Description of document: Meeting minutes from the Railroad Retirement Board (RRB), April 2009 - October 2011

Requested date: 12-November-2013

Released date: 13-December-2013

Posted date: 06-January-2014

Source of document: FOIA Request
General Counsel/Chief FOIA Officer
U.S. Railroad Retirement Board
844 North Rush Street
Chicago, IL 60611-2092
Fax: (312) 751-7102
Email: foiarequest@rrb.gov

UNITED STATES OF AMERICA
RAILROAD RETIREMENT BOARD
844 NORTH RUSH STREET
CHICAGO, ILLINOIS 60611-2092

GENERAL COUNSEL

DEC 13 2013

Re: Freedom of Information Act
Request dated November 12, 2013,
C. 0649-14

This is in response to your letter dated November 12, 2013 to the Railroad Retirement Board (hereinafter the Board) wherein you requested "The Board Meeting Minutes and verbatim transcripts of the RRB Board Meetings during calendar years 2008, 2009, 2010 and 2011." You made your request pursuant to the Freedom of Information Act.

Pursuant to your request, please find enclosed copies of the transcripts of the Board meetings for the time periods you requested. Please be advised that there were meetings of the three-member Board in 2008.

I trust that this information is helpful.

<u>Appeal Rights</u>.

The regulations of the Railroad Retirement Board provide that you may appeal the denial of a requested record by writing to the Secretary to the Board, Railroad Retirement Board, 844 North Rush Street, Chicago, Illinois 60611-2092, within 20 days following your receipt of this letter. A letter of appeal must include reference to, or a copy of, this letter.

Sincerely,

Karl T. Blank
General Counsel

Enclosures

COPY

U.S. RAILROAD RETIREMENT BOARD

REGULAR BOARD MEETING

October 26, 2011

STENOGRAPHIC REPORT OF PROCEEDINGS had in the above-entitled matter held at 844 North Rush Street, 8th Floor, Chicago, Illinois, at 9:04 a.m., MR. MICHAEL S. SCHWARTZ, presiding.

PRESENT:

MR. MICHAEL S. SCHWARTZ, Chairman

MS. NANCY PITTMAN, Assistant

MR. STEPHEN W. SEIPLE, Assistant

MR. JEROME F. KEVER, Management Member

MR. ROBERT PERBOHNER, Counsel to the Management Member

MR. JOSEPH M. WAECHTER, Assistant

MS. ANN CHANEY, Attorney Advisor

PRESENT: (Continued)

MR. WALTER A. BARROWS, Labor Member

MR. JAMES BOEHNER, Assistant

MS. GERALDINE L. CLARK, Assistant

MR. MICHAEL J. COLLINS, Assistant

MR. THOMAS W. SADLER, Counsel to the Labor Member

MS. MARTHA P. RICO, Secretary to the Board

MR. HENRY M. VALIULIS, Director of Administration/Senior Executive Officer

MR. STEVEN A. BARTHOLOW, General Counsel

MR. GEORGE V. GOVAN, Chief Financial Officer

MR. FRANK BUZZI, Chief Actuary

MR. RONALD RUSSO on behalf of Dorothy Isherwood, Director of Programs

MS. TERRI S. MORGAN, Chief Information Officer

Reported By: Karen Fatigato, CSR

License No.: 084-004072

CHAIRMAN SCHWARTZ: Welcome this morning. I would like to acknowledge the presence of our new Labor Member, Walt Barrows. We're going to miss Mr. Speakman, he served with honor and great distinction here at the Board, but we also have known Mr. Barrows for many years and we're pleased to have him on board and we know we're going to all have a great working relationship. So welcome aboard.

MR. BARROWS: Thank you.

CHAIRMAN SCHWARTZ: And, Mr. Kever, do you have anything to add?

MEMBER KEVER: I just wanted to make sure as you pointed out we formally recognize the service that Mr. Speakman has given to this Board and thank him for his years of outstanding service.

CHAIRMAN SCHWARTZ: Great.

Well, with that I think that we'll have some Executive Committee reports. So could we start with the Bureau of Law please. Mr. Bartholow.

MR. BARTHOLOW: Good morning, everybody. As I always do I will start with our update on Litigation.

On Monday oral argument was conducted before the United States Court of Appeals for the District of Columbia Circuit in the employer status case of Rail Term versus Railroad Retirement Board. The court exhibited a keen interest in the case as a -- asked numerous questions of both parties. Overall I would say the argument went well, but obviously we'll have to wait and see how the court rules, and we will, of course, let the Board know when we receive the court's opinion.

CHAIRMAN SCHWARTZ: Steve, what's usually the time frame on that, does it vary?

MR. BARTHOLOW: It varies. You know, sometimes you almost get a ruling from the bench, but I would say we're probably looking at two to four months.

CHAIRMAN SCHWARTZ: Okay.

MR. BARTHOLOW: Something like that.

Next in Litigation, on August 9 of this year the United States Court of Appeals for the Eighth Circuit dismissed the Petition for Review filed in the case of Marita Upton versus U.S.

Railroad Retirement Board. This case involved a claim for a disabled widow's annuity.

Since the last Board meeting we have received three new Petitions for Review of decisions by the Board on benefit claims.

On August 2nd the Petition for Review was filed in the United States Court of Appeals for the Ninth Circuit in the case of Benjamin Nelson versus U.S. Railroad Retirement Board.

On September 22nd a Petition for Review was filed in the Tenth Circuit in the case of Tsosie versus RRB.

And finally on October 7th the Petition for Review was filed in the United States Court of Appeals again for the Tenth Circuit in the case of Terry versus Railroad Retirement Board.

Moving on to Legislation and Regulations. A final rule to amend part 217 of the Board's regulations was published in the Federal Register on September 29 of this year. That rule change will allow application by -- or actually signature by attestation as part of the application process.

We recently prepared and submitted to

the Board an analysis of the provisions of the American Jobs Act of 2011 that would have an impact on the Railroad Retirement Board and the programs we administer. That legislation would extend for an additional year the extended unemployment insurance benefits originally provided under the American Recovery and Reinvestment Act of 2009. The legislation would also reduce the Tier 1 tax rate for employers and employees in 2012 and provide a tax credit for certain employers whose payrolls have increased from the previous year.

Moving on to the Bureau of Hearings and Appeals. The Bureau of Hearings and Appeals had 422 appeals on the docket at the end of fiscal year 2011. This compares to 419 at the end of fiscal year 2010. The pending case load had increased the past couple of years with the replacement of experienced hearings officers by newly hired hearings officers who needed training. However, as the end-of-year total in 2011 indicates, the pending case load is leveling off reflecting the contribution being made by the new hearings officers. They're doing a very good job.

CHAIRMAN SCHWARTZ: Good.

MR. BARTHOLOW: Although the Bureau of Hearings and Appeals has held numerous video conference hearings in recent months under the new contract with Regis, they have experienced connectivity problems as well as problems with transmission quality. These problems have been alleviated to some extent by a protocol to test connectivity conducted a day in advance of the hearing, but the ultimate answer is acquisition of new Internet -- of a new Internet protocol line to the Bureau of Hearings and Appeals' video room and the placement of the monitor, router and associated software used for such hearings. These items have been ordered and will be installed in the near future.

The final item I want to cover is the status of the CSX Real Property case. As I advised the Board at the last meeting, the designated hearings' examiner in the CSX Real Property case provided updated indexes to the administrative record and advised all parties that final arguments would be due August 29,

2011. At the request of CSX the due date for final arguments was extended until September 12 of this year. CSX and several of the employee claimants provided final arguments by the extended due date. The designated hearings' examiner will now prepare as a report and submit it to the Board.

That concludes my remarks.

CHAIRMAN SCHWARTZ: Thank you. Any questions?

MR. SADLER: If I may. Tom Sadler, counsel to the Labor Member.

Steve, the new cases that have been filed, what are the subject matters?

MR. BARTHOLOW: Actually, I don't have it with me, Tom, but two of them are disability cases. The third one I think has to do with a request for service, I believe. I'm not sure again.

MR. SADLER: Can you read the names again?

MR. BARTHOLOW: Yeah. It's Benjamin Nelson versus Railroad Retirement Board. Tsosie, it's spelled T-s-o-s-i-e, versus

Railroad Retirement Board. And the third one is Terry versus Railroad Retirement Board.

MR. SADLER: Thank you.

MR. BARTHOLOW: Terry actually was not a Board decision, it's an attempt to challenge a decision on reconsideration, I think, so it will be dismissed on jurisdictional grounds. But the other two were Board decisions.

MR. SADLER: Thank you.

CHAIRMAN SCHWARTZ: Okay. Well, moving along, Frank Buzzi, Bureau of the Actuary, please.

MR. BUZZI: I would like to report on a few items completed since our last Board meeting.

First, in July we completed both the statement of social insurance and the new statement of changes in social insurance amounts. These statements show the Railroad Retirement System to have an actuarial surplus as opposed to an actuarial deficiency. They also show the sensitivity of this surplus to changes in interest rates and employment and detail the sources of change from last year to this. Similar information was required for the government-wide financial reporting system, except that intergovernmental transactions were eliminated to allow for consolidation. In August we estimated that our trust funds were due $548 million for additional benefits paid as a result of military service.

In September we completed our active life actuarial studies. We will meet with the Actuarial Advisory Committee on Monday, November 14th, to discuss the results of these studies and the assumptions to be used in the 25th actuarial evaluation. If any Board member has questions for the committee or would like to meet with them please let me know.

Finally, since the last Board meeting we have completed work on two of our main publications, the Annual Statistical Tables, which contain a wealth of interesting historical information about our programs, and the Financial Interchange Book, which contains the results of the recently completed 59th Financial Interchange Determination.

That's all.

CHAIRMAN SCHWARTZ: Thank you.

All right. We have the Bureau of Fiscal Operations. Mr. Govan, you probably have some good news for us, don't you?

MR. GOVAN: Sure.

Good morning, everyone, and if I haven't said this before, happy new fiscal year.

I'll briefly cover some recent budget developments for fiscal years 2011 through 2013, provide a short status report on the Federal Financial System migration of how progress is going there, the Railroad Unemployment Insurance Account Loan Repayment and OIG's audit of our agency's financial statements.

We conducted the fourth quarter budget review for fiscal year 2011 in August and it was approved by the Board members on September 1st. The review determined that about $470,727 was available for bureau/office requests and the information technology reserve. The review also recommended eight end-of-year priorities pending availability of the funds as we, you know, progress through the end of year.

As in prior years we implemented

special end-of-year procedures to ensure that availability of funds were used for RRB's highest priority needs as the year came to end. Starting September 19th we began allocating unobligated funds remaining in bureau and office accounts to purchase items on the end-of-year priority list.

We tracked funds on a daily basis and were able to purchase all of the items recommended with the fourth quarter review, as well as five additional approved requests, so again marking a huge success. End-of-year purchases included, but not all inclusive:

A wide area network optimizer controller to reduce bandwidth overutilization for 12 field offices.

Contractual services to assist with modernization of the Retirement On-Line Claims System, the ROC System.

Additional storage for the RRB's imaging system and replacement of imaging suites in the field offices.

Cyclical replacement of equipment at headquarters to support network operations and future telecommunication needs.

Expansion of the RRB's storage area network, as well as conversion/configuration services for the existing network.

At year end there was about $106,700 remaining in unobligated funds to provide for any adjustments in obligations for fiscal year end.

You know, when I talked to the staff and applauded them, I think we ended at about .1 percent of our original limitation on administration funds.

To summarize our staffing situation, we had 65 separations and 40 outside hires during fiscal year 2011. As of September 30th we had 906 employees on board, after adjusting for part-time employees and employees on leave without pay, the full-time equivalent usage rate at year end was about 891.

CHAIRMAN SCHWARTZ: So we're -- so the average, although the months are different, but it probably averages about five a month, is that what you're saying?

MR. GOVAN: That's about right,

probably a little bit over five.

Next is Status of Fiscal Year 2012 Budget.

Regarding fiscal year 2012 the RRB is currently operating under a continuing resolution that is in effect through November 18th. It provides about 13.4 percent of our fiscal year 2011 appropriation, less a reduction of about 1.5 percent. Because funding will be very tight during this period, we plan to restrict external hiring.

Now, that does not mean that we will not continue to hire those approved external hires from the 2011 hiring plan. We still will continue with those hirings.

CHAIRMAN SCHWARTZ: All right.

MR. GOVAN: The Dual Benefit Payments Account is also affected by the continuing resolution. OMB, the Office of Management and Budget, has approved our request to reapportion the account under the seasonality provisions in order to pay full benefits through November 18th. My understanding of seasonality is each month we would have to request apportionment under the CR. We will continue to request reapportionment of the account if further CRs are enacted this fiscal year.

Further, it is difficult to predict the RRB's eventual administrative funding for fiscal year 2012, but it appears that we could receive considerably less than $112,239,000 that was the agency's President's budget request. The agency's request in the President's budget would fund about 902 FTEs and IT investments totaling about $1,810,000 for this fiscal year. But there's more.

The Senate Appropriations Committee released its fiscal year 2012 draft budget on September 20th funding the RRB at its fiscal year 2011 level of $108.9 million, basically baselining the agency. The agency drafted an impact statement that was presented on September 28th to both the House and the Senate Appropriation Committee staffers outlining the effect of this $3.4 million reduction on our planned migration of the agency's core financial system to a shared service provider. One option we identified for discussion with congressional staffers would involve funding RRB at about 110.9 million, $2 million lower than our agency request. Under this scenario the RRB's budget would be reduced somewhat from the proposed level, but we would agree to move forward on the Federal Financial System migration using 2012 funds instead of waiting a year later for additional IT modernization funding in 2013. The result of this effort was the House Appropriation Committee released on September 29th a draft bill that included a fiscal year 2012 baseline of $110,553,000 for the RRB.

CHAIRMAN SCHWARTZ: Very good.

MR. GOVAN: We are currently monitoring congressional deliberations in the conference meetings to determine the final outcome.

Next is the Fiscal Year 2013 Budget Development.

The RRB's budget submission for fiscal year 2013 was provided to OMB and Congress on September 8th. At the agency request level the submission includes a request for funding of $117.72 million. We estimate that this will be sufficient for 902 FTEs, full-time equivalents, which is about one FTE less than what we used in fiscal year 2011. The submission would also fund about $6.11 million in IT initiatives, including the $3.56 million for migration of our financial system to a shared service provider.

In accordance with OMB guidance we also included two lower requests representing 5 and 10 percent reductions from our fiscal year 2011 funding. The 5 percent reduction level totals about 103 million and would fund approximately 835 FTEs. The 10 percent reduction level is about $97.97 million, which would fund only 790 FTEs. Both of the reduced levels pose special problems for the RRB because we need to provide for succession planning and IT development to ensure that the agency can continue to provide excellent customer service to the public in future years.

As I mentioned earlier we are looking into the possibility of obtaining fiscal year 2012 funds for the FFS migration which would put us in a better position if significant reductions were to occur in 2013.

Next is Status of the Railroad

Unemployment Insurance Loan Repayment.

I'm just happy to report that the loan from the Railroad Retirement Account to the RUIA Account, which was initiated in December 2009 due to high levels of railroad unemployment, has been paid. In August the final loan repayment of $7,366,716 in principal and $41,236 in interest was made from the RUIA Account to the RRA Account.

Next, Status of Financial Statement Audit.

BFO staff are currently working on finalizing the RRB's Performance and Accountability Report for fiscal year 2011. On October 24th the second draft Performance and Accountability Report was provided to the Office of the Inspector General. The first draft was delivered on August 4th. This report, which includes the agency's financial statements and progress reports on our performance goals, is scheduled for release to the President, Congress and OMB on November 15th.

Last, Federal Financial System Migration Update.

On September 21st a contract was awarded to KPMG to provide financial management system premigration services for the RRB. The award followed the evaluation of contractor responses to the Request for Proposal which was issued in late July. A kickoff meeting was held on September 27th between key RRB migration stakeholders and KPMG in which the goals and objectives, lines of communication and governance were discussed. During the week of October 17th KPMG visited RRB headquarters to meet with the users of the agency's financial management system to obtain information for the first phase, which is the requirements analysis. In preparation for premigration activities BFO has maintained a dialogue with selected governmental shared service providers and their clients to gain more knowledge of the types of services offered by shared service providers that can be leveraged by -- during the RRB migration. According to the premigration project schedule, the requirements analysis estimated completion date is December 13th, and the estimated completion date for the shared service providers statement of work is December 28th.

That concludes my presentation.

CHAIRMAN SCHWARTZ: Thank you. I just want to say excellent job on your meeting with the congressional staff. I know that you must have made some clear, concise presentations, and I also actually commend the congressional staff for listening, you know. But it's nice to come away from a meeting, you know, with close to $2 million. And, you know, I know that Mr. Kever and Mr. Speakman and I have had to do that before when we converted from IBMS to DV2, we went out and met with OMB on that. You know, very, very good job.

Moving along here we have the Office of Programs. We have Ron Russo today.

MR. RUSSO: Good morning. We have three items we'd like to discuss today. We'll provide an update on our staffing changes in fiscal year '11. We'll also discuss improvements to our Employer Reporting System. And then lastly we'll discuss the update on our training programs that took place during fiscal year '11.

In terms of staffing, we were able to hire 30 individuals during the fiscal year. Six individuals were hired in our unemployment sickness insurance area. Nine clerks were brought into our operational areas. And 15 claims representatives were provided to our field offices.

On the other side of the ledger we lost 34 employees. 25 of those were due to retirement. We talked a little bit about that earlier in terms of the number of people we've been losing monthly. Four individuals were transferred to other agencies. And the remainders were due to a variety of other reasons. Of the 34 losses, 20 were in our field service, 12 were in our operational units and two were from other areas within the Office of Programs. Bottom line, we lost four people during the fiscal year.

However, as George mentioned we are continuing on with our hiring plan that was in place in fiscal year '11 and that will allow us to hire eight individuals in the field service and three additional individuals in headquarters.

The next item I'd like to talk a little bit about is our Employer Reporting System. This was an initiative that we began in 2003 really to automate all the transfer of information and data that was being handled through paper means. The last phase we completed in this systems development effort was completed on August 22nd. And that phase really consolidated an old portion of the system that had been developed in a SAS language, and we combined that with the new portion of the system that had been developed on a new platform, our dot net platform. So effective with August 22nd that system is in one language which facilitates the development of future phases and really utilizes the expertise of the staff within the Bureau of Information Services to maintain that system as we move forward with the later phases of that effort. A program letter was released to all railroad employers on August 15th announcing this change.

On September 24th the project team,

again a combined project team with the Bureau of Information Services and Policy and Systems staff, completed phase three. And this included two new forms, the BA 3 form, which is the annual report of credible compensation, and the BA 11 form, which is the report of gross earnings to the system. And that's actually a combined effort, the Bureau of Actuary was involved with us in that development piece.

These functions have been fully tested and migrated into the new system. They will be introduced to the rail employers in January of 2012 when those forms are actually submitted and used by the agency.

Work also has started on phase four, and we have a number of forms in this phase. One group of forms is related to the notices that are sent out to the employers quarterly and annually regarding experience rating. Another group of forms is the ID 6 series, and these forms provide information related to the amount of sickness benefits paid that are subject to Tier 1 taxes and the amount of taxes withheld. And the last form, which is really a very interesting form in that it's really going to improve some processing in our claims area, is a G88 A.2 form. And that information is released when a person retires and we need additional service months in order to provide eligibility for the payment of benefits. So rather than that form going out through the mail to the employer who then submits it back to us either by fax or by mail and then we're able to make the adjudicated decision to pay the individual. By automating that process clearly what's going to happen is it will be sent immediately, replied to immediately and we can put that person in pay status at that point in time. So we're really looking forward to that.

At this point we're in the requirements definition phase for all of those forms. We expect within the next month to six weeks we'll probably have our completed project plans, and we're thinking that by the end of this next fiscal year all of these forms should be in place.

CHAIRMAN SCHWARTZ: Very good.

MR. RUSSO: Last item, and I just

actually pulled this together a moment ago, the numbers. It's kind of impressive. We have 402 employers reporting and 12 unions that are using the Employer Reporting System.

The last item is just to discuss a little bit of the training efforts that took place last fiscal year. We had formal classes completed in Medicare and retirement post adjudication, another one in survivor post adjudication and one for our new field service claims representatives. These classes are conducted under structured training agreements that typically run about nine months for each of those classes.

In addition, we conducted two network training sessions during the fiscal year, one for employees in the Kansas City network and one for the New York network. That includes all the employees within those networks.

And finally we started a new training program for nine new clerical employees that we just hired, that is centralized training initially and then specialized training in the operational units to which they will be working.

And a last item, which something -- well, actually the first time, this took place and happened in Policy and Systems. We were able last year to actually hire eight individuals and we were able to put together a class for those individuals and had about a six-month training program that was a little bit unique in that we had that number of employees coming into the organization and could really focus in on their needs as they start to become systems analysts in that organization.

And that's all I have to report.

CHAIRMAN SCHWARTZ: Thank you very much. Terri, Bureau of Information Services.

MS. MORGAN: Good morning. The first initiative I'd like to discuss is Homeland Security Presidential Directive 12, which is also referred to as HSPD-12. This is going to be a significant change in the way we do business in the Board itself. It calls for mandatory government-wide standards for secure and reliable forms of IDs issued by the Federal Government to its employees and employees of Federal contractors to access controlled facilities and networks. Now, the side that we're interested in is the network access. The Bureau of Information Systems is responsible for implementing the part of HSPD-12 that addresses two factor authentication for access to the agency's computer systems. Implementation of this directive is reinforced in OMB memorandum M-11-11, called Continuing Implementation of HSPD-12.

Now, the two factor authentication represents two ways to get into the system. We've always had passwords that you have to login when you get into the system, but now we're going to need to use our ID cards as well.

Since this directive affects all Federal Government agencies and contractors we visited the U.S. Military Entrance Processing Command, the Department of Energy and Argonne National Laboratory to share implementation issues and best practices. This cross agency collaboration proves to be very beneficial.

CHAIRMAN SCHWARTZ: What changes have to be made within the agency -- to use the ID cards do you have to go in and physically do something?

MS. MORGAN: When we purchased our last batch of computers we bought the keyboards that have the slot in them.

CHAIRMAN SCHWARTZ: You have to slide the card?

MS. MORGAN: You have to leave your card in. That's the big difference is when you come into your machine -- you know how when you get on now it says hit control, alt, delete to login or put your ID card in, you might notice that? At that point you'd have to put your ID card into the slot and then it would get to your password.

CHAIRMAN SCHWARTZ: So you'd leave it in?

MS. MORGAN: You have to leave it in while you're on the machine and you have to remove it when you walk away from your machine. So you have to log-on each time that you get to your machine, everybody in the agency does.

CHAIRMAN SCHWARTZ: I understand.

MS. MORGAN: So what the issue is going to be is what if you forget your card, what if -- you know, there's that that happens. And eventually it's going to affect the facilities as well because they'll need cards to come into the building with, but what we're doing first is just implementing logical access.

MEMBER BARROWS: How will that affect the VPM getting in the system?

MS. MORGAN: That's not an issue.

The first stage of the implementation was the development of the RRB Administrative Circular OA-23. The circular outlines the RRB's policy on its use of PIV credentials as a common means of authentication to access facilities, networks and information systems. Additionally, BIS leads a cross agency team tasked with creating HSPD-12 Business Rules and Guidance. The business rules will provide agency employees with information on such topics as what they are to do if they do not have their PIV credential or what to do if their PIV credential doesn't work.

The final stage of this initiative in FY11 was the award of contractor services and purchase of software to read the information from an employee's PIV card and validate their identity to access the agency's computer system. A team of eight technical experts was established to develop the statement of work and requirements for the PIV Card Logical Access solicitation. Additionally, a team was established to purchase and implement a network test environment which will be used to identify necessary configuration changes to our network security environment and establish deployment procedures without adverse effect to our production environment.

So I do think it's going to be initially a significant adjustment for the staff.

CHAIRMAN SCHWARTZ: Well, you're going to have to figure out a lot of what ifs too, that's going to be the issue.

MS. MORGAN: Right. So now that we have the contractor in place we'll establish a project plan for implementation and work with the staff and the union on implementation of that.

With year end we had a number of

changes and initiatives that affect the agency as well, and I'd like to talk about a couple of those.

The first is Refocusing the Information Technology Steering Committee or the ITSC. The ITSC was rechartered in order to align the committee better with the Capital Planning and Investment Control elements of the Clinger-Cohen Act. The Steering Committee now focuses more on aligning the strategic IT direction to meet the businesses' strategic direction and advises the CIO with selecting information technology investments, identifying quantifiable measurements, which is a difference. When we select projects now there has to be a reason, a business reason for selecting those projects and then we have to measure the outcome to make sure it meets what -- our expectations.

This year we developed a system to rank potential technical projects from the annual IT operating plan using critical criteria for determining projects with the most significant impact to the agency. This new system proved to be very successful, therefore, we have begun a similar process to prioritize new programming projects which will now be reviewed by the Steering Committee. The criteria includes such factors as whether the project improves productivity, increases customer satisfaction or increases accuracy. Beginning in FY12 we will use this process to determine implementation schedule for new programming projects.

Operating Plan Escalation:

Understanding that FY12 could be a very austere year and with the potential of year-end money being available, we analyzed our remaining FY11 projects as well as our FY12 projects to determine if we could move any of the critical '12 projects into '11. With very robust discussion of the Steering Committee level to identify the most critical business and technical needs, approval by the EC and a tremendous effort by BIS and Acquisition Management we were able to escalate approximately 16 projects into 2011 and reduce our risk for 2012.

CHAIRMAN SCHWARTZ: That was really good thinking. It was good thinking on the part of you and the Executive Committee and the Steering Committee, I appreciate that, because that is what we needed to make sure we could get what we needed as soon as we could. Very good.

MS. MORGAN: Elimination of Third Shift Operations: Facing the retirement of key mainframe computer operator personnel and limited hiring possibilities, we examined alternative solutions to maintain our mainframe operations. The agency's computer operators -- operations has always been a 24/7 weekday operation. After a thorough analysis we were able to automate tasks that were previously accomplished through manual processes and shift some work to the first two shifts, thereby eliminating the third shift while improving accuracy and speed. This involved union negotiation as well as working with the existing staff on changes to the work. We were able to absorb the reduced staff without any decrease in service.

And finally I'd like to just talk about some of our FY11 contracts that we awarded. FY11 contract awards included key services such as IT Systems Development, Customer Support Services and Employer Reporting -- ERS programming, which Ron mentioned also.

The IT Systems Development contract provides services for the modernization of the most critical legacy dBase programs into one of the agency's enterprise programming platforms. Removing applications from the old and unsupported Windows 2000 environment is one of our top priorities. We have a project ongoing now called MAVE, M-A-V-E, and it identifies the six most critical applications to be converted. We also have other applications that are being converted off the Windows 2000 environment, and then we'll go into phase two, identifying the remaining applications that have to be reprogrammed. This particular program involved the 1937 Act and 1974 Act and overall minimum calculations. It's a huge project and I think we ended up allocating --

MR. RUSSO: Almost 700,000.

MS. MORGAN: Almost 700,000 for that. So it's very significant. And these are some very critical applications to our operation. We need to be taken off that platform.

The Customer Support Services contract provides staff, augmentation of existing agency staff with two desktop specialists and two help-desk specialists. In addition to responding to service requests, the primary reason for this contract is that they will prepare procedures incorporating best practices in customer support services and providing training to the existing staff and best practices.

And finally just to touch again on the ERS, Employer Reporting System. We're now moving into phase six --

MR. RUSSO: Well, the number keeps changing, but it's the same forms I think hopefully.

MS. MORGAN: So we were able to set up a contract to continue the ERS migration effort through next year.

MR. RUSSO: It's a good contract, it's been very successful and it's worked out real, real well.

CHAIRMAN SCHWARTZ: Great. Thank you.

Office of Administration. Henry.
MR. VALIULIS: Good morning. In regards to Human Resources this past fiscal year the agency experienced a larger than forecasted number of separations, which you've heard from many of the EC members. These are mostly attributed to increase retirements because of a large number of our employees are now eligible to retire and are deciding to do so. Since October of 2010 we had about a 40 percent increase or 67 separations compared to the normal rate of four per month or 48. Fortunately this increase was anticipated and additional hires were made at the beginning of last fiscal year. Hiring was suspended for about six months due to budget uncertainties as a result of continuing resolutions until a permanent appropriation was finally approved by April 15th. The agency has since made 44 external hires and expects to fill another 14 within the next few months. So we'll complete the hiring process and then wait again until we receive a full year appropriation.
With respect to acquisition management,

end-of-year procurement activity had acquisition staff partnering with the Office of Programs, Bureau of Information Services, as well as Bureau of Fiscal Operations, awarding contracts, agreements, orders and contract modifications, you've heard many of them earlier this morning. I might add just as far as HSPD-12, in addition to logical access we will be also implementing physical access. We've held off on implementing physical access until the renovations on the first floor lobby were completed and now we're into that phase of installing physical access controls which will require employees to use their PIV card or the ID to access the building. So within the next few months we expect to install those gates and probably keep them open for a while until employees get adjusted and then move on from there.

In addition we're working with Terri and her staff in developing the policy statements and usage requirements and especially dealing with situations where employees forget their IDs or other situations.

Our most significant non-IT contracting

action currently involves the reprocurement of the RRB's Medicare Part B Administration Services Contract. At this time the contracting officer has received the financial review results of the submitted offers by financial analysts at CMS or the Centers for Medicare and Medicaid Services and is waiting for the RRB technical team's final evaluation, which is expected to be submitted shortly.

One item I'd like to bring to your attention is within the area of Human Resources. In the next few months our Human Resources Department will start to use a new on-line software tool called EQIP, it's Q-I-P, which stands for Electronic Questionnaires for Investigations Processing. EQIP is a web-based automated system that was designed to facilitate the processing of standard investigative forms used when conducting background investigations. EQIP allows the user to electronically enter, update and transmit the personal investigative data over a secure Internet to a requesting agency. This requesting agency, like the RRB, will review and approve the investigative data.

This replaces the paper application process and it also is integrated with the PIV/ID system, which many of us have used, allowing the electronic fingerprints to be matched for security clearance processing. Collectively these technological tools will allow HR staff to significantly shorten the security clearance processing time.

Thank you for the opportunity to provide the updates, and that's all I have.

CHAIRMAN SCHWARTZ: All right, thank you.

Before we close the open portion of the meeting I'd like to mention briefly that since this is the last scheduled Board meeting before January of 2012 this might possibly be the last meeting that Mr. Bartholow will be attending. He's retiring as chief legal counsel here at the Board, and I can tell you that he's going to be sorely missed, not only his knowledge and his experience, his manner, his ability to work with everyone is invaluable.

Steve, if I were you I would not only turn in my cell phone but change my home number because I know in our office many times it's call Bartholow, you know, and that comes from staff and myself. He's been the go-to person of this agency for things that were even sometimes outside his job description and he will be sorely missed. And thank you for all the years that you've put in here at the Board, Steve. Thank you very much.

MR. BARTHOLOW: Thank you.

CHAIRMAN SCHWARTZ: Anybody have anything to add?

Okay, that being the case we're going to go into a closed portion of the meeting here in about five minutes. I would like to have -- if the Board members and theirs staffs could stay. And, Henry, could can stay? And everyone else thank you very much.

(Whereupon, these were all the proceedings had at this time.)

STATE OF ILLINOIS)
) SS:
COUNTY OF C O O K)

Karen Fatigato, being first duly sworn, on oath says that she is a court reporter doing business in the City of Chicago; and that she reported in shorthand the proceedings of said meeting, and that the foregoing is a true and correct transcript of her shorthand notes so taken as aforesaid, and contains the proceedings given at said meeting.

Karen Fatigato

Karen Fatigato, CSR

LIC. NO. 084-004072

U.S. RAILROAD RETIREMENT BOARD

REGULAR BOARD MEETING **ORIGINAL**

July 20, 2011

STENOGRAPHIC REPORT OF PROCEEDINGS had in the above-entitled matter held at 844 North Rush Street, 8th Floor, Chicago, Illinois, at 10:03 a.m., MR. MICHAEL S. SCHWARTZ, presiding.

PRESENT:

MR. MICHAEL S. SCHWARTZ, Chairman

MR. STEPHEN W. SEIPLE, Assistant

MR. JEROME F. KEVER, Management Member

MR. ROBERT PERBOHNER, Counsel to the Management Member

MR. JOSEPH M. WAECHTER, Assistant

MR. V. M. SPEAKMAN, JR., Labor Member

MR. JAMES C. BOEHNER, Assistant

MR. THOMAS W. SADLER, Counsel to the Labor Member

MS. MARTHA P. RICO, Secretary to the Board

PRESENT: (Cont'd)

MR. HENRY VALIULIS, Director of Administration/Senior Executive Officer

MR. STEVEN A. BARTHOLOW, General Counsel

MR. GEORGE V. GOVAN, Chief Financial Officer

MR. FRANK BUZZI, Chief Actuary

MS. DOROTHY A. ISHERWOOD, Director of Programs

MS. TERRI S. MORGAN, Chief Information Officer

Reported By: Anna M. Morales, CSR, RMR

License No.: 084-002854

(Whereupon, the following proceedings commenced at 10:03 o'clock a.m.)

CHAIRMAN SCHWARTZ: Welcome. Let's start with the Bureau of Law. Steve?

MR. BARTHOLOW: Good morning. Just a few things to cover this morning. In the litigation area, the Employer's status case of Rail Term Corp v. Railroad Retirement Board, the petitioner's brief was due July 13th and was actually filed on that date. Our brief is due August 12th. Final briefs are due September 16th, and oral argument has been scheduled for October 24, 2011. It will be in the morning.

CHAIRMAN SCHWARTZ: Okay.

MR. BARTHOLOW: Employment law area, we successfully negotiated settlement in the Employment law case of Gary Tatum versus Railroad Retirement Board. As you recall, that case involved the complaint of discrimination filed with the Equal Employment Opportunity Commission by an unsuccessful applicant for a customer service rep job in the field service. So that case is now closed.

In the legislative area, the Office of Legislative Affairs has received and responded to requests for information concerning the potential impact of proposed changes in Amtrak on the Railroad Retirement and Railroad Unemployment Insurance Programs. In addition, the Director of Legislative Affairs has attended a hearing on that subject conducted by the House Transportation and Infrastructure Committee.

In the Bureau of Hearings and Appeals, as I advised you during the last meeting, the contract between the Government Printing Office and the Fed Ex/Kinko's for video conference services utilized by the Bureau of Hearings and Appeals was terminated at the end of May. A new contract has been concluded with a provider for video conference hearings. A video conference hearing was held under this new contract recently with some minor technical issues, but nothing serious, and those will be taken care of. And in addition, 14 more video conference hearings have been scheduled under the new contract for the remainder of July and August.

During the third quarter of fiscal year

2011, the number of incoming appeals slightly exceeded the number of decisions issued, but the productivity of the two newer hearing officers is improving so that the Bureau should soon be able to handle the workload without increasing the backlog of cases on the docket.

Switching to the CSX Real Property Employee status case, all hearings have been concluded, and updated administrative records are being distributed to all parties. Following the period for submission of final argument, the designated hearing examiner, Karl Blank, will prepare a report and recommend a decision for the Board's consideration.

The final matter, staffing issues. As you know, shortly after the last Board meeting, I selected Pat Rico to fill the position of Secretary to the Board. Ms. Rico is doing a very, very good job and seems comfortable handling the numerous responsibilities of her new position.

Moving to the General Counsel position, the application period for the position of General Counsel has closed. The Executive Resources Board has completed the review of the applications received by the agency, and we have concluded interviews of the applicants rated highly qualified. We should be in a position to submit recommended candidates to the Board within the next two weeks. That concludes my remarks.

CHAIRMAN SCHWARTZ: Okay. Thank you very much. Bureau of Actuary, Frank?

MR. BUZZI: I would like to report on three items completed since the last Board meeting: The 2011 Section 502 report, the 2011 Section 7105 report, and the Financial Interchange Transfer.

First, the Section 502 report which covers the status of the Railroad Retirement System. The combined balance in the Railroad Retirement Account, Social Security Equivalent Benefit Account, and National Railroad Retirement Investment Trust increased from $24.9 billion on December 31, 2009, to $26.3 billion on December 31, 2010.

