

Railroad Unemployment Insurance System

**Annual Report Required by Section 7105
of the Technical and Miscellaneous
Revenue Act of 1988**



**U.S. Railroad Retirement Board
Bureau of the Actuary
June 2004**

ANNUAL REPORT REQUIRED BY THE TECHNICAL AND MISCELLANEOUS REVENUE ACT OF 1988

I. Introduction

Section 7105 of the Technical and Miscellaneous Revenue Act of 1988 requires the Railroad Retirement Board to submit an annual report to the Congress on the financial status of the railroad unemployment insurance system. The report must contain recommendations for financing changes that might be advisable, specifically with regard to rates of employer contributions. This report meets the requirements of Section 7105 for 2004.

II. Recent Developments

The maximum daily benefit increased from \$52 to \$55 beginning July 1, 2003, will increase to \$56 beginning July 1, 2004 and remain the same for the benefit year beginning July 1, 2005. The monthly tax base increased from \$1,100 in calendar year 2002 to \$1,120 in 2003, and to \$1,130 in 2004, based on increases in the railroad retirement tier I creditable base.

Average employment in calendar year 2003 was 223,000 (subject to later revision), 1,000 less than the most optimistic assumption in last year's report. Actual unemployment usage is currently lower than last year's intermediate assumption, while actual sickness usage remained constant. This year's report predicts that the 1.5 percent surcharge in calendar year 2004 will be followed by a 1.5 percent surcharge in calendar years 2005-2006. A 1.5 percent surcharge is also probable for calendar year 2007.

III. Economic and Employment Assumptions

The economic and employment assumptions used in this report correspond to those used in the report required by Section 502 of the Railroad Retirement Solvency Act of 1983. Unemployment levels are the single most significant factor affecting the financial status of the railroad unemployment insurance system. Rapidly declining employment coupled with high unemployment levels, as occurred in the early 1980's, can put the system into debt. Conversely, cash balances can accumulate if employment declines are moderate and unemployment levels remain low. The experience-rating system is designed to tie individual employer contribution rates to their level of benefit claims, thus adjusting the overall account balance to an appropriate level.

The three employment assumptions used, denoted A, B, and C, are shown in Table 1 at the end of the report. The projected tier I creditable limits, which determine both the railroad unemployment monthly wage base and the maximum daily benefit rate, are from the Social Security Administration's March 2004 Trustees Report, intermediate set of assumptions. Table 2 shows the tier I creditable limit, unemployment monthly earnings base and daily benefit rate assumptions.

IV. Results

Projections were made for the various components of income and outgo under each employment assumption for the 11 fiscal years 2004-2014. The results are summarized in Table 3. Average employer contribution rates under the experience-rated contribution system are weighted averages based on the relative size of each railroad's payroll.

Table 3 consists of three tables, one for each employment projection A, B, and C. The tables show (1) contributions, excluding the portion allocated to the Administration Fund, (2) net benefit payments, (3) other income and outgo, (4) the cash balance in the Railroad Unemployment Insurance Account (Account) at the end of each fiscal year, (5) the loan balance, if any, including accrued interest, (6) the Account balance at the end of each fiscal year, less loans due and (7) the average employer contribution rate for each calendar year.

The experience-rating formula is designed to keep the accrual balance of the Account, as of June 30, between \$100 million and \$250 million, indexed for changes in the taxable base. If the balance exceeds an indexed \$250 million, contributions are reduced by a pooled credit. If the balance falls below an indexed \$100 million, contributions are increased by a surcharge.

The June 30, 2002 balance¹ was \$39.7 million, \$16.4 million below the indexed \$50 million surcharge threshold of \$56.2 million, therefore a 2.5 percent surcharge was in effect in calendar year 2003. By June 30, 2003, the balance had risen to \$64.0 million. This figure is above the indexed \$50 million surcharge threshold of \$56.3 million but below the indexed \$100 million surcharge threshold of \$112.6 million. As a result, a 1.5 percent surcharge is in effect for calendar year 2004.

Under each employment assumption, the Account balance is expected to be above the indexed \$50 million threshold but below the indexed \$100 million threshold in June of 2004 and 2005. Consequently, a 1.5 percent surcharge is expected in calendar years 2005-2006. A 1.5 percent surcharge is also probable in calendar year 2007 and likely to

¹ The balance referred to here and in the following paragraph is the accrual balance of the Account as of June 30, on which calculations of pooled credits and surcharges are based. Cash balances shown on Tables 3A-C are not used in these calculations. June 30 accrual balances are shown in Table 4.

occur periodically thereafter. The highest average contribution rate needed is under employment assumption C, where it rises to 5.46 percent for calendar year 2008. This is well below the 12 percent maximum rate allowable.

