

**MEMORANDUM**

RAILROAD RETIREMENT BOARD

April 23, 2025 (revised)

TO : Actuarial Advisory Committee**FROM :** Keith T. Sartain
Chief Actuary**SUBJECT:** Select Period Economic and Employment Assumptions

This memo reflects revisions to the COLA assumption suggested during our April 22 meeting to review and discuss select period economic and employment scenario assumptions reflecting experience realized since last year's valuation. These assumptions will be reflected in the interim 2025 Section 502 Report (measurement date December 31, 2023), which updates the prior year's 29th Actuarial Valuation (measurement date December 31, 2022).

We previously decided on ultimate economic and demographic assumptions and the employment scenario model for the 29th Actuarial Valuation. These ultimate assumptions will typically not change until the 30th Actuarial Valuation in 2027. We may phase into the ultimate economic assumptions from current experience over a few years.

Select Period and Ultimate Economic Assumptions

A comparison of the proposed select economic assumptions with those used in the 29th Actuarial Valuation is shown below. (a) = actual and (p) = preliminary

29th Actuarial Valuation

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%

Proposed for 2025 Report

Projection Year	Cost of Living	Base Wage Increase	Investment Return
2024	3.2% (a)	2.1% (p)	9.8% (a)
2025	2.5% (a)	3.5%	7.0%
2026	3.2%	3.5%	7.0%
2027	2.9%	3.5%	7.0%
2028	2.7%	3.5%	7.0%
2029 and later	2.5%	3.5%	7.0%

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

The cost-of-living adjustment (COLA) for benefits paid in 2024 (the December 2023 COLA) was 3.2% and for benefits paid in 2025 (the December 2024 COLA) was 2.5%. The COLA for 2026 (the December 2025 COLA) will be based on the 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.

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 2024 Q3 to 2025 Q1 is 1.2% but most of that increase came in the last quarter:

CPI-W	AVERAGE	Change from prior Quarter
2024 Q1	304.329	0.99%
2024 Q2	308.009	1.21%
2024 Q3	308.729	0.23%
2024 Q4	309.141	0.13%
2025 Q1	312.294	1.02%

We are proposing the following for the 2025 Section 502 report:

- Extend the last quarter's 1.02% increase to project the next 2 quarters (quarter ending June 2025 and quarter ending September 2025), resulting in a 3.2% COLA to be applied to December 2025 benefits paid in January 2026.
- Phase into the ultimate COLA over the next three years using 2.9% for 2027 benefits, 2.7% for 2028 benefits, and reaching the ultimate COLA of 2.5% for 2029 benefits 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 2024 base wage increase of 2.1%, comparable to last year's valuation assumption of 1.5% base wage increase for the 2024 calendar year. This lower increase compared to last year's 11.4% base wage increase is due to union contracts with Class 1 railroads being ratified that included cumulative one-time payouts during 2023.

We continue to see new Class 1 union contract extensions in advance of the nationally negotiated contracts ending in 2025. Amtrak established a new 7-year contract in 2024 that includes 34% compounded wage increases for 2022 through 2028. American Association of Railroads estimates that a typical agreement includes wage increase of 18.8% over five years, or about 3.5% per year ([Freight Rail & Collective Bargaining | AAR](#)).

We will use the ultimate 3.5% assumption for 2025 and later years.

The actual investment return for the combined assets was +9.8% in calendar year 2024, down from +12.8% in calendar year 2023 but still more than our 7.0% ultimate assumption. The investment return has been 2.2% for the first two months of 2025. Although the markets experienced a material correction in April, moving into bear market territory, it is unclear how much impact that will have on the Investment Trust given its diversified portfolio or how soon the markets may recover. Based on a lack of any particular foresight or expectations to the contrary for the remainder of 2025, 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 2024 is 200,800 employees, which is subject to revision at the end of 2025. This average is slightly higher than projected in the 29th Valuation.

Across 2024 and during 2025 so far, monthly average employment has been stable but slowly decreasing from about 202,000 at the beginning of 2024 to 199,000 in February 2025. We anticipate railroad employment will remain stable but decreasing for 2025 due to economic uncertainty. There remains risk that tariffs and/or a recession that could reduce employment further.

