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Actuarial Advisory Committee, 2014-2015

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UNITED STATES OF AMERICA
RAILROAD RETIREMENT BOARD
844 NORTH RUSH STREET
CHICAGO, ILLINOIS 60611-1275

GENERAL COUNSEL

OCT 11 2017

Re: Freedom of Information Act
Request dated August 19,
2017

C. 17-3624

This is to response to your letter dated August 19, 2017, received on August 24, 2017, to the Railroad Retirement Board (RRB) wherein you requested a "copy of the Meeting Minutes of the RRB Actuarial Advisory Committee . . . for meetings during Calendar Years 2014, 2015, 2016 and 2017 to date." You made your request pursuant to the Freedom of Information Act (FOIA).

As you are aware, the RRB is an independent agency in the executive branch of the United States Government which is charged with the administration of the Railroad Retirement Act (45 U.S.C. § 231 et seq.) and the Railroad Unemployment Insurance Act (45 U.S.C. § 351 et seq.). The Railroad Retirement Act replaces the Social Security Act with respect to employment in the railroad industry.

Pursuant to your request, please be advised that the Actuarial Advisory Committee held three meetings (i.e, on June 5, 2014, December 17, 2014 and May 28, 2015) from 2014 to the present. Please find enclosed copies of the Actuarial Advisory Committee Meeting Minutes covering those meetings.

I trust that this information fully satisfies your request. If you need further assistance or would like to discuss any aspect of your request, please do hesitate to contact our FOIA Public Liaison, Marguerite P. Dadabo, Assistant General Counsel, at (312) 751-4945.



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I trust that this information is helpful.

Sincerely,

A handwritten signature in black ink, reading "Ana M. Kocur". The signature is fluid and cursive, with the first name "Ana" and last name "Kocur" clearly legible, and the middle initial "M." in between.

Ana M. Kocur
General Counsel

Enclosures

Actuarial Advisory Committee Meeting
June 5, 2014, 10:00 a.m.

Present: Actuarial Advisory Committee members Maynard Kagen, Ken Kent, and Keith Sartain; Counsel to the Management Member Robert Perbohrner; and Bureau of the Actuary staff Frank Buzzi, Isaiah Forrest, Darryl Howard, and Pat Pruitt

The purpose of the meeting was to review the proposed retired life assumptions included in the Progress Report on the 26th Actuarial Valuation that was sent to the Actuarial Advisory Committee. Before discussing the tables, however, Chief Actuary Frank Buzzi confirmed that the members of the Actuarial Advisory Committee had no comments on the draft of the 2014 Section 502 Report, which they had also received for their review.

Mortality after age retirement: Frank pointed out that almost all the tables in the Progress Report will be duplicated in the Technical Supplement to the 26th Valuation. Table 1, the mortality experience of railroad age annuitants, shows that the exposure is about 195,000 per year, and the number of actual deaths is a little more than 10,000 per year. This means that the results for each age group are fairly significant. The table shows comparisons of the proposed mortality table to the 1994 Group Annuity Mortality Static Table as well as to the 2010 RRB Annuitants Mortality Table used in the 25th Valuation.

In the past, the valuation year (e.g., 2010) was used in the title of the mortality table. The recent experience shown in table 1 is for anniversaries of retirement between 2009 and 2012, and the new 2010 Base Year RRB Annuitants Mortality Table, unlike past tables, will be used in conjunction with a mortality improvement scale. In answer to Keith Sartain's question regarding the use of the mortality improvement scale, Frank said that because the 26th Valuation will be as of December 31, 2013, mortality improvement prior to the valuation date will be taken into account.

In answer to a question from Ken Kent, Frank explained that the valuations are on a calendar-year basis, but the Accounts Benefit Ratio that is used to determine the tier 2 tax rate is on a fiscal-year basis. The 2001 Railroad Retirement and Survivors Improvement Act replaced fixed tier 2 tax rates by a tax rate formula based on the Average Accounts Benefit Ratio. It is the Department of the Treasury that actually announces the tier 2 tax rate each year. The tier 1 tax rate is the same as the Social Security tax rate. Frank also briefly discussed the Financial Interchange as well as the benefit takebacks that took place back in 1983 and 1984.

