Recommendations of the Commission on Railroad Retirement

The Commission on Railroad Retirement was created by Public Law 91–377 to conduct a study of the railroad retirement system and to recommend changes in the system to provide adequate levels of benefits on an actuarially sound basis. The Commission—which consisted of one representative of the railroad industry, one representative of railroad employees, and three representatives of the public—transmitted its report to the President and Congress on June 30, 1972[1] The summary of the major findings and principal recommendations is excerpted below.

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The Congress directed the Commission to recommend changes to provide adequate levels of benefits on an actuarially sound basis and specified in detail the topics to be studied. The Commission has found that past efforts to patch up the system, though helpful, have failed to solve the long-range problems. It is recommending four major changes in the law which are designed to preserve and make secure the rights of railroad workers and their families to benefits in the coming period of crisis and for the years that lie beyond. These fundamental reforms will solve the serious problems of the system and can be carried out so as to guarantee that no current beneficiary and no worker whose rights are legally vested will lose any benefits he has accrued to date. In summary form the recommendations are as follows:

1. *The railroad retirement system should be restructured into two separate tiers of benefits. Tier one should provide regular social security benefits, financed and paid under the social security laws, and represented by a separate social security check. In relation to tier one, the Railroad Retirement Board should function as a social security claims agent and payment center for claims-taking, adjudication, and certification for payment of social security benefits for railroad beneficiaries in accordance with policies set by the Social Security Administration. Tier two should be a completely separate supplementary retirement plan administered by the Railroad Retirement Board under Federal law, structured to fit with and augment social security and float on top of tier one.* This structure conforms with the pattern that works well in many other industries. It utilizes fully the strength of the social security system which now covers 90% of all jobs in the country. The separation of tier two will permit it to be negotiated by labor and management in keeping with their special needs.

This separation of tier one and tier two—in objectives, in benefit structure, and in financing—must be unmistakably clear to all involved: to the special interests represented by labor, management, and beneficiaries; and to the public interest represented by Congress and the Executive Branch of the Government.

2. *Legally-vested rights of railroad workers and railroad retirement beneficiaries to benefits based on social-security-covered nonrailroad service should be guaranteed, but future accrual of these dual benefits should be stopped.* Dual benefits are based on social security coverage for only part of a work career. They involve a windfall element and excess cost to the Railroad Retirement Account. Their future accrual will cease automatically when railroad employment is covered by social security on a full basis.

3. *A firm financial plan should be adopted forthwith to finance the second tier of supplementary benefits through the Railroad Retirement Account on an assured, fully self-supporting basis by contributions from the railroad community through the crisis period of the next 20 to 30 years and then beyond.*

The plan must provide for immediate sizable tax increases which—together with the future savings from curtailing dual benefits and some gain in earnings—will be sufficient to cover fully the projected cash flow deficits of up to $1 billion a year by the end of the century. The higher taxes must accompany the extension of the temporary 1970 and 1971 benefit increases and should be sufficient also to finance any other liberalizations that may be made. As a minimal safeguard for future benefits the basic criterion should be that the Railroad Retirement Account should not be drawn down below its present $5.5 billion balance (December 31, 1971, accrual-basis), and as tier two benefit outlays rise in future years the reserve should be maintained at not less than five times the annual rate of such expenditures.

The tax rates required to carry out the financial plan should be determined by the Railroad Re-

[1] Commission on Railroad Retirement, *The Railroad Retirement System: Its Coming Crisis*, Report to the President and the Congress, June 30, 1972, pages 3–5.

tirement Board pursuant to explicit statutory criteria regarding this reserve ratio. A determination should take place within 90 days after any major change in the program, or at least biennially. It should be transmitted to the Congress by the President, and should go into effect after 60 days unless the Congress enacts legislation within that period to set alternate rates.

Beyond the crisis period, when a reasonable degree of normality in the ratio of beneficiaries to railroad workers is attained, the Account should be financed according to the generally accepted standards of actuarial soundness appropriate to supplementary staff pension plans.

4. *The benefit formulas and provisions of the system should be restructured and revised to assure that the overall benefits in the future continue to bear a reasonable relationship to wages in a dynamic economy and to make benefits more equitable among the various groups of beneficiaries.* A continuation of the past practice of compounding the percentage factors in the railroad retirement formula and increasing the base of covered wages will escalate costs to an untenable extent. Various other anomalies are also present.

The foregoing are the Commission's principal recommendations. They stem from an independent study by the Commission and its staff, consultants, and advisory groups, compressed within the past 17 months. . . . The Commission's complete report contains all of the specific recommendations, and is supplemented by extensive staff studies. It also suggests necessary follow-up action to achieve the transition from the present system to the new, improved system.

Social Security Abroad

Guaranteed Children's Allowances in Belgium*

The inauguration of a guaranteed children's allowance in 1972 represents another step in Belgium's announced policy of granting a "social minimum" income to the disadvantaged as a matter of legal right. The implementation of the policy began in 1969 when a guaranteed income, subject to a means test, was provided for the aged who had little or no pensions. This group included the aged who had never worked and thus had never been covered by any of the social security funds. The country has, of course, an advanced social security system, but self-employed persons who had switched to other types of work, or those who had worked intermittently, would not have earned a regular benefit.

Belgium was one of the first countries to introduce children's allowances, doing so in 1930. Before the 1972 provisions, children's allowances were entirely work-related. For regular wage and salary workers, allowances are employer-financed; the self-employed finance their own program by contributing according to size of income. Some families with low or no income could not qualify for allowances under these provisions. A catchall category was therefore created, based on a means test. Since most of the families who would fall into this category were expected to be among the former self-employed, the benefit level was patterned on the existing children's allowances program for the self-employed.

CHILDREN'S ALLOWANCES IN GENERAL

All persons under the general social security program—all wage and salary workers—are covered. The self-employed have a separate children's allowances program. In both programs, the allowances consist of basic and supplementary benefits.

Employers bear the full cost of the children's allowances program for wage and salary earners by contributing 10.5 percent of payroll. Since the program is work-related, the level of benefits varies according to the amount of time actually worked. If a person works 23 days or more during the month (19 days when on a 5-day week), children's allowances are paid at the full monthly rate; if he works less, the allowances are paid according to a daily rate. In either case, the allowances are payable once a month.

The self-employed contribute to their program according to income. Although their benefit structure differs from that of wage and salary earners, some similarities exist. In both programs, for example, the basic benefits start with the first

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