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**RAILROAD RETIREMENT  
AND UNEMPLOYMENT INSURANCE  
(CREDITABLE AND TAXABLE COMPENSATION)**

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**HEARING**  
BEFORE THE  
**COMMITTEE ON**  
**INTERSTATE AND FOREIGN COMMERCE**  
**HOUSE OF REPRESENTATIVES**

**EIGHTY-EIGHTH CONGRESS**

**FIRST SESSION**

**ON**

**H.R. 8100**

A BILL TO AMEND THE RAILROAD RETIREMENT ACT OF 1937,  
THE RAILROAD RETIREMENT TAX ACT, THE RAILROAD UNEM-  
PLOYMENT INSURANCE ACT, AND THE TEMPORARY EXTENDED  
RAILROAD UNEMPLOYMENT INSURANCE BENEFITS ACT OF  
1961 TO INCREASE THE CREDITABLE AND TAXABLE COMPEN-  
SATION, AND FOR OTHER PURPOSES

SEPTEMBER 11, 1963

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AND UNEMPLOYMENT INSURANCE  
(CREDITABLE AND TAXABLE CONTRIBUTION)

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# RAILROAD RETIREMENT AND UNEMPLOYMENT INSURANCE

(Creditable and Taxable Compensation)

WEDNESDAY, SEPTEMBER 11, 1963

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE,  
Washington, D.C.

The committee met at 10 a.m., pursuant to call, in room 1334, Longworth Building, Hon. Oren Harris (chairman of the committee), presiding.

The CHAIRMAN. The committee will come to order. This morning I have scheduled a meeting of the committee to first hold brief hearings on H.R. 8100, the proposed amendment to the Railroad Retirement Act of 1937, the Railroad Unemployment Insurance Act, and related acts.

At this point, the bill and the reports of the executive branch will be placed in the record.

(The documents referred to follow:)

[H.R. 8100, 88th Cong., 1st sess.]

A BILL To amend the Railroad Retirement Act of 1937, the Railroad Retirement Tax Act, the Railroad Unemployment Insurance Act, and the Temporary Extended Railroad Unemployment Insurance Benefits Act of 1961 to increase the creditable and taxable compensation, and for other purposes

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

## TITLE I—AMENDMENTS TO THE RAILROAD RETIREMENT ACT OF 1937

SECTION 1. Section 3(a) of the Railroad Retirement Act of 1937 is amended by striking out "\$250" and inserting in lieu thereof "\$300".

SEC. 2. Section 3(c) of the Railroad Retirement Act of 1937 is amended by inserting before ", shall be recognized" in the second sentence the following: "and before the calendar month next following the month in which this Act was amended in 1963, or in excess of \$450 for any month after the month in which this Act was so amended".

SEC. 3. Section 4(k) of the Railroad Retirement Act of 1937 is amended by striking out "by the individual who rendered such military service", and by striking out "six months" and inserting in lieu thereof "twelve months".

SEC. 4. Section 4(n) of the Railroad Retirement Act of 1937 is amended—

(1) by inserting after "January 1, 1937," in the first and sixth sentences the following: "and after June 30, 1963,";

(2) by striking out "after December 1956" in the first sentence and inserting in lieu thereof "after December 31, 1956, and before July 1, 1963,";

(3) by striking out the second, third, and fourth sentences and inserting in lieu thereof the following: "The additional cost of crediting military service rendered prior to January 1, 1937, and after June 30, 1963, shall be determined as follows: (1) determine the difference between the actuarial value of the benefit payable under this Act based in part on military service and

the actuarial value of the benefit which would be payable to the same individual without regard to military service; (ii) with respect to military service rendered after June 30, 1963, adjust such difference by applying thereto the ratio of the total net level cost of all benefits under this Act to the portion thereof remaining after the exclusion of administrative expenses and interest charges on the unfunded accrued liability after taking into account the effects of section 5(k)(2); and (iii) subtract the actuarial value of such benefit based on the individual's military service as is includible in determinations made pursuant to section 5(k)(2). In calculating these actuarial values, the Board shall use such mortality tables and actuarial factors as it finds appropriate; the ratio referred to in clause (ii) of the preceding sentence shall be determined from time to time by the Board on the basis of actuarial estimates made in accordance with section 15; and all actuarial values shall be calculated as of the date on which the benefit based on military service begins to accrue and shall not thereafter be subject to change. All actuarial calculations in this subsection shall take into account interest at the rate used in the actuarial estimates referred to in the preceding sentence.”;

(4) by striking out all of the seventh sentence after “thereon” and inserting in lieu thereof a period;

(5) by striking out the eighth sentence and inserting in lieu thereof the following: “In determining pursuant to section 5(k)(2) for any fiscal year the total amount to be credited from the Railroad Retirement Account to the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund, credit shall be given such Account for the amount of the taxes described in clause (3)(B) of the first sentence of this subsection and the amount of such taxes with respect to military service after June 30, 1963.”; and

(6) by adding at the end of the subsection the following new sentences: “The amount authorized to be appropriated to the Railroad Retirement Account pursuant to clause (2) of the first sentence of this subsection shall be reduced by the amounts credited to such Account pursuant to section 5(k)(2) for military service rendered before January 1, 1957, and the amounts so credited shall be considered as additional costs within the meaning of section 217(g) of the Social Security Act. In any determination made pursuant to section 5(k)(2), no further charges shall be made against the Trust Funds established by title II of the Social Security Act for military service rendered before January 1, 1957, and with respect to which appropriations authorized by clause (2) of the first sentence of this subsection shall have been credited to the Railroad Retirement Account, but the additional benefit payments incurred by such Trust Funds by reason of such military service shall be taken into account in making any such determination.”

SEC. 5. Section 5(f)(2) of the Railroad Retirement Act of 1937 is amended by inserting after “so amended” (in the first parenthetical phrase after clause (vi)) the following: “and before the calendar month next following the month in which this Act was amended in 1963, and in excess of \$450 for any month after the month in which this Act was so amended”.

SEC. 6. (a) Section 5(1)(9) of the Railroad Retirement Act of 1937 is amended—

(1) by striking out “and” where it appears the third time;

(2) by inserting after “so amended” the following: “and before the calendar month next following the month in which this Act was amended in 1963, and any excess over \$450 for any calendar month after the month in which this Act was so amended”; and

(3) by striking out “\$400” where it appears the second time and inserting in lieu thereof “\$450”.

(b) Section 5(1)(10) of such Act is amended by striking out “\$400” and inserting in lieu thereof “\$450”.

SEC. 7. (a) Section 15 of the Railroad Retirement Act of 1937 is amended by striking out the third sentence of subsection (a); and by striking out subsection (b) and inserting in lieu thereof the following:

“(b) At the request and direction of the Board, it shall be the duty of the Secretary of the Treasury to invest such portion of the amounts credited to the Account as, in the judgment of the Board, is not immediately required for the payment of annuities, pensions, and death benefits. Such investments may be made only in interest-bearing obligations of the United States or in obligations

guaranteed as to both principal and interest by the United States. For such purpose such obligations may be acquired (1) on original issue at the issue price; or (2) by purchase of outstanding obligations at the market price. The purposes for which obligations of the United States may be issued under the Second Liberty Bond Act, as amended, are hereby extended to authorize the issuance at par of special obligations exclusively to the Account. Such obligations issued for purchase by the Account shall have maturities fixed with due regard for the needs of the Account, and shall bear interest at a rate equal to the average market yield, computed as of the end of the calendar month next preceding the date of such issue, borne by all marketable interest-bearing obligations of the United States then forming a part of the public debt that are not due or callable until after the expiration of three years from the end of such calendar month, except that where such rate is not a multiple of one-eighth of 1 per centum, the rate of interest on such obligations shall be the multiple of one-eighth of 1 per centum nearest such rate: *Provided*, That the rate of interest on such obligations shall in no case be less than 3 per centum per annum. The Secretary of the Treasury may purchase other interest-bearing obligations of the United States, or obligations guaranteed as to both principal and interest by the United States, on original issue or at the market price only if he determines that such purchases are in the public interest, provided that the investment yield of such obligations shall not be less than the interest rate determined in accordance with the preceding sentence. If it is in the interest of the Account so to do, the Secretary of the Treasury may sell and dispose of obligations in the Account and he may sell obligations acquired by the Account (other than special obligations issued exclusively to the Account) at the market price. Special obligations issued exclusively to the Account shall, at the request of the Board, be redeemed at par plus accrued interest. All amounts credited to the Account shall be available for all purposes of the Account."

(b) The Secretary of the Treasury is authorized to retire the special obligations held by the Account on the date of enactment of this Act and to issue in lieu thereof special obligations with an interest rate determined as provided for in section 15(b) of the Railroad Retirement Act of 1937 as amended by this Act.

Sec. 8. The provisions of sections 1, 2, 5, and 6 of this Act shall be effective with respect to annuities accruing and deaths occurring after the month in which this Act is enacted. The provisions of section 3 shall be effective with respect to annuities awarded on or after the date of enactment of this Act. The provisions of section 7(a) shall be effective on the date of the enactment of this Act.

#### TITLE II—AMENDMENTS TO THE RAILROAD RETIREMENT TAX ACT

Sec. 201. Sections 3201 and 3211 of the Railroad Retirement Tax Act are each amended by inserting before the colon the following: "before the calendar month next following the month in which this provision was amended in 1963, or \$450 for any calendar month after the month in which this provision was so amended".

Sec. 202. Sections 3202 and 3221(a) of the Railroad Retirement Tax Act are each amended by inserting after "\$400" wherever it appears the following: "for any calendar month before the calendar month next following the month in which this provision was amended in 1963, or \$450 for any calendar month after the month in which this provision was so amended".

#### TITLE III—AMENDMENTS TO THE RAILROAD UNEMPLOYMENT INSURANCE ACT AND THE TEMPORARY EXTENDED RAILROAD UNEMPLOYMENT INSURANCE BENEFITS ACT OF 1961

Sec. 301. (a) Section 3 of the Railroad Unemployment Insurance Act is amended to read as follows:

##### "QUALIFYING CONDITION

"Sec. 3. An employee shall be a 'qualified employee' if the Board finds that his compensation will have been not less than \$750 with respect to the base year, and, if such employee has had no compensation prior to such year, that he will have had compensation with respect to each and not less than seven months in such year."

(b) The amendment made by subsection (a) shall be fully effective with respect to base years after 1963. With respect to the base year 1963, they shall be applicable only to an employee concerning whom the Railroad Retirement Board finds that his compensation in that portion of the calendar year 1963 preceding the first day of the calendar month next following the month of enactment of this Act will have been less than \$500.

Sec. 302. (a) Section 4 (a-2) (i) of the Railroad Unemployment Insurance Act is amended to read as follows:

"(i) (A) subject to the provisions of subdivision (B) hereof, any of the days in the period beginning with the day with respect to which the Board finds that he left work voluntarily, and continuing until he has been paid compensation of not less than \$750 with respect to time after the beginning of such period;

"(B) if the Board finds that he left work voluntarily with good cause, the provisions of subdivision (A) shall not apply, with respect to him, to any day in a registration period if such period does not include any day which is in a period for which he could receive benefits under an unemployment compensation law other than this Act, and he so certifies. Such certification shall, in the absence of evidence to the contrary, be accepted subject to the penalty provisions of section 9 (a) of this Act;"

(b) The amendment made by subsection (a) shall be effective only with respect to an employee who leaves work voluntarily after the date of enactment of this Act.

Sec. 303. (a) Effective with respect to compensation paid after December 31, 1963, section 8(a) of the Railroad Unemployment Insurance Act is amended by striking out "3 $\frac{3}{4}$ " in the table and inserting in lieu thereof "4".

(b) Effective with respect to contributions collected by the Railroad Retirement Board pursuant to section 8(f) of the Railroad Unemployment Insurance Act on compensation paid after December 31, 1963, that part of such contributions equal one-fourth of 1 per centum of the compensation on which such contributions are based shall, notwithstanding the provisions of section 10(b) of such Act, be applied by the Board exclusively for transfers from the railroad unemployment insurance account to the general fund of the Treasury until the full amount advanced from the general fund of the Treasury to the railroad unemployment insurance account pursuant to section 4 of the Temporary Extended Railroad Unemployment Insurance Benefits Act of 1961 has been repaid.

(c) The last sentence of section 4 of the Temporary Extended Railroad Unemployment Insurance Benefits Act of 1961 is hereby repealed, effective with respect to contributions collected on compensation paid after December 31, 1963.

Sec. 304. Effective with respect to contributions collected by the Railroad Retirement Board after December 31, 1961, section 8(f) of the Railroad Unemployment Insurance Act is amended by striking out "0.2 per centum" and inserting in lieu thereof "0.25 per centum".

Sec. 305. Effective after June 30, 1964, section 10(d) of the Railroad Unemployment Insurance Act is amended by striking out "the rate of 3 per centum per annum" and inserting in lieu thereof "a rate for each fiscal year equal to the average rate of interest borne by all special obligations held by the Railroad Retirement Account on the last day of the preceding fiscal year, rounded to the nearest multiple of one-eighth of 1 per centum".

EXECUTIVE OFFICE OF THE PRESIDENT,  
BUREAU OF THE BUDGET,  
Washington, D.C., September 11, 1963.

HON. OREN HARRIS,  
Chairman, Committee on Interstate and Foreign Commerce, House of Representatives, Longworth House Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: This is in reply to your request for a report on H.R. 8100, which amends the existing provisions governing the railroad retirement and unemployment insurance systems.

Over the past several years, there has been a serious deterioration in the level of railroad employment and payrolls. As a result there has been a heavy loss of revenues to these programs.

The railroad unemployment insurance system, financed by a payroll tax on employers only, now owes over \$300 million which it has borrowed to meet its obligations to railroad workers. H.R. 8100 would provide additional income to

the system by raising the maximum contribution rate permanently to 4 percent and by tightening up the eligibility requirements for unemployment insurance. The latter provision would increase the qualifying base year earnings requirement from \$500 to \$750, with the proviso that a new entrant to railroad employment must have at least 7 months of service in the base year.

These revisions would result in a net gain to the fund of \$20 million a year. Although this amount would improve the financing of the railroad unemployment insurance system as compared with existing law, we believe that it will not enable repayment of the debt to the railroad retirement account within a reasonable period. The bill would, the Board has estimated, end the need for further borrowing by 1966. However, the debt could be repaid only gradually over a long period of 30 to 35 years.

This should be compared with H.R. 3310, which the Board transmitted to Congress with the administration's approval. It would raise the monthly wage base to \$450 and increase the payroll contribution to 4¼ percent. The Board has estimated that this bill would increase income to the system by about \$40 million a year and would enable repayment of the existing debt in 15 years. To assure adequate resolution of the financial difficulties of the railroad unemployment insurance system, we believe that measures to increase income by at least as much as H.R. 3310 are necessary. Particularly since the debt is owed to the railroad retirement account, which also faces financial problems, we question any approach which would leave the railroad unemployment insurance system unable to repay it in a comparatively short period of time.

The railroad retirement system now has an actuarial deficiency of 1.79 percent of payroll or \$77 million a year. This bill would increase the maximum monthly compensation on which retirement payroll contributions are based from \$400 to \$450. It would revise the method for determining the Government's obligation for future military service credits and thus pave the way for liquidating existing obligations to the account.

The bill would change the investment policy of the retirement account from the current fixed 3-percent rate to the average market yield rate. The average market yield formula was adopted for the OASDI trust funds in 1960 and for the civil service retirement fund in 1961.

These proposed revisions would reduce the actuarial deficit to about 0.51 percent of payroll or \$24 million per year, which is within the limits of tolerance in actuarial estimating. We endorse the foregoing amendments as desirable program revisions that would contribute to a sound financing of the railroad retirement system.

There are two provisions of H.R. 8100 to which the Bureau of the Budget is opposed. The first is the guaranteed minimum interest yield for investments of the railroad retirement account. In recent years, investment policies governing the major Federal retirement funds have been changed to incorporate the principle that the rate of interest on new investments of these funds should equal the rate of return which would be realized by investors who purchase long-term Government securities in the open market. This "average market yield" principle avoids either a financial advantage or disadvantage to these funds. H.R. 8100 departs from this policy by providing that in no event shall the rate of interest be less than 3 percent. Neither the OASDI trust fund nor the civil service retirement fund have a guaranteed minimum interest yield. Such a guarantee would make it possible for the trust funds to earn more than would be received by private investors in long-term Government securities.

The second feature of the bill to which we are opposed is the immediate rollover of existing investments to the new rates. At the time the average market yield formula was adopted for the OASDI and civil service retirement funds, it was decided that existing investments would be adjusted to the new policy through a gradual and orderly transition over a period of years. In 1960 a 15-year transition period was adopted for the OASDI funds; in 1961 Congress adopted a 10-year rollover period for the civil service retirement fund (Public Law 87-350). In contrast to these desirable transitions, H.R. 8100 would allow immediate conversion to the higher rates of all obligations now held by the account. If adopted, this policy would increase Federal interest payments to the account by about \$24 million in the first year. Moreover, it could elicit similar demands by the other major trust funds which, if adopted, would result in added interest costs to the general fund of an estimated \$240 million in the first year and a total cost of over \$1.4 billion.

We recognize that the preferential treatment embodied in H.R. 8100 would result in further reducing the actuarial deficiency in the railroad retirement

account about \$8 million per year on a level basis. However, we believe that such increased income should not be based on a policy which would in effect require special contributions from the general taxpayer.

In summary, we urge more adequate provisions for financing the unemployment insurance program and we urge against enactment of the provisions which guarantee a 3-percent interest rate and provide an immediate rollover of investments. These revisions would bring H.R. 8100 into accord with the program of the President.

Sincerely yours,

WILFRED H. ROMMEL,  
*Assistant Director for Legislative Reference.*

RAILROAD RETIREMENT BOARD,  
*Chicago, Ill., August 30, 1963.*

HON. OREN HARRIS,  
*Chairman, Committee on Interstate and Foreign Commerce, Longworth House  
Office Building, Washington, D.C.*

DEAR MR. HARRIS: This is the report of the Railroad Retirement Board on the bill H.R. 8100, introduced by you on August 15, 1963.

As you know, the railroad retirement system is established on an essentially level contribution basis which requires the accumulation and maintenance of large actuarial reserves. There is now an actuarial deficit in the financing of the system of about \$77 million a year or 1.79 percent of taxable payroll. The railroad unemployment insurance system is financed on a relatively short-term basis because obligations for benefits cannot last beyond a limited period following the qualifying year. This system has now an actual accounting deficit of over \$300 million. This is approximately the amount presently owing to the railroad retirement account from which the system has borrowed funds under the authority provided by law.

When in September of 1961 the President signed into law the bill (Public Law 87-285) effecting certain relatively minor improvements in the benefit structure of the Railroad Retirement Act, he requested that a program be developed to correct the existing deficits in the financing of the railroad retirement and unemployment insurance systems. The Board, of course, had already recognized the need for such a program. This bill, if enacted into law, would substantially accomplish that objective. This would be done through an increase in the limit on taxable compensation under the Railroad Retirement Tax Act (accompanied by a similar increase in creditable compensation under the Railroad Retirement Act); effecting certain changes in the provisions respecting the financing of military service credits in the Railroad Retirement Act which would remove the basis for the Government's objections to appropriations covering amounts already owing for these credits; changing the method of determining interest rates for the special obligations held by the railroad retirement account; increasing the maximum contribution rate under the Railroad Unemployment Insurance Act; increasing the amount of compensation required in the base year to qualify for benefits under the Railroad Unemployment Insurance Act, and requiring new entrants into the system also to have compensation for a minimum number of months in the base year to qualify; and through changing the provisions with respect to employees who voluntarily leave work, the effect of which would be to disqualify employees who voluntarily leave work for more days which would otherwise be days of unemployment for which benefits would be payable.

The overall effects would be (1) to reduce the actuarial deficiency of the retirement system to \$16 million a year or 0.34 percent of taxable payroll, and (2) to eliminate the need for further borrowing by the unemployment system from the railroad retirement account and to permit repayment of the existing loans over a period of years. If the bill is enacted in 1963 the additional retirement taxes for the calendar year 1964 would amount to \$58 million, half paid by employees and half by employers. The additional contributions to be paid by employers for the support of the unemployment insurance system would amount to \$10.8 million a year. Savings to the system from the change as to the amount of compensation required with respect to a base year to qualify for the ensuing benefit year and as to the requirement for new entrants would be \$6 million a year. Savings from the revision of the disqualifying provisions relative to employees who voluntarily leave work would be \$3.5 million a year.

These together result in an improvement in the financial condition of the system by \$20.3 million a year.

The bill would amend the Railroad Retirement Act, the Railroad Retirement Tax Act, the Railroad Unemployment Insurance Act, and the Temporary Extended Railroad Unemployment Insurance Benefits Act of 1961 in the following respects:

#### THE RAILROAD RETIREMENT ACT

1. The limit on creditable compensation used with respect to months after approval of the act for determining benefits would be increased from the present \$400 a month to \$450 for each employee. This change is needed in order that the limit on creditable compensation be equal to the limit on taxable compensation the latter of which would be increased to provide added revenue. (See statement on Railroad Retirement Tax Act.) The increase in creditable compensation would, of course, produce higher benefits and, therefore, added costs but the benefit increases would be slow in materializing to any sizable degree because the increased compensation limit for the determination of benefit amounts would only apply to months in the future. Benefits for those who are already retired would not be increased at all by the extension of the limit, unless they return to railroad service and acquire additional credits on which a recomputation of annuity would be based.

The retirement and disability annuity formula is so framed that the low portion of average earnings produces a relatively larger part of the benefit than the high portion. The lowest factor in the formula (1.67 percent) is applied to that part of the average monthly compensation which is over \$150. Since for future retirements the average monthly compensation will generally exceed \$150 even under the present limit, the lowest percentage factor in the formula would apply to the additional average monthly compensation that the extension of the limit would produce. On the other hand, the tax rate applies evenly to all the taxable compensation. Also the effect of the increase in the limit on taxable compensation would arise in full immediately according to the tax rates in effect. Therefore, the increase in the limit on creditable compensation would not add costs even on a longrun basis which would amount to as much as the increase in the limit on taxable compensation would add in revenue. (See statement on Railroad Retirement Tax Act.)

Even after the increase in the compensation limit the percentage of total payroll which would be creditable would remain relatively low going from 76 to 82. At the time the Railroad Retirement Act of 1937 was enacted the limit on monthly creditable compensation was \$300 and the percentage almost 99. Although the limit on compensation was increased to \$350 in 1954 and then to \$400 in 1959, the percentage has declined steadily over the years because of increasing wage rates.

