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STATEMENT OF

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HUMAN RESOURCES DIVISION

BEFORE THE

SUBCOMMITTEE ON SOCIAL SECURITY

AND

SUBCOMMITTEE ON PUBLIC ASSISTANCE AND

UNEMPLOYMENT COMPENSATION

COMMITTEE ON WAYS AND MEANS

UNITED STATES HOUSE OF REPRESENTATIVES

ON

RETIREMENT AND UNEMPLOYMENT INSURANCE PROGRAMS

OF THE RAILROAD RETIREMENT BOARD

Messrs. Chairmen and Members of the Subcommittees:

We are pleased to be here. In discussing issues addressed by the proposals to improve the financial condition of the railroad retirement and unemployment programs, we will be drawing on experience gained through a number of GAO reviews of the Railroad Retirement Board's programs and operations over the past several years.

This is the third financial crisis for the railroad retirement system in 10 years. The Railroad Retirement Act of 1974 and the 1981 amendments to that act, as contained in the Omnibus Budget Reconciliation Act of 1981, did not solve the retirement program's financial problems for three principal reasons. Annual cost-of-living increases exceeded increases in taxable wages. Windfall payments greatly exceeded estimated amounts. Railroad employment projections were substantially overly optimistic.

We hope to assist your Subcommittees by discussing how the system operates and is tied to social security, by restating proposals from our past work which we believe could help improve the railroad retirement program's financial condition, and by commenting on selected aspects of the proposals contained in H.R. 1646 and S. 1076.

BACKGROUND

The Railroad Retirement Board administers a retirement program which includes four major components. The first (Tier I) involves benefits similar to those available under social security. The second (Tier II) is essentially a private industry pension plan. The third, a windfall, is an added benefit available to those who, prior to 1975, had qualified for benefits under the railroad retirement and social security systems. The last component is a supplemental annuity paid to employees with many years of service.

Railroad employer and employee payroll taxes, transfers from Social Security, and general revenues fund the railroad retirement program. The tax rate for the social security component is the same as the social security tax for both employers and employees. The tax rate for the industry pension component currently is 11.75 percent of the taxable wage base for employers and 2 percent for employees. Windfall is funded through appropriated general revenues. The supplemental benefit is funded by an employer tax of 18.5 cents per labor hour.

From the program's inception in 1935 until 1951, railroad employer and employee payroll taxes funded this program with no Federal assistance. Since 1958, Social Security has, through a financial interchange, transferred about $20 billion to the Board. From 1976, the Federal government has provided general revenue appropriations for the windfall component of about $2 billion. In 1981, Social Security transfers and windfall appropriations from general revenues represented about 41 percent of the railroad retirement program's annual income. Of course, the Social Security funds transferred are net amounts which do not include payroll taxes collected by the Board which are also used to finance the social security component.

Under current law, the railroad retirement program will pay about $5.7 billion in benefits in 1983. The Board, however, estimates that in the near future the retirement account will be unable to pay full benefits. Consequently, as required by the 1981 amendments, the Board has reported to the President and Congress that the industry pension component of retirement benefits must be reduced by 40 percent beginning in October 1983 unless an alternative solution is reached. This report led to the proposals in H.R. 1646 and S. 1076.

The Board also administers the railroad unemployment and sickness insurance program. Because railroad workers have their own system, they are not covered under the Federal unemployment insurance program. Railroad employment and sickness benefits are financed by a tax on employers and, when the employer tax revenues are inadequate to pay full benefits, by borrowing from the retirement account.

The Unemployment Insurance Trust Fund, like the Railroad Retirement Account, is experiencing serious financial difficulty. Benefit costs rose from about $180 million in 1977 to about $345 million in 1982. As of March 1983, the program owes the retirement account about $478 million. The borrowing is expected to total about $650 million by October 1983 and is occurring while the retirement account is approaching a deficit situation. Recent Board projections indicate that by 1988 the unemployment program will need to borrow an additional $1 billion.

