

**UNITED STATES  
RAILROAD RETIREMENT BOARD**

**2003 Annual Report**

*For Fiscal Year Ended September 30, 2002*

# U.S. Railroad Retirement Board

## *Mission Statement*

The Railroad Retirement Board's mission is to administer retirement/survivor and unemployment/sickness insurance benefit programs for railroad workers and their families under the Railroad Retirement Act and the Railroad Unemployment Insurance Act. These programs provide income protection during old age and in the event of disability, death or temporary unemployment and sickness. The Railroad Retirement Board also administers aspects of the Medicare program and has administrative responsibilities under the Social Security Act and the Internal Revenue Code.

In carrying out its mission, the Railroad Retirement Board will pay benefits to the right people, in the right amounts, in a timely manner, and will take appropriate action to safeguard our customers' trust funds. The Railroad Retirement Board will treat every person who comes into contact with the agency with courtesy and concern, and respond to all inquiries promptly, accurately and clearly.

*If you have any comments or suggestions regarding the presentation of information in this publication, please let us know. You can fax us at 312-751-7154, e-mail us at [opa@rrb.gov](mailto:opa@rrb.gov) or write us at the following address:  
Office of Public Affairs, U.S. Railroad Retirement Board,  
844 North Rush Street, Chicago, IL 60611-2092.*

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**Visit the Railroad Retirement Board's Web Site at  
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# THE REPORT IN BRIEF

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*Railroad retirement and unemployment insurance benefits totaling more than \$8.7 billion were paid by the Railroad Retirement Board to approximately 719,000 beneficiaries in fiscal year 2002. Financial reports issued in 2003 on the solvency of the railroad retirement and railroad unemployment insurance systems were both favorable. The Railroad Retirement and Survivors' Improvement Act of 2001 was signed into law December 21, 2001, resulting in extensive benefit and financing changes.*

## **Benefits and Beneficiaries**

**B**enefits paid under the Railroad Retirement and Railroad Unemployment Insurance Acts totaled more than \$8.7 billion in the fiscal year ending September 30, 2002. Retirement and survivor benefits were paid by the Railroad Retirement Board to some 684,000 beneficiaries during the fiscal year, of whom 636,000 were on the Board's annuity rolls at the end of the year. Some 39,000 railroad employees were paid unemployment and/or sickness insurance benefits. About 5,000 beneficiaries received payments under both the Railroad Retirement Act and the Railroad Unemployment Insurance Act.

Retirement and survivor benefit payments of \$8.6 billion during the 2002 fiscal year were \$232 million more than payments in the prior year. Employee and spouse annuitants were paid over \$6.5 billion, accounting for 76 percent of the total payments. Employees received over \$3.8 billion in age annuities, \$1.6 billion in disability annuities and \$67 million in supplemental annuities, while spouses and divorced spouses received over \$1 billion. Survivors were paid \$2.1 billion in annuities and \$5 million in lump-sum benefits. The total number of beneficiaries who received retirement and survivor benefits declined by more than 16,000 from fiscal year 2001.

Gross unemployment and sickness benefits paid in fiscal year 2002 totaled \$137.4 million. Net benefits totaled nearly \$98.6 million after adjustment for recoveries of benefit payments, including injury settlements, some of which were made in prior years. Total gross and net benefit payments increased by approximately \$9.9 million and \$3.8 million, respectively, from the preceding year. Gross unemployment benefits totaling \$52.7 million (\$49.2 million net) were paid to 17,300 claimants, while gross sickness benefits of \$84.7 million (\$49.4 million net) were paid to 23,800 claimants.

## Financial Reports

The Board's 22nd triennial actuarial valuation, submitted to Congress in June 2003, was generally favorable. The valuation concluded that, barring a sudden, unanticipated, large drop in railroad employment, or substantial investment losses, the railroad retirement system will experience no cash-flow problems during the next 19 years. The long-term stability of the system, however, is not assured. Under the current financing structure, actual levels of railroad employment and investment return over the coming years will determine whether additional corrective action is necessary.

The Board's 2003 railroad unemployment insurance financial report was also generally favorable. Even as projected maximum benefit rates increase 44 percent from \$52 to \$75 from 2002 to 2013, experience-based contribution rates maintain solvency. The small loan made in fiscal year 2002 was repaid in entirety in May 2003, and no new loans are anticipated even under the most pessimistic assumption. The report also predicted average employer contribution rates well below the maximum throughout the projection period, although there may be a periodic resumption of the surcharge required to maintain a minimum account balance.

No increases in the tax rates provided under current law were recommended by the Board for the railroad retirement or unemployment insurance systems. The 22nd actuarial valuation and the 2003 railroad unemployment insurance financial report are reprinted at the back of this *Annual Report*.

## Officials

On May 23, 2003, the Senate confirmed President Bush's appointment of Michael S. Schwartz as Chairman of the U.S. Railroad Retirement Board for a term expiring in August 2007. He succeeds Cheryl T. Thomas. A long-time official with the State of Illinois, Mr. Schwartz previously served as the Director of the Illinois Department of Central Management Services which provides procurement, data processing and communication, personnel, property management, and administration of State employee benefit plans to State and local government agencies.

V. M. Speakman, Jr. continues to serve as Labor Member of the Board. He was first appointed to the Board in 1992, reappointed to a second term of office in 1995, and then to a third term in 2000. Mr. Speakman previously served as President of the Brotherhood of Railroad Signalmen.

Jerome F. Keever continues to serve as Management Member of the Board. He was first appointed to the Board in 1992, reappointed to a second term of office in 1995, and to a third term in 2000. Before his appointment, Mr. Keever was Vice President and Corporate Controller of the former Santa Fe Pacific Corporation.

## Legislation

The Board successfully completed implementation of the Railroad Retirement and Survivors' Improvement Act of 2001. The legislation, described in detail in the 2002 *Annual Report*, liberalized early retirement benefits for 30-year employees and their spouses, eliminated a cap on monthly retirement and disability benefits, lowered the minimum service requirement from 10 years to 5-9 years, if at least 5 years were after 1995, and provided increased benefits for some widow(er)s. Financing sections in the law provided for adjustments in the payroll tax rates paid by employers and employees, and the repeal of a supplemental annuity work-hour tax.

The legislation also provided for the transfer of railroad retirement trust funds from the Railroad Retirement Accounts in the U.S. Treasury to a new National Railroad Retirement Investment Trust, whose Board of seven Trustees is empowered to invest Trust assets in nongovernmental assets, such as equities and debt, as well as in governmental securities. During 2002, Trustees and staff were appointed and the Trust officially began operations.

For the Board, implementation of the Act included, among other things, significant changes to over 30 mainframe and PC-based computer systems, the development of new automated mass benefit adjustment operations, and the release of over 255,000 letters. Benefit increases were awarded to over 46,000 widow(er)s and nearly 14,000 employees and spouses.

## Service

In 2002, the Board participated in the American Customer Satisfaction Index survey for the second time. The survey annually measures national customer satisfaction with corporate and government goods and services. The Board earned a score of 75 which was 4.8 points higher than the overall Federal government score and 3.2 points higher than the comparable private sector average. The survey focused on railroad workers who recently applied for and received unemployment or sickness benefits from the Board. Government agencies use the survey to gauge their level of service and benchmark their performance for comparison with similar organizations in the private sector.

The Board's performance remained the same or improved in six of the the 11 areas of its Customer Service Plan compared to fiscal year 2001. Even with declines in five areas, the agency still met or exceeded all but two of the customer service performance targets it had set for the year in its Annual Performance Plan.

*The preceding topics, as well as others, including public information activities, equal opportunity developments, and court cases, are covered in more detail in other sections of this report.*

## Selected Data on Benefit Operations

Retirement-Survivor	Fiscal Year 2002	Fiscal Year 2001
<b>Employee age annuities</b>		
Number awarded <sup>1</sup>	11,100	6,300
Number being paid at end of period	216,000	219,600
Average being paid at end of period	\$1,496	\$1,414
<b>Employee disability annuities</b>		
Number of total disability annuities awarded	1,100	1,000
Number of occupational disability annuities awarded	4,100	3,700
Number of total disability annuities being paid at end of period	19,700	19,800
Number of occupational disability annuities being paid at end of period	62,000	60,700
Average total disability annuity being paid at end of period	\$1,070	\$1,018
Average occupational disability annuity being paid at end of period	\$1,800	\$1,720
<b>Supplemental employee annuities</b>		
Number awarded <sup>1</sup>	8,300	4,300
Number being paid at end of period	132,100	132,800
Average being paid at end of period	<sup>2</sup> \$42	\$42
<b>Spouse and divorced spouse annuities</b>		
Number awarded, total <sup>1</sup>	9,800	7,600
Number being paid to divorced spouses at end of period	3,500	3,600
Number being paid at end of period, total	151,000	154,700
Average being paid to divorced spouses at end of period	\$354	\$343
Average being paid at end of period, total	\$579	\$550
<b>Survivor annuities</b>		
Number awarded to aged widow(er)s	8,100	8,400
Number awarded, total	10,100	10,400
Number being paid to aged widow(er)s at end of period	160,500	167,800
Number being paid at end of period, total	194,900	203,000
<b>Average being paid at end of period to</b>		
Aged widow(er)s	\$948	\$870
Disabled widow(er)s	\$799	\$746
Widowed mothers (fathers)	\$1,228	\$1,076
Remarried widow(er)s	\$627	\$603
Divorced widow(er)s	\$633	\$606
Children	\$728	\$706
<b>Lump-sum survivor benefits awarded</b>		
Number of lump-sum death benefits	5,300	5,600
Average lump-sum death benefit	\$897	\$898
Number of residual payments	100	100
Average residual payment	\$3,219	\$3,210

## Selected Data on Benefit Operations (Continued)

Employees and Earnings <sup>3</sup>	Fiscal Year 2002	Fiscal Year 2001
<b>Average employment</b>	230,000	241,000
<b>Creditable earnings, Railroad Retirement Act (billions):</b>		
Tier I	\$13.15	\$13.31
Tier II	\$12.10	\$12.13
<b>Creditable compensation, Railroad Unemployment Insurance Act (billions)</b>	<b>\$3.10</b>	<b>\$3.11</b>
Unemployment-Sickness	Benefit Year 2001-2002	Benefit Year 2000-2001
<b>Qualified employees</b>	269,900	277,400
<b>Unemployment benefits</b>		
Net amount paid (millions)	\$47.4 <sup>4</sup> (\$49.2)	\$43.0
Beneficiaries	17,800 <sup>4</sup> (17,300)	16,700
Number of payments	103,600	96,100
Normal benefit accounts exhausted	2,700	2,200
Average payment per 2-week registration period	\$429	\$415
<b>Sickness benefits</b>		
Net amount paid (millions)	\$50.9 <sup>4</sup> (\$49.4)	\$49.5
Beneficiaries	23,000 <sup>4</sup> (23,800)	23,000
Number of payments	168,400	163,200
Normal benefit accounts exhausted	5,105	4,500
Average payment per 2-week registration period	\$445	\$426

<sup>1</sup> Larger than normal number due to the Railroad Retirement and Survivors' Improvement Act of 2001.

<sup>2</sup> Supplemental annuities awarded under the 1974 Act, which averaged \$42, constituted 98 percent of all supplemental annuities being paid.

<sup>3</sup> Except for fiscal year 2001 employment, all figures in this section are preliminary.

<sup>4</sup> Data in parentheses are for the fiscal year (October 1, 2001 - September 30, 2002).

## Office of Inspector General

**D**uring fiscal year 2002, the Office of Inspector General continued its efforts to ensure the integrity of agency programs, to combat fraud, waste and abuse and to ensure the agency provides the highest level of service to its constituents. Thirteen audit and management information reports issued during the year provided agency managers with recommendations for improvement in program operations.

Investigative activities resulted in 53 criminal convictions, 37 indictments and informations, 36 civil judgments and \$3,230,000 in recoveries, restitutions, fines, civil damages, penalties and prevention of overpayments.



# A REVIEW OF OPERATIONS

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*During fiscal year 2002, benefits totaling more than \$8 billion were paid under the Railroad Retirement and Railroad Unemployment Insurance Acts. Retirement and survivor benefits accounted for almost all of this amount. Net unemployment and sickness benefits totaled almost \$99 million.*

## RAILROAD RETIREMENT AND SURVIVOR PROGRAM

### FINANCIAL OPERATIONS

**D**uring fiscal year 2002, railroad retirement and survivor benefit programs were financed through five accounts. As a result of transfers of \$1.5 billion to the National Railroad Retirement Investment Trust, financing sources for the five accounts were less than costs by \$1.1 billion during fiscal year 2002 and the net position of the retirement trust funds decreased by \$1.1 billion to \$18.7 billion during the year. The Trust was established by the Railroad Retirement and Survivors' Improvement Act of 2001 to manage and invest railroad retirement assets.

The Social Security Equivalent Benefit (SSEB) Account, established in fiscal year 1985, pays the portion of railroad retirement benefits equivalent to a social security benefit from various income sources related to these benefits. The Railroad Retirement (RR) Account funds retirement, survivor and disability benefits, in excess of social security equivalent benefits, from payroll taxes on employers and employees and other income sources. Under the laws in effect during fiscal year 2002, the Railroad Retirement Supplemental (RRS) Account, funded by payroll taxes on employers, paid supplemental annuities to career rail employees. Effective January 1, 2002,

*(text continued on p. 9)*

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Financial information (other than when the term "paid" or "collected" is used) is presented on the accrual basis of accounting instead of the cash basis of accounting, except for the Federal income tax transfer explanation on pages 12-13. Benefit operations data presented on pages 15-25 for the railroad retirement and survivor program and pages 29-32 for the railroad unemployment and sickness insurance program are on a cash basis of accounting.

The primary difference between the two bases of accounting is that the accrual basis recognizes revenue when it is earned and expenditures when they are incurred. The cash basis, on the other hand, recognizes revenue and expenditures only when cash is received or paid.

**Railroad Retirement and Survivor Program  
Consolidated Financing Sources, Costs  
and Net Position (Millions)<sup>1</sup>**

For the Fiscal Year Ended September 30	<b>2002</b>	<b>2001 (Restated)</b>
<b>Financing Sources:</b>		
Payroll Taxes	\$4,565.3	\$4,693.9
Financial Interchange	3,281.1	3,407.3
Interest on Investments and Other Revenue	1,035.8	1,118.2
Net Gain on Sale of Securities	3.4	198.8
Federal Income Taxes	336.0	327.0
General Appropriations	146.2	160.1
Other	11.1	9.0
Transfers to the National Railroad Retirement Investment Trust	(1,502.0)	0.0
<b>Total Financing Sources</b>	<b>7,876.9</b>	<b>9,914.3</b>
<b>Costs:</b>		
Benefit Payments	8,681.4	8,418.8
Interest Expense	210.7	221.1
Salaries and Expenses <sup>2</sup>	105.4	97.2
Other	2.6	2.0
<b>Total Costs</b>	<b>9,000.1</b>	<b>8,739.1</b>
Financing Sources over Costs	(1,123.2)	1,175.2
Net Position - Beginning of Period	19,804.8	18,629.6
<b>Net Position - End of Period</b>	<b>\$18,681.6</b>	<b>\$19,804.8</b>

<sup>1</sup>Prepared on an accrual basis of accounting.

<sup>2</sup>Includes unemployment and sickness insurance salaries and expenses of approximately \$15.7 million and \$14.1 million for fiscal years 2002 and 2001, respectively.

supplemental benefit payments are paid from the Railroad Retirement Account. The Dual Benefits Payments (DBP) Account and Federal Payments (FP) Account, funded by congressional appropriations from general revenues, finance the phase-out costs of certain vested dual benefits and interest on unnegotiated checks, respectively. The five accounts together incurred \$8.7 billion in benefit obligations, net of recoveries (excluding \$1.2 billion in social security benefits which were reimbursed by the Social Security Administration) during fiscal year 2002.

## Financing Sources

For fiscal year 2002 as compared to fiscal year 2001, total financing sources for the railroad retirement and survivor program decreased by a net of \$2.04 billion (21 percent) to \$7.9 billion.

### Payroll Taxes

The primary source of income to the railroad retirement and survivor program is payroll taxes levied on covered employers and their employees. Payroll taxes amounted to almost \$4.6 billion, 48.7 percent of total financing sources and \$128.6 million less than in fiscal year 2001.

Railroad employees and employers pay tier I taxes which, by law, are the same as social security taxes. The rate of 7.65 percent is divided into 6.20 percent for retirement and 1.45 percent for Medicare hospital insurance. The maximum amount of earnings subject to the 6.20 percent rate in calendar year 2002 was \$84,900, and all earnings were subject to the 1.45 percent Medicare tax. In calendar year 2001, the maximum amount subject to the 6.20 percent tax was \$80,400, with all earnings subject to the 1.45 percent Medicare tax. Both employees and employers also pay a tier II tax to finance railroad retirement benefit payments over and above social security levels. This tax, on earnings up to \$63,000 in 2002 and \$59,700 in 2001, was 4.9 percent on employees. It was 15.6 percent on employers in 2002 and 16.1 percent in 2001.

