The Sixth Year of the Railroad Retirement System

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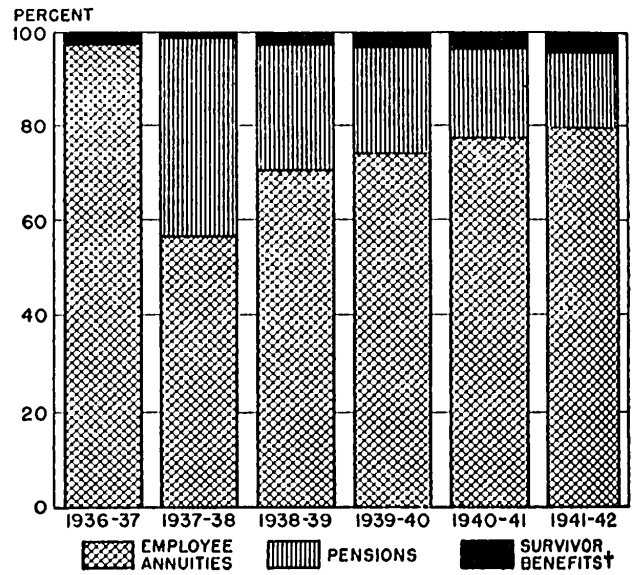
IN THE FIRST fiscal year of operation under a full wartime economy, the railroad retirement system has reflected the marked effect of the war on the railroad industry generally. Improved business conditions in the industry and the general wage increases effective in September 1941 resulted in increased pay rolls and, consequently, in larger tax collections under the Carriers Taxing Act. Because more full-time employment was available, and because of the critical need for individuals in skilled occupations to remain on the job, relatively fewer employees retired. Postponement of retirement by employees eligible to retire reduces the immediate demands on the retirement fund. It also reduces the ultimate total payments which will be made to these individuals, since retirement at a later age shortens the period for which they will be drawing annuities. Although earnings after age 65 are still taxable, their effect on the annuity paid is negligible. All these factors contributed to strengthening the financial foundations of the retirement system. In most respects, the changes in the operations of the system during 1941–42 were continuations of trends already observed in 1940–41.

Benefit Payments

Although the war economy has retarded the expected rate of retirement, the monthly amount of net benefit payments certified to the Treasury increased during the past fiscal year. This net figure consists of the monthly, or in-force, payments to annuitants and pensioners on the rolls at the end of the month, retroactive payments to individuals newly certified or recertified during the month, and lump-sum death benefits certified during the month; minor deductions are made for cancelations and repayments of amounts certified in previous months. All but a small proportion of the payments are made to annuitants and pensioners on the rolls, who have entered the system over a period of years and who, for the most part, receive payments until their death; that group therefore chiefly determines the level of retirement benefits. Since the number of individuals on the retirement rolls will continue to grow, the increase in benefit payments can be expected to continue with few, if any, interruptions for many years to come.

Chart 1.—*Percentage distribution of benefit payments certified to the Secretary of the Treasury under the Railroad Retirement Act by class of benefit, fiscal years 1936–37—1941–42*



†Includes survivor annuities, death-benefit annuities, and lump-sum death benefits.

The net benefit payments certified to the Treasury during the fiscal year 1941–42 totaled almost $127 million (table 1), 4.0 percent more than the amount certified in 1940–41 and 11.1 percent more than in 1939–40.[1] The immediate factors accounting for the slackening in the rate of increase will become apparent from a discussion

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[1] A better measure of the changing level of obligations accruing under the retirement act can be obtained by presenting these data on an accrual date basis, i. e., by allocating the payments to the period with respect to which they were payable, rather than to the period in which they were certified to the Treasury. Administrative difficulties, more marked in the early years than at present, often result in the certification of payments a number of months after they fall due. Accrual data are not yet available for 1941-42, but the basic trends are not affected by the certification figures used in this article.

of the changes in the different types of benefit payments that go to make up the total.[2]

Payments on employee annuities constituted 80 percent of the total in 1941–42, compared with 77 percent in the preceding fiscal year and 74 percent in 1939–40 (chart 1). Pension payments, on the other hand, declined from 23 percent of the total in 1939–40, to 19 and 16 percent, respectively, in the 2 succeeding years. Lump-sum death benefits amounted to 2.8 percent of all benefit payments in 1941–42, to 2.4 percent in 1940–41, and to 1.9 percent in 1939–40. Survivor annuity payments were no more than 1 percent and death-benefit annuity payments less than 0.5 percent of the total in each of the 3 years.

