

The Success Story of Railroad Retirement—*Better Benefits, Stronger System, Healthier Industry*

In an era of declining private pensions and predicted shortages for Social Security, some 180,000 current railroad industry employees are covered by a separate retirement system that today provides enhanced benefits to about 634,000 beneficiaries and is considered by both rail labor and management leaders to be in excellent financial health.

Rail industry employees are the only significant group of private-sector U.S. workers not covered by Social Security. Instead, they are covered by a two-tiered retirement system that is administered by the federal government through the Railroad Retirement Board. All Tier II and some Tier I funds are under management by an independent, non-profit National Railroad Retirement Investment Trust. Tier I of railroad retirement provides benefits largely equivalent to Social Security and requires the same level of taxes from employers and employees. Tier II provides benefits similar to those of a defined-benefit pension plan. Both employers and employees contribute to Tier II through payroll taxes, though the railroads pay a much higher payroll tax rate than employees.

Three factors are of primary importance in evaluating the health of most retirement systems, including railroad retirement: the investment performance of the funds that have been paid in; the statutory safeguards; and industry employment levels.

Praise for the Trust, and the federal legislation that created it five years ago in a modernization effort jointly backed by the leaders of the Class I railroads and railroad unions, came from all sides at a recent congressional hearing.

“One of the most resounding successes to ever come before this committee,” declared Rep. Steven LaTourette (R-Ohio), chairman of the Railroad Subcommittee of the House Transportation and Infrastructure Committee, at the May 10, 2006, hearing, in describing the results of the Railroad Retirement and Survivors’ Improvement Act of 2001 and the Trust it created.

The collaboration among rail labor, management and legislators has “provided better railroad retirement benefits for rail workers, their dependents and survivors,” and “the financial security of the railroad retirement system has been strengthened,” said Robert A. Scardelletti, international president of the Transportation Communications International Union, in written testimony to the Subcommittee.

Investment Performance

The 2001 legislation authorized investment of portions of the Trust’s fund balance, for the first time, in investments other than government securities such as Treasury bills, notes and bonds that provide a more stable, but relatively lower rate of return than other types of investments. At the time the Trust began operating in February 2002, the value of assets was \$20.7 billion, and as of Dec. 31, 2005, that value had risen to \$29.2 billion, an increase of \$8.5 billion with which to pay future benefits.

“A major rationale for investing railroad retirement funds in diversified investments, including equities, was to increase the rate of return of those investments – enhancing the long-term

viability of the railroad retirement system even as benefits were increased and tax rates were reduced,” said Edward R. Hamberger, president and CEO of the Association of American Railroads, in his written testimony. “This is exactly what has happened.” The result, he said, has been “more money in the pockets of rail employees and financially stronger railroads.”

This approach has enabled the industry to pay enhanced benefits to railroad employees, including an early retirement feature that permits career employees to retire with full benefits at age 60, after 30 years’ credited service, at a time when Social Security is transitioning full-benefit eligibility from age 65 to 67. During fiscal year 2005, railroad retirement-survivor benefits of nearly \$9.2 billion were paid to about 634,000 beneficiaries. The average annuity paid to retired rail employees was \$1,750 a month, as of the end of FY 2005. Spouse benefits averaged \$640 a month, and benefits for surviving spouses averaged \$1,070 a month.

Legislative Safeguards

The obligation to fund the Trust rests primarily on the railroads. Under the 2001 legislation, the employee portion of Tier II taxes (presently 4.4%) can *never* be greater than 4.9%. The railroads’ share (presently 12.6% of payroll) can be increased to as high as 22.1% of payroll if that should be necessary to fund the Trust. If employment levels fall or earnings from the invested funds decline, it is the railroads (not their employees) that face substantially increased payroll taxes to ensure the system remains sound.

In a press release shortly after the congressional hearing, Paul Thompson, international president of the United Transportation Union (UTU) called the results of the first five years “an enormous success born of partnership” among the railroads, the rail unions and legislators.

Rail Employment Levels

The Railroad Retirement Board has said the system is sound, and it would take a “sudden, unanticipated, large decrease in railroad employment” to threaten its future. The Board recognizes the trend in the industry is toward job growth, especially as traffic levels have increased and the outlook is for more demand for rail service.

Recently, some have questioned whether the railroads’ bargaining proposal to negotiate flexibility in staffing for train operations or other proposed productivity improvements would place the railroad retirement system in jeopardy by drastically cutting railroad jobs. Nothing could be further from the truth. The railroads’ proposal to the United Transportation Union, as outlined in a recent [letter to transportation supervisors](#), would protect current employees from furlough (layoffs), and would, among other benefits, create new utility positions for train operations.

Just as important, any train staffing changes would be implemented gradually as the advanced technology for train control is federally approved, and investments in this technology and related employee training are made by the railroads. Moreover, implementation of train staffing changes made possible by the new technology would take place on a train corridor-by-train corridor basis over a period of years. In any event, if rail retirement funds “fail to keep pace with benefit distributions, railroads—not taxpayers—will be responsible for ensuring the solvency of the system,” Hamberger said in his testimony.