Tier I and tier II taxes for fiscal year 2002 amounted to more than \$2 billion and \$2.5 billion, respectively. Total payroll taxes also included \$23.5 million in supplemental annuity taxes. The supplemental annuity program for career rail employees was financed on a pay-as-you-go basis by a cents-per-hour tax levied solely on railroad employers and employee representatives until December 31, 2001. The tax was repealed beginning with calendar year 2002.

### Financial Interchange Transfers

The second major source of income to the railroad retirement and survivor program consists of transfers from the social security trust funds under a financial interchange between the two systems. The financial interchange is intended to place the Social Security Old-Age, Survivors and Disability Insurance (OASDI) and Hospital Insurance (HI) Trust Funds in the same position in which they would have been had railroad

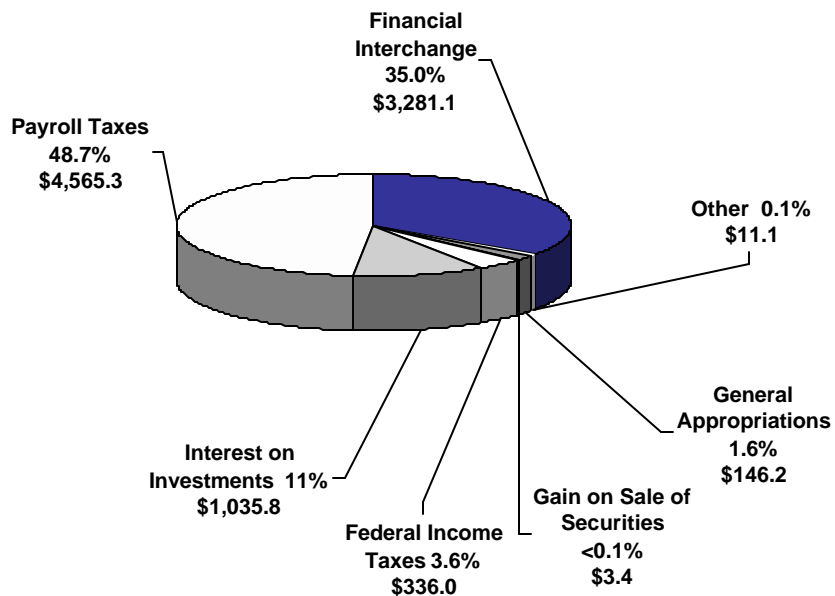
*(text continued on p. 11)*

## RETIREMENT AND SURVIVOR PROGRAM

### Financing Sources - Fiscal Year 2002 (In Millions)

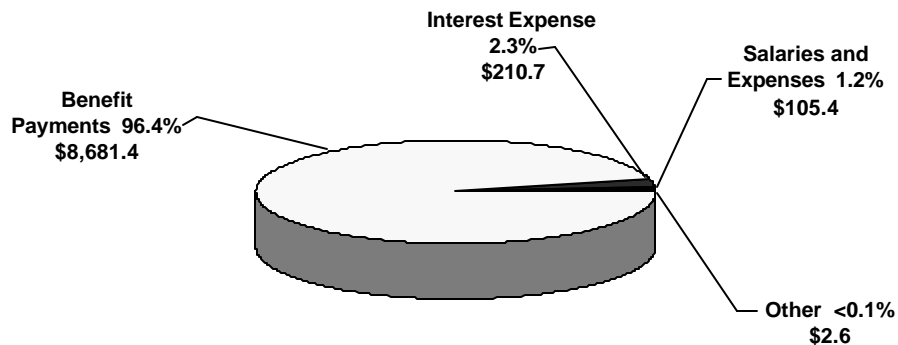
**GROSS TOTAL: \$9,378.9**

*(Excluding transfers to the National Railroad Retirement Investment Trust of \$1.502 billion)*



### Costs - Fiscal Year 2002 (In Millions)

**TOTAL: \$9,000.1**



employment been covered by the Social Security and Federal Insurance Contributions Acts. This involves computing the amount of social security taxes that would have been collected on railroad employment, and computing the amount of additional benefits which social security would have paid to railroad retirement beneficiaries during the same fiscal year.

In the computation of the latter amount, credit is given for any social security benefits actually paid to railroad retirement beneficiaries. When benefit reimbursements exceed payroll taxes, the difference, with an allowance for interest and administrative expenses, is transferred from the Social Security Trust Funds to the SSEB Account. If taxes exceed benefit reimbursements (this has not happened since 1951), a transfer would be made in favor of the Social Security Trust Funds. The net financial interchange transfer to the SSEB Account during fiscal year 2002 amounted to \$3.3 billion.

## **Investments**

Funds not needed immediately for benefit payments or administrative expenses are invested. The Railroad Retirement and Survivors' Improvement Act of 2001 provided for the transfer of railroad retirement trust funds from the Railroad Retirement Accounts to the new National Railroad Retirement Investment Trust for investment in non-governmental assets, such as equities and debt, as well as in governmental securities.

Prior to September 2002, railroad retirement funds were invested in two types of special issues of the U.S. Treasury, market-based specials and par value specials. A market-based special may be any marketable Treasury bill, note, bond or STRIPS (principal and interest component of Treasury bonds stripped through the Separate Trading of Registered Interest and Principal of Securities Program), except that notes and bonds within 6 months of maturity and STRIPS within 10 years of maturity are not currently available for purchase. The price is the same as the market price, but purchases and sales are made directly with the Treasury so as not to affect the securities market. Par value specials mature on the first working day of the month following the month of issue, and they have a yield based on the average market yield of marketable Treasury notes with over 3 years to maturity.

In fiscal year 2002, the average yield on all holdings of the retirement trust funds invested by the Railroad Retirement Board was 5.18 percent and interest on investments was \$1 billion. In addition, \$3.4 million of capital gains was realized in 2002 from the sale of securities prior to maturity.

In September 2002, near the close of the 2002 fiscal year, \$1.5 billion was transferred from the Railroad Retirement Accounts to the National Railroad Retirement Investment Trust, the first major transfer since implementation of the Railroad Retirement and Survivors' Improvement Act of 2001. Including subsequent transfers after the close of the fiscal year, transfers totaled \$19.252 billion through March 19, 2003.

## Federal Income Tax Transfers

Legislation enacted in 1983 subjecting social security and railroad retirement benefits to Federal income taxes also provided for a transfer of the tax revenues to the social security and railroad retirement systems for the payment of benefits. Revenue from income taxes on social security equivalent railroad retirement benefits is transferred to the SSEB Account.\* Revenue derived from taxing regular railroad retirement benefits in excess of social security equivalent benefits is transferred to the RR Account. Revenue from taxing the vested dual benefits funded by the general revenue appropriations previously described is transferred to the DBP Account.

At the beginning of each quarter, income tax transfers are made from Treasury general funds to the SSEB, RR and DBP Accounts. These transfers are estimates of expected tax revenues for the quarter. Adjustments are made later to reconcile the estimates for a taxable year with actual tax revenues for the year. On a cash basis, original tax transfers for fiscal year 2002 amounted to \$347 million during the year. Original transfers for fiscal year 2001 totaled \$337 million. Net income tax transfers after adjustments were \$343 million for fiscal year 2002, including a -\$4 million adjustment for calendar year 1997. There were no reconciliation adjustments in fiscal year 2001.

The table on the next page shows income tax transfers to the Accounts for taxable years 1993 through 2002, including reconciliation adjustments through 1998.

## General Appropriations

General revenue appropriations were provided by the Railroad Retirement Act of 1974 to fund the phase-out costs of certain dual railroad retirement/social security benefits considered vested prior to 1975 and by the Railroad Retirement Solvency Act of 1983 to fund interest on unnegotiated checks. The total amounts appropriated by the Congress for vested dual benefits were \$146 million for fiscal year 2002 and \$160 million for fiscal year 2001. These amounts include \$7 million and \$10 million in Federal income tax transfers for 2002 and 2001, respectively. The amount appropriated for fiscal year 2002 was 8.7 percent less than fiscal year 2001, reflecting the continuing decrease in eligibility for these benefits, which are not increased for the cost of living. The total amounts appropriated by the Congress for interest on unnegotiated checks were \$150,000 for fiscal years 2002/2003 and also \$150,000 for fiscal years 2001/2002.

## Other Financing Sources

Other financing sources consisted of \$8.1 million to be provided by the Office of Personnel Management to pay future retirement benefits to Railroad Retirement Board employees, and \$14.2 million from the railroad unemployment trust funds in transfers-

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\* Legislation enacted in 1993 subjected a larger amount of social security benefits and social security equivalent railroad retirement benefits to Federal income tax for taxpayers in higher income brackets. This provision was effective beginning with taxable year 1994, and the additional revenue raised is transferred to the Federal Hospital Insurance Trust Fund.

**Federal Income Tax Transfers by Recipient Account and  
Benefit Component, Taxable Years 1993-2002 (Millions)**

Taxable year	Revenue from taxes on		
	RRA benefits treated as SSA benefits	RRA benefits treated as private or public pensions	
	SSEB tier I benefits	Tier II & non-SSEB tier I <sup>1</sup>	Vested dual benefits
	SSEB Account <sup>2</sup>	RR Account	DBP Account <sup>3</sup>
<b>Transfers during the year</b>			
1993	\$56	<sup>4</sup> \$192	\$20
1994	52	<sup>4</sup> 197	19
1995	50	191	16
1996	57	192	14
1997	61	195	12
1998	74	196	12
1999	79	227	11
2000	102	245	12
2001	94	229	10
2002	97	252	9
<b>Reconciliation adjustments <sup>5</sup></b>			
1993 (1995, 1999 <sup>6</sup> )	-9	+8	-3
1994 (1997, 1999 <sup>6</sup> )	-4	+11	-3
1995 (1999)	+9	+27	...
1996 (1999)	+18	+34	+1
1997 (2000, 2001 <sup>7</sup> )	+25	+43	+3
1998 (2002)	+14	+47	+2

<sup>1</sup> Includes non-SSEB portion of tier I.

<sup>2</sup> Receives taxes on social security equivalent benefit (SSEB) portion of tier I.

<sup>3</sup> Receives taxes on vested dual benefit component beginning October 1, 1988.

<sup>4</sup> Includes amounts transferred in August 1994 under the Social Security Independence and Program Improvements Act: \$49 million for October-December 1992; \$192 million for 1993; and \$148 million for January-September 1994.

<sup>5</sup> The year in parentheses is the year the adjustments were made.

<sup>6</sup> Reconciliation of RR Account benefits made in July 1999.

<sup>7</sup> Reconciliation of benefits made in October 2001.

in for current budget fiscal year salaries and expenses. These financing sources were offset by transfers-out of \$4.4 million for salaries and expenses of the Board's Office of Inspector General, and a \$6.8 million decrease in unexpended appropriations.

## Costs

The Railroad Retirement Board pays all salaries and expenses under a single administrative fund (Limitation on Administration) for both the railroad retirement and survivor program and the unemployment and sickness insurance program. Consequently, of the \$105.4 million and \$97.2 million shown on page 8 for salaries and expenses in fiscal years 2002 and 2001, respectively, about \$15.7 million for fiscal year 2002 and \$14.1 million for fiscal year 2001 were for the unemployment and sickness insurance program. About \$1.2 million and \$1.1 million of the amount shown in other costs for fiscal years 2002 and 2001, respectively, were for the unemployment and sickness insurance program.

Excluding \$16.9 million from total costs of \$9,000.1 million for fiscal year 2002 and \$15.2 million from total costs of \$8,739.1 million for fiscal year 2001, total costs for the railroad retirement and survivor program for fiscal year 2002 increased \$259.3 million or almost 3 percent.

## Benefit Payments

During fiscal year 2002, railroad retirement benefit payments increased \$262.6 million or almost 3 percent to about \$8.7 billion, including \$142 million in vested dual benefits and \$67 million in supplemental annuities.

## Interest Expense

Interest expense of \$210.7 million represents interest on the financial interchange advances made by the U.S. Treasury during the fiscal year.

## Salaries and Expenses

Excluding unemployment and sickness insurance salaries and expenses of \$15.7 million for fiscal year 2002 and \$14.1 million for fiscal year 2001, salaries and expenses for the railroad retirement and survivor program were about \$89.7 million for fiscal year 2002 and about \$83.1 million for fiscal year 2001, a \$6.6 million or 7.9 percent increase. Adjusted by the \$15.7 million in salaries and expenses and \$1.2 million in other costs for the unemployment and sickness insurance program, fiscal year 2002 administrative expenses for the railroad retirement and survivor program were about 1 percent of total costs.

## Other Costs

Other costs consisted primarily of post-retirement benefits for Railroad Retirement Board employees of \$6.9 million for the railroad retirement and survivor program and \$1.2 million for the unemployment and sickness insurance program. They were offset



by a \$5.0 million reimbursement from the Centers for Medicare & Medicaid Services for Part B Medicare costs and a reimbursement of approximately \$0.5 million from the Board's Office of Inspector General for Board-incurred expenses.

## BENEFIT OPERATIONS

Retirement and survivor benefits paid, including vested dual benefits and supplemental employee annuities, totaled \$8.6 billion in fiscal year 2002, \$232 million more than in fiscal year 2001. Benefits were paid to about

Type of benefit	Amount (in millions)		Percent change
	Fiscal year 2002	Fiscal year 2001	
<b>Retirement benefits</b>			
Employee annuities			
Age	\$3,811.5	\$3,735.2	+2.0
Disability	1,608.6	1,510.1	+6.5
Supplemental	67.1	68.8	-2.4
Spouse and divorced spouse annuities	1,048.7	1,038.6	+1.0
<b>Total</b>	<b>6,535.9</b>	<b>6,352.6</b>	<b>+2.9</b>
<b>Survivor benefits</b>			
Annuities	2,102.4	2,053.4	+2.4
Lump-sum benefits	5.1	5.4	-4.5
<b>Total</b>	<b>2,107.5</b>	<b>2,058.8</b>	<b>+2.4</b>
<b>Grand total</b>	<b>\$8,643.5</b>	<b>\$8,411.4</b>	<b>+2.8</b>

*Note.*--Detail may not add to total due to rounding.

684,400 beneficiaries in fiscal year 2002. Approximately 635,900 beneficiaries were being paid at the end of the year. The adjacent table presents retirement and survivor benefit payments for fiscal years 2002 and 2001, by type of benefit, and the percent changes in payments between the 2 years.

Under the two-tier railroad retirement formulas, the tier I annuity portion approximates a social security benefit and increases by the cost-of-living percentage applied to social security benefits. The tier II portion,

which is comparable to retirement benefits paid over and above social security benefits to workers in other industries, increases by 32.5 percent of the social security percentage. Effective December 2000, tier I portions increased by 3.5 percent while tier II portions increased by 1.1 percent. Increases of 2.6 percent for tier I and 0.8 percent for tier II were effective December 2001.

The December 2000 and December 2001 cost-of-living increases provided additional benefit payments of about \$178 million in fiscal year 2002, compared to payments in fiscal year 2001.

Monthly retirement and survivor benefits being paid numbered more than 775,600 at the end of the 2002 fiscal year, about 15,100 less than at the end of the prior year. Monthly beneficiaries on the rolls declined by almost 14,200 over the year, from 650,100 to 635,900. The number of monthly benefits paid is always greater than the number of beneficiaries on the rolls, since many annuitants receive more than one type of benefit. Although the second benefit is usually a supplemental employee annuity, some employees also receive a spouse or widow(er)'s annuity.

Regular employee annuities in payment status at the end of fiscal year 2002 numbered 297,700, some 2,500 less than at the end of the previous fiscal year. The number of age annuities being paid dropped from 219,600 to 216,000 over the year, while disability annuities rose 1,100 to about 81,700. Supplemental annuities being paid dropped more than 700, numbering 132,100 at the end of the year. The number of divorced spouse annuities being paid declined by 100 to about 3,500. Spouse and divorced spouse annuities together declined by some 3,700, totaling 151,000 at year-end. Nearly 194,900 monthly survivor benefits were being paid at the end of fiscal year 2002, a decrease of 8,100 from the previous year.

## Retirement

### Regular employee annuities

Awards of regular employee annuities numbered 16,300 in fiscal year 2002, 5,400 more than in fiscal year 2001. The 50-percent increase reflects enactment of the Railroad Retirement and Survivors' Improvement Act of 2001 which liberalized early retirement benefits for 30-year employees retiring at ages 60 or 61 after 2001. Data by type of annuity awarded during the year are given in the table on this page.

Railroad employees with 10 to 29 years of creditable service, or 5 to 9 years of service if at least 5 years were after 1995, are eligible for regular annuities based on age and service at age 62. Early retirement annuity reductions are applied to annuities awarded before full retirement age--the age at which an employee can receive full benefits with no reduction

for early retirement. This ranges from age 65 for those born before 1938 to age 67 for those born in 1960 or later, the same as under social security. If an employee had any creditable railroad service before August 12, 1983, the retirement age for tier II purposes will remain 65. The reduction for early retirement is 1/180 for each of the first 36 months the employee is under full retirement age when his or her annuity begins and 1/240 for each additional month.