PRIOR GAO RECOMMENDATIONS AND POSITIONS

GAO has issued a number of reports which address some of the issues in the current legislative proposals or which deal with matters relevant to the retirement program's financial situation. The subjects of these reports include

- --speeding the transfer of funds under the financial interchange,
- --establishing financially independent trust funds,
- --decreasing windfall appropriations,
- --changing the retirement tax wage base from a monthly to an annual basis,
- --accelerating retirement tax deposits, and
- --eliminating postsecondary student benefits.

And, in the near future, we will report on improvements needed in the Board's disability program. GAO's reports and recommendations, however, do not address the full range of actions needed to solve the financial problems facing the railroad retirement and unemployment insurance programs. In that regard, our input today does not include all of the proposals which the Congress is being asked to consider. In addition to discussing the relevant information from our reports--which we shall do now--we are attaching a brief synopsis of the reports.

FINANCIAL INTERCHANGE

In establishing the railroad retirement program in 1935, the Congress exempted the rail industry from the Social Security Act. During the 1940s, the railroad retirement program provided benefits much higher than those available under social security and funded them entirely from employer and employee contributions. Social security benefit increases in 1950 narrowed the margin between the two programs. Around this time, the rail industry proposed changing the program's financing to support increased retirement benefits. This proposal led to the concept of a financial interchange between Social Security and the Board.

In 1951, the Congress amended the Railroad Retirement Act to provide for an annual transfer of funds between Social Security and the Board--the financial interchange. The interchange places Social Security in the same financial position it would have been in had railroad employment always been covered by social security. The Board determines the amount that would have been paid to railroad beneficiaries if they had been covered by social security. These benefits are offset by taxes Social Security would have collected from current railroad employers and employees had they been covered under social security. In the first interchange, made in 1952 and covering 1937-51, the Board owed Social Security. This amount was credited toward what Social Security would pay in the future; the amount was exhausted by 1957.

Since the interchange began, the high rate of railroad beneficiaries to railroad employees, currently about 3 to 1, has led to Social Security transferring about $20 billion to the Board since 1957. Over the last 10 years Social Security, through the interchange, annually provided the Board with an average of 34 percent of its total revenue.

Timing of the financial interchange

Although the interchange comprises a significant portion of the Board's total funding, Social Security does not transfer these funds to the Board until 9 months after the close of the year in which the benefits were paid. This has caused a cash flow problem for the Board. Because of its own financial problems, Social Security has resisted attempts to speed up the transfer.

To remedy this situation, the Congress in the 1981 amendments authorized the Board to borrow from the Treasury's general revenues using the interchange as collateral--the borrowed funds to be repaid as soon as the interchange was completed. This borrowing is limited to the monthly shortfall between tax revenues and benefit payments. Both H.R. 1646 and S. 1076 would expand this borrowing further by allowing the Board to borrow an amount equal to what would be transferred to the Board if the interchange were on a current monthly basis. In addition, S. 1076 would gradually accelerate the payment of interchange amounts through 1991, when the transfer would finally be on a current basis.

GAO has supported putting the financial interchange on a current basis. Recognizing the potential adverse impact on the social security trust fund, we have not made a specific recommendation. However, Social Security's financial position should improve when the 1983 Social Security Amendments take effect. Also, transferring the interchange amounts on a current basis should help improve the financial solvency of the retirement account and would eliminate the need for the use of general revenues. Thus, we believe Congress should consider the merits of a more current interchange transfer.

SEPARATE ACCOUNTS FOR VARIOUS RETIREMENT BENEFIT COMPONENTS

Taxes collected for the social security component of the railroad retirement benefit and funds transferred by Social Security through the financial interchange are commingled in the retirement account with taxes collected for the industry pension component of the benefit. In March 1981, we recommended that since the interchange provides funds for the social security component, there should be a separate account for these funds because commingling all funds in one account does not provide the desired accounting control and integrity of each funding source. Such separate accounts would be financially independent trust funds.

