SECTION 5. EARNED ENTITLEMENTS FOR RAILROAD EMPLOYEES

CONTENTS

OVERVIEW

Retirement, unemployment compensation, sickness, disability, and death benefits for railroad employees are administered by the Railroad Retirement Board (RRB), a Federal agency headquartered in Chicago. That these entitlement benefits for a particular private industry are a function of Federal authority follows from actions taken during the 1930s, when threats to the stability of the nation's railroads caused Congress to pass legislation placing the industry's primary employee benefit programs under Federal law. Federal involvement in the rail industry was not unprecedented. Indeed, much of the foundation underlying the enormous success the industry enjoyed was in place because the Federal Government provided numerous incentives for early development of this first great industrial giant.

The RRB, which refers both to the agency that administers the Federal benefits earned in industry employment and to the 3-member governing board that oversees its operations, maintains records on 11.6 million present and former railroad employees.

During fiscal year 1996, the RRB disbursed $8.1 billion in retirement and survivor benefits to 817,000 annuitants, $40.7 million in daily compensation to about 17,000 unemployed workers, and $25.8 million in sickness benefits to 20,000 employees. About $6 million was paid in lump-sums to survivors of deceased workers. Table 5–1 provides an overview of cash benefits received by various categories of beneficiaries in January of 1997. Through its payroll and beneficiary recordkeeping system, the RRB verifies the collection of taxes on payroll and benefits with the Internal Revenue Service, which in fiscal year 1996 collected $4.3 billion in taxes on railroad payrolls and $238 million in taxes on railroad retirement beneficiary payments.

In the House of Representatives, jurisdiction over Railroad Retirement and Unemployment Benefit Programs is divided between two standing committees. Under the Rules of the House for the 105th Congress, the Transportation and Infrastructure Committee has jurisdiction over legislation pertaining to "railroads . . . and railroad retirement and unemployment (except revenue measures related hereto)." The Subcommittee on Railroads of the committee has primary responsibility for the Railroad Retirement Act and amendments affecting railroad retirement. The Committee on Ways and Means has jurisdiction over all revenue measures, including the Railroad Retirement Tax Act (chapter 22 of the Internal Revenue Code; see Research Institute, 1997). Within the Committee on Ways and Means, jurisdiction over employment taxes and trust fund operations relating to the Railroad Retirement System lies within the Subcommittee on Social Security.

THE RETIREMENT AND SURVIVOR ANNUITY STRUCTURE

The Railroad Retirement System provides retirement, disability and survivor annuities to workers whose employment was connected with the railroad industry for at least 10 years. The program is governed by the Railroad Retirement Act (RRA), Federal legislation enacted by Congress with input from all affected segments of the rail industry system. Railroad retirement came into existence in 1936, and was substantially modified by the Railroad Retirement Act of 1974 (Public Law 93–445) which provided for closer coordination with the Social Security System. Credits are primarily secured by employment in the railroad industry, although any Social Security credits earned during employees' work careers are included in the benefit computation. Benefits are financed through a combination of employee, employer, and Federal Government contributions.

The 1974 act established three benefit components. The ongoing benefit system was divided into two "tiers," one of which approximates Social Security (tier 1) while the other provides a retirement benefit specifically for railroad workers (tier 2). The third component, a vested dual benefit, preserved certain benefits for employees who had qualified for both railroad retirement and Social Security benefits prior to the 1974 act. About 182,000 spouses of retired or disabled workers receive railroad retirement benefits. About 252,000 survivors are on the RRB annuity rolls.

TABLE 5–1.—MONTHLY RAILROAD RETIREMENT CASH BENEFITS IN CURRENT-PAYMENT STATUS, JANUARY 1997

Category of beneficiary	Number	Percent of total	Average monthly benefit
Retired workers	303,600	39.7	$1,188
Disabled workers [1]	36,400	4.8	1,499
Spouses of retired and disabled workers	181,800	23.7	486
Divorced spouses	3,700	0.5	301
Aged widows and widowers	202,300	26.4	730
Disabled widow(er)s	6,300	0.8	645
Widowed mothers and fathers	1,500	0.2	908
Remarried widow(er)s	6,100	0.8	502
Divorced widow(er)s	8,800	1.1	522
Children	15,000	2.0	626
Parents	100	([2])	534
Total monthly benefits	765,500	100.0	$882

[1] Under age 65.
[2] Less than 0.05 percent.

Note.—Includes tier 1, tier 2, and vested dual benefits. Excludes 159,600 supplemental employee annuities averaging $43. Total includes fewer than 50 survivor option annuities averaging $77, payable under laws in effect before August 1946.

Source: Railroad Retirement Board.

TIER 1 AND TIER 2 BENEFITS

Railroad retirement tier 1 benefits are based on the Social Security benefit formula, using the employee's combined railroad earnings and nonrailroad Social Security covered earnings up to the Social Security maximum wage base. The tier 1 benefit is roughly equal to what the Social Security benefit would have been had the worker's railroad employment been covered by the Social Security Program. Because the tier 1 benefit is based on both Social Security and railroad employment, any Social Security benefit to which the Railroad Retirement System beneficiary is also entitled is subtracted from the tier 1 benefit amount. Tier 1 benefits are adjusted for the cost of living by the same percentage as Social Security benefits.

Tier 2 benefits are based entirely on the employee's service in the railroad industry and are payable in addition to the tier 1 benefit amount. For current retirees, the tier 2 benefit is equal to seven-tenths of 1 percent of the employee's average monthly earnings in the 60 months of highest earnings, times the total number of years of railroad service, less 25 percent of any employee vested dual benefit also payable. Tier 2 benefits are automatically adjusted annually at a rate equal to 32.5 percent of the Social Security cost-of-living adjustment.

DUAL BENEFIT PAYMENTS

One of the chief purposes of the Railroad Retirement Act of 1974 was to coordinate railroad retirement and Social Security benefit payments to eliminate certain dual benefits considered to be a "windfall" for persons receiving benefits under both systems. This "windfall" was a result of the fact that the total benefit these retirees received from both systems was higher than the benefit they would have received if their benefit were based on their total career earnings but paid only under railroad retirement. The total benefit was higher in these cases since the Social Security benefit formula favors workers who have low average earnings throughout their careers. Low career average earnings result from a career of low wages or from a relatively short career in Social Security covered employment. Workers who spend a period of time in employment not covered by Social Security, such as railroad employment, received the benefit of this "tilt" in the benefit formula, even though they may very well not have had low career earnings.

