

**United States  
Railroad Retirement Board**

*2008 Annual Report*

# U.S. Railroad Retirement Board

## *Mission Statement*

The Railroad Retirement Board's mission is to administer retirement/survivor and unemployment/sickness insurance benefit programs for railroad workers and their families under the Railroad Retirement Act and the Railroad Unemployment Insurance Act. These programs provide income protection during old age and in the event of disability, death or temporary unemployment and sickness. The Railroad Retirement Board also administers aspects of the Medicare program and has administrative responsibilities under the Social Security Act and the Internal Revenue Code.

In carrying out its mission, the Railroad Retirement Board will pay benefits to the right people, in the right amounts, in a timely manner, and will take appropriate action to safeguard our customers' trust funds. The Railroad Retirement Board will treat every person who comes into contact with the agency with courtesy and concern, and respond to all inquiries promptly, accurately and clearly.

*If you have any comments or suggestions regarding the presentation of information in this publication, please let us know. You can fax us at 312-751-7154, e-mail us at [opa@rrb.gov](mailto:opa@rrb.gov) or write us at the following address:  
Public Affairs, U.S. Railroad Retirement Board,  
844 North Rush Street, Chicago, IL 60611-2092.*

UNITED STATES  
RAILROAD RETIREMENT BOARD

**2008 Annual Report**

*For Fiscal Year Ended September 30, 2007*

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THE REPORT IN BRIEF	1
A REVIEW OF OPERATIONS	7
ADMINISTRATIVE DEVELOPMENTS	35
LEGAL RULINGS	43
STATISTICAL TABLES	47

# THE REPORT IN BRIEF

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*Railroad retirement and unemployment insurance benefits totaling almost \$9.9 billion were paid by the Railroad Retirement Board to about 641,000 beneficiaries in fiscal year 2007. Financial reports issued in 2008 on the solvency of the railroad retirement and railroad unemployment insurance systems were both favorable. Total railroad retirement system assets equaled \$34.0 billion as of September 30, 2007.*

## **Benefits and Beneficiaries**

**B**enefits paid under the Railroad Retirement and Railroad Unemployment Insurance Acts totaled almost \$9.9 billion in the fiscal year ending September 30, 2007. Retirement and survivor benefits were paid by the Railroad Retirement Board to about 616,000 beneficiaries during the fiscal year, of whom 568,000 were on the Board's annuity rolls at the end of the year. Nearly 29,000 railroad employees were paid unemployment and/or sickness insurance benefits. More than 3,000 beneficiaries received payments under both the Railroad Retirement Act and the Railroad Unemployment Insurance Act.

Retirement and survivor benefit payments of \$9.8 billion during the 2007 fiscal year were \$357.0 million more than payments in the prior year. Employee and spouse annuitants were paid over \$7.6 billion, accounting for 78 percent of the total payments. Employees received some \$4.3 billion in age annuities, \$2.1 billion in disability annuities and \$61.0 million in supplemental annuities, while spouses and divorced spouses received about \$1.2 billion. Survivors were paid \$2.2 billion in annuities and almost \$4.0 million in lump-sum benefits. The total number of beneficiaries who received retirement and survivor benefits declined by more than 3,000 from fiscal year 2006.

Statistics are presented on the cash basis of accounting instead of the accrual basis of accounting for much of the Report. However, with the exception of the first paragraph on page 2, the Federal Income Tax Transfers section on page 10 and the accompanying table on page 11, which are also presented as cash, the information on pages 2, 7-15 and 27-29 is presented on the accrual basis of accounting. The primary difference between the two bases of accounting is that the cash basis recognizes revenue and expenditures only when cash is received and paid. The accrual basis, on the other hand, recognizes revenue when it is earned and expenses when they are incurred.



Gross unemployment and sickness benefits paid in fiscal year 2007 totaled \$107.0 million. Net benefits totaled about \$74.0 million after adjustment for recoveries of benefit payments, including injury settlements, some of which were made in prior years. Total gross and net benefit payments increased by about \$1.4 million and \$1.2 million, respectively, from the preceding year. Gross unemployment benefits totaling \$33.9 million (\$27.8 million net) were paid to 10,100 claimants, while gross sickness benefits of \$73.1 million (\$46.2 million net) were paid to 19,500 claimants.

## **Financial Reports**

The Board's 2008 railroad retirement financial report to Congress, which addressed the period 2008-2032, 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 during the next 25 years. The long-term stability of the system, however, is still questionable. Under the current financing structure, actual levels of railroad employment and investment return over the coming years will largely determine whether corrective action is necessary.

The Board's 2008 railroad unemployment insurance financial report was also generally favorable. Even as projected maximum benefit rates increase 47 percent from \$59 to \$87 from 2007 to 2018, experience-based contribution rates maintain solvency. The report also predicted average employer contribution rates well below the maximum throughout the projection period. A 1.5 percent surcharge, in effect in calendar year 2008 in order to maintain a minimum account balance, will likely remain in effect through 2011, according to the report.

No financing changes were recommended by the Board for the railroad retirement or unemployment insurance systems.

The National Railroad Retirement Investment Trust's annual management report for fiscal year 2007 stated that, as of September 30, 2007, the market value of the Trust-managed assets had increased to \$32.7 billion, reflecting a 16.38 percent rate of return. Total railroad retirement system assets, including those maintained at the Treasury, equaled approximately \$34.0 billion.

The 2008 railroad retirement and railroad unemployment insurance financial reports and the National Railroad Retirement Investment Trust's 2007 annual management report are available at [www.rrb.gov](http://www.rrb.gov).

## **Officials**

President Bush reappointed Michael S. Schwartz as Chairman, Jerome F. Keever as Management Member, and V. M. Speakman, Jr., as Labor Member of the Board. Their nominations were confirmed by the U.S. Senate on June 22, 2007. Mr. Keever and Mr. Speakman are now the longest-serving Board Members in the agency's history.

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## Service

### Customer Service Plan

During fiscal year 2007, customers received benefit services within the timeframes promised in the Board's Customer Service Plan 98.6 percent of the time. Beginning in fiscal year 2008, the agency implemented a revised plan which provides customers with additional information.

### Service Enhancements

The Board implemented a restructuring plan for its field offices in fiscal year 2007, which will enable the agency to improve customer service by utilizing new technologies more effectively. The new hub-and-satellite configuration will continue to provide telephone and face-to-face service to Board customers, and will allow agency management to more effectively balance and share workloads among the offices in each network.

To further improve service, the Board also implemented a new online contact log which allows agency field representatives to electronically record contacts or transactions with customers in order to maintain a chronological service history for each customer, and also began to expand the use of document imaging to its field offices to help reduce paperwork, improve efficiency, and protect customer information within a secure electronic environment.

In addition, in 2007 the Board began work on a new nationwide toll-free telephone service. A single toll-free number will provide Board customers with easy access to the agency's field offices, and will offer options for self-service through automated menus and automatic routing of calls to representatives in nearby offices.

### Database Conversion Project

The Board completed work on a two-year information technology initiative to convert its existing IDMS database management system to a more flexible and efficient DB2 database system. The conversion places the Board in a better position to provide service more efficiently in the coming years.

## Office of Inspector General

During fiscal year 2007, the Office of Inspector General continued its independent oversight of agency operations and its efforts to combat fraud, waste, and abuse. Nine audit reports issued during the year identified operational weaknesses and provided recommendations for corrective action to program managers.

Investigative activities resulted in 46 criminal convictions, 32 indictments and informations, 25 civil judgments and \$4.6 million in recoveries, restitutions, fines, civil damages and penalties.

## Selected Data on Benefit Operations

Retirement-Survivor	Fiscal Year 2007	Fiscal Year 2006
<b>Employee age annuities</b>		
Number awarded	9,600	7,900
Number being paid at end of period	193,300	195,400
Average being paid at end of period	\$1,890	\$1,789
<b>Employee disability annuities</b>		
Number of total disability annuities awarded	1,100	1,200
Number of total occupational disability annuities awarded	2,500	2,900
Number of total disability annuities being paid at end of period	20,300	20,300
Number of occupational disability annuities being paid at end of period	64,000	64,000
Average total disability annuity being paid at end of period	\$1,346	\$1,286
Average occupational disability annuity being paid at end of period	\$2,213	\$2,121
<b>Supplemental employee annuities</b>		
Number awarded	7,300	5,700
Number being paid at end of period	121,200	121,400
Average being paid at end of period	\$42	\$42
<b>Spouse and divorced spouse annuities</b>		
Number awarded, total	10,100	8,800
Number being paid to divorced spouses at end of period	3,500	3,500
Number being paid at end of period, total	137,400	138,500
Average being paid to divorced spouses at end of period	\$443	\$416
Average being paid at end of period, total	\$709	\$671
<b>Survivor annuities</b>		
Number awarded to aged widow(er)s	6,500	6,800
Number awarded, total	8,100	8,500
Number being paid to aged widow(er)s at end of period	129,400	134,800
Number being paid at end of period, total	160,300	166,600
<b>Average being paid at end of period to</b>		
Aged widow(er)s	\$1,173	\$1,122
Disabled widow(er)s	\$989	\$946
Widowed mothers (fathers)	\$1,471	\$1,423
Remarried widow(er)s	\$781	\$747
Divorced widow(er)s	\$773	\$740
Children	\$853	\$823
<b>Lump-sum survivor benefits awarded</b>		
Number of lump-sum death benefits	4,200	4,500
Average lump-sum death benefit	\$905	\$905
Number of residual payments	2/	2/
Average residual payment	\$2,674	\$2,981

### Selected Data on Benefit Operations (Continued)

Employees and Earnings <sup>3</sup>	Fiscal Year 2007	Fiscal Year 2006
<b>Average employment</b>	237,000	235,000
<b>Creditable earnings, Railroad Retirement Act (billions):</b>		
Tier I	\$15.55	\$15.05
Tier II	\$14.35	\$13.84
<b>Creditable earnings, Railroad Unemployment Insurance Act (billions)</b>	<b>\$3.57</b>	<b>\$3.43</b>
Unemployment-Sickness	Benefit Year 2006-2007	Benefit Year 2005-2006
<b>Qualified employees</b>	250,200	244,600
<b>Unemployment benefits</b>		
Net amount paid (millions)	\$29.6 <sup>4</sup> (\$27.8)	\$30.6
Beneficiaries	9,500 <sup>4</sup> (10,100)	8,900
Number of payments	56,600	54,000
Normal benefit accounts exhausted	1,800	1,900
Average payment per 2-week registration period	\$499	\$490
<b>Sickness benefits</b>		
Net amount paid (millions)	\$43.5 <sup>4</sup> (\$46.2)	\$43.8
Beneficiaries	19,000 <sup>4</sup> (19,500)	19,700
Number of payments	128,300	135,500
Normal benefit accounts exhausted	3,500	3,700
Average payment per 2-week registration period	\$503	\$496

<sup>1</sup> Includes 300 supplemental annuities, averaging \$66, awarded under the 1937 Act.

<sup>2</sup> Fewer than 50.

<sup>3</sup> Except for fiscal year 2006 employment, all figures in this section are preliminary.

<sup>4</sup> Data in parentheses are for fiscal year (October 1, 2006 - September 30, 2007).



# A REVIEW OF OPERATIONS

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*At the end of fiscal year 2007, total railroad retirement system assets equaled \$34.0 billion. During fiscal year 2007, benefits totaling approximately \$9.9 billion were paid under the Railroad Retirement and Railroad Unemployment Insurance Acts.*

*Retirement and survivor benefits accounted for almost all of this amount.*

*Net unemployment and sickness benefits totaled \$74.6 million.*

## RAILROAD RETIREMENT AND SURVIVOR PROGRAM

As of September 30, 2007, total railroad retirement system assets, including those maintained in U.S. Treasury accounts and those maintained by the National Railroad Retirement Investment Trust (the “Trust” or “NRRIT”), equaled \$34.0 billion, an increase of over \$3.4 billion during the fiscal year. Amounts in the Railroad Retirement (RR) Account not needed to pay current administrative expenses and amounts in the Social Security Equivalent Benefit (SSEB) Account not needed to pay current benefits and administrative expenses are transferred to the NRRIT whose Board of seven trustees is empowered to invest Trust assets in non-governmental assets, such as equities and debt, as well as in governmental securities.

## FINANCIAL OPERATIONS - U.S. TREASURY ACCOUNTS

During fiscal year 2007, railroad retirement and survivor benefit payments were financed through four U.S. Treasury accounts.

The SSEB Account, established in fiscal year 1985, pays the portion of railroad retirement benefits equivalent to a social security benefit from various income sources related to these benefits. The RR Account funds retirement, survivor and disability benefits, in excess of social security equivalent benefits, from payroll taxes on employers and employees and other income sources. Supplemental benefit payments are also paid from the RR Account. The Dual Benefits Payments (DBP) Account and Federal Payments (FP) Account, funded by congressional appropriations from general revenues, finance the phase-out costs of certain vested dual benefits and interest on unnegotiated checks, respectively. The four accounts together incurred \$9.8 billion in benefit obligations (excluding \$1.2 billion in social security benefits which were reimbursed by the Social Security Administration) during fiscal year 2007.

## Financing Sources

### Payroll Taxes

The primary source of income to the railroad retirement and survivor program is payroll taxes levied on covered employers and their employees. Payroll taxes amounted to \$4.9 billion, 35.5 percent of total financing sources and \$183.5 million more than in fiscal year 2006.

Railroad employees and employers pay tier I taxes which, by law, are the same as social security taxes. The rate of 7.65 percent is divided into 6.20 percent for retirement and 1.45 percent for Medicare hospital insurance. The maximum amount of earnings subject to the 6.20 percent rate in calendar year 2007 was \$97,500, and all earnings were subject to the 1.45 percent Medicare tax. In calendar year 2006, the maximum amount subject to the 6.20 percent tax was \$94,200, with all earnings subject to the 1.45 percent Medicare tax. Both employees and employers also pay a tier II tax to finance railroad retirement benefit payments over and above social security levels. This tax, on earnings up to \$72,600 in 2007 and \$69,900 in 2006, was 3.9 percent on employees in 2007 and 4.4 percent in 2006. It was 12.1 percent on employers in 2007 and 12.6 percent in 2006.

Tier I and tier II taxes for fiscal year 2007 amounted to \$2.5 billion and \$2.4 billion, respectively.

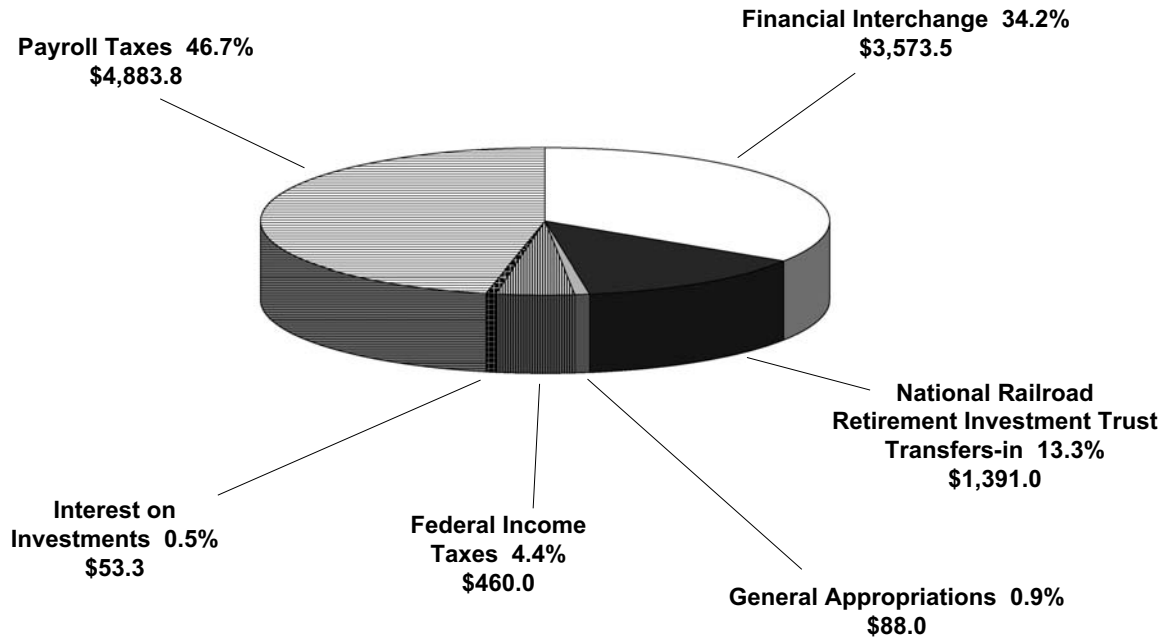
### Financial Interchange Transfers

The second major source of income to the railroad retirement and survivor program consists of transfers from the social security trust funds under a financial interchange between the two systems. The financial interchange is intended to place the Social Security Old-Age, Survivors and Disability Insurance and Hospital Insurance Trust Funds in the same position in which they would have been had railroad employment been covered by the Social Security and Federal Insurance Contributions Acts. This involves computing the amount of social security taxes that would have been collected on railroad employment, and computing the amount of additional benefits which social security would have paid to railroad retirement beneficiaries during the same fiscal year.

