Description of document:	Railroad Retirement Board (RRB) Actuarial Advisory Committee meeting minutes, 2017-2018
Requested date:	08-June-2020
Release date:	30-June-2020
Posted date:	20-July-2020
Source of document:	FOIA Request Chief FOIA Officer (General Counsel) Railroad Retirement Board 844 North Rush Street Chicago, IL 60611-1275

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

OFFICE OF GENERAL COUNSEL

JUN 3 0 2020

Re: Freedom of Information Act Request
dated June 8, 2020

C. 2020-1831

This is to response to your request dated June 8, 2020 made through the National FOIA Portal and submitted to the Railroad Retirement Board (RRB), wherein you requested "a copy of the meeting agenda and the minutes for the two most recent meeting of the RRB advisory group: the Actuarial Advisory Committee with respect to the Railroad Retirement Account." You made your request pursuant to the 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 find enclosed copies of the Federal Register Notices and Meeting Minutes for both the June 2, 2018 meeting and December 20, 2017 meeting of the Actuarial Advisory Committee.

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.

I trust that this information is helpful.

Sincerely,

Eric T. Wooden
General Attorney

Enclosures

Railroad Retirement Board

Actuarial Advisory Committee
with respect to the
Railroad Retirement Account

Notice of Public Meeting

Notice is hereby given in accordance with Public Law 92-463 that the Actuarial Advisory Committee will hold a meeting on June 5, 2018, at 10:00 a.m. at the office of the Chief Actuary of the U. S. Railroad Retirement Board, 844 North Rush Street, Chicago, Illinois, on the conduct of the 27^{th} Actuarial Valuation of the Railroad Retirement System. The agenda for this meeting will include a discussion of the results and presentation of the 27^{th} Actuarial Valuation. The text and tables which constitute the Valuation will have been prepared in draft form for review by the Committee. It is expected that this will be the last meeting of the Committee before publication of the Valuation.

The meeting will be open to the public. Persons wishing to submit written statements or make oral presentations should address their communications or notices to the RRB Actuarial Advisory Committee, c/o Chief Actuary, U. S. Railroad Retirement Board, 844 North Rush Street, Chicago, Illinois 60611-2092.

Martha P. Rico-Parra
Secretary to the Board

Dated:

Actuarial Advisory Committee Meeting
June 5, 2018, 10:07 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, Vincent Lui, and Pat Pruitt

At the beginning of the meeting, the Actuarial Advisory Committee officially approved the minutes of the last meetings, which took place on May 4, 2017, and December 20, 2017.

Isaiah Forrest began the discussion of the 27th Actuarial Valuation with Section I and Section II of the Report of the Actuary. He pointed out that, at the suggestion of the committee, wording that had formerly been in Section II was moved to Section I. Ken Kent suggested modifying one sentence in Section I by removing the word "three" and referring simply to "these requirements."

Section II compares the results of the current report with the results of the prior report, the 26th Actuarial Valuation. The total balance under employment assumption III goes negative after 2046, as it did in the 26th valuation. Employment for 2017 is approximately 223,000, close to projected employment for 2017 under assumption III in the 26th valuation.

Isaiah pointed out that we are required by law to make two recommendations in the report. This time there is no need for diversion of taxes from the Railroad Retirement Account to the Railroad Unemployment Account, as there are no loans outstanding. Recommendations on the tax rates are based on tables 2-I through 2-III of the report. There are no cash problems under employment assumptions I and II. If employment follows assumption III, cash flow problems arise in 2047 and remain thereafter. This is 29 years in the future, and no tax change is recommended at this time. We will continue to monitor the situation.

Ken and Janet Barr wanted to modify the first sentence of Section II slightly. Then Keith Sartain asked if anyone who reads the report reacts to the news of a drop in railroad employment. The graph (Figure 1) shows the drop clearly. Frank Buzzi said that the graph is just giving a general sense of what has changed. Keith remarked that we are not building a huge surplus even with employment assumption I. Janet commented that the population is declining, anyway. The implicit assumption is that there would have to be a loan or a benefit cut if the fund balance went negative. The second paragraph on page 1 of the report states what would happen. Problems with the Railroad Retirement Account would be pointed out well before they happened. Ken asked if the net cash flow from the Social Security Administration in the Financial Interchange was positive and was told by Frank that it was.

Pat Pruitt then discussed Sections III and IV of the report. She mentioned that the Appendix contains details of the provisions of current law, which has not changed since the 26th Valuation.

