Description of document: Meeting minutes from the Railroad Retirement Board (RRB), January 2012 – September 2013

Requested date: 06-October-2013

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Source of document: FOIA Request
General Counsel/Chief FOIA Officer
U.S. Railroad Retirement Board
844 North Rush Street
Chicago, IL 60611-2092

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

GENERAL COUNSEL

NOV 5 2013

Re: Freedom of Information Act Request dated October 6 2013, C. 5089-13

This is in response to your letter dated October 6, 2013, to the Railroad Retirement Board (hereinafter the Board) wherein you requested "A copy of the meeting minutes from the meetings of the Railroad Retirement Board during 2012 and 2013 to date." You made your request pursuant to the Freedom of Information Act.

Pursuant to your request, please find copies of the meeting transcripts of the three-member Railroad Retirement Board for the period requested.

I trust that this information is helpful.

Appeal Rights.

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

ORIGINAL

U.S. RAILROAD RETIREMENT BOARD

REGULAR BOARD MEETING

September 26, 2013

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

MR. STEPHEN W. SEIPLE, Assistant

MR. JEROME F. KEVER, Management Member

MR. ROBERT PERBOHNER, Counsel to the Management Member

MR. JOSEPH WAECHTER, Assistant

MR. WALTER A. BARROWS, Labor Member

MS. GERALDINE L. CLARK, Assistant

MS. BRIGITTE MUNOZ, Assistant

MS. NANCY RUSSELL, Counsel to the Labor Member

PRESENT: (Continued)

MS. MARTHA P. RICO, Secretary to the Board

MS. MARTHA BARRINGER, Director of Programs

MR. KARL BLANK, General Counsel

MR. FRANK BUZZI, Chief Actuary

MR. KEITH EARLEY, Director of Administration

MR. DANIEL FADDEN, Director of Field Service

MR. GEORGE V. GOVAN, Chief Financial Officer

MR. RAM MURTHY, Chief Information Officer

Reported By: Karen Fatigato, CSR

License No.: 084-004072

CHAIRMAN SCHWARTZ: Let's go ahead and get started today with Karl.

MR. BLANK: Thank you, Mr. Schwartz.

I'll start as usual with a rundown of the pending litigation in the Office of General Counsel.

We have two open petitions for review of individual claims and two that have been closed. I have been reporting previously on the Nelson versus RRB case, which had to do with a Tier 1 annuity offset for Social Security benefit. It was filed back in August of 2011, and the briefing was all done by December of that year. Well, in August of this year we finally got an unpublished decision from the Court of Appeals for the 9th Circuit which affirmed the Board's decision and ended the appeal.

We also have in the 11th Circuit the Faunce versus RRB case. Maybe you may recall that Mr. Faunce is something of an inveterate litigator over the years. He had filed his latest case in November of last year but had not filed his filing fee and the court ultimately denied his request to proceed without paying the fee. He never did pay the fee, and on July 19th, 2013 the court dismissed the appeal for want of prosecution.

We also have a case in the 9th Circuit, the Yackell versus RRB, which is the denial of a period of disability for lack of insured status. That was filed just in February of this year. We've had some disagreement with the petitioner about what would constitute the administrative record in this case because we had a -- subsequent to the case that was on appeal H&A issued another decision on another issue and he wanted that in the record. We contested that and filed an objection to supplementing the record in May. The court finally denied his request to add that other material in August and set a briefing schedule where the -- actually, the petitioner's brief is due October 1st, and the Board's brief will then be due October 31st.

We also have a case that I mentioned last time that could have been filed in the District Court where the individual was -- well, improperly filing in the District Court arguing about his benefit computation. That was filed in May, and we moved through the U.S. Attorney for summary judgment, however, just earlier this month on September 10th the District Court, as they sometimes do, rather than dismiss the case outright transferred it to the Court of Appeals docket. That puts him in the right court, but potentially he still has the same problem that he doesn't really have a case. The court told us on the 16th to file the administrative record but two days later sent a letter out through the Clerk of the Court that the case would be referred to a panel of judges to determine whether there would be jurisdiction at all since there wasn't clearly a final agency decision in this case on what he was appealing. He also has had other earlier litigation with the Board in the '90s, and we did have a Board decision in '99 which had never been appealed. There doesn't appear to be anything recent that he could be bringing into court so we should be able to get that one decided perhaps even by the court on its own.

We also have two employer status cases,

Rail Term versus RRB, we've got that one and, well, Indiana Box Car was concluded. Rail Term there's been no change.

In other litigation a rather unusual circumstance for the Board, we have actually two Freedom of Information Act cases currently. We have one that I mentioned before, the Bory case, which is in the Florida -- U.S. District Court in Florida. It had to do essentially with whether we had produced all the documents that we had in our possession under the FOIA. For various reasons it determined that he had a copy of something that we didn't have, and we consequently had furnished him that had come from us originally, as a result the court -- there was argument about attorney's fees, which would be due under the FOIA. We learned yesterday, September 25th, that the court had awarded attorney's fees, and I'll be advising the Board more specifically when I know more about that matter.

And then the second case also was just recently filed in the last week, Millie Howard versus the Railroad Retirement Board filed in the U.S. District Court for the Southern District of Ohio. Ms. Howard has had a long correspondence with various offices of the Board, including my own. She's -- her basic issue with the Board has to do with the fact that her husband didn't have a current connection and consequently she doesn't have insured status as a widow. We've had a long, long period of correspondence back and forth advising her what she could do, couldn't do. We don't really have any details of what her FOIA suit is yet, but I'm sure we'll find out.

At the June meeting I reported that we had four employment law cases. We still have those pending before the EEOC. And in addition we had one case filed with the MSPB in the last quarter.

Other projects going on in the Office of General Counsel, as everyone knows we had -- the New York District Court entered a verdict of guilty in the Lesniewski Long Island Trial. The OGC had sent an attorney along with a Programs employee to testify in that trial. And there is currently this week another trial pending, and we have -- our office has worked with Programs and the Inspector General's Office as well on that matter, and indeed there will be potentially further testimony presented by Board staff in that case.

Also, a rather significant development for us is we did award a contract to digitize the legal opinion digest. Over 77 years of opinions issued by the Office of General Counsel over a period of time will be transferred to a digital format and made available through the Board's website to the public, as well as agency staff. It will be done in phases with blocks of opinions in each phase. And hopefully I'll have something concrete to report on that by the next Board meeting.

Turning to the Bureau of Hearings and Appeals and OGC, very quickly our statistics. In 2013 our April 1st balance was 363 appeals as compared with 427 in 2012. In the same period of time in 2013 we've had in the last quarter 95 new appeals filed, in 2012 there was 109. This year in the third quarter we issued 120 decisions, compared with 129 in 2012. The ending balance on June 30th was 338 appeals, compared with 407 in 2012, that's about a 17 percent decrease, which is also a good sign.

We held 76 hearings in the third quarter as compared with 73 in the previous year. And the ending balance I might note for this last month, August 31st, was 325 appeals, so we're down even a couple more since the end of the third quarter.

And finally staffing matters in general. We did have an attorney off on maternity leave in August, and she's scheduled to come back, thank heaven, next week. And we also have a hearings officer that was appointed earlier this year continuing in training down in H&A.

And that, Mr. Chairman, concludes my report.

CHAIRMAN SCHWARTZ: All right. Thank you. Any questions from Mr. Kever or Mr. Barrows?

Okay. Director of Field Service, Martha.

MS. BARRINGER: Wrong.

CHAIRMAN SCHWARTZ: Excuse me, I'm just looking here. Dan Fadden, Director of Field Service. Now, wait a second, before I say that do you want to trade? Does anybody want to trade?

MR. FADDEN: I'm good. I'm good.

CHAIRMAN SCHWARTZ: No thanks?

MR. FADDEN: No, I'm good. Thank you. Thank you, Mr. Schwartz. My comments will be relatively brief.

This year we made a significant investment in the training of Field Service staff. As of today, we will have completed two new claim representative training classes for a total of 27 new Field Service employees hired within the last 18 months. In addition, we have completed new supervisory training for eight new Field managers, as well as advanced supervisory training through OPM for four new network managers. Lastly, off-site team building training was held for all staff in Network 2 and Network 8.

We successfully completed the deployment of over 300 Polycom Model 560 VoIP telephones in all field offices this month. The new VoIP telephones replaced equipment which had reached the end-of-service life and were no longer being supported by the vendor.

We have successfully recruited, interviewed and hired all of the new claim representative positions allocated to Field Service under fiscal year 2013 hiring plan.

That concludes my report.

CHAIRMAN SCHWARTZ: Okay. So you said that you have -- you did finish the hiring plan for this last year?

MR. FADDEN: Correct.

CHAIRMAN SCHWARTZ: Okay. And -- all right. Any questions?

All right. Moving along, Chief Actuary, Frank.

MR. BUZZI: Good morning. In our Board meeting this past March I reported on difficulties we were having in obtaining data for the financial interchange to account for the 0.9 percent Medicare tax imposed by the Patient Protection and Affordable Care Act. I am pleased to report that since then we have made considerable progress on this issue and are close to a solution that may be acceptable to CMS, the IRS and us.

As you know because the $200,000 and $250,000 exclusions from the tax are applied separately to railroad and Social Security earnings, some railroad workers will pay less in taxes than if all earnings were covered by Social Security. The resulting shortfall to CMS's Hospital Insurance trust fund must be made up in the financial interchange.

Under the proposed agreement, the RRB will provide the IRS with the Employer Identification Number of railroad employers. If allowed, the RRB will also provide the Social Security number of all active railroad employees and gross earnings information for a 1 percent sample of railroad employees. The IRS will then use this information, along with information derived from income tax returns, to calculate the amount of the Medicare tax shortfall by around December 15th of each year.

We are in the process of working out details with the IRS and our Bureau of Law for an agreement which should ultimately be presented to the Board for approval.

Last month we completed the Statement of Social Insurance and the Statement of Changes in Social Insurance Amounts. These statements show the railroad retirement system to have an actuarial surplus. They also show the sensitivity of this surplus to changes in interest rates and employment, and detail the sources of change from the prior year. Similar information was prepared for the Government-wide Financial Reporting System except that inter-Government transactions were eliminated to allow for consolidation.

In August we also estimated that our trust funds were due $665 million for additional benefits paid as a result of military service.

One final item I would like to bring to the Board's attention is that due to the unexpected departure of a second financial interchange claims specialist, we are now short two claims specialists, reducing a staff of 3.5 to 1.5. This is an unacceptably low level which will result in difficulties in completing this year's determination. Unexpected staff departures can have a much greater impact in a bureau with few claims specialists than in a bureau with many.

CHAIRMAN SCHWARTZ: Thank you. Any questions for Frank? Yes, Mr. Kever.

MR. KEVER: Frank, I assume your shortfall is being taken care of?

MR. BUZZI: We're working with personnel. Yes, they're helping us.

MR. KEVER: And I would assume further that there are capable employees here that can fit the bill for you?

MR. BUZZI: We are hopeful, yes.

CHAIRMAN SCHWARTZ: Okay. Thank you.

Chief Information Officer, your first report, Ram.

MR. MURTHY: Thank you, Chairman Schwartz. So let me start with some of the items that we are doing here in the Bureau of Information Services. The first is the Implementation of the E-mail Data Loss Prevention. Earlier this Fiscal Year new information security monitoring software identified significant number of e-mails containing Personally Identifiable information known as PII were being sent out unencrypted by the agency staff. Information Security and Privacy staff worked collaboratively to identify and implement a Data Loss Prevention known as DLP solution to remediate this problem. We purchased the IronPort DLP solution to scan all externally bound e-mails and their attachments, and to automatically encrypt any that contains personally identifiable or any credit card information. In order to read the secure message from the RRB, the recipient goes through a one-time self-registration process. Administration of the secure message accounts is completely automated and requires no RRB IT resources. IronPort also provides our customers with the ability to reply back to the RRB via encrypted e-mail.

After a period of testing we successfully placed this IronPort DLP solution into production on Monday, July 29th. Combined with enhanced annual employee Privacy training and training sessions with select bureau offices, the implementation of the DLP solution has reduced the amount of unencrypted e-mails leaving the agency by 85 to 90 percent based on monthly totals. We continue to analyze the 15 percent of the e-mails circumventing the system with the goal to reduce further. Possible recommendations will be forwarded by the Information Security and Privacy Committee in early Fiscal 2014.

Now moving on to the Windows 7 Project. This project is to upgrade our operating system from Windows XP to Windows 7. The Migration Assistance for the Windows 7 project has been approved and funded. These services will begin this month to ensure that the agency meets our April 2014 deadline. We also have purchased newer hardware to replace the old PCs that cannot be migrated to Windows 7. As we continue with the rollout of Windows 7 with additional business units, we will release the Migration Forms to individuals for verification and work with the management to prioritize the deployments.

Now on to the IT Security Awareness

Training. The mandatory Federal Information Security Management Act, known as FISMA, annual computer security awareness training for all employees and contractors was successfully completed on July 31st. At the close of the training period, all current agency employees and contractors had completed the SANS-based "Securing the Human" training class.

In addition, staffs, particularly in my office, identified as having more significant information security responsibilities are taking the Risk Management Framework Continuous Monitoring Role-Based Security Training through the Federal Virtual Training Environment website. This training is ongoing and we are scheduled for completion by the end of this month.

Now to the last topic which I have here is the Mainframe Risk Mitigation Initiatives. As we all know, our mainframe computer system is used to run mission-critical applications and databases for paying retirement, survivor, disability, unemployment and sickness benefits. The infrastructure team has put in a significant effort to avoid the recent issues leading to the mainframe unavailability. I believe this was an issue in August. The mainframe was installed in 2008 and is at the end of its life cycle. Over the years we have outgrown its processing capacity and expansion is not possible since IBM no longer markets this mainframe model. Working in collaboration with the Acquisitions Management, we have put forward a Request For Proposal seeking a replacement upgrade to the mainframe processor. We estimate the new mainframe to cost $1.2 million and give us four years' time to develop alternate strategies.

Additionally, we are in the process of replacing our aging Automatic Tape Library that had issues with the mechanical parts breaking down. The new solution is an online disk-based solution called Virtual Tape Library. We are also replacing the DMX Storage Area Network and increasing the mainframe storage capacity from 27 terabytes to 40 terabytes.

That's all I have to report.

CHAIRMAN SCHWARTZ: And then there will be software -- will there be an additional software cost included with the upgrade of the mainframe?

MR. MURTHY: Yes, that's included.

CHAIRMAN SCHWARTZ: And the software costs are included in the price?

MR. MURTHY: Yes.

CHAIRMAN SCHWARTZ: You know, as we optimize the use of the mainframe and look at some of the legacy systems, you think there's a possibility that if we can get some of that off the mainframe that we will be able to get more use, you know, use the capacity better, are we looking at that as well?

MR. MURTHY: Yes, and that is one of the projects set out. We have several initiatives going on, one is from the database side, and as we do that we also do the re-engineering of the applications.

CHAIRMAN SCHWARTZ: Which will give us a little more room.

MR. MURTHY: Exactly.

CHAIRMAN SCHWARTZ: Great. All right. Thank you. Any other questions there for Mr. Murthy?

Okay, Programs, Martha.
MS. BARRINGER: Me this time.
CHAIRMAN SCHWARTZ: You this time.
MS. BARRINGER: Programs has a number of updates concerning some of the exchanges that we do with various organizations in order for us to continue to pay our benefits accurately. There are two from the Social Security Administration. One is Social Security Information Exchange Agreement, which is a data exchange agreement which establishes conditions under which Social Security agrees to exchange benefit information, wage information, et cetera, to the RRB via direct terminal access. That agreement was signed August 13th, and it expires on August 19th of 2018.
There is also Social Security matching or computer matching agreement which will now expire January 2015. And that is similarly a way that we use to do program integrity within the RUIA and RRA.
Next is United Healthcare Services Agreement. We have now re-certified that agreement and it is valid for the next 18

months.

QTC was another one that came due this year. It expires September 30th. All the proposals have been reviewed, and we have awarded a contract to QTC Medical Services in Diamond Bar, California, which is an extension of our current contract. Not only were they technically superior, but the cost was approximately $2.7 million less over a five-year period than the next closest bidder.

I am very pleased to announce that we have completely implemented our ORCS System, which is the Overpayment Recovery Correspondence System. It is a system that interlinks many of our mainframe systems, downloads information from various mainframe systems and gives us a very professional and polished product in our correspondence and also completely eliminates or eliminates the error prone interfaces that we had previously experienced.

My next update is on training. We were lucky enough to about double our training budget this year. I'm pleased to announce that we trained probably four or five times more people with the same amount of money as we would have otherwise. That was a concerted effort between Field Service, Human Resources, Programs, to bring some training programs into the building rather than send people out one-by-one to be trained. So we, within the course of this last Fiscal Year, we trained 30 new supervisors across the agency. We conducted a Train the Trainer program for 30 attendees, and that includes not just people who train but people who do presentations, which is a considerable number of people within the building. We also conducted for various numbers of attendees structured user acceptance testing, QMF training, which is downloading information from the mainframe to manipulate it for informational and reporting purposes and a number of classes that are still to be conducted between now and the end of December, including time management for managers and taking control of your workday for employees who are interested, management or bargaining unit.

So we also have spent quite a bit of time on our learning management system which we hope to share with the rest of the agency or partner with the SEO on an even bigger project, which would be a training system that would cover everybody in the agency's remote training needs, as well as training in the building.

And my last topic is sequestration. As of September 13th, 2013 we had sequestered a total of $5,600,143.69 in RUIA benefits. That is benefits that were paid to 16,351 claimants. At the end of the Fiscal Year, when we reduce the amount that we're sequestering, we will do another report for the balance of this Fiscal Year.

And that concludes my report.

CHAIRMAN SCHWARTZ: Okay. Any questions for Martha?

Okay, Keith, Administration.

MR. EARLEY: Thank you, Mr. Chairman. Good morning. I'll begin with Building Operations. Fiscal Year 2013 Sustainability Report: The Railroad Retirement Board is committed to reducing energy consumption and establishing policies that will ensure our compliance with all environmental and energy statutes, regulations, executive orders and meet our required energy reduction goals. These goals are established by various Executive Orders, as well as the National Energy Conservation Act and Energy Policy Act of 2005. These goals are addressed in our Strategic Sustainability Performance Plan. We have completed our 2013 plan on time and have loaded it to the Office of Management and Budget's MAX Collect website where it has been reviewed and approved by the President's Council on Environmental Quality. Since it has been approved, we are now preparing the plan for publication on RRB.gov and it will also be linked by the President's Council to the Performance.gov website.

Administration: End of Year Procurement and Human Resources Activities: As we close in on the end of Fiscal Year 2013, Acquisition staff continues to work with Bureau of Information Services staff, the other Executive Committee staff completing contracting actions identified in this Fiscal Year's IT priority list. Some significant items that some of my colleagues have already alluded to that we have purchased or are concluding the purchasing of include:

The Mainframe Replacement.

Mainframe Storage Area Network Replacement.

Network Attached Storage purchase.

The Replacement of the Core switches.

The Virtual Tape Library.

And purchase of the General Counsel Legal Opinion Digitization and Hosting Services.

Meanwhile, Human Resources staff continues to push for completion of recruitment goals. Because of the budget situation earlier this year, we were not able to begin the 2013 hiring until the middle of March, almost mid-way into the Fiscal Year. However, so far this year we have hired 29 external candidates from the 2013 hiring plan and 18 leftover from the 2012 hiring plan for a total of 47 external hires. Concurrently, we have continued to fill internal postings. Key external recruitment positions included:

Mr. Murthy.

Claims Representatives in the field.

Claims Examiners.

A Medicare Contractor Operations Specialist.

Key positions in Information Services.

And clerical and mailroom positions throughout the agency.

2013 Combined Federal Campaign: We are gearing up for the 2013 Combined Federal Campaign, CFC. The CFC is the annual fundraising drive that provides an opportunity for Federal civilian, postal and military employees to donate to local, national and international nonprofit organizations. The CFC is the world's largest and most successful annual workplace charity campaign.

Our campaign will run from October 14th, Columbus Day, to November 11th, Veteran's Day, in conjunction with the Chicago Area CFC. Once again, Public Affairs will be the agency point-of-contact and will coordinate the event and reach out to the various bureaus.

Finally, Federal Employee Viewpoint Survey, FEVS. The FEVS measures Federal

Government employees' perceptions of whether, and to what extent, conditions that characterize successful organizations are present in an organization. The U.S. Office of Personnel Management administers the survey to all Federal agencies typically in the spring. A full-census survey is administered to all eligible full and part-time permanent employees in even-numbered years, and in odd-numbered years it is administered to a random sample of employees. This year the survey ran from April 23rd through June 14th. Our response rate was 68.6 percent, an increase from 66 percent last year. In comparison, the Government-wide response rate was 48.2 percent. Responses are being tabulated by OPM, and we expect to receive the results by the end of October 2013.

Thank you and this concludes my report.

CHAIRMAN SCHWARTZ: Any questions for Keith?

MR. BARROWS: You said we hired 29 for our 2013 hiring plan, what does that leave us with for the 2013 hiring plan, do you know?

MR. GOVAN: About 30.

MR. BARROWS: 30 we have not fulfilled?

MR. GOVAN: But we are in the course, we being the EC, are in the course of deliberating Fiscal Year 14/15 hiring plan, which we will address the shortage that we've incurred for '13 into '14.

MR. BARROWS: So in the past years we have kind of just carried over the previous year at the beginning of the next year, is that what we're going to continue to do?

MR. GOVAN: Yes, sir.

MR. EARLEY: And sometimes the hiring numbers may change depending upon various factors such as attrition and when a budget is passed. We may have a goal of hiring 20 one year and then the next year it might be 40.

MR. BARROWS: All right.

CHAIRMAN SCHWARTZ: Any other questions?

Okay, George, bring us home.

MR. GOVAN: All right, sir.

Good morning, everyone, I will briefly cover budget developments for Fiscal Years 2013 through 2015 and provide status reports on the

Fiscal Year 2013 financial statement audit and the migration of the Board's financial management system to a shared service provider.

2013 Budget Status: The fourth quarter budget review was conducted in July and approved by the Board Members on July 24. The review determined that $2,095,304 was available for bureau and office requests and the IT reserve, and included a list of recommended end-of-year IT priorities, which my colleagues have already mentioned to you.

Special end-of-year procedures were implemented to ensure that any available funds are used for the Board's highest priority needs as the Fiscal Year comes to a close. On August 26 we began to reallocate unobligated funds from bureau and office accounts to purchase items on the end-of-year priority list. We are also tracking available funds on a daily basis to continue supporting purchase of end-of-year items.

To summarize our staffing situation, we anticipate 79 separations, and as Mr. Earley mentioned, 47 outside hires during Fiscal Year

2013. As of August 31st we had 853 employees on board. After adjusting for part-time employees and employees on leave without pay, the projected FTE usage rate for Fiscal Year 2013 will be less than 865 FTEs initially estimated.

And again, Mr. Barrows, as you mentioned -- as you inquired, as standard the EC in the subsequent Fiscal Year we look at our hiring plan comprehensively, and then we also account for those gaps that we didn't address in the prior fiscal year.

CHAIRMAN SCHWARTZ: So you said 79 for the year, so the attrition rate is really going up then?

MR. GOVAN: Yes, sir, it's a reflection obviously, sir, of the succession plan where we're looking at the maturation of our personnel as they incur 20, 30, 40 years of service, honorable service at the RRB.

CHAIRMAN SCHWARTZ: Right. Because, you know, I can remember when we were talking, it wasn't that long ago we were talking about, boy, it's going up from two a month to three a month and now you're up to six a month, six to seven a month. That does make sense though.

MR. GOVAN: Last year was 72 and this year is projected at 79.

CHAIRMAN SCHWARTZ: Okay.

MR. GOVAN: Fiscal year 2014 Budget Development: If the Board begins Fiscal Year 2014 operating under a continuing resolution, we anticipate that funding will again be impacted by sequestration, like last year, as the agency looks to maintain external hiring plans and modernization goals. The Dual Benefit Payments Account will also be affected by a continuing resolution. We will submit to OMB requests to reapportion the account under the seasonality provisions in order to pay full benefits through the length of the CR provided. We will continue to request reapportionment of the account if further CRs are enacted in Fiscal Year 2014.

Fiscal Year 2015 Budget Development: The Board's budget submission for Fiscal Year 2015 was provided to OMB on September 16. At the agency request level, the submission includes a request for funding of $119,740,000. We estimate that this would be sufficient for

885 FTEs and also fund $7.06 million in IT initiatives, including $2.5 million for Program Accounts Receivable system migration to new Financial Management Integrated System and $1.6 million for additional IT tools and systems enhancements.

In accordance with OMB guidance, we also included two lower requests, representing 5 and 10 percent reductions from the Board's net discretionary total provided for Fiscal Year 2015 in the 2014 budget. The 5 percent reduction level totals $108.3 million and would fund 860 FTEs. The 10 percent reduction level is $102.6 million which would only fund 803 FTEs. Both of the reduced levels pose significant challenges to the agency's efforts to provide for succession planning and IT modernization.

Fiscal Year 2013 Financial Statement Audit: BFO staff continues to work on completing the agency's Fiscal Year 2013 Performance and Accountability Report. We sent to the Office of Inspector General a draft of the Performance and Accountability Report on

August 6 for their review. This report, which includes the agency's financial statements and progress reports on our performance goals, is scheduled for release to OMB in draft on November 1st, with the final report to the President, the Congress and OMB on November 15th.

Status of the Federal Financial System Migration: The migration of the Board's FFS to the new cloud-based Financial Management Integrated System, FMIS, remained on schedule through the end of August with several major activities nearing conclusion.

During this past summer, our contractor, CGI, conducted training to agency end-users in all functional areas including budget formulation and execution, purchasing and contract management, accounts payable and disbursements, general ledger, ordering medical exams, accounts receivable and standard system administration. Following end-user training, user acceptance testing was completed by subject matter experts in all of the FMIS functional areas to confirm configuration of the proprietary Momentum software. Preliminary conversion tests of FFS reference data, open purchase orders and financial accounting data were performed with relatively few items requiring reconciliation.

Connectivity between the Board and the web-based cloud environment has been established via a dedicated trunk T1 line. If CGI's end point fails for any reason, connectivity can be reestablished using sign on to system through RRB's virtual private network architecture. On August 22nd I accompanied the Board's Information Systems Security Officer and Contracting Officer to CGI's host site in Phoenix, Arizona for security assurance orientation and testing.

In September activities have focused on a number of cutover actions aimed at beginning Fiscal Year 2014 financial activities in FMIS on October 1st and concluding FFS operations with the 2013 year-end close and issuance of the annual financial statements.

Sir, this concludes my report.

CHAIRMAN SCHWARTZ: Any questions for

George?

Anything else? Okay, thank you very much for your time.

(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

ORIGINAL

U.S. RAILROAD RETIREMENT BOARD

SPECIAL BOARD MEETING

June 27, 2013

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
MR. STEPHEN W. SEIPLE, Assistant

MR. JEROME F. KEVER, Management Member
MR. ROBERT M. PERBOHNER, Counsel to the Management Member
MR. JOSEPH M. WAECHTER, Assistant

MR. WALTER A. BARROWS, Labor Member
MR. JAMES C. BOEHNER, Assistant
MS. GERALDINE L. CLARK, Assistant
MR. MICHAEL J. COLLINS, Assistant
MS. NANCY RUSSELL, Counsel to the Labor Member

BOARD MEMBERS PRESENT: (Cont'd)

MS. MARTHA (PAT) RICO, Secretary to the Board

MR. MARTIN DICKMAN, Inspector General

MS. PATRICIA MARSHALL, Attorney Advisor

MS. MARTHA M. BARRINGER, Director of Programs

MR. KARL T. BLANK, General Counsel

MR. FRANK BUZZI, Chief Actuary

MS. SALLY MUI, Assistant to Director of Administration

MR. DANIEL J. FADDEN, Director of Field Service

MR. GEORGE V. GOVAN, Chief Financial Officer/Senior Executive Officer

Reported By: Anna M. Morales, CSR, RMR

License No.: 084-002854

(Whereupon, the following proceedings commenced at 10:00 a.m.)

CHAIRMAN SCHWARTZ: Call to order. Board Members are present.

The sole purpose of this meeting is for the Board Members to conduct the business of the U.S. Railroad Retirement Board. We conduct this meeting before the public under the Sunshine Act. Visitors are here only to observe the proceedings and not to be part of the deliberations or discussions. Anyone who does not abide by this rule will be asked to leave the meeting.

The only other item on today's agenda is action to be taken by the Agency regarding disability annuities awarded based on medical evidence from Dr. Peter Ajemian in view of Dr. Ajemian's guilty plea and sentencing in the New York Federal District Court.

A draft order proposing the Agency policy has previously been provided to each Board Member for review. Is there any discussion regarding this proposal?

I then call for a vote on the question,

that is, whether the Board shall issue an order adopting the Proposed Policy to Terminate Disability Annuities Based In Whole or In Part on Medical Evidence Furnished by Dr. Peter Ajemian.

Mr. Barrows?

MEMBER BARROWS: In favor.

CHAIRMAN SCHWARTZ: Mr. Kever?

MEMBER KEVER: I am in favor of it.

CHAIRMAN SCHWARTZ: I am in favor as well.

The policy set forth in the draft is approved.

There being no other item on the agenda, this meeting is adjourned.

(Whereupon, the Special Meeting of the U.S. Railroad Retirement Board adjourned at 10:01 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 1st day of July, 2013.

