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The Honorable Fred B. Rooney
Chairman, Subcommittee on
Transportation and Commerce
Committee on Interstate and
Foreign Commerce
House of Representatives

RELEASED



Dear Mr. Chairman:

As requested by your office on April 10, 1978, enclosed
are our comments on 10 bills--H.R. 1141, 2720, 3581, 4291,
4302, 4553, 4584, 6929, 7390, and 9604--introduced during
the 95th Congress to amend the Railroad Retirement Act of
1974 (45 U.S.C. 231). As agreed, ~~we~~ considered the impact
* these bills, or similar future bills, would have on benefi-
ciary groups and the Railroad Retirement Account.

GAO considers the impact of the bills pending in Congress and on the R.R. Act.

All 10 bills would increase benefit payments. Financing
these increased benefits, although not addressed by the
bills, would presumably come from the Railroad Retirement
Account or general revenue appropriations.

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Your office previously asked the Railroad Retirement
Board to report on the potential effects of the 10 bills.
Board reports on bills H.R. 1141 and 4302 have been sent to
the Office of Management and Budget. Reports on bills
H.R. 2720 and 4584 have been drafted but are awaiting review
by the Board members. Reports on the remaining six bills
are being drafted by Board personnel.

Board officials attributed the delay in completing the
reports--most of the reports were requested in spring of
1977--to past vacancies on the Board, which reviews and
comments on the reports before they are released. They also
cited heavy litigation and correspondence workloads caused
by the Railroad Retirement Act of 1974 as reasons for not
responding promptly.

FINANCIAL STABILITY OF THE
RAILROAD RETIREMENT ACCOUNT

Even if the bills are not enacted, the long-term
financial stability of the Railroad Retirement Account is

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doubtful. Between fiscal years 1970 and 1978, the balance of the Railroad Retirement Account dropped 42 percent, from \$4.8 billion to \$2.8 billion. From 1970 through 1974, the balance dropped an average of \$132 million a year. The Railroad Retirement Board's 13th actuarial valuation of the account published in 1976 predicted, based on data through 1974, depletion of the account between 1985 and 1990. From 1975 through 1978, the rate of decline has increased to an average of \$356 million a year. If this rate of decline continues, the account will be depleted during 1986.

The need to finance benefit increases and assure the long-term stability of the Railroad Retirement Account is demonstrated by analyzing the impact of just one bill. H.R. 1141 would reduce benefit eligibility ages at an estimated additional cost of \$445 million annually, of which \$422 million would be financed from the Railroad Retirement Account and \$23 million would be financed by a separate account which is funded entirely by employers. The additional \$422 million a year in benefits would increase the depletion rate to \$778 million a year and deplete the account during 1982.

In view of the above-described financial condition of the Railroad Retirement Account, if the Congress decides to enact legislation increasing railroad retirement benefits, we believe the legislation should provide for necessary revenue sources to fund such increases.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 7 days from the date of the report. At that time we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,


ACTING Comptroller General
of the United States

Enclosure

SYNOPSIS OF TEN BILLS PROPOSED TO
AMEND THE RAILROAD RETIREMENT ACT

We grouped the bills into three categories according to their general purposes. The first category includes two bills (H.R. 2720 and 4584) that eliminate special eligibility requirements for payments that, in effect, preserve dual benefits earned before 1975 under the Railroad Retirement and Social Security Acts (known as windfall benefits). The second category contains five bills (H.R. 1141, 4302, 6929, 7390, and 9604) that ease eligibility requirements for regular retirement benefits. The third category contains three bills (H.R. 3581, 4291, and 4553) that create new beneficiary groups.

ELIMINATION OF SPECIAL ELIGIBILITY
REQUIREMENTS FOR WINDFALL BENEFITS

The so-called windfall benefits currently being paid arose from special provisions of the Railroad Retirement Act of 1974. Under these provisions, individuals could no longer qualify after 1974 for separate pensions from the social security and railroad retirement systems which, in total, were larger than the pension they would have earned had all their earnings been credited to only one system. However, individuals already entitled to these dual benefits by December 31, 1974, remain eligible for windfall payments (additional amounts required to make payments equal to the total amount to which the individual would be entitled if he received full dual benefits) from an appropriation of general revenue funds.

Workers qualify for windfall benefits if, prior to 1975, they

1. (a) had 10 years of railroad service and were fully insured under the Social Security Act, or
(b) had 10 years of railroad service and their spouses were fully insured under the Social Security Act, and
2. (a) worked in the railroad industry in 1974, or
(b) worked in the industry during 12 of the 30 months preceding December 31, 1974, or their retirement, or
(c) had 25 years of railroad service.

