This means that most of the Treasury securities currently held in the Railroad Retirement Account must be redeemed so they can be transferred to an independent account outside of Treasury. This one-time cost of redeeming the Treasury securities will be borne by taxpayers. However, this is money that the General Fund owes the Railroad Retirement system. It reflects past surpluses that the government has borrowed from the system and must now repay.

2. The proposal will reduce the budget surplus by $20.8 billion and increase the government's interest costs.

The bill reduces the on-budget surplus because the Railroad Retirement system is an on-budget program. As a result, any changes to the system will affect the on-budget surplus—just like changes to Social Security affect the off-budget surplus.

The bill would not increase the government's interest costs. In fact, the Treasury securities in the Railroad Retirement Account are part of the total government debt. Once they are redeemed, the total government debt will fall, and so will the associated interest payments.

3. The bill maintains a special subsidy available to no other industry. Under current law, the income taxes paid by railroad retirees on their retirement benefits are transferred to the Railroad Retirement system instead of the U.S. Treasury. This subsidy costs taxpayers nearly $6 billion.

This is not a subsidy, and it doesn't cost taxpayers anything. The tax is not paid by the general taxpayer—it is paid by railroad retirees. Appropriately, the revenues from the tax go back to the Railroad Retirement system instead of the General Fund of the Treasury. In the same vein, the taxes that seniors pay on their Social Security benefits go back to the Social Security Trust Fund instead of the General Fund.

4. ERISA standards were designed to ensure that companies properly funded their pension plans. However, the railroad industry has a $39.7 billion unfunded liability. Instead of moving toward a funded system, this bill allows the Railroad Industry to enjoy lower taxes and higher benefits now in exchange for higher taxes or lower benefits in the future.

The Railroad Retirement system is not subject to ERISA, and it is not a funded system. Instead, it is a pay-as-you-go system where annual tax revenues are used to pay annual benefits. The trust fund balances in the Railroad Retirement Account are currently large enough to pay more than 5 years worth of benefits. This is considered quite high for a pay-as-you-go system. That's why the system can afford to cut taxes and pay higher benefits.

Although the system can afford these changes in the short run, it may not be able to afford them over time. As a result, the proposal includes a provision that allows the tax rate to adjust each year based on the system's funding situation. For the first time ever, the burden of maintaining the system's solvency will fall on the railroad industry—not the general taxpayer.

Many experts and commissions have recommended that the Railroad Retirement system should be converted into a fully-funded system covered by ERISA. However, it would be very difficult to take this step without the industry's support. This bill is a step in the right direction because it puts the mechanisms in place to move toward a free-standing pension plan outside of federal jurisdiction. If this bill is enacted, the system would resemble a private pension plan, making it much easier to make the transition in the future.

5. The bill will reduce the solvency of the Railroad Retirement system.

Under current law, the Railroad Retirement system is solvent over 75 years under optimistic and intermediate assumptions. The actuaries of the Railroad Retirement Board have certified that the system remains solvent for 75 years under the provisions of this bill.

6. The bill sets a bad precedent for Social Security reform—instead of creating personal accounts with individual ownership and control, this bill creates a government-appointed board to invest in the stock market on a collective basis.

This proposal primarily affects the second tier of the Railroad Retirement system—the part that resembles a private employer pension plan. Because this bill mostly deals with the industry pension, not the Social Security equivalent, the changes made by this bill cannot (and should not) translate to the Social Security program. After all, Social Security is a social insurance program—it is not a pension plan.

Mr. OBERSTAR. Mr. Speaker, I yield 3 minutes to the gentleman from California (Mr. MATSUI), the ranking member on the Subcommittee on Social Security of the Committee on Ways and Means.

Mr. MATSUI. Mr. Speaker, I would like to thank the gentleman from Minnesota, the ranking Democrat on the Committee on Transportation and Infrastructure, for yielding this time.

I would like to commend both the gentleman from Pennsylvania (Mr. SHUSTER), the gentleman from Minnesota (Mr. OBERSTAR), obviously my colleague and chairman of the Subcommittee on Social Security (Mr. SHAW), and other Members who have been working on this legislation.

This legislation is supported and sponsored by the Association of American Railroads, which are all the railroads in the United States, along with 60 percent of the membership of the railroad labor unions. In my opinion, it took years and years to put together, and for Members to vote this down now would be tragic, because this would have an impact on 254,000 current employees of the industry, and over 700,000 families and individuals that are currently retired. This helps widows and widowers, who will have a $300 increase in benefits, and it will reduce the age of retirement from 62 to 60, the change we made in 1983, and we now need to go back to age 60. So in terms of benefits to the employees and to the industry, this is tremendous.

The reason that there is a cost, as the gentleman from Michigan (Mr. SMITH) has raised, as I think the gentleman from Florida (Mr. SHAW) has indicated, there is a one-time cost, because what we are doing is we are bringing in government bonds to allow the Tier II part of the system to be invested in the private equity market.

That is not a violation of Social Security or anything like that. All that is for, that is like a private defined benefit pension. Tier I programs are like Social Security. Tier II is like a private pension system. Frankly, it is the only pension system that the Federal Government operates, because of a historic relationship with the railroad industry and obviously with the employees. So the $15 billion will be paid down over time. It will not be a continuing obligation to the Federal Government.

Secondly, we received a letter dated the 18th of July, 2000, from Steven Goss, the deputy chief actuary of the Social Security system, to Harry Ballentine, the chief actuary; and in this letter it indicates that there is no impact at all on the Social Security trust fund. So the gentleman from Michigan may want to read this letter, who made the allegation that this would diminish the Social Security trust fund. It will have no impact at all, according to the actuaries.

We must pass this legislation. This is legislation that will help the railroads, and also it will help the employees and current beneficiaries and retirees.

Mr. SMITH of Michigan. Mr. Speaker, I yield myself such time as I may consume.

Mr. Speaker, may I ask of the chairman and yield for the answer, when it came out of the Committee on Ways and Means, my understanding was that there was a 4.3 cent tax on diesel fuel for railroads. Is that reduction still in the bill?

Mr. SHUSTER. Mr. Speaker, will the gentleman yield?

Mr. SMITH of Michigan. I yield to the gentleman from Pennsylvania.

Mr. SHUSTER. Mr. Speaker, that is not included in this bill. This is a clean railroad retirement reform bill. There is no tax treatment in there.

Mr. SMITH of Michigan. Mr. Speaker, reclaiming my time, to help pay for it, it was my understanding when this bill went through the Committee on Ways and Means, they put a 4.3 cent tax on the diesel fuel used by railroads, and somehow in this clean bill it is no longer there.

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If the gentleman will continue to yield, oh, no, that has nothing to do with it, I would say to my good friend. It was several years ago as part of the deficit reduction package of 1993 that that tax was placed.

Mr. SMITH of Michigan. Is the gentleman saying, Mr. Speaker, that the 4.3 cents was not in the bill in the Committee on Ways and Means?

Mr. SHUSTER. The original Committee on Ways and Means bill did have the 4.3 cent reduction in it.

Mr. SMITH of Michigan. Reclaiming my time, Mr. Speaker, since I am short on time, let me just emphasize again that a bill of this magnitude should not be going through on suspension. It should have a full debate, because the