In this year's employment model, we start with the actual 2024 average employment estimate of 200,800, 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 2024, which equals last year's value, remaining constant under scenarios I and II but declining to 38,000 by 400 per year under scenario III (pessimistic). The starting other railroad employment proposed for 2024 is 154,800, which is equal to 200,800 total less 46,000 for passenger employment.

We propose making a -1.0% downward adjustment to the initial projected 2025 freight employment numbers produced by the model under all scenarios to bring the projected 2025 employment under scenario I (optimistic) down to the preliminary employment estimate for first quarter of 2025. This downward adjustment anticipates negative impacts on employment due to tariffs affecting rail shipping into and out of the United States.

The table below shows the 29th Valuation 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 (prel)	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

The table below shows the proposed employment levels (in thousands) for the 2025 Section 502 report over the next few years under assumption scenario I (optimistic), II (moderate), and III (pessimistic).

Projection Year	Scenario I	Scenario II	Scenario III
2023 (actual)	199.7	199.7	199.7
2024 (prel)	200.8	200.8	200.8
2025	199.0	197.2	194.9
2026	198.7	195.1	190.7
2027	198.4	193.1	186.7
2028	198.1	191.2	182.9

Chart 1 shows the proposed average employment assumptions to be used for the 2025 Section 502 Report. For comparison, Chart 2 shows the average employment assumptions that were used for the 29th Actuarial Valuation.

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

Table 1. Employment and economic assumptions

Calendar year	Average employment (thousands)			Percentage increase over prior year		Investment return
	I	II	III	Base Wages	Cost of living ^a	
2024	200.8 ^c	200.8 ^c	200.8 ^c	2.1% ^c	3.2% ^b	9.8% ^b
2025	199.0	197.2	194.9	3.5	2.5 ^b	7.0
2026	198.7	195.1	190.7	3.5	3.2	7.0
2027	198.4	193.1	186.7	3.5	2.9	7.0
2028	198.1	191.2	182.9	3.5	2.7	7.0
2029	197.9	189.4	179.3	3.5	2.5	7.0
2030	197.6	187.6	175.8	3.5	2.5	7.0
2031	197.3	185.9	172.5	3.5	2.5	7.0
2032	197.1	184.3	169.3	3.5	2.5	7.0
2033	196.8	182.8	166.3	3.5	2.5	7.0
2034	196.6	181.3	163.4	3.5	2.5	7.0
2035	196.4	179.9	160.6	3.5	2.5	7.0
2036	196.2	178.5	158.0	3.5	2.5	7.0
2037	196.0	177.2	155.4	3.5	2.5	7.0
2038	195.8	176.0	153.0	3.5	2.5	7.0
2039	195.6	174.8	150.7	3.5	2.5	7.0
2040	195.4	173.7	148.5	3.5	2.5	7.0
2041	195.2	172.6	146.4	3.5	2.5	7.0
2042	195.0	171.6	144.4	3.5	2.5	7.0
2043	194.9	170.6	142.5	3.5	2.5	7.0
2044	194.7	169.7	140.7	3.5	2.5	7.0
2045	194.5	168.8	139.4	3.5	2.5	7.0
2046	194.4	168.0	138.1	3.5	2.5	7.0
2047	194.3	167.2	136.9	3.5	2.5	7.0
2048	194.1	166.5	135.8	3.5	2.5	7.0
2049	194.0	165.8	134.8	3.5	2.5	7.0
2050	193.9	165.2	133.9	3.5	2.5	7.0
2051	193.8	164.6	133.0	3.5	2.5	7.0
2052	193.7	164.1	132.2	3.5	2.5	7.0
2053	193.6	163.6	131.5	3.5	2.5	7.0
2054	193.5	163.1	130.8	3.5	2.5	7.0
2055	193.5	162.7	130.2	3.5	2.5	7.0
2056	193.4	162.4	129.7	3.5	2.5	7.0
2057	193.4	162.0	129.2	3.5	2.5	7.0
2058	193.3	161.7	128.8	3.5	2.5	7.0
2059	193.3	161.5	128.4	3.5	2.5	7.0
2060	193.2	161.3	128.1	3.5	2.5	7.0
2061	193.2	161.1	127.9	3.5	2.5	7.0
2062	193.2	161.0	127.7	3.5	2.5	7.0
2063	193.2	160.9	127.6	3.5	2.5	7.0
2064 - 2098	193.1	160.9	127.5	3.5	2.5	7.0

^a Cost-of-living adjustments are effective January 1 of each year. Actual Tier 1 COLA is the same as the actual social security increase. Tier 2 COLA is 32.5% of the Tier 1 COLA.

