Beginning in 1972, the date on which the Secretary of Labor certifies to the Secretary of the Treasury that State laws and administration meet the requirements of the Federal Unemployment Tax Act is changed from December 31 to October 31 of each year.

The new legislation provides for enforcement of existing prohibitions against unequal treatment of maritime and other employment in which the Federal Government has a special jurisdictional interest.

The Railroad Retirement Amendments of 1970*

Three laws enacted in the past year have made significant changes in the Railroad Retirement Act. The most recent amendments, enacted August 12, 1970 (Public Law 91–377) established a commission with a broad mandate to examine the system and recommend the changes necessary for its maintenance on a sound actuarial basis. These amendments also provided a temporary increase in benefits and a favored position in the determination of the interest rate for investments in special obligations issued to the Railroad Retirement Account. An earlier amendment (Public Law 91–215, enacted March 17) continued the supplemental annuity program on a permanent basis, with provision for adequate financing. The Social Security Amendments of 1969 (Public Law 91–172, enacted December 30, 1969) provided a 15-percent increase to social security beneficiaries, which is automatically reflected in railroad retirement annuities paid under the provisions of the minimum guarantee.[1]

Commission on Railroad Retirement

For the past few years employment in the railroad industry has been shrinking. Although taxable payrolls have not decreased substantially, they have been maintained because of increases in the earnings base. Employment has dropped from a level of approximately 1,400,000 in 1950 to 659,000 in 1969. For several years railroad retirement beneficiaries have outnumbered railroad employees. At the present time the Railroad Retirement Account is running at a deficit of $31 million a year, representing an actuarial deficit of about 2/3 of 1 percent of taxable payroll. In view of these facts, Congress acted to establish a five-member commission to study the railroad retirement system and to recommend the changes necessary to restore the system to an actuarially sound basis.

The commission is to consist of (1) three members appointed by the President without a requirement for Senate confirmation, one representing the railroad industry, one representing railroad employees, and one representing the public; (2) one member appointed by the Speaker of the House after consultation with the House Committee on Interstate and Foreign Commerce and another by the President pro tempore of the Senate after consultation with the Senate Committee on Labor and Public Welfare—both representing the public.

The President is to appoint as chairman one of the five commissioners. The commission may appoint an executive director and such other staff and consultants as it deems necessary. In addition, an actuarial consultant is to be appointed by the commission.

The commission must make its report to Congress by July 1, 1971. It is specifically instructed to include in its consideration the following questions:

(1) The necessity of providing benefit increases commensurate with social security benefit increases;

(2) the necessity of revising benefits to meet increases in the cost of living;

(3) the question of the adequacy of benefit levels for various classes of beneficiaries;

(4) the possibility of transferring the coverage of some classes of beneficiaries to the social security system;

(5) changes necessary to make permanent the temporary benefit increases included in the amendments;

(6) the possibility of changes in the financing methods—including adjustment of tax rates, adjustment of earnings base, use of general revenues financing, and revision of the investment policy of the Railroad Retirement Account; and

(7) the relationship between the social security and

* Prepared by Orlo Nichols, Office of the Actuary.

[1] Railroad retirement annuities are at least 110 percent of the total amount (or the additional amount plus 10 percent of the total amount) that would be payable under the Social Security Act if railroad service were employment covered under that system.

railroad retirement systems in the areas of benefits, tax rates, and earnings base, including the desirability and feasibility of a merger of the two systems.

Benefit Increases

Among the changes made in the August amendments was the provision (from January 1, 1970, to June 30, 1972) of a temporary 15-percent increase to all beneficiaries not affected by the social security minimum guarantee provision. The higher amounts were provided on a temporary basis because the financing was inadequate to support a permanent increase and because the system may undergo major revision on the basis of the new commission's report.

Before the temporary increase was enacted, the annuity to a retired railroad employee was computed by a formula based on his average monthly compensation and the number of years of service, plus a tabular increase adopted in the 1968 amendments.[2] The tabular increase was subject to offsets based on receipt of a supplemental annuity or a social security benefit, or both. The 15-percent increase under the new law is first computed on the basis of the annuity under the 1968 amendments. If the annuitant is receiving social security benefits, however, the 15-percent increase in his railroad retirement annuity is offset by the 15-percent increase in his social security benefits that was provided under the 1969 social security amendments. The increase will not be reduced below $10 and may not exceed $50. The $50 maximum will not affect any income this year.

The annuity for a spouse and for a survivor beneficiary is subject to a minimum increase of $5 and a maximum increase of $25. The spouse's annuity after increase may not, however, exceed 110 percent of the maximum wife's benefit payable under the Social Security Act.

Financing

No additional payroll tax revenue to finance the temporary 15-percent increase was provided. The bill as passed by the House of Representatives would have resulted in additional income to the railroad retirement account through a preferential investment policy under which the entire investment of the account would receive interest at a rate equal to the highest interest rate paid on any obligation of the Federal Government. Under the provisions of the law before amendment, the interest rate on new special obligations issued to the account was equal to the average rate as of the end of the preceding month on all United States Government obligations not due or callable for at least 3 years from that date. (Special issues for the social security trust funds bear an interest rate determined in the same way, except that the remaining years to maturity are four instead of three.)

This inequitable treatment was rejected in the Senate and no other source of possible financing was provided. The compromise reached in conference resulted in an amendment to the provision setting interest rates so that they are based on the average rate of interest on *notes* rather than on all obligations. This change is significant because United States bonds may not bear an interest rate of more than 4¼ percent, although short-term securities (with a maturity duration not exceeding 7 years) are not so limited.