Section III describes regular and supplemental benefits and their financing. Amounts held in the NRRIT, RRA, and SSEBA are used to pay benefits to retirees and their dependents, as described in the Appendix. The gross tier 1 benefit is generally equivalent to what Social Security would pay if all the employee's earnings had been covered under the Social Security Act. The cost-of-living increase payable to Social Security beneficiaries carries over to the tier 1 component.

Pat pointed out that one of the most significant differences between Social Security and Railroad Retirement tier 1 benefits is that an employee may not retire before 62 under Social Security, but an employee may retire at age 60 with 30 years of service under the Railroad Retirement system. The spouse of an employee with 30 years of service may also retire at age 60. Another difference is that Railroad Retirement pays an occupational disability benefit under tier 1 and tier 2, but Social Security requires total and permanent disability. Additional differences between the two systems are described on page 4 of the report.

The formula for the tier 2 benefit is described as being similar to a private pension formula.

Unlike many private pensions, tier 2 benefits provide automatic cost-of-living increases and are paid to spouses and survivors without any reduction in employee benefit. The tier 2 cost-of-living increases are 32.5% of the percentage increase used in computing Social Security and tier 1 increases.

Federal income tax rules that apply to Social Security benefits also apply to the portion of tier 1 benefits considered equivalent to Social Security benefits. On the other hand, the income tax rules for private pensions apply to tier 2 benefits, the portion of tier 1 benefits in excess of Social Security benefits, supplemental annuity benefits, and vested dual benefits.

A railroad retiree may receive a supplemental annuity if he has a current connection with the railroad industry when he retires and has attained age 65 with 25 years of railroad service or age 60 with 30 years of railroad service. This is a relatively small benefit, paying a minimum of $23 a month and a maximum of $43 a month before reduction for a private pension, with no cost-of-living increases or benefits for spouses and survivors. In addition to the requirements already mentioned, an employee has to have service before 1981 in order to receive a supplemental annuity. This means that the benefit is phasing out slowly but probably will still be around until about 2060.

Sources of income that provide financing for benefits paid from the NRRIT, RRA, and SSEBA include payroll tax, income tax, investment income, the financial interchange with Social Security, and advances from general revenues related to certain features of the financial interchange.

The tax on tier 1 benefits up to the Social Security level is credited to the SSEBA and then to Social Security through the financial interchange. Revenue from taxing RRA benefits (tier 2 and excess of tier 1 over Social Security level) is transferred to the RRA. The financial interchange has resulted in large lump sum transfers from Social Security to Railroad Retirement.

The report discusses how the NRRIT was created to manage and invest amounts collected in the RRA and SSEBA. Funds were transferred to the NRRIT in 2002-2004, and since then the NRRIT has been transferring funds back to the RRA to pay benefits. The balance of the SSEBA not needed to pay current benefits and expenses has generally been transferred to the RRA, too, although last year it went the other way.

Section IV of the report discusses the financial interchange, which was established in the early 1950s to place the Social Security Trust Funds in the same financial position they would have been in if there were no Railroad Retirement System and railroad employment had always been covered under Social Security. Under the FI, the railroad retirement system gives Social Security the taxes it would have otherwise collected, and Social Security gives the Railroad Retirement System the additional benefits that Social Security would have paid to railroad workers and their families.

It is possible for a railroad employee to be covered under both Railroad Retirement and Social Security. The report describes how the RRA of 1974 provided that the tier 1 component be reduced by any Social Security benefit, thus integrating the two systems. It was considered unfair to eliminate the advantage of being covered under both systems entirely for those already retired or close to retiring when the Act went into effect, so the Act provided for a restoration of Social Security benefits that were considered vested at the end of 1974, the "vested dual benefit."

Since October, 1981, vested dual benefits have been paid from a segregated Dual Benefits Payments Account, with appropriations made to that account. Starting in 1982, each appropriation is supposed to be sufficient to pay the benefits for that year. If the appropriation is less than required for full funding, the RRB must reduce benefits to a level that the appropriation will cover. Vested dual benefits are also phasing out over a long period and will continue to be paid until after 2040.

