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 2009

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 2009.

II. Recent Developments

The maximum daily benefit increased from $59 to $61 beginning July 1, 2008, and will increase to $64 beginning July 1, 2009, and $66 beginning July 1, 2010. The monthly tax base increased from $1,230 in calendar year 2007 to $1,280 in 2008, and to $1,330 in 2009, based on increases in the railroad retirement tier I creditable base.

Average employment in calendar year 2008 was 234,000 (subject to later revision), the same as the most optimistic assumption in last year's report. Actual net unemployment and sickness benefits in fiscal year 2008 were $5.4 million (6.4 percent) less than last year’s projection. This year’s report predicts that the 1.5 percent surcharge in calendar year 2009 will be followed by a 1.5 percent surcharge for calendar year 2010 and a 2.5 percent surcharge for calendar year 2011. A surcharge of at least 1.5 percent is also likely for calendar year 2012.

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 May 2009 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 2009-2019. 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, 2007 balance[1] was $119.3 million, above the indexed $50 million surcharge threshold of $63.7 million but below the indexed $100 million surcharge threshold of $127.5 million. As a result, a 1.5 percent surcharge was in effect for calendar year 2008. By June 30, 2008, the balance had risen to $122.5 million, which was below the indexed $100 million surcharge threshold of $130.1 million. Consequently, a 1.5 percent surcharge is in effect for calendar year 2009.

Under each employment assumption, the Account balance is expected to be below the indexed $100 million threshold in June of 2009. Consequently, a 1.5 percent surcharge is expected in calendar year 2010. Due to recent high levels of unemployment, the balance is projected to fall below the indexed $50 million threshold in June of 2010, resulting in a

[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.

2.5 percent surcharge for calendar year 2011. A surcharge of at least 1.5 percent is likely for calendar year 2012, and surcharges of 1.5 percent are likely to occur periodically thereafter. Under employment assumption B, short-term cash flow problems may arise in fiscal years 2010 and 2011, with full repayment of the loans expected by the end of fiscal year 2011. Under employment assumption C, short-term cash flow problems are likely in fiscal years 2010 and 2011, with full repayment of the loans during fiscal year 2012. The highest average contribution rate needed is under employment assumption C, where it rises to 6.63 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 2009 Report

Calendar Year	Average Employment (thousands)		
	A	B	C
2008	234	234	234
2009	233	230	227
2010	232	226	220
2011	231	223	213
2012	230	219	206
2013	229	215	200
2014	228	212	194
2015	227	209	188
2016	226	205	182
2017	225	202	177
2018	224	199	172
2019	224	196	166

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 (0.5 percent for assumption A and 2.0 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 3.5 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]
2008	$102,000	$1,280	$61
2009	106,800	1,330	64
2010	106,800	1,330	66
2011	106,800	1,330	66
2012	114,900	1,415	66
2013	119,400	1,465	70
2014	124,200	1,515	73
2015	129,300	1,570	75
2016	134,700	1,625	78
2017	140,400	1,685	81
2018	145,500	1,740	84
2019	150,900	1,795	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 Contri-butions [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)
2009	$69.0	$140.7	$10.9	$44.5	$0.0	$44.5	2009	2.50
2010	88.1	127.4	8.6	13.8	0.0	13.8	2010	3.44
2011	150.8	107.5	9.3	66.4	0.0	66.4	2011	5.84
2012	179.6	95.5	13.0	163.5	0.0	163.5	2012	4.73
2013	103.1	85.2	17.7	199.2	0.0	199.2	2013	1.69
2014	31.0	89.6	18.1	158.7	0.0	158.7	2014	1.10
2015	27.8	92.7	16.5	110.3	0.0	110.3	2015	1.48
2016	67.4	95.2	15.1	97.7	0.0	97.7	2016	2.83
2017	111.8	98.6	16.4	127.3	0.0	127.3	2017	3.33
2018	110.1	101.9	18.5	154.0	0.0	154.0	2018	2.63
2019	77.2	105.2	19.4	145.4	0.0	145.4	2019	1.85

[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 Contri-butions [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)
2009	$68.6	$140.7	$10.9	$44.1	$0.0	$44.1	2009	2.50
2010	86.4	135.6	12.9	7.8	4.7	3.1	2010	3.44
2011	149.3	115.6	3.3	44.8	0.0	44.8	2011	6.02
2012	189.7	101.4	11.1	144.2	0.0	144.2	2012	5.48
2013	119.8	94.4	15.9	185.6	0.0	185.6	2013	2.08
2014	40.2	98.2	15.9	143.5	0.0	143.5	2014	1.28
2015	34.4	100.4	13.7	91.2	0.0	91.2	2015	1.74
2016	78.3	101.8	12.0	79.8	0.0	79.8	2016	3.40
2017	123.2	104.1	13.0	111.9	0.0	111.9	2017	3.84
2018	117.0	106.4	14.7	137.2	0.0	137.2	2018	3.01
2019	83.9	108.5	15.0	127.6	0.0	127.6	2019	2.21

[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, and loans from the Railroad Retirement Account. Outgo includes funding for the Office of Inspector General and repayment of loans, including interest.

[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 Contri-butions [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)
2009	$68.1	$140.7	$10.9	$43.6	$0.0	$43.6	2009	2.50
2010	84.5	144.1	21.7	5.7	14.1	-8.4	2010	3.45
2011	147.0	135.2	-3.0	14.5	4.9	9.6	2011	6.21
2012	204.2	124.2	3.5	98.0	0.0	98.0	2012	6.63
2013	167.1	117.7	12.7	160.2	0.0	160.2	2013	3.96
2014	83.4	120.5	13.8	136.9	0.0	136.9	2014	1.96
2015	50.2	121.5	11.2	76.8	0.0	76.8	2015	2.11
2016	87.9	121.3	8.5	52.0	0.0	52.0	2016	4.02
2017	143.0	122.3	8.6	81.3	0.0	81.3	2017	5.10
2018	149.1	123.1	10.2	117.5	0.0	117.5	2018	4.33
2019	109.8	123.8	10.7	114.2	0.0	114.2	2019	2.95

[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, and loans from the Railroad Retirement Account. Outgo includes funding for the Office of Inspector General and repayment of loans, including interest.

[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)

	Employment Assumption A		Employment Assumption B		Employment Assumption C	
Year	Account Balance	1.5 Percent Surcharge Threshold	Account Balance	1.5 Percent Surcharge Threshold	Account Balance	1.5 Percent Surcharge Threshold
2009	$82.6	$134.2	$82.0	$133.8	$81.3	$133.3
2010	42.7	137.6	32.5	135.5	21.8	133.1
2011	91.8	137.1	70.6	133.3	37.2	129.0
2012	187.2	138.7	167.9	133.2	123.4	127.0
2013	222.9	145.9	209.2	138.5	185.5	130.1
2014	183.6	150.4	168.0	141.1	162.2	130.6
2015	136.1	155.0	116.3	143.6	102.3	131.0
2016	124.7	159.9	105.5	146.4	77.7	131.6
2017	154.9	164.9	137.4	149.2	106.4	132.1
2018	182.1	170.2	162.7	152.1	141.9	132.7
2019	174.3	175.0	153.6	154.6	138.3	132.9

The June 30, 2008 accrual balance was $122,524,603.90. The indexed 1.5 percent surcharge threshold was $130,144,923 and the indexed 2.5 percent surcharge threshold was $65,072,461.50.

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.