SECTION 4. RAILROAD RETIREMENT SYSTEM

The railroad retirement system is a federally legislated program which provides retirement, disability and survivor annuities to workers whose employment was connected with the railroad industry for at least 10 years. The system, in existence since 1936, was substantially modified by the Railroad Retirement Act of 1974 (RRA) 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.

TABLE 4-1.--MONTHLY RAILROAD RETIREMENT CASH BENEFITS IN CURRENT-PAYMENT STATUS, NOVEMBER 1993

	Number	Percent of total	Average monthly benefit
Total monthly benefits...............	840,600	100.0	$763
Retired workers...........................	337,100	40.1	1,033

Disabled workers\1\	33,200	3.9	1,284
Spouses of retired and disabled workers	202,600	24.1	430
Divorced spouses	3,500	0.4	261
Aged widows and widowers	226,100	26.9	630
Disabled widow(er)s	6,800	0.8	568
Widowed mothers and fathers	1,800	0.2	775
Remarried widow(er)s	5,900	0.7	421
Divorced widow(er)s	7,800	0.9	450
Children	15,700	1.9	552
Parents	100	(\2\)	478

\1\Under age 65.
\2\Less than 0.05 percent.

Note.--Includes tier 1, tier 2, and vested dual benefits. Excludes 179,800 supplemental employee annuities averaging $44. Total includes fewer than 50 survivor option annuities averaging $79, payable under laws in effect before August 1946.

Source: Railroad Retirement Board.

Retirement and survivor benefit payments during fiscal year 1993 totaled $7,872 million. These payments were made to 898,000 beneficiaries. Retired employee and spouse annuitants constituted 615,000 of these beneficiaries and received

$5,896 million. Survivor beneficiaries received a total of $1,976 million, consisting of $1,969 million in monthly benefits and $7 million in lump-sum payments. Information on the number of beneficiaries and average benefit amounts for November 1993 is shown in table 4-1.

JURISDICTION

In the House of Representatives, the jurisdiction over the railroad retirement system is divided between two standing committees. Under the rules of the House, the Energy and Commerce Committee has jurisdiction over ``railroads, including railroad labor, railroad retirement and unemployment, except revenue measures related thereto.'' That committee, therefore, has jurisdiction over the Railroad Retirement Act which contains the substantive legislation relating to railroad retirement legislation. 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 of 1986). 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.

HISTORICAL DEVELOPMENT

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-1920's more than 80 percent of all rail workers were covered by pension plans.

In the early 1930's 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 1920's.

Rail pension plans were for the most part poorly constructed. There was no regulation of plan terminations, which were frequent. Pension funds were chronically underfinanced, and most could not stand the financial exigencies 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 1940's and 1950's 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 represented a concern for the social goal of providing income security in old age, or social insurance, rather than simply rewarding career performance.

In the 1970's and 1980's, 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, the trust funds have accumulated a reserve of over $12 billion.

The Omnibus Budget Reconciliation Act of 1987 (P.L. 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 may be transferred from the general fund of the U.S. Treasury to the Railroad Retirement Account for use in paying benefits.

The continuing decline in rail employment has raised questions concerning the practicality of relying on payroll tax funding in the next century. Consequently, the Committee on Ways and Means included in the 1987 reconciliation bill a provision which established a Commission on Railroad

Retirement
Reform to conduct a comprehensive study of the issues pertaining to the long-term financing of the railroad retirement system. The Commission consisted of seven members
representing railroads, including commuter railroads, labor,
and the public, and it made its final report in September 1990.
A listing of the Commission's findings and recommendations is
reproduced under ``Financial Status of the Railroad Retirement
Account'' at the end of this section.

Railroad retirement amendments were included with railroad
unemployment insurance amendments in the Technical and Miscellaneous Revenue Act of 1988 (P.L. 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 (P.L. 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 (P.L. 101-508) further extended the date of this transfer until October 1, 1992, and also permanently exempted supplemental annuities from reductions under Gramm-Rudman.

The Omnibus Budget Reconciliation Act of 1993 (P.L. 103-66) made all Social Security and railroad retirement tier I earnings subject to the Medicare payroll tax, and, for those with higher incomes, made a larger amount of Social Security and railroad retirement tier I benefits subject to Federal income tax. In addition, bills to extend the income tax transfer on a permanent basis were proposed in the 103d Congress in 1993-94.

ANNUITY STRUCTURE

The 1974 Railroad Retirement Act established three benefit components. The ongoing benefit system was divided into two ``tiers,'' one of which approximates Social Security (tier 1), and the other, an industry staff retirement benefit (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.