Next, Darryl Howard discussed the employment and economic assumptions in table 1 used in the valuation. Average employment for 2017 was about 223,000, which falls within the range of employment assumptions used in the 2017 Section 502 Report. In the 26th Valuation, the 2017 employment ranged from 239,000 to 220,000, making 223,000 near the low end of the range. We will not have final 2017 employment figures until October 2018. In 2016, Class I railroad employment had dropped, but, as it turned out, Classes II and III railroad employment stayed relatively level. This resulted in a change to the average 2016 employment.

Employment assumptions I and II assume that passenger employment remains level, but freight employment decreases by 0.5% and 2.0%, respectively. Assumption III assumes a 3.5% annual decrease in freight employment as well as a decline of 500 per year in passenger employment until a level of 40,000 is reached.

Both the cost of living assumption and the wage increase assumption were reduced by 0.1% from the 26th Valuation assumptions. Table 1 on page 14 of the report shows the employment assumptions as well as the assumptions for earnings increase, cost of living increase, and investment return. Darryl then discussed Figure 1, which shows the historical trend in employment as well as the future under the three employment assumptions. Assumption I is closer to the most recent employment trend, while assumption III is closer to the long-term employment trend. Darryl pointed out that the Technical Supplement will have information on the demographic assumptions used in the valuation.

Ken suggested making a slight change to the format of the report in the future by putting the tables after their descriptions. Janet mentioned that SSA has hyperlinks in their online Trustees' Report. Keith then asked about the history of the tax rates. Some information is posted on the RRB.gov website. Frank commented that the valuation is forward-looking, while statistical tables are backward-looking. Keith felt that it is interesting to see what the trend in the tax rates has been. In the future, suggestions for changes to the format of the valuation report could be discussed at the second meeting (of three) with the Actuarial Advisory Committee. Ken mentioned the possibility of a conference call to discuss changes that the committee members would be interested in seeing in future reports.

Next, Pat pointed out that a discussion of tables 2-I through 2-III is on page 9 of the report. These tables show the progress of the combined NRRIT, RRA, and SSEBA under three employment assumptions for the period 2018-2091, including the account balance, the various elements of income and outgo, the account benefits ratio, the average account benefits ratio, and the combined employer and employee tier 2 tax rate for each year.

Under the optimistic employment assumption, employment assumption I, there are no cash flow problems. The combined balance decreases slightly through 2021 and increases thereafter, and the tax rate remains at 18% through 2041, and then drops until it reaches 12% in 2076. After that, the tax rate remains between 12% and 14% for the remainder of the period. These results can be compared with those in the 26th Valuation, also on page 16 of that report. In the 26th Valuation, the combined balance had a slight drop in 2017 but otherwise increased throughout the period. The tier 2 tax rate also ranged from 18% to 12%, but it started decreasing sooner, in 2035, and reached 12% in 2046, although it increased to 14% in 2058.

Under the intermediate employment assumption, employment assumption II, there are also no cash problems, although there are some declines in the combined account balance in the early years, 2019-2022, and again in 2040-2052. The combined employer-employee tax rate remains at 18% through 2044, increases to 27% in 2057-2062, and then generally decreases until reaching 18% again in 2073. In the 26th valuation, there were slight declines in 2017 and 2021 and again in 2047-2055. The tax rate remained at 18% through 2050, increased to 23% in 2063-64, but never got as high as 27%, and then generally decreased until reaching 16% in 2088.

Under the pessimistic employment assumption III, the combined account balance declines until becoming negative in 2047, as it did in the 26th valuation. The combined account deficit grows through the end of the projection period. In the 26th valuation, the tier 2 tax rate reached 27% in 2040 and remained at that level, but in the 27th valuation the tier 2 tax rate reaches 27% a little later, in 2042, again remaining at that level throughout the remainder of the projection period. Under employment assumption III, the tax rate mechanism does not manage to avoid cash flow problems. That the maximum tax rate of 27% does not kick in until 2042 is part of the problem. If the tax rate increased to 27% in 2028, the balance would never go negative.

Isaiah discussed tables 3 and 4. Table 3 shows the distribution of benefits among different types of beneficiaries and employee status as of the valuation date. The total present value of benefits for 75 years for employment assumption II is about $102 billion. Roughly 50% of the present value of benefits is for retired and deceased annuitants, and roughly 40% is for active employees. Compared to the results of the 26th Valuation, the total present value of benefits went up by $1 billion.

Table 4 shows the same information expressed as a percentage of the present value of tier 2 payroll. Isaiah pointed out that assumption I has a higher total cost but a lower cost as a percentage of tier 2 payroll, while assumption III has a lower total cost but a higher cost as a percentage of tier 2 payroll.

