Commission criteria for exogenous cost treatment under price caps. Generally, these parties reiterate that Ameritech and the other local exchange carriers (LECs) have control over these costs and cannot guarantee that there will be no double counting of the costs.[4]

Once again, in arguing that Ameritech has control over the recognition of OPEB costs, opponents confuse the arguments about the amount of costs which should receive exogenous treatment with the arguments whether exogenous treatment should be granted at all. Specifically, opponents fail to recognize the limited nature of Ameritech's request, i.e., Ameritech requests exogenous treatment for only that portion of the TBO related to current retirees. Under SFAS No. 106, Ameritech is required to estimate the costs of offering benefits to these current retirees in the future (benefits which retirees received today) and accrue for those costs now. In fact, SFAS No. 106 states that Ameritech must estimate its TBO based on the historical and anticipated obligations of the company. And, because Ameritech plans on continuing to provide these benefits indefinitely, as noted in its Summary Plan descriptions, the cost of these benefits are properly included in the TBO.[5]

Moreover, as AT&T recognized, there are significant problems with suddenly rescinding the provision of these benefits to current retirees; and these problems are directly related to the issue of whether Ameritech has control over the recognition of those costs. Ameritech does not conduct business in a vacuum

---

[4] See e.g., Allnet at 3-4; and AT&T at 11-12, and 13-19.

[5] See 1993 Annual Access Tariff Filings, CC Dkt. No. 91-193, Ameritech Response to Designated Issues for Investigation, CC Dkt. No. 93-193, at Attachment 2, Exhibit 1, Summary Plan Descriptions, filed July 27, 1993. MCI incorrectly argues that the CWA has already bargained for decreased wages by having employers agree to provide OPEBs to retirees, and therefore the costs of these benefits are already reflected in current rates. MCI at 5. However, that is not the case. As noted in Ameritech's Direct Case, the union negotiations do not effect retirees, only current employees, so there could not have been such an agreement. Ameritech Response at 3, note 4.

and must take into consideration the ethical, labor and public relation impacts of its decisions in running its business. Likewise, the Commission must consider what impacts its decision will have on LECs' incentives when determining whether granting exogenous treatment is in the public interest.

In this filing and in Ameritech's previous filings, Ameritech has shown that it does not control the costs for that portion of the TBO related to current retirees, thereby the recognition of those costs pursuant to the implementation of SFAS No. 106 meets the first criteria for exogenous treatment.

Furthermore, Ameritech has demonstrated with reasonable certainty that there will be no double counting under the price cap formula for that portion of the TBO for which Ameritech seeks exogenous treatment.[6] In this regard, Ameritech has shown that due to the timing difference between the Commission's prescription of a new rate of return in September 1990, and the Commission's stated change in its treatment of mandatory GAAP changes under price caps after that prescription in 1991; investors could not reasonably have required a greater rate of return based on the anticipated implementation of SFAS No. 106.[7] In addition, Ameritech has shown that the productivity factor which arguably includes a factor for the VEBA trust is not applicable to

---

[6] Opponents argue that Ameritech must "guarantee" with "absolute accuracy" that there will be no double counting of OPEB costs if exogenous treatment under price caps is granted. Ad Hoc at 6-7; and Allnet at 4. However, the standard they argue Ameritech must meet is unreasonable, unworkable, and contrary to carrier initiated rates. Since LECs are required only to demonstrate that their rates are just and reasonable, then likewise LECs should only be required to demonstrate that its costs, even if result in an exogenous change, are reasonable. The Commission certainly does not require absolute accuracy when an exogenous change decreasing LECs' price caps is required.

[7] Ad Hoc argues that there must have been "some doubt" by investors about the treatment of OPEBs under price caps. Ad Hoc at 8. However, it provides no legitimate or factual basis for this speculation. Ameritech has shown that based on timing a reasonable investor would assume because of Commission statements that when the rate of return was prescribed, OPEBs would receive exogenous cost treatment. Absent some additional information from Ad Hoc, there is no basis in the record to support the finding that the rate of return includes some recognition that OPEBs would not receive exogenous treatment.

Ameritech's request for exogenous treatment, because Ameritech seeks exogenous treatment for only that portion of the TBO associated with current retirees, not active employees.[8]

With regard to intertemporal double counting, Ameritech demonstrated that based on its assumptions for future growth and the information provided in the Godwins Study, granting exogenous treatment for that portion of the TBO associated with current retirees will not result in double counting.[9] Finally, granting exogenous treatment for the limited costs requested by Ameritech will not undermine the polices of price caps. As noted above, Ameritech seeks exogenous cost treatment for the TBO associated with current retirees and therefore it has no ability to effect the recognition of this liability.

