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THE WHITE HOUSE
WASHINGTON

ACTION

Last Day - October 12

October 10, 1974

MEMORANDUM FOR:

THE PRESIDENT

FROM:

KEN COLLE

SUBJECT:

Enrolled Bill H.R. 15301
Railroad Retirement Act
of 1974

H.R. 15301 completely revises the benefit and financing structure of the railroad retirement system by:

- authorizing a 25 year federal subsidy for the system
- eliminating future dual benefits from social security and railroad retirement
- shifting from the Secretary of the Treasury to the Railroad Retirement Board responsibility for investing trust fund assets
- providing a new formula for vesting and more liberal benefits schedule

BACKGROUND

If the Railroad Retirement system continues its current actuarial deficiencies (\$529 million per year) it will have exhausted its assets by the mid - 1980's. Congress established the Commission on Railroad Retirement to study ways in which the system can be made actuarially sound. Taking into account the results of the study, railroad labor and management negotiated an agreement improving the retirement system which would be implemented by signing of this Bill. The Bill differs only slightly from the Labor-Management agreement.



ARGUMENTS FOR SIGNING

The biggest reason for signing this is the previous action of the Government in originally setting up this fund improperly. The Bill would eliminate future accrual of dual benefit levels upward with better relationship to wages. The investment policy changes might generate revenues offsetting any additional subsidy requests.

As a compromise between railway labor and management, with management agreeing to fund a much greater proportion than in the past and blessed by the Congress, it is unlikely that an improved package could ever be agreed upon. Failure to implement these provisions might seriously impair difficult negotiations currently under way between carriers and unions on the existing contract covering over 500,000 employees and terminating January 1, 1975. The railroads are critical to the health of our nation and we should be strengthening the entire system including employee benefits.

There is a very strong possibility that a veto would be overridden.

ARGUMENTS FOR VETO

A \$7.1 billion subsidy by the federal taxpayers of a private pension system which was created to be independent and self supporting is improper. The proposed liberalized benefits almost equal the proposed subsidy which makes the fund dependant on the federal treasury for these and increased benefit amounts. Under this bill the Railroad Retirement System has the benefit of being, in essence a federal plan with little government control. The benefit formulas and administrative provisions are complex and will generate jurisdictional problems with the Social Security Administration.

The preferential investment provisions are unprecedented and undesirable. Such power in the Government securities markets should not be given to an agency with no responsibility for performance in those markets (Railroad Retirement Board). This concept was rejected by Congress in the 1970 railroad retirement legislation.

This Bill would not increase trust fund tax revenues in a way that would make it more self sustaining, rather it adds a subsidy to the trust fund in the estimated amount of \$285 million per year through the year 2000, while not eliminating the annual deficits



THE FOLLOWING HAS NO OBJECTION TO APPROVAL

Greenspan

OPTIONS

Sign _____ Recommended by Railroad Retirement Board,
Timmons, Counsel's Office (Chapman).

Veto _____ Recommended by Ash, Cole and Treasury

If veto, sign veto message attached at Tab A.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

October 7, 1974

MEMORANDUM FOR THE PRESIDENT

Subject: Enrolled Bill H.R. 15301 - Railroad Retirement
Act of 1974
Sponsor - Rep. Staggers (D) W. Va.

Last Day for Action

October 12, 1974 - Saturday

Purpose

Revises the structure of the Railroad Retirement System to implement a collective bargaining agreement between railway labor and management; authorizes a 25-year Federal subsidy for the retirement system and shifts responsibility for trust fund investment policy from Treasury to the Railroad Retirement Board.

Agency Recommendations

Office of Management and Budget	Disapproval (Veto message attached)
Department of the Treasury	Disapproval
Railroad Retirement Board	Approval
Department of Labor	No objection to approval
Council of Economic Advisers	No objection
Department of Health, Education, and Welfare	Defers to other agencies
Department of Transportation	No position



Discussion

H.R. 15301 would provide for a complete revision of the benefit and financing structure of the railroad retirement system. The bill is the result of a four-year effort by the Congress and the Executive Branch to resolve the nearly bankrupt condition of the railroad retirement trust fund. It is based on joint recommendations of railroad labor and management after extensive negotiations, and does not reflect the recommendations of the Executive Branch and a study commission established in 1970 that the system be self-financed.

Major provisions

The railroad retirement system is currently operating under an actuarial deficiency of 9.05 percent of taxable payroll, the equivalent of \$529 million a year. If uncorrected, the system will exhaust its assets in the mid-1980s. H.R. 15301 proposes to reduce and finance the deficiency by:

- (1) providing a lower level of pension benefits for future service under a new formula,
- (2) eliminating so-called "dual benefits" (i.e., social security and railroad retirement) arising out of future service,
- (3) authorizing payments from the Treasury general fund estimated at \$285 million a year over the next 25 years, and
- (4) authorizing the Railroad Retirement Board to engage in a preferential investment program for the assets in the trust fund.

These provisions are intended to reduce the deficit to 0.96 percent of payroll (equivalent to \$57 million a year) while still permitting new benefit liberalizations costing \$165 million a year.

A brief discussion of the effect of these four major provisions follows. A more detailed discussion of all the bill's provisions is contained in the attached views letter from the Railroad Retirement Board (RRB) on the enrolled bill.

(1) New formula. The new formula would protect benefits vested under the old formula for employment through December 31, 1974 (the changeover date). All wage credits earned after that date would vest in benefits at the lower rate. The savings resulting from this provision would be about 3.43 percent of taxable payroll or \$201 million a year.

(2) Eliminate future "dual benefit". Under existing law, the railroad retirement benefit may be conceived as a social security benefit combined with an additional pension benefit earned from railroad service. The "dual benefit" occurs since the social security system reinsures



the railroad retirement system for benefits that an individual would have received if his railroad service had been under the social security system. Under present law, individuals who have worked long enough under each system to qualify for both, in effect, receive social security benefits twice.

H.R. 15301 would restrict the future accrual of "dual benefits" essentially to what has already been vested under both systems. This would save 3.80 percent of taxable payroll or \$222 million a year.

(3) Federal subsidy for vested "dual benefits". Individuals whose pension rights have already vested would be protected under the enrolled bill. The cost of these dual benefits is estimated to be 3.64 percent of taxable payroll or \$213 million. H.R. 15301 would provide for general fund appropriations of such sums as may be necessary to meet this cost. Current estimates on a "level-cost" basis are that \$285 million a year for 25 years--totaling over \$7 billion--would be required to cover that cost.

(4) Preferential investment policy. Under present law, the Secretary of the Treasury determines the manner in which railroad retirement trust funds are invested, as he does for social security and other trust funds managed by the Federal Government. The rate of interest paid on trust fund investments is so managed as to equal the average market yield on longer-term marketable Treasury obligations.

Under H.R. 15301, RRB, rather than the Secretary of the Treasury would have the authority over the type, maturities, and redemptions of the railroad retirement trust fund's investments. All requests by RRB as to purchases and redemptions would be mandatory on the Secretary of the Treasury. This shift of investment authority is designed to enable RRB to obtain higher yields than are provided under the present Treasury investment policy.

The resulting added interest earnings--currently estimated at 0.6 percent of taxable payroll (\$35 million a year)--are required by the bill to be repaid to the general fund each year until the year 2,000.

Benefit liberalizations.

Although the changes described above have been designed to reduce the deficiency in the system, the bill provides for the liberalization of benefits in three areas:

- People who retire at age 60 with 30 years of service could receive supplemental annuities at age 60, rather than at age 65,
- The spouse of an individual who retires at age 60 with 30 years of service could qualify for a spouse's annuity at age 60, rather than at age 65; and
- The benefits generally payable to survivors (mostly widows) would be increased from 110 percent to 130 percent of the comparable social security benefit.

The combined cost of these liberalizations is 2.82 percent of taxable payroll or \$165 million a year.

In addition to these benefit liberalizations, H.R. 15301 would provide for four specified cost-of-living adjustments during the six-year period commencing January 1, 1975. The bill would also provide that whenever social security recipients receive automatic cost-of-living increases, such increases would be applied to the social security portion of the railroad retirement benefit. Finally, H.R. 15301 would add a new provision to the Railroad Retirement Act which would make future liberalizations of eligibility requirements under the Social Security Act for benefits, including medical benefits, automatically applicable to railroad employees.

Administration.

H.R. 15301 would authorize RRB to determine the eligibility for and the amount of social security benefits for all persons who were actual or potential railroad retirement beneficiaries. RRB rather than the Social Security Administration (SSA) also would be required to notify beneficiaries of the amount payable to them under social security, the reasons for any changes in the amount, and the beneficiary's rights of appeal.

Legislative Background

The need for an extensive restructuring of the railroad retirement system was recognized in 1970 when the Congress

enacted legislation establishing a Commission on Railroad Retirement to study the system and to make recommendations as to the steps necessary to place it on an actuarially sound basis.

