# *MANAGEMENT'S DISCUSSION AND ANALYSIS*

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# ***Management's Discussion and Analysis***

## Overview of the Railroad Retirement Board

### Mission

The RRB is an independent agency in the executive branch of the Federal Government. The RRB's mission statement is as follows:

> *The RRB'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 RRB 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 RRB 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 RRB will treat every person who comes into contact with the agency with courtesy and concern, and respond to all inquiries promptly, accurately and clearly.*

### Major Program Areas

The RRB was created in the 1930's by legislation establishing a retirement benefit program for the nation's railroad workers. Private industrial pension plans had been pioneered in the railroad industry; the first industrial pension plan in America was established on a railroad in 1874. By the 1930's, pension plans were far more developed in the rail industry than in most other businesses or industries; but these plans had serious defects which were magnified by the Great Depression.

The economic conditions of the 1930's demonstrated the need for retirement plans on a national basis because few of the nation's elderly were covered under any type of retirement program. While the social security system was in the planning stage, railroad workers sought a separate railroad retirement system which would continue and broaden the existing railroad programs under a uniform national plan. The proposed social security system was not scheduled to begin monthly benefit payments for several years and would not give credit for service performed prior to 1937, while conditions in the railroad industry called for immediate benefit payments based on prior service.

Legislation was enacted in 1934, 1935, and 1937 to establish a railroad retirement system separate from the social security program legislated in 1935. Such legislation, taking into account particular circumstances of the rail industry, was not without precedent. Numerous laws pertaining to rail operations and safety had already been enacted since the Interstate Commerce Act of 1887. Since passage of the Railroad Retirement Acts of the 1930's, numerous other railroad laws have subsequently been enacted.

While the railroad retirement system has remained separate from the social security system, the two systems are closely coordinated with regard to earnings credits, benefit payments, and taxes. The financing of the two systems is linked through a financial interchange under which, in effect, the portion of railroad retirement annuities that is equivalent to social security benefits is reinsured through the social security system. The purpose of this financial coordination is to place the social security trust funds in the same position they would be in if railroad service were covered by the social security program instead of the railroad retirement program.

Legislation enacted in 1974 restructured railroad retirement benefits into two tiers, so as to coordinate them fully with social security benefits. The first tier is based on combined railroad retirement and social security credits, using social security benefit formulas. The second tier is based on railroad service only and is comparable to the pensions paid over and above social security benefits in other industries.

The railroad unemployment insurance system was also established in the 1930's. The Great Depression demonstrated the need for unemployment compensation programs, and State unemployment programs had been established under the Social Security Act in 1935. While the State unemployment programs generally covered railroad workers, railroad operations which crossed State lines caused special problems. Unemployed railroad workers were denied compensation by one State because they became unemployed while working in another State or because their employers had paid unemployment taxes in another State. Although there were cases where employees appeared to be covered in more than one State, they often did not qualify in any.

A Federal study commission, which reported on the nationwide State plans for unemployment insurance, recommended that railroad workers be covered by a separate plan because of the complications their coverage had caused the State plans. The Congress subsequently enacted the RUIA in June 1938. The RUIA established a system of benefits for unemployed railroad workers, financed entirely by railroad employers and administered by the RRB. Sickness insurance benefits were added in 1946.

*Railroad Retirement Act*

The Railroad Retirement and Survivors' Improvement Act (RRSIA) of 2001, Public Law 107-90, enacted on December 21, 2001, amended the RRA. The RRSIA was passed to enhance benefits provided under the RRA and to modernize the funding of the railroad retirement program.

The legislation liberalized early retirement benefits for 30-year employees, eliminated a cap on monthly retirement and disability benefits, lowered the minimum service requirement from 10 years to 5 years of service if performed after 1995, and provided for increased benefits for some widow(er)s.

Employees with 30 or more years of service are eligible for regular annuities the first full month they are age 60. 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 with less than 30 years of service are eligible for regular annuities the first full month they are 62. Early retirement annuity reductions are applied to annuities awarded before full retirement age, which range from age 65 for those born before 1938 to age 67 for those born in 1960 or later, the same as under social security. Disability annuities can be paid on the basis of total or occupational disability. Annuities are also payable to spouses and divorced spouses of retired workers and to widow(er)s, surviving divorced spouses, remarried widow(er)s, children, and parents of deceased railroad workers. Qualified railroad retirement beneficiaries are covered by Medicare in the same way as social security beneficiaries.

Jurisdiction over the payment of retirement and survivor benefits is shared by the RRB and SSA. The RRB has jurisdiction over the payment of retirement benefits if the employee had at least 5 years of railroad service; for survivor benefits, there is an additional requirement that the employee's last regular employment before retirement or death was in the railroad industry. If a railroad employee or his or her survivors do not qualify for railroad retirement benefits, the RRB transfers the employee's railroad retirement credits to SSA, where they are treated as social security credits.