For the 26th Valuation, we could have continued to use the 2010 RRB Annuitants Mortality Table, but the new table gives a better fit by age group. As table 1 shows, female mortality is much lower than male mortality, and the improvement in mortality is greater at the younger ages. Because the mortality rates are based on the combined experience of males and females, Keith asked if the ratio of female to male employees is changing. Frank replied that males account for about 90 percent of the employees, and this percentage does not seem to be changing. The railroad business is still basically made up of male employees.

Frank explained the difference between immediate and deferred mortality to the committee members. There is a little more impact in the earlier years, but the difference between immediate and deferred mortality is not huge.

Frank observed that in table 2, which shows mortality experience for individual years, there is a small amount of improvement from one year to the next.

Table 3 shows mortality on a select and ultimate basis. There is less variability than there was for the last valuation. Frank does not see the benefit of having a select table. Most employees with 30 years of service retire at age 60. By age 65, most of the population has retired. Deferreds tend to retire the first year that they are eligible. In response to a question, Frank mentioned that tier 1 work deductions are computed as they are for Social Security. There is not much post-retirement work among the retirees.

Figure 2 shows that the crude mortality rates for age annuitants are very easy to graduate. Frank does not think that there is a cohort effect which needs to be considered. The mortality rates in table 4 are appropriate between anniversaries of retirement in 2010 and 2011. The Actuarial Advisory Committee approved the 2010 Base Year RRB Annuitants Mortality Table.

Frank pointed out Figure 1, which is interesting because it shows mortality experience by age group for the period 1988-2012. There is considerable improvement at the lower ages, but by age 90, there is very little improvement. Because of changes in the law in 2001 (the Railroad Retirement and Survivors Improvement Act) that allowed employees at age 60 with 30 years of service to receive full benefits rather than reduced benefits, by 2002, the age 60-64 group was not the same population as it had been in prior years. Frank noted that a Gompertz distribution tends to fit the RRB age mortality fairly well.

In discussing old-age mortality, Frank explained to the committee members how centenarians receive letters of congratulations delivered personally by RRB employees. Although the centenarians generally enjoy the visits, this is actually a means of verifying that the centenarians are still alive.

Mortality after disability retirement: Table 5 shows crude mortality on a select and ultimate basis for disabled retirees. Because there is not a lot of experience in the select period, the table combines the experience of those with a disability freeze and those without a disability freeze. The mortality rates tend to go down as the select period is wearing off. It is not worthwhile to use select and ultimate tables, which would be difficult to graduate, for the valuation. The number of disability retirements is similar from year to year, and aggregate tables work fine. It is more important to maintain the freeze/no-freeze dichotomy.

In answer to a question from Ken Kent, Frank explained that “freeze” means that the disabled employee meets Social Security’s standards of disability, that is, being totally

and permanently disabled and meeting the Social Security earnings criteria. The Railroad Retirement program does not have earnings criteria. "Freeze" has to do with how many years are used to compute the average indexed monthly earnings; the period of time an annuitant is disabled does not count for the computation. Those without freeze tend to be occupationally disabled. Those who are totally and permanently disabled need at least five years of service, and they do not receive a tier 2 benefit until age 62 if they have only 5 to 10 years of service. Employees with at least 10 years of service can receive tier 1 and tier 2 total and permanent disability benefits. It is not necessary to be working for a railroad or to have a current connection for total and permanent disability.

Occupational disability requires a current connection and either 20 years of service or attainment of age 60 plus 10 years of service. Frank explained that "current connection" is a set of rules that limit which employees may receive benefits. Survivor annuities require a current connection, as do supplemental annuities. If an employee has a freeze, he gets early Medicare benefits and more favorable income tax treatment, and the RRB collects the cost of his disability benefits from Social Security. If the employee does not have a freeze, the RRB will collect age-reduced benefits from Social Security when the employee attains age 62. The mortality of those with a freeze has been consistently higher than the mortality of those without a freeze.

Ken asked if there is a benefit/mortality relationship. Frank answered that the relationship is stronger for tier 1 benefits than for tier 2 benefits. About a quarter of the payments from the Railroad Retirement Account are tier 1 liability benefits.