In the computation of the latter amount, credit is given for any social security benefits actually paid to railroad retirement beneficiaries. When benefit reimbursements exceed payroll taxes, the difference, with an allowance for interest and administrative expenses, is transferred from the Social Security Trust Funds to the SSEB Account. If taxes exceed benefit reimbursements (this has not happened since 1951), a transfer would be made in favor of the Social Security Trust Funds. The net financial interchange transfer to the SSEB Account during fiscal year 2007 amounted to \$3.6 billion.

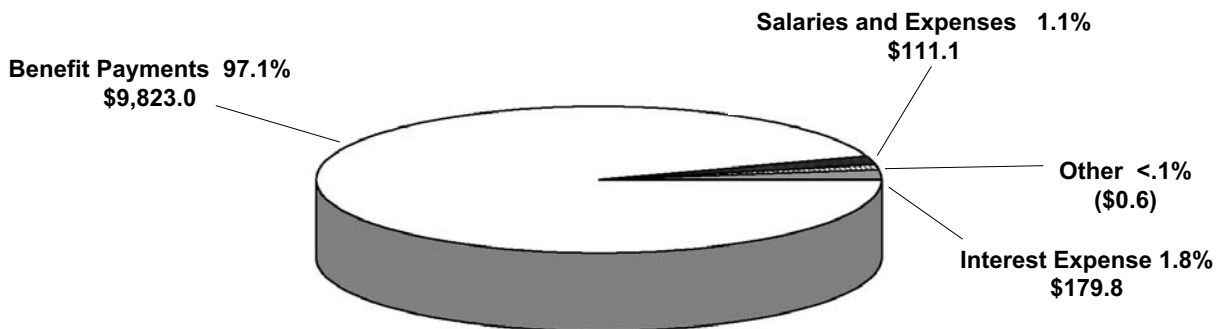
**RETIREMENT AND SURVIVOR PROGRAM**

**Financing Sources - Fiscal Year 2007 (In Millions)**  
**GROSS TOTAL: \$10,449.6<sup>1</sup>**



<sup>1</sup>Excludes \$3,301.5 million as detailed under Other Financing Sources on page 14.

**Costs - Fiscal Year 2007 (In Millions)**  
**TOTAL: \$10,113.3**



**Note.**--Percentages may not add to 100 due to rounding.

## Interest on Investments and Other Revenue

Interest revenue decreased from \$53.8 million in fiscal year 2006 to \$53.3 million in fiscal year 2007. Interest revenue was also earned from financial interchange advances.

## Federal Income Tax Transfers

Legislation enacted in 1983 subjecting social security and railroad retirement benefits to Federal income taxes also provided for a transfer of the tax revenues to the social security and railroad retirement systems for the payment of benefits. Revenue from income taxes on social security equivalent railroad retirement benefits is transferred to the SSEB Account.\* Revenue derived from taxing regular railroad retirement benefits in excess of social security equivalent benefits is transferred to the RR Account. Revenue from taxing the vested dual benefits funded by the general revenue appropriations previously described is transferred to the DBP Account.

At the beginning of each quarter, income tax transfers are made from Treasury general funds to the SSEB, RR and DBP Accounts. These transfers are estimates of expected tax revenues for the quarter. Adjustments are made later to reconcile the estimates for a taxable year with actual tax revenues for the year. On a cash basis, original tax transfers for fiscal year 2007 amounted to \$466 million during the year. Original transfers for fiscal year 2006 totaled \$441 million. There were no reconciliation adjustments in fiscal year 2007. Net transfers in fiscal year 2006 were \$473 million, including \$32 million in reconciliation adjustments.

The information in the preceding paragraph is on a fiscal year basis, while the table on the next page shows income tax transfers to the Accounts for taxable (calendar) years 1998 through 2007, including reconciliation adjustments through 2001.

## General Appropriations

General revenue appropriations were provided by the Railroad Retirement Act of 1974 to fund the phase-out costs of certain dual railroad retirement/social security benefits considered vested prior to 1975, and by the Railroad Retirement Solvency Act of 1983 to fund interest on unnegotiated checks. The total amounts appropriated by the Congress for vested dual benefits were \$88 million for fiscal year 2007 and \$98 million for fiscal year 2006. These amounts include Federal income tax transfers for 2007 and 2006. The amount appropriated for fiscal year 2007 was 10.2 percent less than fiscal year 2006, reflecting the continuing decrease in eligibility for these benefits, which are not increased for the cost of living. The total amounts appropriated by the Congress for interest on unnegotiated checks were \$150,000 for fiscal years 2007/2008 and also \$150,000 for fiscal years 2006/2007.

*(text continued on page 14)*

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\* Legislation enacted in 1993 subjected a larger amount of social security benefits and social security equivalent railroad retirement benefits to Federal income tax for taxpayers in higher income brackets. This provision was effective beginning with taxable year 1994, and the additional revenue raised is transferred to the Federal Hospital Insurance Trust Fund.

**Federal Income Tax Transfers by Recipient Account and  
Benefit Component, Taxable Years 1998-2007 (Millions)**

<u>Taxable year</u>	<u>Revenue from taxes on</u>		
	<u>RRA benefits treated as SSA benefits</u>	<u>RRA benefits treated as private or public pensions</u>	
	<u>SSEB tier I benefits</u>	<u>Tier II and non-SSEB tier I benefits<sup>1</sup></u>	<u>Vested dual benefits</u>
	<u>SSEB Account<sup>2</sup></u>	<u>RR Account</u>	<u>DBP Account<sup>3</sup></u>
<b>Original transfers during the year</b>			
1998	\$74	\$196	\$12
1999	79	227	11
2000	102	245	12
2001	94	229	10
2002	97	252	9
2003	97	283	9
2004	109	294	8
2005	117	301	7
2006	125	312	7
2007	135	334	6
<b>Reconciliation adjustments<sup>4</sup></b>			
1998 (2002)	+14	+47	+2
1999 (2003)	+15	+22	+2
2000 (2004)	+3	+17	+1
2001 (2006)	+6	+25	+1

<sup>1</sup> Includes non-SSEB portion of tier I.

<sup>2</sup> Receives taxes on social security equivalent benefit (SSEB) portion of tier I.

<sup>3</sup> Receives taxes on vested dual benefit component beginning October 1, 1988.

<sup>4</sup> The year in parentheses is the year the adjustments were made.

Railroad Retirement and Survivor Program  
**Consolidated Financing Sources,  
 Costs and Net Position (Millions)**<sup>1</sup>

For the Fiscal Year Ended September 30	2007	2006
<b>Financing Sources:</b>		
Payroll Taxes	\$4,883.8	\$4,700.3
Financial Interchange	3,573.5	3,467.8
Interest on Investments and Other Revenue	53.3	53.8
Federal Income Taxes	460.0	452.0
General Appropriations	88.0	98.1
Other	3,301.6	1,717.6
Transfers to the National Railroad Retirement Investment Trust	---	---
Transfers from the National Railroad Retirement Investment Trust	1,391.0	947.0
Total Financing Sources	<u>13,751.2</u>	<u>11,436.6</u>
<b>Costs:</b>		
Benefit Payments	9,823.0	9,461.1
Interest Expense	179.8	172.7
Salaries and Expenses <sup>2</sup>	111.1	108.6
Other	(0.6)	0.2
Total Costs	<u>10,113.3</u>	<u>9,742.6</u>
Financing Sources over Costs	3,637.9	1,694.0
Net Position - Beginning of Period	<u>29,779.4</u>	<u>28,085.4</u>
Net Position - End of Period	<u>\$33,417.3</u>	<u>\$29,779.4</u>

<sup>1</sup>Prepared on an accrual basis of accounting.

<sup>2</sup>Includes unemployment and sickness insurance salaries and expenses of approximately \$15.8 million for fiscal year 2007, and also \$15.8 million for fiscal year 2006.



## National Railroad Retirement Investment Trust (NRRIT) **Fiscal Year 2007 Highlights**

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Market value of assets managed  
by NRRIT on September 30, 2007 \$32.7 billion

Rate of return of investment portfolio  
managed by NRRIT for full year  
ended September 30, 2007 16.38%

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**Source:** *NRRIT*

All NRRIT annual management reports and quarterly updates are available on the Railroad Retirement Board's Web site at [www.rrb.gov](http://www.rrb.gov).

## Other Financing Sources

Other financing sources consisted of \$8.5 million to be provided by the Office of Personnel Management to pay future retirement benefits to Railroad Retirement Board employees, \$15.0 million from the railroad unemployment trust funds in transfers-in for current budget fiscal year salaries and expenses, and the increase in NRRIT net assets of \$3,287.8 million. These financing sources were offset by transfers-out of \$5.9 million for salaries and expenses of the Board's Office of Inspector General, and a \$3.8 million decrease in unexpended appropriations.

## Costs

The Railroad Retirement Board pays all salaries and expenses under a single administrative fund (Limitation on Administration) for both the railroad retirement and survivor program and the unemployment and sickness insurance program. Consequently, of the \$111.1 million and \$108.6 million shown on page 12 for salaries and expenses in fiscal years 2007 and 2006, respectively, about \$15.8 million for fiscal year 2007 and also \$15.8 million for fiscal year 2006 were for the unemployment and sickness insurance program. About \$1.2 million in other costs for fiscal year 2007 and \$1.2 million for fiscal year 2006 were for the unemployment and sickness insurance program.

Excluding \$17.0 million from total costs of \$10.1 billion for fiscal year 2007 and \$17.0 million from total costs of \$9.7 billion for fiscal year 2006, total costs for the railroad retirement and survivor program for fiscal year 2007 increased \$370.5 million or 3.8 percent.

## Benefit Payments

During fiscal year 2007, railroad retirement benefit payments increased \$361.9 million or almost 3.8 percent to about \$9.8 billion on an accrual basis, including \$86.5 million in vested dual benefits and \$60.7 million in supplemental annuities.

## Interest Expense

Interest expense of \$179.8 million represents interest on the financial interchange advances made by the U.S. Treasury during the fiscal year.

## Salaries and Expenses

Excluding unemployment and sickness insurance salaries and expenses of \$15.8 million for fiscal year 2007 and also \$15.8 million for fiscal year 2006, salaries and expenses for the railroad retirement and survivor program were about \$95.3 million for fiscal year 2007 and about \$92.8 million for fiscal year 2006, a \$2.5 million or 2.7 percent increase. Adjusted by the \$15.8 million in salaries and expenses and \$1.2 million in other costs for the unemployment and sickness insurance program, fiscal year 2007 administrative expenses for the railroad retirement and survivor program were about 0.93 percent of total costs.

## Other Costs

Other costs consisted primarily of post-retirement benefits (pensions, health and life insurance) for Railroad Retirement Board employees of \$7.2 million for the railroad retirement and survivor program and \$1.2 million for the unemployment and sickness insurance program. In addition, carrier refunds of \$0.1 million were incurred. These costs were offset by approximately \$8.0 million in reimbursements from the Centers for Medicare & Medicaid Services for Part B Medicare costs, as well as a reimbursement of approximately \$0.4 million from the Board's Office of Inspector General for Board-incurred expenses, and various other revenues of approximately \$0.7 million.

## NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST OPERATIONS

Funds not needed immediately for benefit payments or administrative expenses are invested. The National Railroad Retirement Investment Trust was established pursuant to section 105 of the Railroad Retirement and Survivors' Improvement Act of 2001. The sole purpose of the Trust is to manage and invest railroad retirement assets. The Act authorizes the Trust to invest the assets of the Railroad Retirement Account in a diversified investment portfolio in the same manner as those of private sector retirement plans. Prior to the Act, investment of Railroad Retirement Account assets was limited to U.S. Government securities. The Trust has no powers or authority over the administration of railroad retirement benefits. The Trust is a tax-exempt entity independent from the Federal Government. It is domiciled in and subject to the laws of the District of Columbia.

Fiscal year 2007 was a year of continued growth for the Trust. Assets were invested in a diverse portfolio of equity and debt securities with an asset allocation consistent with the Trust's investment guidelines. As of September 30, 2007, the market value of Trust-managed assets had increased to \$32.7 billion, reflecting a 16.38 percent rate of return for the fiscal year, compared to a 16.41 percent return for its composite benchmark. In addition, during fiscal year 2007 the Trust transferred almost \$1.4 billion to the Railroad Retirement Account for the payment of railroad retirement benefits.

As of September 30, 2007, total railroad retirement system assets (Trust-managed assets and reserves held in the Treasury accounts) equaled \$34.0 billion, an increase of over \$3.4 billion during the fiscal year.

Trust operations are described in detail in the National Railroad Retirement Investment Trust Annual Management Report for fiscal year 2007, which is available on the Board's Web site at [www.rrb.gov](http://www.rrb.gov).

## BENEFIT OPERATIONS

Retirement and survivor benefits paid, including vested dual benefits and supplemental employee annuities, totaled \$9.8 billion in fiscal year 2007, \$357 million more than in fiscal year 2006. Benefits were paid to about 615,600 beneficiaries in fiscal year 2007. Some 568,200 beneficiaries were being paid at the end of the year. The table shown below presents retirement and survivor benefit payments for fiscal years 2007 and 2006, by type of benefit, and the percent changes in payments between the 2 years.

Under the two-tier railroad retirement formulas, the tier I annuity portion approximates a social security benefit and increases by the cost-of-living percentage applied to social security benefits. The tier II portion, which is comparable to retirement benefits paid over and above social security benefits to workers in other industries, increases by 32.5 percent of the social security percentage.

Effective December 2005, tier I portions increased by 4.1 percent while tier II portions increased by 1.3 percent. Increases of 3.3 percent for tier I and 1.1 percent for tier II were effective December 2006.

The December 2005 and December 2006 cost-of-living increases provided additional benefit payments of about \$227 million in fiscal year 2007, compared to payments in fiscal year 2006.

Monthly retirement and survivor benefits being paid

numbered nearly 696,500 at the end of the 2007 fiscal year, about 9,700 less than at the end of the prior year. Monthly beneficiaries on the rolls declined by some 9,400 over the year, from 577,600 to 568,200. The number of monthly benefits paid is always greater than the number of beneficiaries on the rolls, since many annuitants receive more than one type of benefit. Although the second benefit is usually a supplemental employee annuity, some employees also receive a spouse or widow(er)'s annuity.

Regular employee annuities in payment status at the end of fiscal year 2007 numbered 277,600, about 2,100 less than at the end of the previous fiscal year. The number of age annuities being paid dropped from 195,400 to 193,300 over the year, while disability annuities remained the same at 84,300. Supplemental annuities being paid

Type of benefit	Amount (in millions)		Percent change
	Fiscal year 2007	Fiscal year 2006	
<b>Retirement benefits</b>			
Employee annuities			
Age	\$4,349.1	\$4,160.0	+4.5
Disability	2,063.6	1,956.1	+5.5
Supplemental	60.8	61.4	-1.0
Spouse and divorced spouse annuities	1,167.6	1,116.5	+4.6
<b>Total</b>	<b>7,641.1</b>	<b>7,294.0</b>	<b>+4.8</b>
<b>Survivor benefits</b>			
Annuities	2,152.4	2,142.5	+0.5
Lump-sum benefits	4.0	4.3	-8.5
<b>Total</b>	<b>2,156.4</b>	<b>2,146.9</b>	<b>+0.4</b>
<b>Grand total</b>	<b>\$9,797.4</b>	<b>\$9,440.9</b>	<b>+3.8</b>

**Note.**--Detail may not add to total due to rounding.

dropped approximately 200, numbering 121,200 at the end of the year. The number of divorced spouse annuities being paid remained the same at 3,500. Spouse and divorced spouse annuities together declined by more than 1,100, totaling 137,400 at year-end. Some 160,300 monthly survivor benefits were being paid at the end of fiscal year 2007, a decrease of 6,200 from the previous year.

## Retirement

### Regular employee annuities

Awards of regular employee annuities numbered 13,300 in fiscal year 2007, 1,200 more than in fiscal year 2006. Data by type of annuity awarded during the year are given in the table on this page.

Railroad employees with 10 to 29 years of creditable service, or 5 to 9 years of service if at least 5 years were after 1995, are eligible for regular annuities based on age and service at age 62. Early retirement annuity reductions are applied to annuities awarded before full retirement age--the age at which an employee can receive full benefits with no reduction for early retirement. This ranges from age 65 for those born before 1938 to age 67 for those born in 1960 or later, the same as under social security. If an employee had any creditable railroad service before August 12, 1983, the retirement age for tier II purposes will remain 65. The reduction for early retirement is 1/180 for each of the first 36 months the employee is under full retirement age when his or her annuity begins and 1/240 for each additional month.