By the end of June, the Board had certified a total of almost $557 million, divided among 275,000 retirement and survivor benefits[3] as follows: $406 million for 161,000 employee annuities; $133 million for 48,600 pensions; $9.9 million for 55,300 lump-sum death benefits; $4.4 million for 3,300 survivor annuities; and $2.7 million for 6,500 death-benefit annuities.

Employee Annuities

A sensitive index of the effect of changing economic conditions on the operation of the retirement system is provided by the changes in data relating to employee annuities. It had been expected, after the first few years during which most of the large number of aged workers attached to the railroad industry were absorbed into the retirement system, that the number of new retirements would drop and then level off to a fairly stable figure. Instead, during the past few years, improved employment conditions in the railroad industry have brought about a continuous decrease in the number of applications filed and a corresponding decline in the number of annuities certified. At the same time, deaths among employee annuitants continued to increase, so that the number of such annuitants on the rolls tended to level off more rapidly than had been anticipated (chart 2).

[2] For a detailed description of the different types of benefits, see the appended Technical Notes.

[3] Chiefly because lump-sum death benefits are sometimes paid to 2 or more beneficiaries, the total number of beneficiaries of the retirement system was about 280,000.

Chart 2.—*Number of employee annuities initially certified and terminated by death during year and in force at end of year, fiscal years 1936–37—1941–42*

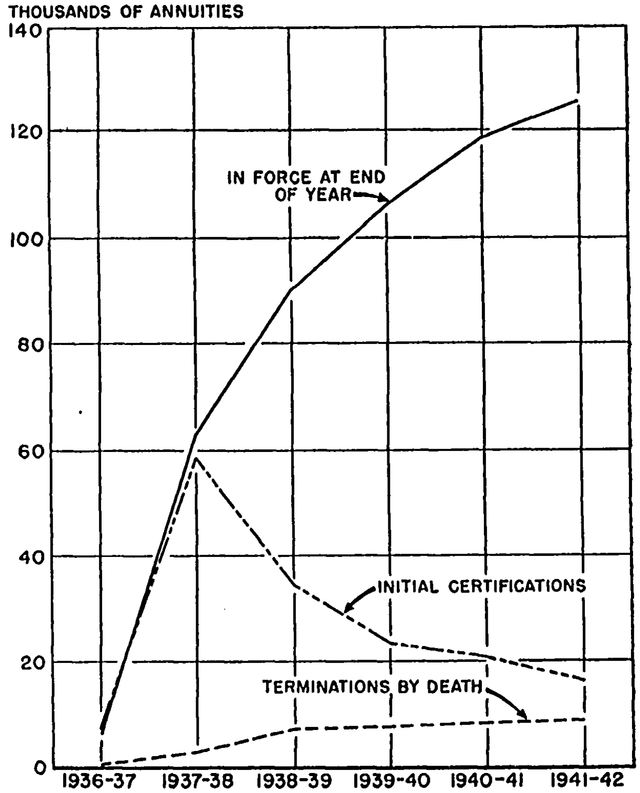

Table 1.—*Railroad retirement: Net benefit payments certified to the Secretary of the Treasury, by class of benefit, fiscal years 1936–37—1941–42* [1]

Period	Total	Employee annuities	Pensions to former carrier pensioners	Survivor annuities	Death-benefit annuities	Lump-sum death benefits
Cumulative through June 1942	$556,782,414	$406,411,257	$133,361,694	$4,352,429	$2,714,931	$9,942,102
Fiscal year:						
1936–37	4,514,617	4,409,019		36,751	68,846	
1937–38	82,054,534	46,759,441	34,880,960	373,813	606,300	35,017
1938–39	107,131,438	75,429,661	28,886,175	778,234	716,326	1,321,040
1939–40	114,025,141	84,536,035	25,969,281	912,570	495,271	2,111,982
1940–41	121,799,903	94,306,246	23,086,813	1,070,684	436,134	2,900,023
1941–42	126,656,780	100,970,853	20,538,463	1,180,373	393,051	3,574,038

[1] Figures for annuities and pensions include sum of amounts payable for each month on all claims certified to end of month and still in force plus retroactive payments on claims initially certified or recertified during year. Figures for lump-sum death benefits include payments on claims initially certified or recertified during year. Cancelations and repayments of amounts certified in previous years are deducted. Cents omitted.

