's report. Economic data and assumptions had the greatest effect on the open group measure, resulting in a change of about ($1.5) billion from 1/1/2012 to 1/1/2013.

3. There were no changes in law or policy.

4. There were no changes in methodology and programmatic data.

5. Medicare healthcare and other healthcare assumptions are not applicable to the Railroad Retirement program.

<u>Notes to the Financial Statements</u>: Fiscal Years Ended September 30, 2013 and 2012

1. <u>Summary of Significant Accounting Policies</u>

<u>A. Basis of Presentation</u>
Public Law 107-289, the Accountability of Tax Dollars Act of 2002, added the Railroad Retirement Board (RRB) as an agency required to prepare audited financial statements for fiscal year 2003, and subsequent years. Office of Management and Budget (OMB) guidance requires that Performance and Accountability Reports (P&AR) for fiscal year 2013 are to be submitted to the President, the Congress, and the Director of OMB by December 16, 2013. As required by law, OMB has also prescribed the form and content of financial statements under OMB Circular A-136. The RRB's financial statements were prepared in accordance with the form and content prescribed by OMB and with generally accepted accounting principles and standards prescribed by the Federal Accounting Standards Advisory Board (FASAB).

The principal statements (prepared on a consolidated basis, except for the Statement of Budgetary Resources which was prepared on a combined basis, and eliminating all significant interfund balances and transactions) are comprised of the Balance Sheet and Statements of Net Cost, Changes in Net Position, Budgetary Resources, Social Insurance, and Changes in Social Insurance Amounts. These statements are different from the financial reports, also prepared by the RRB pursuant to OMB directives, used to monitor and control the RRB's use of budgetary resources.

The RRB changed its accounting policy to no longer expense operating materials and supplies when used and will expense operating materials and supplies when purchased. See Note 7, Inventory and Related Property.

The SBR for fiscal year 2012 has been reformatted to conform to the content and presentation used in fiscal year 2013.

<u>B. Reporting Entity</u>
The railroad retirement and the railroad unemployment and sickness insurance programs are financed through the following accounts:

- Railroad Retirement (RR) Account, 60X8011, funds retirement, survivor, and disability benefits in excess of social security equivalent benefits from payroll taxes on employers and employees and other income sources. Account 60X8011 is considered a fund from dedicated collections. Our authority to use these collections is 45 United States Code (USC) §231f(c)(1).

- Social Security Equivalent Benefit (SSEB) Account, 60X8010, funds the portion of railroad retirement benefits equivalent to a social security benefit from various income sources related to these benefits. Account 60X8010 is considered a fund from dedicated collections. Our authority to use these collections is 45 USC §231n-1(c)(1).

- Dual Benefits Payments (DBP) Account, 60 0111, funds the phase-out costs of certain vested dual benefits from general appropriations. Account 60 0111 is considered a general fund. Our authority to use these collections is 45 USC §231n(d).

- Federal Payments to the Railroad Retirement Accounts, 60X0113, was established by OMB, not by legislation, and is used as a conduit for transferring certain income taxes on benefits; receiving credit for the interest portion of uncashed check transfers; and funds provided by the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. Account 60X0113 is considered a fund from dedicated collections. This account has no basis in law.

- Limitation on Administration Account, 60 8237, pays salaries and expenses to administer the railroad retirement program and the railroad unemployment and sickness insurance program. This account is financed by the RR Account, the SSEB Account, and the Railroad Unemployment Insurance Trust Fund, Administrative Expenses. Account 60 8237 is considered a fund from dedicated collections. Our authority to use these collections is 45 USC §231n-1(c) and 45 USC §231n(h).

- Limitation on Administration Account, 60X8237, Public Law 107-217, Sec. 121(d)(3), authorizes Federal agencies to retain indefinitely as "no-year money" any unexpended portion of the fiscal year appropriated funds, up to the estimated cost of the operation and maintenance (O&M) of the delegated properties. Funds carried over may only be expended for O&M and repair of the facility. In addition, this fund contains the Limitation on Administration funds for extended unemployment benefits provided under Public Laws 111-92, 112-96, and 112-240. Account 60X8237 is considered a fund from dedicated collections.

- Railroad Unemployment Insurance Trust Fund, Benefit Payments, 60X8051.001, funds railroad unemployment and sickness insurance benefits from contributions by railroad employers. Account 60X8051.001 is considered a fund from dedicated collections. Our authority to use these collections is 45 USC §360.

- Railroad Unemployment Insurance Trust Fund, Administrative Expenses, 60X8051.002, was established to pay salaries and expenses to administer the program. Account 60X8051.002 is considered a fund from dedicated collections. This fund is financed by contributions from railroad employers. Monies are transferred from this fund, based on cost accounting estimates and records, to the Limitation on Administration Account (60 8237) from which salaries and expenses are paid for both the railroad retirement program and the railroad unemployment and sickness insurance program. Our authority to use these collections is 45 USC §361.

- Limitation on the Office of Inspector General, 60 8018, was established to fund the administration of the Inspector General's Office. Account 60 8018 is considered a fund from dedicated collections. Our authority to use these collections is Public Law 113-6.

- Railroad Unemployment Insurance Extended Benefit Payments – Recovery Act, 60X0114: Funds provided under Public Law 111-5, American Recovery and Reinvestment Act of 2009.

- Economic Recovery Payments – Recovery Act, 60 0115: Funds provided under Public Law 111-5, American Recovery and Reinvestment Act of 2009.

- Administrative Expenses – Recovery Act, 60X0116: Funds provided under Public Law 111-5, American Recovery and Reinvestment Act of 2009.

- Administrative Expenses – Recovery Act, 60 0116: Funds provided under Public Law 111-5, American Recovery and Reinvestment Act of 2009.

- Limitation on Administration – Recovery Act, 60X8262: Funds provided under Public Law 111-5, American Recovery and Reinvestment Act of 2009.

- Limitation on Administration – Recovery Act, 60 8262: Funds provided under Public Law 111-5, American Recovery and Reinvestment Act of 2009.

- Railroad Unemployment Insurance Extended Benefit Payments, for Limitation Account – 60X0118: Funds provided under Public Law 111-92, Worker, Homeownership, and Business Assistance Act of 2009, and Public Law 112-96, Middle Class Tax Relief and Job Creation Act of 2012, and Public Law 112-240, American Taxpayer Relief Act of 2012.

- Railroad Unemployment Insurance Extended Benefit Payments – 60X0117: Funds provided under Public Law 111-92, Worker, Homeownership, and Business Assistance Act of 2009.

C. Budgets and Budgetary Accounting
Budget requests are prepared and submitted by the RRB in accordance with OMB Circular A-11 and other specific guidance issued by OMB. The RRB prepares and submits to OMB Apportionment and Reapportionment Requests (SF-132) in accordance with OMB Circular A-11 for all funds appropriated by the Congress or permanently appropriated. Although OMB may apportion funds by category, time period, or object class of expense, the RRB controls and allocates all apportioned funds by three-digit object class codes of expense. For budgetary accounting, all receipts are recorded on a cash basis of accounting and obligations are recorded against the object class codes when they are incurred, regardless of when the resources acquired are to be consumed. Obligations are amounts of orders placed, contracts awarded, services received, and similar transactions during a given period that will require payments during the same or a future period. Quarterly, the RRB prepares and submits Reports on Budget Execution (SF-133) to OMB, reporting all obligations incurred against the amounts apportioned.

D. Basis of Accounting
As required by law, the DBP Account is on a cash basis of accounting. Payroll taxes and unemployment contributions are recorded on a modified cash basis in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 7. All other transactions are recorded on an accrual basis of accounting and a budgetary basis. Under the accrual method, revenues (except payroll taxes and unemployment contributions which are on a modified cash basis) are recognized when earned and expenses are recognized when a liability is incurred. For budgetary accounting, financial transactions are recorded when obligations are incurred, regardless of when the resources acquired are to be consumed.

The accompanying consolidated financial statements of the RRB include all funds maintained by the RRB, after elimination of all significant interfund balances and transactions.

E. Concepts
The Fund Balance with Treasury (FBWT) is the aggregate amount of funds on deposit with the Department of the Treasury (Treasury), excluding seized cash deposited. The FBWT is increased by (1) receiving appropriations, reappropriations, continuing resolutions, appropriation restorations, and allocations; and (2) receiving transfers and reimbursements from other agencies. It also is increased by amounts borrowed from the Bureau of the Public Debt (BPD), the Federal Financing Bank, or other entities, and amounts collected and credited to appropriation or fund accounts. The FBWT is reduced by (1) disbursements made to pay liabilities or to purchase assets, goods, and services; (2) investments in U.S. securities (securities issued by BPD or other Federal Government agencies); (3) cancellation of expired appropriations; (4) transfers and reimbursements to other entities or to the General Fund of the Treasury; and, (5) sequestration or rescission of appropriations.

F. Funds from Dedicated Collections

SFFAS No. 43, Funds from Dedicated Collections, amends SFFAS No. 27, Identifying and Reporting Earmarked Funds. Generally, funds from dedicated collections are financed by specifically identified revenues, provided to the government by non-Federal sources, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the government's general revenues. Funds from Dedicated Collections should be shown as a separate presentation and disclosure in the financial statements. The three required criteria for funds from dedicated collections are:

- A statute committing the Federal Government to use specifically identified revenues and/or other financing sources that are originally provided to the Federal Government by a non-Federal source only for designated activities, benefits, or purposes;
- Explicit authority for the fund to retain revenues and/or other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and
- A requirement to account for and report on the receipt, use, and retention of the revenues and/or other financing sources that distinguish the fund from the Federal Government's general revenues.

Refer to Note 17, Funds from Dedicated Collections.

G. Application of Critical Accounting Estimates

The financial statements are based on the selection of accounting policies and the application of significant accounting estimates, some of which require management to make significant assumptions. Further, the estimates are based on current conditions that may change in the future. Actual results could differ materially from the estimated amounts. The financial statements include information to assist in understanding the effect of changes in assumptions to the related information.

2. Related Parties

The RRB has significant transactions with the following governmental and nongovernmental entities:

- Treasury collects payroll taxes from the railroads on behalf of the RRB. The taxes collected are credited by Treasury to the RRB's trust fund account via an appropriation warrant. In fiscal years 2013 and 2012, net payroll taxes transferred to the RRB by Treasury were $5.4 billion and $4.8 billion, respectively.

  Treasury provides payment services to Federal agencies and operates collections and deposit systems. The RRB invests in government account securities through BPD. In fiscal years 2013 and 2012, investments, including accrued interest, totaled $1.6 billion and $1.6 billion, respectively. In addition, Treasury advances funds to the RRB for the financial interchange which are repaid annually. The amount paid by the RRB to Treasury in fiscal year 2013 due to the financial interchange advances during fiscal year 2012 included principal of $3.8 billion and interest of $110 million. The amount paid by the RRB to Treasury in fiscal year 2012 due to the financial interchange advances during fiscal year 2011 included principal of $3.8 billion and interest of $130 million.

- The Social Security Administration (SSA) and the RRB participate in an annual financial interchange. The financial interchange is intended to place the social security trust funds in the same position in which they would have been had railroad employment been covered by the Social Security Act and Federal Insurance Contributions Act (FICA). In fiscal year 2013, the RRB trust funds realized $4.5 billion through the financial interchange.

Under Section 7(b)(2) of the Railroad Retirement Act of 1974, the RRB is required to pay certain individuals, described in this section, monthly social security benefits on behalf of SSA. SSA reimburses the RRB for benefits paid on behalf of SSA. The amounts reimbursed were $1.4 billion for fiscal year 2013 and $1.4 billion for fiscal year 2012.

- The Centers for Medicare & Medicaid Services (CMS) participates in the annual financial interchange in the same manner as described for SSA. The RRB transferred $577 million and $511 million to CMS in fiscal years 2013 and 2012, respectively. In addition to the financial interchange transactions, CMS reimburses the RRB for certain expenses it incurs associated with administering the Medicare program. The amounts reimbursed in fiscal years 2013 and 2012 were $23 million and $13 million, respectively.

- The General Services Administration (GSA) provides payroll processing and human resources services to the RRB. In addition, the RRB paid rent to GSA in the amount of $3.2 million for fiscal year 2012 and $3.1 million for fiscal year 2013.

- The Department of Labor (DOL) invests Railroad Unemployment Insurance Act (RUIA) contributions. Accounts receivable with the DOL amounted to $188 million and $171 million for fiscal years 2013 and 2012, respectively.

- The National Railroad Retirement Investment Trust (NRRIT) transfers funds to the RRB for payment of railroad retirement benefits. During fiscal years 2013 and 2012, the NRRIT transferred $1,581 million and $2,026 million, respectively, to the RR Account. The NRRIT holds and invests funds not immediately needed to pay benefits under the RRA. The net assets of the NRRIT are reported on the RRB's balance sheet as a non-governmental investment. The RRB reports this information based on information provided by the NRRIT for that purpose.

3. Fund Balances with Treasury

Fund balances with Treasury at September 30 consisted of:

	2013	2012
A. Fund Balances:		
(1) Trust Funds	$ 88,954,793	$ 50,897,754
(2) General Funds	158,613,159	188,842,417
(3) Other Fund Types	0	0
Total	$247,567,952	$239,740,171
B. Status of Fund Balance with Treasury (FBWT)		
(1) Unobligated Balance		
(a) Available	$160,554,582	$155,436,232
(b) Unavailable	18,482,585	37,670,305
(2) Obligated Balance not yet Disbursed	68,530,785	46,633,634
(3) Non-Budgetary FBWT	0	0
Total	$247,567,952	$239,740,171

C. Other Information: The above represents cash held in Treasury. Unobligated and obligated funds not held in cash are invested in Treasury securities.

4. Investments

The investments in Treasury securities represent the investments of two of the RRB's funds from dedicated collections, the RR and the SSEB Accounts.

	Amounts for Balance Sheet Reporting		
	Cost	Interest Receivable	Investments Net
Intragovernmental Securities:			
Non Marketable Par Value 2013	$1,627,618,000	$2,509,377	$1,630,127,377
Non Marketable Par Value 2012	$1,630,413,000	$2,391,952	$1,632,804,952

The balance on September 30, 2013, consisted of investments in 3.000 percent par value specials (with market value equal to face value) maturing on October 1, 2013. The balance on September 30, 2012, consisted of investments in 3.000 percent par value specials (with market value equal to face value) maturing on October 1, 2012. Par value specials mature on the first working day of the month following the month of issue and have a yield based on the average yield of marketable Treasury notes with maturity dates at least 3 years away.

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with the RR and SSEB Accounts. The cash receipts from the railroads for the RR and SSEB Accounts are deposited in the Treasury, which uses the cash for general government purposes. Treasury securities are issued to the RRB as evidence of its receipts. Treasury securities are an asset to the RRB and a liability to the Treasury. Because the RRB and the Treasury are both parts of the Federal Government, these assets and liabilities offset each other from the standpoint of the government as a whole. For this reason, they do not represent an asset or a liability in the U.S. government-wide financial statements.

Treasury securities provide the RRB with authority to draw upon the Treasury to make future benefit payments or other expenditures. When the RRB requires redemption of these securities to make expenditures, the government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Federal Government finances all other expenditures.

5. NRRIT Net Assets

The balance sheet amounts represent the net asset value of NRRIT assets, at fair value, as of September 30, 2013 and 2012. These figures were provided to the RRB by the NRRIT for the fiscal years ended September 30, 2013 and 2012.

Readers of these financial statements should be aware that the Railroad Retirement and Survivors' Improvement Act of 2001 authorizes the NRRIT to invest railroad retirement assets in a diversified investment portfolio in the same manner as those of private sector retirement plans.

6. Accounts Receivable

• *Intragovernmental*

Accounts receivable - Intragovernmental at September 30 consisted of:

	2013	2012
Financial Interchange – Principal	$4,373,800,000	$4,194,100,000
Financial Interchange – Interest	130,900,000	132,100,000
Department of Labor	188,089,232	171,073,952
CMS – Refund of Medicare Part B Premiums	0	169,000
Social Security Administration - OASI/DI Benefits (Old Age and Survivors Insurance/Disability Insurance)	0	0
Treasury General Fund – HIRE Act (Tier I)	0	0
Total	$4,692,789,232	$4,497,442,952

• *Accounts Receivable, Net*

Accounts receivable, net at September 30 consisted of:

	2013	2012
Accounts receivable – Benefit overpayments	$46,764,930	$52,594,649
Accounts receivable – Past due RUI contributions and taxes	17,805	604,264
Accounts receivable – Interest, penalty & administrative costs	1,412,885	496,717
Total	$48,195,620	$53,695,630
Less: Allowances for doubtful accounts	10,176,613	12,269,351
Net Total	$38,019,007	$41,426,279

The RRB's September 30, 2013, accounts receivable balance (after deducting currently not collectible (CNC) receivables but prior to the application of the allowance for doubtful accounts) of $48,195,620 includes $41,202,808 (85%) in railroad retirement program receivables and $6,992,812 (15%) in railroad unemployment insurance program receivables. The total allowance for doubtful accounts is $10,176,613. This includes $8,751,477 (86%) for the railroad retirement program and $1,425,136 (14%) for the unemployment insurance program receivables.