Rail employees with 30 or more years of service are eligible for regular annuities based on age and service at age 60. Certain early retirement reductions are applied if the employee first became eligible for a 60/30 annuity July 1, 1984, or later and retired at ages 60 or 61 *before 2002*. Employees who retire at 60 or older with at least 30 years of railroad service are referred to as 60/30 retirees.

Disability awards are based either on total disability or on occupational disability.

*A total disability annuity is based on disability for all employment and is payable at any age to employees with at least 10 years of railroad service. Employees with 5-9 years of service, if at least 5 years were after 1995, may qualify for tier I only before*

Employee annuities awarded in fiscal year 2007	Number	Per- cent	Average		
			Monthly amount	Years of service	Age at retire- ment
<b>Age</b>					
Beginning at full retirement age or over	800	6	\$1,965	22.5	67.1
Unreduced, beginning at age 60 to under full retirement age	6,700	51	3,008	35.5	60.6
Reduced, beginning at age 62 to under full retirement age	2,100	16	1,379	17.3	62.8
<b>Disability</b>	3,600	27	2,397	24.6	54.8
<b>Total</b>	13,300	100	\$2,517	28.8	59.8

*Note.*--Detail may not add to total due to rounding.

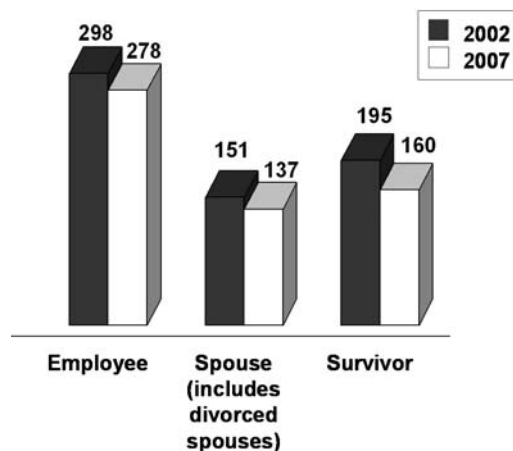
retirement age on the basis of total disability if they also meet certain social security earnings requirements. An employee is considered totally disabled if medical evidence shows that a permanent physical or mental condition exists which prevents the performance of any regular work. A condition is considered to be permanent if it has lasted or may be expected to last for at least 12 months.

An *occupational disability* annuity is based on disability for the employee's regular railroad occupation and is payable to employees with a current connection with the rail industry at age 60 if the employee has 10 years of service, or at any age if the employee has at least 20 years of service. An employee is considered occupationally disabled if the physical or mental condition is such that the employee is permanently disabled for work in his or her regular railroad occupation, even though the employee may be able to perform other kinds of work.

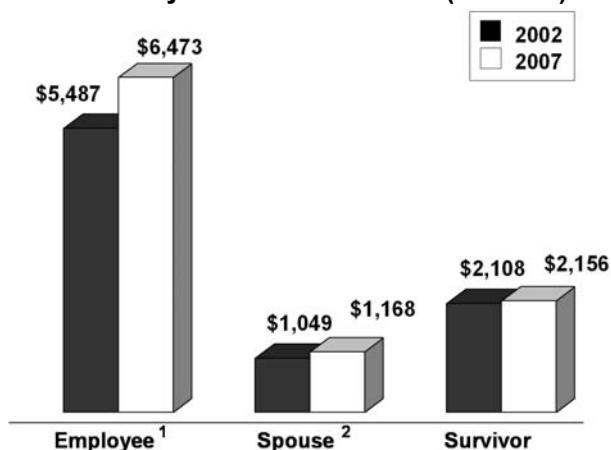
Of the year's 3,600 disability awards, 1,100 averaging \$1,567 per month were for total disability and 2,500 averaging \$2,749 were for occupational disability. Many employees who are disabled for all employment but are otherwise qualified for an occupational disability annuity are initially awarded occupational disability annuities in order to expedite payment.

An estimated three-fifths of all employees awarded disability annuities will meet the medical criteria for a disability freeze determination. The standards for freeze determinations follow social security law and are comparable to the criteria for granting total disability. Also, an employee granted a disability freeze may qualify for early Medicare coverage and lower Federal income taxes on his or her annuity.

**Number of monthly beneficiaries, September 30, 2002, and 2007 (Thousands)**

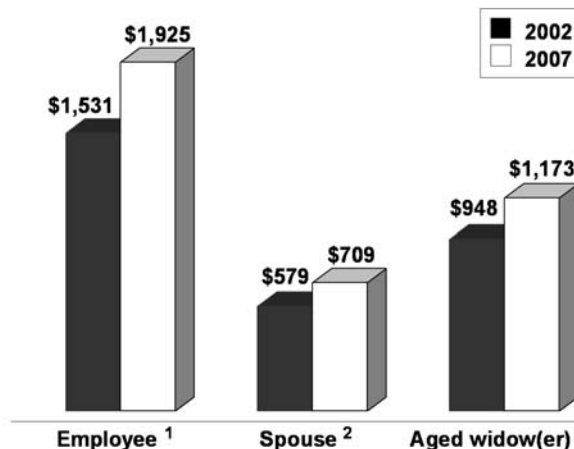


**Amount of benefits paid, fiscal years 2002 and 2007 (Millions)**



<sup>1</sup>Includes \$67.1 million in fiscal year 2002 and \$60.8 million in fiscal year 2007 for supplemental annuities. <sup>2</sup>Includes divorced spouses.

**Average monthly amount, September 30, 2002, and 2007**



<sup>1</sup>Without supplemental annuity. <sup>2</sup>Includes divorced spouses.



Of the employees who were awarded regular annuities in fiscal year 2007, nearly 9,500, or 71 percent, last worked for a railroad either in the calendar year their annuity began or in the preceding year. Such retirements are termed “immediate,” while those that occur 2 or more calendar years after the year of last railroad employment are called “deferred.” As a group, immediate retirees represent career railroad employees who worked in the industry until retirement. Awards based on immediate retirement averaged \$2,859 per month, compared to \$1,662 for the 3,800 awards based on deferred retirement. Immediate retirees averaged 32 years of railroad service, considerably more than the average of 20 years for deferred retirees. Of the year’s awards, 54 percent of normal age retirements were immediate. While 88 percent of all 60/30 retirements were immediate, only 16 percent of the reduced age awards to employees with less than 30 years of service were immediate. Immediate retirements accounted for 77 percent of the year’s disability awards.

The 277,600 retired employees on the rolls as of September 30, 2007, were being paid regular monthly annuities averaging \$1,925. The table on this page gives data by type of annuity for these benefits.

Of the 84,300 disability annuities being paid, 20,300 were for total disability and 64,000 for occupational disability. The two types of disability annuities averaged \$1,346 and \$2,213, respectively. In fiscal year 2007, over \$333 million was paid in total disability annuities and \$1,730 million in occupational disability annuities.

<b>Employee annuities in current-payment status on September 30, 2007</b>	<b>Number</b>	<b>Per-cent</b>	<b>Average monthly amount</b>	<b>Percent immediate retirements</b>
<b>Age</b>				
Beginning at full retirement age or over	25,200	9	\$1,413	44
Unreduced, beginning at age 60 to under full retirement age	90,600	33	2,482	92
Reduced, beginning at age 60 to under full retirement age	77,500	28	1,353	38
<b>Disability</b>	<b>84,300</b>	<b>30</b>	<b>2,005</b>	<b>81</b>
<b>Total</b>	<b>277,600</b>	<b>100</b>	<b>\$1,925</b>	<b>69</b>
<b>Note.</b> --Detail may not add to total due to rounding.				

Approximately 192,400 employees on the rolls at the end of fiscal year 2007 were immediate retirees and their regular annuities averaged \$2,256 per month. Annuities of the 85,200 deferred retirees averaged \$1,176. Although their average railroad retirement annuity was much lower, a greater proportion of the deferred annuitants also received social security benefits--32 percent compared to 5 percent for the immediate retirees. Moreover, the average social security benefit paid to deferred retirees was higher than that paid to immediate retirees. Combined railroad retirement and social security benefits to deferred retirees who were dual beneficiaries averaged \$1,385, while combined benefits to immediate retirees averaged \$1,934. The table on the next page gives numbers of beneficiaries and average benefit amounts for employees on the rolls who were receiving social security benefits, and for those who were not, by type of retirement.

Regular employee annuities consist of as many as three components: tier I, tier II, and a vested dual benefit. Reductions for early age retirement are made in all components in cases where the employee retired before full retirement age with less than 30 years of railroad service. The tier I component is based on the employee's combined railroad and social security covered earnings, and is reduced by the amount of any social security benefit that the employee receives. The gross tier I amounts of employees on the rolls at the end of fiscal year 2007 averaged \$1,514 per month. Tier I amounts of some 8,100 employees were completely offset by social security benefits. Tier I amounts being paid averaged \$1,368.

Dual benefit status	Total	Type of retirement	
		Immediate	Deferred
<b>Receiving social security benefit</b>			
Number	36,500	9,000	27,500
Average monthly amount:			
Railroad retirement (regular)	\$551	\$1,189	\$342
Social security	970	745	1,043
Combined benefit	1,520	1,934	1,385
<b>Not receiving social security benefit</b>			
Number	241,100	183,400	57,700
Average monthly amount	\$2,132	\$2,309	\$1,572
<b>Note.</b> --Detail may not add to total due to rounding.			

The employee tier II component is based solely on railroad earnings. Tier II amounts being paid at the end of fiscal year 2007 averaged \$590. Employees are eligible for vested dual benefits if, based on their own earnings, they met certain vesting requirements and qualified for both railroad retirement and social security benefits at the end of 1974, or, in some cases, at the end of an earlier year of last railroad service. About 40,000 retirees were receiving vested dual benefits averaging \$161 at the end of the fiscal year.

## Supplemental employee annuities

A supplemental annuity is payable to employees with a current connection with the rail industry at age 60 if the employee has at least 30 years of service, or at age 65 if the employee has 25-29 years of service. The employee must also have had some rail service before October 1981.

Nearly 7,300 supplemental annuities were awarded in fiscal year 2007, about 1,600 more than in fiscal year 2006. About 5,400 of the awards (74 percent) began concurrently with the employee's regular annuity, while the remaining 1,900 were to employees already receiving a regular annuity. Supplemental annuity awards averaged over \$41 per month; 86 percent were at the current maximum rate of \$43. Supplemental annuities are reduced for any part of a private railroad pension attributable to employer contributions. During the fiscal year, 1,800 supplemental annuities were not awarded because they were entirely offset by private pensions. In a few cases, the supplemental annuity was partially offset by the pension, or the supplemental annuity was not offset because the pension was reduced.

Supplemental annuities were being paid to almost 121,200, or 44 percent, of the retired employees on the rolls at the end of the 2007 fiscal year. These annuities averaged \$42; some 300 of them were paid under 1937 Act amendments, which stipulated a maximum rate of \$70.

## Spouse and divorced spouse annuities

Annuity awards to spouses and divorced spouses of retired employees numbered 10,100 in fiscal year 2007, 1,200 more than in the previous year. The table on this page presents numbers and average amounts of spouse and divorced spouse annuities awarded during the year and being paid at the end of the year, by type of annuity and whether subject to age reduction.

If an employee is at least age 62 and retires with 10-29 years of railroad service, or has 5-9 years of service and at least 5 years were after 1995, the employee's spouse is eligible for an annuity at age 62. Full retirement age for a spouse is gradually rising from 65 to 67, depending on the year of birth. Early retirement reductions are applied to the spouse annuity if the spouse retires before full retirement age. The reduction for early retirement is 1/144 for each of the first 36 months the spouse is under full retirement age when her or his annuity begins and 1/240 for each month (if any) over 36.

If an employee retires with at least 30 years of service and is at least age 60, the employee's spouse is eligible for an annuity at age 60. Prior to 2002, certain early retirement reductions were applied to the tier I component of such a spouse annuity if the employee retired before age 62, unless the employee attained age 60 and completed 30 years of service prior to July 1, 1984. If a 30-year employee retired at age 62, no age reduction applied to the spouse annuity. December 2001 legislation liberalized early retirement benefits for 30-year employees retiring at ages 60 or 61 after 2001 and their spouses. A

spouse of an employee qualified for an age and service annuity is eligible for a spouse annuity at any age if caring for the employee's unmarried child, and the child is under age 18 or the child became disabled before age 22.

Monthly spouse benefits	Awarded in fiscal year 2007		In current-payment status on September 30, 2007	
	Number	Average amount	Number	Average amount
Beginning at full retirement age or over	1,100	\$459	19,100	\$385
With minor or disabled child in care	400	1,015	1,600	1,003
Unreduced, beginning at age 60 to under full retirement age	5,600	1,200	57,600	1,022
Reduced rate	<u>2,500</u>	433	<u>55,600</u>	504
<b>Total</b>	<u>9,600</u>	910	<u>133,900</u>	716
Divorced spouse annuities	<u>500</u>	491	<u>3,500</u>	443
<b>Grand total</b>	10,100	\$890	137,400	\$709

**Note.**--Detail may not add to total due to rounding.

Of the 2,500 reduced spouse annuities awarded in fiscal year 2007, 200 averaging \$685 per month were to spouses of 30-year employees and some 2,300 averaging \$414 were to spouses of employees with less than 30 years of service.

At the end of fiscal year 2007, about 133,900 spouse annuities averaging \$716 per month were being paid. More than 3,500 divorced spouse annuities averaging \$443 per month were also being paid. Families with an employee and spouse on the rolls were paid combined railroad retirement benefits averaging \$2,732. This included \$2,016 in regular and supplemental employee annuities and \$716 in spouse annuities.

Approximately 53,600, or 39 percent, of the spouses and divorced spouses on the rolls were also receiving social security benefits. Combined railroad retirement and social security benefits to these annuitants averaged \$1,083 per month, including \$278 in railroad retirement benefits and \$805 in social security benefits. Railroad retirement annuities to the 81,800 spouses not receiving social security benefits averaged \$994, while railroad retirement annuities to the 2,000 divorced spouses not receiving social security benefits averaged \$614.

Like regular employee annuities, spouse annuities consist of up to three components. The tier I component equals one-half of the employee's tier I amount before any reduction for the employee's social security benefit. The spouse tier I amount is reduced for the spouse's receipt of a social security benefit and may be reduced for a spouse's public service pension. The tier I portion may also be reduced if the spouse receives a railroad retirement employee annuity, but this reduction is usually restored through an addition to the spouse tier II amount. Divorced spouses receive only a tier I benefit.

The spouse tier II component equals 45 percent of the employee's tier II amount. Railroad retirement amendments in 1981 precluded further awards of vested dual benefits to spouses.

Of the 133,900 spouses on the rolls at the end of fiscal year 2007, 93,000 were being paid tier I amounts averaging \$624 per month. The tier I amounts of 40,900 spouses were completely offset by other benefits also due. Spouse tier II amounts averaged \$301. Vested dual benefits averaging \$134 were being paid to 1,200 spouses. The 3,500 divorced spouses on the rolls at the end of fiscal year 2007 were being paid tier I amounts averaging \$457 per month, not reflecting all annuity adjustments.

### **Lump-sum retirement benefits**

A lump-sum benefit may be payable at retirement to employees who received separation or severance payments after 1984. This benefit approximates the tier II payroll taxes deducted from separation or severance payments that did not yield additional service credits for retirement. Approximately \$0.5 million was paid in separation/severance lump-sum benefits during fiscal year 2007.

Employees who have at least 10 years of railroad service and are not entitled to a vested dual benefit may be eligible for a dual retirement tax refund if they had concurrent railroad retirement and social security earnings within the period 1951-74. The

refund is equal to the social security taxes that the employee paid on the combined railroad and social security earnings in excess of the annual railroad retirement creditable earnings maximum. During the 2007 fiscal year, the Board paid nearly 2,100 dual retirement tax refunds averaging \$77. Most of the payments were to employees retiring during the year. Less than 100 refunds were to survivors, mostly widows, of employees who died before receiving the refund. Employees entitled to dual retirement tax refunds for years after 1974 may claim them on their Federal income tax returns.

## Survivor

### Monthly benefits

Annuity awards to survivors of deceased railroad employees numbered 8,100 during fiscal year 2007, 400 less than the previous year. About 160,300 survivor annuities were being paid at the end of the fiscal year, including 300 temporarily paid at spouse or divorced spouse annuity rates pending recomputation to widow(er)s' rates. Almost 129,400, or 81 percent, of the survivor annuities were to aged widows and widowers.

The table on this page presents numbers and average monthly amounts of survivor annuities, by type, for those awarded in the year and those being paid at the end of the year.