Based on the foregoing, Ameritech has demonstrated that pursuant to the implementation of SFAS No. 106, its recognition of that portion of the TBO costs associated with current retirees qualifies for exogenous treatment under price caps.

II. Prior Year's Sharing or Low End Adjustments Should Be Included in the Computation of Rates of Return for Determining the Current Year's Sharing and Low End Adjustments to Price Cap Indices.

Since this is a proceeding to determine whether LECs' rates are lawful, and since Ameritech's rates are governed by the Commission's price cap system, the question in this context is whether Ameritech's treatment of 1992 sharing in calculating the current year's sharing adjustment to its price cap indices violated the Commission's rules. Since the Commission's rules did not require – and

---

[8] 1993 Annual Access Tariff Filings, Ameritech Operating Companies, Transmittal No. 702, Description and Justification at 13-14.

[9] Treatment of Local Exchange Carrier Tariffs Implementing Statement of Financial Accounting Standards, CC Dkt. No. 92-101, Ameritech Operating Companies' Reply to Oppositions to their Direct Case, filed July 31, 1992, at 21.

arguably did not permit – the add back of sharing amounts (or subtracting out of lower formula adjustment ("LFA") amounts) in determining base year earnings for sharing and LFA purposes, Ameritech's refusal to add sharing amounts back into base year earning calculations can not result in Ameritech's rates being deemed unlawful.

Ad Hoc is correct when it argues that the issue of "add back" is appropriately before the Commission in this context. However, the issue properly phrased is not whether add back should be required but rather whether add back is required or even permitted by the Commission's rules as they are currently written.

The Commission issued a Notice of Proposed Rulemaking to consider whether add back should be required.[10] In response to that notice, Ameritech has filed comments and reply comments indicating why add back should not be required on a going forward basis. However, the Commission's admission in the NPRM that

> this issue was neither expressly discussed in the LEC price cap orders nor clearly addressed in our Rules[11]

essentially disposes of the issue for the purposes of this proceeding. That is, the Commission's rules neither required nor permitted add back in the calculation of base year earnings for the purposes of determining the current year's sharing obligations and lower formula adjustments.[12]

---

[10] In the Matter of Price Cap Regulation of Local Exchange Carriers, Rate of Return Sharing and Lower Formula Adjustment, CC Docket No. 93-179, Notice of Proposed Rulemaking, FCC 93-325 (released July 6, 1993) ("NPRM").

[11] Id. at ¶ 4.

[12] If add back is neither permitted nor required, LECs are not permitted to manipulate add back and low end adjustment mechanisms to serve their own interests as feared by Ad Hoc. Ad Hoc at 14-15.

Nonetheless, commentors still argue that add back is required because, they claim, the Commission intended that price cap carrier rates of return would continue to be calculated and reported in essentially the same manner as they had been under rate of return regulation.[13] However, this argument misses two very fundamental points. First, under rate of return regulation, add back was required only for refunds of a prior year's excessive earnings. The Commission has made it abundantly clear that sharing under price caps is not the same as refunds under rate of return regulation:

> We believe that, where an incentive-based system can be designed to benefit both carriers and their customers, incentive-based regulation will produce greater benefits than adjustments to rate of return.[14]
>
> Price cap regulation is designed as a substitute for rate of return regulation...[15]
>
> The LECs are correct in asserting that the sharing adjustment does not imply unlawfulness, and does not constitute a penalty.[16]
>
> We also reject the argument that we cannot include interest unless we characterize the sharing adjustment as a refund of over-earnings.[17]

---

[13] Ad Hoc at 20, Allnet at 5-6, MCI at 28.

[14] In the Matter of Policy and Rules Concerning Rates for Dominant Carriers, CC Docket No. 87-313, Second Report and Order, FCC 90-314 (released October 14, 1990) ("SRO") at ¶ 40.

[15] In the Matter of Policy and Rules Concerning Rates for Dominant Carriers, CC Docket No. 87-313, Second Further Notice of Proposed Rulemaking, FCC 89-91 (released April 17, 1989) ("SFNPRM") at ¶ 573.

[16] In the Matter of Policy and Rules Concerning Rates for Dominant Carriers, CC Docket No. 87-313, Order on Reconsideration, FCC 91-115 (released April 17, 1991) ("Reconsideration Order") at ¶ 102.

