

Railroad Unemployment Insurance System

**Annual Report Required by Section 7105
of the Technical and Miscellaneous
Revenue Act of 1988**



**U.S. Railroad Retirement Board
Bureau of the Actuary
June 2017**

ANNUAL REPORT REQUIRED BY THE TECHNICAL AND MISCELLANEOUS REVENUE ACT OF 1988

I. Introduction

Section 7105 of the Technical and Miscellaneous Revenue Act of 1988 (Public Law 100-647) requires the Railroad Retirement Board to submit an annual report to the Congress on the financial status of the railroad unemployment insurance system. The report must contain recommendations for financing changes that might be advisable, specifically with regard to rates of employer contributions. This report meets the requirements of Section 7105 for 2017.

II. Recent Developments

The maximum daily benefit of \$72 for the benefit year beginning July 1, 2016 will remain the same for the benefit year beginning July 1, 2017. Beginning July 1, 2018, the maximum daily benefit rate will increase to \$77. The monthly tax base remained at \$1,455 for 2015 and 2016, and increased to \$1,545 in 2017 based on changes in the railroad retirement tier I creditable base.

Average employment in calendar year 2016 was 225,000 (subject to later revision), which is below the intermediate employment assumption in last year's report. Actual net unemployment and sickness benefits in fiscal year 2016 were \$2.8 million (2.1 percent) more than last year's projection. There is currently a 1.5 percent surcharge in calendar year 2017. This year's report predicts that there will be a surcharge of 1.5 percent in calendar year 2018 under each assumption. A surcharge of 1.5 percent in 2019 is predicted under each assumption, with a possibility of a 2.5 percent surcharge under the pessimistic assumption. A surcharge of 1.5 percent is likely for 2020 under the intermediate and pessimistic assumptions.

Benefits payable under the Railroad Unemployment Insurance Act are subject to sequestration under Public Law 99-177, the Balanced Budget and Emergency Deficit Control Act of 1985, as amended by Public Law 112-25, the Budget Control Act of 2011. Benefit estimates for fiscal years 2017 and 2018 reflect amounts after sequestration. However, since the actual sequestration percentages applicable to future years are unknown, benefit estimates for fiscal years 2019 and later are not reduced for possible sequestration.

III. Economic and Employment Assumptions

The economic and employment assumptions used in this report correspond to those used in the report required by Section 502 of the Railroad Retirement Solvency Act of 1983. Unemployment levels are the single most significant factor affecting the financial status

of the railroad unemployment insurance system. Rapidly declining employment coupled with high unemployment levels, as occurred in the early 1980s and more recently in the late 2000s, can put the system into debt. Conversely, cash balances can accumulate if employment declines are moderate and unemployment levels remain low. The experience-rating system is designed to tie individual employer contribution rates to their level of benefit claims, thereby adjusting the overall account balance to an appropriate level.

The three railroad employment assumptions used, denoted A, B, and C, are shown in Table 1 at the end of the report. Due to the unavailability of the Social Security Administration's 2017 Trustees Report, the projected tier I creditable limits, which determine both the railroad unemployment monthly wage base and the maximum daily benefit rate, are from the Office of Management and Budget March 2017 economic assumptions. Table 2 shows the tier I creditable limit, unemployment monthly earnings base and daily benefit rate assumptions.

IV. Results

Projections were made for the various components of income and outgo under each set of assumptions for the 11 fiscal years 2017-2027. The results are summarized in Table 3. Average employer contribution rates under the experience-rated contribution system are weighted averages based on the relative size of each railroad's payroll.

Table 3 consists of three tables A, B, and C, one for each employment projection. The tables show (1) contributions, excluding the portion allocated to the Railroad Unemployment Insurance Administration Fund (Fund), (2) net benefit payments, (3) other income and outgo, (4) the cash balance in the Railroad Unemployment Insurance Account (Account) at the end of each fiscal year, (5) the loan balance, if any, including accrued interest, (6) the Account balance at the end of each fiscal year, less loans due and (7) the average employer contribution rate for each calendar year.