Because of the delayed transfer of funds from Social Security to the Board, taxes for the industry pension component or funds borrowed from general revenues are used to finance the social security component until the financial interchange transfer is made. This use of commingled funds for different program purposes further supports our recommendation for a separate account. Even if separate accounts are established, interaccount borrowing might still be required unless the financial interchange is put on a current basis. Separate accounts would enhance the accountability and control over interfund borrowing.

I might note here that of the four benefit components, the windfall and supplemental already are funded through separate accounts, the windfall account having been established by Congress in the 1981 amendments. Consequently, separating the social security and industry pension components into separate accounts would be the final step toward assuring clear accountability.

Although our recommendation to establish separate accounts has not been fully adopted, part of our concern was addressed by the Congress when it enacted Section 22 of the Railroad Retirement Act in the 1981 amendments, which requires reporting to the President and the Congress when there is a pending financial crisis and full benefits may not be payable. Subsection (c) provides that if benefits must be reduced, the industry pension component must be cut first. In accordance with this provision, the current financial crisis requires--barring congressional resolution--a 40 percent reduction in the industry pension component beginning in October 1983 to protect the social security component. H.R. 1646 would repeal Section 22 (c) of the Railroad Retirement Act.

As mentioned earlier, past efforts to insure the financial solvency of the railroad retirement program have not solved the Board's problems. Because there are no guarantees the current efforts will be successful, we believe Congress should consider establishing separate accounts for the social security and industry components to provide greater assurance that social security equivalent benefits are protected. If not, Section 22(c) should be retained.

WINDFALL OBLIGATION

Before 1975, it was possible for a railroad employee with periods of non-railroad related employment to qualify for both railroad retirement and social security benefits. These persons (and their spouses and survivors) were known as dual beneficiaries.

Because the benefit formulas under the social security and railroad retirement programs are weighted in favor of persons with low lifetime earnings, dual beneficiaries receive more in combined railroad retirement and social security benefits than they would have had all their earnings been earned and their benefits calculated under one program. The difference between what dual beneficiaries receive in combined benefits calculated separately under each program and what they would receive if all of their earnings were computed under one program is termed a "windfall."

Historically, the cost of this windfall has been assumed by the Board's Railroad Retirement Account. To rectify the financial problems the account was experiencing, the Railroad Retirement Act of 1974 made two major changes affecting windfall. One, while "grandfathering" in employees and retirees already eligible for windfall, eliminated these benefits for new beneficiaries. The other provided for funding windfall through the appropriation of general revenues.

In 1976 the Board estimated that annual windfall appropriations of $250 million would be needed for 25 years. These estimates have continually escalated--reaching $440 million for 1982. Except for 1976, actual general revenue appropriations for windfall have been less than the Board estimated and paid.

Although general revenue appropriations were not adequate to fully fund the total amount of windfall to which beneficiaries were entitled, the Board continued to pay full windfall benefits from retirement account reserves. Thus, the account continued to absorb a portion of the windfall cost and by fiscal 1981, the account's reserves had been reduced by about $1 billion. In 1981, a separate Dual Benefits Payments Account was established and windfall benefits have since been limited to the amount appropriated.

This shortfall between appropriated general revenues and the actual windfall payment, and the related $600 million in interest that could have been earned, has become a point of controversy. Based on our work, we have taken the following positions and offer the following observations.

In 1981, we recommended that the Congress reevaluate to what extent the Treasury should continue to fund windfall costs through general revenues. Under the Board's retirement program, retirees and dependents who receive windfall benefits, in most cases, have their private pensions reduced. These reductions result in a reduced financial obligation on the retirement account. If the annual Federal appropriation for windfall was predicated on only the amount the Board pays as a result of windfall benefits (windfall cost less the private pension offset) the Board's estimate of the total amount of windfall appropriations needed from fiscal year 1981 to 2000 would be reduced by about $2 billion. Also, present Board estimates of the Federal Government's obligations for past windfall shortfalls are gross estimates that do not take into consideration the reductions in the private industry component which reduce the financial obligation of the retirement account.