Figures 3 and 4 show the crude and graduated rates for disabled annuitants. The graduated rates are shown in tables 8 and 9. The Actuarial Advisory Committee approved the 2010 Base Year RRB Disabled Mortality Table for Annuitants with Disability Freeze and the 2010 Base Year RRB Disabled Mortality Table for Annuitants without Disability Freeze.

Table 7 shows the percentages of railroad disability annuitants who would have qualified for a benefit under the social security disability standards. More freezes are being granted to the population as a whole. There has been a decline in disability rates in the last two valuations perhaps somewhat related to the news of the Long Island Railroad cases. Frank explained to the committee how some LIRR employees had falsely filed for disability benefits.

Total termination of spouses: Frank explained that a spouse annuity usually terminates because either the employee dies or the spouse dies. The spouse may or may not be eligible for survivor benefits, depending on the existence of a current connection. A spouse is eligible for benefits if the employee is age 60 with 30 years of service or age 62 with at least 5 years of service. If the employee is 60 with 30 years of service, the spouse must have also attained age 60 to get unreduced tier 1 and tier 2 benefits unless she has a child in care. If the employee is age 62 when he starts receiving benefits, the spouse must have attained age 62 as well, unless she has a child in care. A divorced spouse can retire

at age 62 and receive benefits if the employee has attained age 62, even if he has not yet retired.

Frank pointed out that there has been an improvement of almost 5 percent in spouse terminations over the last three years. At the younger spouse ages, the employees tend to be older than their spouses, whereas at the older spouse ages, the spouses tend to be older than the employees. The crude and graduated rates of spouse termination are shown in Figure 5. About two-thirds of the terminations are employee deaths. If the deceased employee has a current connection, the spouse converts to widow's benefits. If not, she is transferred to Social Security. Table 11 shows the 2010 Base Year Spouse Total Termination Table, which the Actuarial Advisory Committee approved. Table 12, which provides spouse mortality experience, is informational. Spouse deaths are not used in the valuation. Frank remarked that spouse mortality is much lower than widow mortality.

Mortality improvement: In the past, mortality improvement and improvement in spouse termination were provided for by using a 6% margin, and additional improvement was provided for by using a 1-year rateback for future retirees. To be more consistent with current actuarial practice, including Actuarial Standard of Practice No. 35, which has to do with selecting demographic assumptions for measuring pension obligations, we decided to recommend adopting a mortality improvement scale.

Because mortality improvement for the aged retirees and the disabled retirees has been similar, the new mortality improvement scale is recommended for use with both. The improvement in spouse terminations has followed a similar pattern, which makes the new mortality improvement scale appropriate for use with the spouse total termination rates, as well.

The mortality improvement scale was developed after looking at available railroad retirement experience for the 7th through 26th valuations. Because of similarities in mortality improvement, the experience of aged and disabled annuitants was combined. Table 13 shows the average annual improvement in annuitant mortality for 1957-1984, 1984-2011, and the entire period 1957-2011. The greatest improvement is at the youngest age range, 60-64. Table 13 also shows improvement in spouse total termination for the same periods.

Mortality experience of the United States from the Human Mortality database was also reviewed, as well as the mortality improvement assumptions used for the 2013 OASDI Trustees' Report. This information is shown in table 14. Average annual mortality improvement for the U. S. population for 1950-2010 is shown in Figure 6. The Society of Actuaries' recently-published exposure draft of mortality improvement scale MP-2014 was also reviewed.

Taking into account the RRB historical experience, as well as the other sources mentioned, the new 2013 RRB mortality improvement scale, shown in table 15, was developed. Mortality improvement in the past has been the result of many different causes, such as improvements in sanitation, the availability of antibiotics and

immunizations, access to primary medical care, Medicare, decrease in smoking, and improvements in the standard of living. Future mortality improvement may be affected by new diagnostic and medical techniques, pollution, new diseases, obesity, and other factors, and it is uncertain whether mortality will continue to improve at the same rate.

Frank observed that we will look at the mortality improvement scale in the future but probably recommend new base tables more often than a new mortality improvement scale. It is necessary to have many years of experience in order to produce a mortality improvement scale. The Actuarial Advisory Committee approved the new mortality improvement scale.

