

3. Summary of Data

Actual data* relating to the Holding Company, Washington, Pacific Bell, Nevada Bell and Directory are shown below:

12/31/89

a. Employee Demographics

Number	63,492
Average Age	41.0
Average Service	15.5

b. Inactive Demographics

Number of Retirees	33,508
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* These data exclude 2,272 employees and 719 retirees who waived medical coverage.

c. Number of Active Employees by Age and Completed Years of Service
As of December 31, 1989

Age Group	-----YEARS OF SERVICE-----							Total
	0-4	5-9	10-14	15-19	20-24	25-29	30+	
Under 20	47	0	0	0	0	0	0	47
20-24	775	17	0	0	0	0	0	792
25-29	1,095	1,698	472	0	0	0	0	3,265
30-34	884	3,668	4,795	366	0	0	0	9,713
35-39	719	2,518	4,422	5,412	805	0	0	13,876
40-44	534	1,265	2,453	5,414	5,850	346	0	15,862
45-49	219	551	1,002	1,783	3,549	2,598	77	9,779
50-54	93	245	524	848	1,285	1,307	1,239	5,541
55-59	40	103	274	506	524	402	1,341	3,190
60-64	15	52	142	261	225	91	426	1,212
65+	1	29	31	56	37	19	42	215
Total	4,422	10,146	14,115	14,646	12,275	4,763	3,125	63,492

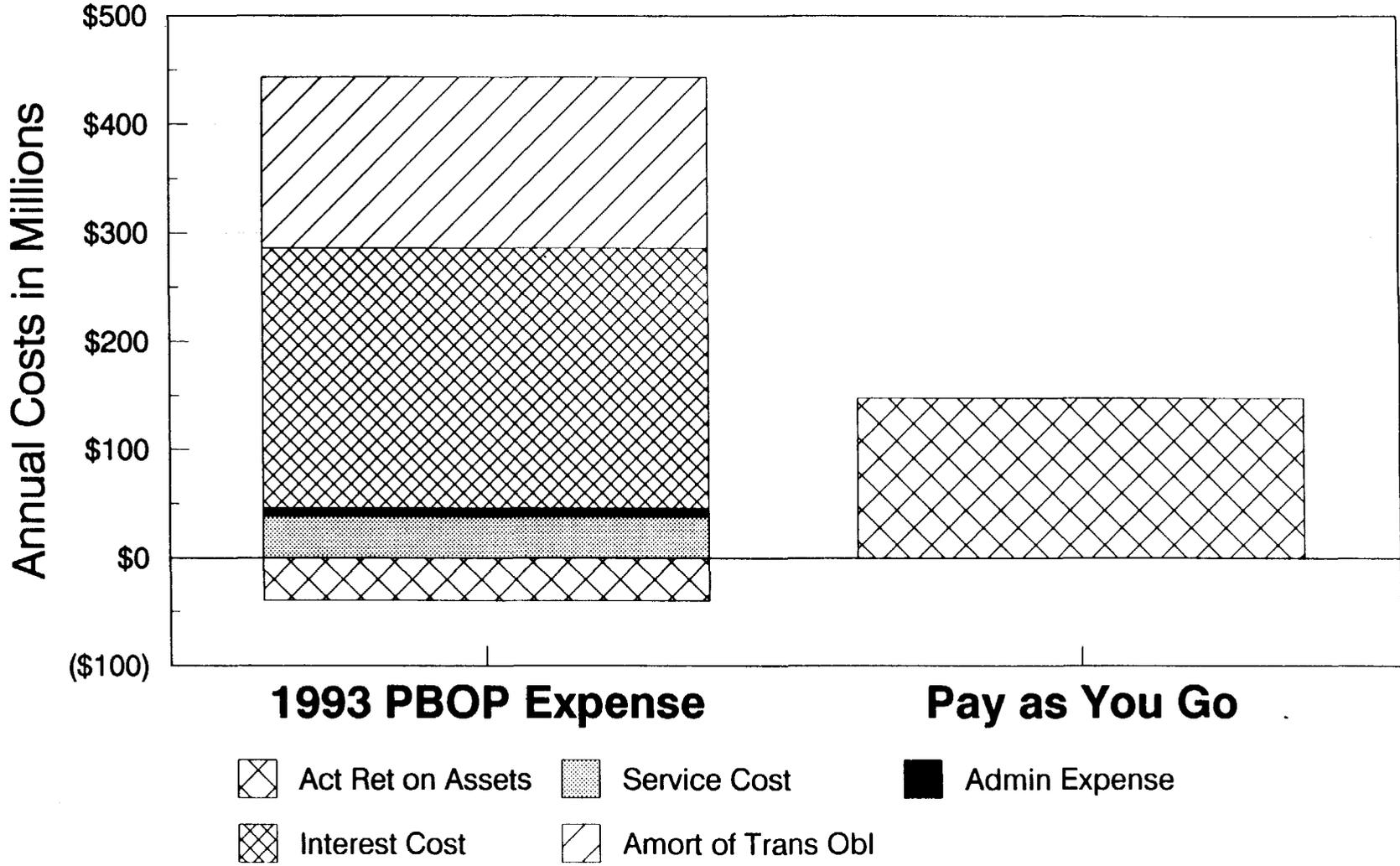
4. Participant data as of 12/31/89 for Pacific Bell, Nevada Bell and Other Subsidiaries are shown separately below:

