ORIGINAL

RECEIVED
JUN - 1 1992
FCC MAIL ROOM
ORIGINAL FILE
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Treatment of Local Exchange Carrier Tariffs Implementing Statement of Financial Accounting Standards, "Employers Accounting for Postretirement Benefits Other Than Pensions"	)	CC Docket No. 92-101
	)	
Bell Atlantic Tariff F.C.C. No. 1	)	Transmittal No. 497
	)	
US West Communications, Inc. Tariff F.C.C. Nos. 1 and 4	)	Transmittal No. 246
	)	
Pacific Bell Tariff F.C.C. No. 128	)	Transmittal No. 1579

DIRECT CASE OF BELL ATLANTIC

Bell Atlantic[1] hereby provides the information requested in the Bureau's Order of Investigation and Suspension.[2]

INTRODUCTION AND SUMMARY

The change in accounting methodology required by Statement of Financial Accounting Standards No. 106 ("SFAS 106") is an exogenous change for price cap purposes. The required accounting is beyond Bell Atlantic's control, meets regulatory accounting needs, and has and will cause additional costs for Bell Atlantic that are not reflected in the price cap formula's inflation factor.

---

[1] The Bell Atlantic telephone companies ("Bell Atlantic") are The Bell Telephone Company of Pennsylvania, The Diamond State Telephone Company, the four Chesapeake and Potomac telephone companies, and New Jersey Bell Telephone Company.

[2] Order of Investigation and Suspension, CC Docket No. 92-101, DA 92-540 (released April 30, 1992) ("Investigation Order").

No. of Copies rec'd 0+6
List A B C D E

The assumptions on which Bell Atlantic's SFAS 106 costs are based are reflected in its Transmittal No. 497,[3] are based on historical experience and are reasonable and justifiable.

The information requested by the Commission in its Investigation Order is set out below:

ISSUES DESIGNATED FOR INVESTIGATION

I. Have the LECs borne their burden of demonstrating that implementing SFAS 106 results in an exogenous cost change under the Commission's price cap rules?

Two years ago, the Commission said that additional costs recognized as a result of implementing SFAS 106 would likely be exogenous costs.[4] Bell Atlantic's Transmittal No. 497 demonstrated that this conclusion was correct.[5] Exogenous costs are defined as "those costs that are triggered by administrative, legislative or judicial action beyond the control of the carriers."[6] The requirement by the Financial Accounting Standards Board ("FASB") and the Commission that local exchange carriers subject to price

---

[3] Bell Atlantic Telephone Companies' Other Post-Employment Benefits (OPEB) -- SFAS-106 Exogenous Cost Filing, FCC Tariff No. 1, Transmittal No. 497, filed Feb. 28, 1992 ("Transmittal No. 497").

[4] See American Telephone and Telegraph Company Revisions to Tariff FCC Nos. 1, 2, and 13, Memorandum Opinion and Order, released June 27, 1990, ¶ 4.

[5] Bell Atlantic Telephone Companies Other Post-Employment Benefits (OPEB) -- SFAS-106 Exogenous Cost Filing, FCC Tariff No. 1, Transmittal No. 497, filed February 28, 1992 ("Transmittal No. 497").

[6] Policy and Rules Concerning Rates for Dominant Carriers, Second Report and Order, 5 FCC Rcd 6786 (1990), ¶ 166 ("Second Report and Order").

caps ("Price Cap LECs") implement SFAS 106 meets this definition for several reasons.

First, implementation of SFAS 106 will require changes in Part 32 and Part 65 of the Commission's Rules.[7] Cost changes resulting from changes in the Commission's Rules are, by definition, exogenous.

Second, even if the Commission does not amend its rules, the change in Generally Accepted Accounting Principles ("GAAP") represented by adoption of SFAS 106 is exogenous because it is outside of Bell Atlantic's control, it is compatible with regulatory accounting needs and has been approved, and it is not reflected in the Gross National Product Price Index ("GNP-PI") so that its impact is not counted twice.[8]

---

[7] The Chief, Accounting and Audits Division, released a Responsible Accounting Officers (RAO) Letter on May 4, 1992, DA 92-520. This letter appears to modify current Parts 32 and 65 of the Commission's Rules in a manner which Bell Atlantic believes should be accomplished through a rulemaking proceeding.