Probability of a retired employee having an eligible spouse: Table 16 is basically counts, the number of employees and the number of eligible spouses. The probability of spouse table relates somewhat to the spouse total termination table. For active employees and future entrants, the spouse total termination table is not used. A spouse annuity is a percentage of the employee annuity. For spouses on the rolls it is not necessary to use estimated benefits. Only new spouses get estimated benefits based on the employees' annuities. A higher percentage of employees with 30 or more years of service have eligible spouses than employees with less than 30 years of service have. The probability of spouse table tends to be quite stable, but it is desirable for the probabilities used in the valuation to reflect current experience. Fortunately, this table is relatively easy to graduate. Figure 7 shows the crude and graduated probabilities of spouse. The Actuarial Advisory Committee approved the table showing the probability of a retired employee having an eligible spouse.

Mortality for nondisabled widows: Frank observed that widows' mortality has shown little improvement over the past eighteen years. Eighteen years ago, the RRB developed a new widows' mortality table. Since then, the experience of widows worsened for several valuations, finally starting to improve in the period 2003-2006. It is interesting to note that widows' benefits improved starting in 2002 after a change in law. Because there has been some recent improvement in widows' mortality experience, a new table that provides a better fit by attained age is recommended. Figure 8 shows the crude and fitted mortality rates of widow annuitants. Due to the lack of consistent improvement in widows' mortality, no mortality improvement scale will be used with the widows' mortality table. The Actuarial Advisory Committee approved the 2013 RRB Mortality Table for Widows.

Remarriage rates for widows: The remarriage experience of widows is shown by duration since the death of the employee. Frank explained that remarriage after age 60 terminates the tier 2 benefits, while remarriage before age 60 terminates both tier 1 and tier 2 benefits. The remarriage table does not have a significant impact on the valuation. Although there has been a change in the experience since last time, it might not be representative of future remarriage. Fewer recent remarriages may reflect recent

economic conditions. The Actuarial Advisory Committee agreed to retain the current table for the 26th valuation.

Total Termination of Disabled Children: Most of the terminations of disabled children are due to deaths. There has not been an improvement in the mortality of disabled children; rather, mortality is worse than when the current table was introduced. The cost of benefits for disabled children is very small, however. The Actuarial Advisory Committee agreed to retain the current table for the 26th valuation.

Family Composition Tables: Frank explained that family characteristics are used to value future survivor benefits. The employees who died must have a current connection and be vested. Frank pointed out that widows age 60 and 61 are shown separately in the table because widows are deemed to be age 62 for the purpose of calculating reduced benefits. Widowed mothers' and fathers' railroad retirement benefits are cut off when the child attains age 18, whereas social security benefits are cut off at age 16. For widowed mothers and fathers of disabled children, on the other hand, railroad retirement pays the same as social security does. Table 22 shows family characteristics, and table 23 shows the graduated results. In developing the family composition table, we examined prior experience and prior graduated rates and gave partial credibility to the current experience. The numbers are very close to what was shown last time, however. The family composition table does not have a huge effect on the liability. The Actuarial Advisory Committee approved the new family composition table.

Maynard Kagen commended the Chief Actuary and the staff for their good work. The meeting adjourned at 12:20 p.m.

Actuarial Advisory Committee Meeting
December 17, 2014, 10:40 a.m.

Present: Actuarial Advisory Committee members Janet Barr, Ken Kent, and Keith Sartain, and Bureau of the Actuary staff Frank Buzzi, Isaiah Forrest, Darryl Howard, and Pat Pruitt

The purpose of the meeting was to review the proposed recommendations included in the November 13 Progress Report on the 26th Actuarial Valuation and the additional topics for discussion included in the December 4 memorandum.

The meeting began with the approval of the minutes of the last Actuarial Advisory Committee meeting, held on June 5, 2014.

Rates of immediate age retirement: Chief Actuary Frank Buzzi reviewed the eligibility criteria for immediate age retirement. He mentioned that supplemental annuity benefits are being phased out. Age retirements are broken into two groups for the studies, participants with 5-29 years of service and participants with 30 or more years of service, because of the benefits for which they are eligible. Those with higher amounts of service have the greatest impact on the liability.