After a year and a half of study, the Commission reported its findings and recommendations on September 7, 1972. Among its principal recommendations was that benefits be financed "...on an assured, fully self-supporting basis by contributions from the railroad community through the crisis period of the next 20 to 30 years and then beyond."

Following receipt of the report, Congress directed representatives of railroad employees and management to submit their mutual recommendations for restoring financial soundness to the railroad retirement system, taking into account the report and the specific recommendations of the Commission.

Eight months later, on February 27, 1973, a joint industry committee on railroad retirement notified Congress that it had not yet come into agreement and that it needed more time to shape its recommendations. Congress then enacted P.L. 93-69, approved July 10, 1973, which extended the industry's reporting date to April 1, 1974, and which also made further liberalizations in the railroad retirement system. P.L. 93-69, as enacted, directed the industry, as before, to develop a proposal which "will assure the long-term actuarial soundness of such system, which recommendations shall take into account the specific recommendations of the Commission on Railroad Retirement."

H.R. 15301 would implement the recommendations of the Joint Labor-Management Railroad Retirement Negotiating Committee in accordance with the directive contained in P.L. 93-69. The bill as passed by Congress differs from the Negotiating Committee's proposal in only two principal respects.

-- As the result of strong opposition to the Negotiating Committee's proposal for a subsidy from the Social Security trust fund over the next 25 years, that proposal was dropped in favor of a subsidy from the general fund of the Treasury.

-- The Congress also added the provision shifting to RRB from Treasury the responsibility for investing the assets of the railroad retirement trust fund.

Throughout the legislative history of this measure--from the inception of the Commission on Railroad Retirement in 1970 to recent Congressional action on the enrolled bill--the Administration has insisted that the responsibility for restoring the railroad retirement fund to a position of financial solvency properly rests with the railroad community and not with the Federal taxpayer. In testimony on the bill just four weeks ago, the Administration's spokesman told the Senate Subcommittee on Railroad Retirement:

"The bill now pending before this Committee does not provide financing on a fully-self-supporting basis by contributions from the railroad community as was recommended by the Commission. Instead, it proposes that the Federal taxpayer pick up the tab through a multi-billion dollar subsidy. Such an approach should be rejected by the Congress ... The problems of this system must be overcome within the industry it serves and those individuals who have benefitted from it in the past and will continue to receive its benefits in the future."

The Administration proposed several ways to provide financing on a self-supporting basis, including a gradual phase-in of benefit liberalizations to correspond with a phased increase in railroad retirement contributions. Nevertheless, H.R. 15301 was passed with strong Congressional support in both the House (343-10) and Senate (86-1). On the only test vote to be taken, the House rejected 26-329 a motion to recommit the bill to committee with instructions to provide for a one-year extension of present benefits.

Cost impact in fiscal year 1976.

Outlays. The provisions of H.R. 15301 that protect the vested benefits of current and future retirees would inhibit the realization of savings from the new benefit formula until several years into the future. In fiscal year 1976, the liberalizations and other changes in benefits will raise annual outlays by an estimated \$167 million.

Revenues. Under current law, income from trust fund operations are estimated to fall short of outlays by \$162 million.

This bill would not increase trust fund tax revenue at all. It would, instead, add a subsidy, including general fund appropriations, to the trust fund in the amount of an

estimated \$285 million a year through the year 2,000. Because of the higher outlays for benefits, the general fund subsidy would still result in an annual deficit for the fund in fiscal year 1976, but the fund should balance itself in later years.

Fiscal year 1976 railroad retirement outlays and receipts

	<u>(Dollars in millions)</u>	
	<u>Current law</u>	<u>H.R. 15301</u>
<u>Revenue</u>		
(a) From trust fund operations	2,936	2,936
(b) From subsidy operations	----	<u>285</u>
Total revenues	2,936	3,221
<u>Outlays</u>	<u>3,098</u>	<u>3,265</u>
Deficit	-162	-44

Arguments in favor of approval

1. While it does not provide for self-financing, H.R. 15301 does adopt several principal recommendations of the Commission on Railroad Retirement. In particular, it would eliminate future accrual of dual benefits, which has been a major factor in the financial problem of the railroad retirement system, and it would revise the benefit formula to produce future benefit levels which bear a reasonable relationship to wages.

2. The bill represents a compromise after lengthy negotiations between railway labor and railroad management, each of whom has made major concessions. Labor has agreed to the elimination of future dual benefits and alteration of the formula, while management has agreed to continue to accept responsibility (first enacted in P.L. 93-69) for funding a much greater share of the cost of the system than had previously been the case. It is unlikely that such agreement could be reached again without the impetus of a Congressional mandate (as in P.L. 93-69). This would

have to be accomplished under severe time pressure since substantial benefit increases enacted on a temporary basis since 1970 will expire on December 31, 1974 unless an acceptable permanent solution is found or those increases are again temporarily extended.

3. The Labor Department notes in its views letter, that a veto of the bill, which is in fact a negotiated agreement between the carriers and the unions, would have direct labor-management implications. Labor points out that very difficult negotiations are currently underway on the existing contract, which covers over 500,000 employees and terminates on January 1, 1975.

4. Congressional proponents of H.R. 15301 concur in the argument made by the railroad industry that the substantial increase in the number of dual beneficiaries over the years--from 15 to 40 percent of retirees--is largely attributable to acts of Congress and not acts of the industry. The proponents argue that it would be unfair for Congress to thrust on the industry the large costs of phasing out the dual benefits provisions which were created and maintained by Congressional acts when the railroad industry did not seek such legislation.

5. Proponents argue further that there is precedent for a Federal payment to the railroad retirement system in view of the fact that appropriations are made from general revenues each year to cover the cost of allowing social security and railroad retirement credits for military service. While military service admittedly differs from private sector employment, proponents argue that providing these payments represents a policy decision by the Congress that it would be inequitable not to pay them. A similar policy decision has been made by the Congress in passing H.R. 15301.

6. While it is possible that the currently estimated \$285 million annual cost of the Federal subsidy may turn out to be even higher in the future, proponents of the bill argue that any such increase would be offset by gains in interest revenues anticipated from the changes the bill makes in the investment policy of the railroad retirement fund.

Arguments in favor of disapproval

1. H.R. 15301 would provide for inequitable and unjustified \$7.1 billion subsidy by Federal taxpayers



to a pension system for a particular industry in the private sector. The railroad retirement system was created as an independent, self-supporting retirement system to serve only the members of the railroad industry. It would be inappropriate and highly inequitable to levy the costs of the system on taxpayers who cannot hope to benefit from it. The problems of the system should be met within the industry and by those it serves.

2. New benefit liberalizations should not be added to the railroad retirement system until they can be financed within the system. The liberalized benefits contained in H.R. 15301 amount to almost as much as the full amount of the Federal subsidy. Thus, under the enrolled bill the Federal taxpayer--not the industry--is being called upon to finance the new benefits for railroad retirees.

3. Financing the railroad retirement fund deficiency from the general fund would be inflationary as compared to the alternatives of reducing benefits, deferring benefit increases, or raising the payroll tax or contribution by the industry. Under the bill, the Federal subsidy is required to be paid for each of the next 25 years even if there is a surplus in other revenues of the railroad retirement fund. It is likely to be even higher than the currently estimated \$285 million a year as benefit levels increase with the cost of living.

4. The benefit formulas and administrative provisions in the bill are extremely complex. This complexity will seriously impede efficient administration of both the railroad retirement and social security systems. In addition, it will be impossible for the individual beneficiary to understand the workings of the system, thus undermining its credibility and public support.

5. It is inappropriate and inadvisable for RRB to be given the responsibility for the administration of certain provisions of the Social Security Act with no review by SSA. Having two separate agencies simultaneously administering the same statutory provisions will inevitably lead to confusion and loss of efficiency. As HEW notes in its letter, these provisions could create serious administrative problems for SSA, with no counter balancing advantages for RRB. Communication between SSA and its beneficiaries would be impaired and the incidence of social security benefit overpayments would increase. In addition, it will be difficult to explain this arrangement to



beneficiaries who are entitled to social security benefits in their own right and whose connection to the railroad industry is only marginal.

6. The preferential investment provisions of the bill are not available to any other Federal trust fund and are highly undesirable. Treasury states that the powers given to RRB could make its operations the single largest factor in the Government securities market, with consequent upsetting effects on other markets, and that such powers should not be given to a body with no responsibilities for the performance of those markets. Moreover, RRB could not only lock in investments for long terms when interest rates are at their peak, but could refund continuously into higher rates whenever rates are rising. This represents a concept that the railroad retirement system should, by law, get continuing long-term benefits from periods of high interest rates, but only current effects from periods of low interest rates. This concept which was considered and rejected by the Congress in the 1970 railroad retirement legislation, was characterized as reflecting a "heads-I-win-tails-you-lose" philosophy.

