SECTION 5-EARNED ENTITLEMENTS FOR RAILROAD EMPLOYEES

CONTENTS

OVERVIEW

Retirement, survivor, disability, unemployment, and sickness insurance benefits for railroad employees are administered by the U.S. 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 of industry employees and to the 3-member governing board that oversees its operations, maintains records on 12 million present and former railroad employees. In fiscal year 2007, the RRB disbursed $9.8 billion in retirement, survivor, and disability benefits to 616,000 annuitants, as well as $28 million in daily compensation to 10,000 unemployed workers and $46 million in net sickness benefits to 19,000 employees. The RRB also paid $4 million in lump-sum payments to survivors of deceased workers. Through its payroll and beneficiary record keeping system, the RRB verifies the collection of taxes on payroll and benefits with the Internal Revenue Service, which in fiscal year 2007 collected $4.7 billion in taxes on railroad payrolls and $466 million in taxes on railroad retirement beneficiary payments.

Table 5-1 provides an overview of cash benefits received by various categories of retirement, survivor, and disability beneficiaries in November 2007.

TABLE 5-1--MONTHLY RAILROAD RETIREMENT CASH BENEFITS IN CURRENT PAYMENT STATUS, NOVEMBER 2007

Category of Beneficiary	Number	Percent of Total	Average Monthly Benefit
Retired Workers	227,100	39.5	$1,872
Disabled Workers [1]	50,400	8.8	2,206
Spouses	133,800	23.3	720
Divorced Spouses	3,600	0.6	443
Aged Widow(er)s	128,600	22.4	1,178
Disabled Widow(er)s	4,600	0.8	993
Widowed Mothers/Fathers	900	0.2	1,480
Remarried Widow(er)s	4,700	0.8	783
Divorced Widow(er)s	9,600	1.7	775
Children	11,100	1.9	856
Parents	(2)	(3)	875
Total	574,300	100.0	$1,414

[1] Under full retirement age.
[2] Fewer than 50.
[3] Less than 0.05 percent.
Note: Includes tier 1, tier 2, and vested dual benefits. Excludes 121,300 supplemental employee annuities averaging $42. The various types of benefits are described below.
Source: U.S. Railroad Retirement Board.

In the House of Representatives, jurisdiction over the Railroad Retirement and Unemployment Benefit Programs is divided between two standing committees. 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 (RRA) 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). 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, or in some cases at least 5 years after 1995. The program is governed by the Railroad Retirement Act, 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' 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 which approximates Social Security benefits (tier 1) and one which provides a retirement benefit specifically for railroad workers (tier 2). The third component, a vested dual benefit, preserved certain benefits for employees who qualified for both railroad retirement and Social Security benefits prior to the 1974 act.

The Railroad Retirement System was substantially modified again in 2001. The Railroad Retirement and Survivors’ Improvement Act of 2001 (Public Law 107-90), signed into law by President George W. Bush on December 21, 2001, made several changes to railroad retirement benefits and financing. The 2001 law expanded benefits for some widows and widowers; lowered the minimum age at which employees with 30 years of experience may be eligible for full retirement benefits; reduced the number of years required to be fully vested for tier 2 benefits; repealed a maximum limitation on benefits; expanded the system's investment authority to include investment of trust funds in *nongovernmental* assets; and phased in changes to the tier 2 tax structure.

TIER 1 AND TIER 2 BENEFITS

Employees are eligible for a tier 1 retirement annuity if they have at least 10 years of total railroad service, or at least 5 years of railroad service after 1995 and "insured status" under the Social Security rules (generally 40 quarters of coverage) based on combined railroad retirement and Social Security-covered earnings. Railroad retirement tier 1 benefits are based on the Social Security benefit formula, using the employee's combined railroad earnings and 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 railroad and Social Security-covered employment, any Social Security benefit to which the railroad retirement beneficiary also is entitled is subtracted from the tier 1 benefit amount. Tier 1 benefits are automatically adjusted annually for the cost of living by the same percentage as Social Security benefits.

Tier 2 benefits, which are payable in addition to tier 1 benefits, are based entirely on the employee's service in the railroad industry. Employees are eligible for a tier 2 *retirement* benefit if they have at least 10 years of total railroad service, or at least 5 years of railroad service after 1995. (Employees must have at least 10 years of total railroad service to be eligible for a tier 2 *disability* benefit before age 62.) 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 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 primary purposes of the Railroad Retirement Act (RRA) 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 because 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 spent a relatively short period of time in employment covered by Social Security received the benefit of this "tilt" in the benefit formula, even though they may 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 generally were preserved for those individuals who were vested under both railroad retirement and Social Security 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 2008 appropriation was $79 million, including the income tax transfers. Currently paid to about 43,200 railroad retirement beneficiaries, the average vested dual benefit is $155 per month.