There has been a persistent decrease in the retirement rates of those with less than 30 years of service. For them, retirement seems to be a rational decision, related to increases in longevity, increases in the normal retirement age, or changes in economic conditions. Ken Kent observed that longevity has increased the payout period. Janet Barr then pointed out that we have a huge baby boom population.

The retirement rates for those with 30 or more years of service have tended to be more stable than those for employees with 5-29 years of service. Frank proposed giving full credibility for the recent ratios of actuals to expecteds. The proposed new retirement rates were graduated by hand.

Keith Sartain thought that economic instability could cause people to work longer. Frank pointed out that a railroad employee is not allowed to work for a railroad and collect benefits at the same time. This is different from the rules for social security benefits.

The Actuarial Advisory Committee members approved the new rates for age retirement.

Rates of immediate disability retirement: Pat Pruitt reviewed the eligibility requirements for occupational disability retirement and total and permanent disability retirement. The age group with the most retirements is the 55-59 age group, representing about half of the total number of disability retirees. The total exposures for those with 30 or more years of service are almost as great as the exposures for those with 10 to 19 years of service.

The decline in disability rates in recent years has been greater for employees with less than 25 years of service than for those with 25 or more years of service. In looking back at changes in disability rates over an extended period, we observed that rates were relatively stable at low

levels from the 6th through 11th valuations, increased in the 12th and 13th valuations, remained stable at higher levels from the 14th through the 17th valuations, and then increased substantially in the 18th through 20th valuations. Rates remained relatively stable at these higher levels through the 23rd valuation but have decreased substantially since then.

Because the rates in the current study do not differ much from those experienced in the 14th through 17th valuation study periods, the question remains as to whether we are returning to lower rates or experiencing a short-term response to current economic and other factors.

One current situation that may have affected our disability retirement experience involves the Long Island Railroad. Since 2011, thirty-three LIRR retirees, consultants, and doctors have been charged and convicted of being involved in a massive scam to make phony disability claims. Disability claimants who submitted medical evidence from one of the doctors involved in the scam have had their benefits terminated, although they may reapply.

The Social Security Administration's Actuarial Study No. 122 on the Social Security Disability Income Program experience described how that program experienced a surge in claims beginning in 1990, followed by modest annual declines in the late 90s and an increase in 2001, a small downward trend in 2005-2007, and then a significant jump in 2008-2009, likely due to the severe recession that began in 2008. The RRB's trend in disability retirements is contrary to that experienced by SSA, which gives further reason to question the credibility of our recent experience.

Frank recommended following the procedure used in the last two valuations of graduating our rates based on the most recent six years of experience rather than the most recent three years. This method has the advantage of generally smoothing changes from valuation to valuation while responding quickly enough if the current experience persists. It was observed that there is always a grey area in disability determination.

The Actuarial Advisory Committee approved the new rates for disability retirement.

Disability freeze: Frank explained that having a disability freeze means meeting the Social Security criteria for disability. The disability freeze rates have not changed much, but our practice is to update the rates when we update the disability rates. Six years of experience were used to be consistent with the experience used in determining the new disability rates. Frank pointed out that the social security criteria for disability changes with age; it is easier to get a freeze at ages 55 and over than at younger ages. Although the RRB makes the freeze determinations, SSA reviews roughly one-third of the cases, and sometimes they disagree with the RRB's determination.

The Actuarial Advisory Committee approved the disability freeze rates.

Withdrawals: The withdrawal rates have been reduced three times in the last five valuations. This time the results are somewhat unusual. There were huge differences in experience by calendar year. Perhaps this is related to the economic crisis. Frank thinks that we cannot yet say if the decrease in withdrawal rates is going to be permanent, and he is reluctant to further reduce

the withdrawal rates when the experience is unstable. During the economic crisis, the unemployment rate increased, but now it has gone down again.

The Actuarial Advisory Committee agreed to keep the withdrawal rates the same as those used for the 25th Valuation.

Service months: In answer to a question from Janet, Frank explained that service months are used for projecting benefits and taxes. Service month information is provided by the railroads, who give us data on tier 1 and tier 2 compensation and service months. Frank commented that there is seasonal work, although less than in past years. He did not want to give full credibility to the results of the study of service months because the crude experience for calendar years 2009 and 2010 was different. Except for employees with less than 5 years of service, the proposed service month pattern does not differ by more than 0.1 month at any duration from the pattern used in the 25th Valuation.