Tier 1

These benefits are based on the Social Security formula, using the employee's combined railroad earnings and non-railroad 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 railroad retirement 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

Tier 2 benefits are based on the employee's service in the railroad industry alone 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 automatic 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 was 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, receive 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. They 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 out of the general revenue fund through an annual appropriation rather than from the Social Security or railroad retirement trust funds, and are subject to reduction during any year in which the appropriation is less than required for full benefit payments. The fiscal year 1993 appropriation was $294,030,000 including income tax transfers. The fiscal year 1994 appropriation was $277,000,000, including income tax transfers. Currently paid to about 22 percent of the Railroad Retirement Board's beneficiaries, the average vested dual benefit is $125 per month.

Supplemental annuities

These are provided under the 1974 Act equal to $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.

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 employees with 10 or more years of railroad service before 1975, the amount 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 4-2 provides data concerning all railroad retirement benefits paid in selected fiscal years 1950-93. Table 4-3 presents data on new awards for November 1993.

TABLE 4-2.--TOTAL BENEFIT PAYMENTS AND NUMBER OF BENEFICIARIES, BY FISCAL YEAR

Fiscal year	Benefit payments (in millions)\1\			Beneficiaries (in thousands)\2\		
	Total	Retirement	Survivor	Total	Retirement	Survivor
1950...	$301.6	$248.2	$53.4	458	272	189

1955	549.7	424.5	125.2	700	452	252
1960	925.7	711.5	214.2	873	584	299
1965	1,117.7	834.0	283.7	980	650	340
1970	1,593.5	1,177.0	416.5	1,051	702	366
1975	3,060.3	2,222.4	837.9	1,094	733	380
1980	4,730.6	3,389.8	1,340.8	1,084	731	367
1981	5,286.6	3,779.9	1,506.7	1,074	726	363
1982	5,725.5	4,097.9	1,627.6	1,067	722	359
1983	6,041.1	4,354.2	1,686.9	1,056	715	357
1984	6,099.8	4,417.8	1,682.0	1,040	705	351
1985	6,250.9	4,539.3	1,711.6	1,023	694	343
1986	6,329.5	4,608.1	1,721.4	1,007	684	339
1987\3\	6,520.3	4,773.6	1,746.7	994	675	333
1988	6,675.9	4,915.0	1,760.9	981	666	328
1989	6,938.5	5,140.9	1,797.6	967	659	322
1990	7,194.6	5,357.0	1,837.6	951	650	315
1991	7,490.8	5,593.2	1,897.6	932	638	307
1992	7,693.9	5,754.0	1,939.9	913	626	301
1993	7,872.3	5,896.0	1,976.2	898	615	298

\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 that 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 1993, about 15,000 individuals received both retirement and survivor benefits. Figures are partly estimated.

\3\Benefits paid for fiscal years beginning 1987 are not strictly comparable to those for prior years due to a change in accounting systems.

TABLE 4-3.--NUMBER AND AVERAGE AMOUNT OF NEW AWARDS BY BENEFICIARY TYPE, NOVEMBER 1993

	Number	Average amount
Employee annuities:		
Retired	776	$1,288
Disability (under age 65)	230	1,415
Supplemental	510	41
Spouse annuities	893	464
Divorced spouse annuities		

	51	274
Survivor benefits:		
Aged widows and widowers	773	766
Disabled widows and widowers	21	618
Widowed mothers and fathers	15	816
Divorced and remarried widows	108	454
Children	71	646
Parents	....	....
Insurance lump sums	403	862
Residual payments	5	4,015
Total	3,856	....

Source: Railroad Retirement Board.

FINANCING THE RAILROAD RETIREMENT SYSTEM

Railroad retirement and survivor benefits are financed by five sources of income. These are (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; (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 which 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 1994 annual tier 1 and tier 2 wage bases are $60,600 and $45,000, respectively. Beginning in 1994, there is no wage base 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 4-4.

The tier 1 wage base is equal to the Social Security wage base and automatically increases with wage growth in the economy.

TABLE 4-4.--SCHEDULED TAX RATES FOR TIER 1 AND TIER 2, SELECTED YEARS

Tier 1

Tier 2 Combined\1\

-------------------- Wage base -------------------- Wage base --------------------

Employee

Employee

Employer

Employer   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	\2\53,400	16.10	4.90	39,600	23.75	12.55
1992	7.65	7.65	\2\55,500	16.10	4.90	41,400	23.75	12.55
1993	7.65	7.65	\2\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\3\	7.65	7.65	62,100	16.10	4.90	46,200	23.75	12.55
1996\3\	7.65	7.65	63,900	16.10	4.90	47,400	23.75	12.55
1997\3\	7.65	7.65	66,600	16.10	4.90	49,500	23.75	12.55
1998\3\	7.65	7.65	69,300	16.10	4.90	51,600	23.75	12.55
1999\3\	7.65	7.65	72,300	16.10	4.90	54,000	23.75	12.55

\1\These rates apply only up to the tier 2 maximum wage base.
\2\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.
\3\1995-99 wage bases are projected.