	Pacific Bell	Nevada Bell	Other Subsidiaries	All PTG
a. Employee Demographics				
Number	58,228	891	4,373	63,492
Average Age	41.4	42.6	35.4	41.0
Average Service	16.1	17.3	7.2	15.5
b. Inactive Demographics				
Number of Retirees	32,570	312	626	33,508

SECTION TWO

MEDICAL AND DENTAL PLANS

COMPARISON OF PBOP EXPENSE WITH PAY AS YOU GO



The components of PBOP Expense net to \$403 million (the Actual Return on Assets is a negative component of this expense)
 Totals for Pacific Telesis Group

SECTION TWO - FUNDING REQUIREMENTS

A. Introduction

VEBA contributions are determined by applying the requirements of Section 419 of the Internal Revenue Code.

This section of the report includes:

- o The derivation of 1993 VEBA contributions (subsection B), and
- o The description of method and assumptions used in calculating the VEBA contributions (subsection C).

B. Derivation of 1993 VEBA Contributions (End of Year)
 (All Dollar Amounts in Thousands)

	<u>Bargained VEBA</u>		<u>Non-Bargained VEBA</u>		<u>Total</u>
	Medical	Dental	Medical	Dental	
1. Normal Cost*	\$72,771	\$7,990	\$35,222	\$3,642	\$119,625
2. a) Accrued Liability	936,579	98,115	644,375	71,915	1,750,984
b) Assets	184,323	26,732	0	0	211,055
c) Amortization Factor	7.928	7.928	10.416	10.416	
d) Amortization Amount [(2a)-2(b)]/(2c)	94,886	9,004	61,864	6,904	172,658
3. VEBA Contribution: (1)+(2)(d)	167,657	16,994	97,086	10,546	292,283
4. Allocation factor for Pacific Bell	.96	.96	.96	.96	
5. VEBA Contribution for Pacific Bell: (3)x(4)	160,951	16,314	93,203	10,124	280,592
6. Allocation factor for Nevada Bell	.02	.02	.02	.02	
7. VEBA Contribution for Nevada Bell: (3)x(6)	3,353	340	1,942	211	5,846
8. VEBA Contribution for Other Subsidiaries: (3)-(5)-(7)	3,353	340	1,941	211	5,845

* Includes administrative expense.