2. Under present provisions of law the Government is required to pay to the railroad retirement account with respect to creditable military service rendered after 1936 the equivalent of the total taxes that would have been paid if the employee had earned \$160 in taxable compensation as a railroad employee during each month of military service, less, as to such service rendered after 1956, the amount of the taxes paid thereon for social security purposes. An actual cost basis would be substituted to begin with military service rendered after June 1963 (Government payments for the crediting of military service before 1937 have always been determined on an actual cost basis and will continue to be so determined). This means that as benefits are awarded, the Government would be charged with the actuarial value of that portion of the benefits attributable to military service rendered before 1937 or after June 1963, including for the latter period only an amount sufficient to cover a proportionate share of administrative costs and of the interest charges on the unfunded accrued liability of the railroad retirement system, as determined by the Board's actuarial valuations. The adjustment factor would be computed from the ratio of the total net level costs of the system to the portion thereof remaining after the deduction of administrative expenses and interest charges on the unfunded accrued liability as modified for the effects of the financial interchange with the social security system. On the basis of the last actuarial valuation this overhead factor would have been 25 percent.

Also, the bill would do away with the Government's obligations to make duplicate payments to both the railroad retirement and the social security systems for certain credits based on military service rendered before 1957.

After these changes are effected it is understood the Government will no longer object to installment appropriations by the Congress to the railroad retirement account to liquidate about \$160 million which it now owes to the railroad retirement system with respect to creditable military service already rendered.

Additional changes in the military service provisions would be to permit the payment of benefits attributed to military service for 12 months before credit is claimed instead of 6 months as at present and to clarify provisions to show plainly that military service can be credited toward survivor benefits (it has been so credited under an administrative ruling).

3. The 3-percent rate of interest which the present law provides for the special obligations issued for the railroad retirement account, has since about 1956 been less than the rate the Treasury must pay to borrow funds through medium- and long-term general obligations. The yield to maturity based on market price of medium- and long-term U.S. Government obligations has also exceeded 3 percent. To rectify this situation the bill provides for an interest rate determined from the average market yield on outstanding marketable Treasury obligations having an unexpired maturity of 3 or more years. A rate would be determined each month for funds newly invested during the month. This method of determination would now produce an interest rate of about  $3\frac{1}{8}$  percent but what it will be in future years is, of course, not certain. There would be a floor of 3 percent on the rate. In other words, if at any time the formula would produce a rate of less than 3 percent the rate for obligations issued at the time would be 3 percent. The rates of interest for newly invested funds in the social security and civil service retirement trust funds are now determined by an almost identical formula, but there is no floor on the rate for those funds.

The bill would authorize the Secretary of the Treasury to retire all the special obligations held by the account on the date of approval of the act and to issue in lieu thereof special obligations bearing interest at a rate determined under the method specified in the preceding paragraph.

#### THE RAILROAD RETIREMENT TAX ACT

The maximum compensation base on which the tax rates for employees, employers, and employee representatives apply would be increased from \$400 to \$450 a month effective with respect to compensation paid for services rendered after the month of approval of the act. This coincides with the increase in the maximum of creditable compensation under the Railroad Retirement Act for benefit purposes. The financial effects of this change are discussed in the statement on immediate and long-range effects on the retirement program.

#### THE RAILROAD UNEMPLOYMENT INSURANCE ACT

1. The maximum contribution rate (the contributions are paid only by employers) would be increased from the present  $3\frac{1}{4}$  to 4 percent applicable with respect to compensation paid for months after 1963.

2. The amount of compensation needed with respect to a base year for an employee to qualify for benefits in the related benefit year would be increased from \$500 to \$750. In addition an individual who had engaged in no covered employment before the base year could qualify only if he is paid compensation for not less than 7 months in the base year. This change would be effective as to base years after 1962 except it would not operate to prevent an employee from qualifying in the base year 1963 for the benefit year 1964-65 if he was paid \$500 or more in compensation with respect to that portion of such base year which precedes the month following the month of enactment of the act.

3. An employee who left work voluntarily without good cause would not be considered as having days of unemployment during the period beginning at the time he so left his work and continuing until he had been paid with respect to time after the period begins not less than \$750 in compensation. With respect to unemployment after he has had such compensation, the employee would be in exactly the same position in which he would have been if he had not been disqualified. This disqualification provision would not apply if the Board finds he left work voluntarily with good cause except that in such a case the employee would not be considered as having days of unemployment under the Railroad Unemployment Insurance Act with respect to any day in a registration period if such period includes a day which is in a period for which he could receive benefits under an unemployment law

other than the Railroad Unemployment Insurance Act. This amendment would be effective with respect to an employee who leaves work voluntarily after the enactment date of the bill.

The added contributions produced by the increase in the maximum rate and the savings from the other changes would cause an improvement in the financial condition of the railroad unemployment and sickness insurance system, sufficient, it is estimated, to obviate the need for further borrowing from the railroad retirement account and in time to liquidate the indebtedness to that account. When the amounts borrowed from the railroad retirement account have been repaid and funds are accumulated in the railroad unemployment insurance account (stabilization of employment in the railroad industry, even though at a low level number of employees as compared with past years, would accelerate the eventual accumulation of funds in the account) the sliding scale contribution rate, which would continue in effect, would eventually cause the rate to go below the maximum. (See "Explanation and Analysis of Effects on the Railroad Unemployment and Sickness Insurance System.")

4. The bill would change the interest rate applicable to funds borrowed from the railroad retirement account for the payment of unemployment and sickness benefits from the present rate of 3 percent to a rate determined for the fiscal year by the average rate of interest borne by all special obligations in the railroad retirement account on the last day of the preceding fiscal year. The rate would be rounded to the nearest multiple of one-eighth of 1 percent. This provision would become effective after June 30, 1964. This change would result in the interest rates on the borrowed funds being approximately equal to the average of the rates borne by the special obligations held by the railroad retirement account.

5. The present allocation from contributions of an amount equal to 0.2 percent of taxable payroll for administrative expenses of the unemployment and sickness insurance program has proven to be insufficient. The bill would increase this allocation to 0.25 percent effective as to all contributions collected after 1961 without regard to the period with respect to which the compensation on which the contributions were collected, was paid. It is estimated that without this change the funds in the railroad unemployment insurance administration fund would be exhausted some time this year. There is no provision for borrowing funds for administrative purposes as there is for the payment of unemployment and sickness benefits. Thus the urgent need for this increase, as well as its retroactive application, is apparent.

#### TEMPORARY EXTENDED RAILROAD UNEMPLOYMENT INSURANCE BENEFITS ACT OF 1961

The bill would eliminate the last sentence of section 4 of the Temporary Extended Railroad Unemployment Insurance Benefits Act of 1961 (Public Law 87-7). The sentence would be eliminated merely to avoid duplication. Section 5 of that act fixed the contribution rate for 1962 and 1963 at 4 percent in effect adding one-fourth percent for this period to the regular maximum. Provisions are included in the bill to cause that part of the contributions equal to one-fourth percent of the compensation paid for months after 1963 on which the contributions are based to be applied to repay the amount advanced from the general fund of the Treasury for the payment of temporary extended benefits until the full amount advanced is repaid. In effect the sentence to be eliminated makes the same provision.

#### IMMEDIATE AND LONG-RANGE EFFECTS ON THE RETIREMENT PROGRAM

##### 1. Immediate effects

The immediate effects of the proposed legislation on benefit payments under the Railroad Retirement Act will be negligible. This is because the bill does not change the benefit formulas or the earnings base for service rendered before the enactment date of the bill. The benefits now payable will, therefore, not be affected and this will have the result of increasing benefit payments very little over the next several years.

As for future accessions to the benefit rolls, the increase in the earnings base from \$400 to \$450 a month will gradually increase the retirement benefits for employees earning more than \$400 a month. The maximum increase in annuity will be 83½ cents per month for each year of service rendered after the month of enactment of the bill. Illustrative figures for the possible increases in retirement annuities in future years are given below. These figures were com-

## 10 RAILROAD RETIREMENT AND UNEMPLOYMENT INSURANCE

puted on the assumption that the higher earnings base will become effective on June 1, 1963. Figures for possible increases in survivor benefits are not shown because these will be less significant.

Retirement on June 1 of—	Maximum monthly retirement annuity		
	Present law	H. R. 8100	Increase <sup>1</sup>
1963.....	\$211.30	\$211.30	\$0.00
1965.....	214.80	216.30	1.50
1970.....	245.90	251.50	5.60
1980 <sup>2</sup> .....	305.40	320.40	14.00
1990 <sup>2</sup> .....	323.10	345.80	22.70

<sup>1</sup> Small differences between the figures shown and corresponding multiples of 83½ cents are due to the rounding provisions of the act.

<sup>2</sup> Assuming 40 years of creditable service.

As for retirement taxes, the effect of the higher earnings base will be felt immediately, both by the payers of these taxes and the Railroad Retirement Account. The progress of additional taxes through the years (assuming an effective date of June 1, 1963) is estimated to be as follows:

Calendar year	Combined tax rate (percent)	Maximum for employee (monthly)	Total for industry in year <sup>1</sup> (millions)		
			Total	Employees	Employers
1963.....	14.50	\$3.63	\$33.8	\$16.9	\$16.9
1964.....	14.50	3.63	58.0	29.0	29.0
1965.....	16.25	4.06	65.0	32.5	32.5
1966-67.....	17.25	4.31	69.0	34.5	34.5
1968 and subsequent.....	18.25	4.56	73.0	36.5	36.5

<sup>1</sup> Based on the assumption that the annual taxable payroll will be \$4,300,000,000 for the present \$400 limit, and \$4,700,000,000 for the \$450 limit.

It is obvious that employees in the lower wage brackets (up to \$400 a month) will not have to pay any additional retirement taxes. It is estimated that roughly one-fourth of the present employees fall in this category. The remaining three-fourths will have to pay some additional taxes ranging from a low of a few cents per month to a high shown in the table appearing immediately above. As stated before, the additional retirement taxes will generate worthwhile additional benefits.

The change in the method of financing military service credits will have no appreciable immediate effect on the financial condition of the system. However, the immediate and long-range effects of the new investment policy will be considerable. This change will materially reduce the actuarial deficiency of the system as will be shown subsequently in this report.

## 2. Long-range effects

The amendments would greatly improve the actuarial condition of the railroad retirement system by reducing the deficiency in financing from \$77 to \$16 million a year. The latter figure is 0.34 percent of taxable payroll assumed for the bill. This would be accomplished mainly by increasing the income from payroll taxes and from interest earnings on the funds in the Railroad Retirement Account. The income from the financial interchange with the social security (OASDI) system would not be affected because the operations under the financial interchange are governed by social security rather than railroad retirement law.

The most important source of additional income is the broadening of the earnings base; that is, the increase in the limit on creditable and taxable compensation from \$400 to \$450 a month per employee. The effects of this change expressed in terms of level (actuarial average) annual amounts will be as follows: (1) the taxable payroll for an assumed future railroad labor force of 850,000 employees will be increased by \$400 million, thus producing a \$4.7 billion taxable payroll instead of the \$4.3 billion assumed in the eighth actuarial valuation for the \$400 earnings base; (2) the additional benefit costs will be \$40 million; and (3) the additional tax income will come to \$71 million. Thus, there will be a net savings of some \$31 million a year which amounts to 0.66 percent of a taxable payroll of \$4.7 billion.

The second source of additional income which would be provided by the amendments is the change in the investment policy for the funds in the Railroad Retirement Account. (This policy is essentially the same as that introduced in 1961 for the Civil Service Retirement Fund by Public Law 87-350.) In considering the possible effects of the new investment policy on average future interest rates over the long run, notice was taken of the fact that recent OASDI actuarial estimates are based on an interest rate of 3.25 percent. The investment policy for OASDI is similar to the one provided in the bill with the only material differences being the length of the period for the rollover of existing funds and the provision for a floor on interest rates which OASDI does not have.

The basic 3¼ percent rate was adjusted by: (1) adding 0.03 for the fact that the Railroad Retirement Account has no securities yielding less than 3 percent whereas the OASDI trust funds had by the end of 1962 some \$13.7 billion in 2½ and 2¾ percent special issues, (2) adding another 0.10 for the immediate conversion of railroad retirement funds as compared with 15 years instituted by Treasury action for the OASDI funds, and (3) adding another 0.05 for the guarantee that the interest rate shall not be less than 3 percent. These three adjustments resulted in a valuation rate of 3.43 percent, which was used for purposes of the present cost estimates.

The cost estimates for the bill are summarized in the following table:

*Cost estimate and principal cost figures for H.R. 8100—retirement program only*

Item	Payroll reference (billions)	Cost figures	
		Percent of payroll	Amount per year (millions)
Actuarial deficiency for present law.....	\$4.3	1.79	\$77
New investment policy <sup>1</sup> .....	4.3	— .58	—25
Accrued military service appropriations.....	4.3	— .12	—5
Remainder actuarial deficiency:			
Present earnings base (\$400).....	4.5	1.09	47
Proposed earnings base (\$450).....	4.7	1.00	47
Net gain from higher earnings base <sup>2</sup> .....	4.7	— .66	—31
Principal cost figures for proposed program:			
Actuarial deficiency.....		3.4	16
Net level costs.....		18.18	854
Equivalent level tax rate.....		17.84	838

<sup>1</sup> Assuming a valuation interest rate of 3.43 percent.

<sup>2</sup> —0.10 for a \$4.7 billion payroll.

The starting point is the actuarial deficiency arrived at in the eighth actuarial valuation (1.69 percent of taxable payroll) adjusted by the addition of 0.10 percentage points for inadequate financing during 1960-62 and for the effects of the 1961 amendments to the Railroad Retirement and Social Security Acts. The resulting 1.79 figure relates to a \$4.3 billion payroll. Then, reductions totaling 0.70 percent of taxable payroll (0.58 plus 0.12) are introduced for the increase in the interest rate and the expected receipt of accrued military service appropriations, respectively. The remaining 1.09-percent deficiency relating to a \$4.3 billion payroll is then converted to 1 percent for the \$4.7 billion payroll which would be applicable because of the higher earnings base. (The dollar amount of the deficiency is the same for both percentages.) Next, another 0.66 reduction in level costs is taken for the gain resulting from the \$450 earnings base. The overall result is that the actuarial deficiency for the amended railroad retirement program would be 0.34 percent of the new taxable payroll which is equivalent to \$16 million a year. The net level cost of the system as of January 1, 1963, would be 18.18 percent of taxable payroll. This figure represents the tax income which would be required for an exact actuarial balance between income and outgo. Since the level tax income is only 17.84 percent, an actuarial imbalance of 0.34 percent of taxable payroll results.

It will be noted that the cost estimate for the bill allows for a slight reduction in future net costs on account of expected military service appropriations. This was done on the grounds that the eighth actuarial valuation disregarded this item because of the uncertainty then surrounding the actual receipt of this money by the railroad retirement account. This uncertainty is removed by the bill.

Another point worth noting is that the present cost estimate does not show a cost reduction due to the eventual repayment of the funds borrowed by the unemployment insurance account which would be facilitated by the amendments to the Railroad Unemployment Insurance Act. The reason for this is that these loans have been treated as full-fledged assets of the railroad retirement account in all actuarial cost estimates. Thus, there are no new funds which had not been accounted for in previous cost estimates.

Except for the interest rate and the adjustment of payrolls for the higher earnings base, the major assumptions underlying the cost estimates here presented are the same as those used in the last actuarial valuation of the railroad retirement system (as of December 31, 1959). This is in accord with the commonly accepted practice of not changing actuarial assumptions between complete valuations. Within the framework of these assumptions, the bill would produce a condition of reasonable actuarial soundness, since a deficiency of about 0.5 percent of taxable payroll is within the limits of permissible actuarial tolerance in relation to an overall cost figure of 18.18 percent. There is a strong possibility that one of the major assumptions used; namely, the assumption relating to the level of future employment in the railroad industry, is too optimistic. This matter as well as other matters having a bearing on future level costs will be thoroughly reviewed and reexamined in the next actuarial valuation which is scheduled for completion by the middle of 1964. While it is impossible to foretell the results of the next valuation, it seems reasonable to assume that the cost figures relating to the present Railroad Retirement Act as it would be amended by the bill will lie in the same general area as the cost figures cited in this report.

#### EXPLANATION AND ANALYSIS OF EFFECTS ON THE RAILROAD UNEMPLOYMENT INSURANCE SYSTEM

The amendments to the Railroad Unemployment Insurance Act would (1) raise the maximum contribution rate from 3.75 to 4 percent, (2) increase the amount of contributions set aside for administration of the law from 0.2 to 0.25 percent of taxable payroll, (3) increase the qualifying base-year earnings requirement to \$750, with a proviso that a new entrant to railroad employment must have at least 7 months of service in the base year, and (4) strengthen the disqualification for voluntary quit without good cause and require that an employee who quits with good cause must first exhaust his rights (if any) to unemployment benefits under other laws before being eligible for payment for days of unemployment under the Railroad Unemployment Insurance Act. The first change would be effective as to compensation paid with respect to months after 1963, and the second would be retroactive to apply to all contributions collected after 1961. The third change would be effective as to base years after 1962 with an exception as to the base year 1963 for employees who are paid \$500 or more in compensation with respect to that portion of the year 1963 before the first day of the month following the month of enactment of the bill. The fourth change would be effective as to cases where individuals leave work following the date of enactment of the bill. A fifth change, to provide for a flexible interest rate on funds borrowed from the railroad retirement account, would be necessitated by the proposed change in the investment policy for that account. For funds borrowed from the railroad retirement account, the interest rate for each fiscal year would be the average rate for all special obligations held by the railroad retirement account on the last day of the preceding fiscal year, rounded to the nearest one-eighth percent. This change would become effective on July 1, 1964.

The effects of the proposed changes on the railroad unemployment insurance account and the railroad unemployment insurance administration fund are based on the assumption that, in the years immediately ahead, employment covered under the Railroad Unemployment Insurance Act will average about 850,000 and that there will not be an unusually large volume of unemployment in any year. For the Railroad Unemployment Insurance Act, the limit on taxable and creditable compensation would remain \$400 a month. Thus, the assumed average taxable payroll for the next several years remains at \$4.3 billion, as under the present law.

#### *Reduction in benefits*

At the benefit level assumed for the next 5 years, the change in base year qualifying requirements would reduce the amount of benefit payments for unemployment and sickness by about \$6 million a year. However, the full

effect of this amendment on benefit payments would not occur until after June 30, 1965, because 1964 would be the first full base year in which the new qualifying requirement would apply without exception. The change in disqualification provisions for voluntary quits would reduce the amount of unemployment benefits by about \$3.5 million a year. Thus, the total reduction in benefits would be about \$9.5 million.

#### *Increase in contribution rate*

The maximum contribution rate in the schedule in the Railroad Unemployment Insurance Act is now 3.75 percent. This rate is applicable to taxable payrolls in a calendar year if the balance in the railroad unemployment insurance account (including for this purpose the balance in the administration fund) on the preceding September 30 is under \$300 million. The contribution rate had been increased to 4 percent for calendar years 1962 and 1963 by the Temporary Extended Railroad Unemployment Insurance Benefits Act of 1961. However, the additional contributions provided by this law are being used to repay the advance received from the general fund of the U.S. Treasury for payment under that act of temporary extended benefits to railroad employees.

The change would increase the maximum contribution rate for calendar years after 1963 to 4 percent. There would otherwise be no change in the existing schedule of contribution rates.

The effect of the increase in the maximum contribution rate would be to increase the estimated amount of contributions to be paid by covered employers by an average of \$10.8 million a year. Of this amount, \$8.6 million would go into the unemployment insurance account and \$2.2 million into the administration fund. This would be sufficient additional income so that, on the basis of the estimated level annual amount of benefits (as reduced by the proposed amendments), the loans from the railroad retirement account would gradually be repaid.

#### *Change in appropriation for administration*

Under the present law, an amount equal to 0.2 percent of the taxable payroll is set aside from contributions for payment of the administrative expenses of the unemployment and sickness benefit programs. The change would increase this amount to 0.25 percent of the taxable payroll, with respect to contributions collected after 1961. This would provide about \$3 million immediately for transfer from the unemployment insurance account to the administration fund and would increase the estimated amount of contributions available to the administration fund in future years by an average of some \$2.2 million a year; that is, from about \$8.6 million to \$10.8 million a year.

#### *Change in interest rate on borrowed funds*

The rate of interest on funds borrowed from the railroad retirement account would increase after June 30, 1964, to an estimated average of 3.5 percent, reflecting the change in investments of the railroad retirement account. However, this proposed change in interest rate would have only a minor effect on the future cost of the unemployment and sickness benefit programs. It is estimated that in the 5 years following the effective date the additional interest paid to the railroad retirement account as a result of this proposed change would average about \$1.5 million a year. In later years, the additional amount of interest would decrease, as repayment of principal reduces the amount owed to the railroad retirement account.

#### *Effect on railroad unemployment insurance account*

On June 30, 1963, the railroad unemployment insurance account had a net deficit of \$307.3 million. The deficit consisted of \$314 million owed to the railroad retirement account and the \$7.1 million remaining unpaid from the advance of \$30 million from the U.S. Treasury for payment of temporary extended benefits, less a cash balance of \$13.8 million. It is estimated that if there is no change in the financing of the Railroad Unemployment Insurance Act, the deficit in the railroad unemployment insurance account would increase further to about \$360 million by June 30, 1968.

As explained above, the proposed amendments, when they become fully effective, would increase the annual income to the unemployment insurance account by some \$8.6 million, while reducing the benefit cost of the system by about \$9.5 million, or an overall net gain of approximately \$18 million a year. Over the first 5 years, the estimated net result of the changes would be to reduce the deficit in the unemployment account on June 30, 1968, from about

\$360 million to about \$295 million. This takes into account the change in the interest rate on the funds borrowed from the railroad retirement account and the fact that the full effect of the amendments would not be realized immediately.

A projection of the railroad unemployment insurance account beyond 1968 has not been made. Within the framework of the general assumptions of railroad employment and payrolls that have been used, there could be wide variations from year to year in the amount of unemployment benefit disbursements and in the income to the system. In the present unsettled condition of the railroad industry, such factors as mergers, changes in traffic patterns, or a recession might cause large temporary increases in benefits for unemployment. On the other hand, there might be an extended period of relative stability of employment or of gradually rising employment, with low benefit costs. In fact, even the projection for the next 5 years is subject to a very large relative error.

Nevertheless, on the basis of experience in the most recent years, it would appear that the additional contributions from the higher contribution rate would result in a total income more than adequate to pay future benefit costs on the basis of the benefit provisions as modified by this bill. If railroad employment should stabilize, the deficit would continue to decrease and would ultimately be wiped out.

#### *Effect on administration fund*

On June 30, 1963, the balance in the railroad unemployment insurance administration fund was \$2.7 million. For future years, under the present provisions of the act, it is estimated that income to the administration fund from contributions will average about \$8.6 million a year, compared with estimated administrative costs of \$9 million or more. Unless some change is made, it is obvious that the funds available for administration will be inadequate in the near future.