We believe this is pertinent because H.R. 1646 calls for providing about $2 billion in general revenues to repay the gross rather than net amounts used, from 1975 through 1981, from the account to pay windfall benefits and lost interest.

In July 1982, we issued a report to the Senate Appropriations Subcommittee on Labor, Health and Human Services, and Education on the impact reductions in windfall appropriation levels could have on beneficiaries. We pointed out that the overwhelming portion of windfall benefits goes to family units in the upper benefit ranges. Our analyses of beneficiaries' dependence on the full $440 million windfall entitlement for 1982 showed that:

--More than 95 percent of the families would have total benefits above the average social security benefit.

--Almost 80 percent of the families would have total benefits above the average railroad retirement pension.

We also pointed out that, except for totally eliminating windfall funding, reductions in appropriations did not appear to result in substantial additional numbers of families falling below selected benefit cutoff points. For example, at full entitlement ($440 million), about 21 percent of all windfall families were below the average railroad retirement pension. If the appropriation had been reduced to $350 million, about 24 percent of the families would have been below this benefit level.

NEED TO CHANGE TAX EARNINGS BASE FROM MONTHLY TO ANNUAL BASIS

In a March 1981 report, we recommended that wage taxes for the social security component be based on annual rather than monthly maximum earnings. S. 1076 contains a similar proposal. If adopted, it would result in more revenues for the Board's retirement account.

Under the current railroad retirement taxing provisions, the Board transfers to Social Security, through the financial interchange, more in taxes than it collects. This happens because social security taxes are collected on an annual wage base, but railroad contributions for the social security component are calculated on a monthly maximum wage base equal to one-twelfth of the annual social security wage base. If a railroad employee works continually for a full year, and has earnings at least equal to the monthly maximum wage base, the tax collections would be equal under either program. If, however, a railroad employee works intermittently and earns more in one month and less in another, the monthly maximum wage base provision could result in less taxes for the Board than would be payable under social security.

Also, since retirement benefits are based on taxable earnings, the railroad retirement social security component benefit would be somewhat higher with the higher taxable base. This would offset some of the increased revenues.

RETIREMENT TAX DEPOSIT REQUIREMENTS

The condition of the retirement account would be improved if the recommendations in our September 1981 report on the timeliness of employer tax deposits were adopted. Present Treasury regulations allow railroad employers to make less frequent deposits of retirement contributions than other employers. In fiscal 1980, the railroad retirement program could have earned almost $19 million in additional interest had Treasury required deposit of taxes more frequently. We recognized in our report that railroad employers could incur some additional administrative costs in switching to more frequent deposits.

The Board is in favor of speeding up tax collections and has been negotiating with Treasury. To date, Treasury has not acted on our recommendations.

DISCONTINUING STUDENT BENEFIT FOR POSTSECONDARY STUDENTS

In 1979, GAO recommended that social security benefits for postsecondary students be discontinued. The Omnibus Budget Reconciliation Act of 1981 amended the Social Security Act to gradually phase out this benefit. The act also affected postsecondary student benefits paid under the Railroad Retirement Act.

It is still possible, however, for new beneficiaries to obtain a postsecondary student benefit under the industry pension component. The proposals before the Congress call for elimination of such benefits. We are in agreement with these proposals for the same reason we favored eliminating such benefits under social security.

RAILROAD UNEMPLOYMENT AND SICKNESS INSURANCE

In 1938 the Railroad Unemployment Insurance Act established a separate unemployment program for railroad workers, to be administered by the Board. A separate program for the railroads was justified as a solution to problems arising from differences in State unemployment programs. Employees doing the same job in different States would collect different benefits, and traveling employees might be unable to collect in some States.

Unions favored the program because it offered broader coverage and more security than the State systems. Railroad management generally opposed the act, fearing that broader benefits ultimately would cost more in taxes.

In 1946, the act was amended to add sickness benefits, payable on essentially the same basis as unemployment benefits, to employees out of work due to illness or injury, regardless of whether the condition was work related.

