the implementation of SFAS-106 would have had only have a minor effect on GNP-PI.[40] Based upon the relative sizes of the regulated and unregulated sectors of the economy, NERA estimated that the implementation of SFAS-106 would increase GNP-PI by approximately 0.12%.[41]

As a result, Rochester could have recovered in 1993 only approximately 4.2% of its incremental OPEB expenses allocable to interstate access services through a change in GNP-PI. This calculation is straightforward. Rochester's 1993 annualized interstate access revenue requirement was $85,649,000 and its incremental OPEB expenses allocable to interstate access was $2,455,000. Thus, to recover this expense, Rochester would have had to increase its prices for interstate access services by 2.87% overall.[42] However, since 0.12% of this required increase would have been reflected in GNP-PI, Rochester would have required only a 2.75% increase in its prices as an exogenous cost adjustment. This would have amounted $2,352,000 or 95.8% of its incremental OPEB expense allocable to interstate access services.[43]

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40 *Id.* at 29.

41 *Id.* at 31-32.

42 *See* Rochester 1992 Direct Case at Ex. IV

43 In its 1993 Annual Access Tariff Filing, Rochester, in fact, utilized a 6.4% offset factor (the factor that was actually applicable to Vista). *Compare* Rochester 1992 Direct Case at Ex. IV *with* 1993 D&J at Ex. 1-9. This miscalculation, however, is harmless. It had the effect of overstating the effect of the implementation of SFAS-106 on GNP-PI and thereby understating the amount eligible for exogenous recognition.

In addition, as described *supra* at 17, Rochester did not claim all of its SFAS-106 expenses as exogenous. Rather, it sought exogenous recognition only for its TBO-related expense, or 57.5% of its total incremental costs attributable to the implementation of SFAS-106.

The other study presented on the record during the CC Docket 92-101 investigation -- the Godwins Study[44]-- posited that, at most, only 39.7% of the effect of the implementation of SFAS-106 would be reflected in GNP-PI.[45] At this point, however, the Commission may not rely upon the Godwins Study to inflate artificially the effect of the implementation of SFAS-106 on GNP-PI. The Godwins study assumed that the implementation of SFAS-106 would have an effect on both the economic costs of labor and of providing goods and services. The theory of causation underlying the Godwins Study is incorrect. Because -- as the Commission itself acknowledges[46]-- a firm's economic costs of providing OPEBs were not affected by the implementation of SFAS-106 and because SFAS-106 did not affect the amount or timing of benefits payments, there are no factors that would change the supply or demand for labor in the national economy. As such, the implementation of SFAS-106 would have caused no change in the economic costs of providing service.

Rochester properly adjusted its claimed TBO-related expense to account for changes in GNP-PI.[47] No further adjustment is necessary or warranted.

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44 Godwins, *Analysis of Impact of SFAS-106 Costs on GNP-PI* (Feb. 28, 1992) ("Godwins Study").

45 *See Southwestern Bell*, 28 F.3d at 172.

46 *See supra* at 19.

47 Although the Commission now utilizes the Gross Domestic Product-Price Index ("GDP-PI") as the inflation component of the price cap formula (*see* Designation Order, ¶ 28 n.35), GNP-PI was utilized in the 1993/1994 and 1994/1995 tariff years. Moreover, Rochester is not aware of any reason why the change from GNP-PI to GDP-PI would affect the outcome of this proceeding.

III. ROCHESTER PROPERLY DEVELOPED THE INTERSTATE ACCESS ALLOCATION OF ITS INCREMENTAL SFAS-106 EXPENSE.

The Commission designated for investigation the manner in which exchange carriers derived that portion of their SFAS-106 expenses related to regulated interstate access services.[48] In Part I hereof, Rochester showed that it properly developed its total-company (Rochester Telephone only) SFAS-106 expenses.[49] In Part II, Rochester showed that it properly accounted for any potential double-count in GNP-PI.[50] In this Part, Rochester will explain: (a) how it apportioned its OPEB expense among the Part 32 accounts; (b) how it allocated its OPEB costs between regulated and unregulated operations; (c) how it allocated the costs between interstate and intrastate operations; and (d) how it allocated the resulting interstate access costs among the price cap baskets.