[17] Id. at ¶ 105.

> Sharing is intended as a means of sharing prospective productivity gains, and not a refund mechanism.[18]

Thus, the add back line on Form 492 that applies to refunds does not apply to sharing in the context of price cap regulation.

Second, after the implementation of price caps for local exchange carriers, the Common Carrier Bureau changed Form 492 for carriers subject to incentive regulation.[19] Under Form 492A, the "add back" calculation for determining base year rate of return was eliminated from the revised earnings report form for price cap LECs. Thus, as AT&T points out in its comments:

> [I]t is not credible to claim that the add back procedure is still contemplated by the Commission's existing price cap rules.[20]

Ad Hoc, however, continues to insist that add back is required to guard against effective earnings outside a reasonable range.[21] This is misguided. Under price caps, there is no maximum rate of return. Earnings over 16.25% (assuming a 3.3% total productivity offset) will be shared 100% in the next tariff year via reduction to a carrier's price cap (not necessarily to its rates), so that, in economic reality, even with add back, a carrier's rate of return after sharing may be well above 14.25%.

That is the essential difference between refunds under rate of return regulation and sharing under price cap regulation based on a forward looking adjustment to a carrier's productivity offset.

---

[18] Id. at ¶ n. 148.

[19] See FCC submission to the OMB, OMB Number 3060-0355.

[20] AT&T at 23.

[21] Ad Hoc at 20-21.

On the other hand, MCI argues that failure to require add back understates base period earnings.[22] This, however, ignores economic reality. The assumption behind this view is the belief that, without add back, shareholders would make more money in the base year. In fact, however, add back involves an accounting fiction that raises only the apparent rate of return. The adjustment does not make shareholders any richer. It creates no additional funds in the base year that can be distributed to shareholders or reinvested in the business. Add back merely distorts the actual earnings of the price cap carrier – giving them the appearance of being higher than they really are.

Finally, two of the commentors continue to insist that add back is appropriate for sharing but not for LFAs.[23] In support of this position, they attempt to show the similarity of sharing to refunds and the dissimilarity of LFAs to anything but a normal rate increase under rate of return regulation. However, this argument that exposes the logical inconsistency of requiring sharing to be treated like refunds. First, even though as noted above, the Commission itself has clearly indicated that sharing under price caps is not to be regarded the same as refunds under rate of return regulation, both commentors speak of sharing as if it were the refund of unlawful earnings.[24]

Simultaneously, because they do not favor add back for LFAs, these parties argue that the Commission should view LFAs like simple rate increases

---

[22] MCI at 29.

[23] Ad Hoc at 21-24; MCI at 29-33.

[24] See, e.g. Ad Hoc at 23 ("Without an add back requirement the sharing mechanism will have an unintended continuing impact on future year earnings by incorporating a refund of earnings made in the prior period into the revenue stream of the period under review." Emphasis added.); MCI at 27-28 ("[T] he Commission must treat sharing amounts like refunds...The only matter that has changed between rate of return and price cap regulation is the basis upon which prospective rates are set and the level (range) of earnings carrier are allowed to earn.").

(thus not requiring "add back").[25] Yet the Commission made it clear that LFAs were something very different from normal cost of service type rate increases. Specifically, the Commission noted that LFAs were not a mechanism to guarantee a rate of return and that, if a LEC found itself chronically underearning, it could file a regular rate increase.[26]

Sharing and LFAs are merely two sides of the same price cap coin. They were implemented as part of price cap regulation in order to allow for the fact that a single, industry-wide productivity offset was used for all price cap LECs and that this figure might be understated or overstated in the case of any single carrier.[27] Sharing does not constitute a refund of base year overearnings any more than LFAs constitute recoupment of base year underearnings. That fact requires that both sharing and LFAs be treated the same for add back purposes. Thus, the only logical approach is to permit the effects of both sharing and LFAs to be reflected in base year earnings calculations for determining current sharing and LFA amounts.

That, however, relates to the issue of whether the Commission's rule should be changed on a going forward basis. For the purposes of this proceeding, it is abundantly clear that the add back of sharing amounts in determining base year earnings was neither required nor permitted by the Commission's rules. The fact that Ameritech did not add back those amounts cannot be found to constitute a reason for rejecting the tariff at hand. To do so

---

[25] Ad Hoc at 22 ("[T]he LFA is designed to retarget future rate of return."); MCI at 27-28 ("[T]he Commission must treat...LFAs like rate increases.").

