

RAILROAD RETIREMENT BOARD

SUMMARY OF APPROPRIATION ESTIMATES
FOR FISCAL YEARS 2004 and 2005

<u>Account</u>	<u>Fiscal Year 2004</u>		<u>Fiscal Year 2005</u>		<u>Page number</u>
	<u>FTE's</u>	<u>Amount</u>	<u>FTE's</u>	<u>Amount</u>	
Limitation on Administration	1,046	\$100,702,000 <u>a/</u>	969 <u>b/</u>	\$ 102,600,000	9
Dual Benefits Payments Account	—	\$118,298,000 <u>a/</u>	—	\$108,000,000 <u>c/</u>	51
Federal Payments to the Railroad Retirement Accounts	—	\$ 150,000 <u>a/</u>	—	\$ 150,000 <u>d/</u>	59
Limitation on the Office of Inspector General	53	\$ 6,561,000 <u>a/</u>	53	\$ 7,200,000 <u>e/</u>	—

a/ The amounts for fiscal year 2004 reflect the level of funding provided by the Consolidated Appropriations Act, 2004 (P.L. 108-199), including a rescission of 0.59 percent for discretionary accounts. The Limitation on Administration reflects an appropriation of \$101,300,000, less a rescission of \$598,000; the Dual Benefits Payments Account reflects an appropriation of \$119,000,000, less a rescission of \$702,000; and the Limitation on the Office of Inspector General reflects an appropriation of \$6,600,000, less a rescission of \$39,000. Rescission amounts are rounded to the nearest thousand.

b/ The President's budget provides for 969 FTE's in fiscal year 2005, including FTE's reimbursed by the Centers for Medicare and Medicaid Services, which is about 77 FTE's less than the projected FTE level for fiscal year 2004. To achieve this reduced staffing level, the RRB would need to conduct a reduction-in-force of 39 employees at the beginning of fiscal year 2005.

c/ The appropriation language provides for \$108,000,000 to fund vested dual benefits from general revenues of which \$8,000,000 is expected from income taxes on vested dual benefits. The appropriation language provides for an additional 2 percent reserve (\$2,160,000) which would become available proportional to the amount by which the product of recipients and the average benefit received exceeds \$108,000,000.

d/ This amount reflects our latest estimate for interest related to uncashed railroad retirement checks and will remain available through September 30, 2006.

e/ This limitation is for the Railroad Retirement Board's Office of Inspector General, which submits a separate budget justification document and annual performance budget.

AGENCY OVERVIEW

The Railroad Retirement Board (RRB) is an independent agency in the executive branch of the Federal Government. The RRB's primary function is to administer comprehensive retirement/survivor and unemployment/sickness insurance benefit programs for the nation's railroad workers and their families under the Railroad Retirement and Railroad Unemployment Insurance Acts. In connection with the retirement program, the RRB has administrative responsibilities under the Social Security Act for certain benefit payments and railroad workers' Medicare coverage. It also assists in the administration of the Internal Revenue Code.

The RRB is headed by three Board Members appointed by the President of the United States with the advice and consent of the Senate. By law, one member is appointed upon recommendations made by railroad labor organizations and one upon recommendations of railroad employers. The third member, the Chairman, represents the public interest. The Board Members' terms of office are 5 years and expire in different years. The President also appoints an independent statutory Inspector General for the RRB (who functions outside the control of the Board Members, but who reports directly to the Chairman for administrative purposes) who is to prevent and detect waste, fraud, and abuse in RRB programs and operations. Additional information on the Board Members is provided on page 7. A current organization chart of the RRB is shown on page 8.

During fiscal year 2003, the RRB paid about \$8.9 billion, net of recoveries, in retirement and survivor benefits and \$94.1 million, net of recoveries, in unemployment and sickness insurance benefits. During fiscal year 2003, some 666,000 beneficiaries received retirement and survivor benefits, over 15,000 railroad workers received unemployment insurance benefits, and nearly 23,000 received sickness insurance benefits. During fiscal year 2003, the RRB also paid benefits on behalf of the Social Security Administration amounting to \$1.2 billion to about 135,000 beneficiaries.

Programs Administered by the RRB

Railroad Retirement Act

Under the Railroad Retirement Act, the RRB makes monthly benefit payments to qualified railroad employees who retire because of age or disability, to eligible spouses of such employees, and to survivors of deceased employees. Total and permanent disability annuities are payable to employees unable to work at any job, and occupational disability annuities are payable to career railroad employees unable to work at their regular railroad jobs. Supplemental annuities are payable to career railroad employees with service prior to October 1981. There are also provisions for lump-sum payments.