The Actuarial Advisory Committee approved the table of service months.

Active service mortality: Active service mortality improved at a rate of about 3 percent per year. This is similar to what was seen in the study for the 25th valuation in terms of improvement, but active service mortality has not been consistent in improvement. Active employee deaths are fewer than those of retirees, whose mortality has improved about 2 percent per year, although the improvement is higher at the younger retiree ages. If the experience of the younger retirees is compared with that of the active employees, the improvement in active service mortality is not out of line. The experience seems credible, and a new table of active service mortality has been proposed. There is no margin for improvement, however, because mortality improvement for this group has not been consistent. Ken commented that updating the mortality table every three years gives an opportunity to reflect any improvement that has been experienced.

The Actuarial Advisory Committee approved the new mortality table for active employees.

Employment assumptions: The average rate of decline in employment from 1945 to 2013 was 2.84% per year, but the average rate of decline from 1995 to 2013 was only 0.62%. Frank explained that employment assumptions I and II were based on a model originally developed by the Association of American Railroads and assumed that passenger employment remained level at 45,000 but the employment base excluding passenger employment would decline at a constant annual rate (0.5% for assumption I and 2.0% for assumption II) for 25 years, at a reducing rate for the next 25 years, and remain level thereafter. Employment assumption III assumes that passenger employment will decline by 500 per year until a level of 35,000 is reached and the employment base excluding passenger employment will decline at a constant annual rate of 3.5% for 25 years, at a reducing rate for the next 25 years, and remain level thereafter.

The average employment for 2014 is currently estimated at 242,000, which exceeds the range of the assumptions used in the 25th valuation (210,000 to 227,000). The initial rates of decline in freight employment had been reduced in the 21st, 23rd, and 24th valuations. Since our benefits are funded on an open group basis, it may be preferable to be somewhat conservative by maintaining the assumed rates of decline rather than reducing them for the fourth time in six valuations.

Although there has been an increase in employment since the 25th valuation, considering that the overall trend for the past six decades has been a decrease, it does not seem prudent to assume that employment will continue to increase in future years.

Frank mentioned that the Panama Canal expansion, which is intended to double the capacity of the canal by 2016, may result in an increase in the transit of goods by ship rather than by rail. Another project that may affect future employment is the installation of Positive Train Control, which was mandated by Congress. Once this project has been completed, work will transition from implementation to maintenance, and there may be a greater impetus to move to one-man train crews.

Economic assumptions: Frank stated that the CPI and wage increase assumptions used for the Social Security system include an ultimate rate of CPI increase of 2.7% and an ultimate wage increase of 3.83%, which is a decrease from the rates of 2.8% and 3.93%, respectively, used in the 2013 Trustees Report. Frank recommended reducing the ultimate rates of wage increase and CPI increase by 0.1% to 3.7% and 2.7%, respectively. This is consistent with the change in SSA's assumptions and gives some credibility to recent experience.

Keith mentioned that SSA has a longer phase-in period for economic assumptions, and Janet asked whether we should use a longer phase-in period, as well. Keith mentioned that various pension plan managers have different CPI assumptions.

Darryl Howard discussed the investment return assumption, pointing out that as of September 30, 2014, \$26 billion was invested in the National Railroad Retirement Investment Trust (NRRIT), \$0.8 billion in the Railroad Retirement Account (RRA) and \$0.9 billion in the Social Security Equivalent Benefit Account (SSEBA), for a total of \$27.6 billion.

According to the Stocks, Bonds, Bills, and Inflation 2014 Yearbook by Ibbotson Associates, the average annual return on large company stocks, long-term corporate bonds, long-term government bonds, and inflation from 1926 to 2013 were 10.1%, 6.0%, 5.5%, and 3.0%, respectively. Table 6. Compound Annual Nominal Returns for the Period 1926-2013 and Table 7. Compound Annual Real Inflation Adjusted Returns for the Period 1926-2013 show returns for 10-year and 20-year holding periods.