Employee annuities awarded in fiscal year 2002	Number	Per-cent	Average		
			Monthly amount	Years of service	Age at retirement
<b>Age</b>					
Beginning at age 65 or over	1,200	7	\$1,515	22.4	66.3
Unreduced, beginning at ages 60-64 <sup>1</sup>	8,100	50	2,574	36.0	61.1
Reduced, beginning at ages 60-64	1,800	11	1,233	18.8	62.3
<b>Disability</b>	<u>5,200</u>	<u>32</u>	2,051	24.8	53.3
<b>Total</b>	16,300	100	\$2,182	29.5	59.1

<sup>1</sup> Larger than normal number due to the Railroad Retirement and Survivors' Improvement Act of 2001 which liberalized early retirement benefits for 30-year employees retiring at ages 60 or 61 after 2001.

**Note.**-- Detail may not add to total due to rounding.

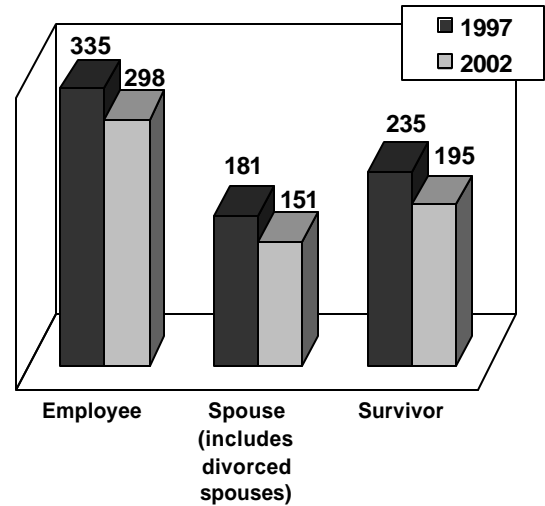
Rail employees with 30 or more years of service are eligible for regular annuities based on age and service at age 60. Certain early retirement reductions are applied if the employee first became eligible for a 60/30 annuity July 1, 1984, or later and retired at ages 60 or 61 *before 2002*. Employees who retire at ages 60-64 with at least 30 years of railroad service are referred to as 60/30 retirees.

The 1,800 reduced age annuities awarded during fiscal year 2002 included 100 reduced 60/30 awards and 1,700 awards where the employee had less than 30 years of service. Average monthly annuity amounts for the two groups were \$2,040 and \$1,191, respectively, while railroad service averaged 34 years and 18 years.

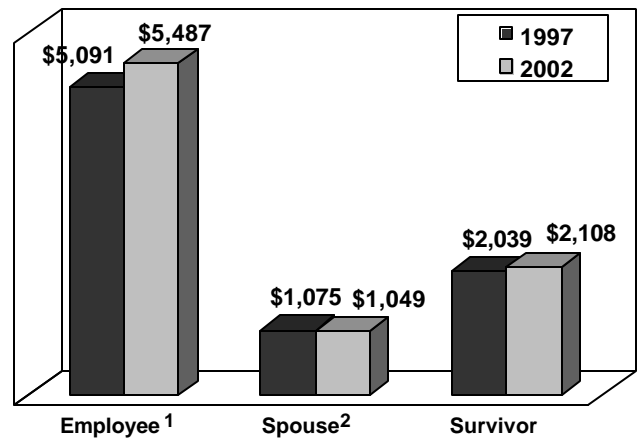
Disability awards are based either on total disability or on occupational disability. A *total disability* annuity is based on disability for all employment and, through 2001, was payable at any age to employees with at least 10 years of railroad service. Employees with 5-9 years of service, if at least 5 years were after 1995, may qualify for tier I only before retirement age on the basis of total disability if they also meet certain social security earnings requirements. An employee is considered totally disabled if medical evidence shows that a permanent physical or mental condition exists which prevents the performance of any regular work. A condition is considered to be permanent if it has lasted or may be expected to last for at least 12 months.

An *occupational disability* annuity is based on disability for the employee's regular railroad occupation and is payable to employees with a current connection with the rail industry at age 60 if the employee has 10 years of service, or at any age if the employee has at least 20 years of service. An employee is considered occupationaly disabled if the physical or mental condition is

Number of monthly beneficiaries, September 30, 1997, and 2002 (Thousands)

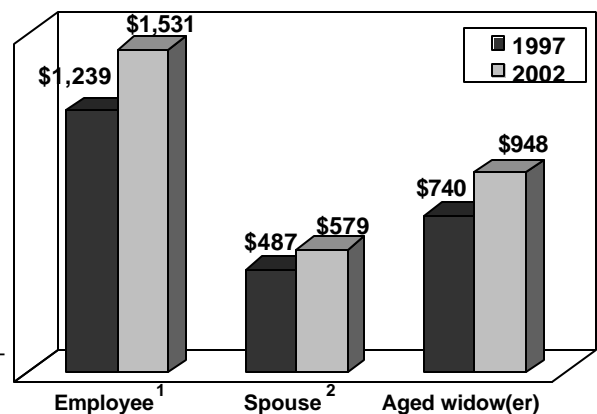


Amount of benefits paid, fiscal years 1997 and 2002 (Millions)



<sup>1</sup>Includes \$82.4 million in fiscal year 1997 and \$67.1 million in fiscal year 2002 for supplemental annuities. <sup>2</sup>Includes divorced spouses.

Average monthly amount, September 30, 1997, and 2002



<sup>1</sup>Without supplemental annuity. <sup>2</sup>Includes divorced spouses.

such that the employee is permanently disabled for work in his or her regular railroad occupation, even though the employee may be able to perform other kinds of work.

Of the year's 5,200 disability awards, 1,100 averaging \$1,339 per month were for total disability and 4,100 averaging \$2,242 were for occupational disability. Many employees who are disabled for all employment but are otherwise qualified for an occupational disability annuity are initially awarded occupational disability annuities in order to expedite payment.

An estimated three-fifths of all employees awarded disability annuities will meet the medical criteria for a disability freeze determination. The standards for freeze determinations follow social security law and are comparable to the criteria for granting total disability. Also, an employee granted a disability freeze may qualify for early Medicare coverage and lower Federal income taxes on his or her annuity.

Of the employees who were awarded regular annuities in fiscal year 2002, approximately 12,400, or 76 percent, last worked for a railroad either in the calendar year their annuity began or in the preceding year. Such retirements are termed "immediate," while those that occur 2 or more calendar years after the year of last railroad

employment are called "deferred." As a group, immediate retirees represent career railroad employees who worked in the industry until retirement. Awards based on immediate retirement averaged \$2,405 per month, compared to \$1,463 for the 3,900 awards based on deferred retirement. Immediate retirees averaged 32 years of railroad service, considerably more than the average of 21 years for deferred retirees. Of the year's awards, 51 percent of normal age retirements were immediate. While 88 percent of all 60/30 retirements were immediate, only 20 percent of the reduced age awards to employees with less than 30 years of service were immediate. Immediate retirements accounted for 83 percent of the year's disability awards.

<b>Employee annuities in current-payment status on September 30, 2002</b>	<b>Number</b>	<b>Percent</b>	<b>Average monthly amount</b>	<b>Percent immediate retirements</b>
<b>Age</b>				
Beginning at age 65 or over	34,400	12	\$1,141	47
Unreduced, beginning at ages 60-64	92,000	31	1,942	95
Reduced, beginning at ages 60-64	89,600	30	1,174	40
<b>Disability</b>	<u>81,700</u>	<u>27</u>	1,624	81
<b>Total</b>	297,700	100	\$1,531	69

**Note.** --Detail may not add to total due to rounding.

The 297,700 retired employees on the rolls as of September 30, 2002, were being paid regular monthly annuities averaging \$1,531. The table on the previous page gives data by type of annuity for these benefits.

Of the 81,700 disability annuities being paid, 19,700 were for total disability and 62,000 for occupational disability. The two types of disability annuities averaged \$1,070 and \$1,800, respectively. In fiscal year 2002, more than \$258 million was paid in total disability annuities and \$1,350 million in occupational disability annuities.

Some 205,100 employees on the rolls at the end of fiscal year 2002 were immediate retirees and their regular annuities averaged \$1,821 per month. Annuities of the 92,600 deferred retirees averaged \$888. Although their average railroad retirement annuity was much lower, a greater proportion of the deferred annuitants also received social security bene-

fits--39 percent compared to 7 percent for the immediate retirees. Moreover, the average social security benefit paid to deferred retirees was higher than that paid to immediate retirees. Combined railroad retirement and social security benefits to deferred retirees who were dual beneficiaries averaged \$1,150, while com-

Dual benefit status	Type of retirement		
	Total	Immediate	Deferred
<b>Receiving social security benefit</b>			
Number	49,400	13,400	36,000
Average monthly amount:			
Railroad retirement (regular)	\$464	\$974	\$274
Social security	788	552	875
Combined benefit	<u>1,252</u>	<u>1,526</u>	<u>1,150</u>
<b>Not receiving social security benefit</b>			
Number	248,300	191,700	56,500
Average monthly amount	\$1,743	\$1,880	\$1,279

**Note.** --Detail may not add to total due to rounding.

combined benefits to immediate retirees averaged \$1,526. The table on this page gives numbers of beneficiaries and average benefit amounts for employees on the rolls who were receiving social security benefits, and for those who were not, by type of retirement.

Regular employee annuities consist of as many as three components: tier I, tier II, and a vested dual benefit. Reductions for early age retirement are made in all components in cases where the employee retired before full retirement age with less than 30 years of railroad service. As a result of the Railroad Retirement and Survivors' Improvement Act of 2001, the early retirement reduction that was applied to the tier I component of the annuities of 30-year employees retiring between the ages of 60 and 62 is no longer applied if their annuities begin January 1, 2002, or later. The tier I component is based on the employee's combined railroad and social security covered earnings, and is reduced by the amount of any social security benefit that the employee receives. The gross tier I amounts of employees on the rolls at the end of fiscal year

2002 averaged \$1,231 per month. Tier I amounts of nearly 8,900 employees were completely offset by social security benefits. Tier I amounts being paid averaged \$1,082.

The employee tier II component is based solely on railroad earnings. Tier II amounts being paid at the end of fiscal year 2002 averaged \$461. Employees are eligible for vested dual benefits if, based on their own earnings, they met certain vesting requirements and qualified for both railroad retirement and social security benefits at the end of 1974, or, in some cases, at the end of an earlier year of last railroad service. More than 64,300 retirees were receiving vested dual benefits averaging \$157 at the end of the fiscal year.

### **Supplemental employee annuities**

Some 8,300 supplemental annuities were awarded in fiscal year 2002, 4,000 more than in fiscal year 2001. The large increase reflects enactment of the Railroad Retirement and Survivors' Improvement Act of 2001. More than 7,000 of the awards (84 percent) began concurrently with the employee's regular annuity, while the remaining 1,300 were to employees already receiving a regular annuity. Supplemental annuity awards averaged about \$42 per month; 90 percent were at the current maximum rate of \$43. Supplemental annuities are reduced for any part of a private railroad pension attributable to employer contributions. During the fiscal year, 1,500 supplemental annuities were not awarded because they were entirely offset by private pensions. Fewer than 10 of the year's awards were partially offset by pensions. For about 15 awards, the supplemental annuity was not offset because the pension was reduced.

Supplemental annuities were being paid to nearly 132,100, or 44 percent, of the retired employees on the rolls at the end of the 2002 fiscal year. These annuities averaged \$42; fewer than 2,400 of them were paid under 1937 Act amendments, which stipulated a maximum rate of \$70.

### **Spouse and divorced spouse annuities**

Annuity awards to spouses and divorced spouses of retired employees numbered 9,800 in fiscal year 2002, 2,100 more than in the previous year. The large increase reflects enactment of the Railroad Retirement and Survivors' Improvement Act of 2001. The table on the next page presents numbers and average amounts of spouse and divorced spouse annuities awarded during the year and being paid at the end of the year, by type of annuity and whether subject to age reduction.

If an employee is at least age 62 and retires with 10-29 years of railroad service, or has 5-9 years of service and at least 5 years were after 1995, the employee's spouse is eligible for an annuity at age 62. Full retirement age for a spouse is gradually rising from 65 to 67, depending on the year of birth. Early retirement reductions are applied to the spouse annuity if the spouse retires before full retirement age. The reduction for early retirement is 1/144 for each of the first 36 months the spouse is under full retirement age when her or his annuity begins and 1/240 for each month (if any) over 36.

If an employee retires with at least 30 years of service and is at least age 60, the employee's spouse is eligible for an annuity at age 60. During 2001, certain early retirement reductions were applied to the tier I component of such a spouse annuity if the employee retired before age 62, unless the employee attained age 60 and completed 30 years of service prior to July 1, 1984. If a 30-year employee retired at age 62, no age reduction applied to the spouse annuity. (December 2001 legislation liberalized early retirement benefits for 30-year employees retiring at ages 60 or 61 after 2001 and their spouses.) A spouse

Monthly spouse benefits	Awarded in fiscal year 2002		In current-payment status on September 30, 2002	
	Number	Average amount	Number	Average amount
Beginning at age 65 or over <sup>1</sup>	1,900	\$364	22,300	\$333
With minor or disabled child in care <sup>1</sup>	400	885	1,400	783
Unreduced, beginning at ages 60-64 <sup>1</sup>	4,100	1,033	60,100	798
Reduced rate	<u>3,000</u>	470	<u>63,700</u>	465
<b>Total</b>	<u><u>9,300</u></u>	711	<u><u>147,500</u></u>	584
Divorced spouse annuities	<u>400</u>	366	<u>3,500</u>	354
<b>Grand total</b>	<u>9,800</u>	<u>\$697</u>	<u>151,000</u>	<u>\$579</u>

<sup>1</sup> Awards are larger than normal number due to the Railroad Retirement and Survivors' Improvement Act of 2001 which liberalized early retirement benefits for 30-year employees retiring at ages 60 or 61 after 2001 and their spouses.

**Note.**--Detail may not add to total due to rounding.

of an employee qualified for an age and service annuity is eligible for a spouse annuity at any age if caring for the employee's unmarried child, and the child is under age 18 or the child became disabled before age 22.

Of the 3,000 reduced spouse annuities awarded in fiscal year 2002, 800 averaging \$730 per month were to spouses of 30-year employees and almost 2,200 averaging \$369 were to spouses of employees with less than 30 years of service.

At the end of fiscal year 2002, some 147,500 spouse annuities averaging \$584 per month were being paid. Approximately 3,500 divorced spouse annuities averaging \$354 per month were also being paid. Families with an employee and spouse on the rolls were paid combined railroad retirement benefits averaging \$2,205. This included \$1,621 in regular and supplemental employee annuities and \$584 in spouse annuities.

More than 59,500, or 39 percent, of the spouses and divorced spouses on the rolls were also receiving social security benefits. Combined railroad retirement and social security benefits to these annuitants averaged \$879 per month, including \$239 in railroad retirement benefits and \$640 in social security benefits. Railroad retirement annuities to the 89,700 spouses not receiving social security benefits averaged \$806, while railroad retirement annuities to the 1,800 divorced spouses not receiving social security benefits averaged \$514.

Like regular employee annuities, spouse annuities consist of up to three components. The tier I component equals one-half of the employee's tier I amount before any reduction for the employee's social security benefit. The spouse tier I amount is reduced for the spouse's receipt of a social security benefit and may be reduced for a spouse's public service pension. The tier I portion may also be reduced if the spouse receives a railroad retirement employee annuity, but this reduction is usually restored through an addition to the spouse tier II amount. Divorced spouses receive only a tier I benefit.

The spouse tier II component equals 45 percent of the employee's tier II amount. Railroad retirement amendments in 1981 precluded further awards of vested dual benefits to spouses.

Of the 147,500 spouses on the rolls at the end of fiscal year 2002, 106,100 were being paid tier I amounts averaging \$492 per month. The tier I amounts of 41,400 spouses were completely offset by other benefits also due. Spouse tier II amounts averaged \$237. Vested dual benefits averaging \$124 were being paid to 5,600 spouses. The 3,500 divorced spouses on the rolls at the end of fiscal year 2002 were being paid tier I amounts averaging \$361 per month.

### **Lump-sum retirement benefits**

A lump-sum benefit may be payable at retirement to employees who received separation or severance payments after 1984. This benefit approximates the tier II payroll taxes deducted from separation or severance payments that did not yield additional service credits for retirement. More than \$0.5 million was paid in separation/severance lump-sum benefits during fiscal year 2002.

Employees who have at least 10 years of railroad service and are not entitled to a vested dual benefit may be eligible for a dual retirement tax refund if they had concurrent railroad retirement and social security earnings within the period 1951-74. The refund is equal to the social security taxes that the employee paid on the combined railroad and social security earnings in excess of the annual railroad retirement creditable earnings maximum. During the 2002 fiscal year, the Board paid some 4,100 dual retirement tax refunds averaging \$95. Most of the payments were to employees retiring during the year. Less than 50 refunds were to survivors, mostly widows, of employees who died before receiving the refund. Employees entitled to dual retirement tax refunds for years after 1974 may claim them on their Federal income tax returns.