About 97 percent of the benefit payments certified with respect to employee annuitants are in force on a current monthly basis; consequently, benefit payments increased during the year, but at a much slower rate than in previous years. The amount certified for employee-annuity payments in 1941–42 totaled $101 million, or 7.1 percent more than in the preceding year, while in 1940–41 the increase was 11.6 percent over the year before.

In the year ended June 30, 1942, the Board received 18,200 applications for employee annuities, 17 percent less than in the preceding year and 32 percent less than in 1939–40. The number of new certifications dropped proportionately to 16,300, a decrease of 21 and 30 percent, respectively, from the 2 preceding years (table 2). In part, the drop in the number of annuities certified was due to administrative delays resulting from the Board's move to Chicago in April. If the number certified in April and May had been at the average level maintained in the rest of the year, the total for 1941–42 would have been more than 17,500.

Deaths among employee annuitants were reported to the Board during the year in 8,800 cases, 9.2 percent over the 1940–41 total and 19.0 percent over 1939–40. By the end of June, 34,500 of the 161,000 annuities certified had been terminated by death.

At the end of the year, the Board was paying annuities to 126,000 retired employees—78 percent of all individuals for whom employee annuities had been certified since the beginning of operations. A year earlier, 119,000 annuities were in force and the year before that, 106,000. The average payment increased slightly during this period, from $65.55 at the end of 1939–40 to $65.70 at the end of 1940–41, and to $65.93 on June 30, 1942. About 4 percent of the annuities at the end of June were subject to recertification, and it is estimated that such recertification will increase the average for the group by about 25 cents.

The number of annuities certified in a given year depends not only on the number of applications received during the year but also on the number held over from the preceding year. On June 30, 1939, when a number of administrative problems were still unsolved, about 12,000 applications were pending. By June 30, 1940, the number had dropped to 9,600 and a year later, to 6,500. On

Table 2.—*Railroad retirement: Number and monthly amount of annuities and pensions initially certified and terminated by death during period, and in force at end of period, by class of benefit, fiscal years 1936–37—1941–42* [1]

Period	Initial certifications		Terminations by death		In force at end of period	
	Number	Monthly amount	Number	Monthly amount	Number	Monthly amount
	Employee annuities					
Cumulative through June 1942	161,017	$10,554,862	34,521	$2,247,530	126,755	$8,290,690
Fiscal year:						
1936–37	7,162	445,520	284	17,333	6,870	433,047
1937–38	58,710	3,614,201	2,832	177,983	62,870	4,097,616
1938–39	34,842	2,096,225	7,104	450,108	90,185	5,896,101
1939–40	23,406	1,462,708	7,428	476,994	106,078	6,953,664
1940–41	20,652	1,312,978	8,001	530,559	118,533	7,787,408
1941–42	16,330	1,061,957	8,838	581,300	126,755	8,290,690
	Pensions to former carrier pensioners					
Cumulative through June 1942	48,585	$2,812,041	20,976	$1,184,357	27,582	$1,626,465
Transferred as of July 1, 1937	47,977	2,784,873	......	......	......	......
Fiscal year:						
1937–38	741	33,454	4,692	259,233	43,914	2,554,978
1938–39	108	5,913	4,526	255,402	39,500	2,305,770
1939–40	24	1,302	4,363	244,332	35,146	2,061,717
1940–41	39	1,800	4,107	232,396	31,080	1,830,876
1941–42	53	2,139	3,557	207,067	27,582	1,626,465
	Survivor annuities					
Cumulative through June 1942	3,321	$107,314	259	$8,549	3,053	$98,583
Fiscal year:						
1936–37	115	4,651	......	......	116	4,651
1937–38	707	27,273	15	533	807	31,489
1938–39	1,009	30,687	32	1,046	1,783	61,239
1939–40	623	18,112	62	1,937	2,341	77,595
1940–41	501	14,532	71	2,300	2,771	90,045
1941–42	367	11,330	82	2,815	3,053	98,583
	Death-benefit annuities [2]					
Cumulative through June 1942	6,489	$235,353	5,916	$214,593	573	$20,745
Fiscal year:						
1936–37	250	9,380	12	464	238	8,916
1937–38	1,439	53,518	1,027	38,273	650	24,232
1938–39	1,729	63,008	1,612	60,061	770	27,364
1939–40	1,204	42,548	1,252	43,875	725	26,182
1940–41	1,025	36,081	1,041	36,705	710	25,540
1941–42	861	30,452	1,003	35,446	573	20,745

[1] Data for initial certifications are for period during which payment was first certified and not for period during which it began to accrue. Data for terminations by death are for period during which notice of death was received and not for period during which beneficiary died. Cumulative data exclude claims declared ineligible, erroneous certifications, and erroneous reports of death. In-force data as of any date include only certifications made up to that date less terminations by death reported by that date; they are also adjusted for recertifications, reinstatements, and terminations for reasons other than death (suspension, return to service, recovery from disability, commutation to lump-sum payment). All data are based on accounting period ended on approximately 20th day of last month of each period in case of certifications and 10th in case of terminations. Cents omitted.