Illinois Certified Shorthand Reporter

ORIGINAL

U.S. RAILROAD RETIREMENT BOARD

REGULAR BOARD MEETING

June 19, 2013

STENOGRAPHIC REPORT OF PROCEEDINGS had in the above-entitled matter held at 844 North Rush Street, 8th Floor, Chicago, Illinois, at 2:00 p.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 WAECHTER, Assistant

MR. WALTER A. BARROWS, Labor Member

MS. GERALDINE L. CLARK, Assistant

MS. NANCY RUSSELL, Counsel to the Labor Member

PRESENT: (Continued)

MS. MARTHA P. RICO, Secretary to the Board

MR. KEITH EARLEY, Director of Administration

MR. KARL BLANK, General Counsel

MR. GEORGE V. GOVAN, Chief Financial Officer

MR. FRANK BUZZI, Chief Actuary

MS. MARTHA BARRINGER, Director of Programs

MR. CHARLES MIERZWA for FRANK CASSARINO, Acting Chief information Officer

MR. DANIEL FADDEN, Director of Field Service

Reported By: Karen Fatigato, CSR

License No.: 084-004072

CHAIRMAN SCHWARTZ: All right. Welcome, everyone. I think we can get started.

Let's get started with our General Counsel, Karl.

MR. BLANK: Thank you, Mr. Schwartz.

I'll begin as usual with a summary of litigation pending in the office. We have -- well, I'll report on a total of seven cases that are individual claims for review. We have the Stephens versus RRB case in the 9th Circuit, a disabled child appeal that the court actually entered an order reversing our decision back in November, but we had an outstanding claim for attorney's fees by the successful petitioner's attorney. We filed and I reported at the last meeting that we had filed in December an opposition to the request for attorney's fees. The court denied attorney's fees in an order dated April 23rd, so that closes the Stephens case.

We also have the Hernandez versus RRB case which involved an overpayment and denial of waiver of recovery denial for disability earnings. The case was filed back in August of

2012. The last brief was filed as the petitioner's reply brief on January 15th of this year. And on May 29th, just a few days ago, the court affirmed the Board's decision, an unpublished decision. That should close that case as well.

We also have the Johnson versus RRB case here in the 7th Circuit that was filed in October of 2012. Well, there was an issue there that the petitioner's attorney was not meeting the filing dates for his brief, kept asking for extensions. He asked for an extension 11 times, and ultimately the court entered an order stating that he had to show cause why it shouldn't be dismissed. He responded by asking for another extension of time. The court therefore on June 18th entered an order to dismiss the appeal for want of prosecution.

We have the Nelson versus RRB case, that was filed back in August of 2011. This is the first case that's still remaining open. We filed our reply brief back in December of 2011 and it's still pending as of today.

In the 11th Circuit we have the Faunce

versus Railroad Retirement Board case, that case involves a claim for an age and service annuity. We denied it because it was less than the minimum amount of service. He filed his appeal back in November of 2012 but did not file -- the court filing fee asked for a waiver of the filing fee, the court denied that, he asked for reconsideration of that denial, and yesterday, on June 18th, the court gave him 14 days to file the $400 filing fee or the petition will be dismissed. We'll see what happens there.

We also have the -- I guess it's Yackell versus RRB case in the 9th Circuit again. This is a denial of a period of disability because the individual didn't have insured status which indicates this isn't a decision on the medical evaluation but rather on the earnings necessary to establish one of the requirements for being considered for disability. That was just filed in February of this year. We've had some to and fro about what would constitute the record. There was a subsequent H&A decision and he wanted to add that to the record on the previous decision, which was on appeal, which, of course, is on a different matter. We filed our objection to that on May 15, that's still pending before the court. Both sides have asked for extended periods of time to file the briefs. The petitioner's brief is due August 15th, and ours will be due October 31st.

The last case that has to do with an individual actually is not a proper appeal. On May 3rd of last month we received a complaint from -- that had been filed in the District Court for the Western District of Pennsylvania alleging -- well, that we were I guess improperly reducing the annuity for Social Security benefits, just basically saying we calculated things wrongly, because this should have been filed in a court of appeals and wasn't. We've asked the U.S. Attorney to file a motion, which he did on May 30th in the District Court and Western District of Pennsylvania, a motion to dismiss or for summary judgment.

We also have two employer status cases to report. One is the Rail Term versus RRB case. There's been no change since the last meeting and indeed for quite some time, that's pending. And, in essence, the case was referred for a ruling by the STB, Service Transportation Board, and there hasn't been anything coming from them.

The other coverage case is the Indiana Box Car case. We argued that case in February, and on April 9th the court issued a published decision vacating the decision of the Board which had held that the holding company was under common control with its railroad subsidiary and they remanded the case to the Board for a new decision. We're drafting a decision to propose to the Board in our office now.

I also reported in the March meeting that we had five employment law cases pending. One of these cases has been resolved and therefore we have four remaining, pending now.

Now, as far as other projects go, during the period ending actually at the end of May, my office acted as the reception point for the reconsideration requests filed by the individuals who have received disability annuities in connection with the Dr. Ajemian's evidence. The 60-day period for reconsideration request ended at the end of May. We should see a big drop-off in any further correspondence coming through our office from now on on that.

Another project is just beginning, we're going to go out for quotes on a project to create an electronic database for the legal opinions. We have about 77 years of opinions and about 83,000 pages. I'd like to thank Keith's staff and BIS's staff, particularly Paul Ahern and Beth Kelly in OA and Bob LaBerry in BIS for the help that they've given us in putting this together and hopefully we'll have something more concrete to report next time.

As to the Bureau of Hearings and Appeals, the statistics for the last quarter that ended, which would be March 31st, we began with a starting balance of 369 appeals pending, that compares with last year 421, a significant difference.

During the last quarter we had 101 new appeals filed, that compares with 130 in the same period of time in 2012. During the last quarter ending March 31st we issued 107 decisions in H&A, compared again with 124 the previous year. So our ending balance March 31st was 363, and that compares with 2012's March 31st balance of 427, which is a nice trend. I did check the statistics this morning and it looks like we're down below 360 now, about 357 or 358 balance.

As to hearings held, in the last quarter we held 36 phone hearings, last year it was 37, so we're just about on course there.

Videoconferencing hearings, we've done 13 in the last quarter, which is an increase over the five that were done in the previous year's quarter period. And we did the same amount of in-person hearings in both quarter periods 2013 and 2012, that is 14.

Finally, just to mention the staffing in the Office of General Counsel, we had one of our attorneys return from maternity leave March 29th, another is expected to begin maternity leave in August. I also reported last time that we had a paralegal that had been off quite some time since November for an injury but now she's back working and full time. And down in H&A we have a hearings officer that was appointed in February that continues the training.

And that concludes my report.

CHAIRMAN SCHWARTZ: Thank you. Any questions for Karl?

Okay. We'll continue with Dan.

MR. FADDEN: Thank you, Mr. Schwartz.

We are making a significant investment in the training of new Field Service Claim Representatives and have scheduled two training classes for July 14th through the 26th and September 15th through the 27th. There will be a total of 27 new claim representatives, all hired within the last 18 months, who will receive training between these classes.

There are eight new Field Managers coming to RRB Headquarters from August 5th through the 8th for new supervisory training. This training will be led by staff from Human Resources, Office of Equal Opportunity, Management Services and Senior Field Service staff.

All staff in Network 2 and Network 8

will be attending off-site Team Building training on June 26th through 28th and August 14th through the 16th respectively.

Lastly, the new online Learning Management System has been successfully tested and will be used for the initial computer base training of all new field claim representatives hired under the Fiscal Year 2013 Hiring Plan.

Second Agenda item. The current Polycom Model 501 VoIP telephones used in all field offices have reached their end of life and are no longer being supported by the manufacturer. The successful pilot of an upgraded Polycom model 560 VoIP telephone was recently completed. An order has been placed for 277 new VoIP telephones with the field service's telecommunications provider, CenturyLink. The installation of the new VoIP telephone equipment is scheduled to begin shortly, and is expected to be completed by the end of the fiscal year in all remaining field offices.

Lastly, for many years Field Service has had a very limited FlexTime policy which allowed employees to start work between the hours of 7 a.m. to 8 a.m. A policy change was recently implemented which allowed the option of an expanded FlexTime. Consequently, all field employees are now able to start work between 7 to 8:30 with the corresponding end of their workday between 3:30 and 5 p.m.

And that concludes my report.

CHAIRMAN SCHWARTZ: Thank you, Dan. Are there any questions for Dan?

Okay. We'll continue with Programs, Martha.

MS. BARRINGER: Good afternoon, everyone, I have two Agenda items. The first one is the removal of Social Security numbers from Medicare cards. On May 10th, 2013 a final report was issued to Congress on the removal of Social Security numbers for Medicare cards. The report was a collaborative effort between CMS, Social Security Administration and the RRB. It details the methodology, assumptions and cost estimates for two options, to remove or to obscure the Social Security number in an effort to reduce identity theft. There will be a significant impact on RRB in terms of staffing if we're required to implement this change. We are currently awaiting a decision in this matter.

My second item is on RRB Virtual University. As the RRB staff continues to retire from the agency, we face a double-prong issue. The first, we see an increased need to train new employees coming into the agency or newly promoted employees as a result of the people leaving on retirement.

The second is a shortage of experienced staff to do that training. To partially bridge the gap we are continuing to develop three tools to assist us in training both remote and local staff. The first you're very familiar with, that's RRB Vision, which allows us to do static training by video. The second is called Webinar, it's a live, interactive program that allows us to collaborate remotely either within the building or between headquarters and field service using a combination of lectures, discussion, work samples that we can work on together and other documents, procedural documents.

The third is the one that Mr. Fadden mentioned, the Learning Management System, or LMS, which using LMS we've been able to complete the training program that he's mentioned, extensive pre-class training for claims representatives, and we hope to use this as a model to expand this to other areas so that we can use our resources wisely.

To further develop an RRB Virtual University we're now pursuing options which will allow us to merge these products, these training tools to -- for example, to imbed a How-To video on any training module, such as, proper adjudication of RUIA claims benefits. We can imbed a video that says how to take a claim or how to code a claim, that kind of thing. And we can use all of these things by enhancing our software capabilities so that we can create more professional and complete training packages. So increased emphasis on the use of technology for training will allow us to offer both technical and general training presentations at a much lower cost and with the assurance that we're providing more consistent and comprehensive training for all RRB employees.

CHAIRMAN SCHWARTZ: Okay.

MS. BARRINGER: And that concludes my report.

CHAIRMAN SCHWARTZ: Very good. Thank you. Yes, Mr. Kever.

MR. KEVER: I'd like to congratulate both Field Service and Programs for their efforts in training. Since we're losing a lot of our experienced people obviously training is going to be very key.

And I have a specific question for Martha. I want to make sure I understood removal of Social Security numbers from the Medicare cards you mentioned if required?

MS. BARRINGER: Yes, there is not a decision on how this will -- how this will happen, but I believe it's going to be one of the two options, either removal or obscure the Medicare -- the Social Security number.

MR. KEVER: They just haven't determined which way it will go?

MS. BARRINGER: Exactly.

MR. KEVER: But it will happen, I suspect?

MS. BARRINGER: I think so too.

MR. KEVER: Okay. Thank you.

CHAIRMAN SCHWARTZ: Thank you very much.

Chuck, would you give us a report on business?

MR. MIERZWA: Sure. Thank you, Mr. Schwartz.

It's my privilege to speak on behalf of the Bureau of Information Services today as we await the appointment of our new Chief Information Officer. I have three items on our Agenda. The first one has to deal with the Field Office Server Replacement. We continue to make progress in addressing the material weakness in Configuration Management. We've replaced 26 unsupported Windows 2000 servers in 26 larger field offices with Wide Area Network Optimizers that both improve data transmission efficiency, as well as protect confidentiality of RRB sensitive data by employing encryption compliant with Federal regulations. The remaining 28 offices, including the Office of Legislative Affairs, have received new Windows 2008 servers, along with locking cabinets to protect and provide a secure enclosure for the servers and communication equipment. When this project has been completed, the risk of a data breach for the agency will be significantly lowered. To date, 24 offices have received the new servers, and we believe that the target completion date -- the completion date for server deployment in the field will be June 28the. So it's coming.

Second Agenda item is an update regarding our Windows 7 Upgrade Project. We're currently at the pilot phase of the project. Several individuals in our business units are participating. The object of the pilot is to further test and enhance the Windows 7 roll-out. Pilot users will be using the Windows 7 checklist in day-to-day work to test the new operating system. Once the Windows 7 machines are satisfactorily configured, the pilot users will have their Windows XP equipment taken away and they will be using Windows 7 equipment.

The next wave of the workstation roll-out from Windows 7 will focus on individuals who will be part of the new financial management system which requires Internet Explorer 8 to function properly. Individuals in the financial management system project will soon begin receiving migration forms to complete and return to the team. Actually, those forms went out this week. The team will then work with management to prioritize and begin deploying the workstations.

We also want to mention that budget items for migration assistance have also been developed to ensure that the RRB meets the April, 2014 deadline. Essentially Windows XP will no longer be supported on that date.

Then the last item has to do with a Microsoft Enterprise Agreement Contract. This month the RRB entered into or will enter into a new Microsoft Enterprise License Agreement. The Agreement minimizes the complexity and cost of meeting software needs of the agency for such productivity software such as Word, Excel and e-mail. The Agreement follows the expiration of the agency's first-ever agreement for licensing all of our enterprise-wide Microsoft software products.

The new Agreement preserves the value of the original Enterprise Agreement, volume discounts, compared to licensing these same software components individually. An important feature of the agreement is Microsoft Software Assurance benefits, automatically included, which provide additional support, services and IT tools to the agency.

Through a thorough review of our current and future licensing needs, working with our Microsoft Federal representative and assistance from Gartner Consulting Group, we were able to negotiate a three-year agreement at a cost that is approximately 27 percent lower than the yearly cost of the last agreement.

And that concludes my prepared remarks.

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

All right. Frank, Chief Actuary, please.

MR. BUZZI: Good afternoon. I would

like to report on a few items completed since the last Board meeting.

First, the financial interchange transfer was successfully completed on June 3rd, 2013. We received a net transfer of $3.92 billion from the OASI, DI and HI trust funds. This compares with a net amount of $4.14 billion last year. Although we generally expect the financial interchange transfer to increase from year to year, the decrease this year can be attributed primarily to three factors.

First, a rise in employment from fiscal year 2011 to fiscal year 2012 increased the amount of payroll taxes credited to SSA and CMS. Second, Treasury reconciliations of income taxes on Social Security equivalent benefits resulted in large transfers to the SSEB Account, which in turn were credited to SSA. Income taxes on benefits are initially transferred based on Treasury estimates and subsequently adjusted. The third factor was an adjustment to the financial interchange for pre-1957 military service. It has been over 10 years since such an adjustment has been included in the financial interchange.

On June 3rd we also repaid $3.86 billion of Treasury advances, resulting in a net increase in the SSEB Account of nearly $60 million.

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, 2010, 9.8 percent of employees with qualifying service and compensation received unemployment benefits, the highest unemployment rate in over 20 years. The rate then declined to 4.9 percent and 3.9 percent in the benefit years ending June 30th, 2011 and 2012 respectively.

Sickness payments have been relatively stable, averaging about 7 percent of qualifying employees.

Since the unemployment system tends to overrespond to changes in experience, we went from borrowing funds from the Railroad Retirement Act in fiscal year 2010 to having an accrual balance of about $200 million in the Railroad Unemployment Insurance Account currently. As a result, as projected in last year's report, there is no surcharge this calendar year and there should be none next year. In fact, railroads representing over 80 percent of the Railroad Unemployment Insurance compensation base are currently paying the minimum contribution rate, which is insufficient to maintain the account balance. Consequently, consistent with last year's report, the section -- the current Section 7105 report projects the account balance will fall and surcharges will return by calendar year 2015, despite anticipated stable unemployment experiences.

Finally, the Section 502 report on the status of the Railroad Retirement System reflected generally favorable economic experience in 2012.

Overall investment returned in calendar year 2012 was about double what was expected, employment increased rather than decreased, and the cost of living adjustment was lower than expected.

These factors combined to produce a

favorable comparison with last year's report. No cash flow problems are projected under each employment assumption during the 25-year projection period, and under employment assumption I, the highest projected tax rate is 19 percent.

Nonetheless the Railroad Retirement System continues to remain dependent on future hires to help pay for unfunded prior service costs.

One somewhat simplistic way of looking at the Railroad Retirement System is to note that the Railroad Retirement Account benefit and administrative costs are currently running at about 30 percent of tier 2 payroll. Combined employer and employee payroll taxes are 17 percent of tier 2 payroll and income taxes and Railroad Retirement Account benefits are currently about 2 percent, which leaves 11 percent to be paid from the earnings or principal of our trust funds.

If we were a completely pay-as-you-go system, we would need to collect 30 percent of pay in taxes, we would be even more dependent on new hires, but we would not be dependent on investment return.

If, on the other hand, we were fully funded, we would need to collect the normal cost of about 7.5 percent of pay in taxes, we would be more dependent on meeting our investment return assumptions, but would not be dependent on new hires.

As it stands, the system remains between these extremes, in somewhat better condition than recently but not as good as before the investment loss experienced in calendar year 2008.

CHAIRMAN SCHWARTZ: Okay. Thank you. Very interesting report. Any questions?

All right, Keith.

MR. EARLEY: Thank you, Chairman Schwartz, all of our distinguished attendees.

Building Operations: Fiscal Year 2013 Sustainability Report. The Railroad Retirement Board is committed to reducing energy consumption and establishing policies that will ensure our compliance to all environmental and energy statutes, regulations and executive orders. All these goals are addressed in our Strategic Sustainability Performance Plan, SSPP. The 2013 SSPP template is now open in the Office of Management and Budget's MAX Collect Web site. We are in the process of drafting our 2013 plan. The plan is due in MAX on June 28th, and we are on schedule to meet that deadline.

Fiscal Year 2012 Federal Green Challenge Award: The U.S. Railroad Retirement Board has been named an award recipient for the 2012 Federal Green Challenge. The Federal Green Challenge is a national effort under the U.S. Environmental Protection Agency's Sustainable Materials Management Program, challenging EPA and other Federal agencies throughout the country to lead by example in reducing the Federal Government's environmental impact. Awards were given in two categories: Data driven and narrative. We are a regional award recipient, Great Lakes Region 5, in the data-driven categories of electronics and water. Chairman Schwartz accepted the awards on behalf of the agency at the Federal Employment of the Year Awards Program held on June 12th. In addition, employees from the RRB were interviewed by EPA via conference call on April 6th for agency best practices which will be posted to EPA's Web site.

Administration: 2013 Federal Employee of the Year Awards Program. The Federal Employee of the Year Program sponsored by the Chicago Federal Executive Board was held on June 12th at the Harris Theatre. The guest speaker was Kenny Williams, Executive Vice President of the Chicago White Sox. The RRB had 10 individual nominations and three team nominations. Unfortunately, this year the RRB did not have any finalists, but we are still very proud of our nominees. There were 73 RRB attendees at the program, which is a pretty good showing.

2013 Federal Employee Viewpoint Survey: The Federal Employee Viewpoint Survey measures Federal Government employees' perceptions of whether, and to what extent, conditions that characterize successful organizations are present in an organization. The U.S. Office of Personnel Management administers a survey to all

Federal agencies typically in the spring. This year the survey ran from April 23rd through June 14th. Midway through the survey period, OPM informed us that our response rate was almost 47 percent. This is very good because the Government-wide rate is 31.1 percent. Once the survey closes, responses will be tabulated by OPM and the results reported to the agency.

Final issue, Union Contract Renegotiation: The Federal Mediation and Conciliation Service, FMCS, held joint training on February 27th and 28th for management and union representatives who will either be on the contract renegotiation team or will serve as backups. FMCS is an agency that provides dispute mediation and other conflict resolution services. The Executive Committee has appointed the co-chairs for the contract renegotiation team on management's side. So the next steps will be for the union to notify us of their team members and then the team will get together, establish the ground rules and move forward.

This concludes my report.

CHAIRMAN SCHWARTZ: Thank you. Any

questions for Keith?

Okay, George, take us home.

MR. GOVAN: All right, sir. Thank you, Mr. Chairman.

Good afternoon, everyone, I will briefly cover budget developments for fiscal year 2013 through 2015, provide status reports on the fiscal year 2013 financial statement audit and the migration of the Board's financial management system to a shared service provider.

Fiscal Year 2013 Budget Status: The Board is operating under a full-year continuing resolution, Public Law 113-6, which provides $108,734,464 for agency operations. This represents the Board's enacted funding level of $111,149,000 for fiscal year 2013, less a sequestration reduction of $2,192,238 and an across-the-board rescission of $222,298. Upon request, we submitted an operating plan to the Office of Management and Budget and the House Appropriations Committee. The operating plan included funding for an estimated 879 full-time equivalents in fiscal year 2013, approximately $691,422 for information technology investments and $400,000 for digitization of legal opinions as Mr. Blank addressed earlier.

CHAIRMAN SCHWARTZ: Okay.

MR. GOVAN: To summarize our staffing situation, the Board began fiscal year 2013 with 899 employees on board. As of end of month May 2013, the Board has had 58 separations and 26 outside hires. We project that 74 employees will leave the agency during the fiscal year and 64 will be hired externally, resulting in a projected net loss of 10 employees and a projected balance of 889 employees on board.

We recently released the fourth quarter budget review request to bureaus and offices with responses due by June 24th. And once responses are received we will consolidate them and provide recommended adjustments to the Executive Committee and the Board for approval by the end of July.

Fiscal Year 2014: For fiscal year 2014 the President's proposed budget reflects a funding level of $111,739,000, which represents an increase of about $2.4 million over the Board's current enacted funding for fiscal year

2013. Projections indicate that this would be sufficient for a staff of 860 full-time equivalents and IT investment -- excuse me, information technology investments totaling $2,860,500 in fiscal year 2014.

On May 20th Karl Blank, Martha Barringer, Margaret Lindsley and I met with Lori Bias and Lisa Molyneux of the House Appropriations Subcommittee and Jennifer Castagna and Michael Gentile of the Senate Appropriations Subcommittee, in separate meetings. During these meetings, we provided an overview of the Board's benefit programs and administrative operations and summarized our budget request for fiscal year 2014. We emphasized the need for funding to support succession planning efforts and information technology investments.

Fiscal Year 2015: We are currently preparing the Board's budget submission for fiscal year 2015 for release to the Office of Management and Budget and the Congress by early September. The Office of Management and Budget's guidance for the fiscal year 2015 budget submission indicates that the Board's submission should reflect a 5 percent reduction below the net discretionary total provided for 2015 in the 2014 budget. In addition, the budget submission is to include additional reductions to a level that is 10 percent lower. In keeping with the agency's previous practice, we also plan to include the agency request level, which will show the amount needed in fiscal year 2014 to fully meet the Railroad Retirement Board's performance objectives.

The Office of Management and Budget's guidance did not include sequestration instructions, nor did it include across-the-board reductions. As requested in the guidance, we submitted the Board's updated Strategic Plan for fiscal years 2014 through 2018 to the Office of Management and Budget on June 3rd.

Fiscal Year 2013 Financial Statement Audit: An opening conference was held on April 16 with representatives from the Office of Inspector General, the Government Accountability Office, the Bureau of the Actuary and the Bureau of Fiscal Operations. We received OIG's list of deliverables as of May 17 and are working with the OIG on requirements.

Last, Status of the Federal Financial System Migration: The Financial Management Integrated System project remains on schedule with most subsystem designs completed or nearing completion, including budget preparation and execution, purchasing, contract writing, fixed assets, accounts payable in disbursements, disability medical exam and consultative opinion ordering and administrative accounts receivable. Work is progressing on finalizing the standard general ledger and external reporting requirements. The first Federal Financial System to Financial Management Integrated System data conversion test, which is also called a dry run, began May 31st and two more data conversion tests are scheduled in July and August respectively.

User acceptance testing and training plans for the Board have been finalized and end user training is progressing on appropriate level of training to all agency staff that will be licensed to begin work in the new system in October.

And this concludes my report.

CHAIRMAN SCHWARTZ: Thank you. Any questions?

Okay. Thank you very much for your time. If there's anything else, let me know. If not, that's it for today. Thank you.

(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

ORIGINAL

U.S. RAILROAD RETIREMENT BOARD

REGULAR BOARD MEETING

March 6, 2013

STENOGRAPHIC REPORT OF PROCEEDINGS

had in the above-entitled matter held at 844 North Rush Street, 8th Floor, Chicago, Illinois, at 10:00 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 WAECHTER, Assistant

MR. WALTER A. BARROWS, Labor Member
MR. JAMES BOEHNER, Assistant
MS. GERALDINE L. CLARK, Assistant
MR. MICHAEL J. COLLINS, Assistant
MS. NANCY RUSSELL, Counsel to the Labor Member

PRESENT: (Continued)

MS. MARTHA P. RICO, Secretary to the Board

MR. KEITH EARLEY, Director of Administration

MR. KARL BLANK, General Counsel

MR. GEORGE V. GOVAN, Chief Financial Officer

MR. FRANK BUZZI, Chief Actuary

MS. MARTHA BARRINGER, Director of Programs

MS. TERRI Morgan, Chief information Officer

MR. DANIEL FADDEN, Director of Field Service

Reported By: Karen Fatigato, CSR

License No.: 084-004072

CHAIRMAN SCHWARTZ: Today I'm going to go a little bit out of order today because we're going to let Terri lead off. This is Terri's last Board meeting, she's going into retirement.
10:00:54 Congratulations. And I want to thank you for your service and your fine service that you've done here at the Railroad Retirement Board. We appreciate your look at modernization. We know that modernization is going to be the key in the
10:01:10 future as we go forward, and we know that it will be a smooth transition for whoever ends up in your position. And we thank you very much.

I don't know if anybody has anything to add.

10:01:22 MR. BARROWS: I'd just like to echo those comments. We do appreciate all the work and service you've provided to the agency in your tenure here. And again, as the Chairman said, I think the transition -- you'll help us
10:01:36 in that transition and we thank you.

MR. KEVER: And, excuse me, I'm disappointed because Terri told me she'd give us ten years and she only gave us nine, but somehow I'll get over it. I wish you well in your

retirement, I know you'll have fun. And I'm
envious.

MS. MORGAN: March 7th is my ninth year
here.

10:02:00 MR. KEVER: Well, thank you for your
service.

CHAIRMAN SCHWARTZ: All right. So
would you lead off today and do the honors?

MS. MORGAN: Sure. And just in
10:02:04 response I'd like to say it's been an
outstanding place to work. I respect the
mission of the organization and the people are
just phenomenal. It's a great organization, the
best that I've worked in in my Federal career,
10:02:16 my 37 years in the Federal Government. And I
feel very privileged to have ended my career
here.

So the first thing I want to talk about
is our Windows 7 initiative. Several
significant changes are taking place within the
RRB's desktop computing environment. These
include the upgrade of our operating system from
Windows XP to Windows 7, the upgrade of our core
software suite from Office 2007 to Office 2010

and the upgrade of our Internet Explorer from Version 7 to Version 8. So all of those are going to be going in at the same time.

The move to Windows 7 will bring faster processing, improved functionality and better security. Since many commercial applications are now being developed specifically for the Windows 7 environment, upgrading will allow us to remain current with the other software products we use. Windows 7 provides improved productivity for end users with features such as Jumplists, the use of Libraries and pinning applications to the taskbar can help users organize their desktop to help them do a better job.

The move to Office 2010 will provide similar benefits. The list of new and enhanced features is long and include further improvements to the Microsoft ribbon, commands across the top, stronger formatting features, built-in PDF support, new audio and visual tools in some programs and real-time co-authoring tools for document collaboration. It's a great benefit. Another benefit is the inclusion of the Backstage View, which groups document management commands like save, share, print and publish into a single screen.

As with any upgrade, the move to Windows 7 may render some older peripherals or applications obsolete. All programs delivered through RRB's standard image will function normally, but some hardware and software will not work once the upgrades are complete. The Project Team and Pilot Team Members are testing RRB products for compatibility with Windows 7. The Windows 7 team has tested the majority of hardware and software we currently use and compiled compatibility results. The workstations that are not compatible with Windows 7 will require replacement. A budget item for these models has been incorporated in the FY13 budget.

The Windows Migration Project is being done in a staged approach and began with research and project plan development in November 2011. This stage included a hardware assessment of all RRB workstations, a comprehensive application inventory and the initial testing of both internally developed and commercial off the shelf applications. We are currently working on recording those internal applications which do not work in the Windows 7 environment.

As the migration project moves forward we will be continuing application testing, piloting the Windows 7 workstations and determining the last stage of the project - the actual deployment of the workstations.

EDM System Modernization Migration. In January the Employment Data Maintenance or EDM database was migrated into the master data environment. This was a major milestone for the 10:04:04 agency in its efforts to modernize our databases. Modernization is the third in a series of projects to improve data and access to the agency's mainframe data.

The first project was converting the 10:04:14 databases and applications from IDMS to DB2. The second project was to optimize the design of our databases into a single consolidated master data model.

And the third phase, System

Modernization, which we're in right now,
implements the Master Data model. It consists
of migrating the data from the old legacy
databases into the Master and redirecting or
10:04:38 reprogramming our application systems to use the
new model. So far we have modernized Medicare,
RUIA and now EDM as of January of 2013. Payment
Rate and Entitlement History or PREH has begun
and will be followed by TAX and then we'll
10:04:56 finish with various small systems. So we expect
PREH and TAX to take about a year. We just
started that. And all the other minor systems
will take about a year. And that will be the
conclusion of this project.