We estimate that the combined funds had a 14.4 percent rate of return in calendar year 2010 which exceeded our 7.5 percent expected return. This excess investment return, when combined with actual rail employment exceeding our projection, results in the current report comparing favorably to last year's report.

Under each employment assumption, Tier II tax rates are expected to increase in the next few years. No cash flow problems are expected under our optimistic or intermediate employment assumptions. Under our pessimistic employment assumption, cash flow problems are not expected until 2034 which is one year later than in last year's report. As a result, there is no need for the Board to take any action at this time to address fund solvency.

Some additional results which may be of interest to the Board in long-term planning are that the number of employee age retirements is expected to remain relatively high at above 10,000 per year through calendar year 2014, but then to decrease rather steadily until falling below 5,000 per year in 2022.

The number of employee disability retirements has been decreasing and is expected to continue to decrease over this period, but to a lesser extent than the age retirements. Along with the decrease in retirements, the rate of decline in the beneficiary population is expected to accelerate from less than 1 percent currently to about 2 percent per year in 2022.

Next, I would like to discuss the Section 7105 report which covers the status of the Railroad Unemployment Insurance System. In the benefit year ending June 30, 2008, 4 percent of employees with qualifying service and compensation received unemployment benefits. This increased to 8.4 percent in the benefit year ending June 30, 2009, and 9.8 percent in the benefit year ending June 30, 2010, the highest unemployment rate in over 20 years. For the benefit year ending June 30, 2011, the unemployment rate dropped by half to 4.9 percent.

Due to short-term cash flow problems, $46.5 million was borrowed from the Railroad Retirement Account during fiscal year 2010. This year, after receipt of contributions that included a 2.5 percent surcharge, loan repayments began in May and are expected to be completed next month. This borrowing was needed because the experience rated contributions adjust with a lag to changes in expenditures, allowing the fund balance to decline or, as was the case last year, become exhausted in periods of rising benefit claims.

The Section 7105 report projected that this year's surcharge will be followed by a surcharge in calendar year 2012 which is expected given the recent borrowing. Although the 7105 report projects no surcharge in calendar years 2013 and 2014, periodic surcharges are expected thereafter. Even in periods of stable unemployment, the system will require periodic surcharges because the underlying contributions without a surcharge tend to be insufficient.

Finally, I would like to report the results of the Financial Interchange Transfer. The Financial Interchange Transfer and repayment of Treasury advances were successfully completed on June 2, 2011. SSA transferred $4.11 billion from the Old Age and Survivors Insurance Trust Fund and $0.46 billion from the Disability Insurance Trust Fund to the Social Security Equivalent Benefit Account. We transferred $0.48 billion from the SSEB Account to the Centers for Medicare and Medicaid Services' Hospital Insurance Trust Fund and repaid $3.95 billion to the Treasury for the

Financial Interchange advances. The net effect of the transfers and repayment was an increase of $0.15 billion in the SSEB account.

Related to the Financial Interchange Transfer is the transfer to SSA for benefits attributable to pre-1957 military service. No transfer was included in this year's FI determination. We have been working with SSA's actuaries and, with the assistance from the Office of Programs, have now reached agreement with SSA on the sample cases and the specific periods of military service for each sample case to be used in the calculation. At this point, we expect a transfer for pre-1957 military service to be included in next year's FI determination.

CHAIRMAN SCHWARTZ: Okay. I have one question. Early in your report, you said an increase in Tier II tax rates. Go back to that part.

MR. BUZZI: We expect an increase in Tier II tax rates. Beginning in 2013, in the optimistic employment assumption, we expect it to increase from 16 percent currently to 17 percent in 2013 eventually reaching 19 percent.

Under the intermediate and pessimistic

assumptions, we also expect an increase in 2013 to 17 percent, but under those assumptions, eventually reaching a high of 27 percent.

CHAIRMAN SCHWARTZ: Okay. Thank you.

George, fiscal operations?

MR. GOVAN: Good morning, everyone. I will briefly cover 2011 financial statement preparation, recent budget developments for fiscal years 2011 through 2013, and a status report on actions to migrate the agency's Federal Financial System to a shared service provider.

First, the 2011 financial statement preparations. Just briefly, the Draft Performance and Accountability Report for fiscal year 2011 is being developed with a delivery date to the Office of the Inspector General Thursday, August 4th. We have had an opening conference with the Office of the Actuary, the Office of the Inspector General, and the Government Accountability Office and released many requests for data to Bureaus and Offices requiring deliverables for the Performance and Accountability Report.

Also, preparation of the third quarter financial statements is on schedule with the delivery date to the OMB and Treasury by tomorrow, the 21st.

CHAIRMAN SCHWARTZ: Okay.

MR. GOVAN: Next, status of funding for fiscal year 2011. We recently conducted the third quarter budget review identifying approximately $1.4 million in funds available for realignment of which an assessment of hiring and separations during the first nine months of the year was conducted. And I'll talk to you a little bit first about the staffing situation.

The RRB began fiscal year 2011 with 931 employees on board. After adjusting for part-time employees and employees on leave without pay, the full-time equivalent usage rate was 918. So far this fiscal year, we have had 49 separations and 20 outside hires. We project that 57 employees will leave the RRB during the fiscal year and that 32 will be hired from outside resulting in a net loss of 25 employees.

CHAIRMAN SCHWARTZ: So our attrition is four to five a month now?

MR. GOVAN: So far, sir.

CHAIRMAN SCHWARTZ: Okay.

MR. GOVAN: As of October 1, 2011, the RRB would have a staffing level of 906 employees on board with a full-time equivalent usage rate of about 892. This is a 10 percent full-time equivalence less than we budgeted for fiscal year 2012 at the President's proposed funding level of $112,239,000. So we would have some room for adjustment if funds are tight next fiscal year.

Current projections for full-time equivalent usage include an assumed attrition level, like you mentioned before, the four to five employees per month, but, again, actual number and timing kind of varies.

CHAIRMAN SCHWARTZ: Right. Right.

MR. GOVAN: As a result of the third quarter review, we were able to allocate funds that allow hiring an additional six employees during the last few months of the fiscal year to fill claims representative positions in the New Orleans, Westbury, Nashville, Detroit, Baltimore, and Covina offices.

Additionally, funds of $560,886 were allocated to the Information Technology Reserve. This increased funding for IT investments from

$550,000 to $1.1 million, but it's still about $400,000 less than the amount originally planned for the year.

CHAIRMAN SCHWARTZ: Right.

MR. GOVAN: So we expect to provide additional funding for IT as we approach the end of the fiscal year.

Next, I'll move on to 2012 budget requests. On June 21st, I participated together with Henry Valiulis, Dotty Isherwood, Georgia Blalock, Margaret Lindsley, and Francine Salvador in a teleconference with Heidi Mon, a detailee in the House of Appropriations Subcommittee for Labor, Health, Human Resources and Education. We provided an overview of the RRB's benefit programs and administrative operations and summarized our budget requests for fiscal year 2012. We emphasized the need for funding to support succession planning efforts and information technology investments.

The teleconference was cordial, and I look forward to working with Ms. Mon during the coming budget season.

Next, fiscal year 2013 --

CHAIRMAN SCHWARTZ: Before you go onto that, I assume, Terri and Henry, the end of the fiscal year, I assume that if there is some money there for technology, you originally, Terri, had, what, 1.6 million on your -- 1.6 million?

MS. MORGAN: Yes.

CHAIRMAN SCHWARTZ: So it was 1.2. You're saying there could be a little bit to get her back up to -- I guess what I'm trying to say here --

MR. GOVAN: Yes.

CHAIRMAN SCHWARTZ: -- is for procurement purposes and things like that, there's a timeliness issue there, right? You have to make sure --

DIRECTOR VALIULIS: Yes, there is.

CHAIRMAN SCHWARTZ: So we need to make sure as the money becomes available that you address the timeliness of it to make sure we can get the items procured --

MS. MORGAN: Right.

CHAIRMAN SCHWARTZ: -- and by the end of fiscal year. So that probably -- I mean, we're already in August, so that should be coming up here pretty soon.

MS. MORGAN: The steering committee is working on a recommendation to the EC. We are looking -- re-examining the remaining items that were in our FY-2011 operating plan, but we're also looking for critical initiatives that were in 2012 because we're unsure of the funding for 2012. And we will make a recommendation to the EC on initiatives to close out the year.

CHAIRMAN SCHWARTZ: To give Procurement enough time to get that?

MS. MORGAN: We actually have a meeting set up for Friday morning to work with Procurement.

CHAIRMAN SCHWARTZ: Great. Great. You guys are on top of things. All right.

MR. GOVAN: Next is fiscal 2013 budget development. Agency staff are currently preparing the RRB's budget submission for fiscal year 2013 which must be provided to the Office of Management and Budget and Congress by September 12th. Our schedule calls for submitting the proposed budget to the Board Members shortly after we receive fiscal year 2013 guidance from the Office of Management and Budget.

But I would like to briefly discuss one important item that will be included in the fiscal year 2013 budget submission, and that's our request for funding for converting the Federal Financial System to a shared service provider. In FY-2010, RRB retained a contractor, KPMG, to conduct an assessment of our core financial system, the FFS, Federal Financial System. KPMG's analysis has identified current and future performance gaps in key areas. And following KPMG's analysis, RRB management determined that migration to a shared service provider was the best alternative.

The other option is maintaining the status quo or enhancing our current system which is too risky particularly because FFS is no longer supported and RRB would be relying too heavily on inhouse staff especially with succession planning as a key goal.

Although we did not receive funding later to the FFS conversion in our budgets for fiscal year 2011 or 2012, we are moving forward on this initiative by relocating resources to support some of the preliminary activities needed to prepare for the transition.

In June, we contracted with KPMG to assist us in preparing the complicated Exhibit 300 documentation to include a fiscal year 2014 budget submission. The Office of Management and Budget requires the Exhibit 300 to ensure that agencies support their information technology investments with the business case analysis as consistent with the agency's mission and long-term goals.

We are also developing a statement of work for additional contractual assistance in preparing for the transition. And I need to correct that. We actually completed a draft of that statement of work in conjunction with the acquisition management, personnel, and some others.

Our goal here is to find a contractor with knowledge of the shared service providers and experience in the transaction process. We kind of quote that as the pre-migration stage. We want to be sure that we are well-prepared for the transition and that we have documented all of RRB's specific business and financial requirements that are positioned to choose the best shared service provider.

We have also developed an FFS migration team chart and established two inhouse cross-organizational teams to support the migration effort. Our proposed time line will result in a migration to a shared service provider in 2014 which is still in line with the agency's strategic plans.

CHAIRMAN SCHWARTZ: Good.

MR. GOVAN: Or strategic goals. The key benefits are that RRB's financial processes will be further automated and that the agency's financial system will be supported. Future revisions related to changes in the laws of financial standards will be the responsibility of the shared service provider rather than RRB inhouse staff.

CHAIRMAN SCHWARTZ: All right. Thank you.

MR. GOVAN: That concludes my comments.

CHAIRMAN SCHWARTZ: Any questions? Yes?

MEMBER KEVER: I have a question. George, we've been talking about FFS, I don't know, for three or four years I think. How risky is it to wait until 2014?

MR. GOVAN: Great question. I think just off the top, from a low-moderate-high, right now I think we're at a moderate level. I don't place it on the high level. I place it at moderate just based on budget, the fiscal constraints that we all are aware of right now.

If OMB, based on their prioritizations, needs, and budget cuts provide those funds, then we will probably be in the low to moderate range.

MEMBER KEVER: So you're convinced that the inhouse capabilities we have will get us through?

MR. GOVAN: Correct.

MEMBER KEVER: Okay.

MR. GOVAN: Correct.

MEMBER KEVER: There's no need to put more funds in your area and take some out of what Terri would be doing to make sure that we've got good financial statements?

MR. GOVAN: No. If you look at -- what I have seen from the folks both in BFO working with BIS and working with acquisition management when I came on board, the planning is the key. And when the team -- I mean, the EC decided that we needed to do everything versus just parts of this, and that everything consisted of the pre-migration stage.

Initially when I came in, I went assertively on let's get the Exhibit 300 done and then we can at least put a mark in the sand in 2013 for the funding. But the team decided, let's do more than that, which pretty much is why I kind of assess it to the moderate to the low depending on, of course, funding. But the team decided, let's go ahead and do pre-migration which, of course, would help us. We would be able to, one, maintain our current work loads because we now have a contract team coming in to assist us until we get to 2013 and we have the actual shared service provider coming in.

CHAIRMAN SCHWARTZ: Okay.

MEMBER KEVER: Okay.

CHAIRMAN SCHWARTZ: Anybody else? Okay. Great. Office of Programs, Dotty?

MS. ISHERWOOD: Good morning. First this morning I would like to give a final update on the ACSI web survey which actually ended yesterday, July 19th. This was, as you know, a random survey conducted over the course of the past year. During that time, we received an enormous amount of feedback from our customers as well as structured statistical feedback from the contractors that helped us. That statistical feedback came in the form of four quarterly satisfaction insight reviews and two usability audit reviews.

And just for the sake of a quick review, the first usability audit review focused on navigation issues and recommended changes in our home page. We have since then actually implemented those recommendations about the home page and put up a new redesigned home page on our Web site on May 13th.

The second usability audit review focused on navigation issues with interior sections of the Web site, and it recommended quite a number of specific improvements having to do with consistency and design throughout those secondary pages of the Web site. And the project team is currently working on that set of recommendations.

The fourth and final quarterly satisfaction insight review was just conducted on July 12th, and it focused on our customer satisfaction scores since the home page redesign was put into place. And although we only had about five weeks of data in that review, it did show our overall satisfaction scores increased by about 3 points from 73 to 76.

CHAIRMAN SCHWARTZ: Good.

MS. ISHERWOOD: That compares favorably with an overall government satisfaction score of 74.

But there is an interesting note to all of this. It's not clear from these early results that the increase in our satisfaction scores was due to the home page redesign. It turns out that the majority of the 3 point increase came from respondents who reported in the survey that they did not visit the home page. The satisfaction scores from those people who visited the home page stayed relatively static.

So ForeSee Results, the company that has been helping us, found that to be kind of an interesting and intriguing result and kind of recommended that we continue to focus on our home page and do some additional analysis on what might be going on there.

CHAIRMAN SCHWARTZ: Right.

MS. ISHERWOOD: Recommended actions in this final review last week included putting a focus on the interior sections of the Web site, similar to the previous recommendations having to do with design consistency and navigation improvements.

And another recommendation they made was that we should continue to focus attention on the overall layout of our Web site, specifically as it pertains to retirement benefit information because the survey overall showed that about three-quarters of the visitors to the Web site are looking for retirement benefit information.

So the project team is going to continue working on this over the coming months; and, hopefully, we'll put up some additional improvements in the navigation. And then we are hoping to conduct this survey again in about a year after those improvements have been in place for a little period of time, and we'll see how we're doing at that point.

CHAIRMAN SCHWARTZ: Okay. Thank you.

MS. ISHERWOOD: Next, I wanted to update you on one of our Web site applications, the service that allows our unemployment and sickness claimants to file their claims on line. In the unemployment program, we've seen the usage rate steadily increase since about 2006 from 15 percent to about 34 percent currently in 2011. And we implemented -- shortly after that was put into production, we implemented an automation process for what we considered to be clean claims. Those are claims that are less complex. They can be more automated, and they don't require manual referrals for additional special handling. In the UI area, about 40 percent of the on-line claims qualify as clean claims.

In the sickness program, the on-line service has only been available since October of 2010, and the current usage rate is around 15 percent right now. We implemented the clean claims function for sickness claims on May 24th, just recently, and since then have determined that about 79 percent of the sickness claims qualify as clean claims.

So we see this as a big potential area for efficiency improvements as on-line usage rates continue to grow. And in order to encourage more participation in the on-line services of our Web site, we recently began a new campaign to advertise those services for UI and SI claims, and the campaign involves a mailer that we're inserting with all of our UI claims. It began on July 11th, and it's going to continue for a ten-week period. So there's some potential for improvement there.

CHAIRMAN SCHWARTZ: Okay.

MS. ISHERWOOD: Next I wanted to talk briefly about the Disability Program Integrity Action Plan. In January, I submitted that action plan to the Board on behalf of the Disability Working Group which had been formed to look into concerns about potential fraud in the Disability Program due to self-employment and earnings. The Board approved that action plan on February 11th.

I'm now pleased to report that the first element in the action plan has been recently completed. That was the development of a program to raise awareness about disability fraud for program staff. The training provided a foundation in the elements of fraud, the factors that contribute to fraud. It also provided real-life case examples of disability fraud involving employment; and it provided background on common indicators of fraud for the staff to look for when they're adjudicating a case.

The training was provided for both management and staff and operations, policy and systems and field service, and basically those people who have responsibilities to support the disability program. It involved about 300 people all together. The training for field staff was provided through a series of four RRB vision sessions. Those are also available on line now for anybody who needs refresher or make-up training through the Board Web site.

We're continuing to work on the next steps in the action plan, and we will keep you posted as we do additional things.

CHAIRMAN SCHWARTZ: Okay.

MS. ISHERWOOD: And, finally, a brief update on staffing and hiring in the Office of Programs. This is on our external hiring efforts for this fiscal year. The approved hiring plan for us this year includes up to 8 positions for a UI training class; 18 additional field office positions to be filled across the country; and up to 6 clerical positions for operation support.

To date, we have posted the internal positions actually for the unemployment training class, and we have conducted interviews of the external candidates for that class. The panel is currently working on the internal panel work right now. We're hoping in a couple -- three weeks, maybe, we'll be able to bring that to conclusion.

We've also posted the first six field office positions. Those are located in Omaha, St. Louis, Cleveland, and Birmingham. The next six we're hoping will be posted within the next couple of weeks; and the final six hopefully shortly right after that. We are running out of time. We really need to get these panels going by the end of the year in order to get them hired.

But given the level of attrition we've already experienced in field service recently and the amount we're still expecting, filling these vacant positions has really offered us much needed assistance in the field service, and we do appreciate the Board support in filling all those vacant positions. And that concludes my remarks.

CHAIRMAN SCHWARTZ: Thank you very much. Terri, Bureau of Information Services.

MS. MORGAN: Good morning. The first item I would like to talk about is our efforts in the area of disaster recovery, and we have been conducting a number of table top exercises. The IT Disaster Recovery teams in support of the Business Recovery Time Objectives participated in two table top exercises so far. The availability specialist in

BIS examined all existing documentation and developed detailed flow charts of all the activities required for BIS during a disaster. The flow chart was then broken down into what we call swim lanes for the teams, the various teams, and it showed the various steps in the recovery process and the interrelationships among the seven IT teams.

During the first table top meeting, the teams were assembled and tasked with reviewing all the documentation to determine whether all steps were properly defined and the interactions between the teams were clear. The teams were able to identify some gaps in the process and address those issues. So it really made a big difference from just seeing the narrative documentation to actually examining it in a flow chart fashion.

During the next meeting, we executed the plans in the order that would occur during a disaster. Each team leader explained the team rules during the specific step and then passed the baton to the leader of the team responsible for the next step. We actually had a baton, a racing baton. And we had them, the team leaders, stand up, talk about what the team did at that step, and then actually physically pass the baton to the next team so they would get a true understanding of who they needed to talk to once their step was completed before transferring it on.

By conducting the table top exercise in this way, each team fully understands their responsibilities in the interdependent seats of the team. More exercises are being planned with specific disaster scenarios to be explored.

The second item I would like to discuss is business governance for commonly-owned applications. Over the years, various applications have been introduced into the RRB which could be considered common business applications. Examples of common business applications include e-mail and Boardwalk. In order to improve the operation of these applications and to ensure the common applications best meet the agency's business needs, it's important to establish the rules to manage these applications. These rules are called governance.

A cross agency team, lead by the agency's records officer, has been formed to define the agency's business rules for commonly-owned applications. This came to light because of issues with e-mail and storage and retention of e-mail for legal issues, but we've expanded upon this concept to cover all common applications. So we want to make sure that we're following all regulatory and legal guidelines in the administration of our common applications.

Beginning with e-mail, and that's the first one the team is undertaking, rules will be established which will address e-mail as records, how to organize records material, how to dispose of nonrecord material, and setting limits on retention of nonrecord material. The rules developed for e-mail will then be adapted to address other common applications such as RRB.gov, Boardwalk, Shared Point, and Microsoft Office.

CHAIRMAN SCHWARTZ: Okay. Thank you. Okay, Henry?

DIRECTOR VALIULIS: Good morning.

CHAIRMAN SCHWARTZ: The anchorman.

DIRECTOR VALIULIS: Or the rear.

CHAIRMAN SCHWARTZ: I was thinking, she had the swim lanes for the table tops, so I thought you could be the anchor.

DIRECTOR VALIULIS: Thank you.

MEMBER SPEAKMAN: And don't drop the baton.

DIRECTOR VALIULIS: In the area of human resources, this past Monday, audit staff from the Office of Personnel Management, OPM, started an on-site human capital management evaluation at the Railroad Retirement Board. The review will assess the effectiveness of our human capital programs and human resources activities in the areas of strategic alignment, talent management, results-oriented performance culture, leadership/knowledge management as well as our HR programs' compliance with law, regulations, and merit system principles. OPM auditors are reviewing personnel transactions, internal procedures, and conducting individual and group interviews.

The audit will conclude this Friday at which time the team leader will share her preliminary findings that will be included in a final draft report which should be released in the next few months.

Human resource staff will then get back to agency business next week with a key focus on filling critical vacant positions. However, they will take a short break to celebrate the agency's 24th Annual Employee Award for Excellence Program to be held next Wednesday at 10 a.m. at Loyola University's Kasbeer Hall.

Acquisition staff continue to work with Bureau of Information Services' staff completing contracting actions identified in this fiscal year's IT priority list. We are also reviewing potential IT projects scheduled for FY-2012 that might be suitable for year-end procurement.

As mentioned in previous Board briefings, our most significant non-IT contracting action this year involves the reprocurement of the RRB Medicare Part B administration services contract. At this time, the contracting officer is awaiting for results from a financial review of the submitted offers by financial analysts at the Centers for Medicare and Medicaid Services while the RRB technical and cost evaluation team continues to make progress in reviewing and evaluating the revised offers.

Thank you for the opportunity to provide highlights within the Administration.

CHAIRMAN SCHWARTZ: Okay. And the timing on that? Do we have the timing on -- the general timing?

DIRECTOR VALIULIS: The goal is to award the contract before the end of the fiscal year.

CHAIRMAN SCHWARTZ: Okay.

DIRECTOR VALIULIS: But that is dependent on cooperation from CMS as well as potential protests that might evolve.

CHAIRMAN SCHWARTZ: I understand. Okay. Are there any questions from Mr. Kever, Mr. Speakman for anybody?

MEMBER SPEAKMAN: Mr. Chairman, I don't have any questions. I have just an observation I would like to make.

George, I think your report was done well, and I'm pleased to hear that there's potential -- some monies available at the end of the year. With regards to the 2012 budget and the fact that it's not clear, I think probably what is clear is that we are probably going to have to do more with less, and it's going to be very important that we prioritize how we utilize what surplus monies might be available, if that's the right term, I'm not sure it is, but what monies are available. It's going to be very important to make sure that we do the proper prioritizing of that and use it wisely.

With regards -- one thing that you had also mentioned, Dotty, is with regards to the filling of the field office positions and vacancies. Clearly, time is running short with us to do that. Is there any reason why we're doing these in six position increments here?

MS. ISHERWOOD: Yes. There's only so many that HR can handle at one time. They're following a whole new system to get these things posted, and there's a lot of labor involved in each and every one of them. They are time-consuming.

MEMBER SPEAKMAN: You believe, though, we'll able to meet those time limits?

MS. ISHERWOOD: We are going to do our best. There are many unknown factors when you get out to actually filling these jobs. Some of it depends on how many people bid. I understand some of the bids have come back on some of the first ones posted, and there are many of them. It can increase the time frames. But we are going to drop everything we can drop and work our hardest at doing them. There are no guarantees.

MR. BOEHNER: How many are outstanding?

MS. ISHERWOOD: We have 18 jobs we have permission to fill right now in the field. We have panel members for all of them. Requests to post have been submitted for all of them. Six have already been posted. Bids are coming in.

DIRECTOR VALIULIS: We have filled 12 I believe this year.

MS. ISHERWOOD: We filled others that were left over from last year's hiring plan this year, earlier this year, yes.

CHAIRMAN SCHWARTZ: Okay. Just to further one of your comments, I think that Terri is doing a very smart thing looking at her 2012 expenditures and saying, I may not have that money in 2012, so I'm going to look at the money coming up in 2011 and try and pay forward a little bit there. I think that's an example of what we need to do now.

MEMBER SPEAKMAN: I wholeheartedly agree.

CHAIRMAN SCHWARTZ: It really is. So that's something else we probably need to look at, not just Terri, but anyone else that says there was something that I was counting on in 2012. Maybe go ahead and get it now. Okay. Very good reports today. Excellent. Thank you very much.

(Whereupon, the meeting of the U.S. Railroad Retirement Board adjourned at 10:43 o'clock a.m.)

STATE OF ILLINOIS)
) SS:
COUNTY OF W I L L)

ANNA M. MORALES, as an Officer of the Court, says that she is a shorthand reporter doing business in the State of Illinois; that she reported in shorthand the proceedings of said meeting, and that the foregoing is a true and correct transcript of her shorthand notes so taken as aforesaid, and contains the proceedings given at said meeting.

IN TESTIMONY WHEREOF: I have hereunto set my verified digital signature this 20th day of July, 2011.

Illinois Certified Shorthand Reporter

U.S. RAILROAD RETIREMENT BOARD

REGULAR BOARD MEETING

ORIGINAL

April 27, 2011

STENOGRAPHIC REPORT OF PROCEEDINGS

had in the above-entitled matter held at 844 North Rush Street, 8th Floor, Chicago, Illinois, at 10:02 a.m., MR. MICHAEL S. SCHWARTZ, presiding.

PRESENT:

MR. MICHAEL S. SCHWARTZ, Chairman
MS. NANCY PITTMAN, Assistant
MR. STEPHEN W. SEIPLE, Assistant

MR. JEROME F. KEVER, Management Member
MR. ROBERT PERBOHNER, Counsel to the Management Member
MR. JOSEPH M. WAECHTER, Assistant
MS. ANN CHANEY, Attorney Advisor

MR. V. M. SPEAKMAN, JR., Labor Member (via telephone)
MR. JAMES C. BOEHNER, Assistant
MS. GERALDINE L. CLARK, Assistant
MR. MICHAEL COLLINS, Assistant
MR. THOMAS W. SADLER, Counsel to the Labor Member

BOARD MEMBERS PRESENT: (Cont'd)

MS. BEATRICE E. EZERSKI, Secretary to the Board

MR. HENRY M. VALIULIS, Director of Administration/Senior Executive Officer

MR. STEVEN A. BARTHOLOW, General Counsel

MR. GEORGE V. GOVAN, Chief Financial Officer

MR. FRANK BUZZI, Chief Actuary

MS. DOROTHY A. ISHERWOOD, Director of Programs

MS. TERRI S. MORGAN, Chief Information Officer

MR. MARTIN DICKMAN, Inspector General

MS. PATRICIA MARSHALL, Attorney Advisor

MS. MARGARET LINDSLEY, Director of Legislative Affairs

REPORTED BY: Brenda S. Tannehill, CSR, RPR, CRR

LICENSE NO. 084-003336

THE CHAIRMAN: I think we'll go on the
record now. Welcome, everyone.
I think it's time for some reports from
our Executive Committee. Let's start off with
the Bureau of Law. 00:00:24
MR. BARTHOLOW: Good morning. I have a
few items to cover this morning with you all,
but also, Margaret Lindsley, of course, is here,
our Director of Legislative Affairs. We're
happy to have her with us. 00:00:38
Litigation has been relatively quiet in
recent months, but we do have two new Petitions
For Review of decisions by the Board, and we
recently received notice of a favorable decision
issued by a Court of Appeals in an appeal from a 00:00:51
Board decision.
Rail-Term Corporation filed a Petition
For Review of the Board's decision finding
Rail-Term to be a covered employer with respect
to the dispatching services it provides to 00:01:04
various rail carriers. Rail-Term filed its
petition on March 28th in the United States
Court of Appeals for the District of Columbia
Circuit. This case involves the same issues as

were decided in the agency's favor in the Seventh Circuit case of Herzog Transit Services. As was true with Herzog, Rail-Term will be a complex and difficult case.

The other new Petition For Review is the case of Samuel P. Stephens, Junior versus Railroad Retirement Board. This case which was filed in the United States Court of Appeals for the Ninth Circuit involves a claim for an adult child disability annuity.

On April 20th, the United States Court of Appeals for the Ninth Circuit issued a decision in the case of Nikiforos Kalfountzos versus Railroad Retirement Board affirming the decision of the Board that had denied appellant's application for a disability annuity.

In the EEOC area, equal employment area, a hearing date has been set in the EEOC case of Tatum v. Railroad Retirement Board Mr. Tatum alleges that he was discriminated against in the selection of a customer service representative in the Field Service. The hearing will be conducted in Little Rock, Arkansas on July 19th of this year.

The CSX Real Property employee service case is progressing. All testimony by telephone from those claimants unable to testify in person at the Jacksonville, Florida public hearing in 00:02:42 December has now been concluded in this case. Documents submitted by the claimants at the end and after their hearings are being indexed for compilation of the final administrative record. 00:02:58

Following final submissions from the parties based on this final record of documents and testimony, the designated hearings examiner will prepare a recommended decision for consideration by the Board. 00:03:08

In the legislative area, of course, the big news has been the budget. Margaret Lindsley and her staff put in many hours monitoring the various continuing resolutions and the negotiations that culminated in enactment of 00:03:21 full-year funding for the agency. As we all know, this was a very difficult budget year, and we were fortunate to have Margaret and her staff in Washington to keep us up to date on the

status of the budget.
On April 5th and 6th of this year, the
Office of Government Ethics conducted an on-site
audit of the RRB's ethics program. The Office
of Government Ethics representatives met with 00:03:47
members of the ethics staff, the Inspector
General, a Board Member and the Bureau of Human
Resources to gather information about the
agency's ethics program. They also reviewed
financial disclosure reports and ethics advisory 00:04:00
opinions issued in recent years.
On April 26th, the Office of Government
Ethics issued its final report on the audit.
The cover letter to the report states that the
review indicated that the RRB's ethics program 00:04:15
appears to be effectively administered and in
compliance with applicable laws, regulations and
policies.
The report noted what OGE considers to
be model practices in several areas of the RRB's 00:04:27
ethics program. Model practices were noted in
program administration, financial disclosure,
training and enforcement.
Finally, the report suggested one area

of possible improvement concerning ethics
orientation for new employees. We agree with
the suggestion and will implement a new
procedure calling for greater involvement by
ethics staff in new employee orientation. 00:04:54

As the Board knows, the Bureau of
Hearings and Appeals has conducted a number of
hearings over the past few years using
videoconference technology under a Government
Printing Office contract with Fed Ex/Kinkos. 00:05:13

The Director of Hearings and Appeals
was advised recently that the Government
Printing Office is no longer going to contract
with Fed Ex/Kinkos for videoconference services.
The termination date for videoconference 00:05:26
services under the Government Printing Office
contract with Fed Ex is June 1.

The Director of Hearings and Appeals is
working with Acquisition Management to contract
with a new videoconference service provider. 00:05:39
The plan is to have a new vendor selected by
July, and it is hoped that during the interim
period, we will be able to make arrangements to
have videoconference hearings through a

temporary vendor.

The last item I would like to mention is that we are working with the Bureau of Human Resources to fill the position of Secretary to the Board that will soon be vacant with the retirement of Beatrice Ezerski. 00:06:05

The panel has reviewed the applications and interviewed the applicants. On Monday of this week, panel material was referred to me as selecting official. I am reviewing that material and hope to be able to make a decision in the near future. 00:06:17

That concludes my remarks.

THE CHAIRMAN: What a great segue, Steve. 00:06:27

Bea, come on up here. We have a photographer.

(Whereupon, a short recess was taken.)

THE CHAIRMAN: Well, kind of like the Bulls game last night, we have to depend on you, Frank, to keep the momentum going here. Bureau of Actuary, here we go. 00:09:29

MR. BUZZI: I'll try not to disappoint

you.

For my report, I would like to inform the Board of the status of three projects that we will soon be completing. First, the 59th Financial Interchange Determination. Work on 00:09:52 the determination is proceeding on schedule, and we expect to have results by the beginning of next week.

The determination will not include a transfer for pre-1957 military service. We are 00:10:03 continuing to work with SSA's actuaries to review the case work which will form the basis of this calculation and expect that a transfer for pre-1957 military service will be included in next year's Financial Interchange 00:10:20 Determination.

The determination is calculated effective June 2nd which allows roughly one month for the Board to first approve the determination, for SSA and CMS to next approve 00:10:33 the determination, and finally, for the certifications to be sent to Treasury.

Next, the 2011 combined Section 502 and Section 22 report on the status of the Railroad

Retirement System. Work on this report is proceeding on schedule. We plan to send a draft of the report to the Actuarial Advisory Committee in early May. Barring any problems, we expect to provide a copy of the report to the 00:10:59 Board by June 1st. The report is due to the President and Congress by July 1st.

Finally, the 2011 Section 7105 Report on the status of the Railroad Unemployment Insurance System. Work on this report should be 00:11:14 completed shortly after the Actuarial Advisory Committee has approved the final economic assumptions for the 2010 Section 502 Report. We expect no difficulties completing this report on time and providing a copy of the report to the 00:11:30 Board by June 1st.

Although we will update our projection of the Railroad Unemployment Insurance loan repayment in preparing this report, with the loan balance currently at about 48.2 million and 00:11:43 repayment expected to begin next month, it is likely that the loan will be fully repaid by the end of this year. This report is due to Congress by July 1st.

THE CHAIRMAN: Okay. Thank you very much.

Okay. Bureau of Fiscal Operations. George.

MR. GOVAN: Good morning, everyone. 00:12:04
First off, I'd like to say I'm proud to be here and I appreciate everyone pretty much supporting me as my family and I transition into the Railroad Retirement Board. So again, thank you all. 00:12:16

THE CHAIRMAN: Glad to have you.

MR. GOVAN: I will briefly cover budget developments for Fiscal Year 2011 through 2013 starting with, of course, Fiscal Year 2011.

The RRB is now operating under a 00:12:26
full-year continuing resolution, Public Law 112010, which provides $108,854,854 for agency operations. This represents our Fiscal Year 2010 enacted funding level of 109,073,000 less an across-the-board .2 percent recission which 00:12:45
comes to $218,146. Vested dual benefits under the law provides $56,886,000. This represents the RRB's requested funding of 57 million less the .2 percent recission.

The legislation does not include the
usual 2 percent reserve for unplanned benefit
workload increases, however, current projections
indicate that funding will be sufficient to pay
full benefits through September 30th. 00:13:21
Public Law 112-10 also requires that
the RRB submit a Fiscal Year 2011 operating plan
within 30 days, and that plan is currently under
development and under way.
Next, for 2011 administrative 00:13:34
operations, funding will be available to pay the
remaining Fiscal Year 2010 performance awards to
GS-13s and above, totalling about $476,000. BFO
staff is currently working on apportionments in
order for payments to be made on the May 13th 00:13:54
payday.
Recommended allocations for Fiscal Year
2011 provide for a total agency staffing level
of a 911 Full-Time Equivalent which is five FTEs
more than previously projected. The increase 00:14:07
would allow the RRB to fill about 20 more
positions from outside the agency. The
Executive Committee is sending up the hiring
plan for the Board's consideration.

The RRB began Fiscal Year 2011 with a staffing level of 918 FTEs during the first six months. A total of 28 employees left the agency, and 12 were hired from outside, resulting in a net loss of 16 employees and a 00:14:35 decrease of about 10 FTEs for the year.

As of March 26th, the RRB had a staffing level of about 902 FTEs and an FTE utilization rate of 908.

Current projections for FTE usage 00:14:49 include an assumption attrition level of four employees per month, but the actual number and timing of separations, of course, is still uncertain.