The Railroad Retirement and Survivors' Improvement Act of 2001 (P.L. 107-90), enacted on December 21, 2001, made a number of major changes to the Railroad Retirement Act. The

legislation provides for full early retirement eligibility at age 60 for railroad employees with 30 or more years of service; eliminates the maximum provision that had previously capped some employee and spouse railroad retirement benefits; reduces the basic eligibility requirement for an employee annuity from 10 to 5 years if performed after 1995; and provides increased benefits for some widow(er)s. The RRB has implemented these changes.

The RRB also administers certain vested dual benefits financed by annual appropriations from general funds. Of the 619,499 beneficiaries on the rolls as of September 30, 2003, some 69,000 received these benefits.

Railroad Unemployment Insurance Act

Under the Railroad Unemployment Insurance Act, the RRB pays unemployment insurance benefits to 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 assists unemployed railroad workers in securing employment.

Financing of Railroad Retirement Benefits

The primary source of income for the railroad retirement/survivor benefit program is payroll taxes paid by covered employers and their employees. By law, railroad retirement taxes are coordinated with social security taxes. Employees and employers pay tier I taxes at the same rate as social security taxes. In addition, both employees and employers pay tier II taxes, which are used to finance railroad retirement benefit payments over and above social security benefit levels.

Other sources of income currently include Federal income taxes on railroad retirement annuities, appropriations from general funds of the Department of the Treasury (Treasury) provided to phase-out vested dual benefits, interest and capital gains on investments, and the financial interchange with the social security trust funds. The financial interchange places 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. In effect, through the financial interchange, the portion of railroad retirement annuities that is equivalent to social security benefits is reinsured through the social security system, thereby extending social security protection to railroad workers. The Social Security Equivalent Benefit Account is charged with railroad retirement benefit payments equivalent to social security benefits, and credited with taxes and transfers associated with those benefits.

Vested dual benefits are funded by annual appropriations from general funds of the Treasury and paid from a separate account, the Dual Benefits Payments Account. Since October 1, 1988, revenue from income taxes on these benefits has also been credited to the Dual Benefits Payments Account. If the appropriation in a fiscal year does not cover total benefits, individual payments must be reduced by proration.

Amounts needed to administer these programs are authorized by the Congress in annual appropriation acts. In addition, the Centers for Medicare and Medicaid Services reimburse the RRB for the administrative costs incurred for certain Medicare activities. In fiscal year 2005, it is estimated that the RRB will be reimbursed \$5.0 million for such costs.

Financing Provisions of the Railroad Retirement and Survivors' Improvement Act of 2001

Investment changes. The Railroad Retirement and Survivors' Improvement Act of 2001 (RRSIA) provides for the transfer of railroad retirement funds from the Railroad Retirement Accounts to the National Railroad Retirement Investment Trust, whose Board of Trustees is empowered to invest Trust assets in non-governmental assets, such as equities and debt, as well as in governmental securities.

The Trust is not an agency or instrumentality of the Federal Government. Its Board of Trustees is comprised of seven members: three members selected by rail labor to represent the interests of labor; three members selected by rail management to represent management interests; and one independent member selected by a majority of the other six members. The Trustees are appointed only from persons who have experience and expertise in the management of financial investments and pension plans. The Trustees are subject to reporting and fiduciary standards similar to those under the Employee Retirement Income Security Act.

During fiscal year 2003, the Board transferred \$19.188 billion to the Trust, which is in addition to the \$1.502 billion transferred in fiscal year 2002. With the agreement of the Trust, the transfers were done on an incremental basis to facilitate investment of the funds and increase the return on investment of the funds. The Trust has invested the transferred funds and the results of these investments, which are reported to the RRB and posted periodically on the RRB's web site, have been quite favorable. Specifically, the Trust reported a 19.9% rate of return on its investments during fiscal year 2003, a market value gain of about \$2.7 billion. The market value of Trust-managed assets on September 30, 2003, was approximately \$23 billion. The RRB continues to transfer funds to the Trust on a periodic basis.

Disbursement agent. The RRSIA also allows for railroad retirement benefit payments in the future to be issued by a qualified non-governmental financial institution, rather than the Department of the Treasury. The selection of the financial institution is to be made by the Railroad Retirement Board, after consulting with the Board of Trustees and the Secretary of the Treasury. Until a non-governmental disbursement agent is selected and is able to issue payments, railroad retirement payments will continue to be processed through the Department of the Treasury. The fiscal year 2005 budget includes \$2.9 million for implementation of this provision, a net increase of \$2.1 million above the cost to have the Treasury continue to process railroad retirement payments.