The primary source of income for the railroad retirement-survivor benefit program is payroll taxes paid by railroad employers and their employees. By law, railroad retirement taxes are coordinated with social security taxes. Employees and employers pay tier 1 taxes at the same rate as social security taxes. In addition, both employees and employers pay tier 2 taxes which are used to finance railroad retirement benefit payments over and above social security levels. Historically, railroad retirement taxes have been considerably higher than social security taxes. The cents per work-hour tax, paid by railroad employers to finance a supplemental annuity program for career employees, was repealed beginning with calendar year 2002.

The second major source of income to the railroad retirement-survivor benefit 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 trust funds in the same position in which they would have been had railroad employment been covered by the Social Security Act and Federal Insurance Contributions Act (FICA). In fiscal year 2003, the RRB trust funds realized a net of $3.3 billion representing almost 32 percent of RRB financing sources (excluding transfers to the NRRIT) through the financial interchange.

Other sources of income currently include interest on investments, revenue resulting from Federal income taxes on railroad retirement benefits, and appropriations from general Treasury revenues provided after 1974 as part of a phase-out of certain vested dual benefits.

*Railroad Unemployment Insurance Act*

Under the RUIA, unemployment insurance benefits are paid to qualified railroad workers who are unemployed but ready, willing, and able to work and sickness insurance benefits to railroad workers who are unable to work because of illness, injury, or pregnancy. The RRB also operates a placement service to assist unemployed railroad workers in securing employment.

A new unemployment-sickness insurance benefit year begins every July 1, with eligibility generally based on railroad service and earnings in the preceding calendar year. Up to 26 weeks of normal unemployment and 26 weeks of sickness insurance benefits are payable to an individual in a benefit year. Additional extended benefits are payable for up to 13 weeks to persons with 10 or more years of service. Effective January 1, 2002, extended benefits are also payable to persons with 5 or more years of service all of which accrue after December 31, 1995.

The railroad unemployment-sickness insurance benefit program is financed by taxes on railroad employers under an experience rating system initiated in 1991. Each employer's payroll tax rate is determined annually by the RRB on the basis of benefit payments to the railroad's employees. The latest RRB financial report on the unemployment insurance system indicated that experience-based contribution rates will keep the system solvent even under the most pessimistic employment assumptions.

RRB Organizational Structure

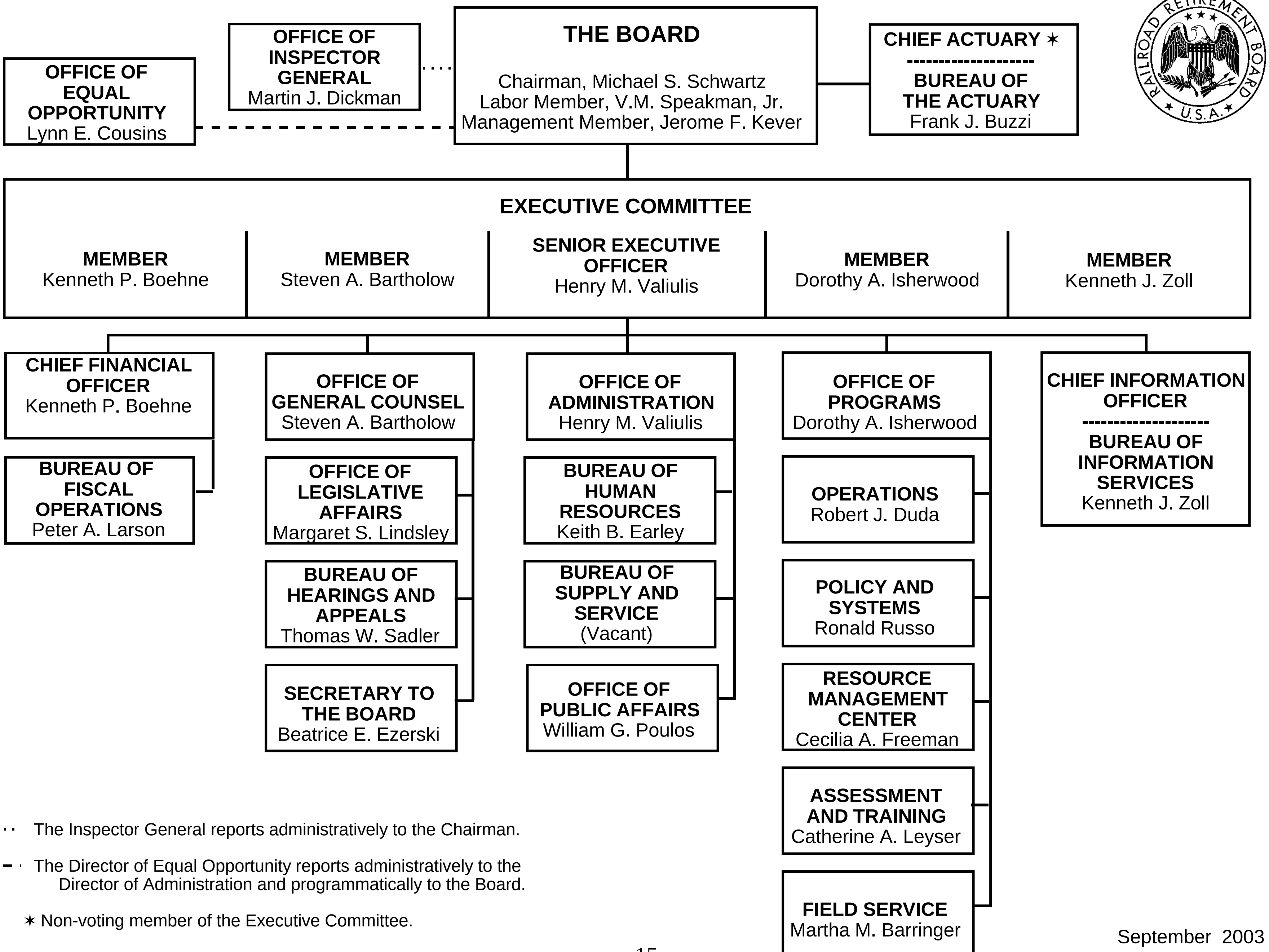
The RRB is headed by three members appointed by the President of the United States, with the advice and consent of the Senate. One member is appointed upon recommendation of railroad employers; one is appointed upon recommendation of railroad labor organizations; and the third, who is the Chairman, is appointed to represent the public interest. The Board Members' terms of office are 5 years and are scheduled to expire in different years. The Chairman of the Board is Michael S. Schwartz, the Labor Member is V. M. Speakman, Jr., and the Management Member is Jerome F. Kever. The President also appoints an Inspector General for the RRB; the Inspector General is Martin J. Dickman.