[2] In a few cases, payments are made to more than 1 survivor on account of death of 1 individual; such payments are here counted as single items. Terminations include those by death and by expiration of 12-month period for which death-benefit annuities are payable; nearly all terminations are of latter type.

March 31, 1942, there were approximately 5,200 in the pending load, but by the end of the fiscal year, because of the move to Chicago, the number had risen to 5,500. A substantial decrease may be expected during the current year. The Board also has on file a group of inactive applications which relate to annuities with beginning dates more than 30 days in the future. These applications during the past year remained at a fairly stable level of 15,000–16,000.

Pensions

Pension payments differ from employee annuities in that the pensioners represent a fairly closed group of individuals taken over by the Board from the private pension systems of the railroads. Therefore, the pension rolls are being steadily depleted by death while the new cases added each year are negligible. For 1941–42, payments totaled $20.5 million, 11 percent less than in 1940–41 and 21 percent less than in 1939–40.

New pensioners transferred to the rolls come from the pension registers of companies newly determined to be employers under the act. The 53 individuals transferred in the last fiscal year brought to 965 the total number of accessions since the original group was taken over on July 1, 1937.

The Board received during the year 3,600 reports of death among pensioners, 13 percent less than the year before. The number of deaths among pensioners decreases with the decline in the number on the rolls. The ratio of deaths during the year to the number in force at the beginning of the year, on the other hand, tends to increase with the increasing age of the individuals in the group.[4]

Of the 48,600 pensioners transferred to the rolls of the Board, 27,600 or 57 percent were still receiving payments at the end of the year. This number was 11 percent below that of a year ago, and 22 percent below the number on June 30, 1940. It is estimated that the number of pensions in force will remain above 10,000 until about the end of 1948 and will not fall below 1,000 for at least 10 years after that.

The average pension payable on June 30, 1942, was $58.97, which was 6 cents higher than the average at the end of 1940–41 and 31 cents higher than the year before. The increase, though not marked, has been continuous because most of the terminations occur among the older pensioners, who generally retired in earlier years and received somewhat smaller pensions than did the more recently retired individuals. The main factor causing the increase in railroad pensions was the rise, until 1933, in the wages on which they were based; the great bulk of the pension formulas provided amounts equal to 1 percent of the average monthly compensation in the 10 years preceding retirement multiplied by the number of years of service. After a while, it is expected that the average pension in force will begin to decline, reflecting in part the decrease in the wage base beginning in 1933.

Survivor Annuities

The number of survivor annuities certified continued to decrease during the year just ended, reflecting the declining importance of joint and survivor employee annuities—that is, those payable to individuals who elected to take a reduced annuity in order to provide, after death, a lifetime annuity to the surviving spouse. The number of annuities certified under joint and survivor election in the past fiscal year amounted to only slightly more than 2 percent of all employee annuities certified.

The small number of persons who have taken advantage of the joint and survivor provision of the act has proved somewhat disappointing, in view of the efforts of the Board to acquaint applicants fully with its purposes. When the amount to which the annuitant would otherwise be entitled is substantial and the difference between his age and that of his wife is not too great, the amount of annuity after reduction may be adequate. In other cases the amount may prove insufficient, and this fact undoubtedly has been the major deterrent to the election of annuities of this type.

Because of a decreasing number of deaths among joint and survivor annuitants, along with an increasing proportion who die without leaving a surviving spouse, only 367 new survivor annuities were certified during 1941–42, compared with 501 the year before and 623 in 1939–40. The number terminated by death is still comparatively small: 82 in the year just ended and 71 in the preceding year. Because of the relatively small proportion of these terminations, the number of survivor annuities in force has continued to increase. On

[4] A reversal of this trend occurred in 1941–42 as a result of a greater-than-normal drop in the number of deaths reported during the last few months; the reason for this is not yet clear.