The allowance for doubtful accounts for the railroad retirement program was calculated, excluding debts classified as CNC, as follows: (1) categorizing the accounts receivable by cause and age, (2) analyzing each category using historical data, (3) determining the percentage of amounts due the RRB that would probably not be collected, and (4) applying the determined percentages against accounts receivable.

7. Inventory and Related Property

Due to a recent change in accounting policy, the RRB will no longer capitalize operating materials and supplies. The inventory write-off amount was $37,640 for fiscal year 2013.

8. General Property, Plant and Equipment

These assets are stated at cost less accumulated depreciation/amortization. Acquisitions are capitalized if the cost is $5,000 or more and the service life is 2 years or greater. Depreciation/amortization is computed on the straight-line method. These assets consisted of:

Classes of Fixed Assets	Service Lives	At September 30, 2013 Cost	Accumulated Depreciation	Net Book Value
Structures, facilities and leasehold improvements	15 years	$ 2,723,731	$ 2,691,907	$ 31,824
ADP software	5 years	20,914,583	20,852,705	61,878
Equipment	5-10 years	6,423,643	5,774,273	649,370
Internal-Use Software in Development		3,696,053	0	3,696,053
		$33,758,010	$29,318,885	$4,439,125

Classes of Fixed Assets	Service Lives	At September 30, 2012 Cost	Accumulated Depreciation	Net Book Value
Structures, facilities and leasehold improvements	15 years	$ 2,723,731	$ 2,683,430	$ 40,301
ADP software	5 years	19,666,348	19,657,571	8,777
Equipment	5-10 years	6,337,831	5,861,594	476,237
Internal-Use Software in Development		1,467,325	0	1,467,325
		$30,195,235	$28,202,595	$1,992,640

9. Liabilities

Liabilities at September 30 consisted of:

	2013	2012
Intragovernmental:		
Other – Unfunded Federal Employees' Compensation Act (FECA) Liability	$ 589,038	$ 755,924
Public:		
Other – Accrued Unfunded Leave	$ 6,585,182	$ 6,933,483
Total Liabilities Not Covered by Budgetary Resources	$ 7,174,220	$ 7,689,407
Total Liabilities Covered by Budgetary Resources	5,732,149,749	4,915,584,776
Total Liabilities	$5,739,323,969	$4,923,274,183

• *Debt*

Intragovernmental debt results from borrowing from Treasury to fund benefit payments from the SSEB Account.

	2013	2012
Beginning Balance, Principal	$3,401,800,000	$3,484,000,000
New Borrowing	3,938,300,000	3,734,200,000
Repayments	(3,752,900,000)	(3,816,400,000)
Ending Balance, Principal	3,587,200,000	3,401,800,000
Accrued Interest	42,333,607	43,803,447
Total	$3,629,533,607	$3,445,603,447

• *Benefits Due and Payable*

Benefits due and payable are accrued for all benefits to which recipients are entitled for the month of September, which, by statute, are not paid until October. Also, liabilities are accrued on benefits for past periods that have not completed processing, such as benefit payments due but not paid. The amounts include uncashed checks of $13,231,201 and $12,798,969, at September 30, 2013 and 2012, respectively. Under Public Law 100-86, the amount of RRB benefits represented by checks which remain uncashed for 12 months after the check issue date are credited (including interest thereon) to the accounts from which the checks were drawn. The principal amount of uncashed checks must remain in a liability account until the RRB determines that entitlement no longer exists or another check is issued to the beneficiary.

A special workload of approximately 11,056 benefit cases, estimated at $5.5 million, has been identified and will be processed over the next few years.

• *Other Liabilities*

Other liabilities at September 30 consisted of:

	Non-Current	Current	2013 Total
Intragovernmental:			
Employer Contributions & Payroll Taxes Payable		$ 436,756	$ 436,756
Unfunded FECA Liability		589,038	589,038
Total Intragovernmental		1,025,794	1,025,794
Accrued Unfunded Liabilities		6,585,182	6,585,182
Accrued Payroll		1,724,781	1,724,781
Accrued RRB Contributions – Thrift Savings Plan		53,883	53,883
Withholdings Payable		73,783	73,783
Contingent Liability (see Note 10 for details)	0	523,573,990	523,573,990
Capital Lease Liability		0	0
Other		2,569,709	2,569,709
Total Other Liabilities	0	$535,607,122	$535,607,122

	Non-Current	Current	2012 Total
Intragovernmental:			
Employer Contributions & Payroll Taxes Payable		$ 366,167	$ 366,167
Unfunded FECA Liability		755,924	755,924
Total Intragovernmental		1,122,091	1,122,091
Accrued Unfunded Liabilities		6,933,483	6,933,483
Accrued Payroll		1,498,378	1,498,378
Accrued RRB Contributions – Thrift Savings Plan		43,519	43,519
Withholdings Payable		74,428	74,428
Contingent Liability (see Note 10 for details)	0	0	0
Capital Lease Liability		0	0
Other		11,931,193	11,931,193
Total Other Liabilities	0	$21,603,092	$21,603,092

10. Commitments and Contingencies

The RRB is involved in the following actions:

- One railroad filed suit requesting a refund of approximately $22.0 million (not including interest) representing the employer's share of taxes previously paid with respect to moving and relocation expenses and with respect to stock purchased by current and former employees under non-qualified stock options. The final order was issued in railroad's favor. An appeal was filed. The likelihood of loss of taxes paid on moving expense allowances and employee stock options is probable.

- Several Class I railroads have filed claims for refund of taxes with the Internal Revenue Service (IRS). Of the $81.7 million in claims, the RRB's legal counsel has determined that it is probable that the RR and SSEB Accounts are contingently liable for an estimated amount of $13.9 million, and was recorded, as Other Liabilities on the Balance Sheet, with $56.7 million liability classified as reasonably possible, and the remaining $11.1 million classified as remote. Under the anti-disclosure provision of the IRS code, we are not permitted to disclose any details related to these claims.

- One railroad filed a claim for refund of overpayment of contribution of $4.1 million. The request is still under examination by the RRB. The outcome is probable.

- As of September 30, 2013, the RRB had contractual arrangements which may result in future financial obligations of $39.7 million

- We also recorded a contingent liability in the amount of $483.6 million, for forthcoming adjustments to the financial interchange for military service credits due SSA.

11. Intragovernmental Costs and Exchange Revenue

	2013	2012
Railroad Retirement (RR) Act Program		
Intragovernmental Costs	$ 146,864,012	$ 153,968,800
Public Costs	11,748,774,561	11,415,154,533
Total RR Act Program Costs	$11,895,638,573	$11,569,123,333
Intragovernmental Earned Revenue	$ 23,486,121	$ 13,208,883
Public Earned Revenue	0	0
Total RR Act Program Earned Revenue	$ 23,486,121	$ 13,208,883
Railroad Unemployment Insurance (RUI) Act Program		
Intragovernmental Costs	$ 4,404,187	$ 4,954,846
Public Costs	124,264,146	117,502,878
Total RUI Act Program Costs	$ 128,668,333	$ 122,457,724
Intragovernmental Earned Revenue	$ 0	$ 0
Public Earned Revenue	18,268,983	20,611,899
Total RUI Act Program Earned Revenue	$ 18,268,983	$ 20,611,899

These totals do not include $24,879 and $28,071 of earned revenues not attributable to either program for fiscal years 2013 and 2012, respectively.

Intragovernmental costs (exchange transactions made between two reporting entities within the Federal Government) are being reported separately from costs with the public (exchange transactions made between the reporting entity and a non-Federal entity). Intragovernmental exchange revenues (exchange transactions made between two reporting entities within the Federal Government) are reported separately from exchange revenues with the public (exchange transactions made between the reporting entity and a non-Federal entity). Intragovernmental expenses relate to the source of goods and services purchased by the reporting entity, not to the classification of related revenue.

12. Transfers To/From NRRIT

The RRB received a total of $1,581 million and $2,026 million from the NRRIT during fiscal years 2013 and 2012, respectively. These funds were received into the RR Account. Transfers were to fund the payment of benefits.

13. Undelivered Orders at the End of the Period

	2013	2012
Undelivered Orders	$17,121,501	$12,038,658

14. Explanation of Differences Between the Combined Statement of Budgetary Resources and the Budget of the United States Government

A reconciliation was completed of budgetary resources, obligations incurred, distributed offsetting receipts, and outlays, as presented in the Statement of Budgetary Resources for the year ended September 30, 2012, to amounts included in the Budget of the United States Government. A reconciliation was not performed for the period ended September 30, 2013, since the RRB's Performance and Accountability Report is published in December 2013, and OMB's MAX system will not have actual budget data available until mid-December 2013.

The Budget of the United States Government and the RRB's Statement of Budgetary Resources differ because of the following transaction types:

		Fiscal Year 2012 (in millions)			
		Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
1.	Combined Statement of Budgetary Resources – September 30, 2012	12,770	12,577	5,015	7,419
2.	Expenditure Transfers from Trust Funds	(118)			
3.	Unobligated Balance, Brought Forward October 1, 2011	(190)			
4.	Recoveries of Prior Year Unpaid Obligations	(2)			
5.	Sickness Insurance Benefit Recoveries	(21)			
6.	Administrative Expense Reimbursement	(14)			
7.	Cancelled Authority	2			
8.	Interfund Transfers: Federal Payment Obligations – Income Taxes Collected on Benefits (0113)	(771)			
9.	Intrafund Transfers: Receipts from the Old-Age and Survivors Insurance (OASI) Trust Fund	(4,139)			
10.	Intrafund Transfers: Receipts from the Disability Insurance (DI) Trust Fund	(512)			
	Financial Interchange				
11.	Accrued Receipts from the OASI and DI Trust Funds			(99)	99
12.	Accrued Transfers to the Federal Hospital Insurance Trust Fund			502	(502)
	NRRIT				
13.	NRRIT Obligations / Outlays	2,095	2,095		2,095
14.	Intrafund Transfers: NRRIT Transfer to RRA	(2,026)		2,026	(2,026)
15.	Proprietary Receipts: NRRIT – Gains and Losses	(3,139)		3,139	(3,139)
16.	Proprietary Receipts: NRRIT – Interest and Dividends	(397)		397	(397)
17.	Rounding	(1)		4	(3)
18.	Budget of the United States Government FY 2012 Actuals	3,537	14,672	10,984	3,546

15. Social Insurance

- Surplus/(unfunded obligation) represents combined values for the RR Account, SSEB Account, and NRRIT.

- Estimated future revenue includes tier 1 taxes, tier 2 taxes, income taxes on benefits, and financial interchange income, where financial interchange income consists of financial interchange transfers plus financial interchange advances from general revenues less repayment of financial interchange advances from general revenues.

- Estimated future expenditures include benefit and administrative costs.

- Detail may not add to totals due to rounding. Employee and beneficiary status are determined as of 1/1/2012, whereas present values are as of 1/1/2013.

Treasury Securities and Assets Held by the Program

Higher Treasury securities and assets result in lower tax rates and consequently lower future tax income whereas lower Treasury securities and assets result in higher rates and income.

16. Significant Assumptions

The estimates used in the Statement of Social Insurance and Required Supplementary Information are based on the assumption that the program will continue as presently constructed. The calculations assume that all future transfers required by current law under the financial interchange will be made.

The estimates are also based on various economic, employment, and other actuarial assumptions. The ultimate economic assumptions are a 7.0 percent investment return, a 2.8 percent annual increase in the cost of living, and a 3.8 percent annual wage increase.

The employment assumption for the Statement of Social Insurance is employment assumption II, the intermediate employment assumption, as used in the 2013 Section 502 Report. Under employment assumption II, starting with an average 2012 employment of 234,000, (1) railroad passenger employment is assumed to remain level at 45,000, and (2) the employment base, excluding passenger employment, is assumed to decline at a constant annual rate of 2.0 percent for 25 years, at a reducing rate over the next 25 years, and remain level thereafter.

Actuarial assumptions are those published in the Technical Supplement to the "Twenty-Fifth Actuarial Valuation of the Assets and Liabilities Under the Railroad Retirement Acts as of December 31, 2010." This may be found on the RRB's website, www.rrb.gov.

Actuarial assumptions published in the Twenty-Fifth Actuarial Valuation include:

Table S-1.	2010 RRB Annuitants Mortality Table
Table S-2.	2010 RRB Disabled Mortality Table for Annuitants with Disability Freeze
Table S-3.	2010 RRB Disabled Mortality Table for Annuitants without Disability Freeze
Table S-4.	2006 RRB Active Service Mortality Table
Table S-5.	2010 RRB Spouse Total Termination Table
Table S-6.	Probability of a retired employee having a spouse eligible for railroad retirement benefits
Table S-7.	1995 RRB Mortality Table for Widows
Table S-8.	1997 RRB Remarriage Table
Table S-9.	2004 RRB Total Termination Table for Disabled Children
Table S-10.	Calendar year rates of immediate age retirement
Table S-11.	Rates of immediate disability retirement and of eligibility for disability freeze
Table S-12.	Calendar year rates of final withdrawal
Table S-13.	Service months and salary scales
Table S-14.	Family characteristics of railroad employees assumed for the valuation of survivor benefits

Note 17 Funds from Dedicated Collections

	8010 SSEB	8011 RRA	8051.001 RUIA Benefit Payments	0113 Federal Payments to RR Accounts	8237 Limitation on Administration	8051.002 RUIA Admin Expenses	8018 Limitation on OIG	Eliminations	Total Funds from Dedicated Collections
Balance Sheet as of September 30, 2013									
Assets									
Fund Balance with Treasury	$24,300,941	$22,212,100	5,090,161	$16,609,802	$20,060,396	($632,355)	$1,313,748		$88,954,793
Investments	841,032,832	789,094,545							1,630,127,377
NRRIT Net Invested Assets		25,011,942,697							25,011,942,697
Taxes and Interest Receivable	4,504,700,000	32,451,332	178,772,041			12,955,989			4,728,879,362
Other Assets					4,812,132		148,021		4,960,153
Total Assets	5,370,033,773	25,855,700,674	183,862,202	16,609,802	24,872,528	12,323,634	1,461,769		31,464,864,382
Liabilities Due and Payable	4,745,405,914	451,196,180	7,028,313		92,815		2,596		5,203,725,818
Other Liabilities	483,600,000	38,490,840	4,052,858		8,761,038		693,415		535,598,151
Total Liabilities	5,229,005,914	489,687,020	11,081,171		8,853,853		696,011		5,739,323,969
Unexpended Appropriations				16,609,802					16,609,802
Cumulative Results of Operations	141,027,859	25,366,013,654	172,781,031		16,018,675	12,323,634	765,758		25,708,930,611
Total Liabilities and Net Position	$5,370,033,773	$25,855,700,674	183,862,202	$16,609,802	$24,872,528	$12,323,634	$1,461,769		$31,464,864,382
Statement of Net Cost for the Period Ended September 30, 2013									
Gross Program Costs	$6,975,814,483	$4,755,539,098	$103,354,628	$647,088,939	$130,995,424		$9,495,867	($647,512,626)	$11,974,775,813
Less Earned Revenues			18,268,983		22,648,852		1,262,269	(425,000)	41,755,104
Net Program Costs	6,975,814,483	4,755,539,098	85,085,645	647,088,939	108,346,572		8,233,598	(647,087,626)	11,933,020,709
Costs Not Attributable to Program Costs									
Less Earned Revenues Not Attributable to Program Costs					24,879				24,879
Net Cost of Operations	$6,975,814,483	$4,755,539,098	$85,085,645	$647,088,939	$108,321,693		$8,233,598	($647,087,626)	$11,932,995,830
Statement of Changes in Net Position for the Period Ended September 30, 2013									
Net Position Beginning of Period	$798,560,511	$23,959,249,060	$162,499,293	$24,889,494	$7,956,268	$11,390,815	$698,025		$24,965,243,466
Appropriations Received				638,886,050					638,886,050
Expended Appropriations				647,088,939					647,088,939
Other Adjustments				(76,803)					(76,803)
Appropriations Used				(647,088,939)					(647,088,939)
Taxes and Non-Exchange Revenue	2,968,446,898	3,136,770,669	89,655,827			26,201,814		(647,087,626)	5,573,987,582
Other Financing Sources	3,349,834,933	73,951,139	5,711,556		116,384,100	(25,268,995)	8,301,331		3,528,914,064
Transfers In From NRRIT		1,581,000,000							1,581,000,000
Change in NRRIT Assets		1,370,581,884							1,370,581,884
Net Cost of Operations	(6,975,814,483)	(4,755,539,098)	(85,085,645)	(647,088,939)	(108,321,693)		(8,233,598)	647,087,626	(11,932,995,830)
Change in Net Position	(657,532,652)	1,406,764,594	10,281,738	(8,279,692)	8,062,407	932,819	67,733		760,296,947
Net Position End of Period	$141,027,859	$25,366,013,654	$172,781,031	$16,609,802	$16,018,675	$12,323,634	$765,758		$25,725,540,413