Recommended allocations for Fiscal Year 00:15:02 2011 include current funding of $550,000 for information technology initiatives. And this is about $950,000 less than the amount originally planned for the year, but we expect to provide additional funding for IT as we approach the end 00:15:17 of the fiscal year.

Next is the status of Fiscal Year 2012 budget request. The Congressional justification of budget estimates for Fiscal Year 2012 was released on February 14th. In accordance with the President's proposed budget, the RRB submission reflects a funding level of $112,239,000 which represents an increase of about $3.4 million from the enacted amount that I just previously mentioned of $108,854,854. 00:15:42

Projections indicate that this would be sufficient for a staff of 902 FTEs and IT investments totaling about $1.8 million.

The Board Member statements for the record concerning the Fiscal Year 2012 budget request were released to the House and Senate Appropriations Subcommittee on April 14th, and the House Subcommittee staff requested that all statements be received no later than April 15th so we are ahead of schedule. 00:16:00 00:16:18

Finally, Fiscal Year 2013. Fiscal Year 2013 budget call was released to RRB bureaus and offices on March 25th. The initial requests are due to the Bureau of Fiscal Operations beginning on April 28th, this Friday. 00:16:30

This year's schedule has been coordinated with the Bureau of Information Services for development of the IT capital plan, and the Fiscal Year 2013 budget will request funding related to converting the Federal Financial System to a shared service provider. Further planning related to the project is continuing at this time. 00:16:51

This concludes my comments.

THE CHAIRMAN: All right. Thank you very much. Any questions?

Okay. Office of Programs.

MS. ISHERWOOD: Good morning. This 00:17:01 morning, I'm going to give you just a brief midyear status update on a variety of different areas and programs.

First, in the area of training, last year, we began a nine-month training program for 00:17:12 new claims examiners in the Medicare section. That program is scheduled to conclude next month on May 20th. We started that class with 12 people; there are still 11 people in the program, and we do have high expectations that 00:17:28 they're going to be able to really make a dent in some of the large workloads that are pending in the Medicare section once they're all turned into journeyman claims examiners.

Last year, we also started a smaller
class of only five people for the RUIA class for
new claims examiners in the unemployment and
sickness claims area. That group completed
their training in September, and only three of 00:17:53
the five actually completed that training. And
due to the recent high workloads that I think
everyone's familiar with in the unemployment
area, we are now faced with a fairly critical
need to start another class in the RUIA area so 00:18:06
we're hoping to be able to do that later this
year. I'll mention that again in a moment.

And third, in the training area, now
that we have our budget in place for this year,
we are able to finalize some plans for a new 00:18:23
claims representative class. We're planning to
bring in about 16 people in June. These are
people who were hired into claims representative
positions in various field offices during the
last year. So that's approximately a two-week 00:18:38
class.

In the area of staffing, Programs has
hired four full-time and two part-time employees
this fiscal year to date. We've also had

attrition of 17 people this fiscal year to date, and we do have expectations of quite a few more people leaving still during this fiscal year over the next few months.

So we do have three positions in the field that are still available to be filled from rosters left over from last year's approved hiring plan, but we have recently provided input to the hiring plan that George just mentioned having to do with the FY 11 hiring plan where we've asked for additional field positions to be included as well as that RUIA training class that I just mentioned. 00:19:03 00:19:17

And our third priority area in hiring is the clerical area where we experience really high turnover rates probably expectedly, but it is a necessity that over a period of time we bring in people to these clerical jobs. 00:19:30

Next, I wanted to mention our website survey which I think everyone knows has been going on since last July. This was a one-year survey of visitors to our agency website. We recently had the third quarterly review on that survey, and it showed us that the overall 00:19:47

customer satisfaction score remains at about 73, and it also shows that navigation and transparency issues are the two major priority areas that we could focus on in order to improve our customer satisfaction scores. 00:20:19

So in order to address those two findings, the project team, which has members from Programs, BIS and other areas of the agency, is currently working on a redesign of the home page at rrb.gov to improve the overall 00:20:31 clarity of the information that's presented and the navigation options that are available to the public from that page.

We're also continuing to work on a number of automation initiatives. Working with 00:20:44 BIS, we have recently completed projects that include a new version of SPEED which I think Terri is going to talk about so I'm not going to talk about that this morning.

And we have also implemented the new 00:20:59 Direct Express Initiative which went into effect with the February 1st checks. That's the initiative that gives people who are unbanked a debit card for their annuity payments. And on the April 1st checks, we implemented an international direct deposit program.

Ongoing projects include a significant initiative which we're very close to completion on that has to do with streamlining the State 00:21:23 Wage Match Program. Currently, that program involves producing paper listings of referrals which have to be sorted and mailed out to field offices for investigation.

The new system will provide us the 00:21:36 capability of posting online referrals to the field offices through the Universal STAR System. It will be more efficient, much more safe and secure for the personal information involved, more timely, overall a big improvement. 00:21:50

We're also continuing to work with BIS on a couple of phases of the Employer Reporting System right now. We're hoping that we will be able to pull those into final status and get them implemented this fiscal year still. 00:22:05

In the area of legislation, our staff is continuing to adjudicate claims for extended unemployment benefits under the Worker, Homeowner and Business Assistance Act. We have so far paid out over $24 million in claims, extended claims, under that law.

And finally, just as far as our overall ongoing claims objectives that we have, (our performance objectives that deal with timeliness 00:22:36 and accuracy of our claims payments) we're at the point in time of the year right now that we do a midterm, midyear update on all of those performance objectives. We're collecting all of the data right now. When that's completed, I 00:22:51 will forward a summary report to the Executive Committee and the Board telling you how we're doing.

And that concludes my report.

THE CHAIRMAN: Thank you. 00:23:00

Bureau of Information Systems, Terri.

MS. MORGAN: I don't know which is more exciting, actuarial data or data management.

THE CHAIRMAN: Well, we know you're going to report on SPEED. 00:23:10

MS. MORGAN: That will be really exciting.

The first area I'd like to talk about is Enterprise Data World presentation. Since

2007, the Data Management Group, DMG, has concentrated on developing a strong framework to support RRB's data assets.

The goal of the Data Optimization Project was to develop one representation of each data element in a master database rather than multiple representations in many different applications. Additionally, definitions and business rules called metadata have been established for each data element. This provides for improved quality and management of the agency's data.

Without the data embedded in each application, it also provides us the ability to modernize our applications which will result in a more streamlined and efficient operation.

Through the Systems Modernization Project, once each application is reprogrammed to access the master data, our legacy databases can be deleted which will reduce the processing demands on our infrastructure including our mainframe systems.

The work done has been recognized by the Data Asset Management Association, or DAMA, as effective in using limited resources to institute a governance program which supports sufficient use of data. A byproduct of the efforts is documentation that supports succession planning. 00:24:33

The four-year effort has been transformational for DMG and inspirational for the IT staff and business subject matter experts who participated.

The DMG with the approval of the Office 00:24:44 of General Counsel presented at Enterprise Data World 2011 in Chicago April 5th. Enterprise Data World is the annual U.S. conference hosted by DAMA. It's quite an honor to speak at this significant event and bodes well for our data 00:24:58 management efforts.

Data modeler, James George, and Chief of Information and Resource Management Center, Pat Hennigan, presented a seminar titled Flexible Metadata Management. 00:25:10

Sounds exciting, doesn't it?

THE CHAIRMAN: Well, I think it is.

MS. MORGAN: The presentation described the successful efforts of the data modelers to develop descriptive information about the data held in the master database through flexible interactions with business owners, developers and other technical staff. The key points included flexible scheduling to allow for 00:25:28 limited staffing and competing priorities and the importance of preparation for interviewing subject matter experts.

The session was well received by about 40 attendees including representatives of the 00:25:39 Burlington Northern & Santa Fe Railroad who actively participated in the discussion.

The next subject I'd like to talk about is the SPEED project which Dotty mentioned earlier, and the Office of Programs and BIS 00:25:53 jointly migrated the latest version of SPEED which is the Systems Processing Excess Earnings Data on Saturday, March 19th.

The version implemented the following actions: One, streamlines the removal of work 00:26:06 deductions for an employee or spouse who cease work by allowing the contact reps to enter the information without headquarters involvement; two, creates a retirement online calculation or

ROC, it's called, award to remove work deductions and issues the appropriate letter to the annuitant without claims examiner involvement; and finally, sets up an automatic call up to remove Tier 1 work deductions later 00:26:31 in the calendar year and issues the appropriate letter to the annuitant without claims examiner involvement.

The automation of these tasks reduces the workload of the claims examiners and allows 00:26:42 for more efficient use of staff.

SPEED also solved a long-term problem in BIS we were having with an automatic job schedule for PC applications. We can now automatically initiate the processing of call 00:26:55 ups from a server rather than from a programmer's desktop without human intervention. This is a much more secure and reliable process.

Finally, some of the calculation programs developed for SPEED are able to be 00:27:08 reused for other development efforts, notably the Overpayment Recovery Correspondence System which reduces program redundancy and shortens development times.

THE CHAIRMAN: Thank you. Very good.

Any questions for Terri?

All right. Office of Administration. Henry.

MR. VALIULIS: Good morning. I will 00:27:27 report briefly on the Office of Administration activities.

Within the area of human resources, the Director of Human Resources has signed an agreement with the Department of Interior 00:27:38 National Business Center or NBC to provide licenses and training for RRB staffing specialists to use USA Staffing software.

This software automates posting of external vacancy announcements on the Office of 00:27:50 Personnel Management USA Jobs website, it automates the evaluation and ranking of candidates and provides for electronic status notification to all applicants.

The NBC buys bulk licenses and provides 00:28:06 them at a reduced rate to small agencies compared to OPM's standard fees. We plan to start using the software in June.

Acquisition Management continues to

work with the Bureau of Information Services staff to review the technical and cost information to support this year's IT priority list.

The most significant non-IT contracting 00:28:29
action this year involves the reprocurement of the RRB Medicare Part B administration services contract. This solicitation is a result of the Medicare Modernization Act which requires the agency to compete and award a new contract for 00:28:44
these services to a specialty Medicare Administrative Contractor or MAC.

Proposals from prospective offerers were due March 31 of this year. The technical and cost evaluation teams are currently 00:28:58
reviewing and evaluating the proposals.

Acquisition Management staff also recently solicited for a new building security services contract. This action was necessary because the current contractor, ELA Security, 00:29:13
notified the RRB that it was closing its business. We negotiated a termination date of May 27th which will allow for an orderly transition. A new contract is expected to be

awarded by the end of this week.

In Real Property Asset Management, the William O. Lipinski Federal Building lobby renovation project which began last August is substantially completed. A dedication ceremony 00:29:41 has been arranged by the General Services Administration of Public Affairs Office with the former Congressman and is scheduled for the morning of June 29th, 2011. Invitations will be sent out by GSA, and all of those within the 00:29:58 agency and outside will be notified.

The remaining renovation work which involves the upper floor elevator lobby lighting is progressing well and is expected to be completed by the end of June. 00:30:12

That concludes my comments.

THE CHAIRMAN: Okay. Thank you. Any questions for Henry? All right.

Does anybody have anything to add?

MR. KEVER: I would like to make a 00:30:22 motion.

THE CHAIRMAN: Yes?

MR. KEVER: I think in view of the few years of service that Ms. Ezerski has served this Board very well, I would like it noted in our testimony that the Board appreciates her service.

THE CHAIRMAN: That's fine. I agree.

MR. SPEAKMAN: Second. 00:30:42

THE CHAIRMAN: So that's unanimous. Another unanimous vote for the Board.

Very good. Thank you very much for your reports today, and many of you we will see a little bit later in the day. 00:31:07

(Whereupon, the board meeting was adjourned.)

STATE OF ILLINOIS)
) SS:
COUNTY OF K A N E)

BRENDA S. TANNEHILL, being first duly sworn, on oath says that she is a court reporter doing business in the City of Chicago; and that she reported in shorthand the proceedings of said meeting, and that the foregoing is a true and correct transcript of her shorthand notes so taken as aforesaid, and contains all of the proceedings given at said meeting.

Brenda S. Tannehill

Certified Shorthand Reporter

DOCKET NO. 11-GE-0008

(Issue # 2)

ORIGINAL

U.S. RAILROAD RETIREMENT BOARD

REGULAR BOARD MEETING

JANUARY 19, 2011

STENOGRAPHIC REPORT OF PROCEEDINGS

had in the above-entitled matter held at 844 North Rush Street, 8th Floor, Chicago, Illinois, at 10:04 a.m., MR. MICHAEL S. SCHWARTZ, presiding.

PRESENT:

MR. MICHAEL S. SCHWARTZ, Chairman
MS. NANCY PITTMAN, Assistant
MR. STEPHEN W. SEIPLE, Assistant

MR. JEROME F. KEVER, Management Member
MR. ROBERT PERBOHNER, Counsel to the Management Member
MR. JOSEPH M. WAECHTER, Assistant
MS. ANN CHANEY, Attorney Advisor

MR. V. M. SPEAKMAN, JR., Labor Member (via telephone)
MR. JAMES C. BOEHNER, Assistant
MR. THOMAS W. SADLER, Counsel to the Labor Member

BOARD MEMBERS PRESENT: (Cont'd)

MS. BEATRICE E. EZERSKI, Secretary to the Board

MR. HENRY VALIULIS, Director of Administration/Senior Executive Officer

MR. STEVEN A. BARTHOLOW, General Counsel

MR. KENNETH P. BOEHNE,

MR. FRANK BUZZI, Chief Actuary

MS. DOROTHY A. ISHERWOOD, Director of Programs

MS. TERRI S. MORGAN, Chief Information Officer

MR. MARTIN DICKMAN, Inspector General

REPORTED BY: Brenda S. Tannehill, CSR, RPR, CRR

LICENSE NO. 084-003336

THE CHAIRMAN: We can start the formal board meeting now. We'll start our reports so if we could move on that, I think we have the Bureau of Law first. Steve.

MR. BARTHOLOW: Good morning. I have three things that I want to talk about.

Update in litigation. We've been busy in litigation, as we have in recent years. Very notably, I think, in the last several months, the Herzog Transit Systems or Services case, I'll give you the current status of that.

On October 22nd, 2010, the United States Court of Appeals for the Seventh Circuit issued a decision affirming the decision of the Board that Herzog Transit Services is an employer covered under the Railroad Retirement Act and Railroad Unemployment Insurance Act with respect to dispatching services that it performs for carriers engaged in interstate transportation.

On November 30th, 2010, the petitioners in that case filed a joint petition for rehearing en banc with the Seventh Circuit.

On January 3rd, the United States Court

of Appeals for the Seventh Circuit denied the petitioner's petition for rehearing en banc, thereby leaving intact the Court's October 22nd, 2010, decision.

This difficult and complex case was handled by Attorney Rachel Simmons of our office.

The second case I'd like to mention is the case of J.C. Scott versus the Railroad Retirement Board. In this case, on October 30th, 2010, Kelli Johnson, an attorney in our office, presented oral argument before the United States Court of Appeals for the Sixth Circuit.

This case involved an overpayment of over $130,000 due to excess earnings while in receipt of a disability annuity. On January 11th, 2011, the Court issued a decision denying waiver of recovery in that case.

In the legislative area, recently, the Office of General Counsel including our Office of Legislative Affairs worked closely with Congressional Staff on legislative language to provide for a further extension of unemployment benefits consistent with the extension of benefits under the Federal State Unemployment Insurance Program.

In addition, we worked with Congressional Staff to ensure that any FICA Tax Holiday would also apply to taxes under the Railroad Retirement Tax Act. As you all know, both these provisions were enacted as part of the Tax Relief, Unemployment Insurance and Reauthorization and Job Creation Act of 2011.

And the final matter, I'll give you an update on the CSX Real Property case. On December 6 and 7, 2010, designated hearings examiner Karl Blank conducted a hearing in Jacksonville, Florida in the employee status case of CSX Real Property, Incorporated. Mr. Blank conducted the hearing at the direction of the Board as set forth in Board Order 09-66.

This case involves a request for creditable employee service by 23 employees of CSX Real Property, Incorporated.

After compilation of a sizable administrative record and provision of copies of the record to all parties, Mr. Blank sent notice to CSX and to the 22 living employee parties and the survivors of one employee who had died that a hearing would be held in Jacksonville, Florida during the week of December 6th, 2010.

The parties were given the option to appear and present their case in person at the hearing, to present their case during a telephone hearing or to have their claim decided on the basis of the record. Twelve employees responded that they would appear at the hearing, and four responded that they would present their case in a telephone hearing.

At the hearing, CSX was represented by Attorney Thomas Gies. CSX had two witnesses. Eleven of the employees appeared at the hearing, and one failed to appear.

All parties were given the opportunity to present their case and testimony. Attorney Gies presented CSX's case and also cross-examined the employees who testified.

Subsequent to the hearing in Jacksonville, Mr. Blank has conducted an additional three hearings by telephone. Attorney Gies represented CSX during these three telephone hearings.

The employee who had failed to appear in Jacksonville has shown good cause for his failure to appear so together with the other remaining telephone hearing requests, we now have two telephone hearings that need to be conducted before the end of the hearings.

A transcript of the hearings has been prepared and will be distributed to the parties. The parties will be afforded an opportunity to submit final arguments. Following submission of final arguments, Mr. Blank will prepare a report to the Board with his recommendations.

That's it. Thank you.

THE CHAIRMAN: All right. Thank you. You guys have been busy.

Mr. Buzzi, Bureau of Actuary.

MR. BUZZI: I would like to report on the status of four items: Our ongoing work; some non-recurring work; the Railroad Unemployment Insurance Account loan; and the longevity of railroad annuitants.

First, our ongoing work. Last month, we completed the semi-annual budget reviews for

OMB and CBO. We completed the report on outlays for Treasury and OMB earlier this month. We completed the Retired Life Studies for the 25th actuarial valuation and have begun work on the Active Life Studies. We have also begun work on the 2011 Section 502 Report. The financial interchange determination is proceeding according to schedule.

Our primary non-recurring items were associated with the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010.

Prior to the passage of this act, we prepared cost estimates for the Congressional Budget Office and various legislative staff on continuing the special extended unemployment benefits for periods ranging from 3 to 13 months.

We provided cost estimates to Treasury for the Payroll Tax Holiday wherein the employee Tier 1 tax is reduced by 2 percent for one year and lost taxes are replaced by transfers from the General Fund to the Social Security Benefit Account.

After the passage of this act, we devised a methodology to estimate the required transfers on a daily basis and worked closely with staff from the Bureau of Fiscal Operations, Treasury and OMB to come to an agreement on how to implement the procedure.

Next, the Railroad Unemployment Insurance Account loan. As you are aware, high levels of railroad unemployment beginning late in calendar year 2008 and extending through mid-2010 resulted in the Railroad Unemployment Insurance Account borrowing from the Railroad Retirement Account starting in December of 2009.

A total of $46.5 million has been borrowed thus far, with some additional borrowing possible next month. Nonetheless, higher Calendar Year 2011 contribution rates including a 2.5 percent surcharge along with higher employment and declining unemployment should allow for complete repayment of the loan by the end of this calendar year.

Finally, I would like to discuss the longevity of railroad retirement annuitants.

In our recently-completed 25th

Valuation Retired Life Study, we noted that the mortality of railroad annuitants has not only continued to improve but continued to improve at an increasing rate, whereas in the 21st and 22nd valuation studies, the decline in mortality rate for employee aged annuitants was averaging approximately 1 percent per year. In the 23rd through the 25th, it has been averaging about 2 percent per year. This degree of mortality improvement is not confined to the railroad population.

To give you some example of the impact, a 60-year-old male aged annuitant was expected to live another 18.6 years in 1986. The future life expectancy increased to 19.5 years in 1992; 20.1 in 1998; 21.3 in 2004; and most recently, 21.9 years in 2007, a 3.3-year increase in future life expectancy in 21 years.

The implications are clear. It will become more costly to fund a given benefit in the future, and other things being equal, it may also become more likely for annuitants to exhaust their savings, thus increasing their reliance on railroad retirement for income security.

THE CHAIRMAN: Thank you for that report. I thought the longevity portion was especially interesting. You know, I knew intuitively there was something going on with longevity, but it's interesting to hear it put into numbers.

MR. BUZZI: And it's been persistent.

THE CHAIRMAN: Yeah.

Mr. Kever and Mr. Speakman, do you have any questions for Frank?

MR. KEVER: I don't.

MR. SPEAKMAN: No questions, Mr. Chairman.

THE COURT: Bureau of Fiscal Operations, Mr. Boehne.

MR. BOEHNE: Thank you. Good morning everyone.

I'll cover three topics. I particularly like the ending of Frank's report, too, from a personal standpoint.

THE CHAIRMAN: I think that that's good. I hope you're prepared for that.

MR. BOEHNE: I am.

I'll cover three topics. First, I'd like to talk about the status of the Fiscal Year 2011 administrative funding. Next, I'll talk about the status of the Fiscal Year 2012 budget and then the results of the auditing agency's Fiscal Year 2010 financial statements.

Regarding the status of the Fiscal Year 2011 administrative funding, we're operating under our fourth continuous resolution which runs through Friday March 4th, 2011. We are direct funded at $46.3 million or 42 percent of the Fiscal Year 2010 funding level of $109,073,000.

We have been able to fund Fiscal Year 2010 performance awards of the GS Grades 12 and below to date worth $769,000 out of a total of $1,245,000 needed to fund all of the sustained period of performance awards. And we'll continue to review this monthly so that we can pay the remaining awards as soon as possible.

Regarding staffing, during the first quarter, we brought on 13 employees. Attrition during the first quarter totaled 16. We started the fiscal year at an FTE level of 917 due to the heavy hiring in Fiscal Year 2010 during which we hired 65 staff.

If we are given full-year continued resolution -- and that's an if -- if we are given a full-year continued resolution for Fiscal Year 2011 at the Fiscal Year 2010-funded level, we should be able to fund about 906 FTEs and $1.5 million in information technology initiatives. That's pretty much along the lines we were planning on before the year started.

Factoring in known attrition, we expect to be spending at a rate of about 911 FTEs at the beginning of February.

Now, there is a lot of uncertainty out there as to what Congress will ultimately do, and because of that, we just need to continue to be conservative in our spending until final decisions are made by the Congress and the White House.

Regarding the status of the Fiscal Year 2012 budget, as you know, the Agency requested approximately $115 million for its Fiscal Year 2012 administrative appropriation. Subsequently, the Administration decided to freeze federal pay for Fiscal Years 2011 and 2012.

Reducing our requested level by the value of the previously-proposed pay raises by approximately $2.7 million would result in a request level of approximately $112.3 million.

The OMB passback was for $112,239,000 or in effect approximately our requested level less the amount of the estimated pay increases, thus, the passback we got I consider an excellent passback because they gave us basically what we asked for. It will fund 902 FTEs, and it will cover just over $1.8 million for information technology initiatives.

We also asked OMB to consider increasing our proposed funding level by $500,000 for contractual services to assist us in beginning the effort to convert the Federal Financial System to a shared service provider.

OMB staff was very supportive of this request from the outset and said they would try to fund it in Fiscal Year 2012.

In discussing this with OMB officials again last week, we were advised that right now, there is no room available under their limit to add the $500,000 for this purpose. They expressed a willingness, however, in discussions to fund the $500,000 if we could modify our $51 million request for vested dual benefit payments in Fiscal Year 2012.

This is something we involved Steve and Frank in. And we advised OMB officials that we discussed this with our Chief Actuary who in turn advised us that the $51 million was still a good estimate, and thus, there is no basis for revising it at this time. But it was interesting to see at OMB's suggestion as an opportunity event if that estimate turned out to be too high at this point in time, they would be willing to agree to bring that down and move the money over to fund the $500,000.

THE CHAIRMAN: Now, Mr. Boehne, is that the first time they've ever brought up the vested dual benefit as a methodology, or has it happened before?

MR. BOEHNE: Usually, we had brought it up in the past, and we stopped bringing it up for a while.

THE CHAIRMAN: Okay. We stopped bringing it up. Okay, I understand. Thank you.

MR. BOEHNE: It kind of was implied if you bring it up too often that there's too much give in the estimates.

THE CHAIRMAN: Thank you.

MR. BOEHNE: So Frank does a real good job with the estimates. Of course, longevity, he'll have to factor that in now, too.

There are options here, though. As we find out how much money we're going to get ultimately in Fiscal Year 2012, we just have to weigh this against the other priorities.

And then this amount can also be split. This included everything, pre-award, awarding and post award activities for this contractor. We can easily split this between pre-award and post award type activities, and thus, the funding wouldn't be as great. So I think it probably weighs pretty good against some other priorities that are out there in 2012 so we'll just have to see how much the Congress and the President end up giving the Agency in that fiscal year.

The budget staff. Continuing with 2012, the budget staff is currently working on the Congressional Justification Document and the Budget Briefing Book. The Congressional Justification is due to the Congress at the time the President releases his budget which is now scheduled for the week of February 14th.

We will provide proposed Congressional Justification to the Executive Committee for its review and approval next week, and then we'll submit it to the Board Members for your review and approval. And once we finalize the Budget Briefing Book, then we'll release -- or we will finalize the Budget Briefing Book once we release the Congressional Justification Document.

And finally, regarding the results of the Office of Inspector General's audit of the Fiscal Year 2010 financial statements, the Agency received a clean or unqualified opinion on its statements, and the number of open material weaknesses was reduced from three to two.

Staff are working to eliminate the

remaining two material weaknesses which are information security and internal control of the non-integrated subsystems.

On January 7th, we received for comment the OIG's draft letter to management which it prepared in conjunction with its audit of the financial statements. It contains two recommendations, both for the Bureau of Fiscal Operations, which we agree to take action on this fiscal year.

I thought we had an excellent working relationship with the OIG staff and managers on this year's audit of the financial statements. It went very smoothly so we're very pleased with that.

With that, that concludes my comments.

THE CHAIRMAN: Thank you, Mr. Boehne.

I will take the opportunity here to say that it goes without saying and put on the record what a tremendous job you've done for this agency.

You know, you eluded to with the longevity the fact that you have announced your retirement, and we're moving towards hopefully bringing someone else on to take that position, but there are some big shoes to fill there.

And I'm sure that our staff will work hard with the new person to make sure that they're comfortable and learn about the Agency and are able to do a good job there, but it's going to be very, very tough for anyone to come in and do what you've done right off the bat.

And your value to this agency, it's hard to determine what your value actually is because it's so immense. So thank you very much for everything that you've done.

Probably this will be your last report to us in a board meeting so I wanted to make sure it was on the record just what a tremendous job you've done.

MR. BOEHNE: Thank you, Mr. Chairman.

THE CHAIRMAN: Mr. Speakman or Mr. Kever? No? Okay. No questions?

MR. KEVER: Well, I was waiting for Butch to say something.

Obviously, I echo the same sentiments that Mike has. The value that you are taking with you we're going to find out once you leave, I guess. So while we may not be looking forward to that, we're confident that we will be able to reach you anywhere we can, reach out and touch someone.

MR. BOEHNE: I may pass you on the beach in Aruba. You never know.

MR. KEVER: I'll be there in about three weeks. Anyway, the industry thanks you immensely for all your contributions, and look forward to having a good time in your retirement.

MR. BOEHNE: Thank you.

THE CHAIRMAN: Mr. Speakman?

MR. SPEAKMAN: Mr. Chairman, thank you for the opportunity. I had also wanted to express for the record our appreciation for Mr. Boehne's work.

As we know, those of us who have been around here a few days know that Ken Boehne has served in a number of leadership positions at the Agency, and quite candidly and without any hesitation, he has excelled in every one of those probably to -- excels better than maybe any other person that we could probably think of right now.

We have excellent staff there, we have a great Executive Committee. Ken simply serves as one of those components but does it very, very well, and I know that our office will miss Ken's services.

You were correct, Mr. Chairman, when you state that there are big shoes to fill. I don't want to be the individual that needs to come in and fill the job that Ken is leaving. So ineffably, we have a tendency to compare, and I would not want to be that individual, but I'm confident that as we have found and as we've watched others that have led this agency leave that we have filled those positions, and I'm confident we can do it as well.

So Ken, I would express on behalf of myself, on behalf of my staff our sincere appreciation and our heartfelt thank you for your service.

MR. BOEHNE: Thank you very much.

THE CHAIRMAN: Okay. We are moving on to the Office of Programs now. Dotty.

MS. ISHERWOOD: Okay. Good morning.

This morning, I'm going to give my final report on the Recovery Act which is also known as the American Recovery and Reinvestment Act of 2009.

As you know and as I have reported at other board meetings, that law provided for the RRB to administer two different programs. The first was extended unemployment benefits, and the second was one-time-only economic recovery payments.

The extended UI benefits were essentially completed under that law in mid-2010 with the only activity that remains being subsequent adjustments and recovery actions involving establishing recovery of debts from those benefit payments.

As of January 7th, we paid a total of $10,748,000 net of recoveries. A very small amount of recovery action continues to be processed each week, and we are continuing to send weekly update reports to the Recovery and Transparency Board. Those are then subsequently posted to recovery.gov, the government-wide website for the Recovery Act.

That activity is about it for what we are going to be continuing to do under the Recovery Act for extended UI benefits.

The Economic Recovery Payments Program which were the one-time-only payments of $250 each to retired beneficiaries under the RRA was concluded on December 31st.

We scheduled or we conducted the last of six scheduled quarterly payment runs in November. That included payments to 102 more beneficiaries. Then in December, we conducted one last wrap-up, final run called a payment reissue run where we reissued 69 returned payments to people whose checks had been returned for one reason or another.

As of our January 14th Recovery Report, we showed a total amount of payments of $129,969,500 in Economic Recovery payments to 519,878 recipients.

As a final note, there has been some consideration in Congress for another $250 payment program, but no bill has been passed at this point.

I'd like to return to the topic of

extended unemployment benefits because even though we've finished paying the ones under the Recovery Act, we have, as you've heard, continued to pay extended unemployment benefits using funding under the Worker, Home Ownership and Business Assistant Act of 2009. Under that law, the last date an extended claim period could begin was December 31st, 2010, but the Tax Relief Act of 2010 which you've just heard about which was passed in December provided for a one-year extension to anyone who claims regular unemployment benefits through June 30th, 2011, and exhausts rights to regular benefits.

Under the new law, the cutoff date for beginning an extended benefit claim period is extended to December 31st, 2011.

We issued an informational bulletin containing an overview of the new law and frequently-asked questions which we made available on our website for the general public.

We were able to pay the first claims under this bill without delay in January 2010 since no new accounts had to be established for this implementation effort. Unlike other ones, all the funding was available from one continuous source which made it a lot easier for us to implement.

This law also provided for a temporary 2 percent reduction in the Tier 1 tax rate on employers from 6.2 percent to 4.2 percent, the Tax Holiday that you've been hearing about. It also provided for a temporary reduction of Tier 1 tax rate for sickness benefits subject to Tier 1 taxes from 7.65 percent to 5.65 percent for all claims paid in Calendar Year 2011.

And finally, I'd like to say I'm pleased to report that since the last board meeting, we have successfully completed the online sickness claims process back in October of 2010.

Our first claim was successfully filed over the Internet on November 1st, and during November, we had 678 sickness claims filed online. That represented 5.7 percent during that month. During December, that number more than doubled with 1,426 SI claims filed online or 11.9 percent of the total.

We're continuing to work on the next

phase of this project to enhance our automated processing to enable Clean Claims to pay without manual intervention. Those are claims that don't require any additional review by someone in a field office before final payment.

And we successfully implemented a similar Clean Claims process for the unemployment program some time ago, and now we're following that same model with the sickness program so that will be the next step.

THE CHAIRMAN: Thank you.

MS. ISHERWOOD: That concludes my report.

THE CHAIRMAN: That's good news. Thank you very much.

Any questions for Dotty?

MR. SPEAKMAN: No questions, Mr. Chairman.

MR. KEVER: No.

THE CHAIRMAN: Okay. Terri, Bureau of Information Systems.

MS. MORGAN: The first item I'd like to discuss is our continued effort in the Medicare area specifically with what is called income-related monthly adjustments of IRMAA Part D.

Staff from BIS and representatives from Booz Allen Hamilton conducted a kick-off meeting for programming support for IRMAA programming services, and that kick-off meeting was on the 12th of January.

This phase of Medicare involves the programming necessary to withhold IRMAA Part D drug benefits from RRB annuitants.

Booz Allen received the requirements definition documents and provided comments to BIS and Office of Programs.

Two contractors were assigned to this project. They arrived on site yesterday. The contract calls for Booz Allen staff to be on site through the end of the fiscal year with an option to extend them through the end of the year if needed.

Five full-time programmers from BIS will be involved in this phase of the project through the end of the year.

The second item I'd like to discuss is the Information Technology Steering Committee.

The Agency's Information Technology Steering Committee or ITSC is an advisory body to me as the CIO and ensures that information technology decisions are in alignment with the business processes of the Agency.

For Fiscal Year 2011, with concurrence with the Executive Committee, I updated the Steering Committee's charter. The reason for the changes were twofold. First, the revised charter makes the mission of the Committee more in alignment with the capital planning and investment control elements of Clinger-Cohen, OMB A-130 and the Paperwork Reduction Act.

Second, by making these changes, the Committee is focused more on strategic planning than it has been in the past and provides advice on both capital expenditures and staff resources. And the staff resources side of that is in addition to how it had been handled before.

I believe this view will provide a better benefit to the Agency by ensuring an enterprise-wide focus on all of IT resources.

The Steering Committee is made up of

members who represent different functional areas in the Agency, and under the revised charter, membership has expanded to include more representation than in the past, and the chairmanship reverts back to me as the CIO.

Under the new charter, the Committee is responsible for advising me on selecting information technology investments, integrating with the processes for making budget, financial and program management decisions, determining the criteria to be applied in considering whether to undertake an investment, identifying quantifiable measures for determining the benefits and risks of the investment, determining how to best manage the investment and evaluating the results of those investments.

One of the first tasks of the Committee is to develop criteria that will be used to recommending selected investments for the IT capital and operating plans.

Future tasks include how the Committee recommends controlling and managing the investments, recommending a ratio between maintenance and new projects to create a more balanced portfolio and input into the strategic IRM plan.

I will also look to the Committee to establish expected business benefits for each initiative and measurement criteria on how the IT initiative will be evaluated post implementation.

THE CHAIRMAN: Okay. Thank you very much, Terri.

Any questions for Terri? Mr. Kever?

MR. KEVER: All the work that you're doing in the Medicare program initiative, is that reimbursable from CMS?

MS. MORGAN: Yes.

MR. KEVER: Good. I thought so.

MR. SPEAKMAN: No questions, Mr. Chairman.

THE CHAIRMAN: Okay. Thank you.

Henry, Office of Administration.

MR. VALIULIS: With respect to Human Resources activities, in accordance with the President's 2010 Hiring Reform initiative, we have modified our external hiring procedures to comply with the latest Office of Personal

Management guidance.

Some of these changes include identifying key knowledge or experience factors for each position to be filled and also developing an occupational questionnaire to be completed by external applicants.

Staffing specialists have already used the new process for positions posted this calendar year.

Human Resources staff recently held a Post Orientation Program for employees who were hired within the past year and a half. This is a new program and is intended to provide an opportunity for new employees to ask questions about the various benefits and lifestyle programs available to them.

A total of 77 employees in Headquarters and the field chose to participate. The field employees participated by teleconference.

Under the Telework Enhancement Act of 2010, agencies must immediately designate a Telework Managing Officer, which the Board has done, and within six months establish a telework authorizing policy, determine the eligibility of all employees and require written manager/employee telework agreements.

We are reviewing the current RRB Telework or Work-At-Home Program to find out if it complies with most of the requirements, and we find that it does.

We also will be taking a fresh look at the requirements, keeping in mind the broad intent of the statute by asking each agency Executive to review position eligibility requirements within their organizations.

Within Acquisition Management, Acquisition staff continues to work with BIS staff to review the technical and cost information to prepare for this year's IT and non-IT priority list.

The most significant contracting action this fiscal year involves the re-procurement of the RRB Medicare Part B administration services contract.

This solicitation is a result of the Medicare Modernization Act which requires the Agency to compete and award a new contract for these services to a specialty Medicare

Administrative Contractor or MAC.

The synopsis for the solicitation was published in FedBizOpps on October 15th, 2010.