The experience-rating formula is designed to keep the accrual balance of the Account, as of June 30, between \$100 million and \$250 million, indexed for changes in the taxable base. If the balance exceeds an indexed \$250 million, contributions are reduced by a pooled credit. If the balance falls below an indexed \$100 million but is at least an indexed \$50 million, contributions are increased by a surcharge of 1.5 percent. If the Account balance is less than an indexed \$50 million, but greater than zero, the surcharge will be 2.5 percent. A maximum surcharge of 3.5 percent applies if the Account balance is less than zero.

The June 30, 2015 balance¹ of \$120.1 million was above the indexed \$50 million surcharge threshold of \$76.5 million but below the indexed \$100 million surcharge threshold of \$152.9 million. As a result, a 1.5 percent surcharge was in effect for calendar year 2016. By June 30, 2016, the balance had fallen to \$93.8 million, which was below the indexed \$100 million surcharge threshold of \$152.9 million but above the indexed \$50 million surcharge threshold of \$76.4 million. Consequently, a 1.5 percent surcharge is in effect for calendar year 2017.

Under each assumption, the Account balance is expected to be below the indexed \$100 million threshold in June 2017, resulting in a 1.5 percent surcharge in calendar year 2018. For June 2018, the balance is expected to be below the indexed \$100 million threshold under all three assumptions, resulting in a 1.5 percent surcharge in 2019. A 1.5 percent surcharge is likely for 2020 under the intermediate and pessimistic assumptions. Surcharges of 1.5 percent will occur intermittently thereafter. Under the pessimistic employment assumption C, a small, short-term cash flow problem is possible during fiscal year 2019, with full repayment of the loan by the end of the year. The highest average contribution rate in the 11-year projection period is under employment assumption C, where it rises to 5.53 percent for calendar year 2019. This is well below the 12 percent maximum rate allowable.

Administrative expenses are assumed to be above current levels in every fiscal year. Nevertheless, the 0.65 percent of taxable payroll allocated to the Fund is sufficient to finance administrative expenses during the projection period. When the accrual balance in the Administration Fund exceeds \$6 million at the end of a fiscal year, excess funds are transferred to the Account early in the next fiscal year. Under all employment assumptions, the accrual balance in the Administration Fund exceeds \$6 million at the end of each year in the 11-year projection period.

V. Recommendation

As stated in the introduction, the Congress directed the Railroad Retirement Board to make recommendations for financing changes that might be advisable, specifically with regard to rates of employer contributions.

No financing changes are recommended at this time. Projections under three different employment assumptions indicate that experience-based contribution rates will respond to fluctuating employment and unemployment levels and thereby maintain fund solvency.

¹ The balance referred to here and in the following paragraph is the accrual balance of the Account as of June 30, on which calculations of pooled credits and surcharges are based. Cash balances shown on Tables 3A-C are not used in these calculations. June 30 accrual balances are shown in Table 4.

Table 1: Employment Assumptions Used in 2017 Report

Calendar Year	Average Employment (thousands)		
	A	B	C
2016	225	225	225
2017	224	221	218
2018	223	218	211
2019	222	214	205
2020	221	211	199
2021	220	208	193
2022	219	204	188
2023	219	201	182
2024	218	198	177
2025	217	195	171
2026	216	192	166
2027	215	189	162

Assumptions A and B reflect the stability of employment in passenger service (Amtrak and commuter service) as distinguished from freight service. Assumption A has the most optimistic employment of the three assumptions. Assumption B is intended to provide a "moderate" assumption. Assumption C, the most pessimistic, has declines in both passenger and freight employment.

Passenger employment is assumed to remain level at 47,000 under assumptions A and B, and to decline by 500 each year under assumption C. Non-passenger employment is assumed to decline at a constant annual rate of 0.5 percent, 2.0 percent and 3.5 percent under assumptions A, B and C, respectively.

**Table 2: Annual Tier I Creditable Limit, Monthly RUI
Taxable Limit, and Maximum Daily Benefit Rate**

Calendar Year	Annual Tier I Limit	Monthly RUI Limit	Maximum Daily Benefit Rate [1]
2016	\$118,500	\$1,455	\$72
2017	127,200	1,545	72
2018	130,200	1,580	77
2019	135,000	1,630	79
2020	139,800	1,680	81
2021	145,800	1,745	84
2022	152,400	1,815	87
2023	159,000	1,885	90
2024	166,200	1,960	94
2025	173,400	2,035	98
2026	181,200	2,115	101
2027	189,600	2,205	105

[1] Effective for registration periods beginning after June 30 in the calendar year.