As a result of the 1974 act, "windfall" benefits were eliminated for any railroad employees not qualified for such benefits as of January 1, 1975. The benefits were generally preserved for those individuals who were vested under both the Railroad Retirement and Social Security Systems before 1975. These vested dual benefits are financed by the general revenue fund through an annual appropriation rather than from the Social Security or railroad retirement trust funds. They are subject to reduction during any year in which the appropriation is less than the amount required for full benefit payments. The total appropriation for the dual benefits payments account includes an estimation of the amount collected from income taxes on the dual benefit, with the implication that dual benefits are partially financed by income taxes on dual benefits. The fiscal year 1996 appropriation was $239,000,000, including the income tax transfers. The fiscal year 1997 appropriation was $223,000,000, including income tax transfers. Currently paid to about 18 percent of the Railroad Retirement Board's beneficiaries, the average vested dual benefit is $132 per month.

DISABILITY ANNUITIES

Disabled workers are potentially eligible for annuities under tiers 1 and 2. A worker totally and permanently disabled for all employment, and who has 10 years of creditable railroad service, is eligible for tier 1 and tier 2 benefits. As with other workers whose work histories include periods of employment under both Social Security and railroad retirement, totally disabled workers whose railroad service is less than 10 years will have their rail service employment credits transferred to Social Security, with eligibility for Social Security disability insurance payments determined under that program's rules.

Workers at age 60 with at least 10 years service, and workers at any age with at least 20 years service, are also eligible for an occupational disability benefit if they become totally disabled for their regular railroad occupation. The worker must also have a current connection to the industry, which generally means he has worked for a railroad during at least 12 months in the immediately preceding 30-month period.

SPOUSE ANNUITIES

Spouses of retired or disabled railroad retirement beneficiaries may also qualify for benefits, the amount of which may depend on such factors as the spouse's age and work history, and the age, date of retirement, and years of railroad service of the railroad worker. Spouses may also qualify for benefits based on caring for a rail worker's unmarried or disabled child. Tier 1 spouse benefits are governed by the same rules that apply to Social Security spouse benefits. Tier 2 spouse benefits are equal to 45 percent of the retired or disabled worker's tier 2 benefit. Divorced spouses may also be eligible for benefits from tier 1, but not from tier 2, unless a divorce decree so specifies.

SUPPLEMENTAL ANNUITIES

Supplemental annuities, provided under the 1974 act, equal $23 for 25 years of service plus $4 for each additional year up to a maximum of $43 per month. However, as a result of the 1981 Omnibus Budget Reconciliation Act, employees first hired after October 1, 1981, are not eligible for supplemental annuities when they retire.

SURVIVOR BENEFITS

Annuities may be payable under both tiers to surviving spouses, children, and certain other beneficiaries. With the exception of the lump-sum death benefit (discussed below), eligibility for survivor benefits depends on whether the employee was insured under the RRA at the time of death. An employee is insured if she has completed at least 10 years railroad service and has a current connection to the rail industry. Generally, a tier 1 survivor benefit is based on the worker's combined Social Security and railroad retirement wage credits, and is payable under the same conditions and is equivalent to a similar benefit payable from Social Security. The tier 2 survivor benefit is generally equal to 50 percent of the deceased worker's tier 2 retirement benefit.

LUMP-SUM DEATH BENEFITS

Lump-sum death benefits are paid when there is no person eligible for a monthly survivor benefit in the month in which the worker died. Generally, 10 years of railroad service and a current connection with the railroad industry are required for eligibility. For employees with 10 or more years of railroad service before 1975, the amount of the benefit is based on the 1937 act. For all other railroad workers, the amount is equivalent to that which would be paid under the Social Security Act (unless survivor benefits are paid).

A residual lump-sum payment is, in effect, a refund of the employee's pre-1975 railroad retirement taxes plus an allowance in lieu of interest, less benefits already paid. This payment is not made as long as monthly benefits are payable either at the time of the employee's death or in the future. However, a widow(er) or parent under age 60 can waive rights to future monthly benefits in order to receive a residual payment.

PROGRAM DATA

Table 5–2 summarizes railroad retirement benefits paid and the number of recipients in selected fiscal years 1950–96. The table shows that the number of beneficiaries increased until about the mid-1970s and declined somewhat thereafter. Similarly, as shown by the constant dollar column in table 5–2, after rapid increases between 1950 and about 1975, total benefit payments increased at a modest rate until the early 1980s and then actually declined by about $1 billion over the next 15 years.

TABLE 5–2.—TOTAL BENEFIT PAYMENTS AND NUMBER OF BENEFICIARIES, SELECTED FISCAL YEARS 1950–96

Fiscal year	Benefit payments (in millions) [1]				Beneficiaries (in thousands) [2]		
	Total		Retirement	Survivor	Total	Retire-ment	Sur-vivor
	Current dollars	Constant 1996 dollars [3]					
1950	$301.6	$1,963.5	$248.2	$53.4	458	272	189
1955	549.7	3,218.2	424.5	125.2	700	452	252
1960	925.7	4,906.8	711.5	214.2	873	584	299
1965	1,117.7	5,567.2	834.0	283.7	980	650	340
1970	1,593.5	6,443.8	1,177.0	416.5	1,051	702	366
1975	3,060.3	8,924.9	2,222.4	837.9	1,094	733	380
1980	4,730.6	9,007.7	3,389.8	1,340.8	1,084	731	367
1981	5,286.6	9,125.1	3,779.9	1,506.7	1,074	726	363
1982	5,725.5	9,309.1	4,097.9	1,627.6	1,067	722	359
1983	6,041.1	9,516.6	4,354.2	1,686.9	1,056	715	357
1984	6,099.8	9,211.3	4,417.8	1,682.0	1,040	705	351
1985	6,250.9	9,114.9	4,539.3	1,711.6	1,023	694	343
1986	6,329.5	9,061.1	4,608.1	1,721.4	1,007	684	339
1987 [4]	6,520.3	9,005.6	4,773.6	1,746.7	994	675	333
1988	6,675.9	8,854.2	4,915.0	1,760.9	981	666	328
1989	6,938.5	8,779.4	5,140.9	1,797.6	967	659	322
1990	7,194.6	8,636.8	5,357.0	1,837.6	951	650	315
1991	7,490.8	8,629.3	5,593.2	1,897.6	932	638	307
1992	7,693.9	8,604.2	5,754.0	1,939.9	913	626	301
1993	7,872.3	8,547.8	5,896.0	1,976.2	898	615	298
1994	7,978.9	8,447.3	5,978.9	1,999.9	874	599	288
1995	8,059.2	8,297.2	6,042.9	2,016.3	847	582	282
1996	8,113.6	8,113.6	6,089.1	2,024.4	817	565	272