Recommendations

RRB recommends approval of H.R. 15301. The two members of the Board representing labor and management, jointly, state that they support H.R. 15301 in its entirety and believe that it provides "the only solution to the complex problems facing the railroad retirement system that is both practical and equitable while at the same time being by and large noninflationary." The RRB Chairman believes that the bill is "as good as any which would be acceptable to both the labor and management representatives." The Chairman acknowledges that there are weaknesses in the bill but does not believe they are important enough to warrant a veto.

Treasury recommends disapproval, criticizing both the investment and general fund financing provisions. The Department states that "a subsidy should not be provided by a sleight of hand investment policy designed to hide the fact that the subsidy is being paid for by the taxpayers." Treasury also opposes the new investment authority in view of the "clear expression of Congressional intent that the railroad retirement system not benefit from the new investment provisions until after the close of this century and the distinctly undesirable implications of those provisions ..."

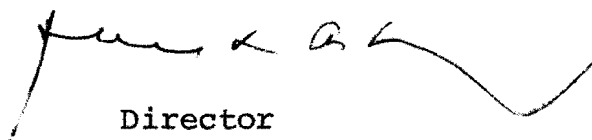


HEW, while deferring to other agencies on the merits of the bill, has serious reservations over the provisions assigning RRB certain administrative responsibilities for social security payments and is concerned that other, perhaps more serious, problems may emerge on further analysis.

Labor also defers to others on the substance of the bill, but concludes: "...we believe that negative action on this enrolled bill will severely exacerbate the already difficult negotiations that are currently being conducted.

* * * * *

Despite the fact that H.R. 15301 represents an agreement between labor and management reached after extended negotiations, we believe the principles involved in this bill and its cost implications are fundamentally inconsistent with sound financial and administrative policies. Furthermore, we do not believe the Federal subsidies provided in H.R. 15301 properly meet the mandate of P.L. 93-69 requiring the industry to develop a long-term, actuarially sound financing plan. We therefore recommend that H.R. 15301 be disapproved and that the Congress be urged to enact sound and equitable legislation along the lines proposed by the Administration before the temporary benefits in present law expire on December 31, 1974. A draft veto message is attached for your consideration.



Director

Enclosures



THE WHITE HOUSE

WASHINGTON

October 11, 1974

MEMORANDUM TO THE PRESIDENT

FROM: JOHN O. MARSH, JR.

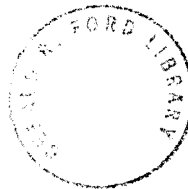


Congressman John Rhodes called to urge you, if at all possible, to sign the Railroad Retirement Bill. He realizes it is a budget buster, largely arising out of previous congressional action, but says it will be a one-time thing.

He is of the view that any veto will be overridden and points out that a veto will have an adverse impact just before election.

I told him I would convey his view to you.

cc: Donald Rumsfeld
William Timmons



HAND CARRY

One Original with stencils

no date.

TO THE HOUSE OF REPRESENTATIVES:

I am returning today without my approval, H.R. 15301, a bill which would finance a long-standing deficit in the Railroad Retirement System at the expense of the general taxpayer.

The Railroad Retirement System, under current law, is headed toward bankruptcy by the mid-1980s. This condition arises largely because benefits have been increased 68 percent since 1970 without requiring the beneficiaries of the system, railroad employees and employers, to pay the added costs.

This bill proposes to solve the financial problems of the Railroad Retirement System by placing a seven billion dollar burden on the general taxpayer, requiring him to contribute \$285 million to the Railroad Retirement Trust Fund each year for the next twenty-five years. In return for his seven billion dollar contribution, the general taxpayer would earn no entitlement to benefits and would receive no return on his investment.

At a time when the taxpayer is already carrying the double burden of taxes and inflation, legislation such as this is most inappropriate.

Recognizing the financial straits of the Railroad Retirement System, the Executive Branch in 1970 proposed and the Congress authorized an independent study of the System. After eighteen months of careful work, the study group recommended that the benefits be financed "...on an assured, fully self-supporting basis by contributions from the railroad community through the crisis period of the next 20 to 30 years and then beyond."



Following receipt of the report, the Congress directed representatives of railroad employees and management to submit their combined recommendations for restoring financial soundness to the System, taking into account the report and the specific recommendations of the Commission.

The bill which is now before me is true neither to the recommendation of the Commission nor to the charge placed on the industry by the Congress.

Forcing the general taxpayer to carry an unfair burden is not the only defect in this bill. It would also establish a special investment procedure for the Railroad Retirement Trust Fund.

Under the bill, the interest paid by the Treasury on Railroad Retirement investments and Federal securities would rise when interest rates increase but would not fall when they decrease. This "heads I win; tails you lose" arrangement, with the taxpayer being the loser, has been suggested before, but never adopted. It should not be a part of the solution to the Railroad Retirement System's financial problem.

Furthermore, the provisions of the benefit formula are so complex that they would be extremely difficult to administer and virtually impossible to explain to the persons who are supposed to benefit from it. Now is the time to simplify the benefit structure of the Railroad Retirement System, not make it more complex. Splitting administrative responsibility between the Railroad Retirement System and the Social Security System over benefits that depend on entitlement under the Social Security Act is bad law. Full responsibility for administering Social Security benefits should be vested in the Social Security Administration, not divided among agencies with resultant uncertainty as to who should be held accountable.



I believe it is our obligation to the general taxpayer to see that the problems of this system are overcome by the industry and people it serves -- those who have benefitted from it in the past and will continue to receive its benefits in the future. Other industries -- other parts of the transportation industry -- pay for their own pension systems. There is no justification for singling out the railroads for special treatment.

There are only two ways this obligation can be met -- by increasing revenues or by limiting benefits or by a combination of both. Administration spokesmen have proposed constructive ways to achieve this goal, but our proposals have not received serious consideration by the Congress.

We are in need of a better railroad retirement system and a financially sound one. This bill does not meet that need. I urge the Congress to reconsider that need and to develop a new bill which is fair to the taxpayers as well as to the beneficiaries of the Railroad Retirement System. This Administration stands ready to help in any way it can.

Gerard R. Ford

THE WHITE HOUSE,
October 12, 1974

TO THE HOUSE OF REPRESENTATIVES

I am returning today without my approval, H.R. 15301, a bill which would finance a long-standing deficit in the Railroad Retirement System at the expense of the general taxpayer.

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This bill proposes to solve the financial problems of the Railroad Retirement System by ^{placing} ~~leading~~ a seven ^{oh} billion dollar burden on the general taxpayer, ^{requiring him to} ~~if this bill were to become law, the general taxpayer would contribute~~ ^{oh} \$285 million to the Railroad Retirement Trust Fund each ^{oh} year for the next twenty-five years. ~~In return for his seven billion dollar contribution, the general taxpayer would earn no entitlement to benefits and would receive no return on his investment.~~ sketch

At a time when the taxpayer is already carrying the double burden of taxes and inflation, ~~there is no justification for legislation such as this~~ ^{is most inappropriate.}

Recognizing the financial straits of the Railroad Retirement System, the Executive Branch in 1970 ^{oh} proposed and the Congress authorized an independent study of the System. After eighteen months of careful work, the study group recommended that the benefits be financed "...on an



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ok Furthermore, the provisions of the benefit formula are so complex that they ^{would extremely difficult} will be a ~~nightmare~~ to administer and virtually impossible to explain to the persons who are supposed to benefit from it. Now is the time to simplify the benefit structure of the Railroad Retirement System,



not make it more complex. Splitting administrative responsibility between the Railroad Retirement System and the Social Security System over benefits that depend on entitlement under the Social Security Act is bad law. Full responsibility for administering Social Security benefits should be vested in the Social Security Administration, not divided among agencies with resultant uncertainty as to who should be held accountable.

I believe it is our obligation to the general taxpayer to see that the problems of this system are overcome by the industry and people it serves--those who have benefitted from it in the past and will continue to receive its benefits in the future. Other industries--other parts of the transportation industry--pay for their own pension systems. There is no justification for singling out the railroads for special treatment.

There are only two ways this obligation can be met--by increasing revenues or by limiting benefits or by a combination of both. Administration spokesmen have proposed constructive ways to achieve this goal, but our proposals have not received serious consideration by the Congress.

We are in need of a better railroad retirement system and a financially sound one. This bill does not meet that need. I urge the Congress to reconsider that need and to develop a new bill which is fair to the taxpayers as well as to the beneficiaries of the Railroad Retirement System. This Administration stands ready to help ~~that endeavor~~ in any way it can.



THE WHITE HOUSE
WASHINGTON

October 10, 1974

MEMORANDUM FOR:

KATHY TINDLE *kg*

FROM:

KEN LAZARUS
DUDLEY CHAPMAN *bc*

SUBJECT:

Enrolled Bill H. R. 15301
Railroad Retirement Act of 1974

We favor signing the referenced bill. The papers show that both labor and management strongly endorse it; and that it is a negotiated settlement worked out with great difficulty. The fact that Congress has blessed the arrangement should also be given substantial weight.