[26] Reconsideration Order at ¶ 117.

[27] See Reconsideration Order at ¶ 86; SRO at ¶ 147.

would constitute a retroactive change in the Commission's rules violating the Administrative Procedures Act.[28]

III. LIDB Rates Are Appropriately In The Local Transport Category

Several parties challenge Ameritech's, and other LECs', decision to place LIDB rates in the local transport category alleging they should be in local switching.[29] One party also argues that LIDB should be placed in a new service category.[30] However, neither of these positions are reasonable. First, LIDB rates are appropriately placed in the local transport category because it corresponds to how LIDB investment is assigned. Under Part 32 of the Commission's rules, LIDB investment is recorded in Account 2212. The investment is then categorized as COE Category 2 - Tandem Switching in Part 36 of the rules. Then, under Part 69, Tandem Switching Investment is assigned to the local transport category. Therefore in order to maintain consistency between the assignment of investment and revenues, LIDB rates are properly placed in the local transport category.

Furthermore, there is no need to establish a new service category for LIDB rates. The purpose of price caps is to ensure reasonable prices to consumers through caps on prices, while giving LECs some pricing flexibility because of those caps. A different category for all new services would undermine the purpose and incentives of price caps and would serve only to continue a trend toward eliminating the minimal pricing flexibility granted the LECs in the original price cap order. The Commission recently proposed to place operator

---

[28] 5 U.S.C. §553.

[29] See e.g., Ad Hoc at 25; and Allnet at 9.

[30] AT&T at 38.

services in a new service category, and has made similar decisions regarding other new services.[31] Placing all these services in their own bands threatens the achievement of one of the goals of the price cap order, *i.e.*, economically efficient pricing. In fact, there is substantial competition for LIDB through the credit cards provided by each of the interexchange carriers, for example, AT&T's Universal Card, which will provide additional protection to ensure reasonable prices. Thus, at a minimum, the Commission should not subject the LIDB rate elements to separate banding requirements other than the cap on the switched traffic sensitive basket.

IV. Ameritech Properly Reallocated GSF Costs In Accordance With The GSF Order.

No commenting party took issue with the manner in which Ameritech calculated PCI and rate changes to implement the reallocation of general support facility ("GSF") costs resulting from the Commission's Order in CC Docket No. 92-222.[32] Therefore, the Commission should specifically find that no showing has been made that the rates are unlawful in that respect.

---

[31] See Treatment of Operator Services Under Price Cap Regulation, CC Dkt. No. 93-124, Comments of Ameritech filed on July 8, 1993.

[32] In the Matter of the Amendment of the Part 69 Allocation of General Support Facility Costs, CC Docket No. 92-222, Report and Order, FCC 93-238 (released May 19, 1993).

V. Conclusion

Based on the foregoing, Ameritech has demonstrated that its rates are just and reasonable and do not otherwise violated the Commission's rules. Therefore, the Commission should grant exogenous cost treatment for Ameritech's TBO and should allow its other rates to become effective as filed.

Respectfully submitted,

By: Barbara J. Kern

Barbara J. Kern
Michael S. Pabian

Attorneys for the Ameritech
Operating Companies

2000 W. Ameritech Center Dr.
4H88
Hoffman Estates, IL 60196-1025
(708) 248-6077

Date: September 10, 1993

CERTIFICATE OF SERVICE

I, Diana M. Lucas, do hereby certify that copies of the foregoing were sent via first class mail, postage prepaid, to the following on this the 10th day of September 1993:

William Page Montgomery
Susan Gately
Economics and Technology, Inc.
One Washington Mall
Boston, Massachusetts 02108-2603

James S. Blaszak
Francis E. Fletcher, Jr.
Ad Hoc Telecommunications
Users Committee
Gardner, Carton & Douglas
1301 K Street, N.W.
Suite 900 - East Tower
Washington, DC 20005

Francine J. Berry
Robert J. McKee
Peter H. Jacoby
Judy Sello
AT&T
Room 3244J1
295 North Maple Avenue
Basking Ridge, New Jersey 07920

J. Scott Nicholls
Allnet Communications Services, Inc.
1990 M Street, NW, Suite 500
Washington, DC 20036

Michael F. Hydock
MCI Telecommunications Corporation
1801 Pennsylvania Ave., N.W.
Washington, DC 20006