Administrative expenses are assumed to be above the current level in fiscal years 2005-2014. Nevertheless, except for under our most pessimistic assumption, the 0.65 percent of taxable payroll allocated to the Administration Fund is more than sufficient to finance administrative expenses. When the balance in the Administration Fund exceeds \$6 million at the end of a fiscal year, excess funds are transferred to the Account early in the next fiscal year. Under employment assumptions A and B, the balance in the Administration Fund exceeds \$6 million at the end of each year in the 11-year projection period. Using the most pessimistic employment assumption, the Account transfers monies to the Administration Fund in fiscal years 2012-2014 to cover expenditures.

V. Recommendation

As stated in the introduction, the Congress directed the Railroad Retirement Board to make recommendations for financing changes that might be advisable, specifically with regard to rates of employer contributions.

No financing changes are recommended at this time. Projections under three different employment assumptions indicate that experience-based contribution rates will respond to fluctuating employment and unemployment levels and thereby maintain fund solvency.

Table 1: Employment Assumptions Used in 2004 Report

Calendar Year	Average Employment (thousands)		
	A	B	C
2003	223	223	223
2004	221	218	215
2005	218	213	206
2006	215	208	198
2007	213	203	191
2008	210	198	184
2009	208	193	177
2010	205	189	170
2011	203	184	163
2012	200	180	157
2013	198	176	151
2014	196	172	146

Employment assumptions A and B are based on the stability of employment in passenger service (Amtrak and commuter service) as distinguished from freight service. Employment assumption A is the most optimistic of the three assumptions. Employment assumption B is intended to provide a "moderate" assumption. Employment assumption C follows the structure of assumptions A and B, except that it has declines in passenger employment and steeper declines in freight employment than employment assumptions A and B.

Employment assumptions A and B assume passenger employment remains level at 42,000. Non-passenger employment declines at a constant annual rate (1.5 percent for assumption A and 3.0 percent for assumption B). Employment assumption C assumes that passenger employment declines by 500 each year and non-passenger employment declines at a constant rate of 4.5 percent.

Table 2: Annual Tier I Creditable Limit, Monthly RUI Taxable Limit, and Maximum Daily Benefit Rate

Calendar Year	Annual Tier I Limit	Monthly RUI Limit	Maximum Daily Benefit Rate [1]
2003	\$87,000	\$1,120	\$55
2004	87,900	1,130	56
2005	89,700	1,150	56
2006	92,700	1,180	57
2007	96,600	1,220	59
2008	100,200	1,260	61
2009	104,100	1,300	63
2010	108,300	1,345	65
2011	112,800	1,395	67
2012	117,300	1,440	69
2013	121,800	1,490	72
2014	126,900	1,545	74

[1] Effective for registration periods beginning after June 30 in the calendar year.

Table 3A. Progress of the Railroad Unemployment Insurance Account Under Assumption A
(Dollar Amounts in Millions)

Fiscal Year	Account Contributions [1]	Net Benefit Payments	Other Income and Outgo [2]	Account Cash Balance Year End	Loan Balance Year End [3]	Account Cash Balance Less Loans Due Year End	Calendar Year	Average Employer Contribution Rate (Percent)
2004	\$110.3	\$89.9	\$8.0	\$76.3	\$0.0	\$76.3	2004	3.46
2005	80.4	87.0	5.9	75.5	0.0	75.5	2005	3.01
2006	80.3	85.4	5.9	76.3	0.0	76.3	2006	3.40
2007	87.9	85.4	6.1	84.9	0.0	84.9	2007	3.40
2008	86.4	87.2	6.9	91.1	0.0	91.1	2008	3.20
2009	79.8	89.3	7.2	88.8	0.0	88.8	2009	2.90
2010	79.4	90.9	6.6	84.0	0.0	84.0	2010	3.07
2011	87.7	92.9	6.4	85.2	0.0	85.2	2011	3.27
2012	92.4	94.3	6.5	89.8	0.0	89.8	2012	3.23
2013	93.8	96.6	6.6	93.6	0.0	93.6	2013	3.24
2014	93.0	98.8	6.6	94.4	0.0	94.4	2014	3.06

[1] Excludes 0.65 percent of taxable payroll allocated to the Administration Fund.

[2] Income includes interest on investments and transfers from the Administration Fund of amounts in excess of \$6 million at the end of the previous fiscal year. Outgo includes funding for the Office of Inspector General.

[3] Includes accrued interest.

NOTE: Detail may not add to totals due to rounding.

