SECTION 2. RAILROAD RETIREMENT SYSTEM

CONTENTS

OVERVIEW

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.

Retirement and survivor benefit payments during fiscal year 1995 totaled $8.059 billion. These payments were made to 847,000 beneficiaries. Retired employee and spouse annuitants constituted 582,000 of these beneficiaries and received $6.043 billion. Survivor beneficiaries received a total of $2.016 billion, consisting of $2.009 billion in monthly benefits and $7 million in lump-sum payments. Information on the number of beneficiaries and average benefit amounts for January 1996 is shown in table 2–1.

In the House of Representatives, jurisdiction over Railroad Retirement and Unemployment Benefit Programs is divided between two standing committees. Under the Rules of the House adopted for the 104th Congress, the Transportation and Infrastructure Committee has jurisdiction over legislation pertaining to "railroads . . . and railroad retirement and unemployment (except revenue measures related hereto).'' The Subcommittee on Railroads of the committee has primary responsibility for the Railroad Retirement Act, and amendments to that act 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 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.

TABLE 2–1.—MONTHLY RAILROAD RETIREMENT CASH BENEFITS IN CURRENT-PAYMENT STATUS, JANUARY 1996

	Number	Percent of total	Average monthly benefit
Retired workers	314,300	39.8	$1,143
Disabled workers [1]	35,000	4.4	1,440
Spouses of retired and disabled workers	188,700	23.9	470
Divorced spouses	3,700	0.5	290
Aged widows and widowers	210,400	26.6	699
Disabled widow(er)s	6,500	0.8	622
Widowed mothers and fathers	1,600	0.2	865
Remarried widow(er)s	6,100	0.8	477
Divorced widow(er)s	8,500	1.1	502
Children	15,300	1.9	605
Parents	100	(2)	535
Total monthly benefits	790,100	100.0	$846

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

Note.—Includes tier 1, tier 2, and vested dual benefits. Excludes 166,100 supplemental employee annuities averaging $44. Total includes fewer than 50 survivor option annuities averaging $77, payable under laws in effect before August 1946.

Source: Railroad Retirement Board.

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) while the other provides a retirement benefit specifically for railroad workers (tier 2). The third component, a vested dual benefit, preserved certain benefits for employees who had qualified for both railroad retirement and Social Security benefits prior to the 1974 act.

TIER 1 AND TIER 2

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

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

Dual Benefit Payments

One of the chief purposes of the Railroad Retirement Act of 1974 was to coordinate railroad retirement and Social Security benefit payments to eliminate certain dual benefits considered to be a "windfall" for persons receiving benefits under both systems. This "windfall" was a result of the fact that the total benefit these retirees received from both systems was higher than the benefit they would have received if their benefit were based on their total career earnings but paid only under railroad retirement. The total benefit was higher in these cases since the Social Security benefit formula favors workers who have low average earnings throughout their careers. Low career average earnings result from a career of low wages or from a relatively short career in Social Security covered employment. Workers who spend a period of time in employment not covered by Social Security, such as railroad employment, 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. The benefits were generally preserved for those individuals who were vested under both the railroad retirement and Social Security systems before 1975. These vested dual benefits are financed 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 1995 appropriation was $254,000,000 including income tax transfers. The fiscal year 1996 appropriation was $239,000,000, including income tax transfers. Currently paid to about 19 percent of the Railroad Retirement Board's beneficiaries, the average vested dual benefit is $130 per month.

Supplemental Annuities

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

Lump-Sum Death Benefits

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

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

PROGRAM DATA

Table 2–2 summarizes railroad retirement benefits paid and the number of recipients in selected fiscal years 1950–95. The table shows that the number of beneficiaries increased until about the mid-1980s and declined somewhat thereafter. Similarly, as shown by the constant dollar column in table 2–2, after rapid increases between 1950 and about 1975, benefits increased at a modest rate until the early 1980s. Since then, total benefit payments have actually declined by about $1 billion.

Table 2–3 presents data on new awards for January 1996.

FINANCING THE SYSTEM

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

Payroll Taxes

The primary source of income to the railroad retirement account is payroll taxes levied on covered employers and their employees. These taxes are imposed on wages below an annual maximum amount, known as the "wage base." Currently, both employers and employees pay a "tier 1" tax which is equivalent to the combined Social Security (Old-Age, Survivors and Disability Insurance) and Hospital Insurance (part A of Medicare) tax rate. In addition, a "tier 2" tax is paid by both rail employers and employees. The 1996 annual tier 1 and tier 2 wage bases are $62,700 and $46,500, respectively. Beginning in 1994, there is no wage limit for the hospital insurance portion of the tax (1.45 percent on employers and employees, each). Thus, this tax is imposed on all wages. The scheduled tax rates for both tier 1 and tier 2 are shown in table 2–4.

