

SECTION 6. RAILROAD UNEMPLOYMENT COMPENSATION SYSTEM

CONTENTS

Overview
Benefits and Eligibility Requirements
Taxes
1996 Legislation
Reference

OVERVIEW

The Railroad Unemployment Compensation (RRUC) 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 at that time in handling claims for railroad workers who earned wages in a number of different States and as a result of the railroad unions' desire that individuals throughout the industry be treated the same for purposes of unemployment compensation.

The Technical and Miscellaneous Revenue Act of 1988 (Public Law 100-647) increased the railroad unemployment and sickness daily benefit rate; indexed future benefit rates, qualifying earnings requirements and the contribution base to national wage levels; established a waiting period for benefits; and included other measures to improve the Railroad Unemployment Insurance System's financing.

The Emergency Unemployment Compensation Act of 1991, as amended in November 1993 (Public Laws 102-164 and 103-152), providing temporary extended State unemployment benefits, also provided temporary extended benefits under the Railroad Unemployment Insurance Act.

Table 6-1 summarizes program characteristics of the Railroad Unemployment Program for selected years between 1970 and 1996. The table also contains projected statistics for 1997.

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, 1996, a worker must have base year railroad earnings of at least \$2,125 in the preceding calendar year, not counting earnings over \$850 per month. Under the indexing provisions of the law reflecting growth in average national wages, a worker must have base

year earnings of \$2,162.50 in calendar year 1996, not counting earnings of more than \$865 per month, to qualify in the benefit year beginning July 1, 1997. 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 6-2).

No benefits are payable for the first claims for unemployment and sickness in a benefit year. This generally results in a 2-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 1995 was \$36; and for biweekly claims, maximum benefits could total \$360. The maximum daily benefit remains \$36 in the benefit year which begins July 1996. As a result of sequestration under the Balanced Budget and Emergency Deficit Control Act, unemployment and sickness benefits have been reduced periodically since 1986. In fiscal year 1990 maximum biweekly benefits were initially reduced from \$310 to \$293.57. The Omnibus Budget Reconciliation Act of fiscal year 1990 revised the biweekly rate to \$304.73. Budget reconciliation legislation has precluded reductions since then.

The program offers "normal" benefits and two categories of "extended" benefits. The duration of benefits varies by worker. 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. Two groups of workers may get extended benefits:

1. Workers with at least 15 years of railroad service may get up to 130 additional days, or up to an additional 26 weeks of benefits beyond the normal 26 weeks; and
2. Workers with at least 10 but fewer than 15 years of railroad service may receive up to 65 additional days or 13 additional weeks.

The average duration of benefits fluctuates with the unemployment rate. In the 1940-95 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.

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.

TABLE 6-1.—RAILROAD UNEMPLOYMENT AND SICKNESS INSURANCE PROGRAM STATISTICS, SELECTED YEARS 1970-97

Program statistic	Benefit year ending in															
	1970	1975	1980	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997 (est.)
Insured unemployment (percent) ¹	11	12	17	18	20	18	14	10	9	9	8	7	6	6	6	6
Coverage (thousands of qual. employ- ees)	748	640	609	459	445	420	393	366	349	336	322	311	302	295	289	288
Unemployment (average daily benefit):																
Current dollars	12.61	12.68	24.94	24.98	24.97	² 24.76	³ 24.75	NA	⁴ 30.16	30.85	30.97	32.86	33.16	35.78	35.89	35.89
In 1995 dollars ⁵	46.99	35.13	46.76	35.19	34.30	33.08	31.74	NA	35.17	34.51	33.65	34.65	34.09	35.78	NA	NA
Sickness (average daily benefit):																
Current dollars	12.66	12.69	24.97	24.99	24.98	² 24.71	³ 24.76	NA	⁴ 30.25	30.81	30.98	32.84	33.25	35.75	35.95	35.95
In 1995 dollars ⁵	47.18	35.17	46.82	35.20	34.33	33.02	31.75	NA	35.27	34.48	33.65	34.63	34.19	35.75	NA	NA
Number of beneficiaries:																
Unemployment (thousands)	79.2	77.9	101.6	81.7	87.6	75.2	54.4	35.2	29.9	30.5	26.4	20.7	18.6	18.7	16.8	16.7
Sickness (thousands)	91.4	67.4	76.8	51.6	49.5	45.2	41.7	33.7	28.2	25.6	23.6	21.8	21.6	21.0	20.4	20.4
Benefit exhaustions, normal benefits:																
Unemployment (thousands) ⁶	6.3	4.8	11.2	16.1	17.4	17.0	10.6	6.6	5.6	5.9	5.9	4.3	4.0	2.9	3.4	3.4
Sickness (thousands)	16.8	7.9	9.5	8.0	8.8	9.1	8.4	7.6	6.1	5.4	5.3	4.6	4.7	4.3	4.4	4.4
Amount paid:																
Unemployment (millions) ⁷	35.0	37.5	112.7	125.8	140.4	118.6	85.8	60.8	57.2	60.1	55.1	49.2	40.4	37.4	40.7	40.9
Sickness (millions)	57.9	29.6	60.0	43.8	47.4	55.7	24.8	32.1	32.6	32.6	12.0	21.5	25.4	24.2	25.8	25.2
Total tax collection:																
Benefits account (millions)	122.7	109.4	173.3	223.1	213.2	192.6	186.9	181.9	192.5	165.7	134.7	66.0	10.5	5.6	4.9	10.6
Administration (millions)	8.2	7.3	12.9	15.2	14.2	12.9	12.7	13.9	17.2	17.4	20.5	14.8	16.5	17.4	18.0	17.8
Outlays:																
Benefits (millions) ⁶	93.0	67.1	172.7	169.6	187.8	174.3	110.6	92.9	89.8	92.7	67.1	70.7	65.9	61.6	66.4	66.1
Administration (millions)	6.6	7.3	11.2	14.8	15.2	14.3	14.2	13.5	14.6	14.5	16.8	16.1	17.2	15.9	16.8	17.0
Account balance (millions) ⁸	81.3	113.9	40.8	50.8	85.7	98.8	135.7	223.8	188.4	288.0	368.9	212.4	220.2	177.5	128.8	81.4