The recommendation to change the percentage of taxable payroll to be set aside for administration would increase the income to the administration fund from contributions to an estimated \$10.8 million a year. As under present law, the excess of income over administrative disbursements would remain in the administration fund until the balance in this fund is built up to \$6 million. Thereafter, at the end of each fiscal year, any excess over \$6 million in the administration fund would be transferred to the benefit account. The retroactive effective date of this proposed change would prevent exhaustion of funds for administration before contributions on current payrolls could be collected.

#### STATEMENT OF BOARD MEMBERS

There is an important and urgent need for legislative action to remove substantially the existing deficit in the financing of the railroad retirement system and to provide sufficient additional income to the railroad unemployment insurance system so that further borrowing will not be required and the existing loans can be liquidated gradually.

An actuarial deficit in the longrun financing of the railroad retirement system can be tolerated perhaps for a short while without great harm, but the longer the deficit continues, the stronger are the measures required to rectify the situation.

The actual accounting deficit in the financing of the unemployment and sickness insurance program has required the borrowing of funds from the railroad retirement account under the authority provided by law. There is now owing over \$300 million to the railroad retirement account by the unemployment insurance system. Some action is obviously necessary quite soon to remove the growing deficit in the financing of this system.

After thorough consideration of the matter, the Board has concluded that the program which the bill would put into effect represents a most practical and effective way of solving the problem. An agreement has been reached with the Bureau of the Budget in respect of the provisions affecting the railroad retirement system that each measure is reasonable, except for the 3 percent floor on the interest rate and the immediate conversion of the special obligations, and will serve to strengthen constructively the financial condition of the system. The Treasury Department has approved of the measure to provide a new method of determining interest rates but not the floor on the rate and the immediate conversion. Both the Bureau of the Budget and the Treasury are understood to oppose these two features. The total effect would be to reduce the deficit in

the financing of the railroad retirement system from \$77 million to \$16 million a year, or from 1.79 percent of taxable payroll to 0.34 percent, a point within limits of actuarial tolerance. The changes would permit the railroad unemployment insurance system to operate without an accounting deficit and to repay eventually the existing loans.

The measures consist of:

1. An increase in the limit on taxable compensation from \$400 to \$450 a month under the Railroad Retirement Tax Act and a like increase for creditable compensation under the Railroad Retirement Act;
2. Revisions of the provisions in respect of the financing of credits for military service (which would determine the Government's obligation for credits for future military service on a modified added cost basis and end the liability for payments to both the railroad retirement system and the social security system for the same credits thus removing the basis for the Government's objections for the Congress to appropriate funds now owing for past military service credits);
3. A change to provide a new method of determining the interest rates on the special obligations in the railroad retirement account (to cause the rates to accord in general with the average investment yield to maturity prevailing on medium and long-term Treasury obligations) with retention of the present rate of 3 percent as a floor beneath which the rate could not fall and to provide for an immediate conversion of the special obligations in the account into obligations bearing an interest rate determined under the new method;
4. An increase in the maximum contribution rate under the Railroad Unemployment Insurance Act from 3¼ percent to 4 percent effective as to compensation paid for months after 1963;
5. A change from \$500 to \$750 in the amount of compensation for a base year after 1962 an employee must have to qualify for benefits, except the change would not apply for the base year 1963 in cases of employees who are paid compensation of \$500 or more with respect to that portion of the base year 1963 before the month following the month of enactment of the bill.
6. A revision of the provisions with respect to employees who leave work voluntarily to disqualify them for payments for days of unemployment during the period beginning with the time they so leave work and continuing until the time they have been paid compensation with respect to such period of \$750 or more, but this provision would not disqualify an employee found by the Board to have left work with good cause during any registration period which does not include a day in a period with respect to which he could receive unemployment benefits under a law other than the Railroad Unemployment Insurance Act; and
7. A change in the amount allocable from contributions collected for administration of the railroad unemployment and sickness insurance system from an amount equal to 0.2 percent of the taxable payroll to 0.25 percent thereof, retroactive so as to apply to all contributions collected after 1961.

Board members Healy and Lyon strongly urge a favorable report on and enactment of the bill in its entirety.

Chairman Habermeyer also strongly urges favorable consideration and action as to the bill except as to the two measures not included in the agreement with the Bureau of the Budget and the Treasury Department, namely, the provision for the 3-percent floor on the interest rate and the immediate conversion of the special obligations held by the railroad retirement account. However, these two measures would obviously strengthen further the financial condition of the system and for this reason he would not object to their adoption.

A report by the Railroad Retirement Board on the identical bill S. 2056, introduced in the Senate by Mr. Burdick, has been cleared with the Bureau of the Budget, which advised us as follows:

"\* \* \* although there would be no objection to the presentation to the committee of such report as you may deem appropriate, the Bureau of the Budget does not endorse the limited financial improvement which S. 2056 would provide for the railroad unemployment insurance system. With respect to the retirement provisions of the bill, you are advised that the Treasury Department and the Bureau of the Budget are submitting reports which recommend against the guaranteed minimum interest rate and which favors the adoption of an orderly period for conversion of existing investments. These changes would provide substantially similar treatment for the major trust funds."

By direction of the Board.

LAWRENCE GARLAND,  
*Secretary of the Board.*

U.S. DEPARTMENT OF LABOR,  
OFFICE OF THE SECRETARY,  
Washington, September 13, 1963.

HON. OREN HARRIS,  
Chairman, Committee on Interstate and Foreign Commerce,  
House of Representatives,  
Washington, D.C.

DEAR MR. CHAIRMAN: The Department of Labor would like to take this occasion to express for the record our views with respect to certain disqualification features of amendments to the Railroad Unemployment Insurance Act made by H.R. 8100, the bill to improve the financing of the railroad retirement and railroad unemployment insurance systems, both of which have large deficits.

Without commenting on the technical features of the financing provisions of H.R. 8100, we do support improving the financing of both these systems. We note that the bill carries the endorsement of both railroad management and railroad labor organizations, as well as the members of the Railroad Retirement Board, which administers the two systems.

The Department would merely like to go on record as stating that enactment of these disqualification provisions for the railroad industry would not imply that the Federal Government would have no objection if such provisions were adopted widely in the regular State unemployment insurance laws as a part of the regular Federal-State unemployment insurance system with which this Department is so directly concerned. As we understand it, the disqualification provisions would work as follows: A railroad worker who is separated involuntarily from his railroad job, takes another job in a nonrailroad industry, and then voluntarily quits the latter job without good cause is disqualified from receiving any railroad unemployment insurance until he earns \$750 more in railroad employment following the voluntary quit. The disqualification would bar him from his railroad benefits even if, after his voluntary quit, he had had another nonrailroad job from which he was laid off for lack of work, so that his voluntary quit is not the cause of his present unemployment.

Moreover, if such a worker quit his nonrailroad job with good cause, he could not receive railroad unemployment insurance until he had exhausted any State unemployment insurance to which he might be entitled. Since his nonrailroad earnings in such a situation are likely to be low, his State benefit would generally be considerably below the railroad benefit to which he was entitled. Under existing law, the worker would not be required to draw the lower benefit first. Even under the proposal, a laid-off worker could choose which benefit to draw. Only the one who left any job voluntarily with good cause would be required to draw the State benefit, no matter how small it was, for the appropriate number of weeks provided by the State law before he could begin to draw his more substantial railroad unemployment insurance benefits. Thus, a penalty would be imposed on the worker even though he is found to have acted with good cause.

These provisions are extremely severe. No unemployment insurance law disqualifies a worker for a voluntary quit with good cause. This Department has consistently taken the position that a worker who voluntarily leaves his job without good cause should be disqualified for only a limited number of weeks, rather than making him ineligible until he has requalified through substantial new earnings. We have also consistently held that the disqualification period should be linked in time to the disqualifying act, so that a worker unemployed because of an involuntary separation is not disqualified for an act in connection with some prior separation unrelated to his current unemployment.

This position is based on the principle that the unemployment insurance disqualification is not intended as a punishment for a wrongful act, but is merely a device for limiting the insured risk to exclude unemployment brought about by a voluntary action taken by the claimant without good cause. This principle is generally accepted, even when the disqualification is more severe than we recommend, and is accompanied by the concept that benefits should not be paid on the basis of work which the individual could have kept but for his own action taken without good cause.

This Department would regret any implication of endorsement of the disqualification provisions of H.R. 8100 for the regular Federal-State unemployment insurance system. We would therefore appreciate it if these views were made a part of the committee's printed record of this bill.

While the Department of Labor supports the bill, subject to the foregoing comments, we also wish to point out that the Bureau of the Budget and the Treasury Department have commented on features of the financing arrangements.

Yours sincerely,

*Secretary of Labor.*

The CHAIRMAN. Earlier this year I introduced a bill, H.R. 3310, requested by the administration. I also introduced a bill, H.R. 4885, recommended by the railway labor executives. During the time that followed, in conferences with people who were interested in the problem, it was obvious to me that the matter could probably be resolved, and satisfactorily, to all concerned.

There were a number of discussions held, and as a result of these discussions I am glad to state for the record that agreement was reached by those primarily interested in the program. I want to hear and now express my high commendation and the thanks of the committee, because in view of some of the experiences that we have had recently we welcome unanimity among the groups involved here. I can truthfully say with a deep feeling of joy and satisfaction that we are glad to have this meeting this morning. At the request of the Association of American Railroads, American Short Line Railroad Association, and the Railway Labor Executives' Association, I introduced H.R. 8100. This bill is designed to improve the financial position of the railroad retirement system. It is also designed to do something about the railroad unemployment insurance system.

It was suggested to me a day or two ago that certain of you were going to take so many minutes or so long to express your views. Certain others were going to take, I assume so much time to do the same thing. The third group is going to take so much time to go over the same thing again. Now, gentlemen, I have had experience in the practice of law myself, and I learned early in my experience that when you get your case won it is a pretty good time to stop. So the purpose of this meeting this morning is to make a record because we have followed the traditional policy in this committee to make a record on all legislation that was reported. So we want to make a record, but we also want to have an executive session of this committee this morning. I have sent out notices to the members advising them of that situation. So the old saying is that a hint to the wise ought to be sufficient, so let us start.

Mr. FRIEDEL. Mr. Chairman, I want to say I have no questions to ask.

The CHAIRMAN. I was hoping that the members of the committee would get the hint, too, as well as everybody else.

Mr. YOUNGER. Mr. Chairman, may I speak for our side of the aisle and compliment all of those concerned with their unanimity on this cause, as most of you know, for a long time I have been concerned about the retirement fund of the railroad system, and the deficit that has occurred each year. I am glad to see this solution. I think now that we have unanimity, we should make the record and get action as soon as possible.

The CHAIRMAN. I thank the gentleman for his comment and appropriately so. But I would also like to follow it with a comment that the fact that there is so much unanimity on this is not going to lessen too much our concern about the condition of the railroad retirement fund.

That is another problem. It is our duty to give consideration to that problem. I hope this legislation will help, but I don't think it will resolve this completely.

Mr. YOUNGER. No.

The CHAIRMAN. The first witness will be Hon. Howard W. Habermeyer, Chairman of the Railroad Retirement Board.

**STATEMENT OF HON. HOWARD W. HABERMEYER, CHAIRMAN,  
THE RAILROAD RETIREMENT BOARD**

Mr. HABERMEYER. Good morning, Mr. Chairman, and members of the committee. For the record, taking the hint you threw out, I have a statement prepared that I would like to have introduced into the record.

The CHAIRMAN. Thank you. Let it be filed for the record.  
(The statement referred to follows:)

**STATEMENT OF HOWARD W. HABERMEYER, CHAIRMAN, RAILROAD RETIREMENT BOARD, ON BEHALF OF HIMSELF, MR. T. M. HEALY, AND MR. A. E. LYON, MANAGEMENT AND LABOR MEMBERS OF THE BOARD, RESPECTIVELY**

Mr. Chairman and members of the committee, my name is Howard W. Habermeyer and I am Chairman of the Railroad Retirement Board. I have been with the Railroad Retirement Board since May 11, 1936, and have been the chairman of the Board since November 24, 1956. It is my pleasure and honor to appear again before this committee to discuss proposals to improve and strengthen the railroad retirement and railroad unemployment insurance system, as provided in H.R. 8100.

Before proceeding with my testimony, I should like to file for the record a summary with cost estimates of the bills which have been introduced in the House in this session of the Congress to amend the Railroad Retirement Act, the Railroad Retirement Tax Act, and the Railroad Unemployment Insurance Act. The Board has reported to your committee on 28 bills included in this summary, and you will note that the board unanimously opposed the enactment of all those bills that would increase benefits without providing for the revenue needed to meet the additional costs. I shall say no more about those bills except to answer questions with regard to them.

Coming now to the bill, H.R. 8100, I wish to call your attention to what is of chief concern to all of us, namely, that both the railroad retirement and railroad unemployment insurance systems have been operating for some time under financial deficits. It is generally recognized, I believe, that such a condition cannot be allowed to continue. In September of 1961, when the President of the United States signed into law the bill (Public Law 87-285) providing for reduced benefits for men aged 62 to 64 and effecting certain other improvements in the benefit structure of the Railroad Retirement Act, he directed the Railroad Retirement Board to develop a program to place the systems on a sound financial basis. Such a program has been developed and is incorporated in the bill, H.R. 8100. The bill if enacted would accomplish satisfactorily the objective.

The railroad retirement system, because of its nature, is financed on a basis which requires the accumulation and maintenance of large actuarial reserves. The system's basic income is derived from payroll taxes which are paid in equal amounts by employers in the railroad industry and their employees. A deficit in the financing of this system does not impair the ability of the system to meet its obligations for benefits so long as funds are available in the reserve. However, failure to provide for adequate current financing would affect adversely the capacity of the system to pay benefits in the distant future. It is obvious that the longer a deficit is allowed to continue the more drastic would be the measures required to place the system on a financially sound basis. The present deficit is in the amount of about \$77 million a year. Enactment of H.R. 8100 would reduce the deficit from \$77 to \$16 million a year.

The basic income of the railroad unemployment insurance system is derived from contributions paid by employers in the railroad industry with respect to compensation paid to employees. The employees do not pay contributions. This

system is financed on a relatively short-term basis since obligations, if any, of this system to an employee are satisfied within a relatively short time after he qualifies by receiving a specified minimum of compensation with respect to a calendar year. There is now an accounting deficit in the financing of this system of over \$300 million. Funds which have been needed to pay benefits have been secured through loans from the railroad retirement account, under authority provided by law. These loans, which now exceed \$300 million, must be repaid with interest at the same rate in general as that borne by the other obligations held by the account. The loans, therefore, have not adversely affected the financial condition of the railroad retirement system and will not unless allowed to increase inordinately. However, again for obvious reasons, the deficit in the financing of this system must be removed. It is estimated that enactment of H.R. 8100 would provide an additional \$10.8 million a year from employers in contributions and save \$9.5 million in benefit costs which would enable this system soon to meet all obligations for benefits without resorting to further borrowing and to liquidate gradually the existing loans.

I shall now proceed to a discussion of the provisions of the bill H.R. 8100.

AMENDMENTS TO THE RAILROAD RETIREMENT ACT OF 1937 AND RAILROAD  
RETIREMENT TAX ACT

*Increase in compensation limit*

The maximum of compensation which could be credited toward benefits would be increased from the present \$400 a month for each employee to \$450, applicable with respect to compensation received for services rendered in months after the date of approval of the act. The maximum for taxable compensation would be increased to the same extent to produce increased revenue. Higher benefits would be produced by the increase in the maximum compensation but only for those employees who retire in the future. It is estimated that the increase in the limit on the taxable compensation would produce \$71 million a year in additional revenue on a level basis as compared with \$40 million a year the increase would add to the costs of benefit payments. This leaves \$31 million to apply toward the reduction of the deficit.

The increase in the compensation limit will produce more revenue, not only immediately but also in the long run, that the costs it will add to the system because the lowest factor in the annuity computation formula, which is 1.67 percent, is applied to average monthly compensation in excess of \$150. Most employees who retire now and in the future will have average monthly compensation in excess of that amount, even without an increase in the maximum compensation base. On the other hand the tax rate in effect at any particular time applies evenly to all the taxable compensation. Moreover, the extension of the limit on compensation will increase costs relatively slowly. This is because the change will have relatively little effect on the average monthly compensation and hence on the benefits of those who retire in the near future as compared with the effect on those who retire later. Only in cases where employees retire who have worked for some time under the higher limit will there be much effect. Of course, those who retire soon will have paid taxes on the higher base only for a relatively short time. However, the full effect of the increase in revenue will take place immediately, since employers and active employees will pay taxes on a basis up to the higher compensation limit beginning with the month after approval of the act.

It is apparent just from the fact that the yearly costs of the increase in benefits from the extended limits on compensation, exceed the additional amount that the employees will pay by \$4.5 million (\$40 million minus \$35.5 million (one-half of \$71 million)) that employees will on the average receive additional benefits worth more than the increased amount they will pay in taxes.

A year of work under the higher base at the full maximum taxable and creditable compensation will add 83½ cents to the monthly annuity amount of an employee. The increase can add only \$54.75 to an employee's annual taxes at the highest scheduled rate of 9½ percent which would go into effect in 1968. Under the rate now in effect of 7¼ percent there can be added only \$543.50 a year. Thus, in the case of a man who works under the higher limit only 1 year, the approximate yearly increase in his annuity of \$10 because of that year will, over a period of about 13 years, which is the average life expectancy of a man at the retirement age of 65, add about \$130 to his total annuity payments. The compensation limit increase will therefore be to the advantage of the average employee. The fact that the employers pay taxes equal to those of the employees

accounts, of course, for the result that the increase in the compensation limit will reduce the deficit by \$31 million a year and yet provide the employees with additional benefits worth more than the increased amount they will pay in taxes. Moreover, under section 5(f) (2) of the Railroad Retirement Act, there is payable after an employee's death a lump sum to his designee or survivors which is in an amount slightly in excess of the total taxes paid by him under the Railroad Retirement Tax Act minus all benefits paid to him or to others on the basis of his service. This provides definite assurance that there will be no loss of railroad retirement taxes paid by an employee.

It is estimated that one-fourth of the employees will not have to pay any additional amounts and the remaining three-fourths will pay amounts ranging from a few cents per month to \$4.56 a month when the highest scheduled tax rate of 9½ percent goes into effect in 1968. Under the tax rate now in effect the maximum monthly increase would be \$3.63.

When the Railroad Retirement Act of 1937 was enacted the percentage of total payroll that was creditable and taxable was almost 99 under the \$300 maximum then in effect. The maximum on compensation was increased to \$350 in 1954 and then to \$400 in 1959, but notwithstanding these increases the percentage has declined steadily through the years because of increased wages. The change would increase the percentage from 76 to 82.

#### *Military service credits*

As the law now stands the Government is obligated to pay the railroad retirement account for creditable military service rendered after 1936, an amount equal to the total taxes which would have been paid on \$160 in taxable compensation if the serviceman had earned that amount as a railroad employee during each month of military service. With respect to military service rendered after 1956, the Government obligation is reduced by the amount of taxes paid with respect to the serviceman's pay for social security purposes. The Government's obligation for military service credits acquired after June 1963 would be changed so as to be determined on the basis of a modified actual cost of the benefits based on such service. Government payments for military service credits acquired before 1937 will continue, as they always have been, on an actual cost basis. Under the actual cost method, as benefits are awarded, the Government will be charged with the actuarial value of that portion of the benefits attributable to military service rendered before 1937 and after June 1963.

For the period after June 1963, however, an additional amount sufficient to cover a proportionate share of administrative costs and of the interest charges on the unfunded accrued liability of the railroad retirement system, as determined by the Board's actuarial valuations, would be included. The amount to be added would be computed from the ratio of the total net level costs of the system to the part thereof remaining after the deduction of administrative expenses and interest charges on the unfunded accrued liability as modified for the effects of the financial interchange with the social security system. This added factor would have been 25 percent on the basis of the last actuarial valuation. A simplified illustration may be useful. Assume, for the purpose of the illustration only, that the total net level costs of the system are \$750 million a year and assume that administrative expenses and interest charges on the unfunded accrued liability, as modified for the effects of the interchange with the social security system, are \$150 million. After deducting the latter amount \$600 million is left. The ratio is \$750 million to \$600 million or 5 to 4. Now assume that \$20 a month is added to an individual's annuity because of military service credits acquired after June 1963. This amount of \$20 would be increased to \$25 by applying to it the ratio of 5 to 4. This is, of course, the same as saying that \$20 would be increased by 25 percent. The actuarial value of \$25 a month as an annuity would be determined by the use of mortality tables to produce the amount which would be charged to the Government for the military service after June 1963.

Also the law would be changed so that the Government's obligation to make duplicate payments to both the railroad retirement and the social security systems for certain credits based on military service rendered before 1957 would be removed. It has been agreed that after these changes are made the Government will no longer object to appropriations by the Congress of about \$160 million to the railroad retirement account which it now owes with respect to the creditable military service already rendered. The military service appropriations would produce \$5 million a year on a level basis to apply toward the reduction of the deficit.

The military service provisions would be changed so that benefits attributed to military service may be added to annuities accruing in 12 months before credit is claimed instead of in 6 months as at present. Military service is now credited toward survivor benefits under an administrative ruling and clarifying provisions would be added to provide expressly what is now merely implicit.

#### *Interest rates*

The 3-percent rate of interest borne by the special obligation issued to the railroad retirement account by the Treasury under present law has since about 1956 been considerably less than the interest rate the Treasury has been required to pay in order to borrow funds through medium- and long-term general obligations. The market yield on marketable U.S. obligations of a medium- and long-term character has, of course, also been considerably above 3 percent. This situation would be met by the provision for a rate of interest on the special obligations of the account determined from the average market yield on outstanding marketable Treasury obligations with 3 or more years to run until maturity. The interest rate so determined would now come to about  $3\frac{1}{8}$  percent. The rate would not be less than 3 percent even if the new formula, but for this guarantee, would produce a lower amount. The interest rates on newly invested funds in the social security and civil service retirement trust funds are now derived through a formula that is almost identical, except that those funds do not have a floor on the rates.

Upon enactment of the bill the Treasury would retire the special obligations then held by the account and issue new special obligations bearing an interest rate determined under the new formula.

The Bureau of the Budget and the Treasury Department have approved of the provisions of the bill as to interest rates on the special obligations held by the account except as to the 3-percent floor and the immediate conversion rather than a conversion over a period of time. Under these circumstances I cannot consistently endorse these two provisions, nevertheless, since they would obviously add to the improvement in the financial condition of the system I do not object to their adoption. Mr. Healy and Mr. Lyon, the management and labor members of the Board, respectively, however, strongly favor and urge the inclusion of these two provisions. I shall now state for them the reasons that cause them to believe that their position is fully justified.

