Reference
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REINVENTION PROPOSALS
REINVENTION 2001

MAY 25, 2001

OFFICE OF INSPECTOR GENERAL
RAILROAD RETIREMENT BOARD

Introduction

The Office of Inspector General (OIG) has issued a series of Reinvention Proposals related to the Railroad Retirement Board (RRB) over the past six years. These proposals and the specific recommendations contained in them were presented to foster strategic decision-making in light of changing demographic and environmental conditions. The OIG proposals focused on major initiatives to encourage significant changes in the way the agency conducts its operations rather than rely on the same methodology that has been employed over the past sixty years.

Initially, the OIG recommended that the Board Members of the agency concentrate their efforts on the organizational structure and the utilization of the agency's Field Service staff. Later proposals included recommendations related to the primary mission of the agency associated with tier I benefits and to a change in the basic structure of the agency.

The OIG has reassessed the previous recommendations in light of the current environment to determine if any progress has been made by the RRB to implement those recommendations. The Board Members have made several attempts at revising the organizational structure of the agency but remain overly involved in the daily administration of RRB programs. Virtually no changes have occurred in the past six years.

Recommendations were also made to substantially reduce the number of field offices maintained by the agency and to expand the use of technology to serve as the primary source of contact with workers, annuitants and beneficiaries. Although the number of field offices has been reduced by one-third, the RRB employs almost the same number of employees in its field service today as it did six years ago.

Projected changes in the number of railroad workers covered by the Railroad Retirement Act and the decline in the number of annuitants and beneficiaries require a reassessment of the role of the RRB and the way in which it operates. The decline in the total number of participants over the next twenty-five years makes it increasingly more difficult for the agency to become administratively efficient. The declining customer base dictates a smaller organization that is focused on the particular needs of its constituency. The OIG continues to recommend a significant change in the basic entity structure and the role of the Board Members.

Organizational Structure

The Office of Inspector General (OIG) made several recommendations concerning the basic organizational structure of the Railroad Retirement Board (RRB). The initial Reinvention Proposals recommended the adoption of a simplified structure organized by functional specialty.

The lack of an effective organizational structure has been a contributing factor to the overall control environment being cited as a material weakness in internal control. Arthur Andersen LLP, independent public accountants, initially reported on the material weakness at the conclusion of their audit for the 1993 fiscal year. They continued to report the control environment as a material weakness in subsequent audits through the end of fiscal year 1995. KPMG Peat Marwick LLP also cited the control environment as a material weakness in internal control during their audit for the 1996 fiscal year. The OIG reported similar findings in subsequent audits through fiscal year 2000.

The impact of the organizational structure on the control environment has been the inability to resolve significant issues on a timely basis, a focus on individual unit objectives and excessive attention to routine operational matters by the Board Members. Several attempts have been made to revise the organization, but most have been cosmetic changes that perpetuate the focus on parochial interests.

Continued emphasis on organizational issues is being placed on all government agencies. The General Accounting Office (GAO) recently issued a report on major management challenges from a government-wide perspective. The GAO report emphasizes that several of the main actions required to improving government performance are centered on performance management, human capital or people management and organizational approaches to a changing environment. GAO has also issued an exposure draft for evaluating the overall control environment. The exposure draft recognizes that the organizational structure is a major element in achieving control environment effectiveness.