C. Actuarial Method and Assumptions

1. Actuarial Cost Method - Individual Level Premium

Contributions for the Bargained and Non-Bargained VEBAs are determined actuarially on a level basis by spreading the present value of future expected medical/dental benefits of the participants and their dependents over the working lives of covered employees. No prefunding for years 1991 and 1992 is reflected in the Bargained VEBA contributions.

The primary purpose of the advance funding techniques utilized by the Individual Level Premium Actuarial Cost Method is to allocate the cost of plan benefits on a rational and systematic basis equitably among generations of rate payers.

2. Assumptions

a. Actuarial Value of Liabilities

To determine the VEBA contributions, it is necessary to estimate the PBOP benefits that will be paid in future years to current employees, retirees, and their dependents. All of these items are then discounted to estimate their present values. For these calculations, experience is analyzed and actuarial assumptions are developed such as mortality rates for active and retired employees and annuitants, medical inflation scales, separation rates, disability retirement rates, service retirement rates, and qualified dependent ratios.

b. Actuarial Assumptions

i. Medical Bargained VEBA

Actuarial assumptions are shown below. All ages are determined on an age nearest birthday basis. Service is to completed years. Probabilities and rates shown are for selected ages and services and are based on Pacific Telesis post-divestiture experience.

Interest (Discount) Rate: 8.5%

Medical Cost Inflation:	<u>Year(s)</u>	<u>In-network</u>	<u>Out-of-network</u>
	1990-1993	12.00%	14.00%
	1994	11.50%	13.00%
	1995	8.50%	13.00%
	1996	8.00%	10.00%
	1997	7.50%	9.00%
	1998	7.00%	8.00%
	1999	6.75%	7.50%
	2000	6.50%	7.00%
	2001	6.25%	6.50%
	2002+	6.00%	6.00%

Average Annual Net
Indemnity Claim Per
Capita for 1989:

Health Care Network

Health Care Network is a new plan. Costs are projected to be 10% to 15% lower than those under MEP due to plan changes and contracting arrangements including:

- tighter utilization controls
- discounts on provider charges
- greater control of prescriptions

MEP

Age	<u>Retirees</u> <u>Prior to 1/1/87</u>		<u>Spouses of Retirees</u> <u>Prior to 1/1/87</u>	
	Male	Female	Male	Female
50	\$967	\$2,300	\$744	\$1,877
55	1,621	2,027	1,035	2,013
60	2,434	2,291	1,386	2,186
64	3,201	2,917	1,864	2,352
65	678	620	392	415
75	699	702	637	456

Medicare Part B and HMO premiums are valued separately.

Administrative Expenses: Loading of 6% of claim payments.

Probabilities of Separation
 from Service Prior to Eligibility
 for Service or Disability
 Retirement for Reasons Other
 than Death:

Salaried

<u>Service</u>	<u>Age at Hire</u>		
	<u>20</u>	<u>30</u>	<u>40</u>
0	13.0%	13.0%	13.0%
1	9.0%	9.0%	9.0%
2	5.0%	5.0%	5.0%
3	4.0%	4.0%	4.0%
4	4.0%	4.0%	4.0%
5	2.9%	1.2%	0.6%
10	1.5%	1.0%	0.4%
15	1.2%	0.6%	0.4%
20	1.0%	0.4%	0.6%

Non-Salaried

<u>Service</u>	<u>Age at Hire</u>		
	<u>20</u>	<u>30</u>	<u>40</u>
0	17.0%	17.0%	17.0%
1	13.0%	13.0%	13.0%
2	9.0%	9.0%	9.0%
3	7.0%	7.0%	7.0%
4	5.0%	5.0%	5.0%
5	3.8%	1.9%	1.1%
10	2.8%	1.4%	1.0%
15	1.9%	1.1%	1.2%
20	1.4%	1.0%	1.7%

Probabilities of Service
 Retirement:

Salaried

<u>Age</u>	
50	1.70%
55	5.41%
60	14.33%
62	30.58%
64	39.35%
69	30.00%

Select rates of service retirement also exist including those which reflect the effects of the 1991 management in-force reduction.