Rochester followed the accounting guidance provided in Responsible Accounting Officer Letter 20 for recording and allocating the SFAS-106 OPEB costs into the Part 32 accounts. Specifically Rochester records, on a monthly basis, an accrual equal to 1/12 of the annual OPEB expense into Part 32 account 8030 – Benefit Matrix Clearance Account. This account represents the accumulation of employer costs associated with providing employee benefits such as unemployment insurance, social security, pensions, medical insurance, life insurance and other employee benefits. Each of these employer-provided benefit costs are recorded in separate subaccounts for identification of annual changes.

---

48 Designation Order, ¶ 20.

49 *See supra* at 11-16.

50 *See supra* at 16-22.

The use of this Part 32 account was approved under a company-specific waiver allowing Rochester to use this general ledger account for the allocation of its employee benefit costs when it first adopted Part 32 in 1988. Each month, amounts are credited to this account and debited as benefit expense to each Part 32 account where wage and salary costs are being recorded. A labor loading rate, calculated annually and trued-up quarterly, is used as the basis to allocate all benefit costs, including OPEB costs, over all Part 32 accounts where labor is a component cost. This benefit loading rate is calculated based upon total employee benefits divided by annual salary dollars, resulting in a benefit cost per dollar of wages paid. On the books of Rochester Telephone during 1993, $24.0 million of company employee benefit costs were recorded into and cleared out of account 8030. Of this, $12.7 million or 52.8% represented total company OPEB related costs.

Rochester then split its OPEB expenses into its regulated and unregulated components based upon its projected labor distribution. Costs attributable to unregulated operations were eliminated from future computations. 82.379% of Rochester's total company OPEB expenses was allocated to regulated operations.

Rochester then separated its regulated revenue requirement between the interstate and intrastate jurisdictions in accordance with the Part 36 separations manual. The interstate portion of Rochester's regulated costs were apportioned among the access elements in accordance with Part 69 of the Commission's rules. The amount of Big Three expenses apportioned to the common line, switched traffic sensitive and special access elements was 16.876% and was based on a fourth quarter 1992 study of the Big Three expense factors. Use of the Big Three factors for separations purposes is appropriate. Big Three expenses consist primarily of wages and benefits. The majority of Rochester's labor expense falls into one of the Big Three categories.[51] Its exogenous OPEB expenses are plainly wage-related and, hence, Rochester's separations methodology is reasonable.

Finally, Rochester allocated these costs to the respective price cap baskets according to relative basket revenues. The Commission has previously required that other types of adjustments, *i.e.*, sharing and lower formula adjustments, be allocated to the respective price cap baskets on the basis of relative basket revenues.[52]

Rochester's method of assigning its TBO-related expense to its regulated interstate access services is reasonable.

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[51] The only major categories of wage and benefits expenses that are not included in the Big Three expense categories are booked to subaccounts of account 6710 -- Executive and Planning -- and account 6720 -- General and Administrative. These accounts are allocated by Parts 36 and 69 in proportion to Big Three expenses.

[52] *E.g., 1992 Annual Access Tariff Filings*, CC Dkt. 92-141, Memorandum Opinion and Order Suspending Rates and Designating Issues for Investigation, 7 FCC Rcd. 4731, 4732-33, ¶¶ 5-6 (Com. Car. Bur. 1992).

In its 1992 Direct Case, Rochester proposed to allocate these costs among the baskets according to the Big Three allocators, using the same reasoning described above for separations. The results are relatively close. The methodology proposed in Rochester's 1992 Direct Case would have allocated 34.1% of its 1993 OPEB expenses to the traffic sensitive switched basket, 48.5% to the common line basket and 17.4% to the special access basket. *Compare* 1993 D&J at Ex. 1-9 *with* Rochester 1992 Direct Case at 30-31. Rochester's allocation of its OPEB costs by basket, by year is set forth in Appendix G.

IV. THE COMMISSION SHOULD DECLINE TO LIMIT EXOGENOUS RECOGNITION TO THOSE OPEB COSTS THAT CARRIERS HAVE FUNDED OR THAT RELATE ONLY TO THOSE EMPLOYEE INTERESTS THAT HAVE VESTED.

The Commission inquires whether it should limit exogenous cost treatment only to those expenses that have been funded or in which employees have vested interests.[53] The Commission should decline both invitations.