The primary function of the RRB is the determination and payment of benefits under the retirement-survivor and unemployment-sickness insurance programs. To this end, the RRB employs field representatives to assist railroad personnel and their families in filing claims for benefits, examiners to adjudicate the claims, and professionals to develop and operate the extensive data processing systems needed for maintaining earnings records, calculating benefits, and processing payments, and provide other support functions.

The RRB also employs actuaries to predict the future income and outlays of the agency's trust funds and accounts, statisticians and economists to provide vital data, and attorneys to interpret legislation and represent the RRB in litigation. Internal administration requires a procurement staff, a budget and accounting staff, quality assurance, and personnel specialists. The Inspector General employs auditors and investigators to detect any waste, fraud, or abuse in the benefit programs.

The RRB's headquarters are located at 844 N. Rush Street in Chicago, Illinois. At September 30, 2003, the RRB field structure was comprised of 3 regional offices and 53 local offices located throughout the United States as shown on page 16.

## U.S. RAILROAD RETIREMENT BOARD




········ The Inspector General reports administratively to the Chairman.

– – – – The Director of Equal Opportunity reports administratively to the Director of Administration and programmatically to the Board.

✶ Non-voting member of the Executive Committee.

September 2003


U.S. RAILROAD RETIREMENT BOARD
REGIONAL MAP
WASHINGTON
Bellevue
Spokane
MONTANA
NORTH DAKOTA
MINNESOTA
Portland
OREGON
Billings
Fargo
Duluth
MICHIGAN
WISCONSIN
IDAHO
WYOMING
SOUTH DAKOTA
St. Paul
MICHIGAN
NEW YORK
V.T.
MAINE
N.H.
Boston
Albany
MASS
CONN.
Buffalo
3
2
1
CALIFORNIA
NEVADA
UTAH
NEBRASKA
IOWA
Milwaukee
Detroit
PENNSYLVANIA
Scranton
Westbury
New York
Newark
Chicago
Joliet
INDIANA
OHIO
Cleveland
Harrisburg
Philadelphia
Altoona
Pittsburgh
MARYLAND
Baltimore
DEL
Sacramento
Salt Lake City
COLORADO
Des Moines
Omaha
ILLINOIS
Decatur
Indianapolis
Cincinnati
WEST VIRGINIA
Oakland
Denver
KANSAS
MISSOURI
Kansas City
St. Louis
Louisville
Huntington
VIRGINIA
Richmond
Roanoke
Wichita
KENTUCKY
NORTH CAROLINA
ARIZONA
NEW MEXICO
OKLAHOMA
TEXAS
ARKANSAS
TENNESSEE
Nashville
Charlotte
SOUTH CAROLINA
Covina
Albuquerque
Little Rock
MISSISSIPPI
ALABAMA
GEORGIA
Atlanta
Mesa
Birmingham
Ft. Worth
LOUISIANA
FLORIDA
Jacksonville
Houston
New Orleans
Tampa
LEGEND
Regional and District
District
Branch Office
9-03

## Strategic Goals and Objectives

The RRB has a long and distinguished tradition of excellence in serving our customers, and we will strive to continue that tradition in the coming years. We have achieved high levels of accuracy and timeliness in the processing of retirement and survivor claims. We have also embraced new technology, especially in areas where it can improve customer service and efficiency. We have also achieved very high scores for customer service in independent assessments of initial railroad retirement applications and those receiving unemployment and sickness insurance benefits. The RRB's web site (www.rrb.gov) has also been very well-received by the public and was recently rated in the top 10 percent of Federal government sites reviewed, excelling in help features, ease of use and accessibility.