Non-Salaried

Age

50	3.25%
55	6.32%
60	10.06%
62	29.54%
64	36.21%
69	30.00%

Rates of Disablement:

<u>Age</u>	<u>Males</u>	<u>Females</u>
30	0.08%	0.17%
35	0.08%	0.20%
40	0.09%	0.27%
45	0.20%	0.40%
50	0.40%	0.65%
55	0.90%	0.95%
60	2.17%	1.35%

Rates of Mortality for Active Employees:

<u>Age</u>	<u>Males</u>	<u>Females</u>
35	0.17%	0.08%
45	0.26%	0.12%
55	0.58%	0.27%
65	1.48%	0.65%

Rates of Mortality for Non-Disabled Pensioners and Spouses:

<u>Age</u>	<u>Males</u>	<u>Females</u>
45	0.70%	0.40%
55	0.90%	0.50%
65	1.60%	1.00%
75	4.40%	3.10%
85	11.80%	8.00%

Rates of Mortality for Disabled Pensioners:

<u>Age</u>	<u>Males</u>	<u>Females</u>
45	3.82%	2.49%
55	3.57%	2.39%
65	2.50%	1.40%
75	5.30%	3.30%
85	13.00%	8.80%

Surviving Spouse Age:

Male Employees:

Spouse 3 years younger than employee

Female Employees:

Spouse 2 years older than employee

Percentage of Participants
Assumed to be Married:

Males: 80%

Females: 40%

Assumed Plan Participation
for Future Retired Employees:

Indemnity Coverage Type

In-Network 75%

Out-of-Network 25%

HMO

All future retirees currently in
HMO are assumed to continue with
an HMO.

ii. Medical Non-Bargained VEBA

All assumptions are the same as those used for funding the Medical
Bargained VEBA (subsection C.2.b.i.) except those outlined below:

Interest (Discount) Rate: 5% (after tax)

Future Medical
Cost Inflation: None

iii. Dental Bargained VEBA

All assumptions are the same as those used for funding the Medical
Bargained VEBA (subsection C.2.b.i.) except those outlined below:

Dental Cost Inflation: 4%

Average Annual Net
Indemnity Claim Per Capita
in 1989: Current Retiree \$295

Percentage of Participants
Assumed to be Married: Not applicable, as composite claim
rates are used.

Assumed Coverage for
Retired Employees:

Coverage Type

Indemnity	90%
Dental Maintenance Organization	10%

iv. Dental Non-Bargained VEBA

All assumptions are the same as those used for funding the Dental Bargained VEBA (subsection C.2.b.iii.) except those outlined below:

Interest (Discount) Rate: 5% (after tax)

Future Dental
Cost Inflation: None

SECTION TWO - ACCOUNTING REQUIREMENTS

A. Introduction

The accounting standard from the Financial Accounting Standards Board which applies to the Plans is:

FAS106 - Employers' Accounting for Post-retirement Benefits Other Than Pensions

FAS106 requires that PBOP expense recorded in an employer's financial statements be calculated using prescribed methods and techniques under accrual accounting which may differ from those used to fund these plans or from the pay-as-you-go basis. In addition, it requires disclosure in an employer's financial statements of certain measures of Plan liabilities. PBOP expense and the disclosure items follow in Section B. Relevant actuarial method and assumptions are disclosed in Section C.

B. Derivation of FAS106 Results

FAS106 Terms

The following terms are used in discussing the requirements of FAS106:

Accumulated Post-retirement Benefit Obligation (APBO):	Actuarial present value of benefits earned to date, based on future inflation levels.
Transition Obligation (Asset):	Unfunded Accumulated Post-retirement Benefit Obligation as of beginning of year that FAS106 first applied; equals excess of Accumulated Post-retirement Benefit Obligation over market value of assets at that date.
Service Cost:	Portion of the actuarial present value of anticipated future PBOP benefits based on future inflation levels assigned by formula to the current year.
Interest Cost:	Interest on Accumulated Post-retirement Benefit Obligation for the current year.
Expected Return on Assets:	Expected investment return on actuarial value of assets for current year, based on the assumed Long-Term Rate of Return.
Net Amortization:	Amortization according to FAS106 rules of items such as the Transition Obligation, costs of Plan changes, and gains and losses due to deviations of actual experience from that assumed (which are in excess of 10% of the greater of APBO and market value of plan assets).