10:05:06 There are many benefits of system
modernization. It facilitates sharing data
between applications, eliminates redundant and
obsolete and inconsistent data and improves the
accuracy of data. Additionally the
10:05:18 standardization of names, data types and lengths
and code values simplifies access and data use.

Hang on just a second please.

During the system modernization process
we have developed metadata and documentation for

each data element which will reduce development time and help with the succession of staff. Finally, system modernization lays the ground work for the use of Business Intelligence tools 10:05:46 and forms a foundation for implementing a Data Quality plan.

And finally I want to talk about the strategic IRM Plan. We are in the process of updating the agency's Strategic Information 10:05:58 Resource Management Plan or IRM Plan. The Plan received approval from the Steering Committee at the end of February and has recently been presented to the EC for their comment and approval. Once approved by the EC the Plan will 10:06:10 be presented to the Board.

The Paperwork Reduction Act requires that agencies develop a strategic IRM Plan. The Plan follows the direction of the agency's strategic plan. It outlines our information 10:06:20 technology and information management strategic direction, documents the components of our environment, discusses some of the major challenges and government directives that affect the RRB and details our goals and strategies for the next five years. For the first time we categorize the goals and strategies into five broad activities: Protect the RRB's mission and its information; Build Programmatic Systems around External Customers; Provide Administrative Systems and Support to internal agency personnel; Transform Legacy Systems through System Modernization and Reengineering; and Advance the Agency's IT infrastructure.

10:06:58 We developed this plan with all RRB stakeholders as well and with supporting information provided through the agency's contract with Gartner. My thanks go out to all that had input in the Plan.

10:07:10 CHAIRMAN SCHWARTZ: Question for you.

You know, as you turn over the reigns, where are we on MIPS on the computer on capacity?

MS. MORGAN: We're doing very well.

10:07:22 The issues with the mainframe is going to be its age, not the MIPS. With the system modernization we were able to as we convert applications to the modernized database we eliminate the old database so that has saved us a tremendous amount --

CHAIRMAN SCHWARTZ: Capacity, yeah. So it saved us capacity.

If we end up -- okay. So what you're saying is the age of the mainframe. Is it going to be supported in the future?

10:07:44

MS. MORGAN: Well, they only have an age span, so within the next two years we'll have to replace -- or in two years we'll have to replace.

10:07:56

CHAIRMAN SCHWARTZ: Because they won't support the particular --

MS. MORGAN: Yes.

CHAIRMAN SCHWARTZ: All right. Well, when we do that because we don't have additional capacity will we have to -- do you think we'll have additional software costs or do you think we'll be able to keep those the same?

10:08:00

MS. MORGAN: I think we'll be able to keep those the same.

10:08:14

CHAIRMAN SCHWARTZ: So it's just the hardware cost. That's a relief. So you think we'll be able to convert with the same software, the same amount of software, whatever the charge is for a new computer, but we'll have hardware costs?

MS. MORGAN: Right. I mean, we still have software costs every year, but it won't 10:08:30 increase.

CHAIRMAN SCHWARTZ: Yeah, with increased capacity. Okay, good.

Any other questions? Great. Thank you.

10:08:36 General Counsel, Karl.

MR. BLANK: Thank you, Mr. Schwartz. I'll begin as usual with a summary of the litigation that's pending in the office.

One of the previous cases that I've 10:08:54 mentioned was Stephens versus Railroad Retirement Board, which concerned a disabled child denied as not being disabled by age 22. The case was filed back in March of 2011 and we got a decision in November, at the end of 10:09:10 November, the 21st, which reversed the Board's decision and remanded the case essentially to pay the disabled child. We also got a petition for attorney's fees that was filed in December, and we filed our response right on New Year's

Day at the end of last year and we haven't heard anything one way or the other on what's the issue there.

We also have another case that was filed back in 2011, the Nelson versus Railroad Retirement Board in the 9th Circuit as the Stephens case was. That's a Tier 1 computation offset by SS benefit case. And we filed our brief back in December of 2011 and the case is still pending in the 9th Circuit.

We have in the 8th Circuit we have Hernandez versus Railroad Retirement Board, which was filed last August. We filed our brief December 28th finally and petitioner filed a reply brief January 15th of this year. So we're waiting for a decision now on that or whether they set oral argument. That's not likely because that's a pro se petitioner proceeding without an attorney.

We have a case that was filed October 25th in the 7th Circuit, Johnson versus Railroad Retirement Board. There was a mediation conference which was held with an attempt to settle it on December 17th and petitioner's brief was due on February 8th, but we haven't received it yet. We'll see what happens there.

We also have a case in the 11th Circuit filed November 6th of last year, Faunce versus Railroad Retirement Board. We denied an age annuity based on less than 120 service months. We filed the record just last month on February 12th so that's just starting.

And finally we have a new case that came in February 5th, Yackell versus Railroad Retirement Board, also in the 9th Circuit. It's a denial of a period of disability for lack of insured status, which means Social Security requires that you have worked in 20 quarters out of the last 40 under the covered employment, and this individual didn't meet that requirement and so the freeze was denied for that basis. The petitioner was required to file a copy of our decision and didn't initially. Finally he made that filing on February 22nd so now the clock starts running on that case.

And we have two employer status cases, the Rail Term case in the District of Columbia Circuit. There's no change on that since the last Board meeting, which is that that case is still awaiting a decision by the Surface Transportation Board.

And then the last employer status case actually, Indiana Box Car versus Railroad Retirement Board, which was filed just about a year ago. We filed our brief in August of last year and oral argument was held on February 21st. Kelly Johnson from my staff appeared for this agency. I understand that we had a very active bench, that is to say, there was a lot of questions. They set the argument for a rather long period of time as these go. It lasted, counting both sides, over a half an hour. So it will be interesting to see what the D.C. Circuit has to say.

In my last report in November I reported that there were two cases pending before the Federal Labor Relations Authority. Since that time one was settled and the other was withdrawn so there are none now currently pending there.

I also reported in November there were five cases pending before the Equal Opportunity

Office, all of those remain currently pending.

10:13:58

As far as other things, I should mention that during December there was a request for discovery by the defendants in the Long Island case. We worked with Programs and the OIG to produce a great deal of information in that case, and I appreciate all the effort that was done by Programs.

10:14:20

On January 18th one of the indicted doctors pled guilty. And during the month of February my staff worked with Programs and the OIG on coordinating an agency response to that.

10:14:38

And finally regarding legal issues, I can mention that as part of the President's initiative on gun control the Department of Justice contacted my office to coordinate information which the Board may report to the National Instant Criminal Background Check System. We participated in a telephone conference and received guidance issued from the Department of Justice on March 1st, and we're working with Programs again to comply with that.

10:14:52

As to Hearings and Appeals, the statistics briefly. At the end of -- in the first quarter of fiscal 2013 we received 83 new appeals, that's compared with 111 last year. In the first quarter of '13 we issued 125 decisions, that's compared with 112 decisions during the same time last year. Now, fewer appeals, more decisions leads where you would expect, the balance of appeals on hand now is 370 at the end of -- at least as of the end of the first quarter, and that compares to 421 in 2012. That's a significant decrease and a good sign.

And just I might mention the staffing issues for OGC, of course, we lost Nancy Russell to the Labor Member's office when she became counsel to the Labor Member in January. In addition we had an attorney begin maternity leave in February. And at the end of November our paralegal suffered an injury which has kept her off since that time. We filled the paralegal position in January. In H and A we had a hearings officer retire and we selected a replacement hearings officer in February. And that concludes my report.

CHAIRMAN SCHWARTZ: Thank you very

much.

Are there any questions for Karl?

All right. We'll move on with Dan Fadden. Dan, this is your first meeting, we
10:16:42 expect your presentation to be especially riveting.

MS. BARRINGER: No pressure.

MR. FADDEN: Luckily there's no pressure on me, but thank you very much.

10:16:52 Basically I want to provide a quick update on a couple of projects and initiatives affecting Field Service.

Specifically we at the end of last fiscal year we purchased a software tool
10:17:02 learning management system, which basically it's a training tool. It's going to allow us to more effectively train our remote staff by incorporating some of our existing tools, Webinars, RRB Vision, Prism, et cetera, as well
10:17:14 as provide certain capabilities for training of our remote staff. As it stands right now we currently have 31 people that have not received their formal training, and obviously that is a concern. Although this tool will be used by all

organizations within the agency, we will be the first ones out of the box as far as the actual implementation is concerned.

Second thing I'd like to provide a quick update on is we have successfully completed the replacement or I should say the replacement in at least our largest offices of the existing file servers with a device called a WAN Accelerator. WAN Accelerator provides increased bandwidth capability, which is a factor as the offices get larger we start implementing more and more tools, such as, RRB Vision, there's a greater demand on the bandwidth. We have been working with Terri's staff on BIS since then to also update the file servers in the remaining sites. In addition, we are also deploying locking cabinets for all of our network equipment to address a previous OIG audit recommendation.

Last but not least I'd like to provide a quick update. As you know we deployed Polycom VoIP phones to the Field Service back in 2009. Since then those phones are no longer being supported by the vendor so we have a pilot

underway currently involving our Chicago, Joliet Charlotte and Belleview offices on new Polycom 560 phones. I'm pleased to report that the phones have been in place for several months now
10:18:42 and have basically operated without incident. So we are currently working with Acquisition Management staff to identify the counts. We hope to procure and install replacement VoIP phones at all Field Office sites by the end of
10:18:54 the fiscal year.

CHAIRMAN SCHWARTZ: Okay. Thank you. And I think I can speak for the other Board Members, I've talked to them about it, we appreciate your look at technology because I
10:19:04 don't think there's any place that's more important in having the technology than out in the field. So we appreciate your continued attempt to modernize that and keep looking at technology enhancements.

10:19:16 MR. FADDEN: Thank you.

CHAIRMAN SCHWARTZ: Any other comments? Okay. Martha, Programs.

MS. BARRINGER: All right, I'll see if I can be as efficient as Dan just was.

First on my list, IRS review of tax returns. We have heard from the Internal Revenue Service that they have no material changes to make to our -- their examination of our information return forms, so we got a healthy report on that and we're done with that audit for this year.

The next thing is the American Taxpayer Relief Act of 2012. There are a couple of prongs to that. First of all, in January we returned the Tier 1 tax rates that were deducted by the RUIA daily processing system to 7.65. That was done on January 3rd and that's based on return from the reduction that we made to the Tier 1 tax rates that were 5.65 by legislation for calendar years 2011 and '12.

So in addition to that we implemented the additional special extended unemployment provisions of the Tax Relief Act of 2012. That was also done in January. And we released notices on December 31st to all affected.

Third thing, release of RRA and RUIA tax statements. In -- on January 16th, 2013 our contractors successfully released 585,117 statements. 580,156 went to citizens and 4,961 went to non-resident aliens.

On the RUIA tax processing side. On January 23rd we were able to mail all of our statements for RUIA payments. We produced 12,884 forms W2 for sickness benefits, and 10,595 forms 1099 G to individuals who received unemployment benefits.

The Impact of the RUIA Sequestration: We were finally able at the tenth hour to lock down our percentage reduction for RUIA, it is 9.2 percent. That will we hope yield us our $6 million savings by the end of the fiscal year. We learned on Monday that there was a slight uptick in the amount that we do need to recover or withhold from our unemployment benefits and that adds $69,000. So what we've agreed to do is recalculate the benefits at the very end of the benefit year, which is the end of June, and then notify all affected people for the new benefit year as they apply. And we're going to work with the Actuary on projections for, you know, the balance of the fiscal year in order to meet our exact amount. So the letter

10:23:00 10:23:20 10:23:36 10:23:56

notifying our current beneficiaries was released yesterday at noon. It went to approximately 7,200 people. I'm still awaiting confirmation of the exact number that went out. And the rate of reduction is 9.2 percent. The first payment that will be affected by that will actually be in last night's run, but because of the three-day prepayment period the payment will not reach the employees until the -- Friday. So we expect that Field Service will hear from a number of people.

And the last thing I did not have on the agenda but I just wanted to mention quickly is our last piece of the requirement to implement universal direct deposit was completed on March 1st. So we now have all of the people that are currently on the rolls have to elect an electronic form of payment, and they have a choice usually of, you know, conventional financial systems or they can also elect a direct express debit MasterCard that is loaded each month. So we're happy to be finished with that.

CHAIRMAN SCHWARTZ: Thank you. Are

there any questions?

All right. Moving along, Chief Actuary, Frank.

MR. BUZZI: Good morning. I'd like to start by discussing the status of ongoing work. Work on the 2013 Section 502 Report is proceeding according to schedule. We have also begun work on the retired life studies for the 26th Actuarial Valuation and plan to prepare a report for the Actuarial Advisory Committee by the end of the year.

Work on the financial interchange is once again proceeding according to schedule after the return of one examiner who took extended family leave. This experience has highlighted the risks in understaffing this important area and has provided the impetus for us to begin the process of hiring another examiner.

In December we prepared the semiannual budget estimates for OMB. After the passage of the American Taxpayer Relief Act of 2012 enacted on January 1st, 2013, we prepared updated estimates.

The Taxpayer Relief Act impacted both the unemployment and retirement systems. A one-year extension of special unemployment benefits will result in approximately $12 million in additional benefit payments which will be funded by amounts previously received from Treasury and hence not impact our trust funds. The more significant and recurring impact results from the decrease in income tax rates lowering income taxes on benefits transferred to the Railroad Retirement Account by approximately $11 million per year initially.

Regarding the pre-1957 military service transfer, we have provided SSA with a summary of benefit amounts and have received administrative costs from them. Once we obtain the final interest rates earned by the OASI and DI trust funds from SSA, we will calculate the amounts due with interest for transfer this June as part of the financial interchange.

Finally, an ongoing issue related to the financial interchange is how to account for the 0.9 percent Medicare tax imposed by the Patient Protection and Affordable Care Act. As explained in my e-mail of December 6th, 2011 to the Board, because of the IRS's interpretation of the statutes, some railroad workers will pay less in taxes than they would have if all earnings were covered by Social Security. The RRB will have to make CMS whole for this reduction in tax income to our trust funds. The problem, however, is that the information needed to compute these amounts will not be included in the income tax returns which will be filed by railroad workers, so the IRS can't compute an exact amount. Along with the Bureau of Law and Bureau of Fiscal Operations, we have had several conference calls with IRS and CMS but have yet to find an adequate solution.

The point to bear in mind with regard to this issue is that although the amounts are initially small, because the $200,000 and $250,000 exclusions are not indexed for inflation, the amounts will grow with time. Also, to the extent we do not transfer funds to CMS because of the inability to make a calculation, we will eventually have to pay all prior amounts due with interest once a method is agreed upon. That's it.

CHAIRMAN SCHWARTZ: Great. Thank you. Any questions for Frank?

MR. KEVER: Frank, why did they make this different determination, do you know?

MR. BUZZI: I think Karl can answer that. There are legal interpretations and such.

MR. BLANK: Well, essentially there's a provision that relates to FICA that it was not included in the parallel provision of RATA, and as a consequence it allows the additional tax to be assessed on households where two workers are accumulating income up to a certain level I believe. And because under RATA there was no similar provision, each worker is assessed separately and consequently can earn up to the individual worker cap, which is -- the total of those two is higher than the total for the joint income level. And IRS's position is that in order to apply that lower level against RATA employees, that would require IRS to be assessing a tax that they don't have authority to assess, the difference being taxed. And consequently that information isn't collected directly and what's left then would be some sort of approximation that Frank is talking about. And they don't want -- I believe they don't want to collect that in their own return information as well, probably don't have the authority to do that.

MR. BUZZI: That was the issue.

MR. BLANK: So really the -- they don't believe they can amend the situation by REG, so that leaves basically an amendment to the law itself as the solution or some sort of administrative calculation that Frank is mentioning.

MR. KEVER: So it's going to fall upon us to reconcile this?

MR. BUZZI: Well, I think we'll need information from the IRS.

MR. KEVER: They don't seem like they want to give it to you.

MR. BUZZI: I don't think they're completely reluctant, but they have indicated they can't make an exact calculation. So the question is what sort of approximations can we make and how good are they.

MR. KEVER: But your waiting for them to make that determination?

MR. BUZZI: We're actively discussing it with them. Probably once it's been in place a little bit we may have a better idea of how to proceed.

MR. KEVER: Thank you.

CHAIRMAN SCHWARTZ: Okay. Any other questions?

All right. Keith.

MR. EARLEY: Thank you, Mr. Chairman.

Building Operations: Delegation of Authority: The current Delegation of Authority for the William O. Lipinski Federal Building expires at the end of fiscal year 2013. I have provided status updates to the Board. Agency discussions with the General Services Administration (GSA) continues, as well as requests for additional information. As recently as late January GSA requested detailed Cost Benefit Analysis of agency operating costs. We have submitted that information to GSA and continue to wait for their decision.

Fiscal Year 2012 Sustainability Report:

The Railroad Retirement Board is committed to reducing energy consumption and establishing policies that will ensure our compliance with the various environmental energy statutes requiring energy reduction goals. The goals are addressed in our Strategic Sustainability Performance Plan, SSPP. The RRB submitted our plan on time to the Office of Management and Budget (OMB) and the White House Council on Environmental Quality. OMB subsequently approved the report for public release and we have posted our plan on the RRB.gov website, as well as to OMB-MAX, which is their portal. We have also provided the RRB.gov address to the White House Council on Environmental Quality and they will publish the link on the Performance.gov website.

Continuity of Operations: COOP: Our COOP coordination with the Federal Emergency Management Agency, FEMA, and with the Chicago Federal Executive Board continues to strengthen. FEMA issues an alert to every branch of Government to ensure National Essential Functions will continue to be performed in the event of a catastrophic emergency. This alert, known as Continuity of Government Condition (COGCON), was sent out in January in preparation for the 2013 Presidential Inauguration and in February ahead of the State of the Union Address. A Continuity Status Report (CSR) is submitted by all departments and agencies to the National Security Staff so that they have a real-time view of Federal Executive Branch operations during the continuity event. The RRB was alerted of the COGCON level change for each event and our Emergency Management Specialists timely submitted our CSR report to the National Security Authority on time.

RRB Specialty Medicare Administrative Contract (SMAC) Services: RRB and its corporate partner, Palmetto GBA, completed the implementation and migration of the RRB SMAC Services and went into full production services on February 1st. RRB and Palmetto staffs reviewed the cutover results and conducted a lessons learned session on February 13th.

In addition Palmetto officers, managers and technical specialists were on site at RRB

Headquarters on February 27th to conduct briefings and training on processes such as invoicing and Closeout activities.

Our Chief Financial Officer, Mr. Govan and the Centers for Medicare and Medicaid Services, (CMS), Chief Financial Officer worked out a basic agreement on the general timeline for the implementation of the Healthcare Integrated General Ledger Accounting System or (HIGLAS) for Palmetto. And Mr. Govan made sure to memorialize the agreement in an e-mail. Therefore, the RRB contracting staff have removed references to HIGLAS from the draft Memorandum of Understanding between RRB and CMS and forwarded the draft to CMS with the expectation that CMS will sign off on the MOU by the end of March 2013.

Finally, Union Contract Renegotiation: Federal Mediation and Conciliation Service, (FMCS), held joint training on February 27th and 28th for management and union representatives who will either be on the contract renegotiation team or will serve as backup. FMCS is an agency that provides dispute mediation and other conflict resolution services. The next steps will be to determine ground rules for the negotiations, officially name the team members for management and the union and select a chief negotiator.

This concludes my report.

CHAIRMAN SCHWARTZ: Thank you. Any questions for Keith?

Okay. George.

MR. GOVAN: Yes, sir.

CHAIRMAN SCHWARTZ: Anchorman. Bring it home.

MR. GOVAN: All right, sir.

Good morning, everyone. I will briefly cover recent budget developments for fiscal years 2013 through 2015 and provide a status report on the migration of the Railroad Retirement Board's financial management system to a shared service provider.

In fiscal year 2013 the Railroad Retirement Board is currently operating under a continuing resolution that is in effect through March 27, 2013, which provides about 48.7 percent of our fiscal year 2012 appropriation.

Due to limited funding provided within CR instructions, the Executive Committee agreed to freeze fiscal year 2013 new external hiring and complete unfilled fiscal year 2012 external hires, which has been completed. The Executive Committee is in the process of prioritizing remaining fiscal year 2013 hiring in preparation for a potential full-year CR by March 27th.

The Dual Benefits Payments Account is also affected by the continuing resolution. It is our understanding that the CR provides about 48.7 percent also of our fiscal year 2012 appropriation.

Regarding the Railroad Retirement Board's full-year appropriations in fiscal year 2013, it appears that a full-year continuing resolution of approximately $108.6 million could be provided for the RRB's Limitation on Administration. As publicized, the sequestration is in effect as of March 1, 2013 and will result in $2.4 million reduction of our Limitation on Administration for fiscal year 2013. The resulting budget level for a full-year CR with the sequestration is $106.2

million for the RRB. This amount includes funding for 864 full-time equivalents and minimal IT investments in fiscal year 2013.

10:38:44 Fiscal Year 2014: On January 28th OMB issued the Railroad Retirement Board's fiscal year 2014 passback for the Limitation on Administration at $111.7 million. It provides the agency with funding for 860 FTEs and $2.8 million for IT initiatives, including $2.1 million for the Systems Processing Excess Earnings Data system, also known as SPEED. The Fiscal Year 2014 Congressional Justification has been drafted and is currently being reviewed by the Executive Committee.

10:39:18 Fiscal year 2015: The fiscal year 2015 Budget Call is in development. We expect to release the Budget Call later this month and will request replies from the bureaus and offices by the end of April.

10:39:32 Status of the Federal Financial System Migration: The RRB's FFS Migration project remains on schedule as the RRB's Migration Team continues to work with CGI on migration activities that will result in the RRB's current financial system being migrated to CGI's proprietary Momentum Financials Environment. CGI was recently authorized by the General Service Administration as a secure cloud service provider within the Federal Risk and Authorization Management Program, only the second company to be so authorized. A software environment is now being configured for the RRB's use which takes into account not only all Federal standards for financial system processing and reporting, but also many of the RRB's unique requirements, such as, disability medical exams and payment function and system interfaces with RRB's travel and payroll shared service providers. After many requirements gathering sessions and resulting pilot demonstrations of requirements, CGI has drafted interface, data conversion, report, training and test plans for all of our financial applications. As we look ahead we will continue on building a test environment migrating RRB's financial data and establishing connectivity from CGI's data center to the RRB.

That concludes my report.

CHAIRMAN SCHWARTZ: Thank you.

Any questions for George?

MR. KEVER: I have one.

You mentioned that the EC has curtailed external hires, how does that pertain to a replacement for Terri?

MR. GOVAN: We've only curtailed external hiring as part of when we were going through the back and forth on sequestration back in January obviously, and through, of course, the March sequestration exercise. We have managed by exception in emergency cases so, of course, we will make an exception for this position also.

CHAIRMAN SCHWARTZ: Any other questions?

Okay. 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

NOVEMBER 14, 2012

STENOGRAPHIC REPORT OF PROCEEDINGS had in the above-entitled matter, held at 844 North Rush Street, 8th Floor, Chicago, Illinois, at 10:00 a.m., MR. MICHAEL SCHWARTZ presiding.

PRESENT:

MR. MICHAEL S. SCHWARTZ, Chairman

MS. NANCY PITTMAN, Assistant

MR. STEPHEN W. SEIPLE, Assistant

MR. JEROME F. KEVER, Management Member

MR. JOSEPH M. WAECHTER, Assistant

MR. ROBERT PERBOHNER, Counsel to Management Member

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 Labor Member

PRESENT, CONTINUED:

MS. NANCY RUSSELL, Assistant
MS. MARTHA (PAT) RICO, Secretary to the Board
MS. DOROTHY ISHERWOOD, Director of Programs/Senior Executive Officer

MS. MARTHA BARRINGER, Director of Field Services
MR. KARL BLANK, General Counsel
MR. FRANK BUZZI, Chief Actuary
MS. MARGUERITE P. DADABO, Assistant General Counsel

MR. KEITH EARLEY, Director of Administration

MR. GEORGE V. GOVAN, Chief Financial Officer

MS. TERRI S. MORGAN, Chief Information Officer

MR. MARTIN DICKMAN, Inspector General

MS. DIANA KRUEL, Assistant Inspector General For Audit

REPORTED BY: April T. Hansen, CSR

LICENSE NO.: 084-004043

CHAIRMAN SCHWARTZ: Okay, great. It looks like everyone is here. Everybody is in their chairs, so if we can get started, that would be wonderful.

I think we are starting with the Director of Administration today.

That's you. Didn't you know you were recently promoted?

MR. EARLEY: I'm still in shock. Thank you, thank you very much.

Good morning, and I will beginning with the building operations. The new plaque commemorating the renaming of the building to the William O. Lipinski building has been properly and safely hung in the Rush Street entrance next to the dedication plaque from the RRB's original headquarters facility in Washington, DC.

The General Services Administration, Environmental Safety and Fire Protection Branch, has approved our use of the security turnstiles in the main lobby as all repairs and modifications necessary for compliance with life safety codes have been completed and verified. Consequently, I'm very pleased to inform you that the turnstiles went operational on October 15, 2012.

The current --

MR. KEVER: It brings tears to my eyes.

CHAIRMAN SCHWARTZ: Well, to someone who is as esteemed as you that has served here as long as you have, I guess the turnstiles are something you have been wanting for years.

MR. KEVER: It's a big deal. I still like the revolving door.

MR. EARLEY: Well, the current Delegation of Authority, the DOA, for the William O. Lipinski federal building expires at the end of fiscal year 2013. The Delegation of Authority, the inter-agency agreement and the standard operation procedures previously handled as separate documents, now a comprise one package and delegates operation and management of the building from the General Services Administration to the RRB.

Discussions with GSA over various parts of DOA have been ongoing since 2010. The facilities manager, Mr. Scott Rush, and I met with GSA on July 18, 2012, to work the remaining concerns and reached agreement on the various issues. We prepared all required documents, which includes a facilities management plan, a building operations plan, equipment inventory, and a preventive maintenance schedule, and submitted the package to GSA on September 17, 2012. We have recently learned that that package has been submitted to GSA headquarters in Washington, DC, and we are waiting on GSA's final determination to grant the DOA.

Mechanicals, such as the boiler and radiators, have been prepared and tested for the winter heating system. Our custodial contract calls for sidewalk clearance and salting in the event of snow or ice accumulations. Holiday decorations will be in place by November 16, lighting will be hung on the exterior trees before the Thanksgiving holiday. Small holiday wreaths will be placed in the display windows of the lobby and poinsettias will be placed on the front entrance and security entrance.

Administration. The Office of Personnel Management has issued the final redesigned standard government-wide senior executive service performance system plan and performance appraisal plan. The objective is to replace the current multiple senior executive service performance appraisal systems across the federal government with the standard system applicable to all organizations and SES employees. We are mandated to move to the new system and plans. As you know, our current SES appraisal plan certification expires at the end of this calendar year, 2012.

We submitted our package to OPM on September 20, 2012, and we received notification on October 4, 2012, that OPM, with OMB concurrence, approved the new RRB SES appraisal system. On November 5, 2012, our CFO, Mr. George Govan, and I met with the OPM certification review panel via telephone to discuss our submission. Based upon the panel meeting, the certification panel recommends approving provisionally -- that's one year -- recertification.

Provisional is recommended because this is our first year on the new government-wide system and plan, and because we are in a split year still using the old plans. However, OPM did state that during the meeting they saw no reason that our plans would not be fully recertified when we request our next Certification.

Finally, as I provide this brief synopsis of the status of our Speciality Medicare Administrative initiative, I will ask my colleagues to please add any important items I may have overlooked since this is an important and coordinated effort.

On September 28, 2012, the agency awarded a contract to Palmetto GBA for implementation services and the ongoing Medicare part B services under the RRB Specialty Medicare Administrative Contract, SMAC, S-M-A-C.

As you know, this has been a challenging endeavor as we worked through a multitude of issues for the Centers for Medicare and Medicaid Services, CMS. And it took a lot of close work and coordination to reach this successful point in the process.

However, I would be remiss if I didn't recognize the efforts of the core group of individuals who ushered in this new era of doing business. Mr. Paul Ahern, Ms. Yolanda Rocha, Ms. Karen Haskins-Brewer and Mr. Joseph Giansante, Mr. Daniel Bartnicki and Mr. Michael Kelly who have worked on this initiative from the very beginning and will have key roles going forward.

In addition, Mr. George Govan, Mr. Karl Blank, Ms. Dotty Isherwood, Ms. Marguerite Dadabo, and Ms. Michelle Bopp handled the legal, funding and other higher level issues that needed immediate attention in order to secure the implementation, the funding, and award the contract by the end of the fiscal year.

Mr. Govan and staff will now have key roles as well going forward. Mr. Govan, Mr. Ahern, Ms. Rocha, Mr. Giansante and I attended the RRB SMAC kick off meeting on Thursday November 1, 2012 in Augusta, Georgia where we reviewed the contractors organizational structure, the implementation plan and we discussed various migration and post migration issues such as work loads, staffing, invoicing, systems and close out activities. We also attended a demonstration of the health care integrated general ledger and accounting system, HIGLAS and the multi carrier system, MCS.

Our goal is to have the SMAC fully operational on February 1, 2013. In addition, Mr. Govan and I have drafted a letter with our signatures inviting CMS and Palmetto on site in December to outline, discuss operating procedures, to resolve pending issues with the IAA, and to conduct training on the systems we will need to use, such as the analysis reporting and tracking system and HIGLAS.

