UNITED STATES GOVERNMENT

MEMORANDUM

FORM G-115f (1-92)

RAILROAD RETIREMENT BOARD

April 29, 2024

TO : Actuarial Advisory Committee

FROM : Keith T. Sartain
Chief Actuary

KEITH SARTAIN

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Date: 2024.04.29 13:48:26 -04'00'

SUBJECT: Select Period Economic and Employment Assumptions

At our earlier meetings, we decided on ultimate economic assumptions and employment scenario assumptions for the 29th Actuarial Valuation (measurement date December 31, 2022), which also serves as the 2024 Section 502 Report. This memo recommends select period economic and employment scenario assumptions reflecting recent experience.

Proposed Select Period and Ultimate Economic Assumptions

Projection Year	Cost of Living	Base Wage Increase	Investment Return
2023	8.7% (a)	11.4% (p)	12.8% (a)
2024	3.2% (a)	1.5%	7.0%
2025	3.0%	3.5%	7.0%
2026	2.8%	3.5%	7.0%
2027 and later	2.5%	3.5%	7.0%

(a) actual
(p) preliminary

The following reasoning led to our recommendations for select period assumptions.

The cost-of-living adjustment (COLA) for benefits paid in 2023 (the December 2022 COLA) was 8.7% and for benefits paid in 2024 (the December 2023 COLA) was 3.2%. The COLA for 2025 (the December 2024 COLA) will be based on the increase in the average CPI-W from the quarter July-September 2023 to the quarter July-September 2024. This increase will first be applied to the December 2024 benefit paid in January 2025.

The CPI-W for March 2024 is 306.502, which represents a 3.5% increase from the prior March 2023 index and a 1.4% increase since September 2023. The CPI-W increase from 2023 Q3 to 2024 Q1 is only 1.0%.

Although a higher level of inflation than our ultimate assumption may continue for some months, we expect that inflation will continue to come down from the level that had been experienced in the last few years. We are proposing the following for the 29th Valuation:

1) Extend the 1.4% increase experienced since last September to project the next 6 months (or April 2024 through September 2024), resulting in a 3.0% COLA to be applied to December 2024 benefits paid during 2025.
2) Use a 2.8% COLA in 2026, which is about halfway towards the long-term 2.5% assumption. This presumes continued commitment by the Federal Reserve towards their long-term goal.
3) Revert to the ultimate COLA of 2.5% for 2027 and the following years.

Our typical practice is to base our first-year wage increase assumption on preliminary compensation reports that are available by April. Based on preliminary information, we estimate a 2023 base wage increase of 11.4%, comparable to last year's valuation assumption of 10% base wage increase for the 2023 calendar year. This higher increase is due to union contracts with Class 1 railroads being ratified that include cumulative gross wage increases (GWI) and a one-time payout for prior period GWI and service bonuses as described in the table below.

Date	Gross Wage Increase	Compounded
7/1/2020	3.0% GWI	1.03
12/1/2020	$1,000 service bonus	
7/1/2021	3.5% GWI	1.066
12/1/2021	$1,000 service bonus	
7/1/2022	7.0% GWI	1.141
12/1/2022	$1,000 service bonus	
7/1/2023	4.0% GWI	1.186
12/1/2023	$1,000 service bonus	
7/1/2024	4.5% GWI	1.24
12/1/2024	$1,000 service bonus	

We are then assuming a lower increase of 1.5% in 2024, since the back-wages payments are inflating 2023 wages and will not reoccur. We will use the ultimate 3.5% assumption thereafter.

The actual investment return for the combined assets was +12.8% in calendar year 2023, up from -10.8% in calendar year 2022. The investment return for the NRRIT has been 4.4% for the calendar quarter ending March 31, 2024. Based on a lack of any particular event or expectations to the contrary for the remainder of 2024, we propose to use the ultimate 7.0% investment rate for this year and future years, as has been the usual practice.

Employment Assumption Scenarios

The preliminary employment estimate for 2023 is 198,200 employees, which is subject to revision at the end of 2024. The latest available passenger employment estimate is 46,500 for 2022, which has grown by about 2,000 since last year due to Amtrak hiring supported by the Infrastructure Investment and Jobs Act.

During 2023, average employment increased from 194,000 to 200,000 by mid-year and remains at about that level through March 2024. We anticipate railroad employment will remain steady for 2024 but there remains some risk of a recession that would reduce employment.

In this year's employment model, we start with the actual 2023 average employment of 198,200, then apply the model's three assumed rates of decline to project future employment under three employment scenarios. We propose starting with passenger employment at 46,000 for 2023, declining to 38,000 by 400 per year under scenario III (pessimistic). The starting freight employment proposed for 2023 is 152,200, which is equal to 198,200 total less 46,000 for passenger employment.

We propose making a +1.4% upward adjustment to the initial projected 2024 freight employment numbers under all scenarios to bring the projected 2024 employment under scenario I (optimistic) up to the actual preliminary employment estimate for the first quarter of 2024. The upward adjustment maintains 2024 employment under scenario II (moderate) at 198,200, which equals the 2023 average employment.

The table below shows the proposed employment levels (in thousands) for the next few years under assumption scenario I (optimistic), II (moderate), and III (pessimistic).

Projection Year	Scenario I	Scenario II	Scenario III
2023	198.2	198.2	198.2
2024	200.0	198.2	195.9
2025	199.7	196.1	191.7
2026	199.4	194.1	187.7
2027	199.1	192.2	183.9
2028	198.9	190.3	180.2

Chart 1 shows the proposed average employment assumptions to be used for the 29th Actuarial Valuation. For comparison, Chart 2 shows the average employment assumptions that were used for the 2023 Section 502 Report.

Table 1 shows the proposed employment and economic assumptions for 75 years.