Note 17 Funds from Dedicated Collections

	8010 SSEB	8011 RRA	8051.001 RUIA Benefit Payments	0113 Federal Payments to RR Accounts	8237 Limitation on Administration	8051.002 RUIA Admin Expenses	8018 Limitation on OIG	Eliminations	Total Funds from Dedicated Collections
Balance Sheet as of September 30, 2012									
Assets									
Fund Balance with Treasury	$12,873,699	$16,696,962	$3,970,793	$24,889,493	$15,167,549	$269,402	$1,262,271		$75,130,169
Investments	928,271,039	704,533,913							1,632,804,952
NRRIT Net Invested Assets		23,641,360,813							23,641,360,813
Taxes and Interest Receivable	4,326,200,000	33,733,088	166,004,879		200,000	11,149,701		(200,000)	4,537,087,668
Other Assets					1,971,179		162,868		2,134,047
Total Assets	5,267,344,738	24,396,324,776	169,975,672	24,889,493	17,338,728	11,419,103	1,425,139	(200,000)	29,888,517,649
Liabilities Due and Payable	4,468,784,224	425,144,523	7,476,379		431,152	28,288	6,525	(200,000)	4,901,671,091
Other Liabilities		11,931,193			8,951,308		720,591		21,603,092
Total Liabilities	4,468,784,224	437,075,716	7,476,379		9,382,460	28,288	727,116	(200,000)	4,923,274,183
Unexpended Appropriations				24,889,493					24,889,493
Cumulative Results of Operations	798,560,514	23,959,249,060	162,499,293		7,956,268	11,390,815	698,023		24,940,353,973
Total Liabilities and Net Position	$5,267,344,738	$24,396,324,776	$169,975,672	$24,889,493	$17,338,728	$11,419,103	$1,425,139	($200,000)	$29,888,517,649
Statement of Net Cost for the Period Ended September 30, 2012									
Gross Program Costs	$6,754,175,281	$4,649,972,473	$97,215,590	$771,007,122	$125,470,056		$10,061,867	($771,430,776)	$11,636,471,613
Less Earned Revenues			20,611,899		12,230,988		1,402,895	(425,000)	33,820,782
Net Program Costs	6,754,175,281	4,649,972,473	76,603,691	771,007,122	113,239,068		8,658,972	(771,005,776)	11,602,650,831
Costs Not Attributable to Program Costs									
Less Earned Revenues Not Attributable to Program Costs					$ 28,071				28,071
Net Cost of Operations	$6,754,175,281	$4,649,972,473	$76,603,691	$771,007,122	$113,210,997		$8,658,972	($771,005,776)	$11,602,622,760
Statement of Changes in Net Position for the Period Ended September 30, 2012									
Net Position Beginning of Period	$319,948,490	$22,466,647,474	$40,274,485	$21,045,822	$3,347,267	$11,700,076	$769,122		$22,863,732,736
Appropriations Received				774,911,855					774,911,855
Expended Appropriations				771,007,122					771,007,122
Other Adjustments				(61,062)					(61,062)
Appropriations Used				(771,007,122)					(771,007,122)
Taxes and Non-Exchange Revenue	2,899,565,099	2,672,098,716	188,614,995			25,462,563		(771,005,776)	5,014,735,597
Other Financing Sources	4,333,222,206	(50,847,939)	10,213,504		117,819,998	(25,771,824)	8,587,873		4,393,223,818
Transfers In From NRRIT		2,026,000,000							2,026,000,000
Change in NRRIT Assets		1,495,323,282							1,495,323,282
Net Cost of Operations	(6,754,175,281)	(4,649,972,473)	(76,603,691)	(771,007,122)	(113,210,997)		(8,658,972)	771,005,776	(11,602,622,760)
Change in Net Position	478,612,024	1,492,601,586	122,224,808	3,843,671	4,609,001	(309,261)	(71,099)		2,101,510,730
Net Position End of Period	$798,560,514	$23,959,249,060	$162,499,293	$24,889,493	$7,956,268	$11,390,815	$698,023		$24,965,243,466

18. Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations

All RRB direct and reimbursable obligations are incurred against Category B apportionments. There are no RRB direct or reimbursable obligations incurred against Categories A or Exempt apportionments.

The Category B direct obligations are $12,768,908,186 and the reimbursable obligations are $22,596,587. These are reported under Obligations Incurred on the SBR in the amount of $12,791,504,773 which combines the direct and reimbursable obligations.

This disclosure agrees with the aggregate of RRB direct and reimbursable obligations as reported on the RRB's fiscal year 2013 year-end SF-133, *Report on Budget Execution and Budgetary Resources*, and line 2190 in the Statement of Budgetary Resources.

19. Terms of Borrowing Authority Used

The RRB, Social Security Administration and Centers for Medicare and Medicaid Services are parties to a financing arrangement described as the "financial interchange".

The financial interchange between the railroad retirement and social security systems is intended to put the Social Security Old-Age, Survivors, and Disability Insurance (OASDI) and Hospital Insurance (HI) trust funds in the same position they would have been had railroad employment been covered under the Social Security and Federal Insurance Contributions Acts.

Financial interchange transfers are made in a lump sum for a whole fiscal year in the June following the close of a fiscal year. The Railroad Retirement Solvency Act of 1983, as amended, provided for monthly advances of the financial interchange from the U.S. Treasury general fund to be repaid when the financial interchange is settled each June. Each advance/loan is equal to an estimate of the transfer the RRB would have received in the preceding month if the financial interchange with social security were on an up-to-date basis, with interest adjustments. The RRB must repay these advances/loans when it receives the transfer from social security against which the money was advanced.

Section 7(c)(4) of the 1974 Railroad Retirement Act (RRA) as amended provides the rules for repayment of the financial interchange advances and references Section 7(c)(3) for the interest rate to be used.

The interest rate on the repayment of the advances is the same as that used in the actual financial interchange determination from the close of the prior fiscal year until the date of the transfer.

20. Available Borrowing Authority, End of the Period

The amount of RRB available borrowing authority at the end of the period associated with financial interchange advances is $3,913,121,381.

21. Legal Arrangements Affecting Use of Unobligated Balances

The portion of RRB trust fund receipts collected in the current fiscal year that exceed the amount needed to pay benefits or other valid obligations remain in the RRB trust funds as unobligated balances. These receipts can become available in the current year if needed for valid obligations. RRB receipts are assets of the trust fund and available for obligation as needed in the future.

22. Subsequent Events

There was an increase of $1.0 billion in NRRIT net assets from the SOSI, January 1, 2013 valuation date and the September 30, 2013 balance sheet date. Other than this event, no other material events or transactions have occurred subsequent to September 30, 2013, that we are aware of. We have evaluated subsequent events through December 17, 2013, the date the financial statements were released.

23. Adjustment to Unobligated Balance, Brought Forward, October 1, and Obligated Balance, Start of the Year

In fiscal year 2013, there is an adjustment to the unobligated balance brought forward of $205,736 and an adjustment to obligated balances of $29,920,140. In fiscal year 2012, there is a net adjustment to unobligated balance brought forward of $4,133,792 and an adjustment to obligated balances of $119,255. (Please note the adjustment to obligated balances has a rounding difference from fiscal year 2012 reporting due to a prescribed format change.) These adjustments related to a subsequent review of fiscal year 2011 unobligated and obligated balances.

Note 24 Reconciliation of Net Cost of Operations to Budget
For the Years Ended September 30, 2013 and 2012
(in dollars)

	2013	2012
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$12,791,504,773	$12,576,701,992
Less: Spending Authority from Offsetting Collections and Recoveries	(162,070,967)	(154,650,508)
Obligations Net of Offsetting Collections and Recoveries	12,629,433,806	12,422,051,484
Less: Offsetting Receipts	(4,681,535,209)	(5,014,643,867)
Net Obligations	**7,947,898,597**	**7,407,407,617**
Other Resources		
Imputed Financing from Costs Absorbed by Others	8,750,053	9,851,806
Other	856,007,894	1,630,113,284
Net Other Resources Used to Finance Activities	**864,757,947**	**1,639,965,090**
Total Resources Used to Finance Activities	**8,812,656,544**	**9,047,372,707**
Resources Used to Finance Items Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services & Benefits Ordered but not yet Provided	(5,021,006)	(3,036,494)
Budgetary Offsetting Collections & Receipts That Do Not Affect Net Cost of Operations	874,575	(3,633,371)
Resources That Finance the Acquisition of Assets	(1,375,309,714)	(1,497,424,767)
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	4,034,487,999	4,248,082,000
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**2,655,031,854**	**2,743,987,368**
Total Resources Used to Finance the Net Cost of Operations	**11,467,688,398**	**11,791,360,075**
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	(348,301)	(253,111)
Other	513,690,713	(134,586,696)
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	**513,342,412**	**(134,839,807)**
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	1,496,113	1,211,936
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	**1,496,113**	**1,211,936**
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	**514,838,525**	**(133,627,871)**
Net Cost of Operations	**$11,982,526,923**	**$11,657,732,204**

Required Supplementary Information

Social Insurance

Program Financing

Payroll taxes paid by railroad employers and their employees are the primary source of funding for the railroad retirement-survivor benefit programs. Railroad retirement taxes, which have historically been higher than social security taxes, are calculated, like benefit payments, on a two-tier basis. Railroad retirement tier 1 payroll taxes are coordinated with social security taxes so that employees and employers pay tier 1 taxes at the same rate as social security taxes. In addition, both employees and employers pay tier 2 taxes that are used to finance railroad retirement benefit payments over and above social security levels. The tier 2 tax rate is based on the ratio of certain asset balances to the sum of benefit payments and administrative expenses.

Revenues in excess of benefit payments are invested to provide additional trust fund income. The NRRIT oversees most investments, including all investments in non-governmental assets.

Additional trust fund income is derived from the financial interchange (FI) with the social security trust funds, revenues from Federal income taxes on railroad retirement benefits, and appropriations from general treasury revenues provided after 1974 as part of a phase-out of certain vested dual benefits.

The financial interchange between the railroad retirement and social security systems is intended to put the Social Security Administration (SSA) Federal Old-Age, Survivors, and Disability Insurance (FOASI/DI) trust funds and the Centers for Medicare and Medicaid Services (CMS) Federal Hospital Insurance (FHI) trust fund in the same position they would have been had railroad employment been covered under the Social Security and Federal Insurance Contributions Acts. It follows that all computations under the FI are performed according to social security law. The amount of benefits payable under the RRA has no effect on the results.

Placing the social security trust funds in the same position they would have been had railroad employment been covered under social security since its inception involves computing the additional amount of social security payroll and income taxes which social security would have received and computing the amount of additional benefits which social security would have paid to railroad retirement beneficiaries during the same fiscal year. In the computation of the latter amount, credit is given for any social security benefits actually paid to railroad retirement beneficiaries. When benefit reimbursements exceed payroll and income taxes, the difference, with an allowance for interest and administrative expenses, is transferred from the social security trust funds to the SSEB Account. If taxes exceed benefit reimbursements, a transfer would be made in favor of the social security trust funds.

On a present value basis, funds provided through the FI are expected to equal $83.5 billion, or 36.4% of the estimated future income of $229.3 billion.

Benefits

Full age annuities are payable at age 60 to workers with 30 years of service. For those with less than 30 years of service, reduced annuities are payable at age 62 and unreduced annuities are payable at full retirement age, which is gradually rising from 65 to 67, depending on year of birth. Disability annuities can be paid on the basis of total or occupational disability. Annuities are also payable to spouses and divorced spouses of retired workers and to widow(er)s, surviving divorced spouses, partitioned surviving spouses, partitioned surviving divorced spouses, divorced widow(er)s, remarried widow(er)s, children, and parents of deceased railroad workers. Qualified railroad retirement beneficiaries are covered by Medicare in the same way as social security beneficiaries.

Jurisdiction over the payment of retirement and survivor benefits is shared by the RRB and SSA. The RRB has jurisdiction over the payment of retirement benefits if the employee had at least 10 years of railroad service, or five years if performed after 1995; for survivor benefits, there is an additional requirement that the employee's last regular employment before retirement or death was in the railroad industry. If a railroad employee or his or her survivors do not qualify for railroad retirement benefits, the RRB transfers the employee's railroad retirement credits to SSA, where they are treated as social security credits.

Program Finances and Sustainability

The RRB must submit to the President and the Congress a report on the actuarial status of the railroad retirement system. Projections are made of the various components of income and outgo under three employment assumptions.

The Statement of Social Insurance presents an actuarial analysis of the financial position of the railroad retirement system as of January 1, 2013. The figures in the table are based on the 2013 Section 502 Report extended through calendar year 2087. The present values in the table are based on estimates of income and expenditures through the year 2087. The estimates include income and expenditures related to future participants as well as to former and present railroad employees. The present values are computed on the basis of economic and demographic assumptions and employment assumption II, the intermediate employment assumption, as used in the 2013 Section 502 Report. Under employment assumption II, starting with an average 2012 employment of 234,000, (1) railroad passenger employment is assumed to remain level at 45,000, and (2) the employment base, excluding passenger employment, is assumed to decline at a constant annual rate of 2.0 percent for 25 years, at a reducing rate over the next 25 years, and remain level thereafter.

Actuarial Estimates: Actuarial estimates of the long-range financial condition of the railroad retirement program are presented here. Throughout this section, the following terms will generally be used as indicated:

- Income: sources of income are payroll taxes, income taxes, investment income, and financial interchange transfers.
- Income excluding interest[a]**:** income, as defined above, excluding the investment income from assets of the trust fund.
- Expenditures**:** benefit payments and administrative expenses.
- Cashflow**:** either (1) income excluding interest or (2) expenditures, depending on the context, expressed in nominal dollars.
- Net Cashflow**:** income excluding interest less expenditures, expressed in nominal dollars.

The Statement of Social Insurance and the required supplementary information are based on actuarial and economic assumptions used in the 2013 Section 502 Report extended through calendar year 2087, the RRA, and the Railroad Retirement Tax Act. This information includes:

(1) actuarial present values of future estimated expenditures for and estimated income from, or on behalf of, current and future program participants;

(2) estimated annual income excluding interest and expenditures in nominal dollars and as a percentage of taxable payroll;

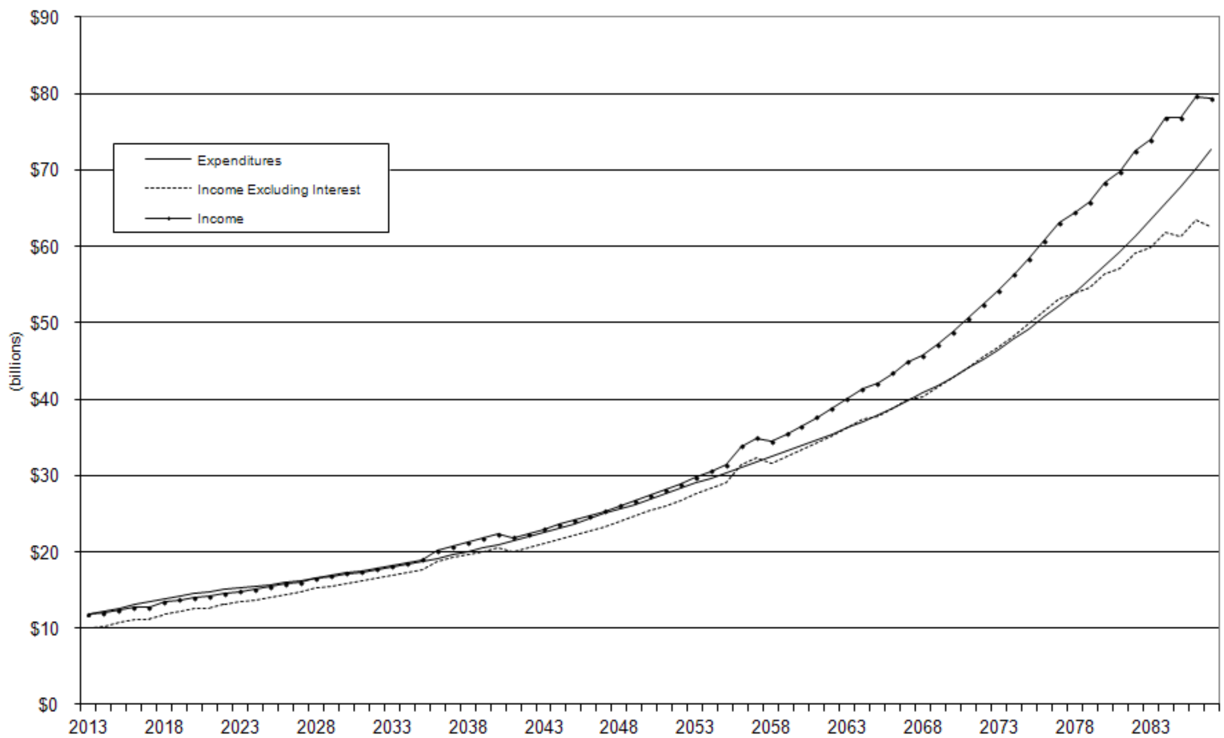
(3) the ratio of estimated annuitants to estimated full-time employees, showing the relationship between the program's benefit recipients and taxpayers; and

(4) an analysis of the sensitivity of the projections to changes in selected assumptions, which is included in recognition of the inherent uncertainty of those assumptions.