Effect on payroll taxes. The new law reduced tier II tax rates on covered employers, including rail labor unions, and beginning with 2004, provides automatic adjustments in the tier II tax rates for both employers and employees. The tier II tax rate on rail employers and rail labor organizations was reduced from 16.1 percent to 15.6 percent in 2002, and to 14.2 percent in 2003.

While there was no change in the tier II tax rate of 4.9 percent on employees in 2003, beginning with the taxes payable for calendar year 2004, tier II taxes on both employers and employees will be based on the ratio of certain asset balances to the sum of benefits and administrative expenses (the average account benefits ratio). Depending on the average account benefits ratio, tier II taxes for employers will range between 8.2 percent and 22.1 percent, while the tier II tax rate for employees will be between 0 percent and 4.9 percent. The calendar year 2004 tier II tax rates are 13.1 percent and 4.9 percent for rail employers and employees, respectively. Calculation of the tier II earnings base was not changed; for 2004, that amount is \$65,100.

The new law does not affect tier I social security equivalent tax rates. The tier I tax on employees and employers remains the same as for social security covered employees and employers.

Supplemental annuities. The RRSIA also repealed the railroad retirement supplemental annuity tax paid by covered employers, and eliminated the separate Railroad Retirement Supplemental Account. While supplemental railroad retirement annuities provided by the Railroad Retirement Act continue to be due and payable, they are now funded from the Railroad Retirement Account.

Financing of Unemployment and Sickness Insurance Benefits

The railroad unemployment and sickness insurance program is financed by payroll taxes paid by covered employers. The Railroad Unemployment Insurance and Retirement Improvement Act of 1988 (Public Law 100-647) amended the Railroad Unemployment Insurance Act to provide for an experience-rated employer contribution system responsive to fluctuations in railroad employment and benefit usage.

For calendar year 2004, the minimum employer contribution rate is 2.15 percent, including a 1.5 percent surcharge. However, the 1.5 percent surcharge does not apply to new employers. New employers in 2004 will pay a tax of 2.38 percent, which represents the average rate paid by all employers in the period 2000-2002. The 2004 rate is applied to the first \$1,130 earned monthly by each employee. In accordance with Public Law 100-647, the wage base is indexed each year to approximately two-thirds of the cumulative growth in average national wages since 1984. An employer's overall rate under the system cannot exceed 12 percent, or 12.5 percent if the maximum surcharge described below is in effect. These rates include a component to cover costs shared by all employers and 0.65 percent of the employers' taxable payroll is permanently appropriated to the RRB for administrative expenses. In addition, a surcharge is added to employers' unemployment contributions for any calendar year when the balance in the Railroad Unemployment Insurance Account on the previous June 30 is less than a certain amount. Depending on the account balance, the surcharge rate may be 1.5, 2.5, or 3.5 percent of the wage base.

Description of Appropriation Requests

Limitation on Administration

This is the single administrative account for the RRB, which provides funding for the administration of both the railroad retirement/survivor and the unemployment/sickness insurance benefit programs. Amounts needed for this limitation are to be derived from the Railroad Retirement Account, the Social Security Equivalent Benefit Account, and the Railroad Unemployment Insurance Administration Fund.

Dual Benefits Payments Account

Section 15(d) of the Railroad Retirement Act provides for a Dual Benefits Payments Account which is separate from other railroad retirement accounts. The vested dual benefit portion of railroad retirement annuities is paid from this account and is funded by appropriations from general revenues. Background on this account is presented on pages 57 and 58.

Federal Payments to the Railroad Retirement Accounts

This account was established in conjunction with the implementation of the Railroad Retirement Solvency Act of 1983. Section 417 of the act amended the Railroad Retirement Act to provide for the reimbursement of unnegotiated benefit checks to the extent that such reimbursements are provided for, in advance, in appropriations acts. This account is the vehicle through which such appropriations are made.

Beginning in fiscal year 1991, the RRB no longer receives credit to this account for the principal amount of uncashed railroad retirement checks. Under provisions of the Competitive Equality Banking Act of 1987, funds for the principal amount of uncashed checks are appropriated to the Department of the Treasury and then transferred directly to the appropriate RRB accounts. As a result, in fiscal year 1991, the RRB began receiving credits to this account for only the interest portion of the uncashed check transfers. This account also acts as a conduit for transferring income taxes on benefits to the other railroad retirement accounts.

