ADMINISTRATIVE ACTIVITIES OF THE U.S. RAILROAD RETIREMENT BOARD—OVERSIGHT

HEARING

BEFORE THE

SUBCOMMITTEE ON TRANSPORTATION AND COMMERCE

OF THE

COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE HOUSE OF REPRESENTATIVES

NINETY-FIFTH CONGRESS

SECOND SESSION

ON

LEGISLATIVE CHANGES TO IMPROVE THE RAILROAD RETIREMENT ACT

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ADMINISTRATIVE ACTIVITIES OF THE RAILROAD RETIREMENT BOARD—OVERSIGHT

TUESDAY, SEPTEMBER 26, 1978

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

The subcommittee met at 2 p.m., pursuant to notice, in room 2123, Rayburn House Office Building, Hon. Fred B. Rooney, chairman, presiding.

Mr. ROONEY. Today, the subcommittee will hear testimony from the Railroad Retirement Board regarding its administrative procedures.

In recent years, the Railroad Retirement Act has received much attention from Congress and rail management and labor. In 1974, Congress approved sweeping changes in the benefits structure of the Railroad Retirement Act. While these changes were necessary to insure the fiscal soundness of the railroad retirement fund, they did little to improve the operating efficiency of the Railroad Retirement Board.

The operations of the Railroad Retirement Board have changed little since its creation in 1937. The laws it must administer have been subject to many changes during the intervening 41-year period.

Unfortunately, however, the Board has received little attention concerning its increased physical and administrative needs brought about by changes in the law from Congress and the various administrations.

In many cases, the Board is using the same facilities it has used for over 20 years to process over twice the number of claims. Today, there are over 1 million benefit recipients compared to 461,000 in 1950. So it is easy to understand how taxed the present system has become.

More importantly, I understand that there are considerable backlogs in processing claims which are creating unreasonable delays in retirees receiving their checks. It is easy to understand the hardships these delays can create.

It is my hope that through this hearing and other hearings that this subcommittee plans to hold during the next Congress, we will be able to make the legislative changes needed to improve the Railroad Retirement Act so that the Board can function more efficiently.

It is with a deep pleasure that I introduce our witness, William P. Adams, Chairman of the Railroad Retirement Board. Mr. Adams was a professional staff member on this committee from 1974 to 1976. In addition, for the 20 years preceding that, he was with the Legislative Counsel's office of the House.

Mr. Adams and I had the pleasure of working together on many occasions. It was for this reason that, when he was nominated for his present position, it was an extreme pleasure for me to recommend his confirmation to the Senate.

This is the first time during my years as chairman of the subcommittee that this subcommittee has received testimony from the Railroad Retirement Board. I believe that the fact that we have not had any hearings has been to the detriment of both the Board and this subcommittee.

It is my intention that through today's hearings, and the ones that I intend to hold during the next Congress, this situation will not continue.

And I would like to further comment that, I am sure under the able leadership of Bill Adams, we will see progress as a result of the Railroad Retirement Board hearing. I know his dedication to his job over the years. I have known Mr. Adams for many years.

Once again, I welcome you back to this committee where I have seen you so many times for so many years. Welcome.

STATEMENT OF WILLIAM P. ADAMS, CHAIRMAN, U.S. RAILROAD RETIREMENT BOARD, ACCOMPANIED BY CHARLES J. CHAMBERLAIN, LABOR MEMBER; EARL OLIVER, MANAGEMENT MEMBER; ABRAHAM BENJAMIN, DIRECTOR, BUREAU OF RESEARCH; KENNETH J. NOLAN, CHIEF EXECUTIVE OFFICER, AND EUGENE E. KOCH, DIRECTOR, UNEMPLOYMENT AND SICKNESS INSURANCE

Mr. ADAMS. Thank you, Mr. Chairman. It is the first time I have looked up from this table without being involved in the markup of a bill.

With your permission, I would like to introduce my colleagues for the record. On my left is Mr. Charles J. Chamberlain, who is the labor member of our Board. And on my right is Mr. Earl Oliver, who is the management member of our Board. And I must say that I have found my colleagues on the Board just as congenial as on the Hill. They are great men to work with.

If we get into detailed questions later, with your permission, I would like to introduce the staff members as we call on them for answers.

You can see that the three new members of the Board did not consider themselves experts on the subject after a year and less, and so we brought our experts along to give you the nitty-gritty if we get into that.

I know that there are time pressures and legislative pressures the committee is under at the present time. With your permission, I would like to submit a written statement for the record, and just briefly highlight that, and then get into the questions.

Mr. ROONEY. Without objection, your statement will become a part of the record. You may continue to summarize.

Mr. ADAMS. Mr. Chairman, of course, we appreciate the opportunity, knowing the pressures you are under, to be able to come and present our administrative problems to you. I know that my colleagues on the Board and all the staff join in this statement, and fully support our effort to clarify to the committee exactly what our function is.

We have inserted in the statement a brief description of what our functions are. The railroad retirement system is financed by taxes paid by the railroad workers.

Mr. ROONEY. Is this your full statement that you want to submit?

Mr. ADAMS. Yes.

Mr. ROONEY. I think it is short enough for you to deliver. For the committee's interest, I would appreciate very much if you would deliver it in its entirety.

Mr. ADAMS. I have pretty much stated the contents of the first paragraph. Beginning with the second paragraph is the description of what we do.

The Railroad Retirement Board administers a regular retirement system for the payment of retirement and disability annuities to railroad employees, annuities to their spouses, benefits to their survivors, and payment under certain conditions of supplemental annuities, in addition to regular annuities. The Board also administers a system for the payment of unemployment and sickness benefits to qualified railroad workers and participates in the administration of the medicare program for persons covered by the Railroad Retirement Act.

The Board is administered by a three-member Board appointed by the President, by and with the advice and consent of the Senate: One member—upon the recommendation of representatives of employees, Mr. Chamberlain; one upon recommendation of representatives of carriers, Mr. Oliver; and one without designated recommendation, who serves as the Chairman of the Board. The Board's administrative organization is designed to integrate the administration of the programs conducted by the Board without duplication of facilities or operations.

The regular railroad retirement system is financed by taxes paid by railroad workers and employers. The railroad retirement account is credited with the taxes, and annuity payments are made from the account. Funds held in reserve earn interest which is used to help finance future benefit costs of the railroad retirement system.

The supplemental annuity program is financed by a tax paid wholly by employers based on the number of man-hours for which they pay compensation. This tax is deposited in a separate trust account titled "Railroad Retirement Supplemental Account" from which the supplemental annuities are paid.

The amounts needed for administrative expenses of these programs, as authorized by Congress in annual appropriation acts, are derived from these trust accounts.

The unemployment and sickness insurance system is financed by contributions paid wholly by employers. Of the total contributions paid for this purpose, the portion represented by one-half of 1 percent of the taxable payroll is permanently appropriated to the Board to cover the administrative costs of the system, with the remainder being credited to the railroad unemployment insurance account in the unemployment trust fund for the payment of benefits.

This committee has always been responsive to the needs of the Board in its efforts to bring service to the railroad public who are the beneficiaries of the programs we administer.

In turn, the Board has been absolutely honest and responsible with this committee and all committees of Congress. We have not

played any games by coming before Congress with inflated requests for operating funds or unrealistic requests for other expenditures.

Previous Boards have always been cognizant of the need to act wisely and prudently in the expenditure of payroll taxes placed in the railroad retirement and railroad unemployment insurance funds. This is evidenced by the fact that administrative expenses to operate the railroad retirement program have consistently remained at less than 1 percent of benefits paid. Under the railroad unemployment insurance program, administrative expenses have been at record lows, unmatched by any similar insurance system of which we are aware.

We believe, however, the frugality in both programs may be at the very heart of our current administrative problems. In other words, we have continually demonstrated to the executive branch and to the Congress our ability to do work at the cheapest possible cost. We now feel that this ability may have been demonstrated at the expense of present and future efficiencies and service to the railroad public. One of the major problems we face now is to convince this Congress and this administration that we cannot bring this agency into the 20th century, and prepare for the 21st with the continuing attitude of doing our job the same old way and at the cheapest possible cost. We realize we are, in effect, going against a current popular trend to reduce expenditures, but we hope to be able to convince both the Congress and this administration that a relatively small increase in administrative expenditures now will result in greater savings in the future.

In view of the pressures and time constraints under which this committee is operating, we would like to identify briefly what we view as our administrative problem areas, and then try to answer any questions you may have.

First: The Railroad Retirement Act of 1974 introduced a comprehensive and complex restructuring of the railroad retirement system. This restructuring resulted in complicated benefit formulas, changes in eligibility requirements, a complex two-tier benefit format, and the introduction of periodic cost-of-living increases. These changes greatly impacted the operations of the Railroad Retirement Board, and placed extreme pressures on our ability to make timely payments. The degree of this extreme pressure is illustrated by the fact that, since the adoption of the 1974 act, our backlog of benefit claims being processed for payment increased from 50,000 as of June 30, 1974, to 360,000 as of June 30, 1978, an increase of 620 percent. Unfortunately, under our present personnel ceiling, we expect that backlog to increase to 450,000 as of September 30, 1979.