## **Survivor**

### **Monthly benefits**

Annuity awards to survivors of deceased railroad employees numbered 10,100 during fiscal year 2002, 300 less than the previous year. Nearly 194,900 survivor annuities were being paid at the end of the fiscal year, including 300 temporarily paid at



spouse or divorced spouse annuity rates pending recomputation to widow(er)s' rates. Almost 160,500, or 82 percent, of the survivor annuities were to aged widows and widowers. The table on this page presents numbers and average monthly amounts of survivor annuities, by type, for those awarded in the year and those being paid at the end of the year. Some of the survivor option annuities, which were being paid under laws in effect before August 1946, were to widows also receiving aged widows' annuities.

Survivor annuities, like regular employee and spouse annuities, consist of as many as three components: tier I, tier II and, for widows and widowers only, a vested dual benefit. As with spouses, legislation in 1981 precluded new awards of vested dual benefits to widow(er)s.

The tier I component is computed according to social security formulas and is based on the

deceased employee's combined railroad and social security earnings. A reduction is made for the survivor's receipt of a social security benefit. There may also be a tier I reduction if the survivor receives a railroad retirement employee annuity or public pension. Remarried and divorced widow(er)s receive a tier I benefit only. A dependent parent receives only a tier I amount if another family member is also receiving benefits or if the parent has remarried.

Survivor tier II amounts are figured as a percentage of an employee tier II benefit. In 2001, the percentages were 50 percent for a widow(er), 15 percent for a child, and 35 percent for a parent. The total tier II amount for a survivor family was subject to a minimum of 35 percent and a maximum of 80 percent of the employee tier II benefit, and all survivor tier II amounts were proportionately adjusted when either limit applied. December 2001 legislation established an "initial minimum amount" for widow(er)s which provides a tier II benefit equal to 100 percent of the tier II amount of the deceased employee, effective February 2002. The maximum tier II amount payable to a family rose to 130 percent of the employee's tier II amount. Widows and widowers are guaranteed a total tier I and tier II amount not less than what they were paid as a spouse, any necessary increase being added to tier II.

Monthly survivor benefits	Awarded in fiscal year 2002		In current-payment status on September 30, 2002	
	Number	Average amount	Number	Average amount
Aged widow(er)s'	8,100	\$1,286	160,500	\$948
Disabled widow(er)s'	200	1,148	5,200	799
Widowed mothers' (fathers')	200	1,319	1,100	1,228
Remarried widow(er)s'	300	697	5,600	627
Divorced widow(er)s'	700	705	9,500	633
Children's:				
Under age 18	400	1,020	2,800	971
Student	*	1,186	100	1,041
Disabled	200	778	9,900	655
Parents'	*	\$606	100	628
Survivor option	...	...	*	60
<b>Total</b>	<b>10,100</b>	<b>...</b>	<b>194,900</b>	<b>...</b>

\*Fewer than 50.

**Note.**--Data may not add to total due to rounding.

Aged widow(er)s, who are eligible for benefits at age 60, have their tier I and tier II amounts reduced if the annuity begins before full retirement age. The eligibility age for unreduced annuities is gradually rising from age 65 to age 67. The maximum age reductions will range from 17.1 percent to 20.36 percent, depending on the widow(er)'s date of birth. Excluding nearly 300 annuities temporarily paid at spouse or divorced spouse rates, aged widow(er)s' annuities being paid at the end of the 2002 fiscal year included 72,800 which were reduced for age. Aged widow(er)s' tier I amounts being paid averaged \$808 per month. In nearly 11,600 cases, the tier I amount was wholly offset by reductions for other benefits. Some 63,400 aged widow(er)s were also receiving social security benefits, and these averaged \$614. Tier II amounts averaged \$197. About 7,100 vested dual benefits averaging \$63 were being paid to aged widow(er)s.

The tier I and tier II amounts of disabled widow(er)s' annuities, which begin at ages 50-59, are reduced 28.5 percent for age. Tier I amounts being paid to disabled widow(er)s on the rolls at the end of fiscal year 2002 averaged \$668 (in about 300 cases, the tier I amount was wholly offset by reductions). Social security benefits being paid to over 1,500 disabled widow(er)s averaged \$595. Tier II amounts averaged \$159, while the 400 vested dual benefits being paid averaged \$77.

Tier I amounts paid to widowed mothers and fathers (widows and widowers caring for children) generally equal 75 percent of the full amount payable to an aged widow(er) before any reductions, similar to a social security mother's or father's benefit. Eligible children and grandchildren are paid this same tier I amount. However, if the sum of the tier I amounts of all members of a survivor family exceeds the social security family maximum, then tier I amounts are proportionately reduced so that the total equals the maximum. Reductions for the family maximum usually occur when the family includes three or more beneficiaries. Tier I amounts being paid as of the end of fiscal year 2002 averaged \$898 for widowed mothers and fathers and \$663 for children. Fewer than 50 mothers (fathers) and some 2,500 children received social security benefits averaging \$713 and \$440, respectively. Tier II amounts paid mothers (fathers) and children averaged, respectively, \$342 and \$85. None of the widowed mothers received a vested dual benefit.

### **Lump-sum survivor benefits**

A lump-sum death benefit can be payable at the time of an employee's death only if there are no survivors immediately eligible for monthly benefits. For survivors of employees who had at least 10 years of railroad service before 1975, the lump-sum death benefit is based on the employee's earnings through 1974, with a maximum amount of approximately \$1,200. If the employee completed the 10th year of service after 1974, the lump-sum death benefit is limited to \$255, the maximum benefit payable under social security law, and only the widow or widower living in the same household is eligible for the benefit. Some 5,300 lump-sum death benefits averaging \$897 were awarded during fiscal year 2002. Approximately 600 benefits were to widow(er)s, while 4,700 were to other individuals who paid the funeral expenses. Effective January 2002, lump-sum benefits may be payable to survivors of employees

with less than 10 years of service but at least 5 years after 1995 if the employee met the social security insured status requirements.

Another lump-sum survivor benefit, the residual payment, can be made if no other benefits based at least in part on an employee's railroad service will be payable in the future, and the total of prior benefit payments is less than what the employee paid in pre-1975 railroad retirement taxes. The 80 residual payments awarded in the 2002 fiscal year averaged \$3,219. Widow(er)s and parents who elected to waive future monthly benefits in order to receive a residual benefit were awarded six of the payments. The remaining awards were to widow(er)s of employees not insured for monthly benefits under the Railroad Retirement Act, other relatives, designated beneficiaries, or the employee's estate.

### Medicare Enrollments

The Medicare program provides health insurance to persons ages 65 and older, as well as persons under age 65 who have been entitled to monthly benefits based on total disability for at least 24 months or who suffer from chronic kidney disease requiring hemodialysis or transplant. In addition to the basic hospital insurance, or Part A, plan, which is financed through payroll taxes, there is an elective supplementary medical insurance, or Part B, plan for which monthly premiums are charged.

Eligible railroad retirement annuitants and social security beneficiaries whose benefits are payable by the Railroad Retirement Board are automatically enrolled under both plans, but Part B may be declined. Eligible nonretired persons must apply in order to obtain Medicare coverage. The Board automatically enrolled some 22,200 beneficiaries for Medicare during fiscal year 2002. As of the end of the fiscal year, nearly 578,700 persons were enrolled in the Part A plan, and over 563,800 (97 percent) of them were also enrolled in Part B.

Except for benefits for services in Canada, which are paid from the Railroad Retirement Account, railroad enrollees are paid Part A benefits from the Federal Hospital Insurance Trust Fund, the same as persons covered under the social security system. Part B benefits are paid from the Federal Supplementary Medical Insurance (SMI) Trust Funds. The carrier for Part B claims of railroad Medicare enrollees made payments totaling \$788 million in the 2002 fiscal year.

The regular monthly premium for medical insurance during fiscal year 2002 was \$50 for coverage through December 2001 and \$54 thereafter. The Board generally withholds Medicare premiums for annuitants from their benefit payments, and at the end of the fiscal year, approximately 530,400 annuitants were having their premiums withheld. Of the remaining Part B enrollees, approximately 7,200 were paying premiums to the Board, either directly or through an intermediary, and 26,200 had their premiums paid by State agencies. The Board periodically transfers premiums to the SMI Trust Funds.

## RAILROAD UNEMPLOYMENT AND SICKNESS INSURANCE PROGRAM

### FINANCIAL OPERATIONS

Costs for the railroad unemployment and sickness insurance program during fiscal year 2002 exceeded financing sources by \$24.3 million and the net position decreased by \$24.3 million from \$40.1 million at the end of fiscal year 2001 to \$15.8 million at the end of fiscal year 2002. For fiscal year 2002 as compared to fiscal year 2001, total financing sources for the railroad unemployment and sickness insurance program increased by \$41 million (100.7 percent) to \$81.7 million.

*(text continued on p. 28)*

#### Unemployment and Sickness Insurance Program **Consolidated Financing Sources, Costs and Net Position (Millions)<sup>1</sup>**

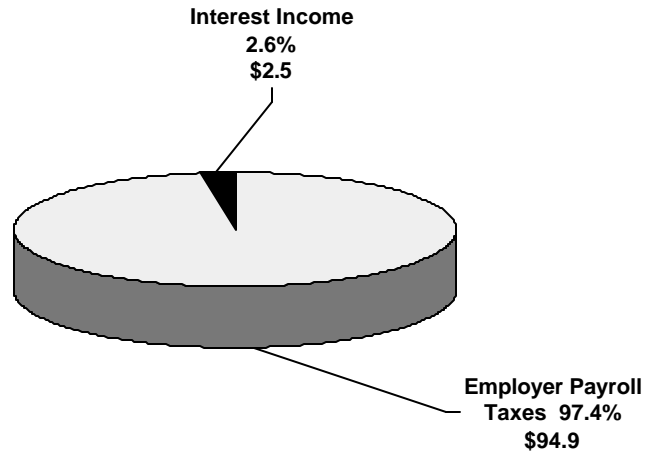
For the Fiscal Year Ended September 30	<b>2002</b>	<b>2001</b>
<b>Financing Sources:</b>		
Employer Payroll Taxes	\$94.9	\$50.6
Interest Income	2.5	4.0
Other	(15.7)	(13.9)
Total Financing Sources	81.7	40.7
<b>Costs:</b>		
Benefit Payments:		
Unemployment	49.6	42.8
Sickness	56.4	51.6
Total Costs	106.0	94.4
Financing Sources over Costs	(24.3)	(53.7)
Net Position - Beginning of Period	40.1	93.8
Net Position - End of Period	\$15.8	\$40.1

<sup>1</sup>Prepared on an accrual basis of accounting.

## UNEMPLOYMENT AND SICKNESS INSURANCE PROGRAM

Financing Sources - Fiscal Year 2002 (In Millions)

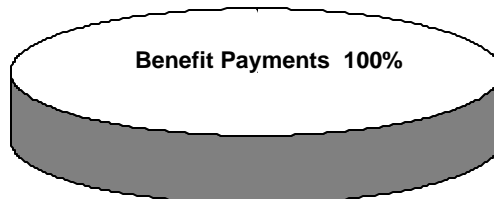
**GROSS TOTAL \$97.4**



**Net of Transfer = \$81.7**

Costs - Fiscal Year 2002 (In Millions)

**TOTAL \$106**



## Financing Sources

The primary financing source of the railroad unemployment and sickness insurance program is a payroll tax on railroad employers, based on the taxable earnings of their employees. The employees themselves are not taxed.

Each employer pays taxes at a rate which takes into consideration its employees' actual incidence of benefit usage. Under experience rating, employers whose employees have low incidences of unemployment and sickness pay taxes at a lower rate than those with higher levels of benefit usage. Each employer's rate also has a component for administrative expenses and a component to cover costs shared by all employers. The rate applies to monthly earnings up to an indexed maximum. In calendar year 2002, the taxable earnings base was the first \$1,100 of each employee's monthly earnings. The earnings base is indexed each year by a rate which is equal to approximately two-thirds of the annual rate of increase in the maximum base for railroad retirement tier I taxes.

In 2002, the basic tax rates on railroad employers, including covered commuter railroads, ranged from a minimum of 3.15 percent (includes surcharge of 2.5 percent) to a maximum of 12 percent. Most employers were assessed the minimum rate in 2002. New employers in 2002 paid an initial rate of 2.71 percent.

### Employer Payroll Taxes

Payroll taxes by employers totaled \$94.9 million during fiscal year 2002. This was an increase of 87.5 percent or \$44.3 million more than the previous year.

### Interest

Cash not needed immediately for unemployment and sickness insurance benefits or operating expenses is held in the Federal Unemployment Insurance Trust Fund and invested by the Secretary of the Treasury. The fund earned an average rate of return of 6.31 percent in fiscal year 2002, of which the Railroad Retirement Board earned \$1.9 million as its pro rata share.

### Other Financing Sources

Other financing sources were (1) transfers-out of \$14.4 million and \$13.8 million to the Limitation on Administration Account to fund salaries and expenses for the unemployment and sickness insurance program for fiscal years 2002 and 2001, respectively; and (2) transfers-out of \$1.3 million and \$1.2 million to fund administrative expenses of the Board's Office of Inspector General for fiscal years 2002 and 2001, respectively.

## Costs

Total costs for the railroad unemployment and sickness insurance program increased by \$11.6 million (12.2 percent) to \$106 million. These costs consisted solely of benefit payments.

### Benefit Payments

During fiscal year 2002, unemployment insurance benefit payments increased by \$6.8 million (15.9 percent) to \$49.6 million. Sickness insurance benefit payments increased \$4.8 million (9.3 percent) to \$56.4 million.

## BENEFIT OPERATIONS

Net unemployment and sickness benefits totaling \$98.3 million were paid in the 2001-2002 benefit year, \$5.8 million more than in the prior year. Beneficiaries numbered 39,100 in comparison to the previous year's total of some 38,400. Approximately 1,700 employees received both unemployment and sickness benefits during the 2001-2002 benefit year. The number of unemployment benefit claimants increased by 6 percent, while sickness benefit claimants decreased by less than 1 percent. Total unemployment benefit payments increased by over 10 percent, while net sickness benefits increased by about 3 percent. The number of employees qualified for benefits under the Railroad Unemployment Insurance Act fell less than 3 percent to 269,900.

Benefits are payable for each day of unemployment or sickness in excess of 7 during the first 14-day registration period in a benefit year. During benefit year 2001-2002, there were 15,300 and 18,400 unemployment and sickness benefit waiting period claims, respectively.

## Unemployment

Nearly 17,800 railroad workers were paid \$47.4 million in unemployment benefits during the 2001-2002 benefit year. The number of benefit claimants increased by 1,100 from the prior year total of 16,700, while the benefit amount rose \$4.4 million from the year-earlier total of \$43.0 million. The average number of compensable days per unemployment benefit claimant was 58 in benefit year 2001-2002 as compared to 57 in the previous benefit year.

The mid-month unemployment count in the 2001-2002 benefit year began with a July count of 3,600 claimants. The count dropped to 2,900 in August, then peaked at 8,200 in January, and dropped down to 3,000 in June 2002. For the 2001-2002 benefit year as a whole, the weekly number of claimants averaged 4,600 in comparison to an

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**NOTE.**--Railroad unemployment and sickness benefits are paid on the basis of benefit years beginning July 1 and ending June 30 of the following year. Consequently, operational data in this "Benefit Operations" section are generally presented for this time span, rather than fiscal years beginning October 1 and ending September 30.

### Major unemployment and sickness benefit operations, benefit years 2001-2002 and 2000-2001

Item	Benefit year 2001-2002			Benefit year 2000-2001		
	Total	Unemploy- ment	Sickness	Total	Unemploy- ment	Sickness
Applications	50,100	22,000	28,100	48,800	20,100	28,700
Claims	322,500	128,500	194,000	307,800	118,800	189,000
Beneficiaries	<sup>1</sup> 39,100	17,800	23,000	<sup>1</sup> 38,400	16,700	23,000
Net amount of benefits	\$98,286,400	\$47,382,700	\$50,903,700	\$92,520,100	\$43,007,600	\$49,512,400
Number of payments						
Normal	245,800	97,100	148,800	235,400	90,100	145,300
Extended	26,200	6,500	19,600	23,900	6,000	17,900
Total	272,000	103,600	168,400	259,300	96,100	163,200
Average amount per 2-week registration period						
Normal	\$441	\$430	\$448	\$424	\$415	\$429
Extended	411	409	411	400	403	399
Total	438	429	445	422	415	426

<sup>1</sup> Benefits for both unemployment and sickness were paid to approximately 1,400 employees in benefit year 2000-2001 and 1,700 employees in benefit year 2001-2002. Those claimants who had only a non-compensable waiting period are not included in the beneficiary counts since no benefits were paid.

average of 4,200 in the previous benefit year. The overall unemployment benefit claimant rate, measured in relation to numbers of employees qualified to receive benefits under the Railroad Unemployment Insurance Act during a particular time period, increased to 7 per 100 qualified from the previous year's level of 6 per 100 qualified. The median age of all unemployment benefit claimants was 42 years, the same as the previous benefit year.