[8] Second Report and Order, ¶ 168. See also Policy and Rules Concerning Rates for Dominant Carriers, Report and Order and Second Further Notice of Proposed Rulemaking, 4 FCC Rcd 2873 (1989), ¶ 654; Order on Reconsideration, 6 FCC Rcd 2637 (1991), ¶ 63.

Indeed, as Bell Atlantic's Transmittal No. 497 demonstrated, SFAS 106 disproportionately affects Bell Atlantic and other Price Cap LECs. Therefore, they will be harmed if they are unable to include the resulting costs in their rates. See Duffs & Phelps Inc. Credit Decisions, Volume 9, Number 11, March 23, 1992, attached as Attachment A (if a commission is reluctant to allow these costs to be recovered in rates, the utility's credit rating would be adversely affected).

(a) The Accounting Change Is Outside the Control of the LEC

In 1990, the Financial Accounting Standards Board ("FASB")[9] concluded that the cash or "pay-as-you-go" method of accounting for retirees' benefits other than pensions[10] failed to reflect companies' true financial positions. In December 1990, the FASB released SFAS 106, which requires accrual of OPEB expenses over an employee's expected service life. The FASB required companies to implement SFAS 106 for fiscal years beginning after December 15, 1992, but earlier adoption was encouraged. This method of accounting provides a more accurate picture of companies' financial results.

On December 26, 1991, the Commission issued an order directing carriers to implement SFAS 106 for regulatory accounting purposes on or before January 1, 1993, and to amortize the transition obligation in accordance with SFAS 106.[11] Because the FASB rule and the Commission's order requiring implementation of the rule are mandatory, Bell Atlantic is required to incur SFAS 106-related costs.

---

[9] The FASB promulgates accounting rules which apply to all United States companies, not just to telephone companies.

[10] The FASB had earlier required companies to switch from cash to accrual accounting for pension benefits. SFAS 87 and 88. The Commission incorporated GAAP, including SFAS 87 and 88, into the revised Uniform System of Accounts ("USOA"), Part 32 of the Commission's Rules.

[11] Southwestern Bell, GTE Corporation, Notification of Intent to Adopt Statement of Financial Accounting Standards No. 106, Employer's Accounting for Postretirement Benefits Other Than Pensions, AAD-80 (released December 26, 1991) ("SFAS 106 Order").

In accordance with Section 32.16 (a) of the rules, Bell Atlantic notified the Commission on December 31, 1991 of its intent to adopt SFAS 106 effective January 1, 1991.[12] On January 7, 1992, Bell Atlantic provided the Commission with the estimated revenue requirement impact of the SFAS 106 adoption.[13] Because SFAS 106 was not in effect at the time that price cap rates were initially established, the costs resulting from this change in accounting methods were not incorporated in those rates, and should be treated as exogenous.[14]

(b) The Change Is Compatible with Regulatory Accounting Needs and Is Approved

The Commission already has approved adoption of SFAS 106, and the SFAS 106 Order specifically noted that the new accounting standard did not conflict with the Commission's regulatory objectives.[15] Indeed, it is consistent with the Commission's required accounting treatment for pensions.[16]

The implementation of SFAS 106, by recognizing costs when they are incurred, aligns costs more appropriately with the ratepayers

---

[12] See letter dated December 31, 1991 from Richard E. Beville, Vice President - Regulatory Matters to Kenneth P. Moran, Chief, Accounting and Audits Division.

[13] See letter dated January 7, 1992 from Richard E. Beville, Vice President - Regulatory Matters to Kenneth P. Moran, Chief, Accounting and Audits Division.

[14] The price cap rates were based on the July 1, 1990 rates established under traditional rate of return rules.

[15] SFAS 106 Order, ¶ 3.

[16] See note 10, supra.

who benefit from the costs.[17] The rationale and objectives underlying SFAS 106, therefore, are compatible with regulatory accounting needs.