Estimates are generally based on a 75-year projection period. Estimates extending far into the future are inherently uncertain, with uncertainty greater for the more distant years.

[a] References to interest income in this section may be considered as referring to total investment income including dividends and capital gains.

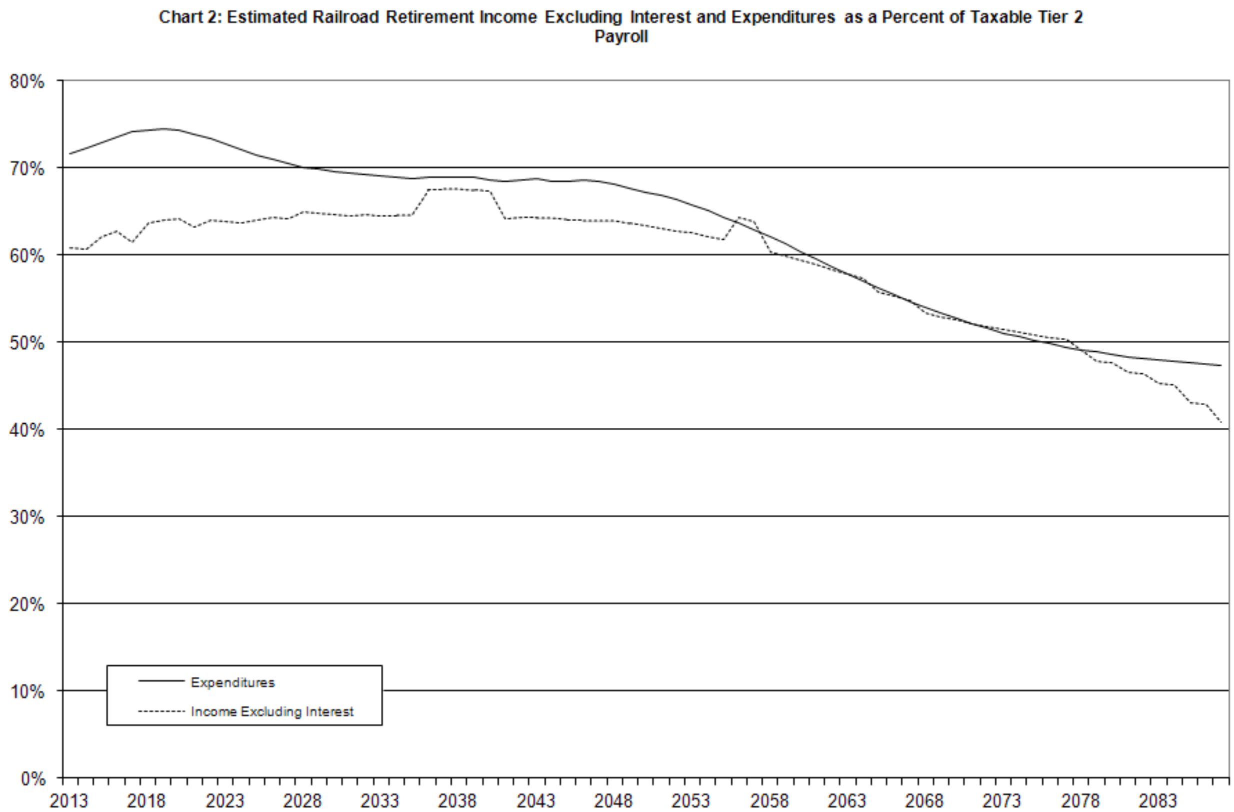
Chart 1: Estimated Income and Expenditures



Cashflow Projections – Chart 1 shows actuarial estimates of railroad retirement annual income, income excluding interest, and expenditures for 2013-2087 in nominal dollars. The estimates are for the open-group population, which includes all persons projected to participate in the railroad retirement program as railroad workers or beneficiaries during the period. Thus, the estimates include payments from, and on behalf of, those who will be employed by the railroads during the period as well as those already employed at the beginning of the period. They also include expenditures made to, and on behalf of, such workers during that period.

As Chart 1 shows, annual expenditures exceed annual income through 2027. By 2028, income is greater than expenditures. This remains true throughout the remainder of the projection period. Without investment income, however, annual expenditures are generally greater than annual income although this is not true in 2056, 2057, 2063, 2064, 2067, and 2071 through 2077. Reasons for this pattern include participant demographics, the assumed drop in railroad employment, and the automatic tier 2 tax rate adjustment mechanism. The combined balance of the NRRIT, RR Account, and SSEB Account never becomes negative largely because (i) a sufficient balance exists at the beginning of the projection period and (ii) tier 2 tax rates respond automatically to changing account balances.

Percentage of Taxable Payroll – Chart 2 shows estimated annual income excluding interest and expenditures for the railroad retirement program expressed as percentages of taxable payroll. Expenditures as a percentage of payroll increase from 2013 through 2019 primarily due to the anticipated retirement of a large percentage of the current workforce combined with the projected decline in railroad employment. Except for the income from tier 1 payroll taxes, the sources of income vary as a percentage of payroll.



Sensitivity Analysis -- The projections of the future financial status of the railroad retirement program depend on many economic and demographic assumptions including rail employment, inflation, wage increase, investment return, age retirement, disability retirement, withdrawal, active service mortality, beneficiary mortality, total termination, probability of spouse, remarriage, family composition, disability freeze, service patterns, and salary scales. Because perfect long-range projections are impossible, this section is included to illustrate the sensitivity of the long-range projections to changes in certain key assumptions that have the greatest impact on the results. All present values are calculated as of January 1, 2013, and are based on estimates of income and expenditures during the projection period 2013-2087.

Employment: Average employment in the railroad industry has generally been in decline for some years. This decline is expected to continue. Since employment is a key consideration, projections of income and expenditures using three different employment assumptions have been made. The Statement of Social Insurance uses employment assumption II, the intermediate assumption, but this section compares results under the three assumptions. For all three cases, the average employment for the year 2012 is equal to 234,000. Employment assumptions I and II, based on a model developed by the Association of American Railroads, assume that (1) passenger employment will remain at the level of 45,000, and (2) the employment base, excluding passenger employment, will decline at a constant annual rate (0.5 percent for assumption I and 2.0 percent for assumption II) for 25 years, at a reducing rate over the next 25 years, and remain level thereafter. Employment assumption III differs from employment assumptions I and II by assuming that (1) passenger employment will decline by 500 per year until a level of 35,000 is reached and then remain level, and (2) the employment base, excluding passenger employment, will decline at a constant annual rate of 3.5 percent for 25 years, at a reducing rate over the next 25 years, and remain level thereafter. Employment assumptions I, II, and III are intended to provide an optimistic, moderate, and pessimistic outlook, respectively.

Under employment assumptions I and II, no cashflow problems occur throughout the entire period. Under employment assumption III, the combined balance of the RR Account, the NRRIT, and the SSEB Account becomes negative in 2042 and remains so until 2085. Table 1 shows the excess of assets and the present value of income over the present value of expenditures for the three employment assumptions.

Table 1
Excess of Assets and Present Value of Income over Present Value of Expenditures for Three Employment Assumptions, 2013-2087
(in billions)

Employment Assumption	I	II	III
Present Value	$2.2	$1.6	$0.1
Average Tier 2 tax rate[a]	16.6%	19.0%	21.8%

[a]Average combined employer/employee tier 2 tax rate is calculated by dividing the present value of tier 2 taxes by the present value of tier 2 payroll.

Chart 3a: Combined Balance of the RR Account, NRRIT and SSEB Account under Three Employment Assumptions

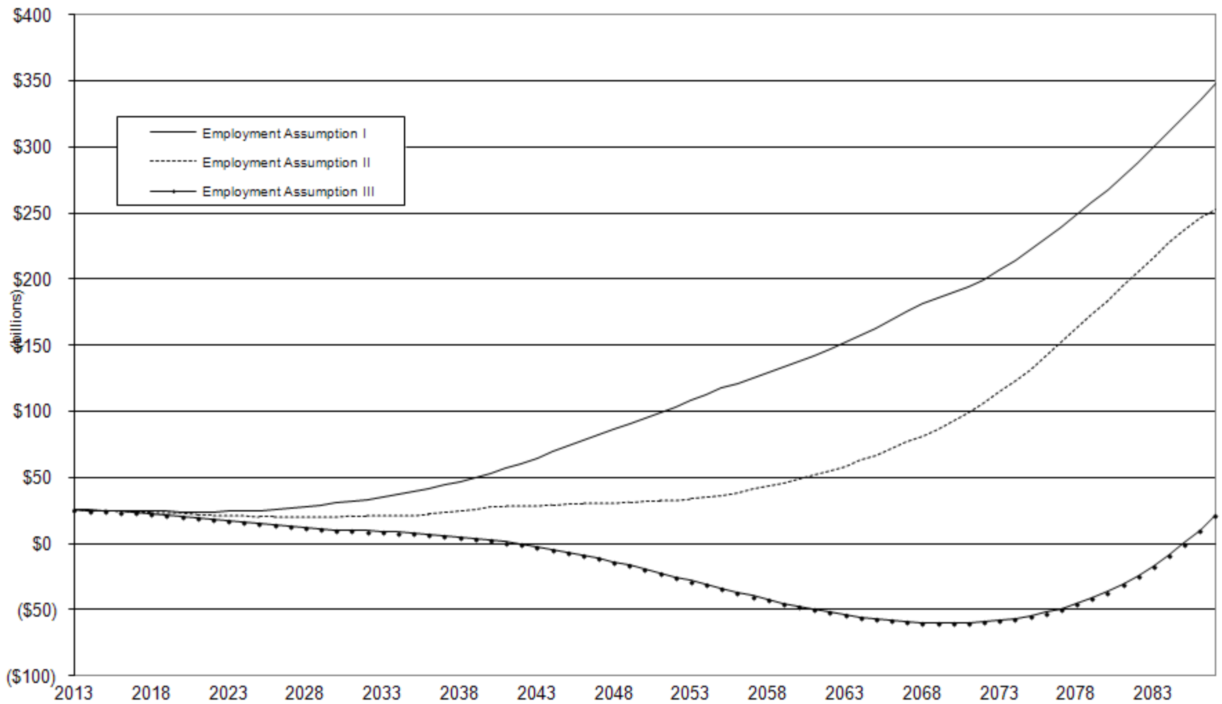
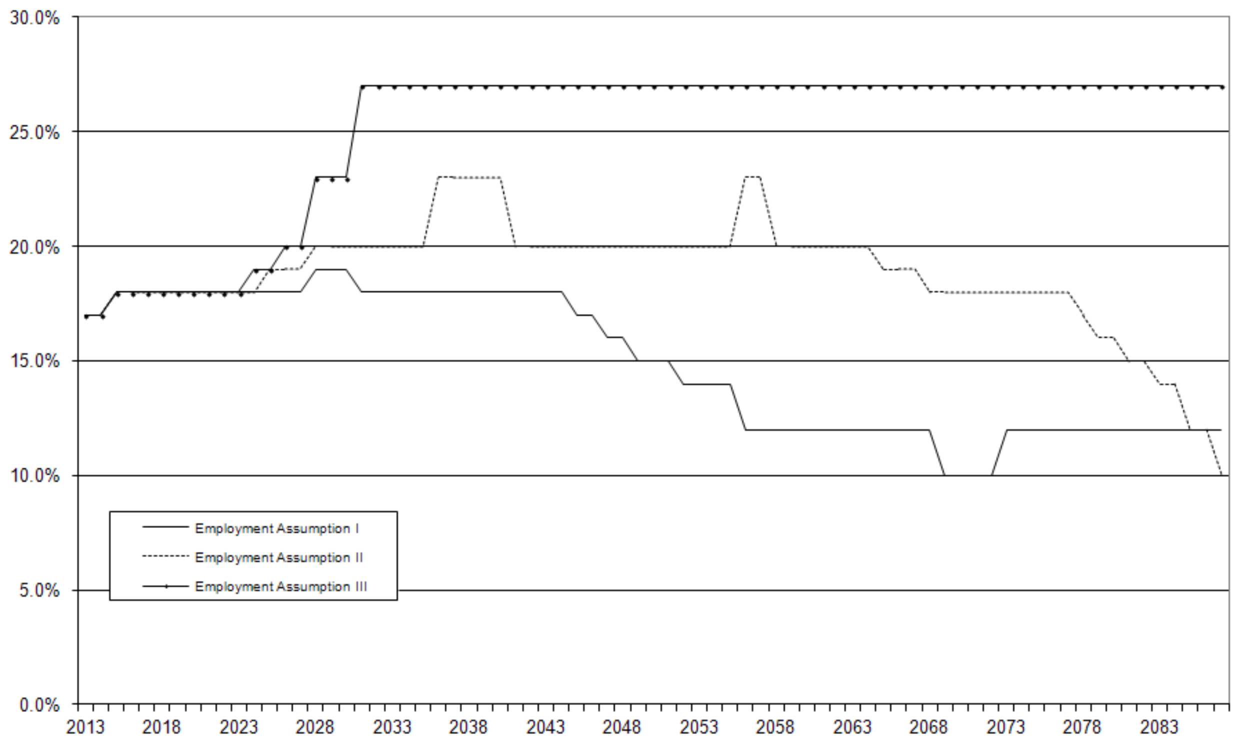


Chart 3a shows the combined balance of the accounts under each of the three employment assumptions. Note that the combined account balance is positive throughout the entire period for assumptions I and II but goes negative in 2042 for assumption III and remains so until 2085. Negative after-transfer balances under employment assumption III indicate the amount that would be owed, including interest, if unreduced benefits were paid by borrowing.

Unlike the current projection, the projection done in 2012 showed that once the balance under employment assumption III became negative it remained negative throughout the remainder of the projection period. This year's more favorable results were due to overall favorable economic and employment experience, with the largest impacts resulting from employment exceeding our projections and actual investment return of 13.9% exceeding the expected investment return of 7% in calendar year 2012.

Chart 3b shows the tier 2 tax rate under these employment assumptions. The tax rate reaches 10 percent in 2069 under employment assumption I but then increases again slightly to 12 percent in 2073 and remains at that level through 2087. The tax rate goes down to 12 percent in 2085 under employment assumption II and drops to 10 percent in 2087. Under employment assumption III, the tax rate reaches the maximum of 27 percent in 2031, remaining at that level through the remainder of the 75-year period.

Chart 3b: Tier 2 Tax Rate under Three Employment Assumptions



The tier 2 tax rate for each year is determined by the average account benefits ratio, which is the average for the ten most recent fiscal years of the ratio of fair market value of assets in the RR Account and NRRIT to the total benefits and administrative expenses paid from the RR Account and the NRRIT. Therefore, the tier 2 tax rate will be affected by employment assumption. The tier 2 tax rate adjustment mechanism promotes but does not guarantee solvency. The tier 1 tax rate does not vary by employment assumption.