Second: This massive backlog has caused an increase in erroneous payments simply because we have devoted as much of our available manpower as possible to the adjudication and payment of claims currently being filed, and have been unable to allocate sufficient manpower to reduce the pending caseload backlog. As time goes by, the size of the erroneous payment keeps getting larger. As a result of one court action, *Pope* v. *Railroad Retirement Board*, pending in the U.S. District Court for the District of Columbia, the Board was required to alter its procedures for recovery of erroneous payments substantially in order to provide greater opportunities for beneficiaries to challenge the recovery of erroneous payments.

We consider the required changes desirable, but it must be recognized that more administrative work will be required of the Board, and an increased number of appeals is sure to follow.

Third: The physical facilities and equipment of our headquarters operations in Chicago are not conducive to a modern day efficient work environment. The General Services Administration has described our facilities as obsolete. Despite our best efforts and negotiations with GSA over the past 5 years, we have not yet been relocated, and we are now told by GSA that relocation could take another 7 to 10 years.

Fourth: Drastic cuts by this administration in our manpower and funding needs for our unemployment and sickness insurance program portend grave consequences for fiscal year 1979. In terms of constant dollars, the cuts marked the lowest budget level in the history of the Board for this national program.

Fifth: Over the years, with added responsibilities created by new laws and changes to existing laws, the Board has expanded, changed, and created a number of computer records and programs. This, in turn, has caused a serious drain on our existing computer facility to the extent that there is a serious question as to whether we can still effectively respond to the needs of claimants. No longer do we have the "fail safe" security we have had in the past. We think dire results could occur if we failed to discharge our responsibilities to deliver benefit checks on time. Our best attempts to secure additional computer capacity have failed, but we have engaged outside consultants to see if they agree with our analysis and, hopefully, support our request for a new computer system.

Sixth: The Board has been required to absorb the cost, in manpower and dollars, of administering additional governmentwide programs which we feel strongly are of great value. Some examples include recognition of Federal employee unions, equal employment opportunity, handicapped programs, affirmative action plans, privacy and freedom of information legislation, Fair Labor Standards Act administration, upward mobility programs and others. We support these programs, but we also must recognize that, without specific allocation of additional resources for these activities, the impact on a small agency such as ours has been tremendous and, and as a result, precious claims processing time has been diverted.

We are losing ground in our attempts to solve these problems within the resources currently available to us. We are making every effort to identify our plight with this administration, the Office of Management and Budget, the General Services Administration, the Civil Service Commission and, at every opportunity, with each committee of the Congress having jurisdiction over our activities.

Thank you, Mr. Chairman, for your interest in our activities. We will be happy to try to answer whatever questions you may have.

Mr. ROONEY. Thank you very much, Mr. Chairman.

What does the employee pay in retirement benefits to the railroad retirement account?

Mr. ADAMS. The percentage of payroll is the same as social security.

Mr. OLIVER. 6.05 percent.

Mr. ROONEY. 6.05 percent.

Mr. OLIVER. On wages of $1,475 a month.

Mr. ROONEY. Pardon.

Mr. OLIVER. $1,475 a month. Next year it changes.

Mr. ROONEY. Let me have the gross.

Mr. ADAMS. Who wants to make a specific answer to that?

What is the percentage that an employee and the employer pays on railroad retirement right now—6.05?

This is Mr. Abraham Benjamin, Director of the Bureau of Research.

Mr. ROONEY. Why don't you just let him answer the question.

Mr. BENJAMIN. The tax right now, including health insurance, is 21.6 percent and the maximum tax is $318.60. That is for both employee and employer combined.

Mr. ROONEY. I thought you said that the employer pays the health insurance.

Mr. BENJAMIN. No; both the employee and employer pay the same. The table I am inserting gives the year by year health insurance tax rate breakdown.

[The following material was received for the record:]

TAX RATES, EARNINGS BASES, AND MAXIMUM MONTHLY TAX PER EMPLOYEE UNDER RAILROAD RETIREMENT, SOCIAL SECURITY, AND RAILROAD UNEMPLOYMENT INSURANCE PROGRAMS

Period	Railroad retirement (including health insurance)			Social security (including health insurance)		
	Tax rate [1] (percent)	Earnings base [2]	Maximum tax [3]	Tax rate [1] (percent)	Earnings base [2]	Maximum tax [3]
1937–39	2.750	$300	$8.25	1.000	$3,000	$2.50
1940–42	3.000	300	9.00	1.000	3,000	2.50
1943–45	3.250	300	9.75	1.000	3,000	2.50
1946	3.500	300	10.50	1.000	3,000	2.50
1947	5.750	300	17.25	1.000	3,000	2.50
1948	5.750	300	17.25	1.000	3,000	2.50
1949	6.000	300	18.00	1.000	3,000	2.50
1950	6.000	300	18.00	1.500	3,000	3.75
1951	6.000	300	18.00	1.500	3,600	4.50
1952–53	6.250	300	18.75	1.500	3,600	4.50
January 1954–June 1954	6.250	300	18.75	2.000	3,600	6.00
July 1954–December 1954	6.250	350	21.88	2.000	3,600	6.00
1955–56	6.250	350	21.88	2.000	4,200	7.00
1957–58	6.250	350	21.88	2.250	4,200	7.88
January 1959–May 1959	6.250	350	21.88	2.500	4,800	10.00
June 1959–December 1959	6.750	400	27.00	2.500	4,800	10.00
1960–61	6.750	400	27.00	3.000	4,800	12.00
1962	7.250	400	29.00	3.125	4,800	12.50
January 1963–October 1963	7.250	400	29.00	3.625	4,800	14.50
November 1963–December 1964	7.250	450	32.63	3.625	4,800	14.50
January 1965–September 1965	8.125	450	36.56	3.625	4,800	14.50
October 1965–December 1965	7.125	450	32.06	3.625	4,800	14.50
1966	7.950	550	43.73	4.200	6,600	23.10
1967	8.650	550	47.58	4.400	6,600	24.20
1968	8.900	650	57.85	4.400	7,800	28.60
1969–70	9.550	650	62.08	4.800	7,800	31.20
1971	9.950	650	64.68	5.200	7,800	33.80
1972	9.950	750	74.63	5.200	9,000	39.00

Period	Railroad unemployment insurance		
	Contribution rate [4] (percent)	Earnings base [4]	Maximum contribution [4]
July 1939–47	3.00	$300	$9.00
1948–June 1954	.50	300	1.50
July 1954–December 1955	.50	350	1.75
1956	1.50	350	5.25
1957	2.00	350	7.00
1958	2.50	350	8.75
January 1959–May 1959	3.00	350	10.50
June 1959–December 1961	3.75	400	15.00
1962–75	4.00	400	16.00
1976	5.50	400	22.00
1977–78	8.00	400	32.00

Employer contribution for supplemental annuities

Period	Rate [5]	Period	Rate [5]
November 1966–March 1970	2	July 1972–December 1974	7⅓
April 1970–June 1970	6	January 1975–December 1975	8½
July 1970–December 1970	7	January 1976–December 1976	12
January 1971–June 1972	6	January 1977–December 1977	12½
		January 1978–	12

	Health insurance		
	Tax rate [1] (percent)	Earnings base [2]	Maximum tax [3]
1966	0.35	$550	$1.93
1967	.50	550	2.75
1968	.60	650	3.90
1969–70	.60	650	3.90
1971	.60	650	3.90
1972	.60	750	4.50

[1] On employees and employers alike; health insurance taxes included for years after 1965.
[2] Monthly for railroad retirement and annual for social security; health insurance under social security is 12 times the amount shown.
[3] Per month under railroad retirement and 1/12 of annual maximum under social security.
[4] Contributions paid only by employers. Earnings base and maximum contribution are monthly.
[5] Cents per hour.