(c) Recognition of the Exogenous Nature of the Costs of SFAS 106 Will Not Result in Double Counting

Bell Atlantic demonstrated in Transmittal No. 497 that it had only included in its proposed rates those SFAS 106 costs not reflected in the GNP-PI. Annexed as Attachment B is the study performed by Godwins, Inc., on which Bell Atlantic relied. The study addresses the extent to which SFAS 106 costs will be reflected in the GNP-PI. Based on detailed actuarial and macroeconomic analyses, as well as sensitivity analyses, the Godwins Study concluded that the adoption of SFAS 106 will have only a minimal impact on GNP-PI. Bell Atlantic's proposed adjustments take into account that minimal impact on GNP-PI in order to avoid double counting.[18]

---

[17] One objective of SFAS 106 is "To enhance the relevance and representational faithfulness of the employer's reported results of operations by recognizing net periodic postretirement benefit cost as employees render the services necessary to earn their postretirement benefits." SFAS 106, ¶ 5(a)(footnote omitted).

[18] Transmittal No. 497, Section 4.4.

(d) The Adoption of SFAS 106 Disproportionately Affects Price Cap LECs

All of the Price Cap LECs provide medical benefits to their retired employees. However, almost three quarters (73.2%) of American employees work for companies that do not provide such benefits. Those employers will not experience any direct cost increase due to implementation of SFAS 106.

As the Godwins Study demonstrates, the average American company will experience less than one-third (28.3%) of the cost burden that the average Price Cap LEC will experience as a result of SFAS 106. SFAS 106, therefore, has a disproportionate impact on Price Cap LECs compared to U.S. employers as a whole. As a result, Price Cap LECs will be harmed if they are not permitted to adjust rates to account for SFAS 106 costs.

II. If these cost changes are treated as exogenous,

(a) Should costs associated with implementation of SFAS-106 prior to January 1, 1993 (when the accounting change becomes mandatory) be treated as exogenous?

Costs resulting from implementation of SFAS 106 are exogenous whether implementation occurs on January 1, 1993 or before. The date of implementation makes no significant difference in Bell Atlantic's total cost; it merely changes the time at which the costs are recorded. The FASB recommended earlier implementation of SFAS 106 because it is a preferable accounting treatment which more accurately reflects a company's present expenses. By implementing

SFAS 106 before January 1, 1993, Bell Atlantic has more appropriately related the costs to the proper ratepayer.

Moreover, rate increases which include recovery of SFAS 106 costs have already been adopted by some non-Price Cap LECs.[19] The reasons for cost recovery remain the same regardless of whether the carrier is a Price Cap LEC or a rate of return LEC. Bell Atlantic and other Price Cap LECs should not be penalized for early implementation, as urged by the FASB, while non-Price Cap LECs are allowed to adjust their rates to reflect their changed costs.

(b) Are the assumptions made by the individual LECs in calculating these costs reasonable?

Bell Atlantic based its SFAS 106 cost calculations on three sets of assumptions: Bell Atlantic's independently developed actuarial assumptions (provided below in the response to additional information item no. 12); the assumptions embodied in the Godwins Study (discussed below in the response to required information item 14); and certain revenue requirement assumptions described here:[20]

1. The amounts of SFAS 106 costs to be expensed and capitalized were determined by developing a composite expense to total cost ratio, based on the experience of the first three quarters of 1991.

---

[19] For example, Concord Telephone Company's rates including SFAS 106 costs were accepted and became effective November 11, 1991. See Concord Telephone Company, Tariff F.C.C. No. 1, issued September 27, 1991, effective November 1, 1991.

[20] These assumptions are discussed in more detail in Bell Atlantic's Transmittal No. 497.

2. Total company SFAS 106 expenses subject to separations were determined by developing the ratio of total company expenses, less depreciation, to expenses subject to separations. Again, this ratio was based on the experience of the first three quarters of 1991.

3. A similar ratio was developed to determine that portion of the SFAS 106 expense properly categorized as interstate, based on the historic separations experience of the first three quarters of 1991.