Table 3.—*Railroad retirement: Number and average amount of lump-sum death benefits certified, fiscal years 1937–38—1941–42*

Period	Number [1]	Average amount of benefit
Cumulative through June 1942 [2]	55,310	$179.70
Fiscal year:		
1937–38	666	52.70
1938–39	15,359	86.08
1939–40	13,370	157.57
1940–41	13,172	218.64
1941–42	12,833	278.28

[1] Represents number of individuals with respect to whose death benefits were certified, rather than number of individuals certified to receive benefits; less than 10 percent have been divided among 2 or more individuals.
[2] Excludes cancelations and repayments of benefits subsequent to certification.

June 30, 1940, 2,300 were in force; a year later, 2,800; and on June 30, 1942, there were 3,100.

The average monthly payment on survivor annuities in force dropped slightly during these 3 years; on the dates specified, the averages were, respectively, $33.15, $32.50, and $32.29. The main reason for the decrease is the fact that under the 1935 act a relatively large number of individuals who made joint and survivor elections were eligible for disability annuities based on 30 years of service, annuities which are usually higher in amount than any other type. Many of these annuities were terminated by death shortly after they were certified, and survivor annuities became payable. Under the 1937 act, on the other hand, the option of election by such individuals was eliminated. This factor, together with several other restrictions imposed by that act, accounted for the declining number of certifications of survivor annuities.

Death-Benefit Annuities

Death-benefit annuities under the 1935 act are also playing a declining role in the retirement system. The number of such annuities certified in 1941–42 was 861—16 percent less than the number in the preceding fiscal year and 28 percent less than in 1939–40. The decline results both from the decreasing number of employee annuities in force under the 1935 act and from the increasing proportion of individuals who die without leaving a surviving spouse or dependent next of kin entitled to this type of annuity.

Death-benefit annuities are payable for 12 months only, and the number of terminations in 1941–42 (consisting for the most part of those certified the year before) outnumbered the certifications. As a result, the number in force at the end of the fiscal year dropped to 573 compared with 710 the preceding year. The average annuity in force on June 30, 1942, amounted to $36.20, as compared with $35.97 on June 30, 1941.

Of the 23,000 annuitants certified under the provisions of the 1935 act, 15,000 were still on the rolls on June 30. They constitute, along with a negligible number added currently, the potential source from which death-benefit annuities may ultimately arise.

Lump-Sum Death Benefits

The trend in the number of lump-sum death benefits certified each year presents a rather unexpected situation. Since the number of individuals with credited service after 1936 has increased by several hundred thousand during each of the past few years, the number of deaths with respect to which some benefit was payable has presumably increased. This supposition is borne out by the fact that the number of notifications of death received from employers, who are required under the act to report the death of each individual in active service or in an employment relation, has been increasing. There were 11,900 such notifications in 1939–40; in the following year there were 12,600; and in the year just ended, 13,100.

Certifications of lump-sum death benefits, however, have actually been decreasing; 12,800 were certified in the past year, 2.6 percent less than the preceding year and 4.0 percent less than 1939–40 (table 3). The number of these benefits paid because of the death of retired individuals who had already applied or been certified for an employee annuity did increase, but such cases at the present time are relatively few and do not affect the downward trend. More than 90 percent of these benefits have been paid on the death of employees, or of individuals who had left the railroad industry but had not yet reached retirement age.

The decline in certifications does not indicate a failure on the part of the Board to keep up with applications that are filed. By the end of the year only about 1,100 claims were awaiting adjudication and that number had been decreasing. Rather, the reason lies in several factors, chief among which are that: (1) some survivors fail to notify the Board of the death of employees who had left the railroad industry some time prior to death; and (2) others, even after the Board has been notified and has made every effort to apprise them of their possible rights, do not make a formal application for benefits or do not follow up an application by submitting the necessary documents. In many of these cases, the amount of credited compensation after 1936 is small and the benefit, 4 percent of that compensation, is considered too small to make filing worth while. In others, the survivors may not know or remember that the deceased employee ever worked for a covered employer, or may believe that the only benefits to which they are entitled are the survivor benefits they may be receiving under the Social Security Act.

In spite of the decreasing number of death benefits certified, the total amount involved has been increasing as a result of the rapidly growing amounts of compensation credited to employees since the beginning of 1937. The average amounts certified in the last 3 fiscal years beginning with 1939–40 were, respectively, $157.57, $218.64, and $278.28.