Survivor annuities, like regular employee and spouse annuities, con-

Monthly survivor benefits	Awarded in fiscal year 2007		In current-payment status on September 30, 2007	
	Number	Average amount	Number	Average amount
Aged widow(er)s'	6,500	\$1,557	129,400	\$1,173
Disabled widow(er)s'	200	1,373	4,600	989
Widowed mothers' (fathers')	100	1,585	900	1,471
Remarried widow(er)s'	200	885	4,800	781
Divorced widow(er)s'	700	854	9,600	773
Children's:				
Under age 18	300	1,153	2,100	1,153
Student	*	1,356	100	1,255
Disabled	200	968	8,900	776
Parents'	*	\$845	*	\$858
<b>Total</b>	<b>8,100</b>	<b>...</b>	<b>160,300</b>	<b>...</b>

\* Fewer than 50.  
**Note.**--Detail may not add to total due to rounding.

sist of as many as three components: tier I, tier II and, for widows and widowers only, a vested dual benefit. As with spouses, legislation in 1981 precluded new awards of vested dual benefits to widow(er)s.

The tier I component is computed according to social security formulas and is based on the deceased employee's combined railroad and social security earnings. A reduction is made for the survivor's receipt of a social security benefit. There may also be a tier I reduction if the survivor receives a railroad retirement employee annuity or public pension. Remarried and divorced widow(er)s receive a tier I benefit only. A dependent

parent receives only a tier I amount if another family member is also receiving benefits or if the parent has remarried.

Survivor tier II amounts are figured as a percentage of an employee tier II benefit. Prior to 2002, the percentages were 50 percent for a widow(er), 15 percent for a child, and 35 percent for a parent. The total tier II amount for a survivor family was subject to a minimum of 35 percent and a maximum of 80 percent of the employee tier II benefit, and all survivor tier II amounts were proportionately adjusted when either limit applied. December 2001 legislation established an "initial minimum amount" for widow(er)s which provides a tier II benefit equal to 100 percent of the tier II amount of the deceased employee. The maximum tier II amount payable to a family rose to 130 percent of the employee's tier II amount. Widows and widowers are guaranteed a total tier I and tier II amount not less than what they were paid as a spouse, any necessary increase being added to tier II.

Aged widow(er)s, who are eligible for benefits at age 60, have their tier I and tier II amounts reduced if the annuity begins before full retirement age. The eligibility age for unreduced annuities is gradually rising from age 65 to age 67. The maximum age reductions range from 17.1 percent to 20.36 percent, depending on the widow(er)'s date of birth. Excluding about 300 annuities temporarily paid at spouse or divorced spouse rates, aged widow(er)s' annuities being paid at the end of the 2007 fiscal year included 59,400 which were reduced for age. Aged widow(er)s' tier I amounts being paid averaged \$998 per month. In approximately 8,700 cases, the tier I amount was wholly offset by reductions for other benefits. Some 45,100 aged widow(er)s were also receiving social security benefits, and these averaged \$752. Tier II amounts averaged \$242. Almost 2,600 vested dual benefits averaging \$68 were being paid to aged widow(er)s.

The tier I and tier II amounts of disabled widow(er)s' annuities, which begin at ages 50-59, are reduced 28.5 percent for age. Tier I amounts being paid to disabled widow(er)s on the rolls at the end of fiscal year 2007 averaged \$830 (in more than 200 cases, the tier I amount was wholly offset by reductions). Social security benefits being paid to more than 1,400 disabled widow(er)s averaged \$725. Tier II amounts averaged \$195, while the 200 vested dual benefits being paid averaged \$83.

Tier I amounts paid to widowed mothers and fathers (widows and widowers caring for children) generally equal 75 percent of the full amount payable to an aged widow(er) before any reductions, similar to a social security mother's or father's benefit. Eligible children and grandchildren are paid this same tier I amount. However, if the sum of the tier I amounts of all members of a survivor family exceeds the social security family maximum, then tier I amounts are proportionately reduced so that the total equals the maximum. Reductions for the family maximum usually occur when the family includes three or more beneficiaries. Tier I amounts being paid as of the end of fiscal year 2007 averaged \$1,091 for widowed mothers and fathers and \$784 for children. Fewer than 50 mothers (fathers) and some 2,400 children received social security benefits averaging \$791 and \$516, respectively. Tier II amounts paid mothers (fathers) and children averaged, respectively, \$407 and \$94.



## Lump-sum survivor benefits

A lump-sum death benefit can be payable at the time of an employee's death only if there are no survivors immediately eligible for monthly benefits. For survivors of employees who had at least 10 years of railroad service before 1975, the lump-sum death benefit is based on the employee's earnings through 1974, with a maximum amount of approximately \$1,200. If the employee completed the 10th year of service after 1974, the lump-sum death benefit is limited to \$255, the maximum benefit payable under social security law, and only the widow or widower living in the same household is eligible for the benefit. About 4,200 lump-sum death benefits averaging \$905 were awarded during fiscal year 2007. More than 500 benefits were to widow(er)s, while 3,700 were to other individuals who paid the funeral expenses. Lump-sum benefits may also be payable to survivors of employees with less than 10 years of service, but at least 5 years after 1995, if the employee met the social security insured status requirements.

Another lump-sum survivor benefit, the residual payment, can be made if no other benefits based at least in part on an employee's railroad service will be payable in the future, and the total of prior benefit payments is less than what the employee paid in pre-1975 railroad retirement taxes. The 30 residual payments awarded in the 2007 fiscal year averaged \$2,674.

## Medicare Enrollments

The Medicare program provides health insurance to persons ages 65 and older, as well as persons under age 65 who have been entitled to monthly benefits based on total disability for at least 24 months or who suffer from chronic kidney disease requiring hemodialysis or transplant. In addition to the basic hospital insurance, or Part A, plan, which is financed through payroll taxes, there is an elective supplementary medical insurance, or Part B, plan for which monthly premiums are charged.

Eligible railroad retirement annuitants and social security beneficiaries whose benefits are payable by the Railroad Retirement Board are automatically enrolled under both plans, but Part B may be declined. Eligible nonretired persons must apply in order to obtain Medicare coverage. The Board automatically enrolled nearly 23,600 beneficiaries for Medicare during fiscal year 2007. As of the end of the fiscal year, approximately 503,400 persons were enrolled in the Part A plan, and about 487,400 (97 percent) of them were also enrolled in Part B.

Except for benefits for services in Canada, which are paid from the Railroad Retirement Account, railroad enrollees are paid Part A benefits from the Federal Hospital Insurance Trust Fund, the same as persons covered under the social security system. Part B benefits are paid from the Federal Supplementary Medical Insurance (SMI) Trust Funds. The carrier for Part B claims of railroad Medicare enrollees made payments totaling \$897 million in the 2007 fiscal year.

The regular monthly premium for medical insurance during fiscal year 2007 was \$88.50 for coverage through December 2006 and \$93.50 thereafter. Beginning in calendar year 2007, beneficiaries with modified adjusted gross incomes above certain thresholds pay higher Part B premiums. The Board generally withholds Medicare premiums for annuitants from their benefit payments, and at the end of the fiscal year some 456,900 annuitants were having their premiums withheld. Of the remaining Part B enrollees, approximately 6,500 were paying premiums to the Board, either directly or through an intermediary, and 24,000 had their premiums paid by State agencies. The Board periodically transfers premiums to the SMI Trust Funds.

## RAILROAD UNEMPLOYMENT AND SICKNESS INSURANCE PROGRAM

### FINANCIAL OPERATIONS

Financing sources for the railroad unemployment and sickness insurance program during fiscal year 2007 exceeded costs by \$3.1 million and the net position increased by \$3.1 million from \$106.7 million at the end of fiscal year 2006 to \$109.8 million at the end of fiscal year 2007. For fiscal year 2007 as compared to fiscal year 2006, total financing sources for the railroad unemployment and sickness insurance program increased by \$0.1 million (0.1 percent) to \$77.7 million.

*(text continued on p. 29)*

#### Unemployment and Sickness Insurance Program Consolidated Financing Sources, Costs and Net Position (Millions)<sup>1</sup>

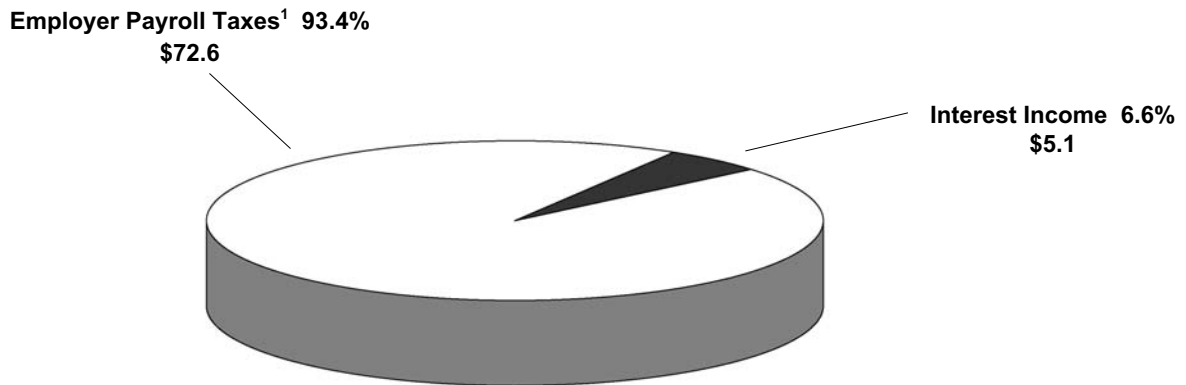
For the Fiscal Year Ended September 30	2007	2006
<b>Financing Sources:</b>		
Employer Payroll Taxes	\$74.2	\$72.6
Interest Income	5.1	5.0
Other	(1.6)	---
Total Financing Sources	77.7	77.6
<b>Costs:</b>		
Benefit Payments:		
Unemployment	28.5	30.7
Sickness	46.1	41.9
Total Costs	74.6	72.6
Financing Sources over Costs	3.1	5.0
Net Position - Beginning of Period	106.7	101.7
Net Position - End of Period	\$109.8	\$106.7

<sup>1</sup> Prepared on an accrual basis of accounting.

**UNEMPLOYMENT AND SICKNESS  
INSURANCE PROGRAM**

**Financing Sources - Fiscal Year 2007  
(In Millions)**

**GROSS TOTAL \$77.7**

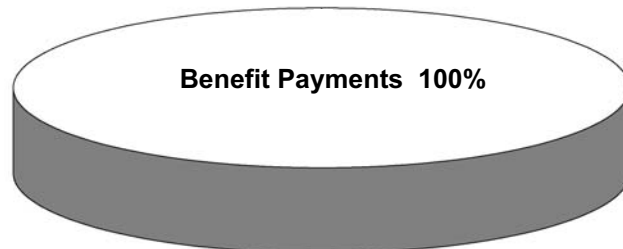


<sup>1</sup>Less carriers' refunds of \$1.6 million.

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**Costs - Fiscal Year 2007 (In Millions)**

**TOTAL \$74.6**



## Financing Sources

The primary financing source of the railroad unemployment and sickness insurance program is a payroll tax on railroad employers, based on the taxable earnings of their employees. The employees themselves are not taxed.

Each employer pays taxes at a rate which takes into consideration its employees' actual incidence of benefit usage. Under experience rating, employers whose employees have low incidences of unemployment and sickness pay taxes at a lower rate than those with higher levels of benefit usage. Each employer's rate also has a component for administrative expenses and a component to cover costs shared by all employers. The rate applies to monthly earnings up to an indexed maximum. In calendar year 2007, the taxable earnings base was the first \$1,230 of each employee's monthly earnings. The earnings base is indexed each year by a rate which is equal to approximately two-thirds of the annual rate of increase in the maximum base for railroad retirement tier I taxes.

In 2007, the basic tax rates on railroad employers, including covered commuter railroads, ranged from a minimum of 2.15 percent (which includes a surcharge of 1.5 percent) to a maximum of 12 percent. Most employers were assessed the minimum rate in 2007. New employers in 2007 paid an initial rate of 3.75 percent.

### Employer Payroll Taxes

Payroll taxes by employers totaled \$74.2 million during fiscal year 2007. This was an increase of 2.2 percent or \$1.6 million more than the previous year.

### Interest

Cash not needed immediately for unemployment and sickness insurance benefits or operating expenses is held in the Federal Unemployment Insurance Trust Fund and invested by the Secretary of the Treasury. The fund earned an average rate of return of 4.8 percent in fiscal year 2007, of which the Railroad Retirement Board earned \$5.1 million as its pro rata share.

## Costs

Total costs for the railroad unemployment and sickness insurance program increased by \$2.0 million (2.75 percent) to \$74.6 million. These costs consisted solely of benefit payments.

### Benefit Payments

During fiscal year 2007, unemployment insurance benefit payments decreased by \$2.2 million (7.2 percent) to \$28.5 million. Sickness insurance benefit payments increased \$4.2 million (10.0 percent) to \$46.1 million.

## BENEFIT OPERATIONS

Net unemployment and sickness benefits totaling \$73.2 million were paid in the 2006-2007 benefit year, \$1.2 million less than in the prior year. Beneficiaries numbered 27,700 in comparison to the previous year's total of 27,600. Over 800 employees received both unemployment and sickness benefits during the 2006-2007 benefit year. The number of unemployment benefit claimants increased by nearly 7 percent, while sickness benefit claimants decreased by over 3 percent. Total unemployment benefit payments decreased by over 3 percent, while net sickness benefits decreased less than 1 percent. The number of employees qualified for benefits under the Railroad Unemployment Insurance Act rose over 2 percent to 250,200.

Benefits are payable for each day of unemployment or sickness in excess of 7 during the first 14-day registration period in a benefit year. During benefit year 2006-2007, there were 7,900 and 15,300 unemployment and sickness benefit waiting period claims, respectively.

### Unemployment

About 9,500 railroad workers were paid \$29.6 million in unemployment benefits during the 2006-2007 benefit year. The number of benefit claimants increased by 600 from the prior year total of 8,900, while the benefit amount fell \$1.0 million from the year-earlier total of \$30.6 million. The claimant count increased for the first time since benefit year 2001-2002. The average number of compensable days per unemployment benefit claimant was 60 in benefit year 2006-2007 as compared to 61 in the previous benefit year. This was the lowest number of compensable days since benefit year 2001-2002.

The mid-month unemployment count in the 2006-2007 benefit year began with a July count of 1,800 claimants. The count peaked at 4,700 in January, then dropped down to 1,700 in May and June of 2007. For the 2006-2007 benefit year as a whole, the weekly number of claimants averaged 2,500 in comparison to an average of 2,300 in the previous benefit year. The overall unemployment benefit claimant rate, measured in relation to numbers of employees qualified to receive benefits under the Railroad Unemployment Insurance Act during a particular time period, remained at the previous year's level of 4 per 100 qualified. The median age of all unemployment benefit claimants was 43 years; it was 45 in the previous benefit year.

### Sickness

The number of sickness benefit claimants during the 2006-2007 benefit year was 19,000, about 700 lower than in the previous year. The claimant count was the lowest

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**NOTE.**—Railroad unemployment and sickness benefits are paid on the basis of benefit years beginning July 1 and ending June 30 of the following year. Consequently, operational data in this "Benefit Operations" section are generally presented for this time span, rather than fiscal years beginning October 1 and ending September 30.



**Major unemployment and sickness benefit operations,  
benefit years 2006-2007 and 2005-2006**

Item	Benefit year 2006-2007			Benefit year 2005-2006		
	Total	Unemployment	Sickness	Total	Unemployment	Sickness
Applications	35,500	12,200	23,300	37,800	11,400	26,400
Claims	218,500	68,800	149,700	222,800	65,000	157,800
Claimants	<sup>1</sup> 27,700	9,500	19,000	<sup>1</sup> 27,600	8,900	19,700
Net amount of benefits	\$73,159,900	\$29,627,200	\$43,532,700	\$74,387,900	\$30,586,500	\$43,801,400
Number of payments						
Normal	167,700	52,000	115,600	170,400	48,800	121,600
Extended	17,200	4,500	12,600	19,200	5,300	13,900
<b>Total</b>	184,800	56,600	128,300	189,600	54,000	135,500
Average amount per 2-week registration period						
Normal	\$505	\$502	\$506	\$498	\$494	\$499
Extended	463	463	463	459	452	462
<b>Total</b>	501	499	503	494	490	496

<sup>1</sup> Benefits for both unemployment and sickness were paid to approximately 1,000 employees in benefit year 2005-2006 and 800 employees in benefit year 2006-2007. Those claimants who had only a non-compensable waiting period are not included in the beneficiary counts since no benefits were paid.