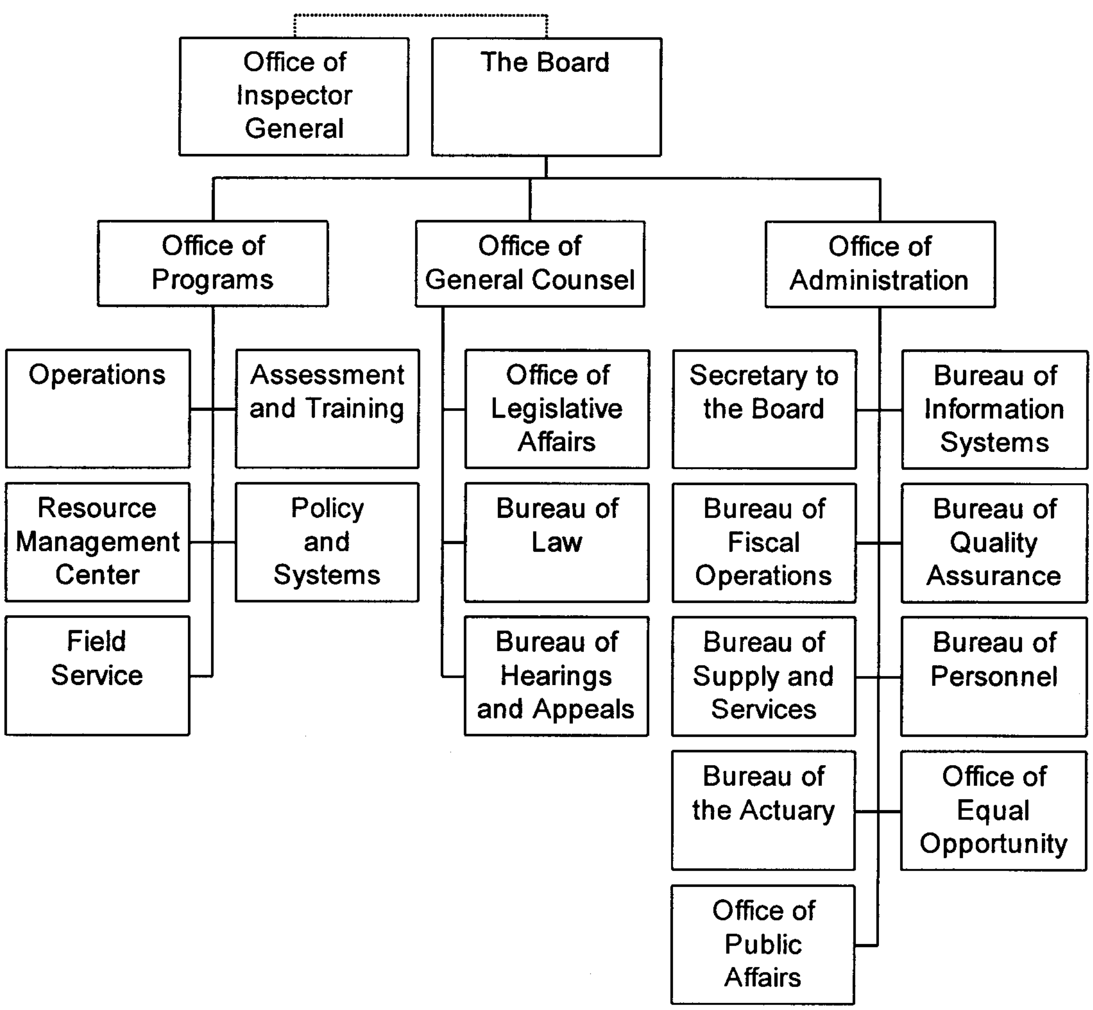
The Administration's proposed 10-Year Budget Plan includes a provision for reducing the number of managerial layers in government. The budget proposal suggests that the Federal government must change drastically to become "citizen-centric" by enabling individuals to access information and conduct business with the government by using the internet. It also requires that agencies devise methods of using technology to complete more of their business transactions. The Office of Management and Budget has mandated, in a recent bulletin, that an initial assessment of the RRB's workforce must be submitted by the end of June. This will serve as an initial step in meeting the budget objectives. In its present mode of operating, the RRB may be precluded from developing required performance plan goals for fiscal year 2002 that respond to these and other reforms outlined by the Administration.

The RRB has recently appointed a Senior Executive Officer (SEO) who heads the Executive Committee of the agency. The SEO is also the RRB General Counsel and, in effect, must operate as SEO in addition to his other responsibilities. He only has authority over the agency managers in his duties as chairman of the Executive Committee. The agency managers still report to the three-member Board in their normal course of duties.