TAX RATES, EARNINGS BASES, AND MAXIMUM MONTHLY TAX PER EMPLOYEE UNDER RAILROAD RETIREMENT AND SOCIAL SECURITY PROGRAMS, 1973 AND THEREAFTER

Period	Railroad retirement (including health insurance)							Social security, employee and employer (including health insurance)			Health insurance, employee and employer		
	Tax rate			Earnings base		Maximum tax							
	Employee	Employer		Employee and employer, tier 1	Employer, tier 2	Employee	Employer	Tax rate	Earnings base	Maximum tax	Tax rate	Earnings base	Maximum tax
	(percent)	Tier 1 [1] (percent)	Tier 2 (percent)					(percent)			(percent)		
January 1973–September 1973	10.60		10.60	$900	$900	$95.40	$95.40	5.85	$10,800	$52.65	1.00	$900	$9.00
October 1973–December 1973 [2]	5.85		15.35	900	900	52.65	138.15	5.85	10,800	52.65	1.00	900	9.00
1974	5.85		15.35	1,100	1,100	64.35	168.85	5.85	13,200	64.35	.90	1,100	9.90
1975	5.85		15.35	1,175	1,175	68.74	180.36	5.85	14,100	68.74	.90	1,175	10.58
1976	5.85		15.35	1,275	1,275	74.59	195.71	5.85	15,300	74.59	.90	1,275	11.48
1977	5.85		15.35	1,375	1,375	80.44	211.06	5.85	16,500	80.44	.90	1,375	12.38
1978	6.05		15.55	1,475	1,475	89.24	229.36	6.05	17,700	89.24	1.00	1,475	14.75
1979	6.13	6.13	15.63	[3] 1,908	[4] 1,475	116.98	[4] 257.11	6.13	22,900	116.98	1.05	[3] 1,908	20.04
1980	6.13	6.13	15.63	[3] 2,158	[4] 1,475	132.31	[4] 272.43	6.13	25,900	132.31	1.05	[3] 2,158	22.66
1981	6.65	6.65	16.15	2,475	[4] 1,475	164.59	[4] 304.71	6.65	29,700	164.59	1.30	2,475	32.18
1982–84	6.70	6.70	16.20	[4] 2,475	[4] 1,475	[4] 165.83	[4] 305.95	6.70	[4] 29,700	165.83	1.30	[4] 2,475	[4] 32.18
1985	7.05	7.05	16.55	[4] 2,475	[4] 1,475	[4] 174.49	[4] 314.61	7.05	[4] 29,700	174.49	1.35	[4] 2,475	[4] 33.41
1986–89	7.15	7.15	16.65	[4] 2,475	[4] 1,475	[4] 176.96	[4] 317.09	7.15	[4] 29,700	176.96	1.45	[4] 2,475	[4] 35.89
1990 and later	7.65	7.65	17.15	[4] 2,475	[4] 1,475	[4] 189.34	[4] 329.46	7.65	[4] 29,700	189.34	1.45	[4] 2,475	[4] 35.89

[1] Applicable to excess of employer tier 1 earnings base over employer tier 2 earnings base.

[2] Oct. 1, 1973, was the effective date for the new allocation of RRA taxes subject to a moratorium for certain railroads and labor organizations.

[3] The number shown has been rounded to the nearest dollar. The actual base for 1979 is $1,908.33 and for 1980 is $2,158.33.

[4] Automatic adjustments are applicable to earnings bases and maximum tax amounts for social security and railroad retirement tier 1 in 1982 and later. The railroad retirement employer tier 2 earnings base and maximum tax amounts are subject to automatic adjustments in 1979 and later. The ad hoc social security earnings base adjustments for 1979, 1980, and 1981 are not passed through to the railroad retirement employer tier 2 tax.

Note: Earnings bases shown are monthly for railroad retirement and annual for social security; health insurance under social security is 12 times the amount shown. Maximum taxes are per month under railroad retirement and 1/12 of annual maximum under social security. The information presented above pertains to the law as amended through Dec. 31, 1977.

Mr. ROONEY. 6.05.

Mr. BENJAMIN. The 6.05 refers to the employee tax rate in 1978 for railroad retirement and includes health insurance. And it is scheduled to rise to 6.13 in 1979.

Mr. ROONEY. What?

Mr. BENJAMIN. It is scheduled to go to 6.13 in 1979.

Mr. ROONEY. Now, the employer pays the same?

Mr. BENJAMIN. No; the employer pays a 9.5-percent differential for tier II. The rate in 1978 is 15.55 percent and is scheduled to go to 15.63 percent in 1979.

Mr. ROONEY. OK.

Mr. BENJAMIN. We could insert this in the record.

Mr. ROONEY. I would like to have that.

Mr. BENJAMIN. The table that I recommended for inclusion in the record gives the tax rate, tax base, and the maximum amount of taxes paid by the employee and employer.

Mr. ROONEY. All right. What does the employer pay for health and accident benefits?

Mr. BENJAMIN. Well, I would not know that. That comes out of collective bargaining, unless you are talking about medicare.

Here is the health insurance statute over here; the health insurance, the medicare was 0.90 in 1977. In 1978, it is 1 percent. It is scheduled to go up to 1.05 percent in 1979. But I thought you were talking about health and welfare plans. This is just medicare.

We do not administer health and welfare plans. That is privately negotiated. This is the same rate as social security health insurance.

Mr. ROONEY. This is the most complicated subject matter that I have come across in this committee. How long has social security been in effect, since 1930?

Mr. BENJAMIN. It was enacted in 1934, and the first benefits were paid in 1940.

Mr. ROONEY. 1940.

Mr. BENJAMIN. Social security. Yes.

Mr. ROONEY. Your program was in?

Mr. BENJAMIN. The first Railroad Retirement Act was enacted in 1934. It was declared unconstitutional. Some benefits were paid as early as 1936, but the basis for the present system is the 1937 act which became effective June 24, 1937. That act also provided for the Board to take over the payment of private pensions which were being paid by railroads. This was part of the agreement negotiated by the President in order to get railroad labor and management to support the 1937 act.

Mr. ROONEY. Why can't railroad retirement and social security be combined?

Mr. BENJAMIN. In effect, they are. We have tier 1 and tier 2 benefits.

Mr. ROONEY. Explain the tier 1 and tier 2 benefits.

Why don't you sit down, and make yourself comfortable?

Mr. BENJAMIN. Tier 1 is, essentially, a social security benefit based on an individual's combined railroad earnings and social security earnings. And it is calculated under the social security formula.

It is not exactly the same as social security benefits because there are benefits that the railroad system provides that the social security system does not provide. For example, there are no social security life benefits payable before age 62 and no provision for occupational disability annuities.

Mr. FLORIO. They are combined when you combine railroad earnings and social security earnings.

Mr. BENJAMIN. Right.

Mr. FLORIO. There are many individuals working on two jobs so that social security is taken out at the same time.

Mr. BENJAMIN. We are talking, in effect, about moonlighting. There is not too much of that, but very many entrants who come into the railroad industry have acquired social security credits.

Mr. FLORIO. They do not have deductions, or accumulating credits helping the railroad industry. They have so many quarters.

Mr. BENJAMIN. The tier 1 portion of the railroad retirement benefit is based on railroad and social security credits.The benefit is calculated essentially the same as under social security.

As I explained, the major difference between social security and the tier 1 benefit is that there is no life benefit payable under age 62 under social security and there is no occupational disability.

Under social security, there is no occupational disability. You have to be permanently disabled. Except for these differences, you can say that tier 1 is, essentially, a social security benefit.

There is the tier 2 benefit that is paid above, and that often has been referred to as floating on top, on top of tier 1.

It is based strictly on railroad earnings. It is called, more or less, a collective bargaining plan, financed entirely by the railroad employers.

When you are talking about the tax rates that the railroad pays, that employer rate is higher because they are paying, in effect, the second tier benefit.

Mr. FLORIO. Is that a supplemental trust account?

Mr. BENJAMIN. No. The Supplemental trust account is used to pay supplemental annuities. The supplemental trust account is financed by a man-hour tax paid by employers alone. That account is essentially on a pay-as-you-go basis. The Board determines the rate quarterly. Currently the rate is 12¢ per man-hour.

Mr. FLORIO. How long has the employee been making contributions to that?

Mr. BENJAMIN. The employee makes no contribution to the supplemental annuity program. In effect, he pays for the tier 1 benefit alone. Before October 1973, railroad retirement benefits were financed by the employee and employer in equal shares. Effective October 1973, the Railroad Retirement Act was amended so that railroad employees paid the same rate as social security employees. This explains why they, in effect, pay only for the tier 1 benefit; the tier 2 is financed by the railroads alone.

Mr. FLORIO. What was the reason for tier 2?

Mr. BENJAMIN. They felt they wanted to identify the portion of the annuity that is really paid for by the employer.

At one time, there was a combined annuity. There was no distinction between tier 1 and 2. They wanted to split it, and indicate which part of it is social security, and which part of it is, in effect, a private employer-employee negotiated plan.

Mr. ROONEY. I would like to get back to the questioning of the Chairman.

Here, you talked about the level of funding and the manpower, and your problems with your real estate problems in Chicago. At what level is manpower? What do you request for fiscal year 1979?

Mr. ADAMS. The fiscal year 1979 budget submitted to the administration included $34,746,000 to administer just the railroad retirement program, and an additional $10,461,000 to administer the unemployment-sickness insurance program.

These amounts were adjusted to $36,398,000 and $10,974,000.

Mr. ROONEY. So you got more funding than you requested. Is that what you are saying?

Let me ask: What level of funds for manpower was finally approved?

Mr. ADAMS. For the amount finally approved, funding was reduced from $34,746,000.

Mr. ROONEY. From $34,746,000.

Mr. ADAMS. That was the amount submitted to the administration.

Mr. ROONEY. What did you get out of the $34,746,000?

Mr. ADAMS. $34,317,000 was the final amount approved.

Mr. ROONEY. That is not bad.

Mr. OLIVER. The chairman did not finish his statement.

The amounts were adjusted to $36,038,000 to include the October 1977 Pay Act increase. So what we, in effect, requested was $36,398,000, and we got out of that the reduced amount.

Mr. ADAMS. $34,317,000.

Mr. ROONEY. What, in your opinion, are the consequences of these actions?