The two overriding strategic issues for the upcoming planning period relate to customer service and trust fund stewardship. The **service issue** involves our ability to continue to meet our customers' expectations for personal, high quality service, and our ability to position the agency to meet rising customer expectations for new and improved services in the future. The **stewardship issue** has multiple aspects, some of which arise from recent legislative changes to the RRA, and others which relate to our ongoing ability to meet our program integrity responsibilities and to maintain effective, efficient and secure agency operations. To effectively address these issues, the RRB's Strategic Plan for 2003-2008 has established the following two strategic goals on which we will focus our efforts.

*We will provide excellent customer service.*

We aim to satisfy our customers' expectations for quality service both in terms of service delivery options and levels and manner of performance. We have established four strategic objectives that focus on the specifics of achieving this goal.

- Pay benefits accurately and timely.
- Provide relevant, timely, and accurate information which is easy to understand.
- Provide a range of choices in service delivery methods.
- Ensure efficient and effective business interactions with covered railroad employers.

*We will serve as responsible stewards for our customers' trust funds and agency resources.*

The RRB is committed to fulfilling its fiduciary responsibilities to the rail community. We have established four objectives that direct our focus on this goal.

- Ensure that trust fund assets are projected, collected, recorded and reported appropriately.
- Ensure the integrity of benefit programs.
- Ensure effectiveness, efficiency, and security of operations.
- Effectively carry out the responsibilities of the RRB under the RRSIA with respect to the activities of the NRRIT.

The RRB has committed to a number of management strategies that will guide our efforts to accomplish our stated strategic goals and objectives. These strategies will encompass many areas, but can be generally categorized along the lines of the President's Management Agenda, which is designed to promote management improvements throughout the Federal government in five key areas:

- Strategic Management of Human Capital,
- Competitive Sourcing,
- Improved Financial Performance,
- Expanded Electronic Government, and
- Budget and Performance Integration.

The RRB of the future will continue to be customer-focused, quality-driven, and fiscally responsible. Our overall mission and responsibilities as a Federal agency will remain unchanged, even though our organization may be smaller in terms of staff and budget resources. We will use creativity, automation and innovation to continue to deliver best-in-class service while ensuring cost-effective, efficient operations.

Our customers will have a broad range of choices for conducting their business with the agency, including more Internet options that will allow for private, secure transactions from their homes at any time of the day. Railroad employers will be able to conduct most, if not all, of their routine transactions with the RRB through secure and efficient electronic systems. Direct customer feedback will shape our planning efforts and enhance our responsiveness. Our customer service levels will serve as a standard of excellence for the rest of the Federal community.

The agency's internal culture will reflect a strong commitment to its employees, and a drive to ensure continual learning at all levels. Given the large percentage of employees who will be eligible for retirement in the near future, senior employees will engage in knowledge transfer and sharing as a top priority.

Our ultimate measures of success will be the sustained satisfaction level of our customers and our ability to respond to their needs and concerns.

<u>Reporting Components</u>

The RRB, as an independent agency in the executive branch of the U.S. Government, is responsible for administering the RRA and the RUIA. The financial statements include the accounts of all funds under the control of the RRB and the Office of Inspector General (OIG). These funds consist of 2 administrative funds, 3 trust funds, 2 general funds and 2 deposit funds. Assets under the control of the NRRIT are not included in the financial statements, but are included in the Statement of Social Insurance under the Required Supplementary Stewardship Information.

Summary Results of Annual Audit

The RRB financial statements for fiscal year 2003 were audited by the RRB's OIG. The OIG provided the RRB with a letter dated January 23, 2004, that contained the following:

- Opinion on the Financial Statements,
- Report on Internal Control, and
- Compliance with Laws and Regulations.

*Opinion on the Financial Statements*

The OIG issued a "clean" opinion on the RRB's financial statements, as follows:

> "The RRB's financial statements, including the accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, the financial position of the RRB, its consolidated net cost of operations and change in net position; combined budgetary resources; reconciliation of net cost to budgetary resources, and custodial activity as of and for the fiscal years ending September 30, 2003 and 2002."

*Report on Internal Control*

In their evaluation of internal controls, the OIG noted two material weaknesses:

- one regarding the RRB's overall control environment, and
- one concerning the RRB's information system security.

**Overall control environment.** The OIG stated: "This weakness in internal control is the result of an organizational structure that does not provide proactive top-down leadership in addressing financial reporting issues. Management in the agency's various operating components does not seek assistance across organizational lines to resolve problems related to financial accounting and reporting." After careful consideration, RRB management continues to conclude that sufficient corrective action has been taken and that the performance and accomplishments of the RRB demonstrate that the overall control environment is not a material weakness.