4. The ratio of total plant in service to plant subject to separations was developed based on the experience of the first three quarters of 1991. This ratio was applied to the total company incremental SFAS 106 capitalized amounts to determine the incremental SFAS 106 capitalized amounts subject to separations.

5. Similarly, the experienced 1991 ratio of interstate plant in service to plant subject to separations was applied to apportion the appropriate amount of SFAS 106 capitalized amounts to the interstate jurisdiction.

6. Interstate depreciation expense for the incremental interstate SFAS 106 capitalized amounts was determined based on a depreciation ratio calculated by dividing the interstate depreciation expense for three quarters of 1991, annualized, by interstate total plant in service. The depreciation expense used a mid-year convention.

7. The incremental SFAS 106 expenses would not be recognized for federal or state income tax purposes. Therefore, these expenses would increase deferred taxes.

8. Assuming that Bell Atlantic would be able to recover these SFAS 106 costs in rates, Bell Atlantic reduced the rate base for the average unfunded balance for SFAS 106 costs. This assumption assumed that the Commission will revise Section 65.830(a)(3) of the Commissions Rules.[21]

9. GNP-PI was not used in setting the approved rates from January 1, 1991 through June 30, 1991. Therefore, there is no possibility of double counting OPEB costs for this time period.

10. SFAS 106 was issued in December 1990. Therefore, the earliest that companies could have adopted SFAS-106 would have been during 1991. The GNP-PI used for rates in effect from July 1, 1991 through June 30, 1992 reflected the percentage change in GNP-PI from the fourth quarter 1989 to the fourth quarter 1990.[22] Neither the fourth quarter of 1989 nor the fourth quarter of 1990 could have

---

[21] Section 65.830(a) states "The following items shall be deducted from the rate base . . . (3) The interstate portion of unfunded accrued pension costs (Account 4310) . . ." Section 65 does not require that unfunded **OPEB** costs be deducted from the rate base. On May 4, 1992, the Accounting and Audits Division released Responsible Accounting Officers (RAO) Letter 20, which states that LECs must make rate base deductions to reflect the unfunded OPEB costs. Applications for review of RAO Letter 20 are due June 3. Therefore, this has not yet been resolved.

[22] Bell Atlantic Transmittal No. 436, 1991 Annual Price Cap Filing, issued May 2, 1991.

reflected any costs associated with SFAS 106. Since the GNP-PI used for rates in effect from July 1, 1991 through June 30, 1992 could not have reflected SFAS 106 costs, there is no danger of double counting.

11. The earliest possible impact on GNP-PI for costs associated with SFAS-106 was for the calendar year 1991, which is reflected in the percentage change in GNP-PI from the fourth quarter 1990 to the fourth quarter 1991. The total impact of SFAS-106 on GNP-PI is unlikely to be reflected immediately, but to be conservative Bell Atlantic assumed it would be. Using the GNP-PI impact determined by the Godwins Study, Bell Atlantic calculated the impact on Bell Atlantic by multiplying the GNP-PI impact by the annual 1990 interstate revenues affected by GNP-PI. These revenues were total interstate revenues less Billing and Collection revenues and End User revenues.[23]

(c) <u>Given these assumptions, have the individual LECs correctly computed the exogenous cost changes?</u>

In computing its exogenous cost changes, Bell Atlantic included only those costs that were not already included in rates and excluded any costs that will eventually be reflected in the GNP-PI. Therefore, Bell Atlantic appropriately proposed exogenous

---

[23] End User rates are still determined by forecasting a revenue requirement and then dividing by the forecasted demand.

treatment only for those SFAS 106-related costs that meet the Commission's criteria.

(d) Are the individual LEC allocations of these costs among the price cap baskets consistent with Commission rules?

The Commission's Rules require that exogenous cost changes be apportioned on a cost-causative basis among the Price Cap baskets.[24] Bell Atlantic's Transmittal No. 497 followed this approach.[25]

ADDITIONAL INFORMATION[26]

1. Date of Implementation.

Bell Atlantic implemented SFAS 106 effective January 1, 1991.

