

April 9, 1997
L-97-14

TO : Frank J. Buzzi
Chief Actuary

FROM : Catherine C. Cook
General Counsel

SUBJECT : Military Service Reimbursement

This is in reply to your memorandum of February 10, 1997, inquiring as to whether a proposed method to determine the amounts reimbursable from the general fund is consistent with section 15(b) of the Railroad Retirement Act.

That section provides, in pertinent part, that:

In addition to the amount appropriated in subsection (a) of this section, there is hereby authorized to be appropriated to the Railroad Retirement Account for each fiscal year, beginning with the fiscal year ending June 30, 1975, such amount as the Board determines to be necessary to meet (A) the additional costs, resulting from the crediting of military service under this Act, of benefits payable under section 2 of this Act, but only to the extent that such Account is not reimbursed for such costs under section 7(c)(2) [i.e., the financial interchange], (B) the additional administrative expenses resulting from the payment of additional benefits based on military service credited under this Act: *Provided, however,* That, in determining the amount to be appropriated to the Railroad Retirement Account for any fiscal year pursuant to the provisions of this subsection, there shall not be considered any costs resulting from the crediting of military service under this Act for which appropriations to such Account have already been made pursuant to section 4(1) of the Railroad Retirement Act of 1937. Any determination as to loss in interest to the Railroad Retirement Account pursuant to clause (C) of the first sentence of this subsection shall take into account interest from the date each annuity based, in part, on military service began to accrue or was increased to the date or dates on which the amount appropriated is credited to the Account. The cost resulting from the payment of additional benefits under this Act based on military service determined pursuant to the preceding provisions of this subsection shall be adjusted by applying thereto the ratio of the total net level cost of all benefits under this Act to the portion of such net level cost remaining after the exclusion of administrative expenses and interest charges on the unfunded accrued liability as determined under the last completed actuarial valuation pursuant to the provisions of subsection (g) of this section * * *. [Emphasis added.]

The proposed formula is intended to accomplish the purpose of this highlighted language in section 15(b), which is to reimburse the Board for administrative costs and interest in connection with the payment of benefits based on military service. Initially, you propose to define net level cost as the sum of OASDI taxes plus normal cost (current service costs) plus administrative expenses plus interest on unfunded accrued liability (UAL). Your proposed formula is stated as follows:

OASDI taxes + normal cost + administrative expenses + interest on ULA) by OASDI taxes + normal cost.

It appears to me that the proposed formula would accomplish what is intended by the highlighted language and is a reasonable method for accomplishing that purpose. Accordingly, it is my opinion that the proposed formula is consistent with the requirements of section 15(b). Of course, actual reimbursement of the amounts derived under the formula is dependent on appropriations.