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 provided by the Social Security Amendments of 1977 (P.L. 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 there is computed the revenue that would have been collected by the Social Security trust funds if railroad employment had been covered directly by Social Security. This amount 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 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 4-5 shows the actual operation of the financial interchange for selected years as it relates to each of the three major Social Security trust funds.

In order to make available to the RRB's Social Security Equivalent Benefit Account funds 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 RRB's Social Security Equivalent Benefit Account for each month an amount equal to 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.

TABLE 4-5.--AMOUNTS TRANSFERRED TO OR FROM (-) THE SOCIAL SECURITY EQUIVALENT BENEFIT ACCOUNT\1\ AND THE VARIOUS SOCIAL

SECURITY TRUST
FUNDS IN SELECTED FISCAL YEARS 1954 THROUGH 1993
[In millions of dollars]

	OASI	DI	HI	Total
Fiscal year:				
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
Total.......	49,977.2	1,065.7	-6,211.9	44,831.1

\1\Before 1985, transfers were to or from the Railroad Retirement Account.

Source: Railroad Retirement Board.

General revenue appropriations

Vested dual benefits are funded solely through general revenue appropriations. The Congress authorized such funding in the 1974 act through the year 2000. The total appropriated for the first 18 fiscal years for which these benefits were payable, 1976-93, was $6,120 million.

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 into this account. If the amount which is 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 the annual appropriations. The actual amounts received, including interest, totaled $2,128 million. This amount is not included in the figure given above for total appropriations, 1976-93.

Income from investments

Funds not needed immediately for benefit payments are invested in interest-bearing securities. During fiscal year 1993, the Railroad Retirement Account and Social Security Equivalent Benefit Account received $827 million in investment income. This represents an annualized interest yield of 6.52 percent.

Cents-per-hour tax

A cents-per-hour tax is used to fund the supplemental annuity benefit. This tax is levied solely on employers. The rate, 30 cents per workhour in January 1994, 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 were deposited in the Railroad Retirement Account through fiscal year 1992, after which legislative authority

for
the tier 2 tax transfer expired. Vested dual benefits are taxed
like private and public service pensions with the proceeds
derived 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 chart 4-1 and table 4-6 below.

TABLE 4-6.--RAILROAD INDUSTRY EMPLOYMENT, 1940-93

	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

Source: Railroad Retirement Board.

CHART 4-1.--RAILROAD INDUSTRY EMPLOYMENT, 1940-93

<CHART 4-1>

While the trust funds currently have a reserve of over $12 billion, the continuing decline in railroad employment has periodically raised questions concerning 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 Railroad Retirement Board's Chief Actuary recommended in his 1987 report that a commission be established to study the advisability of instituting a tax on operating revenues to fund a portion of the cost of railroad retirement benefits, and that such a study should solicit the views of railroad labor, railroad management and other interested parties. He also recommended that tier 2 taxes be increased until any tax adjustments recommended by the commission become effective.

Under the 1987 budget law, the Commission's study was to take into account--

(1) the possibility of restructuring the financing of railroad retirement benefits through increases in the tier 2 tax rate, increases in the tier 2 tax wage base, the imposition of a tax on operating revenues,

revisions in the investment policy of the railroad retirement pension fund, and establishing a privately funded and administered railroad industry pension plan;

(2) the economic outlook for the railroad industry, and the nature of the relationships between the railroad retirement system, levels of railroad employment and compensation, and the performance of the rail sector;

(3) the ability of the system under current law to pay benefits to current and future retirees and other beneficiaries;

(4) the financial relationship of the system to the railroad unemployment insurance system, the Social Security system, and the General Fund; and

(5) any other matters which the Commission considers would be necessary, appropriate, or useful to the Congress in developing legislation to reform the system.

The 1987 budget law also increased tier 2 payroll tax rates in January 1988 by a total of 2 percent, and 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.

In June 1991, the Railroad Retirement Board transmitted to Congress its 18th triennial actuarial valuation of the railroad retirement program's assets and liabilities, which projected income and outgo under four 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 20 years. The long-term stability of the system, however, depends on actual railroad employment levels over the coming years. Subsequent annual financial projections yielded similar conclusions.

Findings of the Commission on Railroad Retirement Reform

The following list of major findings and recommendations is reprinted from the press release which accompanied the Commission on Railroad Retirement Reform's September 1990 final report.