Mr. ADAMS. Well, I believe there would be a serious deterioration in the services provided by the Board with the manpower level for 1979, which is something we have not talked about. We have had not only reduced dollars but also reduced personnel ceilings. Our manpower reduction would put the Board in worse condition for 1979 than existed prior to the passage of the 1974 act, and that was fairly widely acknowledged to be a very complex piece of legislation to administer.

In addition, the proposed funding level for the unemployment and sickness programs for 1979 would be, as we have already stated, the lowest in the history of the Board in terms of constant dollars unless we can obtain some relief. We hope to get some response from the office of Management and Budget in the form of reapportionment beginning in October. We consider this situation to be very critical.

Mr. ROONEY. Have staffing limitations had any effect on the duration of your program?

Mr. ADAMS. Definitely. I would say so.

Mr. ROONEY. According to the number of new applications, claims are decreasing. Won't that help you to reduce the need for additional personnel?

Mr. ADAMS. On the face of it, that is true. In the meantime, we still have our 360,000 backlog to deal with.

Mr. FLORIO. Tell me: What type of claims are those that we are talking about? Are they disability claims for the most part?

Mr. ADAMS. It involves the handling of both retirement and disability claims.

Mr. FLORIO. The retirement claims would not be contested, would they? That is something that they should be able to determine objectively.

Mr. ADAMS. The eligibility requirements have to be checked out.

Mr. FLORIO. Is there an adversary proceeding to determine whether one is eligible or not eligible that causes a significant number of claims and disputes?

It seems to me that one could ascertain relatively easily whether one is eligible for retirement benefits or not.

Mr. ADAMS. I yield to Mr. Benjamin.

Mr. BENJAMIN. Well, it is not a question of the initial adjudication. The initial adjudication of retirement applications is pretty mechanical. It is the postactions that are a problem. Every year we have either railroad retirement amendments or cost-of-living adjustments and sometimes both. The Board records that are used to mechanically adjust benefits in accordance with the provisions of those changes are not always complete nor fully correct. Therefore, in the process of mechanically adjusting the rate, some cases are rejected and they must be handled manually.

Mr. FLORIO. I still do not understand what the nature of the disputes would be.

Mr. BENJAMIN. There is no dispute iuvolved. The backlog has to do with postactions. If the individual returns to work, it may be necessary to recalculate the annuity to take into account whatever work restrictions apply. This may require the annuity to be recomputed and overpayments recovered. If the individual is disabled, the disability finding will have to be reevaluated in the light of the type of work involved.

It is that type of postaction that we have to concern ourselves with, and that has been given a lower priority than we like partly because of the emphasis on paying new claims and shortages of personnel.

Over the years this type of case has been responsible for the large backlog. We have not been able to correct mechanically the cases that are awaiting corrective action because of earnings reports, or other facts that we have to get into in order to correct the payment of the case. We have to know whether they are overpaid or underpaid. The volume of such manual action has been such that we have not been able to reduce the backlog much. One of the most important factors has been the shortage of examiners.

Since these cases require manual examination they cannot be processed on a computer as are new awards.

Mr. ADAMS. Mr. Chairman, I think also that perhaps 20 years ago, the decrease in applications would have had a far greater impact than it would today because of the constant interplay as a result of the two-tier structure created. Every time there is a change in social security, it has an impact on tier 1 which means that tier 1 has to be recomputed. There is constant servicing.

We have already decided that you are eligible in drawing the railroad benefit consistent with tiers 1 and 2. Tier 1 is oversimplified. It puts both your railroad time and your social security employment coverage into one, that is your total tier 1 benefit. We subtract from that any benefits you may draw from social security at the same time.

Tier 2 has its own cost-of-living increase.

Every time there is a social security cost-of-living increase, or any increase in social security benefits, we must make a recomputation of tier 1 because we have to subtract the amount of the social security benefits from the total tier 1 benefit.

Mr. FLORIO. If you gentlemen will permit me, in the last Social Security Act, one of the things that was done by the Commission was a study of the renovation of social security toward the end of including a harmonious Government plan in one single uniform system.

Is there a study by the Social Security Administration that is being directed toward your operation at this time?

Mr. ADAMS. I do not know if the social security study is directed toward us. I would assume that it would have to be because we are so closely connected with it.

I do know that the White House has created a pension benefit coordinating group of which I am a member. They are trying to get the heads of social security, VA, the military, the Railroad Retirement Board and others to sit down together, and exchange ideas.

We have been having little briefing sessions about what they and we can do. They are trying to look down the road for their own planning benefit as to what might be the ultimate answer because of the future projected costs of these retirement systems.

Mr. FLORIO. In that vein, is anyone considering plans for transferring functions—for example, disability benefits: To have the system of disability evaluation under your jurisdiction when, in fact, the Social Security Administration has the same program?

Has anyone seriously considered incorporating both programs into one, shifting responsibilities and all the benefits that would seem to flow from you? And, as a result of not needing the manpower, I would think that most of your claims are claims regarding disability, and those are burdensome, and yet, the mechanics have been worked out under the social security system. So they would be duplicated. There are duplicated systems. That does not sound as efficient as it could be.

Has anybody talked about shifting that responsibility from you to the Social Security Administration?

Mr. ADAMS. They have not talked directly to me, or to the Board, that I know of, but I am sure it has been discussed.

Mr. ROONEY. It is a problem between labor and management.

Mr. ADAMS. It is a very real problem.

Our disability system, unlike that of social security, has been, in effect, negotiated like a labor-management agreement, and that negotiated system has been enacted into legislation.

As pointed out earlier, we have an occupational disability annuity under the railroad retirement system which does not exist under social security. That is one thing.

In other words, a man can draw disability if he has, say, 20 years of service with the railroad and he becomes disabled for the job in which he spent these 20 years working. He applies for an occupational disability annuity. Under our system, he can draw an occupational disability annuity and still not be totally disabled for any substantial gainful employment, as would be required under the social security system. This has been negotiated in labor-management agreements.

Mr. FLORIO. What you are saying is that informally, it has been negotiated, and someone presiding has persuaded Congress to write that into law. You do not negotiate laws.

Mr. ADAMS. That is correct. It was, however, formally negotiated as a labor-management agreement which in order to become effective and administered by the Board, was subsequently enacted into legislation.

Mr. ROONEY. Mr. Chairman, what are some of your proposed solutions to the problems now at hand in your retirement program? What are you going to do about it?

You told us of the problems. You gave us the numbers. What are you going to do about it?

First of all, how many employees do you employ?

Mr. ADAMS. Mr. Nolan, our chief executive officer, what is our total number of employees?

Mr. NOLAN. 1,814.

Mr. ADAMS. Roughly, there are 1,800 people representing the Board in various offices around the country.

Mr. NOLAN. We have approximately 600 employees throughout the Nation in various field offices serving the public. We have the balance of the employees at the headquarters office in Chicago. Throughout the system now we have support staff. We have administration. We have claims examiners to pay retirement claims and unemployment claims. We have a mix like any other social insurance agency, but the gross right now is 1,814 employees.

Mr. ADAMS. Well, in a specific answer to your original question, our solutions are taking a couple of directions, or more than one dimension.

We are trying to continue to automate our payment processes. Obviously, this is going to take time. Once we can convince the powers that be that we should spend additional funds to acquire new computer facilities, that alone would take a couple of years in procurement time to get on line, so to speak.

In the meantime, we have the backlog that we still have to use the manual process to take care of.

We would also like to automate some of our clerical operations.

Mr. ROONEY. Who authorizes your appropriations?

Mr. ADAMS. The appropriations committees.

Mr. ROONEY. All right. If I were the chairman of the Appropriations Committee and if you told me what you said today, I would be appalled. I would want to help you.

What do they say when you tell them this sad story of the backlog? For instance, the backlog accumulated in the unemployment and sickness insurance programs.

Mr. BENJAMIN. Mr. Koch is the director of unemployment and sickness insurance.

Mr. KOCH. Mr. Chairman, we in unemployment and sickness insurance are paying the unemployment and sickness claims promptly, but since 1975, we have been working overtime to keep reasonably current with the workload and, in addition, we have used our staff personnel, whose real work is improving the procedures of adjudicating cases, to assist with the routing claims work.

Now, this is a reasonable use of personnel for short-time peak workload periods, but it has been necessary for an extended period of time so that the efficiency of the Bureau of Unemployment and Sickness Insurance has been impaired.

Thus, our backlog consists of work related to the development of procedures and instructions that are necessary to efficient and accurate claims processing.

Mr. FLORIO. Mr. Chairman, may I ask a couple of fundamental questions.

Mr. ROONEY. Certainly.

Mr. FLORIO. To be perfectly frank, I am confused as to what you are, and where you get your money from.

Looking at some of the information that has been given to me, apparently, you have to get permission from OMB to draw on the trust fund for administrative expenses. Is that correct?

Mr. ADAMS. That is correct.

Mr. FLORIO. OK. Now, that is how you have been paying personnel. How do you hire, or do you get permission to draw from various trust funds, that I assume, you have jurisdiction over?

Have you ever gotten money from Congress directly?

Mr. ADAMS. The only money that comes out of the general funds of the Treasury was a result of the 1974 legislation.

Mr. FLORIO. Is that a one-shot thing?