Table 3A. Progress of the Railroad Unemployment Insurance Account Under Assumption A
(Dollar Amounts in Millions)

Fiscal Year	Account Contributions [1]	Net Benefit Payments [2]	Other Income and Outgo [3]	Account Cash Balance Year End	Loan Balance Year End [4]	Account Cash Balance Less Loans Due Year End	Calendar Year	Average Employer Contribution Rate (Percent)
2017	\$99.2	\$127.2	\$12.6	\$53.6	\$0.0	\$53.6	2017	3.22
2018	119.1	98.5	11.8	86.0	0.0	86.0	2018	3.77
2019	138.1	107.2	14.9	131.8	0.0	131.8	2019	3.98
2020	113.9	99.2	17.3	163.8	0.0	163.8	2020	2.52
2021	62.6	101.6	18.5	143.3	0.0	143.3	2021	1.56
2022	59.6	104.9	18.9	116.8	0.0	116.8	2022	2.27
2023	98.4	108.2	19.8	126.8	0.0	126.8	2023	3.07
2024	117.1	111.8	21.8	153.9	0.0	153.9	2024	2.89
2025	98.6	116.2	23.8	160.1	0.0	160.1	2025	2.21
2026	83.7	120.4	24.7	148.1	0.0	148.1	2026	2.20
2027	101.6	123.8	25.5	151.4	0.0	151.4	2027	2.73

[1] Excludes 0.65 percent of taxable payroll allocated to the Administration Fund.

[2] In accordance with the Balanced Budget and Emergency Deficit Control Act of 1985, as amended by the Budget Control Act of 2011, the fiscal year 2017 amount reflects a reduction of 6.9% under sequestration for days of unemployment and sickness after September 30, 2016. The fiscal year 2018 amount reflects a reduction of 6.6% under sequestration for days after September 30, 2017.

[3] Income includes interest on investments and transfers from the Administration Fund of amounts in excess of \$6 million at the end of the previous fiscal year. Outgo includes funding for the Office of Inspector General.

[4] Includes accrued interest.

NOTE: Detail may not add to totals due to rounding.

Table 3B. Progress of the Railroad Unemployment Insurance Account Under Assumption B
(Dollar Amounts in Millions)

Fiscal Year	Account Contributions [1]	Net Benefit Payments [2]	Other Income and Outgo [3]	Account Cash Balance Year End	Loan Balance Year End [4]	Account Cash Balance Less Loans Due Year End	Calendar Year	Average Employer Contribution Rate (Percent)
2017	\$98.6	\$127.2	\$12.6	\$53.0	\$0.0	\$53.0	2017	3.22
2018	116.9	112.0	11.3	69.2	0.0	69.2	2018	3.77
2019	139.5	119.2	13.8	103.3	0.0	103.3	2019	4.24
2020	139.9	111.1	15.7	147.8	0.0	147.8	2020	3.70
2021	96.1	112.6	17.2	148.5	0.0	148.5	2021	2.09
2022	64.0	114.9	17.3	114.8	0.0	114.8	2022	2.12
2023	88.6	117.0	17.2	103.6	0.0	103.6	2023	3.11
2024	122.3	119.5	18.3	124.7	0.0	124.7	2024	3.50
2025	122.8	122.9	20.0	144.6	0.0	144.6	2025	3.02
2026	102.2	125.7	21.1	142.2	0.0	142.2	2026	2.53
2027	98.8	127.9	21.2	134.3	0.0	134.3	2027	2.77

[1] Excludes 0.65 percent of taxable payroll allocated to the Administration Fund.

[2] In accordance with the Balanced Budget and Emergency Deficit Control Act of 1985, as amended by the Budget Control Act of 2011, the fiscal year 2017 amount reflects a reduction of 6.9% under sequestration for days of unemployment and sickness after September 30, 2016. The fiscal year 2018 amount reflects a reduction of 6.6% under sequestration for days after September 30, 2017.

