

# How the New Railroad Retirement Board Regulations Impact Takeout Cases

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## Key Provisions of the Railroad Retirement Survivors' Improvement Act of 2001 (RRSIA)

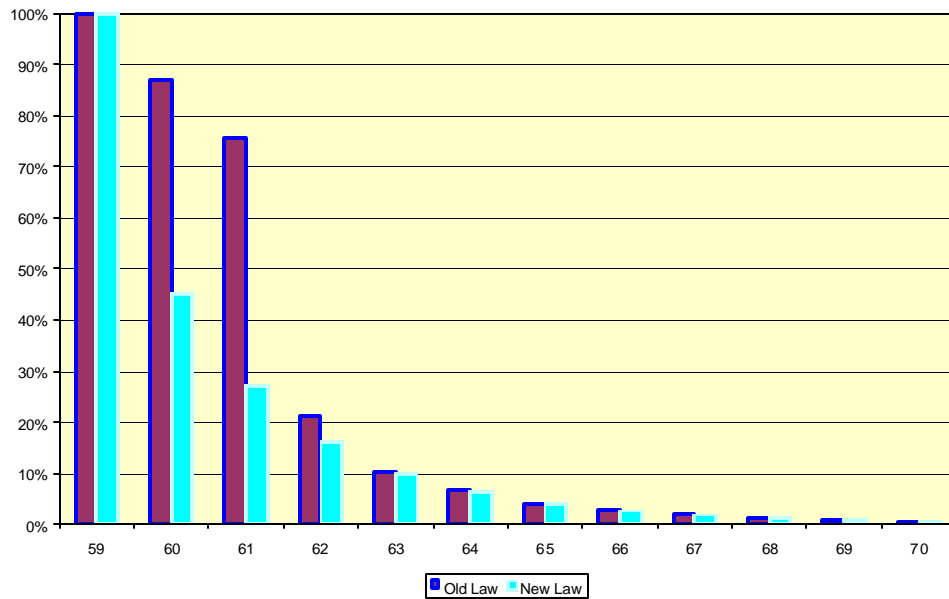
- Full retirement at age 60 with 30 years service
- RRAMAX Repealed
- Tier II vesting reduced from ten to five years of service
- Increased widow benefit percentages (from 50% to 100%)
- Reduced Tier II contribution
  - Employer falls to 14.2%
  - Employee stays at 4.9% until contribution rate reaches specified level(s)
  - Future contribution rates determined by contribution ratio
- RRB can invest in equities and private debt instruments

## RRB Assumptions In Evaluating RRSIA

Age	Percent Retiring		Probability of Working	
	Old Law	New Law	Old Law	New Law
59			100%	100%
60	13%	55%	87%	45%
61	13%	40%	76%	27%
62	72%	40%	21%	16%
63	51%	40%	10%	10%
64	34%	34%	7%	6%
65	41%	41%	4%	4%
66	31%	31%	3%	3%
67	30%	30%	2%	2%
68	35%	35%	1%	1%
69	27%	27%	1%	1%
70	28%	28%	1%	1%

Source: Memo Dated August 2, 2001 from Chief Actuary to Board (underlying data)

## Percent Working by Age



**Other Things of Interest in RRB Memo:**

- 1) Assume wage growth at 4%
- 2) Assume inflation at 3.2%

## Implications of RRSIA for takeout Cases

- For a younger worker (under 40), the change in retirement age really makes little difference. For example, for a 25 year-old engineer making \$75,000 per year, the difference in the economic loss estimate is only 4% if one uses accurate models and reasonable actuarial and interest rate assumptions.
- The older the worker, the larger the difference. In cases involving older workers with more than 30 years seniority, much of the economic loss goes away.
- If an economist uses simplified, inaccurate modeling methods (not conforming to *Rachael v. Conrail*) and / or unreasonable wage growth and interest rate assumptions (low or negative NDR) the difference between loss estimates at different retirement ages can be substantial in dollars.
- Plaintiffs may argue that the employee Tier II contribution is scheduled to be eliminated, hence a full-blown analysis of pension loss is not necessary. This is as likely as porcine flight.
- Defendants can use the report to illustrate why it is improper to use the employer's contribution as a proxy for the employee's benefit.
- Defendants can use the actuarial assumptions regarding interest, wage growth and inflation rates used by the chief actuary of the RRB in its analysis of the law to discredit aggressive plaintiffs' experts.
- Defendants can use the chief actuary's retirement data and assumptions to deflect arguments against Sherfy's tables and point out that even the US government recognizes that railroaders retire young.
- Some plaintiffs' experts have misinterpreted the RRAMAX provisions of the Railroad Retirement System rules (e.g. Cieka & Donnelly) causing their loss estimates to be overstated. This problem, which is confounding to the layman, should go away.