

# Program Letter

United States  
Railroad Retirement Board  
Office of Programs



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Circular Letter UI-C-216

Released: September 1, 1990

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TO: Chief Executive Officers

SUBJECT: Experience Rating Quarterly & Annual Notices

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

## Quarterly Notices

Form ID-40Q, Quarterly Notice to Employer, is sent approximately 3 months after the end of each calendar quarter. The notice provides the employer's net cumulative contribution balance and net cumulative benefit balance. An employer can determine its reserve balance by subtracting the net cumulative benefit balance from the net cumulative contribution balance. The reserve balance can be positive or negative, depending upon whether the employer's net cumulative contributions exceed its cumulative benefits. In general, employers whose contributions exceed the benefits paid to their employees, receive lower contribution rates. Attachment I includes an explanation of the balance amounts shown on the quarterly notices.

## Annual Notices

Two-page annual notices are mailed to employers not later than October 15 of each year. Form ID-40R, Annual Notice to Employer, provides an employer's RUIA contribution rate for the following calendar year and includes data used to calculate the rate. Form ID-40S, Annual Proclamation, provides system level amounts used to determine employer rates. These system level amounts are published yearly in the Federal Register. Employer contribution rates range from a minimum of .65 percent to a maximum of 12.0 percent, or 12.5 percent if a 3.5 percent surcharge is in effect. Attachment I includes explanations of the information provided on the annual notices.

## Contribution Rate Calculation

The formula used to calculate an employer's contribution rate is in section 8(a)(1)(C) of the RUIA and illustrated in Attachment II. It is a series of eight steps as follows:

Step 1: Compute the employer's benefit ratio to 4 decimal places (See section 8(a)(2) of the Act).

Step 2: Compute the employer's reserve ratio to 4 decimal places (See section 8(a)(4) of the Act) and subtract it from the benefit ratio.

Step 3: Subtract the pooled credit ratio, if any (See section 8(a)(12) of the Act).

Step 4: Multiply the total by 100 to obtain a percentage rate, rounded to two decimal points. If the total from Steps 1 through 3 is a negative number, it is changed to a percentage rate of zero.

Step 5: Add 0.65 to the percentage rate. This represents the administrative portion of the contribution rate. It can change only through legislation.

Step 6: Add the surcharge rate, if any (See section 8(a)(14) of the Act).

Step 7: Add the pooled charge ratio (risk-shared component), if any, computed to 4 decimal places (See section 8(a)(13) of the Act).

Step 8: Reduce the percentage rate to the maximum contribution rate, (12.0 percent or 12.5 percent, if a 3.5 percent surcharge is in effect) if it is higher than the maximum (See section 8(a)(20) of the Act).

## **Employer Records**

The Railroad Retirement Board (RRB) maintains employer records separately unless employers request, and the RRB grants, that experience be combined into a single employer record for the purpose of determining one RUIA contribution rate. In addition, the RRB may determine, on its own accord, that joint treatment is desirable in the event of a merger or successor employer relationship. When the RRB establishes a joint employer record, one employer becomes the parent, with the other employers designated as subsidiary employers. Quarterly and annual notices are sent to the parent.

## **Employers' Rights to Verify Rate Accuracy**

Under section 8(e) of the Act, an employer has the right to request information necessary to verify the accuracy of its contribution rate. The RRB will make available for inspection any information necessary to verify the accuracy of an employer's contribution rate or any component of that rate, upon payment to the RRB of the cost incurred in making such information available. The amounts paid will be credited to and deposited in the RUI administrative fund.

If you have questions about this letter, or another aspect of experience rating, contact:

U. S. Railroad Retirement Board  
Office of Programs - Policy & Systems  
Experience Rating Unit  
844 N. Rush Street  
Chicago, Illinois 60611-1275

## Attachment I

The Form ID-40Q, Quarterly Notice to Employer -- Railroad Unemployment Insurance Act, is sent by the Railroad Retirement Board (RRB) to each employer to inform the employer of its net cumulative contribution balance and its cumulative benefit balance as computed through the close of the previous quarter. These two cumulative balances, which are used in computing an employer's basic contribution rate, reflect activity recorded beginning January 1, 1990 through the last day of the previous quarter.

The net cumulative contribution balance consists of:

- the total RUIA contributions paid by the employer; *minus*
- 0.65 percent of the RUIA contributions paid by the employer, deposited to the RUIA administration fund; *plus*
- the total amount by which the employer's contributions have been reduced by the application of pooled credits; *plus*
- the total amount of railroad unemployment repayment taxes (RURT) paid by the employer under section 3321(a) of the Internal Revenue Code of 1986 after the outstanding balance of loans made before October 1, 1985 under section 10(d) of the RUIA, plus interest, have been paid.