[1] Retirement benefits include tier 1 and tier 2 employee and spouse benefits, employee and spouse vested dual benefits, and supplemental employee annuity payments. Survivor benefits include tier 1 and tier 2 benefits, vested dual benefits and lump-sum payments. Total benefits include hospital insurance benefits for services in Canada.

[2] Number of beneficiaries represents all individuals paid benefits in each year. In the 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 1996, about 19,000 individuals received both retirement and survivor benefits. Figures are partly estimated.

[3] 1995 dollars were calculated using the Office of Management and Budget's composite deflator; see Executive Office of the President (1996), table 1.3.

[4] Benefits paid for fiscal years beginning 1987 are not strictly comparable to those for prior years due to a change in accounting systems.

Source: Railroad Retirement Board.

Table 5–3 presents data on new awards for January 1996.

TABLE 5–3.—NUMBER AND AVERAGE AMOUNT OF NEW AWARDS, JANUARY 1997

Beneficiary type	Number	Average amount
Employee annuities:		
Retired	612	$1,581
Disability (under age 65)	551	1,578
Supplemental	418	41
Spouse annuities	745	534
Divorced spouse annuities	59	299
Survivor benefits:		
Aged widows and widowers	918	885
Disabled widows and widowers	29	733
Widowed mothers and fathers	21	978
Divorced and remarried widows	95	599
Children	90	788
Parents	3	528
Insurance lump sums	590	874
Residual payments	11	2,499
Total	4,142	....

Source: Railroad Retirement Board.

FINANCING THE SYSTEM

Railroad retirement and survivor benefits are financed by five sources of income: (1) payroll taxes on railroad earnings paid by covered employees and employers up to a certain maximum wage base; (2) income from the Social Security financial interchange; (3) appropriations from general revenues (including transfers of income taxes collected on benefits); (4) income from investments; and (5) a cents-per-hour tax levied on carriers only.

PAYROLL TAXES

The primary source of income to the railroad retirement account is payroll taxes levied on covered employers and their employees. These taxes are imposed on wages below an annual maximum amount, known as the "wage base." Currently, both employers and employees pay a "tier 1" tax which is equivalent to the combined Social Security (old-age, survivors and disability insurance) and hospital insurance (part A of Medicare) tax rate. In addition, a tier 2 tax is paid by both rail employers and employees. The 1997 annual tier 1 and tier 2 wage bases are $65,400 and $48,600, respectively. Since 1994, there has been no wage limit for the hospital insurance portion of the tax (1.45 percent on employers and employees, each). Thus, this tax is imposed on all wages. The scheduled tax rates for both tier 1 and tier 2 are shown in table 5–4.

TABLE 5–4.—SCHEDULED TAX RATES FOR TIER 1 AND TIER 2, SELECTED YEARS 1975–2002

Year	Tier 1			Tier 2			Combined [2]	
	Employer	Employee	Wage base [1]	Employer	Employee	Wage base	Employer	Employee
1975 ...	5.85	5.85	$14,100	9.5	0	$14,100	15.35	5.85
1980 ...	6.13	6.13	25,900	9.5	0	20,400	15.63	6.13
1985 ...	7.05	7.05	39,600	13.75	3.50	29,700	20.80	10.55
1986 ...	7.15	7.15	42,000	14.75	4.25	31,500	21.90	11.40
1987 ...	7.15	7.15	43,800	14.75	4.25	32,700	21.90	11.40
1988 ...	7.51	7.51	45,000	16.10	4.90	33,600	23.61	12.41
1989 ...	7.51	7.51	48,000	16.10	4.90	35,700	23.61	12.41
1990 ...	7.65	7.65	51,300	16.10	4.90	38,100	23.75	12.55
1991 ...	7.65	7.65	53,400	16.10	4.90	39,600	23.75	12.55
1992 ...	7.65	7.65	55,500	16.10	4.90	41,400	23.75	12.55
1993 ...	7.65	7.65	57,600	16.10	4.90	42,900	23.75	12.55
1994 ...	7.65	7.65	60,600	16.10	4.90	45,000	23.75	12.55
1995 ...	7.65	7.65	61,200	16.10	4.90	45,300	23.75	12.55
1996 ...	7.65	7.65	62,700	16.10	4.90	46,500	23.75	12.55
1997 ...	7.65	7.65	65,400	16.10	4.90	48,600	23.75	12.55
1998 ...	7.65	7.65	68,700	16.10	4.90	51,000	23.75	12.55
1999 ...	7.65	7.65	71,400	16.10	4.90	53,100	23.75	12.55
2000 ...	7.65	7.65	74,100	16.10	4.90	55,200	23.75	12.55
2001 ...	7.65	7.65	76,800	16.10	4.90	57,000	23.75	12.55
2002 ...	7.65	7.65	79,800	16.10	4.90	59,400	23.75	12.55

[1] The wage base for the 1.45-percent hospital insurance tax, included in the 7.65-percent tier 1 rate, is $125,000 in 1991, $130,200 in 1992, $135,000 in 1993, and no limit in 1994 and later.
[2] These rates apply only up to the tier 2 maximum wage base.

Note.—1998–2002 wage bases are projected.

Source: Railroad Retirement Board.

The tier 1 wage base is equal to the Social Security wage base and automatically increases with wage growth in the economy. The tier 2 wage base is equal to what the Social Security wage base would have been without regard to the ad hoc increases in the wage base which were created by the Social Security Amendments of 1977 (Public Law 95–215).