TABLE 2–2.—TOTAL BENEFIT PAYMENTS AND NUMBER OF BENEFICIARIES, SELECTED FISCAL YEARS 1950–95

Fiscal year	Benefit payments (in millions)[1]				Beneficiaries (in thousands)[2]		
	Total		Retirement	Survivor	Total	Retire-ment	Survivor
	Current dollars	Constant 1995 dollars[3]					
1950	$301.6	$2,418.7	$248.2	$53.4	458	272	189
1955	549.7	3,999.6	424.5	125.2	700	452	252
1960	925.7	5,159.7	711.5	214.2	873	584	299
1965	1,117.7	5,526.9	834.0	283.7	980	650	340
1970	1,593.5	6,362.3	1,177.0	416.5	1,051	702	366
1975	3,060.3	8,428.4	2,222.4	837.9	1,094	733	380
1980	4,730.6	8,727.3	3,389.8	1,340.8	1,084	731	367
1981	5,286.6	8,862.2	3,779.9	1,506.7	1,074	726	363
1982	5,725.5	8,964.9	4,097.9	1,627.6	1,067	722	359
1983	6,041.1	9,020.3	4,354.2	1,686.9	1,056	715	357
1984	6,099.8	8,759.6	4,417.8	1,682.0	1,040	705	351
1985	6,250.9	8,666.1	4,539.3	1,711.6	1,023	694	343
1986	6,329.5	8,520.0	4,608.1	1,721.4	1,007	684	339
1987[4]	6,520.3	8,544.2	4,773.6	1,746.7	994	675	333
1988	6,675.9	8,443.3	4,915.0	1,760.9	981	666	328
1989	6,938.5	8,408.6	5,140.9	1,797.6	967	659	322
1990	7,194.6	8,356.5	5,357.0	1,837.6	951	650	315
1991	7,490.8	8,330.6	5,593.2	1,897.6	932	638	307
1992	7,693.9	8,275.5	5,754.0	1,939.9	913	626	301
1993	7,872.3	8,244.1	5,896.0	1,976.2	898	615	298
1994	7,978.9	8,160.1	5,978.9	1,999.9	874	599	288
1995	8,059.2	8,059.2	6,042.9	2,016.3	847	582	282

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

[2] Number of beneficiaries represents all individuals paid benefits in each year. In the total number for each year, beneficiaries are counted only once, even though they may have received more than one type of benefit. In fiscal year 1995, about 17,000 individuals received both retirement and survivor benefits. Figures are partly estimated.

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

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

Source: Railroad Retirement Board.

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

FINANCIAL INTERCHANGE

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

TABLE 2–3.—NUMBER AND AVERAGE AMOUNT OF NEW AWARDS, JANUARY 1996

Beneficiary type	Number	Average amount
Employee annuities:		
Retired	653	$1,531
Disability (under age 65)	456	1,580
Supplemental	442	41
Spouse annuities	704	486
Divorced spouse annuities	31	293
Survivor benefits:		
Aged widows and widowers	634	851
Disabled widows and widowers	24	834
Widowed mothers and fathers	17	924
Divorced and remarried widows	94	556
Children	60	769
Parents	....	....
Insurance lump sums	575	859
Residual payments	13	3,379
Total	3,703	....

Source: Railroad Retirement Board.

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 (RRB) Social Security Equivalent Benefit Account. If income exceeds benefits, the transfer would be from the RRB's Social Security Equivalent Benefit Account to the Social Security trust funds. Before 1985, transfers were to or from the Railroad Retirement Account.

The determination of the amount to be transferred through the financial interchange for a given fiscal year is made no later than June of the year following the close of the preceding fiscal year. Table 2–5 shows the actual operation of the financial interchange for selected years as it relates to each of the three major Social Security trust funds.