1. Components of Net Periodic PBOP Expense for 1993
 (All Dollar Amounts in Thousands)

Net periodic PBOP (medical and dental) expense for 1993 is show below.

a. Service Cost (including administrative expenses)	\$41,206
b. Interest Cost	211,689
c. Expected Return on Assets	11,439
d. Net Amortization (15 years)	157,770
e. Net Periodic PBOP Expense for all PTG: (a)+(b)-(c)+(d)	399,226
f. Allocation factor for Pacific Bell	.96
g. Net Periodic PBOP Expense for Pacific Bell: (e)x(f)	383,257
h. Allocation factor for Nevada Bell	.02
i. Net periodic PBOP Expense for Nevada Bell: (e)x(h)	7,985
j. Net Periodic PBOP Expense for Other Subsidiaries: (e)-(g)-(i)	\$7,984

2. Calculation of the Transition Obligation at 12/31/92 for all PTG
 (All Dollar Amounts in Thousands)

a. Accumulated Post-retirement Benefit Obligation	
Active	\$ 840,122
Inactive	<u>1,737,489</u>
	\$2,577,611
b. Plan Assets at Fair Value	\$ 211,055
c. Accumulated Post-retirement Benefit Obligation in Excess of Plan Assets: (2a)-(2b)	2,366,556
d. Unrecognized Net Gain/Loss	0
e. Unrecognized Past Service Cost:	0
f. Unrecognized Transition Obligation	2,366,556
g. Accrued Post-retirement Benefit Cost: (2c)-(2d)-(2e)-(2f)	\$ 0

C. FAS106 Actuarial Method and Assumptions

1. Actuarial Cost Method

The Projected Unit Credit Actuarial Cost Method as prescribed under FAS106 has been used to determine PBOP expense. Under this method:

- i) the Service Cost is the portion of the actuarial present value of anticipated future PBOP benefits, based on future inflation levels, assigned by formula to the current year, and
- ii) the Accumulated Post-retirement Benefit Obligation is the actuarial present value of anticipated future PBOP benefits earned to date, based on future inflation levels.

Both of these items take into account the Corporation's expectations for future PBOP benefit increases.

2. Assumptions

All assumptions are the same as those used for funding the Medical and Dental Bargained VEBAs (subsections C.2.b.i. and C.2.b.iii., respectively). An additional assumption is shown below.

Expected Long-Term Rate of Return on Plan Assets:	8.50%
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SECTION TWO - VALUATION ASSETS

(All Dollar Amounts in Thousands)

PBOP Medical Bargained VEBA Assets

<u>Summary of Transactions</u>	<u>1989</u>	<u>1990</u>	<u>1991*</u>	<u>1992*</u>
1. Market value of assets at beginning of year	\$ 0	\$120,612	\$242,126	\$229,113
2. Contributions (end of year)	120,612	122,652	0	0
3. Benefit payments	0	6,970	43,288	58,204
4. Net Investment Income **	0	5,832	30,275	13,414
5. Market value of assets at end of year (1)+(2)-(3)+(4)	\$120,612	\$242,126	\$229,113	\$184,323

PBOP Dental Bargained VEBA Assets

<u>Summary of Transactions</u>				
1. Market value of assets at beginning of year	\$ 0	\$18,333	\$31,951	\$30,230
2. Contributions (end of year)	18,333	13,861	0	0
3. Benefit payments	0	1,206	5,716	5,693
4. Net Investment Income **	0	963	3,995	2,195
5. Market value of assets at end of year (1)+(2)-(3)+(4)	\$18,333	\$31,951	\$30,230	\$26,732

* Transactions during 1991 and 1992 are projected, not actual.