^b Actual.

^c Preliminary.

Chart 1. 2025 Section 502 Employment Assumptions(in 1000s)

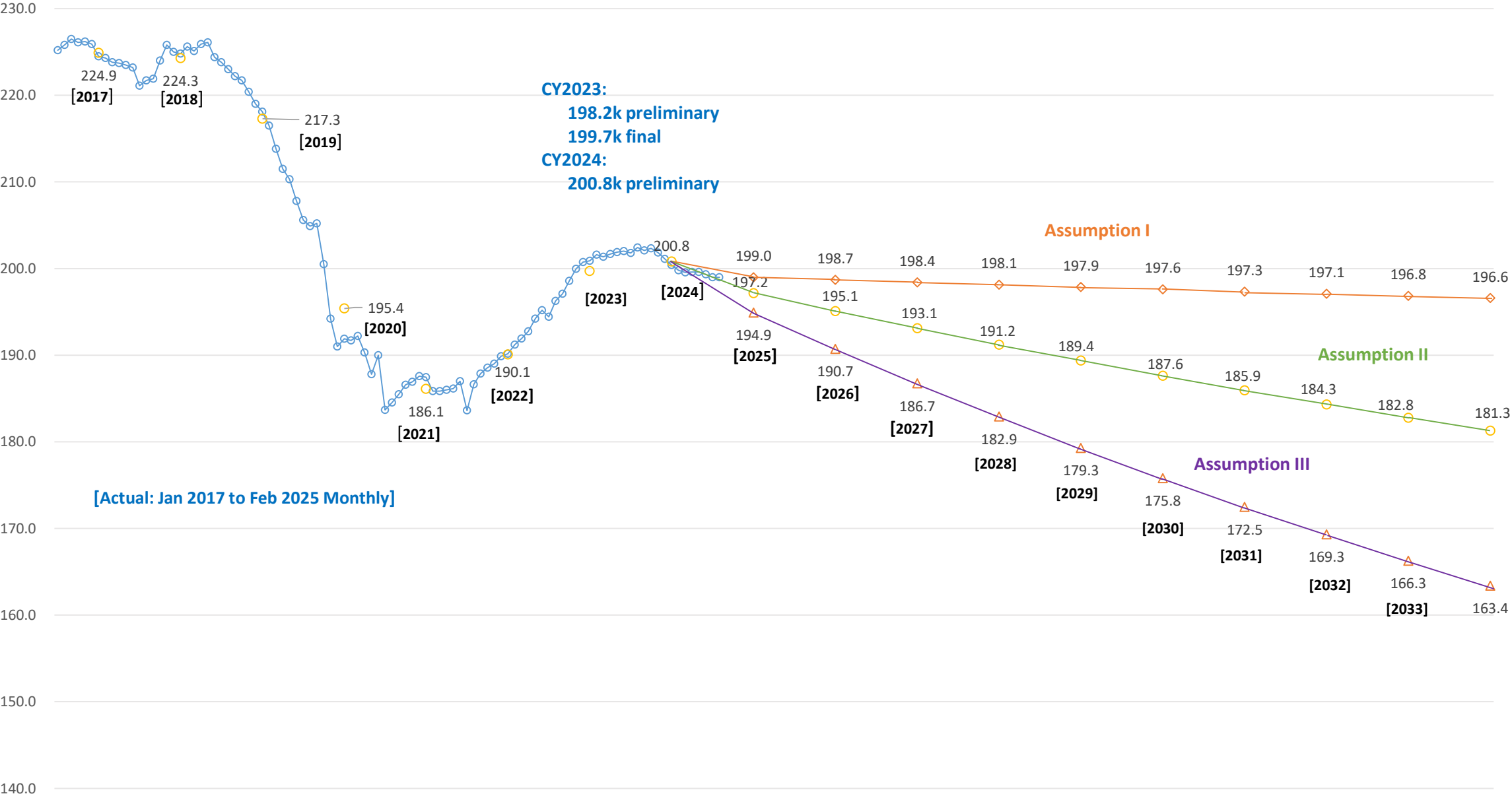


Chart 2. 29th Valuation Employment Assumptions(in 1000s)