There are two reasons, as a matter of law and theory, that the Commission may not impose either limitation. *First*, the exogenous cost rules existing in 1993 contained no such limitations. The D.C. Circuit has made clear that the Commission may not engraft new conditions or limitations on an existing rule in the guise of interpreting the rule.[54] For the Commission to adopt either limitation now would plainly run afoul of this principle of administrative law.

Second, both limitations would be completely inconsistent with the theory of price cap regulation. Either limitation would require the Commission annually to revisit the level of OPEB expenses (based upon changes in funding or vesting) and to adjust rates accordingly. This would obviously have the effect of tying rates directly to company-specific expense levels. Price cap regulation is, of course, designed to sever the link between rates and costs.

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53 Designation Order, ¶¶ 21-22.

As required by the Designation Order (*id.*, ¶ 29), Rochester sets forth its average compensation per employee in Appendix K.

54 *Southwestern Bell*, 28 F.3d at 173

Adopting either limitation would also single out one type of expense for discriminatory and arbitrary treatment. Carriers must account for other liabilities on an accrual basis, *e.g.*, pension expense. The Commission has never suggested that rate recognition of these expenses be subject to a funding or vesting requirement. The Commission may not arbitrarily single out one type of conceptually identical expense for disparate treatment.

Moreover, there is no valid justification for the Commission to impose retroactively either limitation. Funding and accounting are distinct events. Carriers must recognize the increase in OPEB liability resulting from the implementation of SFAS-106 in the current period, regardless of whether they elect to fund the OPEB liability now or later. In addition, the actual cash outlays corresponding to this liability are not due until some time in the future, often in the distant future. A funding limitation is unnecessary.

Nor is there any reason for the Commission to impose a requirement that it only accord exogenous treatment to OPEB expenses associated with those employee interests that have vested. The actuarial studies that determine the accrual liability contain assumptions regarding the level and timing of employee vesting.[55] Thus, the size of Rochester's SFAS-106 liability already takes vesting into account. Any additional limitation is unnecessary.

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[55] *See* Appendix A.

Information concerning the manner in which employees interests in postretirement benefits vest is also contained in Appendix A.

Conclusion

For the foregoing reasons, the Commission should conclude that Rochester properly quantified its TBO-related OPEB expenses for which it sought exogenous cost recognition in the 1993 and 1994 Annual Access Tariff Filings and close this investigation.

Respectfully submitted,

Michael J. Shortley III

Michael J. Shortley, III

Attorney for Rochester
Telephone Corp.

180 South Clinton Avenue
Rochester, New York 14646
(716) 777-1028

August 11, 1995

Appendices

Appendix A

SFAS-106 Valuations as of January 1, 1993

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BUCK
CONSULTANTS
500 Plaza Drive
Secaucus, New Jersey 07096-1533

December 11, 1992

Mr. Gary Baier
Senior Staff Analyst
Rochester Telephone Corporation
180 South Clinton Avenue
Rochester, New York 14646

Re: FAS 106 Projections with "1993 Cost Sharing" Medical Plan

Dear Gary:

Enclosed are the results of our estimated projections from 1993 to 1997 of the Company's total obligation and annual expense under FAS 106 reflecting the "1993 cost-sharing" retiree medical plan. For your convenience, the results are summarized as follows:

- Table 1: Accrued liability and annual expense for 1993 assuming adoption of FAS 106 in 1993 and assuming the transition obligation is amortized by the Company over 20 years.

- Table 2: Projections through 1997 of APBO and annual expense assuming adoption of FAS 106 in 1993 and assuming amortization of the transition obligation over 20 years.

Retiree Medical "1993 Cost-sharing"

Our understanding of the "1993 Cost-sharing" retiree medical plan is as follows:

- All management and non-bargaining unit employees retiring after December 31, 1992 will make contributions up to 50% of the per capita cost of coverage determined as follows. While not yet eligible for Medicare, the retiree or the covered spouse will contribute an amount equal to the contribution required of active employees plus an amount equal to 50% of the accumulated increases in per capita plan costs since 1993. Once eligible for Medicare, the retiree or covered spouse will contribute an amount equal to a percentage of the per capita plan cost for Medicare eligible retirees based on the relationship between the active employee contribution and the active employee per capita plan cost in that year plus 50% of the accumulated increases in per capita plan costs for Medicare eligible retirees since 1993.

