



For Publication

July 2011

RRB Financial Reports

The Railroad Retirement Board (RRB) is required by law to submit annual reports to Congress on the financial condition of the railroad retirement system and the railroad unemployment insurance system. These reports must also include recommendations for any financing changes which may be advisable in order to ensure the solvency of the systems. In June, the RRB submitted its 2011 reports on the railroad retirement and railroad unemployment insurance systems.

The following questions and answers summarize the findings of these reports.

1. What were the assets of the railroad retirement and railroad unemployment insurance systems last year?

As of September 30, 2010, total railroad retirement system assets, comprising assets managed by the National Railroad Retirement Investment Trust and the railroad retirement system accounts at the Treasury, equaled \$25.1 billion. The Trust was established by the Railroad Retirement and Survivors' Improvement Act of 2001 to manage and invest railroad retirement assets. The cash balance of the railroad unemployment insurance system was \$37.7 million at the end of fiscal year 2010.

2. What was the conclusion of the 2011 report on the financial condition of the railroad retirement system?

The conclusion was that, barring a sudden, unanticipated, large decrease in railroad employment or substantial investment losses, the railroad retirement system will experience no cash-flow problems during the next 23 years. The long-term stability of the system, however, is still questionable. Under the current financing structure, actual levels of railroad employment and investment return over the coming years will largely determine whether corrective action is necessary.

3. What methods were used in forecasting the financial condition of the railroad retirement system?

The valuation projected the various components of income and outgo of the railroad retirement system under three employment assumptions, intended to provide an optimistic, moderate and pessimistic outlook, for the 25 calendar years 2011-2035. The projections of these components were combined and the investment income calculated to produce the projected balances in the railroad retirement accounts at the end of each projection year.

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Projecting income and outgo under optimistic, moderate and pessimistic employment assumptions, the valuation indicated no cash-flow problems occur throughout the 25-year projection period under the optimistic and moderate assumptions. Cash-flow problems do occur under the pessimistic assumption but not until 2034, 23 years from now.

4. How do the results of the 2011 report compare with those of the 2010 report?

The projected tier II tax rates for each calendar year are either the same or lower than in last year's report. The projected combined account balances are higher through calendar year 2027 under each employment assumption than in last year's report. Under the optimistic and moderate employment assumptions, the account balances are lower at the end of the current projection period due to lower tax rates in some earlier years.

The favorable comparison with last year was largely due to actual investment return of approximately 14.4 percent exceeding the expected investment return of 7.5 percent in calendar year 2010 and to higher projected employment. This was offset by a lower estimated wage increase for calendar year 2010.

5. Did the 2011 report on the railroad retirement system recommend any railroad retirement payroll tax rate changes?

The report did not recommend any change in the rate of tax imposed by current law on employers and employees.

6. What were the findings of the 2011 report on the financial condition of the railroad unemployment insurance system?

The RRB's 2011 railroad unemployment insurance financial report was also generally favorable. Even as maximum benefit rates increase 38 percent (from \$66 to \$91) from 2010 to 2021, experience-based contribution rates are expected to keep the unemployment insurance system solvent. Due to short-term cash-flow problems, \$46.5 million was borrowed from the Railroad Retirement Account during fiscal year 2010. The loans are expected to be fully repaid by the end of fiscal year 2011.

Unemployment levels are the single most significant factor affecting the financial status of the railroad unemployment insurance system. However, the system's experience-rating provisions, which adjust contribution rates for changing benefit levels, and its surcharge trigger for maintaining a minimum balance help to ensure financial stability in the advent of adverse economic conditions.

Under experience-rating provisions, each employer's contribution rate is determined by the RRB on the basis of benefit payments made to the railroad's employees. The report predicted that, even under the most pessimistic assumption, the average employer contribution rate remains well below the maximum throughout the projection period.

The report also predicted that the 2.5 percent surcharge in effect in calendar year 2011 will be followed by either a 1.5 percent or a 2.5 percent surcharge in calendar year 2012. No surcharge is predicted in calendar years 2013 and 2014.

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7. What methods were used to evaluate the financial condition of the railroad unemployment insurance system?

The economic and employment assumptions used in the unemployment insurance report corresponded to those used in the report on the retirement system. Projections were made for various components of income and outgo under each of three employment assumptions, but for the 11 fiscal years 2011-2021, rather than a 25-year period.

8. Did the 2011 report on the railroad unemployment insurance system recommend any financing changes to the system?

No financing changes were recommended at this time by the report.

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The RRB's 2011 financial reports on the retirement and unemployment insurance systems are available in their entirety on the agency's website at www.rrb.gov. Information on the National Railroad Retirement Investment Trust, including its quarterly and annual reports, is also available on the site.