Moreover, the OMB arguments against the bill appear overdrawn. It is not realistic, for example, to say that the public does not benefit at all from help to the railroad industry. Alternative forms of transportation (a) cost the taxpayer for direct subsidies, (b) consume fuel less efficiently, and (c) benefit from reduced congestion to the extent that traffic is diverted to rails. Congress has made clear enough through repeated insistence on maintaining service to remote and unprofitable points that it considers railroad service an important benefit to the public.



Date: October 9, 1974

Time: 9:00 a.m.

FOR ACTION: ~~Michael Duval~~
✓ Phil Buchen
Bill Timmons
Paul Theis

cc (for information): Warren K. Hendriks
Jerry Jones

FROM THE STAFF SECRETARY

DUE: Date: Thursday, October 10, 1974

Time: 2:00 p.m.

SUBJECT: Enrolled Bill H.R. 15301 - Railroad Retirement Act of 1974

ACTION REQUESTED:

- For Necessary Action
- For Your Recommendations
- Prepare Agenda and Brief
- Draft Reply
- For Your Comments
- Draft Remarks

REMARKS:

Please return to Kathy Tindle. - West Wing



PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

Warren K. Hendriks
For the President

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

To Warren
Hendricks
10/8/74
9:10 a.m.

MEMORANDUM FOR THE PRESIDENT

Subject: Enrolled Bill H.R. 15301 - Railroad Retirement Act of 1974
Sponsor - Rep. Staggers (D) W. Va.

Last Day for Action

October 12, 1974 - Saturday

Purpose

Revises the structure of the Railroad Retirement System to implement a collective bargaining agreement between railway labor and management; authorizes a 25-year Federal subsidy for the retirement system and shifts responsibility for trust fund investment policy from Treasury to the Railroad Retirement Board.

Agency Recommendations

Office of Management and Budget	Disapproval (Veto message attached)
Department of the Treasury	Disapproval
Railroad Retirement Board	Approval
Department of Labor	No objection to approval
Council of Economic Advisers	No objection
Department of Health, Education, and Welfare	Defers to other agencies
Department of Transportation	No position

Discussion

H.R. 15301 would provide for a complete revision of the benefit and financing structure of the railroad retirement system. The bill is the result of a four-year effort by the Congress and the Executive Branch to resolve the nearly bankrupt condition of the railroad retirement trust fund. It is based on joint recommendations of railroad labor and management after extensive negotiations, and does not reflect the recommendations of the Executive Branch and a study commission established in 1970 that the system be self-financed.



ACTION MEMORANDUM

WASHINGTON

Date: October 9, 1974

Time: 9:00 a.m.

FOR ACTION: 1974 OCT 9 Michael Duval
Phil Buchman
Bill Timmons
✓ Paul Theis

cc (for information): Warren K. Hendriks
Jerry Jones

10 21
64/par

FROM THE STAFF SECRETARY

DUE: Date: Thursday, October 10, 1974

Time: 2:00 p.m.

SUBJECT: Enrolled Bill H.R. 15301 - Railroad Retirement Act of 1974

ACTION REQUESTED:

- For Necessary Action
- For Your Recommendations
- Prepare Agenda and Brief
- Draft Reply
- For Your Comments
- Draft Remarks

REMARKS:

Please return to Kathy Tindle. - West Wing



PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

Warren K. Hendriks
For the President

THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.: 636

Date: October 9, 1974

Time: 9:00 a.m.

FOR ACTION:

Roger Sernerad
~~Michael DeLoach~~
✓ Phil Buchen *not memo*
✓ Bill Timmons *not memo*
Paul Theis

cc (for information): Warren K. Hendriks
Jerry Jones

FROM THE STAFF SECRETARY

DUE: Date: ~~Tuesday~~, October 10, 1974

Time: 2:00 p.m.

SUBJECT: Enrolled Bill H.R. 15301 - Railroad Retirement Act of 1974

ACTION REQUESTED:

- For Necessary Action
- For Your Recommendations
- Prepare Agenda and Brief
- Draft Reply
- For Your Comments
- Draft Remarks

REMARKS:

Please return to Kathy Tindle - West Wing



PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.


If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

K. R. COLE, JR.
For the President

THE WHITE HOUSE
WASHINGTON

10/8/74

TO: WARREN HENDRIKS



RDL

Robert D. Linder

UNITED STATES OF AMERICA
RAILROAD RETIREMENT BOARD
844 RUSH STREET
CHICAGO, ILLINOIS 60611

JAMES L. COWEN
CHAIRMAN
NEIL P. SPEIRS
WYTHE D. QUARLES, JR.

October 3, 1974

Mr. Wilfred H. Rommel
Assistant Director for Legislative Reference
Office of Management and Budget
Executive Office of the President
Washington, D.C. 20503

Dear Mr. Rommel:

This is the report of the Railroad Retirement Board on the enrolled bill H.R. 15301.

The bill consists of six titles, the first of which would amend the Railroad Retirement Act of 1937, in its entirety, and replace it with a new Railroad Retirement Act, the Railroad Retirement Act of 1974, which would become effective on January 1, 1975. With relatively minor exceptions, the definitions in Section 1 of the proposed Act are the same as those contained in the 1937 Act. The provisions of Sections 5, 7-18, and 20 of the proposed Act, which for the most part relate to the administration of the railroad retirement system by the Railroad Retirement Board, are also essentially the same as provisions set forth in the 1937 Act.

The eligibility provisions for monthly annuities set forth in Section 2 of the proposed Act and the provisions in Section 6 for the payment of lump-sum benefits are, with certain exceptions, the same as the corresponding provisions of the present Act. In two instances, concerning the age requirements for entitlement to employee supplemental annuities and spouse annuities, the eligibility requirements have been liberalized to make more effectual a 1973 amendment intended to encourage early retirement. Also the residual lump-sum benefit, which is provided by Section 5(f)(2) of the 1937 Act, would be retained in Section 6(c) of the proposed Act but would be based only on compensation and service prior to January 1, 1975. Finally, the lump-sum death benefit provided under the proposed Act would, in most cases, be smaller than that provided in the 1937 Act, and a new lump-sum benefit would be provided for certain employees who have engaged, prior to 1975, in both railroad retirement and social security employment in a particular year but



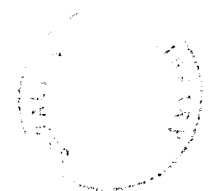
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who are not entitled to vested dual railroad retirement and social security benefits. In essence, this latter benefit would provide a refund of excess employment taxes paid in the past due to the lack of coordination between the railroad retirement and social security systems.

Section 19 of the proposed Act, which also concerns benefit eligibility requirements, is entirely new. It would, with certain exceptions, make future liberalizations of benefit eligibility requirements under the Social Security Act (including those for health care benefits) and future additions of benefits for new classes of beneficiaries under that Act automatically applicable to railroad retirement annuitants under the proposed Act. The exceptions referred to are generally intended to prevent duplication of benefits and to retain eligibility requirements which are basic to the railroad retirement system (such as the minimum ten years of service requirement). This section would not operate to provide annuity entitlement under the proposed Act to classes of beneficiaries (such as divorced wives and children of living employees) who were entitled to benefits under the Social Security Act prior to 1975 but were not then entitled to railroad retirement benefits.

Section 3 of the proposed Act contains the provisions for computing employee annuities, and Section 4 sets forth the annuity computation provisions for spouse and survivor annuities. An employee's regular annuity would consist of two basic components - a social security level component computed under the social security benefit formulas on the basis of the employee's combined railroad and nonrailroad earnings (this component would be reduced by the amount of any monthly social security benefit actually paid to the employee) and a staff component based on railroad service only. The staff component would be composed of subcomponents based on past service (service prior to January 1, 1975, the effective date of the new Act) and future service. The past service subcomponent would consist of two pieces: (1) an amount computed under the present Railroad Retirement Act on the basis of railroad service through December 31, 1974, less an imputed social security benefit amount based only on railroad service through December 31, 1974; and (2) \$1.50 for each of the employee's first ten years of railroad service prior to 1975 plus \$1.00 for each year of the employee's railroad service prior to 1975 in excess of ten years of service - this amount would be provided only for employees who engage in railroad service after 1974. The future service portion of the employee's staff benefit would be equal to the sum of one-half percent of the employee's average monthly compensation after 1974 plus \$4.00 multiplied by the employee's years of service after 1974. Both the first piece of the employee's past service subcomponent and the future service subcomponent would be subject to cost-of-living adjustments due to increases in the unadjusted Consumer Price Index during the period from September 30, 1976, through the earlier of September 30 of the year preceding the year in which the employee's annuity begins or September 30, 1980.