Darryl said that table 5 gives a snapshot of the assets as of the valuation date. The adjusted balance reflects the asset balance as of December 31, 2017, adjusted to account for the difference between the actual assets and the assets that would have been projected starting with the December 31, 2016 assets using the assumed 7% rate. This method was agreed to for the 24th Valuation after there was a -31.1% rate of investment return in 2008. Frank commented that, in the future, we could move up the valuation date by a year.

Table 6 shows the actuarial surplus or deficiency. Darryl pointed out that some of the information in this table is used in the Statement of the Actuarial Advisory Committee. The top half of the table expresses the present values in millions of dollars, while the bottom half of the table expresses the present values as a percentage of the tier 2 payroll. The table provides information on the cost of the system. Under employment assumption II, retirement taxes are 18.79% of tier 2 payroll, and the surplus is 0.32% of tier 2 payroll, resulting in a cost of 18.47% of the tier 2 payroll. For the 27th valuation, the actuarial surplus or (deficiency) ranges from 0.47% to (0.46%). In the 22nd through 26th valuations, the surplus or (deficiency) ranged from 0.29% to 0.47% for assumption I, 0.24% to 0.42% for assumption II, and (2.1%) to 0.28% for assumption III. The self-balancing tax adjustment works well for employment assumptions I and II but not for assumption III. The main point of the table is to derive the surplus or deficiency. It was suggested that, in the future, the numbers in the Statement of the Actuarial Advisory Committee could be in the form of a table.

Pat mentioned that a discussion of table 7 is on page 11 of the report. Table 7 shows the unfunded accrued liability for the Railroad Retirement program, although it is a social insurance program, not a private pension plan. Pay-as-you-go funding is not acceptable for a private plan. Private plans should be advance funded, ideally, to protect the rights of the active and retired participants if the plans terminate.

For a social insurance program, full funding is not necessary because the program is expected to operate indefinitely, and it is compulsory, with new entrants constantly entering the program and paying taxes, along with their employers. The Railroad Retirement program is different from some other social insurance programs because it relies on payroll taxes of employers and employees of a single industry. Although the program is not subject to the funding standards of a private plan, it is still interesting to calculate the normal cost and the accrued liability.

Table 7 shows what the funded status would be as of 12/31/16 using the entry age normal actuarial funding method. Line 4 is the normal cost, the average cost expressed as a level percentage of the tier 2 payroll that would fund the average employee's benefits and expenses over the employee's working lifetime. In the 27th valuation, the normal cost is 7.8% of tier 2 payroll, and the unfunded accrued liability is $51.3 billion. This is the amount we need, in excess of funds on hand and future normal costs, to fund benefits for former and present employees. In the 26th valuation, the normal cost was 7.41% of tier 2 payroll. The unfunded accrued liability was $51.6 billion, similar to what it is now. There was some discussion regarding whether we should continue to include table 7 in the valuation, since the Railroad Retirement program is not a private pension plan. It was decided not to remove the table, at least for now, because it provides information that some readers may want to see, and the comparison of the normal cost to tier 2 payroll may be helpful.

Isaiah then discussed vested dual benefits. The projection shown in table 8 is for a closed group of beneficiaries. Except for 2019, the projected numbers are the same as in the 26th Valuation. Vested dual benefits are paid through the Dual Benefits Account, and the funding comes from general revenues.

The supplemental annuity amounts, shown in table 9, are also close to those in the last valuation. The benefit amounts are going down gradually. Unlike vested dual benefits, supplemental annuities are paid from the Railroad Retirement Account and funded by tier 2 taxes.

Darryl discussed how the average number of annuitants is projected to fall from about 518,000 to about 330,000, 228,000, or 155,000, depending on the employment assumption, as shown in table 10. For employment assumption I, the average number of annuitants per full time employee declines during the first half of the projection period, then remains level. For employment assumption II, the average number of annuitants per full time employee remains relatively level until around 2055. For employment assumption III, the average number of annuitants per full time employee increases until 2049 before decreasing.

Isaiah pointed out that table 11 shows the historical amounts of the financial interchange transfers, including OASI and DI, for informational purposes. The Social Security Administration has transferred about $153 billion to the Railroad Retirement Board since inception, placing them in the same position they would have been in had there been no Railroad Retirement program.

