

Actuarial Advisory Committee Virtual Meeting
April 22, 2025, 10:00 a.m. (Central)

Present: Actuarial Advisory Committee members Sherry Chan, Tonya Manning; and Harlan Weller (Chair); Chief Actuary Keith Sartain and Bureau of the Actuary and Research staff Isaiah Forrest, Beth Jabek, Pat Pruitt, and Brett Schwab; and IRS actuary Scott Steadman

The purpose of this meeting, held virtually, was to review the proposed select economic assumptions and the employment assumption scenarios to be used for the 2025 Section 502 Report. The recommendations were presented in the memo sent to the Actuarial Advisory Committee (AAC) in advance of the meeting.

Everyone introduced themselves to new AAC members Sherry Chan and Harlan Weller at the beginning of the meeting.

Keith observed that, in the past, rather than having an AAC meeting to discuss the select economic and employment assumptions, sometimes a memo outlining the assumptions had been sent to the committee for their comments and suggestions before the assumptions were approved. This year, however, with two new AAC members, it seemed appropriate to have a meeting. The demographic and ultimate economic and employment assumptions for the 2025 Section 502 Report are the same as those used for the 29th Actuarial Valuation, published in 2024. These assumptions will not be changed until the 30th Actuarial Valuation, which will be published in 2027. The select assumptions for this year's annual report use updated data to reflect recent experience and will phase into the ultimate assumptions.

Brett Schwab discussed the select cost of living adjustment (COLA) assumptions. We clarified that the COLAs in the assumptions table are aligned with the year when the benefits are paid. The COLA for 2026 (the December 2025 COLA) will be based on the annual increase in the average CPI-W from the quarter July-September 2024 to the quarter July-September 2025. This increase will first be applied to the December 2025 benefits paid in January 2026.

Brett mentioned that in considering the ultimate COLA assumption, we look at other sources, such as expectations of investment professionals and inflation assumptions used by public pension plans. The select COLA assumptions should phase into our ultimate COLA, which is 2.5%. The CPI-W for March 2025 is 313.250, which represents a 2.2% increase from the prior March 2024 index and a 1.4% increase since September 2024. The CPI-W increase from the third quarter of 2024 to the first quarter of 2025 is 1.2%. We proposed extending the 1.4% increase experienced since last September to project the next six months (April 2024 through September 2025), resulting in a 2.6% COLA to be applied to December 2025 benefits paid in January 2026. Then we would revert to the ultimate COLA of 2.5% for 2025 and the following years.

The committee members thought that the first quarter was a better indication of the near-term steady state as prediction for the next two quarters. We agreed to extend the last quarter's increase for the next two quarters and apply the resulting COLA to December 2025 benefits paid in January 2026. We would then phase into the ultimate COLA over the next three years. This approach was described in a revised memo and sent to the committee the day after the meeting for their approval. The revised COLA is 3.2% for 2026 benefits, 2.9% for 2027 benefits, 2.7% for 2028 benefits, and then 2.5% ultimate for 2029 and after.

The Actuarial Advisory Committee approved the revised COLA assumptions.

Next, Isaiah Forrest discussed the select wage assumption. There were large increases in 2023 due to retroactive payments associated with nationwide union contracts that were retroactive to 2020. These large increases will not reoccur. Keith commented that the wage data come from employer reporting after the end of the year. We do not expect that the wage increase measured so far for 2024 will change due to any additional data.

The average wage increase in contracts with railroad workers is 18.8% over five years. This matches our long-term wage increase assumption of 3.5% per year.

The Actuarial Advisory Committee approved the use of the long-term wage increase assumption for all future years.

Keith then discussed the select investment return assumption, explaining how the railroad retirement system can invest in the market due to the establishment of the National Railroad Retirement Investment Trust (NRRIT), an independent entity. The trust has about 90% of the assets of the railroad retirement program and has a mandate to diversify their investments. The assets in the Trust are about 80% equities and 20% fixed assets, like a traditional pension plan mix.

The remainder of the assets are in the Railroad Retirement Account and the Social Security Equivalent Benefit Account, which invest in par value government bonds, at a rate that changes every month and is guaranteed to be at least 3% but has been higher since September of 2022. In April, the par value rate was 4%.

On average, investments in the NRRIT have earned over 7.5% per year. The Trust sends money back to the RRB every year to support benefit payments. At the time of the meeting, total assets are about \$29 billion which is 4.8 times the annual payout. The annual return in 2024 was 9.8%, and the return for 2023 was even better. We do not expect that kind of return this year and have seen signs of market correction. It is difficult to predict what will happen due to tariffs and potential trade wars. Investment returns are volatile, and we proposed using the long-term investment return assumption of 7% for all years, which is our typical practice.

The Actuarial Advisory Committee approved the use of the long-term investment assumption for all years.

Finally, Pat Pruitt discussed the select employment assumptions. Preliminary average employment for 2023 was 198,200, but the final average employment was a little higher at 199,700. Preliminary average employment for 2024 was 200,800, a little higher than the employment projections from the 29th Valuation, which ranged from 200,000 for the optimistic assumption to 195,900 for the pessimistic assumption. The final figure for 2024 will not be available until close to the end of the year.

Average monthly employment stayed steady at 202,000 for the first five months of 2024, dropped to 200,000 by July and remained at that level through November, and then dropped to its current level of 199,000 in December. We expect that employment will remain close to its current level, probably continuing to drop slowly, although tariffs or a recession could have a greater effect.

For the Section 502 Report, we proposed to start with the actual 2024 employment of 200,800 and then apply the three assumed rates of decline of 0.2%, 1.4%, and 2.6% to project future freight employment under the three employment scenarios. We proposed to continue using 46,000 for passenger employment. Passenger employment had risen lately, especially for Amtrak, but there is a lot of uncertainty as far as future ridership and future financial support are concerned. As usual, passenger employment is assumed to remain constant under employment assumptions I and II but to decline by 400 each year until reaching a level of 38,000 under employment assumption III.

Keith pointed out that employment assumptions affect the projection of the income we receive from payroll taxes. We use a twelve-month average employment level as a starting point for the projections each year. Last year, we made an upward adjustment to projected employment to bring the level up to what we knew it was in the first quarter. This year, we are in the opposite situation with slowly declining employment. We proposed making a -1% downward adjustment to the initial projected 2025 freight employment numbers under all three employment scenarios to bring the projected 2025 employment under assumption I, the optimistic assumption, down to the preliminary employment estimate for the first quarter of 2025. We are being a little pessimistic and cautious about employment because much of the railroad industry depends on business from ports and the transportation of goods across the Canada/U.S. border. So far, there has been a rush to import before the tariffs take effect. The proposed adjustment to the 2025 freight employment reflects a negative outlook for the year.

The AAC approved the select employment levels.

Keith told the members of the committee that the draft Section 502 Report would be sent in advance of our next meeting. It is sent to the Board for approval in early June and then sent to the President and the Congress at the end of June.

The meeting adjourned at 11:34 a.m.