Investment return: Since investments may include non-governmental assets such as equity and debt securities as well as governmental securities, it is worthwhile to examine the effects of future rates of investment return. In addition to the investment return of 7 percent used for our projections, we show the effect on the combined accounts of an investment return of 4 percent and an investment return of 10 percent. Table 2 shows the excess of assets and the present value of income over the present value of expenditures for the three investment return assumptions. If the tier 2 tax rate were fixed, the actuarial surplus would increase with increasing investment return. However, the tier 2 tax rate adjusts to changing account balances, resulting in the highest average tax rate under the 4 percent scenario and the lowest average tax rate under the 10 percent scenario. Under the 7 percent scenario, the tax rate adjustment mechanism keeps the system in close actuarial balance. Under the 10 percent scenario, the tax rate falls to the minimum rate in 2044 and remains at that level.

Table 2
Excess of Assets and Present Value of Income over Present Value of Expenditures for Three Investment Return Assumptions, 2013-2087
(in billions)

Investment Return Assumption	4%	7%	10%
Present Value	$9.2	$1.6	$0.9
Average Tier 2 tax rate	21.2%	19.0%	16.3%

Chart 4a: Combined Balance of the RR Account, NRRIT and SSEB Account under Three Investment Return Assumptions

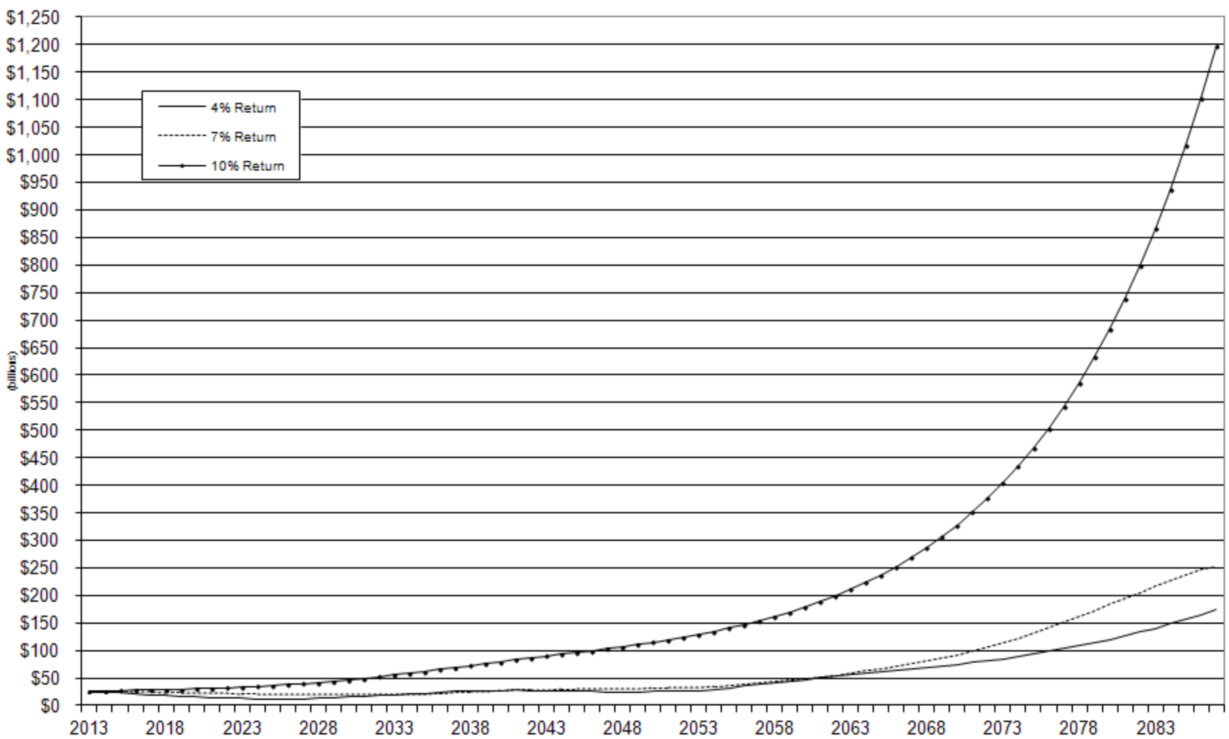
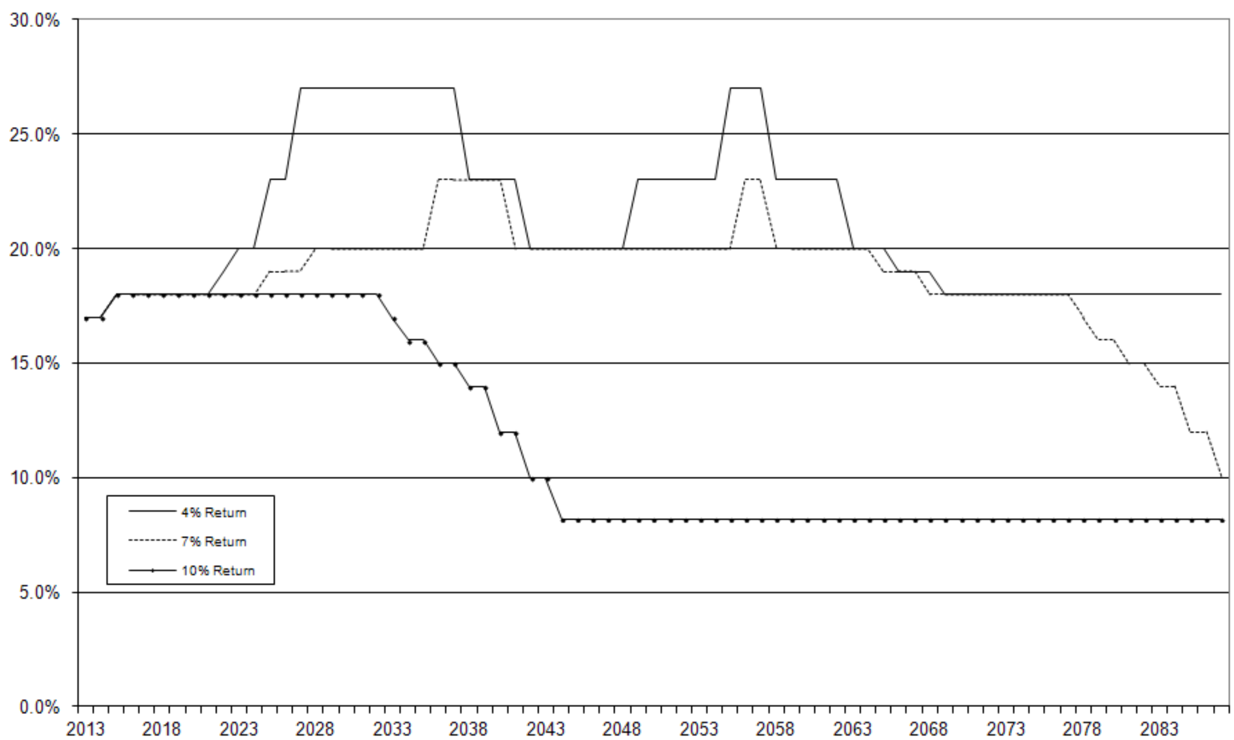


Chart 4a shows the combined account balance under the three investment return assumptions for the projection period. At a 4 percent investment return, the account balance reaches its lowest value in 2026 and never becomes negative. After that it increases, except for slight decreases in 2042 through 2048 before it starts increasing again in 2049. With a 7 percent investment return, the account balance decreases through 2027 and increases thereafter. A 10 percent investment return results in a combined balance that increases throughout the projection period. Although the 4 percent scenario shows the lowest account balance at the end of the projection period, the concurrent use of a 4 percent discount rate results in the highest surplus on January 1, 2013.

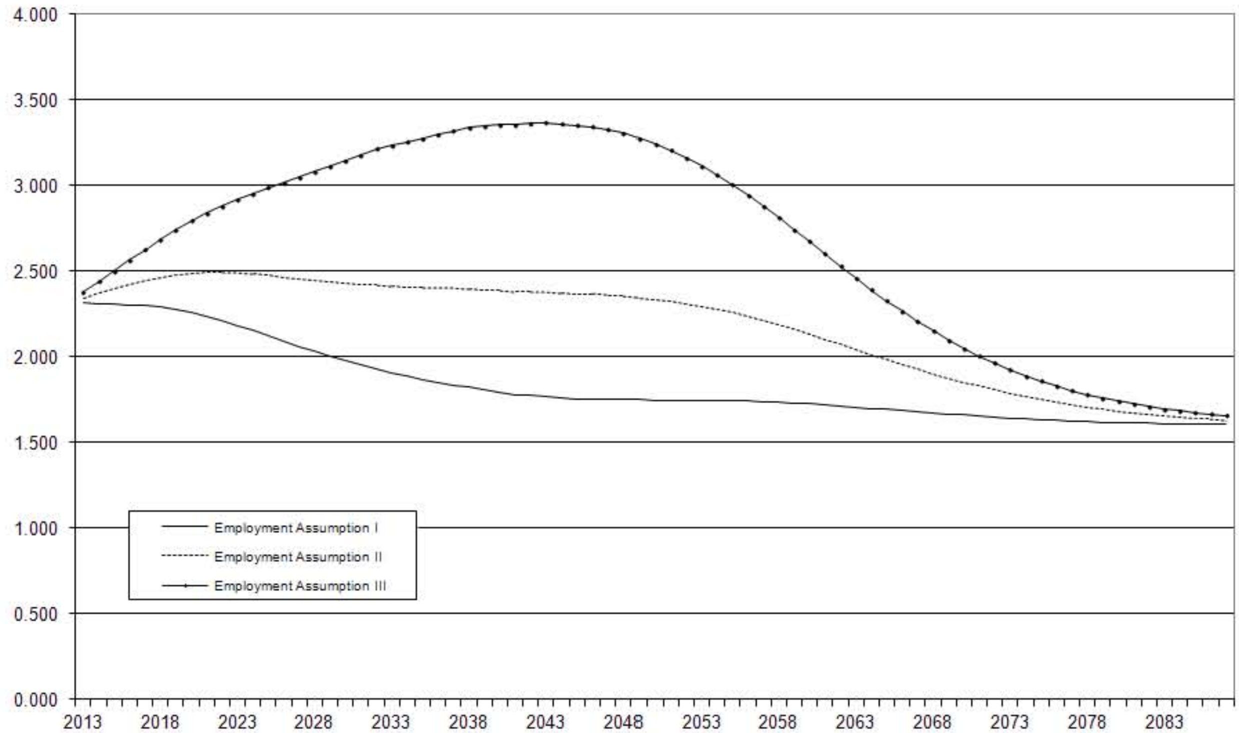
Chart 4b shows the tier 2 tax rate under the same three investment return assumptions. With a 4 percent investment return, the maximum tier 2 tax rate applies from 2027 through 2037 and again from 2055 through 2057. With the 7 percent investment return, the maximum tax rate never applies during the projection period. With a 10 percent investment return, the maximum tax rate is also never applicable, and the minimum tax rate of 8.2 percent is paid beginning in 2044. As mentioned above, the tier 2 tax rate is determined based on the ratios of asset values to benefits and administrative expenses, so it will be affected by investment return, but tier 1 tax rates will not.

Chart 4b: Tier 2 Tax Rate under Three Investment Return Assumptions



Ratio of Beneficiaries to Workers: Chart 5 shows the estimated number of annuitants per full-time employee under all three employment assumptions. The average number of annuitants per employee for employment assumption I is highest in 2013. For assumptions II and III, the ratio is highest in 2022 and 2043, respectively. For all three employment assumptions, the average number of annuitants per employee declines to between 1.6 and 1.7 by the end of the projection period. The convergence in number of annuitants per employee at the end of the projection period results primarily from level employment projected in the latter years under all three employment assumptions.

Chart 5: Average Number of Annuitants per Full-Time Employee



RAILROAD RETIREMENT BOARD
DISAGGREGATE OF BUDGETARY RESOURCES
FOR THE YEAR ENDED SEPTEMBER 30, 2013
(in dollars)

	COMBINED RAILROAD RETIREMENT PROGRAM	COMBINED RAILROAD UNEMPLOYMENT AND SICKNESS INSURANCE PROGRAM	LIMITATION ON THE OFFICE OF INSPECTOR GENERAL	COMBINED TOTALS
Budgetary Resources				
Unobligated balance brought forward, October 1	43,356,466	149,101,940	648,131	193,106,537
Adjustment to unobligated balance brought forward, October 1 (+ or -)	205,736	0	0	205,736
Unobligated balance brought forward, October 1, as adjusted	43,562,202	149,101,940	648,131	193,312,273
Recoveries of prior year unpaid obligations	1,685,010	0	37,105	1,722,115
Other changes in unobligated balance (+ or -)	(180,240)	0	(184,077)	(364,317)
Unobligated balance from prior year budget authority, net	45,066,972	149,101,940	501,159	194,670,071
Appropriations (discretionary and mandatory)	8,602,314,657	100,086,979	0	8,702,401,636
Borrowing authority (discretionary and mandatory)	3,913,121,381	0	0	3,913,121,381
Spending authority from offsetting collections (discretionary and mandatory)	132,657,055	18,455,842	9,235,955	160,348,852
Total budgetary resources	12,693,160,065	267,644,761	9,737,114	12,970,541,940
Status of Budgetary Resources				
Obligations incurred	12,656,678,921	125,738,481	9,087,371	12,791,504,773
Unobligated balance, end of year:				
Apportioned	18,398,016	142,070,250	86,316	160,554,582
Unapportioned	18,083,128	(163,970)	563,427	18,482,585
Total unobligated balance, end of year	36,481,144	141,906,280	649,743	179,037,167
Total Budgetary Resources	12,693,160,065	267,644,761	9,737,114	12,970,541,940
Change in Obligated Balance				
Unpaid obligations:				
Unpaid obligations, brought forward, October 1	971,081,700	3,696,063	614,138	975,391,901
Adjustment to unpaid obligations, start of year (+ or -)	(29,920,140)	0	0	(29,920,140)
Obligations incurred	12,656,678,921	125,738,481	9,087,371	12,791,504,773
Outlays (gross) (-)	(12,697,239,170)	(125,421,365)	(9,000,400)	(12,831,660,935)
Recoveries of prior year unpaid obligations (-)	(1,685,010)	0	(37,105)	(1,722,115)
Unpaid obligations, end of year	898,916,301	4,013,179	664,004	903,593,484
Uncollected payments:				
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(224,330)	3,000	0	(221,330)
Adjustment to uncollected pymts, Fed Sources, start of year (+ or -)	23,472	0	0	23,472
Change in uncollected pymts, Fed Sources (+ or -)	223,002	(3,000)	0	220,002
Uncollected pymts, Fed sources, end of year (-)	22,144	0	0	22,144
Memorandum (non-add) entries				
Obligated balance, start of year (+ or -)	940,960,702	3,699,062	614,138	945,273,903
Obligated balance, end of year (+ or -)	898,938,444	4,013,179	664,004	903,615,628
Budget Authority and Outlays, Net				
Budget authority, gross (discretionary and mandatory)	12,648,093,092	118,542,821	9,235,955	12,775,871,868
Actual offsetting collections (discretionary and mandatory) (-)	(132,880,057)	(19,472,842)	(9,235,955)	(161,588,854)
Change in uncollected customer payments from Federal sources	223,002	(3,000)	0	220,002
Budget authority, net(discretionary and mandatory)	12,515,436,037	99,066,979	0	12,614,503,016
Outlays, gross (discretionary and mandatory)	12,697,239,170	125,421,365	9,000,400	12,831,660,935
Actual offsetting collections (discretionary and mandatory) (-)	(132,880,056)	(19,472,842)	(9,235,956)	(161,588,854)
Outlays, net (discretionary and mandatory)	12,564,359,114	105,948,523	(235,556)	12,670,072,081
Distributed offsetting receipts (-)	(4,681,535,209)	0	0	(4,681,535,209)
Agency outlays, net (discretionary and mandatory)	7,882,823,905	105,948,523	(235,556)	7,988,536,872

Independent Auditor's Report

To the Board Members:

Report on the Financial Statements

We were engaged to audit the accompanying balance sheet of the Railroad Retirement Board (RRB) as of September 30, 2013 and 2012; the related statements of net cost, changes in net position, and budgetary resources for the years then ended; the statement of social insurance as of January 1, 2013, 2012, 2011, 2010, and 2009, the statement of changes in social insurance amounts for the two year period ended December 31, 2012, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

The National Railroad Retirement Investment Trust (NRRIT) was established pursuant to the Railroad Retirement and Survivors' Improvement Act of 2001 (Public Law 107-90). Under that law, the NRRIT is not a department, agency or instrumentality of the Government of the United States. In addition, the law specifically exempts the NRRIT from compliance with Title 31, United States Code which governs the monetary and financial operations of the Federal government. The law also provides that the NRRIT annually engage an independent, qualified public accountant to audit the financial statements of the NRRIT. Accordingly, the Office of Inspector General (OIG) has not audited the books and records of the

NRRIT, nor had any input into the selection of the independent accountant retained by the NRRIT, nor provided oversight to that firm in the execution of their responsibilities. As a result, the financial statements of the NRRIT were audited by other auditors whose reports have been furnished to us. On October 22, 2013, we learned that the NRRIT hired a new audit firm to audit its fiscal year (FY) 2013 financial statements, therefore, its financial statements for FY 2013 and FY 2012 were audited by two different audit firms. Pursuant to the group financial statement audit requirements promulgated by the American Institute of Certified Public Accountants (AICPA) in AICPA Professional Standards in AU-C section 600 *Special Considerations - Audits of Group Financial Statements*, we contacted the NRRIT requesting communication with and cooperation from its auditors. The NRRIT did not respond to our request and RRB management took no action to assist us in this matter. We inquired of agency management whether the required communication and cooperation would be provided by the new auditor. Agency management's response indicated that no change would be made regarding communication with and cooperation from the NRRIT's auditor. As a result, the NRRIT's auditors have not complied with the group financial statement audit requirements. Consequently, we were unable to perform the specified AU-C section 600 group audit procedures and have determined that undetected misstatements, which could be material and pervasive, could exist.