2. Costs by Year.

The total company OPEB costs for 1991 and 1992 are:

1991	$404,400,000[27]
1992	$418,599,000[28]

---

[24] 47 C.F.R. §61.45(4).

[25] Transmittal No. 497, Section 4.5 and Workpaper 6-44.

[26] Investigation Order, ¶¶ 11, 13, 14, 15, 16.

[27] Transmittal No. 497, Workpaper 6-20, line 1.

[28] Id., Workpaper 6-31, line 1.

The interstate OPEB exogenous cost changes for 1991 and 1992 are:

1991	$19,485,000[29]
1992	$20,307,500[30]

3. Allocation of Costs to Baskets by Year.

Bell Atlantic proposed to allocate its interstate exogenous OPEB costs as follows:

	1991	1992
Common Line	$8,177,660	$8,522,855
Traffic Sensitive	$7,624,481	$7,946,325
Special Access	$3,109,611	$3,240,874
Interexchange	$ 260,320	$ 271,308
Excluded Price Cap Services	$ 312,928	$ 326,138

4. Treatment of SFAS 106 Costs in Reports to the Securities and Exchange Commission (SEC) and to Shareholders.

Bell Atlantic adopted SFAS 106 effective January 1, 1991 and, for financial reporting purposes, recognized the entire transition obligation in 1991. For regulatory reporting purposes, the transitional obligation is being amortized based on the average remaining service period of active plan participants, in accordance with the SFAS 106 Order.[31] Attachment C contains specific reports to the SEC and shareholders.

---

[29] Id., Workpaper 6-30, line 6.

[30] Id., Workpaper 6-43, line 3 + line 7 / 2.

[31] See SFAS 106 Order, ¶ 4.

5. Studies on Which Bell Atlantic Relies.

Bell Atlantic relied on the studies referenced in its Transmittal No. 497, a copy of which is included as Attachment D. The effect of SFAS 106 on GNP-PI was determined by the Godwins Study. The Commission's Rules do not require any calculation of the effect on productivity for changes that are considered exogenous. Therefore, Bell Atlantic has not relied on any productivity studies in reaching its conclusion that SFAS 106-related costs are exogenous.

SFAS 106 will, nevertheless, have an impact on productivity because Bell Atlantic's costs increased due to the adoption of SFAS 106, while its output remained unchanged. Therefore, Bell Atlantic's overall productivity decreased. As demonstrated in the Godwins Study, almost three quarters of American workers are employed by companies that do not provide other post-retirement benefits. Such companies will not experience a similar decrease in productivity with the adoption of SFAS 106. If Bell Atlantic's SFAS 106-related costs are not treated as exogenous, the Price Cap productivity requirements should be adjusted downward.

The impact of SFAS 106 on other allowed exogenous changes was reflected in Bell Atlantic's 1992 Annual Price Cap Filing.[32] Only SPF and DEM exogenous cost changes will be affected by SFAS 106. SFAS 106 costs were included in 1991

---

[32] Bell Atlantic Telephone Companies 1992 Annual Price Cap Filing, Transmittal No. 505, April 2, 1992.

results, which were used to determine SPF and DEM exogenous cost amounts. Therefore, SPF and DEM exogenous cost changes already have incorporated the impact of SFAS 106. Moreover, if SFAS-106 costs were excluded from the base period, the downward pressure of SPF and DEM would have been less than that included in Bell Atlantic's 1992 Annual Price Cap Filing.

The amount of SFAS 106 costs included in Bell Atlantic's initial price cap rates is addressed in Bell Atlantic's Transmittal No. 497 (see Attachment D).

Commission Rules do not specify that sharing and low end adjustments are factors to be considered in determining whether costs are exogenous. As a result, these adjustments should have no bearing on the determination whether SFAS 106 costs are exogenous, and Bell Atlantic has not relied on any studies with respect to them.[33]

6. Types of Benefits Provided That Are Covered by SFAS-106 Accounting Rules.

Bell Atlantic included costs for the following post-retirement benefits in its Transmittal No. 497:

Medical

Dental

Medicare Part B Reimbursement

Group Life Insurance

---

[33] Moreover, Bell Atlantic had no low end adjustments in any of its Price Cap tariff filings.