For the past two months, the statement of work and procurement document has been reviewed by the Centers for Medicare Services procurement and program staff.

I anticipate releasing the solicitation by the end of this month.

Within the Office of Public Affairs, with respect to the RRB's 2010 Chicago area Combined Federal Campaign or CFC, I'm pleased to report that over $146,000 has been pledged by eligible employees, representing about 34 percent participation with an average donation of $585.

Within real property asset management, as you're aware, work continues on our lobby which began on August 2nd. The contractor is earnestly working to meet the scheduled March 17th completion date. Barring any contract extensions authorized by the GSA contracting officer, we expect them to meet that date.

Thank you very much. That concludes mine.

THE CHAIRMAN: What was that date?

MR. VALIULIS: March 17th.

THE CHAIRMAN: March 17th, okay. So it will be all done then. Thank you.

Any questions from Mr. Kever, Mr. Speakman?

MR. KEVER: None here.

MR. SPEAKMAN: No questions, Mr. Chairman.

THE CHAIRMAN: All right. Thank you very much for your reports.

Anything else? No? Mr. Dickman?

MR. DICKMAN: No, sir, Mr. Chairman.

THE CHAIRMAN: Thank you very much.

(END OF STENOGRAPHIC REPORT.)

STATE OF ILLINOIS)
) SS:
COUNTY OF K A N E)

BRENDA S. TANNEHILL, being first duly sworn, on oath says that she is a court reporter doing business in the City of Chicago; and that she reported in shorthand the proceedings of said meeting, and that the foregoing is a true and correct transcript of her shorthand notes so taken as aforesaid, and contains all of the proceedings given at said meeting.

Certified Shorthand Reporter

U.S. RAILROAD RETIREMENT BOARD

REGULAR BOARD MEETING

ORIGINAL

September 29, 2010

STENOGRAPHIC REPORT OF PROCEEDINGS

had in the above-entitled matter held at 844 North Rush Street, 8th Floor, Chicago, Illinois, at 10:10 a.m., MR. MICHAEL S. SCHWARTZ, presiding.

PRESENT:

MR. MICHAEL S. SCHWARTZ, Chairman
MS. NANCY PITTMAN, Assistant
MR. STEPHEN W. SEIPLE, Assistant

MR. JEROME F. KEVER, Management Member
MR. ROBERT PERBOHNER, Counsel to the Management Member
MR. JOSEPH M. WAECHTER, Assistant
MS. ANN CHANEY, Attorney Advisor

MR. V. M. SPEAKMAN, JR., Labor Member
MR. JAMES C. BOEHNER, Assistant
MS. GERALDINE L. CLARK, Assistant
MR. MICHAEL J. COLLINS, Assistant
MR. THOMAS W. SADLER, Counsel to the Labor Member

BOARD MEMBERS PRESENT: (Cont'd)

MS. BEATRICE E. EZERSKI, Secretary to the Board

MR. HENRY VALIULIS, Director of Administration/Senior Executive Officer

MR. STEVEN A. BARTHOLOW, General Counsel

MR. KENNETH P. BOEHNE, Chief Financial Officer

MR. FRANK BUZZI, Chief Actuary

MS. DOROTHY A. ISHERWOOD, Director of Programs

MS. TERRI S. MORGAN, Chief Information Officer

MR. MARTIN DICKMAN, Inspector General

MS. PATRICIA MARSHALL, Attorney Advisor

REPORTED BY: Brenda S. Tannehill, CSR, RPR, CRR

LICENSE NO. 084-003336

THE CHAIRMAN: Okay. So with all those warm feelings, we can have our board meeting so we can go on the record here.

I think that today, on the agenda are some reports from our Executive Committee, and I'd like to start with the Bureau of Law, Steve Bartholow.

MR. BARTHOLOW: Good morning. I have several topics I'd like to cover with you this morning, the first being litigation.

As I advised the Board in April, the Law Department has been very busy in the employment law area. During the past six months, we have brought to conclusion five employment law cases. Three of these cases were equal employment law cases, and the other two were before the Merit Systems Protection Board.

Two of the equal employment law cases were decided in favor of the Agency, and the third case was resolved by a settlement agreement between the parties.

One of the Merit Systems Protection Board cases resulted in a decision issued by the administrative judge, again, in favor of the

Agency. The other case was resolved by settlement.

At the present time, we have one pending EEO case that was just recently filed.

In the Herzog employer status case which I know we're all interested in, oral argument was held before the U.S. Court of Appeals on May 26th of this year. We are awaiting notification of the Court's opinion in that matter.

Since the Board's last meeting, we've had two decisions on petitions for review of Agency decisions on claims. Both of those decisions were decided in favor of the Agency.

Next, I'd like to mention just a couple of rather small but kind of important legislative matters.

As the Board knows, the Director of Legislative Affairs worked closely with Congress and the White House on issuance of commemorative letters from the President and issuance of congressional resolutions for the RRB's 75th anniversary.

Thanks to the Director's efforts, --

and they were rather substantial -- the documents were delivered on time, although just barely on time, as we all know.

Another matter, and this actually is kind of a joint effort between Margaret Stanley, the Legislative Affairs Officer, and our librarian.

Margaret became aware of the publication by the House Transportation and Infrastructure Committee of a new compilation of railroad laws. The one we had been using was done in 2002; a new one was done in 2009. Margaret became aware of this and was given eight copies of the compilation.

We typically use about 150 copies here at the Agency, and due to a rather short publication by a private contractor in this case, the only copies we could get through the publication by the contractor were the eight that we were provided.

Our librarian contacted both the Committee and the private contractor and was able to get their agreement to allow us to publish additional copies of the compilation in house for our own use so that we've now distributed about 150 copies through the Agency, and those should be helpful to everyone.

In the area of staffing which I've addressed in other meetings, since our last board meeting, we have hired two new attorneys. Michelle Bott began employment with the RRB on July 6th, and Debra Chesdin started her career with the Agency on September 13th. Both Michelle and Debra came here with very, very strong credentials, and they're already making a contribution.

The Office of Legislative Affairs, as you know, is in the process of filling the vacant position that was previously held by Darlene Hackett. Margaret has just recently been given a list of names to look at.

The CSX real property case, which you know the Board appointed Carl Blank as a designated hearings examiner in that case, the current status of that is that copies of the administrative record were distributed to the parties on September 3rd. The parties were given 30 days to submit additional documentary evidence.

CSX requested that the period for submission be increased by 30 days. Mr. Blank notified all the parties on September 24th that documentation and other evidence is now due no later than November 2nd.

A date for the hearing will be set in the near future, and we will be notifying all parties of that date.

A couple of other things about Hearings and Appeals. As you all know, in the past, that bureau has had some problems with transmission difficulties when using Fed Ex/Kinkos equipment for their videoconferences.

Mr. Blank has reported to me that over the past six months, very few problems have arisen so we hope that that problem has now been taken care of.

The Bureau of Hearings and Appeals is also testing digital audio recorders at this time. They have to do this because the old technology is no longer as readily available, and they're hoping that this new technology will give them a better product and that the tapes themselves will be much more easily stored and for longer periods of time.

And one final matter that I'd like to mention just briefly, as the Board knows, the Railroad Retirement Board, the National Railroad Retirement Investment Trust and the Department of Treasury have for some time been attempting to update the Multi-Party Memorandum of Understanding covering reporting responsibilities under the Railroad Retirement and Survivors Improvement Act of 2001.

All three parties have reviewed drafts and proposed revisions to the MOU. The latest input has come from the Department of Treasury and has raised some concerns on the part of the RRB and the NRRIT.

In an attempt to resolve the outstanding issues, Treasury requested a meeting with the NRRIT and the RRB. The NRRIT proposed several dates for a meeting, and it now appears that a meeting will take place in early November at the Trust's headquarters in Washington, D.C.

Participating in that meeting will be the RRB, NRRIT, Northern Trust which is the

Trust's custodian bank and the Department of Treasury.

That concludes my remarks.

THE CHAIRMAN: Thank you very much.

Any questions?

Let's move on to Frank Buzzi, Bureau of the Actuary.

MR. BUZZI: I would like to report on four items completed since the last board meeting: The 2010 Section 502 report; the 2010 Section 7105 report; the financial interchange transfer and the Actuarial Advisory Committee meeting.

First, the Section 502 report which covers the status of the Railroad Retirement System. The combined balance in the Railroad Retirement Account, Social Security Equivalent Benefit Account and National Railroad Retirement Investment Trust increased from 21.8 billion on December 31st, 2008 to 24.9 billion on December 31st, 2009.

We estimate that the combined funds had a 24.3 percent rate of return in calendar year 2009, which when compared with the 7.5 percent return that we expected for 2009, has resulted in our financial condition on December 31st, 2009 being better than expected.

In the past two years, the volatility of investment returns has been the single factor accounting for the greatest change between successive year valuation results.

Since our benefit and administrative costs are funded not only through investments and investment earnings but also through future taxes, the gain in our investments will require less of our future costs to be funded by taxes. As a result, compared to last year's report, the 2010 Section 502 report projected higher account balances through calendar year 2025 under all three employment assumptions.

Under employment assumptions I and II, however, the balances are expected to be lower at the end of the projection period due to lower expected taxes in some earlier years.

While in last year's report we expected cash flow problems only under a pessimistic assumption and then not until 2031, in the current report, cash flow problems under the pessimistic assumption are extended two years to 2033.

Given the improved results, there is no need for the Board to take any action at this time to address fund solvency.

The pessimistic assumption is intended to be pessimistic and not likely, and even then, there is more than sufficient time to address problems if the need arises.

One interesting ancillary result from the current valuation is that, consistent with last year's valuation, we expect the number of employee age retirements to remain relatively high at above 10,000 per year through calendar year 2013 but then to decrease rather steadily until falling below 5,000 per year in 2022.

We also expect the number of employee disability retirements to decrease over this period but to a lesser extent.

Next, I would like to discuss the Section 7105 report which covers the status of the Railroad Unemployment Insurance System.

In the benefit year ending June 30th, 2008, 4 percent of employees with qualifying service and compensation received unemployment benefits. This increased to 8.4 percent in the benefit year ending June 30th, 2009 and to 9.8 percent in the benefit year ending June 30 of 2010, the highest unemployment rate since 1988.

In the 2010 Section 7105 report, as in the 2009 report, we estimated that the Railroad Unemployment Insurance Account will experience cash flow problems in 2010 and 2011. The report indicated that this will require borrowing from the Railroad Retirement Account in those years with anticipated repayment in calendar year 2011 or 2012 after an increase in the surcharge rate became effective in calendar year 2011.

Since the system is experience rated, the contributions adjust with a lag to changes in expenditures. Because of this lag, the fund balance may decline or even become exhausted in periods of rising benefit claims, as is now the case.

This is not a problem, however, as long as the unemployment system can borrow from the retirement system. Thus, even though the

Railroad Unemployment Insurance Account has borrowed 46.5 million from the Railroad Retirement Account so far this year to meet its obligations, the surcharge rate is scheduled to increase from 1.5 percent currently to 2.5 percent in calendar year 2011, and the loans are expected to be repaid within the next two years.

One interesting aspect of the Railroad Unemployment Insurance System which is seen both in past experience and in our projections is that the system does not tend to have a stable equilibrium.

Even in periods of stable unemployment, the system will require periodic surcharges because the underlying contributions without surcharge tend to be insufficient.

Next, I would like to report the results of the financial interchange transfer. The financial interchange transfer and repayment of Treasury advances were successfully completed on June 2nd, 2010.

The Social Security Administration transferred 3.93 billion from the Old Age and

Survivors Insurance Trust Fund and 0.46 billion from the Disability Insurance Trust Fund to the Social Security Equivalent Benefit Account.

We transferred 0.54 billion from the SSEB account to the Centers for Medicare and Medicaid Services' Hospital Insurance Trust Fund and repaid 3.84 billion to Treasury for the financial interchange advances.

The net effect of the transfers and repayment was an increase of 19 million in the SSEB account.

Finally, last week, the Actuarial Advisory Committee met to go over the first set of assumptions for the 25th Actuarial Valuation. At that meeting, the Committee approved three new mortality tables, a new spouse total termination table, a new probability of spouse table and a new family composition table.

The advantage of reviewing our assumptions every three years is that our assumptions do not become dated but rather change gradually to reflect current experience and expectations. Ultimately, having sound actuarial projections will help the Board to make sound decisions when it becomes necessary to evaluate plan changes.

That's all.

THE CHAIRMAN: Okay. Thank you very much, Frank.

Any questions?

MEMBER KEVER: I have questions.

Frank, you had mentioned that the employment levels were reducing about 10,000 a year?

MR. BUZZI: The level of age retirements, employee age retirements, they're relatively high at present and should remain relatively high until about 2013.

MEMBER KEVER: And then why do they go down?

MR. BUZZI: Demographics, entirely due to demographics.

MEMBER KEVER: Okay. I'd like to take a moment to thank Frank and all his staff because the amount of financial analysis that they have to do is just enormous, and they've got it all down on PCs and it runs like a clock almost, but there's just a ton of work that needs to be done in order for this Board and this Agency to feel comfortable with the projections that they make. So I just think that that's very important, what his group does.

THE CHAIRMAN: All right. Thank you.

We can move on here to Ken Boehne, Bureau of Fiscal Operations.

I'm sure you're going to give a great report after all those wonderful things everyone said.

MR. BOEHNE: I sure hope so.

Good morning, everyone. And I want to thank the Board members again. Those are very nice comments, and it does make it worthwhile staying here when people appreciate the work you do. So thank you very much, and I took those to heart. I've had a very interesting and rewarding 31 years here at the Board and 40 years in Federal Government.

I'll briefly cover four topics this morning: First, the status of the Fiscal Year 2010 administrative funding; next, the status of the Fiscal Year 2011 budget; then preparation of the Fiscal Year 2012; and finally, the status of the FFS Assessment and Reporting Study.

Regarding the status of the Fiscal Year 2010 administrative funding, we completed fourth quarter review and recommended funding changes to the Board Members on September 14th. The Board approved those changes including establishing a general reserve of about $200,000 to be used for high-priority needs.

Together with roughly $220,000 remaining in the Agency's IT reserve and money to be returned by bureaus and offices before the end of the year, the Agency should be able to fund four or five IT priority items as listed in the fourth quarter review memo as well as a few lower-cost non-IT priority items. So it's looking very good for the end of this fiscal year.

Regarding staffing, to date, we have brought on 63 staff. That's quite a high number just this fiscal year. Attrition so far totals 50. It looks like it will probably end up with Linda and others leaving tomorrow around 54 for the attrition for the year.

THE CHAIRMAN: So we're averaging

around four a month?

MR. BOEHNE: Yeah, it has been right around the 48 a year which is four a month, and this year, it's a little bit higher. They're not all retirements; there's attritions for other reasons.

THE CHAIRMAN: Linda put us over the top.

MR. BOEHNE: There you go. That's right, her and Stan.

The original hiring plan called for us to bring on 42 new staffers this fiscal year. Later, the Board Members approved a two-year plan for Fiscal Year 2010 and 2011, which I thought it was a really good idea to have a two-year hiring plan calling for 64 external hires plus a Medicare training class.

Additional approved positions have been added during the year to that hiring list, increasing the total to 81 including eight outside applicants who were hired for the Medicare class.

For the pay period September 11th, our FTE usage rate was at 917. That's the highest level during the fiscal year and reflected a recent jump in hiring.

As you can see, most of the hiring under the two-year plan has already been accomplished. Additional hiring in Fiscal Year 2011 will, as always, depend on funding and other needs.

Actual FTE usage during the entire fiscal year has been right in line with our projections of 908 FTEs or 11 FTEs more than what we used in Fiscal Year 2009.

What is interesting about that is if you look at the past history, that's the first increase from one year to the next since 1993 when we initiated the Special Management Improvement Program so it's the first increase in FTEs or FTE usage.

The Executive Committee based on the percent of employees eligible to retire -- and it's about a third of the Agency is eligible to retire -- decided for planning purposes that the projected attrition rate should be increased from 48 in Fiscal Year 2010 to 54 in Fiscal Year 2011, which ends up mirroring what we actually accomplished and what the results were in Fiscal Year 2010, and then increase that again to 60 in Fiscal Year 2012.

Regarding the status of the Fiscal Year 2011 budget, we expect to ultimately receive a funding level of $110,573,000 based on House and Senate action to date.

The House Appropriations Labor, HHS Subcommittee reported out their Fiscal Year 2011 appropriations bill on July 15th. The bill provides funding for all RRB accounts at the President's proposed levels including the $110,573,000 for the Limitation on Administration, $57 million for the Dual Benefits Payments Account, $150,000 for interest on uncashed checks and $8,936,000 for the OIG.

The Full House Appropriations Committee, however, has not taken any further action on the bill.

In the Senate, the Labor, HHS appropriations bill was reported out of the Full Appropriations Committee on August 2nd.

The Senate bill includes the same level of funding for RRB accounts as the House version. Our expected appropriation provides funding for 896 FTEs and $1.5 million for IT initiatives. We will, however, start the fiscal year once again under continuing resolution which would probably fund the Board on a prorated basis at the Fiscal Year 2010 level or the $109.1 million level.

Although nothing is certain, our continued resolution through December 3rd will likely pass the Senate today and pass the House today or tomorrow, but nothing's certain.

THE CHAIRMAN: Right.

MR. BOEHNE: Regarding Fiscal Year 2012, we released the Agency's Fiscal Year 2012 budget submission on September 10th. As you know, it included two levels of funding: The OMB guidance level of $106.4 million and the Agency's request level of about $115 million.

On September 17th, we discussed the Agency's Budget Submission with Ann DeCesaro, our OMB Program Examiner. We emphasized the need to maintain staffing at approximately 900 FTEs, particularly during the next few years when we expect attrition will be 50 to 60 employees a year.

We also stressed the importance of our IT initiatives and staying the course on systems modernization, e-Government enhancements and IT hardware replacement. The discussion went well, and hopefully, the Board will receive an increase from the Fiscal Year 2011 expected level.

She did specifically ask how much it would cost in order to maintain that staffing level, keeping everything else equal, the staffing level of the 900 FTEs, and we said it would be about $114.1 million we would need.

The next stop for the Fiscal Year 2012 budget will be OMB's passback which usually occurs right after Thanksgiving.

Regarding the status of the Federal Financial System, or FFS, Assessment and Reporting Study, the RRB has been using FFS for its accounting, budgeting and other financial management activities since 1988.

While FFS is meeting our current needs, it is no longer supported by its vendor, CGI. We recognize that FFS is nearing the end of its lifecycle and that we need to consider alternatives for the future.

In June of this year, we contracted with KPMG to determine whether FFS meets the current Federal requirements and standards and to advise us of viable alternatives. The contract was for $230,000 and provided for the study to be completed in about 90 days.

KPMG began its work on the contract on July 13th. They have met with RRB staff in the procurement, budget, accounting, treasury and information technology areas to discuss financial management issues and the RRB's needs for the future.

Taking into account RRB's staff input together with Federal financial reporting requirements and standards, KPMG developed a list of key requirements and performed a GAAP analysis to see whether FFS is compliant.

On August 11th, KPMG issued a Request For Information or RFI to selected Federal agencies and commercial vendors asking them for information on potential financial systems or shared services that would meet RRB's needs. A total of three Federal agencies and four private vendors responded with proposals. I thought that was really quite a positive response.

THE CHAIRMAN: Absolutely.

MR. BOEHNE: Information from the various responses has been included in KPMG's value measuring methodology which evaluates the risk, value and cost factors for: One, retaining the current FFS system; two, investing funds to modernize the current FFS system; or three, migrating to a Federal or commercial shared service provider.

This study is on schedule and on budget. KPMG is scheduled to provide an executive briefing and report on the results of the study within a few weeks, and that includes a ranking of the alternatives and KPMG's recommendation for the best alternative.

A key provision of the contract calls for KPMG to also provide a draft of the documentation that this agency would require if and when it requests funding from OMB. And this would be provided along with its report.

And I'd like to recognize a couple of

people who have really done really good work on this.

Kris Garmager on my staff in particular has done a really good job of managing this contract, and he was involved when we established the FFS in 1988. So he's a very, very valuable employee. And he and Bill Flynn along with Henry Valiulis's procurement staff did an excellent job in the selection process. We couldn't be happier with having selected KPMG.

THE CHAIRMAN: Good. Excellent.

MR. BOEHNE: And that concludes my comments.

THE CHAIRMAN: Thank you.

Do you have a question?

MEMBER KEVER: I do, unfortunately.

Do we have any knowledge of other Federal agencies that have received funds from OMB to take out the FFS program?

MR. BOEHNE: Well, other agencies have been converting, and in some cases, I believe that they've received a substantial amount of money, and in some cases, that's been reviewed by the Administration to see whether or not some of that money should be pulled back and revise the direction they're going either to find a simpler solution or a different solution. But yes, funding has been provided to other agencies.

MEMBER KEVER: Over and above our normal --

MR. BOEHNE: We would ask for this over and above our normal because we probably could not afford this within our normal --

MEMBER KEVER: What are the three other agencies that have replied to the request?

MR. BOEHNE: I don't know.

MEMBER KEVER: You don't know, okay. Thanks.

THE CHAIRMAN: Any other questions?

All right. Moving along, Office of Programs, Dotty Isherwood.

MS. ISHERWOOD: Good morning.

I have updates on four of our ongoing initiatives this morning. I want to start with the Social Security Case Transfer Project which I had reported on at the last board meeting.

This is a project where we had intended to transfer over 3,000 cases that were being paid by Social Security to the RRB. We're going to transfer them to the RRB.

And these cases have been referred to as slippage cases often because they should have been originally certified to the Board for payment, but they were missed for one reason or another over the years.

The reason that we are now transferring them back to the Railroad Retirement Board was to ensure that the Medicare premium rates would be set at the proper levels in keeping with the hold harmless provisions that were in effect with last year's zero cost of living increase.

So I am pleased to report that we have now successfully transferred over 3,200 cases to the Railroad Retirement Board. A very small number were not transferred due to personal requests from the annuitants involved. The mass transfers were completed in three large batches between June and August.

We've also completed all the required variable rate premium determinations that need to be made on these cases, and as of yesterday, we had issued over 2,100 premium refunds in the cases that have been transferred over. We still have to complete about 800 more premium refunds. We expect to complete all of those in the next two months.

And also, it does appear possible that we'll have another zero cost of living increase this January coming up. If that is the case, we will have to identify any additional cases that could be impacted after the 2011 Medicare premium rates are announced and put into effect.

If a transfer is required to ensure that the hold harmless provision can apply to any specific case, we expect we'll be able to use our normal priority case transfer process on a case-by-case basis next year as opposed to a mass transfer again.

THE CHAIRMAN: Thank you.

MS. ISHERWOOD: Also, in the area of Medicare, I wanted to give you a report on where we stand with our initiative on Medicare Part C and D premium withholding.

We did send a status report up last

week, September 21st. The status report was prepared by staff from BIS and Programs that are working on this project.

And just to refresh your memory, until we can get this project implemented, people who have Medicare Part C and D, they are required to pay their premiums by direct billing to the plan providers instead of having us withhold the premiums from their monthly annuities.

So the team has been working steadily on this project for quite a while. It is an interagency project; we have to coordinate with the Centers for Medicare and Medicaid Services.

And because of complexities involved with a lot of the testing that's required, the team has rescheduled the implementation date from October to December this year. That would mean the first time premiums could be deducted would be from the January 1st, 2011 checks.

The complexities were involved with interagency test cycles between CMS and the RRB as well as our own need to do extensive integration testing with all of our payment systems that are involved in Medicare premium withholding.

Additional considerations that affected this decision had to do with upcoming year-end activities at cost of living time and the new provision related to Medicare for Part D that's called the Income-Related Medicare Adjustment Amount, IRMAA, that goes into effect January 1st, 2011.

So all these factors come together at the end of the year. It made more sense and it seems safer and more accurate to consolidate all the test cycles that are needed.

We did have an estimate that only a very small number of beneficiaries will be impacted in a material way by the change of two months at that time of year. And the reason for that is that the annual enrollment period for Part C and D Medicare starts on November 15th and goes till December 31st so any enrollment requests that we would normally get at the beginning of that period would not normally go into place in a person's check until January 1st anyway.

So hopefully, we'll pull all this

together, and by January 1st, we'll be good to go.

Next, I have a report for you on a proposed rule by the Treasury Department that would require mandatory EFT or electronic funds transfer. We call this our Mandatory Direct Deposit Initiative.

Based on the proposed rule, payments would be required to be made by electronic funds transfer effective March 1st, 2011 for all new Railroad Retirement beneficiaries and effective March 1st, 2013 for all current beneficiaries.

As of now, our understanding of this rule is that it would apply only to our recurring Railroad Retirement beneficiaries on the rolls or new ones but not to Rail Unemployment beneficiaries or sickness beneficiaries or not to any non-recurring payments.

In the Railroad Retirement Program, we currently pay approximately 90.6 percent of our payments by EFT already so that translates to about 54,000 beneficiaries who are still receiving paper checks. Those are the ones we will eventually have to worry about.

We are planning right now several actions to ensure compliance with the new rule, assuming that it goes in as is proposed. First, there would be a direct mail and marketing strategy that would educate our future and current beneficiaries about the new requirement and how it would impact their payments and encouraging current beneficiaries to sign up for EFT now.

Second, we'll be reviewing our existing payment and benefit systems to determine whether any changes are needed to support this initiative in those systems.

And third, we'll be making direct deposit available to our beneficiaries who reside in foreign countries during the first calendar quarter of FY '11 starting in October.

Any individuals who do not enroll for the conventional direct deposit program through their banks would have to receive payments through the Direct Express debit card system which is intended for what Treasury calls the unbanked population, people who don't have personal bank accounts.

Our plans are to begin offering the Direct Express cards to our customers beginning in November 2010 and to continue working with Treasury to ensure full compliance by the March of '11 and March of '13 dates.

As I mentioned, this initiative does include direct deposit for beneficiaries living in foreign countries, and I wanted to mention a few pieces of information about those people.

We have about 3,500 annuitants residing in 49 different countries right now. The International Direct Deposit Program will allow those people to receive their monthly benefits through a system of Treasury's called ITS.gov.

And the way that works is the payments will be issued in foreign currency via direct deposit, by wire transfer or draft to recipients in over 150 countries that are possible. The payments get sent to the financial institution in the country of residence, and the payments appear in that country's local currency.

The benefits of the new system are that it is safe, convenient and free. Annuitants are protected against fraud and identity theft, the money is in their account on the payment day, and there is no cost for us to send the payments to the financial institutions.

This, we think, is going to be a really big improvement for people in foreign countries who often have problems with the distribution of their benefit payments and receipt.

Beginning with the October monthly check issue file, we'll be enclosing an insert with the checks to all foreign addresses, and the check insert campaign will end with the January 2011 check issue file. At that time, anyone left over, we will be launching a direct mail campaign of some type to contact those people.

And finally, I have a report on an initiative we have with the American Customer Satisfaction Index, the ACSI.

We're currently doing a survey of our website visitors, people who visit rrb.gov. This survey began on July 19th, and last week, we had the first of four scheduled reports that we have coming up on this project given to us by

4C Results, Incorporated which is the company that analyzes and collects all of the data and explains it to us, what we're getting.

The initial report that they gave us last week covered the period July 19th through August 31st, only a six-week period, and it gave us both aggregate data and data on two particular segments of our customer population that they focused on for the first report.

During the period, the six-week period, 1,300 surveys were submitted. That reflects a 67 percent response rate.

THE CHAIRMAN: That's high.

MS. ISHERWOOD: Interestingly, ForeSee Results says the typical response rate that they encounter for their surveys is about 8 percent.

THE CHAIRMAN: Wow.

MS. ISHERWOOD: So we know that our customers are definitely interested in providing their viewpoint to us and having us hear it.

THE CHAIRMAN: Good.

MS. ISHERWOOD: Our overall customer satisfaction score for the six-week period was 74. That compares favorably to the overall satisfaction score across all the ForeSee Results websites that they survey of 72. And that includes both Federal and private websites.

We're measuring five general areas in our survey. They are: Content, look and feel, navigation, online transparency and website performance.

As with our other surveys, the recommended strategy here is to look for the area that is being measured that has the biggest impact on your overall customer satisfaction, and for us, that would be navigation.

And in addition, navigation has the lowest scores for satisfaction. So it is the one that is the highest priority for us in terms of where to look for meaningful improvements.

In the aggregate, just to give you an idea of who is looking at our website, the largest group of visitors was active railroad workers. That accounts for 43 percent. They're followed by former railroad workers, 20 percent. And 15 percent were retired railroad workers.

Many other types of visitors do use our website, but they're all very small percentages,

small groups of people.
The largest group by age was between the ages of 45 and 59 years old. That was 48 percent of our visitors.
One of the most significant findings from the aggregate results so far was that 18 percent of the people who use our home page at rrb.gov felt that it was not clear where to navigate from there to get what they wanted. That specific group of people had overall satisfaction scores of only 43.
So it gives you an idea that we can now focus in on specific segments of the data and find out who really needs assistance and who needs some improvement.
THE CHAIRMAN: Very good.
MS. ISHERWOOD: If you move on to the segment results that we received, the two specific segments that they looked at, two groups of people, Group 1 were people who wanted to find benefit information on our website. That was 33 percent of the respondents. Their overall satisfaction rate was 71.
The second group they looked at was

people who wanted to use our benefit online services. Their overall satisfaction rate was 76.

The difference between the two groups is kind of interesting. Group 1, those who wanted benefit information, they were more likely to be first-time or infrequent visitors of our website. 70 percent of them fit that criteria.

Many of them are at or close to retirement age; 43 percent of them are 60 or older. About one in five of them said that they didn't know where to begin to look for what they were looking for. Some of them expressed some frustration at our process for logging in or retrieving passwords. And 25 percent of them said they were not successful in finding what they were looking for.

Now, respondents in Group 2 were a little better off than the other group. Those are the people who wanted online benefit services. They were more frequent visitors to the website. We know this group includes our unemployed claimants who would use the website on a regular basis to come and file unemployment claims, for example. Overall, this group was more satisfied than the people in Group 1 with a 76 overall satisfaction score.

Those that said they were specifically looking to file unemployment claims had a satisfaction score of 79 so they were a little better off.

Those that were under age 45 in this group said they accomplished their goal on the website 88 percent of the time.

The interesting thing in Group 2 was 23 percent of them were seeking online benefit services -- or benefit estimates. I'm sorry. Estimates.

And that particular segment had a less satisfactory experience than the rest of the people in the group. And things that they claimed it was due to was navigation primarily. They scored 69 only for navigation, that particular segment did. And they had numerous comments about being frustrated at finding passwords and knowing where to go to get their benefit estimate information.

So this is just a very small sampling of all the data that we've received so far and that we're going to continue to receive from the ForeSee Results people over the course of the survey.

They have already made several recommendations for us to consider. They include things like considering the efficiency of our site for getting to the right information as quickly as possible, as few clicks as possible, reviewing our log-in process, be sure that the benefit information clearly identifies what's available on the website, review the steps needed to get an online estimate, to be sure it's clear, and to set clearer expectations for our customers on how to do passwords.

And all of those issues have been now referred to the interbureau team that's working on this whole project. They'll be considering what to do, and we are hoping for some constructive improvements over the coming months now.

THE CHAIRMAN: Okay. Thank you. Very good.

Any questions?

Okay, moving along to Terri Morgan, Bureau of Information Systems.

MS. MORGAN: Good morning.

The first thing I'd like to discuss is a review that we began on our mainframe software.

Over the past several months, the Project Management Office and Infrastructure Service Center have been evaluating ways to reduce mainframe software costs while maintaining functionality.

After conducting market research, an evaluation team was formed to evaluate comparable mainframe production development tools. The tools were installed on a test area of our mainframe system. That was followed by a two-day training session on how to use the software.

The evaluation team which consisted of technical as well as business personnel from several bureaus tested the products to make sure that they performed at least as well or better than our existing products.

As a result of this evaluation, it was determined that the production development tools provided the same functionality at a lower cost. As a result, we will be replacing seven Compuware products with three IBM products while achieving the same functionality.

For the period FY 2010 to FY 2015, the existing software products would have cost us around $590,000. The replacement software will cost us around $130,000.

THE CHAIRMAN: Excellent. Excellent job there.

MS. MORGAN: This cost assumes that we would be purchasing a new mainframe in 2013. We will continue to evaluate other mainframe software for additional cost savings. This is just one element of our software that we looked at.

The next subject I'll discuss is field service desktop replacement.

The information technology infrastructure provides a critical foundation for the mission and business processes of the RRB. Replacing matured technology minimizes maintenance, support calls and reduces indirect costs as lost end user productivity and downtime.

Advantages of adhering to a scheduled replacement plan include the resultant predictability and stability of annual budget, essential and long-term financial planning.

In accordance with the RRB information technology equipment replacement lifecycle and industry best practices, the RRB is prepared to replace field service desktop work stations using end-of-year money.

The Field Service Desktop Replacement Project includes deploying new desktops and laptop work stations and contractor services necessary to perform the configuration and installation activities.

Our process is to replace all field equipment at the same time, keeping them consistent on a technology platform.

And the last item I'll be discussing is the Microsoft Enterprise Agreement.

On July 2nd, 2010, the Railroad Retirement Board entered into a three-year enterprise license agreement with Softmart Government Services for the Agency's Microsoft software product licenses.

The Microsoft Enterprise Agreement provides a simple, flexible and affordable way to standardize Microsoft technology across the Agency including applications, operating systems and servers.

In addition, the enterprise agreement provides a broad range of benefits to our Agency employees through the Microsoft Software Assurance Program. These benefits support us as we plan, distribute, use and transition Microsoft software solutions.

The enterprise agreement provider services include online management tools to centrally track purchases and manage licenses, resulting in greater efficiency for RRB administration and budgeting processes.

I should mention that right now, when we buy Microsoft software, we buy it as we buy the PCs so we have many different versions of software across the agency. It creates a significant compatibility issue. And the same thing with our servers and other software. So by moving into this licensing agreement, we'll maintain a platform consistent through the whole Agency.

THE CHAIRMAN: Very good.

MS. MORGAN: Significant savings on software. Through the enterprise agreement, the enterprise agreement provides the RRB with volume-based pricing and reduces the cost of acquiring popular products such as Microsoft Office suites, Microsoft Windows operating system upgrades, Microsoft client access licenses -- they call them CALs.

Our CAL is a software which resides on the server that allows employees to access the server. Without the CAL suite, we're required to purchase individual licenses for every employee in the agency.

Overall, we can achieve up to a 25 percent savings on purchases as compared to past purchase practices.

Additionally, we have access to the most recent versions of Microsoft products. All employees will be on the same version of

Microsoft software. This will reduce technical compatibility issues which have been a constant challenge in the past.

Standardization also simplifies our Agency's procurement process, allowing us to reduce the costs associated with acquiring new version releases and providing the Agency with immediate access to the latest technology.

It also simplifies the IT budgeting payments. The predictable payment structure of the enterprise agreement helps us determine our software expenses throughout the term of the agreement. The payments are amortized over a three-year term. We can also purchase additional software product licenses as needed at the original purchase price during the three-year term.

The final benefit is Software Assurance. The Software Assurance Program benefits help boost productivity across the RRB by enabling us to get the most from the Microsoft software.

Software Assurance benefits include 24 by 7 software support, deployment planning services, end user and technical training and the latest software releases.

The base enterprise agreement includes desktop operating systems and Office suites. The Office suites include Microsoft Access for databases, Excel for spreadsheets, InfoPath for online forms, Outlook for e-mail, Power Point for presentations, Publisher for publications and Word for word processing, client access licenses and server licenses for Windows servers and Exchange servers, SharePoint servers and system management servers.

Additional products contained in the enterprise agreement are Agency's Microsoft desktop applications which include Project Professional for project management, Visio for flow charting and Visual Studio Pro for software development. And all of these are available now to all employees.

THE CHAIRMAN: Great.

MS. MORGAN: In summary, the enterprise agreement will help us standardize our Microsoft technologies across the Agency and streamline licensing, administration and budgeting. It also helps us continue to build flexible IT infrastructure that responds to our changing needs.

THE CHAIRMAN: Thank you very much.