FINANCIAL INTERCHANGE

The Railroad Retirement System and the Social Security Programs have been coordinated financially since 1951. The purpose of the financial interchange is to place the Social Security trust funds in the same position they would have been in if railroad employment had been covered under Social Security since its inception.

Generally, under the interchange, for a given fiscal year the revenue that would have been collected by the Social Security trust funds if railroad employment had been covered directly by Social Security is netted against the amount of benefits Social Security would have paid to railroad beneficiaries based on railroad and nonrailroad earnings during that period. Where Social Security benefits that would have been paid exceed income to the trust funds that would have been due, the excess, plus an allowance for interest and administrative expenses, is transferred from the Social Security trust funds to the Railroad Retirement Board's (RRB) Social Security equivalent benefit account. If income exceeds benefits, the transfer would be from the RRB's Social Security equivalent benefit account to the Social Security trust funds. (Before 1985, transfers were to or from the railroad retirement account.)

The determination of the amount to be transferred through the financial interchange for a given fiscal year is made no later than June of the year following the close of the preceding fiscal year. Table 5–5 shows the actual operation of the financial interchange for selected years as it relates to each of the three major Social Security trust funds.

TABLE 5–5.—AMOUNTS TRANSFERRED TO OR FROM (−) THE SOCIAL SECURITY EQUIVALENT BENEFIT ACCOUNT[1] AND THE VARIOUS SOCIAL SECURITY TRUST FUNDS IN SELECTED FISCAL YEARS 1954–96

[In millions of dollars]

Fiscal year	Old age and survivors insurance	Disability insurance	Hospital insurance	Total
Through June 30, 1954	−$21.1			−$21.1
1955	−7.4			−7.4
1960	318.4	−$4.9		313.5
1965	435.6	23.6		459.3
1970	578.8	10.4	−$63.5	525.7
1975	981.8	28.5	−132.5	877.8
1980	1,442.0	−12.1	−244.3	1,185.6
1981	1,584.9	29.4	−276.5	1,337.9
1982	1,793.3	26.4	−351.4	1,468.2
1983	2,250.8	27.8	−357.7	1,920.9
1984	2,404.0	21.6	−350.6	2,075.0
1985	2,310.2	42.7	−371.4	1,981.5
1986	2,585.1	67.7	−364.4	2,288.4
1987	2,557.3	56.9	−368.0	2,246.2
1988	2,790.0	61.3	−363.8	2,487.5
1989	2,845.3	88.2	−378.8	2,554.7
1990	2,969.3	79.9	−367.4	2,681.8
1991	3,374.6	82.1	−352.2	3,104.5
1992	3,148.4	58.0	−374.5	2,831.9
1993	3,352.5	82.8	−400.5	3,034.9
1994	3,419.6	106.0	−412.9	3,112.6
1995	4,052.3	67.8	−396.1	3,724.1
1996	3,554.1	2.2	−401.3	3,154.9
Total	61,003.2	1,241.7	−7,422.2	54,822.6

[1] Before 1985, transfers were to or from the railroad retirement account.

Source: Railroad Retirement Board.

In order to make funds available to the Social Security equivalent benefit account from the forthcoming financial interchange on a more current basis, the Railroad Retirement Solvency Act of 1983 provided for transfers from general Treasury funds to the Social Security equivalent benefit account each month. The amount transferred each month equals the Social Security level benefits paid from the account during the month less the Social Security level taxes received by the account in that month. The amount so transferred for a particular month is repaid when the Social Security System makes reimbursement for that month under the financial interchange program.

General Revenue Appropriations

Vested dual benefits are funded solely through general revenue appropriations. The Congress authorized such funding through the year 2000 in the 1974 act that substantially reformed the Railroad Retirement System. The total appropriated for the first 21 fiscal years 1976–96 for which these benefits were payable was $6.89 billion.

The Omnibus Budget Reconciliation Act of 1981 (Public Law 97–35) established a dual benefits payments account. Each year an amount which is appropriated for the payment of vested dual benefits is placed in this account. If the amount appropriated is insufficient to pay the full vested dual benefits to all eligible beneficiaries for a full year, the Railroad Retirement Board is authorized to prorate payments from the dual benefits account so that the amounts paid do not exceed the amounts appropriated.

In addition to amounts transferred to the dual benefits payments account through the regular appropriations process, the Railroad Retirement Solvency Act of 1983 provided for the appropriation of approximately $1.7 billion to the railroad retirement account in three installments paid on January 1, 1984, 1985, and 1986. These three appropriations were to reimburse the railroad retirement account for prior shortfalls in annual appropriations. The actual amounts received, including interest, totaled $2.128 billion. This amount is not included in the figure given above for total appropriations between 1976 and 1996.

Other Income

Funds not needed immediately for benefit payments are invested in interest-bearing securities. During fiscal year 1996, the railroad retirement account and Social Security equivalent benefit account received $0.907 billion in investment income.

A cents-per-hour tax is used to fund the supplemental annuity benefit. This tax is levied solely on employers. The rate, 35 cents per work hour in January 1997, is determined quarterly by the Railroad Retirement Board and is set at a level necessary to fund the benefit on a pay-as-you-go basis.

INCOME TAXATION OF RAILROAD RETIREMENT BENEFITS

Prior to 1984, railroad retirement benefits, with the exception of supplemental annuities, were not subject to Federal income taxation. However, as a result of the Railroad Retirement Solvency Act (Public Law 98–76) and the Social Security Act Amendments of 1983 (Public Law 98–21), tier 1, tier 2, and vested dual benefits received after December 31, 1983, are subject to taxation. The taxation provisions were subsequently amended by the Consolidated Omnibus Budget Reconciliation Act of 1985, the Tax Reform Act of 1986, and the Omnibus Budget Reconciliation Act (OBRA) of 1993. Under current law, the Social Security equivalent portions of tier 1 benefits are taxed in a manner identical to Social Security benefits. The proceeds derived from the taxation under pre-OBRA 1993 rules of those tier 1 benefits which are equivalent to Social Security benefits are deposited in the Social Security equivalent benefit account and credited to the Social Security trust funds through adjustments in the financial interchange. The additional income taxes attributable to OBRA 1993 are deposited in the hospital insurance trust fund. Tier 1 benefits in excess of Social Security equivalent levels (including early retirement benefits payable at ages 60–61 and occupational disability annuities) and tier 2 benefits are taxed in a manner identical to private and public service pensions and the proceeds deposited in the railroad retirement account. Vested dual benefits are taxed like private and public service pensions with the proceeds deposited in the dual benefits payments account.