The 3-percent rate now applicable to the special obligations issued to the railroad retirement account was established in 1937 and has been continued ever since. In 1937 the prevailing yield on marketable Government obligations was less than 3 percent and the fact that a 3-percent rate was then granted to the railroad retirement system, indicates a congressional policy for aiding the system to that extent. The fact the system will now be allowed an interest rate in line with the yield available generally from Government obligations, having 3 or more years to run before maturity, constitutes no reason for refusing to continue the 3-percent rate as a floor for the system. In the period from 1936 through 1940 the railroad retirement system paid \$282 million more in benefits than the social security system. Although the payroll of the railroad retirement system was only  $6\frac{1}{2}$  percent of that of the social security system for 1940, the railroad retirement system paid nearly twice the amount of benefits the social security system paid for that year, when the social security system first began to pay monthly benefits. The costs of relief payments by the Federal Government were less by millions during those early years of the railroad retirement system because high taxes were paid by employees and employers in the railroad industry in order to provide income for its retired persons, many of whom would have otherwise received relief. This circumstance was acknowledged when a minimum rate of 3 percent was set for the Government to pay for the use of the reserve funds of the system. This commitment by the Congress should not be abandoned since nothing has happened to warrant a conclusion that the attitude of Congress toward the railroad retirement system has changed in this respect. The floor on the rate is extremely important to the system because in making actuarial valuations for the system the projected interest rate can be increased by 0.05 percent if the possibility of the drop in the interest rate below 3 percent does not have to be taken into account. Yet as a real and practical matter the floor would provide little or no foreseeable risk to the Government. This follows from the fact that there is general agreement that it is extremely unlikely that the investment yield on general Government obligations of a medium- and long-term maturity will fall below 3 percent. At the most it is generally believed that such yields, if they do

fall below 3 percent, will not remain so for other than a short period. Since the special obligations have a set maturity date it would be likely that during such periods little or no obligations would mature and there would be no new funds to invest. Thus, such yield could be below 3 percent for a time and still not have any effect on the rates for the special obligations.

An immediate conversion of the 3-percent special obligations now held into such obligations bearing a rate determined under the new formula would only to some extent make up for the fact that the system has since about 1956 received a lower interest rate on funds of the system, which the Government has borrowed, than the Government has paid on amounts it has borrowed through medium- and long-term general obligations. The immediate conversion would enable the Board to increase the projected interest rate by another 0.07 percent in making the actuarial valuations for the system. These two provisions would permit the use of a projected interest rate of 3.43 percent as compared with a rate of 3.31 percent without them (3.43 percent minus 0.12 percent) and would thus result in a decrease in the deficit by \$8 million more a year than the decrease the bill would accomplish without them.

The social security and civil service trust funds do not have a floor on the interest rate. However, these funds have an advantage as compared with the railroad retirement account in that their rates are determined from the average investment yield on Government obligations having 4 or more years to run to maturity whereas the rates for our fund would be determined from those having 3 or more years to run. The longer average period to maturity ordinarily tends to produce a higher rate. Also the obligations held by these funds are being converted into obligations bearing an interest rate in line with the average current investment yield on general Government obligations having a medium or long term to run until maturity but their conversion periods began some time ago and we understand that considerable amounts have already been invested in obligations bearing rates in line with current investment yields on general Government obligations. Moreover, the amounts involved in an immediate conversion for these funds would be large whereas the amount invested in special obligations for the railroad retirement account that would be involved in an immediate conversion is relatively quite small. It is not unlikely that obligations have already been converted for social security funds representing an amount substantially equal to or even in excess of the amount of the special obligations now held by the railroad retirement account (about \$3.2 billion). We understand that the conversion for the social security funds began in 1960. Further, the systems to which the other funds are related, aside from being much larger, differ in many ways from the railroad retirement system. With their constantly expanding coverage they have no particular financial problems, certainly they have none of an acute nature, such as that with which we are confronted. Therefore, the absence of these two features for the other systems provides no reason of any consequence for not adopting these measures for the railroad retirement system. Surely to do so would have no adverse effect whatever on the other systems. In view of the heavy burden on the taxpayers who support the railroad retirement system (the taxes are substantially higher than those for the social security system), the fact that legislation is now needed to increase the taxes and the fact that the Government has had the use of reserve funds of the system for about 7 or 8 years at a cost less than it has been required to pay for funds borrowed through medium- and long-term general obligations and the other considerations, an immediate conversion of the special obligations is more than amply justified.

*A summary of the effects the bill would have on the financial condition of the railroad retirement system*

The new investment provisions would reduce the present deficit of \$77 million a year by \$25 million. The military service appropriations, which would be realized after the changes in the military service provisions, would reduce the deficit by \$5 million. As a result of the military service and investment changes together the present yearly deficit of \$77 million would be reduced to \$47 million. A further decrease of the deficit in the yearly amount of \$31 million would be achieved through the increase of the compensation limit to \$450. It is to be noted here that the increase in the compensation limit would not reduce the deficit by this much but for the effect on the compensation limit increase of the interest rate changes.

After all these changes the present deficit of \$77 million a year or 1.79 percent of the \$4.3 billion estimated taxable payroll under the present \$400 compensa-

tion limit would be reduced to \$16 million a year or 0.34 percent of the \$4.7 billion estimated taxable payroll under the new \$450 compensation limit. In view of the total costs of the system of 18.18 percent of taxable payroll on a level basis, a deficit of 0.34 percent is regarded as being well within the limits of actuarial tolerance.

#### AMENDMENTS TO THE RAILROAD UNEMPLOYMENT INSURANCE ACT

##### *Maximum contribution rate*

The maximum contribution rate would be increased from the present 3½ percent to 4 percent applicable with respect to compensation paid for services rendered after 1963. Contributions are, of course, paid only by employers. The increase in the maximum rate to 4 percent would, it is estimated, produce about \$10.8 million a year more in contributions.

##### *Base year qualifying conditions*

The amount of compensation for a base year needed to qualify an employee for benefits in the next ensuing benefit year would be increased from \$500 to \$750. In addition, an individual who had never been paid compensation for a period before such year would qualify only if he was paid at least \$750 in compensation with respect to not less than 7 months in such base year. This change would be effective as to base years after 1962, except an employee who was paid compensation in the amount of \$500 or more with respect to that portion of the base year 1963 before the month following the month of enactment of the bill will not need to be paid more compensation to qualify; also, such an employee, if he is a new entrant into the railroad industry need not be paid compensation for 7 or more months in 1963 in order for him to qualify for the next ensuing benefit year. The Board estimates that this provision will result in a saving to the system of \$6 million a year in benefit costs.

##### *Disqualification for employees who voluntarily leave work*

The bill would cause an employee who left work voluntarily to be disqualified for days of unemployment with respect to any day after he so left work until he had been paid compensation with respect to time after he so left work in the amount of at least \$750. With respect to days of unemployment after that condition was met his rights to unemployment benefits would be the same as if he had not been disqualified. In cases in which the Board finds that he left work voluntarily with good cause the disqualification would apply only for days in a registration period which includes a day for which he could receive unemployment benefits under a law other than the Railroad Unemployment Insurance Act. This would ordinarily require such an employee to exhaust rights to State unemployment benefits before he could receive benefits for days of unemployment under the Railroad Unemployment Insurance Act. The Board estimates that this provision would save the system \$3.5 million a year in benefit costs.

The three changes together would, according to the estimates, improve the financial condition of the system by \$20.3 million. This would enable the system soon to pay all benefits without further borrowing from the railroad retirement account and leave enough to gradually liquidate the existing loans. This is, of course, highly important.

##### *Interest rate on funds borrowed from the railroad retirement account*

Obviously, in order for the railroad retirement account to lose nothing because of the loans to the unemployment insurance system the interest rate on such loans should continue to correspond generally to the interest rates on the obligations held by the railroad retirement account. A continuation of that correspondence would be effected by providing an interest rate on the loans determined for the fiscal year from the average rate of interest borne by all special obligations in the railroad retirement account on the last day of the preceding fiscal year. This change would become effective with respect to amounts owing after June 30, 1964.

##### *Allocations out of contributions to the railroad unemployment insurance administration fund*

Administrative expenses for the railroad unemployment insurance system are derived from an allocation from the contributions collected, in an amount equal to 0.2 percent of the taxable payroll. This allocation has proven to be insufficient and it would be increased by the bill to 0.25 percent, effective as to all contributions collected after 1961 irrespective of the period with respect to which the

compensation, on which the contributions were collected, was paid. If this change is not effected, and nothing else is done to increase the funds available for administrative expenses, such funds would be exhausted some time this year. Funds for administrative purposes cannot be borrowed from the railroad retirement account as they can for the payment of unemployment and sickness benefits. This increase and its retroactive application are clearly urgently needed.

AMENDMENTS TO THE TEMPORARY EXTENDED UNEMPLOYMENT INSURANCE BENEFITS ACT OF 1961

Section 5 of the Temporary Extended Unemployment Insurance Benefits Act of 1961 (Public Law 87-7) fixed the contribution rate for 1962 and 1963 at 4 percent, in effect adding one-fourth of 1 percent for this period to the maximum. The bill provides that a part of the contributions equal to one-fourth of 1 percent of the compensation paid for services rendered after 1963 be applied to repay the amount advanced from the general fund of the Treasury for the payment of temporary extended benefits until the full amount advanced is repaid. The last sentence of section 4 of that law which in effect provides the same would be repealed merely to avoid duplication.

CONCLUSION

The Board firmly believes that these systems should be maintained on a sound financial basis. The necessity of removing the deficits is a responsibility that cannot be avoided and action to this end should not, in our opinion, be delayed. After long and careful consideration of the problem, we have concluded that the program which would be put into effect by this bill represents the most logical and reasonable way of remedying the situation. The Board, therefore, strongly urges prompt and favorable consideration of the bill and its enactment into law.

*Principal provisions and level costs of bills introduced in the 1st session of the 88th Congress to amend the Railroad Retirement, Railroad Retirement Tax, and the Railroad Unemployment Insurance Acts<sup>1</sup> (bills introduced through Aug. 19, 1963)*

Bill and sponsor	Principal provisions	Estimated additional costs	
		Percent of taxable payroll <sup>2</sup>	Dollars per year (millions)
H.R. 573; Mr. Multer.	Provides full retirement annuities after 40 years of service regardless of age.	0.35	\$15
H.R. 593; Mr. Siler.	(a) Provides full retirement annuities at age 60 or after 30 years of service regardless of age. (b) Adds a new minimum for annuitants retiring under (a) in the amount of ½ the average monthly compensation in the 5 consecutive years of highest earnings.	3.60	155
H.W. 628; Mr. Holland.	Identical to H.W. 593.		
H.R. 788; Mr. Kunkel.	Provides that spouses of disability annuitants under age 65 be eligible for spouses' benefits.	.10	4
H.R. 802; Mr. Poff.	(a) Provides full retirement annuities at age 60 with 30 years of service or after 35 years of service regardless of age. (b) Replaces the 1924-31 base period for determining the prior service average monthly compensation by 5 years of highest earnings before 1937.		
H.R. 803; Mr. Poff.	(c) Changes the limit on creditable compensation to \$350 a month retroactively (current service assumed to continue at \$400). Provides full annuities to men with 30 years of service at age 62.	2.00	86
H.R. 804; Mr. Poff.	(a) Repeals the reduction in spouses' benefits by amounts of certain social security benefits, retroactive to October 1951. (b) Repeals the dual benefit restriction on survivors' benefits (already repealed).	.85	37
H.R. 809; Mrs. St. George.	Identical to H.R. 593.		
H.R. 810; Mrs. St. George.	Provides that spouses of annuitants who have been forced out of the railroad industry because of age be eligible to full benefits regardless of spouse's age (assumed to apply to all annuitants retiring at ages 65 and over).	.33	14
H.R. 916; Mr. Poff.	(a) Repeals requirements for relinquishment of rights and cessation of work in case of an employer other than a railroad. (b) Permits work after retirement for last employer if not a railroad.	.55	24
		.22	9

See footnotes at end of table.

Principal provisions and level costs of bills introduced in the 1st session of the 88th Congress to amend the Railroad Retirement, Railroad Retirement Tax, and the Railroad Unemployment Insurance Acts<sup>1</sup> (bills introduced through Aug. 19, 1963)—Continued

Bill and sponsor	Principal provisions	Estimated additional costs	
		Percent of taxable payroll <sup>2</sup>	Dollars per year (millions)
H.R. 1036; Mr. Bow.	Increases retirement annuity or pension by the amount of a spouse's annuity for any beneficiary whose spouse is deceased and who has children in his care.	-----	0.4
H.R. 1602; Mr. Friedel.	Changes amount of outside earnings allowable for survivors to \$1,800 a year.	0.04	2
H.R. 1830; Mr. Powell.	(a) Provides: (1) full retirement annuities at age 60 with 30 years of service, (2) reduced retirement annuities at age 55 with 30 years of service, (3) minimum annuity of $\frac{1}{4}$ the average monthly compensation in the 5 highest years for employees with 30 years of service, and (4) maximum annuity of \$300. (b) Raises limit on taxable earnings to \$700 a month. (c) Provides that if railroad retirement fund falls below \$3,000,000,000, total earnings including bonuses, stock options, etc., be taxed. If this does not restore fund to \$3,000,000,000, Congress is to appropriate additional funds from general revenue. (d) Changes minimum interest rate to 4 percent.	(3)	(2)
H.R. 2541; Mr. Tollefson.	Identical to H.R. 810.	-----	-----
H.R. 2542; Mr. Tollefson.	Identical to H.R. 803.	-----	-----
H.R. 2543; Mr. Tollefson.	Identical to H.R. 804.	-----	-----
H.R. 2544; Mr. Tollefson.	Identical to H.R. 593.	-----	-----
H.R. 2615; Mr. Rains.	Provides that railroad retirement annuities and pensions should not count as income for purposes of VA pensions (pertinent in cases of railroad retirement benefits based in part on military service).	(4)	(4)
H.R. 2892; Mr. McMillan.	Provides for payment in lump sum of reductions made in annuities certified as joint-and-survivor annuities where election was revoked or deemed revoked because of death of spouse.	(5)	(5)
H.R. 3310; Mr. Harris.	(a) Increases limit on creditable and taxable compensation to \$450 a month under both the retirement and unemployment insurance programs. (b) Changes the method of financing military service credits for military service performed after June 1963 to an actuarial cost basis and eliminates duplicate payments by the Treasury for past military service. (c) Makes the interest rate on special Treasury obligations issued to the railroad retirement account equal to the average market yield on all U.S. obligations with at least 3 years to maturity. Conversion to the new policy would be over a 10-year period; funds on loan to the unemployment insurance account would earn interest at the average rate for all retirement funds invested in special issues. (d) Increases the maximum contribution rate for Railroad Unemployment Insurance Act from $3\frac{1}{4}$ percent to $4\frac{1}{4}$ percent. (e) Allocates 0.25 percent of taxable payroll (instead of 0.20 percent) for administration of the Railroad Unemployment Insurance Act: Level costs for amended retirement program: Net costs of benefits..... Equivalent level tax rate..... Remaining actuarial deficiency..... Additional income for UII program..... Additional benefits for UII program.....	(5)	(5)
H.R. 3708; Mr. O'Konski.	Provisions have identical effects as those in H.R. 916.	(7)	(7)
H.R. 4161; Mr. Dorn.	Identical to H.R. 803.	-----	-----
H.R. 4546; Mrs. St. George.	Permits work after retirement for last employer if not a railroad but retains requirements for cessation of service or relinquishment of rights to return to service.	.15	8
H.R. 4708; Mr. Pepper.	Provides for free rail transportation for annuitants, pensioners, and their dependents, and for $\frac{1}{2}$ fare on "restricted" trains.	(9)	(9)
H.R. 4885; Mr. Harris.	Same provisions as in H.R. 3310 except for addition of a 3-percent minimum interest rate and for immediate reinvestment of all special notes in accordance with new policy: Level costs for amended retirement program: Net costs of benefits..... Equivalent level tax rate..... Remaining actuarial deficiency..... Effect on UII program same as under H.R. 3310.	\$ 18.18 \$ 17.84 \$ .34	854 838 16

See footnotes at end of table.

Principal provisions and level costs of bills introduced in the 1st session of the 88th Congress to amend the Railroad Retirement, Railroad Retirement Tax, and the Railroad Unemployment Insurance Acts<sup>1</sup> (bills introduced through Aug. 19, 1963)—Continued

Bill and sponsor	Principal provisions	Estimated additional costs	
		Percent of taxable payroll <sup>2</sup>	Dollars per year (millions)
H.R. 5483; Mr. Perkins.	(a) Permits occupational disability retirement after 10 years of service regardless of age. (b) Permits annuity to spouse of disability annuitant regardless of age of either.	0.60	26
H.R. 5484; Mr. Perkins.	(a) Increases retirement annuities (not SSAM's) by 10 percent.	2.00	86
H.R. 5598; Mr. Bennett.	(b) Increases basic amounts for widows' benefits by 20 percent.		
H.R. 5963; Mr. Olsen.	Identical to H.R. 4708.		
H.R. 7106; Mr. Olsen.	Provides for free transportation for annuitants, pensioners, and their dependents and for ½ fare on "restricted" trains. Employees with less than 15 years of railroad service furnished with this service at discretion of railroad.	(9)	(9)
H.R. 7707; Mr. Roberts.	Provides that railroad retirement annuities and pensions should not count as income for purposes of laws administered by the Veterans' Administration (pertinent in cases of railroad retirement benefits based in part on military service).	(10)	(10)
H.R. 8100; Mr. Harris.	(a) Increases limit on creditable and taxable compensation to \$450 a month under the retirement program. (b) Changes the method of financing military service credits for military service performed after June 1963 to an actuarial cost basis and eliminates duplicate payments by the Treasury for past military service. (c) Makes the interest rate on special Treasury obligations issued to the railroad retirement account equal to the average market yield on all U.S. obligations with at least 3 years to maturity but retains a 3-percent minimum. Conversion to the new policy would be immediate; funds on loan to the unemployment insurance account would earn interest at the average rate for all retirement funds invested in special issues. (d) Increases the maximum contribution rate for Railroad Unemployment Insurance Act from 3¾ percent to 4 percent. (e) Allocates 0.25 percent of taxable payroll (instead of 0.20 percent) for administration of the Railroad Unemployment Insurance Act. (f) Increases the qualifying base year earnings requirement to \$750, with a proviso that a new entrant to railroad employment must have at least 7 months of service in the base year under the Railroad Unemployment Insurance Act. (g) Strengthens the disqualification for voluntary quit under the Railroad Unemployment Insurance Act.		
	Level costs for amended retirement program:		
	Net costs of benefits.....	\$ 18.18	854
	Equivalent level tax rate.....	\$ 17.84	838
	Remaining actuarial deficiency.....	4.34	16
	Additional income for UI-SI program.....		10.8
	Additional benefits for UI-SI program.....		-9.5

<sup>1</sup> Includes only bills referred to Committee on Interstate and Foreign Commerce.

<sup>2</sup> Unless otherwise noted, relates to a payroll of \$4,300,000,000 a year with a \$400 monthly limit on creditable compensation.

<sup>3</sup> Because of subsidy feature, no cost estimate prepared.

<sup>4</sup> Negligible saving.

<sup>5</sup> Cost actuarially negligible.

<sup>6</sup> Relates to a payroll of \$4,700,000,000 a year with a \$450 monthly limit on creditable compensation.

<sup>7</sup> Relatively small.

<sup>8</sup> No cost effect.

<sup>9</sup> No effect on costs.

<sup>10</sup> Negligible savings.

Mr. HABERMAYER. I would like to highlight the situations included in this legislation. As you know, in September 1961 the President of the United States called attention to the financial difficulties of both the railroad retirement and the railroad unemployment insurance funds and asked that something be done to correct the situation. With that in mind we went to work and finally produced this bill, H.R. 8100,

which is by and large supported by all concerned with the program. We have three general problems.

One, the railroad retirement system is operating at a deficiency of 1.79 percent of taxable payroll or expressed in terms of dollars, \$77 million a year. The unemployment insurance system has been operating at an actual deficiency and because of exhaustion of funds we have had to borrow in accordance with authority granted by the Congress about \$300 million from the railroad retirement account in order to support the benefit program under the Unemployment Insurance Act.

The CHAIRMAN. Over what period of time?

Mr. HABERMAYER. Since fiscal 1959-60. We are also limited by law to the amount of moneys that we can use to administer the unemployment insurance program. Under the present law we are limited to using two-tenths of 1 percent of taxable payroll. With the employment in the railroad industry declining, and with the unemployment program consequently expanding, we do not have sufficient funds with which to operate the railroad unemployment insurance system. Without an accumulation of a \$6 million fund as provided by the law that we could carry over, we would not have been able to operate to the present time. Within the next few months we will run out of funds to administer that program. H.R. 8100 substantially corrects all three of these situations. With respect to the retirement program, we are going to get additional revenue by increasing the taxable payroll from \$400 a month to \$450 a month. We are also going to receive a more reasonable interest rate on our reserve funds from the Treasury Department. They will compute interest on a new formula which will give our funds the approximate average yield the Treasury is having to pay on a current basis for the moneys that they borrow, and will raise our interest rate from around 3 percent that we have at the present time to the current rate which is about  $3\frac{7}{8}$  and 4 percent.

The CHAIRMAN. Is that the provision that the Bureau of the Budget raises a question about?

Mr. HABERMAYER. Yes, that is a point that the Bureau of the Budget raised a question on. Not on the formula, but this bill provides that the moneys we now have to be invested which amount to about \$3.2 billion would be rolled into these higher interest obligations immediately. The Bureau of the Budget would like to spread it over a number of years. Then this bill also resolves the problem that we have with the Bureau of the Budget with respect to payment to the railroad retirement account of certain moneys for military service credits.

The Government owes our account now in the neighborhood of \$160 million, and this legislation reflects an agreement between the board and the Bureau of the Budget for us to receive the money. Those provisions will reduce the deficiency in the railroad retirement system from \$77 million a year to about \$16 million a year, and expressed in terms of taxable payroll to about 0.34 percent from 1.79 percent a year. In the actuary's view this is within the actuarial tolerance limit and would put us back on a reasonably sound basis under that system. With respect to the unemployment insurance system we get additional revenues by increasing the permanent maximum contribution rate from  $3\frac{3}{4}$  percent to a permanent 4 percent. This would provide about \$10.8 million additional funds for the system. There

are some restrictive measures introduced into this legislation. One would increase the qualifying provision for a man to draw benefits whereby he would have to have earned \$750 in the base year instead of \$500 as it is now provided in the law.

Also, if he is a new entrant into the railroad industry, coming into the industry for the first time, he will have to earn that \$750 in the base year and have to work in at least 7 months in that year. That restriction will benefit the fund by about \$6 million a year. In addition, a man who quits work without good cause would be denied benefits under our system until he returns to the railroad industry and earns \$750.