TABLE 2–4.—SCHEDULED TAX RATES FOR TIER 1 AND TIER 2, SELECTED YEARS 1975–2001

	Tier 1		Wage base [1]	Tier 2		Wage base	Combined [2]	
	Employer	Employee		Employer	Employee		Employer	Employee
1975	5.85	5.85	$14,100	9.5	0	$14,100	15.35	5.85
1980	6.13	6.13	25,900	9.5	0	20,400	15.63	6.13
1985	7.05	7.05	39,600	13.75	3.50	29,700	20.80	10.55
1986	7.15	7.15	42,000	14.75	4.25	31,500	21.90	11.40
1987	7.15	7.15	43,800	14.75	4.25	32,700	21.90	11.40
1988	7.51	7.51	45,000	16.10	4.90	33,600	23.61	12.41
1989	7.51	7.51	48,000	16.10	4.90	35,700	23.61	12.41
1990	7.65	7.65	51,300	16.10	4.90	38,100	23.75	12.55
1991	7.65	7.65	53,400	16.10	4.90	39,600	23.75	12.55
1992	7.65	7.65	55,500	16.10	4.90	41,400	23.75	12.55
1993	7.65	7.65	57,600	16.10	4.90	42,900	23.75	12.55
1994	7.65	7.65	60,600	16.10	4.90	45,000	23.75	12.55
1995	7.65	7.65	61,200	16.10	4.90	45,300	23.75	12.55
1996	7.65	7.65	62,700	16.10	4.90	46,500	23.75	12.55
1997	7.65	7.65	65,100	16.10	4.90	48,300	23.75	12.55
1998	7.65	7.65	68,100	16.10	4.90	50,700	23.75	12.55
1999	7.65	7.65	71,100	16.10	4.90	52,800	23.75	12.55
2000	7.65	7.65	74,100	16.10	4.90	54,900	23.75	12.55
2001	7.65	7.65	76,800	16.10	4.90	57,000	23.75	12.55

[1] The wage base for the 1.45 percent hospital insurance tax, included in the 7.65 percent tier 1 rate, is $125,000 in 1991, $130,200 in 1992, $135,000 in 1993, and no limit in 1994 and later.

[2] These rates apply only up to the tier 2 maximum wage base.

Note.—1997–2001 wage bases are projected.

Source: Railroad Retirement Board.

TABLE 2–5.—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 1995

[In millions of dollars]

Fiscal year	Old age and survivors insurance	Disability insurance	Hospital insurance	Total
Through June 30, 1954	−$21.1			−$21.1
1955	−7.4			−7.4
1960	318.4	−$4.9		313.5
1965	435.6	23.6		459.3
1970	578.8	10.4	−$63.5	525.7
1975	981.8	28.5	−132.5	877.8
1980	1,442.0	−12.1	−244.3	1,185.6
1981	1,584.9	29.4	−276.5	1,337.9
1982	1,793.3	26.4	−351.4	1,468.2
1983	2,250.8	27.8	−357.7	1,920.9
1984	2,404.0	21.6	−350.6	2,075.0
1985	2,310.2	42.7	−371.4	1,981.5
1986	2,585.1	67.7	−364.4	2,288.4
1987	2,557.3	56.9	−368.0	2,246.2
1988	2,790.0	61.3	−363.8	2,487.5
1989	2,845.3	88.2	−378.8	2,554.7
1990	2,969.3	79.9	−367.4	2,681.8
1991	3,374.6	82.1	−352.2	3,104.5
1992	3,148.4	58.0	−374.5	2,831.9
1993	3,352.5	82.8	−400.5	3,034.9
1994	3,419.6	106.0	−412.9	3,112.6
1995	4,052.3	67.8	−396.1	3,724.1
Total	57,449.1	1,239.5	−7,020.9	51,667.7

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

Source: Railroad Retirement Board.

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

GENERAL REVENUE APPROPRIATIONS

Vested dual benefits are funded solely through general revenue appropriations. The Congress authorized such funding in the 1974 act through the year 2000. The total appropriated for the first 20 fiscal years 1976–95 for which these benefits were payable was $6.120 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 into this account. If the amount appropriated is insufficient to pay the full vested dual benefits to all eligible beneficiaries for a full year, the Railroad Retirement Board is authorized to prorate payments from the dual benefits account so that the amounts paid do not exceed the amounts appropriated.

In addition to amounts transferred to the Dual Benefits Payments Account through the regular appropriations process, the Railroad Retirement Solvency Act of 1983 provided for the appropriation of approximately $1.7 billion to the Railroad Retirement Account in three installments paid on January 1, 1984, 1985, and 1986. These three appropriations were to reimburse the Railroad Retirement Account for prior shortfalls in annual appropriations. The actual amounts received, including interest, totaled $2.128 billion. This amount is not included in the figure given above for total appropriations between 1976 and 1993.