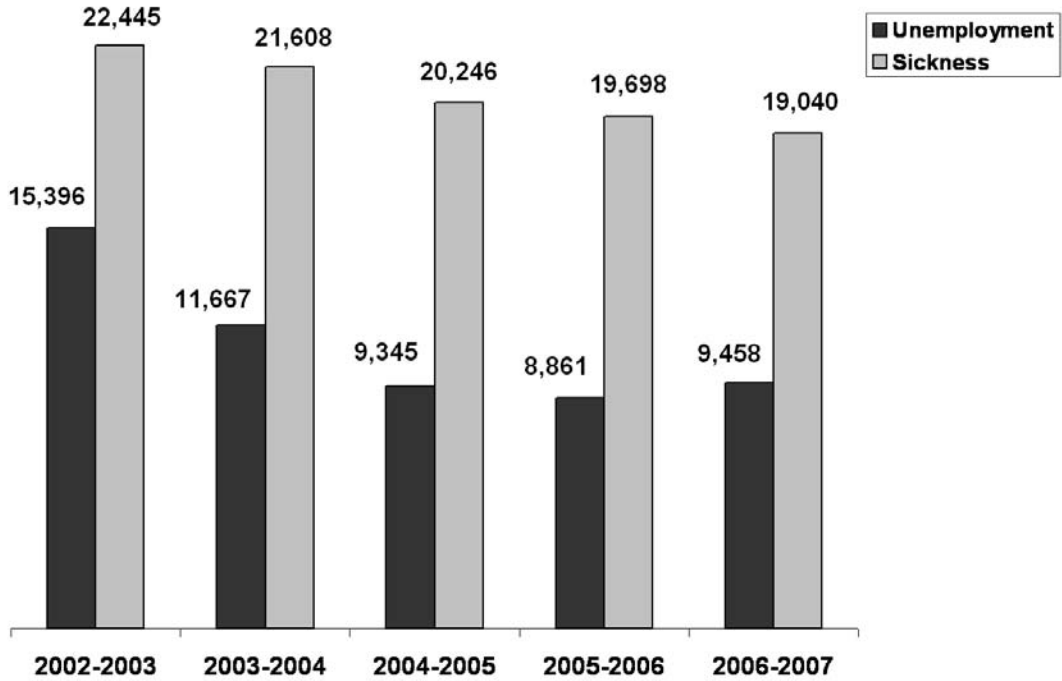
since sickness benefits began in benefit year 1947-1948. Gross sickness benefits of \$73.1 million were paid, \$2.9 million less than in the prior benefit year. Net sickness benefits totaled \$43.5 million, reflecting repayment of a large amount of benefits following settlements of suits for injuries. Benefits payable for an injury are recoverable if the claimant is awarded damages or receives a settlement for the injury. Net benefits decreased by \$0.3 million in comparison with the previous year.

After experiencing no decreases during benefit years 1995-1996 through 2003-2004, the utilization rate for sickness benefits decreased for the third consecutive year and was at its lowest point since benefit year 1998-1999. The average duration of sickness decreased to the lowest duration since benefit year 1988-1989.

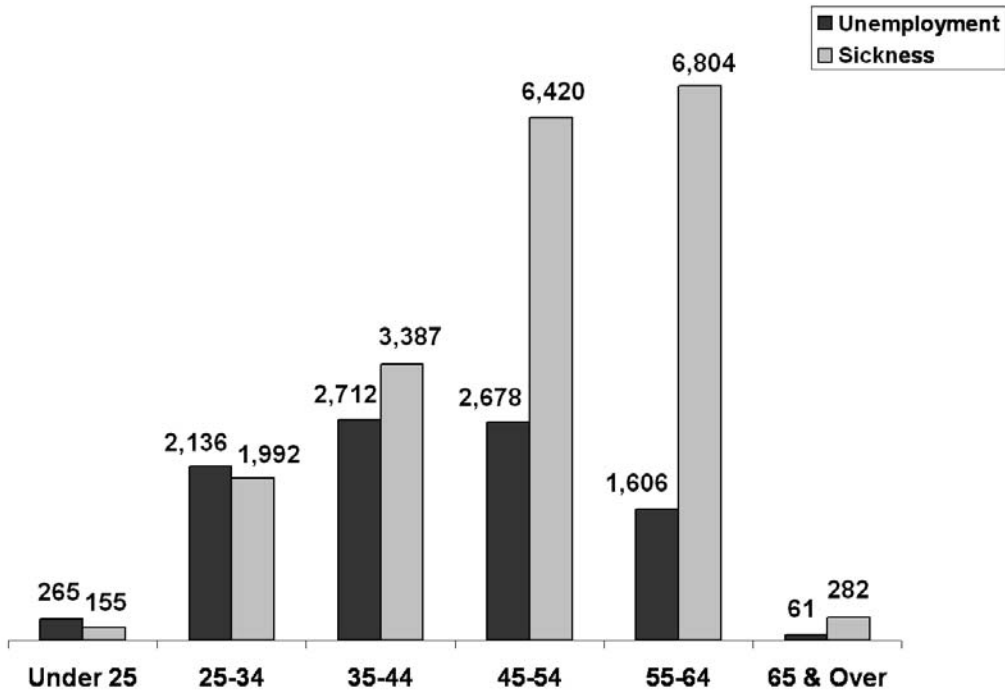
Benefit Year	Utilization Per 100 Qualified Employees	Average Compensable Days
2003-2004	8.7	70
2004-2005	8.4	69
2005-2006	8.1	69
2006-2007	7.6	67

Among the most common causes of sickness were injuries that included fractures or wounds (affecting 25 percent of beneficiaries), arthritis and disk disorders (22 percent), circulatory and heart disease (8 percent), and mental disorders, including drug and alcohol addictions (11 percent). The median age of all sickness benefit claimants was 52 years; it was 51 in the previous benefit year.

**Claimants under the Railroad Unemployment Insurance Act,  
Benefit Years 2002-2003 through 2006-2007**



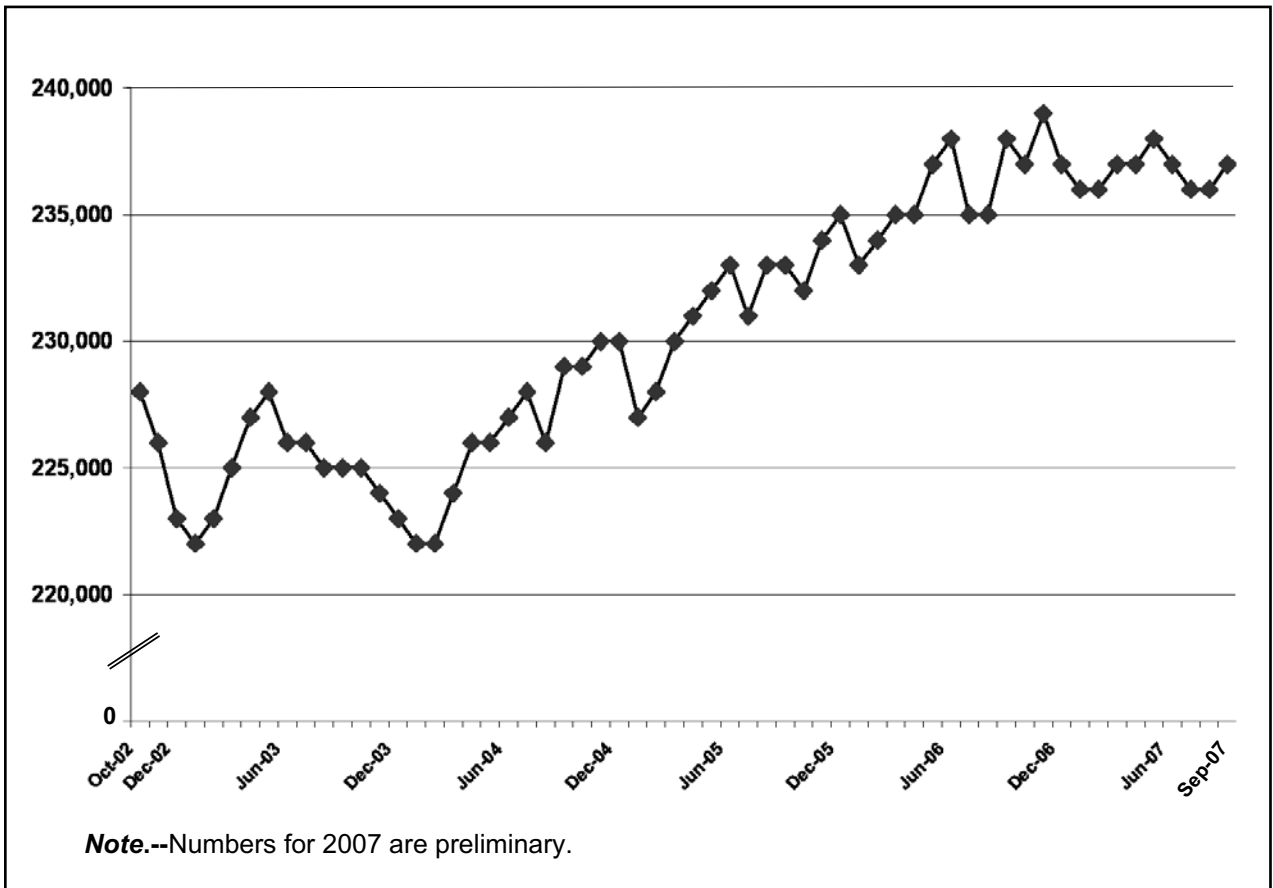
**Unemployment and Sickness Benefit Claimants by Age,  
Benefit Year 2006-2007**



## RAILROAD EMPLOYMENT

Average monthly railroad employment in fiscal year 2007 rose by less than 1 percent to 237,000 from the 235,000 average of the previous year. November 2006 had the highest level of employment in fiscal year 2007 with 239,000 and September 2007 had the low of 236,000. Average employment was the highest since fiscal year 2000-2001.

**Average Railroad Employment  
Fiscal Years 2003 through 2007**



# ADMINISTRATIVE DEVELOPMENTS

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*The following describes some major issues addressed in 2007 and 2008 as the Railroad Retirement Board continued efforts to improve agency operations and better serve its customers.*

## Service

### Customer Service Plan

The Board's Customer Service Plan promotes the principles and objectives of customer-driven quality service agency-wide. The plan specifies the level of service customers can expect, measures performance, and obligates the Board to report annually on its performance. Beginning in fiscal year 2008, the agency implemented a revised plan which provides customers with information about when to expect a decision on their benefit application and/or claim. The plan will continue to be updated periodically on the basis of the Board's experience, comparisons of the agency's service with the best in business, and feedback received from customers.

During fiscal year 2007, customers received benefit services within the timeframes promised in the Board's plan 98.6 percent of the time. This figure represents overall timeliness of customer service in four benefit areas: retirement applications; survivor applications; disability applications and payments; and railroad unemployment and sickness benefit applications and claims. It should be noted that the Board's Office of Inspector General has found several technical problems with performance tracking for retirement applications. System changes anticipated in fiscal year 2008 will correct these problems.

During fiscal year 2007, the plan required that persons who filed in advance for a railroad retirement employee or spouse annuity would receive their first payment, or a decision, within 35 days of their annuity beginning date. Persons who did not file in advance would receive their first payment, or a decision, within 65 days of the date they filed their application. Of the cases processed during fiscal year 2007, 92.6 percent of employee and 93.0 percent of spouse applicants who filed in advance received a payment, or a decision, within 35 days of their annuity beginning date. Also, of the cases processed, 97.3 percent of employee and 96.4 percent of spouse applicants who had not filed in advance received a payment or a decision within 65 days of their filing date.

The Board's plan required that those who filed for a disability annuity receive a decision within 105 days of the date they filed their application. If entitled, the first payment would be within 25 days of the date of the Board's decision, or the earliest possible

payment date, whichever is later. Of the cases processed during fiscal year 2007, 69.6 percent of those filing for a disability annuity received a decision within 105 days of the date they filed an application. Of those entitled to disability benefits, 95.3 percent received their first payment within the plan's time frame.

The plan required that those filing for monthly survivor benefit payments, or a lump-sum benefit, would receive their first payment, or a decision, within 65 days of the date they filed their application, or became entitled to benefits, if later. Those already receiving a spouse annuity would receive their first payment, or a decision, within 35 days of the date the Board received notice of the employee's death. Of the cases considered during fiscal year 2007, 93.3 percent of the applicants for an initial survivor annuity were issued a payment or a decision within 65 days. In addition, 97.5 percent of the applicants for a lump-sum benefit were issued a payment or a decision within 65 days. In cases where the survivor was already receiving a spouse annuity, 94.8 percent of the applicants were issued a payment or a decision within 35 days of the Board being notified of the employee's death.

Under the plan, persons who filed an application for unemployment or sickness insurance benefits would receive a claim form, or a decision, within 15 days of the date the application was filed, and persons filing claims for subsequent biweekly unemployment or sickness insurance benefits would receive a payment, or a decision, within 15 days of the date the Board received their claim forms. During fiscal year 2007, 99.5 percent of unemployment benefit applications sampled for timeliness and 99.2 percent of sickness benefit applications processed met the Board's standard. In addition, 99.7 percent of subsequent claims processed for unemployment and sickness benefits met the Board's standard for fiscal year 2007.

## **Service Enhancements**

### **Field Service Restructuring**

During fiscal year 2007, the Board implemented a hub-and-satellite restructuring plan for its field service offices, which will enable the agency to improve customer service by utilizing new technologies more effectively. The hub-and-satellite configuration will continue to provide telephone and face-to-face service to Board customers, and will allow agency management to more effectively balance and share workloads among the offices in each network. The benefits of the new structure will continue to increase as new technology and automation options become available.

### **Toll-Free Telephone Service**

In 2007 the Board began working on a new nationwide toll-free telephone service that will allow the agency to dynamically route phone calls from one field office to another, based on logical business rules and customer needs. In doing so, it will increase the Board's ability to balance its workloads and route calls to the representative who can best respond in a timely and effective manner. It also will provide the

agency with much-needed management information about telephone call volumes and the nature of those calls.

Implementation of the new service is being phased in, starting with 12 Board field offices. The offices initially using the service are St. Paul and Duluth, Minnesota; Fargo, North Dakota; Des Moines, Iowa; Jacksonville and Tampa, Florida; Atlanta, Georgia; Birmingham, Alabama; Oakland, Sacramento and Covina, California; and Mesa, Arizona.

Nationwide toll-free telephone service will be provided to customers in additional Board field locations once the initial implementation phase has been completed.

## **Document Imaging**

In fiscal year 2007, the Board conducted a pilot program involving the expansion of its existing document imaging system to four field offices. During fiscal year 2008, the agency will expand the use of document imaging to 25 additional offices, with the remaining offices scheduled for implementation during fiscal year 2009. Expanding document imaging to field offices will help the Board reduce paperwork, improve efficiency and effectiveness, and protect customer information within a secure electronic environment.

## **Contact Log**

The Board implemented an online system to better manage customer contacts in its network of nationwide field offices. The system, known as a contact log, is an interactive database used to record real-time information from customer contacts, primarily telephone calls. It will replace paper files and notes that are currently housed in the Board's field offices and will be available to any customer service agent across the country, both in the field service and in the agency's Chicago headquarters. All representatives are able to electronically record contacts or transactions completed with customers in order to maintain a chronological service history for each customer.

## **Officials**

President Bush reappointed Michael S. Schwartz as Chairman, Jerome F. Keever as Management Member, and V. M. Speakman, Jr., as Labor Member of the Board. Their nominations, for terms through August 28, 2012, August 28, 2008, and August 28, 2009, respectively, were confirmed by the U.S. Senate on June 22, 2007.

Mr. Schwartz was first appointed to the Board by President Bush in July 2003. A long-time official with the State of Illinois, he previously served as the Director of the Illinois Department of Central Management Services (CMS) from 1995 to 2002, and as Associate Director of CMS from 1989 to 1995. Mr. Schwartz also served the State of Illinois as Assistant Director of Personnel, Office of Governor (1988-89); as Executive Assistant to the Director of Revenue (1986-88); and as Assistant to the Director of Professional Regulation (1985-86).

The longest-serving Management Member in the agency's history, Mr. Kever was first appointed to the Board by President George H. W. Bush in 1992 upon the recommendation of the Association of American Railroads and the American Short Line and Regional Railroad Association. He was reappointed to a second term of office by President Clinton in 1995, and then to a third term in May 2000. Prior to his appointment to the Board, Mr. Kever was Vice President and Corporate Controller of the former Santa Fe Pacific Corporation (now merged into the Burlington Northern Santa Fe), which owned two Class I railroads. Before that he held executive positions with Household International and Deloitte and Touche.

The agency's longest-serving Labor Member, Mr. Speakman was first appointed to the Board by President George H. W. Bush in 1992 upon the recommendation of the Railway Labor Executives' Association (RLEA). He was reappointed to a second term of office by President Clinton in 1995, and then to a third term in May 2000. Prior to his appointment to the Board, Mr. Speakman was President of the Brotherhood of Railroad Signalmen (1987-92). In this position he also served as Vice Chairman of the RLEA, Chairman of the RLEA's Committee on Railroad Retirement, and Secretary-Treasurer of the Transportation Trades Department of the AFL-CIO. He also served the Brotherhood of Railroad Signalmen as Vice President (1985-87), Director of Research (1984-85), Grand Lodge Representative (1979-84), and Local Lodge Chairman (1977-79).