FINANCIAL STATUS OF THE RAILROAD RETIREMENT ACCOUNT

One of the most important factors affecting the financial status of the Railroad Retirement System is the level of employment in the industry. The recent history of industry employment is shown in table 5–6.

While the trust funds currently have a reserve of over $15 billion, the continuing decline in railroad employment has often prompted questions about the financing of the Railroad Retirement System after the year 2000. Section 502 of the Railroad Retirement Solvency Act of 1983 requires a report each year on the Railroad Retirement System's actuarial status, and financing recommendations when appropriate. Because of the decline in employment, the U.S. Railroad Retirement Board's (1987) Chief Actuary recommended in his 1987 report that a commission be established to study financing issues and that tier 2 taxes be increased until any tax adjustments recommended by the commission become effective.

The 1987 budget law authorizing the Commission study also increased tier 2 payroll tax rates in January 1988 by a total of 2 percent. This tax increase is still in force. This legislation also allowed revenues from Federal income taxes on tier 2 railroad retirement benefits to be returned to the Railroad Retirement System until October 1, 1989; later legislation extended the date to October 1, 1990, and then to October 1, 1992. Subsequent legislation in 1994 extended these transfers on a permanent basis, which had been the recommendation of the 1990 Commission report.

In August 1997, the U.S. Railroad Retirement Board (1997a) transmitted to Congress its 20th triennial actuarial valuation of the Railroad Retirement Program's assets and liabilities. The report projected income and outgo under three employment assumptions. The valuation concluded that, barring a sudden, unanticipated, large drop in railroad employment, the Railroad Retirement System will experience no cash flow problems for at least 25 years.

The long-term stability of the system, however, depends on actual railroad employment levels over the coming years.

TABLE 5–6.—RAILROAD INDUSTRY EMPLOYMENT, SELECTED YEARS 1940–96

Year	Number (thousands)
1940	1,195
1945	1,085
1950	1,421
1955	1,239
1960	909
1965	753
1970	640
1975	548
1976	540
1977	546
1978	542
1979	554
1980	532
1981	503
1982	440
1983	395
1984	395
1985	372
1986	342
1987	320
1988	312
1989	308
1990	296
1991	285
1992	276
1993	271
1994	266
1995	265
1996	256

Source: Railroad Retirement Board.

THE RAILROAD UNEMPLOYMENT INSURANCE PROGRAM

OVERVIEW

The Railroad Unemployment Insurance (RUI) System has been in existence since 1938. Railroad workers were initially covered by the unemployment provisions of the Social Security Act of 1935. However, the Railroad Unemployment Insurance Act (Public Law 75–722) was passed in 1938 to provide a uniform unemployment insurance system for all railroad workers, regardless of the State in which they worked or lived. This action was taken largely because of administrative problems in handling claims for railroad workers who earned wages in a number of States and as a result of the railroad unions' desire that individuals throughout the industry be treated the same for purposes of unemployment compensation.

In late 1996, Congress enacted H.R. 2594, the Railroad Unemployment Insurance Amendments Act of 1996 (Public Law 104–251). Among other provisions, this law raised daily benefit rates for retirement and sickness benefits and revised the formula for indexing future rates. The act shortened the waiting period for initial unemployment and sickness benefits, cut the weeks of extended benefits payable to rail workers with more than 15 years' service, and established an earnings test for workers with days of employment as well as unemployment or sickness during each 2-week registration period.

Table 5–7 summarizes program characteristics of the Railroad Unemployment Program for selected years between 1970 and 1997. The table also contains projected statistics for 1998.

Benefits and Eligibility Requirements

A new benefit year for unemployment and sickness benefits begins every July 1. To qualify in the benefit year beginning July 1, 1997, a worker must have base year railroad earnings of at least $2,162.50 in the preceding calendar year, not counting earnings over $865 per month. Under the indexing provisions of the law reflecting growth in average national wages, a worker must have base year earnings of $2,225 in calendar year 1997, not counting earnings of more than $890 per month, to qualify in the benefit year beginning July 1, 1998. If the base year was the first year of railroad service, the worker also must have worked in 5 months of that year (see table 5–8).

No benefits are payable for the first 7 days of the first claim (or claims) for unemployment and sickness in a benefit year. This generally results in a 1-week waiting period. A claimant is normally paid for days of unemployment or sickness over 4 in 14-day registration periods. The maximum daily benefit payable in the benefit year which began July 1, 1997, is $43, and maximum benefits for biweekly claims is $430 for the benefit year.

The program offers "normal" and "extended" benefits. Qualified workers can receive normal benefits for up to 130 days or 26 weeks, but the total may not exceed their creditable wages in the base year. Workers with at least 10 years of railroad service may receive up to 65 additional days or 13 additional weeks of extended benefits.

The average duration of benefits fluctuates with the unemployment rate. In the 1940–96 period, it ranged from 7.4 to 19.1 weeks and averaged 12.1 weeks.

In 1946, a program of cash sickness benefits was established for railroad workers as part of the unemployment compensation system. Sickness benefits are financed out of the same employer paid payroll taxes used to finance unemployment compensation benefits. A qualified railroad worker may receive sickness benefits if he files a "statement of sickness" signed by a doctor that is mailed within 7 days of the first day for which a day of sickness is claimed.