The group financial statement audit requirements are applicable for all audits of group financial statements for periods ending on or after December 15, 2012. Failure by the NRRIT's auditor to comply with these AICPA standards is considered a violation of Rule 201, General Standards, and Rule 202, Compliance with Standards.

The net assets of the NRRIT represent \$25.0 billion and \$23.6 billion or approximately 79% of the total assets reported for the RRB for FYs 2013 and 2012. NRRIT assets also represent approximately 94% and 95% of the Treasury securities and assets held by the Railroad Retirement program as of January 1, 2013 and 2012, respectively. Related changes in the net value of investments held by the NRRIT are reported as a source of financing which contributed a net gain of \$1.4 billion during FY 2013 and a net gain of \$1.5 billion during FY 2012.

In addition, we did not express an opinion on the RRB's FY 2012 financial statements in our previous audit report dated November 15, 2012 due to the significance of the NRRIT's net asset amounts in the RRB's financial statements and the NRRIT auditor's peer review rating of *pass with deficiency* for reasons explained in our prior audit report.[1] That audit opinion regarding the RRB's FY 2012 financial statements remains unchanged.

[1] "Report on the Railroad Retirement Board's Fiscal Year 2012 Financial Statements," OIG Report No. 13-01, November 15, 2012.

Disclaimer of Opinion

Due to the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial position of the RRB, its consolidated net cost of operations and changes in net position, and combined budgetary resources as of September 30, 2013 and 2012; and the financial condition of the Railroad Retirement program as of January 1, 2013, 2012 and 2011 and changes in the financial condition of the program for the two year period ended December 31, 2012. Accordingly, we do not express an opinion on these financial statements.

Emphasis of Matter

The RRB discloses transactions with related parties in Note 2 to the financial statements. The RRB, Social Security Administration and Centers for Medicare and Medicaid Services are parties to a financing arrangement described as a financial interchange. Under this arrangement, transfers-in from the Social Security Administration's Old-Age and Survivors Insurance and Disability Insurance trust funds and transfers-out to the Federal Health Insurance trust fund represented approximately $4.0 billion (net), or about 35% of the financing sources reported on the RRB's statement of changes in net position for FY 2013 before considering the change in the reported value of NRRIT net assets. For FY 2012, financial interchange transfers of $4.2 billion (net) represented about 35% of the financing sources reported before considering the reduction in the reported value of NRRIT assets. Our opinion is not modified with respect to this matter.

Other Matter

Accounting principles generally accepted in the United States of America require that the following required supplementary information be presented to supplement the basic financial statements: Management Discussion and Analysis section beginning on page 7, Social Insurance on page 85 and Statement of Budgetary Resources on page 96. Such information, although not a part of the basic financial statements, is required by Office of Management and Budget (OMB), which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to the auditor's inquiries, the basic financial statements and other knowledge the auditor obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on this information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Other Legal and Regulatory Requirements

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in U.S. Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*.

Consideration of Internal Control

In planning and performing our audit, we considered the RRB's internal control over financial reporting and compliance. We did this to determine our procedures for auditing the financial statements and to comply with OMB audit guidance, and not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting and compliance or on management's assertion on internal control included in Management's Discussion and Analysis.

With respect to previously reported control deficiencies, the RRB has made progress in strengthening its information security program but this effort is not yet complete and material weaknesses remain. [2] The previously reported material weakness for budgetary reporting is now being reported as a significant deficiency because the errors found during FY 2013 were less severe than a material weakness.

Our internal control work would not necessarily disclose all deficiencies in internal control that might be material weaknesses or other significant deficiencies. Although not considered to be material weaknesses or significant deficiencies, we will report other matters involving internal control and its operation to RRB management in a separate letter.

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[2] A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Material Weaknesses

Information Technology Security – Risk Management Framework

During FY 2013, the OIG evaluated the RRB's information security program pursuant to the provisions of Federal Information Security Management Act (FISMA). OIG auditors found that weaknesses regarding the review of contractor deliverables associated with the risk management framework continue to be found. Although agency managers are working to strengthen controls, management action had either not been completed as of the end of the current reporting period, or had not been in place long enough to permit evaluation.

Information Technology Security – Configuration Management

During FY 2013, the OIG evaluated the RRB's security configuration management program pursuant to the provisions of FISMA. OIG auditors found that weaknesses associated with the configuration management of some agency systems continue to be found. Although agency managers are working to remediate these weaknesses, management action had not been completed as of the end of the current period.

Significant Deficiency

Budgetary Reporting

In FY 2011, we reported a material weakness for budgetary reporting and recommended that the Bureau of Fiscal Operations (BFO) provide training for the preparation of the statement of budgetary resources and implement a review process to ensure the accuracy of calculations, consistency in recorded amounts and effectiveness of controls. In an effort to address this material weakness, budgetary training was conducted for various BFO personnel in June 2013. During FY 2013, the OIG identified a significant improvement in the preparation of the statement of budgetary resources. Although errors were found, they did not exceed our materiality threshold. Further corrective action remains to be taken regarding an improved review process to ensure the accuracy of calculations, consistency in recorded amounts and effectiveness of controls.

Compliance with Laws and Regulations

Our tests of the RRB's compliance with selected provisions of laws and regulations for FY 2013 disclosed no instances of non-compliance that are reportable under auditing standards generally accepted in the United States of America or OMB guidance. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Objectives, Scope, and Methodology

RRB management is responsible for (1) preparing the financial statements in conformity with U.S. generally accepted accounting principles, (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act (FMFIA) are met, and (3) complying with applicable laws and regulations.

We are responsible for (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit, (2) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements, and laws for which OMB audit guidance requires testing; and (3) performing limited procedures with respect to certain other information appearing in the RRB's Performance and Accountability Report. We considered the RRB's compliance with laws and regulations for FY 2013. In order to fulfill these responsibilities, we:

- assessed the factors, data, assumptions and model used by RRB management to prepare the long-term actuarial projections presented in the statement of social insurance;
- assessed the reconciliation of the beginning and ending open group measure including the significant components of the change presented in the statement of changes in social insurance amounts;
- evaluated the overall presentation of the financial statements;
- obtained an understanding of the entity and its operations, including its internal control related to financial reporting, compliance with laws and regulations (including execution of transactions in accordance with budget authority);
- tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal control;
- considered the design of the process for evaluating and reporting on internal control and financial management systems under the FMFIA; and

- performed tests of compliance with selected provisions of laws and regulations, including laws governing the use of budget authority, and other laws and regulations that could have a direct and material effect on the RRB's basic financial statements:
    - Anti-Deficiency Act, as amended;
    - provisions of the Railroad Retirement Act governing financing and the payment of benefits;
    - provisions of the Railroad Unemployment Insurance Act governing financing and the payment of benefits; and
    - provisions of the Social Security Act that provide for certification of benefits to the RRB for payment (42 U.S.C. § 405(i)).

We considered the material weaknesses identified above in determining the nature, timing, and extent of our audit procedures on the FY 2013 financial statements.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by the FMFIA, such as controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected by our audit. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. We also caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to the RRB. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the RRB's financial statements and those required by OMB audit guidance that we deemed applicable to the RRB's financial statements for the fiscal year ended September 30, 2013. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

RRB MANAGEMENT'S COMMENTS

Agency management commented that the agency has taken significant steps to enhance operations and internal controls to provide the public quality service that can be depended on through time. Agency management stated that bureau and office personnel have worked diligently to meet and in most cases exceed performance objectives as the RRB migrates to a new core financial system during this challenging fiscal period. Agency management also stated that the results are capitalized in the removal of material weaknesses, increased efficiencies through the modernization of manual business practices, and strengthened internal controls. They also stated that it is unfortunate that the weight of a single policy element driving the outcome on the presentation of the RRB's financial statements overshadows the long term gains the agency has made in reporting the agency's financial position. They also stated that nevertheless, agency management will continue to take pride in the RRB's abilities and take advantage of opportunities to make the RRB's financial position even better as the agency continues to support the OIG audit efforts.

The full text of management's response follows as an attachment to this report. We did not perform audit procedures on the RRB's written response and, accordingly, we express no opinion on the response.

Original signed by:

Martin J. Dickman
Inspector General
Chicago, Illinois

December 5, 2013

UNITED STATES GOVERNMENT

FORM G-115f (1-92)

MEMORANDUM

RAILROAD RETIREMENT BOARD

December 16, 2013

TO : Diana Kruel
Assistant Inspector General for Audit

FROM : George V. Govan
Chief Financial Officer

GEORGE
GOVAN

SUBJECT : FY 2013 Financial Statement Audit – Auditor's Report;
Re: Your memorandum dated December 16, 2013

The agency has taken significant steps to enhance operations and internal controls to provide the public quality service that can be depended on through time. Bureau and office personnel have worked diligently to meet and in most cases exceed performance objectives as we migrate to a new core financial system during this challenging fiscal period. The results are capitalized in the removal of material weaknesses, increased efficiencies through the modernization of manual business practices, and strengthened internal controls. However, it is unfortunate that the weight of a single policy element driving the outcome on the presentation of our financial statements overshadows the long term gains the agency has made in reporting our financial position. Nevertheless, we will continue to take pride in our abilities and take advantage of opportunities to make our financial position even better as we continue to support your audit efforts.

cc: The Board
Executive Committee

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OTHER ACCOMPANYING INFORMATION

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UNITED STATES RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE RAILROAD RETIREMENT BOARD

This statement has been prepared pursuant to the Reports Consolidation Act of 2000 and the requirements of Office of Management and Budget Circular A-136 which require that the Inspectors General identify what they consider the most serious management challenges facing their respective agency and briefly assess the agency's progress in addressing those challenges.

Congress created the railroad retirement system more than 75 years ago. The Railroad Retirement Act (RRA) created a nationwide retirement system for railroad workers to provide income security in old age. Over the years the program has been expanded to include disabled workers, elderly spouses and widow(er)s, children, and parents of young children. In 1938, Congress added a nationwide system of unemployment insurance and later a program of sickness insurance benefits. During fiscal year (FY) 2012, the Railroad Retirement Board (RRB) paid about $11.4 billion for retirement and survivor benefits to approximately 573,000 beneficiaries and roughly $76 million in net unemployment and sickness insurance benefits to some 27,000 claimants.

Our identification of challenges facing RRB management is based on recent audits and evaluations; changes in auditing standards impacting the National Railroad Retirement Investment Trust; financial management system changes; current Long Island Railroad investigative developments; and congressional directives to prevent improper payments and fraud in government programs. The following challenges were identified during FY 2013:

- Impact of AICPA group audit standard;
- Migration to Financial Management Integrated System;
- Occupational disability program integrity;
- Information technology security;
- Budgetary reporting;
- Preventing and detecting improper payments; and
- Oversight of Railroad Medicare.

Impact of AICPA Group Audit Standard

The National Railroad Retirement Investment Trust (NRRIT), a significant component of the Railroad Retirement Board (RRB), is required by law to prepare annual financial statements and has engaged a public accountant to perform an audit of these statements prior to release. The RRB Office of Inspector General (OIG) is required by law to audit the financial statements of the RRB. In accordance with United States' Government Auditing Standards, both the OIG and the NRRIT's auditor are required to comply with the American Institute of Certified Public Accountants' (AICPA) Auditing Standards for financial statement audits.

To comply with the AICPA's new group financial statement auditing standard, the RRB-OIG contacted the NRRIT's Chair by letter on May 10, 2013 requesting direct communication with, and cooperation from their auditor[1]. On May 24, 2013, the RRB's Chief Financial Officer (CFO) responded on their behalf that "the NRRIT is not a department, agency, or instrumentality of the United States Government, and consequently is not itself subject to Federal audit requirements." Although the RRB is correct that the NRRIT is not a Federal entity and not <u>directly</u> subject to Federal audit requirements, the OIG has concluded that the AICPA's standards apply to all <u>component</u> entities that prepare audited financial statements both Federal and Non-Federal.

To date, there has been no communication or cooperation from the NRRIT's auditor, directly or indirectly. Failure by the NRRIT's auditor to comply with these AICPA standards is considered a violation of Rule 201, General Standards, and Rule 202, Compliance with Standards.

In view of the fact that the RRB-OIG cannot obtain sufficient appropriate audit evidence with respect to the NRRIT, we plan to issue a disclaimer of opinion, as required by AICPA AU-C Section 705.10, on the RRB's FY 2013, financial statements. To prevent future disclaimers of opinion, it's imperative that RRB management counsel the NRRIT regarding its auditor's responsibilities to comply with the AICPA's group financial statement requirements.

[1] AU-C Section 600, Special Considerations - Audits of Group Financial Statements (including the Work of Component Auditors)

Migration to Financial Management Integrated System

During FY 2013, the RRB underwent a major system migration to the Financial Management Integrated System (FMIS). The migration to FMIS involved a transition from the Railroad Retirement Board's (RRB) legacy core Federal Financial System to the FMIS's Momentum, a cloud-based hosted solution. The RRB contracted with an external audit firm and a shared service provider to plan and conduct the migration. Preparation for the transition to the FMIS began in FY 2011, and FMIS became fully operational as of October 1, 2013.

During the transition period, key staffing changes significantly impacted the RRB's financial accounting operations, audit responsiveness, and migration planning. We observed unanticipated financial errors and delays with respect to the agency's audit deliverables and year-end closeout that can be attributed to inexperienced financial staffing and an expected learning curve. Transition to the new system also required financial accounting staff to allocate time to migration planning and testing, and to attend training courses which further limited their workload availability.

Management has responded to the challenge, thus far, by completing the planned training and migration as of the scheduled implementation date. However, post-migration evaluation is needed to determine whether users have fully adapted to the FMIS and can handle their workload responsibilities in a timely manner.

Program Integrity for the Occupational Disability Program

Since 2004, the OIG has issued numerous recommendations in the form of audits, alerts, and memoranda directed toward increasing program integrity within the RRB's occupational disability program many addressing weaknesses identified during the Long Island Railroad (LIRR) investigation. To date, the RRB has failed to either adequately address or implement the majority of these recommendations and has allowed the adjudication process to remain ineffective and incapable of preventing fraud. For example, the RRB attempted to increase oversight efforts through Board Order 08-63, yet LIRR occupational disability approval ratings remain essentially unchanged at 98%.

In addition, in January 2013, the OIG reported that the RRB's disability examiners did not always verify job duty information before granting occupational disability annuities. The OIG identified nine individuals employed by LIRR who had been approved for occupational disability annuities even though LIRR did not report their job information to the RRB. The nine unverified annuities represented an estimated $3.8 million in financial risk to the agency. To date, the RRB has not taken any corrective action to improve this process.

The RRB OIG's investigation efforts have resulted in 30 annuitants, 2 doctors, and a former longtime RRB employee being either convicted or pleading guilty to charges stemming from their involvement in the sweeping LIRR occupational disability fraud scheme. In response to these actions, the RRB recently terminated approximately $2 million worth of monthly disability payments, representing approximately 700 LIRR annuitants. Approximately 400 of these LIRR annuitants have since filed new disability applications pursuant to Board Orders 13-33 and 13-55.

As responsible public stewards, RRB management must change its course and implement comprehensive procedural changes to ensure that occupational disability award benefits are adjudicated by independent medical doctors based upon additional documentation submitted in accordance with recommendations contained in our previous audits, alerts, and memoranda. The RRB's practice of awarding occupational disability benefits based upon questionable and fraudulent applications will continue to cost the RRB millions in annual administrative expenses if major changes are not made.