In a number of executive appointments within the agency, the Board named Cecilia A. Freeman as Director of Retirement Benefits, Valerie F. Allen as Director of Survivor Benefits, and Janet M. Hallman as Chief of Resource Management Center.

## **Program Assessment Rating Tool Evaluation**

The Board in fiscal year 2007 participated for the first time in the Office of Management and Budget's Program Assessment and Rating Tool (PART) evaluation process. Reviews of the Rail Industry Pension Fund and the Railroad Unemployment Insurance Trust Fund were favorable, with each program earning an overall performance rating of "Effective." This is the highest rating possible, and it indicates that the Board pays benefits accurately and timely, and that the agency is tracking and achieving the majority of its performance measures. In connection with the PART review, the Board has established and is implementing improvement plans to modernize its information technology systems infrastructure and customer service delivery, and to expand its document imaging system. The agency's complete PART review is available on the Web at [www.expectmore.gov](http://www.expectmore.gov).

## **Technology and Automation**

### **Database Conversion Project**

In 2007 the Board completed work on a major information technology initiative to

convert its existing IDMS database management system to a more flexible and efficient DB2 database system. The conversion places the agency in a better position to provide service more efficiently in the coming years.

The project required major changes in the Board's infrastructure environment, including installation of new software for the agency's mainframe, creation of DB2 test areas on the mainframe, and installation of new testing, analysis, and programming tools. To meet the project's demands, the agency implemented an upgrade of its mainframe system as well as a large storage system upgrade. Extensive training was also provided to business analysts, software developers, database administrators, systems engineers, and supervisors.

Conversion of the database management system reduces the agency's dependency on technologies with a limited, shrinking experience base, and positions the Board for the next generation of IT integrators/developers who have the experience and knowledge of newer technologies.

## **Data Optimization**

Following completion of its database conversion project, the Board began the next phase of its informational technology modernization effort, which is to optimize performance of the agency's databases and further reduce data redundancy. This phase is necessary to ensure that retrieval of data is fast and accurate, which can only be achieved through a properly tuned database. An optimized database also reduces the need for frequent database restructuring, which can be costly and time-consuming and can impede performance.

## **RRB Vision**

In 2007, over 30 electronic presentations (referred to as "RRB Vision" programs), were developed and placed on the agency's intranet for viewing by employees. Topics included technical training for claims examiners/representatives, non-technical training sessions, and presentations from the Board's Office of Equal Opportunity. The agency also developed its first program for the public and placed it on the Board's Web site at [www.rrb.gov](http://www.rrb.gov). Additional presentations for rail employees and employers are being developed.

The benefits of RRB Vision include consistency in training, a greater number of training programs available to offsite staff, availability of training on-demand, and savings in travel costs when programs are done via RRB Vision instead of in person. The Board can also provide assistance, training, and instructions to rail employers, rail workers, beneficiaries and claimants on many topics 24 hours a day.



## Staffing

Like many Federal agencies, the Board has an aging workforce, with a number of employees approaching and reaching retirement age. To help address an increased rate of attrition linked to retirement, the agency has looked at a variety of critical positions to identify any gaps in particular competencies or skills that exist within the workforce. In some cases, the Board has provided supplemental developmental and training opportunities to current employees so that the activities associated with these positions will continue as more experienced employees leave the agency. The Board has also continued hiring new employees to fill essential positions as funding levels permit. In fiscal year 2007, for the first time in many years, the agency was able to hire sufficient entry-level employees for two claims examiner training classes. Given an expected increase in the agency attrition rate, these new employees, together with those the Board needs to hire over the next several years, will be key to the long-term success of the agency in continuing to provide outstanding service to its customers.

The Board is also in the process of developing more formalized human capital management and succession planning documents. This is partially in response to recommendations and suggestions made by the Office of Personnel Management. The agency has also created an internal succession planning task force, chaired by its Director of Human Resources, to provide coordination and consolidation of existing plans, as well as to identify new initiatives to address this important area.

## Office of Equal Opportunity

### Diversity Program

During fiscal year 2007, the Office of Equal Opportunity's employee committees sponsored many events and activities at the Board to foster a diverse work environment and enhance the understanding of disability issues.

Throughout the year, the Workplace Diversity Committee conducted several cultural enrichment events to commemorate African American History Month, Asian Pacific American Heritage Month, Hispanic Heritage Month, Native American Heritage Month and Women's History Month. In addition, the Employees with Disabilities Advisory Council sponsored an informational session on accommodating mental disabilities in the workplace.

### Recruitment

The Office of Equal Opportunity worked cooperatively with the Board's Bureau of Human Resources to create a diverse pool of qualified candidates for employment by identifying sources to recruit individuals from various racial and ethnic groups, individuals with disabilities and disabled veterans.

## Public Information Activities

The Board maintains direct contact with railroad retirement beneficiaries through its field offices located across the country. Field personnel explain benefit rights and responsibilities on an individual basis, assist railroad employees in applying for benefits and answer any questions related to the benefit programs. The Board also relies on railroad labor groups and employers for assistance in keeping railroad personnel informed about its benefit programs.

At informational conferences sponsored by the Labor Member of the Board for railroad labor union officials, Board representatives describe and discuss the benefits available under the railroad retirement-survivor, unemployment-sickness and Medicare programs, and the attendees are provided with comprehensive informational materials. The program marked its 50th anniversary in 2007 with a total of 1,692 railroad labor union officials attending 32 informational conferences held in cities throughout the United States. In addition, railroad labor unions frequently request that Board representatives speak before their meetings, seminars and conventions. In 2007, the Labor Member's Office was represented at eight union gatherings attended by 2,535 railroad labor officials. Field personnel addressed 133 local union meetings with 6,083 members in attendance.

At seminars for railroad executives and managers, Board representatives review programs, financing, and administration, with special emphasis on those areas which require cooperation between railroads and Board offices. During 2007, the Management Member's Office conducted four seminars for railroad officials, as well as pre-retirement counseling seminars attended by railroad employees and their spouses, and benefit update presentations.

## Office of Inspector General

During fiscal year 2007, the Office of Inspector General continued its mission to ensure the economy, efficiency and effectiveness of the programs administered by the Board, and to identify and investigate cases of fraud, waste and abuse in agency programs. To further this mission, auditors completed nine audits and issued their findings and/or recommendations to Board management. Special agents also investigated over 450 potential criminal matters, representing approximately \$10.6 million in fraud against the agency.

The Office of Inspector General completed the audit of the Board's fiscal year 2006 financial statements and began its audit of the agency's fiscal year 2007 statements. Auditors issued an unqualified, or clean, opinion on the agency's fiscal year 2006 financial statements. They also reported material weaknesses in internal control over information security, performance measurement and the actuarial projection process, and reportable conditions in controls over compliance with the Prompt Payment Act and financial reporting.

Pursuant to the requirements of the Federal Information Security Management Act of 2002 (FISMA), auditors conducted an annual evaluation of the agency's information security program, and concluded that the Board had not yet achieved an effective FISMA-compliant security program. The agency is working to address previously-reported deficiencies in access controls, risk assessments and periodic testing/evaluation. Auditors also reported weaknesses in other areas of the agency's security program, including policies and procedures, certification and accreditation.

Other audits completed during the fiscal year examined the Board's occupational disability program, data transmission controls in its State wage match program, information security in the automated system that pays benefits under the Railroad Retirement Act, the agency's privacy program, Federal taxes withheld from railroad retirement annuities, and controls to safeguard sensitive, personally identifiable information.

Office of Inspector General investigators focus on identifying, investigating and presenting fraud cases for prosecution throughout the United States. Staff conduct investigations relating to fraudulent receipt of Board sickness, unemployment, disability or retirement benefits, and investigate railroad employers and unions when there is an indication that they have submitted false reports to the Board. They also investigate allegations of misconduct by agency employees. Investigative efforts can result in criminal convictions, civil penalties, administrative sanctions and/or the recovery of program benefits. During fiscal year 2007, investigative efforts resulted in 46 convictions, 32 indictments and informations, 25 civil judgments and \$4.6 million in recoveries, restitutions, fines, civil damages and penalties.

# LEGAL RULINGS

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*Six cases involving the Railroad Retirement Board were resolved by the courts during fiscal year 2007, and several significant legal opinions were issued.*

## Court Cases

**E**ight cases of various types involving petitions for review of decisions of the Railroad Retirement Board were pending in the courts at the beginning of fiscal year 2007, and one new case was opened during the year. Six cases were resolved during fiscal year 2007, and three cases were pending at the end of the year. The following describes the cases of most significance to railroad employers and employees.

On April 20, 2007, the United States Court of Appeals for the District of Columbia Circuit issued a decision affirming the decision of the Board in the case of *American Orient Express Railway Company, LLC v. U.S. Railroad Retirement Board*. At issue in this case was a coverage decision issued by the Board which had found American Orient Express Railway Company LLC, and its predecessor American Orient Express Railway Incorporated, to be covered rail carrier employers under the Railroad Retirement and Unemployment Insurance Acts.

On September 24, 2007, the United States Court of Appeals for the Seventh Circuit issued a decision in *Weyerhaeuser Company v. Railroad Retirement Board*, which affirmed in part and reversed in part a coverage decision issued by the Board that certain individuals who were on the payroll of Weyerhaeuser Company were actually performing covered rail service for the DeQueen and Eastern Railroad, a subsidiary of Weyerhaeuser. The Board's decision granted service credits for certain individuals for specific periods of time, but denied service credits for certain other claimed periods of time based on the time limit within which requests to amend creditable service records must be made. The Court agreed with the Board's decision that creditable service was performed for the DeQueen and Eastern Railroad. However, the Court also agreed with the position of Weyerhaeuser that the Board's regulations would not permit the crediting of service beyond four years in the absence of a finding of fraud. Accordingly, the Court reversed the Board's decision, which had granted limited retroactivity beyond the four-year period, and remanded the case for further consideration of the period for which service may be credited.

## Legal Opinions

The following Legal Opinions are presented here because of their special significance or interest.

*Legal Opinion L-2007-07* concerned an overpayment in the amount of a marital property award to the divorced spouse of a railroad employee annuitant. The employee annuitant was entitled to a disability annuity; however, he earned in excess of the monthly allowable disability earnings limitation for certain months, which meant that his annuity was not payable for those months. A marital property award under the Railroad Retirement Act is a portion of the annuity payable to the employee annuitant. Accordingly, when the annuity was not payable to the employee annuitant because of excess earnings, the marital property portion was also not payable. Because the employee annuitant did not notify the Board of his excess earnings, the annuity was not withheld for the months of earnings and the marital property portion was also erroneously paid to his divorced spouse for those months. Under Board regulations, the marital portion erroneously paid to the divorced spouse is considered an overpayment subject to recovery under section 10 of the Railroad Retirement Act. Section 10(c) of the Act provides that recovery of an overpayment may be waived if it is determined that the recipient is without fault and that recovery would be contrary to the purpose of the Act or against equity or good conscience. *Legal Opinion L-2007-07* advised that although the employee annuitant was not without fault in causing the overpayment because he failed to notify the Board of his earnings, waiver of recovery may still apply in the case of the divorced spouse if she is without fault and recovery would be either contrary to the purpose of the Act or against equity or good conscience.

*Legal Opinion L-2007-08* addressed the question of whether the Board may accept as proof of marriage the electronic image of the certificate of marriage obtained directly from the database of the clerk of a county court in Florida. *L-2007-08* concluded that under Board regulations found at 20 CFR 219.31, the electronic image would constitute acceptable proof of marriage.

A settlement in payment of a wrongful discharge claim may be credited as compensation earned in past years for benefit entitlement purposes under the Railroad Retirement Act if the settlement includes pay for time lost, and if the employee's employment relation to the employer for the months lost is completely reinstated. *Legal Opinions L-2007-10* and *L-2007-12* considered how two settlements of wrongful discharge claims would result in compensation creditable to the employee for benefit entitlement purposes.

*L-2007-10* concerned identifying the amount of compensation to be credited from the wrongful discharge claims which were included in a settlement. A paragraph of the settlement allocated a sum which was agreed to be compensation subject to taxation under the Railroad Retirement Tax Act. The settlement agreement also allocated other sums to attorney's fees and to other damages to be paid to the employee. Since the employee was reinstated as part of the settlement of claims, *L-2007-10* advised that the

employment relation was reinstated for the period of time between discharge and reinstatement. Given that the definition of compensation subject to the Tax Act and the Retirement Act are essentially the same, compensation in the amount identified by the settlement as subject to the Railroad Retirement Tax Act was to be allocated as compensation to months between discharge and reinstatement for purposes of the Railroad Retirement Act.

*Legal Opinion L-2007-12* concerned a case where reinstatement and back pay arose from separate litigation. A Public Law Board decision under the Railway Labor Act found the employee to have been wrongfully discharged, and reinstated him to full seniority but without any back pay. The employee then brought a separate back pay claim in U.S. District Court under a State law. When the District Court ruled the Railway Labor Act decision did not preempt a back pay claim under State law, the parties proposed a payment to settle the case. *L-2007-12* advised that while a settlement payment of a wrongful discharge claim may be credited as compensation only if the employment relationship for the period of time lost is fully reinstated, the Railroad Retirement Act did not prevent reinstatement and pay for time lost from being ordered in separate adjudications. Since the employee was reinstated with full seniority under the earlier Railway Labor Act decision, the settlement of the subsequent State court action for back pay could therefore include a payment for claimed months lost which would be credited as compensation to those months under the Railroad Retirement Act.

## Appeals

Any claimant for benefits under the Railroad Retirement or Railroad Unemployment Insurance Acts may appeal a determination he or she feels is not justified. This appeal must be filed within certain time frames. Appeals are heard and decided by the Bureau of Hearings and Appeals. An appellant who is dissatisfied with the decision on his or her appeal may further appeal the case to the three-member Board within a prescribed period of time.

### Railroad Retirement Act

During fiscal year 2007, 594 appeals were filed with the Bureau of Hearings and Appeals under the Railroad Retirement Act, and the Bureau rendered decisions in 501 appeals. The initial or reconsideration decision was sustained in 161 cases. In 340 appeals the decision was favorable to the claimant in whole or in part.

Ninety-one appeals were filed with the Board in fiscal year 2007, which, added to the 39 appeals carried over from the previous year, brought the total to be considered to 130. Of 96 decisions, 68 sustained previous rulings of the hearings officer, nine were reversed, two were sustained in part and reversed in part, one was remanded to Operations, 12 were remanded to the Bureau of Hearings and Appeals, and four were dismissed. At the end of the year, 34 appeals were pending before the Board.

## **Railroad Unemployment Insurance Act**

During fiscal year 2007, 31 appeals were filed with the Bureau of Hearings and Appeals under the Railroad Unemployment Insurance Act, and the Bureau rendered decisions in 27 appeals. The initial or reconsideration decision was sustained in 21 cases. In six appeals the decision was favorable to the claimant in whole or in part.

Six appeals were filed with the Board in fiscal year 2007, which, added to the five carried over from the previous year, brought the total to be considered to 11. The Board rendered decisions in seven cases of appeals from the decision of the referee, affirming the decision in five cases, remanding one to the Bureau of Hearings and Appeals and dismissing one. At the end of the year, four appeals were pending before the Board.

# **STATISTICAL TABLES**

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**Table 1.--Beneficiaries and benefits paid under the Railroad Retirement Act and the Railroad Unemployment Insurance Act, by fiscal year, 1998-2007, cash basis**

Fiscal year	Total <sup>1</sup>	Retirement <sup>2</sup>	Survivor <sup>2</sup>	Unemployment	Sickness
<b>BENEFICIARIES (in thousands)</b>					
1998.....	800	530	254	11	21
1999.....	777	514	246	13	22
2000.....	755	499	237	14	23
2001.....	737	483	228	18	24
2002.....	719	475	219	17	24
2003.....	699	465	211	15	23
2004.....	677	456	203	12	22
2005.....	659	448	194	10	21
2006.....	643	441	187	9	20
2007.....	641	444	180	10	19
<b>BENEFIT PAYMENTS (in millions)</b>					
1998.....	\$8,305.9	\$6,199.0	\$2,047.5	\$25.9	\$33.4
1999.....	8,317.7	6,207.2	2,041.3	33.0	36.2
2000.....	8,373.3	6,254.1	2,040.3	36.4	42.4
2001.....	8,506.2	6,352.6	2,058.8	43.2	51.6
2002.....	8,742.1	6,535.9	2,107.5	49.2	49.4
2003.....	8,957.3	6,726.0	2,136.9	44.3	50.1
2004.....	9,091.3	6,876.9	2,131.3	37.7	45.3
2005.....	9,254.0	7,051.6	2,129.5	29.2	43.7
2006.....	9,513.7	7,294.0	2,146.9	30.8	42.1
2007.....	9,871.5	7,641.1	2,156.4	27.8	46.2

<sup>1</sup> Benefit payments include a small amount of payments for hospital insurance benefits for services in Canada.