Coverage and Financing

Records of credited compensation earned in each month after December 31, 1936, for each employee subject to the act are maintained by the Railroad Retirement Board from reports made by employers. These records do not show the total number of employees who have rights under the Railroad Retirement Act, since some individuals have received and others will receive annuities based solely on service prior to 1937. The number of such individuals is very small, however, in proportion to the total now covered by the act. To the end of June 1942, over 3.5 million persons had acquired credits under the system for service subsequent to December 31, 1936. More than 600,000 of these did so in the last fiscal year alone, compared with 300,000 in 1940–41 and 200,000 in 1939–40.

The amount of taxes collected under the Carriers Taxing Act of 1937[5] clearly reflects the changes in railroad employment. In 1941–42, collections amounted to $170 million, or 24 percent more than the total for the preceding fiscal year (table 4). Inasmuch as the tax rate for each of these years was 3 percent each on employers and employees, the increase is due to the rise in employment during the year and also, in part, to the increased carrier pay rolls resulting from the wage adjustment which became effective in September 1941. The estimated average annual pay roll assumed in the actuarial valuation of the retirement system as of December 31, 1938, was $2.0 billion, and the original estimates of the cost of the system placed it at $2.2 billion. The total pay roll on which taxes were payable in the fiscal year 1940–41 was almost $2.3 billion and in 1941–42, more than $2.8 billion.[6]

[5] For a summary of the tax provisions and the relation between tax collections and appropriations, see the appended Technical Notes.

Table 4.—*Railroad retirement: Collections under the Carriers Taxing Act and total pay roll on which payable, fiscal years 1938–39—1941–42*

[In millions]

Period	Tax collections [1]	Pay roll on which taxes were payable [2]
Cumulative through June 1942	$687.7	
Through June 1938	150.5	
Fiscal year:		
1938–39	109.3	$1,986.5
1939–40	121.0	2,150.2
1940–41	136.9	2,282.4
1941–42	170.0	2,833.5

[1] Based on data from the Daily Statement of the U. S. Treasury.
[2] Figures do not correspond precisely to the total annual compensation earned in the railroad industry, since compensation in excess of $300 per month per employee, consisting of about 1.5 percent of the total, is excluded, and since taxes collected in a given quarter refer to compensation earned in the preceding quarter.

Aside from the effect which the level of employment will have on tax collections for the fiscal year 1942–43, collections for that year will increase because of the recent wage increases which will be in operation during the entire year, and also because, on January 1, 1943, the tax rate increases to a total of 6½ percent of earnings.

Railroad Retirement Account

For the fiscal year 1941–42 Congress approved an appropriation of $141 million for benefit payments and investment and $3.2 million for administrative expenses. Of the former, $46.4 million was made available to the railroad retirement account on July 1, 1941, the amount representing the excess of the appropriation over estimated benefit payments for the entire year, plus the amount required to meet payments in the first quarter. The remaining $94.5 million was transferred to the account in successive equal quarterly installments.

[6] These figures do not correspond precisely to the total annual compensation earned in the railroad industry, since compensation in excess of $300 for any month, consisting of about 1.5 percent of the total, is not taxable, and since taxes collected in a given quarter are based on compensation earned in the preceding quarter.

Through June 30, 1942, the Treasury had transferred for benefit payments and investments a total of more than $639 million (table 5), an amount equal to the sum of all congressional appropriations to date. In addition, $9.0 million was made available for payments to employers for the collection of service and compensation records prior to 1937, and $16.3 million for administrative expenses of the retirement system incurred by the Board and the Treasury. The total made available to the railroad retirement system was thus almost $665 million. Tax collections under the Carriers Taxing Act totaled almost $688 million for the same period, or 3.5 percent in excess of appropriations.

In addition to the $639 million transferred by the Treasury, the account had received, by June 30, 1942, a total of $11.6 million in interest on investments in special 3-percent notes. Of these two amounts, $557 million had been certified for benefit payments by June 30, 1942. The balance in the account as of that date was thus $94.1 million, consisting of $91.5 million in the special 3-percent Treasury notes and $2.6 million in cash.

To obtain a more nearly accurate picture of the financial status of the system, three further factors must be taken into account: the excess of tax collections over transfers from the Treasury, amounting to $23.1 million; a total of $48.9 million in taxes which had accrued as of June 30 on 1941–42 pay rolls but were not paid until the first quarter of the current fiscal year; and, somewhat offsetting the first two, accrued obligations, amounting to approximately $3.0 million, on payments with beginning dates prior to July 1, 1942, but not yet certified to the Treasury by the end of the year. The first item was included in the appropriation for the fiscal year 1942–43 and made immediately available to the retirement system. If these factors are considered, the balance in the retirement account as of June 30, 1942, would be over $163 million compared with $107 million as of June 30, 1941, computed on the same basis.