Mr. ADAMS. Well, it was a one-shot thing in this sense: There was an authorization for the appropriation of such amounts as may be necessary.

There are authorized to be appropriated such amounts as may be necessary over a 25-year period. The plan was for the level payments over 25 years to phase out the so-called dual payments for benefits where people were receiving benefits both through social security and railroad retirement. The dual benefits were bankrupting the railroad retirement system. So the two-tier formula was conceived.

Mr. FLORIO. Have there been draws under that authority?

Mr. ADAMS. Yes. The estimate, as passed in the 1974 legislation, was $250 million over a 25-year period. In the following year the actuaries stated that the amount should have been $350 million a year for 25 years. And for the shortfall, we requested, and we will request again, $363 million. None of this goes to administrative expenses. It goes solely to paying the costs of phasing out the dual benefits that people were already drawing.

Mr. FLORIO. From whom did you request that?

Mr. ADAMS. From OMB and from the Appropriations Committee, but our request is approved or disapproved by OMB.

Mr. FLORIO. What you are saying is that the Appropriations Committee will appropriate the moneys for the initial 1974 authorization for 25 years.

Mr. ADAMS. Yes, as authorized in the 1974 act. It is authorized to appropriate such amounts as may be necessary for 5 years: 1976 through the year 2000—such sums as may be necessary to pay the costs for dual benefits.

Mr. FLORIO. Apparently, that comes out of the trust fund.

Has OMB indicated a cap, or a limit of the percentage of the trust fund beneath which you shall not dip into? What is the level of your trust fund? How big is the retirement trust fund? What kind of reserves do you have?

Mr. ADAMS. What is the status?

While someone is thinking of a precise answer, I think it appears to be $3½ billion.

Mr. FLORIO. $3.5 billion in the retirement trust fund.

How about the supplemental trust fund?

Mr. ADAMS. The supplemental annuities are paid through the tax plan. They are paid solely by the employers on a pay-as-you-go basis.

In any quarter that the amounts there are not sufficient to pay the supplemental annuities which are paid out, or applied for, the Board adjusts the rate, and in the next quarter, the tax goes up to make up the shortfall.

Mr. FLORIO. So in other words, if one railroad goes into bankruptcy, if it goes into some insolvency situation, the employees of that railroad won't be drawing some supplemental benefit if they are entitled to it, or will it shift that cost to another railroad?

Mr. ADAMS. It will shift it to another railroad, to all the other railroads participating in the plan.

Mr. FLORIO. There is no cushion?

Mr. ADAMS. In the supplemental annuity?

Mr. FLORIO. In the supplemental annuity. OK.

Mr. ADAMS. A small amount. I think it is the maximum.

Mr. FLORIO. How about shifting back to the retirement trust fund. I assume that someone has consulted with accountants and auditors. Is the $3.5 billion reserve regarded as sufficient? How liquid is that?

Mr. ADAMS. It is not regarded as sufficient.

Mr. FLORIO. How much outstanding obligation is there?

Mr. ADAMS. There is approximately a 4-percent deficit. In other words, we are paying out annually more than we are collecting per year, roughly, by approximately 4 percent.

The projection is that by 1986 or 1988, if this deficit continues, the fund will run out of money.

Mr. FLORIO. 1988.

Mr. ADAMS. 1986–1988: Somewhere in that area.

Mr. FLORIO. I assume that you are asking us, or you are asking OMB to authorize further withdrawals from the already inadequate trust fund for administrative expenses.

Mr. ADAMS. Yes, sir. That is true. And, hopefully, on the basis that we hope to be able to convince both the administration and the Congress that if we spend a few more dollars, in the long run, we will be saving money if we can get the new computer on line instead of trying to handle the claims, manually or with the old computer system.

Mr. FLORIO. Obviously, I not not purport to be an expert. However, I think that both of us are kind of belaboring this, but with firsthand knowledge, or with first-impression knowledge, it seems to me that what you are asking for is to get more Band-Aids to patch up a leaky ship that is going to sink.

Instead of asking for more Band-Aids, somebody ought to start giving a comprehensive examination for resystemitizing this whole process.

I really have a feeling as a result of just an hour here that we are being given something that is not very healthy.

Mr. ADAMS. If I might add one thing, and then you can perhaps ask my labor and management colleagues to add their comments to this.

When the 1974 legislation was enacted, it was hoped that the fund was adequately funded on a rather sound basis, especially when legislation was enacted to pick up the cost of windfall benefits.

Subsequently, it was discovered that they were running approximately a 4-percent annual deficit.

It is my understanding that it is expected to be negotiated between labor and management—this is still a negotiated agreement—that they will continue in negotiations, and solve that 4-percent deficit problem.

Mr. FLORIO. How do you negotiate that?

Mr. ADAMS. In a labor-management agreement.

Mr. FLORIO. What is there to negotiate if you have got less money coming in than you expect to pay out? I do not understand how you negotiate that.

Mr. ADAMS. If you consider retirement and the fringe benefits of employment a part of the overall employment package being finally considered.

Mr. FLORIO. Would you increase the contribution, or decrease the retirement benefit?

Mr. ADAMS. If Mr. Chamberlain or Mr. Oliver have anything that they wish to add to that, I do not want to prevent that at this time.

Mr. CHAMBERLAIN. I would like to say, Mr. Chairman, that, No. 1, we should keep in mind that the 1974 legislation was a product of labor-management negotiation, as Mr. Adams pointed out.

The 13th Actuarial Advisory Committee set up by that legislation had projected that we would run into this financial problem in 1986. Labor and management have been very concerned about this and, in fact, with respect to the financial problem projected for 1986, there have been preliminary discussions between labor and management concerning this problem. We anticipate that the discussions indepth will be continuing in the very near future concerning the cure for the deficit.

Mr. FLORIO. Who is in charge of administering the pension funds?

Mr. ADAMS. The Railroad Retirement Board.

Mr. FLORIO. Where would you say that most of the pension funds come from, through the use of Treasury notes, securities?

Mr. ADAMS. Invested securities.

Our Director of Budget and Fiscal Operations is Mr. John Suker.

Mr. ROONEY. You must have all of the employees from Chicago here today.

Mr. ADAMS. Almost every department except the actuary.

Mr. SUKER. All—virtually all of the trust funds are invested in securities issued by the Government. We do not have any outside public investments by law.

Mr. FLORIO. Thank you.

Mr. ROONEY. Let me ask you, Mr. Chairman: Have the railway labor organizations and railway management asked you to do things for which your staff is not adequate? Are there any demands that you cannot handle put upon you by labor and management?

Mr. KOCH. May I help you?

Mr. ADAMS. Yes, Mr. Koch, please.

Mr. KOCH. The railway labor organizations and management both expect us to do things, some of which we cannot do. This has to do with unemployment insurance.

The railway labor organizations expect us to pay benefits very promptly. We do have a highly automated benefit payment system, and we are able to pay most of our claims very quickly. Where information is lacking, or where the information on a claim is inconsistent with the record, such claims cannot be determined quickly.

Now, I am glad to be able to report that approximately 98 percent of our unemployment claims and sickness claims are paid within 7 days after receipt of the Bureau of Unemployment signature card.

Labor representatives and management, on the other hand, have indicated on numerous occasions that the Board ought to make more checks on employment, and they have indicated their willingness that the administrative funds which they provide should be used for that purpose.

In fiscal year 1978, for example, $16 million was collected in contributions allocated by the law for the administration of the Unemployment Insurance Act.

Mr. FLORIO. From whom were the contributions received?

Mr. KOCH. The contributions were received from the railroad employers.

Mr. FLORIO. Labor makes a comparable contribution?

Mr. KOCH. Labor makes no contribution.

Mr. ROONEY. Do you pay strike benefits?

Mr. KOCH. Yes, we do.

Mr. ROONEY. What do you pay per week?

Mr. KOCH. We pay $25 per day for each day over 4 in a 14-day registration period.

Mr. ROONEY. Who pays that money into the fund?

Mr. KOCH. The railroad employers.

Mr. ROONEY. You receive no contributions from employees?

Mr. KOCH. No contributions are received from employees.

Mr. ROONEY. Is that out of the supplemental fund?

Mr. KOCH. No.

Mr. ROONEY. Is that a separate fund?

Mr. KOCH. It is a separate fund.

Mr. ROONEY. How many other separate funds do you have? We have three so far.

Mr. KOCH. There are the funds which you have heard of under the railroad retirement system. There is the railroad unemployment insurance administrative fund which is financed, as we have just said. There is the railroad unemployment insurance account from which benefits are paid.

The employers pay contributions on a sliding scale, depending upon the amount of the balance in the railroad unemployment insurance account to which, for that purpose, the moneys in the administration fund are added.

The administration fund is contributed to in the amount of one-half of 1 percent of the payroll not exceeding $400 in any 1 month for any employee.

The current total rate is 8 percent. So one-half of 1 percent is set aside for administration. The remainder goes into the benefit account.

Mr. ROONEY. Let me get back to your real estate problems.

Has the Board requested the GSA to provide a new location for the Railroad Retirement Board?

Mr. ADAMS. We have asked GSA to find new quarters for the Board.