**Information system security.** The OIG stated: "During FYs 2001, 2002, and 2003 the OIG conducted evaluations of information security pursuant to the provisions of the Government Information Security Reform Act and the Federal Information Security Management Act. Our reviews disclosed weaknesses in most areas of the RRB's information security program. Significant deficiencies in program management and access controls make the agency's information security program a source of material weakness in internal control over financial reporting." The RRB has implemented most of the OIG's recommendations and plans to eliminate the information system security material weakness in fiscal year 2004.

*Compliance with Laws and Regulations*

The OIG stated: "Our tests of compliance with selected provisions of laws and regulations disclosed no instances of non-compliances that are reportable under U.S. generally accepted government auditing standards or OMB guidance."

Significant Events

Comparison of Net Cost of Operations and Financing Sources

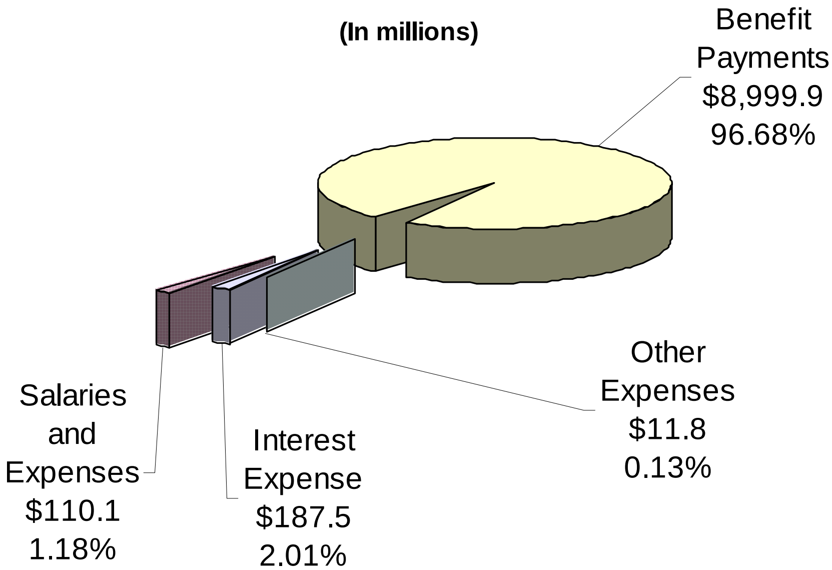
The net cost of operations for fiscal years 2003 and 2002 were $9,273.5 million and $9,111.3 million, respectively. For fiscal year 2003, financing sources were a negative $8,819.3 million (excluding a decrease in the unexpended appropriations of $2.9 million) as a result of transfers of $19,188 million to the NRRIT. When the transfers to the NRRIT and the decrease in unexpended appropriations are considered, the net position of the consolidated trust funds decreased from $18,698.3 million as of September 30, 2002, to $602.6 million as of September 30, 2003. The details of the net cost of operations by type, amount, increase or decrease, and percentage change from fiscal year 2002 to fiscal year 2003 are shown below. Additional information regarding the net cost of operations and financing sources for fiscal years 2003 and 2002 are shown on the following pages.

**NET COST OF OPERATIONS**
**(In millions)**

| | FY 2003 | Restated FY 2002 | Amount of Increase (Decrease) | Percent of Increase (Decrease) |
|---|---|---|---|---|
| Interest expense – Treasury borrowing | $ 187.5 | $ 210.7 | $( 23.2) | (11.0)% |
| Salaries and expenses | 110.1 | 110.5 | (0.4) | (0.4) |
| Benefit payments – RRB | 8,999.9 | 8,816.8 | 183.1 | 2.1 |
| Other expenses | 11.8 | 9.2 | 2.6 | 28.3 |
| Subtotal | $9,309.3 | $9,147.2 | $ 162.1 | 1.8% |
| Less: Earned revenues | 35.8 | 35.9 | (0.1) | (0.3) |
| Net cost of operations | $9,273.5 | $9,111.3 | $ 162.2 | 1.8% |

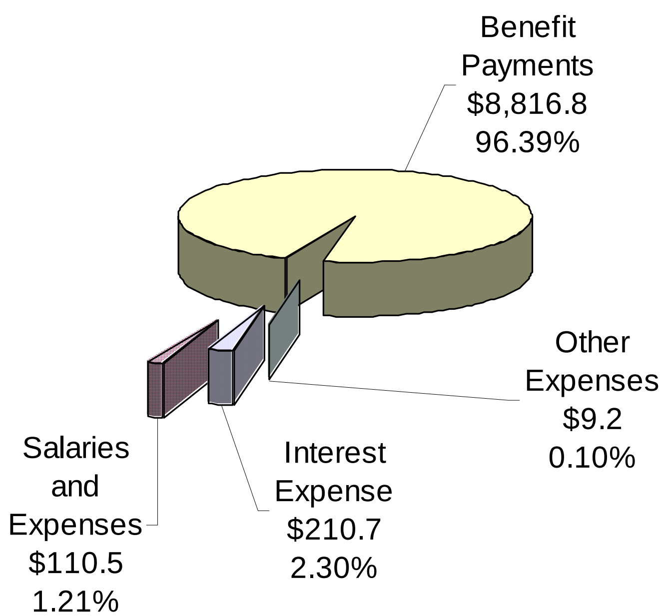
## FY2003
## NET COST OF OPERATIONS

**(In millions)**




Totals $9,309.3 excluding reimbursements and earned revenues of $35.8.