TABLE 5–7.—RAILROAD UNEMPLOYMENT AND SICKNESS INSURANCE PROGRAM STATISTICS, SELECTED YEARS 1970–98

Program statistic	Benefit year ending in															
	1970	1975	1980	1985	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998 (est.)
Insured unemployment (percent) [1]	11	12	17	18	18	14	10	9	9	8	7	6	6	6	6	6
Coverage (thousands of qual. employees)	748	640	609	459	420	393	366	349	336	322	311	302	295	289	285	278
Unemployment (average daily benefit):																
Current dollars	12.61	12.68	24.94	24.98	[2] 24.76	[3] 24.75	NA	[4] 30.16	30.85	30.97	32.86	33.16	35.78	35.89	NA	NA
In 1995 dollars [5]	46.99	35.13	46.76	35.19	33.08	31.74	NA	35.17	34.51	33.65	34.65	34.09	35.78	NA	NA	NA
Sickness (average daily benefit):																
Current dollars	12.66	12.69	24.97	24.99	[2] 24.71	[3] 24.76	NA	[4] 30.25	30.81	30.98	32.84	33.25	35.75	35.95	NA	NA
In 1995 dollars [5]	47.18	35.17	46.82	35.20	33.02	31.75	NA	35.27	34.48	33.65	34.63	34.19	35.75	NA	NA	NA
Number of beneficiaries:																
Unemployment (thousands)	79.2	77.9	101.6	81.7	75.2	54.4	35.2	29.9	30.5	26.4	20.7	18.6	18.7	16.8	16.5	16.1
Sickness (thousands)	91.4	67.4	76.8	51.6	45.2	41.7	33.7	28.2	25.6	23.6	21.8	21.6	21.0	20.4	19.9	19.4
Benefit exhaustions, normal benefits:																
Unemployment (thousands) [6]	6.3	4.8	11.2	16.1	17.0	10.6	6.6	5.6	5.9	5.9	4.3	4.0	2.9	3.4	3.4	3.4
Sickness (thousands)	16.8	7.9	9.5	8.0	9.1	8.4	7.6	6.1	5.4	5.3	4.6	4.7	4.3	4.4	4.4	4.4
Amount paid:																
Unemployment (millions) [7]	35.0	37.5	112.7	125.8	118.6	85.8	60.8	57.2	60.1	55.1	49.2	40.4	37.4	40.7	42.5	48.6
Sickness (millions)	57.9	29.6	60.0	43.8	55.7	24.8	32.1	32.6	32.6	12.0	21.5	25.4	24.2	25.8	31.3	31.3
Total tax collection:																
Benefits account (millions)	122.7	109.4	173.3	223.1	192.6	186.9	181.9	192.5	165.7	134.7	66.0	10.5	5.6	4.9	9.0	31.7
Administration (millions)	8.2	7.3	12.9	15.2	12.9	12.7	13.9	17.2	17.4	20.5	14.8	16.5	17.4	18.0	17.1	17.8
Outlays:																
Benefits (millions) [6]	93.0	67.1	172.7	169.6	174.3	110.6	92.9	89.8	92.7	67.1	70.7	65.9	61.6	66.4	73.8	79.9
Administration (millions)	6.6	7.3	11.2	14.8	14.3	14.2	13.5	14.6	14.5	16.8	16.1	17.2	15.9	16.8	16.1	16.3
Account balance (millions) [8]	81.3	113.9	40.8	50.8	98.8	135.7	223.8	188.4	288.0	368.9	212.4	220.2	177.5	128.8	71.5	27.4

[1] Unemployment beneficiaries divided by qualified employees; does not include sickness insurance beneficiaries.

[2] Benefit amounts for registration periods beginning on August 1 through September 17, 1986, were reduced 7.4 percent under the Gramm-Rudman-Hollings Act.

[3] Benefit amounts for claims processed on or after November 20, 1987, were reduced 8.5 percent under the Gramm-Rudman-Hollings Act. Benefit payments were restored to previous levels in late December 1987 and refunds of previously withheld amounts were made in the first week of January.

[4] Benefit amounts for registration periods beginning on or after October 1, 1989, were originally reduced by 5.3 percent under the Gramm-Rudman-Hollings Act. On February 10, 1990, the final fiscal year 1990 Gramm-Rudman-Hollings sequestration rate of 1.7 percent was implemented for all days of unemployment and sickness after September 30, 1989. Refund payments were issued on February 13, 1990. Cumulative averages do not reflect these refunds.

[5] Calculated using the fiscal year CPI–X1 price index.

[6] Excludes supplemental extended benefits financed from general revenues.

[7] Includes benefits under title V of the Emergency Unemployment Compensation Act of 1991, as amended, which has provided extended unemployment benefits, regardless of years of service.

[8] Account balances do not reflect amounts due the railroad retirement account. Loans were repaid in full with a $180.2 million cash repayment from the railroad unemployment insurance account on June 29, 1993.

NA—Not available.

Source: Railroad Retirement Board.

TABLE 5–8.—BENEFITS UNDER THE RAILROAD UNEMPLOYMENT INSURANCE SYSTEM, BENEFIT YEARS 1996–97 AND 1997–98

Benefit category	Benefit amount
Qualifying wages:	
Base year 1995	$2,125.00
Base year 1996	$2,162.50
Base year 1997	$2,225.00
Daily benefit rate: Basic rate	5 percent of base year monthly compensation base
Maximum:	
Benefit years 1996–97	$42.00
Benefit years 1997–98	$43.00
Minimum guarantee	$12.70
Maximum normal benefits: [1]	
For 14-day period:	
Benefit years 1996–97	$420
Benefit years 1997–98	$430
For benefit year:	
Duration	130 compensable days.
Amount: [1]	
Benefit years 1996–97	$5,460
Benefit years 1997–98	$5,590
Maximum extended benefits:	
10 or more years' service:	
Duration	65 compensable days.
Amount:	
Benefit years 1996–97	$2,730
Benefit years 1997–98	$2,795

[1] Not to exceed the employee's taxable earnings in the base year counting earnings up to $1,098 a month for benefit years 1996–97 (base year 1995) and $1,117 a month for benefit years 1997–98 (base year 1996).

Note.—Some net sickness benefits payments are somewhat less than the above amounts since they are subject to tier 1 railroad retirement taxes.

Source: Railroad Retirement Board.

A rail worker who is unemployed due to a strike not in violation of the Railway Labor Act of 1926 can receive unemployment compensation benefits after a 14-day waiting period. Unemployment benefits cannot be paid to individuals participating in a strike that is in violation of the Railway Labor Act, and is therefore "illegal." Individuals who are unemployed due to an "illegal" strike, but who are not actually participating in the strike, are eligible for unemployment compensation benefits but are subject to the 14-day waiting period.