In addition to his regular annuity, an eligible employee would receive a supplemental annuity (which would be considered a part of his total staff annuity component) ranging in amount from \$23.00 to \$43.00. Finally, an employee with "vested rights" to benefits under both the Railroad Retirement Act and the Social Security Act as of a specified date (December 31, 1974, in the case of some employees and December 31 of the year in which the employee last performed railroad service in the case of other employees) would receive an additional benefit amount based on his employment prior to 1975. This amount is intended to preserve an eligible employee's "right" to such dual benefits as had accrued prior to the effective date of the new Railroad Retirement Act.

Spouse annuities, like employee annuities, would consist of a social security level component plus a staff component. Generally speaking, the amount of each component would be equal to one-half of the employee's corresponding component (exclusive of the employee's supplemental annuity), subject to the same spouse maximum as is contained in present law. The social security level component would be reduced if the spouse is entitled to a social security benefit based on either the employee's earnings or her own earnings. The spouse would, however, receive an additional benefit amount if she had "vested rights" to benefits under the Railroad Retirement Act and the Social Security Act as of the effective date of the proposed Act. The additional amount would compensate, with respect to benefit rights accrued prior to 1975, for the reduction in the social security level component of the spouse's annuity because of her entitlement to a benefit under the Social Security Act.


The employee and spouse annuities described above would be subject to a maximum which, in a case where the employee had maximum earnings, would, generally speaking, limit the combined employee and spouse annuities to the greater of (1) \$1200 a month or (2) 90 percent of the employee's taxable earnings. In addition to this maximum provision, the proposed Act would contain two minimum provisions applicable to employee and spouse annuities. The first of these minimums guarantees that, in cases where the employee's annuity begins to accrue before 1983, the total of the annuities and supplemental annuity payable to the employee and his spouse for any month under the new Act cannot be less than the total amount that would have been payable to them for that month under the present Act as in effect on December 31, 1974, on the basis of the maximum monthly compensation creditable at that time. The second minimum provision is similar to the so-called social security minimum guaranty provision contained in the present Act. Generally speaking, it assures that the total monthly benefits to a retired employee and his spouse will not be less than the amount that would have been payable to the employee's family under the Social Security Act on the basis of his combined railroad and nonrailroad earnings.

A survivor, like an employee and a spouse, would be entitled to a social security level benefit under the proposed Act computed on the basis of the deceased employee's combined railroad and nonrailroad earnings. This benefit, like a social security survivor benefit, would be subject to reduction if the survivor becomes entitled to a social security benefit based on his or her own earnings. It would also be subject to reduction by the amount of the social security level component of any employee annuity to which the survivor may be entitled. The staff component of the survivor annuity would be equal to 30 percent of the social security level annuity component prior to any reduction due to receipt of a benefit based on the survivor's own earnings. An additional benefit amount may be payable to a widow or widower who had "vested rights" to benefits under both the Railroad Retirement Act and the Social Security Act on December 31, 1974. The new survivor annuity formulas would be applicable to survivors on the benefit rolls when the proposed Act becomes effective. These formulas would provide an increase in benefits for most survivors since survivors who are not entitled to benefits based on their own earnings now receive survivor annuities equal to 110 percent of the amount that would have been payable to them under the Social Security Act whereas under the new Act those same survivors would receive 130 percent of that amount.

Title II of the bill provides for the benefits to be payable to railroad retirement beneficiaries already on the rolls - railroad employees, and their spouses and survivors, who retired prior to January 1, 1975. Generally speaking, the benefits payable to such persons would merely be divided into social security level components, staff components, and additional amounts to preserve vested rights to dual benefits without any change in the total benefit amounts previously paid, except in the case of survivor annuities as discussed in the preceding paragraph.

Titles III, IV, and V would amend the Social Security Act, the Railroad Unemployment Insurance Act, and the Internal Revenue Code of 1954, respectively, to take account of the changes made by Title I. Title VI contains effective dates - generally, January 1, 1975.

The major change which would be made by the proposed new Railroad Retirement Act concerns entitlement to dual benefits, that is, entitlement to benefits under both the Railroad Retirement Act and the Social Security Act on the basis of the earnings record of a single individual. Under present law, if an individual engages in employment covered under the Railroad Retirement Act and also engages in employment covered under the Social Security Act, he, and his spouse, can become entitled to benefits under both Acts, assuming, of course, that the individual has sufficient service under each Act to meet the basic requirements to benefit eligibility (ten years of service in the case of the Railroad Retirement Act and a specified number of quarters of coverage, which varies for different individuals, in the case of the Social Security Act). The bill would eliminate this possibility of separate, largely uncoordinated, benefit entitlement with respect to future service.



In order to accomplish the above-mentioned purpose, the railroad retirement benefit formulas would be restructured, as discussed previously, to provide a social security level benefit, which would be equal to the benefit payable under the Social Security Act formulas on the basis of an employee's combined social security and railroad retirement earnings and service, plus a staff benefit, which would be based on railroad service only. Since the social security level benefit payable under the proposed Railroad Retirement Act would be reduced by the amount of any benefit actually paid to the annuitant under the Social Security Act, the railroad retirement annuity would supplement, rather than be in addition to, the social security benefit. Retired persons who were receiving separate benefits under both the Railroad Retirement Act and the Social Security Act on the basis of a railroad employee's earnings record prior to January 1, 1975, and nonretired persons with "vested rights" to benefits under both Acts, would receive a "windfall" amount which is intended to preserve rights to separate dual benefits accrued prior to the effective date of the new Act. This "windfall" amount would be based entirely on service prior to 1975 so that, in effect, no dual benefits would accrue after the effective date of the new Act. Annuitants and active railroad employees would have a "vested right" to dual benefits for purposes of entitlement to a "windfall" amount if they had been credited with ten or more years of service under the Railroad Retirement Act on December 31, 1974, and had sufficient social security credits to be fully insured under the Social Security Act on that date. Inactive railroad employees who had ten years of service on December 31, 1974, must have had sufficient quarters of coverage to be fully insured under the Social Security Act as of December 31 of the year in which they last engaged in railroad employment in order to have had such a "vested right" to dual benefits as would entitle them to a "windfall" amount.

Section 15(d) of the proposed Act authorizes annual appropriations to the Railroad Retirement Account for the fiscal years 1976-2000 to reimburse the Account for the total costs incurred (both during and after those years) because of the payment of the above-discussed "windfall" amounts. The amount of each such appropriation would be determined as follows: The Railroad Retirement Board would make a determination as to the amount which, if paid into the Account in 25 equal payments, would meet the total costs incurred due to the payment of "windfall" amounts - current estimates are that appropriations at the level of \$285 million a year for the 25 year period would be sufficient for this purpose; however, the Board would re-evaluate the yearly amount required at the time of each actuarial valuation, that is, every three years. The amount so determined would, each year, be reduced by an amount equal to 1/25 of the estimated total increase in the interest income which the Railroad Retirement Account is expected to realize during the 25 fiscal years 1976 through 2000 as a result of the new investment policy provisions contained in Section 15(e) of the proposed Act. Thus, this increase in interest income would be utilized to reduce the Treasury liability for the

financing of "windfall" amounts. As with the cost of "windfall" amounts, the Board would determine the amount of the increased interest income which the Account is expected to earn because of the new investment policy provisions and would re-evaluate this determination every three years.

Under the new investment policy provisions referred to in the preceding paragraph: (1) the Railroad Retirement Board, rather than the Secretary of the Treasury, would determine what proportion of the funds in the Railroad Retirement Account would be invested in special obligations issued exclusively to the Account and what proportion would be invested in interest-bearing obligations of the United States or obligations guaranteed as to both principal and interest by the United States; (2) specific statutory authority, not provided by present law, would permit funds in the Account to be invested in obligations which are lawful investments for trust funds of the United States such as FNMA and Federal Home Loan Bank securities; and (3) the Board, rather than the Secretary of the Treasury, would have the authority to determine what securities should be redeemed at any time. All requests of the Board as to purchases and redemptions would be mandatory upon the Secretary of the Treasury. As stated, these provisions are expected to increase the interest income earned by the funds in the Account.

A detailed, section-by-section analysis of the various sections of the bill is set forth in pages 28-65, of the Report of the Senate Committee on Labor and Public Welfare on H.R. 15301, Report No. 93-1163.



Views of the Board

Serious questions were first raised as to the actuarial soundness of the railroad retirement system in 1970 at the time that consideration was being given to an increase in railroad retirement benefits. Congress established a Commission on Railroad Retirement to study the system and its financing for the purpose of making recommendations as to the measures necessary to provide adequate levels of benefits on an actuarially sound basis (Public Law 91-377). The Commission was to submit a report on its findings and recommendations by June 30, 1971, but subsequently received a one year extension to June 30, 1972.