In answer to a question from Janet, Darryl explained that absolute return refers to unconventional investments, such as options, margin calls, or hedge funds. Keith inquired if the NRRIT invested in international markets, and Darryl replied that about 29% of the assets are targeted for international investments. Janet then asked if the NRRIT invested in mutual funds. Darryl replied that they invest mostly in actively-managed funds, which are typically benchmarked against indices such as the Russell 3000. Table 6, which has a portfolio of 65% large company stocks and 35% long-term corporate bonds, approximates the portfolio return for the combined SSEB, RR, and NRRIT accounts. Table 7 is similar, adjusted for inflation.

Our long-term assumption for investment return is currently 7%. The historical return for the combined accounts through September 30, 2014 is about 7.8% and, so far, the return on the combined accounts for the current year through September 30 is about 4.8%. A survey by

Horizon Actuarial Services in 2014 shows that large pension plans use 6%-9% for their investment return assumption. As of this morning, the current yield on long-term Treasuries is about 2.8%, and the year-to-date market return for the S&P 500 is about 6.75%.

Janet mentioned that her office's model uses an interest rate close to 7%. Frank pointed out that the 7% long term rate is before investment expenses. Ken asked about using a different discount rate than the investment return rate. Frank said that the main focus of our valuation is the cash flow projections rather than the present value calculations.

After the ultimate economic assumptions were approved, the meeting adjourned at 1:50 p.m.

Actuarial Advisory Committee Meeting
May 28, 2015, 10:05 a.m.

Present: Counsel to the Management Member Rob Perbohner, Assistant to the Management Member Natasha Marx, Actuarial Advisory Committee members Janet Barr, Ken Kent, and Keith Sartain, and Bureau of the Actuary staff Frank Buzzi, Isaiah Forrest, Darryl Howard, and Pat Pruitt

At the beginning of the meeting, the Actuarial Advisory Committee officially approved the minutes of the last meeting, which took place on December 17, 2014.

Chief Actuary Frank Buzzi began the discussion of the 26th Actuarial Valuation with Table 1, which shows employment and economic assumptions used for the 26th Valuation. Frank observed that, in the past, we would have used the ultimate COLA assumption in 2017, but we are now phasing in to the ultimate COLA in 2018 based on a prior recommendation from the Actuarial Advisory Committee. Frank commented that the CBO has looked at inflation rates, and the Federal Reserve Bank of Philadelphia provides forecasts. Our current methodology of choosing economic assumptions is straightforward.

Janet Barr suggested putting asterisks next to the rates that are actual rather than assumed on Table 1 and then including a footnote at the bottom of the table. This suggestion was agreed to. It was also suggested that "Table 1" on page 8 of the report be underlined as the other tables are when they are described in the text. In addition, the title of Table 1 was revised slightly to be "Employment and economic assumptions" rather than "Employment, inflation and investment return assumptions."

Ken Kent asked who the audience for the valuation was and was told that the report is sent to the President and the Congress. There are other interested parties, including rail labor and rail management, who receive copies when the paper version of the valuation is published.

Frank pointed out that actual employment is substantially above what was anticipated in the last valuation. The COLA was lower, and the investment return was higher than what was anticipated.

Figure 1 shows that employment has been fairly stable for the last decade after decreasing steadily for many years. Improvements in efficiency may affect employment assumptions in the future.

Ken asked if the account benefits ratio, which is shown on Tables 2-I, 2-II, and 2-III, was defined by law. Frank responded that it was in the Railroad Retirement and Survivors' Improvement Act of 2001, and that the way in which the average account benefits ratio determined the tier 2 tax rate had been negotiated when the law was written. Ken also asked if our projections were open group projections, and he was told that they are.

In discussing the results in Tables 2-1, 2-II, and 2-III, Frank mentioned that the tier 2 tax rates for 2012, 2013, and 2014 had been projected correctly in past reports. Benefits are slightly lower than what had been projected before because the actual COLAs have been lower than our assumptions. The effect of a lower wage increase was offset by higher employment. Benefits and administrative costs have been increasing and are expected to continue increasing. Mortality improvement has an increasing effect on the amount of benefits in the later years. Also, wage increases drive benefit increases.