Any questions of Terri?

Okay. We'll finish up today with the Office of Administration, Henry Valiulis.

MR. VALIULIS: Good morning, everyone.

Regarding the status of the hiring plan, as Mr. Boehne had mentioned, the Agency has hired 61 new employees plus two retiree rehires. That's a 39 percent increase compared to last year. We still expect a few more offers before the end of the year. Over 22 percent of these new hires are service veterans.

We also expect 50 separations, exceeding the four-per-month attrition average. And next quarter, we expect hiring to slow down significantly due to the uncertainty of next year's budget and the anticipated continuing resolution.

The Agency also celebrated its 75th anniversary with a week of events beginning with the 2010 National Managers Meeting, the RRB

Award For Excellence, an open house tour and culminating in a special luncheon held on August 27th at the Drake Hotel.

The luncheon was well attended by industry representatives, retirees and employees. Almost 500 attendees gained a greater appreciation for the Agency's rich history and the work the Agency does.

And certainly thanks to all that helped to make this a great success.

The arrival of October also brings with it the start of the RRB's 2010 combined Federal campaign or the CFC. The CFC is an annual fundraising drive that provides an opportunity for Federal employees to donate to local, national and international non-profit organizations.

The CFC was established by President John F. Kennedy in 1961 and is the world's largest and most successful annual workplace charity campaign.

This year's RRB campaign will begin on October 12th and end on November 5th.

Last year, Agency employees generously

donated over $180,000.

As you're aware, work on the William O. Lipinski Federal Building lobby renovation project began August 2nd, and the contract --

THE CHAIRMAN: No kidding. I didn't notice.

MR. VALIULIS: And we expect to meet the anticipated March completion date. The first of three phases, the Rush Street entrance, the main entrance, is expected to be completed in December.

THE CHAIRMAN: Wow, great.

MR. VALIULIS: There have not been any serious setbacks reported by the contractor nor GSA.

And as mentioned earlier, Acquisition staff continues to work with the BIS staff to review technical and cost proposals to procure the items listed in this year's fiscal year IT and non-IT priority items.

THE CHAIRMAN: Thank you very much.

Any questions for Henry? Okay. Any other comments?

MR. BOEHNE: In answer to Mr. Kever's

question, I think two of three were the Bureau of Public Debt which is part of the Department of Treasury and the General Services Administration, but I'll send the Board a list of the three.

MEMBER KEVER: Okay. Thanks.

THE CHAIRMAN: Thank you.

If anyone would like to come back, we're going to have some cake -- right, Nancy -- for Linda. Cake and coffee for Linda here in a moment. We're going to get it now so if you'd like to hang around and come back, that would be great.

Thank you very much.

(End of stenographic report.)

STATE OF ILLINOIS)
) SS:
COUNTY OF K A N E)

BRENDA S. TANNEHILL, being first duly sworn, on oath says that she is a court reporter doing business in the City of Chicago; and that she reported in shorthand the proceedings of said hearing, and that the foregoing is a true and correct transcript of her shorthand notes so taken as aforesaid, and contains all of the proceedings given at said hearing.

Certified Shorthand Reporter

DOCKET NO. 10-GE-0040

(Issue #2)

U.S. RAILROAD RETIREMENT BOARD

REGULAR BOARD MEETING

ORIGINAL

April 28, 2010

STENOGRAPHIC REPORT OF PROCEEDINGS

had in the above-entitled matter held at 844 North Rush Street, 8th Floor, Chicago, Illinois, at 10:03 a.m., MR. MICHAEL S. SCHWARTZ, presiding.

PRESENT:

MR. MICHAEL S. SCHWARTZ, Chairman

MS. NANCY PITTMAN, Assistant

MR. STEPHEN W. SEIPLE, Assistant

MR. JEROME F. KEVER, Management Member

MR. ROBERT PERBOHNER, Counsel to the Management Member

MS. ANN CHANEY, Attorney Advisor

MR. V. M. SPEAKMAN, JR., Labor Member

MR. JAMES C. BOEHNER, Assistant

MS. GERALDINE L. CLARK, Assistant

MR. MICHAEL J. COLLINS, Assistant

MR. THOMAS W. SADLER, Counsel to the Labor Member

BOARD MEMBERS PRESENT: (Cont'd)

MS. BEATRICE E. EZERSKI, Secretary to the Board

MR. HENRY VALIULIS, Director of Administration/Senior Executive Officer

MR. STEVEN A. BARTHOLOW, General Counsel

MR. KENNETH P. BOEHNE, Chief Financial Officer

MR. FRANK BUZZI, Chief Actuary

MS. DOROTHY A. ISHERWOOD, Director of Programs

MS. TERRI S. MORGAN, Chief Information Officer

MS. PATRICIA MARSHALL, Attorney Advisor

REPORTED BY: Brenda S. Tannehill, CSR, RPR, CRR

LICENSE NO. 084-003336

CHAIRMAN SCHWARTZ: I think we can go on the record now and begin the board meeting.

I think we're going to have some reports today from the Executive Committee, and I will start with the Bureau of Law, Steve.

MR. BARTHOLOW: Good morning.

Just a few matters updating you on some litigation that's been fairly active recently and also to give you an update on our staffing situation and finally give you a little update on legislative matters.

In the litigation area, briefs have been filed in the Herzog coverage case in the Seventh Circuit Court of Appeals. The Board's brief was filed April 12th, 2010, and we just heard today that oral argument has been scheduled in that case for May 26, 2010.

The second item, in the United States Court of Appeals for the Fifth Circuit, the Circuit Court issued a decision March 26th, 2010, affirming the decision of the Board in James Smith versus Railroad Retirement Board. In that case, Mr. Smith was appealing the computation of his annuity. And again, the decision was issued in our favor.

On April 14th, the United States District Court for the Middle District of Florida issued a decision dismissing the case of Joseph Borey and Maureen Borey versus U.S. Railroad Retirement Board.

The plaintiffs in that case alleged that the Agency had violated the Freedom of Information Act in not providing them with all of the documents that they had requested. In addition, the plaintiffs in that case alleged that the Agency was wrongfully collecting an overpayment from their annuities. And again, that action was dismissed.

Finally, in an EEO matter, on April 19th, 2010, a hearing was held in Charlotte, North Carolina in an EEO case brought by a Railroad'Retirement Board field office employee.

The complainant in that case alleged discrimination in the selection of the network manager for Network 5 as well as retaliation for filing an EEO complaint.

The Administrative Judge at the end of

the hearing gave the parties 15 days to submit closing arguments. The Judge also encouraged the parties to discuss or negotiate and discuss settlement of that matter. We have attempted to discuss settlement unsuccessfully.

In the area of staffing, the Director of Hearings and Appeals made selections to fill two hearing officer positions.

Roberta Bodkin and Anne Marie Kelly came to the Bureau of Hearings and Appeals from the Disability Section of Programs and began work on April 12th. We are very confident that both of these people will be very, very good hearing officers. We're happy to have them.

As the Board knows, we're in the process of hiring a new attorney for the Office of General Counsel.

The Panel is progressing in its review of nearly 400 applications that were filed by interested attorneys. This is a very time-consuming task. Unfortunately, it's come at a time when we're also very, very busy so it's taking longer than we would like it to. Nevertheless, we hope to make a selection within the next two months.

In the legislative area, as you all know, on April 6th, 2010, we issued our initial analysis of Public Law 111-152, the Patient Protection and Affordable Care Act, and its impact on this agency. The primary impact on the Agency, as we pointed out in our analysis, is on the Agency's responsibilities under the Medicare program.

The Director of Legislative Affairs has advised me that a markup of the Congressional resolution in honor of the RRB's 75th anniversary of the Railroad Retirement Program is scheduled for the House in June or July of this year, obviously in advance of the August celebration.

One final matter. As you all know, the Board appointed Karl Blank to handle a hearing in the case of CSX Real Property. It's an employee status hearing.

Mr. Blank has released notices just a couple days ago to all parties advising them of his appointment and also of the process that will be followed in handling this case. The notice states that a hearing is planned for July of this year and it will be in Jacksonville, Florida. The parties will be notified further as the date and time and place are more final.

That concludes my remarks.

CHAIRMAN SCHWARTZ: All right. Thank you very much, Steve.

Any questions, Mr. Kever?

MEMBER KEVER: Steve, the EEO, you mentioned 15 days. When is that date up?

MR. BARTHOLOW: The hearing was on the --

MS. ISHERWOOD: 19th.

MR. BARTHOLOW: -- the 19th so that would be about the 4th of May, something like that.

MEMBER KEVER: Okay. Thanks.

CHAIRMAN SCHWARTZ: Mr. Speakman, any questions?

MEMBER SPEAKMAN: No questions.

CHAIRMAN SCHWARTZ: All right. Bureau of Actuary. Frank.

MR. BUZZI: For my report, I would like to inform the Board of the status of three projects that we will soon be completing: First, the 58th Financial Interchange Determination.

There have been no changes in method this year resulting from either the IG's audit or SSA's review. Work on the determination is proceeding on schedule, and we expect to have results by the end of this week.

The determination is calculated effective June 2nd. This allows roughly one month for the Board to first approve the determination, for SSA and CMS next to approve the determination, and finally, for the certifications to be sent to Treasury.

Next, the 2010 combined Section 502 and Section 22 report on the status of the Railroad Retirement System. Work on this report is proceeding on schedule. We plan to send a draft of the report to the Actuarial Advisory Committee in early May, and barring any problems, we expect to have a copy of the report to the Board by June 1st. The report is due to Congress and the President by July 1st.

Finally, the 2010 Section 7105 report

on the status of the Railroad Unemployment Insurance System. Work on this report will be completed shortly after the Advisory Committee approves the final economic assumptions for the Section 502 report. We expect no problems completing this report on time and should have a copy to the Board by June 1st. The report is due to Congress by July 1st.

CHAIRMAN SCHWARTZ: Okay.

MR. BUZZI: And that's all.

CHAIRMAN SCHWARTZ: Thank you.

Any questions of Frank? All right.

Bureau of Fiscal Operations. Ken.

MR. BOEHNE: Good morning, everyone.

I'll briefly cover three topics: First, the status of the 2010 administrative funding; next, the status of the Fiscal Year 2011 budget; and then preparation of the Fiscal Year 2012 budget submission.

Regarding the status of the Fiscal Year 2010 administrative funding, we have completed the midyear review and prepared recommended funding changes for the Board Members' review and approval. These changes were approved just yesterday by the Executive Committee and should be submitted to your offices later today. As a matter of fact, I saw Marge delivering them this morning.

Funding changes will be minor, totaling less than one percent of the appropriated amount of $109,073,000.

To date, we are happy to report we've brought in 30 new staff already this fiscal year. Attrition through today has been 28 for an average of four employees a month, right in line with what we were projecting.

The original hiring plan called for us to bring on 42 additional staff this year. More recently, the Board Members approved a Fiscal Year 2010-2011 hiring plan calling for 64 additional external -- in total external hires.

The actual number of hires this fiscal year will depend on the time of the hiring and other funding needs. The Agency's initial budget provided for 914 FTEs. As of the pay period ending April 10th, we were spending at a rate of 905 FTEs, and I expect at the end of this week, we will probably be spending at a rate of about 909 based on hiring five people this month and losing one person this month.

Regarding the status of the Fiscal Year 2011 budget, the Agency received a proposed funding level of $110,573,000 from the Administration through the passback process. We submitted the Congressional justification to the House and Senate on February 5th.

On April 7th, Margaret Lindsley and I briefed Jessica Bilics of the House Appropriations Staff on our budget request. I briefed her on the background information concerning Agency operations. She seemed very interested throughout the entire briefing.

We also covered in detail the 2011 request. I stressed two overriding issues facing the Agency, and they're the same two that it's been for the past few years now. One is maintaining a staffing level to ensure that we have adequate succession of the Agency's aging work force; and secondly, having sufficient funding to strengthen our technology infrastructure and also modernize our information technology systems.

The following week, we submitted the statements for the record by the Board Members to the House and Senate Appropriation Subcommittees on April 15th.

Regarding the Fiscal Year 2012 budget submission, at the end of March, we put out the call to the bureau and office heads to submit their funding needs for 2012. Responses are due to us later this week.

After the Budget staff reviews the requests, they'll put together the usual consolidated package for the Executive Committee to review. After the Executive Committee reviews and approves the consolidated package, we'll send it to the Board, and that usually comes about late June.

As you know, the budget submission is due to the Office of Management and Budget in early September, and to date, we have not received any guidance from OMB regarding funding limits. We expect that we'll usually get those in June or July on funding limits.

So that concludes my remarks.

CHAIRMAN SCHWARTZ: Well, this is why

we know that the budget process never ends, Ken. You've got three years on the agenda you're working on at once.

Are there any questions? All right.

Office of Programs. Dotty.

MS. ISHERWOOD: Good morning.

I'm going to start this morning with an update on hiring and training activities in the Office of Programs this fiscal year.

We've been making good progress on our external hiring initiatives, as Ken was just discussing. We are a big part of the numbers he just gave you.

We have to date hired eight claims representatives for seven district offices, five Unemployment and Sickness claims examiners, six clerical employees for positions in Survivor Benefits, Disability Benefits and the Imaging section, a new manager for our Covina district office and a new Disability Data Analyst for the Office of Assessment and Training.

We also have five field panels that are under way at this time and are close to being completed. There's going to be five additional claims representative positions.

And last Friday, April 23rd, we posted 11 more claims representative positions in 10 district offices. One more field position is expected to be posted very soon.

And finally, we have posted a new class for up to 12 new Medicare claims examiners, and we have that panel under way at this time. We're hoping that that class will be able to start midsummer this year.

In the area of training, we've also been making good progress this fiscal year. We had our first retirement post training class in a long time, WHICH graduated in November this fiscal year.

Our unemployment and sickness class, the five trainees I just mentioned, they started in February, and that class is scheduled to graduate in September.

And we have scheduled two claims representative training classes for later this fiscal year. The first will be a one-week class for advanced claims representatives scheduled for June 13th to 18th, and the second is a two-week class for new claims representatives scheduled for September 12th to 24th.

And in addition to those special initiatives dealing with training, we also have a very large amount of ongoing training that we handle of shorter duration~~s~~, ~~but things for~~ regularly-scheduled training classes THAT go on all the time and ~~things for~~ special as-needed training that we schedule when things come up.

Next, I have an update on the Recovery Act. On March 4th, the economic recovery payments of $250 were issued to 196 more individuals. This represented a third of our six planned catch-up runs for that program.

Our most recent weekly Recovery Act report which ran through April 23rd showed total obligations of $129,827,000 paid out for economic recovery payments to date.

Our next catch-up runs for that program are scheduled for June, September and December. That will then conclude the Economic Recovery Payment Program.

Also under the Recovery Act, as you know, we've been paying extended unemployment benefits. We are just about at the end of paying those benefits now. Nearly all or possibly all have been paid out at this point, however, benefit recoveries under that program are continuing and are expected to continue for some time to come. Total obligations reported through April 23rd for that part of the program were 11,161,000.

Due to the fact that recoveries have been exceeding the payments in recent weeks, our total obligations on our report have actually been declining in recent weeks.

Now, as you also know, under the Worker Home Ownership and Business Assistance Act which replaced the Recovery Act for extended unemployment benefits, we are continuing to pay benefits under that law.

As of April 23rd, our records on that program show that we have paid out a total of $11,957,000 in extended unemployment benefits. Through March, the month of March 2010, we had also reported administrative expenses of just over $100,000 for that law.

And finally, I have an update on our

project to transfer certain Social Security cases from Social Security to the RRB for payment.

As I discussed at the last board meeting in January, this project involves approximately 3,500 cases that are often called slippage cases because they should have been certified by SSA to the RRB for payment but never were.

And so just as a reminder, the reason that we are now taking action to transfer these cases to the RRB is that we believe there is an impact on their Medicare premiums at this time due to the fact that we had no cost-of-living increase in January.

Once Social Security can certify those cases to us for payment, we will be able to deduct Medicare premiums, lower the premium rates as called for by the Hold Harmless provisions of the law and issue refunds where due.

On March 15th, we mailed 3,484 letters to the affected beneficiaries with a response requested in 30 days. Responses were not required unless the beneficiary wanted us to not transfer their benefits, if they wanted to decline the transfer. As of April 22nd, we had received 111 declinations.

We've also had extensive discussion between our staff and Social Security staff on how to best implement the transfer of these cases so that there would be minimal interruption or no interruption of their benefit payment stream.

We agreed to start with 1,200 cases that would be transferred in time for our June 1st payment date. And we plan to continue with approximately 1,200 each month for the following two months, so therefore, benefit payments are scheduled to be made for each group, three groups, on June 1st, July 1st and August 1st.

There could be some variation in that benefit payment schedule based on circumstances in individual cases, but staff in our Retirement and Survivor Benefit Divisions are monitoring these cases very closely; they're manually handling any cases that are referred out from the automated systems; and they're giving a very high priority to try to ensure that we can make these payments without interrupting their payment schedules as they expect to get their money.

Once the payments are certified and these people are on the RRB rolls, then our Medicare section will take over and they will have to make a variable premium rate determination in each case and put the Medicare premium deductions into effect.

The final step for them will be to calculate any retroactive refunds that may be due in these cases. Now, we have told people that this could take as much as five months to get all of these refunds issued. That information was provided to them in the letters that we sent on March 15th.

So if there are no questions, that concludes my report.

CHAIRMAN SCHWARTZ: Any questions for Dotty?

MEMBER SPEAKMAN: Just one short point, Mr. Chairman.

With regards to your Social Security case transfers, first of all, I'd like to make a comment that I certainly appreciate the work that's being done. I think you can thank your staff. I know it's labor intensive and you have to do a lot of work there that you normally wouldn't have to do, but I think it's necessary to do.

Could you give me an impact of the 111 cases that have been declined for the transfers? Is that declination basically at a cost to the claimants themselves?

MS. ISHERWOOD: I think these claimants are people who believe that they do not want to change -- they're happy with having their payments made at Social Security and they do not wish to have their benefits sent to us. And we gave them that option.

I think they've been advised what the benefits would be of sending them to us, and they're saying no. I don't really know much more about them than that.

MEMBER SPEAKMAN: No, I was only wondering if, in fact, by their own action, would they basically be required to pay more than had they transferred over to us and we would have been able to lower --

MS. ISHERWOOD: That's what we believe, that they're being billed at the full Medicare rate, and if they were transferred here, we would be able to make premium deductions which would allow us to deduct the Hold Harmless Medicare rate which would be less.

MEMBER SPEAKMAN: That's all I have, Mr. Chairman.

CHAIRMAN SCHWARTZ: Mr. Kever, any questions? All right.

We go to the Bureau of Information Systems. Terri.

MS. MORGAN: Good morning.

The first topic I'd like to discuss is our initiative for IBM software replacement. BIS ~~This is~~ currently evaluating our mainframe software product portfolio for cost savings and improved compatibility with our system software.

In the past couple of years, we've upgraded our DB2 software and our system security software called RACF to IBM-based software.

As a result of the analysis to date, we are looking at discontinuing 10 Compuware and Computer Associates products currently in use and replacing them with IBM-based software equivalents.

The existing Compuware and CA products cost the RRB $87,000 each year in maintenance fees. The replacement IBM software will have an actual maintenance fee cost of $20,000, however, the initial one-time cost for the purchase of the software is $67,000. Therefore, savings will be realized after the first year as a result of the reduction in the maintenance costs.

We've provided information on and demonstrated the IBM-based products to developers and user community, and the response has been very positive.

The second initiative is the WAN accelerator. The goal of this initiative is to securely optimize data traffic to and from each of our field offices and eliminate the need for remote servers at those locations.

Having the file servers in the field offices is one of the remaining two significant deficiencies noted by the IG.

The field office servers have been gone beyond their technical life cycle and cannot be patched due to age and stability concerns. In addition, data on the field servers are not backed up or encrypted.

An appliance called a WAN or a wide-area network accelerator -- it's a small device -- will replace the servers and all applications and data will be transferred to headquarters.

WAN accelerators compress data traffic, securely send the data across the WAN and decompress the data at the destination. These hardware devices improve bandwidth efficiencies while reducing application response times.

We are currently conducting proof-of-concept testing of products from three independent hardware providers for three weeks each at Headquarters and our Joliet and Oakland offices.

These tests are going very well, and we

have received very positive feedback. In fact, one of the field office managers said that their response to our applications is immediate and they haven't even had that with their existing file servers.

The WAN accelerators will be installed in each field office and at Headquarters for end-to-end optimization. Data will be controlled and encrypted when transferred to the field offices. Since the data will be housed on our Headquarters equipment, it will be backed up as part of our normal backup procedures.

The Request For Proposal is scheduled to be released August 1st, and the contract award is scheduled for September 30th. We estimate the cost to be about $530,000.

The final topic I'd like to discuss is the decision by the Archivist of the United States on the RR claim folders. And I just want to mention up front the reason I'm bringing this up is because as the project lead, Chuck Mierzwa on my staff is the Records Management Officer, but I'd like to acknowledge the current organizations and employees who have been instrumental in the success of this initiative. It's not just ours; it's a number of organizations involved.

The RRA Claim Folder Disposition Team developed the Request For Disposition and was comprised of members from BIS, General Counsel, IG, Administration and Programs.

As you can imagine, this project has been going on for 17 years, by the way, so many people are retired, but some names I'd like to just give kudos to include Chuck Mierzwa from BIS, David Jackson from Administration, Rosalie Klocek from Programs, Doris Hill from Programs, Joe DelFavero from the IG, Bill Tebbe from the IG, Michael PTACEK ~~Ptastic~~ from Programs. He's retired, by the way, but he was instrumental in this. Art Arfa, also retired, from General Counsel. And Rich Konopka was also involved. He was in, I think, Public Affairs at the time, and now he's in Hearings and Appeals.

The RR Claims Folder Finding A Team included members, again, from BIS, OA and Programs and specifically David Jackson from OA, Lloyd Kingsbury, OA; Doris Hill from Programs;

Pauline Coleman-Sutton from Programs; Anna Salazar; Barbara Gleason; Chuck Mierzwa and Brian Foster from BIS.

So I just wanted to acknowledge the people that were involved with that. Now to give you a bit of background on it.

On April 10th, 2010, the RRB received approval of our Request For Disposition Authority for RRA claims folders from the Archivist of the United States. The approval brings to close a 17-year discussion between the two agencies regarding the disposition of the material.

The RRB currently pays $2.52 in annual storage fees for each cubic foot of inactive records at NARA's Great Lakes Federal Records Center. We have 45,671 cubic feet of records. To give you an idea what that 45,671 cubic feet represents, think of 23 semi trucks filled end to end, floor to ceiling with records.

Transfer of ownership of the inactive RRA claim folders affected by this decision will result in an annual savings to the RRB of approximately $115,090 per year.

CHAIRMAN SCHWARTZ: That's terrific.

MS. MORGAN: The request proposed a reduction in the retention of our inactive RRA claims folders from 30 years to seven years.

NARA has also determined that the RRA claim folders have archival value warranting permanent preservation by the Federal Government, therefore, upon completion of the seven-year retention period, the ownership of the records will transfer from the RRB to the National Archives who will assume responsibility for maintenance of the records and all related Privacy Act issues.

Discussions regarding the formal actions required to transfer the ownership from RRB to NARA will begin shortly.

The RRB with Executive Committee approval has agreed to develop an electronic finding aid which will assist NARA's archive staff in locating inactive claim folders stored at the Great Lakes Records Center once a transfer of ownership occurs.

And actually, the development of that finding aid was a requirement because they have a lot of records to search so we had to be able to tell them how to do that.

An RRB team consisting of staff should complete their work on the finding aid and deliver it to NARA within the next 60 days or so. At that point, we envision formal transfer of ownership to NARA of the 1.4 million plus folders affected by this decision.

Information Resource Management staff will coordinate review of the transfer with OGC staff before signature.

We hope to have all work completed regarding the transfer of records by July 15th, 2010, if not sooner, although the final date will require NARA agreement and cooperation.

CHAIRMAN SCHWARTZ: Okay. Thank you very much.

Terri, I have a question. On the application replacements, we always get a cost of upgrading the computer that has to do with software. When we upgrade a computer, it's not necessarily the hardware but it's the software cost. Do you think this will help with that?

MS. MORGAN: It will help. That is one

of the factors that we looked into when upgrading.

We have an IBM computer, hardware computer, and what we're shifting to is more consistent IBM software which lessens our cost when we upgrade.

CHAIRMAN SCHWARTZ: That's great. So not only are we going to get a savings with the new applications costing less than Computer Associates or whoever, but also, when we upgrade the computer, we'll get a more reasonable price there on that upgrade, is what you're saying?

MS. MORGAN: Correct.

And those ten applications I spoke about which is just our initial analysis are able to be consolidated into about three or four IBM products that perform the same function.

CHAIRMAN SCHWARTZ: So that will help, too.

All right. Thank you.

Any other questions of Terri?

Henry, Office of Administration.

MR. VALIULIS: Good morning, Mr. Chairman and Board Members.

The status of implementing the Presidential Executive Order for creating labor management forums to improve delivery of government services, the Agency submitted its initial draft implementation plan to the National Council on Federal Labor-Management Relations or the Council by the due date of March 9th.

The Council reviewed our draft plan and returned it for improvement. After further consultation and concurrence by the union, the draft plan was revised and resubmitted to the Council on April 22nd.

Ms. Lisa McGlasson -- she's the Senior Advisor to the Deputy Associate Director For Partnership and Labor Relations at OPM -- acknowledged receipt and has forwarded the document to the Council for final review.

Human Resources staff is also preparing for the Agency's Employee Appreciation Day event which is scheduled for next month or next week on May 5th.

Also, over 100 Agency employees have signed up to attend the Chicago Federal Employee of the Year Luncheon which will be held on May 26th at the Hyatt Regency Chicago. RRB employees were nominated for many of the award categories.

Under the Equal Employment Opportunity under the No FEAR Act, training must be conducted for all employees every two years. Our Office of Equal Opportunity will again use the RRB Vision as the platform for developing a video training module. Employees will be actors in vignettes that will demonstrate important aspects of the No FEAR Act.

The training is expected to be released during the first quarter of FY 2011 or sometime between October and December.

Within Real Property Asset Management, work will be getting under way shortly to renovate the first-floor building lobby of the William Lipinski Building. That's our building right here at 844 Rush.

Should all of the permits be issued and security clearances completed, GSA advises that the project may start as early as May 17th. Information will be distributed to all affected employees as we get closer to the actual construction time.

We expect some disruptions of the daily routine because of the need to reprogram our elevators and close certain entrances during the construction.

Within Acquisition Management, staff continues to work with the Information Technology Steering Committee and BIS staff to develop technical requirements and solicit proposals as needed to procure the items that have been approved on this year's IT capital plan.

And finally, within Public Affairs, work continues in preparation for the Agency's 75th year anniversary to be held at the Drake Hotel during the week of August 23rd.

The field office managers' training will be conducted that week as well as all managers' training to be conducted on Wednesday, August 25th. We plan to have training in areas such as labor relations, equal employment opportunity as well as updates on pertinent management issues.

The RRB award for excellence will also take place that day, and then the week-long event will culminate with the anniversary luncheon scheduled for that Friday.

And that concludes my presentation.

CHAIRMAN SCHWARTZ: Thank you.

Mr. Kever, any questions?

MEMBER KEVER: No.

CHAIRMAN SCHWARTZ: Mr. Speakman?

You know, as I listen to the reports from the Executive Committee, I can tell you that -- and I think that I can speak for the other two Board Members as well unless they want to say something -- we really appreciate all the hard work the Executive Committee does. That's why I think it's important to have these reports.

Although a lot of times, we have meetings here and there with different Executive Committee members on different issues we're interested in, I sit here and certainly appreciate it even more when I see everyone together and see the hard work everybody does.

So as we get close to our 75th

anniversary, and only Bea, you're the only one that's been here all 75 years, but I certainly do appreciate the hard work.

It sounds a little sentimental today, but when I sit here and listen to all the work, just going through everything, the work Terri's done, the work that all of you do, Frank. Ken, to listen to how you have to keep three budgets balanced at once and all the areas Dotty has to take care of and Steve and Henry as well, it's much appreciated.

So I don't know if anybody has anything to add.

MEMBER SPEAKMAN: Mr. Chairman, with the exception of the Bea comment, I would say you've eloquently addressed it from our office as well.

CHAIRMAN SCHWARTZ: Mr. Kever?

MEMBER KEVER: I think it just proves they don't need Board Members.

CHAIRMAN SCHWARTZ: Thank you very much for your time.

If anybody has anything else to add, we will be having our next quarterly meeting before the 75th anniversary luncheon, and we'll get together then.

Thank you.

(End of stenographic report.)

STATE OF ILLINOIS)
) SS:
COUNTY OF K A N E)

BRENDA S. TANNEHILL, being first duly sworn, on oath says that she is a court reporter doing business in the City of Chicago; and that she reported in shorthand the proceedings of said hearing, and that the foregoing is a true and correct transcript of her shorthand notes so taken as aforesaid, and contains all of the proceedings given at said hearing.

Certified Shorthand Reporter

DOCKET NO. 10-GE-0006

Issue # 2)

U.S. RAILROAD RETIREMENT BOARD

ORIGINAL

REGULAR BOARD MEETING

January 14, 2010

STENOGRAPHIC REPORT OF PROCEEDINGS

had in the above-entitled matter held at 844 North Rush Street, 8th Floor, Chicago, Illinois, at 9 o'clock a.m., MR. MICHAEL S. SCHWARTZ, presiding.

PRESENT:

MR. MICHAEL S. SCHWARTZ, Chairman
MS. NANCY PITTMAN, Assistant
(via teleconference call)
MR. STEPHEN W. SEIPLE, Assistant

MR. JEROME F. KEVER, Management Member
MR. ROBERT PERBOHNER, Counsel to the Management Member
MR. JOSEPH M. WAECHTER, Assistant
MS. ANN CHANEY, Attorney Advisor

MR. V. M. SPEAKMAN, JR., Labor Member
MR. JAMES C. BOEHNER, Assistant
MS. GERALDINE L. CLARK, Assistant
MR. MICHAEL J. COLLINS, Assistant

BOARD MEMBERS PRESENT: (Cont'd)

MS. BEATRICE E. EZERSKI, Secretary to the Board

MR. MARTIN DICKMAN, Inspector General

MR. HENRY VALIULIS, Director of Administration/Senior Executive Officer

MR. STEVEN A. BARTHOLOW, General Counsel

MR. KENNETH P. BOEHNE, Chief Financial Officer

MR. FRANK BUZZI, Chief Actuary

MS. DOROTHY A. ISHERWOOD, Director of Programs

MS. TERRI S. MORGAN, Chief Information Officer

Reported By: Anna M. Morales, CSR, RMR

License No.: 084-002854

(Whereupon, the following proceedings commenced at 9:03 o'clock a.m.)

CHAIRMAN SCHWARTZ: Today we have reports from the Executive Committee. Let's start off with the Bureau of Law. Steve?

MR. BARTHOLOW: Well, we can first talk a little bit about staffing which is something we don't very often talk about in the Office of General Counsel; but, as I think you all know, we hired David Hotz recently to fill the vacant legislative assistant position in the Office of Legislative Affairs.

David has experience working on Capitol Hill, having worked on the staff of former Senator Norm Coleman of Minnesota for several years. We are very confident that David will be a valuable addition to the Office of Legislative Affairs staff. He's already there. He's up and working; been to the Hill a few times; and, if you get a chance, get out and meet him.

CHAIRMAN SCHWARTZ: Okay.

MR. BARTHOLOW: Second matter, we are also filling a hearings officer position in the Bureau of Hearings and Appeals. The panel material has been forwarded to the panel. They are looking it over right now, and we hope to make a selection there within the next few weeks.

And, finally, we are going to hire a new attorney in the Office of General Counsel. The job should be posted in the next couple of weeks. We believe that adding a new attorney should better position the office to meet the needs of the agency in the next few years as well as into the future years as well.

As you know, we hired a new attorney, Daniel Bartnicki, a couple years ago. Daniel is working out very, very well, and we hope we find someone as qualified as Daniel this time around.

In the litigation area, Herzog Transit has filed a petition for review of Board Coverage Decision 09-53. This action has been filed in the United States Court of Appeals for the 7th Circuit in Chicago. In Board Coverage Decision 09-53, Herzog was determined to be a covered employer with respect to the dispatching services it provides for Trinity Rail. That should be an interesting case, a first impression in the courts.

In addition to Herzog, we currently have four petitions for review of Board decisions on benefit claims. These are all again before the United States Court of Appeals.

We also have kind of an unusual hybrid case that was filed recently in the United States District Court by a disgruntled applicant who made a FOIA, Freedom of Information Act request, to the agency. We provided all the information requested; nevertheless, he has filed suit in the District Court alleging that we did not provide all the information he requested. And on the side, he's also arguing that the agency has mishandled his claim.

In the regulation area, certainly the most significant thing that's happened in the last three months is the publication of the amended Part 220 Disability Reg in the Federal Register. As you know, this part removes the listing of impairments and makes several other changes in the Disability Adjudication Reg. This is a monumental accomplishment. It took about four or five years to get this done.

CHAIRMAN SCHWARTZ: Good.

MR. BARTHOLOW: One other reg that we're working on, and we're doing this jointly with other agencies as well as with the help of the Office of Programs, the Department of Treasury has drafted a regulation to cover garnishment orders which are issued to financial institutions in cases involving customers who receive certain federal benefits that are not subject to garnishment. The rule would protect a portion of the bank accounts in these cases from garnishment actions.

Finally, in the legislation area, it's been very, very quiet recently, but as I reported previously, we are continuing to see proposed legislation to provide what would appear to be Recovery Act type payments to Railroad Retirement beneficiaries. The draft legislation would provide one-time payments of $250 per beneficiary.

That's all I have.

CHAIRMAN SCHWARTZ: All right. Thank you very much. Bureau of the Actuary.

MR. BUZZI: I would like to report on the status of four items: Our ongoing work; the Railroad Unemployment Insurance Account Loan; the Financial Interchange Audit; and the planned

Financial Interchange Adjustment for pre-1957 Military Service.

First, our ongoing work. Last month, we completed the semi-annual budget reviews for OMB and CBO. We completed the report on outlays for Treasury and OMB this week. We have also begun work on the 2010 Section 502 report and plan to start work shortly on the 25th valuation experience studies.

Next, the Railroad Unemployment Insurance Account Loan. As you are aware, the recent high levels of unemployment in the rail industry have lowered the balance in the Railroad Unemployment Insurance Account to the extent that it has become necessary for the Railroad Unemployment Insurance Account to borrow from the Railroad Retirement Account. Further borrowings will likely be needed in the coming months.

Nonetheless, we expect full repayment of the loans by calendar year 2012 because of both an increase in experience-rated contributions and the likely return of the unemployment rate to more normal levels. The effect of these loans on the Railroad Retirement System is not significant due the small size of the loans relative to the total invested funds.

Regarding the Financial Interchange Audit, the financial interchange calculations are in the process of being audited by our Office of Inspector General and reviewed by the Social Security Administration. We are cooperating fully with both of these reviews and have answered many questions and provided much data. At this time, no formal recommendations have been made.

Finally, the Pre-1957 Military Service Adjustment. As you know, the Railroad Retirement System was reimbursed on a tax basis for certain military service before 1957 creditable as railroad compensation. Some of the employees for whom we were reimbursed never received a Railroad Retirement benefit but did receive a Social Security benefit which included credit for the military service for which we were already reimbursed.

We are required to reimburse Social Security for the cost of additional benefits attributable to this military service. The next quinquennial transfer to Social Security is scheduled to occur with the June 2011 financial interchange transfer.

In anticipation of the transfer, SSA has recently provided us with a sample of over 800 cases to review, many of which will require combing through old microfiche records. At this point, we are in the process of working with the Office of Programs and Bureau of Information Services to determine the most efficient way to review these cases.

CHAIRMAN SCHWARTZ: Okay. Thank you very much. Ken, Bureau of Fiscal Operations.

DIRECTOR BOEHNE: Good morning, everyone. I will briefly cover three topics, the first one being the status of the fiscal year 2010 administrative funding; secondly, the status of the fiscal year 2011 budget; and, thirdly, the outcome of the audit of fiscal year 2009 Performance and Accountability Report.