- The 1993 cost sharing changes do not apply to employees who retire before January 1, 1993 and all bargaining unit employees.

For the Rochester Telephone Company regulated management group, the employee contributions are currently 30% of per capita plan costs and are expected to grow to 50% in 1996.

Data, Assumptions and Methods

Our estimates are based on the same data and actuarial assumptions and methods used in previous calculations prepared as of January 1, 1992. Appendix A outlines the key assumptions and methods used in our calculations. Appendix B provides a summary of our understanding of the key benefit provisions in effect as of January 1, 1992. It should be noted that the magnitude of the "1993 cost-sharing" changes could affect future employee behavior in the areas of coverage enrollment or timing of retirement. The impact of behavior changes are not anticipated in our estimates.

Thank you for this opportunity to be of service. Please feel free to call if you should have any questions or need additional material.

Sincerely,

Brian

Brian Stitzel
Assistant Actuary

MV/BS:lh
Enc.
DOC:G14272SF.WP5

cc John Ponzini
Marsha Venturi

TABLE I
ROCHESTER TELEPHONE COMPANY
REGULATED MANAGEMENT AND NON-MANAGEMENT
POSTRETIREMENT WELFARE BENEFITS VALUATION
AS OF JANUARY 1, 1992
(Amounts in Thousands)

	Medical Insurance	Part B Premiums	Reimbursement Account	Life Insurance	Telephone Discount	Grand Total
Accumulated Postretirement Benefit Obligation @ 1/1/93	$64,979	$11,624	$1,883	$10,693	$4,415	$93,593
Annual Expense for 1993						
Service Cost	$1,111	$64	$12	$180	$54	$1,422
Interest Cost	4,957	882	140	813	335	7,128
Amortization of Transition Obligation	3,249	581	94	337	221	4,482
Expected Return on Plan Assets	0	0	0	(379)	0	(379)
Net Periodic Expense	$9,318	$1,528	$246	$952	$609	$12,652
Pay-As-You-Go Expense	$2,066	$483	$154	$0 $406	$200	$2,903

Notes:

1. Projections reflect "1993 Cost-sharing" retiree medical program.
2. Projections assume a constant active workforce and no actuarial gains or losses.
3. Projections assume that the 1/1/93 retiree life reserve equals $3,943,904 at Rochester Telephone Company.
4. Expected Return on Plan assets equals 1992 expected benefit payments.
5. Discount Rate = 7.75% per annum.
6. Projections assume adoption of FAS 106 in 1993 and amortization of the Transition Obligation over 20 years.

11-Dec-92

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TABLE 2
ROCHESTER TELEPHONE COMPANY
REGULATED MANAGEMENT AND NON-MANAGEMENT
POSTRETIREMENT WELFARE BENEFITS VALUATION
AS OF JANUARY 1, 1992
(Amounts in Thousands)

	1993	1994	1995	1996	1997
Accumulated Postretirement Benefit Obligation – BOY	$93,593	$98,832	$104,106	$109,401	$114,788
Annual Expense for FY					
Service Cost	$1,422	$1,524	$1,633	$1,749	$1,872
Interest Cost	7,128	7,516	7,907	8,301	8,703
Amortization of Transition Obligation	4,482	4,482	4,482	4,482	4,482
Expected Return on Plan Assets	(379)	(379)	(379)	(379)	(379)
Net Periodic Expense	$12,652	$13,144	$13,643	$14,153	$14,678
Pay-As-You-Go Expense	$2.903	$3,329	$3,772	$4,155	$4,530
	406	434	473	508	547

Notes:
1. Projections reflect "1993 Cost-sharing" retiree medical program.
2. Projections assume a constant active workforce and no actuarial gains or losses.
3. Projections assume that the 1/1/93 retiree life reserve equals $3,943,904 at Rochester Telephone Company.
4. Expected Return on Plan assets equals 1992 expected benefit payments.
5. Discount Rate = 7.75% per annum.
6. Projections assume adoption of FAS 106 in 1993 and amortization of the Transition Obligation over 20 years.

11-Dec-92

APPENDIX A

ROCHESTER TELEPHONE CORPORATION
POSTRETIREMENT WELFARE BENEFITS VALUATION
PREPARED AS OF JANUARY 1, 1992

OUTLINE OF ACTUARIAL ASSUMPTIONS AND METHODS

ACTUARIAL COST METHOD: Projected unit credit with benefits attributed ratably to service from date of hire until date of full eligibility for benefits. This is the attribution method specified in FAS 106.