DISABILITY ANNUITIES

Workers who are totally and permanently disabled for all employment are eligible for tier 1 and tier 2 benefits if they have at least 10 years of total railroad service. Workers who have at least 5 years of railroad service after 1995 (but less than 10 years of total service) are eligible only for *tier 1 benefits* before age 62 if their combined railroad retirement and Social Security earnings credits satisfy Social Security eligibility requirements (*tier 2 benefits* would be payable at age 62). Otherwise, workers with employment covered under Social Security would have their railroad retirement credits transferred to Social Security and eligibility for Social Security disability insurance would be determined under Social Security rules.

In addition, workers who become totally disabled for their regular railroad occupation are eligible for an occupational disability benefit at age 60 with at least 10 years of railroad service, and at any age with at least 20 years of railroad service. To qualify, the worker must have a current connection with the industry, which generally means that he or she worked for a railroad in at least 12 of the 30 consecutive months before the month in which an annuity begins to accrue.

SPOUSE ANNUITIES

Spouses of retired or disabled railroad retirement beneficiaries also may qualify for benefits, the amount of which depends on such factors as the spouse's age and work history, and the worker's age, date of retirement, and years of railroad service. Spouses also may qualify for benefits based on caring for a rail worker's unmarried or disabled child. Tier 1 spouse benefits are based on 50 percent of the railroad worker's tier 1 benefit. Tier 2 spouse benefits are equal to 45 percent of the retired or disabled worker's tier 2 benefit. Divorced spouses also may be eligible for benefits from tier 1 but not from tier 2 unless specified in a divorce decree.

SUPPLEMENTAL ANNUITIES

Under the Railroad Retirement Act of 1974, employees may qualify for a supplemental annuity at age 60 if they have at least 30 years of total railroad service, or at age 65 if they have 25-29 years of railroad service. A current connection with the railroad industry is also required. The supplemental annuity is $23 per month for 25 years of service plus $4 for each additional year of service, up to a maximum of $43 per month. Under the 1981 Omnibus Budget Reconciliation Act (OBRA), employees first hired after October 1, 1981, are not eligible for supplemental annuities.

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 he or she has at least 10 years of railroad service, or at least 5 years of service after 1995, and a current connection with the railroad industry. If the worker had at least 5 years of railroad service after 1995 (but less than 10 years of total service), tier 1 and tier 2 survivor benefits are payable if the worker had insured status under Social Security rules based on combined railroad retirement and Social Security-covered earnings. Otherwise, only tier 2 survivor benefits are payable. Generally, tier 1 survivor benefits, which are based on combined Social Security and railroad retirement earnings credits, are equal to those provided by Social Security.

Railroad Retirement and Survivors' Improvement Act (RRSIA) of 2001 increased monthly annuities for many RRB widow and widower beneficiaries. This 2001 law added a new guaranty amount that increased initial annuities for qualifying widow(er)s. Under prior law, widow(er)s received 100 percent of the deceased employee's tier 1 amount and 50 percent of the deceased employee's tier 2 amount. The 2001 law added a supplemental guaranty amount, initially set at 50 percent of the employee's tier 2 amount, to the amounts provided under prior law. The total initial minimum amount after the 2001 law is 100 percent of the tier 1 and tier 2 amounts the employee would have received at the time the widow(er) begins to receive an annuity, minus any applicable reductions. The dollar amount of each year's COLA is offset by an equal reduction to the guaranty amount. Since the COLA increase and the guaranty reduction are equal, the total amount of a widow(er)'s monthly annuity will not change for several years. When the guaranty amount is ultimately reduced to zero, the widow(er) will begin to receive an increase in his or her total monthly annuity for the first time, as the tier 1 and regular tier 2 annuities continue to increase each year by the applicable COLA. All widow(er)s who are eligible to receive the initial minimum amount provided by the 2001 law receive an annuity greater than or equal to the annuity they would have received under the prior law.

LUMP-SUM DEATH BENEFITS

A lump-sum death benefit is paid when no one is eligible for a monthly survivor benefit in the month in which the worker died. The lump-sum death benefit is payable if the worker had a current connection and at least 10 years of railroad service, or 5 years of service after 1995 and insured status under Social Security. For employees with at least 10 years of railroad service before 1975, the benefit amount is based on the Railroad Retirement Act of 1937. In fiscal year 2007, the average benefit payable was about $985. For all other railroad workers, the benefit is equal to the amount paid under the Social Security Act ($255).

Generally, if monthly benefits are not payable at the time of the employee's death or in the future, a *residual* lump-sum payment may be made. A residual lump-sum payment is, in effect, a refund of the employee's pre-1975 railroad retirement taxes plus an amount in lieu of interest, less benefits already paid. An employee can designate a person as beneficiary for any residual payment that ever becomes due. Otherwise, it is payable to the widow(er), children, or other family members in a prescribed order of precedence. Once a residual is paid, no further benefits are payable on the basis of the employee's railroad earnings. (A widow(er) or parent under age 60 can waive rights to future monthly benefits in order for the residual payment to be made. The widow(er) or parent who elects a residual also gives up rights to Medicare based on the deceased employee's railroad service.)