Other Income

Funds not needed immediately for benefit payments are invested in interest-bearing securities. During fiscal year 1995, the Railroad Retirement Account and Social Security Equivalent Benefit Account received $1.146 billion in investment income. This represents an annualized interest yield of 7.36 percent.

A cents-per-hour tax is used to fund the supplemental annuity benefit. This tax is levied solely on employers. The rate, 34 cents per work hour in January 1996, is determined quarterly by the Railroad Retirement Board and is set at a level necessary to fund the benefit on a pay-as-you-go basis.

INCOME TAXATION OF RAILROAD RETIREMENT BENEFITS

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

FINANCIAL STATUS OF THE RAILROAD RETIREMENT ACCOUNT

One of the most important factors affecting the financial status of the Railroad Retirement System is the level of employment in the industry. The recent history of industry employment is shown in table 2–6 below.

TABLE 2–6.—RAILROAD INDUSTRY EMPLOYMENT, 1940–95

	Number (thousands)
1940	1,195
1945	1,085
1950	1,421
1955	1,239
1960	909
1965	753
1970	640
1975	548
1976	540
1977	546
1978	542
1979	554
1980	532
1981	503
1982	440
1983	395
1984	395
1985	372
1986	342
1987	320
1988	312
1989	308
1990	296
1991	285
1992	276
1993	271
1994	266
1995	264

Source: Railroad Retirement Board.

While the trust funds currently have a reserve of over $14 billion, the continuing decline in railroad employment has often prompted questions about the financing of the Railroad Retirement System after the year 2000. Section 502 of the Railroad Retirement

Solvency Act of 1983 requires a report each year on the Railroad Retirement System's actuarial status, and financing recommendations when appropriate. Because of the decline in employment, the Railroad Retirement Board's (1987) Chief Actuary recommended in his 1987 report that a commission be established to study financing issues and that tier 2 taxes be increased until any tax adjustments recommended by the commission become effective.

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

In August 1994, the U.S. Railroad Retirement Board transmitted to Congress its 19th triennial actuarial valuation of the Railroad Retirement Program's assets and liabilities. The report projected income and outgo under three employment assumptions. The valuation concluded that, barring a sudden, unanticipated, large drop in railroad employment, the Railroad Retirement System will experience no cash flow problems for at least 20 years. The annual report required by the 1983 solvency act (section 502) transmitted to Congress on June 25, 1996 (see U.S. Railroad Retirement Board, 1996) raises the cash flow safe period to 25 years. The long-term stability of the system, however, depends on actual railroad employment levels over the coming years.

LEGISLATIVE HISTORY

In the final quarter of the 19th century, railroad companies were among the largest in America. It was in the rail industry that the first industrial pension was established in 1874. By the mid-1920s more than 80 percent of all rail workers were covered by pension plans.

In the early 1930s these pension plans began to face enormous financial problems. The commercial success of the rail industry peaked in the period between 1900 and 1920, and rail employment decreased significantly in the 1920s.

Rail pension plans were for the most part poorly constructed. There was no regulation of plan terminations, which were frequent, pension funds were chronically underfinanced, and most funds 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 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 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 1970s and 1980s, the Railroad Retirement System encountered recurrent financial crises as a result of employment declines in the industry, inflation, and the increase in the number of beneficiaries. Major legislation was enacted in 1974, 1981, 1983, and 1987 to prevent the system from becoming insolvent.

The Railroad Retirement Solvency Act of 1983 (Public Law 98–76) increased payroll taxes on employers and employees, deferred cost-of-living increases, reduced early retirement benefits, subjected benefits to Federal income taxes, and provided other measures designed to improve railroad retirement financing. Without the enactment of this legislation, the Railroad Retirement Board would have been required to substantially reduce benefit payments in 1983. Since enactment of the 1983 legislation, the trust funds have accumulated a reserve of over $14 billion.

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

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

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

The continuing decline in rail employment has raised questions concerning the practicality of relying on payroll tax funding in the next century. The Committee on Ways and Means included in the 1987 reconciliation bill a provision which established a Commission on Railroad Retirement Reform (1990) for the purpose of conducting a comprehensive study of the issues pertaining to the long-term financing of the Railroad Retirement System. The Commission unanimously concluded that the program ". . . is financially sound in the intermediate term." However, the report adds that it is not unlikely that the system would remain sound over the 75-year period used for actuarial valuations without further tax increases.

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

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

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

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

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