Diana M. Lucas

Diana M. Lucas

TABLE 4

AMERITECH RETIREE MEDICAL BENEFIT PLAN - MANAGEMENT

1988 ACTUARIAL ASSUMPTIONS

ANNUAL RATES OF RETIREMENT ON SERVICE PENSION — MALE EMPLOYEES

service in years t	rates of retirement during year t + 1/2 to t + 1 1/2 for employees entering service at age:							
	15	20	25	30	35	40	45	50
14								0.5000
15								0.3000
16								0.3000
17								0.3000
18								0.3000
19					0.0600	0.0860	0.5000	0.9903
20					0.0360	0.0500	0.3000	
21					0.0320	0.1350	0.3000	
22					0.0340	0.2110	0.3000	
23					0.0410	0.1680	0.3000	
24			0.0160	0.0310	0.0630	0.5000	0.9903	
25			0.0150	0.0260	0.0720	0.3000		
26			0.0160	0.0340	0.1860	0.3000		
27			0.0180	0.0460	0.2610	0.3000		
28			0.0210	0.0610	0.2180	0.3000		
29	0.0130	0.0130	0.0340	0.0970	0.5000	0.9903		
30	0.0120	0.0130	0.0410	0.1260	0.3000			
31	0.0120	0.0180	0.0480	0.2350	0.3000			
32	0.0120	0.0220	0.0630	0.3070	0.3000			
33	0.0140	0.0240	0.0810	0.2640	0.3000			
34	0.0150	0.0530	0.1170	0.5000	0.9903			
35	0.0160	0.0620	0.1610	0.3000				
36	0.0190	0.0710	0.2700	0.3000				
37	0.0240	0.0900	0.3400	0.3000				
38	0.0270	0.1100	0.2890	0.3000				
39	0.0740	0.1480	0.5000	0.9903				
40	0.0850	0.1960	0.3000					
41	0.0950	0.3030	0.3000					
42	0.1140	0.3620	0.3000					
43	0.1420	0.2970	0.3000					
44	0.1800	0.5000	0.9903					
45	0.2200	0.3000						
46	0.3260	0.3000						
47	0.3740	0.3000						
48	0.3030	0.3000						
49	0.5000	0.9903						
50	0.3000							
51	0.3000							
52	0.3000							
53	0.3000							
54	0.9903							

Source: Industry-wide management experience 1975-1978.

AMERITECH RETIREE MEDICAL BENEFIT PLAN - MANAGEMENT

1988 ACTUARIAL ASSUMPTIONS

ANNUAL RATES OF RETIREMENT ON SERVICE PENSION -- FEMALE EMPLOYEES

service in years t	rates of retirement during year t + 1/2 to t + 1 1/2 for employees entering service at age:							
	15	20	25	30	35	40	45	50
14								0.5000
15								0.3000
16								0.3000
17								0.3000
18								0.3000
19					0.1800	0.3540	0.5000	0.9949
20					0.1260	0.1360	0.3000	
21					0.1260	0.2850	0.3000	
22					0.1290	0.3240	0.3000	
23					0.1330	0.2700	0.3000	
24			0.0610	0.1040	0.1340	0.5000	0.9949	
25			0.0400	0.0960	0.1460	0.3000		
26			0.0420	0.1210	0.2870	0.3000		
27			0.0460	0.1290	0.3270	0.3000		
28			0.0470	0.1310	0.2770	0.3000		
29	0.0400	0.0450	0.0690	0.1390	0.5000	0.9949		
30	0.2900	0.0320	0.0790	0.1610	0.3000			
31	0.0340	0.0400	0.1010	0.2900	0.3000			
32	0.0380	0.0440	0.1250	0.3350	0.3000			
33	0.0460	0.0460	0.1340	0.2920	0.3000			
34	0.0490	0.0930	0.1520	0.5000	0.9949			
35	0.0520	0.1010	0.1810	0.3000				
36	0.0540	0.1200	0.3000	0.3000				
37	0.0560	0.1320	0.3490	0.3000				
38	0.0590	0.1360	0.3150	0.3000				
39	0.1030	0.1640	0.5000	0.9949				
40	0.1160	0.2040	0.3000					
41	0.1290	0.3200	0.3000					
42	0.1350	0.3750	0.3000					
43	0.1450	0.3440	0.3000					
44	0.1740	0.5000	0.9949					
45	0.2120	0.3000						
46	0.3490	0.3000						
47	0.3980	0.3000						
48	0.3680	0.3000						
49	0.5000	0.9949						
50	0.3000							
51	0.3000							
52	0.3000							
53	0.3000							
54	0.9949							

Source: Industry-wide management experience 1975-1978.