Relatively high and increasing employment levels will undoubtedly continue for some time, and as long as such conditions prevail the financial status of the system will continue to improve. However, in estimating the adequacy of the reserve to meet future demands upon the system, the Board is fully aware of the necessity of taking a long-term view, which allows for alternating periods of low as well as high employment. Such an estimate must await the results of a new actuarial valuation of the railroad retirement system based on experience through 1941.

Administrative Expenses

There has been a steady decrease in the relative cost of administering the retirement system. Administrative expenses for 1941–42 totaled $2.9 million, which was 2.3 percent of benefit payments. Administrative expenses for 1940–41 amounted to 2.4 percent of benefit payments and for the preceding year, 2.5 percent. For the entire period since the beginning of operations they have amounted to 2.9 percent.

A major factor in the cost of paying benefits is the necessity, in a large majority of the cases, of obtaining pay-roll and service records for service performed prior to 1937. The Board, with the aid of the railroads, is now engaged in a program of collecting such records for each individual who may ultimately become eligible for an annuity. For this purpose the $9.0 million already mentioned was appropriated to compensate the rail-

Table 5.—*Railroad retirement: Status of the railroad retirement account as of June 30, 1938–42*

[In thousands]

Date	Balance in appropriation account	Receipts (cumulative): Transfers from appropriation [1]	Receipts (cumulative): Interest on investments	Receipts (cumulative): Total	Net benefit payments certified (cumulative) [2]	Balance: 3-percent Treasury notes	Balance: Unobligated cash balance [3]	Balance: Total
June 30:								
1938	$94	$146,466	$1,411	$147,817	$87,169	$66,200	−$5,552	$60,648
1939	11,250	253,500	3,613	257,113	194,301	67,200	−4,388	62,812
1940	10,750	374,150	5,895	380,045	308,326	79,400	−7,681	71,719
1941	0	498,500	8,429	506,929	430,126	74,000	2,803	76,803
1942	0	639,350	11,572	650,922	556,782	91,500	2,640	94,140

[1] In addition, $9 million was transferred in October 1940 to prior-service account for collection of service and compensation data of railroad workers prior to 1937.

[2] Through June 1942, total is $10.6 million in excess of amount of checks cashed and returned to the Treasury. (See the Bulletin, August 1942, p. 74, table 8.)

[3] Minus figures represent overdrafts pending transfers from appropriations.

roads for the work involved. The cost of adjudicating claims based on these records will come out of the appropriations for administrative expenses, but when the entire project is completed the cost of administration as a percent of benefit payments should be considerably reduced.

Technical Notes

Benefits Under the Railroad Retirement Act

The Railroad Retirement Act, as passed in 1935 and amended in 1937, established a Federal retirement system for railroad employees. Employers under the act include carriers—railroads, express companies, and sleeping-car companies, subject to part I of the Interstate Commerce Act; carrier affiliates which perform a service in connection with transportation by railroad—refrigerator-car loan companies, for example; organizations such as railroad or traffic associations maintained by two or more employers; and standard railway-labor organizations, national in scope. The act provides for five classes of retirement and survivor benefits:

(1) Employee annuities, both disability and old-age, based on an employee's years of service and average monthly compensation, exclusive of earnings above $300 in any 1 month, with employers under the act.

The annuity is calculated by taking 2 percent of the first $50 of the average monthly compensation, 1½ percent of the next $100, and 1 percent of the balance, and multiplying the sum of these three amounts by the number of years of credited service. The amount thus computed is applicable to age annuities at age 65 or over and to disability annuities at any age based on 30 years of service. In the case of age annuities at ages 60–64 based on 30 years of service and of disability annuities at ages 60–64 based on less than 30 years of service, the amount is subject to a deduction of 1/180 for each month by which the age at the time the annuity begins to accrue falls short of 65. The formula may also be modified by the application of certain provisions for a minimum annuity. In determining the average monthly compensation on which the annuity is to be based, the average earned by the individual during the period 1924–31 is taken as applicable to his entire period of service prior to 1937, while the average for his period of service after 1936 is the actual average of monthly earnings. For the purpose of computing average monthly compensation and length of service, only months in which there was some employment are counted. Where service prior to 1937 is considered, only so much of it is credited as is required to bring the total service period to a maximum of 30 years. Service after the end of the month in which age 65 is attained is not credited,[7] except that the compensation therefor may serve to increase the average compensation on which the annuity is based.