DISCOUNT RATE: 7.75% per annum, compounded annually.

MEDICAL PLAN COSTS: The valuation assumed the 1992 total monthly per capita costs for covered individuals as outlined in Appendix B.

MEDICARE COORDINATION: Medicare was assumed to remain the primary payor of benefits for retirees and spouses over age 65.

TELEPHONE DISCOUNT: The cost of telephone discount benefits was included for retirees living outside the local service area. The 1992 monthly costs were assumed as outlined in Appendix B. Unless otherwise indicated, the telephone discount was assumed to grow at a rate of 5% per annum (assumed increase in the cost of living) and 35% of current and future retirees were assumed to live outside the local service area.

ADMINISTRATIVE EXPENSES: Expenses were assumed to be included in the medical plan costs. No other administrative expenses were explicitly identified.

MEDICARE PART B PREMIUMS: As indicated in Appendix B, the Company reimburses retirees and spouses the cost of Medicare Part B premiums. Unless the benefit is frozen, the valuation reflects the following schedule of Part B premium increases for 1992 through 1995 and 5% annual increases thereafter. For years after 1995, we assumed a 5% increase per year.

Year	Premium
1992	$31.80
1993	36.60
1994	41.40
1995	46.10

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MEDICAL TREND: Medical plan costs were assumed to increase by the following percentages each year:

Year	Medical Trend
1992	13.0%
1993	12.4
1994	11.8
1995	11.2
1996	10.7
1997	10.2
1998	9.7
1999	9.2
2000	8.8
2001	8.4
2002	8.0
2003	7.6
2004	7.2
2005	6.9
2006 and after	6.8

DEDUCTIBLE LEVERAGING: Benefit costs will increase faster than the medical trend rates above due to the erosion of fixed dollar deductibles. Our valuation assumed that the effect of deductible leveraging will increase the 1992 medical trend by 0.73%. It was assumed that this leveraging effect will decrease geometrically by 10% each year.

ROCHESTER TELEPHONE RETIREES: For Rochester Telephone Company we assumed all retirees to be part of the Regulated Management Group. Although this has little impact on current results, any benefit changes, such as frozen Medicare Part B premiums, to the Regulated Non-Management Groups (CWA and RTWA) in the future will necessitate the proper tracking of Rochester Telephone retirees.

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SPOUSES WITH MEDICAL COVERAGE: For current retirees of Rochester Telephone Company, representative values of the percentage of retirees assumed to have covered spouses are as follows:

Age	Male Retirees	Female Retirees
55	83%	60%
60	84	49
65	86	36
70	81	27
75	75	16
80	66	8
85	53	5
90	37	3
95	14	1

ELECTIONS: Reported census data was used to identify current retirees with welfare benefits.

SALARY INCREASES: Representative values of the assumed annual rates of future increase are as follows:

Age	Annual Rates of Salary Increase
25	8.2%
30	6.2
35	6.1
40	6.0
45	6.0
50	5.9
55	5.9
60	5.9
65	5.8
69	5.8

DEATHS AFTER RETIREMENT: According to the 1984 George B. Buck Mortality Tables for men and women.

NORMAL RETIREMENT: Age 70.

ASSETS: For accounting purposes, we assumed that Rochester Telephone Company has a retiree life insurance reserve of $3,943,904 as of January 1, 1992 and that the net investment return of Rochester Telephone Company's retiree life insurance reserve was assumed to be 1992 expected benefit payments.

MISCELLANEOUS: The valuation was prepared on an ongoing-plan basis. This assumption does not necessarily imply that an obligation to continue the plan actually exists.

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SEPARATIONS FROM ACTIVE SERVICE: The following tables show representative values of the assumed annual rates of termination, disability, death and retirement prior to normal retirement.