Those vested under both acts but not meeting any of the last three requirements receive windfall benefits based on pre-1975 laws and earnings if they were vested under social security before the end of the last year in which they worked in the railroad industry.

H.R. 2720 and 4584 would provide windfall benefits to all workers who, before 1975, had 10 years of railroad service and were fully insured, or had spouses who were fully insured, under the Social Security Act. The plaintiffs in a class action suit--Lipp et al. v. Railroad Retirement Board (No. 76-419-C, SD Indiana)--essentially seek the same objectives as these bills. According to Board officials, this case will not be resolved for at least a few years.

Board officials estimate either of these bills would increase the annual windfall appropriation requirement by \$84 million by providing new or increased windfall benefits for about 130,000 beneficiaries.

RELAXATION OF ELIGIBILITY FOR BENEFITS

Five of the proposed bills would ease eligibility requirements for benefits. H.R. 1141 and 7390 would lower eligibility ages for various benefits. H.R. 4302 and 9604 would extend eligibility to additional people. H.R. 6929 would allow beneficiaries to work up to 35 hours a week without losing most of their benefits.

H.R. 1141

This bill would lower benefit eligibility ages as follows:

<u>Type of benefit</u>	<u>Eligibility age</u>	
	<u>1974 Act require- ment</u>	<u>Proposed under H.R. 1141</u>
Regular retirement		
with less than 30 years of service	65	65
with 30 years of service	60	55
Supplemental		
with 25 years of service	65	65
with 30 years of service	60	55
Spouse: full annuity		
employee with less than 30 years of service	65	<u>a/55</u>
employee with 30 years of service	60	<u>a/50</u>
reduced annuity with less than 30 years of service (note b)	62	52
Widow: full annuity	65	65
reduced annuity	60	55
reduced annuity (disabled)	50	45
Surviving parent	60	55

a/This change applies only to employees retiring after 1974.

b/Also, employee must be 60 under present law, 55 under proposed law.

According to the Board's 1977 annual report, 49,493 railroad employees, aged 55 to 59, had 30 or more years of service as of 1976. The bill would extend immediate eligibility to all members of this group, their dependents, and their survivors. The Board estimates this change would increase benefit payments by \$445 million a year. Of this amount, \$23 million would be for supplemental benefits funded by employers. The remainder would be financed from the Railroad Retirement Account.

The Board's report on this bill recommends its disapproval because of its cost and several technical deficiencies. In essence, these technical deficiencies are:

- The lower spouse eligibility ages apply only to cases where the employees retired after certain dates. Thus, solely because employees retired on different dates, their spouses would be eligible for benefits at different ages.

- Similarly, some reduced spouse benefits would be converted to full benefits while others would not.
- The bill does not specify how to compute the social security portions of spouse benefits where no comparable social security benefits exist.

H.R. 7390

Although this bill seeks to lower the eligibility age to 60 for all spouse benefits, it would not accomplish this in all cases because it does not amend a related section of the act.

Under the 1974 Act, spouses of employees with less than 30 years of service must be at least 65 or have dependent children to receive full benefits, or be at least 62 to receive reduced benefits. Spouses of employees with 30 years of service are entitled to full benefits at 60.

H.R. 7390 would grant full benefits to all spouses at age 60 except that it fails to amend a related section of the act. That section, 602(c), would continue to deny

- benefits to spouses of employees who retired before 1975 until the employee is 65 and
- the same spouses benefits based on their caring for dependent children.

Although this bill would clearly increase program benefit costs, no specific cost information is available.

H.R. 4302

This bill gives current connection status to all railroad employees with 30 years of service. Current connection status is a qualification for supplemental, occupational disability, and survivor benefits and one of four alternate qualifications for windfall benefits. Under the 1974 Act, the law gives employees current connection status only if they worked in the railroad industry during 12 of the last 30 months of employment preceding their retirement or death. Special provisions apply to survivors and certain employees of some Federal agencies.

The Board estimates that enactment of this bill would cost \$15 million a year in increased supplemental, occupational disability, and survivor benefit payments. Windfall benefit costs may also increase slightly.

H.R. 9604

This bill would allow former railroad employees working for the Department of Energy to retain their current connection status. Normally, employees leaving the industry before retirement 1/ lose their status and thereby their eligibility for supplemental, occupational disability, survivor, and windfall benefits. The act already protects the current connection status of employees of the Department of Transportation, Interstate Commerce Commission, National Mediation Board, and Railroad Retirement Board. The Senate report on the 1974 Act (Publication No. 93-1163) noted that this provision is intended to protect survivors of employees who leave railroad service to work in Federal agencies performing functions involving the railroad industry.

