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How Railroad Retirement Investment Scheme Threatens Social Security Reform

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Under the guise of increasing benefits for the widows of railroad workers, Congress is considering the Railroad Retirement and Survivors' Improvement Act (H.R. 4844). Supporters claim that this bill will increase benefits while reducing the amount that industry has to contribute to retirement funds. It sounds too good to be true, and it is. Overall, H.R. 4844 would increase federal spending by $3.6 billion between 2001 and 2010 while reducing revenue going into the system by over $3.9 billion. The Congressional Budget Office (CBO) says that this combination and a controversial asset exchange would reduce the budget surplus by $13.6 billion from 2001 through 2010. To make matters worse, this dangerous precedent could very well ruin Congress's chances to pass meaningful Social Security reform.

The Railroad Retirement Fund. Established in 1935, the Railroad Retirement Board pays retirement benefits to about 748,000 former railroad workers and their spouses. Railroad workers are not covered by Social Security, although they may qualify for those benefits if they worked at another job at some point. Workers receive both a Tier I benefit, which approximates Social Security, and a Tier II benefit, the equivalent of a multi-employer pension. Benefits are financed through taxes assessed on both the railroads and individual work ers. Monthly benefits average $1,340 for retired workers and $510 for spouses.

The Wrong Way to Help Retirees. H.R. 4844 follows two years of negotiations between the railroads and their unions to shore up a retirement program that has far more retirees to support than workers who contribute. In addition to increasing benefits for widows, the legislation would reduce the normal retirement age for Tier I benefits to 60, allow workers to become vested more quickly, and reduce the tax rate on employers. To make up the lost revenue from these changes, H.R. 4844 would set up a mechanism for the government to invest directly in the stock market by investing the assets of the Railroad Retirement Board in private securities instead of government bonds.

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Testifying about a similar proposal by the Clinton Administration to invest part of the Social Security trust fund in the stock market, Federal Reserve Board Chairman Alan Greenspan warned that such an approach would make it almost impossible to insulate investment decisions from political interference. In short, H.R. 4844's few good features are not enough to repair the problems it would create.

The bill would:

- **Raise benefits for widows and widowers.** Under current law, surviving spouses receive a benefit equal to 50 percent of the deceased worker's benefit. H.R. 4844 raises this amount to 100 percent, which is in line with benefits under Social Security. The CBO estimates that this change will cost $935 million from 2001 through 2010—about 7 percent of the total cost of H.R. 4844.
- **Lower vesting requirements.** Currently, workers must be employed by railroads for at least 10 years to qualify for retirement benefits. H.R. 4844 would lower this to five years, equal to the vesting requirement for private pension plans. The CBO says this will cost $5 million from 2007 through 2010.
- **Have a high budget impact.** The CBO estimates the bill will cost $14.9 billion in fiscal year (FY) 2001 alone, mostly from scoring the transfer of funds now invested in government bonds to private investments as a budget outlay. Overall, it would increase spending by $3.6 billion from 2001 through 2010 while reducing revenue by over $3.9 billion.
- **Reduce the retirement age irresponsibly.** A 1983 agreement raised the age at which railroad retirees could receive full Tier I benefits from age 60 to 62, bringing the railroad retirement system in line with the earliest age at which other workers can receive Social Security benefits. Lowering the age requirement is costly: The CBO estimates that this provision will cost $2.5 billion from 2001 through 2010.
- **Lower railroad contributions.** While workers' taxes would remain untouched, the bill would reduce the amount that railroads pay into the program by almost $4 billion through 2010. Supposedly, this amount would be made up from profits made from investing in the stock market, as long as a politically appointed board invests the trust fund wisely.

A Dangerous Investment Scheme. H.R. 4844 would create a Railroad Retirement Investment Trust for investing the assets of the Railroad Retirement Board—estimated at $18.5 billion in December 2000—in private stocks and bonds. Though the board managing this investment would be nominally independent, the assets in the trust would be under the control of political appointees and government bureaucrats. Giving bureaucrats the power to invest huge amounts of money in the stock market would create a fundamental conflict of interest between the long-term needs of future retirees and short-term political goals. If this model were extended to Social Security's trust funds, the door would open for government ownership of a significant portion of the economy.

Some supporters want to change budget rules to cut the cost of shifting the board's assets from government bonds to private investments. Under this plan, a move by a federal agency would be scored as an exchange of assets, with no budgetary impact. Currently, transfers of government taxes to private investments by an agency or to an account owned by an individual are treated equally—as an outlay or the spending of tax dollars. Changing the rules for an agency would favor the establishment of direct government investment of the Social Security trust fund. This action would have no cost, while setting up personal retirement accounts to help seniors improve their own retirement savings would be counted as increasing spending.

Conclusion. Any benefit that could come from H.R. 4844 would be more than offset by the damage it would do to Social Security reform. Moreover, it would perpetuate a system that almost went broke in the early 1980s. Congress salvaged the program with tax hikes and budget reductions. The railroads and their unions are now trying to hide their latest raid on the Treasury by talking of widows' benefits, which total only 7 percent of the overall cost of this bill, according to the CBO; 93 percent would benefit the railroads and their unions. Rather than follow the fiscally irresponsible course outlined in H.R. 4844, Congress should completely reform the railroad retirement system.

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