



FROM THE DESK OF

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RRB Financial Reports

As required by law, the Railroad Retirement Board (RRB) submits annual financial reports and triennial actuarial valuations to Congress on the financial condition of the railroad retirement system, as well as annual financial reports on the railroad unemployment insurance system. These reports must include recommendations for any financing changes that may be advisable in order to ensure the solvency of the systems. In June, the RRB submitted its 28th Actuarial Valuation of the railroad retirement system's assets and liabilities, and its financial report on the railroad unemployment insurance system.

The following questions and answers summarize the findings of these reports.

1. What were the assets of the railroad retirement and railroad unemployment insurance systems last year?

As of September 30, 2020, total railroad retirement system assets, comprising assets managed by the National Railroad Retirement Investment Trust (NRRIT) and the railroad retirement system accounts at the Treasury, equaled \$25.9 billion. The Railroad Retirement and Survivors' Improvement Act of 2001 established the NRRIT to manage and invest railroad retirement assets. The cash balance of the railroad unemployment insurance system was \$38.1 million at the end of fiscal year 2020.

2. What methods did the RRB use in forecasting the financial condition of the railroad retirement system?

In the valuation, the RRB projected the various components of income and outgo of the railroad retirement system under optimistic, moderate and pessimistic employment assumptions for the 75 calendar years 2020-2094 (projection period). The RRB combined the projections of these components and calculated anticipated investment income to project balances in the railroad retirement accounts at the end of each year of the projection period.

3. What did the RRB conclude in the 28th Actuarial Valuation of the financial condition of the railroad retirement system?

The RRB concluded in the report that, barring a sudden, unanticipated, large decrease in railroad employment or substantial investment losses, the railroad retirement system will experience no cash-

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flow problems during the next 34 years under any employment assumption. While the RRB indicated no cash-flow problems occur throughout the 75-year projection period under the optimistic and moderate assumptions, they do occur under the pessimistic assumption, but not until 2055.

Under the current financing structure, actual levels of railroad employment and investment return over the coming years will largely determine whether corrective action is necessary.

4. How do the results of the 28th Actuarial Valuation compare with financial reports of previous years, including the 27th Actuarial Valuation?

The 27th Actuarial Valuation, issued in 2018, addressed railroad retirement financing for the 75 calendar years 2017-2091 and concluded that cash-flow problems arose only under the pessimistic assumption, and then not until 2047.

The 2019 financial report which addressed the 25 calendar years 2019-2043 and the 2020 report, covering the 25 calendar years 2020-2044, both indicated no cash-flow problems occur throughout their respective 25-year projection periods under any of the assumptions.

5. Did the RRB recommend any railroad retirement payroll tax rate changes in the 28th Actuarial Valuation of the railroad retirement system?

The RRB did not recommend any change in the rate of tax imposed by current law on employers and employees in the report.

6. What methods did the RRB use to evaluate the financial condition of the railroad unemployment insurance system?

The economic and employment assumptions that the RRB used in the unemployment insurance report correspond to those used in the 28th Actuarial Valuation of the retirement system. The RRB made projections for various components of income and outgo under optimistic, moderate and pessimistic employment assumptions for the period 2021-2031.

7. What were the RRB's findings in the 2021 report on the financial condition of the railroad unemployment insurance system?

The RRB's 2021 railroad unemployment insurance financial report was also generally favorable. Even as maximum benefit rates increase 41 percent (from \$80 to \$113) from 2020 to 2031, the RRB projected that the unemployment insurance system's experience-based contribution rates will respond to fluctuating employment and unemployment levels and, with short-term borrowing, maintain fund solvency. (Under experience-rating provisions, the RRB determines each employer's contribution rate based on changing benefit levels.)

Due to a short-term cash flow problem, the Railroad Retirement Account provided \$120 million in loans to the Unemployment Insurance Account during fiscal years 2020 and 2021. These loans and any additional loans predicted under the pessimistic employment assumption are expected to be fully repaid by the end of fiscal year 2022.

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Unemployment levels are the single most significant factor affecting the financial status of the railroad unemployment insurance system. However, the system's experience-rating provisions and its surcharge trigger for maintaining a minimum balance help ensure financial stability during periods of adverse economic conditions.

In calendar year 2021, a 2.5 percent surcharge has been imposed. Due to high unemployment and sickness levels and a decline in employment caused by the COVID-19 pandemic, a 3.5 percent surcharge is projected in calendar year 2022 under each employment assumption. For calendar year 2023, a 1.5 percent surcharge is predicted under the optimistic and moderate assumptions, or a 2.5 percent surcharge under the pessimistic assumption. No surcharge is likely for 2024 under all assumptions. Surcharges of 1.5 percent will occur intermittently thereafter.

8. Did the RRB recommend any financing changes in the 2021 report on the railroad unemployment insurance system?

The RRB did not recommend any financing changes in the report.

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The RRB's 2021 financial reports on the retirement and unemployment insurance systems are available in their entirety at **RRB.gov** under the **Financial and Reporting** tab (**Financial, Actuarial and Statistical**), as is information on the National Railroad Retirement Investment Trust, including its quarterly and annual reports.