PROGRAM DATA

Table 5-2 summarizes RRB benefit payments and beneficiaries in selected fiscal years 1950-2007. The number of beneficiaries increased until the mid-1970s and declined thereafter. Total benefit payments have increased in nominal terms due to price and wage growth; in real terms, total benefit payments are decreasing.

TABLE 5-2--TOTAL BENEFIT PAYMENTS AND NUMBER OF BENEFICIARIES, SELECTED FISCAL YEARS 1950-2007

Fiscal	Benefit Payments (In Millions) [1]			Beneficiaries (In Thousands) [2]		
Year	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
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
1994	7,978.9	5,978.9	1,999.9	874	599	288
1995	8,059.2	6,042.9	2,016.3	847	582	282
1996	8,113.6	6,089.1	2,024.4	818	565	272
1997	8,205.7	6,166.3	2,039.4	800	549	263
1998	8,246.6	6,199.0	2,047.5	772	530	254
1999	8,248.5	6,207.2	2,041.3	748	514	246
2000	8,294.5	6,254.1	2,040.3	724	499	237
2001	8,411.4	6,352.6	2,058.8	700	483	228
2002	8,643.5	6,535.9	2,107.5	684	475	219
2003	8,862.9	6,726.0	2,136.9	666	465	211
2004	9,008.3	6,876.9	2,131.3	649	456	203
2005	9,181.0	7,051.6	2,129.5	634	448	194
2006	9,440.9	7,294.0	2,146.9	619	441	187
2007	9,797.4	7,641.1	2,156.4	616	444	180

[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. For example, 8,700 individuals received both retirement and survivor benefits in fiscal year 2007. Figures are partly estimated.
[3] Benefits paid for fiscal years beginning in 1987 are not strictly comparable to those for prior years due to a change in accounting systems.
Source: U.S. Railroad Retirement Board.

Table 5-3 presents data on new awards for November 2007.

TABLE 5-3--NUMBER AND AVERAGE AMOUNT OF NEW AWARDS, NOVEMBER 2007

Beneficiary Type	Number	Average Monthly Amount
Employee Annuities:		
Retired Workers	770	$2,595
Disabled Workers (Under Full Retirement Age)	285	2,482
Spouses	805	859
Divorced Spouses	42	450
Survivor Benefits:		
Aged Widow(er)s	497	1,564
Disabled Widow(er)s	12	1,357
Widowed Mothers and Fathers	11	1,597
Divorced Widow(er)s	13	812
Remarried Widow(er)s	55	869
Children	49	1,168
Parents	0	0
Insurance Lump Sums[1]	265	873
Residual Benefits	4	1,931
Total New Awards[2]	2,539	-----

[1] Excludes deferred benefits (i.e., those payable a year after the employee's death).
[2] Excludes insurance lump sum and residual benefits. Also excludes 592 supplemental annuity awards averaging $41.
Source: U.S. Railroad Retirement Board.

FINANCING THE SYSTEM

The Railroad Retirement and Survivors' Improvement Act of 2001 (Public Law 107-90) made significant changes to the way the Railroad Retirement System is financed. The 2001 law provided for investment of railroad retirement funds in *nongovernmental* assets (as well as government securities), adjustments in payroll tax rates paid by employers and employees, and repeal of the supplemental annuity work-hour tax paid by employers. Railroad retirement and survivor benefits are financed by: (1) payroll taxes paid by covered employees and employers on railroad earnings, 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); and (4) investment income.

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 that 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 2008 annual tier 1 and tier 2 wage bases are $102,000 and $75,900, 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.

Under the Railroad Retirement and Survivors' Improvement Act of 2001, the tier 2 tax rate paid by employers was gradually lowered from 16.1 percent in 2001 to 12.1 percent in 2008. The tier 2 tax rate paid by employees was gradually lowered from 4.9 percent in 2001 to 3.9 percent in 2008. Beginning in 2004, tax rates paid by employers and employees are adjusted annually based on the 10-year average ratio of certain asset balances to the sum of benefits and administrative expenses (the "average account benefits ratio"). Depending on the average account benefits ratio, tier 2 tax rates for employers will be between 8.2 percent and 22.1 percent. Tier 2 tax rates for employees will be between 0 percent and 4.9 percent. Scheduled tier 1 and tier 2 tax rates are shown in Table 5-4.

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 the ad hoc increases in the wage base established by the Social Security Amendments of 1977 (Public Law 95-215).