The unemployment and sickness insurance program is funded on a trust fund basis through a payroll tax on railroad employers. The tax can range from 0.5 percent to 8 percent of taxable wages depending on the trust fund balance. The tax rate, currently 8 percent, applies equally to all employers. When tax collections are insufficient to pay benefits, the program can borrow from the retirement account to be repaid when the trust fund has more cash than needed to pay benefits.

Since first authorized to borrow in 1959, the program has borrowed frequently from the retirement account. Before 1982, the loans were repaid. Beginning in 1982, however, a surge in unemployment claims required a significant increase in borrowing from the retirement account with little potential for repayment. As of March 1983 the program owed the retirement account $478 million. The Board estimates that by 1988 the unemployment and sickness insurance trust fund will owe the retirement account more than $1.8 billion.

During earlier hearings on the two bills proposed to assure the solvency of the Board's railroad retirement and unemployment and sickness insurance programs, witnesses have testified that railroad employees would be better off under State administered unemployment programs--because States pay higher benefits.

While the maximum weekly benefit payable in many States is higher than the maximum weekly available under the Board's program, non-railroad workers are not necessarily collecting the maximum benefits. Also, there are advantages available to the unemployed railroad worker. States have waiting periods and other restrictions on collecting benefits and will reduce or eliminate benefits whenever the beneficiary has other earnings. There is no waiting period for unemployment benefits under the Board's program. Benefits are payable for as little as one day of unemployment regardless of other earnings during that week and, benefits are payable to striking and suspended employees and discharged employees appealing dismissal.

In addition, non-railroad workers may be required to seek employment outside of their industries. Railroad workers need only be actively seeking employment in the rail industry, and, in fact, may be discouraged from seeking employment outside the industry for extended periods because of the "current connection" provision of the Railroad Retirement Act. Maintaining a current connection with the rail industry is important for determining certain retirement benefits.

The Congress is faced with a difficult decision concerning the future financing of the railroad unemployment and sickness program. The two bills before you propose very different courses of action and we have not done enough prior work or analysis to suggest a course of action.

TAXATION

I would now like to turn to the subject of taxes. I discussed earlier our prior recommendations to change the monthly maximum taxable wage base for the social security component to an annual maximum and to require more timely tax deposits by railroads. I would now like to address the industry pension component taxable wage base and the taxing of benefits.

Taxes on wages

The taxable wage base for the industry pension component is lower than that for the social security component. The Office of Management and Budget estimates that for 1984 the lower wage base will cause a revenue loss of about $200 million. Also, the tax rate increases for the industry pension component would go into effect on July 1, 1984, under the proposals in H.R. 1646, and on July 1, 1983, under the proposals in S. 1076, while tax increases for the social security component will go into effect on January 1, 1984.

The Congress may wish to consider bringing the railroad retirement program more in line with the social security program by increasing their tax rates at the same time and by making the wage base and the tax deposit requirements the same under each.

Legislation to tax benefits

The Social Security Amendments of 1983 require that a portion of social security benefits be taxed and the revenues from this tax be returned to the trust fund from which the benefits were paid. The amendments specifically include the railroad retirement social security component benefit in the definition of social security benefits and accordingly revenues from taxing such benefits are to be forwarded to the railroad retirement account.

Neither H.R. 1646, S. 1076, nor the Social Security Amendments are clear on how the revenues from taxing the social security component should be treated in the financial interchange. The House Energy and Commerce Committee's report on H.R. 1646 stated that none of the revenues would be subject to the financial interchange.

Excluding the revenues from the tax on the social security component from the financial interchange may not be in conformance with the intent of the Railroad Retirement Act. Such exclusions would cause social security to lose revenues it would have received if rail workers were covered under social security and provide revenues to the Railroad Retirement Account beyond those needed to defray the cost of providing the social security component to railroad beneficiaries. Moreover, the additional revenues would be available to pay the industry pension component of the benefit.

Both H.R. 1646 and S. 1076 would tax the industry pension benefit component and return the revenues from such taxes to the retirement account. Both bills look upon the tax on the industry pension as a retiree contribution to solving the railroad retirement financial problems. The revenue from this tax is estimated to be about $600 million over the next 5 years. We note that the railroad industry pension would be taxed as income as private and Federal pension benefits are but that these taxes would not go into general revenues.