	Annual Rate of				
Age	Non-Vested Withdrawal*	Vested Withdrawal**	Retirement	Death	Disability
		Men			
25	13.0%	11.0%	—	.1%	.1%
30	10.0	10.0	--	.1	.1
35	10.0	5.0	--	.1	.1
40	10.0	1.0	--	.2	.1
45	5.0	1.0	2.0%	.2	.2
50	1.0	1.0	3.0	.3	.4
55	1.0	1.0	4.0	.5	.7
60	1.0	1.0	10.0	1.0	1.3
64	1.0	1.0	30.0	1.6	1.8
65	1.0	1.0	75.0	1.8	2.0
69	1.0	1.0	30.0	2.8	3.7
		Women			
25	10.0%	10.0%	—	.03%	.1%
30	8.0	5.0	—	.04	.1
35	7.0	3.0	—	.05	.1
40	5.0	2.0	—	.07	.1
45	3.0	1.0	2.0%	.10	.2
50	2.0	1.0	4.0	.16	.4
55	2.0	1.0	5.0	.29	.7
60	2.0	1.0	9.0	.54	1.3
64	2.0	1.0	30.0	.88	1.8
65	2.0	1.0	75.0	.99	2.0
69	2.0	1.0	30.0	1.6	3.7

*For first 5 years of service
**After first 5 years of service

APPENDIX B
ROCHESTER TELEPHONE CORPORATION
POSTRETIREMENT WELFARE BENEFITS VALUATION
AS OF JANUARY 1, 1992
SUMMARY OF KEY BENEFIT PROVISIONS

	ELIGIBILITY	MONTHLY MEDICAL PREMIUMS	DURATION OF COVERAGE	PART B PREMIUM REIMBURSEMENT	MONTHLY TELEPHONE DISCOUNT	REIMBURSEMENT ACCOUNT
ROCHESTER TELEPHONE MANAGEMENT	Age 50 & 25 Years of Service Age 55 & 20 Years of Service 30 Years of Service Age 65 & 5 Years of Service	Retiree <65: $109.33 Spouse <65: $132.75 Individual ≥ 65: $58.97	Retiree: Life Spouse: Life of Retiree	Yes	$36.75	$125.00/year
ROCHESTER TELEPHONE NON-MANAGEMENT - CWA	Same as Rochester Telephone Management	Retiree <65: $109.33 Spouse <65: $132.75 Individual ≥ 65: $58.97	Retiree: Life Spouse: Life of Retiree	Yes Frozen @ $28.60	$36.75	$125.00/year
ROCHESTER TELEPHONE NON-MANAGEMENT - RTWA	Same as Rochester Telephone Management	Retiree <65: $109.33 Spouse <65: $132.75 Individual ≥ 65: $58.97	Retiree: Life Spouse: Life of Retiree	Yes Frozen @ $29.90	$36.75	$125.00/year

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BUCK
CONSULTANTS
500 Plaza Drive
Secaucus, New Jersey 07096-1533

September 1, 1992

Mr. William Cherry
Rochester Telephone Corporation
180 South Clinton Avenue
Rochester, New York 14646

Re: FAS 106 Projections with "1993 Cost Sharing" Medical Plan

Dear Bill:

Enclosed are the results of our estimates as of January 1, 1992 and projections through 1997 of the Corporation's total obligation and annual expense under FAS 106 reflecting the "1993 cost-sharing" retiree medical plan. For your convenience, the results are summarized as follows:

- Tables 1 through Table 45: Accrued liability and annual expense assuming adoption of FAS 106 in 1992 and assuming the transition obligation is amortized by Company over the expected future working lifetime of active employees or 20 years if greater.

- Tables 1A through Table 45A: Accrued liability and annual expense assuming adoption of FAS 106 in 1992 and assuming the transition obligation is amortized by Company over the expected future working lifetime of active employees.

- Exhibit A: Projections by Company through 1997 of APBO.

- Exhibit B: Projections by Company through 1997 of annual expense assuming adoption of FAS 106 in 1993 and assuming amortization of the transition obligation over the expected future working lifetime of active employees or 20 years if greater.

- Exhibit C: Projections by Company through 1997 of annual expense assuming adoption of FAS 106 in 1993 and assuming amortization of the transition obligation over the expected future working lifetime of active employees.

Retiree Medical "1993 Cost-sharing"

Our understanding of the "1993 Cost-sharing" retiree medical plan is as follows:

- All management and non-bargaining unit employees retiring after December 31, 1992 will make contributions up to 50% of the per capita cost of coverage determined as follows. While not yet eligible for Medicare, the retiree or the covered spouse will contribute an amount equal to the contribution required of active employees plus an amount equal to 50% of the accumulated increases in per capita plan costs since 1993. Once eligible for Medicare, the retiree or covered spouse will contribute an amount equal to a percentage of the per capita plan cost for Medicare eligible retirees based on the relationship between the active employee contribution and the active employee per capita plan cost in that year plus 50% of the accumulated increases in per capita plan costs for Medicare eligible retirees since 1993.