The cumulative benefit balance consists of:

- the total unemployment and sickness benefits charged to the employer as the base year employer; *minus*
- the total amount realized in recovery of such benefits charged to the employer; *plus*
- the total amount of the unallocated charges proportioned to the employer.

An employer's reserve balance can be determined at the end of any quarter, by subtracting the cumulative benefit balance from the net cumulative contribution balance.

The Form ID-40R, Annual Notice to Employer -- Railroad Unemployment Insurance Act, is sent by the Railroad Retirement Board (RRB) to each employer not later than October 15 of each year to inform the employer of its benefit ratio, reserve ratio, 1-year compensation base, 3-year compensation base, unallocated charge, and reserve balance as computed through the preceding June 30, and the contribution rate that is applicable to the employer in the following calendar year. The information provided on the annual notice is used to determine the employer's contribution rate.

The benefit ratio consists of:

- The net unemployment and sickness benefits charged to the employer in the 12 quarters ending the previous June 30; *minus*
- The total amount realized in recovery of such benefits charged to the employer in the 12 quarters ending the previous June 30; *divided by*
- The employer's 3-year compensation base.

The reserve ratio consists of:

- The employer's net cumulative contribution balance as of the preceding June 30; *minus*
- The employer's cumulative benefit balance of the preceding June 30; *divided by*
- The employer's 1-year compensation base.

The 1-year compensation base consists of the aggregate compensation with respect to which the employer has paid or is liable to pay contributions in the four calendar quarters ending June 30. The 3-year compensation base consists of the aggregate compensation paid by the employer in the twelve quarters ending such June 30.

The unallocated charge consists of:

- The employer's 1-year compensation base as of June 30; *divided by*
- The system compensation base as of June 30; *multiplied by*
- The system unallocated charge balance as of June 30.

The reserve balance is determined by subtracting the cumulative benefit balance from the net cumulative contribution balance as of June 30. The reserve balance may be positive or negative.

The Form ID-40S, Annual Proclamation -- Railroad Unemployment Insurance Act, is sent each year with the annual notice to inform each employer of the balance to the credit of the RUI account, the system compensation base, the system unallocated charge balance, as computed through the preceding June 30, and the pooled charge ratio, pooled credit ratio and surcharge rate, if any, applicable in the following calendar year. The administrative expense rate is fixed at 0.65 percent under the Act.

Balance to the credit of the RUI account includes any amounts in the account attributable to loans made under section 10(d) before October 1, 1985. Also, any amount in the RUI administration

fund in excess of \$6,000,000 is to be deemed to be part of the balance to the credit of the RUI account.

The system compensation base consists of the total amount of all employer 1-year compensation bases as of the preceding June 30.

The system unallocated charge balance consists of:

- The amount of interest paid on new loans from the railroad retirement account, should such loans become necessary; *plus*
- the net benefits paid due to a strike or work stoppage as the result of a labor dispute; *plus*
- the net benefits not charged to employers due to maximum limitations in cases of multiple base year employers; *plus*
- the net benefits paid to employees of all employers determined to be defunct after December 31, 1989; *minus*
- the contributions paid by the employers determined to be defunct; *minus*
- the amount of transfers from the RUI administration fund; *minus*
- other defined system income, such as interest, fines, penalties and unassigned receipts to the credit of the RUI account.

The system pooled charge ratio consists of:

- the total amount which would have been collected in contributions except for the application of maximum rate of 12 percent or 12.5 percent, if a surcharge rate of 3.5 percent is in effect; *minus*
- the total amount representing cases in which a negative contribution rate would have been computed except for application of minimum rate of zero; *divided by*
- the system compensation base as of June 30 (except for the 1-year compensation bases of employers whose contribution rate exceeds the maximum rate); *multiplied by 100.*

The system pooled credit ratio consists of:

- the excess amount to the credit of the RUI account; *divided by*
- The system compensation base as of June 30.

The system surcharge rate will be 1.5 percent if the balance to the credit of the RUI account as of June 30 is between \$50,000,000 and \$100,000,000 or an adjusted higher amount. A surcharge rate of 2.5 percent will be imposed if the RUI account balance is between zero and \$50,000,000. The highest surcharge rate of 3.5 percent will be imposed if the RUI account is below zero.

## **Attachment II**

### Experience Rating Contribution Rate Calculation for a Hypothetical Employer

Step 1 - Benefit Ratio = .0641

Step 2 - Minus Reserve Ratio = .0356

Step 3 - Minus Pooled Credit Ratio = .0000

Step 4 - Subtotal .0285 (x 100) = 2.85

After adjustment for minimum: 2.85

Step 5 - Plus RUIA Administration Fund: 0.65

Step 6 - Plus Surcharge Rate: 0.00

Step 7 - Plus Pooled Charge Ratio (X 100): 0.00

Computed Rate: 3.50

Step 8 - After Adjustment for Maximum 3.50

Effective Contribution Rate = 3.50