1. The Railroad Retirement system is financially sound in the intermediate-term.
2. It is quite probable that the Railroad Retirement system is financially sound over the long-range future (the next 75 years).
3. Tier 2 of the railroad retirement system has elements of both a social insurance program and a private-pension tier for railroad employees. The system is actuarially sound as the term is applied to a social insurance program.
4. Based on its review, the Commission concluded that, on balance, the future of the national economy appears to be favorable over the next decade for the freight railroad sector.
5. Employment projection D used in the 17th Actuarial

Valuation [of the Railroad Retirement Board] is the most reasonable and predictive of the five projections. In fact, this projection appears to be on the low side.

6. The Railroad Retirement Tax Act should be amended to substitute a partial-pegged-payroll tax for the current employment-based employer tax. If this alternative tax basis is adopted, the statute should clearly indicate that these tax payments are to be recorded as period expenses when paid.

7. If the partial-pegged-payroll tax is not adopted, and if contracting-out increases as a problem, causing reduced employment, serious consideration should be given to imposing an excise tax on contracting-out, either as a tax on all outlays or limited to ``traditional'' railroad services.

8. The current temporary transfers of income-tax revenue on tier 2 and unrecompensed tier 1 benefits should be continued on a permanent basis.

9. The Commission recommends the development of alternative retirement systems for newly hired railroad employees only, and proposes transition rules to encourage the development of satisfactory individual company and/or multiemployer pension plans for such new employees.

10. The early-retirement provisions of the Railroad Retirement Act should be phased out to provide eventual retirement-age requirements which are the same as those under Social Security.

11. The ``notch'' in the early-normal-retirement-age reduction factor should be changed in an actuarially correct manner.

12. The occupational-disability annuity provisions of the Railroad Retirement Act should be amended to provide that,

effective for disabilities occurring on or after January 1, 1994, the duration for receipt of such benefits is to be limited to 24 months.

13. In conjunction with the phase-out of the early-retirement provisions and modification of the occupational-disability annuity eligibility, the Railroad Retirement Act should be amended to conform the provisions for tier 1 benefits to the benefits provided under the Social Security Act for those individuals who become entitled or eligible on or after the effective date.

14. The Railroad Retirement Act should be changed so as to restore the previous cross-reference to the Federal Insurance Contributions Act for determining tier 1 tax rates. [The cross-reference was restored by the 1990 Omnibus Budget Reconciliation Act.]

15. A further increase in the current tier 2 tax rates is not needed if the present benefit structure remains unchanged. The current procedure of regular financial reporting by the Railroad Retirement Board, with recommendations for adjustments to the tax rates if necessary, is an efficient and adequate mechanism for any future corrective action.

16. Increasing the tier 2 taxable compensation base is not recommended.

17. The Railroad Retirement Tax Act should be amended to allow individual employers to assume the employee tier 2 tax, and such payments made by the employer should not be included as compensation for RRTA or income tax purposes.

18. The financial relationship of the Railroad Retirement

Account and the General Fund through the Dual Benefits Payments Account is appropriate and should be continued.

19. The proposal in the fiscal year 1991 budget of the United States to modify the current method of calculating the appropriation for the dual-benefits payments should be rejected because it would be an abrogation of past agreements and because it lacks a sound rationale.

20. No change in the financial interchange relationship between the Railroad Retirement Account and the Social Security system is recommended.

21. The Railroad Retirement Account and the Social Security Equivalent Benefit Account should be combined (as the Railroad Retirement Account), and should no longer be maintained as separate accounting entities.

22. No change in the relationship between the Railroad Unemployment Insurance Account and the Railroad Retirement Account is recommended.

23. Concerning the investment management of the Railroad Retirement Account: (1) The statutory formula for determining the monthly rate of interest to be earned by the Account on par value special issues of the U.S. Treasury should be changed from one based on notes of at least 3 years to maturity, to all ``marketable interest-bearing obligations'' of at least 4 years to maturity; (2) The current statutory investment authority should be continued; and (3) If the partial-pegged-payroll tax alternative is not adopted, and the balance in the Railroad Retirement Account increases to a more than adequate level (e.g., 3 or 4 years of anticipated outgo), Congress should consider granting the Board more flexible investment

authority,
so as to include private-sector investments.

24. Tier 1 benefits should be extended to the divorced-spouse categories of beneficiaries which are now excluded from receiving such benefits.

25. The Railroad Retirement Act should be amended to require the simultaneous filing of employee and spouse annuities to which an individual is entitled.

26. The Railroad Retirement Act should be amended to provide that all future benefit changes in the Social Security Act shall apply to tier 1 benefit provisions of the Railroad Retirement Act.

27. The Railroad Retirement Act should be amended to provide that coverage should apply to all interurban passenger railroads which receive any direct or indirect Federal funding for their operations or construction, regardless of whether or not they operate between states.

28. No separate special tax-treatment should be provided for passenger railroads.