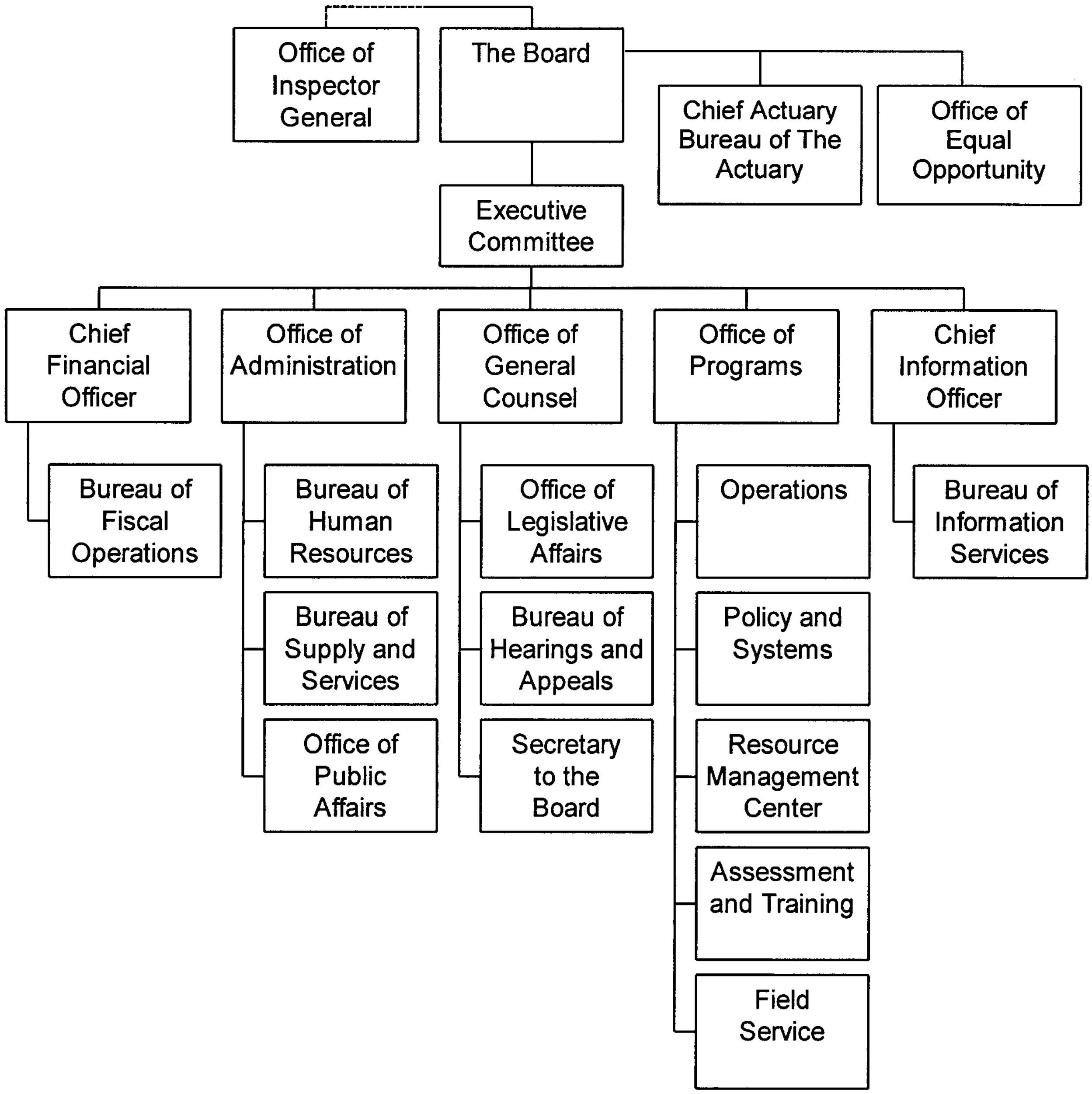
The creation of the Executive Committee adds an unnecessary level of delay in the decision-making process. The OIG continues to believe that the three-member Board should not be involved in managing the day to day operations of the agency. The OIG has previously recommended that the Board become an advisory panel representing their respective constituencies through recommendations to an independent Chief Executive Officer (CEO), who will be responsible for the operations of the agency. This form of organizational structure will enable the RRB to streamline the decision-making process, provide for greater communication among offices and bureaus, focus on global decision-making and eliminate the stand-alone attitude of independent fiefdoms.