Frank pointed out that the drops in other income and expenses in the SSEB Account in Table 2-1 in 2017 and 2021 are due to scheduled transfers to SSA for pre-1957 military service. Frank then explained the reasons for these transfers to the committee members.

After the 1970s we had a significant drop in new entrants. In recent years, the number of new entrants has increased somewhat, leading to the stabilization of employment that we have seen.

Table 3 breaks out the present value of benefits into categories of participants. Frank observed that roughly 70% of the benefits are paid to employees, 20% to spouses, and 10% to survivors. The table also breaks out retirees, active employees, inactive employees, and future entrants. A large group of employees with 30 years of service has been retiring recently. Table 4 shows the present values of benefits in Table 3 as a percentage of tier 2 payroll. The present values are all discounted at a constant 7%.

Table 5 shows the assets for the accounts. Table 6 shows the actuarial surplus or deficiency under the three employment assumptions. Frank explained that the amount available from the SSEB Account results largely from benefits collected through the financial interchange that the railroad retirement program does not pay. The Department of the Treasury provides projections of income taxes on benefits. The bottom portion of Table 6 is simply the amounts on the top part of the table divided by tier 2 payroll. Administrative expenses for the Railroad Retirement Account are capped at 2% of Railroad Retirement Account benefits plus investment expenses of 30 basis points.

Table 7 shows the unfunded accrued liability. At Ken's suggestion, the table was slightly abbreviated to remove some information that was not considered necessary.

Frank explained to the committee that the vested dual benefits are paid from a separate account. There are almost no new VDB entitlements. Table 8, which shows the projected vested dual benefit amounts and number of beneficiaries, is used to estimate appropriations for the vested dual benefits. The amounts and beneficiaries in Table 8 are very similar to those found in the table in the 25th Valuation. Those eligible to receive these benefits are a closed group of relatively old individuals. The old-age mortality assumptions are trending well.

Table 9 shows the supplemental benefit amounts and average number of beneficiaries. An uncertainty with this group is related to how many beneficiaries receive private pension benefits. Supplemental benefits are reduced if the employee receives a private pension from the railroad employer based on employer contributions. Supplemental benefit projections are done every three years.

Table 10 shows the projected average number of annuitants and the average number of annuitants per full-time employee. In recent years the ratio of annuitants to employees has been improving.

Table 11 provides historical information on the financial interchange.

Frank informed the committee that the Office of General Counsel and Office of Programs had reviewed the Appendix and had no comments.

There was a question from the committee regarding a statement in the Introduction to the report on page 1 about loans to the Railroad Unemployment Insurance Account. Frank told the committee how the Railroad Unemployment Insurance Account may sometimes have to borrow money from the Railroad Retirement Account and then pay it back. Currently, there are no outstanding loans.

A few minor changes to the text of the report were suggested by the committee members.

- Ken pointed out that for the sake of consistency it would be good to change “18.2 percent” to “18.20 percent” at the bottom of page 1.
- On page 2, it was suggested that a reference to Table 6 be included in the sentence about surplus or deficiency figures.
- A recommendation was made to insert a reference to item 36 of the Appendix about the ABR and the tax schedule on page 3, but a similar reference had already been suggested to be inserted on page 1.
- Janet suggested inserting “many” before “private pensions” on page 4.
- At the suggestion of the committee members, a slight change was made to the wording about the tax rate mechanism on page 10.
- Because some of the information originally presented in Table 7 was removed, it was agreed that the description of the table on page 12 would also have to be changed slightly. Keith suggested that the description of Table 7 should mention that the normal cost rate is 7.41% of tier 2 payroll.

Ken and Keith asked if sensitivity testing was ever done and were told that it is part of the Required Supplementary Information that accompanies the Statement of Social Insurance.

Regarding the employment assumptions described on page 8, Frank explained that the Association of American Railroads model, upon which the employment assumptions are based, reflects the fact that passenger employment and freight employment behave differently.

It was suggested by the Actuarial Advisory Committee that prior to the development of results for the next Actuarial Valuation we plan time to discuss the format and report content in additional detail.

The committee members signed the Statement of the Actuarial Advisory Committee, which is included with the valuation. The meeting then adjourned at 1:55 p.m.