### Sickness

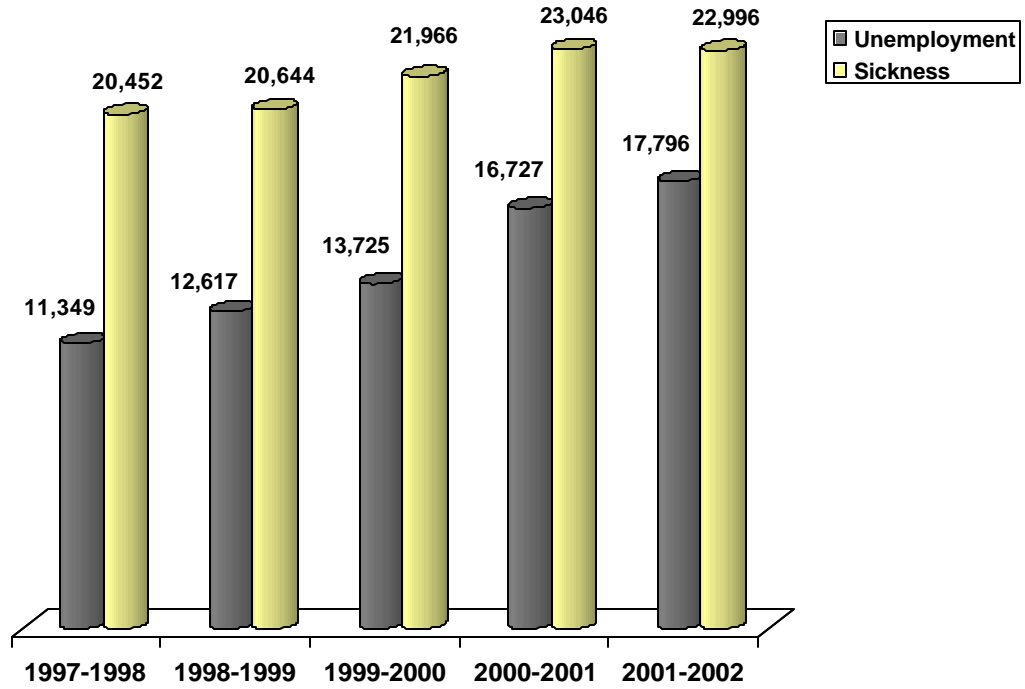
The number of sickness benefit claimants during the 2001-2002 benefit year was 23,000, about the same as in the previous year. Gross sickness benefits of \$84.1 million were paid, \$5.5 million more than in the prior benefit year. Net sickness benefits totaled \$50.9 million, reflecting repayment of a large amount of benefits following settlements of suits for injuries. Benefits payable for an injury are recoverable if the claimant is awarded damages or receives a settlement for the injury. Net benefits increased by \$1.4 million in comparison with the previous year.

Despite a decrease in the number of qualified employees, the number of sickness claimants has remained nearly unchanged for the last 2 years, reflecting increases in

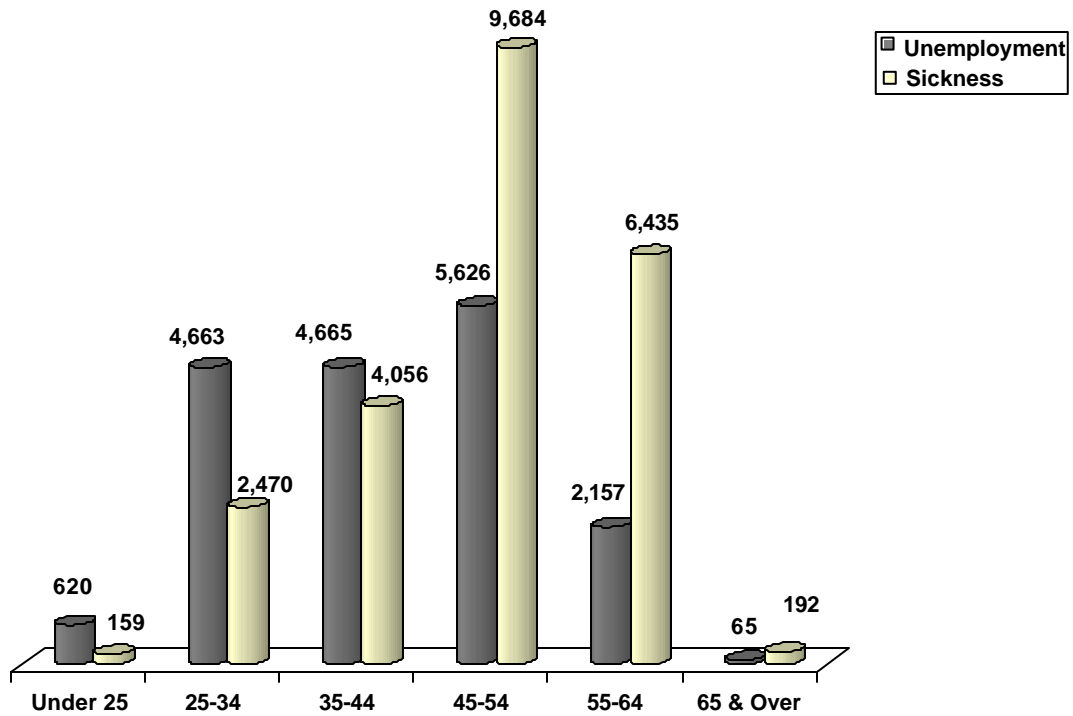
*(text continued on p. 32)*



**Beneficiaries under the Railroad Unemployment Insurance Act,  
Benefit Years 1997-1998 through 2001-2002**



**Unemployment and Sickness Benefit Claimants By Age,  
Benefit Year 2001-2002**



the utilization rate. The average duration of sickness benefits has also increased over the last 3 years.

Among the most common causes of sickness were injuries that included fractures or wounds (affecting 25 percent of beneficiaries), arthritis and disk disorders (21 percent), circulatory

<b>Benefit Year</b>	<b>Utilization Per 100 Qualified Employees</b>	<b>Average Compensable Days</b>
<b>1998-1999</b>	<b>7.6</b>	<b>68</b>
<b>1999-2000</b>	<b>7.9</b>	<b>69</b>
<b>2000-2001</b>	<b>8.3</b>	<b>71</b>
<b>2001-2002</b>	<b>8.5</b>	<b>73</b>

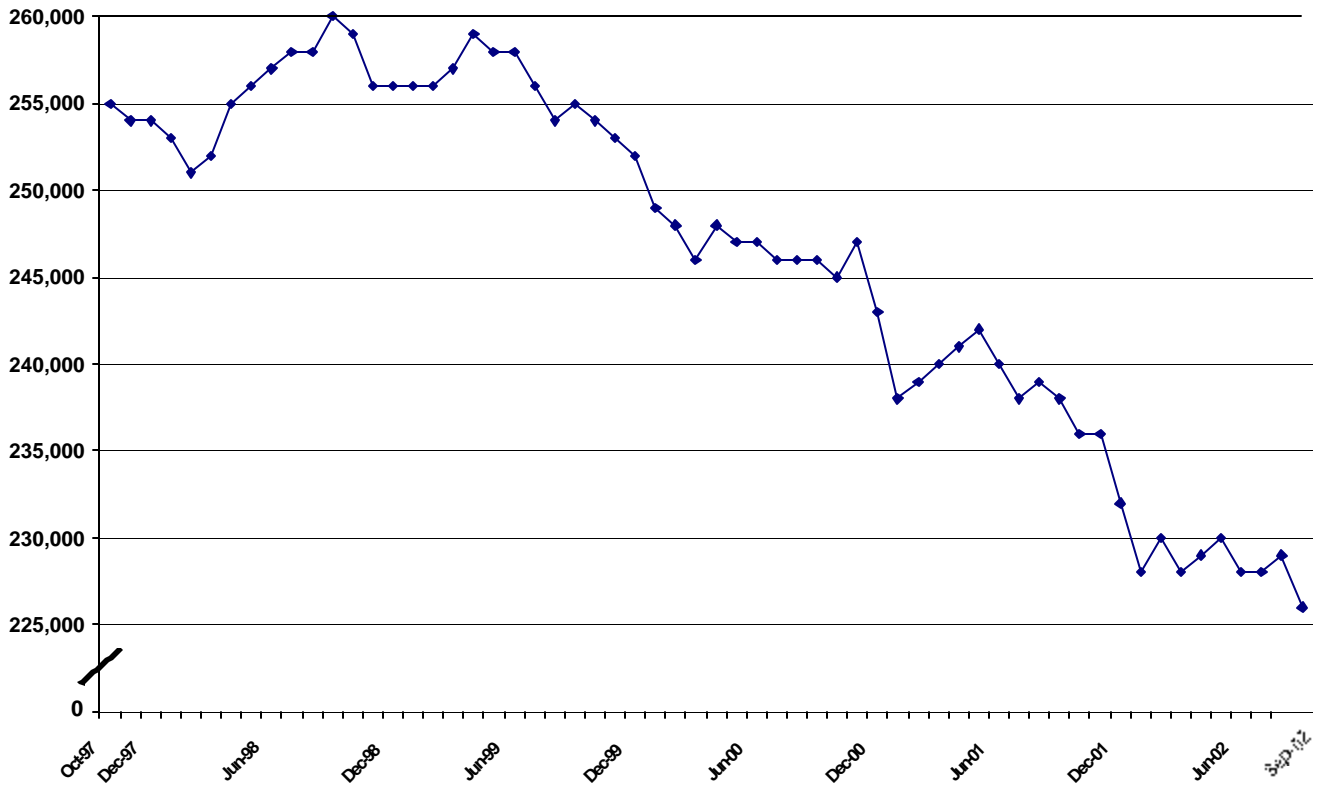
and heart disease (10 percent), and mental disorders, including drug and alcohol addictions (11 percent). The median age of all sickness benefit claimants was 50 years, the same as the previous benefit year.

## **RAILROAD EMPLOYMENT**

Average monthly railroad employment in fiscal year 2002 fell 4.6 percent to 230,000 from the 241,000 average of the previous year. October 2001 had the highest level of employment in fiscal year 2002 with 236,000 and September 2002 had the low of 226,000.

Average employment decreased for the third consecutive fiscal year.

### Average Railroad Employment Fiscal Years 1998 through 2002



**Note.**--Numbers for 2002 are preliminary.

# ADMINISTRATIVE DEVELOPMENTS

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*The following describes some major issues addressed in 2002 and 2003 as the Railroad Retirement Board continued efforts to improve agency operations and better serve its customers.*

## Officials

President Bush appointed Michael S. Schwartz as Chairman of the U.S. Railroad Retirement Board for a term expiring in August 2007. His nomination was confirmed by the Senate on May 23, 2003, and he was sworn into office July 1, 2003. He succeeds Cheryl T. Thomas.

A long-time official with the State of Illinois, Mr. Schwartz previously served as the Director of the Illinois Department of Central Management Services (CMS) from 1995 to 2002, and as Associate Director of CMS from 1989 to 1995. CMS provides a wide variety of centralized services to other State and local government agencies, including procurement, data processing and data communication, personnel, property management, and administration of State employee benefit plans.

Mr. Schwartz also served the State of Illinois as Assistant Director of Personnel for former Governor Jim Thompson (1988-89); as Executive Assistant to the Director of Revenue (1986-1988); and as Assistant to the Director of Professional Regulation (1985-1986).

V. M. Speakman, Jr. continues to serve as Labor Member of the Board. He was first appointed to the Board in 1992, reappointed to a second term of office in 1995, and then to a third term in 2000. Mr. Speakman previously served as President of the Brotherhood of Railroad Signalmen. In this position he also served as Vice Chairman of the Railway Labor Executives' Association (RLEA), Chairman of the RLEA's Committee on Railroad Retirement, and Secretary-Treasurer of the Transportation Trades Department of the AFL-CIO.

Jerome F. Keever continues to serve as Management Member of the Board. He was first appointed to the Board in 1992, reappointed to a second term of office in 1995, and to a third term in 2000. Before his appointment, Mr. Keever was Vice President and Corporate Controller of the former Santa Fe Pacific Corporation (now merged into the Burlington Northern Santa Fe), which owned two Class I railroads. Before that he held executive positions with Household International and Deloitte and Touche.

The Board named Dorothy A. Isherwood Director of Programs with responsibility for program operations which carry out provisions of the Railroad Retirement and Unemployment Insurance Acts. Henry M. Valiulis was named Director of Administration, overseeing offices providing management and administrative support services. Both are members of the agency's Executive Committee. The Board also named Lynn E. Cousins as its Director of Equal Opportunity.

### **Implementation of the Railroad Retirement and Survivors' Improvement Act**

The Board successfully completed implementation of the Railroad Retirement and Survivors' Improvement Act of 2001. This legislation, described in detail in the 2002 *Annual Report*, made significant revisions to the benefit and financing provisions of the Railroad Retirement Act. This in turn required major changes to over 30 mainframe and PC-based computer systems; the development of two new automated mass benefit adjustment operations to implement increases in widow(er)s' annuities and the removal of the RRA maximum amount withheld from employee and spouse annuities; and the release of over 255,000 letters informing annuitants of the impact the legislation had on their annuities. Under provisions of the new legislation, benefit increases were awarded to over 46,000 widow(er)s and nearly 14,000 employees and spouses.

The legislation also provided for the transfer of railroad retirement trust funds from the Railroad Retirement Accounts in the U.S. Treasury to a new National Railroad Retirement Investment Trust, whose Board of seven Trustees is empowered to invest Trust assets in nongovernmental assets, such as equities and debt, as well as in governmental securities. The Trust is not an agency or instrumentality of the Federal Government and has no authority over the administration of benefits under the Railroad Retirement Act.

During 2002, the Board of Trustees was appointed and the Trust began operations. Trustees selected by rail labor to represent its interests were George Francisco, Jr., President of the National Conference of Firemen and Oilers-SEIU; Dan Johnson, General Secretary and Treasurer, United Transportation Union; and Joel Parker, International Vice President, Transportation-Communications Union. Selected by rail management to represent its interests were Paul R. Goodwin, Vice Chairman and Chief Financial Officer, CSX Corporation; James Hixon (Chairman), Senior Vice President-Administration, Norfolk Southern Corporation; and Thomas Hund, Executive Vice President and Chief Financial Officer, Burlington Northern Santa Fe. Named as the independent Trustee by a majority of the other six Trustees was John MacMurray, a pension fund professional with 30 years of experience in the field. The Trust also named Enos T. Throop as its Chief Investment Officer. Mr. Throop has more than 25 years of investment management experience.

The financial statements of the Trust are required to be audited annually by an independent public accountant. In addition, the Trust must submit an annual management report to Congress on its operations, including a statement of financial position,

statement of cash flows, a statement on internal accounting and administrative control systems, the independent auditor's report, and any other information necessary to inform Congress about the operations and financial condition of the Trust. A copy of the annual report must also be submitted to the President, the Director of the Office of Management and Budget, and the Railroad Retirement Board. The Trust's first Annual Management Report, for fiscal year 2002, was filed accordingly on January 31, 2003, and is available on the Board's Web site at [www.rrb.gov](http://www.rrb.gov).

## **Service**

### **Customer Satisfaction Survey**

In 2002, the Board participated in the American Customer Satisfaction Index, an annual survey produced by a partnership of the University of Michigan Business School, the American Society for Quality and Claes Fornell International. The Board earned a score of 75, 4.8 points higher than the overall Federal government score and 3.2 points higher than the comparable private-sector average.

The survey focused on railroad workers who recently applied for and received unemployment or sickness benefits from the Board. The survey found the Board scoring highest (88) in the area of customer service, with respondents particularly praising the courtesy and professionalism of agency employees.

The unemployment and sickness benefit claims process received a score of 84, with most of those surveyed pleased with the ease in completing the necessary claim forms, but concerned with the time it takes to receive the forms. Instructional material provided to claimants for assistance in completing their benefit applications and claim forms was found to be helpful to most of those surveyed; however, many felt it should be easier to understand.

The Board earned an overall quality score of 79 and a confidence index score of 83, indicating that its customers are satisfied with the service provided by the agency and are confident they will continue to be well served in the future. According to the overall survey scores, the RRB is allocating its resources efficiently.

The survey annually measures national customer satisfaction with corporate and government goods and services. Working with the Department of the Treasury's Federal Consulting Group, government agencies participating in the survey use it to gauge their level of service and benchmark their performance for comparison with similar organizations in the private sector. The survey also helps agencies focus on those processes, based on customer feedback, that will have the biggest impact on an agency's ability to deliver the highest quality products and services.

This marks the second year that the Board has participated in the survey. The agency earned a score of 82 in a 2001 survey of its core constituency of railroad workers who had recently retired and were receiving monthly benefits from the Board.

## Customer Service Plan

The Railroad Retirement Board's Customer Service Plan, initiated in 1994, promotes the principles and objectives of customer-driven quality service agency-wide and is benchmarked to service levels in both government agencies and private industries performing similar functions. The Board's plan specifies the level of service customers can expect, measures performance, and obligates the Board to report annually on its performance. The plan will be reviewed and updated periodically on the basis of the Board's experience, comparisons of the Board's service with the best in business, and feedback received from customers.

Fiscal year 2002 performance remained the same or improved when compared to fiscal year 2001 for six of the 11 customer service workloads tracked by the agency. Even with declines in five areas, the agency still met or exceeded all but two of the customer service performance targets it had set for the year in its Annual Performance Plan.