If he quits work and it is determined that it was with good cause, he would be required first to use any State unemployment benefits to which he might be entitled before being entitled to benefits under our system. If he was not entitled to State benefits he would come under our system immediately.

The CHAIRMAN. He would or wouldn't?

Mr. HABERMAYER. He would. Those provisions will save the fund about \$3½ million, so that together we will improve the situation in the unemployment insurance account about \$20.3 million a year.

Mr. YOUNGER. Under what conditions would he come within the State?

Mr. HABERMAYER. He would be entitled to State benefits if he had earned enough credits under the State system to make him entitled to State benefits.

Mr. YOUNGER. Before he became an employee of the railroad?

Mr. HABERMAYER. He might have done it at the same time he was an employee of the railroads. He might be moonlighting. We would ask him to use the State credits rather than the railroad unemployment credits. These provisions would put the unemployment insurance system into a position where we are sure we would be able to pay all benefits, administrative costs, and interest to the retirement fund and in the near future start making small payments on the moneys already borrowed from the railroad retirement system. In correcting the third item that I mentioned, it allows the Board to use 0.25 percent of the taxable payroll under the Unemployment Insurance Act for administrative purposes. This in our opinion will allow us sufficient funds to operate the system.

So that H.R. 8100 substantially takes care of all of the deficiencies that we are now facing in the railroad retirement system, and speaking on behalf of the other two members of the Board, I urge the committee to give us favorable consideration.

The CHAIRMAN. Thank you, Mr. Habermayer.

Mr. YOUNGER. Are you paying interest on the \$300 million?

Mr. HABERMAYER. Yes, sir. We will pay the same interest on the moneys we borrowed for the unemployment insurance as the Treasury will pay us on the moneys they borrowed.

Mr. YOUNGER. Thank you.

The CHAIRMAN. Thank you very much.

Mr. George M. Harrison, chief executive, Brotherhood of Railway Clerks. Mr. Harrison, it is good to see you and we welcome you to the committee.

**STATEMENT OF GEORGE M. HARRISON, CHIEF EXECUTIVE,  
BROTHERHOOD OF RAILWAY CLERKS**

Mr. HARRISON. Honorable chairman and members of the committee, I appreciate this opportunity to appear here this morning before this committee in support of H.R. 8100. I shall not make any extended statement. I do want to say, however, that H.R. 8100, is the result of the agreement reached between the railroad associations representing substantially all the railroad corporations of the country, and the labor unions represented through the Railway Labor Executives Association.

I have filed a formal statement with the clerk of the committee.

The CHAIRMAN. Let it be included in the record at this point.

(The statement referred to follows:)

**STATEMENT OF GEORGE M. HARRISON ON BEHALF OF THE 24 STANDARD RAILWAY LABOR ORGANIZATIONS REPRESENTING SUBSTANTIALLY ALL RAILROAD EMPLOYEES IN THE UNITED STATES**

My name is George M. Harrison. I am chief executive officer of the Brotherhood of Railway & Steamship Clerks, Freight Handlers, Express & Station Employees, with offices at 1015 Vine Street, Cincinnati, Ohio. I am, and have been for many years, chairman of the Railroad Retirement and Railroad Unemployment Insurance Committee of the Railway Labor Executives' Association. I appear here as spokesman for that association, representing the 24 standard railway labor organizations whose chief executives are members of the association. These organizations have in membership substantially all railroad employees in the United States.

The organizations represented here through Railway Labor Executives' Association are:

- American Railway Supervisors' Association.
- American Train Dispatchers' Association.
- Brotherhood of Locomotive Engineers.
- Brotherhood of Locomotive Firemen & Enginemen.
- Brotherhood of Maintenance of Way Employees.
- Brotherhood of Railroad Signalmen.
- Brotherhood of Railroad Trainmen.
- Brotherhood Railway Carmen of America.
- Brotherhood of Railway & Steamship Clerks, Freight Handlers, Express & Station Employees.
- Brotherhood of Sleeping Car Porters.
- Hotel & Restaurant Employees & Bartenders International Union.
- International Association of Machinists.
- International Brotherhood of Boilermakers, Iron Ship Builders, Blacksmiths, Forgers & Helpers.
- International Brotherhood of Electrical Workers.
- International Brotherhood of Firemen & Oilers.
- International Organization Masters, Mates & Pilots of America.
- National Marine Engineers' Beneficial Association.
- Order of Railway Conductors & Brakemen.
- Railroad Yardmasters of America.
- Railway Employees' Department, AFL-CIO.
- Sheet Metal Workers' International Association.
- Seafarers' International Union.
- Switchmen's Union of North America.
- The Order of Railroad Telegraphers.

The Railway Labor Executives' Association sponsored the first railroad retirement legislation, which was enacted in 1934, and again sponsored the legislation enacted in 1935.

Thereafter our association negotiated the agreement with the Association of American Railroads which resulted in the joint proposal of the 1937 legislation. That legislation, as amended, established the railroad retirement system as it is now in effect.

Virtually all amendments to that legislation that have been adopted since that time have been proposed by and met with the approval of the Railway Labor Executives' Association. The association also sponsored the Railroad Unemployment Insurance Act, and the amendments that have been made thereto from time to time.

The committee on railroad retirement and unemployment insurance of the association devotes constant attention to matters pertaining to the functioning of the railroad retirement and unemployment insurance systems. From time to time that committee has recommended to the association that there are certain maladjustments in the systems which require the proposal of amendatory legislation. After discussion within the association, suitable legislation has been proposed and usually enacted.

Whenever our association has deemed it desirable to recommend to Congress legislation amendatory of the Railroad Retirement or Unemployment Insurance Acts, it has been our policy first to determine whether agreement could be reached with the representatives of railroad managements on recommendations to be made jointly by labor and management to the Congress. On numbers of occasions, going back to the establishment of the present railroad retirement system in 1937, it has been found possible to reach such agreement and joint recommendations have been made. On other occasions it was found after discussion and negotiation that agreement was not possible, and sometimes, the divergence of interest between employers and employees was so obvious as not to warrant any hope of agreement. When agreement was not possible, the representatives of labor and management have made their separate and generally sharply conflicting recommendations. But whenever the representatives of the employees and the employees have been able to agree on joint recommendations, Congress has always found them to be also in the public interest and has enacted them into law.

The bill H.R. 8100, in support of which I appear here, had its origin in our concern over inadequacy of financing of both the railroad retirement and unemployment insurance systems. We believe that the situation with which we were concerned would be of like concern to the railroads. We found this to be so. After discussion with the representatives of management, it was found that agreement could be reached on joint recommendations. Those joint recommendations are set forth in the joint statement in the letter to you, Mr. Chairman, from the Railway Labor Executives' Association, the Association of American Railroads, and the American Short Line Association, and are contained in H.R. 8100. This bill is recommended to you and its prompt enactment is urged upon you unanimously by the railroad industry. The joint letter to which I have referred sets forth the reasons for our recommendations in some detail and I will therefore summarize them only briefly in this statement.

The retirement system has an actuarial deficit of \$77 million a year, or 1.79 percent of taxable payroll; and the unemployment system has an actual accounting deficit of more than \$300 million. The effect of this bill would be to reduce the actuarial deficiency in the railroad retirement system to well within the range of actuarial tolerance, to eliminate soon the need for further borrowing by the unemployment insurance system from the railroad retirement system, and to permit gradual repayment of the existing loans.

It has always been the policy of our association to maintain the two systems on a sound financial basis. Accordingly, we have been giving very serious attention for some time to formulating the legislative proposals best suitable to restoring the two systems to a reasonably sound financial basis. Our concern about the inadequate financing of the two systems is shared by the President of the United States, who, in September 1961, almost 2 years ago, requested the Railroad Retirement Board to develop a program which would remove the existing deficits in the two systems. I am glad to say that the bill H.R. 8100 will achieve what the President requested.

#### INCREASE IN MAXIMUM TAXABLE AND CREDITABLE MONTHLY COMPENSATION FOR THE RAILROAD RETIREMENT SYSTEM

This bill does not propose any increase in the existing tax rates for the railroad retirement system, which are now  $7\frac{1}{4}$  percent of payroll up to \$400 a month on employers and employees. The additional tax revenue which this bill would provide would come from the increase in the present maximum taxable monthly compensation from \$400 to \$450 a month. An employee whose monthly compensation does not exceed \$400 will not be affected by this proposal. Where the

monthly compensation is over \$400, however, the employee will be required to pay the prevailing tax rate on compensation up to \$450 a month. Correspondingly, such an employee will be credited with this additional compensation in the computation of his annuity and in the computation of survivor benefits. We have a deficit in financing now, in part, because the taxes collected are not enough to pay for present benefits; hence, the increased tax collections must go in substantial part to paying for presently provided benefits, while nevertheless giving appropriate recognition in the form of higher benefits for those who are required to pay the additional taxes. Under section 5 of the bill the compensation limit increase will result in additional compensation to be taken into account in computing the residual lump sum benefit provided in section 5(f) (2) of the act, which assures that total benefits paid an individual or his survivors will never be less than the total taxes he has paid, plus an allowance for interest.

This extension of the maximum monthly compensation limit would increase annual revenue to the system on a level basis by \$71 million, and increase benefit costs by \$40 million. The increase in the compensation limit will thus produce more in benefits to employees (costing \$40 million) than the \$35.5 million (one-half of \$71 million) added taxes they would pay.

It is estimated that one-fourth of the employees will not have to pay any additional amounts and the remaining three-fourths will pay amounts ranging from a few cents per month to \$4.56 a month when the highest scheduled tax rate of 9½ percent goes into effect in 1968. Under the tax rate now in effect the maximum monthly increase would be \$3.63. In return for these added taxes, 1 year of work under the higher base at the full maximum taxable and creditable compensation will add 83½ cents to the monthly annuity amount of an employee. The increase can add only \$54.75 to an employee's annual taxes at the highest scheduled rate of 9½ percent which would go into effect in 1968. Under the rate now in effect of 7¼ percent there can be added only \$43.50 a year. Thus, in the case of a man who works under the higher limit only 1 year, the approximate yearly increase in his annuity of \$10 because of that year will, over a period of about 13 years, which is the average life expectancy of a man of 65, add about \$130 to his total annuity payments. The compensation limit increase will therefore be to the advantage of the average employee, and at the same time will reduce the deficit in the railroad retirement system by \$31 million a year.

#### MILITARY SERVICE CREDITS

When military service in an emergency period interrupts railroad service, it is creditable toward annuities under the Railroad Retirement Act. The Government is now obligated to pay for creditable military service rendered after 1936 the total taxes that would have been paid if the employee had earned \$160 in railroad service for each month of such military service, except that with respect to military service rendered after 1956, the amount due is reduced by the amount of taxes paid thereon for social security purposes. The bill would substitute an actual cost basis for reimbursing the railroad retirement account for crediting military service rendered after June 1963, similar to the provisions of present law for payments as to military service rendered before 1937. In computing the actual cost of crediting military service after June 1963, however, there would be added to the increases in benefit payments directly resulting from the crediting of such service a factor to cover a proportionate share of the administrative expenses and the interest charge on the unfunded liability of the system.

Because of these amendments, the Bureau of the Budget would no longer object to appropriations by the Congress of amounts totaling about \$160 million which the Government now owes to the railroad retirement system for past military service credits. The payment into the railroad retirement account of this \$160 million will result in a net income to the account of \$5 million a year.

#### INTEREST RATES

Under the present law, the interest yield on the special obligations issued for the railroad retirement account is 3 percent. Yet, since about 1956, the Treasury has paid more than 3 percent on funds it has borrowed through medium- and long-term general obligations. To remedy in part this inequity to the railroad retirement account, the bill provides for the immediate conversion of the present 3-percent special obligations into special obligations with interest rates determined from the average market yield on the outstanding marketable Treasury

obligations having an unexpired maturity of 3 or more years. The interest rate on future investments will be determined in the same way. If this method of determination were in effect the interest on such special obligations issued now would be about 3 $\frac{7}{8}$  percent. The bill would retain the present 3-percent rate as a minimum guarantee.

The added income to the railroad retirement account from this provision alone would be \$25 million a year.

#### NET EFFECT OF THE AMENDMENTS

The combined effect of the three changes would be a reduction of the \$77 million deficit by \$61 million (\$31 million from the increase in the compensation limit, \$5 million from the appropriations for military service credits, and \$25 million from the change in the interest rate provisions) to \$16 million a year on a level basis. Expressed in percentages, the reduction would be from 1.79 percent of the \$4.3 billion estimated taxable payroll under the present \$400 monthly compensation limit to 0.34 percent of the \$4.7 billion estimated taxable payroll under the new \$450 monthly compensation limit.

#### THE 3-PERCENT MINIMUM GUARANTEE

There is general agreement that there is no substantial likelihood currently foreseeable of the average market yield of Government obligations having an unexpired maturity of 3 or more years falling below 3 percent, so that the 3-percent guarantee provided in the bill involves little or no risk to the Government. But its importance to the railroad retirement system is quite clear. The Railroad Retirement Board must take into account the possibility of some distant future drop below 3 percent in the average market yield. Consequently, the interest rate that would be used by the Board in cost estimates under the guarantee would be 0.05 percent more than would be used without it. The 3-percent floor on the rate has been in effect since the beginning of the railroad retirement system in 1937, when the prevailing yield on Government obligations was below 3 percent. The adoption of the 3-percent rate as early as 1937 at a time when the prevailing yields on Government obligations were lower than that is evidence of the congressional policy to aid the railroad retirement system to this extent. Through the years 1937-40, the railroad retirement system reduced considerably the cost of the Government's relief program by paying in benefits to railroad employees \$282 million more than was paid by the social security system. The mere fact that the Congress would now provide the special obligations in the railroad retirement account with the same formula for earning interest rates as it has provided for other trust funds, is no reason for nullifying the longstanding congressional policy of providing a 3-percent floor on the interest to be earned by the special obligations in the railroad retirement account.

#### IMMEDIATE CONVERSION

For several years the obligations newly issued to the social security and civil service retirement funds have earned interest at rates equal to the average market yield on obligations which are not due or callable for 4 years. The 4-year maturity tends to produce higher interest rates than the provision in the bill as to maturities of 3 or more years, which gives an advantage to the other funds. Moreover, for the past 7 or 8 years the Federal Government has gained at the expense of the railroad retirement system from paying only 3 percent on the special obligations in the railroad retirement account when it paid more than that on funds borrowed through general obligations. The immediate conversion would warrant actuarial computations being made on a long-range projected interest rate 0.07 percent higher than would be used if conversion were deferred. This together with the 0.05-percent increase in the projected rate resulting from the retention of the 3-percent floor would warrant the use of a 3.43-percent rate as against 3.31 percent without the 3-percent guarantee and the immediate conversion. This higher rate would reduce the deficit by another \$8 million, and would leave a remaining deficit of only \$16 million or 0.34 percent of payroll, as against \$24 million or 0.51 percent of payroll if, as, I understand, has been proposed, the 3-percent minimum guarantee and the immediate conversion provisions were eliminated. While both these amounts are within the limits of actuarial tolerance applicable in judging the soundness of the railroad retirement system, the proposal to eliminate these two provisions would leave a deficit

about 50 percent greater than would the bill. I believe that, with complete justice and equity to the Government as the borrower of our reserves, the additional margin of safety provided by the bill can and should be enacted.

AMENDMENTS TO THE RAILROAD UNEMPLOYMENT INSURANCE ACT

*No increase in monthly compensation limit—Increase in maximum contribution rate*

While the maximum monthly compensation limit would be increased from \$400 to \$450 for the railroad retirement system, there would be no increase in the compensation limit for the railroad unemployment insurance system. The maximum contribution rate, however, would be increased from the present 3¼ percent to 4 percent applicable with respect to compensation paid for services rendered after 1963. Contributions are, of course, paid only by employers. The increase in the maximum rate to 4 percent would, it is estimated, produce about \$10.8 million a year more in contributions.

*Base year qualifying conditions*

The amount of compensation in a base year now required to qualify an employee for benefits in the next ensuing benefit year is \$500. The bill would increase this amount to \$750. In addition, an individual who is a new entrant into the railroad industry, would qualify only if he was paid compensation with respect to not less than 7 months in the base year.

These amendments would be fully effective for all base years after 1963. With respect to base year 1963, the amendments would be applicable only in cases in which the Board finds that the employee had less than \$500 compensation in that portion of the base year 1963 which precedes the first day of the month next following the month of enactment.

It is estimated that these amendments will result in a saving to the system of \$6 million a year in benefit costs.

*Disqualification for leaving work voluntarily*

Under present law, an individual who leaves work voluntarily is not considered as having days of unemployment with respect to any of the first 30 days after his leaving if the Board finds that he left work voluntarily without good cause. The bill would change this to provide that an individual who leaves work voluntarily without good cause shall not be considered as having days of unemployment for a period beginning with the day he so left and continuing until he has been paid compensation of not less than \$750 with respect to time after the beginning of such period. With respect to days of unemployment after he has had such compensation his rights to unemployment benefits would be the same as if he had not been disqualified. In cases in which the Board finds that the employee left work voluntarily with good cause the disqualification would apply only for days in a registration period which includes a day for which he could receive unemployment benefits under a law other than the Railroad Unemployment Insurance Act. This would ordinarily require such an employee to exhaust rights to State unemployment benefits before he could receive benefits for days of unemployment under the Railroad Unemployment Insurance Act.

It is estimated that this amendment would save the system \$3.5 million a year in benefit costs. Thus, the three changes together would improve the financial condition of the system by \$20.3 million (\$10.8 million, \$6 million, and \$3.5 million) a year. This, it is estimated, would enable the system soon to pay all benefits without further borrowing from the railroad retirement account and leave enough to liquidate gradually the existing indebtedness of the system to the railroad retirement account.

Our joining in recommendations to increase the minimum qualifying employment as a basis for benefits and to extend the disqualification for voluntarily leaving employment must not be regarded as any modification of our long-established and firm conviction that wage earners who are available for work but to whom suitable work is not available should be protected by unemployment insurance regardless of the events that may have preceded their arrival at that predicament. There are involved here, however, considerations as to the equitable allocation of the responsibility for providing that protection between the railroad industry and employers covered by the Federal-State system applicable to other industries. We have joined in these recommendations through the necessity of recognizing that some savings in benefits payments must be made

to avoid an immediate increase in contribution rates above the 4 percent that the railroads have agreed to. Because of the insufficiency of benefits available under the Federal-State system, employers in other major industries have had to agree to general supplemental unemployment benefits which in combination with the cost of statutory benefits exceed the contributions railroad employers are required to make to the railroad unemployment insurance account. But we have taken into consideration the fact that the railroad industry is the only one in which all employers will be required by law to pay as much as 4 percent on wages up to \$400 per month. It is our expectation that the recommended amendments to the Railroad Unemployment Insurance Act will not result in any diminution of the overall unemployment insurance protection available to workers within or outside of the railroad industry.

#### OTHER AMENDMENTS TO THE RAILROAD UNEMPLOYMENT INSURANCE ACT

##### *New interest rate on funds borrowed from the railroad retirement account*

In order to avoid any losses to the railroad retirement account from the loans to the unemployment insurance system, the bill provides that the interest rate on such loans should continue to correspond generally to the interest rates on the obligations held by the account.

##### *The railroad unemployment insurance administration fund*

Funds for administrative expenses of the railroad unemployment insurance system are now provided from an allocation from the contributions collected of an amount equal to 0.2 percent of the taxable payroll. This allocation has proven to be insufficient and the bill would increase it to 0.25 percent, effective as to all contributions collected after 1961.

#### URGENT NEED FOR ACTION

I wish to emphasize very strongly the need for immediate action on this bill. There can be little disagreement that the deficits in the two systems cannot be allowed to continue. The longer they continue the more serious would be the measures required in the future to place the systems in financially sound condition. I sincerely hope that you will make a prompt and favorable report on the bill in order that the much needed legislation to place the two systems in a reasonably sound financial condition can be enacted into law in this session of the Congress.

Mr. Chairman and members of the committee, I thank you very much for the attention you have given me.

Mr. HARRISON. We have here, as the chairman has stated, a unanimous agreement between the employers and the employees and the Railroad Retirement Board that generally reflects the wishes of the President of the United States to find a solution for the financial difficulties of the railroad retirement and unemployment insurance funds. I hope the committee will accept this unanimous agreement reached among all parties at interest and give us favorable consideration of the bill so we may get it enacted at this session of the Congress.

I am available for any question that any of the committee members may wish to ask, and I again express my appreciation for this opportunity to appear in support of this bill.

The CHAIRMAN. Mr. Harrison, thank you very much for your appearance here this morning and your statement, which has been included in the record, supplementing the information just given by Mr. Habermeyer of the Board. Since you represent the Railway Labor Executives Association, I think I would like to ask for a further statement. Included with the statement of Mr. Habermeyer is a list of the bills which have been introduced by various Members of the House and referred to this committee. The list gives the number of the bill and the sponsor, the principal provisions, the estimated additional cost, including the percent of taxable payroll, and dollars

per year. I know that it would be unfair for me to ask for you to try to analyze all of these proposals. But is it not true that the Railway Labor Executives Association takes into consideration these various bills that have been proposed and takes a position on them with reference to the advisability as well as the feasibility of their being included as amendments to the Railroad Retirement Act?

Mr. HARRISON. I would like to say in a general way, Mr. Chairman, I have been chairman of the Railway Labor Executives Association committee charged with the responsibility of looking after the operations of the railroad retirement and unemployment insurance system since the system was inaugurated in 1937. I have been before this committee on many occasions, as the chairman will recall. Consequently, the committee has kept up with the bills that have been introduced from time to time to amend the railroad retirement and/or unemployment insurance systems. While many of the bills proposed contain benefits that we would all like to see paid to railroad employees, those of us who are charged with the responsibility of maintaining the financial integrity of this system realize that many of the changes proposed in these bills cannot be made without providing additional finances.

We are of the opinion that with the present tax schedules in the present system that we should not at this time provide benefits that will bring about a further increase in the tax rate schedule, and for that reason we have not supported any of the bills that are now pending and which are included on the list, Mr. Chairman, that you just called to my attention.

The CHAIRMAN. I asked this question at this time for the benefit of all of us. We are importuned by our colleagues and by mail coming from people with honest and good intentions wanting more and more. We must assume responsibility along with you and your organization, as well as others involved, for protecting the integrity, as you have so well indicated, of this fund.

I raise this question at this time because we are going to be asked by our colleagues from time to time on the floor of the House in consideration of this, "Why don't you give full annuities at age 60 for 30 years of service?" As an example. Also, include the 5 consecutive years of highest earnings which so many would like to have. As an example that would cost the fund, I am told, about 3.6 percent of the payroll which would be a tremendous increase in the payroll tax of both the employees and the industry. I think we must be aware of this situation, and for that reason I asked the question at this point.