Darryl briefly went over changes made to the Appendix. Information related to work restrictions for the vested dual beneficiaries in item 7 was removed because all the beneficiaries are now over 70 years old. The table of maximum earnings in item 9 was extended for three more years. Reference to the 1937 Act supplemental annuity benefits in item 13 was removed because there are no longer any annuitants receiving the benefit. The wording in item 17 was simplified.

The committee members signed the Statement of the Actuarial Advisory Committee, which is included with the valuation. Ken thanked the actuaries for doing a good job and remarked that the report was easy to read. The meeting then adjourned at 1:05 p.m.

Railroad Retirement Board

Actuarial Advisory Committee
with respect to the
Railroad Retirement Account

Notice of Public Meeting

Notice is hereby given in accordance with Public Law 92-463 that the Actuarial Advisory Committee will hold a meeting on June 5, 2018, at 10:00 a.m. at the office of the Chief Actuary of the U. S. Railroad Retirement Board, 844 North Rush Street, Chicago, Illinois, on the conduct of the 27th Actuarial Valuation of the Railroad Retirement System. The agenda for this meeting will include a discussion of the results and presentation of the 27th Actuarial Valuation. The text and tables which constitute the Valuation will have been prepared in draft form for review by the Committee. It is expected that this will be the last meeting of the Committee before publication of the Valuation.

The meeting will be open to the public. Persons wishing to submit written statements or make oral presentations should address their communications or notices to the RRB Actuarial Advisory Committee, c/o Chief Actuary, U. S. Railroad Retirement Board, 844 North Rush Street, Chicago, Illinois 60611-2092.

Martha P. Rico-Parra
Secretary to the Board

Dated:

Actuarial Advisory Committee Meeting
June 5, 2018, 10:07 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, Vincent Lui, and Pat Pruitt

At the beginning of the meeting, the Actuarial Advisory Committee officially approved the minutes of the last meetings, which took place on May 4, 2017, and December 20, 2017.

Isaiah Forrest began the discussion of the 27th Actuarial Valuation with Section I and Section II of the Report of the Actuary. He pointed out that, at the suggestion of the committee, wording that had formerly been in Section II was moved to Section I. Ken Kent suggested modifying one sentence in Section I by removing the word "three" and referring simply to "these requirements."

Section II compares the results of the current report with the results of the prior report, the 26th Actuarial Valuation. The total balance under employment assumption III goes negative after 2046, as it did in the 26th valuation. Employment for 2017 is approximately 223,000, close to projected employment for 2017 under assumption III in the 26th valuation.

Isaiah pointed out that we are required by law to make two recommendations in the report. This time there is no need for diversion of taxes from the Railroad Retirement Account to the Railroad Unemployment Account, as there are no loans outstanding. Recommendations on the tax rates are based on tables 2-I through 2-III of the report. There are no cash problems under employment assumptions I and II. If employment follows assumption III, cash flow problems arise in 2047 and remain thereafter. This is 29 years in the future, and no tax change is recommended at this time. We will continue to monitor the situation.

Ken and Janet Barr wanted to modify the first sentence of Section II slightly. Then Keith Sartain asked if anyone who reads the report reacts to the news of a drop in railroad employment. The graph (Figure 1) shows the drop clearly. Frank Buzzi said that the graph is just giving a general sense of what has changed. Keith remarked that we are not building a huge surplus even with employment assumption I. Janet commented that the population is declining, anyway. The implicit assumption is that there would have to be a loan or a benefit cut if the fund balance went negative. The second paragraph on page 1 of the report states what would happen. Problems with the Railroad Retirement Account would be pointed out well before they happened. Ken asked if the net cash flow from the Social Security Administration in the Financial Interchange was positive and was told by Frank that it was.

Pat Pruitt then discussed Sections III and IV of the report. She mentioned that the Appendix contains details of the provisions of current law, which has not changed since the 26th Valuation.

Section III describes regular and supplemental benefits and their financing. Amounts held in the NRRIT, RRA, and SSEBA are used to pay benefits to retirees and their dependents, as described in the Appendix. The gross tier 1 benefit is generally equivalent to what Social Security would pay if all the employee's earnings had been covered under the Social Security Act. The cost-of-living increase payable to Social Security beneficiaries carries over to the tier 1 component.

