

Why GAO Did This Study

RRB collects payroll taxes and administers retirement, disability, and Medicare benefits for rail workers and their families. A financial interchange exists between RRB, SSA, and HHS in order to put the trust funds for these benefits in the same financial position as if Social Security covered rail workers. RRB generally transfers to the Social Security and Hospital Insurance trust funds the taxes that would be collected from rail workers and employers, while SSA provides RRB the benefits that would otherwise be paid directly to rail workers. GAO was asked to review the financial interchange calculation process.

This report examines (1) the steps taken to calculate financial interchange amounts, (2) factors that could account for trends in transfers over time, and (3) the extent to which RRB, SSA, and HHS provide oversight to ensure calculations are accurate. GAO reviewed agency policies, procedures, and regulations; observed RRB staff calculating four cases selected for beneficiary type; reviewed data on payment and beneficiary trends; and interviewed agency officials.

What GAO Recommends

GAO makes eight recommendations, including that RRB create formal policies and improve documentation of its processes, work with SSA to obtain data electronically, and that SSA and HHS increase their oversight. RRB and SSA agreed, while HHS did not, asserting that statute limits its authority; however, HHS continues to review this issue. HHS should seek this authority if it determines it necessary.

View [GAO-18-323](#). For more information, contact Elizabeth Curda at (202) 512-7215 or curdae@gao.gov.

RAILROAD RETIREMENT BOARD

Additional Controls and Oversight of Financial Interchange Transfers Needed

What GAO Found

Established in 1937, the Railroad Retirement Board (RRB) administers retirement and disability benefits for rail workers and their families. A financial interchange between RRB and the Social Security Administration (SSA) was created in 1951, which as GAO previously reported, helped finance RRB benefits as they increased over time to keep pace with growing Social Security benefits to individuals. Through its financial interchange calculation, RRB takes steps each year to estimate the amount of funds that would have flowed in and out of Social Security's trust funds if rail beneficiaries were covered by Social Security instead of RRB. Five key steps go into the annual calculation:

- RRB is credited for (1) the estimated amount of benefits it would have paid to beneficiaries under SSA rules, (2) administrative costs, and (3) interest accrued on the financial interchange amount.
- SSA is credited for the revenues it would have received from rail workers if they paid into Social Security; specifically, (4) payroll taxes and (5) income taxes paid on benefits received.

The determined net amounts are transferred between the agencies, which since 1958 have been from SSA to RRB each year. RRB received \$4.1 billion in fiscal year 2016, almost one-third of the \$12.4 billion in retirement and disability benefits it paid that year. The financial interchange was expanded to Medicare in 1965 to facilitate funding of Medicare benefits to rail workers; RRB transfers Medicare payroll taxes collected, income taxes paid on benefits received, and interest, minus administrative costs to the Department of Health and Human Services (HHS).

A high ratio of beneficiaries to active railroad workers primarily explains the net transfers from Social Security's trust funds to RRB each year since 1958. Rail employment has fallen steadily since World War II, and the number of beneficiaries has exceeded the number of workers since 1961. RRB had 2.7 beneficiaries for every worker in 2015. As a result, RRB has paid out more in benefits than it has collected in payroll taxes and projects this to continue for the foreseeable future.

RRB takes a number of steps each year to ensure the accuracy of its calculations, such as checking that the sample of cases used to estimate benefit payments is complete, reviewing the work of new employees, and using electronic alerts to help prevent staff from entering incorrect information into its computer system. SSA and HHS also conduct high-level reviews of the calculation results to identify any significant changes from one year to the next. However, RRB's process includes manual data entry and its electronic edit checks cannot flag entries that are incorrect but plausible, which could lead to calculation errors. RRB also has limited documentation of its calculation process, and does not have formal policies on how staff should address some potential calculation errors and on how supervisors should review staff work. This is contrary to internal control standards for having quality data and documenting procedures. In terms of SSA and HHS, they do not currently review case-level calculations made by RRB, and cannot reasonably ensure that work used to determine the transfers they made and received is correct.