TABLE 5-4--SCHEDULED TAX RATES FOR TIER 1 AND TIER 2, SELECTED YEARS 1975-2008

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	9.50	0.00	$14,100	15.35	5.85
1980	6.13	6.13	25,900	9.50	0.00	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	68,400	16.10	4.90	50,700	23.75	12.55
1999	7.65	7.65	72,600	16.10	4.90	53,700	23.75	12.55
2000	7.65	7.65	76,200	16.10	4.90	56,700	23.75	12.55
2001	7.65	7.65	80,400	16.10	4.90	59,700	23.75	12.55
2002	7.65	7.65	84,900	15.60	4.90	63,000	23.25	12.55
2003	7.65	7.65	87,000	14.20	4.90	64,500	21.85	12.55
2004	7.65	7.65	87,900	13.10	4.90	65,100	20.75	12.55
2005	7.65	7.65	90,000	12.60	4.40	66,900	20.25	12.05
2006	7.65	7.65	94,200	12.60	4.40	69,900	20.25	12.05
2007	7.65	7.65	97,500	12.10	3.90	72,600	19.75	11.55
2008	7.65	7.65	102,000	12.10	3.90	75,900	19.75	11.55

[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 taxable wage base.

Source: U.S. Railroad Retirement Board.

FINANCIAL INTERCHANGE

The Railroad Retirement System and the Social Security program have been coordinated financially since 1951. The purpose of the financial interchange is to place the Social Security Trust Funds in the same position in which they would have been if railroad employment had been covered under Social Security since its inception. Doing so involves computing the amount of Social Security payroll and income taxes that would have been collected by the Social Security Trust Funds if railroad employment had been covered directly by Social Security, as well as the amount of additional benefits which Social Security would have paid to railroad retirement beneficiaries during the same fiscal year. In the computation of the latter amount, credit is given for any Social Security benefits actually paid to railroad retirement beneficiaries. When benefit reimbursements exceed payroll and income taxes, the difference, with 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. (Before 1985, transfers were made to the Railroad Retirement Account.) If taxes exceed benefit reimbursements (which has not happened since 1951), a transfer would be made in favor of the Social Security Trust Funds.

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 operation of the financial interchange for selected years for the two Social Security Trust Funds (Old-Age and Survivors Insurance and Disability Insurance) and the Medicare Hospital Insurance Trust Fund.

TABLE 5-5--AMOUNTS TRANSFERRED TO THE RAILROAD RETIREMENT SYSTEM FROM THE SOCIAL SECURITY AND MEDICARE TRUST FUNDS, SELECTED FISCAL YEARS 1954-2007
[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
1985	2,310.2	42.7	-371.4	1,981.5
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
1997	3,688.1	59.1	-419.1	3,328.1
1998	3,662.2	156.8	-419.4	3,399.7
1999	3,681.4	134.6	-429.9	3,386.1
2000	3,538.2	159.4	-465.3	3,232.3
2001	3,273.1	9.7	-469.7	2,813.1
2002	3,493.3	153.5	-424.7	3,222.1
2003	3,580.0	167.4	-426.3	3,321.0
2004	3,628.1	215.4	-418.6	3,425.0
2005	3,579.3	337.9	-444.9	3,472.4
2006	3,458.0	388.3	-471.5	3,374.8
2007	3,574.6	445.2	-483.3	3,536.4
Total	100,159.4	3,469.1	-12,294.8	91,333.7

Note: For years in which amount transferred is negative, transfer is from the Railroad Retirement System to the Social Security or Medicare Trust Fund.
Source: U.S. Railroad Retirement Board.

In order to make funds from the forthcoming financial interchange available to the Social Security Equivalent Benefit Account on a more current basis, the Railroad Retirement Solvency Act of 1983 provided for transfers from the general fund of the Treasury to the Social Security Equivalent Benefit Account each month. The amount transferred each month equals the Social Security benefits paid from the account during the month less the Social Security 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 in the Railroad Retirement Act of 1974 that substantially reformed the Railroad Retirement System. The total appropriated for the first 33 fiscal years (1976-2008) for which these benefits were payable was $8.61 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 full vested dual benefits to all eligible beneficiaries for the year, the RRB 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 2008.

INVESTMENT INCOME

Starting in 2002, a significant portion of RRB assets have been invested in private stocks, bonds, and other investments. Prior to the Railroad Retirement and Survivors' Improvement Act of 2001 (Public Law 107-90), surplus railroad retirement assets could only be invested in U.S. government securities — just as the Social Security Trust Funds must be invested. Public Law 107-90 established the National Railroad Retirement Investment Trust (hereafter, the Trust) to manage and invest part of the RRB's assets in the same way that the assets of private-sector and most state and local government pension plans are invested. The remainder of RRB's assets continue to be invested solely in U.S. government securities.