Data on the cost of this bill is not available.

H.R. 6929

Under the 1974 Act, beneficiaries are subject to suspension of their regular, spouse, and windfall benefits and permanent loss of their supplemental benefits if they return to work in the railroad industry or for their last employer (even if that employer was not in the railroad industry). This bill would allow beneficiaries to work 35 hours a week or less in the railroad industry or for their last non-railroad employer without losing most of their benefits.

The bill does not change the supplemental benefit section of the act. Beneficiaries returning to work in the railroad industry or for their last nonrailroad employer would still permanently forfeit these benefits.

The latest available information indicates that about 38,000 railroad employees, although eligible, have chosen not to retire. Enactment of H.R. 6929 may induce many of

1/Actually, employees may leave the industry and retain their current connection status if they have at least 12 months of railroad service during the last 2-1/2 years preceding retirement.

them to apply for benefits, adding perhaps as many as 62,000 retirees and spouses to the benefit rolls. These employees would be strongly encouraged to retire by the prospects of simultaneously

- drawing most retirement and spouse benefits,
- continuing to earn up to 87.5 percent of their salaries, and
- earning service credit toward higher benefits.

The potential cost of H.R. 6929 has not been estimated.

CREATION OF NEW BENEFICIARY GROUPS

The final three bills--H.R. 3581, 4291, and 4553--create new beneficiary groups. H.R. 3581 establishes benefits for divorced wives and remarried widows, and H.R. 4291 seeks to reinstate benefits for widows and widowers whose remarriages end. Both bills have technical deficiencies that create ambiguities or inconsistencies in the treatment of beneficiaries. H.R. 4553 credits World War II military service as railroad service for retirement purposes without requiring prior railroad employment.

H.R. 3581

This bill would establish benefits equal to those provided under the Social Security Act for divorced wives and remarried widows.

Although the Board's report and cost estimate are not complete, its General Counsel made the following observations on the bill:

- In some instances, a divorced wife could begin receiving benefits before the employee's current wife could receive benefits.
- It is not clear if a surviving divorced wife would be entitled to a benefit if the employee died before becoming eligible for retirement.
- Apparently, the surviving divorced wife of a beneficiary who did not have a current connection status would receive a benefit. For other survivor cases, no benefits are payable without current connection status.

--The number of benefits one person may receive is not restricted, nor are total benefits limited to the single highest benefit amount payable.

--Remarried widows may be eligible for benefits even if the employee was not vested and did not have a current connection status.

Although this bill would clearly increase benefit costs, the inconsistencies in the bill make its probable cost uncertain.

H.R. 4291

Under the 1974 Act, remarriage permanently ends benefits of widows and widowers. Although this bill seeks to reinstate the benefits of widows and widowers whose remarriages end, it does not accomplish this because it does not amend all the relevant sections of the act. As a result, different sections of the act would have inconsistent provisions. Under this bill, the sections of the act specifically addressing eligibility for widow and widower benefits (section 2(d)(1)(i) and (ii)) would be changed from "who has not remarried" to "who is not married." Thus, reinstatement of widow and widower benefits, should subsequent remarriages end, would be possible. However, sections of the act addressing termination of these benefits (section 5(c)(4)-(6)) would not be amended. Reinstatement would probably not be permitted under these provisions.

The uncertainty of this bill's effect makes its probable cost uncertain.

H.R. 4553

This bill, without requiring prior railroad employment, credits up to 5 years of World War II military service as railroad service for retirement purposes. Accordingly, H.R. 4553 would provide railroad retirement benefits to some World War II veterans who had as little as 5 years of later railroad employment.

Another bill, H.R. 8604, includes not only World War II military service but also service during the Korean and Vietnam conflicts. Although not one of the 10 bills we were specifically asked to review, we are including H.R. 8604 in this discussion because its potential cost to the railroad retirement system is significant.

Specifically, H.R. 8604 could permit veterans who never worked in the railroad industry to be awarded railroad retirement benefits solely on the basis of their military service. The amount of military service that could be credited as railroad service under H.R. 8604 is shown in the following table.

<u>War period</u>	<u>Dates</u>		<u>Years</u>
	<u>From</u>	<u>To</u>	
World War II	12/01/41	12/31/46	5
Korea	6/25/50	7/27/53	3
Vietnam	1/01/61	1/27/73	<u>12</u>
Total			<u>20</u>

The number of veterans who could qualify for railroad retirement benefits under these two bills cannot be determined from Board records since many may not have worked in the railroad industry.