In addition, the Secretary of the Treasury was consulted in regard to a change in investment policy. He agreed that, in liquidating investments to meet annuity payments, the short-term high-interest-rate notes would be treated as if they bore the maturity date that would have been the case if the routine investment policy had not been altered by a statutory ceiling on interest rates for bonds that is lower than prevailing rates. This policy, in effect, treats 7-year notes as if they were long-term bonds. The Secretary has agreed to extend this treatment to all trust funds. It is particularly favorable to the railroad retirement account because it has a pattern of liquidation throughout the fiscal year that will reduce investments in lower-interest-rate bonds, while its income from the financial interchange with the social security system at the end of the fiscal year can be invested in high-interest-rates notes.

Continuation of Supplemental Annuity Program

The Railroad Retirement Amendments of 1966 provided for the payment of supplemental annui-

(*Continued on page 36*)

[2] For a detailed discussion of the railroad system, see Orlo Nichols, "The Railroad Retirement Amendments of 1968," *Social Security Bulletin*, June 1968.

TABLE M-2.—Public income-maintenance programs: Hospital and medical care payments, 1940–70

[In millions]

Period	Total	OASDHI (health insurance for the aged)[1]			Other programs			
		Total	Hospital insurance [2]	Medical insurance	Veterans	Temporary disability [3]	Workmen's compensation[4]	Public assistance [5]
1940	$165	-----	-----	-----	$70	-----	$95	-----
1945	222	-----	-----	-----	97	-----	125	-----
1950	780	-----	-----	-----	573	$7	200	-----
1955	1,265	-----	-----	-----	688	20	325	$232
1960	1,846	-----	-----	-----	848	41	435	522
1961	2,093	-----	-----	-----	899	46	460	688
1962	2,406	-----	-----	-----	940	46	495	925
1963	2,611	-----	-----	-----	971	50	525	1,065
1964	2,890	-----	-----	-----	1,019	51	565	1,255
1965	3,199	-----	-----	-----	1,072	52	595	1,480
1966	4,883	$1,019	$891	$128	1,137	54	665	2,008
1967	9,554	4,549	3,353	1,197	1,328	53	750	2,873
1968	12,097	5,697	4,179	1,518	1,429	55	820	4,096
1969	13,836	6,603	4,739	1,865	1,573	58	920	4,681
1969								
July	-----	555	409	146	143	-----	-----	393
August	-----	546	400	146	132	-----	-----	368
September	-----	498	360	138	137	-----	-----	387
October	-----	602	330	272	146	-----	-----	431
November	-----	495	346	149	127	-----	-----	406
December	-----	576	418	158	143	-----	-----	388
1970								
January	-----	551	392	159	139	-----	-----	408
February	-----	534	378	156	128	-----	-----	428
March	-----	660	479	181	140	-----	-----	440
April	-----	607	439	168	160	-----	-----	462
May	-----	582	428	155	142	-----	-----	472
June	-----	578	426	152	152	-----	-----	469
July	-----	582	431	151	160	-----	-----	489

[1] Benefit expenditures from the Federal hospital insurance and supplementary medical insurance trust funds as reported by the U.S. Treasury.

[2] Represents payments in behalf of all persons aged 65 and over, including those not insured for cash benefits under OASDHI and railroad retirement. Excludes payments by Railroad Retirement Board for beneficiaries in Canadian hospitals.

[3] Benefits in California and New York (from 1950), including payments under private plans. Monthly data not available.

[4] Benefits under Federal workmen's compensation laws and under State laws paid by private insurance carriers, State funds, and self-insurers. Beginning 1959, includes data for Alaska and Hawaii. Monthly data not available.

[5] Federal matching for medical vendor payments under public assistance began October 1950.

Source: U.S. Treasury and unpublished data from administrative agencies.

RAILROAD RETIREMENT AMENDMENTS

(Continued from page 34)

ties to railroad employees who retired with at least 25 years of service.[3] The program was instituted for 5 years and was financed by an employer tax of 2 cents a man-hour. There was provision for the reduction of the annuity levels in the fifth year of the program if the supplemental account could not support the full annuities. However, in 1969 it became apparent that the account would be insufficient to pay the annuities, in part because retirement rates of those who were eligible for supplemental annuities were greater than had been anticipated. As a result it was necessary to defer some monthly supplemental annuity payments.

The amendments passed in March 1970 made the program permanent, increased the level of financing, and provided for mandatory retirement ages. The tax rate is now subject to review every quarter beginning April 1970. The new rate must be determined at least 15 days before it becomes effective. Under these provisions the rate per man-hour was increased to 6 cents in April and to 7 cents in July; it will remain at 7 cents for the quarter beginning October 1.

The March amendments also provide mandatory retirement dates in order for employees to be eligible for supplemental annuities. Those who attain age 68 before 1971 must retire in 1971. The mandatory retirement age is to be reduced by one year for each calendar year until it becomes age 65 for all those attaining that age after 1973. For employees who have more than 23 years of service but less than 25, the mandatory retirement date is extended to the date they become eligible for a supplemental annuity or for a social security benefit, whichever occurs first. This provision may be expected to accelerate retirement and increase the costs of the regular annuities.

[3] Marice C. Hart, "The Railroad Retirement Amendments of 1966," *Social Security Bulletin*, February 1967.