TABLE 4

AMERITECH RETIREE MEDICAL BENEFIT PLAN - NON-MANAGEMENT

1988 ACTUARIAL ASSUMPTIONS

ANNUAL RATES OF RETIREMENT ON SERVICE PENSION -- MALE EMPLOYEES

service in years t	rates of retirement during year t + 1/2 to t + 1 1/2 for employees entering service at age:							
	15	20	25	30	35	40	45	50
14								0.5000
15								0.3000
16								0.3000
17								0.3000
18								0.3000
19					0.0550	0.0900	0.5000	0.9903
20					0.0420	0.0650	0.3000	
21					0.0300	0.2090	0.3000	
22					0.0330	0.2790	0.3000	
23					0.0410	0.2060	0.3000	
24			0.0160	0.0330	0.0440	0.5000	0.9903	
25			0.0150	0.0260	0.0560	0.3000		
26			0.0160	0.0280	0.2270	0.3000		
27			0.0170	0.0360	0.2930	0.3000		
28			0.0190	0.0430	0.2200	0.3000		
29	0.0210	0.0225	0.0320	0.0500	0.5000	0.9903		
30	0.0180	0.0195	0.0390	0.0700	0.3000			
31	0.0195	0.0270	0.0430	0.2540	0.3000			
32	0.0210	0.0345	0.0460	0.3190	0.3000			
33	0.0225	0.0390	0.0540	0.2350	0.3000			
34	0.0225	0.0460	0.0670	0.5000	0.9903			
35	0.0270	0.0530	0.0880	0.3000				
36	0.0315	0.0590	0.2850	0.3000				
37	0.0375	0.0640	0.3540	0.3000				
38	0.0405	0.0730	0.2520	0.3000				
39	0.0520	0.0910	0.5000	0.9903				
40	0.0580	0.1080	0.3000					
41	0.0620	0.3300	0.3000					
42	0.0680	0.3930	0.3000					
43	0.0790	0.2720	0.3000					
44	0.0980	0.5000	0.9903					
45	0.1160	0.3000						
46	0.3510	0.3000						
47	0.4110	0.3000						
48	0.2830	0.3000						
49	0.5000	0.9903						
50	0.3000							
51	0.3000							
52	0.3000							
53	0.3000							
54	0.9903							

Source: Industry-wide non-management experience 1975-1978.