Table 3B. Progress of the Railroad Unemployment Insurance Account Under Assumption B
(Dollar Amounts in Millions)

Fiscal Year	Account Contributions [1]	Net Benefit Payments	Other Income and Outgo [2]	Account Cash Balance Year End	Loan Balance Year End [3]	Account Cash Balance Less Loans Due Year End	Calendar Year	Average Employer Contribution Rate (Percent)
2004	\$109.7	\$89.9	\$8.0	\$75.7	\$0.0	\$75.7	2004	3.46
2005	79.2	90.9	5.6	69.5	0.0	69.5	2005	3.02
2006	80.0	91.6	5.0	62.9	0.0	62.9	2006	3.52
2007	93.5	93.9	4.8	67.3	0.0	67.3	2007	3.87
2008	99.5	94.9	5.2	77.2	0.0	77.2	2008	3.86
2009	95.7	95.7	5.4	82.6	0.0	82.6	2009	3.59
2010	89.1	96.4	4.9	80.3	0.0	80.3	2010	3.38
2011	87.3	97.0	4.3	74.9	0.0	74.9	2011	3.41
2012	92.0	97.8	3.6	72.7	0.0	72.7	2012	3.62
2013	98.0	98.4	3.3	75.6	0.0	75.6	2013	3.72
2014	98.2	100.0	3.0	76.8	0.0	76.8	2014	3.56

[1] Excludes 0.65 percent of taxable payroll allocated to the Administration Fund.

[2] Income includes interest on investments and transfers from the Administration Fund of amounts in excess of \$6 million at the end of the previous fiscal year. Outgo includes funding for the Office of Inspector General.

[3] Includes accrued interest.

NOTE: Detail may not add to totals due to rounding.

Table 3C. Progress of the Railroad Unemployment Insurance Account Under Assumption C
(Dollar Amounts in Millions)

Fiscal Year	Account Contributions [1]	Net Benefit Payments	Other Income and Outgo [2]	Account Cash Balance Year End	Loan Balance Year End [3]	Account Cash Balance Less Loans Due Year End	Calendar Year	Average Employer Contribution Rate (Percent)
2004	\$109.1	\$89.9	\$8.0	\$75.1	\$0.0	\$75.1	2004	3.46
2005	77.4	98.9	5.1	58.6	0.0	58.6	2005	3.02
2006	79.8	105.8	3.5	36.1	0.0	36.1	2006	3.73
2007	105.1	114.0	2.2	29.4	0.0	29.4	2007	4.80
2008	129.6	113.4	2.2	47.9	0.0	47.9	2008	5.46
2009	131.7	113.0	3.0	69.6	0.0	69.6	2009	5.00
2010	112.7	112.5	2.8	72.7	0.0	72.7	2010	4.20
2011	95.6	111.6	1.8	58.5	0.0	58.5	2011	3.84
2012	97.1	110.4	0.2	45.4	0.0	45.4	2012	4.34
2013	112.0	109.4	(1.9)	46.1	0.0	46.1	2013	4.94
2014	119.6	109.5	(2.4)	53.8	0.0	53.8	2014	4.89

[1] Excludes 0.65 percent of taxable payroll allocated to the Administration Fund.

[2] Income includes interest on investments and transfers from the Administration Fund of amounts in excess of \$6 million at the end of the end of the previous fiscal year. Outgo includes funding for the Office of Inspector General and transfers to the Administration Fund to cover expenditures.

[3] Includes accrued interest.

NOTE: Detail may not add to totals due to rounding.

**Table 4. June 30 Accrual Balance of the Railroad Unemployment Insurance Account
(Dollar Amounts in Millions)**

Year	Employment Assumption A		Employment Assumption B		Employment Assumption C	
	Account Balance	1.5 Percent Surcharge Threshold	Account Balance	1.5 Percent Surcharge Threshold	Account Balance	1.5 Percent Surcharge Threshold
2004	\$100.9	\$112.7	\$100.3	\$112.3	\$99.7	\$111.9
2005	99.5	112.6	93.8	110.8	83.9	108.7
2006	100.2	113.3	87.5	110.4	62.4	106.3
2007	109.0	115.0	92.3	110.8	56.9	105.2
2008	115.2	117.6	102.0	111.8	74.9	104.8
2009	113.3	119.8	107.4	112.5	96.2	104.2
2010	108.7	122.4	105.1	113.4	99.2	103.5
2011	110.3	125.0	100.0	114.8	85.1	102.9
2012	115.0	128.1	98.0	115.9	71.9	102.3
2013	119.5	130.5	101.3	117.1	72.8	101.7
2014	120.3	133.8	102.3	118.5	80.1	101.4

The June 30, 2003 accrual balance was \$64,044,131.87. The indexed 1.5 percent surcharge threshold was \$112,586,121 and the indexed 2.5 percent surcharge threshold was \$56,293,061.50.

The experience rating system provides for a surcharge in the employer contribution rate when the Railroad Unemployment Insurance Account balance falls below certain thresholds. The 1.5 percent surcharge threshold is the greater of \$100 million or the amount that bears the same ratio to \$100 million as the system compensation base as of that June 30 bears to the system compensation base as of June 30, 1991. The 2.5 percent surcharge threshold (not shown) is indexed from a \$50 million base.