## FY2002




Totals $9,147.2 excluding reimbursements and earned revenues of $35.9.

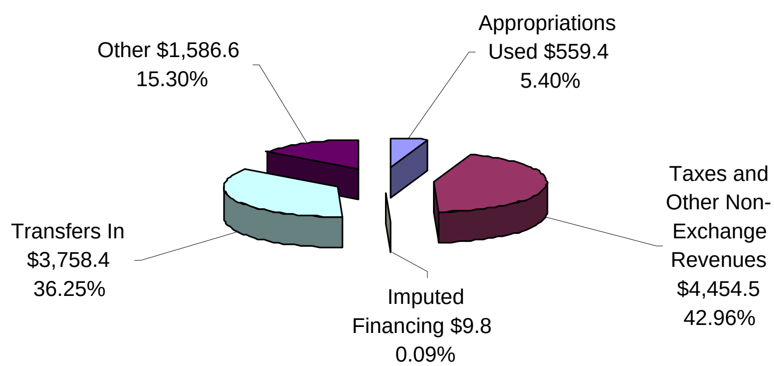
The following table shows financing sources (excluding changes in unexpended appropriations) by type, amount, increase or decrease, and percentage change from fiscal year 2002 to fiscal year 2003.

**FINANCING SOURCES**
**(In millions)**

| | FY 2003 | RESTATED FY 2002 | AMOUNT OF INCREASE (DECREASE) | PERCENT OF INCREASE (DECREASE) |
|---|---|---|---|---|
| Appropriations used | $ 559.4 | $ 478.2 | $ 81.2 | 17.0 |
| Taxes and other non-exchange revenues: | | | | |
| Payroll taxes | 4,358.6 | 4,668.4 | (309.8) | (6.6) |
| Interest revenue and other income | 277.5 | 1,036.8 | (759.3) | (73.2) |
| Carriers refunds – principal | (181.6) | (8.1) | (173.5) | (2,141.9) |
| Subtotal | $ 4,454.5 | $5,697.1 | $(1,242.6) | (21.8) |
| Imputed financing (amount to be provided by the Office of Personnel Management to pay future retirement benefits to RRB employees) | 9.8 | 8.5 | 1.3 | 15.3 |
| Transfers in: | | | | |
| Financial Interchange, net | 3,314.7 | 3,281.1 | 33.6 | 1.0 |
| NRRIT | 300.0 | 0 | 300.0 | - |
| Other transfers | 143.7 | 0 | 143.7 | - |
| Other | 1,586.6 | 3.4 | 1,583.2 | 46,564.7 |
| Subtotal | $10,368.7 | $9,468.3 | $ 900.4 | 9.5 |
| Less: Transfers out to NRRIT | 19,188.0 | 1,502.0 | 17,686.0 | 1,177.5 |
| Total | $(8,819.3) | $7,966.3 | $(16,785.6) | (210.7) |

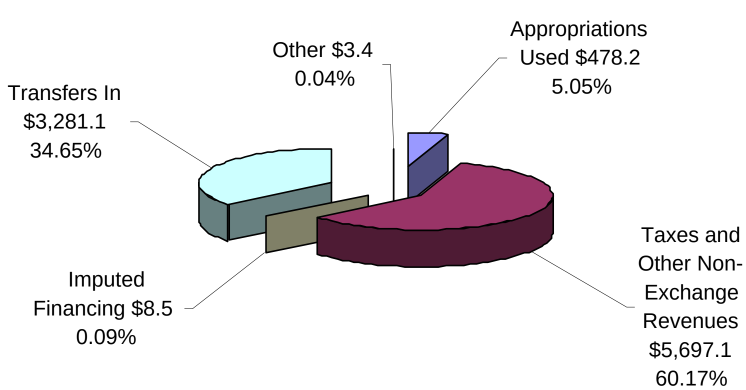
# FINANCING SOURCES
**(In millions)**

**FY 2003**




**Total Financing Sources $10,368.7 million, excluding transfers to the National Railroad Retirement Investment Trust of $19,188.0 million.**