Mr. HARRISON. Yes. I would say, Mr. Chairman, to pinpoint the situation that our present condition is one of catching up because of factors that operated to bring about the present deficit in the fund. We think our primary responsibility is to maintain the financial integrity and soundness of the fund at this time. Perhaps as the situation improves and the economy expands, and the volume of employment goes up and other areas are improved, there may be an opportunity to make some improvements in our benefit system. But at the present time we are concerned to the point of overriding everything else with the financial integrity and we want to solve that problem now. We appreciate the sympathetic consideration of the Members of the House that have introduced these other bills.

We would all like to have more benefits, but the realistic aspect of the problem is that we have to find the money to pay for them. At the present time we don't have the money to pay for them.

The CHAIRMAN. Are there any further questions? If not, thank you very much, Mr. Harrison.

Mr. HARRISON. Thank you very much, Mr. Chairman and members of the committee.

The CHAIRMAN. Mr. Daniel P. Loomis, president of the Association of American Railroads.

#### STATEMENT OF DANIEL P. LOOMIS, PRESIDENT, THE ASSOCIATION OF AMERICAN RAILROADS

Mr. LOOMIS. Mr. Chairman, I have filed a statement with the committee, which I would like to ask be incorporated in the record.

The CHAIRMAN. Let it be included in the record at this point.  
(The statement referred to follows:)

##### STATEMENT OF DANIEL P. LOOMIS, PRESIDENT, ASSOCIATION OF AMERICAN RAILROADS

My name is Daniel P. Loomis. I am president of the Association of American Railroads with headquarters in Washington, D.C. The Association of American Railroads is a voluntary, unincorporated association of railroads. Its membership is made up of railroads operating 94 percent of the total mileage of all railroads in the United States and having operating revenues of about 96 percent of the total operating revenues of all railroads in the United States.

My brief statement today on behalf of the association and its members is in support of H.R. 8100, a measure that would amend the railroad retirement and railroad unemployment insurance systems. In addition to having the support of the railroads represented by the association for which I speak, H.R. 8100 has the sponsorship of the American Short Line Railroad Association and also that of the standard railway labor organizations represented by the Railway Labor Executives' Association. The bill resulted from a series of conferences between representatives of the labor organizations and the railroads. During the course of those conferences, which lasted over a period of several months, many suggestions were made for changes in both the retirement and unemployment insurance systems and eventually a bill that had the approval of both labor and management was prepared and was sent on August 13, 1963, to Chairman Harris of your committee. Accompanying the bill was a letter spelling out in some detail the changes in the retirement and unemployment insurance systems contained in the draft bill and explaining the reasons for such suggested changes. The letter was signed by Mr. G. E. Leighty, chairman, Railway Labor Executives' Association, by Mr. D. L. Manion, president, the American Short Line Railroad Association, and by me as president of the Association of American Railroads. At this time I request that the August 13 letter addressed to Chairman Harris be made a part of this record. (Copy of letter attached.)

Subsequently, Chairman Harris had the "agreed bill" introduced. It is that bill, H.R. 8100, that is the subject of these hearings.

As I said previously, the August 13 letter spells out in rather complete detail the changes proposed by the "agreed bill." It is not my intention to go into any detail regarding the proposed amendments in the retirement and unemployment insurance systems. However, I shall refer briefly to the background of the proposed legislation and to those more important provisions.

According to the actuaries of the Railroad Retirement Board, the railroad retirement system is now running on a level cost basis at an actuarial deficit of about \$77 million a year or 1.79 percent of taxable payroll. In addition, the unemployment insurance system has for the past several years had to borrow funds from the railroad retirement account to meet obligations for the payment of unemployment and sickness benefits under the unemployment insurance system and that borrowed amount has now increased until the unemployment insurance system owes the retirement system something more than \$300 million. At the direction of the board of directors of the Association of American Rail-

roads, representatives of that association on several occasions met with representatives of the standard railway labor organizations in an effort to agree on legislation that would place both the retirement and unemployment systems in a solvent condition. Both sides finally reached agreement in July 1963, and thereafter a bill was prepared in line with the principles agreed upon and it is that bill that was sent to Chairman Harris on August 13, and it was that bill that became H.R. 8100.

The bill would reduce the railroad retirement system's actuarial deficit of \$77 million to \$16 million a year, a figure well within the limits of actuarial tolerance. This reduction in the actuarial deficit would be accomplished by making several changes in the present law. Slightly more than one-half of the reduction in the deficit would result from a change in the maximum creditable and taxable monthly compensation per employee from \$400 to \$450 a month. This increase in the taxable compensation base would bring about additional annual revenues of \$71 million. Of this amount, \$40 million a year would be spent in increased benefits by reason of the fact that the creditable compensation base would be increased. The net reduction in the deficit would therefore amount to \$31 million a year and this amount subtracted from the existing actuarial deficit of \$77 million would reduce that deficit to \$46 million. The bill would also change the method under which the Federal Government pays for that part of a railroad retirement benefit that is based on an employee's military service and would also establish a new investment policy as to the railroad retirement account, now amounting to some \$4 billion, in order that the interest on that amount would be substantially increased. The amendments of the railroad retirement system, other than the increase in the monthly compensation base from \$400 to \$450 a month, would provide additional revenues of \$30 million, thus dropping the actuarial deficit to \$16 million a year.

The proposed amendments to the railroad unemployment insurance system would place that system in a position where it could pay those benefits provided for under that system, provide an adequate amount of money for administrative purposes, make unnecessary any further borrowing by the unemployment insurance system from the retirement system, and permit the gradual repayment of the amount already borrowed from the retirement system by the unemployment insurance system. The improvement in the financial position of the railroad unemployment insurance system would be accomplished in two ways. The bill would provide additional tax revenues of \$10.8 million and would also provide \$9.5 million in savings resulting from a decrease in benefit payments. The additional revenue plus the savings would therefore improve the unemployment insurance system by over \$20 million a year. The present permanent maximum tax rate assessed against employers under the unemployment insurance system is 3¾ percent applied to compensation of up to \$400 a month per employee. At the present time the maximum tax rate is 4 percent. That rate however is only a temporary rate and is due to terminate at the end of 1963. H.R. 8100 would make the 4 percent rate a permanent maximum contribution rate. This is the tax change that would provide the additional \$10.8 million a year in revenues. The savings of \$9.5 million to the railroad unemployment insurance system provided in the bill would be brought about by changing the amount of money a person needs to earn to qualify for benefits, by requiring a new entrant to work in 7 different months in his first calendar year of employment before he can qualify and by changing those provisions of the present statute under which a person who voluntarily leaves his work becomes entitled to benefits. At the present time one needs to earn \$500 in his base year in order to qualify for benefits in his benefit year. The bill would require him to earn \$750 in his base year in order to qualify. In addition a new entrant in railroad work—that is, a person who enters railroad work for the first time—would have to earn compensation in at least 7 different months in his first calendar year of work in order to qualify for benefits. H.R. 8100 would also provide that any individual who voluntarily leaves his work without good cause will, in order to qualify for unemployment benefits, have to return to work covered by the railroad unemployment insurance system and earn \$750. Further, an individual who leaves his work with good cause will not be entitled to benefits under the railroad system if, at the time he makes application for such benefits, he is qualified for unemployment compensation under a law other than the railroad law. Under the present law one who leaves his railroad work without good cause—for example, one who simply quits because he doesn't care to work—needs only to wait for 30 days after he quits and then he can turn to the railroad unemployment insurance system for unemployment benefits.

As I have said, one of the provisions in the agreed bill would require such a person to obtain a job covered by the railroad unemployment insurance system and earn \$750 before he could qualify for unemployment benefits. Under the present law a person who quits with good cause can immediately apply for railroad benefits. There are occasions on which such a person obtains other work and subsequently becomes unemployed. This may be many months after he has left his railroad job. Under the present law he can turn to the railroad system for unemployment benefits. Under the bill one who voluntarily quits with good cause can still turn to the railroad system for unemployment benefits but only if he is not entitled to benefits under some other compensation statute. The effect of these amendments, that would provide savings to the unemployment insurance account, would be to require more realistic qualifying requirements in order for one to be entitled to benefits under the Unemployment Insurance Act and to limit to some extent the right of those who voluntarily leave railroad work to obtain benefits under that system if they are unemployed.

I think it is clear that H.R. 8100 sets forth improvements in the financing of both the railroad retirement and unemployment insurance systems. It is equally clear that the bill H.R. 8100 which has the unqualified support of the labor organizations and the railroads, will provide those needed improvements, and I recommend that your committee favorably report the measure in order that it may be passed by the Congress and therefore bring both of the railroad systems into a position of solvency.

A BILL To amend the Railroad Retirement Act of 1937, the Railroad Retirement Tax Act, the Railroad Unemployment Insurance Act, and the Temporary Extended Railroad Unemployment Insurance Benefits Act of 1961 to increase the creditable and taxable compensation, and for other purposes

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

#### TITLE I—AMENDMENTS TO THE RAILROAD RETIREMENT ACT OF 1937

SECTION 1. Section 3(a) of the Railroad Retirement Act of 1937 is amended by striking "\$250" and inserting in lieu thereof "\$300".

Sec. 2. Section 3(c) of the Railroad Retirement Act of 1937 is amended by inserting in the second sentence thereof, before the phrase ", shall be recognized" the following: "and before the calendar month next following the month in which this Act was amended in 1963, or in excess of \$450 for any month after the month in which this Act was so amended".

Sec. 3. Section 4(k) of the Railroad Retirement Act of 1937 is amended by striking "by the individual who rendered such military service", and by striking "six months" and inserting in lieu thereof "twelve months".

Sec. 4. Section 4(n) of the Railroad Retirement Act of 1937 is amended—

(1) by inserting after "January 1, 1937," wherever it appears in that section the following: "and after June 30, 1963,";

(2) by striking in the first sentence thereof "after December 1956" and inserting in lieu thereof "after December 31, 1956, and before July 1, 1963,";

(3) by striking the second, third, and fourth sentences thereof and substituting therefor the following: "The additional cost of crediting military service rendered prior to January 1, 1937, and after June 30, 1963, shall be determined as follows: (i) determine the difference between the actuarial value of the benefit payable under this Act based in part on military service and the actuarial value of the benefit which would be payable to the same individual without regard to military service; (ii) with respect to military service rendered after June 30, 1963, adjust such difference by applying thereto the ratio of the total net level cost of all benefits under this Act to the portion thereof remaining after the exclusion of administrative expenses and interest charges on the unfunded accrued liability after taking into account the effects of section 5(k)(2); (iii) subtract the actuarial value of such benefit based on the individual's military service as is includible in determinations made pursuant to section 5(k)(2). In calculating these actuarial values, the Board shall use such mortality tables and actuarial factors as it finds appropriate; the ratio referred to in part (ii) of the preceding sentence shall be determined from time to time by the Board on the basis of actuarial estimates made in accordance with section 15; and all actuarial values shall be calculated as of the date on which the benefit

based on military service begins to accrue and shall not thereafter be subject to change. All actuarial calculations in this subsection shall take into account interest at the rate used in the actuarial estimates referred to in the preceding sentence.”;

(4) by striking from the seventh sentence thereof all but the period after the word “thereon”;

(5) by changing the eighth sentence thereof to read as follows: “In determining pursuant to section 5(k) (2) for any fiscal year the total amount to be credited from the Railroad Retirement Account to the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund, credit shall be given such Account for the amount of the taxes described in clause (3) (B) of the first sentence of this subsection and the amount of such taxes with respect to military service after June 30, 1963.”; and

(6) by inserting at the end of such subsection (n) the following: “The amount authorized to be appropriated to the Railroad Retirement Account pursuant to clause (2) of the first sentence of this subsection shall be reduced by the amounts credited to such Account pursuant to section 5(k) (2) for military service rendered before January 1, 1957, and the amounts so credited shall be considered as additional costs within the meaning of section 217(g) of the Social Security Act. In any determination made pursuant to section 5(k) (2), no further charges shall be made against the Trust Funds established by the Social Security Act for military service rendered before January 1, 1957, and with respect to which appropriations authorized by clause (2) of the first sentence of this subsection shall have been credited to the Railroad Retirement Account, but the additional benefit payments incurred by such Trust Funds by reason of such military service shall be taken into account in making any such determination.”

SEC. 5. Section 5(f) (2) of the Railroad Retirement Act of 1937 is amended by inserting after the phrase “so amended” in the parentheses the following: “and before the calendar month next following the month in which this Act was amended in 1963, and in excess of \$450 for any month after the month in which this Act was so amended”.

SEC. 6. Subparagraph (9) of section 5(1) of the Railroad Retirement Act of 1937 is amended by striking the word “and” where it appears the third time in such subparagraph, by inserting after the phrase “so amended” the following: “and before the calendar month next following the month in which this Act was amended in 1963, and any excess over \$450 for any calendar month after the month in which this Act was so amended”, and by striking “\$400” where this figure appears the second time in such subparagraph and inserting in lieu thereof “\$450”. Subparagraph (10) of section 5(1) of the Railroad Retirement Act of 1937 is amended by striking “\$400” where this figure appears in such subparagraph and inserting in lieu thereof “\$450”.

SEC. 7. (a) Section 15 of the Railroad Retirement Act of 1937 is amended by striking the third sentence from subsection (a) thereof. The said section is further amended by striking subsection (b) and inserting in lieu thereof the following:

“(b) At the request and direction of the Board, it shall be the duty of the Secretary of the Treasury to invest such portion of the amounts credited to the Account as, in the judgment of the Board, is not immediately required for the payment of annuities, pensions, and death benefits. Such investments may be made only in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States. For such purpose such obligations may be acquired—

“(1) on original issue at the issue price; or

“(2) by purchasing of outstanding obligations at the market price. The purposes for which obligations of the United States may be issued under the Second Liberty Bond Act, as amended, are hereby extended to authorize the issuance at par of special obligations exclusively to the Account. Such obligations issued for purchase by the Account shall have maturities fixed with due regard for the needs of the Account, and shall bear interest at a rate equal to the average market yield, computed as of the end of the calendar month next preceding the date of such issue, borne by all marketable interest-bearing obligations of the United States then forming a part of the public debt that are not due or callable until after the expiration of three years from the end of such calendar month, except that where such rate is

not a multiple of one-eighth of 1 per centum, the rate of interest on such obligations shall be the multiple of one-eighth of 1 per centum nearest such rate: *Provided*, That the rate of interest on such obligations shall in no case be less than 3 per centum per annum. The Secretary of the Treasury may purchase other interest-bearing obligations of the United States, or obligations guaranteed as to both principal and interest by the United States, on original issue or at the market price only if he determines that such purchases are in the public interest, provided that the investment yield of such obligations shall not be less than the interest rate determined in accordance with the preceding sentence. If it is in the interest of the Account so to do, the Secretary of the Treasury may sell and dispose of obligations in the Account and he may sell obligations acquired by the Account (other than special obligations issued exclusively to the Account) at the market price. Special obligations issued exclusively to the Account shall, at the request of the Board, be redeemed at par plus accrued interest. All amounts credited to the Account shall be available for all purposes of the Account."

(b) The Secretary of the Treasury is authorized to retire the special obligations held by the Account on the date of approval of this Act and to issue in lieu thereof special obligations with an interest rate determined as provided for in section 15 (b) of the Railroad Retirement Act as amended by this Act.

SEC. 8. EFFECTIVE DATES.—The provisions of sections 1, 2, 5, and 6 of this Act shall be effective with respect to annuities accruing and deaths occurring after the month in which this Act is approved. The provisions of section 3 shall be effective with respect to annuities awarded on or after the date of approval of this Act. The provisions of section 7 (a) shall be effective on the date of the approval of this Act.

#### TITLE II—AMENDMENTS TO THE RAILROAD RETIREMENT TAX ACT

SEC. 201. Sections 3201 and 3211 of the Railroad Retirement Tax Act are amended by inserting before the colon in each such section the following: "before the calendar month next following the month in which this provision was amended in 1963, and \$450 for any calendar month after the month in which this provision was so amended".

SEC. 202. Sections 3202 and 3221 of the Railroad Retirement Tax Act are amended by inserting after "\$400" wherever this figure appears in each such section the following: "before the calendar month next following the month in which this provision was amended in 1963, and \$450 for any calendar month after the month in which this provision was so amended,".

#### TITLE III—AMENDMENTS TO THE RAILROAD UNEMPLOYMENT INSURANCE ACT AND THE TEMPORARY EXTENDED RAILROAD UNEMPLOYMENT INSURANCE BENEFITS ACT OF 1961

SEC. 301. (a) Section 3 of the Railroad Unemployment Insurance Act is amended to read as follows:

"Sec. 3. An employee shall be a 'qualified employee' if the Board finds that his compensation will have been not less than \$750 with respect to the base year, and if such employee has had no compensation prior to such year, that he will have had compensation with respect to each of not less than seven months in such year."

(b) The amendments made by subsection (a) shall be fully effective with respect to base years after 1963. With respect to the base year 1963, they shall be applicable only to an employee concerning whom the Board finds that his compensation in that portion of the calendar year 1963 preceding the first day of the calendar month next following the month of enactment of this Act will have been less than \$500.

SEC. 302. (a) Section 4(a-2)(i) of the Railroad Unemployment Insurance Act is amended to read as follows:

"(i) (A) subject to the provisions of subdivision (B) hereof, any of the days in the period beginning with the day with respect to which the Board finds that he left work voluntarily, and continuing until he has been paid compensation of not less than \$750 with respect to time after the beginning of such period;

"(B) if the Board finds that he left work voluntarily with good cause, the provisions of subdivision (A) above shall not apply, with respect to

him, to any day in a registration period if such period does not include any day which is in a period for which he could receive benefits under an unemployment compensation law other than this Act, and he so certifies. Such certification shall, in the absence of evidence to the contrary, be accepted subject to the penalty provisions of section 9(a) of this Act."

(b) The amendments made by subsection (a) shall be effective with respect to an employee who leaves work voluntarily after the enactment date of this Act.

SEC. 303. (a) Effective with respect to compensation paid after December 31, 1963, section 8(a) of the Railroad Unemployment Insurance Act is amended by striking from the table thereof the figure "3 $\frac{3}{4}$ " and inserting in lieu thereof "4".

(b) Effective with respect to contributions collected by the Board pursuant to section 8(f) on compensation paid after December 31, 1963, that part of such contributions equal to one-fourth of 1 per centum of the compensation on which such contributions are based shall, notwithstanding the provisions of section 10(b) of the Railroad Unemployment Insurance Act, be applied by the Board exclusively for transfers from the railroad unemployment insurance account to the general fund of the Treasury until the full amount advanced from the general fund of the Treasury to the railroad unemployment insurance account pursuant to section 4 of the Temporary Extended Railroad Unemployment Insurance Benefits Act of 1961 has been repaid. The last sentence of section 4 of the Temporary Extended Railroad Unemployment Insurance Benefits Act of 1961 is hereby repealed effective with respect to contributions collected on compensation paid after December 31, 1963.

SEC. 304. Effective with respect to contributions collected by the Railroad Retirement Board after December 31, 1961, section 8(f) of the Railroad Unemployment Insurance Act is amended by striking "0.2 per centum" and inserting in lieu thereof "0.25 per centum".

SEC. 305. Effective after June 30, 1964, section 10(d) of the Railroad Unemployment Insurance Act is amended by striking "the rate of 3 per centum per annum" and inserting in lieu thereof "a rate for each fiscal year equal to the average rate of interest borne by all special obligations held by the railroad retirement account on the last day, of the preceding fiscal year, rounded to the nearest multiple of one-eighth of 1 per centum".

Mr. LOOMIS. Do I understand that the joint letter of August 13, addressed to the chairman, from the Railway Labor Executives' Association, and the Association of American Railroads, and the American Short Line Railroad Association, will also be a part of the record?

The CHAIRMAN. I don't believe I have it.

Mr. LOOMIS. It is attached to my statement which I have filed with the committee this morning.

The CHAIRMAN. I think I would like to have a copy of it and take it out of the context of your statement if you would permit and let it go into the record itself so it would probably be a little more pronounced in order to call attention to it, if it is all right with you.

Mr. LOOMIS. That would be perfectly satisfactory.

The CHAIRMAN. Let that be done, then.

(The letter referred to follows:)

WASHINGTON, D.C., August 13, 1963.

HON. OREN HARRIS,

*Chairman, Committee on Interstate and Foreign Commerce, Room 1334, Longworth House Office Building, Washington, D.C.*

DEAR MR. HARRIS: We, the Association of American Railroads (representing substantially all class I railroads in the United States), The American Short Lines Railroad Association (representing approximately 250 common carrier railroads), and the Railway Labor Executives' Association (representing substantially all railroad employees in the United States) have agreed on recommending to the Congress the enactment of a proposed bill, a draft of which is enclosed, to provide more adequate financing of the railroad retirement and the railroad unemployment insurance systems. We would appreciate an early

introduction of this bill and a prompt favorable report thereon in order to provide urgently needed improvements in the financing of the two systems, as shown below.

#### DEFICIT IN THE RAILROAD RETIREMENT SYSTEM

There is now an actuarial deficit in the railroad retirement system of about \$77 million a year or 1.79 percent of taxable payroll. This does not mean that there are not enough funds available for benefits currently payable under the act; it does mean that unless appropriate measures are taken to eliminate this deficit the some \$4 billion reserve in the account now would be exhausted in several decades, and thereafter funds would not be available for the payment of benefits. The bill would reduce this deficit to well within the range of actuarial tolerance; namely, to \$16 million a year or 0.34 percent of taxable payroll. This reduction would be accomplished (1) by increasing the taxable and creditable maximum monthly compensation from \$400 to \$450, (2) indirectly from certain changes in the military service provisions of the Railroad Retirement Act, and (3) by providing a new formula for interest rates on special obligations issued by the Treasury to the Railroad Retirement Account.

#### INCREASE IN MAXIMUM MONTHLY COMPENSATION

The bill would increase the limits on taxable and creditable compensation from \$400 to \$450 a month with respect to compensation paid for months after the month of enactment. This extension would increase annual revenue to the system on a level basis by \$71 million, and increase benefit costs by \$40 million a year, resulting in a net reduction in the deficit of \$31 million a year. It is estimated that one-fourth of the employees would pay nothing more since their monthly wages do not exceed \$400. Others would pay various amounts ranging from a low of a few cents a month up to a high of \$4.56 additional per month based on the tax rate of 9¼ percent to go into effect in 1968. Under the present rate of 7¼ percent the high will be \$3.63 per month where the compensation reaches the new monthly limit of \$450.

One-half of the \$71 million additional revenue will be paid by the employers and one-half by the employees. The employees' share will, of course, be \$35.5 million, but they will receive additional benefits costing \$40 million, or \$4.5 million more than they will have paid in additional taxes.