The entitlement to occupational disabilities is established by federal statute that requires the RRB to establish occupational disability standards with the cooperation of railroad labor and management. The RRB should work with railroad labor and management to implement these procedural changes or take steps to terminate the program.

Substantial and meaningful change within the occupational disability program is needed to prevent unnecessary exposure to fraud waste and abuse. Given the pervasive fraud exposed by the LIRR case and the inconceivable and near 100% approval rate, the occupational disability program must not be allowed to continue in its current form.

Information Technology Security

During FY 2013, the OIG evaluated the RRB's information security program pursuant to the provisions of the Federal Information Security Management Act of 2002 (FISMA) and concluded that the RRB has not yet achieved an effective FISMA-compliant security program. A material weakness for the information technology security risk management framework will continue to be reported as OIG auditors determined that weaknesses regarding the review of contractor deliverables associated with the risk management framework continue to be found. Although agency managers are working to strengthen controls, management action had either not been completed as of the end of the current reporting period, or had not been in place long enough to permit evaluation.

A material weakness will also continue to be reported for the RRB's information technology security configuration management program, as OIG auditors found that weaknesses associated with the configuration management of some agency systems continue to be found. Although RRB management is working to remediate these weaknesses, corrective action had not been completed as of the end of the current period.

Budgetary Reporting

In FY 2011, we reported a material weakness for budgetary reporting and recommended that the Bureau of Fiscal Operations (BFO) provide training for the preparation of the Statement of Budgetary Resources and implement a review process to ensure the accuracy of calculations, consistency in recorded amounts and effectiveness of controls. In an effort to address this material weakness, budgetary training was conducted for various BFO personnel in June 2013. During FY 2013, the OIG identified a significant improvement in the preparation of the statement of budgetary resources.

Further corrective action remains to be taken regarding an improved review process to ensure the accuracy of calculations, consistency in recorded amounts and effectiveness of controls. However, we anticipate based on the noted improvements that the material weakness will be downgraded to a significant deficiency.

Preventing and Detecting Improper Payments

Pursuant to the Improper Payments Elimination and Recovery Act of 2010, each year the RRB reports agency progress in reducing improper payments, and has reported a reduction in the rate of RRA improper payments (as compared with outlays) dropping from 1.64% in FY 2004, to .54% in FY 2012. During FY 2012, the RRB recognized more than $45 million in new RRA overpayments. An additional, $3.6 million in new overpayments were identified in the Railroad Unemployment and Sickness Insurance (RUIA) program.

The RRB reports that more than 90% of RRA improper payments are due to changes coming from outside the agency and the challenge is to obtain the information and process it as quickly as possible. The RRB has established a number of automated initiatives designed to minimize RRA improper payments. The reduction of RRA improper payments is impacted by manual workload backlogs and requires long range planning. RUIA improper payments are considered relatively low due to the RRB's current program integrity effort. The RRB has convened an inter-bureau project team to identify additional ways of further minimizing RUIA improper payments.

The OIG recognizes the RRB's ongoing efforts toward minimizing RRA and RUIA improper payments. However, the RRB must include initiatives to reduce the impact of manual workload backlogs on RRA improper payments in their long range planning.

Oversight of Railroad Medicare

In July 2013, the OIG reported that the RRB's current Management Control Review (MCR) process does not include the RRB's responsibilities for oversight of the Railroad Medicare contract with Palmetto, GBA LLC. While Railroad Medicare has been identified by the RRB as a mission-critical agency program, with annual processed claims exceeding 9.4 million and payments of approximately $849 million for Part B medical services, the Office of Programs has not conducted an MCR risk assessment or established risk-based control objectives and techniques specific to its contract oversight responsibilities.

The OIG estimates Railroad Medicare Part B improper payments to be more than $84 million, annually. As Railroad Medicare contract oversight is not subject to the RRB's MCR process, the risks of program fraud, waste, and abuse cannot be fully mitigated by management controls. As a result, material weaknesses or significant deficiencies in the Railroad Medicare program may go undetected.

Management has partially addressed Railroad Medicare in the agency's MCR process by establishing assessable units for monitoring the agency's Railroad Medicare and contract procurement functions where the work is performed directly by the agency. However, the Office of Programs has not included the Railroad Medicare contract oversight function and has not addressed contract oversight controls in the MCR process. Management's inclusion of contract oversight in the RRB's MCR process will help to ensure the fulfillment of the RRB's program responsibilities, which include monitoring the integrity and effectiveness of the Railroad Medicare program and its contract with Palmetto, GBA LLC.

Original signed by:

Martin J. Dickman
Inspector General

November 15, 2013

Management's Comments

These are Management's comments on the Management and Performance Challenges identified by the Railroad Retirement Board (RRB) Inspector General.

Impact of AICPA Group Audit Standard

When enacting the Railroad Retirement and Survivors' Improvement Act of 2001 (RRSIA), Congress established the NRRIT as in independent entity with responsibility for investment of the railroad retirement pension funds. The NRRIT is not a Federal entity and is not a part of the RRB. The RRB may bring a civil action against NRRIT if NRRIT violates any provision of the RRSIA. Congress intentionally created the NRRIT as an independent entity to avoid close control by the Federal government over investment in the equities markets. The NRRIT is annually audited by an independent qualified public accountant as to their financial statements. The RRB and NRRIT have appropriately adhered to the Railroad Retirement Act requirements concerning audits of federal and non-federal government entities. The OIG communicated to the RRB, as the group management representative for the audit, that due to the new AICPA standard AICPA-AU-C section 600, the OIG must provide a disclaimer opinion. However, the RRB notes AICPA AU-C section 705 allows the auditor discretion to issue a "qualified" decision in adherence with the new AICPA AU-C section 600 standard.

Specifically, the AICPA AU-C section 705.08 states that the auditor should express a qualified opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not have pervasive effect on the financial statement. In this context, AU-C 705.06 defines "pervasive" as effects which are not confined to specific elements, accounts or items; if so confined, represent or could represent a substantial proportion of the financial statements; or are disclosures which are fundamental to users' understanding of the financial statements.

Through the course of the audit, OIG has not communicated or established that the undetected misstatements are pervasive within the guidelines of this standard. Therefore, the RRB does not believe the situation warrants a disclaimer opinion on the RRB financial statements. The RRB will continue to work with the OIG to identify solutions for preventing future audit disclaimers.

Program Integrity for the Occupational Disability Program

The RRB shares a common goal with the OIG – the prevention of the award of disability annuities to ineligible individuals. Significant time and resources are being devoted to ensuring the integrity of the occupational disability program.

In regard to the Long Island Railroad (LIRR) investigation referenced by the OIG, the number of occupational disability applications filed by LIRR employees has decreased significantly and procedural modifications, many of which were recommended by the OIG, have been made to the adjudication of these applications. Consultative examinations are being ordered for all individuals filing for benefits under Board Orders 13-33 and 13-55 (except in cases where the applicant suffers from a terminal illness or cancer). When necessary, consultative medical opinions may be sought and residual functional capacity tests may be ordered. Additionally, new and current medical evidence is being considered in evaluating these applications. Prior to adjudication, claims examiners are being given specialized training to ensure that proper procedure is being followed at all times.

Where an individual claims disability due to an orthopedic impairment, he or she must undergo a consultative exam performed by an orthopedic specialist. Board certified orthopedic physicians will also assist examiners in reviewing the medical evidence and will provide recommendations concerning additional testing that may be needed. The procedure has also been modified for LIRR applicants to gather additional information through supplemental questionnaires, and the Field Service is required to contact the applicants to gather additional information concerning their lifestyle, recreational activities and/or voluntary work.

Generally, we are proactively studying trends in the occupational disability program for the purpose of detecting anomalies and/or patterns of fraud or abuse. A program is now in place for tracking physicians whose medical reports are submitted in support of disability benefits applications. We are developing and implementing a multi-phase Disability Program Integrity Action Plan focused on increasing fraud awareness and other fraud detection methods. Refresher training by contract physicians in the review of medical records has been given to disability examiners. We have also provided examiners with training in fraud awareness (and this training is being utilized in reviewing the LIRR applications). The Board is also taking a fresh look at past recommendations from the OIG for changes to the occupational disability program. For example, staff is being instructed to reevaluate current forms to ascertain whether incorporating additional questions would be helpful in the processing of disability applications or to ferret out fraud. The Board has also forwarded the issue of job information reports to Rail Labor and Management and asked them to discuss the job information process and current generic job descriptions to determine and consider any improvement or updates.

Information Technology Security

The RRB continues to improve its Information Security posture. Over the past year, the agency has made great strides towards implementing a robust, compliant Risk Management Framework (RMF) Continuous Monitoring program. All Information System Owners participated in the RMF process to ensure their information systems have met the required Federal Information Security Management Act (FISMA) compliance standards. Information System Owner participation in the RMF process to date has included:

- selecting the security controls applicable for each information system,
- developing a risk assessment for each information system,
- selecting security controls to be tested for each information system, and
- reviewing the Security Assessment Reports (SAR) delivered by the third party assessor.

The updated documentation, including updated SAR’s for each information system, an updated System Security Plan (SSP) for each information system, and an updated Plan of Actions and Milestones (POA&M) for each information system is scheduled for delivery by the third party assessor in December 2013. Evaluation and approval of all documentation by Information System Owners is expected to occur by the end of January 2014. Once completed, we believe the material weakness for Risk Management Framework (RMF) Continuous Monitoring will be corrected.

With regard to the material weakness in Configuration Management, the Application Design Center (ADC) is scheduled to complete the migration of agency applications (i.e. the MAVE project) by the end of December 2013. With the completion of the MAVE Project, and the subsequent removal of the five Windows 2000 Servers associated with these applications in early 2014, we believe the information technology security configuration management material weakness will be resolved.

Preventing and Detecting Improper Payments

The RRB has consistently focused its efforts on monitoring and reducing improper payments and has steadily achieved impressive results. As recognized by the Inspector General, the rate of improper payments under the Railroad Retirement Act decreased from 1.64% in fiscal year 2004 to .54% in fiscal year 2012. We attribute this accomplishment primarily to increased automation and standardization of work processes, and ongoing training of staff. We also perform detailed quality assurance studies and follow-up on all findings indicating that improvements are possible.

The Inspector General also noted that more than 90% of the RRA improper payments are due to information from external sources, such as changes in the beneficiary's status that affects entitlement or eligibility. We agree with the Inspector General that the RRB's challenge is to obtain current and accurate information and process it as quickly as possible. Many of our long-term system initiatives work toward that end.

Oversight of Railroad Medicare

The RRB is currently working on modifying the Medicare Management Control Review (MCR) process to include the Medicare contract and to document the controls and oversight that are in place to safeguard against waste, fraud and abuse. The Medicare MCR process will be updated and the controls in place will be tested by the end of FY 2014.

Now that the RRB has a Specialty Medicare Administrative Contract (SMAC), we are responsible for ensuring that Palmetto GBA is in complete compliance with the Statement of Work (SOW) as outlined in our contract. The base year of the new SMAC was completed on September 30, 2013 and we are in the process of assessing our contractor's performance as required by the Federal Acquisition Regulation. Finally, overall responsibility and handling for the management and operations of the Medicare program is assigned by law to the Centers for Medicare and Medicaid Services (CMS), which means that, Palmetto GBA must adhere to the guidelines and procedures established by CMS.

Once the Medicare MCR process has been updated and the controls in place have been tested, the Medicare MCR will not only reflect the actions taken by the RRB but will reflect the mechanisms that are in place to safeguard the Medicare Trust Fund.

Improper Payments Information Act (IPIA) Reporting Details
(as amended by IPERA)

I. Risk Assessment. Briefly describe the risk assessment(s) performed (including the risk factors examined, if appropriate) subsequent to completing a full program inventory. List the risk-susceptible programs (i.e., programs that have a significant risk of improper payments based on OMB guidance thresholds) identified by the agency risk assessments. Include any programs previously identified in the former Section 57 of OMB Circular No. A-11. Highlight any changes to the risk assessment methodology or results that occurred since the last report.

The RRB administers two benefit payment programs: Railroad Retirement Act (RRA) retirement and survivor benefits, and Railroad Unemployment Insurance Act (RUIA) unemployment and sickness benefits. Both were designated as “high risk” under the former Section 57 of Circular A-11.

In January 2009, the Office of Management and Budget granted a three year relief from reporting the RUIA program improper payments due to the consistently low level of error over several years. Therefore, our Performance and Accountability Reports for fiscal years 2009 through 2011 included only our analysis of RRA improper payments. Reporting of RUIA improper payments resumed in fiscal year 2012.

The fiscal year 2012 analysis of RUIA payments indicated an increase in the amount of improper payments since the analysis was last done in fiscal year 2008. The increase was primarily due to increased usage of the unemployment program as a result of the economic recession that occurred during this interim period, as well as the enactment of several pieces of legislation which increased duration of unemployment benefits.

We expected that the improper payment rate would decrease over time and return to the levels previously seen before the recent unemployment legislation was enacted. The results of this year’s RUIA improper payment analysis show a significant decrease in the amount of erroneous payments.

The agency used the process described below to calculate the amount of RRA and RUIA improper payments made in fiscal year 2012.

Results of Fiscal Year 2012 Improper Payment Review

Program	Improper Payment Amt. >$10 million	Improper Payment Rate >2.5%	Action Plan or Targets Needed?
RRA	**Yes**	**No**	**No**
RUIA	**No**	**Yes**	**No**

II. Statistical Sampling. Any agency that has programs or activities that are susceptible to significant improper payments shall briefly describe the statistical sampling process conducted to estimate the improper payment rate for each program identified with a

significant risk of improper payments. Please highlight any changes to the statistical sampling process that have occurred since the last report.

The agency has an established methodology for identifying improper payments in the RRA and RUIA benefit payment programs. It is based on determining both the known overpayments and underpayments, which have since been recovered or paid out, and estimating those which result from adjudicative error, but have not been identified or corrected. It also uses information from quality assurance reviews. These reviews employ statistical sampling to study railroad retirement awards. Also included in the estimated amounts are projections of improper payments from audits, special studies, and estimates of manual work based on pending workload referrals.

III. Corrective Actions. Any agency that has programs or activities that are susceptible to significant improper payments shall describe the corrective action plans for:

a. Reducing the estimated improper payment rate and amount for *each* type of root cause identified. Agencies shall report root cause information (including error rate and error amount) based on the following three categories: Administrative and Documentation errors; Authentication and Medical Necessity errors; and Verification errors. This discussion must include the corrective action(s), planned or taken, most likely to significantly reduce future improper payments due to each type of error an agency identifies, the planned or actual completion date of these actions, and the results of the actions taken to address these root causes. If efforts are ongoing, it is appropriate to include that information in this section, and to highlight current efforts, including key milestones. Agencies may also report root cause information based on additional categories, or sub-categories of the three categories listed above, if available.

The root causes of error in the ***RRA program*** are summarized according to OMB's root causes in the table below.

Root Cause of Error	Estimated Rate	Estimated Amount
Administrative and Documentation	**5.8%**	**$3,559,521**
Authentication and Medical Necessity	**2.2%**	**$1,390,148**
Verification and Local Administration	**92.0%**	**$56,875,444**
Total	**100%**	**$61,825,113**

Corrective Actions:

Administrative and Documentation: These errors result from improper handling by the agency's automated systems or its personnel. Planned corrective actions include:

- development of an enhanced automated retirement payment system to replace the current legacy system that processes retirement applications, planned for fiscal year 2014,
- development of an interface between systems to ensure accurate use of military service in the calculation of benefits, tentatively scheduled for completion in fiscal year 2014,
- expansion of a Medicare premium collection database to include Part B premium withholding history; work is tentatively scheduled to begin after implementation of the Part D IRMAA withholding project which is targeted to take place in fiscal year 2014,

- changes to ORCS (Overpayment Recovery Correspondence System), which is used to prepare overpayment notices and to upload overpayment data to other related agency systems (Program Accounts Receivable and Automated System to Recover Overpayments). ORCS is being automated to interact with mainframe programs to ensure that the most current data is retrieved and used in the development of RRA overpayment recovery. Current plans are to complete this automation initiative by the end of fiscal year 2013 with similar enhancements to RUIA and Medicare overpayment recovery to follow during fiscal year 2014.

Authentication and Medical Necessity: Very few of the agency's improper payments fall into this category. There are no planned corrective/preventative actions.

Verification and Local Administration: These errors result from changes coming from outside the agency, particularly changes in the beneficiary's status which affect entitlement or eligibility either temporarily or permanently, and changes in service and compensation typically due to work. Our challenge is to obtain the information and process it as quickly as possible.