7. Pay-As-You-Go Level of Expense Associated with These Benefits (1991 and 1992).

Pay-as-you-go amounts and previously recognized amounts:[34]

1991	$302,001,000[35]
1992	$302,001,000[36]

8. Voluntary Employee Benefit Association (VEBA) Trusts or Other Funding Mechanisms Established Prior to Adoption of SFAS-106.

As a result of the 1989 collective bargaining agreements between Bell Atlantic and both the Communications Workers of America ("CWA") and the International Brotherhood of Electrical Workers ("IBEW"), Bell Atlantic established the Bell Atlantic Retiree Health Trust. The Trust provides a vehicle to pre-fund post-retirement medical and dental benefits on behalf of current and future associate retirees and their eligible dependents. One of the primary purposes of

---

[34] On December 6, 1991, Bell Atlantic filed with Mr. Kenneth M. Ackerman, Acting Chief Accounting Branch, notification of 1991 associate retiree health care expense, and related 1991 contributions to the Retiree Health Trust to help fund the health care benefits of current and future associate retirees. These amounts were determined based on actuarially-determined accrual rates. Bell Atlantic's initial Price Cap rates included pay-as-you-go amounts and accrual amounts. Therefore, Bell Atlantic subtracted pay-as-you-go amounts and accrual amounts that had already been used in determining the initial Price Cap rates. The amounts included in rates effective July 1, 1990, was $242.3 million total company. The amounts provided for 1991 and 1992 represent the amounts incurred during 1991.

[35] Transmittal No. 497, Workpaper 6-20.

[36] Id., Workpaper 6-31.

the Trust is to help reduce the long-term costs of providing benefits through the tax-exempt growth of Trust assets and the acceleration of tax deductions.

Bell Atlantic also had a "current claims" VEBA, which was not pre-funding vehicles. This VEBA served as a temporary conduit for the payment of current claims and administration costs for management retirees.

9. Forms of Post-Retirement Benefit Accrual Accounting For Regulated Financial Reporting Before Price Caps.

As discussed above, before the adoption of Price Cap regulation, Bell Atlantic established the Bell Atlantic Retiree Health Trust in connection with its collective bargaining agreements with CWA and IBEW. In 1990, the recognized costs for the Trust were actuarially-determined funded amounts. Costs for management retire health benefits and associate Medicare Part B reimbursements, however, were recognized on a pay-as-you-go basis. Costs recognized for management and associate postretirment life insurance benefits have historically been based on actuarially-determined funded amounts.

10. Type and Level of SFAS-106-Type Expense Reflected in Current Rates.

The amount of SFAS 106-type expenses reflected in current rates is the same as that which was reflected in Bell

Atlantic's initial Price Cap rates. The level of SFAS 106-type expenses for 1991 is $302 million.[37]

11. Type and Level of SFAS-106-Type Expense Reflected in Initial Price Cap Rates.

The SFAS 106-type expenses reflected in Bell Atlantic's initial Price Cap rates[38] were:

Medical

Dental

Medicare Part B Reimbursements

Group Life Insurance

The amount of SFAS 106-type expenses reflected in the initial Price Cap rates was the amount incurred between July 1, 1990 and June 30, 1991, which totalled $242.3 million.

12. Descriptions and Justifications of Actuarial Assumptions and Assumptions Unique to Post-retirement Health Care Benefits.

In order to determine the SFAS 106 costs, it was necessary to calculate the postretirement benefits that are expected to be paid in future years for currently active employees and retirees (including benefits to be paid for their eligible dependents) and to allocate benefits for active participants to the current year and to years of service rendered before the valuation date. The allocated benefits

---

[37] Transmittal No. 497, Workpaper 6-20.

[38] See Bell Atlantic Telephone Companies Price Cap Filing, Transmittal Letter No. 394, filed Nov. 1, 1990.

were then discounted for survivorship and interest to determine their present values.