Slight performance declines were noted for the handling of retirement applications filed in advance of actual retirement, unemployment benefit applications, sickness benefit applications, and correspondence. Again, even with these declines in performance, the Board still exceeded its Annual Performance Plan targets in these four areas. However, while the agency's performance improved slightly in converting spouse benefits to widow(er)s' annuities upon a retired employee's death, it did not meet its Annual Performance Plan target for fiscal year 2002.

The most marked decline in performance (2.8 percent) came in the rendering of disability decisions. The Board is very aware of this decline in performance and continues to seek improvements in collecting the required documentation to provide accurate and more timely handling of disability applications. The processing of disability applications requires medical evidence and related documentation to establish entitlement, and obtaining this material can be a lengthy process.

The Board's plan requires that those who file for a disability annuity receive a decision within 105 days of the date they filed their application. Of the cases processed during fiscal year 2002, 53.7 percent of those filing for a disability annuity received a decision within 105 days of the date they filed an application. Average processing time was 109.2 days. During fiscal year 2001, 56.5 percent received a decision within 105 days and average processing time was 103.7 days.

The plan requires that persons who filed in advance for a railroad retirement employee or spouse annuity will receive their first payment, or a decision, within 35 days of their annuity beginning date. Persons who do not file in advance will receive their first payment, or a decision, within 65 days of the date they filed their application. Of the cases processed during fiscal year 2002, 94.1 percent of employee and 95.1 percent of spouse applicants who filed in advance received a payment, or a decision, within 35 days of their annuity beginning date. Also, 97.9 percent of employee and 93.9 percent of spouse applicants who had not filed in advance received a payment or a decision within 65 days of their filing date.

The plan requires that those filing for monthly survivor benefit payments, or a lump-sum benefit, will receive their first payment, or a decision, within 65 days of the date they filed their application, or became entitled to benefits, if later. Those already receiving a spouse annuity will receive their first payment, or a decision, within 35 days of the date the Board receives notice of the employee's death. Of the cases processed during fiscal year 2002, 81.4 percent of the applicants for an initial survivor annuity were issued a payment or a decision within 65 days. In addition, 96.0 percent of the applicants for a lump-sum benefit were issued a payment or a decision within 65 days. In cases where the survivor was already receiving a spouse annuity, 91.3 percent of the applicants were issued a payment or a decision within 35 days of the Board being notified of the employee's death.

Persons who file an application for unemployment or sickness insurance benefits will receive a claim form, or a decision, within 15 days of the date the application was filed, and persons filing claims for subsequent biweekly unemployment or sickness insurance benefits will receive a payment, or a decision, within 15 days of the date the Board receives their claim forms. During fiscal year 2002, 98.7 percent of unemployment benefit applications and 99.3 percent of sickness benefit applications met the Board's standard. In addition, 99.7 percent of subsequent claims for unemployment and sickness benefits met the Board's standard for fiscal year 2002.

In fiscal year 2002, 98.9 percent of all correspondence the Board received was responded to, either with an acknowledgement or with a final reply, within the agency's 15-day standard.

## **Technology and Automation**

### **Internet Services**

Through the MainLine Services section of the Board's Web site at [www.rrb.gov](http://www.rrb.gov), rail employees and retirees can request that statements of individual railroad service and compensation history, replacement Medicare cards, duplicate benefit information statements for income tax purposes, and annuity rate verification letters be mailed to them.

During 2002, a secure PIN password system was developed for the Web site which allows visitors to view their service and compensation record online. This electronic alternative does not replace the *Certificate of Service Months and Compensation* mailed to current employees each June, but makes the same information readily available online for current and former employees.

The agency is currently developing an online retirement planner service which will allow rail employees to secure an annuity estimate through the Web site. The Board expects to make this service available in 2003.

### **Web Site Survey**

The quality of the Board's Internet service was documented in a San Francisco State University survey that ranked the agency's Web site 12th out of 148 Federal



government Web sites studied for excellence, as defined by the quality of their site services, help features, navigation, legitimacy, and accessibility. The Board earned a total excellence score of 26, out of a possible 55, only 5 points below the highest score of 31. The survey studied Federal Web sites between January and April of 2002, as part of broader research that analyzes government Web sites in comparison to other public-sector sites, attempting to improve the quality and the services provided to users through government Web sites.

Through the Board's Web site at [www.rrb.gov](http://www.rrb.gov), anyone with Internet access can electronically download selected pamphlets, informational releases, financial reports, and other information on the agency's benefit programs and operations.

### **Enterprise Architecture**

The Board's Office of Enterprise Architecture adopted an Enterprise Architecture Strategic Plan spanning the next seven years. The plan defines a corporate-wide information strategy that provides direction in creating an information environment. This target environment will ultimately be able to support the interoperability of all electronic operations, effective internal and external communications, and an adaptive and flexible infrastructure that is proactive in addressing business needs and challenges, all with appropriate levels of security.

### **Building Security and Employee Safety**

Recognizing the increased importance of emergency preparedness and planning in the workplace, the Board revised and updated its Occupant Emergency Plan and posted the plan on the agency's intranet. Also posted was the Office of Personnel Management's emergency guides for managers and employees, as well as information released by the Office of Homeland Security. In addition, the Board requested that the Federal Protective Service update the previous threat assessments for the agency's facility at 844 North Rush Street in Chicago.

The Board also issued an emergency preparedness update to employees, advising them about what the agency is doing to protect their safety. The Board's Occupational Safety and Health Committee and facility staff met with the Emergency Response Team, managers and supervisors to review contingency plans and prepare for an evacuation drill.

### **Human Resources**

#### **Virtual Information Technology Job Fair**

The Board participated in the first government-wide Virtual Information Technology (IT) Job Fair in 2002. This was a joint effort with several Federal agencies to recruit for IT positions. Applicants applied for jobs online by completing a questionnaire, an aptitude test, and a skills inventory. The electronic forum helped participating agencies save on costs associated with traditional recruitment methods.

## **Summer Youth Program**

The Board was again involved with Chicago Mayor Richard M. Daley's Summer Internship Program for city high school students. The program offers teens specialized opportunities to prepare for their future by working in specific supervised positions. They gain valuable work experience, marketable skills, and exposure to careers in the Federal government. The Board employed 12 students over the summer in various positions throughout the agency.

## **Office of Equal Opportunity**

### **Diversity Program**

During 2002, the Office of Equal Opportunity's employee committees sponsored many events to enhance the understanding of workplace diversity and disability issues.

The Workplace Diversity Committee's activities included the quarterly publication of the *Diversity Times* newsletter, a Diversity Dialogue Group, a Diversity Book Club, and lunch and learn video presentations for Asian Pacific American Heritage Month, Native American Heritage Month, and Women's History Month. Special commemorative activities were conducted in observance of African American History Month and Hispanic Heritage Month. Both programs featured guest speakers who addressed the national theme and a video presentation. The Employees with Disabilities Advisory Council also sponsored a video presentation on learning disabilities.

### **Recruitment**

The Office of Equal Opportunity worked with the Bureau of Human Resources to increase diversity in the Board's external recruitment efforts, identifying sources of minority students for the outstanding scholar hiring authority as well as local minority, disability and disabled veteran recruitment sources in field office locations, many of which were contacted directly to solicit applicants for specific vacant positions. During fiscal year 2002, the agency established a targeted recruitment and hiring program to set aside specific positions for recruitment and hiring of disabled veterans using a special authority. Under this program, whenever the agency is operating at normal hiring levels (generally 20 accessions or more per year), management will set aside one or more positions to be filled under this authority, with recruitment targeted to veterans' employment offices and organizations.

### **Equal Opportunity Policy and Procedure**

During fiscal year 2002, the Office of Equal Opportunity was active in developing agency policies and procedures required by various oversight organizations, including executing a procedure to implement Executive Order 13160, *Nondiscrimination on the Basis of Race, Sex, Color, National Origin, Disability, Religion, Age, Sexual Orientation and Status as a Parent in Federally Conducted Education and Training Programs*, and implementing the Notification and Federal Employee Antidiscrimination and Retaliation (NO FEAR) Act of 2002.

## Public Information Activities

The Board maintains direct contact with railroad retirement beneficiaries through its field offices located across the country. Field personnel explain benefit rights and responsibilities on an individual basis, assist railroad employees in applying for benefits and answer any questions related to the benefit programs. The Board also relies on railroad labor groups and employers for assistance in keeping railroad personnel informed about its benefit programs.

At informational conferences sponsored by the Labor Member of the Board for railroad labor union officials, Board representatives describe and discuss the benefits available under the railroad retirement-survivor, unemployment-sickness and Medicare programs, and the attendees are provided with comprehensive informational materials. A total of 2,526 railroad labor union officials attended 47 informational conferences held in cities throughout the United States during 2002. In addition, railroad labor unions frequently request that Board representatives speak before their meetings, seminars and conventions. In 2002, the Labor Member's Office was represented at 10 union gatherings attended by 3,229 railroad labor officials. Field personnel addressed 163 local union meetings with 11,295 members in attendance.

At seminars for railroad executives and managers, Board representatives review programs, financing, and administration, with special emphasis on those areas which require cooperation between railroads and Board offices. During 2002, the Board's Management Member's Office conducted seven seminars for railroad officials. It also conducted pre-retirement counseling seminars attended by railroad employees and their spouses, and benefit update presentations.

The Board continued its *Face-to-Face* initiative, an effort to engage customers in an ongoing dialogue about improving the agency's customer service.

## Office of Inspector General

**D**uring fiscal year 2002, the Office of Inspector General continued its efforts to ensure the integrity of agency programs, to combat fraud, waste and abuse and to ensure the agency provides the highest level of service to its constituents. Thirteen audit and management information reports issued during the year provided agency managers with recommendations for improvement in program operations.

The Office of Inspector General issued its annual audit report of the agency's financial statements and related internal controls. The report cited material weaknesses in the agency's overall control environment and system of information security, and a reportable condition related to debt recovery accounting. Auditors also conducted an evaluation of the Board's information system security program and practices that disclosed weaknesses in much of the agency's information security program.

The Office of Inspector General continued monitoring the agency's investment activities to ensure the statutory obligations of the Railroad Retirement Act (RRA) and the Railroad Retirement and Survivors' Improvement Act (RRSIA) are met. The RRSIA established the National Railroad Retirement Investment Trust, an independent board with the responsibility for the investments used to fund RRA benefit programs. The Office of Inspector General expressed concerns about the agency's monitoring of Trust activities.

Other audits examined document imaging activities, safeguards for the disclosure of social security numbers, the valuation of RRA accounts receivable, the agency contract for medical consulting services, and the operations of the agency's Audit and Compliance Section, the unit that conducts audits of railroad employers.

Investigative activities resulted in 53 criminal convictions, 37 indictments and informations, 36 civil judgments and \$3,230,000 in recoveries, restitutions, fines, civil damages, penalties and prevention of overpayments. In one case, special agents concluded an investigation of a railroad employer that identified underreporting of employees. As a result, the employer agreed to pay a total of \$1.4 million in underpaid railroad employer payroll taxes and provide corrected service and compensation reports to the Railroad Retirement Board.

# LEGAL RULINGS

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*Six cases involving the Railroad Retirement Board were resolved by the courts during fiscal year 2002. Several significant legal opinions were issued.*

## Court Cases

Nine cases of various types involving petitions for review of decisions of the Railroad Retirement Board were pending in the courts at the beginning of fiscal year 2002, and eight cases were opened during the fiscal year. Six cases were resolved during fiscal year 2002; four were decided in the Board's favor, and two were dismissed. Eleven cases were pending at the end of the fiscal year. The following describes the cases of most significance to railroad employers and employees.

In *Perry v. Railroad Retirement Board*, the United States Court of Appeals for the District of Columbia Circuit analyzed the Board's regulation regarding deterrence from filing. That regulation provides that a person who visits a Board office stating that he or she wishes to file an application for an annuity but puts off filing because of an action or lack of action by a Board employee can establish an application filing date based on that oral notice provided certain conditions are met. Those conditions are that the Board employee failed to tell the person that it was necessary to file an application on the proper form, to tell the person that a written statement could protect the filing date, to give the person the proper application form, or to correctly inform the person of his or her eligibility. In this case, the court held that it was not necessary to determine whether the conditions were met because the Board's conclusion that the petitioner failed to express an intent to file an application was supported by substantial evidence.

In *Gaddis v. United States Railroad Retirement Board*, the United States Court of Appeals for the Fifth Circuit upheld the Board's determination that the petitioner was not entitled to sickness or unemployment insurance benefits under the Railroad Unemployment Insurance Act because he did not perform railroad service in the base years for the periods of his claims. The petitioner contended that he had residual effects of an injury suffered when he worked for a railroad in the 1970's, and claimed benefits for 1996 and later. He had ceased employment in the railroad industry in 1978. The Court upheld the Board, stating that the Railroad Unemployment Insurance Act focuses solely on whether the claimant received railroad compensation in the year immediately preceding the benefit claim in an attempt to partially replace some of an individual's railroad earnings lost due to sickness or unemployment, and that it is not designed to replace nonrailroad earnings lost as a result of an injury incurred years earlier.

## Legal Opinions

The following Legal Opinions are presented here because of their special significance or interest.

In *Legal Opinion L-2002-01*, the General Counsel advised that where an occupational disability applicant returns to railroad work for a short period before applying for an occupational disability annuity, and where the disability is found to begin prior to the return to work:

- 1) the return to work cannot be a “trial work period” because it occurred before filing the application;
- 2) the return to work is an “unsuccessful work attempt; ”
- 3) the applicant does not establish an “intent to retire” until the application is filed; and
- 4) the annuity cannot begin earlier than the day after the last day of the second period of employer service.

*Legal Opinion L-2002-06* concerned section 103(f) of the Railroad Retirement and Survivors’ Improvement Act of 2001, P.L. 107-90, which amended the Railroad Retirement Act to provide that an application filed with the Railroad Retirement Board for an employee, spouse, or divorced spouse annuity based on an employment record of less than 10 years of service is deemed to be an application for a benefit under the Social Security Act. The question was raised regarding whether an individual entitled to an annuity based on more than 10 years of service where that individual’s spouse, who is also a railroad employee, is entitled based on less than 10 years of service, may waive the payment of the social security benefit that they are deemed to have filed for.

A person who has filed an application for benefits under the Social Security Act may waive entitlement to that benefit for months which occur before the month in which such individual files an application for such benefit. Since the individual with less than 10 years of service is deemed to have filed an application for a social security benefit at the same time as the application for a railroad retirement benefit is filed, the General Counsel ruled that there can be no waiver of entitlement under the Social Security Act after that filing date.

There is no provision of the Social Security Act that permits an individual to waive entitlement to a social security benefit after the month in which the application is filed. The Social Security Administration does permit a person to withdraw an application for a benefit. The effect of that withdrawal is the same as if the application had never been filed. However, due to the deemed filing created by section 103(f) there can be no withdrawal of the application for a social security benefit unless the application for a railroad retirement annuity is also canceled.

## Appeals

Any claimant for benefits under the Railroad Retirement or Railroad Unemployment Insurance Acts may appeal a determination he or she feels is not justified. This appeal must be filed within certain time frames. Appeals are heard and decided by the Bureau of Hearings and Appeals. An appellant who is dissatisfied with the decision on his or her appeal may further appeal the case to the three-member Board within a prescribed period of time.

### **Railroad Retirement Act**

During fiscal year 2002, 651 appeals were filed with the Bureau of Hearings and Appeals under the Railroad Retirement Act, and the Bureau rendered decisions in 779 appeals. The initial or reconsidered decision was sustained in 238 cases. In 406 appeals the decision was fully favorable to the claimant; in 90 appeals it was partially favorable and 45 appeals were dismissed for various reasons.

One hundred thirty-six appeals were filed with the Board in fiscal year 2002, which, added to the 20 appeals carried over from the previous year, brought the total to be considered to 156. Of 140 decisions, 112 sustained previous rulings of the hearings officer, eight were reversed, 10 were remanded to the Bureau of Hearings and Appeals and one to the Reconsideration Section, and nine were dismissed. At the end of the year, 16 appeals were pending before the Board.

### **Railroad Unemployment Insurance Act**

During fiscal year 2002, 53 appeals under the Railroad Unemployment Insurance Act were filed with the Bureau of Hearings and Appeals, and the Bureau rendered decisions in 62 appeals. The original decision was sustained in 28 cases. In 24 appeals the decision was fully favorable to the claimant; in five appeals it was partially favorable. Five appeals were dismissed for various reasons.

Ten appeals were filed with the Board in fiscal year 2002, which, added to the five carried over from the previous year, brought the total to be considered to 15. The Board rendered decisions in 12 cases of appeals from the decision of the hearings officer, affirming the decision in five of them, dismissing two, and remanding four to the Bureau of Hearings and Appeals and one to the Office of Programs. At the end of the year, three appeals were pending before the Board.

