Actuarial Advisory Committee Meeting
June 4, 2024, 12:15 p.m. (Central)

Present: Actuarial Advisory Committee members Janet Barr, Ken Kent, and Tonya Manning; Chief Actuary Keith Sartain and Bureau of the Actuary and Research staff Isaiah Forrest, Beth Jabek, Vincent Lui, Pat Pruitt, and Brett Schwab

The purpose of the in-person meeting was to review the draft Twenty-Ninth Actuarial Valuation of the Assets and Liabilities under the Railroad Retirement Acts as of December 31, 2022, sent to the Actuarial Advisory Committee (AAC) in advance of the meeting. All references to tables, figures, and charts refer to this draft report unless otherwise specified.

First, the members of the AAC approved the minutes of the April 3, 2024, AAC meeting. Chief Actuary Keith Sartain mentioned that it was recommended at a meeting of representatives of agencies with advisory committees that advisory committee meeting minutes should be approved within 90 days, giving us a target for which to aim.

The discussion then turned to the 29th valuation. Keith stated that the valuation, which is as of December 31, 2022, was completed using the assumptions and methods discussed in prior meetings of the AAC. The introduction of the report lays out the requirements for the valuation, including whether funds need to be diverted to the Railroad Unemployment Insurance Account (RUIA). No financial changes or diversions are necessary at this time.

The Technical Supplement will be provided to the AAC when the Twenty-Ninth Actuarial Valuation of the Assets and Liabilities under the Railroad Retirement Acts as of December 31, 2022, with Technical Supplement is published sometime in late September or early October. It will be posted on RRB.gov, and bound paper copies will also be available. Much of the material in the Technical Supplement has already been provided to the AAC in reports on the assumptions used for the valuation.

Sections III and IV of the valuation describe the benefits, the operation of the trust, the financial interchange, and dual benefits. Tier 1 benefits are a little more valuable than social security benefits, although similar, because a railroad employee can retire with full benefits at age 60 with 30 years of service. Also, railroad retirement occupational disability benefits are better than social security disability benefits.

Keith commented that most of our funds are invested by the National Railroad Retirement Investment Trust (NRRIT) Board of Trustees. We look at the investment return in aggregate.

According to the results of the 29th valuation, the Railroad Retirement Board (RRB) will be able to pay benefits for the entire 75-year projection period under all three employment assumptions I, II, and III. Former valuations included an additional discussion of the results under employment assumption III, the pessimistic assumption, because previously under that assumption, the system had been projected to become insolvent during the projection period. For this report, the system remains solvent under all three employment assumptions, and there are no cash flow problems.

COVID is now having less of an effect on mortality experience. For this valuation, there was no need of a special mortality load to reflect additional deaths likely due to COVID.

Employment rose during 2022 and the first part of 2023, remaining steady during the latter part of 2023 and the first part of 2024. Increases in hiring at Amtrak helped, and some railroad workers who were furloughed were called back to work. The projected cost of the system has improved because of expected improvement in future employment and related payroll taxes.

The employment assumptions had been based on a model developed by the Association of American Railroads that was introduced in 1994 and first used with the 19th valuation. The AAC made a comment that the model has been modified periodically in subsequent valuations. It was now felt that it was time to move beyond that model and incorporate the improvements in employment over the past years. The rates of decline in freight employment were changed from 0.2%, 1.5%, and 2.8% to 0.2%, 1.4%, and 2.6% for employment assumptions I, II, and III, respectively. Also, freight employment now decreases linearly to zero over the next 40 years rather than decreasing at a constant annual rate for 25 years and then at a reducing rate over the next 25 years. For employment assumption III, passenger employment was reduced by 400 per year until reaching 38,000 rather than by 500 per year until reaching 40,000. An adjustment was made to the first year of projected employment to recognize the increasing employment trend into 2024. The 2023 average employment used in the projections is a preliminary number, as in the past.

In answer to a question from the AAC, Keith said that retroactive pay negotiated by the unions is not necessarily identified separately by the employers.