The actuarial assumptions[39] are categorized into five categories: demographic, average health care claims per retiree, pay growth, health care trends, and discount rate and rate of return on plan assets.

Demographic Assumptions

The demographic assumptions considered in determining Bell Atlantic's SFAS-106 costs were:

1. Annual Rates of Employee Separation From Service Before Eligibility To Service Retirement For Male Management Employees. (See Table 1)

2. Annual Rates of Employee Separation From Service Before Eligibility To Service Retirement For Female Management Employees. (See Table 2)

3. Annual Rates of Transfer From Associate To Management For the Management Plan Assumptions. (See Table 3)

4. Annual Rates of Retirement on Disability Pension - Management. (See Table 4)

5. Annual Rates of Retirement on Service Pension for Male Management Employees. (See Table 5)

6. Annual Rates of Retirement on Service Pension for Female Management Employees. (See Table 6)

7. Annual Rates of Mortality Among Active Management Employees. (See Table 7)

8. Annual Rates of Mortality For Management Service Pensioners. (See Table 8)

9. Annual Rates of Employee Separation From Service Before Eligibility to Service Retirement for Male Associate Employees. (See Table 9)

---

[39] Actuarial Sciences Associates, Inc. prepared Bell Atlantic Corporation's Actuarial Reports and tables 1 through 22 included with this filing.

10. Annual Rates of Employee Separation From Service Before Eligibility to Service Retirement for Female Associate Employees. (See Table 10)

11. Rates of Promotion from Associate to Management for Associate Plan Assumptions. (See Table 11)

12. Annual Rates of Retirement on Disability Pension for Associate Employees. (See Table 12)

13. Annual Rates of Retirement on Service Pension for Male Associate Employees. (See Table 13)

14. Annual Rates of Retirement on Service Pension for Female Associate Employees. (See Table 14)

15. Annual Rates of Mortality Among Active Associate Employees. (See Table 15)

16. Annual Rates of Mortality For Associate Service Pensioners. (See Table 16)

The active mortality, withdrawal, disability, and retirement rates and the postretirement mortality rates used to determine the present values of future benefits were the same rates that were used to determine Bell Atlantic's 1991 costs under SFAS 87 for the Bell Atlantic Pension Plan. (See Tables 1 -16) The active mortality and disability rates reflect historical experience. The Retiree mortality rates reflect the mortality rates contained in the 1991 Telecommunications Mortality Table. This mortality table reflects recent retiree mortality experience in the Telecommunications Industry including retiree mortality experience of Bell Atlantic retirees.

The annual rates of employee separation from service before eligibility to service retirement (Tables 1, 2, 9 and 10) combine the mortality, withdrawal and disability rates.

The demographic assumptions used by Bell Atlantic are based on actual historical telecommunications industry experience including the experience of Bell Atlantic. The separation and retirement rates were disaggregated by management and associate, by sex, and, for the vast majority of active participants, by individual years of age and service.

Bell Atlantic also considered the transfer rate from associate to management, because some Associate employees will be promoted to management and will receive benefits under the Management Plan, not the Associate Plan (Tables 3 and 11). The transfer rates were based on a recent analysis of actual Bell Atlantic promotion experience over several years.

Average Health Care Claims Per Retiree

The assumptions for average health care claims per retiree that were considered in determining Bell Atlantic's SFAS-106 costs are:

1. 1990 Average Medical Claim Costs Per Retiree For Retirements Before 1992 For the Management Plan. (See Table 17)

2. 1990 Average Medical Claim Costs Per Retiree For Retirements After 1991 For the Management Plan. (See Table 18)

3. 1990 Average Dental Claim Costs Per Retiree For the Management Plan. (See Table 19)

4. 1990 Average Medicare Part B Costs Per Retiree For the Management Plan. (See Table 20)

5. 1990 Medical and Dental Claim Costs Per Retiree For the Associate Plan. (See Table 21)

6. 1990 Average Medicare Part B Costs Per Retiree For the Associate Plan. (See Table 22)

The average claims per retiree were based on actual claim experience of Bell Atlantic. The average claim data were developed for the most part by sex and five year age groups to increase the accuracy of the data. Average claims per retiree were also developed separately to reflect plan benefit or cost sharing provisions which vary within the same plan. For example, the average claim data varied depending whether a management participant retired before April 1, 1986; between April 1, 1986 and December 31, 1991; or after 1991.