Shortly after the Commission issued its report, which was received by Congress on September 7, 1972, Congress enacted Public Law 92-460, which contained a provision instructing representatives of railroad labor and management to enter into negotiations that would take into consideration the specific recommendations of the Commission on Railroad Retirement and to submit a report containing their mutual recommendations as to what measures should be taken to assure the receipt of sufficient revenues to finance the benefits provided by the Railroad Retirement Act. Pursuant to that directive, the representatives of labor and management submitted a report, dated February 27, 1973, calling attention to the complex issues involved and stating that substantial progress had been made in shaping mutually agreeable recommendations. The parties then jointly sponsored legislation which was enacted as Public Law 93-69, approved July 10, 1973. As a result of that legislation, the representatives of labor and management were directed to present to Congress their joint recommendations, in the form of a draft bill, for restructuring the railroad retirement system in a manner which will insure its long-range actuarial soundness. The enrolled bill H. R. 15301 implements the recommendations submitted by the Joint Labor-Management Railroad Retirement Negotiating Committee in accordance with the directive contained in Public Law 93-69.

Board Members Speirs and Quarles fully support H. R. 15301 in its entirety. We believe that the provisions of the enrolled bill not only meet the obligation imposed by Public Law 93-69 but, in fact, provide the only solution to the complex problems facing

the railroad retirement system that is both practical and equitable while at the same time being by and large noninflationary. We recognize, however, that it will be difficult to implement the provisions of H. R. 15301 expeditiously within the limits of our present employment ceiling as established by the Office of Management and Budget. However, these difficulties are not insurmountable.

The Chairman of the Board believes that the bill goes a long way towards meeting the requirements of Public Law 93-69. The bill is probably as good as any which would be acceptable to both the labor and management representatives. As he stated in his prepared testimony at the hearings before the House and Senate Committees, the Chairman feels that there are weaknesses in the bill but these are not sufficiently important as to recommend a veto. Therefore, he recommends that the bill be signed into law.

The Chairman would like to point out that the provisions of this bill will significantly increase the administrative problems of the Board. The bill, amongst other things, requires added coordination between the social security and railroad retirement programs. Further, he doubts that the Board would be able to accomplish its functions with the present employment ceiling which it received from the Office of Management and Budget. It is also doubtful whether the Board could adjust its procedures to be able to implement the provisions of this bill by January 1, 1975, although it will be able to put a few of them into effect by that date.

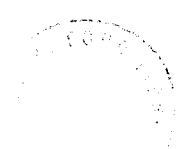
The Board's budget request which was submitted to the Office of Management and Budget on September 13, 1974, does not contain allowances for the added benefit and administrative costs of this bill. Thus a supplemental appropriation request will have to be submitted.

Sincerely yours,



FOR THE BOARD

R. F. Butler, Secretary



Effects on the Financial Condition of the System

The bill provides for a major restructuring of the railroad retirement system. In addition to the revised benefit computation procedures, the restructuring alters the relationship between the railroad retirement and social security systems. Because the enactment of the bill would create an essentially new system, cost figures are presented for the plan as a whole, and for its components, rather than in relation to the present system.

- a. The cost figures are based on data and assumptions used in connection with the twelfth actuarial valuation of the railroad retirement system. Employee salary scales were adjusted upward, however, because the valuation assumed a monthly taxable ceiling of \$1,000 instead of the current ceiling of \$1,100. Static conditions are assumed in that future increases in wages and prices are not considered.
- b. The bill provides for certain maximums and minimums to be applied to benefits. There is a "100% overall minimum" in that retirement benefits paid under the bill cannot be less than 100% of the social security benefits that would be payable to the employee and his family on the basis of social security law if all of his railroad and social security earnings were covered under social security.

Section 3(f)(1) provides for a maximum to be applied to the sum of employee and spouse benefits. Under static conditions, however, the provision is virtually inoperative. Section 3(f)(2) provides for an 8-year "guaranty" period. Employees who retire during that period and their spouses cannot receive less than they would have received under the Railroad Retirement



Act of 1937 as in effect on Dec. 31, 1974, on the basis of the maximum monthly compensation creditable at that time. It is estimated that the cost of this guaranty provision will be negligible.

- c. Cost figures for components of benefits to nonretired employees and future entrants are shown in table 1. The costs shown are costs to the railroad retirement system in excess of the amounts that will be reimbursed to the railroad retirement system through the financial interchange with social security. In other words, the figures reflect the costs for providing the full benefit that the annuitant will receive less the social security benefit computed on the basis of combined railroad retirement and social security earnings.
- d. Costs and cost reductions arise from other differences between social security law and the provisions of the bill. From a cost standpoint, the principal areas are the following:
 - (1) Employees with 30 or more years of service who retire after June 30, 1974 at the age of 60 or above ("60 with 30" employees) will be considered eligible for an unreduced social security benefit based on combined railroad retirement and social security earnings. Spouses of such employees will be entitled to an unreduced social security spouse annuity if they are age 60 or above.
 - (2) Occupational disability retirees are deemed to be totally and permanently disabled for the purpose of calculating their social security benefits on combined earnings.
 - (3) There is no 5-month waiting period for disability retirement benefits.
 - (4) The imputed social security spouse benefit based on the employee's combined earnings is subject to the railroad retirement age reduction

factor of 1/180 for each month the spouse is below age 65 rather than to the social security age reduction factor of 1/144.

- (5) Social security benefits based on the employee's combined earnings will not be paid to categories of beneficiaries not eligible for railroad retirement benefits under the bill.
 - (6) Persons who have completed 10 years of railroad retirement service but who are not eligible for a windfall benefit may obtain a refund of excess social security taxes (assuming past railroad retirement taxes to be applicable to social security) paid during the years 1951 through 1974 inclusive under the provisions of section 6(d).
- e. In general, beneficiaries on the rolls on Dec. 31, 1974 will receive the same amount under the bill that they were receiving under the Railroad Retirement Act of 1937. Survivors, however, will be guaranteed a total benefit of at least 130% of the amount payable under social security law based on the employee's combined earnings. At present, the guarantee is 110% of that amount.
 - f. Beneficiaries on the rolls on Dec. 31, 1974 who are receiving a supplemental annuity under the 1937 Act will continue on the \$45 to \$70 benefit schedule. However, beneficiaries on the rolls on Dec. 31, 1974 who are under 65 on that date and will begin to receive a supplemental annuity after Jan. 1, 1975 will be paid at the \$23 to \$43 rate. Contributions for supplemental annuities will be made on a pay-as-you-go basis in amounts sufficient to pay benefits at the 1937 Act levels to all present and future recipients. However, those taxes which are not required to pay supplemental annuity benefits to employees retiring after Dec. 31, 1974 because of the lower benefit schedule of the present bill will be credited to the regular railroad

retirement account rather than to the railroad retirement supplemental account.

- g. Table 2 presents an actuarial balance sheet for the railroad retirement system under the provisions of the bill. In addition to financing from the funds on hand and income from investments, the financial interchange, and presently legislated taxes, the bill calls for an assumption of the cost of windfall benefits by the general funds of the Treasury. The cost of the windfall as defined in the bill is estimated at 3.64% of taxable railroad payroll or a total present value of \$3.8 billion. The bill provides for the amortization of this amount by a payment in each fiscal year from 1976 to 2000. The amount of each payment is \$285 million reduced by a level amount which will approximate the excess interest resulting when the investment policy of the bill is compared to the investment policy under the 1937 Act for the period from fiscal year 1976 to fiscal year 2000. On the basis of the above income, the actuarial deficiency of the railroad retirement system under static conditions is .96% of payroll or \$57 million per year. These figures may be compared to the actuarial deficiency of the present railroad retirement system which is estimated at 9.06% of payroll or \$529 million per year.
- h. The twelfth valuation of the railroad retirement system and the report of the Commission on Railroad Retirement both stated that the current railroad retirement fund faced exhaustion in the not too distant future. In addition, the present and potential beneficiary/employee ratio indicates the likelihood of a cash flow problem over the next 20 years. For these reasons, table 3 shows a projection of components of the restructured railroad retirement

system from the year 1975 to the year 2000. To some extent, the projection utilized the one prepared in the course of the valuation, but extensive modifications were necessary to reflect the revisions contained in the bill. Certain additional assumptions over those used in the valuation were necessary and they introduce a degree of roughness in the final figures.

. Table 3 reflects that under the benefit and financing provisions of the bill the combined regular and supplemental railroad retirement accounts will decline to a balance of \$625 million in the year 2000.

- i. The previous discussion has been confined to static economic conditions for a number of practical considerations. Essentially, the future course of the railroad retirement system under "dynamic" conditions (i.e., where there are increases in wages and prices that would activate the automatic adjustment provisions of social security law) depends upon the nature of those future conditions. There is some reason to believe, however, that under the most likely patterns of future wage and price increases, the financial position of the railroad retirement fund will be improved. There are two major reasons for this view. First, the dynamic increases in the railroad staff portion of the benefit are limited. Only four such increases are provided for in the bill. Even if the number of increases is raised, the increases will cover only certain portions of the railroad staff benefit and are only a fraction of the rise in prices reflected by the Consumer Price Index. Second, under dynamic conditions, taxable wages and hence tax income, will be increasing. Projections made by the Social Security Administration (in the 1974 Annual Report of the Trustees of OASDI)

indicate that the rise in income will be appreciably greater than the rise in benefits produced by the cost-of-living adjustment formulas given in the bill.