Total expenditures for unemployment and sickness payments were $66 million in benefit years 1995–96, which was 0.5 percent of total wages paid by the industry during the same period. This compares to a peak of 5.1 percent in 1959. It is also much lower than in benefit year 1983, a recession year, when the figure was 3.9 percent. Since the beginning of sickness benefits, unemployment benefits have comprised over two-thirds of total payments. In 1996, unemployment benefits accounted for 61 percent of the total.

Benefit payments vary directly with the insured unemployment rate, covered employment, average weekly benefit amount, and average duration of benefits. The insured unemployment rate is the percentage of workers qualified under the Railroad Unemployment Compensation System Program who drew benefits in a particular benefit year. The railroad insured unemployment rate has been high and volatile since the beginning of the program, averaging 13 percent. Since 1946 it has ranged from a relatively low 6 percent to 30 percent in benefit years 1982–83.

Changes in covered employment have short-run and long-run effects on the unemployment program. In the short run, when layoffs cause employment to decline, the insured unemployment rate and benefits paid increase. In the long run, when employers have fewer workers to lay off, benefits decline and the program shrinks. Since the peak of 1,680,000 workers in calendar year 1945, average railroad employment declined to 256,000 in 1996. Two-thirds of this decline occurred in the 21 years between 1945 and 1966. Thus, the average annual decline through 1966 was 45,000, but after 1966 it was 16,000.

FINANCING

The Railroad Unemployment and Sickness Benefit Programs are financed by payroll taxes on railroad employers (see U.S. Railroad Retirement Board, 1996). Employees do not pay railroad unemployment taxes. The taxable earnings base in calendar year 1997 is the first $890 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 1 taxes.

Experience-based tax rates, phased in on a partial basis in 1991 and 1992, became fully effective in 1993 with a minimum of 0.65 percent and a maximum of 12 percent. The future maximum rate could be 12.5 percent if a maximum surcharge is in effect.

Railroad unemployment taxes are collected by the Railroad Retirement Board. Of each year's tax receipts, an amount equal to 0.65 percent of taxable payroll is set aside for administration. Excess funds allocated but not needed for administration are transferred to the railroad unemployment insurance account at the end of each fiscal year.

The railroad unemployment insurance and railroad unemployment insurance administration accounts are part of the Federal unemployment trust fund. This trust fund has 53 State UC Program accounts, 4 Federal accounts, and the 2 railroad accounts.

Since 1959, the railroad unemployment trust fund has been able to borrow funds from the railroad pension fund when employer taxes have not been sufficient to cover the costs of unemployment and sickness benefits. The RRUC Program became depleted for the first time in 1960 after a long decline from peak reserves of nearly 18 percent of total annual wages in 1948. By 1963, it owed the retirement account $314 million, or 5.9 percent of total annual wages paid in the industry that year. The program gradually recovered during the 1960s until it had positive reserves again in 1974. The reserves were depleted again in 1976–78 and loans were again required beginning in 1981.

A rapid decline in 1981–82 in railroad employment during a recession resulted in substantial borrowing from the pension system. The borrowing reached a peak level of over $850 million at the end of 1986. This debt was repaid in full with a $180.2 million cash repayment from the railroad unemployment insurance account on June 29, 1993. Interest on the loan during the debt period was charged at the average rate earned by U.S. Treasury securities held by the retirement account so that the retirement account did not lose any investment earnings as a result of the loan.

Financial measures to assist the railroad unemployment insurance account were included in the Railroad Retirement Solvency Act enacted August 12, 1983. The Solvency Act raised the taxable limit on monthly earnings and the base-year qualifying amount. The waiting period for benefits during strikes was increased from 7 to 14 days. A temporary repayment tax on railroad employers began July 1, 1986, to initiate repayment of the loans made by the railroad retirement account.

The 1983 legislation also mandated the establishment of a Railroad Unemployment Compensation Committee (1984) to review the unemployment and sickness benefit programs and submit a report to Congress. The Committee reviewed all aspects of the Railroad Unemployment Insurance System, in particular repayment of the system's debt to the railroad retirement account, and the viability of transferring railroad unemployment benefit payments to State programs.

The Consolidated Omnibus Budget Reconciliation Act of April 1986 (Public Law 99–272) amended the temporary unemployment insurance loan repayment tax beginning July 1, 1986, continued authority for borrowing by the railroad unemployment insurance account from the railroad retirement account, and provided a contingency surtax on rail employers if further borrowing took place.

The 1988 Technical and Miscellaneous Revenue Act Railroad Unemployment Insurance Amendments were based on the recommendations of the Railroad Unemployment Compensation Committee. The 1988 amendments improved financing by indexing the tax base to average national wages and experience rating employer contributions. Repayment of the unemployment system's debt to the retirement system was assured by fixing the loan repayment tax at 4 percent of the contribution base and retaining this elevated tax rate until the debt was fully repaid with interest on June 29, 1993.

A contingency surtax (3.5 percent), effective in the event of further borrowing by the railroad unemployment insurance account, was eliminated in 1991. Instead, a surcharge will be added to employers' unemployment insurance taxes for a calendar year if the balance in the unemployment insurance account on the previous June 30 goes below $100 million. The surcharge rate would be 1.5, 2.5, or 3.5 percent depending on how low the balance had fallen. If a 3.5-percent surcharge goes into effect for a given year, the maximum rate for any employer would be 12.5 percent rather than 12 percent. If the account balance on the preceding June 30 is above $250 million, the excess will be refunded to the employers in the form of a rate reduction for the year through a pooled credit.

The 1988 amendments require the Board to make annual financial reports to Congress beginning July 1989 on the status of the Unemployment Insurance System. The reports must include any recommendations for financing changes which might be advisable, specifically with regard to rates of employer contributions.

The 1997 report (U.S. Railroad, 1997b) states that experience-based contribution rates, phased in during 1991–92, will keep the system solvent, even under the most pessimistic employment assumptions. Maximum daily benefit rates increase 40 percent, from $42 to $59, from 1995 to 2006 and average employer contribution rates were below 1.5 percent during 1997. The report also projected that during the 11-year projection period (fiscal years 1996–2007), average employer contribution rates would remain well below the maximum, even under the most pessimistic assumptions. The Board therefore recommended no changes to the system.