<sup>2</sup> Retirement benefits include vested dual benefit and supplemental annuity payments. Survivor benefits include vested dual benefit payments.

NOTE.-- Number of beneficiaries represents all individuals paid benefits in year. In total number for each year, beneficiaries are counted only once, even though they may have received more than one type of benefit. In fiscal year 2007, 8,700 individuals received both retirement and survivor benefits, 900 employees received both unemployment and sickness benefits, and 3,400 employees received benefits under both the Railroad Retirement Act and the Railroad Unemployment Insurance Act. These figures are partly estimated, and totals for earlier years are similarly adjusted.

Table 2.--Status of the Railroad Retirement Act accounts and trust funds, by fiscal year, 1998-2007 (In millions), cash basis

Item	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>RAILROAD RETIREMENT ACCOUNT</b>										
<b>Receipts</b>										
Tax transfers <sup>1</sup> .....	\$2,660.8	<sup>2</sup> \$2,932.4	\$2,928.6	\$2,819.2	\$2,743.1	\$2,651.4	\$2,611.0	\$2,606.6	\$2,674.8	\$2,637.8
Interest and profit on investments <sup>3</sup> .....	1,724.3	312.8	1,298.9	2,027.2	1,875.8	291.8	15.1	15.8	19.6	19.3
Transfers from the National RR Investment Trust <sup>4</sup> .....	.....	.....	.....	.....	.....	300.0	1,564.0	809.0	947.0	1,391.0
Transfers from the SSEB Account <sup>4</sup> .....	.....	.....	.....	.....	.....	.....	223.0	149.0	38.0	181.0
Loan repayments from RRS or RUI Accounts <sup>5</sup> .....	33.9	.....	.....	.....	.....	8.2	.....	.....	.....	.....
Transfer from RR Supplemental Account <sup>6</sup> .....	.....	.....	.....	.....	0.1	.....	.....	.....	.....	.....
<b>Expenditures</b>										
Benefit payments <sup>7</sup> .....	\$2,897.7	\$2,906.4	\$2,958.8	\$2,971.4	\$3,240.7	\$3,504.1	\$3,602.4	\$3,679.0	\$3,808.8	\$4,073.0
Financial Interchange adjustment <sup>8</sup> .....	(13.9)	(29.0)	(50.5)	(52.9)	140.9	72.1	36.6	(137.4)	(85.9)	(45.7)
Net transfers to administration.....	49.5	51.2	55.9	54.7	64.9	64.0	65.3	73.7	69.9	64.0
Transfers to the National RR Investment Trust <sup>4</sup> .....	.....	.....	.....	.....	1,431.6	17,750.0	586.0	.....	.....	.....
Loans to RUI Account.....	.....	.....	.....	.....	7.8	.....	.....	.....	.....	.....
<b>Balance at end of period <sup>9</sup>.....</b>	<b>\$15,451.2</b>	<b>\$15,768.9</b>	<b>\$17,032.9</b>	<b>\$18,907.2</b>	<b>\$18,640.4</b>	<b>\$502.2</b>	<b>\$625.6</b>	<b>\$591.1</b>	<b>\$479.4</b>	<b>\$616.9</b>
<b>SOCIAL SECURITY EQUIVALENT BENEFIT ACCOUNT<sup>10</sup></b>										
<b>Receipts</b>										
Tax transfers <sup>1</sup> .....	\$2,208.7	<sup>2</sup> \$2,000.1	\$2,208.5	\$2,134.0	\$2,134.7	\$2,128.0	\$2,240.8	\$2,370.8	\$2,462.5	\$2,538.0
Interest and profit on investments <sup>3</sup> .....	95.3	94.7	118.8	105.5	71.6	59.1	20.0	23.3	28.0	29.0
Transfers under financial interchange <sup>11</sup> .....	3,819.1	3,816.0	3,697.6	3,282.8	3,646.8	3,747.3	3,843.5	3,917.3	3,846.3	4,019.8
Advances against financial interchange <sup>12</sup> .....	3,145.1	2,992.3	3,005.1	3,145.2	3,153.9	3,236.1	3,245.7	3,256.0	3,241.3	3,232.3
<b>Expenditures</b>										
Benefit payments.....	\$5,069.4	\$5,078.7	\$5,091.4	\$5,215.2	\$5,243.8	\$5,229.5	\$5,288.7	\$5,395.8	\$5,536.1	\$5,637.9
Financial Interchange adjustment <sup>8</sup> .....	13.9	29.0	50.5	52.9	(140.9)	(72.1)	(36.6)	137.4	85.9	45.7
Net transfers to administration.....	26.2	25.2	27.1	25.0	26.1	22.8	22.9	24.1	24.3	25.6
Transfers under financial interchange <sup>11</sup> .....	419.4	429.9	465.3	469.7	424.7	426.3	418.6	444.9	471.5	483.3
Repayment of advances against financial interchange <sup>13</sup> .....	3,430.0	3,370.8	3,190.1	3,222.2	3,385.3	3,342.4	3,409.9	3,399.6	3,419.7	3,418.7
Transfers to the National RR Investment Trust/RR Account <sup>4</sup> .....	.....	.....	.....	.....	.....	1,438.0	223.0	149.0	38.0	181.0
<b>Balance at end of period.....</b>	<b>\$1,965.2</b>	<b>\$1,934.7</b>	<b>\$2,140.3</b>	<b>\$1,822.7</b>	<b>\$1,890.9</b>	<b>\$674.6</b>	<b>\$698.2</b>	<b>\$714.8</b>	<b>\$717.4</b>	<b>\$744.2</b>

See footnotes at end of table.

**Table 2.--Status of the Railroad Retirement Act accounts and trust funds, by fiscal year, 1998-2007 (In millions), cash basis - Continued**

Item	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST<sup>14</sup></b>										
Cash and investment balance at end of period <sup>15</sup> .....	.....	.....	.....	.....	\$1,420.7	\$23,016.5	\$25,019.7	\$27,636.6	\$29,327.9	\$32,631.4
<b>RAILROAD RETIREMENT SUPPLEMENTAL ACCOUNT<sup>6</sup></b>										
<b>Receipts</b>										
Tax transfers <sup>1</sup> .....	\$118.1	\$90.4	\$76.7	\$67.8	\$23.5	.....	.....	.....	.....	.....
Interest and profit on investments <sup>3</sup> .....	2.0	2.5	3.5	3.1	2.9	.....	.....	.....	.....	.....
<b>Expenditures</b>										
Benefit payments <sup>7</sup> .....	\$78.6	\$75.1	\$72.9	\$68.8	\$16.8	.....	.....	.....	.....	.....
Net transfers to administration.....	2.0	2.1	2.3	2.0	0.7	.....	.....	.....	.....	.....
Loan repayments to RR Account <sup>13</sup> .....	33.9	.....	.....	.....	.....	.....	.....	.....	.....	.....
Transfers to the National RR Investment Trust <sup>4</sup> .....	.....	.....	.....	.....	70.4	.....	.....	.....	.....	.....
Transfer to Railroad Retirement Account.....	.....	.....	.....	.....	0.1	.....	.....	.....	.....	.....
Balance at end of period.....	\$41.0	\$56.8	\$61.7	\$61.7	.....	.....	.....	.....	.....	.....
<b>DUAL BENEFITS PAYMENTS ACCOUNT<sup>16</sup></b>										
Dual benefit transfers <sup>17</sup> .....	\$205.5	\$189.0	\$173.3	\$160.0	\$146.0	\$131.1	\$118.3	\$107.1	\$97.0	\$88.0
Benefit payments.....	200.9	188.4	171.4	156.0	142.2	129.4	117.3	106.3	96.0	86.5
Balance at end of period <sup>9</sup> .....	\$4.6	\$0.6	\$1.9	\$4.0	\$3.9	\$1.8	\$1.0	\$0.8	\$1.0	\$1.5

See footnotes at end of table.

## Footnotes - Table 2

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- <sup>1</sup> Net of U.S. Treasury adjustments for payroll tax refunds to certain carriers and their employees for prior periods. Includes Federal income tax transfers under section 72(r) of the Internal Revenue Code as amended.
- <sup>2</sup> Reflects transfer of \$83.1 million from the Social Security Equivalent Benefit Account to the Railroad Retirement Account for reallocation of fiscal year 1998 payroll taxes. Railroad Retirement Account also reflects special Treasury income tax adjustment of \$146 million for calendar years 1988-1994.
- <sup>3</sup> Net of interest on U.S. Treasury adjustments for payroll tax refunds (see note 1).
- <sup>4</sup> Under the Railroad Retirement and Survivors' Improvement Act of 2001, as amended, the portion of the Railroad Retirement Account not needed to pay current administrative expenses is to be transferred to the National Railroad Retirement Investment Trust (Trust). The Trust may transfer funds back to the Railroad Retirement Account for payment of benefits. The balance of the Social Security Equivalent Benefit (SSEB) Account not needed to pay current benefits and administrative expenses is to be transferred to the Trust or to the Railroad Retirement Account. The SSEB Account transferred funds to the Trust in fiscal year 2003 and to the Railroad Retirement Account thereafter.
- <sup>5</sup> Includes interest. FY 1998 loan repayments from the Railroad Retirement Supplemental Account. FY 2003 loan repayment from the Railroad Unemployment Insurance Account.
- <sup>6</sup> Under the Railroad Retirement and Survivors' Improvement Act of 2001, the supplemental work-hour tax was repealed for years after 2001, and the separate Railroad Retirement Supplemental Account was eliminated. The balance remaining in the Railroad Retirement Supplemental Account was transferred to the Railroad Retirement Account.
- <sup>7</sup> Effective January 1, 2002, supplemental benefits are paid from the Railroad Retirement Account.
- <sup>8</sup> Adjustments in benefit payments charged to the Social Security Equivalent Benefit Account as compared to actual financial interchange benefits, with interest.
- <sup>9</sup> The Railroad Retirement Account balance reflects (a) the current net difference between Board payments of social security benefits and the receipt of reimbursements for such payments, (b) liabilities for uncashed check credits received from U.S. Treasury, and (c) credits for undistributed payment returns and recoveries. The Dual Benefits Payments Account balance does not carry over to the following year.
- <sup>10</sup> Established October 1, 1984, to keep track of the financing and payment of social security level portions of railroad retirement benefits.
- <sup>11</sup> Transfers to or from OASDHI Trust Funds under section 7(c)(2) of the 1974 Railroad Retirement Act.
- <sup>12</sup> Advances, including interest, from U.S. Treasury to offset lag in receipt of financial interchange funds under section 7(c)(4) of the 1974 Railroad Retirement Act as amended.
- <sup>13</sup> Includes interest.
- <sup>14</sup> Established February 1, 2002, for investment of railroad retirement assets.
- <sup>15</sup> Source: National Railroad Retirement Investment Trust.
- <sup>16</sup> Established October 1, 1981, to keep track of the financing and payment of vested dual benefits.
- <sup>17</sup> Transfers from U.S. Treasury under section 15(d) of the Railroad Retirement Act of 1974 and Federal income tax transfers under section 72(r) of the Internal Revenue Code as amended.

**Table 3.--Status of the Railroad Unemployment Insurance Account, by fiscal year, 2003-2007 (In thousands), cash basis**

Item	Fiscal year				
	2003	2004	2005	2006	2007
<b>RECEIPTS</b>					
Taxes.....	\$122,638	\$109,191	\$76,179	\$65,725	\$65,995
Interest.....	3,444	5,148	5,796	5,387	3,963
Transfer from Administration fund under sec. 11(d) of the RUI Act.....	5,645	6,608	6,544	6,664	8,923
Undistributed recoveries of benefit payments <sup>1</sup> .....	788	(1,037)	(327)	(982)	1,405
<b>Total.....</b>	<b>\$132,515</b>	<b>\$119,910</b>	<b>\$88,192</b>	<b>\$76,794</b>	<b>\$80,286</b>
<b>EXPENDITURES</b>					
Benefit payments.....	\$94,389	\$82,975	\$72,861	\$72,812	\$74,004
Repayment of RRA Loan.....	8,181	....	....	....	....
Funding for Office of Inspector General.....	1,392	1,318	1,686	1,558	1,572
<b>Total.....</b>	<b>\$103,962</b>	<b>\$84,293</b>	<b>\$74,547</b>	<b>\$74,370</b>	<b>\$75,577</b>
Cash balance end of period.....	\$47,921	\$83,537	\$97,183	\$99,606	\$104,316
<b>LOANS DUE RAILROAD RETIREMENT ACCOUNT</b>					
Loans.....	....	....	....	....	....
Interest accrued.....	\$173	....	....	....	....
Repayment from RUI Account.....	8,181	....	....	....	....
<b>Due RR Account end of period.....</b>	<b>....</b>	<b>....</b>	<b>....</b>	<b>....</b>	<b>....</b>

<sup>1</sup> Net of distributed payments.

**Table 4.--Status of the RUIA Administration Fund, by fiscal year, 1998-2007 (In thousands), cash basis**

Fiscal year	Taxes and interest	Administrative expenditures <sup>1</sup>	Transfer to Railroad Unemployment Insurance Account under Sec. 11d <sup>2</sup>	Balance at end of period
<b>1998</b> .....	\$19,081	\$13,123	\$2,993	\$7,849
<b>1999</b> .....	20,235	13,188	5,814	9,081
<b>2000</b> .....	19,941	14,847	6,546	7,629
<b>2001</b> .....	20,434	14,004	6,048	8,011
<b>2002</b> .....	20,032	13,266	6,734	8,043
<b>2003</b> .....	21,313	15,407	5,645	8,304
<b>2004</b> .....	20,787	15,846	6,608	6,637
<b>2005</b> .....	21,126	15,761	6,544	5,457
<b>2006</b> .....	21,980	10,610	6,664	10,163
<b>2007</b> .....	23,082	14,415	8,923	9,907

<sup>1</sup> Expenditures for each year included encumbrances as of end of year. FY 2006 and later reflect reallocation of prior period administrative expenses between the Railroad Retirement Act and Railroad Unemployment Insurance Act programs.

<sup>2</sup> Transfers to the Railroad Unemployment Insurance Account are based on the amount the accrual balance on the prior September 30 exceeded \$6,000,000.

**Table 5.--Number and average amount of retirement and survivor annuities in current-payment status at end of year, by type of annuitant and fiscal year, 1998-2007**

Fiscal year	Total <sup>1</sup>	Retired employees			Spouses and divorced spouses	Aged widow(er)s <sup>2</sup>	Disabled widow(er)s	Widowed mothers (fathers) <sup>2</sup>	Children	Remarried widow(er)s	Divorced widow(er)s <sup>2</sup>
		Age	Disability	Supplemental							
<b>NUMBER AT END OF YEAR</b>											
1998 .....	875,905	245,900	79,017	149,260	174,467	190,222	6,031	1,427	14,347	6,045	9,116
1999 .....	846,687	236,741	79,617	143,515	167,478	182,839	5,893	1,327	13,964	5,967	9,280
2000 .....	819,327	228,439	80,158	138,158	161,283	175,464	5,679	1,245	13,561	5,886	9,392
2001 .....	790,711	219,646	80,574	132,799	154,710	167,840	5,460	1,165	13,233	5,733	9,490
2002 .....	775,638	216,044	81,653	132,066	151,006	160,490	5,236	1,114	12,804	5,619	9,545
2003 .....	756,176	210,363	82,572	129,201	146,740	153,673	5,105	1,035	12,472	5,421	9,541
2004 .....	736,787	204,650	83,302	125,992	142,881	146,943	4,936	1,050	12,176	5,256	9,550
2005 .....	721,659	199,767	84,000	123,550	141,330	140,595	4,835	999	11,795	5,078	9,657
2006 .....	706,158	195,380	84,321	121,407	138,492	134,811	4,733	927	11,448	4,907	9,682
2007 .....	696,472	193,282	84,319	121,188	137,371	129,350	4,596	877	11,078	4,751	9,615
<b>AVERAGE AMOUNT</b>											
1998 .....	.....	\$1,264	\$1,346	\$43	\$502	\$768	\$672	\$957	\$646	\$531	\$546
1999 .....	.....	1,300	1,398	43	514	792	687	991	659	548	559
2000 .....	.....	1,351	1,465	42	530	826	711	1,029	678	571	579
2001 .....	.....	1,414	1,548	42	550	870	746	1,076	706	603	606
2002 .....	.....	1,496	1,624	42	579	948	799	1,228	728	627	633
2003 .....	.....	1,554	1,683	42	598	985	831	1,279	744	647	649
2004 .....	.....	1,619	1,751	42	620	1,026	865	1,337	766	673	674
2005 .....	.....	1,693	1,825	42	638	1,069	902	1,388	789	704	703
2006 .....	.....	1,789	1,920	42	671	1,122	946	1,423	823	747	740
2007 .....	.....	1,890	2,005	42	709	1,173	989	1,471	853	781	773

<sup>1</sup> Includes annuities to parents. On September 30, 2007, there were 45 parents' annuities in current-payment status averaging \$858.