- The 1993 cost sharing changes do not apply to:
  - employees who retire before January 1, 1993,
  - employees covered under individual retirement contracts
  - bargaining unit employees and
  - retirees of Vista and Seneca Gorham Telephone Company.

For Rochester Telephone Company regulated and deregulated management groups, the employee contributions are currently 30% and 35% of per capita plan costs, respectively and are expected to grow to 50% in 1996.

Data, Assumptions and Methods

Our estimates are based on the same data and actuarial assumptions and methods used in previous calculations prepared as of January 1, 1992. Appendices A, B and C outline the key assumptions and methods and summarize the current nonpension postretirement benefit provisions. It should be noted that the magnitude of the "1993 cost-sharing" changes could affect future employee behavior in the areas of coverage enrollment or timing of retirement. The impact of behavior changes are not anticipated in our estimates.

As requested, the amortization of the transition obligation was calculated separately by Company under two alternatives. The first alternative sets the amortization period equal to the expected future working lifetime of active employees or 20 years, if greater. The second alternative sets the amortization period equal to the expected future working lifetime of active employees. For both alternatives, the amortization period for a Company that has no active employees equals the expected future lifetime of retirees and the amortization of the transition obligation is accelerated if the cumulative benefit payments exceeds the cumulative benefit cost since transition.

Fairmount, Mid-South and Monroeville Telephone Companies cover closed groups of retirees. Canton, Thorntown, Depue, Lakeshore, Minot and Mt. Pulaski Telephone Companies have amortization periods (expected future working lifetime of active employees) greater than 20 years.

Recognition of Plan Amendment

Please note that we have assumed that the transition obligation upon the adoption of FAS 106 (either 1992 or 1993) includes the impact of the "1993 cost-sharing" retiree medical plan. The impact of any amendment that is not adopted prior to the adoption of FAS 106 would have to be recognized as a prior service cost and amortized on a somewhat different basis. Exhibit D discusses the relationship between the timing of adoption and the timing of plan amendments and is enclosed for your information.

Thank you for this opportunity to be of service. Please feel free to call if you should have any questions or need additional material.

Sincerely,

Marsha

Marsha Venturi
Consulting Actuary

Brian

Brian Stitzel
Assistant Actuary

MV/BS:lh/cs
Enc.
DOC:G14169SF.WP5

cc John Cogan
Robert Fishback
John Ponzini

TABLE 1
ROCHESTER TELEPHONE CORPORATION
POSTRETIREMENT WELFARE BENEFITS VALUATION
AS OF JANUARY 1, 1992
(Numbers may not add due to rounding)

GROUP: GRAND TOTAL

	Lives	"1993 Cost-sharing" Medical Insurance	Part B Premiums	Reimbursement Account	Life Insurance	Telephone Discount	Grand Total
Accrued Liability @ 1/1/92							
Retirees	1,550	$33,883,429	$7,659,288	$1,181,888	$6,628,016	$2,152,874	$51,505,496
Actives Eligible to Retire	1,040	26,364,161	3,652,566	519,708	4,927,761	1,525,435	36,989,631
Actives Not Yet Eligible to Retire	2,671	25,736,563	1,255,346	209,634	2,404,447	821,332	30,427,322
Total Accrued Liability (APBO)	5,261	$85,984,152	$12,567,200	$1,911,230	$13,960,224	$4,499,641	$118,922,448
Annual Expense for 1992							
Service Cost		$2,029,621	$126,308	$13,775	$258,252	$63,622	$2,491,578
Interest Cost		6,780,347	988,270	146,722	1,094,943	352,071	9,362,353
Amortization of Transition Obligation		4,221,519	628,360	95,562	500,816	224,982	5,671,238
Prior Service Cost		0	0	0	0	0	0
Gains and Losses		0	0	0	0	0	0
Expected Return on Plan Assets		0	0	0	(379,284)	0	(379,284)
Net Periodic Expense		$13,031,487	$1,742,939	$256,059	$1,474,726	$640,674	$17,145,885
Pay-As-You-Go Expense		$2,507,880	$436,029	$157,429	$178,327	$201,390	$3,481,055

Notes: (1) Discount Rate = 8% per annum.
(2) Transition Obligations are amortized by Company over the expected future working lifetime of the active employees or 20 years, if greater.
(3) Plan assets for retiree life insurance as of January 1, 1992 = $3,943,904 and the expected return equals 1992 projected disbursements.
(4) Vista Telephone Company has an Accrued Benefit Cost as of January 1, 1992 = $1,766,600.