Congress structured the Trust to ensure independence of investment decisions and limit political interference. Through passage of the 2001 Act, Congress also aimed to increase Railroad Retirement System funding, add enhanced benefits, potentially reduce taxes, and protect the system's financing in case of market downturns. The Trust's assets are invested in a diversified portfolio, both to minimize investment risk and to avoid disproportionate influence over an industry or firm. The Trust's assets are included in the Federal budget. Since the Trust is a nongovernmental agency, it is not subject to the same oversight as federal agencies. However, the act requires an annual management report to Congress.

The Trust is administered by a Board of Trustees. The Board of Trustees has 7 members: 3 chosen by rail labor, 3 chosen by rail employers, and 1 chosen by a majority of the other 6 members to represent the general public. With the assistance of independent advisors and investment managers, the Board of Trustees invests assets, pays administrative expenses, and transfers funds to the Treasury Department to disburse benefit payments. The Board of Trustees is subject to reporting and fiduciary standards similar to those under the Employment Retirement Income Security Act of 1974 (ERISA, Public Law 93-406), which covers most private sector employee benefit plans. If any provisions of the Railroad Retirement Act are violated, the RRB may bring civil action against the Trust. An independent qualified public accountant audits the financial statements of the trust fund annually. A management report is submitted each fiscal year to Congress, the President, the RRB, and the Office of Management and Budget.

The Railroad Retirement and Survivors' Improvement Act of 2001directed the RRB to transfer funds in the Railroad Retirement Account that are not needed to pay current administrative expenses to the Trust. In addition, the RRB was directed to transfer funds in the Social Security Equivalent Benefit Account that are not needed to pay current benefits and administrative expenses to the Trust (such funds may be used to pay benefits or invest in government securities only). From its inception to fiscal year 2007, the Treasury transferred a total of $21.3 billion to the Trust, mostly during its first two fiscal years.

The Trust's performance to date has exceeded expectations. The Trust began investment activities in September 2002. By September 30, 2007, the Trust had grown to $32.7 billion, in addition to $5.0 billion in investment earnings that were used to pay RRB benefits. The Trust earned a total of $16.4 billion from its inception to the end of FY2007 (NRRIT, 2007b). From fiscal year 2003 to fiscal year 2007, the Trust's annual returns have averaged just over 14%. The Trust's rates of return compare favorably to its benchmarks and to those of defined benefit pension funds. The Trust's administrative expenses have steadily increased as its investment portfolio has diversified over time. However, administrative expenses remain very low compared to industry standards. In fiscal year 2007, the Trust's expense ratio was 24 basis points.

INCOME TAXATION OF RAILROAD RETIREMENT BENEFITS

Before 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 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 (OBRA) of 1985, the Tax Reform Act of 1986, and the Omnibus Budget Reconciliation Act of 1993. Under current law, the Social Security-equivalent portion of tier 1 benefits is taxed in a manner identical to Social Security benefits. The proceeds derived from the taxation of tier 1 benefits under pre-OBRA 1993 rules 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 (Part A of Medicare). 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, with 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.

The Omnibus Budget Reconciliation Act of 1987, which increased tier 2 payroll tax rates in January 1988 by a total of 2 percentage points, allowed revenues from Federal income taxes on tier 2 railroad retirement benefits to be returned to the Railroad Retirement System until October 1, 1989. Subsequent legislation extended the date to October 1, 1990, and then to October 1, 1992. Legislation in 1994 extended these transfers on a permanent basis.

FINANCIAL STATUS OF THE RAILROAD RETIREMENT SYSTEM

Along with the investment performance of the Trust, one of the most important factors affecting the financial status of the Railroad Retirement System is the level of railroad employment, which is shown in table 5-6.

TABLE 5-6--RAILROAD INDUSTRY EMPLOYMENT, SELECTED YEARS 1940-2006

Year	Number (Thousands)
1940	1,195
1945	1,085
1950	1,421
1955	1,239
1960	909
1965	753
1970	640
1975	548
1980	532
1985	372
1990	296
1995	265
1996	257
1997	253
1998	256
1999	256
2000	246
2001	238
2002	229
2003	225
2004	227
2005	232
2006	236

Source: U.S. Railroad Retirement Board.

Section 502 of the Railroad Retirement Solvency Act of 1983 requires a report each year by the RRB on the system's actuarial status, and financing recommendations when appropriate. The RRB's 2007 financial report to Congress, which addresses the 25-year period from 2007-2031 under optimistic, moderate, and pessimistic employment assumptions, indicates no cash flow problems under any of the assumptions during the projection period (U.S. Railroad, 2007a). Overall, the report concludes 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 25 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.”

THE RAILROAD UNEMPLOYMENT INSURANCE PROGRAM

OVERVIEW

The Railroad Unemployment Insurance 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. The main reasons for this action were to avoid administrative problems in handling claims for railroad workers who earned wages in a number of States and to accommodate the railroad unions' desire that individuals throughout the industry be treated the same for purposes of unemployment compensation.