Regarding the status of the fiscal year 2010 administrative funding, after starting the year like we've done for many, many years under a couple of continued resolutions, it didn't drag on as far as last year did, but we started with two, the Congress enacted our appropriation last month. It provides the agency with $109,073,000 in direct funding as expected. We submitted our apportionments to the Office of Management and Budget last week; and I'm happy to report that OMB approved all those apportionments yesterday.

We're obtaining feedback from the bureaus and offices right now as to their funding needs for the year. Based on that information, the Executive Committee will propose full funding allocations to the Board members later this month. Probably in about a week and a half I would think.

The general provisions in the fiscal year 2010 Consolidated Appropriations Act require the Railroad Retirement Board, along with other agencies, to submit an operating plan detailing any fiscal year 2010 funding allocations that are different than the budget request that the Administration submitted. The operating plan -- and we've done these in prior years, too -- is due to the Appropriations Committee by Friday, January 29th. Of course, we'll submit that for Board member approval.

Through today, we've brought on 15 new

staff to the agency this fiscal year. Attrition so far totals 20. The original hiring plan called for us to bring on 42 new staff this fiscal year; and the actual number will depend on the timing of the hiring as well as other funding needs.

We continue to assume that attrition will ultimately average four employees a month. We've got a good start on that. We're slightly ahead of where we were last year at this point.

Regarding the status of the fiscal year 2011 budget, the agency received a proposed funding level of $110,573,000 to the Passback process. This provides for a funded full-time equivalent employee level of 891 which is really just six below what we spent last year. Last year, we spent 897 FTEs. It also provides for 1.5 million for information technology including an estimated $850,000 to upgrade the mainframe computer.

We're currently preparing the Congressional Justification document. This will be submitted to the Congress shortly after the President's State of the Union Address and released with the Administration's proposed budget likely early next month.

Regarding the fiscal year 2009 Performance and Accountability Report, the agency received an unqualified or clean opinion on its financial statements; and, as I mentioned would likely happen at the October Board meeting, the number of reported material weaknesses increased from two to three. The agency's staff continue to take actions to eliminate the report of material weaknesses concerning information security and financial reporting.

The newly reported material weakness termed Internal Control Over Nonintegrated Subsystems resulted from a Medicare premium transfer problem which was discussed by Programs at the October Board meeting. I have asked my staff, specifically, John Walter and his staff, to take the lead in coordinating the agency's efforts to address this third reporting material weakness, and a lot of interaction will have to take place between us and the other organizations and, particularly, Programs.

With that, maybe I can just add a couple things to what Frank said about the loan. Last month, we processed a loan from the Railroad

Retirement Account to the Railroad Unemployment Insurance Account for 5.4 million. This month, we're processing one for 19.1 million; and, so far, OMB has approved apportionments up to 68 million for the year. And that's a fairly good estimate at this point.

CHAIRMAN SCHWARTZ: Okay. Thank you very much. Office of Programs, Dotty.

MS. ISHERWOOD: Good morning. I have three areas I want to give you updates on this morning starting with our hiring activities and programs for FY-2010.

On January 4th, we brought in six new clerks at the GS3 level. These people will be working in the Divisions of Survivor Benefits, Disability Benefits, and the Imaging Section of Operations.

Also, I just completed my selections for the upcoming RUIA training class. That's the unemployment training class which is targeted to begin on February 16th. There will be five new GS5/7/8 positions starting at that time.

We have also requested HR just recently to schedule interviews for next week of candidates for the new disability data analyst position which will be a GS13 located in the Office of Assessment and Training. We are hoping, depending on how those interviews go, that we should be able to start that position up in February as well.

In addition, we have numerous field panels underway right now working on filling vacancies in claims representative positions in 12 different offices. The first of the interviews for those panels will be scheduled the week of -- well, they'll be starting the week of January 25th and ongoing for some time.

Finally, I wanted to let you know that we've begun work on a proposal to be submitted for EC and Board approval shortly, I hope, for a new Medicare training class for this year. That would be new claims examiners to work in the Medicare section.

The second area that I have an update on is this year's cost-of-living adjustment and year-end operations or possibly I should call it the lack of a cost-of-living adjustment. As you know for the first time since 1975 when the automatic cost-of-living increases were implemented, Railroad Retirement annuitants did not receive a COLA increase this year in their January checks.

However, we did perform still a full COLA operation for a variety of reasons, primarily to keep our records up to date for various transactions such as Medicare changes, Social Security changes, taxation table changes, and other things that take place at this time of year.

We were required to raise the Medicare Part B standard premium rates from $96.40 to $110.50 a month. However, because of the lack of the COLA increase, we were able to apply the Hold-Harmless Provisions to over 440,000 annuitants this year. Last year, we applied it to about 1400 annuitants.

CHAIRMAN SCHWARTZ: Wow.

MS. ISHERWOOD: Nevertheless, we did still have to increase premiums in some cases. Those would be cases that are direct billed by us, cases with new enrollees, cases that involve IRMAA which are means related premiums for Part B and other special rates situations.

So all of this actually resulted in a more complex COLA operation this year than normal even though it sounded like it should be easier. And it also contributed to a very high volume of telephone calls to the field offices in late December and early January.

And there's another side issue related to this year's unCOLA operation that I wanted to mention to you; that is that we've begun work now on a project to have SSA begin certifying a new group of payments -- cases to the RRB for payment. Now these are cases that for a variety of reasons should have been certified to the RRB but never were and Social Security continued paying their benefits for a number of years.

However, these beneficiaries are actually qualified railroad retirement beneficiaries or QRRBs. For the purposes of Medicare, we are direct billing those people. Because of the situation I just mentioned with the COLA and the Hold-Harmless Provisions, that is likely causing a financial disadvantage to these people, and we could correct that by having Social Security certify those payments to us for payments.

So once the cases are certified to us, we can switch their Medicare premiums to being automatically withheld, and we can apply the Hold-Harmless Provisions, and then we can look at giving those people refunds for any excess premiums they may have paid during that transition time.

At this point, we have an estimate of approximately 3800 cases that would be involved in this transaction. The project is complex. It will require close coordination with Social Security and planning with them. It will involve all of their payment centers, not just the one in Chicago. It may involve some reprogramming of our systems. We're still looking into that aspect of it. And it will most likely involve quite a bit of manual case work once we get the cases here and we have to make sure all the adjustments are right.

However, we do believe this is the appropriate strategy, and we are working towards that end, and I will keep you posted on that project as we get more information over the coming months.

MEMBER SPEAKMAN: Estimated time line for that?

MS. ISHERWOOD: We don't have an exact one yet. We are doing it as fast as we can, but it is complicated, and I don't have an exact target date yet. So I will give you updates.

CHAIRMAN SCHWARTZ: Mr. Kever has a question.

MEMBER KEVER: Go ahead.

MS. ISHERWOOD: I will give you updates as soon as I have that information, but I don't have it now.

MEMBER KEVER: If these people are going to be certified back to their RRB, does that mean they now get Tier II?

MS. ISHERWOOD: No, this has nothing to do with their RRB payments.

MEMBER KEVER: Okay.

MS. ISHERWOOD: This is their Social Security payments.

MEMBER KEVER: Okay.

CHAIRMAN SCHWARTZ: Okay.

MS. ISHERWOOD: My third topic for today was an update on the American Recovery & Reinvestment Act of 2009 and the new Worker, Homeownership and Business Assistance Act of 2009.

On January 5th, we submitted our year-end financial activity report to OMB on the Recovery Act Program, and that report showed that as of

December 31st that we had incurred the following obligations: Economic recovery payments of approximately $129,783,000; extended unemployment benefits of approximately $11,209,000; administrative costs of approximately $494,000 for the economic recovery payments; and administrative costs of $80,000 for the extended unemployment benefit under the Recovery Act only.

For the Economic Recovery Payment Program, these obligations included payments of $250 each to over 519,000 individuals. Those payments were made in May initially and then in two subsequent catch-up runs, the most recent one being completed in December.

We still have four more quarterly catch-up runs that are scheduled under that program to run through the end of December of this year.

As Steve mentioned, there is legislation pending for a second ERP program. It looks very similar to us to the program we're currently running. We are in close coordination with Social Security and Office of General Counsel watching that legislation. We hope we will be ready to implement it as quickly as possible once it's enacted.

For the Extended Unemployment Program aspects, the report was submitted in January for December. It covered only costs under the Recovery Act of 2009; but, as you know, on November 6th, the new Worker, Homeownership and Business Assistance Act was enacted. That's also called the WHBAA; and that act provided for an additional $175 million for extended unemployment benefits as well as $807,000 in additional administrative costs. And new accounts have been established for the benefits authorized under that law, and we are currently tracking all expenditures under that law separately from those under the Recovery Act.

So the bottom line in all of this for extended unemployment benefits is it is now possible to charge extended unemployment benefits to any one of three different accounts, the RUIA account for regular RUIA benefits and extended RUIA benefits; the ARRA account, A-R-R-A account, for extended unemployment benefits under the Recovery Act; and the new WHBAA account for extended unemployment benefits established under that law.

We have been working very closely on the proper accounting procedures with BFO and the Office of General Counsel over the past weeks and months, and we do appreciate the assistance we've gotten from both those organizations on making sure we implement this correctly.

That concludes my report.

CHAIRMAN SCHWARTZ: Thank you. Okay. Bureau of Information Systems.

MS. MORGAN: Good morning.

CHAIRMAN SCHWARTZ: Hi, Terri.

MS. MORGAN: First, I would like to talk about the Open Government Directive which is OMB 10-06.

In response to presidential instruction, the Director of OMB issued the Open Government Directive on December 8, 2009. The memorandum directs executive departments and agencies to implement the principles of transparency, participation and collaboration which form the cornerstone of open government.

Transparency promotes accountability by providing the public with information about what the government is doing. Participation allows members of the public to contribute ideas and expertise so that their government can make policies with the benefit of information that's widely disbursed to society. Collaboration improves the effectiveness of government by encouraging partnerships and cooperation with government and between the government and private institutions.

The directive details the steps necessary to increase openness in government. We need to publish government information on line; improve the quality of government information; create and institutionalize a culture of open government; and create an enabling policy framework for open government.

Specifically, to the RRB, there was two actions that are due on January 22nd. The first one is to identify and publish on line three high value data sets and register those via data.gov, and we've already completed that. We worked with the Bureau of Actuary to determine those data sets, and those are the Railroad Retirement Act Annuitants and Active Railroad Employees by Congressional District; Active Employees and Railroad Retirement Act Beneficiaries by State, and Longevity of Railroad Retirement Beneficiaries.

The second action that's due on the 22nd is to designate a high level senior official accountable for the quality and objectivity of and control over the federal spending information publicly disseminated, and the EC has recommended the Director of Administration for this position and it's pending Board approval.

CHAIRMAN SCHWARTZ: Okay.

MS. MORGAN: Those are the two due on the 22nd.

CHAIRMAN SCHWARTZ: All right.

MS. MORGAN: On the 6th of February, we are required to create an open government web page as a gateway to open government directive activities. Guidelines state to publish information on line consistent with Federal Records Act in an open format using modern technology. And we have our web development team working on that web site.

The final action that we have a due date for in the agency is to formulate an open government plan that will detail how the agency will incorporate the principles of transparency, participation and collaboration into the core mission objectives of the RRB. The EC will create an open government plan for the RRB, and that will be placed on the RRB web site, and that's due April 7th of 2010.

We are waiting further guidance from OMB on Federal Spending Reporting and Open Government Dashboard and other areas which may result in additional responsibilities to the RRB; but, at this point, those are the only four that we have specific responsibility for so far.

CHAIRMAN SCHWARTZ: Okay.

MS. MORGAN: The other topic I would like to discuss is the new headquarters' printing policy. The headquarters' printing policy team has established and consists of representatives from each bureau or office of the agency. They were tasked to develop a printing policy that was recently approved by the Executive Committee.

The policy focuses on measures that support RRB's printing needs while addressing opportunities to reduce current spending dedicated to printers, toner, and paper. This really was a cost-saving initiative because of all the printers -- especially individual printers we have around the office. We were trying to look at the best way to contain costs.

A circular based on this policy is in development and is expected to be completed by the end of the month, and we anticipate implementation of this policy to result in advancing a responsible use of printers while employing economically efficient and environmentally sound business practices.

CHAIRMAN SCHWARTZ: Okay. Thank you very much. Office of Administration, Henry?

DIRECTOR VALIULIS: Good morning. I will be covering a number of activities within a variety of areas within administration.

The first is human resources and the status of employee pay adjustments. The Railroad Retirement Board employee 2010 cost-of-living adjustments, including locality pay, have been processed and will be reflected in the January 22nd salary payment.

The field position reclassification actions are effective January 17th and will be reflected in the February 5th payment.

The remainder of the Employee Performance Awards have also been processed, and they also will be paid by the next salary payment of January 22nd.

There will be a notice released today by the Director of Human Resources.

The status of implementing the presidential order on creating labor and management forums to improve delivery of government services. The staff, as required by the Executive Order, Human Resources and other staff have consulted with union representatives and are drafting a plan describing the state of labor relations within the agency, and we'll discuss possible areas for improvement.

The plan is due to the National Council on Federal Labor Management Relations, the Council, by early March; and the Council will review the plan within 30 days of receipt and make recommendations to the co-chairs whether to certify or return for improvement.

Within real property asset management, on December 16, 2009, the General Services Administration, or GSA, released a request for proposals for lobby renovation construction services for the Railroad Retirement Board. We're now known as the William O. Lipinski Federal Building. The proposals were due January 12, 2009, and GSA plans to award a contract for lobby renovations estimated at around $2 million. GSA has also identified this as an American Recovery & Reinvestment Act project.

CHAIRMAN SCHWARTZ: Okay.

DIRECTOR VALIULIS: More information will be released to everyone as the contractor is selected and the project scheduled is provided.

Finally, the contract between the Railroad Retirement Board and the Drake Hotel has been executed. The Drake Hotel will host the 2010 RRB National Managers Meeting, the Railroad Retirement Board Award for Excellence Program, and the RRB 75th Anniversary Luncheon during the week of August 23rd through the 27th. Staff is currently working on the details for all these events. And that's all.

CHAIRMAN SCHWARTZ: Okay. Thank you very much. Those are very good reports. I appreciate that.

Mr. Speakman, Mr. Kever, do you have anything to add or any questions of staff anything? Mr. Dickman, do you have anything?

MR. DICKMAN: No, sir. Thank you. I would just mention that we are negotiating as far as the indirect costs in good faith.

CHAIRMAN SCHWARTZ: Okay. All right. That's important to know because there was a change in the law there. Okay. Anything else? All right.

Well, thank you very much. That's it.

(Whereupon, the meeting of the U.S. Railroad Retirement Board adjourned at 9:33 o'clock a.m.)

STATE OF ILLINOIS)
) SS:
COUNTY OF C O O K)

ANNA M. MORALES, being first duly sworn, On oath says that she is a court reporter doing business in the State of Illinois; and that she reported in shorthand the proceedings of said meeting, and that the foregoing is a true and correct transcript of her shorthand notes so taken as aforesaid, and contains the proceedings given at said meeting.

Anna M. Morales
Certified Shorthand Reporter

DOCKET NO. 09-YE-0078

(Issue #2)

U.S. RAILROAD RETIREMENT BOARD

REGULAR BOARD MEETING

ORIGINAL

October 14, 2009

STENOGRAPHIC REPORT OF PROCEEDINGS

had in the above-entitled matter held at 844 North Rush Street, 8th Floor, Chicago, Illinois, at 10 o'clock a.m., MR. MICHAEL S. SCHWARTZ, presiding.

PRESENT:

MR. MICHAEL S. SCHWARTZ, Chairman

MS. NANCY PITTMAN, Assistant (via telephone)

MR. STEPHEN W. SEIPLE

MR. JEROME F. KEVER, Management Member

MR. ROBERT PERBOHNER, Counsel to the Management Member

MR. JOSEPH M. WAECHTER, Assistant

MS. ANN CHANEY, Attorney Advisor

MR. V. M. SPEAKMAN, JR., Labor Member

MS. GERALDINE L. CLARK, Assistant

MR. THOMAS W. SADLER, Counsel to the Labor Member

McCorkle Court Reporters, Inc.
Chicago, Illinois (312) 263-0052

BOARD MEMBERS PRESENT: (Cont'd)

MS. BEATRICE E. EZERSKI, Secretary to the Board

MR. MARTIN DICKMAN, Inspector General

MS. PATTI MARSHALL, Attorney Advisor

MR. WILLIAM TEBBE, Assistant Inspector General for Investigation

MR. HENRY VALIULIS, Director of Administration/Senior Executive Officer

MR. STEVEN A. BARTHOLOW, General Counsel

MR. KENNETH P. BOEHNE, Chief Financial Officer

MR. FRANK BUZZI, Chief Actuary

MS. TERRI S. MORGAN, Chief Information Officer

MR. RONALD RUSSO, Director of Policy and Systems

Reported By: Anna M. Morales, CSR, RMR

License No.: 084-002854

(Whereupon, the following proceedings commenced at 10:03 o'clock a.m.)

CHAIRMAN SCHWARTZ: Okay. I think for today's Board meeting, the first item on the agenda is the Executive Committee reports, and I think we can get started with those. I think we'll get started with the Bureau of Law. Steve?

MR. BARTHOLOW: Good morning. Just a few items to update you on where we stand in the Office of the General Counsel. It's been a pretty busy last three months since we last talked.

The first area I would like to talk about is the recent developments in legislation. As you know, the computations under the Social Security Act suggests that there will be no automatic cost-of-living increase in benefits this year, and several bills have been introduced to address this situation.

One bill has been introduced that would provide a one-time, one-month increase in Social Security benefits. The increase would be in the amount of $150 and would apply only to the payments made in January 2010.

Based on our review of this legislation, we have concluded that the increase would apply to the Tier I benefit of Railroad Retirement benefits, and it would be payable in January of 2010. No cost-of-living increase would pass on into the Tier II benefit.

Other legislation that has been introduced would provide for a percentage increase in Social Security benefits computed based on recent cost-of-living increases under the Social Security Act. This legislation would provide a monthly cost-of-living increase in the same manner as the automatic cost-of-living increases under the Social Security Program. This legislation would result in an increase in Tier I benefits and also in Tier II benefits under the Railroad Retirement Act.

A third approach that has been suggested is to provide a one-time payment similar to the stimulus payments made under the American Recovery & Re-Investment Act. This would apply to Railroad Retirement beneficiaries in the same manner as the payments made under the American Recovery & Re-Investment Act.

Legislation has also been introduced that would attack this problem by eliminating the increase in Medicare premiums for this coming year. Eliminating the increase in Medicare premiums would reduce the increased cost faced by Social Security and Railroad Retirement beneficiaries.

Another area of legislation that has been active in the last couple of months is extended unemployment benefits under the Railroad Unemployment Insurance Act. As you all know, the American Recovery & Re-Investment Act provided extended benefits under the Federal-State Program and also under the Railroad Unemployment Insurance Act.

Bills have been introduced in both houses of Congress to increase benefits under the Federal-State Program and also under the Railroad Unemployment Insurance Act. We will, of course, keep you apprised of developments in this area.

One other legislative development worthy of mention is correspondence that the Director of Legislative Affairs has received recently from a couple of congressional offices stating that those offices have received inquiries from constituents supporting two amendments to the Railroad

Retirement Act. Congressional offices have received letters seeking a repeal of the so-called Tier II Take-Back Provision which was added to the Railroad Retirement Act by the Railroad Retirement Solvency Act of 1983 and for a change in the Widows' and Widowers' Initial Minimum Amount Provision in the Railroad Retirement Act which was added by the Railroad Retirement and Survivors Improvement Act of 2001.

In July, I reported that we had no petitions for review of decisions by the Board pending before the United States Courts Of appeals. Since that time, three petitions for review have been filed. One of the cases involves computation of an annuity. The second case involves creditability of additional arrear of service; and a third case seeks review of a decision denying waiver of recovery of an overpayment of slightly in excess of $130,000.

We have also received a new employment law case involving a claim by a Board employee for restoration of lost leave under the Uniform Services Employment and Re-Employment Rights Act. The claim is for leave lost by the employee in the late 1980s and early 1990s while in military service. This case has been settled by the parties, and the administrative judge has dismissed the case.

One other item that I would like to mention is Part 220 of our regulations which would remove the listing of impairments from our regulations. As you know, this regulation has been in process for quite a long time. It was held up for a while because of issues with clearance through the Office of Management and Budget.

We did submit a final rule to OMB recently. There was a telephone conference between the RRB and OMB a couple weeks ago on this regulation, and OMB has decided to send our final rule document to several other agencies for clearance. Views are due later this month. So we should know within a couple weeks better where we are on this regulation.

That's all I have. Thank you.

CHAIRMAN SCHWARTZ: All right. Thank you, Steve.

MEMBER SPEAKMAN: Mr. Chairman, could I make an inquiry with regards to the unemployment issue that's developed?

It's my understanding that there appears to be some direction towards the Baucus bill that would provide for unemployment only in the 29 highest unemployed states.

MR. BARTHOLOW: I heard that yesterday, yes.

MEMBER SPEAKMAN: My concern is an administrative concern as to how we might be able to administer our unemployment benefits on a state-by-state basis inasmuch as we have a number of employees that go across state lines. Some of them have system gangs, if you will, that cover four, five, six states, how the application of that would impact us.

Steve, is there any -- it may go to Programs, but, again, I'm interested if we've been giving that any thought?

MR. BARTHOLOW: As I said, we just heard this yesterday. I did send an inquiry to the Actuary's Office to get an idea of the potential cost of that, of that type of an approach.

I haven't heard anything at all from Programs in terms of the difficulty of this. I suspect it would not be an easy thing to do. It would seem to me the better approach would be to treat the Railroad Unemployment Insurance System like a state, make it like the 51st state, if we will.

My understanding is the rate of unemployment in the railroad industry is approaching, if not already at, what is considered to be the high unemployment level in the Federal-State Program.

Where Congress decides to go with this I think we don't really know at this time. Most of the bills that I have seen would have provided benefits across the entire railroad industry. No distinction between states; but, apparently, at least as of yesterday, there was discussions of limiting that to go to the high unemployment states under the Federal-State Program.

DIRECTOR RUSSO: From an administrative perspective, it would add complexity depending on what the determination was if you said how we would actually be able to identify those individuals that would become eligible. Clearly, if it was based on a state, their home address would be easier than trying to address issues, as you mentioned, of individuals who cross state lines.

There is one other aspect of the legislation that has been -- that from an administrative perspective could be very difficult for us to implement, and that would be the way it's accounted for. We have a separate account set up right now to track the dollars that are being expended. If, in fact, they were to add another account separate and distinct from that account for this new legislation, it would be very difficult implementation for us.

We have put together a white paper. Ken has sent that over to OMB to make them aware of the concerns we have from an administrative perspective. It's a very -- we're really concerned about a separate account.

CHAIRMAN SCHWARTZ: Okay. Mr. Kever, do you have any questions?

MEMBER KEVER: No.

CHAIRMAN SCHWARTZ: Okay. Thank you very much. We have Bureau of Actuary. Frank?

DIRECTOR BUZZI: Okay. I would like to report on some of our more noteworthy items since the last Board meeting.

CHAIRMAN SCHWARTZ: Okay.

DIRECTOR BUZZI: In July, we completed the Statement of Social Insurance. The statement shows the Railroad Retirement System to have an actuarial surplus and also provides analyses of the sensitivity of our actuarial position to changes in future interest rates and employment. Similar information was provided for the government-wide financial reporting system except that intergovernment transactions were eliminated to allow for consolidation.

In August, we completed our estimate of the amounts that were due our trust funds for additional benefits paid as a result of military service. We estimated that the trust funds were due an additional 460 million on September 1, 2009, for benefits earned through December 2007. This amount includes interest, administrative costs, and an actuarial adjustment.

In September, two reviews of the financial interchange began. We provided copies of our calculation programs, data and documentation to both the Social Security Administration and our Office of Inspector General. We also began answering related questions. As of this time, there have been no official recommendations for change.

Finally, since the last Board meeting, we have completed work on three of our main publications. The 24th Actuarial Valuation Book contains the valuation along with summaries of actuarial experience in the technical supplement. The Annual Statistical Tables contain historical information about our programs; and, finally, the Financial Interchange Book contains the results of the recently completed 57 financial interchange determinations. That's all.

CHAIRMAN SCHWARTZ: Okay. Thank you, Frank. Any questions from Mr. Speaker, Mr. Kever?

Okay, Ken. Bureau of Fiscal Operations. Always exciting.

DIRECTOR BOEHNE: Thank you, Mr. Chairman. I will begin by leading into a brief discussion on fiscal year 2010 by giving a few closing numbers on fiscal year 2009.

During fiscal year 2009, we brought in 46 new hires. Most of those were bought in during August and September. 29 were brought on board during those last two months of the fiscal year. 47 employees left the agency which was right in line with our attrition estimate of 4 employees a month or 48 employees during the year. FTE usage during the year was 897, and that compares to 918 in fiscal year 2008. The FTE usage level on October 1st was about 909. Information Technology spending totaled about 3.1 million during the year which included funding for the Information Technology Steering Committee's 15 highest priorities at year end.

Regarding fiscal year 2010, we once again started the fiscal year under the Continuing Resolution. It's become the norm. It continues that way. The Continuing Resolution runs through October 31st. It provides the agency with about $8.9 million under the limitation of the administration. We expect to realize about $800,000 in reimbursables during October resulting in a total of about $9.7 million available for administrative activities.

We continue to estimate that attrition will average about 4 employees a month during the fiscal year. Projected hires include filling the carry-over positions that have been unfilled from fiscal year 2009 of 8 positions, plus an additional 34 positions that are to be filled under current hiring plans.

Information Technology funding is still estimated to be about $1.65 million, and we expect that full year administrative funding will ultimately be $109,073,000 in direct appropriations that we requested.

Regarding fiscal year 2011 spending, last Wednesday on October 7th, we held a conference call with the OMB examiner to discuss questions she had about the fiscal year 2011 budget submission. She opened the discussion by saying fiscal year 2011 was going to be another tough year. That's what OMB always says, but sometimes tougher than others, but another tough year; and that she truly appreciated the forthrightness in our answers that we had sent her in advance.

We then discussed and elaborated on information as we addressed her follow-up questions. While she was interested in the agency's staffing distribution, she mostly focused on the information technology items one by one, and not only those included in our budget submission, but also those that would have been included had we not been capped at our funding request.

CHAIRMAN SCHWARTZ: See, Terri, OMB is taking a great interest in your area.

DIRECTOR BOEHNE: And, actually, this is a good sign, that they may be actually open to funding some of these additional items.

So we went through them one by one. It was about a two-hour conference call, two-part conference call that ran for about two hours total. Throughout the call, we tried to emphasize our dual theme: The need for adequate staffing level to support succession planning efforts; and sufficient dollars to continue our information technology initiatives.

I think the discussion went very well. She repeatedly expressed her appreciation for all information we provided to her. And she did state, however, that, quite often, it comes down to a choice between staffing and IT dollars; and that's really what it often comes down to within the agency itself is staffing versus IT dollars.

The next step in the budget process would be the Passback which usually takes place in late November.

And, finally, accounting staff are working on the fiscal year 2009 financial statements in the Performance of Accountability Report. These are due to the Office of Inspector General on October 22nd. We are finalizing the Management Representation Letter which is due to the OIG at the conclusion of its field work which is currently scheduled for October 30th. We're also finalizing the Special Management Representation Letter which is due to the OIG by November 6th. And we'll be sending these proposed letters to you for your review and approval next week.

The number of material weaknesses reported to the Office of Inspector General is likely to increase from two to three as a result of internal controls, failing to ensure accurate Medicare premium transfers. I think Dotty has been sending information to the Board regarding the Medicare premium transfer situations.

That concludes my report.

CHAIRMAN SCHWARTZ: Ken, if you took our budget and you took staffing and IT dollars, there's not much left after that, is there?

DIRECTOR BOEHNE: Not much left. Figure 80 percent goes toward people, and then you got the IT, yes. And then you got the fixed cost. You got to pay for the rent of the building and so forth. So, yes, there isn't a whole lot of discretionary spending there.

CHAIRMAN SCHWARTZ: No, there isn't. So any budget impact we have usually impacts the staffing as well as the IT. Okay. Thank you. Any questions from Mr. Kever or Mr. Speakman?

MEMBER KEVER: Well, I would just like to add that a lot of the other expenses we have are intragovernment expenses. So there's not a lot we can do about that either.

CHAIRMAN SCHWARTZ: No.

MEMBER SPEAKMAN: Nothing.

CHAIRMAN SCHWARTZ: Great. Ron, are you doing Office of Programs today?

DIRECTOR RUSSO: I am. We have three items we'd like to report on this morning. The first is to provide a status on the work related to the American Recovery & Re-Investment Act of 2009. We just finished our fiscal year report regarding those activities, and some of the highlights are that we paid about $130 million in benefits in the one-time payments of $250 to a little over 500,000 people. In terms of our Extended Unemployment Benefit Program, we paid a little bit over $10 million, and that was to 3,500 individuals.

From an administrative cost perspective, as you might remember, we had indicated that for the $250 payments, it would cost us roughly about $1.4 million. To date, we've spent nearly $500,000 on that program. And our estimate for the Extended Unemployment Program was $80,000, and we have exceeded that by an additional quarter of a million dollars, $244,000 to date.

We continue to track all those costs just to make sure we have a full accounting at the end of the program.

We do have some catch-up runs that we will be doing. We have six catch-up runs. We completed the first one earlier this year. We have another run that will take place in December.

We also just finished the survey related to the American Customer Satisfaction Index. This time we came back to the area that we first reviewed which was recently awarded retirement beneficiaries; and we're pleased to report that the results are just outstanding once again. The overall index score was an 88 which is roughly 20 points higher than other federal agencies. Most of the scores are in the 80s and 90s.

One area of concern, of course, was our phone service because of the massive changes we've made, and yet the results were excellent in that area as well, and we're real satisfied.

CHAIRMAN SCHWARTZ: So you're saying that one of the things you were interested in seeing was what they thought of them. You said one of the concerns, but you didn't mean it was a concern on the response. You meant that -- I think you mean that the one of the things you're interested in looking at was the phone service.

DIRECTOR RUSSO: Right. Exactly right.

CHAIRMAN SCHWARTZ: That's okay. When you first said concern, I didn't know exactly what --

DIRECTOR RUSSO: It was an area we wanted to see what the results were going to be in light of all these changes made; and, clearly, it's worked out very well for us.

CHAIRMAN SCHWARTZ: And that was the 800?
DIRECTOR RUSSO: The 800 toll-free service, yes.
CHAIRMAN SCHWARTZ: Okay.
DIRECTOR RUSSO: We'll be receiving a copy of the final report shortly, and that will be submitted up to the Board, and that will lead into a presentation that will be made by the Federal Consulting Group on November 4th. I think you guys have all been notified of that.
The third area is something Ken had mentioned earlier regarding the Medicare transfer problem that we had identified earlier this fiscal year or last fiscal year. We had found during some review of controls that we had an issue with the transfer of funds, and actually CMS owed the agency our trust funds about $25 million in funding. We have received $21 million of that money back, and we're in the process of continuing to discuss the remaining $4 million with CMS.
Actually, I was hoping to have news about another $3 million before I entered the room today. They are having another meeting on that this morning, and we think that they'll approve that as

well.

CHAIRMAN SCHWARTZ: Well, most importantly, whatever caused that issue is fixed going forward?

DIRECTOR RUSSO: Right. In terms of the controls, we reviewed all aspects of the controls. We made a series of adjustments to those. We've improved the procedures throughout those areas. And we are going to do a re-review of the entire area later this fiscal year to ensure that the controls and procedural changes we put in place are successful.

We've had a lot of help from a lot of resources to do this, and so we think we're in good shape moving forward. Whatever problems we identified, all the, as I have called it, bleeding has ended and we're in the area of recovery right now.

CHAIRMAN SCHWARTZ: Okay.

DIRECTOR RUSSO: That's really all that I have to report.

CHAIRMAN SCHWARTZ: Mr. Speaker, Mr. Kever, any questions?

MEMBER KEVER: I have a question. Did I understand you right that you said the unemployment administrative costs were 250,000 over what you budgeted?

DIRECTOR RUSSO: Yes, above and beyond.

MEMBER KEVER: What was the problem?

DIRECTOR RUSSO: We just underestimated the amount of effort and work that was going to be required relative to the development of the programs. It became far more complex and we spent more.

MEMBER KEVER: Which leads to what Mr. Speakman asked before about this law that may affect us. So it will be very difficult to do, I'm sure.

DIRECTOR RUSSO: Yes. And we have a little bit more experience in terms of what it actually took us to -- it was mostly just the systems changes where the additional cost came in. When we compared what we had identified in the initial estimates compared to what we have encountered, it was the systems development effort. Just far more complex than we expected.

MEMBER KEVER: But then on the flip side, you're under on the 250 payment?

DIRECTOR RUSSO: Right, we are. One of the main issues that took place there is that they had anticipated a second mailing when we were first putting the estimates together relative to the program, and the cost of the mailings are very expensive because it was a mailing to every individual. That was one of the factors.

The number of inquiries that we had estimated were much less than we had anticipated. We did follow a pattern. We worked with Social Security in terms of looking back at their history and our history. We sort of followed a pattern that we used, and it just resulted in overestimating the number of inquiries.

Some of it may have been because of the quality of the letters and the way we presented information on the very front end to our customers. It just led to a lot less inquiry --

MEMBER KEVER: Thanks.

DIRECTOR RUSSO: -- which really was good news in the end for us.

Again, roughly, we spent about a third of the money at this point, and we'll still be making payments through December of 2010.

CHAIRMAN SCHWARTZ: Okay. Thank you. The Bureau of Information Systems. Terri?

MS. MORGAN: Good morning.

CHAIRMAN SCHWARTZ: Good morning.

MS. MORGAN: The first issue I would like to talk about are the outstanding IG findings. During FY-09, the agency completed either a certification and accreditation or an annual security monitoring of our two general support systems and four major applications. All systems were certified by their owners to be of acceptable risk.

Additionally, we completed the transition of our desktop and lap top computer systems operating in a Windows XP environment to comply with the government's Federal Desktop Core Configuration for security. These two projects were our primary focus in FY-09 to address the most significant OIG recommendations.

In FY-09, we focused on closing 26 OIG recommendations associated with significant deficiencies. Of those, 16 had been reported to OMB. We completed work on 23 of the recommendations, including all of the OMB reported deficiencies. The OIG has agreed that 8 of the OMB reported recommendations can be closed, and they are still reviewing closure on the other 8 as well as 7 of the non-OMB reported recommendations.

The next subject is system --

CHAIRMAN SCHWARTZ: You said the total is 24?

MS. MORGAN: 26.

CHAIRMAN SCHWARTZ: 26? And that amounts to 23?

MS. MORGAN: Yes.

CHAIRMAN SCHWARTZ: Okay.

MS. MORGAN: System modernization. The first goal of the System Modernization Project is to convert all existing processing to the new DB2 master database tables instead of the legacy tables. The second goal is to retire the legacy tables as soon as they are no longer needed. The retirement of the legacy tables should result in less capacity demands on our mainframe computer, and we are increasing our demands on our mainframe right now, and this is hoping to avoid the necessity to upgrade our mainframe computer.

As a proof of concept, the Medicare system is being addressed first. We will initially convert the system to access the system called Molly. It's the on-line integrated system tables and the master database and then retire the corresponding legacy tables. As you can imagine, this is pretty complex.

CHAIRMAN SCHWARTZ: I think what you're saying is if we -- so I understand it, if you get rid of some of the legacy stuff and convert it, it won't use as much capacity on the computer?

MS. MORGAN: That is correct. That is correct. We have to keep the legacy and the master data synchronized now which takes a lot of capacity.

CHAIRMAN SCHWARTZ: Right.

MS. MORGAN: Once the legacy tables are retired for the Medicare system, we'll begin converting the remaining applications to access the master data tables. So we are using Medicare first as a proof of concept.

CHAIRMAN SCHWARTZ: Now to upgrade a computer, most of the cost is probably software?

MS. MORGAN: Yes.

