Railroad Retirement Information

U. S. Railroad Retirement Board

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RRB Financial Reports

The Railroad Retirement Board is required by law to submit annual reports to Congress on the financial condition of the railroad retirement system and the railroad unemployment insurance system. These reports must also include recommendations for any financing changes which may be advisable in order to ensure the solvency of the systems. In June, the Board submitted its 2004 reports on the railroad retirement and unemployment insurance systems.

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

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

As of September 30, 2003, total railroad retirement system assets, comprising assets managed by the National Railroad Retirement Investment Trust and the railroad retirement system accounts at the Treasury, equaled $24.2 billion. The Trust was established by the Railroad Retirement and Survivors' Improvement Act of 2001 to manage and invest railroad retirement assets. The balance of the railroad unemployment insurance system was $51.5 million at the end of the fiscal year.

2. What was the overall finding of the 2004 report on the financial condition of the railroad retirement system?

The 2004 report, which addressed railroad retirement financing during the next 25 years, was generally favorable, concluding that, barring a sudden, unanticipated, large decrease in railroad employment or substantial investment losses, the railroad retirement system will experience no cash-flow problems for at least 22 years. However, the 2004 report also indicated that the long-term stability of the system is still questionable. Under its current financing structure, actual levels of railroad employment and investment return over the coming years will largely determine whether corrective action is necessary.

3. What methods were used in forecasting the financial condition of the railroad retirement system?

The 2004 report projected the various components of income and outgo of the railroad retirement system under three employment assumptions, utilizing different patterns of changes and decreases in the railroad work force for the 25 calendar years 2004-2028. The projections of these components were combined and the investment income calculated to produce the projected balances in the railroad retirement accounts at the end of each projection year.

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Projecting income and outgo under optimistic, moderate and pessimistic employment assumptions, the 2004 report indicated no cash-flow problems occur throughout the 25-year projection period under the optimistic and moderate assumptions. Cash-flow problems arise only under the pessimistic assumption, and not until 2026.

4. How do the results of the 2004 report compare with those of the 2003 report?

The projected account balances are higher due primarily to the actual investment return of approximately 22.6 percent significantly exceeding the expected investment return of 6 percent in calendar year 2003. Projected benefit amounts are slightly lower due in part to the lower assumed cost-of-living increases in 2004 and 2005 in this year's report. Projected payroll tax income differs primarily due to projected decreases in tax rates resulting from higher account balances.

5. Did the 2004 report on the railroad retirement system recommend any financing changes?

The report did not recommend any railroad retirement financing changes. The payroll tax adjustment mechanism provided by the 2001 legislation will automatically increase or decrease tax rates in response to changes in fund balance. Even under a pessimistic employment assumption, this mechanism is expected to prevent cash-flow problems for at least 22 years.

6. What were the findings of the 2004 report on the financial condition of the railroad unemployment insurance system?

The Board's 2004 railroad unemployment insurance financial report was also generally favorable. Even as maximum benefit rates increase 35 percent (from $55 to $74) from 2003 to 2014, experience-based contribution rates are expected to maintain the unemployment insurance system's solvency.

Unemployment levels are the single most significant factor affecting the financial status of the railroad unemployment insurance system. However, the system's experience-rating provisions, which adjust contribution rates for changing benefit levels, and its surcharge trigger for maintaining a minimum balance help to ensure financial stability in the advent of adverse economic conditions.

Under experience-rating provisions, each employer's contribution rate is determined by the Railroad Retirement Board on the basis of benefit payments made to the railroad's employees. The report predicted that, even under the most pessimistic assumption, the average employer contribution rate remains well below the maximum throughout the projection period.

The report also predicted that the 1.5 percent surcharge that is in effect in calendar year 2004 would remain at 1.5 percent in calendar years 2005-2006. A 1.5 percent surcharge is also probable in calendar year 2007.

7. What methods were used to evaluate the financial condition of the railroad unemployment insurance system?

The economic and employment assumptions used in the unemployment insurance report corresponded to those used in the report on the retirement system. Projections were made for various

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components of income and outgo under each of three employment assumptions, but for the period 2004-2014, rather than a 25-year period.

8. Did the 2004 report on the railroad unemployment insurance system recommend any financing changes to the system?

No financing changes were recommended at this time by the report.

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The Railroad Retirement Board's 2004 financial reports on the retirement and unemployment insurance systems are available in their entirety on the Board's Web site at www.rrb.gov. Information on the National Railroad Retirement Investment Trust, including its quarterly and annual reports, is also available on the site.