Table 5-7 summarizes Railroad Unemployment Program statistics for selected years between 1970 and 2007.

TABLE 5-7--RAILROAD UNEMPLOYMENT AND SICKNESS INSURANCE PROGRAM STATISTICS, SELECTED YEARS 1970-2007

Program Statistic	Benefit Year Ending In										
	1970	1980	1990	2000	2001	2002	2003	2004	2005	2006	2007
Insured Unemployment (Percent) [1]	11	17	9	5	6	7	6	5	4	4	4
Coverage (Thousands of Qualified Employees)	748	609	349	278	277	270	259	249	242	245	250
Unemployment (Average Daily Benefit)	$12.61	$24.94	$30.16	$45.45	$47.81	$49.61	$51.44	$54.37	$55.26	$55.26	$56.29
Sickness (Average Daily Benefit)	$12.66	$24.97	30.25	$45.65	$47.88	$49.85	$51.83	$54.80	$55.89	$55.93	$56.83
Number of Beneficiaries:											
Unemployment (Thousands)	79.2	101.6	29.9	13.7	16.7	17.8	15.4	11.7	9.3	8.9	9.5
Sickness (Thousands)	91.4	76.8	28.2	22.0	23.0	23.0	22.4	21.6	20.2	19.7	19.0
Benefit Exhaustions, Normal Benefits:											
Unemployment (Thousands)	6.3	11.2	5.6	2.1	2.2	2.7	2.9	2.4	2.2	1.9	1.8
Sickness (Thousands)	16.8	9.5	6.1	4.1	4.5	5.1	4.7	4.5	3.9	3.7	3.5
Amount Paid:											
Unemployment (Millions)	$35.0	$112.7	$57.2	$35.6	$43.0	$47.4	$45.6	$38.3	$30.2	$30.6	$29.6
Sickness (Millions)	$57.9	$60.0	$32.6	$40.5	$49.5	$50.9	$49.9	$46.4	$43.4	$43.8	$43.5
Total Tax Collection:											
Benefits Account (Millions)	$122.7	$173.3	$192.5	$68.8	$19.9	$63.6	$113.8	$121.6	$81.3	$65.3	$65.8
Administration (Millions)	$8.2	$12.9	$17.2	$18.9	$20.0	$19.8	$20.3	$20.1	$21.0	$21.4	$22.8
Outlays:											
Benefits (Millions)	$93.0	$172.7	$89.8	$76.1	$92.5	$98.3	$95.5	$84.7	$73.6	$74.4	$73.2
Administration (Millions)	$6.6	$11.2	$14.6	$14.1	$13.8	$13.2	$15.3	$15.9	$16.8	$10.0	$15.1
Account Balance (Millions)[2]	$81.3	$40.8	$188.4	$95.7	$34.8	$16.1	$32.8	$79.2	$97.4	$98.3	$106.0

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

[2] Account balances do not reflect amounts due the Railroad Retirement Account. The small loan made in February 2002 was repaid in May 2003.

Source: U.S. Railroad Retirement Board.

BENEFITS AND ELIGIBLITY REQUIREMENTS

A new benefit year for unemployment and sickness benefits begins on July 1. To qualify in the benefit year beginning July 1, 2008, a worker must have base year railroad earnings of at least $3,075 in the preceding calendar year, not counting earnings over $1,230 per month. 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 benefits if he or she is unemployed or sick for more than 4 days in a 14-day period. The maximum daily benefit payable in the benefit year that began July 1, 2007 is $59, and maximum benefits for biweekly claims is $590. The maximum daily benefit rate increases to $61 on July 1, 2008 and $64 on July 1, 2009.

The program offers “normal” and “extended” benefits. Qualified workers can receive normal benefits for up to 130 days (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 (13 additional weeks) of extended benefits. The average duration of benefits fluctuates with the unemployment rate. In the 1940-2007 period, it ranged from 7.4 to 19.1 weeks and averaged 12.1 weeks.