CHAIRMAN SCHWARTZ: The software cost? The hardware -- it used to be years ago it was hardware, but now they really kill you on the software.

MS. MORGAN: The mainframe computer we purchased last year is scaleable, and we have it

dialed back to a lower capacity.
CHAIRMAN SCHWARTZ: I see what you're saying.
MS. MORGAN: So we already have the hardware purchased and we did this on purpose. So what we're looking for, if we have to upgrade our systems, the next group pricing for the software is $850,000. So what we're trying to do by taking this issue of converting the legacy and master data is trying to avoid that cost.
CHAIRMAN SCHWARTZ: Good. Smart.
MS. MORGAN: There are a number of initiatives we have completed which lay the foundation for the System of Modernization Initiative. First, we have established a test region on the mainframe computer, LPAR 3. Establishing this independent test environment allows us to conduct testing without affecting our production environment.
We are also in the process of converting our mainframe security system to IBM RACF. This is a significant and complex change since the security system affects all aspects of mainframe operation. However, this decision will have a positive impact in the future since it's more compatible with our operating systems, system software, and DB2

database.

As a result of the operational issues we experienced in March, we have instituted a number of changes. We have established a separate library to make changes to the daily job control language or JCL. We used the new library to house proposed changes. We have established procedures for senior programmers to review and approve any changes in this library before they can be executed in the production environment.

We have also recently completed the procurement of a JCL management tool which will enforce JCL standards. With these changes in place, our systems have been more stable which is critical to the System Modernization Initiative, and we have also improved availability to our users.

The use of Business Objects software is a key element in the system modernization effort. Business Objects will allow systems to be more adaptable for the users. In order to gain a better understanding of the intricacies of Business Objects, we developed a new cost accounting as a prototype using this software. The System

Modernization team has been using Business Objects also to assist in analyzing the legacy and master tables in order to develop a conversion strategy.

Business Objects will be used further to produce an inventory of the programs that need to be changed, document the structure of the new data base, and highlight differences from the legacy database. These Business Object tools will persist in the future as a reference facility for all systems development.

The final topic I would like to discuss is some significant FY-09 contracts that we issued. A number of IT-related contracts were awarded this year, but there's a few that I would like to highlight for the Board.

We have a new Log Management System, and the purpose of this project was to obtain a turnkey log management and event analysis system to improve system security at the RRB. This system will analyze our system logs and highlight issues we need to address. And prior to this -- as you can imagine, the logs are quite extensive. We have many systems, and it was very hard to do this manually. So there's undoubtedly a number of things we have missed; and, by having this tool to help us out, it actually does the review itself and then just brings to light those significant issues that we need to address.

We have also established a contract for Web site rehosting. The purpose of this project was to recompete web hosting services for the RRB's Internet web service, RRB.gov. This was achieved through the GSA network's government-wide contract.

We also have a disaster recovery contract we put in place, and this project was for the recompetition of a previous contract for mainframe and network disaster recovery services. One base year and four option years were established potentially running through September of 2014.

As part of that, also we are analyzing right now the ability to electronically transfer our data as opposed to physically transferring it via tape. It is more expensive. So we're doing a cost analysis of that initiative at this point. But it is an option under this contract.

CHAIRMAN SCHWARTZ: That's pretty interesting because then what you would do is you -- rather than take the tapes, have to physically take them somewhere, you could -- that's really good -- electronically send it and then it's backed up.

MS. MORGAN: Right. And we can do it much quicker, of course. And it improves the security because you don't have to physically transfer the tapes themselves.

CHAIRMAN SCHWARTZ: Yes. That's good.

MS. MORGAN: It's an option we have in the contract, but we're looking at the cost of doing that.

And, finally, the last contract I wanted to mention was an Infrastructure Service Center Consulting Study. This contract is for the study of our Infrastructure Service Center which is our mainframes and network operations, to optimize operations through process and staffing analysis incorporating the best in class processes.

CHAIRMAN SCHWARTZ: Okay. Now we're also working on, you and I have discussed before, making sure all the systems are documented, the documentation of the systems.

MS. MORGAN: It's an option under this contract that we established that we can have this company help us with all our process and procedures and system documentation. So it's an option we can exercise.

CHAIRMAN SCHWARTZ: It's a perfect time. With the conversion of the DB2 and all the things now that we can document -- you know, document the current things that are happening in the current modernization. So it's really appropriate to be doing it right now. That's very good.

Mr. Speakman, Mr. Kever, any questions?

MEMBER SPEAKMAN: I have none.

MEMBER KEVER: None.

CHAIRMAN SCHWARTZ: Thank you. Office of Administration. Henry, you have had some excitement down there in administration this time.

DIRECTOR VALIULIS: Well, I hope so.

CHAIRMAN SCHWARTZ: It has been. Lots of things are going on.

DIRECTOR VALIULIS: Mr. Chairman, I am pleased to report on the Office of Administration Activities.

In the area of human resource activities, as Mr. Boehne mentioned, this past fiscal year, we hired 46 new employees, the larger portion of these hires occurring toward the end of the fiscal year.

While the overall FTE usage for last fiscal year was 897, we are currently much closer to the projected FTE usage of 910. There were also 47 separations last year.

With the target FTE usage of 920 for this fiscal year, we anticipate hiring approximately 42 new employees. In anticipation, HR, or human resources, has already announced about half or ten claims representative positions in various cities. The Executive Committee will also be reviewing the current hiring plan to determine if it should recommend any changes.

Regarding the field service nonsupervisory position audits, the on-site reviews and data collection has been completed. The Director of Human Resources released his report to the Board yesterday indicating that 69 GS-10 and 104 GS-9 positions in the field are eligible to be elevated one grade.

In the area of real property asset management, work continues on the building's freight elevator renovation project. The work is expected to be completed by the end of November. In cooperation with the Bureau of Information

Services and the union, we have competitively awarded contracts for the third floor workplace improvement project. The project will start at the end of this month and should conclude by mid December resulting in an upgraded office environment consisting of painting, recarpeting, work station reconfiguration for our Information Technology employees.

In the area of acquisition management, as you heard earlier in the presentations, the fiscal year end acquisition activities were successful. The majority of the items procured were related to satisfy Information Technology priority needs.

In the area of Public Affairs, finally, the updated RRB 2009-2014 Agency Strategic Plan is now posted on Boardwalk. I appreciate all the cooperation the Office of Public Affairs received and commend the staff for their job well done. Thank you.

CHAIRMAN SCHWARTZ: Okay. Thank you. Any questions?

MEMBER SPEAKMAN: One question, Mr. Chairman, with regards to the projected new hires of 42. Do we envision those to be frontloaded or are we --

would those be more towards the end of the fiscal year?

DIRECTOR VALIULIS: We're hoping that we even it out and frontload some of the new hires. That's the reason why we posted at least half of the field positions early.

MEMBER SPEAKMAN: I would hope so, too.

CHAIRMAN SCHWARTZ: I think that -- you know, you would have a good idea of this, but it takes quite a while, doesn't it? I mean, it takes several months by the time the process goes through. So probably to get them posted certainly as soon as possible would be a good idea.

How long would you say the process takes by the time you post it and interview and have panels?

DIRECTOR VALIULIS: Well, OPM has an initiative and we're part -- we have a team working on that to improve the number of days it requires from the date the decision is made to post the position or fill a vacancy to the time it's actually filled. The process is over 100 days right now. We're working with OPM to reduce that time frame.

CHAIRMAN SCHWARTZ: Yes, because I was thinking

90 days is fast right now. So certainly probably as soon as we can get them posted, the better to get the process started.

I think if we -- Item 2 on the agenda now has three votes. So unless Mr. Kever or Mr. Speakman feel like there's anything you want to say, I think we'll just pass on Item 2 because a vote has been reported earlier in the day on that. I think we're set on that.

Do you have anything to say?

MEMBER KEVER: No.

CHAIRMAN SCHWARTZ: Okay. All right. I think this is good. Thank you very much for your reports. It certainly helps. I can speak for myself and say it helps me keep track of what's going on, and I thank everybody for their good work.

Mr. Speakman, Mr. Kever, anything from you?

MEMBER SPEAKMAN: No.

MEMBER KEVER: No.

CHAIRMAN SCHWARTZ: Thank you very much.

(Whereupon, the meeting of the U.S. Retirement Rail Board adjourned at 10:40 o'clock a.m.)

STATE OF ILLINOIS)
) SS:
COUNTY OF C O O K)

ANNA M. MORALES, being first duly sworn, On oath says that she is a court reporter doing business in the State of Illinois; and that she reported in shorthand the proceedings of said meeting, and that the foregoing is a true and correct transcript of her shorthand notes so taken as aforesaid, and contains the proceedings given at said meeting.

Anna M. Morales
Certified Shorthand Reporter

ORIGINAL

U.S. RAILROAD RETIREMENT BOARD

REGULAR BOARD MEETING

July 22, 2009

STENOGRAPHIC REPORT OF PROCEEDINGS

had in the above-entitled matter held at 844 North Rush Street, 8th Floor, Chicago, Illinois, at 10:01 a.m., MR. MICHAEL S. SCHWARTZ, presiding.

PRESENT:

MR. MICHAEL S. SCHWARTZ, Chairman
MS. NANCY PITTMAN, Assistant, (via telephone)
MR. STEPHEN W. SEIPLE, Assistant

MR. JEROME F. KEVER, Management Member
MR. ROBERT PERBOHNER, Counsel to the Management Member
MR. JOSEPH M. WAECHTER, Assistant
MS. ANN CHANEY, Attorney Advisor

MR. V.M. SPEAKMAN, Labor Member
MS. GERALDINE L. CLARK, Assistant
MR. MICHAEL J. COLLINS, Assistant
MR. THOMAS W. SADLER, Counsel to the Labor Member

MS. BEATRICE EZERSKI, Secretary to the Board

MR. HENRY M. VALIULIS, Director of Administration/Senior Executive Officer

MR. STEVEN A. BARTHOLOW, General Counsel

MR. KENNETH P. BOEHNE, Chief Financial Officer

MR. FRANK BUZZI, Chief Actuary

MS. DOROTHY ISHERWOOD, Director of Programs

MS. TERRI S. MORGAN, Chief Information Officer

MR. MARTIN DICKMAN, Inspector General

MS. PATRICIA MARSHALL, Attorney Advisor

Reported By: Liza Marie Regan, CSR, RPR

License No.: 084-002477

CHAIRMAN SCHWARTZ: I want to thank everybody for taking the time to come to the July Board meeting. The first item on the agenda is the Executive Committee reports. I think there's no certain order we want to do it so let's start around the table with Ken Boehne.

MR. BOEHNE: Good morning, everyone. Let's start out with the fiscal year 2009 budget status. The appropriations for fiscal year 2009 is $105,463,000. Our full-time equivalent spending level as of the end of June was 889 employees. The approved external hires for fiscal year 2009 is 52 and 17 have come on board as of the end of June. So we still have 35 as of the end of June remaining to be hired this year and Henry Valiulis can give you an update on our hiring plan later.

We completed our third-quarter review on June 25th and the Board approved the changes on June 29th. At that time we had, again, a reserve of $187,000. So IT spending this year, we still have over $2 million in the budget for the year of which at the time of the third-quarter review, we still had about $568,000 remaining. We've got a fourth-quarter review scheduled for next month. So for this fiscal year, we're in very good shape. This fiscal year allows a lot of hiring by allowing 50 people to be brought on board, $2 million in IT spending.

For fiscal year 2010, the President's proposed budget is $109,073,000. This is an increase of $3,610,000 over the fiscal year 2009 funding. This will fund 920 FTEs and about $1.65 million for information and technology initiatives. It allows us to hire an additional 34 employees at an estimated attrition rate of four employees per month. Four employees per month is reasonable in light of this year's attrition rate has been about 3.8 employees per month through the first nine months.

We submitted the Congressional Justification Document to Congress and OB on May 8th. The House Subcommittee marked us as requested. Last Friday, July 17th, the House Full Committee also marked us at the $109,073,000 level. The Senate Subcommittee markup is scheduled for next Tuesday, July 28th. So I think we're on target to where we thought we would be in 2010.

CHAIRMAN SCHWARTZ: So at this point, you see no reason to adjust the hiring plan at all? To you, it looks like the hiring plan is fine?

MR. BOEHNE: To me, it looks like it's fine.

CHAIRMAN SCHWARTZ: Okay.

MR. BOEHNE: In 2011, regarding that budget, on June 11th, the Office of Management and Budget issued initial guidance to agencies on the preparation of the budget submissions. In memorandum M-09-20, OMB directed agencies to submit three budget levels, a guidance level, a freeze level and a 5 percent reduction level. We confirmed with OMB by phone and by e-mail that the three budget submission levels for this agency at the guidance level would be $110 million. It would be $109,073,000 at the freeze level. Again, that's the same as included in the President's budget for 2010. Then at the 5 percent reduction level, it would be $104,500,000, so 5 percent reduction from the guidance level. So we have to submit a budget at those three levels and showing performances at each of the three levels.

We presented the Executive Committee over the last few weeks with information on the agreement offices request and proposed our allocations at the three budget levels and yesterday, the Executive Committee approved the proposed allocations. We're now putting together a package for Board members review and approval. We should have that package to you by this week.

CHAIRMAN SCHWARTZ: I assume the 5 percent reduction level would lead to layoffs?

MR. BOEHNE: The 5 percent reduction level would probably result in a projected 46 employees be let off. I think the likelihood of the 5 percent reduction level is slim to none only because in this day of high unemployment in the country and foreclosures, I don't think OMB is going to want to show additional people losing their jobs.

CHAIRMAN SCHWARTZ: Okay.

MR. SPEAKMAN: What is the time line for getting back to OMB? Did you state that already?

MR. BOEHNE: That's my last bullet point on this one. Very good, Butch.

MR. SPEAKMAN: You told me when to clue you in.

MR. BOEHNE: The fiscal year 2009 budget submission is due to OMB by Monday, September 14th.

CHAIRMAN SCHWARTZ: I assume the Executive

Committee then -- we'll be getting what you have
decided in Executive Committee to us fairly soon?
MR. BOEHNE: We're going to get that to you
next week, yes. So I have a few weeks to go over
that with you to the extent you want to and then
make any changes you want and then put the final
package together and ship it off to OMB by
mid-September.
CHAIRMAN SCHWARTZ: Okay. Great.
MR. BOEHNE: Finally, regarding the preparation
of the fiscal year 2009 performance and
accountability report. On Friday, we sent the
initial draft of the performance and accountability
report to the Executive Committee for their review.
The draft is due to the Office of the Inspector
General on Tuesday, August 4th. The financial
information for fiscal year 2009 is incorporated in
the report of October. The final report, as usual,
is due to OMB by mid-November. This year it's due
Monday, November 16th.
Regarding the reported material weakness
related to financial reporting, we're tracking
implementation of the eight recommendations made in
the Office of the Inspector General's March 24,

2009 letter to management and four earlier recommendations. Of these 12 recommendations, the accounting staff, I believe, have implemented nine. They plan to implement two additional recommendations during the preparation of the third-quarter financial statements. Their twelfth recommendation, which deals with BFO's quality assurance activities, is expected to be implemented by September 30th of this year.

Last Friday, I received a telephone call from the Office of the Inspector General advising me that they plan on continuing to list the financial reporting as a material weakness in their audit report for fiscal year 2009 financial statements. The auditor advised me that she was impressed with our level of activity to act on the recommendations and that they will be able to cite actions we have taken but they believe that the changes need to be in place for a while before they consider closing out the reported material weakness. That concludes my report.

CHAIRMAN SCHWARTZ: Thank you, very much.

Dotty, Programs?

MS ISHERWOOD: Good morning. I have updates on four different initiatives this morning starting with the Recovery Act. As you know, we have two programs under the Recovery Act, the Economic Recovery Payments and the Extended Unemployment Benefit Payments.

For the Economic Recovery Payments, which are one-time only payments of $250, on May 28th and 29th, we made payments to over 514,000 individuals. Those payments totaled over $128 million and went to beneficiaries entitled under the Railroad Retirement Act. We're currently working on the analysis and programming that is required for the first of the quarterly catch-up runs which is scheduled for August, next month. That's the first of six planned quarterly catch-up runs that we have planned between now and the end of next calendar year. Since we think we have paid most of the beneficiaries who are entitled, we are only estimating that 3,000 more people will be paid as a result of those six runs that will be held quarterly.

For Extended Unemployment Benefits, I'm pleased to report that as of June 30th, we were able to begin making payments and releasing claims for people who had exhausted their unemployment benefits under the Railroad Unemployment Insurance Act. To date, since June 30th, we've paid out over $5 million in benefit money to over 3,000 individuals.

We are keeping close tabs, very close tabs on the accounting for this money to ensure that we don't exceed the $20 million appropriation that was provided. We are trying to -- we are paying these benefits on a daily basis through the unemployment payment system but the main challenge here aside from the accounting is that these cases have to be handled a little differently than normal. So we're seeing a lot of cases fall out for manual handling and review and adjustment. Right now, that's the challenge, keeping up with those cases that are falling out.

As far as the administrative money for the Recovery Act, to date, we have spent the full $80,000 that was provided to us for the administration of the unemployment benefits and we have reported spending as of yesterday over $300,000 for administrative expenses for the economic recovery payments. We're continuing to track our time and administrative expenses on both programs so we will be able to do a full accounting at the end for both programs. We are continuing to work with BFO to prepare our weekly reports that are required to Recovery.gov on the full accounting on all the obligations and outlays for both of those programs.

MR. KEVER: Do you report any administrative costs, what you just described?

MS. ISHERWOOD: Yes, we do.

MR. KEVER: They have that information.

MS. ISHERWOOD: They do.

MS. SPEAKMAN: If you exceed the $80,000, is there any reimbursement mechanism available to us?

MS. ISHERWOOD: Not as far as I understand. We fund any excess from the regular trust funds for the unemployment benefits.

MR. SPEAKMAN: Okay.

CHAIRMAN SCHWARTZ: All right.

MS. ISHERWOOD: The second project I wanted to give you an update on is the nationwide toll-free service. At the last Board meeting, I did report that we had completed our enterprise rollout by February 24th and at that point, I was only able to provide one month of data from the full nationwide service. Now, today, I have updated statistics that represent the first four months under the new system. These represent operations from March through June of '09. Just some key statistics that I brought with are the average number of calls per day, 6,033; average duration of phone calls to date, about 5.6 minutes; average wait time for calls to be picked up, about 2.07 minutes to date. The range of call volumes per day, going from the lowest to the highest in the four-month period goes from 4,037 on the lowest day in those four months up to 9,493 on the highest day and that actually, I should note, that is with us dropping out the two days at the end of March where we had really abnormally high counts because of system problems. We took those out of the count to make it balance a little more normally. Then the average number of voicemails being left on the system every day is 227. These numbers are only slightly different than the one-month numbers so far. They're staying pretty close in range to what I originally reported. Our highest call volumes to date were during the month of April with a total of 141,700 calls received that month. We did experience a slight drop off in the volume during May but it bounced back up again in June we think probably due to an increase in the Recovery Act calls that were coming in at that point and the high unemployment rates that we're experiencing right now.

Both our customers and our staff, I would say, are still making transitional adjustments as we gain more experience with the new system but we are hopeful that further improvements will be possible as our customers become more accustomed to using the new system and as we are able to hire more staff into our district offices which is a key part of making this whole thing a success.

The third project I want to report on is the document imaging system. You may know that we're nearing conclusion of this two-year project right now. The project was to expand the document imaging system into all of our field offices. We began in late fiscal year '07 with a five-office pilot program which proved successful. So during fiscal '08, we continued with the implementation of 24 additional offices that year. So far this year, we've installed 21 more offices and have three left to go. St. Paul and Duluth will be installed next week. Boston will be done in August. We left Boston for the end because we're getting a new district manager in Boston.

Finally, a brief update on hiring and training in the Office of Programs. At the last Board meeting, I believe I mentioned an upcoming list of training programs we had planned. So at this point, I can report that we've completed two one-week refresher training classes for grade nine (GS-9) claims representatives during June and July. Next month in August, we are hosting a two-week training class for newer claims representatives, people hired into those positions within the last year. We're expecting a class of 15 for that.

For headquarters training, we're in the process right now of announcing our selections for the upcoming retirement and survivor initial training classes. I would like to thank the Board for allowing us to fill additional positions for those classes. That will really give us a good group to get started with this year. We're planning on a class of 12 for retirement and a class of eight for survivor. Of the 20 students, 13 represent external hires new to the agency and seven will be internal promotions. The target date for starting those classes is August 17th.

Finally, we have about 12 managers, new supervisors who are going to be attending the new supervisory training that HR will be conducting in September and those 12 people are mostly from field service but a few of them from headquarters as well from Office of Programs. That concludes my report.

CHAIRMAN SCHWARTZ: Thank you very much.

Frank?

MR. BUZZI: I would like to report on three items, the status of the Railroad Retirement System, the status of the Railroad Unemployment Insurance System and the results of the financial interchange transfer.

First, the Railroad Retirement System. The combined balance in the Railroad Retirement Account, the Social Security Equivalent Benefit Account and National Railroad Retirement Investment Trust, decreased from $33.2 billion on December 31, 2007 to $21.8 billion on December 31, 2008. We estimate that the combined funds had a negative 31.1 percent rate of return in calendar year 2008 which when compared with the positive 7.5 percent return that we expected for 2008 has resulted in our financial condition on December 31, 2008 being worse than expected.

Since our benefit and administrative costs are funded not only through investments and investment earnings but also through future taxes, the loss of our investments will require a greater portion of our future costs to be funded by taxes. This is just what is shown in the 24th actuarial valuation. Whereas in last year's Section 502 report, we did not expect payroll taxes to exceed 18 percent under our intermediate employment assumption, we now expect payroll taxes to reach the maximum rate of 27 percent by calendar year 2026 under our intermediate assumption. In last year's report, we expected no cash flow problem even under a pessimistic employment assumption while in the current valuation, we expect cash flow problems in 2031 under the pessimistic assumption.

CHAIRMAN SCHWARTZ: That's under the pessimistic assumption, right?

MR. BUZZI: That is correct.

At this point, however, there's no need

for the Board to take any action. The pessimistic assumption is intended to be pessimistic and not likely. Even then, there's more than sufficient time to address problems if the need arises.

One interesting ancillary result from our valuation is that we expect the number of employee age retirements to remain relatively high at above 10,000 per year through calendar year 2013 but then to decrease rather steadily until falling below 5,000 per year in 2022. We also expect the number of employee disability retirements to decrease over this period but to a lesser extent.

Next I would like to discuss the Railroad Unemployment Insurance System. The Railroad Unemployment Insurance System is a small fraction of the size of the Railroad Retirement System both in terms of the amount of assets held and the annual expenditures. Since the system is experience rated, the contributions adjust with the lag to changes in expenditures. Because of this lag, the fund balance may decline or even become exhausted in periods of rising benefit claims. This is not a problem, however, as long as the unemployment system can borrow from the retirement system.

In the benefit year ending June 30, 2007, 4 percent of employees with qualifying service and compensation received unemployment benefits. This increased to 8.4 percent in the benefit year ending June 30, 2008, the highest unemployment rate since 1991. In our Section 7105 report, we estimate that the Railroad Unemployment Insurance Account will experience cash flow problems in calendar years 2010 and 2011. This would require borrowing from the Railroad Retirement Account in calendar years 2010 and 2011 with anticipated repayment in calendar year 2011 after a 2.5 percent surcharge becomes effective.

One interesting aspect of the Railroad Unemployment Insurance System which is seen both in past experience and in our projections is that the system does not tend to a stable equilibrium. In periods without a surcharge, contributions tend to be too low resulting in a declining fund balance while in periods with a surcharge, contributions tend to be more than adequate resulting in an increasing fund balance.

Finally, I would like to report the

results of the financial interchange transfer. The financial interchange transfer and the repayment of Treasury advances were successfully completed on June 2, 2009. The Social Security Administration transferred $3.69 billion from the Old Age and Survivor Insurance Trust Fund and $0.45 billion from the Disability Insurance Trust Fund to the Social Security Equivalent Benefit Account. We transferred $0.52 billion from the Social Security Equivalent Benefit Account to the Centers for Medicare and Medicaid Services' Hospital Insurance Trust Fund and repaid $3.56 billion to the Treasury for the financial interchange advances. The net effect of the transfers and repayment was an increase of $48 million in the Social Security Equivalent Benefit Account.

CHAIRMAN SCHWARTZ: Thank you very much, Frank.

Terri?

MS. MORGAN: Good morning. There are two major initiatives I'll be discussing this morning, one is System Modernization Phase One and the second is the Federal Desktop Core Configuration.

Under the Data Optimization Project, we were able to conduct detailed analysis of our data to determine the most efficient representation of that data and establish the optimized master database. However, our application still addressed the legacy databases. We are now in the process of analyzing and reprograming our applications to address the optimized master database.

Phase one of the System Modernization Project has two goals, the first is to convert all existing applications to access the master data tables and the second is to eliminate the legacy tables as soon as they are no longer needed. We've chosen the Medicare applications as the prototype for this phase of the project.

The Medicare modernization initiative will be implemented beginning with phase one when the Medicare application is converted to assess the optimized data in the master database and the corresponding legacy tables are eliminated. Once we've completed the Medicare modernization, we'll be able to better estimate conversions of the remaining applications.

This is an extremely complex process but it will benefit the agency by reducing the demand on the mainframe computer, provide a foundation for improved security and privacy of our data, allow for easier access to data and improve reporting and eliminate the complexity of keeping a master database synchronized with the legacy database.

CHAIRMAN SCHWARTZ: Now, Terri, when we do this, I think you and I discussed this before, though, when we decrease the strain on the mainframe computer, we won't be using as many MIPS then?

MS. MORGAN: That's correct. Our goal is to reduce our requirements in that area. If we continue on the historical path we are on right now, we will be required to upgrade our mainframe computer and software.

CHAIRMAN SCHWARTZ: Because of the software.

MS. MORGAN: Because of software licensing fees. We're hoping by this initiative to reduce those requirements and avoid that cost increase.

CHAIRMAN SCHWARTZ: Very good.

MS. MORGAN: The second initiative, the Federal Desktop Core Configuration is an OMB mandated initiative that requires all Federal agencies to standardize their PCs to defined security configurations. There are approximately 300 settings in the policy to strengthen Federal IT security by reducing opportunities for hackers to access and exploit government computer systems. The standard removes local administration rights and power user rights on PCs. It also allows system administrators to control PC settings to increase security. This major initiative required us to test all of our applications, hundreds of applications, commercial software and hardware to ensure they worked under the new standards and made changes where necessary.

The most notable difference to the user is that the new security settings require that the user's name no longer appear on any log-in screen. So, for example, when you log in, you'll have to enter your user name and password instead of just your password. The settings will log you out after 15 minutes of inactivity and that's a requirement under this initiative and not an option for us to reset.

CHAIRMAN SCHWARTZ: As a matter of fact, it's my understanding that the whole program is a requirement?

MS. MORGAN: The whole program is a

requirement.

And this will prohibit access to some advanced options and administrative privileges by the users.

Remaining areas of implementation for the agency are the Office of Programs (Operations), the Actuary and the Board offices. We also have a few scattered individuals with special needs that we're addressing. We anticipate completion of the project within the next few weeks. Implementation of this initiative will also resolve a number of outstanding IG findings.

CHAIRMAN SCHWARTZ: Okay. Excellent. Thank you very much.

It's time for Henry. I would like to say officially that that was just a tremendous -- you can tell Keith and his staff -- employee recognition ceremony last week. It was very, very well done and it was organized very well. I think that it was -- you know, the people that received the awards were real leaders in the agency and I know my fellow Board members and I have spoken since then and we just all think it was just a great job by Keith and his staff.

DIRECTOR VALIULIS: Thank you very much for the kind comments. I'll make sure that Keith and his staff are made aware of it.

My report will cover the Office of Administration and we'll start off with the human resources activities. We are well under way in implementing the hiring plan that was approved by the Board in April. As Dotty mentioned, the Office of Programs is making selections for the retirement and survivor class positions. Progress has also been made in making selections for at least seven field office claims representative positions at this time.

Regarding the field service nonsupervisory position audit, the on-site reviews and data collection has been completed and human resource staff is now compiling the data.

The Thrift Savings Plan Enhancement Act which was signed recently into law and provides a number of changes to the TSP, Thrift Savings Plan. In particular, this law eliminates the waiting period for employees covered under the Federal Employee Retirement System to receive agency automatic 1 percent adjustments and agency matching contributions. We have 12 new employees who are eligible -- are now eligible to receive the automatic and matching contributions. We're taking the necessary steps to process this change for these employees.

With respect to real property asset management and acquisition management, the General Services Administration awarded a contractor almost $700,000 to renovate the building's freight elevators. We expect work to begin August 10th and to be completed by November of this year. Arrangements are being made to stock up on bulk delivery items such as paper before the freight is taken out of service.

A new contract for building security services was awarded to ELA Security, the incumbent firm. Initial pricing is slightly less than the contract pricing. Debriefings were also held with the firms that submitted proposals and were not awarded the contract.

Acquisition and information services staff are evaluating proposals for IT disaster recovery services. We expect to award a contract by September or sooner.

With respect to public affairs and, specifically, the draft of the 2009-2014 strategic plan for the agency, it's now posted on Boardwalk with an invitation that public comments will be accepted until August 14th. The first batch of letters to other federal agencies seeking comment from other external stakeholders has been released. The final batch -- or the next batch to the Congressional offices is ready to go and the Office of Legislative Affairs will be releasing those. We've also set up a group mailbox to accept comments from the public or any other external stakeholders.

CHAIRMAN SCHWARTZ: Thank you very much.

Steve Bartholow from legal?

MR. BARTHOLOW: From the Office of General Counsel, there are four subjects that I'd like to address this morning. The first subject is tax refund litigation under the Railroad Retirement Tax Act. The second subject is litigation before the United States Courts of Appeals involving appeals from the decisions of the review. The third area is employment law cases. The fourth area that I'll discuss briefly is current legislative issues.

In the area of tax litigation, tax litigation, as you all know, involves taxes under the Railroad Retirement Tax Act which is administered by the Internal Revenue Service. This litigation is handled by the Department of Justice and, although, the Board is not a party to tax refund litigation under the Railroad Retirement Tax Act, we certainly have an interest in this litigation and we need to provide advice and assistance to the Department of Justice in connection with tax refund litigation.

Over the past several years, we have been involved in several significant tax refund cases, most notably claims brought by the CSX Corporation to refund the taxes paid with respect to severance payments and certain other employee guaranteed payments. The claimed refund amount was approximately $100 million not including interest. This litigation, which dragged on for several years, in fact, about 13 or 14, I believe, was concluded in March 2008 when the United States Court of Appeals for the Federal Circuit ruled in favor of the government. The court's decision in the CSX litigation has had an impact on several other similar refund cases brought by railroads.

In March 2009, the United States Court of Federal Claims entered judgments dismissing claim refunds of railroad retirement tax in two cases involving the Illinois Central Railroad and in one case involving the Grand Trunk Western Railroad. Together, these three cases involved claimed refunds of $6.44 million not including interest.

At the present time, we have two pending tax refund cases that involve claims similar to those involved in the CSX case. These two cases involve tax refund claims originally filed by the advocacy 2000 Sante Fe Railway and the Southern Pacific Railway. The total amount of the refund in these two cases before the Federal Claims Court is $80 million, again, not including interest.

The majority of the amount claimed in these cases involves separation payments and guaranteed payments and will be controlled by the CSX litigation. However, in both of the cases, there's a very small amount claimed that involve certain refunds -- or taxes paid on certain moving expense allowance. The Department of Justice has advised us that they expect these cases will be resolved in the very near future.

In the area of appeals from Board decisions, this is a really unusual time, I think, perhaps the first time in my career we actually have no appeals from Board decisions pending right now. As you know, the Board is represented in these cases by attorneys in the Office of General Counsel and our people do a very, very good job and have been very successful in handling these cases.

CHAIRMAN SCHWARTZ: Excellent.

MR. BARTHOLOW: In first nine months of this fiscal year, we have closed out four appeals, all of them decided in our favor.

In the employment law area, the Office of General Counsel does represent the agency before both the EEOC and the Merit System Protection Board. This fiscal year we have two actions -- or we had two actions filed against the agency, both before the EEOC. One action was brought by a former employee of the New Orleans district office who alleged that her resignation had been coerced. We filed a motion to dismiss in this matter for lack of jurisdiction and untimely filing. The administrative judge announced during the prehearing conference on May 4th that she would grant the agency's motion to dismiss for lack of jurisdiction. On June 18, 2009, the judge issued a written decision dismissing that case.

The second action was filed by an employee in a field office alleging race and age discrimination in connection with the filling of a network manager position. This case has not yet been docketed or assigned to an administrative judge so I have nothing further to report on that.

As you know, legislation is handled by our Office of Legislative Affairs in Washington, D.C. This has not been a particularly busy year on the legislative front but there are a couple of matters that are worth mentioning.

Ken Boehne mentioned the appropriations situation. As you know, Margaret Lindsay, our director of legislative affairs, monitors this area very, very carefully. She will be attending the Senate markup which is scheduled for next -- on July 28th.

Legislation has been introduced in the House to name this building, as you know, the William O. Lipinski Federal Building. This legislation has been approved by the Transportation and Infrastructure Committee and is pending action by the full House. Margaret Lindsay reports that this could come up as early as this week in the full House.

One other item that's worth mentioning is legislation has been introduced in both the House and the Senate to phase out the 24-month waiting period for Medicare applicable to disability beneficiaries under age 65. This would be an important change -- or big change. To date, there has been no further action on either of these two bills. That concludes my remarks.

CHAIRMAN SCHWARTZ: Thank you very much.

We have another agenda item. Mr. Kever, this is your agenda item. Would you like to start the discussion, please.

MR. KEVER: You'll notice I put this item on the agenda for discussion today because I believe that the Board has the fiduciary duty to take notice of the SSA's OIG quick evaluation report, as I call it, and to seriously consider some of the issues it raises. I don't have any particular proposals from any Board members today but I believe this is the sort of issue that we need to address in a public forum.

This particular report focuses mostly on the ways that Social Security can strengthen its own controls and quality assurance but I'd like to hear any impressions that the director of programs and the chief actuary have as to any findings that may have implications for our RRB quality assurance, the stewardship of the disability program. I'd like to ask Dotty if she would give us an overview of where they stand, any major findings that they have, give us your thoughts. Then after Dotty gives her report, I would like to hear from Frank and then we can maybe have questions.

MS. ISHERWOOD: The Social Security quick response evaluation report was issued on May 12th. In general, what the report concluded was that their IG, Social Security's IG, found a number of areas related to program oversight, policy and procedures where they believe that stronger controls and better documentation could help to mitigate risks to the Social Security Disability Insurance Trust Fund. That was the focus of the report. It did not contain any specific recommendations but it did generate a number of specific action items that we and Social Security are following up on. Social Security and RRB have established a joint work group to address those items.

So the first of the specific items is that the report pointed out a need to update the 1987 memorandum of understanding between RRB and SSA and our staff and staff from Social Security at the Great Lakes Processing Center are currently reviewing that MOU which covers dual eligibility and joint disability freeze processing. We're doing an assessment to identify areas that need updating or modification. That's going on right now.

The second action item, the report pointed out a need to review and update procedures both at RRB and SSA covering disability processing in RRB cases. RRB staff is currently reviewing our procedures as well as SSA's procedures to assess and determine what areas need to be updated. The results of that review will also be used to give us ideas or areas that might need to be included in the MOU when that's developed.

Social Security on their side is working on drafting changes to their internal procedures which involves getting input from various components at SSA as well as from RRB. They've assured us that they will give us an opportunity to comment on any new procedures they develop before they're finalized.

The third item is that Social Security wants to initiate some new data exchanges with RRB, similar to those that we've established with them. They're interested specifically in access to systems that we have such as MOLI, PREH and DATA-Q.

Fourth, the SSA wants RRB to give their employees access to our Prism system which is the system that houses our procedure manuals. This was the topic of discussion at the June teleconference work group meeting. In consultation with BIS, it has been determined that select SSA employees could be given access to all of our procedure manuals with the exception of the manuals dealing with BIS processes. That would be corollary to the way they've given us access to their manuals at SSA. We're currently waiting for the official response from SSA to initiate that.

