

Railroad Unemployment Insurance System

**Annual Report Required by Section 7105
of the Technical and Miscellaneous
Revenue Act of 1988**



**U.S. Railroad Retirement Board
Bureau of the Actuary
June 2012**

ANNUAL REPORT REQUIRED BY THE TECHNICAL AND MISCELLANEOUS REVENUE ACT OF 1988

I. Introduction

Section 7105 of the Technical and Miscellaneous Revenue Act of 1988 requires the Railroad Retirement Board to submit an annual report to the Congress on the financial status of the railroad unemployment insurance system. The report must contain recommendations for financing changes that might be advisable, specifically with regard to rates of employer contributions. This report meets the requirements of Section 7105 for 2012.

II. Recent Developments

The maximum daily benefit was \$66 for the benefit year beginning July 1, 2011, and will remain the same for the benefit year beginning July 1, 2012. It will increase to \$68 for the benefit year beginning July 1, 2013. The monthly tax base was \$1,330 in 2010 and 2011, and increased to \$1,365 in 2012 based on increases in the railroad retirement tier I creditable base.

Average employment in calendar year 2011 was 230,000 (subject to later revision), which is above the optimistic assumption in last year's report. Actual net unemployment and sickness benefits in fiscal year 2011 were \$5.6 million (5.7 percent) less than last year's projection. This year's report predicts that the 1.5 percent surcharge in calendar year 2012 will be followed by no surcharge in calendar years 2013 and 2014. A surcharge of 1.5 percent is likely for calendar year 2015.

III. Economic and Employment Assumptions

The economic and employment assumptions used in this report correspond to those used in the report required by Section 502 of the Railroad Retirement Solvency Act of 1983. Unemployment levels are the single most significant factor affecting the financial status of the railroad unemployment insurance system. Rapidly declining employment coupled with high unemployment levels, as occurred in the early 1980s and more recently in the late 2000s, can put the system into debt. Conversely, cash balances can accumulate if employment declines are moderate and unemployment levels remain low. The experience-rating system is designed to tie individual employer contribution rates to their level of benefit claims, thereby adjusting the overall account balance to an appropriate level.

The three employment assumptions used, denoted A, B, and C, are shown in Table 1 at the end of the report. The projected tier I creditable limits, which determine both the railroad unemployment monthly wage base and the maximum daily benefit rate, are from

the Social Security Administration's April 2012 Trustees Report, intermediate set of assumptions. Table 2 shows the tier I creditable limit, unemployment monthly earnings base and daily benefit rate assumptions.

IV. Results

Projections were made for the various components of income and outgo under each employment assumption for the 11 fiscal years 2012-2022. The results are summarized in Table 3. Average employer contribution rates under the experience-rated contribution system are weighted averages based on the relative size of each railroad's payroll.

Table 3 consists of three tables, one for each employment projection A, B, and C. The tables show (1) contributions, excluding the portion allocated to the Administration Fund, (2) net benefit payments, (3) other income and outgo, (4) the cash balance in the Railroad Unemployment Insurance Account (Account) at the end of each fiscal year, (5) the loan balance, if any, including accrued interest, (6) the Account balance at the end of each fiscal year, less loans due and (7) the average employer contribution rate for each calendar year.

The experience-rating formula is designed to keep the accrual balance of the Account, as of June 30, between \$100 million and \$250 million, indexed for changes in the taxable base. If the balance exceeds an indexed \$250 million, contributions are reduced by a pooled credit. If the balance falls below an indexed \$100 million, contributions are increased by a surcharge.

The June 30, 2010 balance¹ was \$0.1 million, above zero but below the indexed \$50 million surcharge threshold of \$63.5 million. As a result, a 2.5 percent surcharge was in effect for calendar year 2011. By June 30, 2011, the balance had risen to \$66.2 million, which was above the indexed \$50 million surcharge threshold of \$65.1 million but below the indexed \$100 million surcharge threshold of \$130.2 million. Consequently, a 1.5 percent surcharge is in effect for calendar year 2012.

Under each employment assumption, the Account balance is expected to be above indexed \$100 million threshold in June of 2012, resulting in no surcharge in calendar year 2013. No surcharge is also predicted for calendar year 2014. For all three assumptions, a surcharge of 1.5 percent is likely for 2015, and surcharges of at least 1.5 percent are likely to occur periodically thereafter. Under employment assumption C, short-term cash flow problems are probable in fiscal year 2015, with full repayment of the loans during fiscal year 2016. The highest average contribution rate needed is under employment assumption C, where it rises to 6.09 percent for calendar year 2016. This is

¹ The balance referred to here and in the following paragraph is the accrual balance of the Account as of June 30, on which calculations of pooled credits and surcharges are based. Cash balances shown on Tables 3A-C are not used in these calculations. June 30 accrual balances are shown in Table 4.

well below the 12 percent maximum rate allowable.