**FY 2002**



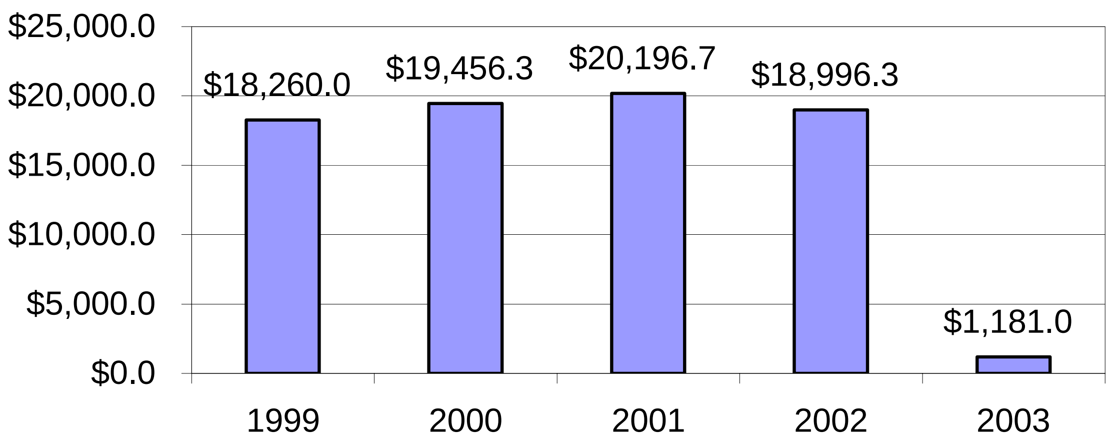

**Total Financing Sources $9,468.3 million, excluding transfers to the National Railroad Retirement Investment Trust of $1,502.0 million.**

Railroad Retirement Investments

The book value of all railroad retirement investments, including accrued interest, decreased to $1,181.0 million as of September 30, 2003, from $18,996,298,693 on September 30, 2002. The decrease is a result of transfers of $19,188 million to the NRRIT during fiscal year 2003 as compared to transfers of $1,502 million to the NRRIT during fiscal year 2002. The graph below reflects the railroad retirement book value of investments from September 30, 1999 through September 30, 2003.

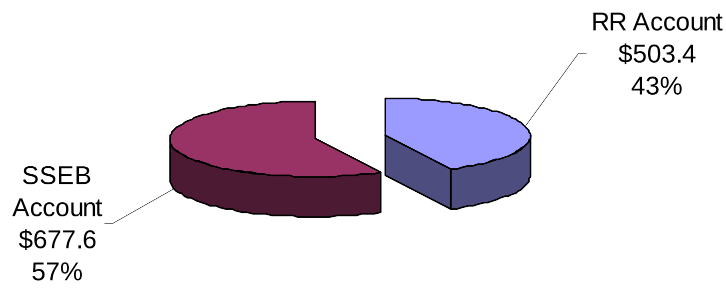
**INVESTMENT BALANCES (AT BOOK VALUE)**

**AT SEPTEMBER 30, 1999 - 2003**
**(In millions)**



The following chart shows the portfolio of the railroad retirement investments as of September 30, 2003.

## RAILROAD RETIREMENT INVESTMENTS
**AS OF SEPTEMBER 30, 2003**
**(In millions)**




**AT BOOK VALUE**
**Total $1,181.0**

*Railroad Retirement Account*

On September 30, 2003 and 2002, the book values of the Railroad Retirement (RR) Account investments, including accrued interest, totaled $503,383,945 and $17,114,986,794, respectively. The balance on September 30, 2003, consisted of $502,923,000 in 3.5 percent par value specials (with market value equal to face value) maturing on October 1, 2003, and $460,945 in accrued interest. Par value specials mature on the first working day of the month following the month of issue and have a yield based on the average yield of marketable Treasury notes with maturity dates at least 3 years away. The balance on September 30, 2002, consisted of $10,892,900,400 in market-based notes and bonds maturing from February 15, 2009 to February 15, 2017, with market yields ranging from 3.39 percent to 4.95 percent; $6,176,901,000 in 3.375 percent par value specials (with market value equal to face value) maturing on October 1, 2002; and $45,185,394 in accrued interest. The average bond equivalent yields on all holdings of the RR Account for fiscal year 2003 and fiscal year 2002 were 4.45 percent and 5.27 percent, respectively. During fiscal year 2003 and fiscal year 2002, various market-based securities and bonds were sold yielding capital gains of $1,586.5 million and $3.4 million, respectively.

*Social Security Equivalent Benefit Account*

On September 30, 2003 and 2002, the book values of the Social Security Equivalent Benefit (SSEB) Account investments, including accrued interest, totaled $677,613,163 and $1,881,311,899, respectively. The balance on September 30, 2003, consisted of $676,348,000 in par value specials of 3.5 percent maturing on October 1, 2003, and accrued interest of $1,265,163. The balance on September 30, 2002, consisted of $1,877,071,000 invested in par value specials of 3.375 percent maturing on October 1, 2002, and accrued interest of $4,240,899. The average bond equivalent yields of all holdings of the SSEB Account for fiscal year 2003 and fiscal year 2002 were 3.15 percent and 4.24 percent, respectively.

Transfers to the National Railroad Retirement Investment Trust (NRRIT)

In March 2002, the RRB transferred $2 million from the RR Account to the NRRIT to cover operating expenses. In September 2002, the RRB transferred $1,429,588,908 from the RR Account and $70,411,092 from the Railroad Retirement Supplemental (RRS) Account to the NRRIT. In fiscal year 2003, $17,750,000,000 was transferred from the RR Account and $1,438,000,000 was transferred from the Social Security Equivalent Benefit (SSEB) Account – a total of $19,188,000,000 – to the NRRIT.