The work group is scheduled for the next conference call on July 30th at which they will continue the discussions on the MOU and the procedures that have been under review.

This report, as Mr. Kever mentioned, also included a couple of action items having to do with financial interchange and I'm going to turn this over to Frank to discuss those.

CHAIRMAN SCHWARTZ: Frank?

MR. BUZZI: There were two recommendations in the report which directly address the financial interchange. The first was to have the Great Lakes Program Service Center review the financial interchange benefit calculations. These reviews were done on a somewhat regular basis in the past but there have been no reviews since June 2002. In the past, SSA would initiate the request for the review and we would accommodate them. At this point, we are waiting for SSA to inform us that they wish to perform another review.

The second recommendation was for a separate MOU to cover the financial interchange process. This recommendation should have no impact on the financial interchange calculations. Since all of our agreements with SSA regarding the financial interchange are already documented in the annual financial interchange books, there is, in my opinion, no real need for an MOU, but there's also no harm in having one. At this point, we're waiting for SSA to contact us to formally address this issue.

CHAIRMAN SCHWARTZ: Thank you very much.

Mr. Kever, would you like to follow up?

MR. KEVER: Is this the first time the SSA has been allowed access to our databases? Do they have any other access?

MS. ISHERWOOD: We have data exchanges with them and we send them data. I think this might be the first time that they're going to get online access to certain systems. That's my understanding. We have got online access to their systems for many of our staff right now.

MR. KEVER: Any legal issues with that, Steve?

MR. BARTHOLOW: No. The statute covers that.

CHAIRMAN SCHWARTZ: I believe you said limited. It's going to be limited to certain people?

MS. ISHERWOOD: That was specifically in terms of the access to our procedure manuals. Our procedure manuals are currently online available to the public, most of them, but there are portions of them that are only available internally and that's what we would limit-that access to select employees from Social Security.

CHAIRMAN SCHWARTZ: I understand.

MR. KEVER: My question is for Frank. You said the last review done by them was 2002. What was their usual pattern prior to that? Do we know?

MR. BUZZI: I would say every year or two.

MR. KEVER: Why did it change?

MR. BUZZI: I think there might have been a change in staff.

CHAIRMAN SCHWARTZ: Mr. Kever, any follow up?

MR. KEVER: No.

CHAIRMAN SCHWARTZ: I think everybody gave very good reports today. They were very thorough.

Any questions about any reports, Mr. Kever?

MR. KEVER: Well, I think this is good because that way, we can interchange with them rather than just reading administrative reports from that perspective. That's what I like this about.

CHAIRMAN SCHWARTZ: Thank you very much. We're done.

(Whereupon, the proceedings concluded at 10:45 a.m.)

STATE OF ILLINOIS)
) SS:
COUNTY OF C O O K)

Liza Marie Regan, being first duly sworn, on oath says that she is a court reporter doing business in the City of Chicago; and that she reported in shorthand the proceedings of said hearing, and that the foregoing is a true and correct transcript of her shorthand notes so taken as aforesaid, and contains the proceedings given at said hearing.

RealLegal Notary for E-Transcript

Certified Shorthand Reporter

U.S. RAILROAD RETIREMENT BOARD

REGULAR BOARD MEETING ORIGINAL

April 22, 2009

STENOGRAPHIC REPORT OF PROCEEDINGS

had in the above-entitled matter held at 844 North Rush Street, 8th Floor, Chicago, Illinois, at 10:01 a.m., MR. MICHAEL S. SCHWARTZ, presiding.

PRESENT:

MR. MICHAEL S. SCHWARTZ, Chairman
MS. NANCY PITTMAN, Assistant
MR. STEPHEN W. SEIPLE, Assistant

MR. JEROME F. KEVER, Management Member
MR. ROBERT PERBOHNER, Counsel to the Management Member
MR. JOSEPH M. WAECHTER, Assistant
MS. ANN CHANEY, Attorney Advisor

MR. V. M. SPEAKMAN, JR., Labor Member
MR. JAMES C. BOEHNER, Assistant
MR. MICHAEL J. COLLINS, Assistant
MR. THOMAS W. SADLER, Counsel to the Labor Member

McCorkle Court Reporters, Inc.
Chicago, Illinois (312) 263-0052

BOARD MEMBERS PRESENT: (Cont'd)

MS. BEATRICE E. EZERSKI, Secretary to the Board

MR. HENRY VALIULIS, Director of Administration/Senior Executive Officer

MR. STEVEN A. BARTHOLOW, General Counsel

MR. KENNETH P. BOEHNE, Chief Financial Officer

MR. FRANK BUZZI, Chief Actuary

MS. DOROTHY A. ISHERWOOD, Director of Programs

MS. TERRI S. MORGAN, Chief Information Officer

MR. MARTIN DICKMAN, Inspector General

MS. PATTI MARSHALL, Attorney Advisor

MR. WILLIAM TEBBE, Assistant Inspector General for Investigation

MR. KEN JONES

REPORTED BY: Brenda S. Tannehill, CSR, RPR, CRR

LICENSE NO. 084-003336

CHAIRMAN SCHWARTZ: Welcome, everyone.

I think I'd like to start off with some reports from the Executive Committee, which is why I called the meeting, to get some updates on the status of their projects. So if I could start with Steve Bartholow, please.

MR. BARTHOLOW: You may, Mr. Chairman.

I just have two matters that I thought would be of interest to the Board this morning. The first one is basically the situation we're in with respect to regulations.

As you know, Chief of Staff Rahm Emanuel issued a memorandum on January 20th imposing a moratorium on agencies publishing proposed and final regulations until regulations are approved by an appointee appointed after noon on January 20th, in other words, a President Obama appointee.

We, of course, do not have an appointee appointed after noon on January 20th so we have not been able to move any regulations forward up to this point in time.

They extended that moratorium also to what's called the Semi-Annual Agenda of

Regulations Under Review. That's the agenda we publish twice a year in the Federal Register basically letting the public know what we're doing in the regulation area.

We have drafted that agenda, and we actually have been asked to submit it to GSA who undertakes the publication. They've worked with OMB, and it will be published in the Federal Register on May 11th, as we understand it now.

With respect to proposed and final regulations, however, we're still in the same situation we were in as soon as we received Rahm Emanuel's memorandum.

We did prepare for board approval and the Board did ultimately send in a letter to the Director of OMB asking for an exemption from the moratorium. We sent that in, I believe, on January 29. We haven't heard a response back from OMB on that to date.

We have followed up with our regulatory review person at OMB and still have not heard anything back from her on that, either. We will follow up again, and hopefully, we'll work out something so that we can move regulations in the interim.

The only one that's really affected at this point in time is what would now be a final rule to amend Part 220 of our regulations to remove the listing of impairments. It's a pretty important rule, but you know, we're able to operate, obviously, without that going final at this time. But as I said, we will continue to follow up on that and let the Board know what we hear.

CHAIRMAN SCHWARTZ: Okay.

MR. BARTHOLOW: The other item is the videoconference hearing program in hearings and appeals. I think you're all aware that we have been doing that now for probably a year and a half or so.

We have purchased and have in place videoconference equipment on the fourth floor. That program has been growing. I'd say it's quite successful. The equipment is working well, although we did have some technical difficulties for a while, but it's operating well now.

The number of hearings continues to

increase. Last year, we had 50 hearings conducted by videoconference. That's compared to 63 that were face-to-face hearings.

The main obstacle right now to increasing the number of videoconference hearings is probably that we use Fed Ex/Kinko's facilities on the other end for these hearings. And we have about 110 stores nationwide that we can contract with, but they're not widespread and they're not available in some rural areas so a lot of our appellants simply cannot get to a Fed Ex/Kinko's facility for the conference.

But the hearing officers like them very well; the claimants are very satisfied. They're good in two ways. They expedite the handling of a hearing.

When we have to do person-to-person hearings, we normally wait until we have two or three hearings in a particular city so that we can reduce the cost of travel to conduct the hearings. With videoconference capability, we can basically conduct the hearing as soon as it's ready for hearing. So it gets the people into the hearing quicker, gets the case resolved quicker. It serves everybody's needs.

It also saves time for hearing officers. There's a lot of time spent traveling, especially if you go to the West Coast or something to conduct a hearing. That's all dead time, wasted time. We don't have that anymore except to the extent that we're still doing a few of these things person to person.

But it's been a very, very good program, and we're looking to expand it as we go forward.

Thank you.

CHAIRMAN SCHWARTZ: Thank you, Steve.

Ken Boehne, it looks like you have some budget updates.

DIRECTOR BOEHNE: I was going to speak briefly about the 2009 budget and 2010 budget and also our efforts which have just begun with regard to the Fiscal Year 2009 Performance and Accountability Report.

On the 2009 budget, we met with Mike Gentili and actually went over that with him to get some idea of background on the agency's budget. He is the new staff member with the

House Appropriations Subcommittee.

And as we explained to him, there's two overriding issues facing the agency. One is maintaining a staffing level to ensure we have adequate succession of the agency's aging work force, and the second one is having sufficient funding to strengthen our technology infrastructure and also modernize our information technology systems.

For fiscal year 2009, we're funded at $105,463,000, and that's the appropriation. Obviously, we also get additional money through reimbursements. This amount allows us to fund 910 FTEs.

Last year, we spent 918 FTEs, and the year before, in 2007, we spent a total of 927 FTEs. And as you know, since 1993, our FTE level has dropped by 46 percent. We went high at that point at 1,698 FTEs, and that takes us down to the 910 we were able to fund this year.

So really, with this budget, it will really help our succession planning efforts. We should be able to hire 36 additional people this year. We're currently spending at a rate of 892

FTEs as of the pay period that ended on March 28th.

As you know, 30 percent of our work force is currently eligible to retire, and our average age is about 50. You can look around the room and see that we fit right into the average age.

The compensation and benefits is about 80 percent of our budget, and again, that obviously is one thing that we're very concerned about being able to maintain and replace the people who are leaving.

CHAIRMAN SCHWARTZ: Right.

DIRECTOR BOEHNE: The budget this year also allows us to spend about $2 million for the agency's IT capital plan investments. And most of this funding will be spent on network operations and infrastructure replacement as well as information security.

At the same time, we'll be able to initiate work on the system's modernization which I think Terri will about talk about briefly. And it also will allow us to continue our efforts on e-Government which is really continuing to enhance our IT exchanges with railroads on their reporting and information.

With regard to fiscal year 2010, we're currently preparing the Congressional Justification Document. We hope to submit that to the Executive Committee later this week and to the Board Members next week. That will be due to the Congress about the time that the President issues his detailed budget. I don't have a firm date as to when that's going to take place. They're saying it will be sometime in May, most likely.

The final passback was a very good passback by OMB. It was $109,073,000. That's an increase of $3,610,000 over fiscal year 2009. That will fund 920 FTEs. That will allow an increase. If that actually comes about, it will be the first increase at least since 1993 in the FTEs. Each year, we've had at least some reduction in FTEs since then.

It will also provide over $1.6 million for IT which includes $250,000 for replacement of IT equipment, also $250,000 for getting contractor assistance for that employer reporting system and other information technology initiatives, 375,000 for information security and privacy, 336,000 approximately to continue the systems modernization, which we see that as a long-term proposition, and 240,000 for the Continuity of Operations Initiative as well as 200,000 for the Federal Financial System Conversion Study.

With regards to the Fiscal Year 2009 Performance and Accountability Report, as you know, we've had unqualified or clean audit opinions on our financial statement since fiscal year 2000. In its audit of the 2008 statements, the Office of Inspector General reported a material weakness on financial reporting and a significant deficiency regarding the reconciliation of benefit payment subsystems with the general ledger.

That office made its recommendations in its March 24th, 2009 letter to management concerning these two matters. I've discussed that letter with the manager, supervisor and reviewers in BFO's Accounting, Treasury and Financial Systems Division and told them my theme with them when I met with them was we can do better than this.

They assured me that they would complete action on all eight recommendations within the next few months.

On April 13th, OIG held its opening conference on the 2009 financial statement audit, and during that meeting, the supervisory auditor advised us that depending upon what they find during the audit, the material weaknesses and deficiency could be removed this year.

CHAIRMAN SCHWARTZ: Good.

DIRECTOR BOEHNE: So I've asked the staff to do the very best they can to bring this about, and I continue to stress with them the need for attention to detail.

CHAIRMAN SCHWARTZ: Okay. Thank you very much, Ken.

And parlaying a bit off of Ken's report, Henry, would you give us the status on the hires? Ken said we'll be able to hire some people this year. And then any other issues on procurements or labor relations or anything going on in your shop, please?

DIRECTOR VALIULIS: Certainly.

As a follow-up on the status on new hires following the Board's recently-approved proposed FY 2009-2010 hiring plan, we plan to conduct 36 hires through the end of this fiscal year with Programs representing the highest number with 24, with 11 of those for the field service and the remainder for claims-examining classes.

The field service positions have all been posted by the Office of Personnel Management, and we are waiting for the registers to be processed.

The claims examiner jobs were also recently posted internally and also on USA Jobs. We've had over 500 applications filed in one day for the claims-examining positions. These applicants will be ranked and tested in May, and the class is expected to start in July.

We also have ten positions for the Bureau of Information Services. Four positions are to be filled within the next few weeks, and the remainder to be posted and filled by the end of this fiscal year.

In addition, the Board approved 41 hires for next fiscal year, and the Bureau of Human Resources will not wait till the end of the year but will begin work on those positions prior to the end of this fiscal year. It does take quite a while to go through the process of posting and competitively filling these positions so we'll begin work right away.

CHAIRMAN SCHWARTZ: Okay.

DIRECTOR VALIULIS: As far as the position classification audit of non-supervisory positions in the field, the Bureau of Human Resources started that project recently.

We already have representatives or staff from Human Resources traveling to various field offices. They intend to visit at least 17 of our 53 offices representing a variety of sizes and locations. The fact finding is expected to conclude sometime in June, and recommendations are expected before the end of this year.

The status on major procurements, right now, there are three major procurements that we're working on.

The building security contract, this is basically a replacement of the current contract that will be expiring at the end of July. Our requirements have been posted on FedBizOpps. It has been designated as a small business set aside contract, and we expect the contract to be awarded competitively before the start date of July 30th, 2009.

The Information Technology Disaster Recovery Services has also been posted. The Notice of Intent to Solicit has been placed in FedBizOpps. The agency is seeking a disaster recovery support services contract for its mainframe network and data communications capabilities which will be effective October 1, 2009.

The final procurement activity or major procurement activity is web hosting services. The agency's current web hosting services will have to be -- the services will have to be competed under a new contract under the GSA Networx contract. Our requirements have been put together and have been submitted to GSA for comment at this time. We expect that contract to be awarded sometime by the end of the fiscal year.

The final item is the labor relations activities. We're working on a number of agreements. We're close to closing on two of them. One is dealing with the new smoking policy for the building which will reflect the new federal regulations essentially prohibiting smoking in federal office space.

And then the second agreement will deal with work at home, essentially requiring employees that work at home and who deal with personal identifiable information will have to make use or be required to make use of agency-supplied, secured laptop equipment.

CHAIRMAN SCHWARTZ: Okay.

DIRECTOR VALIULIS: That's it.

CHAIRMAN SCHWARTZ: Thank you very much.

Now, Terri, it looks like a lot of the budget issues deal with you on your IT strategic plan and system modernization issues so if you could update on those, that would be great.

MS. MORGAN: Sure.

The two areas I'll be discussing this morning is the Strategic Information Resource Management Plan. This is something that we do as an agency but also that's required with our OMB budget submission this year.

Right now, we have a project plan that's been completed, a list of tasks, responsible organizations and dates of activities.

An outline follows the existing information resource plan that's been published so we're following the same format as we've used in the past. Sections of the plan have been distributed to various teams to work on and will be reviewed by the EC.

The dates that we have, the final date for the plan is expected to be finished beginning part of July. It should go to the Board for review the middle of June and to the EC at the beginning of June so we'll have the sections completed and then reviewed by the EC and then the Board in time for the budget submission.

The System Modernization Initiative is

integrated into the strategic IRM plan, as you'd expect. And also, infrastructure improvements are also part of the plan.

With the System Modernization Initiative, the goal there initially is to adapt to reduced staffing levels within BIS and with goals of reducing the maintenance initiatives that we -- 80 percent of our programming is in maintenance, and we need to reduce that to be more flexible and responsive to our communities such as Programs who is our biggest user. We need to be more responsive to them, and we can't do that if we have such a high maintenance percentage.

So those were the initial goals of the System Modernization Project.

We've issued a technology paper. We've done an extensive amount of research involving best practices and programming initiatives that are taking place.

Now, a lot of our legacy systems are very old so they're done in a more antiquated style of programming than what's common these days so we've done a lot of research in best practices. And we'll be testing those with our initiative for the Medicare program. We'll be revising that application and using that as a proof of concept for these technologies that we've researched.

CHAIRMAN SCHWARTZ: Okay.

MS. MORGAN: There's three parts to the technology document that we've issued, and the first one is to eliminate the legacy mainframe databases.

As you know, last year, we did an initiative where we optimized our data and created a master database.

We still have the legacy databases in existence because our applications still address those legacy databases so one of the initiatives that we want to take care of -- the technical initiative we want to take care of, first of all, is to get rid of the legacy databases and have the applications address the master data so we don't have to keep those two coordinated, which is difficult technically to do.

The second phase is the use of Business Objects to expand the use of Business Objects against that master data. Now that we have one master database and our data is not stovepiped, we can do business analysis across data lines so tax and unemployment and whatever you want to look at can be analyzed.

And Business Objects is a wonderful tool to use for that. It allows 20 percent of our programming initiatives or reports so it will reduce, again, the maintenance of our application development staff.

We can use the Business Objects technology, and that actually allows users to create their own ad hoc reports against all the master data. So it's much more responsive to their needs as well as reducing the maintenance initiatives on business.

CHAIRMAN SCHWARTZ: Very good.

MS. MORGAN: The third phase of this is performing a risk analysis of all our existing processes and applications.

Although we decided to choose Medicare as our initial application as a proof of concept, we have many other applications that are supported by the agency legacy applications so I want to take a thoughtful approach to how we modernize those. So we're looking at the risks associated with each of those applications, and we'll put those on a scale and develop our plan on how we want to tackle the applications based on a risk-based approach.

CHAIRMAN SCHWARTZ: Okay.

MS. MORGAN: That will also give us a list for the next phase of the system modernization which is actually after we get done with Medicare deciding what applications we'll modernize in what order.

The three objectives, the COBOL reporting, the elimination of the legacy databases and the risk analysis, are all being done at the same time, and that's being headed up by our project management staff and BIS.

CHAIRMAN SCHWARTZ: Thank you very much.

MS. MORGAN: Sure.

CHAIRMAN SCHWARTZ: Frank.

DIRECTOR BUZZI: We have three projects we'll be completing soon. The first is the 57th Financial Interchange Determination. Work on the determination is going on schedule, and we expect to have results to you by May 1st.

The determination is calculated with interest through June 2nd so it's important to bear in mind that leaves roughly one month for the Board first to approve the determination and then for SSA and CMS to approve it and then for the certification to go to the Treasury.

The second item is the 24th actuarial evaluation of the Railroad Retirement System. Work on that is on schedule. We've tentatively scheduled a meeting with the Advisory Committee for May 27th. If all goes well, we will provide you with the report along with the Advisory Committee statement by June 1st. The report is due to the President and the Congress by July 1st.

If any of the Board Members are interested in meeting with the Advisory Committee, please let me know.

CHAIRMAN SCHWARTZ: All right.

DIRECTOR BUZZI: Given declines in trust funds, you may have some questions for them.

Finally, the 2009 Section 7105 report on the RUIA system. We'll start work on that in the next few weeks, and we anticipate no problems in getting the report to you by June 1st. And that report is due to Congress by July 1st.

CHAIRMAN SCHWARTZ: All right.

DIRECTOR BUZZI: And that's all.

CHAIRMAN SCHWARTZ: Thank you very much.

Dotty in Programs, you have a lot going on. I'm sure we're all interested in how the toll-free operations are going, to start off with, and then if you'd just continue with other projects, please.

MS. ISHERWOOD: Okay.

On February 24th, we completed the enterprise rollout of the new Nationwide Toll-Free Service. We also call that the NTFS.

This initiative does represent one of our most strategic changes that we've made probably that I can remember in a long time for quite a few reasons, but I just wanted to talk about three of the reasons this morning. I'll mention those, and then I'm going to give you some preliminary numbers from the new system.

The first notable aspect of this project is that we broke some ground with GSA in awarding our contract to Qwest Communications. This was one of the first federal contracts granted under the new GSA Networx Universal Contract framework for the federal government which replaced the FTS 2001 framework. So I think both the RRB and probably GSA learned a lot going through that process as we entered this contract.

Secondly, we were able to leverage our opportunity with the toll-free system project coming up to replace our existing frame relay data network with a new MPLS network which combines voice and data in one network. So that's a technological improvement in some ways that's really strategically important to us because it provides us with a better foundation to add new customer features and new service enhancements to the toll-free system in the future. So that was a key aspect of this project.

And third and probably most importantly to the Office of Programs from an operational point of view, Toll-Free has come to us at a key point in time because, given the reduced staff levels that we've all been talking about this morning in many of our field offices, Toll-Free gives us a way to balance better our work loads between those offices, make more equitable distribution of work and also to help guarantee or help at least give our customers a better chance at having their telephone calls answered on the first attempt.

Also, we've found that there's been a significant decrease in the number of voicemails left since the toll-free service has been available.

We still are making many adjustments to the system. Our customers are still getting used to it, our staff is still getting used to it, and our management staff is still getting used to it. And we will continue making adjustments as we learn more and gain more experience with the system.

But I can provide you with some

statistics today from the month of March. That's the first full month that we've had the whole country up and running on Toll-Free. So the average number of calls per day during the month of March was about 6,200. The average call duration period was about five and a half minutes. The average wait time for calls to be picked up by a customer service representative was about 1.8 minutes.

The range of call volumes from the low to the high: The lowest day in March had 4,373 calls come in, and the highest day had 16,906. And that's a very big range, and there's a reason for that. It has to do with some network problems and issues that were happening here at Headquarters at the very end of March for two days. We had some very unusually high traffic on the toll-free system during the end of March.

And the last number I brought with me was the average number of voicemails left enterprise-wide on a daily basis, which was 245.

So kind of interesting. We don't have any long-range averages yet, obviously. We'll be tracking and monitoring this as time goes on.

CHAIRMAN SCHWARTZ: Okay. Thank you.

MS. ISHERWOOD: The next major initiative I wanted to mention is the Employer Reporting System because also in February this year, we rolled out a new e-Gov service to rail employers. It's a new phase of the Employer Reporting System. And this provides an additional automated method for employers to receive and respond to prepayment and post payment verification notices in unemployment and sickness cases.

So far, the service is being used by two railroads, Amtrak and the Kansas City Southern. And the new process has proved to be more efficient for both the agency and the employers so far because it eliminates the mail-in process; it eliminates paper handling from the process. It also can potentially reduce improper payments, and it can safeguard customers' personally-identifying information better than paper can. And finally, it does create opportunities for improved timeliness in delivery of benefit payments. So we're seeing a lot of benefits from this.

With the two railroads currently using the system from February 17th through March 31st, there's been over 6,000 transactions just from those two.

We're currently working with two other railroads who are expressing a strong interest in signing up and participating, and we will be sending out some marketing materials soliciting interest from other railroads shortly, probably later this month or early next month. So we will be rolling it out on a gradual basis to employers as they choose to sign up.

CHAIRMAN SCHWARTZ: Excellent.

MS. ISHERWOOD: Next, I was going to mention our Office of Programs training plans.

Given that we got our budget so late this year, we're compressing our training schedule into the second half of the year, and it's a very ambitious training schedule. And I thought you'd be interested in hearing what we've got on the books.

In early June, we will be having a retirement post adjudication training class. That's a small group. It will be just five people who will be newly promoted to Grade 10 level jobs.

June 8th to 12th and July 13th to 17th, we have scheduled two Advanced Claims Representative classes. Those are going to be for 16 CRs in each class coming in from the field offices. Those classes are aimed at Grade 9s and 10s. These groups will be mostly Grade 9s, I believe, and they're for experienced CRs who are in need of refresher training.

August 3rd to 14th, -- that's a two-week period -- we're having a New Claims Representative class. It's a two-week, in-depth introductory class for people who have been hired in the last year or so. We have about 16 more students coming in for that class.

September 14th to 18th, HR and the Agency Training Council are planning new supervisory training. We'll be bringing in about 12 new supervisors from field offices for that, and we have another small group from Headquarters and Programs that will be attending that agency-wide class.

And then finally, as was mentioned

earlier, the Board just recently approved the hiring of classes for Retirement Initial and Survivor Initial Claims Examiners, and as Henry described, the recruitment process is well under-way for those classes. We don't have an exact date when those classes will start up, but we are aiming for mid to late summer at this point.

So quite a lot of training is going on. And actually, that leads to my next topic which is very brief, just training of a different sort.

We're also working very closely with the Management Members' Office on the upcoming National Rail Employer Training Seminar which is now scheduled for August 26th through 28th, and it will be at the Wyndham Hotel on North St. Clair Street. And we work very closely with the Management Members' Office in preparing for this meeting. It's meant for individuals who manage records of service, compensation and contributions paid to the RRB and related areas. So that will be this summer.

The final topic that I had this morning is our big ongoing project right now, which is the American Recovery and Reinvestment Act of 2009.

As you know, the RRB has two main program provisions that we are responsible for implementing under that law. The first is the economic recovery payments which are one-time payments of $250 to eligible individuals under the Railroad Retirement Act.

We are also responsible for extended unemployment benefits which are going to be paid to eligible individuals who have exhausted their regular unemployment benefits under the RUIA.

For the economic recovery payments, we're working very closely in coordination with Social Security, VA and the Treasury because the law requires that individuals may only receive one of these $250 payments regardless of how many benefits they might be entitled to under the various agencies.

Last week, on April 14th, we completed our data match with Social Security, and we now have a file of approximately 517,000 beneficiaries that we know will be included in our initial payment run. We'll be sending those individuals advance notices at the end of this month telling them what to expect and that their payments should be coming by the end of May.

Then after that point, we will be doing catch-up operations on probably a quarterly basis to catch anybody who comes on the rolls later than this who will still be entitled to those benefits. Those quarterly operations will continue until December of 2010, which is the ending date under the law.

So the expected cost of this program is approximately $135 million for the benefit payments and $1.4 million in administrative expenses needed to carry it out.

Then the second part of the program, the extended UI benefits, is a different kind of project. It requires complex programming changes to our normal UI systems.

And we did send a report to the Board last week that explained and kind of outlined all the requirements and the time frames that we're expecting to be able to meet for that.

I don't really want to go into all of these requirements again, but to keep it short, the principal complexities involve the fact that these claims are not to be experience rated (the special claims), and that the accounting has to be extremely detailed to keep the special extended UI money separate from our normal UI money. So there are some accounting complexities involved in the systems that we have to be very careful about.

We are planning right now to issue advance notices to people who are eligible for those benefits as well, and hopefully, in the next week or so, we plan to send the Board an advance copy of the language that we'll be using for that notice.

We would like to give eligible individuals an understanding of when we're going to be able to pay their benefits. And then on a weekly basis after that initial notice is sent out, we'll send notices to anyone else who becomes eligible after that.

The law provided for $20 million in benefit funds for these unemployment benefits, and the latest date that an extended benefit period under these special provisions can begin is December 31st, 2009, or payments will stop when the $20 million has been expended, whichever comes sooner.

And before I end this report, I would just like the Board to understand what an agency-wide effort this project has been and will continue to be. This is not just a Programs initiative.

And I'd actually like to express my appreciation to all the people who have helped on this, including or starting with the Office of Administration because they have supported us in the printing contracts, the mailing of the notices, establishing postage, preparing press releases and other information for the public.

The Office of General Counsel has provided us with numerous legal opinions and continuing legal advice throughout this entire process.

The Bureau of Fiscal Operations has helped us in all financial matters including preparing detailed weekly reports, establishing new Treasury accounts and preparing cost accounting support for this, what we need to keep track of.

The Actuary's Office has prepared special projections and outlay reports related to the Recovery Act.

And lastly, the Bureau of Information Services has done all the programming and is continuing to do the programming and has also provided us with a lot of support on the new Recovery web page that we had to establish and in getting all of our reports posted under the law.

So I do thank everybody for their help.

CHAIRMAN SCHWARTZ: Thank you for that report.

Mr. Kever, Mr. Speakman, before we go to the second item, do either of you have any questions for the Executive Committee on the reports?

MEMBER SPEAKMAN: No. I think they've been very helpful and informative.

MEMBER KEVER: I would like to echo Dotty's thoughts about everybody being helpful. It just shows you the brain power we have here and why we need to make sure that we have succession planning in place when, as Ken pointed out, there's some age in this room that may be gone at some point, and we want to make sure. I'm the oldest one here so I can say that.

I also had a question for Ken. The 200,000 that you had for the financial statement, is that the one that we've been batting around for the last couple of years and now it's mandatory almost?

DIRECTOR BOEHNE: That's the one that we'd put in the agency request, and then to the extent that there is sufficient funding, we would have done it or not done it, depending upon where it's hit on the priority list and when it comes down to the IT capital plan.

That's the one that OMB supported in the passback, kind of an earmarking passback that they wanted to make sure that the agency at this time set aside funding for it.

The idea of the study is basically to take a measurement of where our system is now compared to what it would be converted to and then what's the most cost effective one of the new systems to go to, whether we just simply take FFS and go to Momentum or would we go to one of the other ones that have been cleared by OMB.

So that study then will lay that out, and then we'd have to ask for additional money to actually make the conversion.

MEMBER KEVER: Okay. Thanks.

CHAIRMAN SCHWARTZ: All right. With that, we'll move to Item 2 on the agenda, and the Management Office has that so Mr. Kever, would you go ahead and handle Item 2?

MEMBER KEVER: Thank you, Mr. Chairman.

This covers the personnel changes in the Newark and the New York City offices.

I placed this on the agenda today so that I could reiterate again my position concerning the circumstances upon which the Board should consider consolidating field offices.

The current situation in New York City is another example of an opportunity for this Board to consolidate an office which will have little or no deterioration in customer service, at least in my opinion.

New York City's district office staffing is down to two employees. Rather than re-assigning the manager from Newark to the New York City office, we should consider making Newark our principal office in that area.

Newark is located in a convenient location and appears to be more convenient than customers traveling to the heart of New York City. In fact, New York City's in-person visits over the last 13-month period was only 170 when compared to the 326 that Newark experienced.

It is my personal belief that fewer but larger staff offices would ultimately provide better service to our customers and distribute our most important resource, our employees, more effectively.

Our future budgets will continue to be under downward pressure, again, as the President and Congress begin to look for opportunities to reduce spending.

And also with the advent of the 800 number which is now fully activated, we should be taking advantage of these types of opportunities to consolidate as we had committed to OMB a number of years ago.

Similar to the Des Moines and the Albany offices, the New York City district office is just another example of where the Board can consolidate and enhance our service through a nearby office.

With some wise consolidation, our agency will be in a better position to deal with future budget uncertainties and to take advantage of our new 800 technology to its fullest extent.

CHAIRMAN SCHWARTZ: Okay. Thank you.

Any comments or questions on that?

Mr. Kever, you also had Number 3 on the agenda, the briefing on the Long Island Implementation Plan Update. Would you want to --

MEMBER KEVER: I guess I'd like to hear from Dotty or --

CHAIRMAN SCHWARTZ: Oh, on Number 2? Are you back on Number 2 or 3?

MEMBER KEVER: No. Three.

CHAIRMAN SCHWARTZ: Oh, okay.

MEMBER KEVER: The latest briefing we got, do you want to expand on that? Anybody here want to talk about how we're doing in that?

CHAIRMAN SCHWARTZ: I think we received -- Dotty, we have a report for March regarding that, and I think that has the latest numbers so if you could go over that, that would be great.

MS. ISHERWOOD: Okay. I do have a summary here from the March report.

Recommendation 1 of the board order deals with handling of initial applications for disability from Long Island employees. I can tell you that of 99 cases we are now tracking as of the end of March under the board order, 38 of those cases were completed by the end of March; 61 are still pending.

Recommendation 2 deals with continuing disability reviews for cases on the rolls where Long Island Rail Road employees have retired and are receiving occupational annuities on the rolls. There are 362 cases in the universe that we will be reviewing under that recommendation. 33 of those are completed at this point, 329 are pending.

Recommendation 3 dealt with oversight of the Westbury office. Our network manager has been continuing to make bi-weekly telephone calls to the office. With the staff there, he has conference calls on a bi-weekly basis.

He's made two quarterly trips, with the second one in March of 2009. No significant issues have arisen from those visits to date, and he assures us that the employees in the office understand their responsibilities and are following the procedures.

Recommendation 4 has to do with collecting and analyzing data that we get from Recommendations 1 and 2 for the purpose of identifying unusual patterns. And that one has not started yet; it's too early for us to have enough data to start analyzing.

Recommendation 5 has to do with a more stringent review of management employees from the Long Island Rail Road who are receiving occupational disability.

We have received a file from the Long Island Rail Road that identified those employees. Some of them have pending applications for occupational disability. Those will be tracked as part of Recommendation 1. Some others are receiving occupational disability annuities and are included in the group to be reviewed with the CDR program under Recommendation 2.

Again, it's too early to have any data to analyze in those cases.

CHAIRMAN SCHWARTZ: Okay. Thank you.

MEMBER KEVER: Thank you, Dotty, for that update.

It is helpful at least to me to have the opportunity to ask some follow-up questions concerning the details that you just pointed out in your monthly status report.

This is the first time the Board has had the opportunity to address these matters at a public board meeting. In that regard, I recently learned after asking a question about your monthly reports that the reports were being forwarded by the Secretary to certain members of Congress including the New York delegation.

I would be curious if we have received

any response to those updates from that group. Is anybody aware of any comments that we have received? I certainly am not.

And I have a couple of questions.

How will the cost of the additional consultant examinations associated with the implementation of the plan impact your budget?

MS. ISHERWOOD: I think it's too early for us to know the answer to that yet. We are tracking these. At this point, I don't think I'm going to run out of money, but. . .

MEMBER KEVER: That's good.

MS. ISHERWOOD: I know. I'm not sure yet.

MEMBER KEVER: Can you tell me how the process of including MRIs on the schedule of tests that the Board can order, how does that work?

MS. ISHERWOOD: We just barely started that process about a week ago. I don't have any real current information right now.

MEMBER KEVER: The monthly status report refers to medical exams ordered by post examiners completing the CDRs. How have the annuitants responded to these requests for CDR examinations?

MS. ISHERWOOD: To the best of my knowledge, they're cooperating.

MEMBER KEVER: Good.

How many have been completed? Did you tell me that?

MS. ISHERWOOD: 33.

MEMBER KEVER: Has Dr. Berendi made any recommendations in the course of her Long Island reviews?

MS. ISHERWOOD: Nothing that I'm aware of that needs to be pointed out.

MEMBER KEVER: Thank you very much.

MS. ISHERWOOD: You're welcome.

CHAIRMAN SCHWARTZ: All right.

Are there any other questions? Mr. Speakman, any questions or comments on anything?

MEMBER SPEAKMAN: No questions.

CHAIRMAN SCHWARTZ: Mr. Kever, any other questions or comments?

MEMBER KEVER: Not a thing.

CHAIRMAN SCHWARTZ: I think the

Executive Committee just did a terrific job on their reporting today. I appreciate all the hard work you do. I know as Mr. Kever mentioned and as Mr. Speakman has mentioned, we always appreciate the hard work the Executive Committee does, and thank you very much for your time today. Thank you.

(Whereupon, the proceedings concluded at 10:49 a.m.)

STATE OF ILLINOIS)
) SS:
COUNTY OF K A N E)

BRENDA S. TANNEHILL, being first duly sworn, on oath says that she is a court reporter doing business in the City of Chicago; and that she reported in shorthand the proceedings of said hearing, and that the foregoing is a true and correct transcript of her shorthand notes so taken as aforesaid, and contains all of the proceedings given at said hearing.

Brenda Tannehill

Certified Shorthand Reporter