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 2019

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 2019.

II. Recent Developments

The maximum daily benefit of $77 for the benefit year beginning July 1, 2018 will increase to $78 for the benefit year beginning July 1, 2019. Beginning July 1, 2020, the maximum daily benefit rate will increase to $80. The monthly tax base was $1,545 for 2017, and $1,560 in 2018 and increased to $1,605 in 2019, based on changes in the railroad retirement tier I creditable base.

Average employment in calendar year 2018 was 223,000 (subject to later revision), which is higher than the optimistic employment assumptions in last year's report. There is currently a 1.5 percent surcharge in calendar year 2019. This year's report predicts that there will not be a surcharge in calendar year 2020 and a 1.5 percent surcharge in calendar years 2021 and 2022.

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 2019 and 2020 reflect amounts after sequestration. However, since the actual sequestration percentages applicable to future years are unknown, benefit estimates for fiscal years 2021 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 Social Security Administration's April 2019 Trustees Report, intermediate set of 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 2019-2029. 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, 2017 balance[1] of \$97.7 million was above the indexed \$50 million surcharge threshold of \$73.1 million but below the indexed \$100 million surcharge threshold of \$146.3 million. As a result, a 1.5 percent surcharge was in effect for calendar year 2018. By June 30, 2018, the balance had risen to \$118.1 million, which was below the indexed \$100 million surcharge threshold of \$150.1 million but above the indexed \$50 million surcharge threshold of \$75.1 million. Consequently, a 1.5 percent surcharge is in effect for calendar year 2019.

Under each assumption, the Account balance is expected to be above the indexed \$100 million threshold in June 2019, showing no surcharge[2] in calendar year 2020. For June 2020, the balance is expected to be below the indexed \$100 million threshold under all three assumptions, resulting in a 1.5 percent surcharge in 2021. A 1.5 percent surcharge is expected for 2022 under all 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 2022, with full repayment of the loan by the end of the fiscal year 2022. The highest average contribution rate in the 11-year projection period is under employment assumption C, where it rises to 4.97 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.

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[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.

[2] The difference between the expected June 30, 2019 accrual balance and the expected 1.5 percent surcharge threshold is quite small, between \$5.0 million and \$5.7 million. Consequently, based on actual amounts determined later this year, it is entirely possible that there will be a 1.5 percent surcharge in calendar year 2020. If that were to happen, we would expect no surcharge in calendar year 2021, followed by a 1.5 percent surcharge in 2022 under all assumptions. In this scenario, the loans under assumption C are repaid by the end of fiscal year 2023.

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 2019 Report

Calendar Year	Average Employment (thousands) A	B	C
2018	223	223	223
2019	222	220	217
2020	221	216	210
2021	221	213	204
2022	220	210	198
2023	219	206	192
2024	218	203	187
2025	217	200	181
2026	216	197	176
2027	216	194	171
2028	215	191	166
2029	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 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]
2018	$128,400	$1,560	$77
2019	132,900	1,605	78
2020	136,800	1,650	80
2021	142,200	1,705	82
2022	149,100	1,780	85
2023	155,700	1,850	89
2024	162,300	1,915	92
2025	168,900	1,985	95
2026	175,800	2,060	99
2027	183,300	2,140	103
2028	191,100	2,220	107
2029	199,200	2,310	111

[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 Contri-butions [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)
2019	$107.3	$85.8	$11.5	$133.9	$0.0	$133.9	2019	3.06
2020	60.7	89.1	12.1	117.6	0.0	117.6	2020	1.06
2021	57.6	98.1	15.2	92.4	0.0	92.4	2021	2.80
2022	114.2	101.7	16.4	121.3	0.0	121.3	2022	3.44
2023	120.4	105.5	19.0	155.3	0.0	155.3	2023	2.90
2024	84.2	109.6	20.7	150.6	0.0	150.6	2024	1.82
2025	67.2	112.9	20.9	125.9	0.0	125.9	2025	2.11
2026	100.0	116.3	21.6	131.2	0.0	131.2	2026	2.97
2027	126.5	120.7	23.7	160.8	0.0	160.8	2027	2.97
2028	116.5	125.1	25.8	178.0	0.0	178.0	2028	2.47
2029	99.1	129.4	27.1	174.9	0.0	174.9	2029	2.23

[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 2019 amount reflects a reduction of 6.2% under sequestration for days of unemployment and sickness after September 30, 2018. The fiscal year 2020 amount reflects a reduction of 5.9% under sequestration for days after September 30, 2019.