The following charts show the agency structure in 1996 and in 2001 along with the OIG proposed structure. Only minimal changes have been made as a result of several reorganization efforts by the agency.

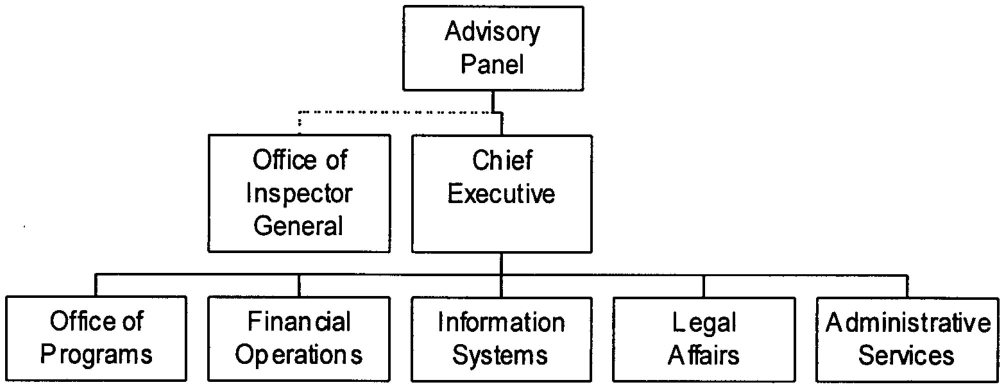
Agency Structure 1996



Agency Structure 2001



OIG Proposed Agency Structure



Field Service

In 1996, the OIG recommended a complete revamping of the Field Service with a reduction in the number of offices from 86 to 10 and a reduction of 255 FTEs. The OIG concluded that the changing demographics within the railroad industry, along with the availability of automated processing technology, negated the need for a wide network of field offices in which the primary method of service delivery was individual interviews. Since the time of the initial recommendation, dramatic technological advances have made this proposal even easier to accomplish.

The RRB currently maintains a Field Service with 3 regional and 53 field offices and 379 authorized positions. In 1996, the Field Service had 383 people assigned with many of the 432 authorized positions having been vacant for years. Any reduction was accomplished by eliminating vacant authorized positions with no real effect on the size of the Field Service. The actual reduction is only four employees. The current RRB Strategic Plan assumes that the primary service delivery will be through a structure of field offices that will remain relatively stable. This indicates that the RRB is not considering any reduction in the size of the Field Service.