Table 1 shows the ultimate economic assumptions, which are a 3.5% wage increase, a 2.5% COLA, and a 7.0% investment return, as compared to a 3.4% wage increase, a 2.4% COLA, and a 6.5% investment return used in the 28th valuation. The table also shows projected employment under the three employment assumptions. Figure 1 shows both historical and projected employment.

As in the past, one set of economic assumptions and other demographic assumptions, based on experience studies completed before the valuation, is used for all the projections.

Section V. B. of the report, Valuation Results, is similar to past reports except that there are no cash flow problems under any of the three employment assumptions. Keith pointed out that under employment assumption II, the tier 2 tax rate will remain at 18% for many years and will not go higher. The account benefits ratios under the three employment assumptions were more divergent in past reports.

Tables 2-I, 2-II, and 2-III show the projected tier 2 tax rates, the account benefits ratios, the average account benefits ratios, and the combined balances. Legislation related to the pandemic provided employers with Tier 1 tax credits and deferrals during 2020. The projections reflect the deferrals being repaid by employers by December 2022 and these repayments being transferred from the SSEB Account to Treasury in September 2022 and September 2023. The accompanying figure 2 shows the historic and projected account benefits ratios.

Table 3 shows the present value of benefits, including Tier 2, Tier 1 liability, supplemental annuity, and lump sum benefits under each employment assumption by types of beneficiaries. The present values are highest under the optimistic employment assumption and lowest under the pessimistic assumption. Table 4 shows the present values in table 3 as percentages of the tier 2 payroll taxes. The AAC suggested showing the impact of moving to a 7.0% investment return for the 29th valuation from 6.5% in the 28th valuation.

Table 5 shows the assets as of December 31, 2022.

Table 6 shows the actuarial surplus or (deficiency) for the National Railroad Retirement Investment Trust and the Railroad Retirement Account in millions of dollars and also as a percentage of tier 2 payroll. The long-term investment return rate used for the valuation is 7.0%, but the actual investment return for 2023 was 12.8%. The adjustment in the beginning assets shown in the table reflects the difference between actual and projected assets.

Table 7 shows the projection of vested dual benefit amounts and average number of beneficiaries. The last vested dual benefit payment will probably be made after 2040. The projected amounts of the dual benefits are the basis for the RRB's requests for appropriated amounts. If the appropriated amounts are ever insufficient to pay benefits, payments will be reduced. The projected figures in the 29th valuation are very similar to those in the 28th valuation.

Table 8 shows the projection of the supplemental annuity benefit amounts and average number of beneficiaries. The projected figures shown are slightly lower than those shown in the 28th valuation.

Table 9 in the valuation shows the ratio of annuitants to employees. Figure 3 shows historical and projected ratios of annuitants to employees and how the ratios under the three employment assumptions ultimately converge. We looked at nine years of experience when determining what the new entrant demographic profiles should be.

Table 10 shows the history of the financial interchange between the RRB and the Social Security Administration (SSA). The RRB receives loans from Treasury throughout the year and pays them back with money that we receive from SSA. AAC members were concerned what would happen with respect to the financial interchange if SSA experienced financial problems. The Chief Actuary explained that Treasury advances the money for the financial interchange monthly. The RRB does not have to pay Treasury back until SSA provides its funding, although Keith mentioned that the financial interchange agreements do not anticipate that happening. The projections assume that SSA will continue to make payments, as mentioned in the discussion of Table 2. We have just completed the most recent financial interchange determination, which is included in table 10. The table does not include the transfers to the Hospital Insurance Trust Fund. Keith pointed out that we collect Hospital Insurance taxes and income taxes and send them to the Centers for Medicare & Medicaid Services.

The Statement of Actuarial Opinion is the same as the statement included in the 28th valuation and similar to the statement in the SSA Trustees Report. The members of the AAC had no suggestions regarding the statement.

At the end of the meeting, the members of the AAC signed the Statement of the Actuarial Advisory Committee, which will be published in the 29th valuation.

The meeting ended at 1:40 p.m.