For management retirees who retire after 1991, future cost sharing was expected to differ based on whether retirement occurred before or after age 65. It was also expected to differ for the retiree only, the retiree with one dependent, and the retiree with more than one dependent. Declining participation rates were assumed for the dependents to reflect higher anticipated cost sharings.

For associate retirees, the average medical claims per retiree were broken down by five year age groups for those retirees who retired before 1990. For retirements after 1990, the average claims per retiree were determined for those retiring before age 65 and those retiring after age 64 in

order to reflect the 1989 negotiated settlement regarding company costs.

The average medical claims per retiree reflect mail order prescription drugs, insurance carrier expenses, and Health Maintenance Organization (HMO) premiums based on actual plan data.

Pay Growth Assumptions

Pay growth assumptions only affect postretirement group life insurance benefits, which are less than 2% of Bell Atlantic's total SFAS 106 costs. A pay growth assumption of 5.25% was used, which is the same assumption used in determining Bell Atlantic's pension costs for SFAS 87.

Health Care Trend Rates

Health care cost trend rates were developed for medical and dental benefits. Medical trend assumptions were developed based on an analysis of the expected medical inflation rate, the impact of medical inflation on different types of medical spending, and the projected increase in the rates of utilization. Different trends were developed for retirees under and over age 65 to account for the impact of Medicare. The plan trends were adjusted for the general leveraging effect of deductibles and out of pocket maximums. The overall reasonableness of the trends was verified by comparing the ratio of projected National Health Expenditures to the Gross

National Product with the comparable ratio estimated by the Health Care Financing Administration.

The initial medical trend rates reflected the large increases in claim costs from recent years. It was assumed, however, that the large increases in recent years would not continue over a long period of time. Also, as a result of balance billing limits instituted by the Omnibus Budget Reconciliation Acts of 1989 and modifications to these limits in 1990, non-participating doctors will be limited in the amount that they can charge Medicare patients. Bell Atlantic reimburses over-65 retirees for any expenses not paid by Medicare. Therefore, the medical cost trend was reduced in 1992 and 1993 to reflect this change. The medical trend rates used declined from 15% in 1991 to approximately 5% in 2003 and beyond, on average.

Dental trend rates were developed based on an analysis of historical and expected dental inflation.

Health care cost trend rates were not used with respect to Medicare Part B Reimbursement because the reimbursement was frozen at the 1991 Medicare Part B amount.

Discount Rate and Rate of Return on Plan Assets

The discount rate and rate of return on plan assets were determined in accordance with the requirements of SFAS 106. The discount rate used in determining the SFAS 106 costs was 8%. The rate of return on plan assets was 7.5%. These

assumptions were the same ones used for determining the pensions costs for SFAS 87.

The discount rate was determined based on an analysis of the yields on high quality bonds. The return on assets assumption was based on the expected long term rate of return on plan assets.

Bell Atlantic's actuarial assumptions are reasonable and in accordance with SFAS 106. These assumptions considered all material factors. Therefore, Bell Atlantic's SFAS 106 costs are reasonable.

13. Assumptions About Future Events.

Bell Atlantic has only included those assumptions about future events allowed by SFAS 106. For example, Bell Atlantic has made no assumptions regarding elimination of benefits.[40] Also, Bell Atlantic has made no assumption regarding the possible advent of national health insurance.[41]

---

[40] SFAS 106, ¶ 26 provides: "...[C]hanges in the benefits, other than benefits defined in terms of monetary amounts, covered by a postretirement health care plan or by other postretirement benefit plans shall not be anticipated."

[41] SFAS 106, ¶ 40 provides: "...[Future changes in laws concerning medical costs covered by governmental programs and future changes in the plans of other providers shall not be anticipated."