Mr. ROONEY. Does the Government own the present quarters that you are in?

Mr. ADAMS. The Government owns it; yes. It is a federal building.

Mr. ROONEY. I saw some illustrations of the crowded facilities you have there.

Mr. ADAMS. It has been occupied by the Board since about 1941.

Mr. ROONEY. With a 1941 air-conditioning unit.

Mr. ADAMS. Which is sometimes nonexistent due to the fact that it breaks down frequently, as do the elevators.

Mr. ROONEY. Have you asked for additional quarters, or for the modernization of the facilities? What does GSA say? What has GSA's response been?

Mr. ADAMS. Well, the Board has determined that we needed something in excess of 300,000 square feet in order to try to house the whole Board adequately under one roof.

GSA, in their negotiations, have told us that anything over 300,000 square feet for one agency gives them serious problems, and if we could scale that to, say, 250,000 square feet, it might be able to do a better job than they have up to now in finding us quarters.

But the big problem is: What functions do we separate that can operate independently without being a part of the Board?

In the beginning, we tried to explain that when we set up our organization, we tried not to have too many overlapping functions.

For example, we have a separate Bureau of Data Processing, and even though you can separate these trust accounts and, say, unemployment is operating over here, and retirement is operating over there, they are both using the same data processing center.

If possible, we would like to keep them under the same roof so that we can function effectively.

We considered trying to move our printshop out. We do have some files that are not quite, but almost, dead, that we have moved out. Perhaps in the updating of equipment, if we could get new filing methods, perhaps even eventually reducing them to microfilm to save space, we could get more use out of 250,000 square feet; 250,000 square feet may not be impossible.

Mr. ROONEY. What space does the present facility encompass?

Mr. ADAMS. 245,000 square feet in the headquarters building. And what I am saying: We are talking about needing over 300,000 square feet now, with the expanded activities that we have referred to, such as the computer facilities we have added in the last 13 years our basic computer system is 13 years old, with some additions, roughly 6 years ago. In my limited understanding of computer technology, that would be fairly ancient equipment.

Mr. ROONEY. So in other words, you are saying that you need a complete renovation of your present quarters and a completely new data processing system.

Mr. ADAMS. We hope to be able to convince both you and the administration that this will be a saving in the long run.

Mr. FLORIO. Do you think that it might be a more productive approach to get labor and management to start thinking about a rearrangement in terms of the fiscal needs of the trust funds so as to provide you with the ability to make a more persuasive case to OMB. I think that OMB right now is probably acting very responsibly. If you are forecasting very bad difficulties in 1986, and you have not got enough money now, and you want to take more money from OMB, and OMB not being totally arbitrary to get, or taking money out, it might be more productive to attempt to introduce to labor and management the idea of making a combination of the accounts which may be necessary for strengthening the funds so that an appropriate amount of administrative funding could be provided to you.

Mr. ADAMS. I think I indicated that we are dealing with rollover.

One is that of the total amount in the fund, 99 percent goes for benefits, and we are talking about 1 percent that goes to administer those benefits, to make sure that those benefits are properly allocated, to make sure that we do not overpay, that we do not underpay, that we pay promptly, and so on.

The major problem to which you are addressing yourself results from the fact that: (1) We are living much longer, much longer, and (2) we are retiring earlier, much earlier.

This is the problem to which you all addressed yourselves last year with respect to social security, but in that system, you made some very substantial changes with respect to social security.

Now, that is separate and apart, as I see it, from our duty to efficienctly administer the funds available to us.

Mr. FLORIO. My understanding is, if I understand what you are saying, that the exclusive source of funds to administer the program and the benefits well comes from the pool of moneys that you are using for the benefits as well which you have already described as inadequate to deal with the benefits.

Mr. OLIVER. They are inadequate.

Mr. ADAMS. They are inadequate.

Mr. FLORIO. So I am suggesting: Does it not seem logical to get the trust funds in a healthy situation so that you can then feel free to draw upon more of those funds if, in fact, they are needed for more effective administration?

Mr. OLIVER. I agree with you. We need to do both. We do need to get the trust funds in a healthy situation. That is a larger problem, but we also need, while we are in the process of doing that, to have sufficient moneys for administration to make sure that we are not spending a great deal more than we need to spend, that we are spending it wisely, that we are spending it promptly, and that we are giving good service to our beneficiaries.

Mr. FLORIO. I understand what you are saying.

All that I am saying is that your case is going to be somewhat difficult, maybe superficially, but nevertheless, even superficially, difficult to make when, in fact, you acknowledge that the funds are already insufficient to meet the primary purpose of the funds, that is the benefits, and yet you are asking to draw more out for purposes of administration.

Now, it may very well be that you can make the case for long-term benefits, more administration individuals, computers, so on, but superficially it seems to me, it is a very difficult case for you to make.

Mr. ADAMS. I agree.

Mr. ROONEY. Mr. Chairman, I have several additional questions, but in the interest of time, I am going to submit them to the reporter, and I hope that you will respond to the committee.

I have no further questions.

Mr. Florio?

Mr. FLORIO. One last point. Is anyone doing anything with the Department of Transportation, or is anybody in Congress, to make more rational the entire system either within the confines of the existing collective bargaining obligations of labor and management, or through some structural changes in the whole system?

Just listening today, with multiple funds and tiers, it seems like a very complicated system, and your response to this point has been: "Give us more people and more computers so that we can make as effective as possible what appears to be a somewhat irrational system," as opposed to going back and trying to make suggestions for congressional consideration, as to how to make the system a little more simplified thereby avoiding some of the duplications that must be overcome.

You have got four or five funds to administer as opposed to one fund to administer. That has got to have an adverse impact upon efficiency.

Is anyone doing anything, in terms of the total system, to look into the situation throughout the system?

Mr. CHAMBERLAIN. Yes. Labor and management are very much concerned about this, and have been working on this.

Mr. FLORIO. Has anyone in the Government been doing anything?

Labor and management, apparently, are responsible for what we have now, if I understand what you are saying. These matters have been negotiated. They have been enacted into law.

Mr. CHAMBERLAIN. My expertise in the area lies within the labor and management field of the railroad industry.

I appreciate the fact that you understand that we have a very complex system. We were in the process of coming up with a legislative package of technical amendments proposing changes in the law that would simplify many of the complex areas of our system.

We felt that because of the deficit problem in tier 2, it would be inappropriate at this time to burden this Congress with making those changes. Labor and management have every intention of expanding our discussions, and of expanding our package of technical changes in amendments; which would include other matters of substance which we hope to have before Congress early next year.

Mr. FLORIO. Thank you, Mr. Chairman.

Mr. ADAMS. May I add one more thing, Mr. Florio.

Mr. FLORIO. Surely.

Mr. ADAMS. As a response, at least a partial response, to the question of whether anybody is taking a good, hard look to see if you cannot simplify the whole system. One of the things that I had in mind when I first came here—and, fortunately, I caveated my statement—was to the effect that, subject to budgetary restraints and personnel ceilings, I would like to see established at the Board some kind of planning capacity. Appoint somebody to look at this, and see if they couldn't come up with ideas as to how to supplify the whole thing. The problem is not so much our dollar ceiling, really, as it is personnel ceilings. We cannot hire more than 1,800 people. We need 1,800 bodies just to keep new claims current.

If we did have the bodies and the dollars, we would be in the position, during labor and management negotiations, to furnish information requested by the negotiators, and have some answers of our own to the question: Do you have any ideas for us?

We do not primarily because we do not have the staff nor the time to devote to it. We are busy trying to keep up with claims.

Mr. ROONEY. That concludes our hearing.

Mr. ADAMS. Thank you, Mr. Chairman.

[The following material was received for the record.]

QUESTIONS AND ANSWERS FOR OVERSIGHT HEARING ON THE ADMINISTRATIVE ACTIVITIES OF THE RAILROAD RETIREMENT BOARD TO BE HELD ON SEPTEMBER 26, 1978 BEFORE THE SUBCOMMITTEE ON TRANSPORTATION AND COMMERCE OF THE HOUSE COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE

1. Q. How many retirement claims from employees do you presently have on hand?

A. There were 15,551 retirement initial and reactivated applications pending as of October 1, 1978. This includes 4,379 employee age and service annuity applications; 2,403 employee disability annuity applications; 4,681 spouse

annuity applications; and 4,088 employee supplemental annuity applications. Of the total, 4,480 (28.8 percent) are being paid an annuity at a temporary rate pending the receipt of data needed to finalize the award. If supplemental annuities are excluded, then 39.0 percent are receiving a temporary rate.

2. Q. What is the current backlog of survivor claims?

A. There were 6,730 survivor initial and reactivated applications pending as of October 1, 1978 including 4,288 for monthly survivor benefits and 2,442 for lump sum payments.