Finally, the under the guidance of public affairs, the 2012 combined federal campaign Chicago area charity drive has come to a close. It ran from October 9 through November 2. The RRB hosted a charity fair on Thursday, October 11, in the classroom on the 9th floor and had ten organizations represented. The total contribution amount is $127,475.18, with 206 eligible employees participating. That is an average contribution of $619 per employee.

And this concludes my report. Thank you.

CHAIRMAN SCHWARTZ: Okay, thank you very much.

Any questions? Okay. Then we will move along to George Govan, Chief Financial Officer.

MR. GOVAN: Good morning, everyone.

CHAIRMAN SCHWARTZ: We can't wait for the report now.

MR. GOVAN: I will briefly cover recent budget developments for fiscal years 2012 through 2014, and provides status reports on the audit of the agency's fiscal year 2012 financial statements and the migration of the Railroad Retirement Board's financial management system to a shared service provider.

First, fiscal year's 2012 budget. The fourth quarter budget review was conducted in August and budget adjustments resulting from this review were approved by the Board members on September 19. The total adjustments of $830,261 provided funding for requests from bureaus and offices and end-of-year priorities from the IT reserve.

As in prior years, we implemented end-of-year procedures to ensure that any available funds were used for the Board's highest priority needs as the year came to an end on September 30.

To summarize our staffing situation at year end, the Board began fiscal year 2012 with a staffing level of 894 full-time equivalents. The total number of employees at the Board was 899 as of September 30. During the fiscal year 72 employees separated from the Board and 65 new employees were brought on board from outside the agency. After adjusting for part-time employees and employees on leave without pay, the full-time equivalent usage rate at year end was approximately 833. Excuse me, 883, sorry.

Fiscal Year 2013 budget status. The Board is currently operating under a continuing resolution that is in effect through March 27, 2013. This provides about 48.77 percent of our fiscal year 2012 appropriation. It equivocates to about $58 million. Due to limited funding provided within CR instructions, the Executive Committee agreed to freeze fiscal year 2013 new external hiring through the end of December 2012, and complete unfilled fiscal year 2012 external hires. The Executive Committee will revisit whether to lift the 2013 hiring freeze by December 31.

The Dual Benefits Payments Account is also affected by the continuing resolution. As we monitor monthly payments, we may need to prepare a reapportionment request for this account under the seasonality provisions in order to pay full benefits through the end of the CR.

Regarding the Board's full year appropriations in fiscal year 2013, it appears that we could receive less than the $112.4 million currently included in the President's budget for the Board's Limitations on Administration account. The President's budget level of $112.4 million for the Board represents an increase of about $3.8 million over fiscal year 2012, and includes funding for 885 FTEs, $3.6 million for the migration of the Agency's financial management system to a shared service provider, and IT investments total $1.2 million in 2013.

The Senate bill, which was voted on by the Senate Appropriations Committee on June 14, includes $111.6 million for the Board's Limitation on Administration, and the House Appropriations Subcommittee marked-up a bill on July 18, providing the Board with $108.6 million. We are currently monitoring Congressional deliberations for the final outcome.

Fiscal year 2014 budget development. The Board's budget submission for fiscal year 2014 was provided to the Office of

Management and Budget and Congress on September 13. The Board included a funding request of $119.2 million at the agency request level, which would provide the agency with sufficient funding for 885 FTEs, and $1.8 million for priority IT initiatives.

In accordance with OMB guidance, the Board budget submission included a guidance level request of $114 million, which would fund 864 FTEs, and a reduced budget level request of 108.3 million, which would fund only 860 FTEs. The reduced budget level also included $5.7 million in "add back" requests, to reach a total of $114 million. Funding received at the guidance or reduced levels would present challenges for the Board as we continue to provide for succession planning and IT development.

Fiscal Year 2012 financial statement audit. We are currently finalizing the Board's performance and accountability report for fiscal year 2012, which includes the Agency's financial statements and progress reports and performance goals. On October 24, we provided a second draft of the 2012 report to the Office of Inspector

General in accordance with their list of deliverables. The final report is scheduled to be released to the President, Congress, and OMB on November 16.

Last, status of the Federal Financial Systems migration. On September 27, a contract for the implementation, migration and hosting of the Board's Financial Management Integrated System was awarded to CGI Federal, Incorporated, as the best value for the agency. This award followed a full and open competition based on the comprehensive technical and cost evaluation by a panel representing major stakeholders in the Board's financial management system.

The Board's current financial system, the Federal Financial System, will be migrated to CGI's proprietary software platform, Momentum Financials. Momentum Financials represents the next generation of financial management software after the Federal Financial System. At a strategic level, the migration process will focus on four main areas:

System configuration will be

specific to the Board's requirements. The RRB will not be required to share its database or software at the hosted site with other agencies.

Data migration from the Federal Financial System to the hosted site.

Change management, which will involve project staffing managing the conversion of many reporting and bulk filing processes to the automated process of the new hosted system.

And finally, training of Board financial administrative staff will be accomplished using on-site instructors from CGI, webinars, and the new system's built-in help screens and tutorials. On-site refresher training will be provided before and after production by CGI.

CGI began the process of configuring the Board's momentum environment by holding on-site meetings with Board stakeholders to determine the Board's business and reporting requirements. CGI has also begun the planning process for the Board's system interfaces and data migration.

On November 6, CGI provided a draft project schedule for the entire migration for our review and comment, and will walk through the draft schedule with the Board's migration team this month to address our comments.

That concludes my presentation.

CHAIRMAN SCHWARTZ: Thank you very much.

Martha Barringer, Director of Field Services, please.

MS. BARRINGER: Good morning, everyone. I have a brief report this morning.

The first item that I have on my list is an NTFS update and the network buddy system, which is something we're piloting. On September 24, we were finally able to go live with our two IVR enhancements, which provide, number one, dynamic position in queue message to all our RRB customers who are waiting in line. They can learn whether they are first in line, if they are tenth in line whatever, so they can determine if they want to hang on or if they want to leave a message for a rep to call them back. And the second is improved treatment of dial by extension so that RRB customers can get directly to a claims representative if they absolutely need to do that.

We are also testing new voice over

review and comment, and will walk through the draft schedule with the Board's migration team this month to address our comments.

That concludes my presentation.

CHAIRMAN SCHWARTZ: Thank you very much.

Martha Barringer, Director of Field Services, please.

MS. BARRINGER: Good morning, everyone. I have a brief report this morning.

The first item that I have on my list is an NTFS update and the network buddy system, which is something we're piloting. On September 24, we were finally able to go live with our two IVR enhancements, which provide, number one, dynamic position in queue message to all our RRB customers who are waiting in line. They can learn whether they are first in line, if they are tenth in line whatever, so they can determine if they want to hang on or if they want to leave a message for a rep to call them back. And the second is improved treatment of dial by extension so that RRB customers can get directly to a claims representative if they absolutely need to do that.

We are also testing new voice over

IP telephone equipment with the staff in Chicago District Office to determine if we have a match with our system and we can replace our phones which are at the end of their life cycle.

Lastly, we are conducting an experiment with four of our networks in the Northeast. First of all, because they are quite short staffed at the moment so we are solving an immediate problem, but we are also looking for a solution for our heavy period from January to March where our phones just ring off the hook. And that is basically flowing calls beyond the network level to any available agent based on the time they've been off the phone. So we have been doing it for a week and we have had zero abandoned calls so it's working very well at the telephone volume that we have right now. So we are hoping for January that we have a solution.

We have been quite busy in this last fiscal year with personnel changes. Field service had a total of 89 of them. Since the last Board meeting we have promoted four network managers, six district managers, two traveling claims representatives, one analyst, and we've hired 11 claims representatives externally. In that 11, there are two re-employed annuitants who are helping us out part-time in various parts of the country.

That concludes my report.

CHAIRMAN SCHWARTZ: On the voice over IP, what you're saying is you want to make sure it's compatible with the MPLS, so what we are doing in the field, is that it?

MS. BARRINGER: Yes. We have to actually be able to connect with our system, the one that's, you know, right. So Chicago DO is working quite well. We took phones out to Joliet and there is a hitch. We can't seem to keep the calls on the line for some reason. So we're -- the techs and our contractor are working on it.

CHAIRMAN SCHWARTZ: Okay. Any other questions there?

You know, George, I was sitting here thinking, it's pretty simple math if you lost 72 over a fiscal year, are we -- is our attrition rate like six a month now?

MR. GOVAN: That's about right. Last I looked at it, it was about 5.-something.

CHAIRMAN SCHWARTZ: Wow.

MR. GOVAN: So it's higher than what we reported last year.

CHAIRMAN SCHWARTZ: I can remember when we were talking about this a few years ago we were, wow, we are leaving losing two people a month.

MR. GOVAN: Two.

CHAIRMAN SCHWARTZ: You're right, it's going up to three a month and, my goodness. Well, I think part of it might be that there was a time period where there was a lot of classes that came in at once that many years ago.

Karl, you guys probably remember that, probably all that -- Dotty remembers it. You were in there, you were in the class.

All right. Chief Information Officer, Terri Morgan.

MS. MORGAN: Good morning. First thing I'm going to talk about this morning is the FY 12 year-end IT purchases. Funds available at the end of the fiscal year allowed to us purchase almost all of the information technology items the Executive Committee and I recommended to the Board. The most significant of the purchases are the additional WAN

Optimizers, the replacement servers and the secure equipment cabinets in the field offices, and we worked jointly with the Office of Field do that. These purchases will complete the replacement of all of the aging, unsupported server equipment and operating system software in the Agency's field offices, thereby improving the security and performance of the IT infrastructure.

With the year-end purchases we were also able to replace all of the telecommunications switches used to control all of the network traffic here at the headquarters on each of the floors in the headquarters, building more modern equipment that will allow Voice over IP, should the agency choose that telecommunication alternative in the future. We additionally purchased eight notebooks and additional software that will allow the Business Infrastructure Service Center to more quickly back up, restore and replicate the applications we have on our virtual server environment.

From a contractual support perspective we were able to fund additional task orders to assist with the development of an IRMAA

Part D collection system and four additional forms under the ERS project.

Finally, we were able to accelerate the purchase of memory upgrades for over 220 workstations both at headquarters and in the field offices in preparation for the transition to Microsoft Windows 7.

The RUIA system modernization. As part of the system modernization project, BIS recently completed a major milestone with the conversion of two RUIA databases. On October 6, the RUIA Unemployment Payment Control, UPC, and Master Claim records Online, MACRO, were converted to access data from the DB2 modernized/optimized database.

Central Register and Mainframe Annuity Residual Computation were converted in the 2011. The RUIA system will be fully converted to the DB2 database when the experience rating database is converted May of 2013. This system modernization initiative lays the groundwork to allow to us re-engineer our legacy applications to make them more efficient and provide user bureaus with better service by reducing development time and enhancing business functionality. Additionally, we are fully documenting all of the data and business rules, which will aid in succession planning.

The IRS tri-annual audit of FTI. The IRS conducted their triennial audit to review our compliance with their physical and electronic safeguarding requirements to protect Federal Tax Information, or FTI.

There were two audits. The first is an official audit of our safeguarding of our employer/employee representatives tax return information. We agree this is FTI, and we have been safeguarding this information since 1983.

The second was a courtesy and educational audit on our safeguarding of earnings information that we access through SSA. The IRS has requested a formal legal opinion from the Department of Treasury to see if we need to treat SSA wage data as FTI. And the IRS noted on the last page of their draft findings that a, quote, Final determination on IRC Section 6103 data received by the RRB from SSA, unquote, has not yet been made.

The RRB has known this is FTI since the early '80s; however, we have not treated it as FTI, essentially following the rigorous SSA safeguarding proceedings. So we follow the same procedures that SSA follows. Until now the IRS has not required the RRB to handle this as FTI. Additionally, there are currently no open audit recommendations from the IRS.

During the exit briefing, the IRS framed our agency in a very positive light and singled out various staff members for their good work. They detailed their recommendations, most of which will be easy to fix except for the implementation of controls of SSA wage data, which will be problematic if that comes to pass.

CHAIRMAN SCHWARTZ: Thank you very much.

Any questions?

MR. KEVER: I have a question, Terri. What is the final outcome of the IRS audit? Is there a final outcome at this point?

MS. MORGAN: They have not given us the final outcome yet.

MR. KEVER: What do you expect? Do you have any opinion?

MS. MORGAN: I don't have an opinion, I don't know otherwise involved.

MS. BARRINGER: Well, at the close out they were extremely complimentary of the Railroad Retirement Board and what has been done in the IT area, and for the most part the rest of the Agency the recommendations they made were really minor.

The only problem we will have is they were suggesting if this, the Social Security data actually is determined to be FTI, they want us to keep logs as the FTI, whether it's printed or whatever, goes from person to person within the Railroad Retirement Board, and we do believe that that will cause us an administration problem.

MR. KEVER: Who makes that decision? The IRS?

MS. MORGAN: Well, the decision is in front of the Department of Treasury. The IRS has requested a formal legal opinion from the treasury.

MR. KEVER: What does Social Security do now?

MS. MORGAN: We do the same thing they do. We follow their procedures. So they do not considered this under the same standards.

MR. KEVER: Do we know if they looked at

Social?

MS. BARRINGER: Yes, they have. And our people are talking to Social Security. We did not know until it came to the close out that they would recommend something like logging for the information, so now we will see if that was recommended also for Social Security and what their solution or answer back to IRS is.

MR. KEVER: I just want to make sure everybody understood that.

MS. BARRINGER: Yes. And IRS also suggested to us that they will work with us through a whole 12 month process to get this thing implemented in that way that would be acceptable to us.

MS. MORGAN: They did frame that as an educational audit. Like Martha said, they're going to work with us, they realized this is a new approach. We need to wait until that formal legal opinion is made.

But should it be implemented, then they would work with us on implementation.

MR. KEVER: They're going to loan us people to do that?

CHAIRMAN SCHWARTZ: All right, thank you.

General counsel, Karl.

MR. BLANK: Thank you. I guess I'll jump right in with a review of the litigation that's pending. We have five individual claims pending, litigation right now. Two of them are cases that have been around for a long time.

The Stevens vs. RRB case in the 9th Circuit which is a disabled child denial as not disabled by 22. That was filed back in March of 2011. We finally had oral argument on that July 12, and now everything is just at rest and we're waiting for the court's decision on that case.

The other older cases, the Nelson vs. RRB case in the 9th Circuit as well, that's a rather simple Tier 1 Social Security offset calculation case. That was filed on August, 2011. We filed our brief back almost a year ago in December of 2011, and we're just waiting for a decision on that. Oral argument wasn't set, so it would just be a decision on the briefs.

We have three new cases. We have the Hernandez vs Railroad Retirement Board filed in the 8th Circuit on August 17. That's, well, Mr. Hernandez is something of an inveterate litigator. The case this time concerns a denial of waiver of recovery of an overpayment based on disability annuity earnings. All we have at this stage is the fact the petition was filed.

Similar stance is Johnson vs. Railroad Retirement Board here in the 7th Circuit. That's a disability annuity denial case. That was filed just couple weeks ago, October 25.

And lastly, in the last week we had Faunce vs. Railroad Retirement Board filed on in the 11th Circuit. We were a little confused about whether that case actually was accepted as filed or not based on there is a filing fee that the Claimant has to put up. And it appears that they did accept filing on that case, but I don't believe that we've got the filing fee actually registered yet. So we will see. They might just dismiss that if he doesn't pay his fee or they don't waive it.

We also have the two pending employer status cases. The Rail Term case, which is still before the Service Transportation Board. And we had some activity in the other one, the Indiana Box Car case, which is in the District of Columbia Circuit. That was filed in March of this year. The employer filed his brief July 20. We got an amicus, as I mentioned at our last meeting which is unusual for cases involving the Board, and the Board filed its brief, our brief, August 20. We're pending an oral argument date in that the case. I presume there will be oral argument. It probably will occur in the next quarter, maybe in January.

We also have seven cases involving various aspects of employment law concerning the Board. We have five before the EEOC, and we have two before the Federal Labor Relations Authority concerning unfair labor practice filings. One MSPB case, which I reported at the last Board meeting, has concluded.

On the legislation front, everyone knows the OMB released the report to Congress pursuant to the Sequestration Transparency Act that outlined application of sequestration under the Budget Control Act of 2011. That report indicates that extended unemployment insurance benefits under the various recovery Acts will be exempt from sequestration while our regular RUIA benefits have in the past been subject to sequestration. That's problematic in terms of implementation, and we're still working to make sure that's what the OMB intends this to mean. The Office of Legislative Affairs and Office of General Counsel will continue to follow this now that everybody is back in Washington again.

Other activities. I noted in my last report that the US Attorney had instituted a Voluntary Disclosure and Disposition program in the Long Island matter. The Board simultaneously issued Board Order 12-29 that explained how we would handle participants.

The Early Agreement aspect of that program was extended but finally concluded in September, and the standard agreement concluded in October. The US Attorney's office has announced that there were 44 agreements filed under that program. The Office of General Counsel was advising the Office of Programs as those came in with regard to handling each case.

In addition, the District Court subsequently entered two orders in October directing that the Board pay annuities of the defendants in two of the Long Island cases into a

Seized Asset Fund maintained by the US Marshals. My office also provided advice to programs involving implementation of those orders.

Under the ethics, Office of Government Ethics aspect of OBC activities, the ethics staff completed all the annual training required for fiscal 2012.

Just as a side, the Stock Act, which we have mentioned off and on during last few months, one of the aspects of the Stock Act was the requirement that agencies post on their website the financial forms, information that's required of certain executive employees, and that was originally to be effective earlier this year. There was an amendment to that law that extended the effective date to December 8. In the interim there was also a court case brought by the Senior Executive Association, which enjoined implementation of that up until an earlier date. That injunction was not extended I guess on the grounds that we had the statutory extension until December 8.

We don't really have any information from Office of Government Ethics at this point as to what more will happen, what they expect, whether they are looking to have everything go up on December 8, which is not all that far away anymore. We are hoping find out more quickly.

As to the activities of the Bureau of Hearings and Appeals, in the 4th quarter the H&A received 114 appeals compared with 115 a year ago. In the 4th quarter H&A issued 146 decisions, a year ago in the 4th quarter of 2011 had issued 160. For the full fiscal year, H&A issued 510 decision this year compared with 524 last year, so we are still pretty much operating at an even pace.

We received 500 appeals over the last fiscal year as compared with 527 in fiscal '11. We ended the year down there with a balance of 412 appeals this year, as compared to 422 last year. So again, we're standing pretty much pat on that.

Also, in terms of hearings conducted, this last fiscal year we had a 54 video hearings compared to 88 in-person hearings. And in fiscal '11 we had 53 video hearings and 93 in-person. So we reduced that a little bit. We will see what we can do in the coming year to shift those numbers a little bit more toward video.

Finally, I should mention at the last Board meeting the Board requested that I conduct a -- begin conducting a best practices program to look at how the Board handles the disability freeze cases and the disability decisions in general. And I've begun working with the program evaluation management services section in programs, and also with Mr. Govan's staff to set up a plan of attack on that.

And that concludes my report.

CHAIRMAN SCHWARTZ: Okay. Thank you.

The Chief Actuary, Frank.

MR. BUZZI: Good morning.

CHAIRMAN SCHWARTZ: Good morning.

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

First, in August, we completed the statement of social insurance, the required supplementary information, and the statement of changes in social insurance amounts. We prepared related information for the Governmentwide Financial Reporting System.

In September we completed work on

our three main publications: the annual statistical tables, which contain historical information about our programs; the financial interchange book, which contains the results of the recently completed 60th financial interchange determination; and, the 25th actuarial valuation with technical supplement, which contains not only the valuation results and assumptions, but also information on the experience upon which the assumptions were based.

Regarding the first of our two military service projects, in August we estimated that our trust funds were due $605 million for additional benefits paid as a result of military service rendered primarily after June 1963. As of this date we have received no reimbursement for these benefits.

Regarding the second military service project, the pre-1957 military service project, we have received reimbursement from Treasury for this service and must now reimburse SSA in turn for those employees for whom we have received reimbursement but who have retired at SSA and not at the Railroad Retirement Board. As of this date we have made four transfers to SSA for this service and plan to make a fifth this coming June as an offset to the financial interchange transfer.

In anticipation of the transfer SSA has provided detailed casework for our review. We are currently working with the Office of Programs to review as many of these cases as practical before the transfer occurs.

Finally, I would like to talk about a couple of items of more general interest: the maximum monthly benefits, and the longevity of railroad workers.

Each year we calculate the maximum monthly benefits for a hypothetical worker beginning work in January of the year of attaining age 22, retiring at the age 65, and earning the maximum creditable earnings in each year. For such a worker retiring in November, 2013, and receiving his first payment in December, 2013, the benefit would be $4,695 per month alone, and $6,917 per month with a spouse the same age. For an identical worker covered under Social Security, the benefit would be $2,414 alone, and $3,599 with spouse.

Of course, the value of a benefit is

comprised not only of the monthly amount, but also of the length of time for which it is received. With increasing longevity it becomes increasingly likely for an annuitant to exhaust her savings and become increasingly dependent on the monthly receipt of the railroad retirement benefits.

Based on the experience contained in the 25th valuation studies, a male annuitant age 65 could expect to live for another 17.7 years, while one age 60 could expect to live another 21.9 years. Three years earlier, in the 24th evaluation, the life expectancies were 17.1 and 21.3 years respectively, an increase of 0.6 years in life expectancy in just three years.

Looking back 30 years to the 15th valuation, a male annuitant age 65 could expect to live for another 14.4 years, while one at 60 could expect to live another 17.9 years. Thus, in the course of only 30 years, an annuitant age 65 can now expect to live almost as long as one age 60 could have previously.

CHAIRMAN SCHWARTZ: That's really interesting. Very interesting.

MR. BUZZI: Oh, yes.

CHAIRMAN SCHWARTZ: Any questions or comments?
When you put the numbers to it, because, you know, intuitively you think that might be the case, but when you put the numbers to it it's pretty startling.

MR. BUZZI: And it's been fairly persistent over the past 30 years, there has been a persistent increase in longevity.

Finally, this observed increase in longevity is not confined to railroad retirement alone, and has important implications for Social Security, Medicare, and society as a whole.

CHAIRMAN SCHWARTZ: Absolutely. Interesting.

Any questions?

Before we start with Dotty, I just want to, you know, go on the record and thank you for all the service you have given the Railroad Retirement Board. There will be your last meeting. I don't think we will have any between now and then.

I can't say it goes without saying, because I have to say it. You know, what you have done for this agency is pretty remarkable. I mean, you've been everywhere and done pretty much everything. And I think it's because you are good at what you do, and -- yes.

MR. BOEHNER: Well, that was certainly because of the mentoring of Karl and Joe and I.

CHAIRMAN SCHWARTZ: And I think it's a great story. I mean, you're an example of what can happen at the Railroad Retirement Board. You come in in a class, move through the system, become a top administrator. Your knowledge and expertise has been invaluable. So, you know, just thank you very much for your service and we hope that you're in your a retirement years that you are able to do a lot of the things you weren't able to do when you were worried about us.

Any other comments?

MR. KEVER: Well, obviously I would echo those sentiments. You always wonder when people move around if they can't handle the job they have or whether -- I think in your situation obviously, if we didn't have faith in you, confidence, you wouldn't have been moved to those key positions.

So it's going to be tough replacing you. But I think we have a young lady over there who is up to the challenge and I'm sure she has your phone number, like I will have I'm sure. So congratulations, and know you will be missed.

MS. ISHERWOOD: Thank you very much.

MR. BARROWS: While I've only been here a year, that was just a year for the lifetime you have done. And on behalf of the people I represent, they really appreciate all your efforts and your lifetime of work on their behalf and I thank you for that.

MS. ISHERWOOD: Thank you very much. I appreciate all the nice things you've said.

CHAIRMAN SCHWARTZ: So now you can give your report.

MS. ISHERWOOD: I still have a report to do, the last one.

CHAIRMAN SCHWARTZ: I did have you give a report on your last day, I apologize for that.

MS. ISHERWOOD: That's okay. I have just a couple things to talk about today.

I want to just start with a report on sequestration under the Budget Control Act, and Karl already mentioned part of this to you. While we're still hoping that this is not going actually occur by January, 2013, we do realize there is not much time left, and therefore we are going ahead with planning in case it's not going to be able to be avoided.

Based on our review of the OMB report on the Sequestration Transparency Act as already mentioned, and we also looked at the action plan that was used to comply with the Gramm Rudman Law in 1985, on which the Budget Control Act was based, we've developed an implementation plan that will comply with changes that we're expecting will happened with the unemployment program benefits.

As you know, the railroad retirement benefits are exempt under sequestration, so our plan does not cover those.

Actions we're planning to take are, first of all, to reduce all normal and extended sickness benefits and all normal and regular extended unemployment benefits for calendar year 2013, beginning with days claimed on January 2 and later. Unlike the Gramm Rudman Laws, the current law covers calendar year periods rather than fiscal year periods.

Also, we are planning to look at the special extended unemployment benefits under two different scenarios. Whether they could be sequestered or may not be sequestered. Those would lead us down a couple different implementation paths. We are waiting to see for sure what the legal interpretation is going to be on that.

Those benefits are the ones that are being paid under the Middle Class Tax Relief law of 2012, or any of its predecessor laws. And those benefits are also paid from a special Treasury appropriation rather than out the RUIA trust fund.

The amount of the sequestration will be 7.6 percent for calendar year 2013, and barring any further Congressional actions, that rate of sequestration could change annually for a period of ten years.

We are working with BIS to reuse the Gramm Rudman programming logic that still exists from the 1980s, and we're changing the parameters for the dates and percentages to be used. We are also working with BFO to ensure that any requirements are developed for special reports that might be needed by OMB or Congress. And we are also developing several notices for the public, including letters for release to all claimants informing them of any impact on their benefit payments, an announcement for the toll-free number, a website notice, and working with public affairs on a press release on this topic.

And I do want to note at the end of this that there is still a possibility that the Budget Control Act could be amended to change the treatment of either regular and/or special extended unemployment benefits. So the RRB did provide special legislative language to the Ways and Means Committee staff in order to exempt regular RUIA benefits payments from sequestration and we are waiting and monitoring that legislation to see if anything might happen before January. So that's that.

Second topic this morning is just an update on one of our other major automation initiatives. This is called the Overpayment Recovery Correspondence System, also known as ORCS. This system is used by RRB staff to prepare overpayment letter packages that advise RRA beneficiaries about their overpayments and it up loads overpayment data to the accounts receivable system and to the Automated System to Recover Overpayments, also known as ASTRO.

The current initiative is to update and convert ORCS from a dBase programmed to a web-based program that will automate the retrieval of the most current data from RRB's mainframe systems, including the PAR system, the PREH database, and the retirement and survivor calculation systems known as ROC and SURPASS.

Once implemented, the redesigned program will result in processing improvements, increased accuracy, and reduction in the amount of paper we print out.

Specific ORCS improvements include: new payment summaries that will show accrued and previous payments and accrual offsets that are used to establish the overpayments; integration of RRAILS letters into the ORCS system to utilize pre-filled information and improve printing and imaging of letters; automation of non-entitlement letters used by BFO's Debt Recovery Division; automation of forms used to establish and modify the overpayment that are in the PAR database; and an automated process for referring cases to the OIG when appropriate.

The target date for completing the first phase of this initiative is December 3. Two additional phases are planned to incorporate overpayment handling for the RUIA program and then one for the Medicare program. Both of these are currently planned for implementation during fiscal year '13.

And finally, a very brief update on our procedure that we have in place for the Hurricane Sandy situation. To help the victims of the Hurricane Sandy, field offices have begun taking special temporary measures to expedite the filing of unemployment and sickness benefit forms and payments in special needs cases. Since electrical, transportation and rail services were disrupted, we were allowing -- are allowing UI and SI claim information to be taken by phone and entered directly into the claims system.

Field staff are required to verify each claimant's identity before accepting claims in this manner. If the claimant indicates it's a dire need, field offices are also temporarily allowed to bypass the prepayment verification step to expedite the payment. This requirement has been waived for this situation based on consultation with some of the rail employers in the affected areas.

For sickness claims taken by phone, medical information may be provided by the doctor to headquarters by fax. And the contact log is also being clearly documented to identify special procedures when they are being used.

We have also placed an alert on the home page of our website, and a message has been added to the toll-free service to notify claimants affected by the storm that they should call field service if they need assistance in filing their application and claims for UI and SI.

For the period November 2 through the 9th, field offices had taken a total of 37 UI claims and 24 SI claims by phone under the new process.

And again, I just want to note these are temporary measures which we are constantly watching and we are periodically reviewing them. They will be modified as the services become more available in those areas.

And that concludes my report.

CHAIRMAN SCHWARTZ: Thank you.

Does anybody have anything else? Okay. Thank you for your time this morning. Thank you.

MR. KEVER: I have one other, I'm sorry.

While we were talking about Dotty, there is another person that is leaving the agency who has had somewhat of a pretty good career here, and I think he works for the Labor member.

CHAIRMAN SCHWARTZ: Mr. Saddler.

MR. KEVER: Mr. Sadler perhaps. I forgot to mention that.

Thanks for all you have done, Tom. You have been in a few places yourself. Thank you very much.

MR. SADLER: Thank you.

(Which were all the proceedings heard or offered at the meeting of said cause.)

STATE OF ILLINOIS)

) SS:

COUNTY OF C O O K)

April T. Hansen, 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 excerpts of proceedings given at said meeting.