H.R. 1646 and S. 1076 would also tax the windfall benefit, H.R. 1646 returning the revenues to the retirement account and S. 1076 returning the revenues to the Treasury. H.R. 1646 would return such revenues to the retirement account even though the benefit is to be paid from general revenue appropriations.

Another matter involves the sickness benefit paid by the Board. In 1982, the Board paid about $56 million in sickness benefits to about 74,000 beneficiaries. These benefits, however, are not taxed as income as are similar benefits under other public and private programs.

I call these four matters to your attention because the Congress might want to (1) clarify whether the tax revenues on the social security component should be covered under the financial interchange; (2) adopt the option of returning revenues from proposed windfall taxes to the Treasury since such benefits are paid from general revenues; (3) consider whether returning to the retirement account revenues from taxing the industry pension benefit, as is being proposed, is an appropriate subsidy; and (4) consider whether sickness benefits should be viewed consistently with similar benefits from other programs.

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Messrs. Chairmen, that concludes my statement and we would be happy to answer any questions.

KEEPING THE RAILROAD RETIREMENT PROGRAM
ON TRACK--GOVERNMENT AND RAILROADS
SHOULD CLARIFY ROLES AND RESPONSIBILITIES
GAO/HRD-81-27, March 9, 1981

The railroad retirement program evolved from an industry-funded plan for retired workers to one which contains both social security and private pension elements. Funds to finance these elements consist of taxes paid by railroad workers and employers, transfers from social security trust funds, and general revenue appropriations from the Federal Government.

The Railroad Retirement Board predicted that it might not be able to pay total benefits by 1982. To ensure that railroad beneficiaries would receive, at least, the social security portion of the retirement benefits, GAO recommended that the Congress require that funds for that portion be used for that purpose only and that railroad employees and employers pay taxes for those benefits on the same basis as employers and employees under social security.

To help ensure that total benefits will be paid, GAO also recommended that Congress decide to what extent the Federal Government will fund windfall benefits for dual beneficiaries and whether certain groups, such as railroad beneficiaries' remarried widows and divorced spouses, which were not covered under social security retirement, should be.

INACCURATE FUND TRANSFERS BETWEEN
SOCIAL SECURITY ADMINISTRATION
AND RAILROAD RETIREMENT BOARD
GAO/HRD-83-2, April 4, 1983

Since 1958 the Social Security Administration (SSA) has paid more than $17 billion to the Railroad Retirement Board through an annual fund transfer (financial interchange) required by law. The interchange is designed to place the social security program in the same financial position in which it would have been if railroad employment had not been excluded from social security coverage.

GAO found that the Board, which performs all the interchange calculations, makes frequent errors, uses a statistical method that makes imprecise estimates, and includes inappropriate factors to calculate the amount due. As a result, both over- and underpayments are made by SSA. GAO estimates that the net effect of such errors and inefficiencies in one financial interchange was that SSA paid the Board about $40 million more than it should have.

GAO recommended that the Board improve its calculations accuracy and that SSA do more to ensure that the amount it pays the Board is proper.

RELATIONSHIP OF DUAL BENEFIT
WINDFALL PAYMENTS TO TOTAL
RAILROAD RETIREMENT BENEFITS
GAO/HRD-82-97, July 12, 1982

GAO examined the (1) relationship between railroad retirement dual benefit windfall payments and the total railroad retirement payments beneficiaries receive and (2) potential effect on railroad retirement beneficiaries of reduced windfall payments under various appropriation levels.

The review showed that, although windfall makes up a larger share of total income for families whose total benefits are below the poverty level, the overwhelming portion of windfall funds goes to family units in the upper benefit ranges. The oldest age groups, persons over 85 years old, are most affected by cuts in windfall.