TPF&C
a Towers Perrin company

AMERITECH RETIREE MEDICAL BENEFIT PLAN - NON-MANAGEMENT

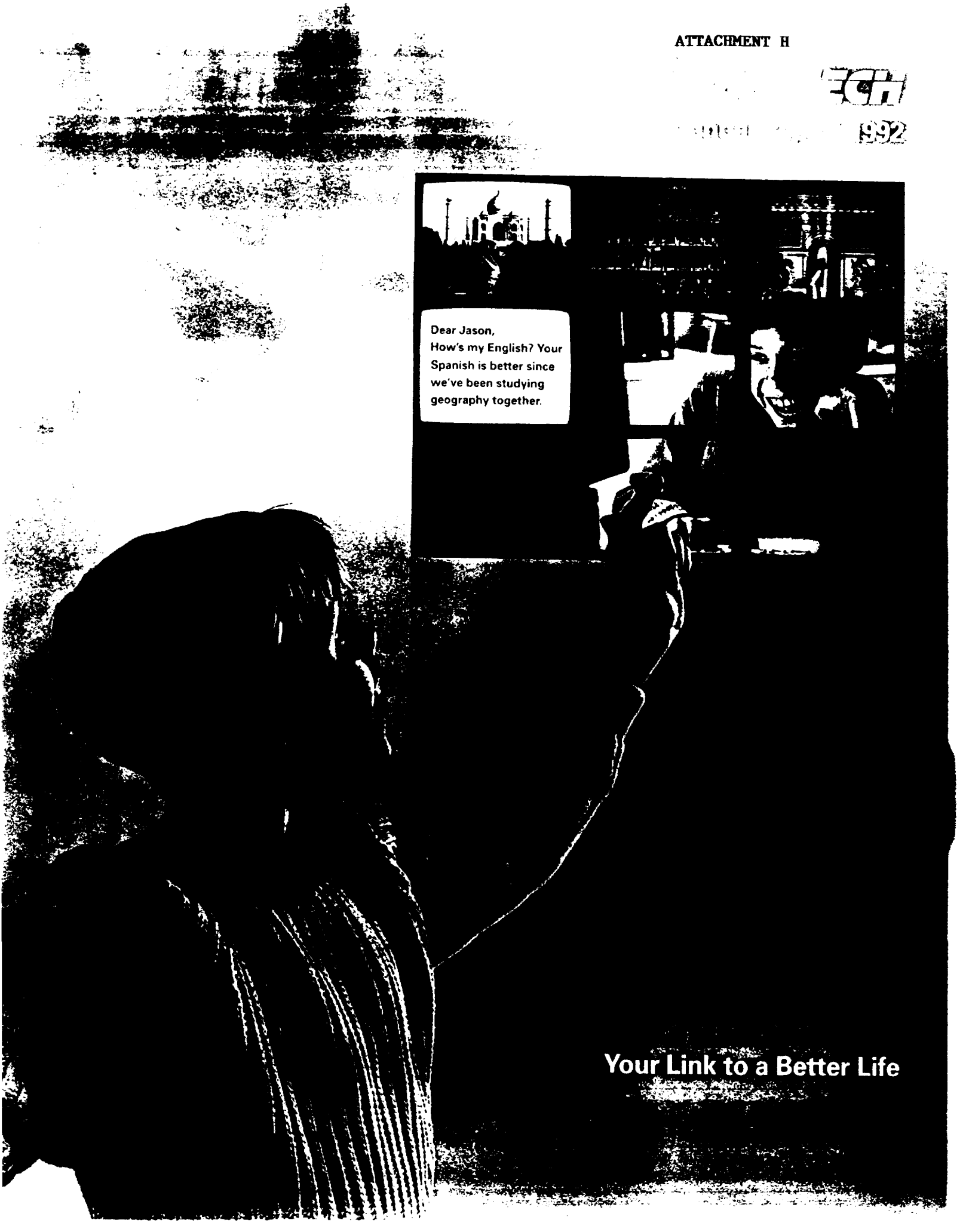
1988 ACTUARIAL ASSUMPTIONS

ANNUAL RATES OF RETIREMENT ON SERVICE PENSION -- FEMALE EMPLOYEES

service in years t	rates of retirement during year t + 1/2 to t + 1 1/2 for employees entering service at age:							
	15	20	25	30	35	40	45	50
14								0.5000
15								0.3000
16								0.3000
17								0.3000
18								0.3000
19					0.1830	0.2500	0.5000	0.9949
20					0.1090	0.1260	0.3000	
21					0.0950	0.2840	0.3000	
22					0.0950	0.3030	0.3000	
23					0.0980	0.2640	0.3000	
24			0.0900	0.1300	0.1070	0.5000	0.9949	
25			0.0510	0.0850	0.1100	0.3000		
26			0.0520	0.0900	0.2880	0.3000		
27			0.0550	0.0950	0.3100	0.3000		
28			0.0580	0.1000	0.2700	0.3000		
29	0.0600	0.0775	0.0800	0.1110	0.5000	0.9949		
30	0.0513	0.0550	0.0870	0.1160	0.3000			
31	0.0513	0.0650	0.0930	0.2960	0.3000			
32	0.0525	0.0700	0.0990	0.3220	0.3000			
33	0.0588	0.0825	0.1050	0.2790	0.3000			
34	0.0650	0.0990	0.1180	0.5000	0.9949			
35	0.0713	0.1040	0.1260	0.3000				
36	0.0788	0.1100	0.3120	0.3000				
37	0.0863	0.1140	0.3460	0.3000				
38	0.0963	0.1200	0.2930	0.3000				
39	0.1170	0.1320	0.5000	0.9949				
40	0.1160	0.1430	0.3000					
41	0.1210	0.3400	0.3000					
42	0.1270	0.3810	0.3000					
43	0.1330	0.3120	0.3000					
44	0.1460	0.5000	0.9949					
45	0.1550	0.3000						
46	0.3660	0.3000						
47	0.4080	0.3000						
48	0.3280	0.3000						
49	0.5000	0.9949						
50	0.3000							
51	0.3000							
52	0.3000							
53	0.3000							
54	0.9949							

Source: Industry-wide non-management experience 1975-1978.