April T. Hansen

Certified Shorthand Reporter

ORIGINAL

U.S. RAILROAD RETIREMENT BOARD

REGULAR BOARD MEETING

August 8, 2012

STENOGRAPHIC REPORT OF PROCEEDINGS had in the above-entitled matter held at 844 North Rush Street, 8th Floor, Chicago, Illinois, at 10:00 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 WAECHTER, Assistant

MR. WALTER A. BARROWS, Labor Member

MS. GERALDINE L. CLARK, Assistant

MR. MICHAEL J. COLLINS, Assistant

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

PRESENT: (Continued)

MS. MARTHA P. RICO, Secretary to the Board

MR. KEITH EARLEY, Director of Administration

MR. KARL BLANK, General Counsel

MR. GEORGE V. GOVAN, Chief Financial Officer

MR. FRANK BUZZI, Chief Actuary

MS. MARTHA BARRINGER, Director of Field Service

MS. DOROTHY ISHERWOOD, Director of Programs/Senior Executive Director

MS. TERRI Morgan, Chief information Officer

Reported By: Karen Fatigato, CSR

License No.: 084-004072

CHAIRMAN SCHWARTZ: Thanks for being here this morning, and I think that we'll start with our committee reports, Executive Committee, with the Director of Administration. Keith, if you would start off please.

MR. EARLEY: Good morning.

The New SES Performance Appraisal Plans and System. The Office of Personnel Management, OPM, has issued the final redesigned standard Government-wide Senior Executive Service, SES, performance system plan and performance appraisal plan. The objective is to replace the current multiple Senior Executive Service performance appraisal systems across the Federal Government with a standard system applicable to all organizations and SES employees. We are mandated to move to the new system and plans. Our current SES appraisal plan certification expires at the end of this calendar year. Senior executives will be rated on the plans approved for the current certification. The new system and plans must be submitted to OPM for certification by OPM with concurrence by the Office of Management and Budget. The new plans will be effective with the new calendar year. The Senior Executive Officer, myself and fellow executives have been working with OPM to make sure we are developing the plans as OPM intended. We plan to have the new system, plans, memorandum from the Board requesting certification and other required materials to the Board by the end of August for Board signature and submission to OPM.

Status of Building Entry Turnstiles. We have experienced problems during testing of the new turnstiles which has kept us from receiving authorization from GSA to operate them. New control chips were manufactured, delivered and installed in the turnstiles on July 5th of this year. RRB and GSA personnel performed acceptance testing on the turnstiles on July 17th and a failure occurred in the fire alarm system relay switch that interfaces with the turnstile devices and the physical access control system. A new switch was installed and testing was performed again on Sunday, July 22nd by RRB personnel. Seven of the eight swing panels passed the fire alarm/power failure system. One panel did not pass and we have contacted the installer and notified them of the situation. A technician arrived and diagnosed the problem as being a bad motherboard. We have been advised that a new motherboard was ordered and it will be installed as soon as it arrives.

Status of Delegation of Authority for William O. Lipinski Federal Building. The current delegation of authority, DOA, for the William O. Lipinski Federal Building expires at the end of fiscal year 2013. The DOA, Interagency Agreement, IA, and the Standard Operating Procedures, SOP, previously handled as separate documents, now comprise one package and delegates operation and management of the building from the General Services Administration to the respective agency. Discussions with GSA over various parts of the DOA have been ongoing since 2010. The facilities manager Mr. Scott Rush and I met with GSA on July 18th to work through remaining concerns. We reached an agreement on the draft documents and a final copy of the documents will be submitted directly to Mr. Schwartz from GSA for his signature. Of note is that the current DOA was in effect for ten years. GSA has reduced that time span in the new DOA to five years.

RRB Specialty Medicare, SMAC, Services. Mr. Paul Ahern spoke to our CMS contact around July 2nd and furnished him with a copy of the Office of General Counsel's Legal Opinion regarding the CMS stated concern. He also requested that CMS and RRB take up the dialogue again to move the IAA forward. Mr. Ahern traced with CMS on July 17th to get their status and to see if further dialogue was needed. CMS responded back on July 27th that the Department attorneys met with the Office of Financial Management officials at CMS two days ago but still want one more meeting with OFM before contacting the RRB attorney. RRB Attorney Bopp spoke to CMS attorneys yesterday and believes we are making progress in a direction favorable to the RRB's position. CMS has acknowledged that funds should be disbursed from the Supplemental Medical Insurance Trust Fund and procedure should be invoiced to us which we approve, then to CMS for certification, then to Treasury for disbursement from SMI, the Supplemental Medical Insurance Trust Fund. At this point the question just becomes if we send invoices to CMS or Treasury. CMS attorneys are going to talk to their people about sorting out the procedures. Upgrades regarding the HIGLAS system. They didn't believe that CMS should pay for the upgrades as it wasn't strictly for CMS's use. CMS asked if we had appropriations for these type of upgrades and Attorney Bopp told them that we did not so they agreed again that this money should come from the SMI trust fund and they would certify it for payment from the Treasury. We are awaiting CMS's responses regarding the latest developments.

Employee Assistance Program. The RRB awarded a five-year contract to a new Employee Assistance Program provider, FEI Behavioral Health. FEI has a network of counselors located across the country to provide these services to RRB employees and their family. There are two counselors available on site at headquarters and a toll-free number for field employees.

Custodial Services. Effective April 1st Acquisition Management has awarded a five-year contract to a new custodial provider, CMC Maintenance, Incorporated. The contractor has completed a full transition of duties without disruption and has retained a full staff from the previous contractor as well as the cleaning supervisor. All procedures are in place.

Elevator Maintenance Services. In May Acquisition Management awarded a five-year elevator maintenance contract to Kone, Incorporated, of Lombard, Illinois. Kone was awarded the agreement as the total best value offer. Acquisition Management successfully negotiated with Kone to receive their final proposal revision which will save the agency funds as it is a 16.4 percent decrease from Kone's current contract pricing.

That concludes my briefing.

CHAIRMAN SCHWARTZ: Okay, thank you, Keith. Any questions for Keith?

MR. KEVER: I have a question on the SES new certification. Has that changed dramatically from what we have today? And how should the Board if we need to get involved because you said by August 31st? You know, we evaluate the SES so I'd kind of like to know what we're evaluating against.

MR. EARLEY: The template has changed dramatically. It is a standard template for both, the appraisal plans and the system plan. Both have dramatically changed templates which are standardized for the whole Federal Government. We will -- we are working again with OPM because OPM and OMB certify it so we want to make sure that we are in line with how they believe it should look and then we will present the package to the Board for their review.

The executives right now have gone over their individual appraisal plans, we will present that package through the SEO to the Board and we'll meet with you to discuss it and to answer any questions.

MR. KEVER: Now, this has to be done by the end of this August?

MR. EARLEY: Well, we want to submit it

by the end of August, that is our goal, to submit it to OPM for certification.

MR. KEVER: So we need to review it before that, I assume?

MR. EARLEY: Right. Yes, sir, we want to have it to you -- our goal is to have it to the Board by the end of August. It does not have to be submitted to OPM.

MR. KEVER: Okay, that's what I thought.

MR. EARLEY: I apologize. Our goal is to have it submitted to the Board officers for their review by the end of August.

MR. KEVER: I thought you meant you had to get it to OPM.

MR. EARLEY: Oh, no, sir.

MR. KEVER: All right.

CHAIRMAN SCHWARTZ: Thank you very much.

George, you're only working on three years of budgets? You only have three years going? Let's hear the update. We're anxious to hear.

MR. GOVAN: Good morning, everyone. I

will provide an update on recent budget developments for fiscal years 2012 through 2014, a status report on the fiscal year 2012 financial statement audit and recent actions taken to migrate the agency's financial management system to a shared service provider.

2012 Budget. The RRB's reimbursement from the Centers for Medicare and Medicaid Services projected to increase $1.25 million in fiscal year 2012. The funding is needed for services to develop a system to collect Medicare Part D income-related monthly adjustment amount premiums by annuity withholding or direct billing. The Office of Management and Budget approved apportionment of the additional funding on July 10th.

Results of the third quarter budget review were approved by the Board members on August 2nd. Approved increases included $260,000 for depreciation expenses related to the renovation of the RRB headquarters building lobby. We are awaiting a response from the General Services Administration for our 2012 exemption request of this cost at this time.

To summarize our staffing situation, the RRB began fiscal year 2012 with a staffing level of 894 Full-Time Equivalents. As of July 14th we had a funded level of 885 FTEs and a projected total utilization rate for the year of 884 FTEs? Through July 21st -- excuse me, July 31st, a total of 60 employees separated from the RRB in fiscal year 2012, and 40 new employees were brought on board from outside the agency.

Fiscal Year 2013 Budget Status. We now expect that a six-month continuing resolution will be enacted in September, providing for a relatively smooth transition to fiscal year 2013 operations. OMB has indicated that funding under the Continuing Resolution will be pro-rated based on the actual amount appropriated in fiscal year 2012, unless special circumstances apply.

On August 1st OMB released Budget Data Request 12-34, Addendum 1, requesting information from the agencies concerning the implications of the proposed six-month CR in fiscal year 2013. We replied on August 3rd requesting an increase of $3 million in the agency's pro-rated funding during the CR to enable the RRB to continue with contractual services needed to transition our financial management system to a shared service provider by the beginning of fiscal year 2014.

Next, Congressional action in our fiscal year 2013 appropriation has not been completed. On June 14th the Senate Appropriations Committee voted on and reported out their Fiscal Year 2013 Labor, Health and Human Services, Education and Related Agencies Appropriations bill, which includes $111,649,000 for the RRB's Limitation on Administration. This mark includes $3 million for the Financial Management Information System project.

On July 18th the House Labor HHS Appropriations Subcommittee, not the full committee, the subcommittee, marked up a bill providing the RRB with fiscal year 2013 funding of $108,649,000, which is the same as our enacted level for fiscal year 2012. Note: The full committee has not yet scheduled a markup on the bill.

Fiscal Year 2014 Budget Development.

We are nearing completion of the fiscal year 2014 budget submission. In accordance with OMB instructions released in June, the budget submission will reflect a guidance level of $114 million. The budget will also include a reduced funding level to $108.3 million which represents a cut of 5 percent or $5.7 million from the guidance level. OMB's guidance indicates that the budget submission should document specific activities with cost savings and expected return-on-investment for funding requested to restore the 5 percent cut. The Executive Committee is considering proposed project requests for this level now. In keeping with the agency's previous practice, we also plan to include the agency request level of which will show the amount needed in fiscal year 2014 to fully meet the RRB's performance objectives.

Next, the Fiscal Year 2012 Financial Statement Audit. An opening conference was held on April 12th with representatives from the Office of Inspector General, the Government Accountability Office, via teleconference, and the Bureau of Fiscal Operations and with the

Chief Actuary regarding the OIG's audit of the RRB's fiscal year 2012 financial statements. A copy of the OIG's list of deliverables was provided to appropriate RRB offices and was posted to BFO's SharePoint site for the Performance and Accountability Report.

Also, this is the first year that we have been instructed to provide actuarial information from the draft Performance and Accountability Report to Treasury's Financial Management Service before the end of the fiscal year. We plan to post the actuarial information on OMB's system by August 27th.

In accordance with OIG's timeline, a draft Performance and Accountability Report was submitted on Friday, August 3rd, to their office.

Last, Status of the Federal Financial System Migration. The FFS migration project remains on schedule as the RRB's migration team continues to work with KPMG on pre-migration activities.

The RRB evaluation team reviewed a detailed response from a Federal Shared Service

Provider, at that time that was the Department of Interiors National Business Center, to provide hosting and migration for an integrated financial system. The response included pricing information, a detailed response to all mandatory and value added requirements, past performance references and a demonstration of the Federal Shared Service Provider System. The evaluation team concluded, based on its scoring guidelines, that the Federal SSP substantially met all of the RRB's requirements but could not meet the RRB's pricing limitations for yearly operations and maintenance costs.

Accordingly a Request for Proposal was released to private/public Shared Service Providers to provide a Financial Management Information System. The RRB's Federal Financial System Migration technical evaluation team completed an initial evaluation of responses received by the RFP's due date of July 9th and has contacted clients of the responding SSP's for past performance information to supplement their evaluations. The technical evaluation will also include formal demonstrations which will be held next week, the 14th and the 16th respectively, at the RRB. Following the demonstrations the team will forward their recommendation of an SSP based on RRB's technical requirements. Final award will be based on both the technical proposal and the SSP's proposed pricing of the services. We anticipate final award in late August or early September.

And that concludes my comments.

CHAIRMAN SCHWARTZ: Any questions for George? Mr. Kever.

MR. KEVER: When your group evaluated the proposal from the other Federal agency, did you have subsequent conversations with them about why you didn't accept their's because the cost was too high?

MR. GOVAN: Yes, sir, as part of the standard when we decline a proposal we send a formal letter. We work with the Acquisition Management staff. So we sent them a formal letter.

MR. KEVER: Have they gotten back to you?

MR. GOVAN: We have received comments. We didn't receive anything to my knowledge that alluded to our process or our procedures on stopping them from providing the best value of the product. I just believe that when you look at their operations and maintenance of the product that they were going to provide, it was just too costly.

MR. KEVER: Okay, thanks.

CHAIRMAN SCHWARTZ: Okay, thank you. Let's go to the Director of Field Services, Martha.

MS. BARRINGER: My first topic is WAN Accelerator installations. We are working with BIS and contractors to improve our data transfer service to all of our field offices as well as the end result being able to take our servers out of the field offices. We're off to a good start after having to back up and start over. There are five offices that now have WAN Accelerators, that would be Joliet, Fort Worth, Omaha, Kansas City and Fort Worth -- I mean and St. Louis. They are all reporting dramatic improvement in their data transfer and voice improvement and BIS is working on collecting metrics to verify those reports to us. We have a schedule of seven more offices to make installations from August 14th to September 12th. About once a week we will install a WAN Accelerator in the. And the offices are Jacksonville, Covina, Huntington, Boston, Washington, D.C., Buffalo and Little Rock. And we are hopeful that at the end of the year we may be able to purchase additional WAN Accelerators that we can put on a schedule to have installed. So we're very pleased with the progress that we've made on this.

Next topic HSPD-12 compliance. You've been getting reports about headquarters and the gates on the first floor. We also have some interesting things going on in Field Service. We have 33 offices where each staff member has access and a current pin, and those are all fine and completed. Three additional offices we have new employees who need to get their ID cards, plus go through their security clearance checks, so we are working on that in the normal fashion. We then have 17 offices who are very remote from a credentialing site, and the Office of Administration has been working with us. They bought a laptop installation with a fingerprint reader and a way to credential all of the offices that are remote and they are working on sending that station out to managers who have been certified to verify that these are employees who should have their pins updated. So we are on track to finish that by our deadline, which is the end of the fiscal year.

NTFS Enhancements. I put this on the list because I thought I was going to be able to report success. Unfortunately, they put all of our enhancements, which are, you know, letting -- announcing to callers that we have -- what number they are on queue and some enhanced routing to individual CR's voicemails and they put it in yesterday and they found that there were two errors, what they called sizing errors, on our contractor's side. There was nothing that we could do anything about. So they are scrambling to get these things corrected and we will put it back in. So I'm hoping that soon I can report that that is -- is a done deal. We have our enhancements in.

We do know that Century Link is going to release an update of the software that we use for our phone system. It's called Genesis. They will be going from Genesis 7 to Genesis 8. It has a lot of the enhancements that we had on our list of things that we might want to customize and have to pay for so we will be able to get them with the new upgrade, which they're right now estimating will go into production in March of 2013. So that part is close.

Since the last Board meeting we have had a number of managers replaced or promoted. We have a network manager in Huntington, Janet Scarberry. We've replaced six district office managers. We have Fred Sales in Roseville, Michelle Fields in Fort Worth, Pat McCulle in Buffalo, Starlette Stokes in Albany, Roberta Hoppes in Billings and Christine Shay in Scranton. In the wings and waiting for us to make selections on are three additional network managers, one in the Milwaukee network, St. Paul and Philadelphia, and we are working on those. And then we also have districts who need new managers, we have Harrisburg, Little Rock, Roanoke, Joliet and Decatur.

And that concludes my report.

CHAIRMAN SCHWARTZ: Thank you. Any questions for Martha?

All right. Chief Information Officer, Terri Morgan please.

MS. MORGAN: Good morning.

On November 28th, 2011 a Presidential Memorandum, Managing Government Records, was released to the heads of executive departments and agencies. The directive began an executive branch wide effort to reform records management policies and practices and to develop a 21st-century framework for the management of Government records. The expected benefits of this effort include:

Improved performance and promotion of openness and accountability by better documenting agency actions and decisions;

Further identification and transfer to the National Archives and Records Administration of the permanently valuable historical records through which future generations will understand

and learn from our actions and decisions; and

Assist executive departments and agencies in minimizing costs and operating more efficiently.

In mid-June OMB released the following draft directive. Once final, the directive will be applicable to all agencies and to all records.

The directive requires agencies to eliminate paper and use electronic recordkeeping to the fullest extent possible and create a robust records management framework that complies with statutes and regulations to achieve the benefits outlined in the Presidential Memorandum. The directive also identifies specific actions that will be taken by the National Archives and Records Administration, Office of Management and Budget, Office of Personnel Management and the General Services Administration to support agency records management programs.

The draft directive includes a number of goals through FY2019. I wanted to highlight just some of the goals and requirements occurring within the next few years:

Goal 1: Require electronic recordkeeping to ensure transparency, efficiency and accountability.

By 2019 the Federal agencies will manage all permanent records in electronic format.

By 2016 Federal agencies will manage both permanent and temporary e-mail records in an accessible digital format.

Goal 2: Require agency records management programs to demonstrate compliance with statutes and regulations.

Specifically, the Presidential Memorandum requires all agencies to designate a Senior Agency Official to oversee a review of their records management program.

By December 31st, 2013, the SAO, Senior Agency Official, will ensure that permanent records that have been in existence for more than 30 years are transferred to NARA unless the head of the agency which has custody of them certifies in writing to the Archivist that they must be retained for use in the conduct of regular current business of the agency.

By December 31st, 2014 all agency records officers must hold the NARA certificate of Federal Records Management Training. New incumbents must possess the certificate within one year of assuming the position of the agency records officer.

By December 31st, 2014, all Federal agencies must establish mandatory training, including training specific to records managed in a digital environment for all staff regardless of grade or position.

NARA and other oversight agencies will take the following actions to assist agencies in meeting the two central goals of this directive.

In order to achieve Goal 1, requiring electronic recordkeeping by December 31st, 2013, NARA will complete and make available its revision of the transfer guidance for permanent electronic records. NARA will also create a new e-mail policy. By December 31st, 2013 NARA will issue updated guidance which describes methods for managing, disposing and transferring of e-mail. By December 31st, 2013 OMB will expressly direct that agencies must embed records management requirements into cloud architectures and other government IT systems and commercially-available products and incorporate records management requirements when moving to cloud-based services or storage solutions.

In order to achieve Goal 2, creating a robust records management framework that demonstrates compliance with statutes and regulations and promotes partnerships by December 31st, 2012, the Archivist of the United States will convene the first of periodic meetings of all SAOs to discuss the progress in implementation of this directive; agency Federal records management responsibilities; and partnerships for improving the condition of records management in the Federal Government. By December 31st, 2013 OPM establishes a formal records management occupational series to elevate records management roles, responsibilities and skill sets for agency records officers and other records professionals.

That's my report on the new records management directive.

CHAIRMAN SCHWARTZ: Thank you.

MS. MORGAN: Information Security Training. Basic security awareness training for All Employees is mandatory for FISMA compliance. The RRB's goal is to have all the training completed by August 31st, 2012, this month.

As of August 6th, 88 percent of the agency's employees and contractors originally enrolled on the on-line Basic Security Awareness Training course had completed their training. Of 119 employees and contractors who had not completed the training, 80 percent had not started the training and 39 had started but not yet finished.

We are tracking this closely. A reminder e-mail is sent every Monday to all employees who have not completed the training.

Finally, the web application security awareness training. As part of our ongoing effort to ensure that we have the most secure computing environment for the RRB, the bureau contracted in fiscal year 2011 with Janus

Associates to conduct a third-party review of the security we have in place for the on-line services we provide through rrb.gov, and to test the level of security awareness of RRB employees. Overall, the March 2012 report confirmed that the agency is doing a good job of providing a secure information technology environment.

Based on the results of the contractor's review, the Chief Security Officer and his staff prepared an internal risk management proposal for the Chief Information Officer which detailed a number of suggestions to harden our security posture and mitigate lower priority risks identified in the tests. The recommendations included, in part, additional security training for BIS staff, adoption of additional security techniques and the continued use of security assessments.

We have taken or are taking the following steps to follow through on those initial recommendation:

A contract for training BIS Application Development Center staff in secure programming of application software has been issued. The training will be conducted this month at the RRB. The training will provide staff with an understanding of common web application vulnerabilities and attacks, testing techniques to identify flaws and common code-level defenses used to defend against threats.

Working with the steering committee a statement of work is being prepared by Acquisition Management to perform a full analysis of our code review and assessment to ensure the security of the RRB website. The code review will be tailored to identify code and configurations that do not meet the RRB Secure Coding Standards. The contractor will be asked to produce a document pairing all deficient lines of code and configurations to specific RRB coding standards to which they do not comply. Contractor programming assistance and updating of the SDLC with the new code standards have been included as an option of the contract.

CHAIRMAN SCHWARTZ: Thank you. Any questions for Terri?

MR. KEVER: Of course.

CHAIRMAN SCHWARTZ: Karl.

MR. KEVER: Oh, no, I have a question. I said of course.

This new directive about the records, have we decided who is going to be our SRO or whatever you call it?

MS. MORGAN: Senior Agency Official.

MR. KEVER: There you go.

MS. MORGAN: That's me. But we also have a records management officer vacancy so we'll be recruiting somebody for that position.

MR. KEVER: Okay, so you're it.

Number two, you mention that a lot of our employees have not finalized their security training, do you need help from the Board members to issue an e-mail to prod them of when they're due?

MS. MORGAN: Thank you for the offer, but no, I think we're okay. I've been working with the EEC in the last couple of weeks so it's been brought to their attention and I'm sure that will work.

CHAIRMAN SCHWARTZ: Thank you.

Karl.

MR. BLANK: All right. To begin with the cases in litigation, update the Board from my last report. We currently have four Court of Appeals cases pending. Two of them are still 9th Circuit cases, one is a disabled child and the other one is contesting a Tier 1 Social Security offset.

The Stephens' case, which is the disabled child case, was argued on July 12th, and we're awaiting a decision in that case.

The second one is Nelson, the Tier 1 offset case, we're just waiting for a decision there. We filed a brief back in December. They haven't set oral arguments so we don't expect that there will be any.

One of the cases that was pending in my last report, the unpronounceable Tsosie I guess it is, T-s-o-s-i-e, it was an employee disability denial. The unusual configuration of that case was that the court set a mediation conference where we actually got several mediation conferences with a designated official of the court, and ultimately what happened in that case is we agreed to a dismissal with a later annuity beginning date which would have been consistent with essentially a new application filing date. One could call it a victory in the sense that all the retroactive benefits that would have been paid on the original application were mediated away and so that case was dismissed on May 29th.

Another case, the Terry case in the 10th Circuit, was a late appeal from a reconsideration decision to H and A. That was filed back in last October in the Court of Appeals, we finished briefing it in January and we received a decision on May 21st affirming our decision in a summary decision by the court.

We had a case briefly McKinney versus Railroad Retirement Board, which was filed in the 5th Circuit. It was a computation question. The case was filed in June and then dismissed July 13th for failure to file appropriate fees. And that was that.

We have two employer status cases. The one is Rail Term. And the second one that is active is the Indiana Box Car versus RRB case.

That case was filed in March in the District of Columbia Circuit. The status -- it concerns the status of a parent company is under common control with the rail carrier subsidiary. The employer's brief was filed July 20th. We have actually, very unusual for our cases, we have Amicus filed by the American Short Line and Regional Railroad Association. And so the Amicus brief was filed July 26th and our brief is due August 20th. So we'll be finished briefing that shortly.

As far as the employment cases that are pending in various forums, we have six cases currently pending, one before MSPB and five before the EEOC. One MSPB case, one EEOC case and one MSPB case that was on appeal to the U.S. Court of Appeals for the Federal Circuit, which I counted in my March report, have been concluded.

Moving on to legislation. Of course, everyone knows the House passed in March the concurrent Resolution 112, known as the Ryan Budget. The report accompanying that resolution included a reference to a provision to conform

Railroad Retirement Tier 1 benefits to Social Security benefits. The Office of Legislative Affairs received an inquiry from the Congressional Research Service about that provision, and we did in headquarters here as well I believe, and we also had some retiree correspondence to answer about that as well.

Another note which I'm sure everyone knows is the Supreme Court upheld the Affordable Care Act on June 28th.

There isn't a great deal of impact on Board operations, but there are some little things here and there. There's -- perhaps we'll get into it later, there's a some impact on the financial interchange because of some disparities in the -- well, of course, it's complicated, but there's a comparison for total family incomes that are subject to the penalty tax, and the Tier 1 provision of the Railroad Retirement Tax Act incorporates a portion of that but not all of it that is under FICA and consequently different caps can apply and we would have a disparity for what would be a relatively small number of two income railroad households. But we had some discussions with that earlier in the year with the IRS, I don't know -- now that the Act has been upheld I'm sure we'll have more discussion.

In other activities, as has already been reported we issued some advice to the Office of Administration on the CMS disagreement. And as Keith said just yesterday an attorney from my office had a discussion along with the Office the Administration staff with CMS where they essentially acceded to our, what seemed to be the obvious, legal position that we couldn't pay Medicare benefits directly out of our funds. And there's still some tag-ins of that that have to be straightened out.

Another item that I'm sure everyone is aware of is the Long Island Railroad prosecutions. In May the U.S. Attorney for the Southern District of New York announced the Voluntary Disclosure and Disposition Program for Long Island Railroad retirees who received a disability annuity under our act. And simultaneously we issued Board Order 12-29 explaining how we would handle a grievance that were filed under that program. During the month of June and July OGC responded to some inquiries and provided copies of some folder records to individuals who contacted our office. And also in July I signed a number of agreements on behalf of the Board along with the U.S. Attorney accepting individuals into the program. The deadline for the Early Agreement Program, which was more beneficial, was originally set for July 6th but has been now extended to September 14th and so that's still ongoing.

We had a little bit of activity in the ethics field. The Office of General Counsel provided some ethics training in the last quarter and also we issued advice concerning the reporting duties under the newly enacted STOCK Act. I might note just to know later development that on August 2nd Congress voted to extend the deadline which required the Office of Government Ethics to post executive reports on-line so that that's still in the works. OGE is working with its own data processing people to figure out how it's going to have to implement that and get it up. There's some requirements that we would have to do in terms of formatting for material that we'd be sending over there, but things that they already have I believe they're going to do themselves.

Then addressing the Hearings and Appeals Office. For the third quarter we received 109 new appeals, which compares to 144 received during the same time last year. That's quite a significant drop actually. It's a good thing. During the third quarter we issued 128 decisions compared with 135 last year, which is pretty close to the same thing. The balance of appeals on hand this year is still 427 compared to 458 this time last year, which is also trending in the right direction.

And on the video hearing front, so far this year with the new equipment that we've purchased and installed and the arrangement with the new contractor, Regus, we've conducted 34 video hearings. On the whole it seems to be working smoothly. We have in place now a direct contract with Regus where we've cut out the middle-man arrangement with GPO. There's still some charges dribbling in through GPO. As they work out their paperwork and send them over to us, eventually that will be finished, one hopes.

And I believe that concludes the report for OGC.

CHAIRMAN SCHWARTZ: Okay. Any questions for Karl?

Okay. Frank, Chief Actuary.

MR. BUZZI: Good morning. I would like to report a few items completed since the last Board meeting.

First, the financial interchange transfer and the repayment of Treasury advances were successfully completed on June 4th, 2012. We received $4,651,000,000 from SSA, paid $511 million to CMS and repaid Treasury $3,946,000,000 resulting in a net increase of $194 million in the Social Security Equivalent Benefit Account. Each year the financial interchange transfer is the single largest and consequently most important transaction for our trust funds.

Next year's financial interchange transfer is expected to be reduced by a transfer to SSA for benefits attributable to pre-1957 military service. These benefits are for employees and their dependents who are not eligible at the RRB based on railroad service, but who have retired at SSA with benefits based in part on military service credit for which Treasury had previously paid the RRB. As part of a 1 percent sample, SSA has sent us calculations for over 800 employees and their dependents for a multiyear period. The Office of Programs is helping us to review these cases.

Next, the OMB projections. These are 11-year projections made on a fiscal year basis based on OMB economic assumptions. The OMB projections are prepared twice a year; ultimately become part of the Budget of the U.S. Government; and are important in allowing Government programs to be compared and consolidated on a consistent basis. These projections are involved and require coordination between the RRB, OMB, SSA, CMS and Treasury.

We tend not to focus internally too much on these projections for the retirement system, both because 11 years is too short a time to evaluate the system and because OMB assumptions do not always reflect our best estimates. For example, OMB uses the 10-year Treasury rate to estimate our investment return. If we believed that our trust funds would only earn the 10-year Treasury rate there would be no need for a National Railroad Retirement Investment Trust.

In some years the Congressional Budget Office asks us to prepare a separate set of projections based on their economic assumptions, but they have not done so this year.