# **STATISTICAL TABLES**

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**Table 1.--Beneficiaries and benefits paid under the Railroad Retirement Act  
and the Railroad Unemployment Insurance Act, by fiscal year, 1993-2002**

Fiscal year	Total <sup>1</sup>	Retirement <sup>2</sup>	Survivor <sup>2</sup>	Unemployment	Sickness
<b>BENEFICIARIES (in thousands)</b>					
1993.....	935	615	298	20	22
1994.....	912	599	288	21	22
1995.....	879	582	282	16	21
1996.....	849	565	272	17	20
1997.....	830	549	263	15	21
1998.....	800	530	254	11	21
1999.....	777	514	246	13	22
2000.....	755	499	237	14	23
2001.....	737	483	228	18	24
2002.....	719	475	219	17	24
<b>BENEFIT PAYMENTS (in millions)</b>					
1993.....	\$7,941.6	\$5,896.0	\$1,976.2	<sup>3</sup> \$47.7	\$21.7
1994.....	8,044.9	5,978.9	1,999.9	<sup>3</sup> 40.9	25.1
1995.....	8,120.6	6,042.9	2,016.3	35.7	25.8
1996.....	8,179.1	6,089.1	2,024.4	40.7	24.9
1997.....	8,278.6	6,166.3	2,039.4	37.5	35.4
1998.....	8,305.9	6,199.0	2,047.5	25.9	33.4
1999.....	8,317.7	6,207.2	2,041.3	33.0	36.2
2000.....	8,373.3	6,254.1	2,040.3	36.4	42.4
2001.....	8,506.2	6,352.6	2,058.8	43.2	51.6
2002.....	8,742.1	6,535.9	2,107.5	49.2	49.4

<sup>1</sup> Benefit payments include a small amount of payments for hospital insurance benefits for services in Canada.

<sup>2</sup> Retirement benefits include vested dual benefit and supplemental annuity payments. Survivor benefits include vested dual benefit payments.

<sup>3</sup> Includes extended unemployment benefits paid to claimants with less than 10 years of service and additional extended benefits to those with 10-14 years.

NOTE.-- Number of beneficiaries represents all individuals paid benefits in year. In total number for each year, beneficiaries are counted only once, even though they may have received more than one type of benefit. In fiscal year 2002, 10,400 individuals received both retirement and survivor benefits, 1,600 employees received both unemployment and sickness benefits, and 4,900 employees received benefits under both the Railroad Retirement Act and the Railroad Unemployment Insurance Act. These figures are partly estimated, and totals for earlier years are similarly adjusted.

**Table 2.--Status of the Railroad Retirement, Social Security Equivalent Benefit, Supplemental, and Dual Benefits Payments Accounts, by fiscal year, 1993-2002 (In millions)**

Fiscal year	Receipts					Expenditures					Balance at end of period <sup>9</sup>
	Tax transfers <sup>1</sup>	Interest and profit on investments <sup>2</sup>	Transfers under financial interchange <sup>3</sup>	Dual benefit transfers <sup>4</sup>	Advances against financial interchange <sup>5</sup>	Benefit payments <sup>6</sup>	Net transfers to administration	Transfers under financial interchange <sup>3</sup>	Repayments of advances against financial interchange <sup>7</sup>	Transfers to the National Railroad Retirement Investment Trust <sup>8</sup>	
<b>RAILROAD RETIREMENT ACCOUNT</b>											
1993.....	\$2,334.2	\$754.1	.....	.....	.....	\$2,799.4	\$49.5	.....	.....	.....	<sup>10</sup> \$10,692.2
1994.....	<sup>11</sup> 2,619.1	879.0	.....	.....	.....	2,847.6	49.7	.....	.....	.....	11,286.1
1995.....	2,523.9	1,071.0	.....	.....	.....	2,906.1	50.5	.....	.....	.....	11,926.4
1996.....	<sup>12</sup> 2,474.7	<sup>13</sup> 913.0	.....	.....	.....	2,854.5	50.8	.....	.....	.....	12,352.5
1997.....	2,518.7	<sup>14</sup> 1,348.9	.....	.....	.....	<sup>14</sup> 2,225.5	47.1	.....	.....	.....	13,972.3
1998.....	2,660.8	1,730.2	.....	.....	.....	2,888.3	49.5	.....	.....	.....	15,451.2
1999.....	<sup>15</sup> 2,932.4	316.0	.....	.....	.....	2,880.6	51.2	.....	.....	.....	15,768.9
2000.....	2,928.6	1,316.0	.....	.....	.....	2,925.3	55.9	.....	.....	.....	17,032.9
2001.....	2,819.2	2,038.9	.....	.....	.....	2,930.2	54.7	.....	.....	.....	18,907.2
2002.....	2,743.1	1,832.0	.....	.....	.....	3,337.8	64.9	.....	.....	\$1,431.6	<sup>16</sup> 18,640.4
<b>SOCIAL SECURITY EQUIVALENT BENEFIT ACCOUNT <sup>17</sup></b>											
1993.....	\$1,850.8	\$73.4	\$3,435.4	.....	\$2,939.9	\$4,685.3	\$25.3	\$400.5	\$3,165.3	.....	\$1,440.6
1994.....	1,849.5	76.2	3,525.5	.....	3,019.3	4,768.0	24.1	412.9	3,153.3	.....	1,552.6
1995.....	1,924.3	75.2	4,120.1	.....	3,077.9	4,811.3	26.7	396.1	3,250.5	.....	2,265.0
1996.....	<sup>12</sup> 1,918.3	<sup>13</sup> 123.3	3,556.3	.....	3,150.1	4,939.4	23.3	401.3	3,329.5	.....	2,319.4
1997.....	2,046.5	<sup>14</sup> (116.2)	3,747.2	.....	3,183.9	<sup>14</sup> 5,681.4	25.3	419.1	3,399.0	.....	1,656.1
1998.....	2,208.7	90.7	3,819.1	.....	3,145.1	5,078.8	26.2	419.4	3,430.0	.....	1,965.2
1999.....	<sup>15</sup> 2,000.1	91.5	3,816.0	.....	2,992.3	5,104.5	25.2	429.9	3,370.8	.....	1,934.7
2000.....	2,208.5	101.7	3,697.6	.....	3,005.1	5,124.8	27.1	465.3	3,190.1	.....	2,140.3
2001.....	2,134.0	93.8	3,282.8	.....	3,145.2	5,256.5	25.0	469.7	3,222.2	.....	1,822.7
2002.....	2,134.7	115.4	3,646.8	.....	3,153.9	5,146.7	26.1	424.7	3,385.3	.....	1,890.9

See footnotes at end of table.

**Table 2.--Status of the Railroad Retirement, Social Security Equivalent Benefit, Supplemental,  
and Dual Benefits Payments Accounts, by fiscal year, 1993-2002 (In millions) - Continued**

Fiscal year	Receipts					Expenditures					
	Tax transfers <sup>1</sup>	Interest and profit on investments <sup>2</sup>	Transfers under financial interchange <sup>3</sup>	Dual benefit transfers <sup>4</sup>	Advances against financial interchange <sup>5</sup>	Benefit payments <sup>6</sup>	Net transfers to administration	Transfers under financial interchange <sup>3</sup>	Repayments of advances against financial interchange <sup>7</sup>	Transfers to the National Railroad Retirement Investment Trust <sup>8</sup>	Balance at end of period <sup>9</sup>
<b>RAILROAD RETIREMENT SUPPLEMENTAL ACCOUNT <sup>18</sup></b>											
1993.....	\$112.6	\$2.0	.....	.....	.....	\$98.5	\$2.3	.....	.....	.....	\$48.7
1994.....	88.1	1.5	.....	.....	.....	94.0	2.3	.....	.....	.....	42.1
1995.....	77.0	1.1	.....	.....	.....	90.3	2.3	.....	.....	.....	27.6
1996.....	<sup>12</sup> 68.3	<sup>13</sup> (20.5)	.....	.....	.....	86.2	2.2	.....	.....	.....	41.2
1997.....	103.6	(0.9)	.....	.....	.....	82.4	2.2	.....	.....	.....	35.3
1998.....	118.1	0.7	.....	.....	.....	78.6	2.0	.....	.....	.....	41.0
1999.....	90.4	2.5	.....	.....	.....	75.1	2.1	.....	.....	.....	56.8
2000.....	76.7	3.5	.....	.....	.....	72.9	2.3	.....	.....	.....	61.7
2001.....	67.8	3.1	.....	.....	.....	68.8	2.0	.....	.....	.....	61.7
2002.....	23.5	2.9	.....	.....	.....	16.8	0.7	.....	.....	\$70.4	<sup>16</sup> .....
<b>DUAL BENEFITS PAYMENTS ACCOUNT <sup>19</sup></b>											
1993.....	.....	.....	.....	\$294.0	.....	\$289.2	.....	.....	.....	.....	\$4.9
1994.....	.....	.....	.....	277.0	.....	269.4	.....	.....	.....	.....	7.6
1995.....	.....	.....	.....	254.0	.....	251.5	.....	.....	.....	.....	2.5
1996.....	.....	.....	.....	239.0	.....	233.4	.....	.....	.....	.....	5.3
1997.....	.....	.....	.....	223.0	.....	216.4	.....	.....	.....	.....	6.6
1998.....	.....	.....	.....	205.5	.....	200.9	.....	.....	.....	.....	4.6
1999.....	.....	.....	.....	189.0	.....	188.4	.....	.....	.....	.....	0.6
2000.....	.....	.....	.....	173.3	.....	171.4	.....	.....	.....	.....	1.9
2001.....	.....	.....	.....	160.0	.....	156.0	.....	.....	.....	.....	4.0
2002.....	.....	.....	.....	146.0	.....	142.2	.....	.....	.....	.....	3.9

See footnotes at end of table.

## Footnotes - Table 2

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- <sup>1</sup> Net of U.S. Treasury adjustments for payroll tax refunds to certain carriers and their employees for prior periods. Includes Federal income tax transfers under section 72(r) of the Internal Revenue Code as amended. In fiscal years 1993-1994, the Railroad Retirement Account includes repayment taxes under Chapter 23A of the Internal Revenue Code, as amended, applied against outstanding loans due from the Railroad Unemployment Insurance Account.
- <sup>2</sup> Net of interest on U.S. Treasury adjustments for payroll tax refunds (see note 1). Railroad Retirement and Social Security Equivalent Benefit Accounts reflect adjustments in interest for benefit payment adjustments related to the financial interchange (see note 6).
- <sup>3</sup> Transfers to or from OASDHI Trust Funds under section 7(c)(2) of the 1974 Railroad Retirement Act.
- <sup>4</sup> Transfers from U.S. Treasury under section 15(d) of the Railroad Retirement Act of 1974 and Federal income tax transfers under section 72(r) of the Internal Revenue Code as amended.
- <sup>5</sup> Advances, including interest, from U.S. Treasury to offset lag in receipt of financial interchange funds under section 7(c)(4) of the 1974 Railroad Retirement Act as amended.
- <sup>6</sup> Railroad Retirement and Social Security Equivalent Benefit Accounts reflect adjustments in benefit payments charged to the Social Security Equivalent Benefit Account as compared to actual financial interchange benefits. Effective January 1, 2002, supplemental benefits are paid from the Railroad Retirement Account.
- <sup>7</sup> Includes interest.
- <sup>8</sup> Under the Railroad Retirement and Survivors' Improvement Act of 2001, funds not needed to pay current administrative expenses (and, for the Social Security Equivalent Benefit Account, current benefits) are to be transferred to the National Railroad Retirement Investment Trust.
- <sup>9</sup> Through fiscal year 1995, all Account balances include liabilities for uncashed check credits received from U.S. Treasury. Beginning in fiscal year 1996, only the Railroad Retirement Account balance reflects these credits. The Railroad Retirement Account balance also reflects (a) the current net difference between Board payments of social security benefits and the receipt of reimbursements for such payments, (b) credits for undistributed payment returns and recoveries, and (c) loans to and repayments from the Railroad Unemployment Insurance or the Railroad Retirement Supplemental Accounts. Beginning fiscal year 1996, the Supplemental Account balance reflects loans from and repayments (including interest) to the Railroad Retirement Account. The Dual Benefits Payments Account balance does not carry over to the following year.
- <sup>10</sup> Reflects payment during the year of the entire debt balance from the Railroad Unemployment Insurance Account, \$83.1 million in principal and \$97.1 million in interest.
- <sup>11</sup> Includes an income tax transfer adjustment of +\$193 million for fiscal year 1993.
- <sup>12</sup> Reflects adjustment for misclassified supplemental annuity tax refunds for fiscal year 1996 and prior fiscal years: Railroad Retirement Account -\$13.4 million, Social Security Equivalent Benefit Account -\$14.5 million, and Railroad Retirement Supplemental Account +\$27.9 million.
- <sup>13</sup> Reflects adjustment for misclassified supplemental annuity tax refunds for fiscal year 1996 and prior fiscal years: Railroad Retirement Account -\$11.0 million, Social Security Equivalent Benefit Account -\$10.8 million, and Railroad Retirement Supplemental Account +\$21.8 million.
- <sup>14</sup> Reflects adjustment in benefit payments (Railroad Retirement Account -\$676.8 million, Social Security Equivalent Benefit Account +\$676.8 million) charged to the Social Security Equivalent Benefit Account for October 1984 - December 1995, as compared to actual financial interchange benefits, with interest (Railroad Retirement Account +\$241.6 million, Social Security Equivalent Benefit Account -\$241.6 million) through August 1, 1997.
- <sup>15</sup> Reflects transfer of \$83.1 million from the Social Security Equivalent Benefit Account to the Railroad Retirement Account for reallocation of fiscal year 1998 payroll taxes. Railroad Retirement Account also reflects special Treasury income tax adjustment of \$146 million for calendar years 1988-1994.
- <sup>16</sup> Reflects transfer of \$124,000 from the Railroad Retirement Supplemental Account to the Railroad Retirement Account. The Railroad Retirement Account balance also reflects a loan of \$7.8 million to the Railroad Unemployment Insurance Account.
- <sup>17</sup> Established October 1, 1984, to keep track of the financing and payment of social security level portions of railroad retirement benefits.
- <sup>18</sup> Under the Railroad Retirement and Survivors' Improvement Act of 2001, the supplemental work-hour tax was repealed for years after 2001, and the separate Railroad Retirement Supplemental Account was eliminated.
- <sup>19</sup> Established October 1, 1981, to keep track of the financing and payment of vested dual benefits.

**Table 3.--Status of the Railroad Unemployment Insurance Account, by fiscal year, 1998-2002  
(In thousands)**

Item	Fiscal year				
	1998	1999	2000	2001	2002
<b>RECEIPTS</b>					
Taxes .....	\$49,797	\$91,855	\$47,977	\$30,575	\$75,696
Interest .....	4,539	6,892	7,332	4,204	1,582
Transfer from Administration fund under sec. 11(d) of the RUI Act .....	2,993	5,814	6,546	6,048	6,734
Undistributed recoveries of benefit payments <sup>1</sup> .....	354	(99)	170	865	(900)
Loan from the RR Account.....	----	----	----	----	7,800
<b>Total .....</b>	<b>\$57,683</b>	<b>\$104,462</b>	<b>\$62,025</b>	<b>\$41,692</b>	<b>\$90,912</b>
<b>EXPENDITURES</b>					
Benefit payments .....	\$59,317	\$69,200	\$78,759	\$94,823	\$98,580
Funding for Office of Inspector General .....	1,089	1,158	1,209	1,233	1,372
<b>Total .....</b>	<b>\$60,406</b>	<b>\$70,358</b>	<b>\$79,967</b>	<b>\$96,057</b>	<b>\$99,953</b>
Cash balance end of period .....	\$66,611	\$100,715	\$82,773	\$28,409	\$19,368
<b>LOANS DUE RAILROAD RETIREMENT ACCOUNT</b>					
Loans.....	----	----	----	----	\$7,800
Interest accrued.....	----	----	----	----	208
<b>Due RR Account end of period.....</b>	<b>----</b>	<b>----</b>	<b>----</b>	<b>----</b>	<b>\$8,008</b>

<sup>1</sup> Net of distributed payments.

**Table 4.--Status of the RUIA Administration Fund, by fiscal year, 1993-2002  
(In thousands)**

Fiscal year	Taxes and interest	Administrative expenditures <sup>1</sup>	Transfer to Railroad Unemployment Insurance Account under Sec. 11d <sup>2</sup>	Balance at end of period
<b>1993</b> .....	\$16,703	\$16,652	\$1,064	\$3,034
<b>1994</b> .....	17,416	16,484	.....	<sup>3</sup> 3,965
<b>1995</b> .....	<sup>3</sup> 17,597	16,462	538	4,634
<b>1996</b> .....	17,373	16,497	689	4,821
<b>1997</b> .....	16,891	16,136	694	4,883
<b>1998</b> .....	19,081	13,123	2,993	7,849
<b>1999</b> .....	20,235	13,188	5,814	9,081
<b>2000</b> .....	19,941	14,847	6,546	7,629
<b>2001</b> .....	20,434	14,004	6,048	8,011
<b>2002</b> .....	20,032	13,266	6,734	8,043

<sup>1</sup> Expenditures for each year included encumbrances as of end of year.

<sup>2</sup> Transfers to the Railroad Unemployment Insurance Account are based on the amount the accrual balance on the prior September 30 exceeded \$6,000,000.