[3] Income includes interest on investments and transfers from the Administration Fund of amounts in excess of \$6 million at the end of the previous fiscal year. Outgo includes funding for the Office of Inspector General.

[4] Includes accrued interest.

NOTE: Detail may not add to totals due to rounding.

Table 3C. Progress of the Railroad Unemployment Insurance Account Under Assumption C
(Dollar Amounts in Millions)

Fiscal Year	Account Contributions [1]	Net Benefit Payments [2]	Other Income and Outgo [3]	Account Cash Balance Year End	Loan Balance Year End [4]	Account Cash Balance Less Loans Due Year End	Calendar Year	Average Employer Contribution Rate (Percent)
2017	\$97.8	\$127.2	\$12.6	\$52.2	\$0.0	\$52.2	2017	3.22
2018	114.6	145.4	10.6	32.0	0.0	32.0	2018	3.78
2019	160.5	154.3	12.0	50.2	0.0	50.2	2019	5.53
2020	188.9	140.1	13.3	112.3	0.0	112.3	2020	5.19
2021	152.9	139.8	15.1	140.5	0.0	140.5	2021	3.71
2022	103.0	140.6	15.6	118.4	0.0	118.4	2022	2.67
2023	95.3	141.3	14.9	87.3	0.0	87.3	2023	3.28
2024	127.5	142.2	14.5	87.1	0.0	87.1	2024	4.19
2025	150.6	144.1	15.4	109.0	0.0	109.0	2025	4.34
2026	141.7	145.3	16.5	121.9	0.0	121.9	2026	3.71
2027	122.9	145.7	16.6	115.7	0.0	115.7	2027	3.38

[1] Excludes 0.65 percent of taxable payroll allocated to the Administration Fund.

[2] In accordance with the Balanced Budget and Emergency Deficit Control Act of 1985, as amended by the Budget Control Act of 2011, the fiscal year 2017 amount reflects a reduction of 6.9% under sequestration for days of unemployment and sickness after September 30, 2016. The fiscal year 2018 amount reflects a reduction of 6.6% under sequestration for days after September 30, 2017.

[3] Income includes interest on investments and transfers from the Administration Fund of amounts in excess of \$6 million at the end of the previous fiscal year. Outgo includes funding for the Office of Inspector General.

[4] Includes accrued interest.

NOTE: Detail may not add to totals due to rounding.

**Table 4. June 30 Accrual Balance of the Railroad Unemployment Insurance Account
(Dollar Amounts in Millions)**

Year	Assumption A		Assumption B		Assumption C	
	Account Balance	1.5 Percent Surcharge Threshold	Account Balance	1.5 Percent Surcharge Threshold	Account Balance	1.5 Percent Surcharge Threshold
2017	\$91.2	\$143.4	\$90.5	\$143.0	\$89.5	\$142.5
2018	116.3	150.7	101.9	148.5	70.4	145.8
2019	162.9	153.9	136.4	149.8	88.5	145.0
2020	193.7	158.1	179.2	152.1	147.4	145.1
2021	174.6	162.6	180.6	154.6	175.5	145.4
2022	149.4	168.3	148.1	158.1	153.7	146.6
2023	160.2	174.3	137.8	161.9	122.7	147.9
2024	188.6	180.3	159.8	165.6	123.1	149.2
2025	195.9	186.7	180.3	169.5	145.1	150.5
2026	185.0	193.1	178.2	173.3	157.3	151.7
2027	190.0	200.1	171.9	177.5	151.5	153.2

The June 30, 2016 accrual balance was \$93,849,116.28. The indexed 1.5 percent surcharge threshold was \$152,883,169.00 and the indexed 2.5 percent surcharge threshold was \$76,441,584.50.

The experience rating system provides for a surcharge in the employer contribution rate when the Railroad Unemployment Insurance Account balance falls below certain thresholds. The 1.5 percent surcharge threshold is the greater of \$100 million or the amount that bears the same ratio to \$100 million as the system compensation base as of that June 30 bears to the system compensation base as of June 30, 1991. The 2.5 percent surcharge threshold (not shown) is indexed from a \$50 million base.