3. Q. What is the current backlog of other claims related to railroad retirement?

A. The following is the status of the other major categories of recurring work pending as of October 1, 198:

Social Security Payments

Initial payment action	4, 338
Post-entitlement (adjustment) action	8, 000
Total	12, 338

Railroad Retirement Post-Entitlement Actions

Employee, spouse and supplemental	9, 085
Widow, child and parent	4, 430
Total	13, 515

4. Q. What is the backlog of unemployment claims?

A. We have no backlog of unpaid claims. Unemployment claims are paid promptly; about 98 percent are paid within seven days of receipt in headquarters. However, we have kept current on benefit payments by working overtime, by deferring debt collection activities, and by shifting staff personnel to routine claims paying work. While this is reasonable in short-term peak periods, it is inefficient if done for long periods. We have been doing it since 1975.

Although we are able to maintain prompt benefit payments, we have a backlog of work to be performed by staff personnel. As we have shifted these people to claims paying work, we have deferred work on developing better computer programs and processing procedures. For example, we do not have complete computer programs to process strike claims in accordance with the 1975 amendments to the Railroad Unemployment Insurance Act. Consequently, when the Norfolk and Western strike occurred this past July 10, we had to do more manual work to pay the strike claims than we would have done if we had full computer programs. With about 20,000 employees claiming benefits on account of this strike, our lack of computer programs severely affected our ability to pay benefits promptly.

5. Q. What is the backlog of sickness claims?

A. As with unemployment claims, we have no backlog of unpaid sickness claims. About 75 percent of sickness claims are paid the same day they are received and 98 percent are paid within seven days. However, as indicated by the answer to the question about the backlog of unemployment claims, we have deferred other work in order to maintain prompt benefit payments.

6. Q. What other claims do you have that constitute a part of your current backlog?

A. Under the railroad retirement program, other types of claims and the number of actions pending are:

Applications for "period of disability" under Social Security Act (retirement annuity awarded)	4, 136
Initial applications for medicare entitlement	380
Other medicare activity	2, 795
Work deduction cases	22, 588
1976 and 1977 cost-of-living rejects	1, 960
Nontiered cases	950
February 1978 operation rejects	400
1978 cost-of-living rejects	11, 200
Cost-of-living review cases	70, 748
Postedit rejects	45, 000
Automatic earnings reappraisal operation recomputations	34, 000
Survivor dual-benefit windfall cases	1, 000
Vesting determinations	16, 000
Overpayment recovery cases	1, 723
Critical cases (involving protests, congressional inquiries, etc.)	305
Total	213, 185

In addition, the Bureau of Unemployment and Sickness Insurance pays claims filed by the Consolidated Rail Corporation and other acquiring railroads for reimbursement of various protective payments the railroads are required to make to employees covered under the Regional Rail Reorganization Act. We pay these reimbursement claims immediately, if the funds are available. After that, the claims are processed through a computer program which, among other things, audits the claims to detect errors, omissions, and discrepancies. We are about five to six months behind in our auditing and examining process.

7. Q. Is this backlog of claims worse than it has been in the past or about the same?

A. The backlog of claims has increased continually since the passage of the 1974 Act. It is presently worse than ever in the past.

8. Q. On page 66, in the Committee Print containing background information on the railroad retirement system, there is a chart which indicates that OMB allowed you $2 million less for handling retirement claims in 1979 than you requested and $2,285,000 less for unemployment claims. Is that accurate?

A. Yes.

9. Q. On that same page, it indicates that you were allowed only 1,800 full-time employees rather than the 1,900 requested by the Board and you were allowed only 20 part-time employees rather than the 75 requested. Is that accurate?

A. Yes.

10. Q. What was the amount of money appropriated for the Board's administrative expenses during this fiscal year?

A. In fiscal year 1978, $34,732,000 was appropriated for administrative expenses for the railroad retirement system. For the railroad unemployment and sickness insurance systems, $10,366,000 was apportioned for 1978.

11. Q. Has the Board had to authorize much overtime in order to keep its backlog at the current level?

A. The Bureau of Retirement Claims' overall workload has greatly increased over the past several years. In an attempt to cope with the rising case load, the amount of authorized overtime in this bureau has also increased. In fiscal year 1973 (prior to the 1974 Act), this bureau worked 52,075.5 hours of authorized overtime. Compare this figure to 103,313.5 hours in fiscal year 1976, 96,385.5 hours in fiscal year 1977 and 67,579.5 hours in fiscal year 1978, increases of 98 percent, 85 percent and 30 percent, respectively.

Since this bureau was reorganized during this period and the composition of certain units was changed, it is impossible to accurately gauge the overtime increases in all claims areas. Some units, however, have retained a basically similar composition of personnel and work areas during this period. Comparison between the months of June, July and August in the years 1974 and 1977 reflect the general increase in overtime in the Bureau of Retirement Claims.

In the retirement and survivor benefits unit, a total of 7,989.5 hours of overtime were worked in this three-month period in 1974. In 1977, 12,221.0 hours were worked, an increase of approximately 53 percent.

In the benefit continuity unit, which primarily handles adjustments due to excess earnings, a total of 718.0 hours of overtime were worked in 1974. In 1977, 1,419.0 hours were worked, an increase of approximately 98 percent.

In the health insurance and disability units, a total of 1,370.5 hours of overtime were worked in 1974. In 1977, 3,287.0 hours were worked, an increase of approximately 140 percent.

As you can see, even with substantially increased overtime, the overall backlog of claims has not decreased, but actually increased. Although the backlog of claims in the health insurance area has decreased, much overtime was needed to accomplish this.

12. Q. In your experience, do you find that workers on an overtime basis are as productive as workers on a regular time basis?

A. A comprehensive survey comparing the productivity of employees on regular time and employees on overtime has not been conducted in the Bureau of Retirement Claims. There are various reasons, which I have outlined below, why this type of survey has not been attempted.

It is my opinion, however, that overtime work is not as productive as work performed on regular time. I believe this to be true since employees are fatigued and not as alert in the evening or on Saturday as they tend to be at the beginning of a work day or work week. Due to this fatigue, work may be performed at a slower production rate and lack the accuracy that would be present at an earlier period of a work day or work week.

In this bureau, overtime work usually consists of examiners making a concentrated effort to reduce the backlog of a particular type of claim. In any given overtime period, examiners may be instructed to work exclusively on the certification of social security benefits, payments of 120 day-old claims, the review of cases processed electronically, or the authorization of a particular type of claim. Such an instruction, to work on a specific type of claim during an overtime period, does not lend itself to compiling comparable statistics because on regular time examiners work in many different claims areas.

Also, not all regular time employees participate in overtime work. Therefore, any comparative survey conducted would not include the same personnel of a given unit in both situations and the data gathered would not be statistically valid.

In addition, some overtime work performed is not measurable. Answering inquiries, verifying the accuracy of payments awarded, and processing certain internal functions are not quantitative duties.

13. Q. How many additional employees do you think the Board needs in order to cut the backlog to a more reasonable level?

A. In the Congressional budget estimate for fiscal year 1980, the Bureau of Retirement Claims has projected the need for an additional 120 man-years in order to reduce the backlog.

In the Bureau of Unemployment and Sickness Insurance, we now have 157 people in headquarters. In our opinion, we need 182 people, which is an increase of about 15 percent.

14. Q. Is most of your claim processing done through the use of computers?

A. Yes. Using September 1978 as a typical month, 84.2 percent of all initial awards that were made were mechanically certified in the Bureau of Retirement Claims. A breakdown by types of claims is as follows:

[In percent]

Employee age and service annuities	97.2
Employee disability annuities	76.3
Employee supplemental annuities	88.2
Spouse annuities	88.3
Survivor recurring annuities	60.6
Survivor lump-sum annuities	77.6

The unemployment and sickness insurance program is also highly automated with 90 percent of all claims accepted by the computer system and processed to as conclusion.

15. Q. How does that compare with the work process of the Social Security System or the Civil Service Retirement System?

A. The Railroad Retirement Board does not maintain information on the extent to which claims processing activities have been computerized at the Social Security Administration of Civil Service Commission.

16. Q. What areas do you perceive that the Board has the most serious problems providing time service?

A. Undoubtedly cost-of-living adjustments and the payment of social security benefits. Delays in these two areas cause the largest number of complaints from beneficiaries.

17. Q. We recognize that there are sharp fluctuations in unemployment insurance workloads. For what level workload should you be staffed?

A. We should be staffed for a medium workload at such a level that we can absorb peak workloads by working overtime. It is obvious that we should not be staffed for peak loads, and we would not be able to handle peak loads if we were staffed for only minimum loads. Therefore, in our opinion, we need 182 people in the Bureau of Unemployment and Sickness Insurance and 156 man-years in field offices. We now have 157 people in the bureau and 152 man-years in the field are devoted to unemployment insurance.

18. Q. Could you give a brief history of data processing at the Railroad Retirement Board?

A. The Board acquired its first computer in early 1960. Our first operation was to convert over 18 million punch cards, covering approximately 10 million railroad employee earnings records, to magnetic tape.

From those early days, as we have converted more and more of our manual processes to the computers, we have also attempted to keep up with the "state of art." At the same time, we have tried to service the needs of the various Board offices in a cost-effective manner.

Today, we have two computer systems, one is almost 12 years old and the other is 6 years old. These computers are not identical, and there lies our problem. The older computer is what is referred to as a "second generation" machine, and our 6 year old computer is a "third generation" machine.