<sup>3</sup> The cash balance at the beginning of fiscal year 1995 was increased \$72,000 to \$4,037,000 and fiscal year 1995 interest was decreased \$72,000 due to a fiscal year 1994 audit adjustment.

**Table 5.--Number and average amount of retirement and survivor annuities in current-payment status at end of year,  
by type of annuitant and fiscal year, 1993-2002**

Fiscal year	Total <sup>1</sup>	Retired employees			Spouses and divorced spouses	Aged widow(er)s <sup>2</sup>	Disabled widow(er)s	Widowed mothers (fathers) <sup>2</sup>	Children	Remarried widow(er)s	Divorced widow(er)s <sup>2</sup>
		Age	Disability	Supple- mental							
<b>NUMBER AT END OF YEAR</b>											
1993 .....	1,024,439	293,454	78,282	180,603	206,967	227,087	6,799	1,786	15,722	5,925	7,731
1994 .....	996,280	284,168	78,183	174,505	201,327	220,021	6,620	1,735	15,463	6,023	8,152
1995 .....	967,175	274,603	78,566	168,231	195,082	212,639	6,525	1,617	15,302	6,071	8,457
1996 .....	936,428	265,030	78,647	161,806	188,281	204,969	6,371	1,525	14,960	6,066	8,690
1997 .....	906,741	255,664	79,063	155,721	181,399	197,447	6,202	1,462	14,665	6,064	8,976
1998 .....	875,905	245,900	79,017	149,260	174,467	190,222	6,031	1,427	14,347	6,045	9,116
1999 .....	846,687	236,741	79,617	143,515	167,478	182,839	5,893	1,327	13,964	5,967	9,280
2000 .....	819,327	228,439	80,158	138,158	161,283	175,464	5,679	1,245	13,561	5,886	9,392
2001 .....	790,711	219,646	80,574	132,799	154,710	167,840	5,460	1,165	13,233	5,733	9,490
2002 .....	775,638	216,044	81,653	132,066	151,006	160,490	5,236	1,114	12,804	5,619	9,545
<b>AVERAGE AMOUNT</b>											
1993 .....	.....	\$1,052	\$1,052	\$44	\$426	\$628	\$568	\$734	\$550	\$419	\$448
1994 .....	.....	1,091	1,108	44	441	652	586	804	567	441	468
1995 .....	.....	1,133	1,171	44	456	680	607	844	589	463	487
1996 .....	.....	1,175	1,228	43	471	708	628	882	608	484	505
1997 .....	.....	1,223	1,291	43	487	740	650	916	627	507	526
1998 .....	.....	1,264	1,346	43	502	768	672	957	646	531	546
1999 .....	.....	1,300	1,398	43	514	792	687	991	659	548	559
2000 .....	.....	1,351	1,465	42	530	826	711	1,029	678	571	579
2001 .....	.....	1,414	1,548	42	550	870	746	1,076	706	603	606
2002 .....	.....	1,496	1,624	42	579	948	799	1,228	728	627	633

<sup>1</sup> Includes annuities to parents. On September 30, 2002, there were 61 parents' annuities in current-payment status averaging \$628.

<sup>2</sup> Numbers include annuities temporarily being paid at spouse annuity rates, pending final adjudication of survivor annuities.

NOTE.--Data exclude survivor (option) annuities. On September 30, 2002, there were 3 survivor (option) annuities in current-payment status averaging \$60.

**Table 6.--Number and average amount of retirement and survivor annuities awarded during year,  
by type of annuitant and fiscal year, 1993-2002**

Fiscal year	Total <sup>1</sup>	Retired employees			Spouses and divorced spouses	Aged widow(er)s	Disabled widow(er)s	Widowed mothers (fathers)	Children	Remarried widow(er)s	Divorced widow(er)s
		Age	Disability	Supple- mental							
<b>NUMBER AWARDED</b>											
1993.....	49,014	9,965	4,849	5,877	12,719	12,529	272	272	1,023	601	900
1994.....	44,378	9,000	4,885	5,320	11,847	10,631	229	241	909	469	836
1995.....	42,072	7,962	5,094	4,715	10,407	11,021	297	222	1,074	419	853
1996.....	38,635	7,415	4,878	4,414	9,576	9,979	233	204	825	365	737
1997.....	38,293	7,422	4,872	4,494	9,175	9,868	240	222	855	381	757
1998.....	36,508	6,756	4,620	4,399	8,739	9,566	248	236	851	360	727
1999.....	36,205	6,846	5,140	4,496	8,157	9,317	246	199	719	324	759
2000.....	35,818	7,186	4,709	4,749	8,316	8,699	204	159	714	336	744
2001.....	33,289	6,285	4,630	4,339	7,648	8,372	217	157	611	307	719
2002.....	44,485	11,127	5,206	8,337	9,764	8,104	199	161	590	273	716
<b>Cumulative 1937-2002</b>	<b>4,712,306</b>	<b>1,390,728</b>	<b>482,392</b>	<b>431,243</b>	<b>1,077,360</b>	<b>962,704</b>	<b>16,508</b>	<b>83,751</b>	<b>232,298</b>	<b>13,577</b>	<b>18,239</b>
<b>AVERAGE AMOUNT</b>											
1993.....	.....	\$1,223	\$1,354	\$41	\$448	\$740	\$676	\$843	\$664	\$483	\$496
1994.....	.....	1,277	1,431	41	464	784	713	869	686	521	527
1995.....	.....	1,346	1,504	41	482	820	737	927	713	541	537
1996.....	.....	1,435	1,527	41	505	858	770	955	741	594	564
1997.....	.....	1,506	1,593	41	521	888	782	868	760	607	564
1998.....	.....	1,579	1,649	41	545	920	810	908	805	642	599
1999.....	.....	1,654	1,751	41	567	945	825	993	831	658	615
2000.....	.....	1,745	1,871	41	584	998	901	1,049	858	670	613
2001.....	.....	1,842	1,971	41	613	1,044	927	996	932	701	654
2002.....	.....	2,243	2,051	42	697	1,286	1,148	1,319	961	697	705

<sup>1</sup> Includes annuities to parents. Fiscal year 2002 total includes 8 annuities to parents averaging \$606. Cumulative total includes 3,506 annuities to parents.

NOTE.--Cumulative figures reflect adjustments not made in yearly data, but average amounts for each year include effects of changes in rates made by the end of the year.



**Table 7.--Retirement and survivor benefits in current-payment status on September 30, 2002, by class and state  
(Amounts in thousands)**

State <sup>1</sup>	Total		Retirement benefits <sup>2</sup>		Survivor benefits	
	Number	Monthly amount	Number	Monthly amount	Number	Monthly amount
Alabama.....	12,400	\$ 11,862	9,000	\$ 8,826	3,400	\$ 3,036
Alaska.....	200	204	200	151	100	52
Arizona.....	13,800	12,555	10,700	9,717	3,100	2,838
Arkansas.....	11,600	11,714	8,900	9,241	2,700	2,473
California.....	44,800	40,033	33,600	30,338	11,300	9,695
Colorado.....	10,200	9,763	7,600	7,392	2,600	2,371
Connecticut.....	4,000	3,715	2,900	2,741	1,100	973
Delaware.....	2,300	2,248	1,600	1,631	700	617
Washington DC.....	900	625	600	430	300	195
Florida.....	41,800	38,220	32,500	30,084	9,300	8,136
Georgia.....	19,500	18,830	14,600	14,503	4,900	4,326
Hawaii.....	400	200	300	150	100	50
Idaho.....	6,100	5,891	4,800	4,604	1,300	1,287
Illinois.....	50,100	45,988	38,100	35,086	12,100	10,902
Indiana.....	22,100	21,083	16,600	16,050	5,500	5,033
Iowa.....	12,600	11,491	9,600	8,709	3,000	2,782
Kansas.....	18,800	18,117	14,600	14,190	4,200	3,928
Kentucky.....	19,400	18,902	14,600	14,530	4,700	4,372
Louisiana.....	10,800	10,283	8,000	7,641	2,800	2,643
Maine.....	4,300	4,009	3,200	2,980	1,100	1,029
Maryland.....	13,700	12,893	10,100	9,531	3,600	3,362
Massachusetts.....	6,800	5,764	4,900	4,089	1,900	1,676
Michigan.....	20,200	19,029	15,700	14,825	4,600	4,205
Minnesota.....	22,600	20,670	17,300	15,842	5,300	4,829
Mississippi.....	8,100	7,651	6,000	5,842	2,100	1,809
Missouri.....	26,200	24,137	19,800	18,434	6,400	5,703
Montana.....	8,200	8,029	6,400	6,233	1,800	1,795
Nebraska.....	14,100	13,917	11,000	10,945	3,100	2,972
Nevada.....	4,600	4,275	3,700	3,406	1,000	869
New Hampshire.....	1,300	1,072	900	764	400	309
New Jersey.....	13,800	12,755	9,900	9,364	3,800	3,392
New Mexico.....	6,500	5,894	4,900	4,482	1,500	1,412
New York.....	32,500	29,812	23,400	22,131	9,100	7,681
North Carolina.....	13,400	12,637	9,900	9,594	3,500	3,043
North Dakota.....	4,400	4,296	3,400	3,262	1,100	1,034

See footnotes at end of table.

**Table 7.--Retirement and survivor benefits in current-payment status on September 30, 2002, by class and state  
(Amounts in thousands) - Continued**

State <sup>1</sup>	Total		Retirement benefits <sup>2</sup>		Survivor benefits	
	Number	Monthly amount	Number	Monthly amount	Number	Monthly amount
Ohio.....	41,500	\$38,953	30,700	\$28,833	10,800	\$ 10,120
Oklahoma.....	7,000	6,560	5,200	4,984	1,800	1,576
Oregon.....	11,900	11,122	9,100	8,611	2,800	2,511
Pennsylvania.....	56,400	53,108	40,400	38,061	16,000	15,046
Rhode Island.....	900	722	600	515	300	207
South Carolina.....	8,100	7,961	6,000	6,078	2,100	1,883
South Dakota.....	1,700	1,542	1,300	1,145	500	397
Tennessee.....	15,800	14,838	11,500	11,080	4,300	3,759
Texas.....	43,400	41,483	32,500	31,314	10,900	10,169
Utah.....	7,700	7,317	5,800	5,459	1,900	1,859
Vermont.....	1,400	1,152	1,000	814	400	338
Virginia.....	24,100	23,358	17,800	17,685	6,200	5,673
Washington.....	15,600	14,760	12,100	11,496	3,500	3,264
West Virginia.....	13,600	13,079	10,000	9,607	3,600	3,472
Wisconsin.....	14,800	13,309	11,300	10,167	3,500	3,141
Wyoming.....	4,100	4,103	3,200	3,225	900	878
<b>Outside United States:</b>						
Canada.....	3,900	2,278	2,600	1,332	1,300	946
Mexico.....	500	333	300	162	200	170
Other.....	900	700	500	392	400	308
<b>Total.....</b>	<b>775,600</b>	<b>\$725,247</b>	<b>580,800</b>	<b>\$548,698</b>	<b>194,900</b>	<b>\$176,549</b>

<sup>1</sup> State of residence of beneficiary on September 30, 2002.

<sup>2</sup> Includes 132,100 supplemental annuities to employees receiving regular annuities. In a relatively small number of cases, employees were also receiving spouse or widow(er)'s benefits.

NOTE.--Retirement benefits include regular and supplemental employee annuities, spouse annuities and divorced spouse annuities. Survivor benefits include annuities to aged and disabled widow(er)s, widowed mothers and fathers, remarried and divorced widow(er)s, children, parents, survivor (option) annuities, and widow(er)s annuities temporarily being paid at spouse annuity rates pending final adjudication of survivor annuities. Benefit amounts exclude social security payments to dual beneficiaries.

**Table 8.--Principal administrative data for the unemployment and sickness programs,  
benefit years 1997-1998 through 2001-2002**

Item	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002
<b>Qualified employees.....</b>	276,600	272,400	278,200	277,400	269,900
<b>Maximum daily benefit rate.....</b>	\$43	\$44	\$46	\$48	\$50
<b>UNEMPLOYMENT BENEFITS</b>					
<b>Net amount of benefits paid (thousands)</b>	\$27,034	\$31,565	\$35,620	\$43,008	\$47,383
<b>Payments:<sup>1</sup></b>					
<b>Number.....</b>	71,500	80,800	83,300	96,100	103,600
<b>Average amount per two week     claim period.....</b>	\$375	\$386	\$399	\$415	\$429
<b>Beneficiaries.....</b>	11,300	12,600	13,700	16,700	17,800
<b>Applications received.....</b>	13,700	15,800	17,500	20,100	22,000
<b>Claims received.....</b>	86,800	97,900	101,400	118,800	128,500
<b>Normal benefit accounts exhausted.....</b>	2,100	2,000	2,100	2,200	2,700
<b>Non-compensable waiting period only<sup>2</sup>..</b>	200	200	(3)	(3)	(3)
<b>SICKNESS BENEFITS</b>					
<b>Net amount of benefits paid (thousands)</b>	\$33,058	\$34,642	\$40,499	\$49,512	\$50,904
<b>Payments:<sup>1</sup></b>					
<b>Number.....</b>	147,500	145,200	151,300	163,200	168,400
<b>Average amount per two week     claim period.....</b>	\$385	\$394	\$406	\$426	\$445
<b>Beneficiaries.....</b>	20,500	20,600	22,000	23,000	23,000
<b>Applications received.....</b>	26,600	26,300	27,100	28,700	28,100
<b>Claims received.....</b>	171,100	169,000	175,900	189,000	194,000
<b>Normal benefit accounts exhausted.....</b>	4,300	3,900	4,100	4,500	5,100
<b>Non-compensable waiting period only<sup>2</sup>..</b>	200	200	100	100	100

<sup>1</sup> Not adjusted for recoveries or settlements of underpayments.

<sup>2</sup> Prior to the October 1996 legislation, no benefits were payable for the first claim in a benefit year, generally resulting in a 2-week waiting period. As a result of the legislation, benefits are payable for each day of unemployment or sickness in excess of 7 during the first 14-day registration period in a benefit year.

<sup>3</sup> Less than 50.

NOTE.--Data covered program activities during the year, regardless of when unemployment or sickness occurred.

Table 9.--All employees, new entrants, employees qualified for RUIA benefits, and related data, by employer, 2001

Class or name of employer	All employees				New entrants		Creditable Compensation (thousands)		
	Total	With 12 Months of service in 2001	With 10 or more years of service	Qualified for RUIA benefits	Total	Qualified for RUIA benefits	Tier I	Tier II	RUIA
<b>CLASS OF EMPLOYER</b>									
Class I railroads .....	211,736	174,179	146,232	204,939	5,287	3,499	\$10,383,919	\$9,661,600	\$2,459,217
Class II railroads .....	10,727	8,457	6,254	10,033	514	242	455,327	434,605	119,453
Class III railroads .....	35,373	27,231	20,000	32,557	3,011	1,607	1,665,867	1,519,477	387,303
Switching and terminal companies .....	5,869	4,504	3,600	5,392	307	140	240,825	230,418	63,919
Car-loan companies.....	2,171	1,751	1,372	2,093	42	23	93,190	88,551	24,723
Miscellaneous employers <sup>1</sup> .....	4,709	3,672	2,588	4,129	408	211	232,370	199,954	49,324
<b>Total.....</b>	<b>270,585</b>	<b>219,794</b>	<b>180,046</b>	<b>259,143</b>	<b>9,569</b>	<b>5,722</b>	<b>\$13,071,498</b>	<b>\$12,134,605</b>	<b>\$3,103,939</b>
<b>SELECTED EMPLOYERS</b>									
Burlington Northern and Santa Fe Ry. Co.....	45,310	37,852	31,228	44,121	1,418	1,046	\$2,343,760	\$2,150,257	\$532,398
CSX Transportation Incorporated.....	38,385	31,975	27,042	37,294	882	606	1,834,506	1,740,311	448,812
Grand Trunk Western Railroad Incorporated.....	2,096	1,639	1,660	1,996	41	33	107,983	97,383	23,757
Illinois Central Railroad Company.....	3,517	2,968	2,447	3,407	147	111	193,146	172,391	41,158
Kansas City Southern Railway Company.....	2,794	2,313	1,620	2,693	127	81	136,255	128,747	32,345
IC & E - Kansas City Southern Joint Agency.....	160	134	101	157	7	6	7,310	7,102	1,871
National Railroad Passenger Corp. (Amtrak).....	27,207	21,629	16,697	26,077	876	488	1,170,186	1,111,319	309,589
Norfolk Southern Corporation.....	33,494	27,572	24,494	31,964	361	168	1,560,829	1,478,874	385,043
Soo Line Railroad Company.....	3,286	2,605	2,430	3,180	76	50	153,800	144,714	37,788
Union Pacific Railroad Company.....	55,487	45,492	38,513	54,050	1,352	910	2,876,145	2,630,501	646,457

<sup>1</sup> Includes labor organizations, lessor companies, employer associations and miscellaneous carrier affiliates.

NOTE.--Tier I compensation excludes miscellaneous compensation taxable at the tier I tax rate.