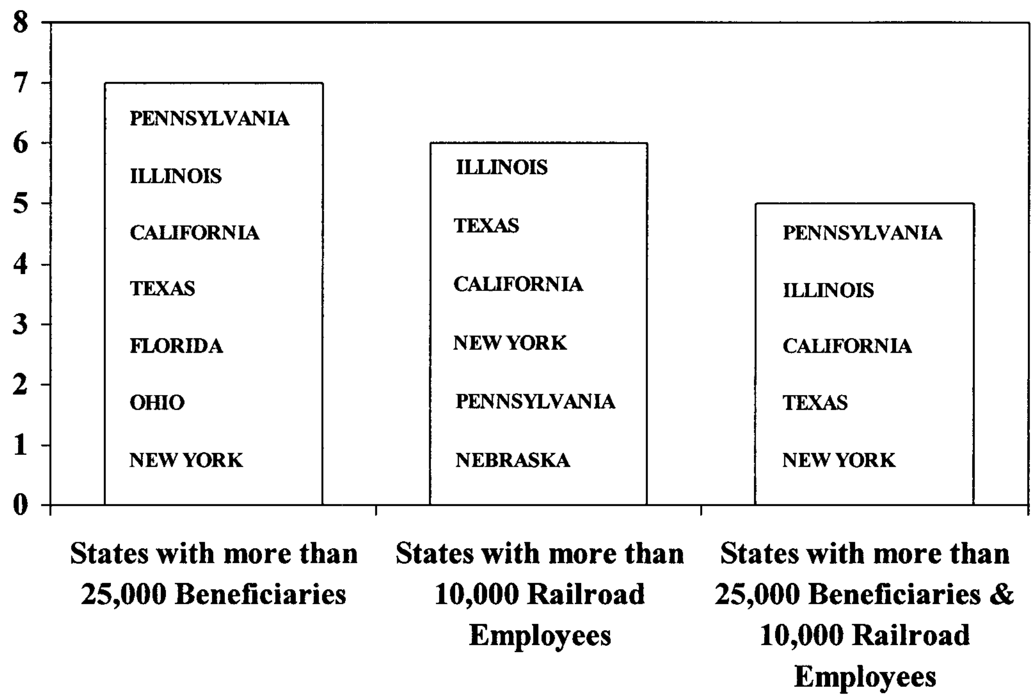
At the time the initial recommendation was proposed, the estimated annual savings in employment costs were estimated as approximately $10.6 million. A similar staff reduction occurring at this time would result in savings approaching $14 million. The need for a reduction in the number of offices operated by the Field Service is reinforced by the General Services Administration's decision to charge market based rents. The agency has expressed concern that increases in rent could put enough of a strain on the budget as to require a reduction in the work force. A reduction in the number of field offices operated and the number of field service employees would eliminate this budgetary dilemma.

The development of a centralized service unit at the existing headquarters building, as proposed by the OIG, would also help this situation. The OIG remains convinced that the effective application of technology to direct customer service situations should replace the more costly person to person service delivery method. This approach is consistent with efforts by other agencies to reduce field service facilities and consistent with the Administration's goals to expand information technology applications to deliver information and services.

The initial proposal made by the OIG was predicated on the employee and beneficiary population covered by the Railroad Retirement Act (RRA). At that time, this total direct customer base was 1.2 million individuals. The customer population has now declined to approximately 905,000. The RRB projects this population will continue to decline substantially in the future.

The following chart illustrates how the customer base of the RRB is concentrated, indicating that the number of field offices could be reduced to five or seven offices.

Distribution of Railroad Employees and Beneficiaries



Tier I Benefits

In the report entitled Reinvention Proposals Phase III, the OIG recommended the merger of the tier I program with the Social Security Administration (SSA). Nothing has changed in the past four and one-half years to suggest that this recommendation is any less relevant today.

Basis for Comparison

The previous report noted that, in 1995, revenues related to the provision of Social Security benefits or the equivalent represented in excess of 62% of total RRB revenues. Each of the two prior fiscal years also indicated that these revenues were in excess of 60%. Comparable data for fiscal year 2000 indicates that 59% of RRB revenues related to Social Security-type activity.

The revenue SSA provides to the RRB comes in the form of the financial interchange transaction. The intent of the financial interchange is to place the social security trust funds in the same position they would have been if SSA had always covered railroad workers. If the amount of benefits and expenses SSA would have paid exceeds the tier I tax collected, a transfer is made to the RRB. The estimate of the financial interchange for fiscal year 2000 was $ 2.9 billion, the first time it dropped below $ 3 billion in the past ten years. Settlement of the financial interchange has caused accounting problems in the past and requires excessive use of resources.

A review of benefit payment activity indicates an even greater relationship to Social Security. In fiscal year 2000, the RRB paid a total of $9.5 billion in benefits from all programs. Of that total, $5.1 billion were tier I benefits. The RRB paid an additional $1.1 billion on behalf of Social Security for which the agency was directly reimbursed. Social Security related benefits, therefore, represent over 65% of the total RRB benefit payments.