The initiatives to minimize this specific group of improper payments are:

- The RESCUE (Recalculate for Service and Compensation Updated to EDMA) system evaluates employer-reported changes to employee service and compensation records and adjusts annuities, if needed. RESCUE was implemented in fiscal year 2006 and evaluated record changes posted in January 2006. In fiscal year 2007, the system evaluated adjustments posted prior to January 2006 and identified specific RRA improper underpayments and paid out additional benefits due, resolving many of the improper payments that were included in previous years' estimates. However, a significant manual workload resulted from this initiative. As of September 30, 2012, 11,217 of these referrals (9,088 for active cases and 2,129 for terminated cases) were on hand. These backlogged cases are handled whenever any other work needs to be done on the case. RESCUE referrals are also processed using overtime funds as resources permit.
- RESCUE is currently run several times a year so that annuity adjustments for service and compensation changes are made timely and properly for those records that can be handled automatically. Those that cannot be processed by RESCUE are referred for manual handling and are included in the current workload. As of September 30, 2012, there were 8,707 of these current referrals.
- SPEED (System Processing Excess Earnings Data) is an automation initiative designed to process post-entitlement annuity adjustments in both retirement and survivor cases that result from excess earnings and work deductions. SPEED allows the RRB to adjust annuity payments for earnings on a timely basis, which minimizes underpayments or overpayments that may result from changes in earnings. SPEED is being built in a multi-phase approach. The first five phases of this initiative automated the handling of survivor temporary work deductions and year-end actions and annuity adjustments when regular and/or Last Person Earnings (LPE) work deductions are removed due to cease work reports. During FY 2013 we will automate the download of current survivor earnings estimates from the Survivor Payments System (SURPASS) to perform the necessary survivor annuity adjustments and notifications. In a future phase we plan to automate the process to initiate LPE and regular temporary work deductions in response to earnings estimates from retirement beneficiaries which will support our long range plan of automating permanent work deductions for both retirement and survivor beneficiaries.
- Electronic Data Processing (EDP Policing) Enhancements – This project will address the internal handling and mechanical matching of earnings information received from our data

match with the Social Security Administration. We completed the first phase of the project, which involved the automation and capture of earnings information stored on the Retirement On-Line Calculations (ROC) system, an on-line system for calculating and paying retirement annuities. Work continues on updating the LPE process to capture the latest monthly earnings and average monthly earnings amounts. The information will be used in the EDP process to monitor earnings information, eliminate redundant information, and reduce the number of records referred to the claims adjudication units.

The root causes of error in the ***RUIA program*** are summarized according to OMB's root causes in the table below.

Root Cause of Error	Estimated Rate	Estimated Amount
Administrative and Documentation	**38%**	**$1,758,155**
Authentication and Medical Necessity	**0%**	**0**
Verification and Local Administration	**62%**	**$ 2,912,345**
Total	**100%**	**$4,670,500**

The program integrity effort over the RUIA benefit payments is already at a very high level, keeping RUIA improper payments relatively low. The Office of Programs has convened an inter-bureau project team to discuss additional ways of identifying and minimizing improper RUIA payments.

As noted in section I, there was an increase in RUIA improper payments in last year's analysis. Our analysis this year found a significant decrease in improper payments. We continue to believe the RUIA improper payment rate will gradually return to its previous low level. Based on an analysis of historical trends and current available data we incrementally reduced our projected percentage of improper payments for the RUIA program.

Some of the RUIA improper payments can be attributed to the delay in our State wage matches. This delay could be reduced if the RRB had access to the *National Directory of New Hires* (NDNH). We believe using this database could be very beneficial, allowing us to obtain additional information not available through our current matching programs with the States and to obtain it in a timely manner. Using the NDNH would also provide a streamlined administrative process utilizing only one contract and electronic data transmission with NDNH rather than maintaining separate matching agreements and conducting separate data transmissions with all 50 States, D.C., and Puerto Rico. However, at this time, the RRB does not have legal authority to access the database and the administrative costs of participating in that program are prohibitive. Making this database accessible to all agencies would greatly improve our detection and prevention of RUIA improper payments.

b. Grant-making agencies with risk-susceptible grant programs shall briefly discuss what the agency has accomplished in the area of funds stewardship past the primary recipient. Discussion shall include the status of projects and results of any reviews.

Not applicable to RRB.

IV. a) and b) Program improper payment reporting.

The table below is required for each reporting agency.

Improper Payment (IP) Reduction Outlook FY 2011 – FY 2016
($ in millions)

Program	FY 11 $ Outlays (actual)	FY 11 IP %	FY 11 IP $	FY 12 $ Outlays (actual)	FY 12 IP %	FY 12 IP $	FY 13 $ Outlays (estimated)	FY 13 IP %	FY 13 IP $
RRA	$10,946.5	0.59%	$65.6	**$ 11,347.3**	**0.54%**	**$ 61.8**	$11,676.3	0.54%	$63.1
RUIA	$129	7.2%	$9.3	**$119.2**	**3.9%**	**$4.6**	$123.8	3.5%	$4.3

Program	FY 14 $ Outlays (estimated)	FY 14 IP %	FY 14 IP $	FY 15 $ Outlays (estimated)	FY 15 IP %	FY 15 IP $	FY 16 $ Outlays (estimated)	FY16 IP %	FY 16 IP $
RRA	$12,016.0	0.54%	$64.9	$12,365.3	0.54%	$66.8	$12,708.4	0.54%	$68.6
RUIA	$132.1	3.5%	$4.6	$130.3	3.0%	$3.9	$130.3	2.5%	$3.3

Note: The absolute value of the overpaid and underpaid dollars and the rates is shown—the figures are not netted.

At the time this report was prepared, the latest actual data available was for fiscal year 2012 (shown in **bold** in the chart).

For fiscal year 2012, RRA actual overpayments were $45,904,969 and actual underpayments were $15,920,145.

RUIA actual overpayments were $3,621,008 and actual underpayments were $1,049,492.

The estimates for fiscal year 2013 through 2016 are based on the December 2012 OMB budget review estimates.

V. Recapture of Improper Payments Reporting.

a. An agency shall discuss payment recapture audit (or recovery auditing) efforts, if applicable. The discussion should describe: the agency's payment recapture audit program; the actions and methods used by the agency to recoup overpayments; a justification of any overpayments that have been determined not to be collectable; and any conditions giving rise to improper payments and how those conditions are being resolved (e.g., the business process changes and internal controls instituted and/or strengthened to prevent further occurrences). If the agency has excluded any programs or activities from review under its payment recapture auditing program (including any programs or activities where the agency has determined a payment recapture audit program is not cost-effective), the agency should list those programs and activities excluded from the review, as well as the justification for doing so (i.e., a discussion of the analysis conducted to determine that a

payment recapture audit program would not be cost-effective). Include in your discussion the dollar amount of cumulative recoveries collected beginning with FY 2004.

The RRB has a robust, multi-faceted review process in place that is an effective approach for evaluating payment accuracy in the RRA and RUIA programs and identifying and preventing improper payments. Taken as a whole, our full range of current activities constitutes *an effective alternative to* a formal payment recapture program. However, despite all the agency's best efforts to prevent improper payments, some will always occur, due to lack of timely information, etc. In overpayment situations, the agency is diligent in its recovery efforts.

The RRB's account receivable balance for the RRA program at the end of fiscal year 2012 was $49,300,289. This balance includes debts classified as currently not collectible. We estimate that approximately 76.5 percent of the RRA receivable balance will be collected and that the remaining 23.5 percent of the RRA debt will eventually be closed as uncollectible. For the period of fiscal years 2004 through 2012, the RRB recovered $356,771,182 in RRA program receivables.

The RRB's account receivable balance for the RUIA program at the end of fiscal year 2012 was $15,117,512. This balance includes debts classified as currently not collectible. We estimate that approximately 70.1 percent of the RUIA receivable balance will be collected and 29.9 percent will eventually be closed as uncollectible. It should be noted that uncollectible RUIA debts may be reinstated for recovery by offset when a debtor files an application for retirement benefits. For the period of fiscal years 2004 through 2012, the RRB recovered $297,032,091 in RUIA program receivables.

The RRB's collection program is in full compliance with the Debt Collection Improvement Act of 1996. Recoveries are made through offset of benefits, reclamation and return of erroneous benefit payments, and direct payment from debtors. Fraudulent payments are referred to the OIG for prosecution through the Department of Justice. Delinquent accounts are referred to Treasury for cross-servicing and offset of Federal payments.

d. Table 6

Overpayments Recaptured Outside of Payment Recapture Audits
($ in millions)

Agency Source		Amount Identified FY 12*	Amount Recovered FY 12**	Amount Identified FY 11*	Amount Recovered FY 11**	Cumulative Amount Identified FY 04 - FY 12*	Cumulative Amount Recovered FY 04 - FY12**
Various, including post payment quality reviews, special evaluations, OIG reviews/audits, reports from the public, monitoring programs, and agency-identified errors. No breakdown between these sources is available.	**RRA**	**$42.6**	**$40.9**	**$49.2**	**$43.0**	**$402.9**	**$356.8**
	RUIA	**$28.9**	**$29.3**	**$36.1**	**$30.3**	**$303.6**	**$297.0**

*Amounts limited to established overpayments for fiscal year(s) identified.

**Recoveries include debts established prior to fiscal year(s) identified.

VI. Accountability. Any agency that has programs or activities that are susceptible to significant improper payments shall describe the steps the agency has taken and plans to take (including timeline) to ensure that agency managers, accountable officers (including the agency head), programs, and States and localities (where appropriate) are held accountable for reducing and recovering improper payments. Specifically, they should be held accountable for meeting applicable improper payments reduction targets and establishing and maintaining sufficient internal controls (including an appropriate control environment) that effectively prevents improper payments from being made and promptly detects and recovers any improper payments that are made.

Paying benefits accurately and timely, and providing prudent stewardship over agency trust funds are the agency's two strategic goals. Agency managers have links to those goals in their performance plans. In addition, we have two goals, one aimed at minimizing improper payments and the other focused on maximizing recovery efforts, in our fiscal year 2013 performance plan.

VII. Agency information systems and other infrastructure.

a. Describe whether the agency has the internal controls, human capital, and information systems and other infrastructure it needs to reduce improper payments to the levels the agency has targeted.

The agency has established effective internal controls aimed at minimizing improper payments.

Although the agency has limited staff and expects further attrition of experienced personnel, the RRB has been able to meet the challenge of minimizing improper payments for both the RRA and RUIA programs. Neither benefit program has "significant" improper payments as defined by law.

In order to prevent and reduce the already low levels of improper payments the RRA and RUIA program generates, information systems need to be developed or modified as described in the project initiatives discussed in section III.a above.

b. If the agency does not have such internal controls, human capital, and information systems and other infrastructure, describe the resources the agency requested in its most recent budget submission to Congress to establish and maintain the necessary internal controls, human capital, and information systems and other infrastructure.

The System Modernization project is a multi-year effort to modernize the agency's automation systems. When complete, it will contribute to achieving the agency's target information technology architecture, and will help the agency meet its performance goals, including improved accuracy of benefit payments and stewardship of the trust funds. Due to fiscal funding constraints, the agency last requested funding specifically for its System Modernization project in 2012. However, work has continued using internal resources on internal software improvement projects. Modernization will help reduce data redundancy, improve IT productivity, reduce development time, improve processing accuracy and speed, and transition our computing environment to more modern technology platform and methodologies.

In addition, information technology infrastructure provides a critical foundation for the agency's mission and business processes. This includes desktops, notebooks, servers, storage, printers, routers, scanners and other significant components. The agency has a long-term strategic goal to systematically replace all IT components according to industry standards in order to provide a stable technology environment. As funding is made available, IT equipment at its headquarters facility and field offices is replaced in accordance with the agency's *IT Equipment Replacement Policy*. This ensures that the agency will provide the most efficient, reliable and secure services to its customers.

VIII. Barriers. Describe any statutory or regulatory barriers, which may limit the agencies' corrective actions in reducing improper payments and actions taken by the agency to mitigate the barriers' effects.

None.

IX. Additional Comments. Discuss any additional comments, if any, on overall agency efforts, specific programs, best practices, or common challenges identified, as a result of IPERA implementation.

The RRB has made concerted efforts to reduce improper payments over the years. Payment accuracy rates are at consistently high levels and the return on investment for program integrity activities has been high as well. Both have been set as annual performance goals and reported each year since the Government Performance and Results Act has been in effect. The agency monitors progress on implementing recommendations from the quality assurance process, and is vigilant about pursuing OIG recommendations which impact the quality and timeliness of payments. The agency has also worked closely with the OIG in referring potential fraud cases for its investigation and prosecution. However, system limitations, the continued loss of experienced staff and long lead time to hire and train staff to handle complicated manual work present an ongoing challenge to making further significant reductions in the levels of improper RRA payments. The agency hopes to be able to maintain adequate staffing so that it can continue this important effort.

Summaries of Financial Statement Audit and Management Assurances

Summary of Financial Statement Audit

Audit Opinion	Disclaimer
Restatement	No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Information Technology Security – Risk Management Framework	1				1
Information Technology Security – Configuration Management*	1				1
Budgetary Reporting**	1		1		0
Total Material Weaknesses	3				2

Summary of Management Assurances

Effectiveness of Internal Control over Operations (FMFIA § 2)	
Statement of Assurance	Qualified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Information Technology Security – Risk Management Framework	1					1
Information Technology Security – Configuration Management*	1					1
Budgetary Reporting**	1		1			0
Total Material Weaknesses	3					2

Conformance with Financial Management System Requirements (FMFIA § 4)	
Statement of Assurance	Systems conform

* Formerly referred to as Information Security – Applications and Services.
** Downgraded to a significant deficiency.

APPENDICES

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Appendices

Glossary of Acronyms and Abbreviations

A

AABR	Average Account Benefits Ratio
ABR	Account Benefits Ratio
ACSI	American Customer Satisfaction Index
ARRA	American Recovery and Reinvestment Act of 2009

B

BPD	Bureau of the Public Debt

C

CGI	Consultants to Government and Industry
CMS	Centers for Medicare & Medicaid Services
CNC	Currently Not Collectible

D

DBP Account	Dual Benefits Payments Account
DOL	Department of Labor

E

EDMA	Employment Data Maintenance
ERP	Economic Recovery Payments
ERS	Employer Reporting System

F

FACTS II	Federal Agencies' Centralized Trial-Balance System
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance With Treasury
FECA	Federal Employees' Compensation Act
FFS	Federal Financial System
FHI	Federal Hospital Insurance
FI	Financial Interchange
FICA	Federal Insurance Contributions Act
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act
FY	Fiscal Year
FOASI/DI	Federal Old-Age and Survivors Insurance/Disability Insurance

G

GPRA	Government Performance and Results Act

I

IPERA	Improper Payments Elimination and Recovery Act
IPIA	Improper Payments Information Act
IRMAA	Income-Related Monthly Adjustment Amount
IRS	Internal Revenue Service
IT	Information Technology
IVR	Interactive Voice Response

L

LAN	Local Area Network
LPE	Last Pre-retirement Non-Railroad Employer

M

MCRC	Management Control Review Committee
MMA	Medicare Prescription Drug, Improvement and Modernization Act of 2003

N

NRRIT	National Railroad Retirement Investment Trust

O

OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management

P

P&AR	Performance and Accountability Report
PII	Personally Identifiable Information
POA&M	Plan of Action and Milestones

R

RESCUE	Recalculate for Service and Compensation Updated to EDMA
RR	Railroad Retirement
RRA	Railroad Retirement Act
RR Account	Railroad Retirement Account
RRB	Railroad Retirement Board
RRSIA	Railroad Retirement and Survivors' Improvement Act of 2001
RUI	Railroad Unemployment Insurance
RUIA	Railroad Unemployment Insurance Act
RUI Account	Railroad Unemployment Insurance Account

S

SFFAS	Statement of Federal Financial Accounting Standards
SI	Sickness Insurance
SPEED	System Processing Excess Earnings Data
SSA	Social Security Administration
SSEB	Social Security Equivalent Benefit
SSP	Shared Service Provider

T

Treasury	Department of the Treasury
Trust	National Railroad Retirement Investment Trust

U

UI	Unemployment Insurance
USC	United States Code
USPS	United States Postal Service

V

VoIP	Voice over Internet Protocol

W

WHBAA	Worker, Homeownership, and Business Assistance Act of 2009

Railroad Retirement Board
Board Members, Inspector General, and Executive Committee

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Labor Member	Walter A. Barrows
Management Member	Jerome F. Kever

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