A year of work under the higher base at full compensation will add 83½ cents to the monthly annuity amount of an employee. The increase can add only \$54.75 to an employee's annual taxes at the highest scheduled rate of 9¼ percent which would go into effect in 1968. Under the rate now in effect of 7¼ percent there can be added only \$43.50 a year. Thus, in the case of a man who works under the higher limit only 1 year, the approximate yearly increase of \$10 in his annuity because of that year will, over a period of about 13 years, which is the life expectancy of a man at the retirement age of 65, add an average of about \$130 to his total annuity payments. The compensation limit increase will, therefore, be to the advantage of the average employee. This comes about obviously from the fact that the employer pays taxes equal to that of the employee. In any event, under section 5(f)(2) of the Railroad Retirement Act, a lump sum slightly in excess of the total taxes paid by an employee under the Railroad Retirement Tax Act, minus all benefits paid to him or to others on the basis of his service, is payable after his death to his designee or survivors. This is clear assurance against any loss of railroad retirement taxes paid by an employee.

To summarize, the increase in the monthly taxable and creditable compensation from \$400 to \$450 for the railroad retirement system will result in additional worthwhile benefits to employees, and will reduce the actuarial deficit in the system from \$77 million a year to \$46 million a year.

#### MILITARY SERVICE CREDITS

The Railroad Retirement Act provides for crediting toward annuities and lump-sum benefits all months of certain military service. With respect to such service rendered prior to 1937, the Federal Government reimburses the Railroad Retirement Account for that part of the cost of his annuity based on his military service. The amount of the Government's obligation in such case is neither determined nor paid before the benefit (on the basis of such military service) is awarded. The life expectancy of the person entitled to monthly

benefits based in part on military service and the amount of such benefits attributed to military service determine the amount to be paid by the Government. Such determination is not subject to change regardless of whether the individual dies before or after his assumed life expectancy.

With respect to military service rendered after 1936 and before 1957, the Federal Government reimburses the Railroad Retirement Account on a current tax basis, that is, the Government pays an amount equal to the employer and employee taxes (payable by covered employers and employees under the Railroad Retirement Tax Act) on \$160, the amount a railroad employee is deemed to earn in each month of creditable military service. With respect to creditable military service in this period, the Government owes the Railroad Retirement Account about \$160 million. Because of the Government's obligation to the social security system for the same military service, the Bureau of the Budget has opposed an appropriation of the amount owing the Railroad Retirement Account.

With respect to military service rendered in the period after 1956, the Government's obligation is also on a current tax basis, except that the amount owing the railroad retirement account is reduced by the amount payable to the social security system for the same military service.

In order to remove the objections of the Bureau of the Budget to appropriations to the railroad retirement account of amounts totaling about \$160 million due the account, this bill would amend section 4(n) of the Railroad Retirement Act. The amendment provides that with respect to military service rendered after June 30, 1963, the Government's obligation for the crediting of such service toward benefits under the Railroad Retirement Act would be on an additional cost basis, the same as with respect to military service rendered before 1937, except that with respect to military service rendered after June 30, 1963, the amount which the Government will have to pay into the railroad retirement account as additional cost (determined the same as with respect to military service rendered before 1937) will be increased by an amount sufficient to cover a proportionate share of the administrative expenses and the interest charges on the unfunded liability of the railroad retirement system. This additional amount would be computed from the ratio of the level costs of the system to the portion thereof remaining after the deduction of administrative expenses and interest charges on the unfunded liability as modified for the effects of the financial interchange with the social security system. On the basis of the last actuarial valuation, this additional amount would come to about 25 percent. Another amendment in the bill would remove all possibilities of duplicate payments by the Government to the railroad retirement system and the social security system for the same military service credits.

The Railroad Retirement Board, which administers the Railroad Retirement Act, has been assured by the Bureau of the Budget that upon the enactment of these amendments, the Bureau will no longer object to appropriations to the railroad retirement account of amounts totaling about \$160 million, with interest, due the railroad retirement account. This appropriation will result in an additional income to the railroad retirement account of \$5 million a year. This will reduce the deficit in the railroad retirement system of \$46 million a year left after the effect of the increase in the compensation limit (\$77 million minus \$31 million) to \$41 million a year.

#### INTEREST RATES

More than three-fourths of the funds in the railroad retirement account are now invested in special obligations of the Treasury which earn 3 percent interest. The bill would require that special obligations issued to the railroad retirement account bear an interest rate equal to the average investment yield of all marketable Treasury obligations having an unexpired maturity of 3 or more years. The bill would retain the present 3-percent rate as a minimum guarantee. This new formula would produce a rate at the present time of about 3½ percent. The bill would also require the Treasury to convert, upon enactment of the bill, the 3-percent special obligations now in the railroad retirement account into new special obligations with interest determined under the new formula.

This change in interest rates, including the retention of the 3-percent rate as a floor, and the immediate conversion of the present 3 percent special obligations into the new obligations, would add to the railroad retirement account

about \$25 million a year on a longrun basis. This will reduce the deficit in the railroad retirement system of \$41 million a year left after the effect of the increase in the compensation limit and the appropriation resulting from the revision of the military service provisions (\$77 million minus \$31 million minus \$5 million) to \$16 million a year, which is well within the limits of actuarial tolerance.

#### THE 3-PERCENT MINIMUM GUARANTEE

It is very important for the railroad retirement system that the present 3-percent rate be retained as a minimum guarantee. Section 15 of the Railroad Retirement Act requires the Railroad Retirement Board to make actuarial valuations of the railroad retirement system once every 3 years. Upon enactment of this bill, the Board would assume that the special Treasury obligations in the Railroad Retirement Account would earn interest at the rate of 3.43 percent a year on a level basis. If the 3-percent guarantee were eliminated from the bill, the Board would have to take into account the possibility that the average market yield would sometimes fall below 3 percent (even though this is very unlikely) and assume an interest rate of 3.38 instead of 3.43 percent. The congressional policy to aid the railroad retirement system to the extent of providing for it a 3-percent guarantee is evident from the fact that such guarantee has been in the act since the beginning of the system in 1937, when the prevailing investment yield on general Government obligations was well below 3 percent. The railroad system began paying monthly benefits from its inception, as contrasted with social security, which began paying only in 1940, and even then in very limited amounts. With a payroll only 6½ percent that of OASI in 1940, the railroad system paid nearly twice the benefits of OASI that year. For the 4 years 1937-40, inclusive, the railroad system paid \$282 million more than OASI in benefits. The Federal expenditures for relief, during those early years in particular, were less by many millions by virtue of the fact that the railroad industry, to the added burden both of the employees and carriers, paid high contributions to take care of its retired persons, many of whom would have otherwise been on relief. This was recognized by the Federal commitment in the Railroad Retirement Act, putting a 3-percent floor on the interest the Government would pay for the use of the railroad retirement reserve funds. This commitment should continue to be kept. Nothing has happened to warrant the assumption that this considered attitude of Congress toward the railroad retirement system has changed in this respect.

#### IMMEDIATE CONVERSION OF SPECIAL 3-PERCENT OBLIGATIONS INTO OBLIGATIONS WITH INTEREST RATES UNDER THE NEW FORMULA

It is equally important that the provision in the bill for the immediate conversion of the present 3-percent special obligations into the new special obligations bearing interest under the new formula be adopted. In the absence of such immediate conversion, the Board would have to assume an interest rate on the funds in the special obligations in the Railroad Retirement Account of 3.36 instead of 3.43 percent. Moreover, if, in addition, the 3-percent minimum guarantee were not adopted, the Board would have to assume an interest rate of 3.31 percent instead of 3.43; and this would result in a projected loss to the Railroad Retirement Account of \$8 million a year.

In view of the heavy burden on the taxpayers who support the railroad retirement system, as evidenced by their taxes being substantially greater than those assessed under the social security system, as well as the fact that legislation further increasing such railroad taxes is now needed, it seems only equitable that the railroad system discontinue as soon as possible what in effect amounts to a subsidy to the Federal Government resulting from the Government's using railroad retirement funds and paying less than the going rate of interest. Immediate conversion of the railroad retirement account is entirely appropriate.

The obligations, newly issued to the social security system, and the civil service retirement systems have, for several years, earned interest at rates equal to the average market yield on obligations which are not due or callable for 4 years. The provision in this bill as to maturities of 3 or more years, places the Railroad Retirement Account at a disadvantage in comparison to the two other funds, the interest rates of which are determined from obligations having 4 years to run. The retention of the 3-percent rate as a floor,

and the immediate conversion of the present special obligations in the Railroad Retirement Account, as provided in this bill, would have no adverse effect on the social security and the civil service systems. Special consideration should be given the railroad retirement system because the Railroad Retirement Account has lost, ever since 1956, to the same extent that the Government has gained from the fact that the Treasury paid no more than 3 percent on the special obligations in the Railroad Retirement Account, but had to pay more on funds borrowed through general obligations.

We submit that upon consideration of all the equities involved, the 3-percent guarantee and the immediate conversion provisions in the bill should be adopted.

#### SUMMARY OF TITLES I AND II OF THE BILL

(1) The additional income to the railroad retirement system from the change in the maximum creditable and taxable monthly compensation from \$400 to \$450, would amount to \$31 million a year.

(2) The income to the system from the resulting appropriations to the Railroad Retirement Account for military service, would be \$5 million a year.

(3) The new investment policy, including the 3-percent minimum guarantee and the immediate conversion of the present 3-percent special obligations into obligations earning interest under the new formula, would net the system \$25 million a year.

The result of the amendments provided in titles I and II of the bill would be that the \$77 million deficit in the railroad retirement system would be reduced by \$61 million (\$31 million plus \$5 million plus \$25 million) to \$16 million a year.

#### THE RAILROAD UNEMPLOYMENT INSURANCE SYSTEM

The benefits provided under the Railroad Unemployment Insurance Act are financed through contributions payable exclusively by employers. The current contribution rate is 4 percent on compensation up to \$400 a month per employee, consisting of 3¼ percent imposed by section 8 of the act and one-quarter percent imposed by the Temporary Extended Railroad Unemployment Insurance Benefits Act of 1961. This one-quarter percent, however, will not apply to compensation paid after December 31, 1963.

For the past several years, the railroad unemployment insurance account has had to borrow funds to meet the obligations of the Railroad Unemployment Insurance Act. This borrowing was pursuant to authority vested in the Railroad Retirement Board by Public Law 86-28, to borrow funds from the Railroad Retirement Account for the payment of benefits under the Railroad Unemployment Insurance Act. At the present time, the amount owing from the railroad unemployment insurance account to the Railroad Retirement Account is more than \$300 million.

In order to make it unnecessary for further borrowing of funds from the railroad retirement account, and to permit gradual repayment of the indebtedness to the account, the bill would increase the contribution rate from the maximum 3¼ to 4 percent of payroll up to \$400 a month per employee effective with respect to compensation paid after December 31, 1963. While the maximum taxable and creditable compensation base would be increased from \$400 to \$450 a month for the railroad retirement system, there would be no increase in the base for the railroad unemployment insurance system.

It is estimated that the increase in contribution rate from 3¼ to 4 percent would bring to the railroad unemployment insurance system additional revenues amounting to \$10.8 million a year.

The bill would amend section 3 of the Railroad Unemployment Insurance Act to increase from \$500 to \$750 the amount required to qualify for benefits under the act. In addition, a new entrant, in order to qualify, would have to have been paid "compensation" for not less than 7 months in the base year. These amendments would be fully effective with respect to base years after 1963. With respect to the base year 1963, they would be applicable only in cases in which the Board finds that the employee had less than \$500 compensation in that portion of the base year 1963 preceding the first day of the month next following the month of enactment. To illustrate:

(1) An employee's base year compensation (including pay for time lost) is the first compensation he ever had in the service of an employer under the act. In such case, beside earning the qualifying amount of at least \$750, he

must have some of his compensation paid with respect to not less than 7 separate months in the base year. If, however, the employee has had compensation at any time before the base year, he would not be a new entrant in that base year, and thus only the qualifying amount of \$750 would apply and it would be immaterial in how many months he earned compensation.

(2) Assume that the bill is enacted in August of 1963. If the employee had been paid such compensation of not less than \$500 in the period January 1 to August 31, 1963, he would qualify for benefits in the benefit year 1964-65 regardless of whether additional compensation was paid him and, if he was a new entrant, regardless of whether compensation was paid him with respect to not less than 7 months in 1963. But if as of August 31, he had compensation of less than \$500, he could not qualify in the 1964-65 benefit year unless during the 1963 base year he had at least \$750 of such compensation and, if he was a new entrant, he also had the compensation paid with respect to not less than 7 months in 1963.

It is estimated that these amendments would result in savings to the railroad unemployment insurance system of about \$6 million a year.

The bill would also amend section 4(a-2)(i) of the Railroad Unemployment Insurance Act to provide that an individual who voluntarily leaves his work without good cause shall not be considered as having days of unemployment for a period beginning with the day he so left and continuing until he has been paid "compensation" of not less than \$750 with respect to time after the beginning of such period. With respect to unemployment after he has had such compensation, the employee would be in exactly the same position in which he would have been if he had not been disqualified. For example, an individual left his work without good cause. He applied for benefits under the railroad system. Benefits would be denied unless after such leaving he had subsequent employment covered by the railroad system and was paid total compensation (including pay for time lost) of at least \$750 with respect to that employment.

The disqualification described in the preceding paragraph will not apply if the Railroad Retirement Board finds that the employee left work voluntarily with good cause, except that in such case, the employee would not be considered as having days of unemployment under the Railroad Unemployment Insurance Act with respect to any day in a registration period if such period includes a day which is in a period for which he could receive benefits under an unemployment law other than the Railroad Unemployment Insurance Act. This amendment would be effective with respect to an employee who leaves work voluntarily after the enactment date of the bill.

Under present law, an individual who leaves work voluntarily is not considered as having days of unemployment with respect to any of the first 30 days after he so quit if the Board finds that he left work voluntarily "without good cause." The amendment would completely disqualify such an individual from having a day of unemployment with respect to any day after he so left until he has been paid at least \$750 in compensation for services rendered, including time lost, after he so left. Moreover, even if the Board finds that he left work voluntarily "with good cause" he would not be considered as having a day of unemployment under the Railroad Unemployment Insurance Act with respect to any day after he so left without first exhausting his rights to unemployment benefits under any other unemployment law. To illustrate:

An employee left railroad work voluntarily "with good cause," and after working in employment covered under a State unemployment compensation law, he is laid off. Even though he was laid off from his nonrailroad job without fault on his part, he could not be considered as having a day of unemployment under the Railroad Unemployment Insurance Act with respect to any day after he so left without first exhausting whatever rights to benefits he may have under the State law whether on the basis of his last work or some other work covered under the State law. If, however, he left his last employment covered under the State law without good cause, he would be disqualified from having a day of unemployment under the Railroad Unemployment Insurance Act with respect to any day after he so left unless and until he has been paid compensation (including pay for time lost) of \$750.

Section 4(a-2)(1) as amended by the bill would broaden the scope of this section to lengthen the disqualification period. As amended, this section would require investigation of any claim disclosing a possible voluntary leaving of work either with or without good cause unless the disqualification period

had been terminated as above described. In cases of a finding that such leaving was for good cause, unless the claimant certifies that he lacks qualifying work to receive, or has exhausted, his rights to benefits under any other law and there is no evidence to the contrary, this matter would also require investigation. Consequently the findings, claim forms, and guidelines for administering this section, will require appropriate detailed revisions, in conformity with revised provisions of the section.

It is estimated that the amendment of section 4(a-2) (i), as above described would save the railroad unemployment insurance system \$3.5 million a year.

The additional revenues of \$10.8 million plus the \$9.5 million savings (\$6 million and \$3.5 million) would improve the railroad unemployment insurance system by \$20.3 million a year. This, it is estimated, would provide sufficient funds for current benefits under the act and some excess for gradual repayment of the indebtedness of the railroad unemployment insurance system to the railroad retirement account.

Section 10(d) of the Railroad Unemployment Insurance Act provides that the amounts borrowed from the railroad retirement account shall be repaid from the railroad unemployment insurance account with interest at the rate of 3 percent per annum. In view of the new formula for interest rates to be borne by the special obligations in the railroad retirement account, the bill would substitute for the 3-percent rate, the rates that would generally equal the rates borne by the new special obligations in the railroad retirement account. This amendment would be effective with respect to interest on amounts owing after June 30, 1964.

Section 8(f) of the Railroad Unemployment Insurance Act provides that such part of the contributions collected under the act as equals 0.2 percent of total compensation on which the contributions are based shall be deposited in the railroad unemployment insurance administration fund for administrative expenses. This has proved to be insufficient and the bill would change the 0.2 percent to a 0.25 percent effective as to all contributions collected by the Board after 1961.

#### AMENDMENTS TO THE TEMPORARY EXTENDED RAILROAD UNEMPLOYMENT INSURANCE BENEFITS ACT OF 1961

The last sentence of section 4 of the Temporary Extended Railroad Unemployment Insurance Benefits Act of 1961 provides for repayment to the Treasury of the amounts borrowed by the Board to finance the temporary benefits provided by this act. The bill would repeal this sentence effective with respect to contributions collected on compensation paid after December 31, 1963, and provide, instead, that such part of such contributions as equals one-fourth of 1 per centum of the compensation on which the contributions are based shall be applied by the Board exclusively for such repayment.

#### SUMMARY OF TITLE III OF THE BILL

(1) The additional income to the railroad unemployment insurance system from the increase in the maximum contribution rate payable by employers from 3½ to 4 percent of payroll up to \$400 a month, would amount to \$10.8 million.

(2) The savings to the system from the amendment of section 3 of the Railroad Unemployment Insurance Act would amount to \$6 million.

(3) The savings to the system from the amendment of section 4(a-2) (i) of the Railroad Unemployment Insurance Act would amount to \$3.5 million.

(4) The additional income to the railroad unemployment insurance administration fund from the amendment of section 8(f) of the Railroad Unemployment Insurance Act would be about \$2 million a year.

The expected results of the amendments provided in title III would be that no further borrowing of funds from the railroad retirement account would be necessary for the payment of benefits under the Railroad Unemployment Insurance Act, gradual repayment of the amount due the railroad retirement account from the railroad unemployment insurance system would be possible, and sufficient funds would be available for administrative expenses of the Railroad Unemployment Insurance Act.

It is essential that the amendments proposed by this bill be enacted in this session of Congress in order (1) to place the railroad retirement system in substantially sound financial condition, (2) to make unnecessary further borrowing from the railroad retirement account for the payment of benefits under

the Railroad Unemployment Insurance Act. (3) to permit a gradual repayment of the more than \$300 million indebtedness of the railroad unemployment insurance system to the railroad retirement account, and (4) to make available urgently needed funds for administration of the Railroad Unemployment Insurance Act.

Sincerely yours,

ASSOCIATION OF AMERICAN RAILROADS,  
D. P. LOOMIS,

*President.*

RAILWAY LABOR EXECUTIVES' ASSOCIATION,  
G. E. LEIGHTY,

*Chairman.*

THE AMERICAN SHORT LINE RAILROAD ASSOCIATION,  
D. L. MANION,

*President.*

Mr. LOOMIS. I do not think I need to take the committee's time to make any other comment, except to say that the committees representing the Association of American Railroads and the Railway Labor Executives Association started meeting on this problem late in March. Those meetings continued off and on until the latter part of July. Many avenues were explored. We had the actual and full cooperation and assistance of the Railroad Retirement Board and its staff, and late in July we reached agreement on principle and then got down to agreeing on the bill which was sent to the chairman and which has become H.R. 8100.

I think it is considerable of an achievement that we have been able to come together on this bill and I sincerely hope the committee will take that into consideration in its deliberations. I am available for any questions.

The CHAIRMAN. Mr. Loomis, let me say the committee will take that into consideration and give great weight to it.

Mr. LOOMIS. Thank you, sir.

The CHAIRMAN. I can speak, I know, for every member of this committee when I say that we do compliment you and the others for this outstanding achievement, demonstrating again how the people who are primarily involved in this very great problem involving one of our most outstanding industries can resolve their differences when they really put themselves to it.

Mr. LOOMIS. Thank you.

The CHAIRMAN. I compliment you highly and want to thank you. Are there any other questions by members?

Mr. YOUNGER. I have just one, Mr. Chairman.

Mr. LOOMIS. That seat has not gotten cold since you were here before. We appreciate it. In arriving at these figures have you taken into consideration the fact, which is a fact, that over a period of years there has been a declining number of employees?

Mr. LOOMIS. Yes.

Mr. YOUNGER. That has been taken into consideration in connection with the figures that you have arrived at?

Mr. LOOMIS. Yes. All the figures were furnished by the Railroad Retirement Board, and I understand that has been taken into account.

Mr. YOUNGER. Thank you very much.

The CHAIRMAN. Are there any further questions? If not, Mr. Loomis, thank you so much.

Mr. D. L. Manion, president, American Short Line Railroad Association.

**STATEMENT OF D. L. MANION, PRESIDENT, AMERICAN SHORT  
LINE RAILROAD ASSOCIATION**

Mr. MANION. Mr. Chairman, members of the committee, my name is D. L. Manion. I am president of the American Short Line Railroad Association with offices at 2000 Massachusetts Avenue here in the city.

The American Short Line Railroad Association is a nonprofit unincorporated association of 251 common carriers by rail, representing an investment of \$1.6 billion, and operating over 14,300 miles of first main track.

During 1962, the last year for which we have statistics, the member lines of this association employed about 38,900 persons who were paid over \$242 million in wages, and these railroads paid about \$64 million in taxes.

In behalf of the member lines of this association, I appear in support of H.R. 8100, and wish to endorse the statement that Mr. Loomis just made and the statement that he has filed. As he has testified, I joined Mr. Loomis and Mr. Leighty, in signing the letter dated August 13, 1963, to Chairman Harris, which letter has been made a part of this record. In view of the contents of that letter and Mr. Loomis' testimony I do not desire to be repetitious and would therefore advise the committee that the position of this association is similar to that of the Association of American Railroads and that I endorse Mr. Loomis' statement.

Thank you.

The CHAIRMAN. Mr. Manion, thank you very much. Do you have a formal statement you want to file for the record?

Mr. MANION. I have no formal statement that I wish to file. I endorse Mr. Loomis' statement completely and do not wish to take any more of the committee's time.

The CHAIRMAN. Thank you very much. As I said to Mr. Loomis a moment ago, and to Mr. Harrison and Mr. Habermeyer, this committee wants to extend its thanks to your industry and your organizations for the resolution of this problem to do something about a very great problem that needs attention.

You have shown and demonstrated that when the problem should be met you have done so, and we compliment you for it.

Mr. MANION. Thank you.

The CHAIRMAN. Are there any further questions?

If not, thank you very much.