TABLE 5-8--BENEFITS UNDER THE RAILROAD UNEMPLOYMENT INSURANCE SYSTEM, BENEFIT YEARS 2007-2008, 2008-2009, 2009-2010

Monthly Compensation Amount:	
Base Year 2006	$1,195.00
Base Year 2007	$1,230.00
Base Year 2008	$1,280.00
Qualifying Wages:	
Base Year 2006	$2,987.50
Base Year 2007	$3,075.00
Base Year 2008	$3,200.00
Daily Benefit Rate: Basic Rate	60% of daily rate of pay
Maximum: 5 Percent of Base Year Monthly Compensation Base	
Benefit Year 2007-2008	$59.00
Benefit Year 2008-2009	$61.00
Benefit Year 2009-2010	$64.00
Minimum Guarantee	$12.70
Maximum Normal Benefits:[1]	
For 14-day Period:	
Benefit Year 2007-2008	$590.00
Benefit Year 2008-2009	$610.00
Benefit Year 2009-2010	$640.00
For Benefit Year:	
Duration:	130 Compensable Days
Amount:[1]	
Benefit Year 2007-2008	$7,670.00
Benefit Year 2008-2009	$7,930.00
Benefit Year 2009-2010	$8,320.00
Maximum Extended Benefits:	
10 or More Years of Service:	
Duration:	65 Compensable Days
Amount:	
Benefit Year 2007-2008	$3,835.00
Benefit Year 2008-2009	$3,965.00
Benefit Year 2009-2010	$4,160.00

[1] Not to exceed the employee's taxable earnings in the base year, counting earnings up to $1,544 a month for benefit year 2007-2008 (base year 2006), $1,589 a month for benefit year 2008-2009 (base year 2007), and $1,653 a month for benefit year 2009-2010 (base year 2008).

Note: Some net sickness benefit payments are somewhat less than the above amounts because they are subject to tier 1 railroad retirement taxes.

Source: U.S. Railroad Retirement Board.

In 1946, a program of cash sickness benefits was established for railroad workers as part of the unemployment compensation system. Sickness benefits are paid during short-term illnesses or injuries of railroad employees. They 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 or she 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 that is 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 after the 14-day waiting period.

In benefit year 2006-2007, net expenditures were $30 million for unemployment benefits and $44 million for sickness benefits, totaling $73 million, or about 0.4 percent of total wages paid by the industry during the 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 nearly two-thirds of total payments. However, in benefit year 2006-2007, they accounted for 40 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 who drew benefits in a particular benefit year. The railroad insured unemployment rate has been high and volatile since the beginning of the program.

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. Railroad industry employment has declined from 1,195,000 in 1940 to 236,000 in 2006. From 1955 to 2000, the average annual decline in railroad employment was 3.5 percent. Since then, the number of railroad employees has leveled off.

FINANCING

The Railroad Unemployment and Sickness Benefit Programs are financed by payroll taxes on railroad employers. Employees do not pay railroad unemployment taxes. The taxable earnings base in calendar year 2008 is the first $1,280 of each employee's monthly earnings. The earnings base is adjusted each year to equal approximately two-thirds of the cumulative increase in the maximum base for railroad retirement tier 1 taxes since 1984.

Experience-based tax rates, under which employers with higher levels of unemployment pay somewhat higher rates, were phased in on a partial basis in 1991 and 1992, and became fully effective in 1993 with a minimum rate of 0.65 percent and a maximum rate of 12 percent. The future maximum rate could be 12.5 percent if a maximum surcharge is in effect. In 2008, experience-based tax rates ranged from 2.15 percent to 12.0 percent.

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 that are 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 Unemployment Compensation 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 unemployment 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 of August 12, 1983. This legislation 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 to review the unemployment and sickness benefit programs and submit a report to Congress. The Committee convened in 1984 and reviewed all aspects of the Railroad Unemployment Insurance System, especially 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 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.

Changes enacted under the Technical and Miscellaneous Revenue Act of 1988 (Public Law 100-647) 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 ensured 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 (as indexed). The surcharge rate would be 1.5, 2.5, or 3.5 percent depending on how low the balance has 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 (as indexed), the excess will be refunded to the employers in the form of a rate reduction for the year through a pooled credit.

In 1996, Congress enacted 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 claims for intermittent unemployment.

The RRB is required to submit an annual financial report to Congress on the status of the Unemployment Insurance System. The report must include recommendations for financing changes that might be advisable, specifically with regard to rates of employer contributions. The 2007 report (U.S. Railroad, 2007b) states that, under three different sets of employment assumptions (optimistic, moderate, and pessimistic), experience-based contribution rates are projected to respond to fluctuating employment and unemployment levels thereby maintaining fund solvency. Employer contribution rates, which include a surcharge of 1.5 percent in calendar year 2008, are projected to continue to include a 1.5 percent surcharge in calendar years 2009 and 2010. The 2007 report shows that during the 11-year projection period (fiscal years 2007-2017), the average employer contribution rate is projected to remain well below the maximum, even under the pessimistic assumptions. The RRB recommends no financing changes at this time.

LEGISLATIVE HISTORY

In the final quarter of the 19th century, railroads were among the largest companies in America. The first industrial pension was established in the rail industry in 1874. The commercial success of the rail industry peaked in the period between 1900 and 1920, and rail employment decreased significantly in the 1920s.

In the mid-1920s, more than 80 percent of all rail workers were covered by pension plans. By the early 1930s, these pension plans began to face enormous financial problems.

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.