Pat pointed out that one of the most significant differences between Social Security and Railroad Retirement tier 1 benefits is that an employee may not retire before 62 under Social Security, but an employee may retire at age 60 with 30 years of service under the Railroad Retirement system. The spouse of an employee with 30 years of service may also retire at age 60. Another difference is that Railroad Retirement pays an occupational disability benefit under tier 1 and tier 2, but Social Security requires total and permanent disability. Additional differences between the two systems are described on page 4 of the report.

The formula for the tier 2 benefit is described as being similar to a private pension formula.

Unlike many private pensions, tier 2 benefits provide automatic cost-of-living increases and are paid to spouses and survivors without any reduction in employee benefit. The tier 2 cost-of-living increases are 32.5% of the percentage increase used in computing Social Security and tier 1 increases.

Federal income tax rules that apply to Social Security benefits also apply to the portion of tier 1 benefits considered equivalent to Social Security benefits. On the other hand, the income tax rules for private pensions apply to tier 2 benefits, the portion of tier 1 benefits in excess of Social Security benefits, supplemental annuity benefits, and vested dual benefits.

A railroad retiree may receive a supplemental annuity if he has a current connection with the railroad industry when he retires and has attained age 65 with 25 years of railroad service or age 60 with 30 years of railroad service. This is a relatively small benefit, paying a minimum of $23 a month and a maximum of $43 a month before reduction for a private pension, with no cost-of-living increases or benefits for spouses and survivors. In addition to the requirements already mentioned, an employee has to have service before 1981 in order to receive a supplemental annuity. This means that the benefit is phasing out slowly but probably will still be around until about 2060.

Sources of income that provide financing for benefits paid from the NRRIT, RRA, and SSEBA include payroll tax, income tax, investment income, the financial interchange with Social Security, and advances from general revenues related to certain features of the financial interchange~~.~~

The tax on tier 1 benefits up to the Social Security level is credited to the SSEBA and then to Social Security through the financial interchange. Revenue from taxing RRA benefits (tier 2 and excess of tier 1 over Social Security level) is transferred to the RRA. The financial interchange has resulted in large lump sum transfers from Social Security to Railroad Retirement.

The report discusses how the NRRIT was created to manage and invest amounts collected in the RRA and SSEBA. Funds were transferred to the NRRIT in 2002-2004, and since then the NRRIT has been transferring funds back to the RRA to pay benefits. The balance of the SSEBA not needed to pay current benefits and expenses has generally been transferred to the RRA, too, although last year it went the other way.

Section IV of the report discusses the financial interchange, which was established in the early 1950s to place the Social Security Trust Funds in the same financial position they would have been in if there were no Railroad Retirement System and railroad employment had always been covered under Social Security. Under the FI, the railroad retirement system gives Social Security the taxes it would have otherwise collected, and Social Security gives the Railroad Retirement System the additional benefits that Social Security would have paid to railroad workers and their families.

It is possible for a railroad employee to be covered under both Railroad Retirement and Social Security. The report describes how the RRA of 1974 provided that the tier 1 component be reduced by any Social Security benefit, thus integrating the two systems. It was considered unfair to eliminate the advantage of being covered under both systems entirely for those already retired or close to retiring when the Act went into effect, so the Act provided for a restoration of Social Security benefits that were considered vested at the end of 1974, the "vested dual benefit."

Since October, 1981, vested dual benefits have been paid from a segregated Dual Benefits Payments Account, with appropriations made to that account. Starting in 1982, each appropriation is supposed to be sufficient to pay the benefits for that year. If the appropriation is less than required for full funding, the RRB must reduce benefits to a level that the appropriation will cover. Vested dual benefits are also phasing out over a long period and will continue to be paid until after 2040.

Next, Darryl Howard discussed the employment and economic assumptions in table 1 used in the valuation. Average employment for 2017 was about 223,000, which falls within the range of employment assumptions used in the 2017 Section 502 Report. In the 26th Valuation, the 2017 employment ranged from 239,000 to 220,000, making 223,000 near the low end of the range. We will not have final 2017 employment figures until October 2018. In 2016, Class I railroad employment had dropped, but, as it turned out, Classes II and III railroad employment stayed relatively level. This resulted in a change to the average 2016 employment.

Employment assumptions I and II assume that passenger employment remains level, but freight employment decreases by 0.5% and 2.0%, respectively. Assumption III assumes a 3.5% annual decrease in freight employment as well as a decline of 500 per year in passenger employment until a level of 40,000 is reached.