** Net of administrative expense.

SECTION TWO - SUMMARY OF PRINCIPAL PLAN PROVISIONS

A. Health Care Network and Medical Expense Plan

1. Health Care Network

Eligibility

- Active employees
- Employees who retire or begin a long term disability on or after January 1, 1987
- Dependents of these employees and retirees

Benefits

Employees select a primary care physician who manages their medical care. The primary care physician is part of a network of hospitals and physicians who provide quality health care to employees at negotiated discounted rates. Any care directed by the primary care physician is paid at in-network benefit levels.

Employees may opt out of the network and see any physician or specialist without contacting their primary care physician, but receive lower benefit reimbursement.

Effective January 1, 1991, the amount of the company contribution for medical coverage of retired employees is limited to certain levels. The cost of the program in excess of the contribution payable by the company is payable by retired employees. However, no retired employees are required to make contributions prior to January 1, 1993.

The effect of the substantive plan is to assume current contract provisions hold for the near term; over the long term, the company expects that it may raise company contributions above the current contract levels.

There is no deductible under the Health Care Network for in-network benefits.

In-network services are generally 90% to 100% covered. There is a co-payment of \$10 for in-network physician office visits.

Integration with Medicare

For retirees eligible for Medicare, Medicare pays first, and the Health Care Network pays second.

The Health Care Network supplements Medicare by paying any difference between the Medicare payment and what the Health Care Network would cover if it paid first. It also pays for some expenses not covered by Medicare, e.g. prescription drugs.

2. Medical Expense Plan

- Eligibility ■ Employees who retired before January 1, 1987
- Benefits Benefits are traditional indemnity plan with Basic and Major Medical benefits. The annual deductible is 1% of retiree's annual pension (\$25 minimum, \$150 maximum).
- Integration with Medicare For retirees eligible for Medicare, Medicare pays first, and the Medical Expense Plan pays second.
- The Medical Expense Plan supplements Medicare by paying any difference between the Medicare payment and what the Medical Expense Plan would cover if it paid first. It also pays for some expenses not covered by Medicare, e.g. prescription drugs.

B. Dental Expense Plan

- Eligibility ■ Active employees
 ■ Retired employees
 ■ Dependents of active and retired employees
- Benefits Plan provides 100% of reasonable and customary charges for preventive care and a scheduled amount for other services. There is a \$50 life time deductible for each person for service other than preventive care.

C. Alternative Plans

Eligible retirees may choose to participate in a Health Maintenance Organization and/or Dental Maintenance Organization as alternatives to medical and dental coverages described above, if available in their geographic area.

SECTION THREE

GROUP TERM LIFE INSURANCE PLAN

SECTION THREE - FUNDING AND ACCOUNTING REQUIREMENTS

A. Introduction

The VEBA contribution is determined by applying the requirements of Section 419 of the Internal Revenue Code. FAS106 (Employers' Accounting for Post-retirement Benefits Other Than Pensions) is the accounting standard applied to the Plan. FAS106 requires that PBOP expense recorded in an employer's financial statements be calculated using prescribed methods and techniques under accrual accounting which may differ from those used to fund these plans or from the pay-as-you-go basis. In addition, it requires disclosure in an employer's financial statements of certain measures of Plan liabilities.

This section of the report includes:

- o The derivation of 1993 VEBA contribution (subsection B),
- o The derivation of FAS106 results (subsection C), and
- o The description of assumptions used in addition to, or different from those used in Section Two (subsection D).

