

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 and Research
June 2018**

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 2018.

II. Recent Developments

The maximum daily benefit of \$72 for the benefit year beginning July 1, 2017 will increase to \$77 for the benefit year beginning July 1, 2018. Beginning July 1, 2019, the maximum daily benefit rate will increase to \$78. The monthly tax base was \$1,455 for 2016, and \$1,545 in 2017 and increased to \$1,560 in 2018, based on changes in the railroad retirement tier I creditable base.

Average employment in calendar year 2017 was 223,000 (subject to later revision), which is between the intermediate and optimistic employment assumptions in last year's report. There is currently a 1.5 percent surcharge in calendar year 2018. This year's report predicts that there will be a surcharge of 1.5 percent in calendar years 2019 and 2020, under each assumption. Under the intermediate and pessimistic assumptions, the surcharge is expected to continue through 2021.

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 2018 and 2019 reflect amounts after sequestration. However, since the actual sequestration percentages applicable to future years are unknown, benefit estimates for fiscal years 2020 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. 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 December 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 2018-2028. 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 system compensation 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, 2016 balance¹ of \$93.8 million was above the indexed \$50 million

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.

surcharge threshold of \$76.4 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 2017. By June 30, 2017, the balance had risen to \$97.7 million, which was below the indexed \$100 million surcharge threshold of \$146.3 million but above the indexed \$50 million surcharge threshold of \$73.1 million. Consequently, a 1.5 percent surcharge is in effect for calendar year 2018.

Under each assumption, the Account balance is expected to be below the indexed \$100 million threshold in June 2018, resulting in a 1.5 percent surcharge in calendar year 2019. 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 probable for 2020 under the intermediate and pessimistic assumptions. Surcharges of 1.5 percent will occur intermittently thereafter. There are no loans expected even under the pessimistic assumption. The highest average contribution rate in the 11-year projection period is under employment assumption C, where it rises to 4.03 percent for calendar year 2023. 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.

Table 1: Employment Assumptions Used in 2018 Report

Calendar Year	Average Employment (thousands)		
	A	B	C
2017	223	223	223
2018	222	220	216
2019	221	216	210
2020	220	213	204
2021	220	209	198
2022	219	206	192
2023	218	203	186
2024	217	200	181
2025	216	197	176
2026	215	194	171
2027	215	191	166
2028	214	188	161

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 48,000 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

**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]
2017	\$127,200	\$1,545	\$72
2018	128,400	1,560	77
2019	132,300	1,600	78
2020	135,900	1,640	80
2021	140,700	1,690	82
2022	146,700	1,750	84
2023	153,600	1,825	87
2024	161,400	1,910	91
2025	169,500	1,995	95
2026	177,900	2,085	99
2027	186,900	2,180	104
2028	196,500	2,280	109

[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)
2018	\$108.0	\$104.4	\$11.7	\$88.9	\$0.0	\$88.9	2018	3.34
2019	113.6	100.9	10.5	112.1	0.0	112.1	2019	3.38
2020	116.0	103.8	14.2	138.5	0.0	138.5	2020	3.34
2021	86.5	101.4	15.8	139.5	0.0	139.5	2021	1.93
2022	64.4	102.7	15.9	117.1	0.0	117.1	2022	2.22
2023	93.4	105.0	16.7	122.3	0.0	122.3	2023	3.06
2024	113.4	108.6	18.5	145.6	0.0	145.6	2024	2.91
2025	100.1	113.1	20.6	153.3	0.0	153.3	2025	2.36
2026	87.1	117.6	21.8	144.6	0.0	144.6	2026	2.25
2027	102.1	122.3	23.0	147.4	0.0	147.4	2027	2.76
2028	121.7	127.9	24.8	166.1	0.0	166.1	2028	2.80

[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 2018 amount reflects a reduction of 6.6% under sequestration for days of unemployment and sickness after September 30, 2017. The fiscal year 2019 amount reflects a reduction of 6.2% under sequestration for days after September 30, 2018.

[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)
2018	\$107.3	\$104.4	\$11.7	\$88.2	\$0.0	\$88.2	2018	3.34
2019	111.8	105.9	10.1	104.2	0.0	104.2	2019	3.39
2020	115.4	112.8	13.4	120.2	0.0	120.2	2020	3.46
2021	105.9	113.0	14.3	127.5	0.0	127.5	2021	2.88
2022	88.3	113.4	14.7	117.1	0.0	117.1	2022	2.55
2023	94.5	114.7	14.9	111.9	0.0	111.9	2023	3.06
2024	113.6	117.2	16.0	124.3	0.0	124.3	2024	3.28
2025	115.3	120.6	17.4	136.5	0.0	136.5	2025	3.00
2026	102.9	124.0	18.5	133.9	0.0	133.9	2026	2.62
2027	101.3	127.6	19.1	126.7	0.0	126.7	2027	2.80
2028	119.3	131.8	20.0	134.3	0.0	134.3	2028	3.21

[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 2018 amount reflects a reduction of 6.6% under sequestration for days of unemployment and sickness after September 30, 2017. The fiscal year 2019 amount reflects a reduction of 6.2% under sequestration for days after September 30, 2018.

[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)
2018	\$106.5	\$104.4	\$11.7	\$87.4	\$0.0	\$87.4	2018	3.34
2019	109.6	112.7	9.8	94.1	0.0	94.1	2019	3.40
2020	114.1	126.4	12.0	93.8	0.0	93.8	2020	3.59
2021	120.2	134.4	12.2	91.9	0.0	91.9	2021	3.72
2022	125.8	140.3	12.2	89.6	0.0	89.6	2022	3.85
2023	133.2	139.9	12.5	95.5	0.0	95.5	2023	4.03
2024	136.0	141.0	13.2	103.7	0.0	103.7	2024	3.90
2025	129.7	143.1	13.8	104.2	0.0	104.2	2025	3.63
2026	127.6	145.0	14.1	100.9	0.0	100.9	2026	3.71
2027	136.2	146.9	14.5	104.7	0.0	104.7	2027	3.94
2028	142.4	149.8	15.2	112.6	0.0	112.6	2028	3.90

[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 2018 amount reflects a reduction of 6.6% under sequestration for days of unemployment and sickness after September 30, 2017. The fiscal year 2019 amount reflects a reduction of 6.2% under sequestration for days after September 30, 2018.

[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
2018	\$115.6	\$149.3	\$114.9	\$148.8	\$113.9	\$148.3
2019	139.5	150.9	132.1	148.7	122.5	146.1
2020	167.0	154.2	149.4	150.1	125.0	145.3
2021	167.8	157.6	156.5	151.7	124.4	144.8
2022	146.6	162.0	146.4	154.1	123.3	145.0
2023	153.3	167.4	142.2	157.4	129.6	146.0
2024	178.3	174.1	155.7	161.7	138.5	147.9
2025	187.4	181.3	168.8	166.6	139.6	150.2
2026	180.5	188.7	167.5	171.4	137.1	152.3
2027	185.6	196.5	162.0	176.4	141.8	154.6
2028	206.2	204.6	171.1	181.7	150.2	156.9

The June 30, 2017 accrual balance was \$97,732,177.41. The indexed 1.5 percent surcharge threshold was \$146,285,149.00 and the indexed 2.5 percent surcharge threshold was \$73,142,574.50.

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.