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

V. Recommendation

As stated in the introduction, the Congress directed the Railroad Retirement Board to make recommendations for financing changes that might be advisable, specifically with regard to rates of employer contributions.

No financing changes are recommended at this time. Projections under three different employment assumptions indicate that experience-based contribution rates will respond to fluctuating employment and unemployment levels and thereby maintain fund solvency.

Table 1: Employment Assumptions Used in 2012 Report

Calendar Year	Average Employment (thousands)		
	A	B	C
2011	230	230	230
2012	229	226	223
2013	228	223	216
2014	227	219	210
2015	226	216	203
2016	225	212	197
2017	224	209	191
2018	224	206	186
2019	223	202	180
2020	222	199	175
2021	221	196	170
2022	220	193	164

Assumptions A and B reflect the stability of employment in passenger service (Amtrak and commuter service) as distinguished from freight service. Assumption A has the most optimistic employment of the three assumptions. Assumption B is intended to provide a "moderate" assumption. Assumption C, the most pessimistic, has declines in both passenger and freight employment.

Passenger employment is assumed to remain level at 45,000 under assumptions A and B, and to decline by 500 each year under assumption C. Non-passenger employment is assumed to decline at a constant annual rate of 0.5 percent, 2.0 percent and 3.5 percent under assumptions A, B and C, respectively.

**Table 2: Annual Tier I Creditable Limit, Monthly RUI
Taxable Limit, and Maximum Daily Benefit Rate**

Calendar Year	Annual Tier I Limit	Monthly RUI Limit	Maximum Daily Benefit Rate [1]
2011	\$106,800	\$1,330	\$66
2012	110,100	1,365	66
2013	113,700	1,405	68
2014	117,900	1,450	70
2015	123,000	1,500	72
2016	128,400	1,560	75
2017	134,400	1,620	78
2018	141,000	1,690	81
2019	147,900	1,765	84
2020	155,100	1,840	88
2021	161,700	1,910	92
2022	168,300	1,980	95

[1] Effective for registration periods beginning after June 30 in the calendar year.

Table 3A. Progress of the Railroad Unemployment Insurance Account Under Assumption A
(Dollar Amounts in Millions)

Fiscal Year	Account Contributions [1]	Net Benefit Payments	Other Income and Outgo [2]	Account Cash Balance Year End	Loan Balance Year End [3]	Account Cash Balance Less Loans Due Year End	Calendar Year	Average Employer Contribution Rate (Percent)
2012	\$181.3	\$83.9	\$13.0	\$157.3	\$0.0	\$157.3	2012	4.58
2013	82.6	87.3	13.2	165.9	0.0	165.9	2013	1.07
2014	18.2	88.4	13.7	109.4	0.0	109.4	2014	1.15
2015	57.0	90.6	13.2	89.0	0.0	89.0	2015	2.93
2016	111.2	93.1	14.6	121.7	0.0	121.7	2016	3.66
2017	111.2	96.6	17.3	153.6	0.0	153.6	2017	2.78
2018	72.6	100.0	18.8	145.0	0.0	145.0	2018	1.77
2019	58.8	103.4	18.8	119.2	0.0	119.2	2019	2.04
2020	93.6	107.0	19.3	125.1	0.0	125.1	2020	3.09
2021	122.3	111.7	21.5	157.2	0.0	157.2	2021	3.07
2022	107.1	115.9	23.7	172.1	0.0	172.1	2022	2.36

[1] Excludes 0.65 percent of taxable payroll allocated to the Administration Fund.

[2] Income includes interest on investments and transfers from the Administration Fund of amounts in excess of \$6 million at the end of the previous fiscal year.
Outgo includes funding for the Office of Inspector General.

[3] Includes accrued interest.

NOTE: Detail may not add to totals due to rounding.