The Treasury outlay report is prepared four times a year. It is related to the OMB projection but provides cash flows on a monthly basis for the current and following fiscal year. This is important for short-term cash flow management.

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, 2010, 9.8 percent of employees with qualifying service and compensation received unemployment benefits, the highest unemployment rate in over 20 years. For the benefit year ending June 30th, 2011, the unemployment rate dropped by half to 4.9 percent, and further declined to 3.9 percent for the benefit year ending June 30th, 2012.

The percentage of employees receiving sickness payments has been much more stable, averaging about 7 percent of qualifying employees.

One characteristic of our experience rated unemployment system is that it tends to over respond to changes in experience. Thus, although the Railroad Unemployment Insurance Account needed to borrow money in fiscal year 2010, it had a cash balance of about $143 million at the end of June 2012, which is increasing. As a result the 7105 report projects no surcharges for the next two calendar years. Another characteristic of the RUI system is that surcharges tend to occur even in times of stable experience. As a result the 7105 report projects surcharges returning in calendar year 2015. These characteristics were likely not intended when the RUI system was designed.

Finally, the 25th Actuarial Valuation, the valuation consists in part of projecting well over 100 benefit streams for different types of beneficiaries and types of benefits, which can be conveniently grouped into Tier 1, Tier 2, supplemental annuity and vested dual benefit in order of declining amounts.

The vested dual benefit is paid to a largely closed group, almost all of whom have already retired. This group consists of among the oldest of our beneficiaries and the benefits are thus decreasing rapidly. We estimate that VDB payments will decrease from $44 million per year in fiscal year 2013 to $2 million per year in fiscal year 2030. Vested dual benefits are paid from a separate account and are the only benefits paid for by a separate appropriation.

Supplemental annuities are also paid to a largely closed group. Unlike vested dual benefits, however, we still have many employees retiring each month with a supplemental annuity. Supplemental annuity benefits will thus take longer to phase out. We estimate that supplemental annuity payments will decrease from about $62 million in calendar year 2013 to $34 million in 2030 and $2 million in 2050.

Tier 2 benefits, although the second largest in amount paid, comprise the largest cost to the rail industry. About 71 percent of benefits currently paid from the Railroad Retirement Account are Tier 2 benefits.

In addition to Tier 2 benefits, Tier 1 benefits in excess of the Social Security level and supplemental annuity benefits are paid from the Railroad Retirement Account. Excess Tier 1 benefits currently represent about 28 percent of payments and supplemental annuity benefits a little over 1 percent.

The Social Security level of Tier 1 benefits is paid from the Social Security Equivalent Benefits Account. The SSEBA is for the most part self-funded because the difference between Social Security equivalent benefit and administrative costs and tax income is effectively made up through the financial interchange. This is not entirely the case because of such complicating factors as payments for non-beneficiaries, pre-1957 military service transfers and interest but these amounts are relatively small in relation to the level of benefits.

With vested dual benefits and Social Security equivalent benefits paid from separate accounts and funded separately, it is benefits paid from the Railroad Retirement Account that deserve the most attention.

The 25th valuation paints a very similar picture of the progress of the Railroad Retirement Account as was shown three years ago in the 24th valuation.

Under each of the three employment assumptions we expect the combined employer and employee tax rate to increase from 16 percent this year to 17 percent next year.

Under employment assumption III, our pessimistic assumption, we expect the Railroad Retirement Account to experience cash flow problems beginning in calendar year 2035. Under employment assumptions I and II we expect the account to remain solvent with the tax rate reaching a maximum of 20 percent under assumption I and 27 percent under assumption II.

Regarding employment, it is important to remember that there is a trade-off between the level of advanced funding and the degree of dependency on future contributions from future employment to fund benefits. As is the case the RR system remains very dependent on future employment.

Under employment assumption II we expect annual benefit and administrative payments to increase by more than a billion over the eight-year period from 2012 to 2020 due largely to the current high level of retirements, but by less than $500 million over the subsequent eight-year period from 2020 to 2028 due largely to a substantial decrease in the level of retirements.

In looking at our active employee census about 40 percent were age 50 or older, and most of those will have had 30 years of service by the time they retire. Once these employees have retired, the number of annual retirements will decrease and the rate of decline in our beneficiary population will increase.

At this time there is no need for the Board to take any action with respect to the Railroad Retirement System. The economic and demographic assumptions are slightly more conservative than those used in the 24th valuation. The investment return over the past three years exceeded our expectation. The system is adequately funded under all but the pessimistic employment assumption, and even then cash flow problems occur 23 years in the future.

CHAIRMAN SCHWARTZ: Okay, thank you very much.

And we're going to finish up the reports today with Dotty and Programs.

MS. ISHERWOOD: Good morning. I have reports on three topics this morning beginning with a status report on the Employee Reporting System.

At last October's Board meeting we had reported that work was completed then on two new on-line forms for employers to report service and compensation for their employees, that was form BA-3, and to report gross earnings, form BA-11. These new services were implemented in January 2012. They were well received by the rail community with 199 employers taking advantage of the new process.

We had also reported that work was beginning then on the next phase, Phase 4 of ERS, for implementation during FY12. Phase 4 includes a series of on-line ID-40 notices, which provide quarterly and annual information about experience rating. Also in this phase are two new on-line forms in the ID-6 series, which provide information on Tier 1 tax liability on sickness payments. All of these forms are scheduled to be available for use by the end of next month and at that point we will have completed a total of 19 on-line reporting services through ERS.

The last form in Phase 4 is a G-88a.2, which will request employers to report any service needed to establish retirement benefit eligibility and to notify employers of an employee's retirement. And that form is now scheduled for February 2013.

We're also continuing to work on the next phase of ERS, which includes several new forms for FY13 implementation. We are scheduled to start with one which will allow employers to report supplemental pension information and another that will request verification of the date last -- of the last date carried on the payroll from employers.

The final part of our plan for FY13 includes incorporating the lien reporting process into ERS, as well as a process for notifying employers about deaths of annuitants who were formerly their employees. We're currently obtaining contractor cost information on that last set of functions and hope to see them funded and started this fiscal year for implementation late next fiscal year.

My next topic is an update on the ACSI survey, that's the American Customer Satisfaction Index. As you know we recently conducted a comprehensive survey of initial survivor beneficiaries using the ACSI survey through the Interior Department's Federal Consulting Group and the University of Michigan.

The survey was conducted by telephone during the week of July 9th, and we recently received our preliminary scores, just a summary of those, that I thought I could share with you today.

So the overall customer satisfaction index score was a 90, which is identical to the overall satisfaction score the last time survivors were surveyed, that was in 2005. At that time that score was among the highest, possibly the highest in the Federal Government in that year. We don't have the final detailed report yet so I can't put this year's score into perspective yet, but that's a high score.

Another key result in the report was Overall Quality score of 91. And our highest scores in this year's survey were received for professionalism, courtesy and responsiveness of RRB personnel, and those received a 95, a 94 and a 94 respectively. Our scores for confidence in the RRB was also very high at a 94. And that's the score that indicates how confident your customer is that the agency will continue to do a good job in the future.

So overall I think this was a very

positive reflection on the way the RRB has been able to deliver service to its customers, and I especially want to recognize Field Service and the Survivor Benefits division for their exceptional work in serving this particular segment of customers.

We will be scheduling a full briefing on the final report by the Federal Consulting Group once that report has been received. We'll let you know about that.

And finally I have a brief update on current training initiatives being conducted by the Training Section in the Office of Programs. These programs are for Programs and Field Service, and among the initiatives underway at this time for Programs, I think you're all aware the major one involves two new training classes, one for Retirement Initial, one for Survivor Initial claims examiners. Last week we selected a total of 30 individuals for those classes, 12 for survivors, 18 for retirement. And the classes are scheduled to begin on August 27th and run for about nine months. And by the way, this represents a net increase of 19 new agency employees coming in to be in those classes. And that is a key part of our succession management program here at the Board.

For Field Service the training group is conducting an in-house training program for new claims representatives from September 10th through 21st. We're expecting a total of 16 attendees, all of whom have been hired in the last year.

The training staff is also moving forward with the new Learning Management System, which was a topic I briefed on at the March Board meeting. We've worked closely with Acquisition Management on this project and are currently in the process of soliciting quotes for this new on-line training system.

And finally I just wanted to mention an upcoming agency-wide training initiative. Training for new supervisors and managers will be coordinated by Human Resources from September 17th through 21st. The class is going to include trainees from both Field Service and Headquarters. It includes at least 11 from Field Service, depending on if they get any more new hires in before that time, and five from Programs and up to seven from other organizations.

That concludes my report.

CHAIRMAN SCHWARTZ: Any questions for Dotty?

Okay. With that we'll move to the next agenda item, Mr. Kever has an agenda item, I believe.

MR. KEVER: Yes, thank you.

Thank you fellow Board members for considering my proposal to conduct additional fact finding and partnering with Social Security in connection with the review of the Inspector General's November 7th, 2011 recommendations. I very much appreciate Mr. Barrows' supplemental memo, which advances the Board's commitment to working with Social Security to understand their program integrity measures and to incorporate those that advance our process here at the RRB. However, I am not prepared today to vote for or against this memo. I certainly do not object to designating our General Counsel as the sole head facilitator for the RRB, and obviously I am in favor of reciprocal sharing with Social Security of program integrity best practices. I am also interested in a process that maximizes our understanding of Social Security's adjudicatory process and allows for open and inclusive dialogue and participation. That is why I've docketed my own proposal today for further discussion.

My concern is that while staff has considered the Inspector General's recommendations as they might apply to our occupational disability process, we have not considered them in the larger context for all initial disability program determinations under the Railroad Retirement Act and Social Security Acts. We have not even had a discussion about it, yet, as a matter of law the Board is required to adhere to the rules, procedures and policies of the Social Security Administration. Our adjudicatory process impacts not only our trust funds but also Social Security and Medicare.

Now, regardless of the outcome of the recent ongoing criminal investigations, the

Board and the staff now have notice of railroad retirement and SSA trust fund exposure to information developed and accepted by the Board that somehow crossed the line between harmless exaggeration and omission, mere conclusory opinions, subjective interpretation and fraud. The railroad retirement disability awards potentially impacted in the ongoing investigations is not limited to sections 2(a)(1)(iv) and 2(a)(1)(v) awards under the Railroad Retirement Act and it includes every freeze allowance made under the Social Security Act. Under those circumstances the Board cannot simply affirm the reliability of its own interpretations of Social Security rules and policies in determining total and permanent disability under the Acts.

Now, for years the Board has publicly reported that roughly 80 to 85 percent of all initial Railroad Retirement Act disability awards are thereafter awarded a freeze under the provisions of the Social Security Act by one or both agencies. By inference, the Board's freeze allowance affirms the initial occupational disability allowance. Now, in the light of recent investigatory findings, the Board can no longer assume its freeze allowance rate is a reliable predictor of procedural integrity. To the contrary, freeze allowances under these facts and circumstances may be a predictor of high risk to the Social Security trust funds. The strength of the Board's application development practices, which includes development of medical and nonmedical evidence, can positively or negatively impact the integrity of the current freeze coordination process, especially for simultaneous freeze determinations. I have proposed a series of coordinated facilitated discussions or conversations with Social Security which would perform transparent initial inquiries and replies and clarification in subsequent sessions as appropriate. In the days ahead I would like to discuss what this fact finding and partnering process would accomplish and how it could do so in a constructive and collegial fashion.

To summarize, I am extremely pleased with the apparent willingness of the Board members to work with SSA to understand more about their disability adjudicatory process. We all wish to incorporate their best practices for program integrity, but I also want to further hear from them concerning their actual disability adjudicatory process. We need to confirm first that we are actually implementing those steps to then be able to supplement suitable best practices. Finally, I think we need to consider how we need to approach Social Security. It may be appropriate for the three Board members to correspond directly with Social Security to provide a general outline of what we are seeking from them. I look forward to having our respective staffs working out the details in getting this process going. I certainly believe we can work with Mr. Karl Blank in advance to provide an outline of areas of interest and a reasonable process of working with Social Security to obtain the information that we need. In this manner this allows the Board to take charge of improving our process and adjusting it as required. Thank you.

CHAIRMAN SCHWARTZ: All right. Well,

thank you, Mr. Kever. You know, as you know since receiving your memo regarding proposal of coordinating additional fact finding with Social Security Administration, the offices have been working towards on approach and will continue to do so.

MR. KEVER: Okay.

CHAIRMAN SCHWARTZ: Anything else? All right. Thank you for your time.

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

STATE OF ILLINOIS)
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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

March 28, 2012

STENOGRAPHIC REPORT OF PROCEEDINGS had in the above-entitled matter held at 844 North Rush Street, 8th Floor, Chicago, Illinois, at 9:30 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. KARL BLANK, General Counsel
MR. GEORGE V. GOVAN, Chief Financial Officer
MS. PATRICIA PRUITT, On behalf of Mr. Frank Buzzi, Chief Actuary
MS. DOROTHY ISHERWOOD, Director of Programs
MR. BOB LABERRY, On behalf of Ms. Terri Morgan, Chief information Officer

Reported By: Karen Fatigato, CSR
License No.: 084-004072

CHAIRMAN SCHWARTZ: Welcome this morning. We're going to start out -- we have a couple of agenda items today, we're going to start off with reports from the Executive Committee. So could we start with the Office of General Counsel, please.

MR. BLANK: All right. I have three areas to report on, Litigation, Regulations and Legislation and Hearings and Appeals.

In January I reported to the Board on four pending individual claim appeals in the Court of Appeals, two in the 9th Circuit and two in the 10th. There hasn't been any change in any one of those four at this point, including the one that the court has ordered the mediation conferences and so we're still standing pat on all four of those.

We also have two Court of Appeals employer coverage cases. We have one that's been on the docket before and we have a new one that just came in last week actually in Indiana Box Car versus RRB. It's in the District of Columbia Circuit. We have not even learned the date that it was filed yet, we just learned that the petition has been filed last week. The decision on appeal is the Board Coverage Decision 12-03, issued January 13th, 2012. It concerns the status of a parent company as a covered affiliate under common control of the rail carrier.

The other coverage case is the Rail Term, which, of course, was in the District of Columbia Circuit. And back in November the petitioner in the Rail Term was ordered to file a petition with the STB, that matter is still before the STB.

We also have five currently pending employment law cases relating to employees of the Board. We have two before the MSPB, two before the EEOC and one MSPB case that's pending on appeal before the U.S. Court of Appeals for the Federal Circuit. That count includes one new case in the MSPB because we had one of the four cases that I counted in my January report that was concluded.

Moving to Regulations and Legislation. In February the Assistant General Counsel attended a meeting at OMB in Washington on the joint regulations issued by Treasury, RRB, SSA, Veteran's Administration and OPM on the garnishment of benefits once they're deposited in bank accounts for child support. The hearing was requested I believe by the Senate in order to -- objections had been raised and there were some newspaper accounts of this as well that once the benefits are deposited they could be garnished by -- for child support payments by the State and recovering welfare payments or something of that nature that they had laid out as reimbursement. And, in fact, there was no limitation or very little limitation on reducing the balance in the garnishee's account.

Unfortunately, the beneficiary agencies that were attending the meeting pointed out that we have no control over bank deposits or regulatory authority whatsoever and consequently it was more of an informational session than anything else.

As I'm sure everyone knows on February 22nd the Middle Class Tax Relief Act was enacted, Public Law 112-96. It extended unemployment insurance benefits once again. It also extended the payroll tax reduction, including the reduction in the tier 1 tax and the compensating general fund transfer, which is made both in FICA and the tier 1 to make up for the shortfall in taxes collected directly. And it also included funding for the RRB's administration of the UI extension. I'm sure Dotty might have something more to say about that later.

And then finally the Bureau of Hearings and Appeals, I don't have the statistics yet for March so for the first two months of the second quarter of fiscal '12 we received 85 appeals as compared with 87 appeals last year for that period of time. The decisions issued were 86 this year as compared with 73 in the second quarter of fiscal 2011, so we're doing well there. And to reflect that the balance of appeals on hand has dropped again down to 420 as of the end of last month. The balance in 2011 for comparison was 448, so things are moving along.

In the same vein we had the new equipment, the new high-definition video screen and transmission equipment installed February 15th and as well everyone may recall we had some trouble with ordering video through GPO and some nonpayment issues through there so with the help of Mr. Valiulis's staff we were able to make a direct connection with Regis, the underlying contractor with GPO. And in February and March so far we've been able to use that five times and everything seems to be functioning, both the equipment and the ordering process, quite well.

And that concludes my report.

CHAIRMAN SCHWARTZ: All right, thank you very much. Any follow-ups from Mr. Kever or Mr. Barrows?

Bureau of the Actuary.

MS. PRUITT: For our report I would like to inform the Board of the status of three projects that we will soon be completing and the financial impact of the Middle Class Tax Relief and Job Creation Act of 2012.

First, regarding the 60th Financial Interchange Determination, work on the determination is proceeding on schedule and we expect to have results to the Board by May 1st.

The determination will not include a transfer for pre-1957 military service. The determination is calculated effective June 2nd, which allows roughly one month first for the Board to approve the determination, next for SSA and CMS to approve the determination and finally for the certifications to be sent to Treasury.

Second, regarding the 25th Actuarial Valuation of the Railroad Retirement System, work on the report is proceeding on schedule. We plan to send a draft to the Actuarial Advisory Committee in mid-May and then to meet with the committee sometime near the end of May to go over the final report. Barring any problems we expect to provide a copy of the report along with the statement of the Actuarial Advisory Committee to the Board in early June. The report is due to the President and the Congress by July 1st. If any of the Board Members would like to meet with the Actuarial Advisory Committee please let us know.

Third, regarding the 2012 Section 7105 Report for the Railroad Unemployment Insurance System, work on this report should be completed shortly after the Actuarial Advisory Committee has approved the final economic assumptions for the 25th Actuarial Valuation. We expect no difficulties completing this report on time and providing a copy to the Board by June 1st. The report is due to Congress by July 1st.

Finally, regarding the Middle Class Tax Relief and Job Creation Act of 2012, two provisions affect the RRB. The payroll tax holiday reduces the employer tier 1 tax by two percentage points through the end of calendar year 2012. The decrease in the tier 1 payroll taxes from this ten-month extension is estimated to be about $276,000,000, but there is no impact on our trust funds because the lost payroll taxes are made up from general revenue. The legislation also provides for a ten-month extension of the temporary extended unemployment benefits payable under the Railroad Unemployment Insurance Act. We anticipate payments of approximately $7 million this fiscal year and $4 million in fiscal year 2013. The cost of this extension and the associated administrative costs are funded through separate appropriations and will thus not increase railroad unemployment insurance taxes.

And that concludes the report.

CHAIRMAN SCHWARTZ: Thank you very much.

Bureau of Fiscal Operations.

MR. GOVAN: Good morning, everyone. I will briefly cover recent budget developments for fiscal years 2012, 2013 and 2014 and provide a status report on the Federal Financial Systems Migration.

First, fiscal year 2012. The Middle Class Tax Relief and Job Creation Act of 2012, which was enacted on February 22nd, includes, among other provisions, an appropriation of $500,000 to the Railroad Retirement Board for administrative costs associated with payment of extended unemployment insurance benefits. We released the reapportionment request to the Office of Management and Budget for all of the accounts affected by this legislation on March 13th and the OMB approved the reapportionments on the 26th of this month.

The mid-year budget review is currently

in progress. We have requested the bureaus and offices to complete their reviews by today and we will release the recommended adjustments for your approval shortly thereafter.

To summarize our staffing situation, the RRB began fiscal year 2012 with a staffing level of 894 full-time equivalents. Through March 10th, the end of pay period 6, a total of 37 employees left the agency and 24 were hired from outside, resulting in a net loss of 13 employees. As of March 10th, the RRB had a staffing level of about 893 employees and a full-time equivalent utilization rate of 879.4. Therefore, projections show that we are currently on target to use our current funded total of 885 FTEs for this fiscal year.

Status of fiscal year 2013. The Congressional Justification of Budget Estimates for fiscal year 2013 was released on February 13th in accordance with OMB guidance. The Congressional Justification has also been posted on the RRB's website. The Board Members' statements for the record concerning the fiscal year 2013 budget request were released to the

House and Senate Appropriations Subcommittees on March 21st and 22nd, respectively. House subcommittee staff had requested that all statements be received no later than March 28th, which, of course, we met.

On March 22nd Dotty Isherwood, Karl Blank and I met with staff from the House and Senate Appropriations Subcommittees to discuss the RRB's budget request for fiscal year 2013. We met with Alissa Van Wie, she is the new detailee from the House subcommittee staff, and Mike Gentile and Jennifer Castagna from the Senate subcommittee staff. Overall, the meetings went well and information was exchanged concerning the agency's funding needs. I provided your offices with detailed minutes of the meetings that included discussion of key areas, such as, the 2012 Supplemental Request, FFS Migration and the subcommittee staff's insight on the appropriations process and potential impacts for 2013.

Fiscal year 2014. Fiscal year 2014 Budget Call is now in development. We expect to release the budget call later this week and request replies from the bureaus and offices around April 27th. This year's schedule is again being coordinated with the Bureau of Information Services for development of the information technology capital plan.

Last, Status of FFS Migration. The FFS Migration project remains on schedule as the RRB's Migration Team continues to work with our pre-migration contractor KPMG. The Migration Team and KPMG have reviewed and completed the Quality Assurance Surveillance Plan section of the request for proposal. Also, KPMG provided a draft Project Governance Plan that is currently being reviewed by the Migration Team.

A Special Notice regarding the draft Request for Proposal and Pre-Solicitation Conference for the RRB's Financial Management Integrated System, or FMIS, was posted on FedBizOpps website on February 8th. And copies of the draft Request for Proposal were sent to the four designated Federal Shared Service Providers on February 17th along with a request for their comments and/or questions. For anyone that doesn't know the four are, Bureau of Public

Debt, General Services Administration, Department of Transportation and the Department of Interior. Currently, we have received responses from all four Federal Shared Service providers and held pre-solicitation teleconferences with the Department of Transportation and Department of Interior. The next major event on the schedule will be system demonstrations by Federal Shared Service providers during mid April time period.

This concludes my comments.

CHAIRMAN SCHWARTZ: Thank you. Any follow-ups?

MEMBER KEVER: I have one question.

In reading the minutes of your trips to D.C. there were a couple of items that you needed to follow up on, are those completed?

MR. GOVAN: One was an unemployment inquiry. All three of the remaining follow-up items were from the House side, Ms. Van Wie. Dotty already provided me her information as far as the unemployment. And I've been in contact with OLA in D.C. I plan to have the remaining items sent to Alissa this week.

MEMBER KEVER: Thank you.

CHAIRMAN SCHWARTZ: All right. Office of Programs.

MS. ISHERWOOD: Good morning. I wanted to start this morning with an update on a project we talked about at the last Board meeting in January, which is the Wide Area Network or WAN Accelerator Project. As you may recall that project involved a plan to deploy WAN accelerators in 12 of our district offices, and the company that we procured the devices from went out of business suddenly and so the original plan was derailed at that point in time.

Since then we've learned that there's a newer type of WAN accelerator available from a company called Riverbed; which they're the people who actually bought out the intellectual property from the company that went out of business. We requested a proof of concept pilot test to confirm whether or not that newer equipment would work within the RRB's IT infrastructure, and we reached an agreement to conduct a free-of-charge 30-day pilot test for two of our district offices, Joliet and Fort Worth. And the new devices were installed in those two offices on March 14th and March 20th, respectively. And to date I can tell you that the feedback anecdotally at least has been positive. Traffic seems to have picked up and improved between headquarters and the field offices in the test. And we right now expect the pilot to continue for the full 30 days at each of the sites, after which time those devices will be removed from those sites unless we are able to have a new implementation plan and a valid contract in place by then.

While we're testing Acquisition Management staff continues to work on contractual issues that are involved in the original contract. It's our understanding that possible future actions could include rebidding that contract or renegotiating it. Research is still needed to determine the cost differences between the original equipment pricing and what we are now testing. So at this point I can just say we'll keep you posted as further developments occur.

Secondly this morning I wanted to talk about some upgrades we're doing to the toll-free -- nationwide toll-free system. At the end of last fiscal year we contracted for the development of two service enhancements to that system. First one is called Position in Queue. This change will mean that customers calling the toll-free number during peak times when their calls can't be picked up immediately they will hear a dynamic message that advises them of their position in line while waiting for their calls to be answered. So the message will tell customers their calls have been temporarily placed on hold and we'll say you are currently number X in line waiting to speak with the next available RRB representative.

The purpose of the change is to provide our customers with information on the approximate hold time and let them decide whether to continue holding or if they would prefer to call back at a less busy time of day. We are going to continue tracking monthly statistics after this change is put into place on the number of abandoned calls in each office and on the average wait time for calls to be answered just to see how this impacts those statistical indicators.

The second toll-free change that we're working on is called Enhanced Dial by Extension or DBX calls. All field employees currently are assigned a unique four digit DBX code, it's basically an extension, which they can provide to specific customers if they want that customer to call them back personally. However, until now this feature hasn't worked very practically, it just hasn't worked well because the DBX customer calls could possibly still be routed to other representatives. Someone thinks they're calling a specific person, but if that person is on the phone when they call back the call goes back in the pool and can be routed to anywhere. So our plan now is that with the new strategy change in situations where the representative is not available, the system will be able to route the DBX call instead to a new voicemail box which is specifically intended for that designated contact representative. This will reduce unnecessary hold times as well as ensuring that the intended CR actually receives the expected call back. And at this time our staff is working with Century Link on ensuring that these changes work as expected. Initial testing did uncover some technical issues and those are being addressed by the contractor at this time. However, we are hopeful that these changes will be put in place fairly soon.

And my final topic this morning I want to mention a new initiative that we're taking a look at, this is in the area of training. We're considering the implementation of a new learning management system which would be a cloud-based Internet system used for training employees at their work stage regardless of where their physical duty location is. We are pursuing this initiative because of our desire to improve specifically the delivery of off-site training for new claims representatives, especially improvements in our ability to give and score quizzes and tests and to track the progress of each student in the lesson plan. While we do provide off-site training now for new employees through the Board's network, it does require a certain amount of manual intervention and interaction and it still involves mailing paper documentation between field and headquarters. So Learning Management Systems provide an easy-to-use and easy-to-administer method of delivering off-site training. The software accommodates a variety of learning tools, including text and video. And as I mentioned especially important to us is the ability to track a student's progress in the lesson plan, the ability to give quizzes and tests and automatically score those and record the results.

At this point we've completed our preliminary research in the Office of Programs and our next steps are to work with Acquisition Management on doing the necessary market research that we need before we can actually procure a solution. But I can say that based on our preliminary research it appears that we should be able to find a satisfactory solution for less than $5,000.

In the longer term we think such a system could also benefit other parts of the agency once it's acquired for things such as security awareness training, No Fear Act training or other topics where a lot of people need to be trained.

That concludes my report.

CHAIRMAN SCHWARTZ: Okay, thank you very much. Any follow-up?

MEMBER KEVER: Mr. Kever has a question as usual.

Correct me if I'm wrong, but wasn't one of the advantages of having toll-free the fact that we could have on a screen all of the information that's been provided to the annuitant so that anybody in the agency could read that and be able to take care of that? So why is it important that we give our annuitants a direct line to a specific representative?

MS. ISHERWOOD: The situation only arises in certain cases, but it happens when we're in the middle of developing something and our representative needs to ask a customer to get back to them with specific information. It could be like they're developing a disability application and the customer needs to provide certain medical contact or names of places to be followed up on or to get proofs and that representative needs to do that in the local area. So it really helps the continuity of that case. So it's not an everyday thing, but it is something that would really help continue in a specific case.

MEMBER KEVER: Okay, that makes sense.

CHAIRMAN SCHWARTZ: Okay. Bureau of Information Services.

MR. LABERRY: Good morning, everyone. I have two topics to discuss, one of them has to do with the vulnerability that we had with our website and also just kind of a summary of some of the IT projects that the bureau has been involved with as of late.

As part of our ongoing efforts to ensure that we have the most secure computing environment for the RRB, the bureau contracted in fiscal year 2011 with Janus Associates to conduct a third-party review of the security we have in place on the online services that we provide through rrb.gov and to test the level of security awareness of our employees here at the agency. We recently received the final reports from Janus Associates regarding the results of their tests. Overall the reports confirmed that the agency is doing a good job of providing a secure information technology environment.

A vulnerability identified by the contractor when they attempted to bypass our security perimeter and break into our automated systems led to a recent decision to shut down RUIANet portion of the Mainline Services that's available to rail employees through rrb.gov. Bureau staff immediately made corrections to eliminate the vulnerability and ensured that no other source attempted to take advantage of this vulnerability. Mainline Services have since returned to normal operations.

Based on the results of the contractor's review, the Chief Security Officer and his staff prepared an internal risk management proposal for the Chief Information Officer which outlines the security threats that are out there and details a number of suggestions to harden our security posture and mitigate lower priority risks identified in the tests. The recommendations include, in part, additional security-related training for bureau staff, adoption of additional security techniques and the continued use of security assessments.

I would also like to share with you some of the capital improvements to the agency's information technology infrastructure that the bureau has accomplished in the recent months.

A significant project which affects all agency employees is the upgrade to the latest version of the software that manages the agency's electronic mail system, Microsoft Exchange. Microsoft Exchange is the server-based software product that supports our e-mail, calendaring, contacts and our tasks through Microsoft Outlook on our desktops or mobile devices and those that access that information through the web browser. The upgrade addresses some of the problems agency employees have been experiencing with using e-mail. The upgrade also makes it easier to detect and fix problems from a bureau perspective, and more importantly the latest version neutralizes security threats and protects the agency against viruses, spam and hackers.