Problem Areas

In the previous proposal, the OIG cited several problems with the dual administrative roles of the RRB and the SSA. Specific coordination of benefit entitlements exists if an individual established entitlement to both Social Security and RRA benefits during his/her working career. Similar coordination problems can exist for the benefits payable to the spouse of an annuitant covered by the RRA. Historically, coordination problems with Social Security caused a significant amount of benefit overpayments. Ultimately, the benefits will be offset but, in the interim, overpayments may result and produce additional administrative costs.

The submission of separate employer tax returns, the reporting and tracking of earnings history and the need to support separate but nearly identical calculation and payment systems are a few examples of the redundancy that exists because tier I remains separate from Social Security. This becomes more obvious considering that the tier I calculation is more complex than the tier II program. In addition, each agency incurs expenses to facilitate data exchanges with each other.

The current and projected demographic trends published by the RRB suggest that a transfer of the tier I portion of the program to SSA is highly desirable. Currently, 235,000 active employees are covered by the RRA. There are 670,000 annuitants receiving RRA benefit payments. By contrast, Social Security indicates that it pays benefits to more than 38 million individuals each month. Social Security projects that approximately 154 million people will contribute to the SSA program during 2001. The most recent actuarial report issued by the RRB suggests a continuous decline in participants through 2025. Under its moderate assumption, the RRB projects that the average number of covered workers will decline to 140,000 and the number of annuitants will decline to 420,800 in 2025.

The Railroad Retirement Board Strategic Plan 2000-2005 recognizes that activities should be considered for outsourcing. Strategic Objective II-E states: "Use outside sources and partnerships, when appropriate, to accomplish our mission." The objective states " Another objective with respect to this strategic goal is to use outside sources and partnerships with other agencies and organizations, when appropriate (i.e., when significant savings can be expected and quality of services will not suffer.)"

OIG Proposal

The OIG continues to believe that the longer-term issue for the RRB is to concentrate its efforts on the tier II benefits that more closely parallel a multi-employer industry pension plan. The previous recommendation for the transfer of tier I responsibility to Social Security is as relevant today as it was in 1996.

The declining population of annuitants, beneficiaries and active workers requires drastic changes in service delivery techniques and methods in order to promote economy and efficiency. The external environment is also changing dramatically and requires an abandonment of the conventional thinking that has characterized the RRB since its inception. This is evidenced by proposed legislation to dissolve the investment responsibilities of the RRB and the Administration's proposal to change Social Security to incorporate features comparable to individual retirement accounts.

The Reinvention Proposals Phase III stated several reasons for the RRB to continue administering the Medicare program. The OIG continues to believe that the Medicare program, applicable to railroad retirees, should be administered by the RRB while the tier I program is included under the RRA. The report indicated that the Railroad Unemployment and Insurance Act (RUIA) programs should also remain under the administrative control of the RRB. The OIG believes that, because the RUIA programs represent a relatively minor portion of the total activity of the RRB's operations, there is no significant savings or efficiency to be gained by changing the current administrative arrangement.

Government Corporation

The OIG issued its Reinvention Proposal Phase IV in September 1996. The proposal indicated that the RRB should explore the feasibility of becoming a government corporation and revise its organizational structure to operate in a manner that promotes efficiency. The recommendation was made to encourage the Board Members to pursue the formation of an entity structure that would be compatible with the need to administer those programs outside the scope of the current tier I program. It is important to recognize that this recommendation is made in conjunction with the proposal to transfer the tier I program to Social Security.

The OIG remains convinced that the RRB, as a small government agency, is constrained by budgetary and administrative regulations. The future of the RRB is dependent upon providing services in a manner that mirrors the most efficient of large multi-employer pension and benefit providers. The evolution to becoming this type of organization requires an entity structure significantly different than the current one.