(2) Survivor annuities, paid to the surviving spouse of a deceased employee annuitant who had elected a reduced annuity during his or her lifetime in order to provide a lifetime annuity for a surviving spouse. The reduction in the amount of employee annuity, which is in addition to any reduction for retirement before age 65, may be such as to provide the surviving spouse with an annuity equal to 50 percent, 75 percent, or 100 percent of the employee annuity.

(3) Death-benefit annuities, paid under the 1935 act to the surviving spouse or dependent next of kin of a deceased annuitant or of a deceased employee who at the time of his or her death was entitled to receive an annuity.[8] An annuity of this type is equal to half the monthly amount (prior to any reduction because of joint and survivor election) paid or payable to the employee annuitant before his death, and is payable for 12 months only.

(4) Lump-sum death benefits, paid under the 1937 act to one or more designated beneficiaries or, in the absence of a designated beneficiary, to one or more of the deceased employee's surviving relatives, in a prescribed order of precedence. These benefits are equal to 4 percent of the compensation earned as an employee after December 31, 1936 (excluding compensation in excess of $300 in any 1 month), less the aggregate amount of any employee or survivor annuities that may have been paid. If an employee annuitant has elected a joint and survivor annuity and is survived by his spouse, the death benefit is not payable until after the death of the spouse.

(5) Pensions paid under the 1937 act to individuals who were, on both March 1 and July 1, 1937, on the pension or gratuity rolls of employers under the act and who were not eligible on July 1, 1937, for annuities based in whole or in part on service prior to January 1, 1937. The pensions are equal in amount to the individual pensions or gratuities granted by employers, with the restoration of general reductions made after December 31, 1930, but cannot exceed $120 a month.

Tax Collections and the Railroad Retirement Account

Three taxes are levied under the Carriers Taxing Act: (1) an excise tax on employers' pay rolls; (2) an income tax at an equal rate on employees; and (3) an income tax on employee representatives at twice the rate for employees. Compensation for any employee in excess of $300 in any 1 calendar month is not taxable. The excise and income tax rates are as follows: Calendar years 1937–39, rate 2¾ percent; 1940–42, rate 3 percent; 1943–45, rate 3¼ percent; 1946–48, rate 3½ percent; 1949 and subsequent years, rate 3¾ percent. Thus the total amount of the tax available for the first 3 years of the system was 5½ percent of total employee compensation (with the $300 limitation defined above), and for the year 1949 and thereafter it will be 7½ percent.

Appropriations for benefit payments and for establishing a reserve under the Railroad Retirement Act are made by Congress annually on the basis of anticipated tax collections. Separate annual appropriations are made for administrative expenses.

Although the Railroad Retirement Act does not specify that appropriations for the retirement system should equal in amount the revenue received under the Carriers Taxing

[7] Unless age 65 was attained prior to June 1937, in which case service is credited through that month.

[8] Since substantially all annuities under the 1935 act have already been granted, in practical effect death-benefit annuities are payable only to survivors of annuitants under that act.

Act, that practice has, in fact, been followed. When existing legislation for the retirement system was enacted, the taxing act was separated from the act authorizing the payment of benefits in an effort to avoid the consequences of the decision of the Supreme Court in the first Railroad Retirement Act case. Collections under the Carriers Taxing Act are deposited in the general fund of the Treasury, and appropriations for benefit payments and investments and for administration are made out of that fund.

The Board prepares each year an estimate of tax collections under the Carriers Taxing Act for the coming fiscal year. After agreement has been reached with the Treasury on this amount, the estimate is presented to Congress. Congressional appropriations for benefits and investments and for administrative expenses under the Railroad Retirement Act have, in the past, been made in accordance with these estimates. The amount appropriated for administrative expenses is deducted from total estimated collections, and the balance, adjusted for differences between previous tax collections and appropriations, constitutes the annual appropriation for benefit payments and investments.

This appropriation is credited to an appropriations account in the Treasury, from which transfers are made quarterly to a trust fund account as requested by the Railroad Retirement Board. The amount of each transfer not required for benefit payments for the first month of the quarter is invested in special 3-percent Treasury notes and converted into cash during the subsequent months as necessary. The excess of the transfers plus interest earned on the investments over the benefit payments makes up the balance remaining in the retirement account as a reserve fund.