TABLE 2
ROCHESTER TELEPHONE CORPORATION
POSTRETIREMENT WELFARE BENEFITS VALUATION
AS OF JANUARY 1, 1992
(Numbers may not add due to rounding)

01-Sep-92

GROUP: ROCHESTER TELEPHONE TOTAL MANAGEMENT & NON-MANAGEMENT

"1993 Cost-sharing"

	Lives	Medical Insurance	Part B Premiums	Reimbursement Account	Life Insurance	Telephone Discount	Grand Total
Accrued Liability @ 1/1/92							
Retirees	1,214	$24,102,240	$7,060,076	$1,143,086	$4,278,613	$2,006,760	$38,590,776
Actives Eligible to Retire	891	20,990,646	3,255,617	513,128	4,349,131	1,452,875	30,561,397
Actives Not Yet Eligible to Retire	1,491	14,591,387	688,267	190,761	1,531,272	712,670	17,714,357
Total Accrued Liability (APBO)	3,596	$59,684,273	$11,003,960	$1,846,975	$10,159,016	$4,172,305	$86,866,530
Annual Expense for 1992							
Service Cost		$1,048,160	$80,374	$12,311	$181,220	$54,895	$1,376,959
Interest Cost		4,705,716	864,445	141,760	797,842	326,378	6,836,142
Amortization of Transition Obligation		2,984,214	550,198	92,349	310,756	208,615	4,146,131
Prior Service Cost		0	0	0	0	0	0
Gains and Losses		0	0	0	0	0	0
Expected Return on Plan Assets		0	0	0	(379,284)	0	(379,284)
Net Periodic Expense		$8,738,089	$1,495,017	$246,420	$910,533	$589,889	$11,979,949
Pay-As-You-Go Expense		$1,759,498	$404,572	$152,882	$0	$188,781	$2,505,733

Notes: (1) Discount Rate = 8% per annum.
(2) Transition Obligation is amortized over 20 years.
(3) Plan assets for retiree life insurance as of January 1, 1992 = $3,943,904 and the expected return equals 1992 projected disbursements.

31-Aug-92

TABLE 3
ROCHESTER TELEPHONE CORPORATION
POSTRETIREMENT WELFARE BENEFITS VALUATION
AS OF JANUARY 1, 1992
(Numbers may not add due to rounding)

GROUP: NEW YORK REGION - TOTAL

	Lives	"1993 Cost-sharing" Medical Insurance	Part B Premiums	Reimbursement Account	Life Insurance	Telephone Discount	Grand Total
Accrued Liability @ 1/1/92							
Retirees	72	$1,892,592	$534,032	$0	$947,876	$65,735	$3,440,235
Actives Eligible to Retire	48	1,936,956	370,354	0	325,892	47,314	2,680,516
Actives Not Yet Eligible to Retire	285	4,431,533	541,469	0	512,614	79,023	5,564,639
Total Accrued Liability (APBO)	405	$8,261,081	$1,445,855	$0	$1,786,382	$192,072	$11,685,390
Annual Expense for 1992							
Service Cost		$338,091	$43,726	$0	$38,669	$6,301	$426,787
Interest Cost		655,529	114,503	0	139,561	15,124	924,717
Amortization of Transition Obligation		413,054	72,293	0	89,319	9,604	584,270
Prior Service Cost		0	0	0	0	0	0
Gains and Losses		0	0	0	0	0	0
Expected Return on Plan Assets		0	0	0	0	0	0
Net Periodic Expense		$1,406,674	$230,522	$0	$267,549	$31,028	$1,935,773
Pay-As-You-Go Expense		$136,573	$29,699	$0	$85,385	$6,169	$257,826

Notes: (1) Discount Rate = 8% per annum.
(2) Transition Obligation is amortized over 20 years.