Both the cost of living assumption and the wage increase assumption were reduced by 0.1% from the 26th Valuation assumptions. Table 1 on page 14 of the report shows the employment assumptions as well as the assumptions for earnings increase, cost of living increase, and investment return. Darryl then discussed Figure 1, which shows the historical trend in employment as well as the future under the three employment assumptions. Assumption I is closer to the most recent employment trend, while assumption III is closer to the long-term employment trend. Darryl pointed out that the Technical Supplement will have information on the demographic assumptions used in the valuation.

Ken suggested making a slight change to the format of the report in the future by putting the tables after their descriptions. Janet mentioned that SSA has hyperlinks in their online Trustees' Report. Keith then asked about the history of the tax rates. Some information is posted on the RRB.gov website. Frank commented that the valuation is forward-looking, while statistical tables are backward-looking. Keith felt that it is interesting to see what the trend in the tax rates has been. In the future, suggestions for changes to the format of the valuation report could be discussed at the second meeting (of three) with the Actuarial Advisory Committee. Ken mentioned the possibility of a conference call to discuss changes that the committee members would be interested in seeing in future reports.

Next, Pat pointed out that a discussion of tables 2-I through 2-III is on page 9 of the report. These tables show the progress of the combined NRRIT, RRA, and SSEBA under three employment assumptions for the period 2018-2091, including the account balance, the various elements of income and outgo, the account benefits ratio, the average account benefits ratio, and the combined employer and employee tier 2 tax rate for each year.

Under the optimistic employment assumption, employment assumption I, there are no cash flow problems. The combined balance decreases slightly through 2021 and increases thereafter, and the tax rate remains at 18% through 2041, and then drops until it reaches 12% in 2076. After that, the tax rate remains between 12% and 14% for the remainder of the period. These results can be compared with those in the 26th Valuation, also on page 16 of that report. In the 26th Valuation, the combined balance had a slight drop in 2017 but otherwise increased throughout the period. The tier 2 tax rate also ranged from 18% to 12%, but it started decreasing sooner, in 2035, and reached 12% in 2046, although it increased to 14% in 2058.

Under the intermediate employment assumption, employment assumption II, there are also no cash problems, although there are some declines in the combined account balance in the early years, 2019-2022, and again in 2040-2052. The combined employer-employee tax rate remains at 18% through 2044, increases to 27% in 2057-2062, and then generally decreases until reaching 18% again in 2073. In the 26th valuation, there were slight declines in 2017 and 2021 and again in 2047-2055. The tax rate remained at 18% through 2050, increased to 23% in 2063-64, but never got as high as 27%, and then generally decreased until reaching 16% in 2088.

Under the pessimistic employment assumption III, the combined account balance declines until becoming negative in 2047, as it did in the 26th valuation. The combined account deficit grows through the end of the projection period. In the 26th valuation, the tier 2 tax rate reached 27% in 2040 and remained at that level, but in the 27th valuation the tier 2 tax rate reaches 27% a little later, in 2042, again remaining at that level throughout the remainder of the projection period. Under employment assumption III, the tax rate mechanism does not manage to avoid cash flow problems. That the maximum tax rate of 27% does not kick in until 2042 is part of the problem. If the tax rate increased to 27% in 2028, the balance would never go negative.

Isaiah discussed tables 3 and 4. Table 3 shows the distribution of benefits among different types of beneficiaries and employee status as of the valuation date. The total present value of benefits for 75 years for employment assumption II is about $102 billion. Roughly 50% of the present value of benefits is for retired and deceased annuitants, and roughly 40% is for active employees. Compared to the results of the 26th Valuation, the total present value of benefits went up by $1 billion.

Table 4 shows the same information expressed as a percentage of the present value of tier 2 payroll. Isaiah pointed out that assumption I has a higher total cost but a lower cost as a percentage of tier 2 payroll, while assumption III has a lower total cost but a higher cost as a percentage of tier 2 payroll.

Darryl said that table 5 gives a snapshot of the assets as of the valuation date. The adjusted balance reflects the asset balance as of December 31, 2017, adjusted to account for the difference between the actual assets and the assets that would have been projected starting with the December 31, 2016 assets using the assumed 7% rate. This method was agreed to for the 24th Valuation after there was a -31.1% rate of investment return in 2008. Frank commented that, in the future, we could move up the valuation date by a year.