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 6-2.—BENEFITS UNDER THE RAILROAD UNEMPLOYMENT INSURANCE SYSTEM,
BENEFIT YEARS 1995-96 AND 1996-97

Benefit category	Benefit amount
Qualifying wages:	
Base year 1994	\$2,100.00
Base year 1995	\$2,125.00
Base year 1996	\$2,162.50
Daily benefit rate: Basic rate	60 percent of daily rate of pay.
Maximum:	
Benefit year 1995-96	\$36.00
Benefit year 1996-97	\$36.00
Minimum guarantee	\$12.70
Maximum normal benefits: ¹	
For 14-day period:	
Benefit year 1995-96	\$360
Benefit year 1996-97	\$360
For benefit year:	
Duration	130 compensable days.
Amount: ¹	
Benefit year 1995-96	\$4,680
Benefit year 1996-97	\$4,680
Maximum extended benefits:	
10-14 years' service:	
Duration	65 compensable days.
Amount:	
Benefit year 1995-96	\$2,340
Benefit year 1996-97	\$2,340
15 or more years' service:	
Duration	130 compensable days.
Amount:	
Benefit year 1995-96	\$4,680
Benefit year 1996-97	\$4,680

¹ Not to exceed the employee's taxable earnings in the base year counting earnings up to \$1,085 a month for benefit year 1995-96 (base year 1994) and \$1,098 a month for benefit year 1996-97 (base year 1995).

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.

Total expenditures for unemployment and sickness payments were \$62 million in benefit year 1994-95, 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 1995, 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 year 1982-83.

Changes in covered employment have short-run and long-run effects on the RRUC 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 264,000 in 1995. 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.

TAXES

The Railroad Unemployment and Sickness Benefit Programs are financed by payroll taxes on railroad employers. The employees do not pay railroad unemployment taxes. The taxable earnings base in calendar year 1996 is the first \$865 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 maximum rate in future years 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 through 1978 and loans were again required beginning in 1981.

A rapid decline in 1981 and 1982 in railroad employment during a recession resulted in substantial borrowing from the pension system which 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 1995 report stated that experience-based contribution rates, phased in during 1991 and 1992, would keep the system solvent, except under the most pessimistic employment assumptions. Even then, projections show only a small, short-term cash flow problem with quick repayment of the loan. Maximum benefit rates increase 31 percent, from \$36 to \$47, from 1994 to 2004 and average employer contribution rates remain below 1.0 percent through 1996. The report also indicated that during the 10-year projection period (fiscal years 1995–2004), average employer contribution rates remain well below the maximum, even under the most pessimistic assumptions. The Board therefore recommended no changes to the system at that time.

1996 LEGISLATION

After this section was written, Congress enacted H.R. 2594, the Railroad Unemployment Insurance Amendments Act of 1996 (Public Law 104–251). Among other provisions, this law: raises daily benefit rates, indexes future increases to a monthly compensation base, shortens the waiting period for initial unemployment and sickness benefits, cuts the weeks of extended benefits payable to railworkers with more than 15 years' service, and establishes an earnings test for workers with days of employment as well as unemployment or sickness during each 2-week registration period.

REFERENCE

Railroad Unemployment Compensation Committee. (1984, June). *Report of the Railroad Unemployment Compensation Committee*. Washington, DC: Author.