- j. The cost figures presented make no allowance for the provisions of section 19 of the bill which extend to railroad retirement annuitants certain classes of benefit liberalizations if those liberalizations are made part of social security law. At the present time, there is no way to anticipate the nature of any such liberalizations.

Table 1. Costs in excess of financial interchange reimbursements for nonretired employees and future entrants under the restructured railroad retirement system - static conditions

Item	Equivalent level cost	
	Percent of payroll	Level annual amount (millions)
1. Employees	<u>7.52%</u>	<u>\$439</u>
(a) Basic past service benefit <u>1/</u>	3.31	193
(b) Additional amount on past service (\$1.50 per year for the first 10 years, \$1.00 per year for subsequent years of past service)	.77	45
(c) Future service benefit	2.56	150
(d) Supplemental annuity (\$23-\$43)	.88	51
2. Spouses <u>1/ 2/</u>	<u>.63</u>	<u>37</u>
3. Survivors	<u>1.60</u>	<u>94</u>
(a) Aged widows (30% of the social security benefit on the employee's combined earnings)	1.01	59
(b) Other survivors	.42	25
(c) Insurance lump sums	.02	1
(d) Residual payments	.15	9
4. Windfall benefits, gross amount before the offset against the basic past service benefit	<u>1.35</u>	<u>79</u>
(a) Active employees	.48	28
(b) Inactive employees	.22	13
(c) Spouses	.57	33
(d) Survivors	.08	5
5. Costs in regard to a 100% overall minimum provision for active and inactive employees and their families	<u>.12</u>	<u>7</u>
6. Costs in regard to certain relationships between the railroad retirement and social security systems	<u>1.26</u>	<u>74</u>
(a) Financial interchange for railroad retirement ineligible beneficiaries	-.45	-26
(b) Providing social security benefits to railroad retirement ineligible beneficiaries based on social security earnings	.20	12

Table 1 (continued)

Item	Equivalent level cost	
	Percent of payroll	Level annual amount (millions)
(c) Imputing a full social security benefit to 60 with 30 retirees	.67	39
(d) Imputing a full social security spouse benefit at age 60 to spouses of 60 with 30 retirees	.33	19
(e) Imputing a full social security benefit in occupational disability cases	.32	19
(f) Imputing full social security benefits in total and permanent disability cases during the 5 month waiting period	.12	7
(g) Allowing the railroad retirement rather than the social security age reduction in social security level benefits to spouses	.04	2
(h) Refund of excess taxes	.03	2
7. Total, items 1 through 6	<u>12.48</u>	<u>730</u>

1/This cost is net after the reduction for the offset in the basic past service benefit for the amount of the social security benefit on social security earnings before the changeover date.

2/Includes the cost of allowing a reduced annuity to a spouse at 62 when the employee is 62.

Note: A minus sign indicates a cost reduction. The level taxable payroll is \$5,840 million per year based on an \$1,100 monthly ceiling. The term "full" benefit as used here corresponds to a disability "freeze" benefit, i.e., a social security benefit calculated using a retirement date computation point.

Table 2. Actuarial balance sheet for the restructured
railroad retirement system (under static conditions)

Item	Equivalent level cost	
	Percent of payroll	Level annual amount (millions)
a. Funds on hand, accrual basis	<u>5.26%</u>	<u>\$307</u>
(1) Regular account	5.22	305
(2) Supplemental account	.04	2
b. Benefits to retired and deceased employees	<u>8.38</u>	<u>489</u>
(1) Net costs with 110% overall minimum to survivors	6.59	385
(2) Additional costs of raising overall minimum guarantee for survivors to 130% for beneficiaries on the rolls	1.22	71
(3) Cost of continuing supplemental annuity to employees on the rolls	.57	33
c. Initial deficit (b - a)	<u>3.12</u>	<u>182</u>
d. Benefits with respect to active and inactive employees and new entrants (from table 1, item 7)	12.48	730
e. Administrative expenses	.10	6
f. Elimination of interchange with RUIA	-.07	-4
g. Total cost of plan in excess of financial interchange reimbursements (c + d + e + f)	<u>15.63</u>	<u>914</u>
h. Funding	<u>14.67</u>	<u>857</u>
(1) Net railroad retirement tax rate <u>1/</u>	9.25	540
(2) Level supplemental tax rate	1.78	104
(i) Applied to the railroad retirement account	.33	19
(ii) Applied to the supplemental annuity account	1.45	85
(3) Reimbursement for windfall phase-out costs	3.64	213
(i) With respect to nonretired em- ployees (from table 1, item 4)	1.35	79
(ii) For employees on the rolls and their spouses	2.01	118
(iii) For survivors of retired and de- ceased employees	.28	16

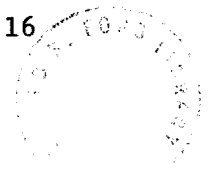


Table 2 (continued)

Item	Equivalent level cost	
	Percent of payroll	Level annual amount (millions)
i. Deficit under static conditions (g - h)	<u>.96</u>	<u>57</u>

1/The railroad tax rate of 9.5% of taxable payroll reduced by .25%. The reduction reflects that railroad retirement transfers to social security more than it collects in social security taxes because of the difference between the monthly and annual bases.

Note: A minus sign indicates a cost reduction. The level taxable payroll is \$5,840 million per year based on an \$1,100 monthly ceiling.

Table 3. Projection of components of the railroad retirement system,
1975-200; static conditions
(Dollar amounts in millions)

Year	Benefit outgo ^{1/}	RR tax income ^{2/}	Supplemental annuity taxes	Gain from financial interchange ^{3/}	Windfall re- imbursement ^{4/}	Fund ^{5/}
1975	\$3,135	\$1,230	\$110	\$1,145	\$250	\$3,810
1976	3,135	1,190	115	1,180	250	3,700
1977	3,120	1,155	120	1,185	250	3,565
1978	3,105	1,120	125	1,190	250	3,400
1979	3,095	1,100	125	1,190	250	3,205
1980	3,075	1,075	130	1,190	250	2,985
1981	3,055	1,055	130	1,175	250	2,725
1982	3,040	1,055	135	1,160	250	2,450
1983	3,025	1,055	135	1,140	250	2,150
1984	3,005	1,055	135	1,115	250	1,820
1985	2,970	1,055	140	1,095	250	1,490
1990	2,580	1,055	130	1,030	250	360
1995	2,145	1,055	115	755	250	100
2000	1,790	1,055	80	540	250	625

1/ All benefits derived from both railroad retirement and social security earnings including supplemental annuity and windfall amounts less any concurrent benefits based on social security wages only.

2/ The tax rate of 19.40% applied to each year's taxable payroll.

3/ The gain from financial interchange is equivalent to social security benefits on combined earnings less social security taxes on railroad earnings less concurrent benefits based on social security wages only.

4/ This is the amount needed to finance the entire windfall liability by level payments from fiscal year 1976 to fiscal year 2000. Each payment is reduced by a level amount derived from the excess interest gained by comparing the actual interest earned under the bill with the interest under the investment policy of the 1937 Act.

5/ The combined regular and supplemental accounts. The fund begins with \$3,900 million at the end of 1974 and the interest rate used begins at approximately the level anticipated under the investment policy of the bill and decreases to the twelfth valuation rate of 5 3/4%.





THE GENERAL COUNSEL OF THE TREASURY
WASHINGTON, D.C. 20220

OCT 4 1974

Director, Office of Management and Budget
Executive Office of the President
Washington, D. C. 20503

Attention: Assistant Director for Legislative
Reference

Sir:

Reference is made to your request for the views of this Department on the enrolled enactment of H.R. 15301, "To amend the Railroad Retirement Act of 1937 to revise the retirement system for employees of employers covered thereunder, and for other purposes."

Under existing law, the Secretary of the Treasury has the responsibility for investing the Railroad Retirement Accounts, which he may do either by issuing special Treasury obligations directly to the Accounts or by buying Government obligations in the market. The Secretary has this responsibility for Government trust funds totalling over \$140 billion as well as for the \$4.4 billion Railroad Retirement Accounts. It has been the policy of all Secretaries to carry out this authority in the main by issuing special obligations directly to funds, because under any other policy the purchase and sale in the market of some \$7 billion of obligations each month would have catastrophic effects on the market. The special obligations issued directly to the funds bear interest rates that are the equivalent of the average of market yields on longer-term marketable Treasury obligations.