In order to prepare for this upgrade several other information technology improvements had to take place first. We added additional network storage, we upgraded to the most current version of the Microsoft project that manages the identities of all the agency employees, our systems, our application settings and we had to upgrade the Blackberry product that enables all the Blackberry devices to work for us.

Additionally, as of March 8th, 2012 we completed the deployment to each field office new scanners and associated personal computers for the imaging system. This deployment is the result of our cyclical replacement cycle as defined in our agency's Information Technology Replacement Policy.

This concludes my report.

CHAIRMAN SCHWARTZ: Thank you very much. Any follow-up on that?

All right. Office of Administration.

MR. VALIULIS: Good morning. First item this morning I'd like to cover is the new SES Performance Management System. The Office of Personnel Management, OPM, has issued a draft Senior Executive Service, or SES, Performance Management System Executive Performance Agreement that will apply to all career, non-career and limited appointment agency senior executives. The appraisal period for this system begins October 1 of each year and ends September 30. The agreement or plan will consist of summary performance levels one through five representing unsatisfactory, minimally satisfactory, fully successful, exceeds fully successful and outstanding performance. Each plan will also include, as a minimum, the critical elements of Leading Change, Leading People, Business Acumen, Building Coalitions and Results Driven. The element descriptions will include elements of the agency's strategic plan and annual performance plan. It is anticipated that this new appraisal system will be implemented with the start of fiscal year 2013. The Director of

Human Resources is coordinating this effort with OPM for the RRB and is waiting for final guidance before drafting any new appraisals for review.

The second item is the SES Appraisal System Recertification. So coincidentally the RRB's SES Performance Appraisal System that was approved by OPM in 2010 expires at the end of calendar 2012. The Director of HR is also working with OPM representatives to understand and submit the required documentation to OPM and OMB representatives by June of this year. It is assumed that the new SES Performance Appraisals will be required as part of the submission for recertification. The Director of HR will continue to keep the SEO and the EC apprised of any new developments.

The next item is Building Security Access Upgrade Status. I'd like to provide just a short update concerning the status of the access gates that were installed in the first floor lobby. After they were installed last December GSA safety and fire engineers determined that certain adjustments had to be made to meet various regulations and that a battery backup also had to be installed. This has been ordered and should be installed within the week. We expect GSA to then retest the system and then permit building management to activate the access gates. A general notice will be sent out to building occupants before implementing the new access procedures.

Regarding Acquisition Management. Fiscal year 2012 procurement activity to date includes the award of a new building janitorial contract. This contract was awarded to CMC and Maintenance of Bangor, Maine, and was within the government estimated cost. The new contractor is expected to retain all of the current staff. The building elevator maintenance contract is also up for renewal. The pricing and technical team is currently reviewing the proposals. Our most significant non-IT contracting action is the reprocurement of the RRB Medicare Part B administrative services contract. The evaluation team is preparing a briefing for the Board which is tentatively scheduled for April 17th subject to confirmation by the Board offices.

In conclusion, with my retirement fast approaching, this is my last briefing to the Board and an opportunity to express my appreciation to working with so many highly talented and dedicated Railroad Retirement Board employees over the past 39 years. It has been my privilege to service the railroad community employees and beneficiaries and to work in what I consider the best Federal agency in the government.

CHAIRMAN SCHWARTZ: Thank you. I'd like to add my comments to that. You've done a great job, 39 years here, nine years as the SEO, would that be about right?

MR. VALIULIS: That's right.

CHAIRMAN SCHWARTZ: And you served with distinction so thank you very much.

Do you have anything to add, Mr. Kever?

MEMBER KEVER: Well, I certainly appreciate what Henry has done for us. He leaves a big void, but we will fill it as quickly as we can with his promise to be on call, I want to make this a public announcement, whenever we need him.

CHAIRMAN SCHWARTZ: Do we need to put his phone number on the record, cell phone on the record?

MR. VALIULIS: Extension 4520.

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

MEMBER BARROWS: I just extend my appreciation for all the work. I have not been here long, just a short time, but since I've been here I appreciate what you've done for the agency and wish you the best in your retirement.

MR. VALIULIS: Thank you.

CHAIRMAN SCHWARTZ: Now you can put down the slide and slide out the airplane.

The next agenda item was docketed for this Board meeting by Mr. Kever. It's Docket Item 11 PR 0048, The Request to Post the Director of Operations Position. The Chairman and the Labor Member have voted no on this docket item. The Management Member has not registered a vote and requested that this matter be added to the agenda for this meeting.

Docket item 12 PR 0008, Issue 1, is a

memorandum and position paper from the Labor Member regarding the elimination of the Director of Operations position and the creation of a stand-alone field service organization.

Issue 2, is the Chairman's proposed change to the Labor Member's proposal. The Chairman has voted yes with changes on Issue 1 and yes on Issue 2. And the Labor Member has voted yes on Issues 1 and 2. The Management Member has not registered a vote and requested that the matter be added to the agenda for this meeting.

Mr. Kever, would you like to be heard on this?

MEMBER KEVER: Yes, I would. Thank you.

Some of my comments might echo what you already laid out, however, I docketed this Board item to insure that the Board has an opportunity to discuss anything openly prior to the final approval of this item. The genesis of these proposals is tied to the retirement of our former -- potentially former -- no, I guess it was a former Director of Operations. At that time I fully supported an acting Director of Operations as was requested by the Director of Programs, Dotty, so that we could assure a smooth transition to either filling the position permanently or finding some other alternative, one of which would be including -- be filling the position at a GS-15 level. On January 3rd I joined my fellow Board Members in a memo to the Director of Programs seeking her input as to the organizational structure that might work should we not fill the Director of Operations at an SES level.

On January 6th Labor Member Barrows issued a memorandum recommending structural changes to be considered as part of the Director of Operations review but indicated he fully supported the elimination of the position entirely.

On January 30th the Board received the Director's review which included alternatives with both pros and cons from her perspective. Although, the Director included an option which included significant reorganization, she concluded it would not be cost effective or efficient. In the end the Director of Programs stood by her request to fill the Director position in some fashion.

On February the 14th Mr. Barrows issued an amended proposal to eliminate the Director of Operations position and established the Field Service as a stand-alone bureau. The two key motivating factors cited in this proposed plan were cost savings and empowerment through removal of redundant management layers. I fully understand and I support both of these concepts, however, I believe that the agency has yet to fully study and assess the direct and indirect costs to reach the true measure of any net savings associated with this proposal. For instance, I am not certain that we have fully considered the direct and indirect costs and benefits to our Field Service in losing unified direction which currently exists within the Office of Programs. My fear is that there will be duplication of budgetary planning, administrative and other organizational support services resulting in as yet unmeasured costs to the agency's annual budget. These duplicative costs existed many years ago prior to the reorganization of the Field Service and Headquarters into a single Office of Programs. The elimination of these duplicative costs was one of the reasons for the change back then in the structure. I voted for that change in the bureau alignment at that time.

Now, in my view the Board is very fortunate to have not only one but two SESs in Dotty and Martha who work very well together as a cohesive unit. This cooperative spirit may be lost if they are each forced to vie for the scant budgetary resources that the agency has.

Now, to my knowledge the Board has not seen any evidence that the current alignment is inefficient and needs to be repaired. I have personally not seen any evidence that would necessitate an organizational severance. When the Field Service was aligned under the Office of Programs, it was to eliminate the, quote, silo effect, which is a favorite term that most people here at the railroad understand. This alignment did gain efficiencies from closer coordination and shared resources. Again, I am all for reducing expenses, but I want to make sure that there are real savings with this proposal and not at the expense of efficiency in serving our customers.

The only advantage that I see, if there is any, with this proposed structure is more visibility and accountability to the Board with the Director of Field Service reporting directly to the Board. It will allow the Board to focus more precisely on our Field Service costs and efficiency. We must continue to find ways to maintain excellent customer service despite our shrinking resources. The 800 number and associated technologies have been instrumental in improving customer service in the field offices, but more can be done with the toll-free number to assist the field offices in becoming more efficient. And Dotty just mentioned a couple of those that are in the queue right now to assist in that area.

I also wish to reiterate my longstanding contention that maintaining our current number of field offices is not efficient, especially given the potential for our new technology and what it will bring. Smaller offices that are staffed minimally can actually hurt customer service rather than if we maintain fewer offices that are staffed sufficiently. Also, maintaining the same number of offices despite the overwhelming use of phone service by our customers is not consistent with our customer service needs. Bricks and mortar does not by itself guarantee satisfied customers.

While a second vote approving this amended proposal has been entered, I wish to make a motion that the Board table voting on this matter and request additional analysis of the various direct and indirect costs, as well as increased administrative complexity associated with this proposed implementation. I truly believe that we need a more complete understanding of how structural changes, such as, changes to the Executive Committee, this will be very important since there will be no tie-breaking vote when you have six Members, also the impact on staffing needs, impact on the union agreements, and these all will affect that decision. After reviewing this type of analysis I believe we will truly know whether we have saved costs and understand how the Field Service will continue to interact with other program bureaus. Thank you.

CHAIRMAN SCHWARTZ: Thank you, Mr. Kever. Do you have a motion on the table?

MEMBER KEVER: Yes.

CHAIRMAN SCHWARTZ: All right. First of all, as I get ready to vote on your motion I want to tell you that many of the issues you brought up were things that we were thinking about as well. I think that you laid out very well the course of events with the memos. I met with -- our office met with the Director of Programs, the Senior Executive Officer, and had many of the same concerns that you were talking about, duplication of services, costs, things of that matter.

We thoroughly vetted this issue and after meeting with the Director of Programs I am confident that those issues will all be worked out by the Director of Programs and the Director of Field. I think that the Director of Programs understands that I'm not expecting increased costs. We have a cost savings eliminating the position that -- the SES position. I think that the Director of Programs understands that we will not -- we will not be supporting any duplication of services. We will not be supporting additional staff that would cost, and I'm comfortable that that will be taken care of.

I think you raised a very good issue on the Field Service reporting directly to the Board and having more contact, more direct contact. I think that was one of the reasons why this was a very good proposal. Keeping that in mind I'm going to vote no on your motion and move to Mr. Barrows for his comments.

MEMBER BARROWS: As I stated in my February 14th memo to the Board, I do believe this is an opportunity to streamline flatten agency. It's an opportunity to only have -- I think to easily transition when vacancies do occur. I think we took this opportunity, we looked at it, my staff and I looked at this, and we believe that this flattened the agency's management structure and at the same time brings significant savings to the agency. And also we have followed up with the Executive Committee and folks that would be impacted by this and asked them about duplication of services and indicated to them we do not expect that. They indicated to us that they didn't think that would be necessary.

So we feel we fully vetted this proposal and so the changes I proposed I believe do just that, they flatten the agency's management structure. They also bring significant savings to the agency. You know, I appreciate your proposal, your input, but I also believe the best way forward is the proposal that I made.

CHAIRMAN SCHWARTZ: So do you have a vote on Mr. Kever's --

MEMBER BARROWS: I would vote no.

CHAIRMAN SCHWARTZ: And then when you say you're voting no on that and you want to move forward, do you have a motion?

MR. BARROWS: Yes. I'd like to move to adopt my proposal as amended to eliminate the Director of Operations position and have a stand-alone Field Service organization. This proposal is set forth in Docket Item 12-PR-0048, Issues 1 and 2. I propose this be effective May 1st, 2012 and the Director of Programs and the Director of Field Service work out any administrative details.

CHAIRMAN SCHWARTZ: Mr. Kever, do you have a comment on that?

MEMBER KEVER: Since I will not be able to receive any additional analysis costs, direct or indirect, at this point I will vote no on that motion. I hope both of you are right. I think you understand my concerns and we just go forward.

CHAIRMAN SCHWARTZ: I will vote yes on that motion.

All right. Is there any other business? Okay, if not, thank you for attending.

(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

January 18, 2012

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

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

McCorkle Litigation Services, Inc.
Chicago, Illinois (312) 263-0052

PRESENT: (Continued)

MR. WALTER A. BARROWS, Labor Member

MR. JAMES BOEHNER, Assistant

MS. GERALDINE L. CLARK, 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. KARL BLANK, General Counsel

MR. GEORGE V. GOVAN, Chief Financial Officer

MR. FRANK BUZZI, Chief Actuary

MS. DOROTHY ISHERWOOD, Director of Programs

MR. RONALD RUSSO

MS. TERRI S. MORGAN, Chief Information Officer

Reported By: Karen Fatigato, CSR

License No.: 084-004072

CHAIRMAN SCHWARTZ: Let's start this morning with the -- we're going to have some reports from our Executive Committee and then we'll see if there's any new business or anything.

Let's start with the Bureau of Actuary today, Frank.

MR. BUZZI: I would like to report on three items, the status of our ongoing work, the status of the pre-1957 military service transfer and the Actuarial Advisory Committee meeting.

CHAIRMAN SCHWARTZ: Okay.

MR. BUZZI: First, our ongoing work. Last month we completed the semiannual budget review for OMB. The review included estimates of the cost of the two-month extension of the payroll tax holiday and the two-month extension of special unemployment benefits. We completed the report on outlays for Treasury and OMB earlier this month. We have completed all studies for the 25th Actuarial Valuation and have begun work on the valuation itself. The financial interchange determination is proceeding according to schedule, and related to the financial interchange we are continuing to work with the IRS to obtain information needed to administer the financial interchange in light of the Medicare tax changes required by the Affordable Care Act.

Regarding the pre-1957 military service transfer, at this point it seems unlikely that the transfer will be included as part of this year's financial interchange transfer. SSA is continuing to work on their calculations and may take several months to complete them. Since, even if we were to receive their results today, it would be difficult for us to adequately review them in time for this year's transfer, the best course seems to wait until the June 2013 financial interchange transfer.

Finally, the Actuarial Advisory Committee met on November 14th, 2011 to review our active life actuarial studies and to decide on economic and employment assumptions for the 25th Actuarial Valuation. The committee approved all of the new actuarial tables that we prepared. Our new tables generally reflect decreases in the rates of termination from the railroad industry by age retirement, disability retirement, withdrawal and death in active service. The committee also decided to maintain our current employment assumptions for the 25th valuation but to lower the assumed rates of investment return, inflation and wage increase.

That's all.

CHAIRMAN SCHWARTZ: All right. Thank you very much.

Bureau of Fiscal Operations, George.

MR. GOVAN: Thank you, sir.

Good morning, everyone. Before I begin briefing you on the status of budget developments for fiscal years 2012 and 2013 and in addition the Federal Financial System Migration Project, I would like to mention that the RRB's fiscal year 2011 Performance on Accountability Report was released on November 15th of 2011. And I am also happy to report that the Office of Inspector General gave the agency a clean opinion on its 2011 Financial Statements.

CHAIRMAN SCHWARTZ: Good, very good.

MR. GOVAN: The Status for Fiscal Year

2012. The RRB is now operating under a full-year continuing resolution under Public Law 112-74, which provides $108,649,264 for agency operations. This represents our fiscal year 2011 enacted funding level of $108,855,000 minus the rescission, across-the-board rescission, of $205,736.

For vested dual benefits, Public Law 112-74 provides $50,903,610. This represents the RRB's requested funding of $51 million, less again the rescission of .189 percent. The legislation also includes the usual 2 percent reserve for unplanned benefit/workload increases.

In addition the Public Law also requires that the RRB submit a fiscal year 2012 operating plan within 45 days, and development of the plan is now underway.

Fiscal Year 2012 Administrative Operations. Funding will be available to pay the remaining fiscal year 2011 performance awards to GS-10s and above, totaling about $1.1 million. Payments will be made as soon as the apportionment is approved by OMB. We anticipate hopefully by this week. And we project by the end of month the awards will be in place.

Approved allocations for fiscal year 2012 provide for a total agency staffing of 885 FTEs, which is 8 FTEs more than previously projected. The approved staffing level will allow the RRB to fill about 42 positions from outside the agency this fiscal year.

The RRB began --

CHAIRMAN SCHWARTZ: I'm sorry, George, did you say 4?

MR. GOVAN: 42.

The RRB began fiscal year 2012 with a staffing level of 894 FTEs. During the first three months a total of 23 employees left the agency and 17 were hired from outside resulting in a net loss of 6 employees. As of December 17th the RRB had a staffing level of about 910 employees and an FTE utilization rate of 896. Current projections for FTE usage include an assumed attrition level of 5 employees per month, but we're also tracking that actual amount.

CHAIRMAN SCHWARTZ: It's been running

between 4 and 5, has it?

MR. GOVAN: Correct.

CHAIRMAN SCHWARTZ: Okay.

MR. GOVAN: Recommended allocations for fiscal year 2012 include current funding of $1.8 million for the initial stages of the Financial System Migration to a shared service provider and $550,000 for information technology initiatives. This is still $950,000 less than the amount originally planned for the year. We expect to provide any additional funding for IT as we approach the end of the fiscal year.

Status of the Fiscal year 2013 Budget Request. The Congressional Justification of Budget Estimates for Fiscal Year 2013 is now being developed. In accordance with the President's proposed budget, the CJ reflects a funding level of $112,415,000, which represents an increase of about $3.8 million over our current enacted funding. Projections indicate that this would be sufficient for a staff of 885 FTEs and IT investments including $3,562,000 for the Financial System Migration, as well as $1 million for other information technology investments.

Finally, Status of the Federal Financial Migration System. The FFS Migration Team continues to work with KPMG on the agency's financial management system pre-migration activities. The FFS Migration Project remains on schedule. After conducting meetings in October with staff from RRB user organizations, KPMG finalized two major deliverables for the Request for Proposal, the Requirements Analysis and the Statement of Work, following review by the Migration Team. The Migration Team is currently reviewing drafts of the Technical Proposal Submission Requirements and the Technical Evaluation Criteria, which are also part of the Request for Proposal.

The FFS Migration Team has also maintained a dialogue with selected Governmental Shared Service Providers. Plans are being made for additional system demonstrations by Federal Shared Service Providers at the General Services Administration, GSA, and the Department of the Treasury's Bureau of Public Debt. We do still plan to form a contract award before the end of the fiscal year.

That concludes my statement.

CHAIRMAN SCHWARTZ: Not to put you on the spot, but just a little bit curious, you know, the numbers have gone up each year a little bit, although there's been a salary freeze, but do you have an estimate right now of what an FTE would cost? In other words, when you're talking about a person's salary plus benefits, in other words, if we were to cut a million dollars, about how many FTEs would that be, do you know, approximately?

MR. GOVAN: I talked to my budget staff at the last quarterly Board meeting, you know, normally I get the information, it averages about 100 to 101.

CHAIRMAN SCHWARTZ: That's what I thought that it was probably about. So you're talking about for every million dollars about 10 -- because so much of our budget is based on personnel, you're talking about ten people --

MR. GOVAN: Correct.

CHAIRMAN SCHWARTZ: -- for every month?

That kind of gives us a round number to

go from if there's any cuts.

Okay, does anybody have any questions for George? Thank you.

MR. GOVAN: Thank you.

CHAIRMAN SCHWARTZ: Dotty.

MS. ISHERWOOD: Good morning.

CHAIRMAN SCHWARTZ: Good morning.

MS. ISHERWOOD: This morning I thought I would start with a status report on our year-end processing operations. We recently completed the 2012 annual cost-of-living operation, and as you know for the first time in two years we were able to apply a cost-of-living adjustment to most railroad retirement beneficiaries. The percentage was 3.6 percent. Increases were included for 540 -- approximately 541,000 annuitants. We also processed Social Security COLA payments for approximately 114,000 annuitants. Those are people whose Social Security benefits are paid by the RRB.

We also updated Medicare premium rates increasing them by $3.50 a month for most beneficiaries, those who were covered under the hold-harmless provisions in prior years. And those beneficiaries who initially enrolled in Medicare in 2010 and 2011 we were able to decrease their Medicare premiums this year.

Finally, we also updated Federal income tax withholding on our payments using the tax tables we received from the IRS.

The total amount of the cost-of-living increase paid in monthly benefits was approximately 23.6 million in railroad retirement benefits and approximately 4 million in Social Security benefits. However, since we completed our internal processing we've encountered some significant issues with -- caused by external factors this year, mostly problems with our rate notices.

Over 550,000 letters were printed and mailed by a company called Source Link on December 21st, a contractor engaged through the Government Printing Office contract vehicle. The first indication we had of any problem with the letters was on December 27th when we were informed by some of our customers that they were missing certain line items of information in the rate breakdown of those letters. After some investigation we determined that the total dollar amounts shown on all of the notices was correct, but that in up to 90,000 letters sent to spouse annuitants the line item that described the Social Security benefit portion component was missing.

Source Link advised us that their controls had broken down in their processing and that they had made some critical errors after we had finished our final testing. In the end we determined it was better for us to re-print and re-mail any letters on a case-by-case basis to the customers who requested them. We think that that decision minimized the number of complaint calls that we received and kept our workloads to a manageable level. That was instead of having Source Link actually re-print and re-mail 90,000 letters to everybody again.

GPO has sent a cure notice to Source Link regarding this problem and discussions are currently underway at this time to determine corrective actions.

However, that wasn't the only problem with the rate letters. Just last week on

January 9th another problem was identified, this time customers were reporting that they had received not only their notice but also the notice for someone who was not related to them in the same mailing envelope. That represents a breach of Personally Identifiable Information, PII, and that's a serious concern to both us and our customers.

Through a detailed investigation we think we have narrowed this issue down to a group of about 3,000 customers. And to deal with the potential impact of the issue we've notified the Agency Core Response Group under agency procedures that are in place. That group is responsible for determining the best remedy and obtaining Board approval.

We in Programs are working closely with the ACRG and with Acquisition Management and with Source Link at this time. But as a result of all of those problems we have been working also on identifying any additional control steps that we can add to our current processes to reduce the risk of problems such as this in the future. In fact, as a next step we have already decided to increase our controls on the tax statement printing operation which is scheduled for this month using Source Link. We will be sending two of our employees to Source Link in Ohio on site to do last-minute quality control checks on the tax statements that are about to be mailed. Those people will pull random samples of the statements and they will double-check them for data accuracy and quality, and they will check to make sure they're appropriately stuffed in the envelopes and that they're ready to be mailed out properly.

CHAIRMAN SCHWARTZ: Was Source Link some kind of master contract or where did Source Link come from?

MR. VALIULIS: Source Link is a provider, we've used them in the past too.

CHAIRMAN SCHWARTZ: Are they off of a master contract that was procured?

MR. VALIULIS: They're competitively let through GPO.

CHAIRMAN SCHWARTZ: So GPO let a contract for these types of services?

MR. VALIULIS: Right.

CHAIRMAN SCHWARTZ: My question is is there more than one firm listed on that master contract?

MR. VALIULIS: They actually compete -- it's not a master contract, they compete each project.

CHAIRMAN SCHWARTZ: They compete each project, okay. So that's who was selected by someone other than us?

MR. VALIULIS: Yes.

CHAIRMAN SCHWARTZ: To do our stuff?

MR. VALIULIS: Yes.

CHAIRMAN SCHWARTZ: Interesting.

Mr. Kever.

MR. KEVER: Have other agencies been affected by similar mess-ups?

MR. VALIULIS: Not that we're aware of.

MS. ISHERWOOD: I have not heard of any.

MR. KEVER: The decision that we would handle the 9,000, the original -- the first issue that you talked about, 9,000.

MS. ISHERWOOD: 90,000.

MR. KEVER: 90. And how many calls did

you get?

MS. ISHERWOOD: You know, I don't have an exact count on the calls.

MR. KEVER: Was it 10, 20, 50, a hundred?

MS. ISHERWOOD: Oh, many more than that. I'm sure it was hundreds. I actually do not have a count.

MR. KEVER: Do you expect more?

MR. RUSSO: No, I think we're past that issue.

MR. KEVER: You're done?

MR. RUSSO: We're done with that issue. We actually did not receive as many calls as we thought we would. The line was just missing, that Social Security value was missing, the total was accurate. And I think most people look at the bottom line, and I don't think they added up all the different items in terms of the detail and that just eliminated a number of calls we might have normally expected under that kind of -- you know, the number of errors.

CHAIRMAN SCHWARTZ: Henry, have we filed a vendor complaint with GPO?

MR. VALIULIS: We have. GPO has been involved in the investigations, and as Dotty mentioned GPO issued a cure notice to Source Link.

CHAIRMAN SCHWARTZ: Okay. And so then they'll compete again for next year, they'll compete the project for the printing?

MR. VALIULIS: They normally compete for multiple years, I don't know if this was the last year or whether it was the first year, but we can look into that for you.

CHAIRMAN SCHWARTZ: Well, I think it's good that we're going out and checking their work, that's for darn sure. So what you're going to do is when you pull the random letters you're going to pull different types of letters to make sure --

MS. ISHERWOOD: These are actually tax statements that are going to be mailed the next time.

CHAIRMAN SCHWARTZ: It seems to me like in the last batch there were different -- some were right and some were wrong because of the way --

MS. ISHERWOOD: Right. And the last group of letters, the 3,000 that got mixed up in the mailing, those were letters that apparently were in a secondary run by Source Link. They weren't even mailed out on December 21st, they weren't mailed until sometime in January, which is why we didn't find out about them until January 9th. They were a group of letters that were somehow rejected from the first print operation.

CHAIRMAN SCHWARTZ: And they added letters to the envelopes?

MS. ISHERWOOD: And they got mixed up in the re-do.

Should I move on?

CHAIRMAN SCHWARTZ: Yes. And thanks for letting us know about that, and I'm glad that you're on top of it.

And, Henry, we certainly need to address the issue of GPO. It sounds like we already have. I'm hoping that GPO will address it with Source Link.

MS. ISHERWOOD: In addition to the COLA operation the year-end also brought us legislative changes for the two-month extension of the RUIA unemployment benefits and the continued reduction in payroll taxes from 6.2 to 4.2 percent. That legislation, which was signed on December 23rd, provided for up to 13 weeks of additional temporary unemployment benefits for railroad workers who had expired their rights to benefits under the regular RUIA. These special extended benefit periods may begin as late as February 29th, 2012. The benefit funding remains available from those benefits from the Worker, Homeownership and Business Assistance Act of 2009.

Working closely with BIS we were able to get the necessary system changes into production beginning on January 3rd. We also assisted Public Affairs with the preparation of a Press Release, and we released an Informational Bulletin detailing the changes to our own staff.

For what comes in the future on this, all reports indicate that Congress will be discussing further extensions of these provisions through the end of calendar year

2012. We are monitoring that legislation closely and are hopeful that administrative funding will also be provided in the next bill to cover our estimated implementation costs, which are about $500,000.

Okay. My second topic this morning is on upgrades for technology in the field offices. We have two projects that we have been working on. The first one is a complete replacement of imaging equipment in all of our district offices. New scanners were procured in late fiscal year 2011, and we and BIS have a team in place working with each field office and a contractor to get those new scanners installed and operated. To date, Chicago, Milwaukee and Joliet are installed. They were installed during December. Feedback has been positive. The new scanners scan almost twice as many pages per minute as the old ones did and they result in clearer and sharper images. So that's a really big improvement for them.

Four additional field offices are scheduled to receive their replacement scanning equipment this week. And our final target date is to have all 53 offices installed -- configured, tested and installed before the end of March 2012.

The second item we've been working on for field offices is a new technology called the WAN Accelerator. The purpose of that project is to improve the speed of the wide area network communication for our field offices and to enable the eventual elimination of servers in each field office. At the end of fiscal year '11 after investigating possible alternatives in the market we contracted with a company called LTI Communications. They're a GSA schedule contractor. LTI marketed the services of a company called Expand Networks, which was to provide and install the WAN accelerators in 12 of our offices, the ones that were in most need of improved speed of communication. Six of these accelerators had been installed as of December 16th with good results. And I was hoping this morning that I'd be reporting to you on the installation of the remaining six, however, late last week we learned that Expand Networks has been liquidated and its operations are terminated. Another company called Riverbed acquired some of their assets, but from what we currently know they're taking no responsibility --

CHAIRMAN SCHWARTZ: This was a GSA contract?

MS. ISHERWOOD: Yes.

CHAIRMAN SCHWARTZ: Okay. Now, you said six -- one question I have, excuse me to interrupt. You said six and the other six, now you said these were the --

MS. ISHERWOOD: There were 12 -- we contracted for enough to do 12 offices.

CHAIRMAN SCHWARTZ: Oh, 12 offices.

MS. ISHERWOOD: In total.

CHAIRMAN SCHWARTZ: Okay, 12 offices, okay, out of 53. So this isn't something that's going to go into each network where they have the district offices --

MS. ISHERWOOD: We were hoping eventually it would, but we were starting with 12 offices because that's what we could afford and we wanted to get started.

CHAIRMAN SCHWARTZ: Okay. So they're

saying we're taking no responsibility for the last company's work, right?

MS. ISHERWOOD: Pretty much, yes. The best we know at this point they're not taking responsibility for long-term customer support or for orders previously placed but not filled yet.

We're still working at this point with Acquisition Management and BIS to determine what options we do have. But due to the lack of technical support and inability to correct any issues with the proprietary software used on these devices, we are starting already to remove the new equipment from the six offices and roll them back to their previous state. We will be evaluating alternate products and vendors to ensure compatibility with our existing network, but no firm decisions have been made at this time. As you can tell this is a new development --

CHAIRMAN SCHWARTZ: Have we paid? Have we paid?

