

# **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 2008**

## 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 2008.

### II. Recent Developments

The maximum daily benefit increased from \$57 to \$59 beginning July 1, 2007, and will increase to \$61 beginning July 1, 2008, and \$64 beginning July 1, 2009. The monthly tax base increased from \$1,195 in calendar year 2006 to \$1,230 in 2007, and to \$1,280 in 2008, based on increases in the railroad retirement tier I creditable base.

Average employment in calendar year 2007 was 236,000 (subject to later revision), 1,000 more than the most optimistic assumption in last year's report. Actual net unemployment and sickness benefits in fiscal year 2007 were \$3.7 million (4.8 percent) less than last year's projection. This year's report predicts that the 1.5 percent surcharge in calendar year 2008 will be followed by a 1.5 percent surcharge for calendar years 2009-2010. A 1.5 percent surcharge is also likely for calendar year 2011.

### 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, thereby 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 2008 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 2008-2018. 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, 2006 balance<sup>1</sup> was \$114.8 million, above the indexed \$50 million surcharge threshold of \$60.4 million but below the indexed \$100 million surcharge threshold of \$120.8 million. As a result, a 1.5 percent surcharge was in effect for calendar year 2007.

By June 30, 2007, the balance had risen to \$119.3 million, which was below the indexed \$100 million surcharge threshold of \$127.5 million. Consequently, a 1.5 percent surcharge is in effect for calendar year 2008.

Under each employment assumption, the Account balance is expected to be below the indexed \$100 million threshold in June of 2008. Consequently, a 1.5 percent surcharge is expected in calendar year 2009. A 1.5 percent surcharge is also projected for calendar year 2010. A 1.5 percent surcharge is probable for calendar year 2011, and surcharges

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<sup>1</sup> 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.

are likely to occur periodically thereafter. The highest average contribution rate needed is under employment assumption C, where it rises to 4.47 percent for calendar year 2012. This is well below the 12 percent maximum rate allowable.

Administrative expenses are assumed to be above the current level in every fiscal year. Nevertheless, the 0.65 percent of taxable payroll allocated to the Administration Fund is sufficient to finance administrative expenses during the projection period. When the accrual 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 all employment assumptions, the accrual balance in the Administration Fund exceeds \$6 million at the end of each year in the 11-year projection period.

#### 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 2008 Report**

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Calendar Year	Average Employment (thousands)		
	A	B	C
2007	236	236	236
2008	234	231	228
2009	232	227	220
2010	230	222	212
2011	229	218	205
2012	227	213	198
2013	225	209	191
2014	223	205	185
2015	221	201	178
2016	219	197	172
2017	218	193	166
2018	216	189	161

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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 43,000. Non-passenger employment declines at a constant annual rate (1.0 percent for assumption A and 2.5 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 4.0 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]
2007	\$97,500	\$1,230	\$59
2008	102,000	1,280	61
2009	106,500	1,325	64
2010	110,700	1,370	66
2011	115,500	1,420	68
2012	120,000	1,470	71
2013	124,800	1,520	73
2014	129,600	1,570	76
2015	135,000	1,630	78
2016	140,100	1,685	81
2017	145,500	1,740	84
2018	151,200	1,800	87

[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)
2008	\$67.5	\$85.5	\$12.2	\$98.5	\$0.0	\$98.5	2008	2.50
2009	72.3	88.6	12.7	94.8	0.0	94.8	2009	2.65
2010	84.2	91.0	12.6	100.7	0.0	100.7	2010	3.02
2011	94.0	92.3	13.8	116.2	0.0	116.2	2011	3.03
2012	85.6	93.6	14.7	122.9	0.0	122.9	2012	2.48
2013	73.3	97.0	15.0	114.3	0.0	114.3	2013	2.33
2014	79.5	99.1	14.8	109.5	0.0	109.5	2014	2.68
2015	95.8	102.0	15.5	118.8	0.0	118.8	2015	2.98
2016	100.3	104.0	16.5	131.6	0.0	131.6	2016	2.77
2017	93.7	107.0	17.3	135.6	0.0	135.6	2017	2.58
2018	88.1	109.9	17.5	131.3	0.0	131.3	2018	2.43

[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)
2008	\$67.0	\$85.5	\$12.2	\$98.0	\$0.0	\$98.0	2008	2.50
2009	71.0	92.8	12.2	88.3	0.0	88.3	2009	2.65
2010	83.3	96.9	11.7	86.5	0.0	86.5	2010	3.10
2011	97.9	100.1	12.1	96.4	0.0	96.4	2011	3.36
2012	98.7	103.2	12.6	104.5	0.0	104.5	2012	3.07
2013	92.6	105.4	12.8	104.6	0.0	104.6	2013	2.98
2014	93.5	106.2	12.7	104.6	0.0	104.6	2014	3.05
2015	97.0	108.1	12.9	106.4	0.0	106.4	2015	3.08
2016	100.5	109.1	13.1	110.9	0.0	110.9	2016	3.15
2017	101.4	111.1	13.3	114.5	0.0	114.5	2017	3.06
2018	96.5	112.9	13.1	111.2	0.0	111.2	2018	2.86

[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)
2008	\$66.6	\$85.5	\$12.2	\$97.6	\$0.0	\$97.6	2008	2.50
2009	69.4	99.2	11.8	79.5	0.0	79.5	2009	2.65
2010	82.0	109.8	10.2	62.0	0.0	62.0	2010	3.21
2011	103.9	119.7	9.4	55.6	0.0	55.6	2011	3.87
2012	126.7	126.8	9.1	64.6	0.0	64.6	2012	4.47
2013	137.1	127.6	9.8	84.0	0.0	84.0	2013	4.46
2014	128.9	127.0	10.0	95.9	0.0	95.9	2014	4.02
2015	114.5	127.1	9.9	93.2	0.0	93.2	2015	3.66
2016	110.6	126.8	9.2	86.2	0.0	86.2	2016	3.81
2017	114.9	126.6	8.5	83.0	0.0	83.0	2017	3.91
2018	120.2	126.8	8.0	84.4	0.0	84.4	2018	4.11

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

Year	<u>Employment Assumption A</u>		<u>Employment Assumption B</u>		<u>Employment Assumption C</u>	
	Account Balance	1.5 Percent Surcharge Threshold	Account Balance	1.5 Percent Surcharge Threshold	Account Balance	1.5 Percent Surcharge Threshold
2008	\$120.5	\$130.7	\$119.9	\$130.3	\$119.3	\$129.9
2009	116.9	134.9	110.9	132.9	102.5	130.6
2010	122.9	138.4	109.3	135.0	86.0	130.3
2011	138.6	142.1	119.7	136.7	80.8	130.1
2012	146.0	146.5	128.4	138.9	90.8	130.3
2013	137.8	150.3	128.3	140.6	109.1	130.2
2014	133.9	154.0	128.7	142.6	120.8	129.9
2015	143.5	157.8	130.4	144.7	117.5	130.0
2016	156.9	162.2	135.2	147.1	110.6	129.8
2017	161.6	166.3	138.9	149.0	107.1	129.6
2018	158.1	170.8	136.1	150.8	108.6	129.4

The June 30, 2007 accrual balance was \$119,250,233.05. The indexed 1.5 percent surcharge threshold was \$127,470,222 and the indexed 2.5 percent surcharge threshold was \$63,735,111.

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.