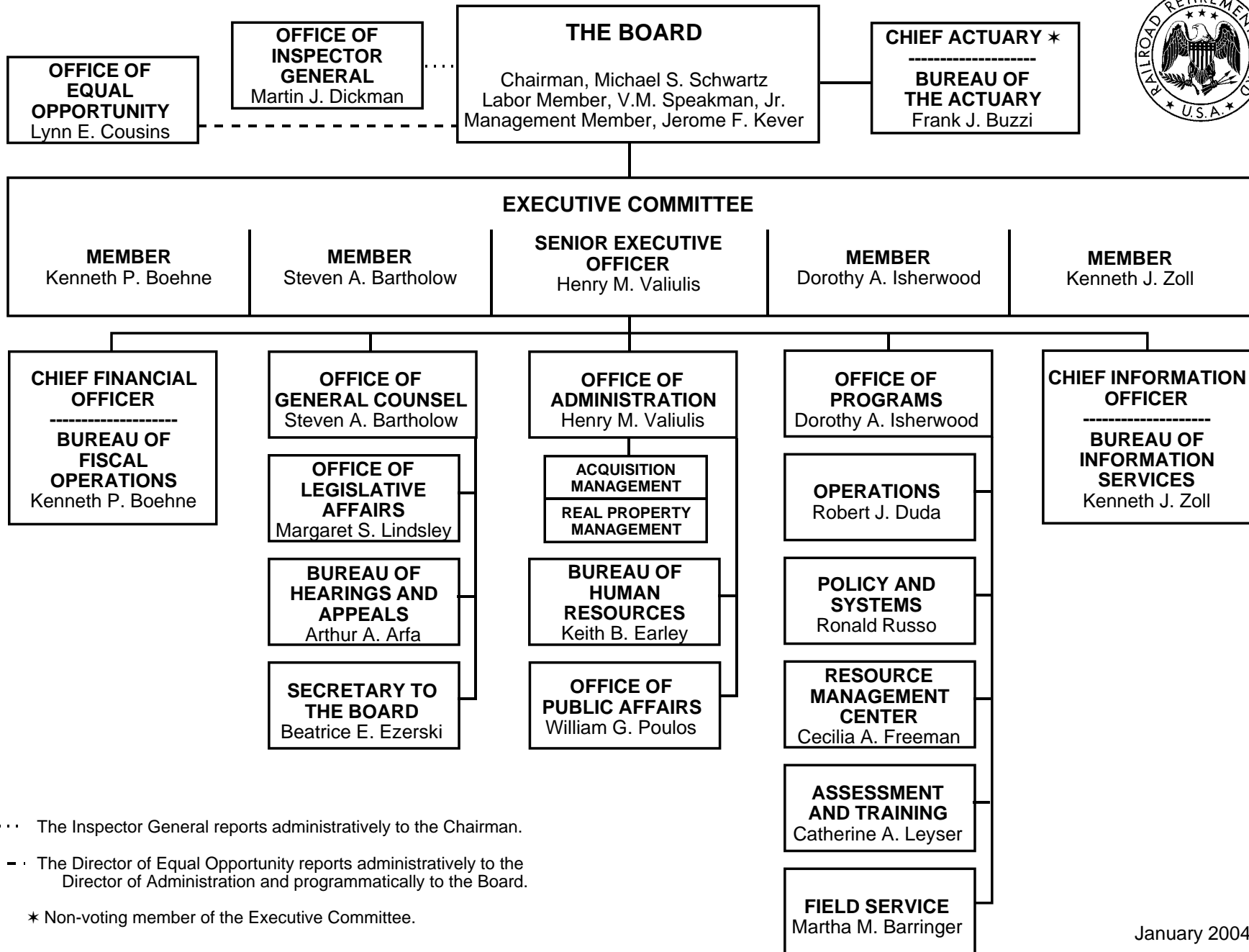
Limitation on the Office of the Inspector General

This appropriation request, which is described in a separate justification document, is for the Office of the Inspector General. The 1988 amendments to the Inspector General Act of 1978 (Public Law 100-504) included the RRB as an "establishment" covered by the Inspector General Act and specified the Chairman of the RRB as the head of the establishment for purposes of the act. Previously, the Railroad Retirement Solvency Act of 1983 had amended the Railroad Retirement Act of 1974 to provide for an Office of Inspector General at the RRB.

The Board Members

<u>Incumbent's name/ (Title)</u>	<u>Term expiration date</u>	<u>RRB compensation rate effective January 2004</u>	<u>Professional affiliations</u>
Michael S. Schwartz (Chairman)	08-28-07	\$144,600	None
Jerome F. Keever (Management Member)	08-28-03	\$136,000	American Institute of Certified Public Accountants
Virgil M. Speakman, Jr. (Labor Member)	08-28-04	\$136,000	Brotherhood of Railroad Signalmen Federal Managers' Association American Federation of Government Employees

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.