MR. VALIULIS: We paid up to -- first of all, the entire order was 190,000 and right now our exposure is a little less than $54,000.

CHAIRMAN SCHWARTZ: Okay.

MS. MORGAN: Riverbed Technologies purchased the intellectual property rights and hired a number of the staff from the old company, but they're not accepting any responsibility for the product.

CHAIRMAN SCHWARTZ: Has the software Riverbed -- is the software they're going to use different than the software the last company used? That's the issue. Because if they just took it over if it was a turnkey where they just came in and started using the same software it would be a little easier.

MS. ISHERWOOD: We actually tested Riverbed software when we were investigating alternatives and it was not compatible.

MS. MORGAN: The Riverbed Technology is a simple communication device. The Expand product is a communication device plus it has other services like a print server. So it reduces the amount of traffic between headquarters and the field office, so it improves their performance. So the two products are very different and Riverbed was not deemed to be a product we were interested in.

But that analysis was done about a year and a half ago so we're getting in touch with Gardner and GSA actually, they're under GSA contract, and there's a number of other agencies that use this product so we're going to try to find out how they're handling it as well.

CHAIRMAN SCHWARTZ: Okay. Well, I wonder why -- I wonder if that company went out of business because they did have more -- their software was better and they charged more and maybe these people low-balled out of the business or something. You don't know why?

MS. MORGAN: It's just very new like Dotty said.

CHAIRMAN SCHWARTZ: It's what?

MS. MORGAN: It's very new, the situation. They just were bought out or went out of business so we haven't had time to do a lot of analysis about what's going on with it.

CHAIRMAN SCHWARTZ: Do you have anymore good news, Dotty?

MS. ISHERWOOD: No, that concludes my report.

CHAIRMAN SCHWARTZ: That was great. That was really uplifting.

MR. KEVER: I'm sorry you don't have more to report.

CHAIRMAN SCHWARTZ: It's very good that you do report this to us right away, it really is. I would never want to discourage you from letting us know this. And I'm sure there's all kinds of good things happening down there too.

MS. ISHERWOOD: I'm keeping my mouth shut.

MR. KEVER: I have a question about the equipment that you put out into the field office. What additional benefits will that provide for us? Are we able to image everything in like medical records and everything like that to get in or not?

MS. ISHERWOOD: I don't think we'll use it for medical records, but I think that we will -- we'll be able to have a faster speed and the quality of the images is much better. Faster speed of processing the papers.

MR. KEVER: Why don't we do medical, is

there a reason?

MS. ISHERWOOD: Medical we have as a whole separate initiative area that we need to do on its own. Our disability benefits is sort of the last big bastion of opportunity that we have to be imaged, and I think there's special requirements for medical records in general I think to be imaged.

MS. MORGAN: And also there's a huge number, when you get into disability cases they are a lot more involved and we have to really be conscious of the storage. Imaging takes a lot of storage capacity and it's expensive, so that's another issue we just have to plan for.

MR. KEVER: But it's in the queue to think about it, talk about it?

MS. ISHERWOOD: We actually have a team starting all over again to reevaluate what it will take to do disability imaging.

MR. RUSSO: It can be done. Social Security is doing it. That's actually where they started with their system was in the disability area, whereas we started in the unemployment area and moved it to all of our operational areas. We have visited them in Springfield, Illinois where it was actually put in place as their first implementation, their first pilot. It works effectively there. We know it can be done, it's just a matter of, as Dotty said, we have a team in place, we'll be attacking that over the next 18 months and determining what we can do.

CHAIRMAN SCHWARTZ: Any other questions? I think that's a good segue to Terry.

MS. MORGAN: Good morning. The first thing I'm going to discuss is Homeland Security Presidential Directive HSPD-12. At the last Board meeting I discussed HSPD-12 logical access. BIS is responsible for implementing the part of HSPD-12 that addresses two factor authentication for access to the agency's computer systems.

CHAIRMAN SCHWARTZ: So don't leave your badge at home, is that the plan?

MEMBER BARROWS: You won't get in.

CHAIRMAN SCHWARTZ: That's right.

MS. MORGAN: Anywhere.

Two factor authentication requires employees to login to their computer with an ID Card and PIN rather than a user name and password. And this morning I just want to provide a short update on the project.

At the end of last year we were able to fund contract support and the contractor completed an analysis of the implementation requirements as well as provided training to the RRB Administrators, Engineers and Desktop Support Specialists on the configuration, installation and administration of the system. The PIV Card logical access team completed the installation of authority certificates on the network. And the certification installation is a key component because that's what identifies the person. The project enables the users to login with their card.

The next phase of the project involves testing by an agency-wide test team. The findings from this stage of the project will allow us to finalize the schedule for an agency-wide implementation.

And one the things that we need to be

careful of, I think you all can identify with this, is with your ID Card, your PIV Card, you also have a four-digit PIN, and how many people can remember their four-digit PIN? A few, but not many. So it's going to require going through that process. So we don't want to implement it all at one time, we have to implement it with smaller groups because they're going to have to go back through the whole process and get their PINS reset.

The next subject is just a short summary of BIS staffing. Faced with retirement of key personnel in the past year, BIS is in the process of identifying positions critical to the continued operations and service to the agency. The greatest challenge is in the Infrastructure Service Center. Recent retirements in Infrastructure Service include a Mainframe Engineer, and these are all people with tremendous experience in the agency, many, many years in the agency, Mainframe Engineer, Desktop Support Specialist, Supervisory Mainframe Engineer, Data Communications Engineer, Computer Operators and two Supervisory Computer

Operators.

CHAIRMAN SCHWARTZ: I have a question. When you say a lot of experience in the Mainframe Engineers, were they IDMS and then when we converted to DB2 then they learned that system?

MS. MORGAN: Yes.

CHAIRMAN SCHWARTZ: Okay. So they started off in IDMS and then when we converted they were DB2?

MS. MORGAN: Correct.

We're in the process now preparing our FY12-13 hiring plan. And BIS will identify critical technical infrastructure vacancies for immediate hiring consideration. This is where we're focusing our efforts in 2012 is in Infrastructure Service.

The next subject I'd like to touch on is system modernization. Just to summarize the system modernization initiative transitions existing mainframe applications to access data in the master database instead of the legacy siloed data. As each system is converted we then retire the legacy data, thereby improving efficiency and saving space on our mainframe system. Last year we completed the conversion of Medicare, that was the first system that we did, and we are now very close to completing the next phase of the project which involves converting the RUIA system. That should be done we're estimating February, maybe March, but we're looking at the end of February.

Additionally the system modernization team completed design work for completing the third phase of the project, which is Employment Data Maintenance, EDM. The target date for the developers to actually begin the conversion is March, depending on the availability of staff, business analysts, as well as IT staff. Throughout the system modernization effort the team has been using data modeling which is a new concept at the agency for project efforts. Data modeling is a method used to define, analyze and format data requirements needed to support the business development of information systems. If this is done consistently across all information systems then compatibility of data is achieved and different systems can share data. And remember before each system had their own data, now they can share it. We only have one representation of it. Communication and precision are two key benefits that make a data model important to information systems that use an exchange data. The data model is the medium which project team members from different backgrounds and with different levels of experience can communicate with one another. And precision means the terms and rules under the data model can be interpreted in only one way, they're not ambiguous and thereby they increase accuracy of the data. Although data modeling is relatively new to the Board, it has had immediate and positive effect on the development and implementation timeline of this project. The understanding and appreciation of data modeling by business analysts and developers continues to mature at the agency.

And the last item I'd like to talk about is Windows 7 Migration. Windows 7 Migration Project will upgrade the agency's desktop operating software from its current system, XP, Microsoft XP, to a more advanced and secure operating system, Microsoft Windows 7.

The migration will ensure all agency computer workstations are using Windows 7 prior to Microsoft suspending their support for the XP Operating System in April of 2014. It's critical to the agency's operation to stay current with Microsoft Windows updates since they include essential security patches for organizations to prevent vulnerabilities to viruses and other destructive acts. Additionally, once a new operating system is released it's common that new versions of application software is no longer supported under the older operating system.

The initial phase of this project will be the planning phase. Within this phase we will complete a computer hardware assessment to determine what agency computers are equipped to handle Microsoft 7, Windows 7. We will also review the additional features of Windows 7 to determine which features we would like to include in the installation. The planning process includes assessing and testing all applications in use by the Board to ensure they will continue to function on Windows 7 operating system. And this is a very lengthy process, we're talking about at least a year and a half just testing all the applications.

The benefits of completing the migration include upgrading all RRB computers to the most current operating system, standardization of computer setup and deployments and utilizing computer security capabilities provided by Windows 7 to make our computers safer.

CHAIRMAN SCHWARTZ: Yeah, you're right, you don't want to roll that out too fast.

You know, I have a question on the modernization. Are we able to save capacity?

MS. MORGAN: Yes.

CHAIRMAN SCHWARTZ: All right. So when we go in and we do the systems modernization and we convert and then we get rid of the legacy, it does help us on the MIPS?

MS. MORGAN: Yes, it does.

CHAIRMAN SCHWARTZ: It uses less MIPS, less capacity?

MS. MORGAN: Correct.

CHAIRMAN SCHWARTZ: How we doing -- because, you know, I'm worried about the -- because the cost is really the software, when you need more capacity it's not really buying more MEMS that costs as much as the software, how are we doing on that?

MS. MORGAN: We are doing actually much better than we were last year. Each of these systems that I talked about is broken down into many subsystems. So as we do each one we remove the legacy tables at that time. So we've had the master data up and running for a couple of years now, so we've had duplicate data for a while so it is slowly decreasing.

CHAIRMAN SCHWARTZ: So you kind of partition the mainframe out, okay, I see what you're saying. And you put it in different groups so as you convert and you take out the legacy one and then that capacity can be used?

MS. MORGAN: Correct. Right.

CHAIRMAN SCHWARTZ: So where do you think we are on it, are we at 70 something percent capacity or 80?

MS. MORGAN: I'm afraid I can't answer

that right now.

CHAIRMAN SCHWARTZ: All right. But we're okay for now?

MS. MORGAN: We're okay for now.

CHAIRMAN SCHWARTZ: We won't need an upgrade for a while?

MS. MORGAN: No.

MR. KEVER: Cloud computing, what effect does that have on all your plans?

MS. MORGAN: We're taking the approach to cloud computing I think slow because we're still concerned about security issues with cloud computing. We've nominated two systems to OMB as is required, and we're one of the only small agencies that's done that to date. We always look at the cloud first when any new requirements come in and so we're going to cloud as we can. It should have a benefit in the long run, but for right now it's not used enough to really see much of a benefit.

MR. KEVER: You took on a lot of projects at year end that you hadn't anticipated, how are we doing on all of those?

MS. MORGAN: We're doing fine. And

actually the Steering Committee saw for the first time the new projects, we have under a half dozen for this year, and part of that is we did purchase so much at the end of last year that we took on a lot of the FY12 projects in FY11 so our staff is very busy so they really in a number of ways we don't have a lot of projects for '12, new projects for '12.

MR. KEVER: You just accelerated.

MS. MORGAN: We just accelerated them and that's what our staff is working on right now.

CHAIRMAN SCHWARTZ: And I assume as we continue to enhance our systems we're up-to-date on the disaster recovery aspect of things?

MS. MORGAN: We are still working on disaster recovery. It's a continual process.

CHAIRMAN SCHWARTZ: It always is. That's what I mean, as we continue to enhance this we need to, of course, keep up and be able to recover the data.

MS. MORGAN: I think that in my mind is probably one of the weakest areas we have, and we do need to emphasize that a little bit more.

But we can operate in a disaster, but we need to get more efficient in how we do that.

CHAIRMAN SCHWARTZ: That's great. Thank you. Any other questions?

I want to welcome Karl to Executive Committee, our new General Counsel. And do you have a report for us today?

MR. BLANK: Yes, I do.

Before I begin I'd like to thank the Board for appointing me as General Counsel. I'll try to do the best I can not only for the Board Members but for the rest of the staff of the agency as well. I know that Steve left quite a vacuum when he left, and I'll do my best to try and fill it as I can. With that I'll begin with the report on Litigation.

We have four cases regarding or concerning individual claims that are petitioning review. The oldest one was filed March of 2011. The Board filed its reply brief in October, October 27th of 2011, so we probably just missed the last Board meeting on that. That case concerns a disabled child that we determined was not disabled before age 22, which is the requirement. And that's in the 9th Circuit Court of Appeals out in California.

The next case, Nelson versus Railroad Retirement Board, is also a 9th Circuit case, that was filed in August. The Board filed its reply brief December 21st. The case concerns a Tier 1 annuity component offset for Social Security. And there was a bit of a delay in the case because the claimant was asking the court to proceed waiving court fees and so actually the petitioner's brief wasn't filed until November.

So those first two cases now all the briefing is done and we're waiting for whether the court sets it for argument or issues a decision.

The third case is rather an unpronounceable name, I think it's Tsosie versus Railroad Retirement Board, that's in the 10th Circuit Court of Appeals, that was filed in September. We've had two mediation conferences imposed on us by the clerk's office. The idea was raised that -- it is a disability denial, the notion is that perhaps we could agree to a later disability annuity beginning date and then they would agree to dismissal. We're looking into the medical evidence, they submitted some additional evidence, a rather unusual stance for a disability case. The second mediation conference was just held January 10th and I guess we'll have another one maybe in a month or two.

The last claimant disability -- or rather claimant appeal is actually -- it's also in the 10th Circuit, it was filed in October. And the petitioner filed their brief on December 12th so we just filed the Board's reply brief yesterday. This is a rather unusual case out of the run-of-the-mill in the sense that it's a -- the merits of the case are an appeal from the -- a recon decision which was filed late to Hearings & Appeals and consequently shouldn't be reviewed by the Court of Appeals at all. And that's our initial position. Potentially the Circuit Court could review the grounds under which we decided that they didn't file timely for good cause, that would be a factual determination, we'll just have to see how that turns out. I suspect the worst that could happen would be they'd send it back to us and discard considering the merits of the decision itself.

And then we have one employer status case, the Rail Term versus Railroad Retirement Board out in the District of Columbia Circuit. The case was briefed and argued as the Board already knows on October 24th, and on November 14th the Court of Appeals issued an order sending the petitioner, Rail Term, to re-petition the Surface Transportation Board for an order determining whether it's a carrier under the Interstate Commerce Act Title 49. Rail Term filed its petition December 14th. The Board -- we filed a copy of the Board's decision, the coverage decision, on December 22nd. And just on January 3rd the American Dispatchers Association filed an opposition to Rail Term's petition as an intervener, so to speak, with the STB. The issue in the case I'm sure the Board knows is whether a company that was providing dispatching -- rail dispatching services is, in essence, a rail carrier itself.

There's another issue that the Court of Appeals did not address pending the decision, which is whether the employees of the company could then if not actually the carrier itself could be attributed as employees of the rail carriers for which it performs the dispatching service.

So I'm given to understand that the pace at the STB is rather slow and so consequently we don't really have any idea how long this is going to be there. It could be quite a while, months, toward the end of the year.

I thought I'd mention that since I haven't been in the Bureau of Law for three years when I came back I noticed that there was a significant increase in an area of law that had just a little bit of work when I left, which is Employment Law relating to Board employees.

As the Board knows under Board Order 10-57 the Office of General Counsel participates with the Office of Human Resources in reviewing personnel actions and decisions and processing that. We have three attorneys in Law that are working on these cases, not full time, but they are getting a role in them. And as I say this is an area that certainly when I left three years ago I don't think we had three attorneys working in this area.

We have four cases involving the Board that are currently pending in various forums. We have an MSPB case involving removal of an employee which is set for hearing on February 8th. We have an EEOC case before an ALJ concerning a performance rating alleging discrimination. The discovery was concluded in that case and now we're awaiting a prehearing conference date. So basically that case is waiting.

We have another EEOC case concerning non-selection, that's awaiting an ALJ ruling on the Board's motion for summary judgment.

And then there's a fourth case, which is actually something of a mire, but basically it's an MSPB decision which affirmed the Board's removal decision which is in the U.S. Court of Appeals for the Federal circuit. The Justice Department is actually representing the

Government in that case and we're working with them. There's also this individual has filed I guess another EEOC claim in the same matter which isn't supposed to be done so that's sort of gunning up how this is being handled right now.

Turning to Regulations and Legislation, well, of course, everybody knows already what's happened with the extension of the RUIA benefits and the FICA reduction, tax reduction. The Bureau of Law did pursuant to Executive Order 13579 we issued on the Web site a regulatory review action plan, but the basis is essentially -- the idea is that the agencies -- small agencies have to review the regulations and determine on a regular basis whether they need updating and so forth. And we're a little different because we're not regulatory and most of our regulations are really more explanatory of the benefit computations and entitlement and so forth. And we are -- our plan states various elements that we use to trigger review of regulation.

And then finally turning to the Bureau

of Hearings & Appeals, of course, Rachel Simmons succeeded me January 3rd as Assistant General Counsel/Director of Hearings & Appeals. She's reported to me that the appeals received in H&A through the first quarter of 2012 were 111, that compares with 124 for the same period last year, in other words, a difference of 13 less.

Decisions issued for the first quarter of 2012 were 112. The decisions issued during the same period first quarter last year were 109, so we managed to eek out three more decisions. There's been a certain amount of illness and time lost for that reason in H&A so I believe this figure actually is a little low compared to what the capacity is.

The balance at the end of December 2011 is 428 appeals, last year it was 426, so we're again pretty much right in the same spot.

As far as the number of hearings conducted in the first quarter, it was a total of 67 hearings. And just as a point of information what the breakdown would be, we've done 17 by video, 26 in person and 24 by telephone.

CHAIRMAN SCHWARTZ: During the year wasn't the video interrupted a little bit?

MR. BLANK: Yes, sir, we've had a number of problems off and on.

HEARING OFFICER SCHWARTZ: Has that been taken care of or is that kind of up and going again?

MR. BLANK: Well, the last element of the -- at the end of fiscal '11 we received new equipment downstairs, the screen, we had an upgraded T1 line and so forth so that we'd be able to have the additional bandwidth necessary for a much better transmission.

The contractor that installed the program for the new transmission equipment came in and took care of that in November, however, he couldn't take care of the -- well, the gizmo, the technical name I guess, the thing that translates it onto the --

CHAIRMAN SCHWARTZ: You have to have a different vendor do that?

MR. BLANK: Right. Right. We have a contract on that that was just the beginning of this month. So I understand that will take four to six hours of work. We need a window of time and room for that.

CHAIRMAN SCHWARTZ: Now, who elects that contract, do we or does GSA?

MR. VALIULIS: We do.

CHAIRMAN SCHWARTZ: We do, okay.

MR. BLANK: The video contract is actually through GPO.

CHAIRMAN SCHWARTZ: Okay.

MR. BLANK: Our friends. But the new contractor is actually much better than FedEx was in my opinion.

CHAIRMAN SCHWARTZ: And that was the interruption. The interruption was -- I don't know if everybody sitting here knows that we were going through FedEx and they're not doing it anymore so we had to -- I guess the point of the whole thing is, my point at least, is once we get this equipment in we'll probably be able to do the video, it will be right here and it will be more accessible and maybe be able to do more of those.

MR. BLANK: Yes, part of the number of in-person hearings reflects the fact that the network of the contractor doesn't encompass places like North Glade and so forth. And so there's a certain number of cases that we just are going to always have to go to.

CHAIRMAN SCHWARTZ: Sure, because there has to be two ends. There has to be an end over there too, right.

MR. BLANK: And that has to pay them to have a facility there. But there has been -- some of a number of in-person hearings does reflect the difficulties that we've had with the video equipment.

MEMBER BARROWS: The railroad's facilities are they available to be used or they're not part of the contract? The railroads have these facilities all over.

MR. BLANK: Well, I don't know that anyone has ever explored that. My knowledge of the video program is sort of secondhand, but I do know that it goes way back, a good 10, 11 years when we were looking into -- even when Tom Sadler was down there trying to get connections with the Veteran's Administration and maybe some of us here remember we tried to connect with SSA and they weren't amenable to that idea. But with the new equipment that's one of the things --

CHAIRMAN SCHWARTZ: That's a good point because with the new equipment since it's here, located here, we could probably make those agreements ourselves, right?

MR. BLANK: Yes, sir, it works like a telephone, you can call anyplace.

CHAIRMAN SCHWARTZ: So it gives us more flexibility because you don't have to rely on FedEx, you know.

Okay, great. Anything else?

MR. BLANK: Well, that concludes what I had.

MR. KEVER: I have a question.

We have four EEOC cases, is that a lot for us? Is it -- it's certainly more than I've ever heard of. And what is the root cause of why we have all of these, is it part training that we're not providing our people? I mean, I know it's a difficult question to answer, but is there just a large spat of these happening right now?

MR. BLANK: Well --

MR. KEVER: Is it usual? Unusual?

MR. BLANK: My recollection over the years is that we have not had as many at one time. I suspect there might be a certain amount of testing the waters after we lost another case earlier, and it may take us a while to gain a better track record in subsequent cases before that sort of thing is discouraged. People might feel less likely that they would win if it becomes more widely known that the Board does not lose its cases.

MR. KEVER: How about training, is that -- would that have a bearing on it?

MS. CHANEY: No.

MR. BLANK: I don't know, that would be probably a personnel issue in terms of training for EEO-type sensitivity and so forth. I believe they do conduct such things.

MR. VALIULIS: We have conducted training and we do work with Lynn Cousins, our EEO officer. We suspect that part of the experience may be there are economic reasons, one is individuals -- the job market on the outside is not robust, and I think individuals are reluctant to lose their positions if they're being terminated and will do whatever it takes to stay in.

We also don't have enough promotion opportunities. You know, the employment levels within the agency have come down and the opportunities are less available and I think individuals are taking a more active approach if they're passed over for a promotion or other action.

CHAIRMAN SCHWARTZ: Well, with that, Henry, keep talking.

MR. VALIULIS: All right. Thank you.

Good morning. I'd like to switch subjects and begin with the OPM Human Capital Management Evaluation of the Railroad Retirement Board. This past July 18th through the 22nd the Office of Personnel Management, or OPM, conducted an on-site evaluation of the RRB's Human Capital Management. Their findings were recently transmitted in a report on December 29th, 2011. OPM found that overall the RRB operated in accordance with merit system principles and veterans' preference law and regulations. RRB Human Resource staff is currently reviewing the report and preparing a response that will indicate that we plan to implement the required actions and seriously consider the other recommendations where appropriate. The agency response is due within 60 days of the OPM's report.

I'd like to also provide a short update on hiring. In terms of external hiring from the current approved hiring list, we have hired 20 new employees since the beginning of the fiscal year and six positions remain to be filled. For the remainder of this fiscal year and the upcoming fiscal year the EC is reviewing our critical human resource needs and will be submitting an updated hiring plan to the Board within a few weeks.

With respect to building security access upgrade status, as a follow-on to the CIO's discussion on HSPD-12 I'd like to cover the logical access or physical access. The same identification cards will also be used by employees and contractors for physical access into the building and other secure areas of the building. The data conversion is complete and the card readers are being changed out at this time. The main access gates on the first floor will be activated after GSA safety engineers are able to test the emergency functions and authorized use. Employees will be notified prior to implementation.

Regarding Acquisition Management update, fiscal year 2012 procurement activity was delayed until a full year appropriation was approved. Because of multiple continuing resolutions only contracts for critical services were incrementally funded during the CR period. With full year funds now available staff is preparing to modify contracts to fund needed services and programs through the end of the current fiscal year. Our most significant non-IT contracting action currently involves the reprocurement of the RRB Medicare Part B administrative services contract. At this time we have sent out requests to all three service providers with price-related clarifications and expect their response by January 31st.

CHAIRMAN SCHWARTZ: That would be the three people bidding on it? When you say all three service providers, that would be the three bidders?

MR. VALIULIS: That's correct.

In addition a draft Interagency Agreement has been submitted to the Centers for Medicare and Medicaid Services, CMS, for review. We expect that the IAA will be executed simultaneous with contract award. Even though the RRB will award the new contract, the nature of the new Medicare Administrative Contracts will require that we work collaboratively with CMS. Contract and program staff will need access to CMS program, financial and disbursement activity reporting. They will need to ensure that funds are obligated by CMS and also certify recurring contractor invoices for payment by CMS. And that will occur monthly. They will also have to coordinate award fee determinations with CMS. The Interagency Agreement will help to ensure that the new contract is effectively and efficiently managed.

CHAIRMAN SCHWARTZ: So what you're

saying is these are differences from what --
Henry, the reason why you highlighted those last few things, there are some differences between this contract and the previous?

MR. VALIULIS: There are very major differences between the two.

CHAIRMAN SCHWARTZ: So there will be more access -- what you're saying is there's going to be more access in interrelationship with our systems?

MR. VALIULIS: Well, it's actually we will be working with CMS's systems. We will need access to those systems and it will have to be active in terms of ongoing payments and financial and also making sure that the award fees are consistent with the other MAC contracts.

CHAIRMAN SCHWARTZ: Okay.

MR. VALIULIS: And that concludes my activity highlights for the Office of Administration.

CHAIRMAN SCHWARTZ: You know, I think it's apropos at least in my opinion that we end it with acquisition activity because what's been highlighted, I think the other two Board members probably noticed it too, is we do acquisitions here in contract but it appears that in some cases we are at the mercy of a contract that might be led by another government agency, and I think that's an interesting distinction.

I mean, you know, we're doing procurements and I think that we just sort of innately assume that when there's a contract if it's working for an area in the agency it's a contract that we procured, when, in fact, sometimes it was, you know, done by another Federal agency and then when something happens we have to go back.

Now, we do -- but we do get back to them, they do -- now, explain to us for a moment what that means when you say that they send out a cure notice, what is this? What are the steps there?

MR. VALIULIS: A cure notice --

CHAIRMAN SCHWARTZ: Because we aren't very happy with that one vendor that Dotty had to work with, I can tell you that.

MR. VALIULIS: We're not happy I think

with the events that occurred. Source Link has provided services in the past. We've had contracts for many years and they've done very good service.

CHAIRMAN SCHWARTZ: Okay. So a cure notice means?

MR. VALIULIS: It puts the contractor on notice that we're dissatisfied, they're not adhering -- they're not living up to the requirements of the contract and they're not performing well and it tells the contractor that they have to come back within a period of time, short period, and come back and report exactly what occurred and the remedies that they plan to implement and provide.

CHAIRMAN SCHWARTZ: That's very good, that explains things. And then I suppose if they don't then there's probably something in the contract where they, you know, they -- you know, they could have a problem maintaining the contract if they can't come back -- if they can't cure it.

MR. VALIULIS: The next step after a cure notice is default.

CHAIRMAN SCHWARTZ: Okay, that's what I was looking for. So the cure notice first and then default if they can't comply with the requirements.

MR. VALIULIS: We would hope that we'd be able to cure the situation.

CHAIRMAN SCHWARTZ: Oh, yeah, and probably most times you can, but there are times that -- like with Dotty's other contract, they went out of business.

All right. But I think it's interesting that these incidents occurred because I think it does highlight the fact that we don't have control of every -- we don't really control the contractor in every case.

MR. VALIULIS: That's correct.

CHAIRMAN SCHWARTZ: So good. All right, that explains things. Does anybody else have anything?

MR. KEVER: Question.

CHAIRMAN SCHWARTZ: Yes, Mr. Kever.

MR. KEVER: I don't know who can answer this for me, but the toll free number, where do we stand with any enhancements that we're going to do with that? Is there a project moving along?

MS. ISHERWOOD: There is. I'm trying to think if I can describe this well. We have an enhancement we're working on, I think it has to do with better handling of people who are in queue, who are waiting to be able to -- you know what, I shouldn't try and describe this here. I could get you some information after the meeting on exactly what did it does. And it is in the works, I think it's something we're hoping to bring up fairly soon.

MR. VALIULIS: You're also piloting new equipment, replacement equipment.

MS. ISHERWOOD: Do you know how many offices have that, Henry?

MR. VALIULIS: I think they just -- getting the new set certified and I think --

MS. ISHERWOOD: The handsets, right?

MR. VALIULIS: The handsets.

MS. ISHERWOOD: The new handsets.

MR. KEVER: Okay. But what we have today are you getting full reporting on everything that you wanted to get out of it?

MS. ISHERWOOD: We probably always would like more reports than what we get, but I think we're doing pretty well. I mean --

MR. KEVER: When you send up the Board some additional information about what the progress is, can you also tell us enhancements that you don't have that you'd like to have?

MS. ISHERWOOD: Sure.

CHAIRMAN SCHWARTZ: And the contact log is going fine?

MS. ISHERWOOD: Yes, it's going fine.

MR. RUSSO: I could mention one long-term project that we've been analyzing that would support this kind of project, but we're looking for enhancement that would allow the caller to put in his or her Social Security number and then what that would allow us to do is while they're on hold we would end up what we call screen popping information to the desktop of the representative. And depending on the type of query, they could, for example, tell us if it's a Medicare query, then what we would do is we would bring to the desktop first the five pieces of information that we use to identify the individual to make sure that we're talking to that person and then additionally the data connected with Medicare that we think would assist in responding to that call.

So we have had that on our books for a while. We're putting a little more meat to the bone right now. We think that's a high productivity area that's been very successful in terms of responding to the calls. It's a very professional manner in which they handle the call, and I think it's very doable for us. So we are spending some time and actually have a planning meeting next week to talk a little bit more about it.

MR. KEVER: Perfect.

CHAIRMAN SCHWARTZ: Anything else?

Well, very good reports today. Thank you very much, and with that we'll conclude the meeting.

(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

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