Section 15 of the enrolled enactment would change this statutory arrangement by shifting to the Railroad Retirement Board the function of deciding whether to invest in special obligations or marketable issues, the function of fixing the maturities of special obligations when they are used, and the function of deciding which special obligations to redeem when disbursements are made. This shift is apparently proposed in order to enable the Railroad Retirement Board to do several things the Secretary of the Treasury has resisted as unwise. For one thing, it would give the Railroad Retirement Board powers which could make its operations the single largest factor in the Government securities market, with average monthly market purchases of \$200 million but



reaching as much as \$1.2 billion in May, and average monthly market sales in about the same amount. Even though it is not likely that the Board would exercise these powers to their full extent, because the authority the bill would give the Board to use special issues would ordinarily be so advantageous to it, the use of the powers could have such severely adverse effects on the Government securities market, with consequent upsetting effects on other markets, that the powers should not be lodged in a body which has no responsibilities for the performance of those markets.

The second authority the bill would lodge in the Board would make it possible for it not only to lock in investments in special issues for long terms when rates are at their peaks but also to refund continuously into higher rates whenever rates are rising. The bill thus resurrects a concept that was discredited during consideration of H.R. 15733, 91st Congress, and dropped from that legislation before its enactment in 1970. In essence the concept is that the Congress should create by legislative fiat an "investment" program for the Railroad Retirement Accounts under which these Accounts would get continuing long-term benefits from periods of high interest rates but only current effects from periods of low interest rates. Investment programs of this kind -- the dream of every portfolio manager -- are not available to those who are subject to the realities of the market place (including the Secretary of the Treasury in his management of \$140 billion of Government trust funds in addition to the \$4.4 billion Railroad Retirement Account). In commenting on this concept in 1970, when H.R. 15733 was being considered by the Congress, the Treasury aptly characterized it as reflecting a "heads-I-win-tails-you-lose" philosophy.

While the Congress can if it wishes subsidize the railroad retirement program, any proposed subsidy should be disclosed for what it is so that the need for it can be debated on the merits. A subsidy should not be provided by a sleight-of-hand "investment" policy designed to hide the fact that the subsidy is being paid for by the taxpayers.

The bill was amended on the House floor (the so-called "Moss amendment" which was itself clarified by the Senate) to provide in effect that any increased interest earnings under the proposed new investment provisions through fiscal year 2000 shall be returned to the general fund of the Treasury. In view of this clear expression of Congressional intent that the railroad retirement system not



benefit from the new investment provisions until after the close of this century and the distinctly undesirable implications of those provisions discussed above, the new investment authority should not be adopted.

In addition, the enrolled enactment would provide that the excess costs of paying benefits to persons entitled to both Railroad Retirement and Social Security benefits be met through appropriations estimated at \$285 million per year on a level-cost basis through the year 2000. As compared to the alternatives of reducing benefits or increasing the payroll tax or contribution by the industry, financing the retirement fund deficit from the general fund would be inflationary.

In view of the foregoing, the Department recommends that the enrolled enactment be vetoed by the President.

Sincerely yours,


General Counsel



U. S. DEPARTMENT OF LABOR

OFFICE OF THE SECRETARY

WASHINGTON

OCT 4 1974

Honorable Roy L. Ash
Director
Office of Management and Budget
Washington, D.C. 20503

Dear Mr. Ash:

This is in response to your request for our views on H.R. 15301, an enrolled enactment "To amend the Railroad Retirement Act of 1937 to revise the retirement system for employees of employers covered thereunder, and for other purposes."

This bill, among other things, provides for refinancing of the Railroad Retirement Fund by payments from general revenue. This will amount to approximately \$285 million a year until the year 2000.

With respect to the substance of the bill, this Department is not directly involved in the administration of these laws affected; therefore, we defer to other appropriate agencies for detailed comment on the substance of the bill.

However, because this bill is in fact a negotiated agreement between the carriers and the unions, its veto would have direct labor-management implications. In this regard, temporary increases in benefits provided under the Railroad Retirement Act expire on the December 31, 1974 deadline, unless this bill becomes law or the existing law is extended.

In light of the current contract negotiations between the railway carriers and the unions, this is of special significance. The existing contract terminates on January 1, 1975. This contract covers over 500,000 employees, including the operating unions, shopcraft,



clerks, and maintenance of way employees. Notices of intention to change the existing agreement have already been exchanged under section 6 of the Railway Labor Act and the very difficult negotiations are underway.

In light of this, we believe that negative action on this enrolled bill will severely exacerbate the already difficult negotiations that are currently being conducted.

Sincerely,


Secretary of Labor



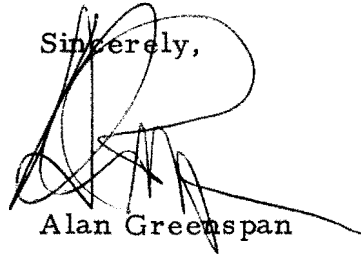
THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

October 4, 1974

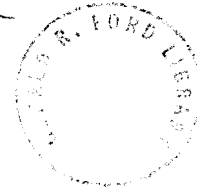
Dear Mr. Rommel:

The Council of Economic Advisers has no objections to the President's signing H. R. 15301, an Act "To amend the Railroad Retirement Act of 1937 to revise the retirement system for employees of employers covered thereunder, and for other purposes."

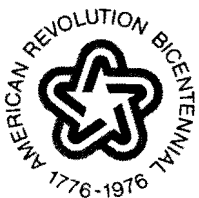
Sincerely,



Alan Greenspan



Mr. W. H. Rommel
Assistant Director for Legislative Reference
Office of Management and Budget
Washington, D. C. 20503





DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Honorable Roy L. Ash
Director
Office of Management and Budget
Washington, D. C. 20503

OCT 4 1974

Dear Mr. Ash:

This is in response to Mr. Rommel's request of October 2, 1974, for a report on H.R. 15301, an enrolled bill "To amend the Railroad Retirement Act of 1937 to revise the retirement system for employees of employers covered thereunder, and for other purposes."

Under section 302 of the bill, the Social Security Administration (SSA) would be required to certify to the Railroad Retirement Board (RRB) for payment the amount of any social security benefits payable to railroad workers who have at least 120 months of railroad employment (as well as to their spouses, their survivors actually or potentially entitled to a railroad retirement annuity, and any person entitled to benefits on their social security earnings record) who first become entitled to social security benefits after 1974. After objections to this requirement were made by the Department in a letter to Chairman Hathaway of the Railroad Subcommittee of the Senate Committee on Labor and Public Welfare, the report of the Committee on Labor and Public Welfare on H.R. 15301 was modified to specify that RRB would notify beneficiaries of the amount payable to them under the Social Security Act, the reasons for any changes made in the amount, and the beneficiary's rights of appeal.

However, it appears that serious administrative problems for SSA would still arise under the proposed provisions. These problems are outlined below.



In order for SSA to effectively administer the provisions of social security law it is vital that social security beneficiaries be reminded of the events which might result in a reduction, suspension, or termination of their social security benefits. SSA of course is in the best position to keep beneficiaries informed and to explain any adjustments made in the social security benefit checks. Under the bill, railroad retirement annuitants receiving social security benefits as part of their railroad retirement annuity checks would no doubt be confused as to which Federal agency should get their reports of events affecting their benefits. This would impair communication between SSA and beneficiaries and increase social security benefit overpayments. Also, if social security beneficiaries were not entitled to all or part of the social security benefit included in their railroad retirement checks but were entitled to the railroad retirement annuity part, they would naturally be unwilling to return the whole check to RRB. This could also increase the incidence of overpayments for SSA.

While certification of social security benefit amounts to RRB would create many administrative problems for SSA there would appear to be no counterbalancing advantages for RRB. In most instances, RRB district offices could not explain any adjustments to the social security benefit included in a railroad retirement check and would have to refer the beneficiary to a social security district office. This would undoubtedly result in significant public relations problems for RRB as well as SSA.

The Report of the Committee on Labor and Public Welfare indicates that the RRB has informed the Committee that a substantial increase (about 10 percent) in the number of Board employees may be necessary to effect the changes the bill would make. In our view the certification of social security benefits to RRB for payment would contribute to this problem by requiring the RRB to administer a provision



that seems neither necessary nor desirable. SSA could much more easily supply RRB with monthly listings of these social security benefits, rather than certifications of the benefit amounts for payment, so that RRB would have timely notice of the amounts by which to reduce the tier-one railroad retirement annuities. The only advantage to the railroad retirement system of the certification provision is that it would disguise the fact that railroad retirement benefits would actually be reduced by any social security benefits payable to the railroad retirement annuitant.

In addition, it should be noted that we are by no means certain that further analysis will not identify other, and perhaps more serious, problems.

Because of these administrative problems the Department has serious reservations as to the desirability of section 302 of H.R. 15301. However, we defer to other agencies within the Executive Branch more directly concerned with the other provisions of the bill as to the desirability of its enactment.

Sincerely,


Secretary