Efficiency of Operations (Unit Costs in Constant Dollars)

This section shows direct costs for agency program activities and indicates how efficiently the RRB performs its day-to-day business functions. When constant dollars are shown (using 1982-84 as the base years), the conversion from "actual" dollars to "constant" dollars is based on the consumer price index for urban wage earners and clerical workers (CPI-W) as published by the Bureau of Labor Statistics. The average CPI-W indexes (calculated on a fiscal year basis) are as follows: 2002 = 175.0; and 2003 = 179.0 (2003 is estimated because full year data are not available).

| Function | FY 2003 | FY 2002 |
|---|---|---|
| Processing Retirement and Survivor Applications: | | |
| - Volume * | 53,762 | 58,921 |
| - Workyears * | 213.80 | 219.69 |
| - Production per workyear * | 251 | 268 |
| - Direct unit cost * | $157.81 | $143.20 |
| Processing Unemployment and Sickness Insurance Claims: | | |
| - Volume | 337,773 | 349,534 |
| - Workyears | 83.34 | 85.34 |
| - Production per workyear | 4,053 | 4,096 |
| - Direct unit cost | $9.17 | $8.75 |
| Maintenance of Beneficiary Rolls: | | |
| - Volume * | 765,023 | 778,838 |
| - Workyears * | 205.10 | 220.55 |
| - Production per workyear * | 3,730 | 3,531 |
| - Direct unit cost * | $11.32 | $11.73 |
| Maintenance of Rail Earnings Accounts: | | |
| - Volume | 279,283 | 292,738 |
| - Workyears | 40.24 | 36.56 |
| - Production per workyear | 6,940 | 8,007 |
| - Direct unit cost | $6.85 | $5.71 |
| Medicare Processing: | | |
| - Volume | 21,333 | 22,221 |
| - Workyears | 7.41 | 7.51 |
| - Production per workyear | 2,879 | 2,959 |
| - Direct unit cost | $15.75 | $14.53 |
| Medicare Maintenance: | | |
| - Volume | 148,864 | 153,592 |
| - Workyears | 43.14 | 38.44 |
| - Production per workyear | 3,451 | 3,996 |
| - Direct unit cost | $11.52 | $9.49 |

* Fiscal year 2002 results have been restated.

Financial Indicators

| Ratio of Administrative Expenses to Benefit Payments * | | |
|---|---|---|
| **Program** | **FY 2003** | **FY 2002** |
| Railroad Retirement and Survivor Program | 0.9% | 0.9% |
| Unemployment and Sickness Insurance Program | 12.0% | 11.4% |
| Combined | 1.0% | 1.1% |

* Excludes funds transferred to the OIG for administrative expenses and includes SSA benefit payments.

| Use of Administrative Resources by Program | | |
|---|---|---|
| **Program** | **FY 2003** | **FY 2002** |
| Railroad Retirement and Survivor Program | 85.3% | 85.1% |
| Unemployment and Sickness Insurance Program | 14.7% | 14.9% |

Accounts Receivable - Non Federal

In fiscal year 2003, the RRB's ending accounts receivable balance (prior to application of the allowance for doubtful accounts) was $34.6 million. During fiscal year 2003, new receivables totaling about $90 million were established. Returned payments and other adjustments of $22.5 million reduced the new receivables to $67.5 million. Recoveries for the fiscal year were about $66 million. Debts waived in the amount of $1 million, plus debts written-off and closed out in the amount of $4.6 million, reduced the balance to $34.6 million. Debts written-off in fiscal year 2003 include approximately $2.9 million of debt delinquent for more than 2 years, which is classified as currently not collectible (CNC), as required by OMB Circular A-129. The ratio of collections to new receivables was about 98 percent.

Our automated reclamation system identified and established $32.5 million in receivables resulting from erroneous benefit payments issued after the death of beneficiaries in fiscal year 2003, and initiated $13.2 million in reclamations to the Treasury. Payments returned prior to and after initiation of reclamation totaled $22.5 million. In addition $8 million was reclaimed by Treasury in fiscal year 2003.

In compliance with the Debt Collection Improvement Act of 1996 (DCIA), the RRB refers eligible debts that are delinquent more than 180 days to Treasury through the cross-servicing program and instructs Treasury to refer all appropriate debt to the Treasury Offset Program (TOP). At the close of fiscal year 2003, $15.9 million of RRB debt was at Treasury for cross-servicing. Total program collections, net of Treasury's collection fees, were $1.7 million. In addition, bankruptcy, probate and fraud cases referred to the Department of Justice (DOJ) generated $0.6 million. Pursuant to the DCIA, Treasury regulations, guidelines and contracts, no receivables were referred directly to private collection agencies. All recovery of RRB debt by private collection agencies, administrative wage garnishment and Federal salary offset are a result of referrals to the cross-servicing program.