Our newer computer is to a point of saturation, where new projects cannot be added. Because of the generation gap, our older computer cannot be brought up to a level where it would provide the needed backup for our workhorse.

19. Q. What are some of the dire results that could occur if the benefit checks were not delivered on time due to your computer problems, and what steps have you taken to prevent this from happening?

A. Every month our main computer produces magnetic tapes which are forwarded to the Treasury Department to prepare checks for over one million of our beneficiaries. This work, which is performed on our main computer, is governed by two time constraints. Based upon the time schedule Treasury has set for delivery of the tapes, which is six working days from the end of the month, and the cutoffs established for processing the current month's claims, we have five working days to run all the necessary programs. If our main system were to break down for any length of time and the checks were delayed, the consequences would be disastrous. Our field offices would come to a standstill with phone calls and personal visits by irate beneficiaries. The Board would be flooded with so much mail, it would be months before we could come out from under. And, last but not least, would be the ill will created and loss of confidence with the Board by the beneficiaries. We have experienced these situations on a small scale when one segment is delayed by the Postal Service. The one or two offices affected are swamped with calls or visits, but usually the problem is solved in a day or two. But for the one or two days, these offices are at a standstill answering the various inquiries. The delay of the checks due to a computer breakdown at headquarters would just multiply this type of situation. We have been most fortunate so far that we have not had to face this crisis, but we have come close a number of times. In order to provide for a "fail-safe" system, we requested funds for a new, more powerful computer system in our 1978 budget request. These funds, together with funds for expansion and updating or our computer facilities, were removed from our budget, as were funds for software programs which aid the efficient running of a computer installation. Since we were denied these funds, we began looking into the used computer market for one similar to our main computer (an IBM S/370–155). The market for the type of computer we are interested in is becoming more and more favorable. We may be able to acquire a backup computer sometime in fiscal 1979. Also under investigation is the possibility of obtaining a system which some other agency may be declaring surplus. This type of computer is only an interim step which should take us through the next three or four years.

20. Q. What are your plans if you get another computer?

A. If we were to get another computer, we would be able to provide the necessary backup and also convert a number of projects that we have on the drawing board. Some of these plans include converting more of our claims adjudication work to the computer. We also contemplate installing video terminals in our field offices to provide them with ready reference to information regarding our claimants. Along with the computer, we would acquire the necessary software programs that would help us in bolstering the security of our data files to prevent misuse or abuse.

21. Q. Have there been any recent court actions which will have an appreciable effect on the Board's administrative operations?

A. At the present time approximately 40 cases directly involving the Board are pending in various courts. This caseload is higher than it has been at any time since at least the year 1963. Despite this fact, due to the employment ceilings placed upon the Board, the Board actually has fewer attorneys now than it did in 1963. Thus, the very number of court actions in which we are engaged, coupled with the heavy workload of our attorneys in matters not involving court cases, places a definite administrative burden on our legal staff and prevents us from performing some functions which we feel we should be engaged in for the benefit of the Board as a whole.

Insofar as the Board generally is concerned, there is one case in particular which we believe will have a significant impact on the Board's administrative activities. This case (*Pope* v. *Railroad Retirement Board*) is an action presently pending in the United States District Court for the District of Columbia which is challenging the constitutionality of the procedures which the Board followed in the past in recovering erroneous payments. As a result of this action and similar court actions involving other state and Federal benefit paying agencies the Board has changed

its recovery procedures substantially to provide greater opportunities for overpaid beneficiaries to challenge the recovery of erroneous payments and to have oral hearings at which they can present their arguments as to why no recovery should be made by the Board.

While these changes must be considered desirable because they will provide beneficiaries with a greater opportunity to be heard, it must also be recognized that more work will be placed on those who make the initial decisions regarding the existence and recovery of erroneous payments. Furthermore, the increased number of appeals which is sure to follow will add to the already heavy workload of the Board's appeals referees.

With regard to the workload of appeals referees, it is worth noting that several courts have already ruled that a Social Security administrative law judge must issue a decision on a claim for disability benefits within a specified time (either 90 or 120 days) after a request for a hearing is made. If the administrative law judge does not issue a decision within the specified time period, the Social Security Administration must begin paying disability benefits to the claimant even though he has not been found to be disabled. One of these decisions affecting the Social Security Administration (*White* v. *Mathews*) was rendered by the United States Court of Appeals for the Second Circuit, and the Supreme Court has declined to review that decision. Although the Board has not yet been sued in such a case, we have to believe that it is only a matter of time before we will be.

The net result of the above-mentioned factors, taken together, means, simply stated, that more time will have to be devoted to each case, that there will be an increased number of appeals, and that many appeals will have to be handled more expeditiously.

22. Q. What part of the Railroad Retirement Board has the responsibility for administering the railroad retirement program?

A. The Bureau of Retirement Claims has the major responsibility.

23. Q. What is the scope of the bureau's operations?

A. It is responsible for the payment of retirement, disability and survivor benefits under the Railroad Retirement Act. It is also responsible for the Medicare activities relating to the Board and for the payment of social security benefits to railroad retirement beneficiaries.

24. Q. How many employees does the bureau currently have?

A. As of September 30, 1978 the bureau was authorized to have 624 permanent employees. At the present time all of these positions are filled.

25. Q. Is the current staffing level adequate in your opinion?

A. No. The bureau itself needs at least 80 additional employees and about 120 man-years in order to provide a satisfactory level of performance.

26. Q. Wasn't the Board given additional employees at the time the 1974 law was enacted?

A. Yes, from 1,736 to 1,900. But because of subsequent cuts in our ceiling since that time, we now have a ceiling of 1,838. The bureau employment has decreased from 704 to the present level of 624.

27. Q. You spoke of levels of services being provided your beneficiaries. How long does it take you to pay an initial claim for benefits and what degree of improvements are you looking for in the near future?

A. Recently compiled figures show that for this fiscal year, about 40 percent of our retirement and survivor applications were paid within 60 days of filing and that 65 percent are paid within 90 days. Of the other 35 percent, I believe at least 20 percent are not paid within 150 days. At the end of each month, records are produced of cases pending more than 150 days and there is always a significant volume; generally 3,000 to 3,500.

28. Q. How many social security awards do you handle a month and how many payment actions do you have on hand?

A. Approximately 3,000 initial social security payments are awarded each month. Currently, we have 4,300 initial awards awaiting payment.

In the area of post-entitlement activity, 2,300 payment actions are made each month. We have 8,000 post-entitlement actions pending.

29. Q. How much time is added to the certification process by your agency having to make payment of the social security award action?

A. The processing time needed to handle a case varies and results from varying degrees of complexity involved in handling a case. For instance, a case which involves only social security entitlement is the easiest and quickest to pay. On the other hand, if a railroad annuity is involved, we must simultaneously award the social security benefit while adjusting the railroad annuity. This take a great deal more time and effort.

30. Q. Are you involved in decoupling and wage indexing?

A. Yes, the 1977 social security amendments changed the way in which we will compute the first tier of railroad retirement annuities beginning in 1979. The new computation method was designed for the Social Security Administration's computer system and we will have to make the same complex modifications to our systems. This is another example of the type of activity that keeps the bureau from making more progress on its own systems.

31. Q. Higher backlogs obviously delay the Board in recovering overpayments. How serious of a problem is this?

A. Quite serious for the Board, the annuitant, and the Trust Fund. We detect around 30,000 erroneous payments each year ranging from a few cents to several thousand dollars. Early recovery of those amounts is essential to effective and responsible administration. Delays can also create serious hardship for annuitants. For example, if a $30 a month overpayment is not corrected for 3 years, it amounts up to almost $1,100, a large sum even these days. Then there's the lost interest income for the Trust Fund since the law has no provision to collect interest on debts owed the Board.

32. Q. Has the 1974 Act directly affected erroneous payments?

A. Yes, but in two ways. First, having the Board pay social security benefits has eliminated most of the problems collecting overpayments caused by dual benefit payments. Before we pay a social security benefit, we reduce the railroad retirement annuity and deduct any overpayment out of the social security accural. A case occasionally slips through but we're partly successful in this area.

On the other hand, the 1974 Act created new reasons for overpayments and made some of the provisions so complex that many of our annuitants don't really understand all the events that should be promptly reported to the Board to avoid an overpayment.

On balance, the 1974 Act has probably contributed to our overpayment problems.

33. Q. As I understand it, you need more positions mainly because the law has become so complicated over the years. In view of this, how does the number of employees requested in your 1979 budget compare to the number say 10 years ago?

A. The full-time permanent ceiling for the entire agency in 1968 was 1,750 employees. The 1979 ceiling is 1,800 or an increase of 50 full-time permanent positions in roughly 10 years. In that 10 year period there have been at least four or five major program changes which have impacted on the Board's personnel needs.

34. Q. Your statement indicates that your administrative costs are extremely low in relation to disbursements. How do these relative costs compare to costs under SSA?

A. The Board's administrative expenses under the retirement program have been running about .9 of 1% of benefit outlays. We understand social securitv's runs over 2% of benefit outlays.

[Whereupon, at 3 p.m., the subcommittee adjourned.]

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