Except for totally eliminating windfall funding, reductions in appropriations do not appear to result in substantial additional numbers of families falling below selected benefit cutoff points. Relatively nominal funding would be required to protect certain family units in the lower benefit ranges from incurring reductions in benefits because of cuts in windfall.

GAO's analysis of beneficiaries' dependence on the full $440 million windfall entitlement estimated for fiscal year 1982 showed that:

--More than 95 percent of the family units would have total benefits above the average social security benefit and receive more than 97 percent of the windfall entitlement.

--Almost 80 percent (or about 230,000) of the family units would have total benefits above the average railroad retirement pension and receive more than 80 percent of the windfall entitlement

--A small proportion (3.4 percent) of all family units had total benefits below the poverty level at the current appropriations level. A relatively minimal amount ($923,000) would be needed to restore losses in total benefits which occurred because of cuts in their windfall.

--Total monthly benefits to retirees entitled to windfall ranged from less than $200 a month (135 family units receiving) to more than $1,200 a month (68,021 family units receiving).

--Sole survivors are economically vulnerable to windfall cuts because of their low average monthly benefits ($548) as compared to couples ($1,178).

RAILROAD RETIREMENT BOARD CALCULATIONS
OF ANNUAL APPROPRIATIONS NEEDED TO
PHASE OUT WINDFALL BENEFITS
GAO/HRD-79-33, January 11, 1979

The Railroad Retirement Act of 1974 authorized level annual appropriations of general revenue from 1976 through 2000 to finance the costs of phasing out the windfall portion of the railroad retirement benefit. The original estimate was that the windfall benefits would cost $250 million annually over the 25-year period.

GAO reviewed the calculations of the annual appropriations needed to phase out windfall and projected (1) an increase of about $2.9 billion in estimated windfall costs above the $7.1 billion originally estimated by the Board's actuary and (2) an increase of about $3.5 billion in general revenue appropriations through the year 2000. Using the present funding method, 21 level annual appropriations of $415 million beginning in 1980 would be needed to pay future windfall benefits.

GAO also identified an alternative method of financing the windfall appropriations on a pay-as-you-go cash basis, which would stretch out payments through the year 2046. A table showing required windfall appropriations under the cash basis methods was provided.

DELAYS IN RECEIVING AND INVESTING
TAXES ARE REDUCING RAILROAD
RETIREMENT PROGRAM INTEREST INCOME
GAO/HRD-81-112, September 24, 1981

Under the railroad retirement program, employers are required to deposit retirement taxes monthly, instead of semi-monthly, biweekly, or even more frequently as is the case for social security taxes. In fiscal year 1980, the railroad retirement program could have earned about $25.9 million in additional interest income if railroad employers were required to deposit retirement taxes as frequently as other employers deposit social security taxes and such taxes began earning interest as soon as collected.

GAO recommended that the Secretary of the Treasury should require more frequent deposit of railroad retirement taxes. Also, Treasury and the Railroad Retirement Board should look into ways to reduce delays in investing railroad retirement taxes to increase the railroad retirement program's interest income.

SOCIAL SECURITY STUDENT BENEFITS
FOR POSTSECONDARY STUDENTS
SHOULD BE DISCONTINUED
GAO/HRD-79-108, August 30, 1979

The basic purpose of the social security program is to provide some minimum family income in the event of the taxpayer's retirement, disability, or death.

A marginal program, student benefits, diverted tax money from that basic purpose. During the 1977-78 school year, it diverted $1.5 billion and was expected to divert $2.2 billion in 1979-80. It gave many students more money than their school costs warrant, inequitably curtailed--or barred altogether--benefits to other students, deprived nonstudents, and contributed to other Federal aid programs paying unneeded benefits. This was going on while, even after imposing increased taxes upon Social Security contributors, there was doubt the system could fulfill its basic purpose without still further increases.

Were student benefits to postsecondary students to be terminated effective fall 1980, GAO estimated net first-year savings to the Social Security taxpayers would be $1.4 billion, and the net savings to all taxpayers in that year would be about $1.1 billion. GAO recommended that postsecondary student benefits be discontinued.