Table 3B. Progress of the Railroad Unemployment Insurance Account Under Assumption B
(Dollar Amounts in Millions)

Fiscal Year	Account Contributions [1]	Net Benefit Payments	Other Income and Outgo [2]	Account Cash Balance Year End	Loan Balance Year End [3]	Account Cash Balance Less Loans Due Year End	Calendar Year	Average Employer Contribution Rate (Percent)
2012	\$180.4	\$83.9	\$13.0	\$156.4	\$0.0	\$156.4	2012	4.58
2013	81.5	93.4	12.8	157.4	0.0	157.4	2013	1.07
2014	19.0	99.7	12.7	89.4	0.0	89.4	2014	1.22
2015	65.9	101.0	11.6	65.9	0.0	65.9	2015	3.45
2016	128.6	102.6	12.7	104.6	0.0	104.6	2016	4.32
2017	130.3	105.0	15.2	145.1	0.0	145.1	2017	3.41
2018	86.8	107.6	16.8	141.1	0.0	141.1	2018	2.08
2019	62.0	109.8	16.2	109.5	0.0	109.5	2019	2.12
2020	87.9	112.4	15.7	100.7	0.0	100.7	2020	3.17
2021	124.9	115.8	17.0	126.8	0.0	126.8	2021	3.68
2022	126.1	118.9	18.7	152.7	0.0	152.7	2022	3.12

[1] Excludes 0.65 percent of taxable payroll allocated to the Administration Fund.

[2] Income includes interest on investments and transfers from the Administration Fund of amounts in excess of \$6 million at the end of the previous fiscal year.
Outgo includes funding for the Office of Inspector General.

[3] Includes accrued interest.

NOTE: Detail may not add to totals due to rounding.

Table 3C. Progress of the Railroad Unemployment Insurance Account Under Assumption C
(Dollar Amounts in Millions)

Fiscal Year	Account Contributions [1]	Net Benefit Payments	Other Income and Outgo [2]	Account Cash Balance Year End	Loan Balance Year End [3]	Account Cash Balance Less Loans Due Year End	Calendar Year	Average Employer Contribution Rate (Percent)
2012	\$179.3	\$83.9	\$13.0	\$155.3	\$0.0	\$155.3	2012	4.58
2013	80.4	106.7	12.3	141.4	0.0	141.4	2013	1.08
2014	21.4	126.7	11.3	47.4	0.0	47.4	2014	1.38
2015	84.6	126.4	20.9	26.5	12.1	14.4	2015	4.49
2016	172.6	126.5	(2.6)	70.0	0.0	70.0	2016	6.09
2017	178.4	127.8	12.6	133.2	0.0	133.2	2017	4.74
2018	117.2	128.8	14.4	136.0	0.0	136.0	2018	2.77
2019	76.8	129.7	13.3	96.4	0.0	96.4	2019	2.54
2020	98.3	130.8	11.8	75.7	0.0	75.7	2020	3.82
2021	138.4	132.9	12.1	93.3	0.0	93.3	2021	4.55
2022	146.9	134.4	13.1	118.9	0.0	118.9	2022	4.21

[1] Excludes 0.65 percent of taxable payroll allocated to the Administration Fund.

[2] Income includes interest on investments, transfers from the Administration Fund of amounts in excess of \$6 million at the end of the previous fiscal year, and loans from the Railroad Retirement Account. Outgo includes funding for the Office of Inspector General and repayment of loans, including interest.

[3] Includes accrued interest.

NOTE: Detail may not add to totals due to rounding.

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

Year	Assumption A		Assumption B		Assumption C	
	Account Balance	1.5 Percent Surcharge Threshold	Account Balance	1.5 Percent Surcharge Threshold	Account Balance	1.5 Percent Surcharge Threshold
2012	\$177.6	\$135.6	\$176.6	\$135.2	\$175.3	\$134.7
2013	187.4	138.1	179.2	136.0	164.1	133.6
2014	131.7	141.7	112.4	137.9	72.3	133.4
2015	112.0	145.7	89.4	140.1	39.3	133.6
2016	145.1	150.3	128.2	142.8	94.7	134.2
2017	177.6	155.7	168.7	146.1	157.2	135.4
2018	170.0	161.2	165.0	149.5	159.6	136.5
2019	145.7	167.5	134.4	153.6	120.3	138.2
2020	153.0	174.2	126.7	157.8	100.2	139.9
2021	185.9	180.7	152.8	161.8	117.4	141.4
2022	201.2	186.7	178.4	165.3	142.3	142.4

The June 30, 2011 accrual balance was \$66,198,068.70. The indexed 1.5 percent surcharge threshold was \$130,193,914.00 and the indexed 2.5 percent surcharge threshold was \$65,096,957.00.

The experience rating system provides for a surcharge in the employer contribution rate when the Railroad Unemployment Insurance Account balance falls below certain thresholds. The 1.5 percent surcharge threshold is the greater of \$100 million or the amount that bears the same ratio to \$100 million as the system compensation base as of that June 30 bears to the system compensation base as of June 30, 1991. The 2.5 percent surcharge threshold (not shown) is indexed from a \$50 million base.