Table 6 shows the actuarial surplus or deficiency. Darryl pointed out that some of the information in this table is used in the Statement of the Actuarial Advisory Committee. The top half of the table expresses the present values in millions of dollars, while the bottom half of the table expresses the present values as a percentage of the tier 2 payroll. The table provides information on the cost of the system. Under employment assumption II, retirement taxes are 18.79% of tier 2 payroll, and the surplus is 0.32% of tier 2 payroll, resulting in a cost of 18.47% of the tier 2 payroll. For the 27th valuation, the actuarial surplus or (deficiency) ranges from 0.47% to (0.46%). In the 22nd through 26th valuations, the surplus or (deficiency) ranged from 0.29% to 0.47% for assumption I, 0.24% to 0.42% for assumption II, and (2.1%) to 0.28% for assumption III. The self-balancing tax adjustment works well for employment assumptions I and II but not for assumption III. The main point of the table is to derive the surplus or deficiency. It was suggested that, in the future, the numbers in the Statement of the Actuarial Advisory Committee could be in the form of a table.

Pat mentioned that a discussion of table 7 is on page 11 of the report. Table 7 shows the unfunded accrued liability for the Railroad Retirement program, although it is a social insurance program, not a private pension plan. Pay-as-you-go funding is not acceptable for a private plan. Private plans should be advance funded, ideally, to protect the rights of the active and retired participants if the plans terminate.

For a social insurance program, full funding is not necessary because the program is expected to operate indefinitely, and it is compulsory, with new entrants constantly entering the program and paying taxes, along with their employers. The Railroad Retirement program is different from some other social insurance programs because it relies on payroll taxes of employers and employees of a single industry. Although the program is not subject to the funding standards of a private plan, it is still interesting to calculate the normal cost and the accrued liability.

Table 7 shows what the funded status would be as of 12/31/16 using the entry age normal actuarial funding method. Line 4 is the normal cost, the average cost expressed as a level percentage of the tier 2 payroll that would fund the average employee's benefits and expenses over the employee's working lifetime. In the 27th valuation, the normal cost is 7.8% of tier 2 payroll, and the unfunded accrued liability is $51.3 billion. This is the amount we need, in excess of funds on hand and future normal costs, to fund benefits for former and present employees. In the 26th valuation, the normal cost was 7.41% of tier 2 payroll. The unfunded accrued liability was $51.6 billion, similar to what it is now. There was some discussion regarding whether we should continue to include table 7 in the valuation, since the Railroad Retirement program is not a private pension plan. It was decided not to remove the table, at least for now, because it provides information that some readers may want to see, and the comparison of the normal cost to tier 2 payroll may be helpful.

Isaiah then discussed vested dual benefits. The projection shown in table 8 is for a closed group of beneficiaries. Except for 2019, the projected numbers are the same as in the 26th Valuation. Vested dual benefits are paid through the Dual Benefits Account, and the funding comes from general revenues.

The supplemental annuity amounts, shown in table 9, are also close to those in the last valuation. The benefit amounts are going down gradually. Unlike vested dual benefits, supplemental annuities are paid from the Railroad Retirement Account and funded by tier 2 taxes.

Darryl discussed how the average number of annuitants is projected to fall from about 518,000 to about 330,000, 228,000, or 155,000, depending on the employment assumption, as shown in table 10. For employment assumption I, the average number of annuitants per full time employee declines during the first half of the projection period, then remains level. For employment assumption II, the average number of annuitants per full time employee remains relatively level until around 2055. For employment assumption III, the average number of annuitants per full time employee increases until 2049 before decreasing.

Isaiah pointed out that table 11 shows the historical amounts of the financial interchange transfers, including OASI and DI, for informational purposes. The Social Security Administration has transferred about $153 billion to the Railroad Retirement Board since inception, placing them in the same position they would have been in had there been no Railroad Retirement program.

Darryl briefly went over changes made to the Appendix. Information related to work restrictions for the vested dual beneficiaries in item 7 was removed because all the beneficiaries are now over 70 years old. The table of maximum earnings in item 9 was extended for three more years. Reference to the 1937 Act supplemental annuity benefits in item 13 was removed because there are no longer any annuitants receiving the benefit. The wording in item 17 was simplified.

The committee members signed the Statement of the Actuarial Advisory Committee, which is included with the valuation. Ken thanked the actuaries for doing a good job and remarked that the report was easy to read. The meeting then adjourned at 1:05 p.m.