<sup>2</sup> Numbers include annuities temporarily being paid at spouse annuity rates, pending final adjudication of survivor annuities.

NOTE.--Data exclude survivor (option) annuities, last payable in December 2005.

**Table 6.--Number and average amount of retirement and survivor annuities awarded during year, by type of annuitant and fiscal year, 1998-2007**

Fiscal year	Total <sup>1</sup>	Retired employees			Spouses and divorced spouses	Aged widow(er)s	Disabled widow(er)s	Widowed mothers (fathers)	Children	Remarried widow(er)s	Divorced widow(er)s
		Age	Disability	Supplemental							
<b>NUMBER AWARDED</b>											
1998.....	36,508	6,756	4,620	4,399	8,739	9,566	248	236	851	360	727
1999.....	36,205	6,846	5,140	4,496	8,157	9,317	246	199	719	324	759
2000.....	35,818	7,186	4,709	4,749	8,316	8,699	204	159	714	336	744
2001.....	33,289	6,285	4,630	4,339	7,648	8,372	217	157	611	307	719
2002.....	44,485	11,127	5,206	8,337	9,764	8,104	199	161	590	273	716
2003.....	37,841	8,261	4,955	6,124	8,749	7,800	244	162	645	216	684
2004.....	36,083	7,801	4,764	5,590	8,579	7,320	218	186	660	258	702
2005 <sup>2</sup> .....	37,405	7,958	4,399	5,671	10,380	7,020	239	176	581	221	751
2006.....	35,137	7,919	4,128	5,717	8,830	6,820	204	107	504	197	709
2007.....	38,743	9,643	3,619	7,273	10,065	6,482	205	113	498	182	661
<b>Cumulative 1937-2007</b>	<b>4,896,303</b>	<b>1,432,022</b>	<b>504,156</b>	<b>461,453</b>	<b>1,123,259</b>	<b>998,139</b>	<b>17,618</b>	<b>84,493</b>	<b>235,203</b>	<b>14,680</b>	<b>21,754</b>
<b>AVERAGE AMOUNT</b>											
1998.....	.....	\$1,579	\$1,649	\$41	\$545	\$920	\$810	\$908	\$805	\$642	\$599
1999.....	.....	1,654	1,751	41	567	945	825	993	831	658	615
2000.....	.....	1,745	1,871	41	584	998	901	1,049	858	670	613
2001.....	.....	1,842	1,971	41	613	1,044	927	996	932	701	654
2002.....	.....	2,243	2,051	42	697	1,286	1,148	1,319	961	697	705
2003.....	.....	2,201	2,092	41	733	1,346	1,262	1,384	953	775	743
2004.....	.....	2,247	2,168	41	744	1,378	1,257	1,550	998	816	777
2005 <sup>2</sup> .....	.....	2,285	2,210	41	655	1,416	1,288	1,397	1,023	821	796
2006.....	.....	2,389	2,308	41	794	1,493	1,334	1,492	1,056	865	822
2007.....	.....	2,562	2,397	41	890	1,557	1,373	1,585	1,099	885	854

<sup>1</sup> Includes annuities to parents. Fiscal year 2007 total includes 2 annuities to parents averaging \$845. Cumulative total includes 3,526 annuities to parents.

<sup>2</sup> An unusually large number of spouse awards were made with small or no tier 1 amounts, resulting in larger than normal numbers of spouse awards and smaller than normal award amounts.

NOTE.--Cumulative figures reflect adjustments not made in yearly data, but average amounts for each year include effects of changes in rates made by the end of the year.



**Table 7.--Retirement and survivor benefits in current-payment status on September 30, 2007, by class and state (Amounts in thousands)**

State <sup>1</sup>	Total		Retirement benefits <sup>2</sup>		Survivor benefits	
	Number	Monthly amount	Number	Monthly amount	Number	Monthly amount
Alabama.....	11,900	\$14,541	9,100	\$11,493	2,800	\$3,048
Alaska.....	200	237	200	189	100	48
Arizona.....	12,400	14,134	9,600	11,118	2,700	3,016
Arkansas.....	11,900	14,869	9,600	12,314	2,300	2,555
California.....	37,400	41,690	28,600	32,295	8,800	9,395
Colorado.....	9,500	11,478	7,300	9,124	2,100	2,353
Connecticut.....	3,400	4,074	2,500	3,112	900	962
Delaware.....	2,300	2,839	1,700	2,204	600	635
Washington DC.....	600	551	400	389	200	162
Florida.....	37,400	43,404	29,700	35,209	7,700	8,195
Georgia.....	19,600	23,890	15,400	19,298	4,200	4,592
Hawaii.....	300	223	200	174	100	49
Idaho.....	5,800	7,012	4,600	5,612	1,200	1,400
Illinois.....	44,300	50,130	34,600	39,469	9,700	10,661
Indiana.....	20,500	24,142	15,900	18,945	4,600	5,197
Iowa.....	11,500	13,124	8,900	10,211	2,600	2,913
Kansas.....	17,600	21,248	14,000	17,127	3,600	4,120
Kentucky.....	18,700	22,308	14,700	17,774	4,000	4,533
Louisiana.....	9,500	11,361	7,200	8,809	2,200	2,552
Maine.....	3,600	4,084	2,700	3,068	900	1,017
Maryland.....	11,500	13,381	8,600	10,178	2,900	3,204
Massachusetts.....	5,400	5,871	3,900	4,313	1,400	1,558
Michigan.....	18,400	21,288	14,400	16,762	4,000	4,526
Minnesota.....	19,700	22,318	15,200	17,301	4,500	5,017
Mississippi.....	8,000	9,380	6,300	7,506	1,700	1,874
Missouri.....	23,900	27,623	18,600	21,841	5,300	5,781
Montana.....	7,400	8,933	5,900	7,120	1,500	1,813
Nebraska.....	14,200	17,721	11,500	14,535	2,700	3,186
Nevada.....	4,300	4,976	3,400	4,012	900	965
New Hampshire.....	1,100	1,177	800	842	300	335
New Jersey.....	11,400	13,364	8,300	10,028	3,100	3,335
New Mexico.....	5,800	6,612	4,500	5,156	1,300	1,457
New York.....	27,600	33,374	20,600	26,109	6,900	7,265
North Carolina.....	12,900	15,097	9,900	11,842	3,000	3,254
North Dakota.....	4,000	4,779	3,100	3,669	900	1,110

See footnotes at end of table.

**Table 7.--Retirement and survivor benefits in current-payment status on September 30, 2007, by class and state (Amounts in thousands) - Continued**

State <sup>1</sup>	Total		Retirement benefits <sup>2</sup>		Survivor benefits	
	Number	Monthly amount	Number	Monthly amount	Number	Monthly amount
Ohio.....	36,000	\$41,178	27,200	\$31,190	8,800	\$9,988
Oklahoma.....	6,300	7,470	4,900	5,916	1,400	1,554
Oregon.....	10,700	12,547	8,300	9,905	2,400	2,642
Pennsylvania.....	45,900	53,594	33,200	39,181	12,700	14,413
Rhode Island.....	700	785	500	572	200	213
<b>South Carolina.....</b>	<b>8,100</b>	<b>9,828</b>	<b>6,300</b>	<b>7,856</b>	<b>1,800</b>	<b>1,971</b>
<b>South Dakota.....</b>	<b>1,700</b>	<b>1,942</b>	<b>1,300</b>	<b>1,514</b>	<b>400</b>	<b>428</b>
<b>Tennessee.....</b>	<b>15,100</b>	<b>17,997</b>	<b>11,500</b>	<b>14,112</b>	<b>3,600</b>	<b>3,884</b>
<b>Texas.....</b>	<b>41,200</b>	<b>49,515</b>	<b>32,100</b>	<b>39,117</b>	<b>9,100</b>	<b>10,399</b>
<b>Utah.....</b>	<b>6,800</b>	<b>8,100</b>	<b>5,200</b>	<b>6,284</b>	<b>1,500</b>	<b>1,816</b>
<b>Vermont.....</b>	<b>1,100</b>	<b>1,101</b>	<b>800</b>	<b>785</b>	<b>300</b>	<b>316</b>
<b>Virginia.....</b>	<b>21,800</b>	<b>26,106</b>	<b>16,600</b>	<b>20,423</b>	<b>5,200</b>	<b>5,683</b>
<b>Washington.....</b>	<b>14,600</b>	<b>17,258</b>	<b>11,500</b>	<b>13,658</b>	<b>3,100</b>	<b>3,600</b>
<b>West Virginia.....</b>	<b>11,700</b>	<b>13,787</b>	<b>8,700</b>	<b>10,284</b>	<b>3,000</b>	<b>3,502</b>
<b>Wisconsin.....</b>	<b>13,100</b>	<b>14,551</b>	<b>10,200</b>	<b>11,265</b>	<b>2,900</b>	<b>3,286</b>
<b>Wyoming.....</b>	<b>3,700</b>	<b>4,685</b>	<b>3,000</b>	<b>3,808</b>	<b>700</b>	<b>877</b>
<b>Outside United States:</b>						
<b>Canada.....</b>	<b>3,100</b>	<b>2,034</b>	<b>2,000</b>	<b>1,130</b>	<b>1,100</b>	<b>904</b>
<b>Mexico.....</b>	<b>400</b>	<b>281</b>	<b>200</b>	<b>129</b>	<b>200</b>	<b>153</b>
<b>Other.....</b>	<b>800</b>	<b>714</b>	<b>500</b>	<b>426</b>	<b>300</b>	<b>288</b>
<b>Total<sup>3</sup>.....</b>	<b>696,500</b>	<b>\$814,733</b>	<b>536,200</b>	<b>\$636,710</b>	<b>160,300</b>	<b>\$178,024</b>

<sup>1</sup> State of residence of beneficiary on September 30, 2007.

<sup>2</sup> Includes 121,200 supplemental annuities to employees receiving regular annuities. In a relatively small number of cases, employees were also receiving spouse or widow(er)'s benefits.

<sup>3</sup> Includes beneficiaries whose state of residence was unknown.

NOTE.--Retirement benefits include regular and supplemental employee annuities, spouse annuities and divorced spouse annuities. Survivor benefits include annuities to aged and disabled widow(er)s, widowed mothers and fathers, remarried and divorced widow(er)s, children, parents, and widow(er)s annuities temporarily being paid at spouse annuity rates pending final adjudication of survivor annuities. Benefit amounts exclude social security payments to dual beneficiaries.

**Table 8.--Principal administrative data for the unemployment and sickness benefit programs,  
benefit years 2002-2003 through 2006-2007, cash basis**

Item	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
<b>Qualified employees.....</b>	259,100	248,800	242,200	244,600	250,200
<b>Maximum daily benefit rate.....</b>	\$52	\$55	\$56	\$56	\$57
<b>UNEMPLOYMENT BENEFITS</b>					
<b>Net amount of benefits paid (thousands)</b>	\$45,614	\$38,264	\$30,179	\$30,586	\$29,627
<b>Payments:<sup>1</sup></b>					
<b>Number.....</b>	96,700	76,400	62,000	54,000	56,600
<b>Average amount per two week     claim period.....</b>	\$449	\$477	\$489	\$490	\$499
<b>Beneficiaries.....</b>	15,400	11,700	9,300	8,900	9,500
<b>Applications received.....</b>	18,300	14,400	11,700	11,400	12,200
<b>Claims received.....</b>	116,400	91,700	73,700	65,000	68,800
<b>Normal benefit accounts exhausted.....</b>	2,900	2,400	2,200	1,900	1,800
<b>Non-compensable waiting period only<sup>2</sup>..</b>	(3)	(3)	(3)	(3)	(3)
<b>SICKNESS BENEFITS</b>					
<b>Net amount of benefits paid (thousands)</b>	\$49,891	\$46,413	\$43,405	\$43,801	\$43,533
<b>Payments:<sup>1</sup></b>					
<b>Number.....</b>	160,700	152,700	140,200	135,500	128,300
<b>Average amount per two week     claim period.....</b>	\$461	\$486	\$496	\$496	\$503
<b>Beneficiaries.....</b>	22,400	21,600	20,200	19,700	19,000
<b>Applications received.....</b>	27,900	26,600	25,100	26,400	23,300
<b>Claims received.....</b>	185,700	176,800	162,700	157,800	149,700
<b>Normal benefit accounts exhausted.....</b>	4,700	4,500	3,900	3,700	3,500
<b>Non-compensable waiting period only<sup>2</sup>..</b>	100	200	100	100	100

<sup>1</sup> Not adjusted for recoveries or settlements of underpayments.

<sup>2</sup> Benefits are payable for each day of unemployment or sickness in excess of 7 during the first 14-day registration period in a benefit year.

<sup>3</sup> Less than 50.

NOTE.--Data covered program activities during the year, regardless of when unemployment or sickness occurred.

Table 9.--All employees, new entrants, employees qualified for RUIA benefits, and related data, by employer, 2006

Class or name of employer	All employees				New entrants		Creditable Compensation (thousands)		
	Total	With 12 months of service in 2006	With sufficient service for RRA annuity	Qualified for RUIA benefits	Total	Qualified for RUIA benefits	Tier I	Tier II	RUIA
<b>CLASS OF EMPLOYER</b>									
Class I railroads.....	211,416	169,462	151,044	202,217	17,960	11,620	\$11,799,976	\$10,997,571	\$2,757,331
Class II railroads.....	7,935	5,960	5,422	7,280	823	503	379,321	363,755	98,409
Class III railroads.....	35,753	27,789	25,216	33,146	3,167	1,782	1,924,316	1,771,713	450,011
Switching and terminal companies.....	6,908	5,212	4,751	6,312	721	364	338,847	321,374	85,349
Car-loan companies.....	2,150	1,803	1,483	2,048	159	95	105,292	100,560	28,269
Miscellaneous employers <sup>1</sup> .....	4,713	3,635	3,314	4,233	426	221	278,897	238,859	57,048
<b>Total.....</b>	<b>268,875</b>	<b>213,861</b>	<b>191,230</b>	<b>255,236</b>	<b>23,256</b>	<b>14,585</b>	<b>\$14,826,649</b>	<b>\$13,793,833</b>	<b>\$3,476,418</b>
<b>SELECTED EMPLOYERS</b>									
BNSF Railway Company.....	46,963	38,436	33,304	45,333	4,508	3,410	\$2,852,260	\$2,602,909	\$621,225
<b>Canadian National, U.S. Operations</b>									
Bessemer and Lake Erie Railroad Co.....	140	100	118	130	6	.....	7,167	6,808	1,711
Chicago Central and Pacific Railroad Co.....	240	205	218	237	5	3	15,339	13,386	3,249
Duluth, Missabe and Iron Range Railway Co.....	328	275	289	319	19	14	20,087	18,413	4,327
Duluth, Winnipeg and Pacific Railway Co.....	131	112	118	127	6	5	9,305	8,013	1,752
Grand Trunk Western Railroad Incorporated.....	1,403	1,116	1,288	1,358	22	5	87,856	77,710	18,399
Illinois Central Railroad Company.....	3,323	2,723	2,517	3,209	171	101	212,540	186,409	43,953
Pittsburgh and Conneaut Dock Co.....	84	71	66	83	1	1	4,399	4,274	1,106
Sault Ste. Marie Bridge Company.....	47	40	45	47	2	2	2,652	2,520	655
Wisconsin Central LTD.....	1,658	1,242	1,458	1,595	112	74	99,451	89,897	21,481
CSX Transportation Incorporated.....	36,612	28,746	26,256	35,128	3,202	2,367	1,960,825	1,856,082	474,627
Kansas City Southern Railway Company.....	3,039	2,420	2,014	2,880	209	113	163,756	155,750	39,260
Gateway Eastern Railway Company.....	9	6	7	8	1	.....	332	332	100
Texas Mexican Railway Company.....	209	151	125	192	36	22	12,617	10,980	2,543
National Railroad Passenger Corp. (Amtrak).....	20,908	16,499	17,270	20,073	1,078	595	1,019,685	980,700	271,404
Norfolk Southern Corporation.....	33,034	27,091	23,145	31,599	2,533	1,402	1,777,108	1,674,210	431,661
Soo Line Railroad Company.....	3,119	2,499	2,301	3,024	157	127	168,526	158,047	40,822
Union Pacific Railroad Company.....	60,169	47,730	40,505	56,875	5,892	3,379	3,386,071	3,151,132	779,053

<sup>1</sup> Includes labor organizations, lessor companies, employer associations and miscellaneous carrier affiliates.

NOTE.--Tier I compensation excludes miscellaneous compensation taxable at the tier I tax rate.

**United States  
Railroad Retirement Board**

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