B. Derivation of 1993 VEBA Contribution (End of Year)
(All Dollar Amounts in Thousands)

1. Present Value of Future Benefits	\$375,165
2. Assets	343,218
3. Amortization Factor	10.306
4. Administrative Expenses	241
5. VEBA Contribution for all PTG: [(1)-(2)]/(3)+(4)	3,341
6. Allocation Factor for Pacific Bell	.96
7. VEBA Contribution for Pacific Bell: (5)x(6)	3,207
8. Allocation Factor for Nevada Bell	.02
9. VEBA Contribution for Nevada Bell: (5)x(8)	67
10. VEBA Contribution for Other Subsidiaries: (5)-(7)-(9)	\$67

C. Derivation of FAS106 Results

1. Components of Net Periodic PBOP Expense for 1993
(All Dollar Amounts in Thousands)

Net periodic PBOP (life insurance) expense for 1993 is show below.

a. Service Cost (including administrative expenses)	\$4,381
b. Interest Cost	27,885
c. Expected Return on Assets	28,528
d. Net Amortization (15 years)	(459)
e. Net Periodic PBOP Expense for all PTG: (a)+(b)-(c)+(d)	3,279
f. Allocation factor for Pacific Bell	.96
g. Net Periodic PBOP Expense for Pacific Bell: (e)x(f)	3,148
h. Allocation factor for Nevada Bell	.02
i. Net Periodic PBOP Expense for Nevada Bell:	66
j. Net Periodic PBOP Expense for Other Subsidiaries: (e)-(g)-(i)	\$65

2. Calculation of the Transition Obligation at 12/31/92 for all PTG
(All Dollar Amounts in Thousands)

a. Accumulated Post-retirement Benefit Obligation	
Active	\$145,875
Inactive	<u>190,456</u>
	<u>\$336,331</u>
b. Plan Assets at Fair Value	\$343,218
c. Accumulated Post-retirement Benefit Obligation in Excess of Plan Assets: (2a)-(2b)	(6,887)
d. Unrecognized Net Gain/Loss	0
e. Unrecognized Past Service Cost	0
f. Unrecognized Transition Obligation	(6,887)
g. Accrued Post-retirement Benefit Cost: (2c)-(2d)-(2e)-(2f)	\$ 0

D. Actuarial Assumptions

All applicable assumptions are the same as those used for funding the Medical Bargained VEBA (Section Two, Funding Requirements subsection C.2.b.i) except those outlined below:

Life Insurance
Cost Inflation:

None

Administrative Expense:

Loading of 1% of claim payments,
and 2.64% of premiums (latter item
covers taxes).

Additional assumptions are shown below:

Rate of Salary Increase:

Service

0	18.0%
1	12.0%
2	10.0%
3	8.5%
4	7.0%
05-09	6.0%
10-14	5.0%
15-19	4.5%
20+	4.0%

SECTION THREE - VALUATION ASSETS

(All Dollar Amounts in Thousands)

PBOP Life Insurance VEBA Assets

<u>Summary of Transactions</u>	<u>1989</u>	<u>1990</u>	<u>1991*</u>	<u>1992*</u>
1. Market value of assets at beginning of year	\$255,730	\$313,168	\$311,596	\$326,947
2. Contributions (end of year)	5,793	3,880	1,913	2,206
3. Benefit payments **	13,094	12,434	13,806	14,514
4. Investment Income and Other Net Cash Flow Adjustments	64,739	6,982	27,244	28,579
5. Market value of assets at end of year (1)+(2)-(3)+(4)	\$313,168	\$311,596	\$326,947	\$343,218

* Transactions during 1991 and 1992 are projected, not actual.

** Includes administrative and other expenses.

SECTION THREE - SUMMARY OF PRINCIPAL PLAN PROVISIONS

Eligibility	Employees who retire with service or disability pension
Benefits	Retirees prior to age 66: 100% of final annual salary at retirement, decreasing by 10% per year from ages 66 through 70 until ultimate coverage of 50% for ages 70 and later Retirees on or after age 66: the corresponding percentage as described above is applied to final annual salary at age 65 For purposes of this Plan, the salary considered for the insurance basis never goes beyond the annual rate at age 65