This act structured the Railroad Retirement System 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 age 60 with a reduction in payments. The original disability provisions were very stringent. Little was provided for dependents and nothing for spouses.

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 more 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, made tier 2 benefits and vested dual benefit payments subject to Federal income taxes on the same basis as private and public service pensions, and provided other measures designed to improve railroad retirement financing. (Earlier that year, the Social Security Amendments of 1983 (Public Law 98-21) made up to 50 percent of tier 1 benefits subject to Federal income taxes on the same basis as Social Security benefits.) Without the enactment of this legislation, the Railroad Retirement Board would have been required to substantially reduce benefit payments in 1983.

The Omnibus Budget Reconciliation Act (OBRA) of 1987 (Public Law 100-203) increased tier 2 tax rates in January 1988 by a total of 2 percentage points: 1.35 percentage points on employers and 0.65 percentage points 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 ensured 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 that 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) removed the maximum taxable earnings base for purposes of paying the Medicare payroll tax, thus making all railroad retirement tier 1 earnings subject to the Medicare payroll tax. Public Law 103-66 also increased the amount of Social Security and railroad retirement tier 1 benefits subject to Federal income taxes for persons with higher incomes. A provision in the Social Security Administrative Reform Act of 1994 (Public Law 103-296) extended the transfer of Federal income taxes on tier 2 railroad retirement benefits to the Railroad Retirement Account on a permanent basis and a retroactive payment was made, covering the period October 1, 1992 through September 30, 1994.

The Senior Citizens' Freedom to Work Act (Public Law 106-182) eliminated the earnings limitation on beneficiaries beginning with the month the beneficiary reaches the full retirement age. In the calendar years before the year in which the beneficiary reaches the full retirement age, $1 in benefits is withheld for every $2 earned above an exempt amount ($13,560 in 2008). For months in the calendar year in which the beneficiary reaches the full retirement age (up to the month the beneficiary reaches the full retirement age), $1 in benefits is withheld for every $3 earned above an exempt amount ($36,120 in 2008).

The Railroad Retirement and Survivors' Improvement Act of 2001 (Public Law 107-90) made a number of changes to railroad retirement benefits and financing. In terms of benefit changes, the 2001 law: (1) liberalized early retirement benefits for 30-year employees and their spouses (employees with 30 years of railroad service and their spouses may retire at age 60 with full tier 1 and tier 2 annuities); (2) repealed the cap on total monthly retirement and disability benefits payable to an employee and spouse; (3) lowered the minimum service requirement for retirement annuities from 10 years to 5 years of service performed after 1995; and (4) increased benefits for some widow(er)s.

In terms of financing changes, the 2001 law: (1) established the National Railroad Retirement Investment Trust, which is authorized to invest funds in *nongovernmental* assets as well as government securities (the Board of Trustees invests assets, pays administrative expenses and transfers funds to a disbursing agent responsible for the payment of benefits); (2) adjusted payroll tax rates paid by employers and employees (beginning in 2004, tier 2 tax rates will be based on a 10-year "average account benefits ratio" with employer rates ranging from 8.2 percent to 22.1 percent and employee rates ranging from 0 percent to 4.9 percent); (3) repealed the supplemental annuity work-hour tax; (4) eliminated the Supplemental Annuity Account and transferred the balance in the account to the Trust (the Trust will pay supplemental annuity benefits); (5) provided authority to transfer Railroad Retirement Account funds not needed to pay current administrative expenses to the Trust (the Trust will pay tier 2 benefits); (6) provided authority to transfer Social Security Equivalent Benefit Account (SSEBA) funds not needed to pay current benefits and administrative expenses to the Trust (the SSEBA will pay the Social Security level of tier 1 benefits and the Trust will pay the portion of tier 1 benefits in excess of the Social Security level); (7) provided authority to transfer Dual Benefit Account funds needed for dual benefit payments to a disbursing agent; and (8) provided tax-exempt status for the Trust. The 2001 law was based on joint recommendations to Congress negotiated by rail labor organizations and rail freight carriers.

In the 109th Congress, several minor changes were made to the Railroad Retirement System. The Railroad Retirement Disability Earnings Act of 2006 (Public Law 109-478) increased the monthly earnings limit for RRB disability beneficiaries from $400 to $700 in 2007 and indexed the disability earnings limit for subsequent years to the Average Wage Index. The Pension Protection Act of 2006 (Public Law 109-280) eliminated the requirement that a railroad employee must be entitled to and receiving an annuity in order for his or her divorced spouse to receive an annuity. It also extended the payment of tier 2 annuities to surviving former spouses pursuant to court decrees upon the death of the railroad employee. Finally, the Railroad Retirement Technical Improvement Act of 2006 (Public Law 109-305) required the Secretary of the Treasury to continue to serve as disbursing agent for railroad retirement benefits.

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