[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 Contri-butions [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)
2019	$106.7	$85.8	$11.5	$133.3	$0.0	$133.3	2019	3.06
2020	60.1	98.8	11.7	106.3	0.0	106.3	2020	1.07
2021	59.6	108.8	14.1	71.3	0.0	71.3	2021	2.97
2022	122.0	113.8	14.6	94.1	0.0	94.1	2022	3.83
2023	143.0	117.1	16.9	137.0	0.0	137.0	2023	3.77
2024	118.2	120.2	18.8	153.8	0.0	153.8	2024	2.64
2025	81.2	122.4	19.1	131.8	0.0	131.8	2025	2.10
2026	87.1	124.7	18.9	113.1	0.0	113.1	2026	2.80
2027	124.4	127.9	19.5	129.2	0.0	129.2	2027	3.53
2028	137.5	131.0	21.3	157.0	0.0	157.0	2028	3.22
2029	115.8	134.0	22.7	161.6	0.0	161.6	2029	2.57

[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 2019 amount reflects a reduction of 6.2% under sequestration for days of unemployment and sickness after September 30, 2018. The fiscal year 2020 amount reflects a reduction of 5.9% under sequestration for days after September 30, 2019.

[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 Contri-butions [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)
2019	$105.9	$85.8	$11.5	$132.5	$0.0	$132.5	2019	3.06
2020	59.2	106.8	11.2	96.1	0.0	96.1	2020	1.07
2021	59.8	128.0	12.7	40.7	0.0	40.7	2021	3.09
2022	140.8	144.3	12.2	49.4	0.0	49.4	2022	4.89
2023	182.2	145.8	13.9	99.8	0.0	99.8	2023	4.97
2024	163.6	147.7	15.8	131.5	0.0	131.5	2024	3.97
2025	121.0	148.2	16.3	120.7	0.0	120.7	2025	2.95
2026	106.3	148.8	15.7	93.9	0.0	93.9	2026	3.25
2027	132.6	150.5	15.3	91.4	0.0	91.4	2027	4.11
2028	157.6	152.0	16.0	113.0	0.0	113.0	2028	4.34
2029	152.5	153.2	16.9	129.3	0.0	129.3	2029	3.82

[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 2019 amount reflects a reduction of 6.2% under sequestration for days of unemployment and sickness after September 30, 2018. The fiscal year 2020 amount reflects a reduction of 5.9% under sequestration for days after September 30, 2019.

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

[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
2019	$158.5	$152.8	$157.8	$152.4	$156.8	$151.8
2020	146.3	156.2	136.1	153.9	126.8	151.2
2021	123.4	160.2	103.0	156.0	75.2	151.0
2022	153.7	165.3	127.1	159.1	87.2	151.8
2023	189.0	171.7	170.7	163.3	138.0	153.7
2024	185.4	177.6	187.9	167.0	169.6	154.9
2025	162.2	183.2	166.8	170.2	158.9	155.7
2026	168.9	189.2	149.3	173.8	132.8	156.7
2027	199.5	195.6	166.3	177.7	130.5	157.9
2028	218.0	202.4	194.7	181.7	152.2	159.2
2029	216.4	209.3	200.1	185.8	168.5	160.5

The June 30, 2018 accrual balance was $118,064,725.00. The indexed 1.5 percent surcharge threshold was $150,144,911.00 and the indexed 2.5 percent surcharge threshold was $75,072,455.50.

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.