

Program Letter

United States
Railroad Retirement Board
Office of Programs



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TO: Chief Executive Officers

SUBJECT: Experience Rating Under the Railroad Unemployment Insurance Act

Please share this information with the appropriate members of your staff who file service and compensation reporting forms for employees of your organization.

Section 8 of the Railroad Unemployment Insurance Act (RUIA) provides for experience rated employer contributions. Experience rating under the RUIA combines features used by most state-administered unemployment programs. Under experience rating, an employer's contribution rate reflects the benefits paid to its employees, with risk sharing to minimize the impact of unfavorable experience. The basic employer contribution rate consists of the following components: allocated experience, unallocated experience, and risk sharing, or pooling. In addition, there is a charge for administrative expenses, a pooled credit when the account balance is above a specified level, and a variable-rate surcharge when the account balance is below certain levels.

The Office of Experience Rating in the Bureau of Unemployment and Sickness Insurance maintains the contribution system and notifies employers of their contribution rates. Refer to the accompanying Glossary of Experience Rating Terms for detailed descriptions of the components.

Allocated Experience

An employer's allocated experience is determined by subtracting the reserve ratio from the benefit ratio. The reserve ratio is the employer's net contributions minus the net benefits charged (each calculated beginning January 1, 1990, and ending as of the prior June 30), divided by its one-year compensation base as of the same June 30. The benefit ratio is an employer's chargeable benefits divided by its compensation base, each accumulated over the three year period ending with the prior June 30.

Unallocated Experience Unallocated experience includes benefits that cannot be charged or credited to a particular employer. The purpose is to ensure that these benefits are equitably shared by active employers. Specifically, each employer's share of unallocated costs is in the same proportion to the system unallocated costs as its one-year compensation base is to the annual

system compensation base. The pro-rated amount of unallocated charges is included in the net benefits charged each employer, for purposes of computing the reserve ratio. In this way, unallocated costs are factored into each employer's allocated experience.

Risk Sharing

Risk sharing is designed to recoup for the system, taxes that are lost from employers at the maximum contribution rate. See pooled charge ratio in the glossary. The shortfall incurred by the system because of employer maximum tax rates is spread among employers not at the maximum rate. The risk-shared factor is added to the basic contribution rate of each employer not at the maximum rate.

Administrative Expense Rate

All employers are charged an administrative expense contribution rate of 0.65 percent to cover the costs of administering the RUIA. By law, this is the minimum rate an employer can pay. The administrative expense contribution rate is added to the base contribution rate.

Pooled Credit Ratio/Surcharge Rate

The pooled credit ratio and the surcharge rate maintain an adequate level of funding for the RUIA program. The pooled credit ratio reduces employer tax rates whenever there are surplus funds in the RUI account. If the RUI account balance as of June 30 exceeds a specified maximum amount, tax rates are reduced for employers not at the maximum rate. The surcharge increases tax rates to provide additional funding whenever the RUI account balance is less than a specified minimum amount. These maximum and minimum levels, or trigger amounts, (set initially at \$250 million and \$100 million, respectively) are indexed by comparing the system compensation base as of a given June 30 to the system compensation base as of June 30, 1991.

When the amount to the credit of the RUI account is above the indexed \$250 million amount, the excess is refunded to employers in the form of a rate reduction. The pooled credit ratio is the excess over \$250 million (or indexed higher amount), divided by the system compensation base. Each employer's tax rate, prior to application of individual maximum and minimum limitations, is reduced by that amount.

If the amount to the credit of the RUI account as of June 30 is under \$100 million (or indexed higher amount), a surcharge rate is imposed to provide a quick infusion of funds. The maximum surcharge rate of 3.5 percent applies if the amount to the credit of the account is less than zero. This situation could occur if the account is required to borrow new funds from the Railroad Retirement Account and is unable to repay the amounts. If the RUI account balance is at least zero but less than \$50 million (indexed), the surcharge rate is 2.5 percent. A surcharge of 1.5 percent applies if the balance is \$50 million or more, but less than \$100 million (both amounts indexed).

Maximum Contribution Rate

The RUIA contribution rate, consisting of the basic rate, administrative rate, and if applicable, the surcharge or pooled credit, may not exceed 12 percent, or 12.5 percent if the 3.5 percent surcharge is in effect.

If you have questions about experience rating, please contact:

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