Mr. Robert B. Byrnes, Washington representative, National Railroad Pension Forum.

**STATEMENT OF ROBERT B. BYRNES, WASHINGTON REPRESENTATIVE,  
NATIONAL RAILROAD PENSION FORUM**

Mr. BYRNES. Mr. Chairman and members of the committee, my name is Robert B. Byrnes. I live at 1703 Rhode Island Avenue NW., Washington, D.C. I am a retired railroad clerk, formerly with the Baltimore & Ohio Railroad, now employed by the National Railroad Pension Forum, Inc., of Chicago, as their Washington representative. I have been instructed by Forum President George Finnegan to favor passage of H.R. 8100 in order to restore the Railroad

Retirement System to adequate financial self-sufficiency, as was recommended by President Kennedy.

I have been asked to advise the committee that railroad employees will not be pleased with a tax increase and the reduction in their take-home pay, especially when none of the benefits that railroaders have long hoped for are to be granted. Our organization has been trying to get four major improvements in the Railroad Retirement Act. Bills proposing amendments that will bring about those improvements have been filed with this committee. Our membership has been hopeful that your committee would enact one or more of these improvements during this session. Since we recognize the urgency of passage of the legislation now under consideration all that we can hope for is that early in the next session you will give consideration to the changes so earnestly desired by many railroad employees. The statement made by Mr. Harrison answers this question.

Many employees will resent the proposed increase in the wage base from \$400 to \$450 a month because it will be the means of reducing the amount of the supplemental annuity they expect from the railroad companies. Some of the supplementary annuity plans provided by the railroads require a premium to be paid by the employee on monthly income earned in excess of the wage base used in railroad retirement. Many men and women who qualify for pension privileges now, under the \$400 a month wage base, will henceforth be ineligible for participation in the company pension plan unless they earn more than \$450 a month. In fact, under the proposed increase wage base, an employee may earn up to \$449.99 in a month and be deprived of his right for a supplemental annuity. And a monthly wage slightly under \$450 is a typical income for a great many railroaders.

But such an increase in the wage base will effect all railroad employees and will bring about a reduction in many future annuities. The pension plan in use on three large railroad companies in this area requires that a premium be withheld on earnings above the wage base. When the wage base is increased the amount of money to be credited to the employees supplemental annuity account decreases. Consequently, when he retires, the pension plan account is calculated on a smaller amount than would be the case if the wage base remained at its original figure. By increasing the wage base you are disqualifying many employees from participation in their company's pension plan and you are also bringing about a reduction in the amount of supplemental annuity that each eligible participant will receive.

We do not know how the actuaries of the Railroad Retirement Board arrived at their decision to increase the wage base. It is not being done for the railroad unemployment insurance account and it is not proposed for the social security system. My question is: Why now allow the wage base to remain as it is and increase the tax on the \$400 a month wage base so that the railroad retirement system will benefit in the same amount proposed by the bill?

We suggest that the Railroad Retirement Tax Act be amended to apply taxes of a little more than 16 percent on a \$400 wage base. In that way the desired objective will have been achieved but with less pain to a great many railroad workers in all branches of employment. Furthermore each and every employee will help to increase the income for the railroad retirement system.

H.R. 8100 proposes an increased interest rate on the reserve fund of the railroad retirement account. Some members of the committee may remember that Mr. Tom Stack, former president of our organization, suggested such a course a number of times during past hearings on railroad retirement legislation before this committee. His suggestions were not accepted. Indeed they were called intemperate by a distinguished Congressman. I am sure that Mr. Stack will be pleased to know that what was rejected a few years ago is being accepted now as sound and valid policy.

Gentlemen, I want to express the sincere gratitude of the membership of the National Railroad Pension Forum, Inc., for the kindness and consideration this committee has always given the views of our spokesmen.

Thank you.

The CHAIRMAN. Thank you, Mr. Byrnes. We recall the innumerable appearances of Mr. Stack before the committee, and I think many of us recall his visits to our offices in which he discussed the interests of the members of your organization in the various proposals. I hope you will convey to him our very best wishes.

Mr. BYRNES. Thank you.

Mr. YOUNGER. I have just one question. How many members do you have in your organization?

Mr. BYRNES. At the present time, including the members last year, around 36,000. We consider a man no longer a member if he doesn't pay his dues during the year because very likely the dues will come in at the end of the year.

Mr. YOUNGER. That is all.

The CHAIRMAN. Are there any other questions by members of the committee? If not, thank you very much.

Mr. BYRNES. Thank you, Mr. Chairman. I would like permission to have my statement included in the record.

The CHAIRMAN. If there is no objection, it will appear at this point.

(The statement mentioned follows:)

STATEMENT BY MR. ROBERT B. BYRNES OF THE NATIONAL RAILROAD PENSION FORUM, INC., CHICAGO, ILL.

Mr. Chairman and members of the committee, my name is Robert B. Byrnes. I live at 1703 Rhode Island Avenue NW., Washington, D.C. I am a retired railroad clerk, formerly with the Baltimore & Ohio Railroad, now employed by the National Railroad Pension Forum, Inc., of Chicago, as their Washington representative. I have been instructed by Forum President George Finnigan to favor passage of H.R. 8100 in order to restore the railroad retirement system to adequate financial self-sufficiency, as was recommended by President Kennedy.

I have been asked to advise the committee that railroad employees will not be pleased with a tax increase and the reduction in their take-home pay, especially when none of the benefits that railroaders have long hoped for are to be granted. Our organization has been trying to get four major improvements in the Railroad Retirement Act. Bills proposing amendments that will bring about those improvements have been filed with this committee. Our membership has been hopeful that your committee would enact one or more of these improvements during this session. Since we recognize the urgency of passage of the legislation now under consideration all that we can hope for is that early in the next session you will give consideration to the changes so earnestly desired by many railroad employees. The statement made by Mr. Harrison answers this question.

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supplemental annuity they expect from the railroad companies. Some of the supplementary annuity plans provided by the railroads require a premium to be paid by the employee on monthly income earned in excess of the wage base used in railroad retirement. Many men and women who qualify for pension privileges now, under the \$400 a month wage base, will henceforth be ineligible for participation in their company pension plan unless they earn more than \$450 a month. In fact, under the proposed increased wage base, an employee may earn up to \$449.99 in a month and be deprived of his right for a supplemental annuity. And a monthly wage slightly under \$450 is a typical income for a great many railroaders.

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Gentlemen, I want to express the sincere gratitude of the membership of the National Railroad Pension Forum, Inc., for the kindness and consideration this committee has always given the views of our spokesmen. Thank you.

The CHAIRMAN. I have statements for the record by Mr. George Finnigan, president, National Railroad Pension Forum, and Mr. Clarence B. Carter, national secretary of the Railroad Pension Conference.

(The statements follow:)

STATEMENT OF GEORGE FINNIGAN, PRESIDENT OF THE NATIONAL RAILROAD PENSION FORUM, INC.

Mr. Chairman and members of the committee, my name is George W. Finnigan. I reside at 2832 East 78th Street, Chicago, Ill. I am president of the National Railroad Pension Forum, Inc., the national headquarters of which are located at 2403 East 75th Street, Chicago, Ill.

I speak on behalf of some 35,000 railroad employees and former railroad employees, who have a large stake in the welfare and stability of the railroad retirement system and its intended purpose; that of providing security for the railroad worker, when his days of labor have been accomplished and for the protection of his survivors, in event of the death of the employee. Twenty-four hundred of our membership are retired employees and miscellaneous ex-railroad employees, who have made dues contribution for the current year. The balance are workers, of every station, in every craft, in every type of job on large and small railroads and affiliated agencies over the country.

Our executive board is guided by the needs and pleas of the membership. Our contact with the members is in person, by mail and through active forum group leaders in hundreds of work areas. In my position, I am bound to follow the direction of the executive group, in the pursuit of practical, feasible and reasonable improvements in the Railroad Retirement Act and the elimination of inequities in the program.

I am aware of the need for bolstering the financial structure of the railroad retirement system, at this time. I believe that passage of bill H.R. 8100 will accomplish the necessary and I recommend its passage.

With due concern, I realize that bill H.R. 8100 is founded on necessity, as pointed up in the remarks of President Kennedy, when he signed Public Law 87-285, in September of 1961. I am further concerned by the fact that the existing condition did not arise overnight but has been building up for 7 or 8 years, with little or no action to avert the crisis. Avenues were open to increase the revenue to the retirement fund. The rate of interest paid by the Government, for use of the railroad retirement funds, has been inappropriate for many years and not compatible with interest rates throughout the banking field. The interest paid on retirement funds have not been and are not now on a parity with that earned by social security and Federal civil service retirement reserves. Further, railroads in financial difficulties have borrowed hundreds of millions of dollars, from outside financial sources, over the last 5 years, under the Federal loan guarantee provision of the Transportation Act of 1958, the interest on which was considerably in excess of the 3 percent received for use of railroad retirement reserves. All of these moneys could have been borrowed from railroad retirement reserves, on authority given by the Congress in section 7(a), section 15, subsection (b), of the Railroad Retirement Act, at a handsome advantage to the fund, the employees and to the railroads.

While I am happy to see long overdue action on the proposal to adjust the interest rate, as advocated by the National Railroad Pension Forum, as far back as the hearings before this committee and the Senate Committee on Labor and Public Welfare, in 1957, I exceedingly regret that some of the income anticipated from the adoption of bill H.R. 8100 is not directed toward removal of discrepancies or for an improved retirement program.

The most important of the discrepancies in need of correction, is the "dual restriction on spouse benefits" provision, the elimination of which is proposed in H.R. 804 and other bills of identical purpose, which have been referred to this committee. The collection of taxes from the employee and her employer, which taxes later serve to deprive the worker of railroad retirement benefits, for which she otherwise qualifies, is rank discrimination. There is other strong evidence of the discriminatory nature of this provision, which I shall be happy to furnish at any time that bill H.R. 804 is to be considered. The cost to remove this unjust feature would be covered many times by the anticipated income from H.R. 8100.

Rightfully and humanely, a portion of the anticipated additional income should be used to increase some of the lower annuities and survivors' benefits, more particularly, the widows' benefits.

Reduction in the number of railroad employees and the burden of the unfunded benefits have saddled the veteran railworker with a tremendous burden over the years and instead of increasing the burden, it should have been possible by this time, to lower the retirement age to age 62, as proposed in bill H.R. 4161 and others of identical purpose, now in the hands of this committee.

Removal of the "last employer" clause, as outlined in bill H.R. 3708 and others of identical purpose, now in the hands of this committee, should definitely be accomplished. A study of the unfair and detrimental consequences of that provision justify prompt action to right the wrong by striking this provision from the act.

A dual standard is in effect with respect to the treatment of railroad retirement annuitants who apply for nonservice connected veterans' benefits. Bill H.R. 2615 and others of identical purpose, now before this committee, would exempt railroad retirement annuities from being reported as income, when applying for veterans' benefits, for those who retire after July 1, 1960, as was the case for those who retired before that date. This change in the act would cost the railroad retirement system nothing.

Our position, with respect to matters concerning railroad retirement, is unique, in that we are influenced by neither labor union leadership nor railroad management but advance the views of a surprising percentage of railroad employees, who have no voice and who are not consulted or otherwise represented, when changes in their retirement program or the cost thereof are under consideration.

As a final thought, with which some of you may be in accord, I am reluctant to subscribe to the practice of allowing the principals involved to construct proposed legislation in detail, then ask for immediate action, as prepared, as appeared to be the case with bill H.R. 8100 and the companion bill in the Senate. I feel certain that the securities dealers, lobbyists for a corporate group, a minority body or a segment of the underworld would not be encouraged to construct legislation with respect to their activities and then ask for immediate passage in toto. This would seem to establish the opportunity for a tilted law, which may pass detection in hasty handling, simply because it is claimed that all parties concerned are in agreement.

Many thanks to the chairman and to the members for the opportunity to present my views and the views of a large percentage of the rank and file workers.

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STATEMENT OF CLARENCE B. CARTER, NATIONAL SECRETARY, RAILROAD PENSION CONFERENCE

Mr. Chairman and members of the committee, you will soon be deliberating on legislation designed to increase the amount of railroad retirement levied on management and their employees.

The Railroad Retirement Board claims a tax boost is necessary because the actuaries, "figure the retirement system is underfinanced by about \$77 million a year." This deficit, the Board declares, "is of a long-range actuarial character" (Labor, August 3, 1963).

The RRB also admits "there will be sufficient funds available to pay all benefits for the next several decades, even though this long-range deficit is not removed" (Labor, August 3, 1963).

The Railroad Retirement Pension Conference is not opposed to the principle of taxing incomes over \$4,800 a year. The cost of retirement benefits for our senior citizens is a burden upon all of us. And, one should carry the burden in proportion to his ability to pay.

In view of the cause of the long-range deficit in our retirement account, the question is: Whose taxes should be increased to meet this deficit?

In this particular instance, the Railroad Retirement Pension Conference protests the proposal to increase the retirement tax levied on the worker. However, were Congress to enact H.R. 1830, introduced by Representative Adam Clayton Powell, chairman of the House Labor Committee, which provides optional retirement at age 60, plus increasing the average retirement annuity from \$134 monthly to \$200 monthly, then, we would not be opposed to the proposed retirement tax boost.

The deficit in question is a management-created deficit, therefore, in all fairness to the employees, any tax increase needed to offset this management-created deficit should be paid entirely by the carriers.

As the RRB has said, the deficit is "due chiefly to the drop in railroad employment," or in other words, from management's policy to reduce the work force for profit.

Rail workers from all crafts feel that the carriers can well afford to pay the entire cost to offset the so-called, long-range deficit from the millions of dollars they will be saving in wages from those laid off due to the rules changes.

PRESENT FINANCING OF RAILROAD RETIREMENT BASICALLY WRONG

The time has come when Congress should enact legislation that will provide for the refinancing of our social railroad retirement system. The Railroad Pension Conference proposes the following:

1. Finance railroad retirement from the general revenues.

2. Management to pay twice the amount of taxation as paid by the employee.

At present our publicly administered social railroad retirement system is financed as though it were a private insurance which is in business for profit, and which in turn needs high premiums (taxes) and huge reserves.

Railroad retirement is financed on a level-cost basis; that is, if payrolls are taxed at a fixed rate, and the interest accumulated on taxes until benefits are due, our retirement fund will either grow enormously, or become bankrupt, depending on the tax rate and the scale of benefits. If the tax rate is set just right, at a certain time in the future, tax collections and interest income will exactly match benefit payments, and will continue to do so indefinitely.

Our retirement tax dollar is split three ways—to pay for those who retired prior to 1937, and those who became eligible for retirement in 1937, but paid nothing into the fund; (2) present benefits; (3) to build a reserve fund for investment purposes to help maintain the retirement system for future employees (those yet to be born).

Level-cost financing has become too costly for the employee, and is standing in the way of improved benefits. We now pay the astronomical tax of 7¼ percent on the first \$4,800 of our yearly wage. In January 1965 the tax will jump to 8 percent, and in January 1966 to 8½ percent, and in January 1969 to 9 percent. And it will probably continue to rise as management abolishes more jobs.

It is now evident we need to depart from level-cost financing and replace it with complete financing from the general revenues.

Financing from the general revenues is socially justified. We are not dealing with private insurance which must proportion benefits to premiums. Private insurance is not concerned with social responsibilities; it cannot without jeopardizing its solvency. Social insurance, however, involves Government policy, operating on the whole of society. Social insurance can adjust policies and benefits as social needs require.

Financing from the general revenues is not to imply we are to cease to pay a retirement tax. As already stated above, the Railroad Retirement Pension Conference is not opposed to taxing incomes over \$4,800 a year. But we do say that management should pay twice the amount of taxation as paid by the employee which will lead to a reduction in the amount of tax as paid by the overtaxed employees.

The United States of America is far behind other nations in financing retirement. Some nations paying part of their retirement systems include: Belgium, Brazil, Chile, Nationalist China, Leopoldville, Cuba, Cyprus, Denmark, Dominican Republic, Ecuador (40 percent), West Germany, Hungary, Iceland (52 percent), Ireland, Italy, Japan, Luxembourg (50 percent), New Zealand (annual deficit), Norway, Peru, South Africa (all), United Kingdom, Uruguay, Sweden (70 percent), ("Social Security Programs Throughout the World—1961"—published by the Social Security Administration). Many of these countries are receiving considerable financial aid from Uncle Sam. While we seem willing to help them in financing retirement, we do not do it for ourselves.

#### TWO-TO-ONE TAXATION IS JUSTIFIED

Two-to-one taxation (management to pay twice the amount of taxation as paid by the employee) was at one time law when Congress enacted the 1934-35 Railroad Retirement Acts (50-50 taxation was forced on us by management in 1937).

The authors of the 1934-35 Railroad Retirement Acts, and Congress at that time, clearly foresaw the wisdom, the need, and the justification for 2-to-1 tax payment. Especially so, since our retirement system took over those on the carrier's private pension rolls, without any extra contribution from management. Also, the carriers failed to contribute anything for those who immediately went on pension when the law was enacted. This caused the original debt, known as the unfunded liability. Thus the employee was forced to pay one-half of the cost of this management-created liability.

The gross unfairness of the 1937 agreement was thoroughly exposed by the late U.S. Congressman "Bob" Crosser, the father of railroad retirement. And the brotherhoods have also branded this agreement as a tough bargain.

The late Congressman Crosser said—the carriers—"did not arrange for an extra contribution on their part as was done by all major industries and the Federal Government to its own employees. Since the obligation of these two obligations (mentioned above Ed.) are those of the railroads only, they should have been borne by the railroads themselves, but railroad employees have paid, and are continuing to pay one-half of these obligations." This has cost the employees millions of dollars which they should not have had to pay.

## UNFUNDED LIABILITY

Under the present setup, only the interest due yearly is paid on the unfunded liability—on a 50-50 basis between management and the employee. All future employees (even those yet unborn) are obligated to pay the yearly interest due on this management-created liability. Theoretically speaking, were there no unfunded liability, the U.S. Treasury would be paying us 3 percent interest on some \$8 billion (the reserve fund in the railroad retirement account) instead of some \$4 billion.

Two-to-one tax payment will free the employees from the burden of paying 50 percent of management's obligation to their former employees, as it would be possible to reduce the amount of tax paid by the employee.

Equal taxation is not only grossly unfair, as the late Congressman Crosser has noted, but it has no relationship to today's work force. In 1950, some 1.2 million employees were paying toward the cost of our retirement system. Today, about 700,000 are financing benefits for some 900,000 beneficiaries. And within a few short years, beneficiaries will outnumber the taxpayers by 2 to 1.

Industries in many nations pay a higher retirement tax than is paid by the employee; some of these nations are: Argentina, Ceylon, Nationalist China, Dominican Republic, Ecuador, France, Greece, Guinea; employer pays all: Iran, Iraq, Hungary, Italy, Israel, Libya, Mexico, Morocco, Nicaragua, Norway; employer pays 75 percent: Paraguay, Peru, Portugal, Spain, Turkey, United Arab Republic, Upper Volta, and Uruguay. (Social Security Programs Throughout the World, 1961—Social Security Administration.)

## REPEAL SECTION 308 PUBLIC LAW 86-28

Rail workers from all crafts urge Congress to prohibit the loaning of funds from our railroad retirement account to pay management's unemployment bill.

Thousands of railroaders through lodges resolutions, and letters to Congress, have urged the repeal of section 308 since its enactment in May 1959.

The payment of unemployment benefits is the sole responsibility of management, it is in no way an employee obligation.

Management now owes our retirement account over \$300 million, and it will take at least 15 years to repay, providing there is a tax boost, and that unemployment "doesn't increase further during that time" according to the Railroad Retirement Board (Wall Street Journal, May 1, 1963).

To alleviate the deficit in the unemployment insurance account, the Railroad Retirement Board has proposed a small tax boost on management, from 4 to 4¼ percent of each employee's monthly wage.

This piddling tax boost is insufficient and will not absorb the deficit in the unemployment insurance account, as more layoffs are coming when the rules changes become effective.

The Railroad Pension Conference urges Congress to increase management's unemployment insurance tax to 6 percent on the first \$450 of each employee's monthly compensation.

The deficit in the unemployment insurance account was chiefly due to Congress reducing the tax levied on management from 3 percent to one-half of 1 percent, in 1948. Mr. A. E. Lyon, labor representative on the Retirement Board stated: "The estimates made then were bad estimates" (Wall Street Journal, May 1, 1963).

In 1948, the Railroad Retirement Board protested reducing the unemployment tax levied on the carriers. They stated: "The 3-percent tax should continue in effect rather than let the excess fund go to the employers in the way of a reward to which they are not entitled, that excess should be used where possible to bring about more substantial benefits" (Mr. Schreiber, to the Senate Labor Committee, May 19, 1948).

The Retirement Board also testified: "It would be a serious backward step in the development of railroad social insurance \* \* \* step for which there is no justification in view of the needs of railroad employees or the condition of the railroad industry. It would be contrary to modern trends in social security." The Railroad Pension Conference fully supported the testimony of the Retirement Board in 1948.

## CONGRESS SHOULD ENACT H.R. 1830

In view of the above circumstances mentioned, and the plight of those whose jobs will be abolished by the work rules, we urge Congress to enact the Powell bill H.R. 1830. Optional retirement at age 60 is needed to improve the job opportunities of the younger employees, as well as an insurance protection to the senior employees who face permanent unemployment from the rules changes.

We also urge the 88th Congress to enact legislation that will finance railroad retirement from the general revenues, as well as 2 to 1 taxation provided by the 1934-35 Railroad Retirement Acts.

The CHAIRMAN. This will conclude the hearings on this subject, with special thanks of the committee to all of you gentlemen who have appeared here this morning.

(Whereupon, at 10:55 a.m. the committee adjourned.)



CHAPTER I

The first part of the history of the United States of America is the history of the thirteen original states. These states were the result of the British colonial system in North America. The British colonies were established in the seventeenth century and grew in number and size until the American Revolution in 1776. The thirteen original states were: New Hampshire, Massachusetts, Rhode Island, Connecticut, New York, New Jersey, Pennsylvania, Delaware, Maryland, Virginia, North Carolina, South Carolina, and Georgia.

The second part of the history of the United States of America is the history of the expansion of the United States. The United States expanded westward from the original thirteen states to the Pacific Ocean. This expansion was the result of the Louisiana Purchase in 1803 and the Mexican Cession in 1848.

The third part of the history of the United States of America is the history of the Civil War. The Civil War was fought between the Union and the Confederacy from 1861 to 1865. The war was fought over the issue of slavery and resulted in the preservation of the Union and the abolition of slavery.

The fourth part of the history of the United States of America is the history of the Reconstruction era. The Reconstruction era was the period from 1865 to 1877 when the United States sought to rebuild the South and integrate the freed slaves into the American society.