LEGISLATIVE HISTORY

In the final quarter of the 19th century, railroad companies were among the largest in America. It was in the rail industry that the first industrial pension was established in 1874. By the mid-1920s more than 80 percent of all rail workers were covered by pension plans. In the early 1930s these pension plans began to face enormous financial problems. The commercial success of the rail industry peaked in the period between 1900 and 1920, and rail employment decreased significantly in the 1920s.

Rail pension plans were for the most part poorly constructed. There was no regulation of railroad pensions and plans were frequently terminated, pension funds were chronically underfinanced, and most funds could not survive the financial pressures of the depression. These problems plus a tradition of Federal regulation of the railroads led to the enactment of the Railroad Retirement Act of 1934.

The original Railroad Retirement System was structured to provide annuities to retirees based on rail earnings and length of service. Benefits were disbursed for retirees at age 65, although workers with 30 years of service could retire at 60, with a reduction in payments. The original disability provisions were very stringent. Little was provided for dependents, and nothing for spouses.

Throughout its history, the Railroad Retirement System has been modified many times by Congress. In the late 1940s and 1950s benefits were liberalized, and the Railroad Retirement System was brought into closer conformity with Social Security. For instance, in 1946, benefits were extended to survivors, based on combined railroad and Social Security covered employment. This extension demonstrated congressional concern for the social goal of providing income security in old age, or social insurance, rather than simply rewarding career performance.

In the 1970s and 1980s, the Railroad Retirement System encountered recurrent financial crises as a result of employment declines in the industry, inflation, and the increase in the number of beneficiaries. Major legislation was enacted in 1974, 1981, 1983, and 1987 to prevent the system from becoming insolvent.

The Railroad Retirement Solvency Act of 1983 (Public Law 98–76) increased payroll taxes on employers and employees, deferred cost-of-living increases, reduced early retirement benefits, subjected benefits to Federal income taxes, and provided other measures designed to improve railroad retirement financing. Without the enactment of this legislation, the Railroad Retirement Board would have been required to substantially reduce benefit payments in 1983. Since enactment of the 1983 legislation, the trust funds have accumulated a reserve of over $15 billion.

The Omnibus Budget Reconciliation Act of 1987 (Public Law 100–203) increased tier 2 tax rates in January 1988 by a total of 2 percent: 1.35 percent on employers and 0.65 percent on employees. In addition, the law extended for 1 year, until October 1, 1989, the time during which revenues from Federal income taxes on tier 2 railroad retirement benefits could be transferred from the general fund of the U.S. Treasury to the railroad retirement account for use in paying benefits.

Railroad retirement amendments were included with railroad unemployment insurance amendments in the Technical and Miscellaneous Revenue Act of 1988 (Public Law 100–647). This legislation assured repayment of the railroad unemployment insurance account's debt to the railroad retirement account by extending a temporary unemployment insurance tax until the debt was fully repaid with interest in 1993. Public Law 100–647 also eased work restrictions and the crediting of military service in certain cases and provided more equitable treatment of severance pay for railroad retirement purposes.

The Omnibus Budget Reconciliation Act of 1989 (Public Law 101–239) included a number of railroad retirement and Social Security provisions which affected payroll taxes and benefits beginning in 1990. The law increased the amount of earnings subject to Social Security and railroad retirement payroll taxes by including contributions to 401(k) deferred compensation plans in the measure of average wages, which is used to index the wage base. It also extended for 1 additional year, until October 1, 1990, the time during which revenues from Federal income taxes on tier 2 railroad retirement benefits may be transferred to the railroad retirement account for use in paying benefits.

The Omnibus Budget Reconciliation Act of 1990 (Public Law 101–508) further extended the date of this transfer until October 1, 1992, and also permanently exempted supplemental annuities from reductions under the Gramm-Rudman deficit reduction measures adopted by Congress.

The Omnibus Budget Reconciliation Act of 1993 (Public Law 103–66) made all Social Security and railroad retirement tier 1 earnings subject to the Medicare payroll tax, and, for those with higher incomes, made a larger amount of Social Security and railroad retirement tier 1 benefits subject to Federal income tax. A provision in the Social Security Administrative Reform Act of 1994 (Public Law 103–296) extended on a permanent basis the transfer to the railroad retirement trust funds of Federal income taxes on tier 2 railroad retirement benefits and a retroactive payment was made, covering the period October 1, 1992 through September 30, 1994.

The railroad retirement payroll tax is a mechanism for distributing the system's burdens among the industry's major interests, primarily railroad workers, employers, and stockholders. The relationship between generosity and payroll tax rates and shares is negotiated between management and labor, with the outcome reviewed and modified by Congress as necessary to determine the rate's adequacy, as well as its fairness to the various interests involved. While retirement costs are relatively fixed and predictable, total industry revenues reflect broader economic conditions and are thus more volatile. The payroll tax mechanism forces the various railroad unions and companies to consider retirement obligations when negotiating a distribution of industry revenues.

Although the railroad industry financial outlook has improved in recent years, rail employment has continued to decline. Because railroad retirement is financed by a tax on industry payroll, such declines can eventually force consideration of a rate increase to maintain adequate revenues to the retirement system. That employment declines may prompt tax rate changes does not necessarily mean that railroad retirees are an increasing burden on a decreasing population of workers. On the contrary, if revenue remains constant, a decrease in the number of railroad workers is a productivity increase that may permit reinforcing the financing of the system without provoking sustained resistance from the railroad payroll taxpayers, either labor or management. Provided that the changes are reflected in a total compensation package that is bargained to the satisfaction of the relevant interests, rate increases necessary to retain system financial stability are ultimately supported by a labor/management coalition.

The continuing decline in rail employment has raised questions concerning the practicality of relying on payroll tax funding in the next century. The Committee on Ways and Means included in the 1987 reconciliation bill a provision which established a Commission on Railroad Retirement Reform for the purpose of conducting a comprehensive study of the issues pertaining to the long-term financing of the Railroad Retirement System. The Commission (1990) unanimously concluded that the program ". . . is financially sound in the intermediate term." The report adds that it is not unlikely that the system would remain sound for the next 75 years.

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