Recent Developments

Railroad management and labor formed a coalition to develop major changes to the provisions of the RRA. An agreement between the parties was reached after several years of negotiations and a measure has recently been introduced in Congress which will alter the benefit structure, determine the future level of tier II tax rates and remove the RRB's investment authority. A similar measure was introduced in the previous session of Congress, passed by the House but failed to progress in the Senate. The current bill is essentially the same as the previous measure.

The provisions of the proposed legislation that deal with the investment of trust fund assets are particularly relevant to this discussion. The coalition that proposed the legislation and the sponsors of the bill are supporting the establishment of an investment trust, independent of the Federal government. The trust will be responsible for the investment of the trust fund balances for both the tier I and tier II benefit programs. The total market value of the trust funds at the end of fiscal 2000 was $19.4 billion, of which $2.1 billion was held by the Social Security Equivalent Benefit (SSEB) Fund, which funds tier I benefits.

The proposal is very clear in defining the investment trust as being independent of the Federal government and subjects the trustees to fiduciary standards of prudent investment that apply to other industry pension plans. The only investment restriction applies to the funds in the SSEB Fund, which can only be invested in government securities or transferred back to the RRB for purposes of paying benefits or administrative expenses.

The proposed legislation makes clear the distinction between the investing of tier I and tier II funds as being the difference between investments of government and private plan assets. Once the investments of the RRB are transferred to the investment trust, the RRB will become an agency with a $3 billion balance sheet. The RRB at that point will process $9 billion in benefit payments of which $5 billion relates to the tier I program over which it has essentially no control.

OIG Proposal

The legislative proposal suggests major changes to the RRA but does not go far enough. The basic structure of the RRB and its program requirements should also be considered.

The original proposal to change the organizational charter of the RRB is unchanged. The Board should become proactive in responding to the changing demographic and legislative environment and respond accordingly. As previously recommended, the RRB should become a government corporation. The three-Member Board should be an advisory and strategy oriented panel that removes itself from daily administrative tasks that can be handled by experienced professionals within the organization.

The Board could also accept the responsibility for the annual allocation of the investment trust's income to pay for administrative expenses of the RRB within a range determined to be acceptable by the Administration. The administrative budgeting process could be reviewed every four or five years to determine if the funding range should be adjusted or on an interim basis to respond to any special funding requests.

Conclusion

Beginning in 1995, the OIG made four specific reinvention proposals:

- Redesign the organizational structure of the RRB to recognize functional specialties and expertise and streamline the operations by eliminating unnecessary layers of management.
- Significantly reduce the size and scope of the field service staff by utilizing available technology to provide services to employees, annuitants and beneficiaries of the programs administered by the RRB.
- Solicit the authority to transfer the responsibility for the tier I program to SSA.
- Request a change in the structure of the RRB to become a government corporation under the direction of a Chief Executive Officer, independent of the Board in administering RRB programs. The Board should become an advisory panel removed from routine tasks and concentrate on long-term issues of strategic importance.

The OIG proposals represent a significant departure from the current and past practices of the RRB. The recommendations are intended to respond to changes in the environment and concentrate agency efforts on the long-term strategic impact of these changes.

The demographic projections for the customer base of the RRB shows a continuing decline in the number of employees, annuitants and beneficiaries. In 1995 this direct customer base was approximately 1.2 million people. The customer population has dropped substantially since then and will decline to approximately 560,000 in less than 25 years.

There is continuing pressure to reduce the size of government and to eliminate redundant programs. The Administration has indicated that government agencies must reduce managerial layers and utilize technology to increase productivity.

Legislation has been introduced in Congress that would make substantial changes to the RRA. These changes, which have the support of both railroad labor and management, would amend benefit provisions, change the tier II tax rates and transfer the investment authority of the RRB to a newly created investment trust. In addition, the Administration has authorized a commission to study changes to the social security system that would include the potential for diverting a portion of the tax collected to an individual account arrangement.

Major environmental changes require significant responses rather than minor adjustments to the status quo. The OIG strongly believes that the recommendations previously made have become more relevant with the passage of time and that the Board should initiate efforts toward implementing them.

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