ATTACHMENT H



The components of pension cost (income) follow:

	1992	1991	1990
Benefits earned during the year	$ 218.5	$ 192.9	$ 187.4
Interest cost on projected benefit obligation	591.6	653.5	644.3
Actual return on plan assets	(734.3)	(2,232.7)	24.2
Net amortization and deferral	(186.3)	1,319.3	(883.9)
Net pension income	$(110.5)	$ (67.0)	$ (28.0)

The funded status of the plans follows:

	1992	1991
Actuarial present value of accumulated plan benefits		
Vested	$ 7,531.8	$ 6,829.1
Nonvested	1,054.7	917.6
Total	$ 8,586.5	$ 7,746.7
Fair value of plan assets	$12,193.4	$12,532.4
Actuarial present value of projected benefit obligation	9,466.8	8,691.2
Unrecognized net asset resulting from initial adoption of SFAS No. 87	(1,666.7)	(1,870.4)
Unrecognized gains and prior service cost	(814.8)	(1,924.4)
Prepaid pension cost	$ 245.1	$ 46.4

The assets of the plans consist principally of debt and equity securities, fixed income instruments and real estate. The assumed long-term rate of return on plan assets used in determining pension cost was 7.25 percent for 1992, 1991 and 1990. The assumed discount rate used to determine the projected benefit obligation as of December 31, 1992 was 5.8 percent, and was 6.3 percent as of December 31, 1991, while the assumed rate of increase in future compensation levels, also used in the determination of the projected benefit obligation, was 4.5 percent in 1992 and 1991.

During 1992, about 3,000 management employees left the company through a voluntary early retirement program and involuntary terminations. The net cost of this effort, along with other transfers from the pension plan, including termination benefits, settlement and curtailment gains from the pension plan, was a credit to expense of $12.4 million. During 1991, the company offered most of its management employees an early retirement program. The net cost of the program, including termination benefits and a settlement gain from the pension plan, was $12.0 million.

Postretirement Benefits Other Than Pensions Effective January 1, 1992, the company adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (SFAS No. 106). SFAS No. 106 requires the cost of postretirement benefits granted to employees be accrued as expense over the period in which the employee renders service and becomes eligible to receive benefits. The cost of postretirement health-care and life insurance benefits for current and future retirees was recognized as determined under the projected unit credit actuarial method.

In adopting SFAS No. 106, the company elected to immediately recognize, effective January 1, 1992, the transition obligation for current and future retirees. The transition amount was $2.6 billion net of the fair value of plan assets of $825 million. The charge to income was $1.65 billion net of a deferred tax benefit of $950 million.

As defined by SFAS No. 71, a regulatory asset associated with the recognition of the transition obligation was not recorded because of uncertainties as to the timing and extent of recovery in the rate-making process.

The company sponsors noncontributory defined benefit postretirement plans for substantially all of its retirees and their eligible dependents. Contributions for health-care benefits are made to voluntary employee benefit association trust funds (VEBAs). The company also maintains retirement funding accounts (RFAs) to provide life insurance benefits. The company intends to continue to fund the VEBAs and RFAs, and is exploring other available funding and cost-containment alternatives. Plan assets consist principally of corporate securities and bonds.

The components of postretirement benefit cost for 1992 follow:

	Health	Life	Total
Benefits earned during the year	$ 58.3	$ 7.3	$ 65.6
Interest on accumulated postretirement benefit obligation (APBO)	223.8	28.4	252.2
Actual return on plan assets	(23.6)	(35.1)	(58.7)
Net amortization and deferral	(2.8)	0.2	(2.6)
Postretirement benefit cost	$ 255.7	$ 0.8	$ 256.5

The funded status of the plans as of December 31, 1992, follows:

	APBO attributable to		
	Health	Life	Total
Retirees and dependents	$1,753.8	$267.0	$2,020.8
Fully eligible active plan participants	297.8	45.4	343.2
Other active plan participants	1,099.4	99.7	1,199.1
Total APBO	3,151.0	412.1	3,563.1
Fair value of plan assets	499.2	461.1	960.3
APBO in excess of (less than) plan assets	2,651.8	(49.0)	2,602.8
Unrecognized net loss	(5.2)	(6.9)	(12.1)
Accrued (prepaid) postretirement benefit obligation	$2,646.6	$(55.9)	$2,590.7

The assumed discount rate used to measure the accumulated postretirement benefit obligation was 7.5 percent. The assumed rate of future increases in compensation levels was 4.5 percent at December 31, 1992. The expected long-term rate of return on plan assets was 7.25 percent on VEBAs and 8.0 percent on RFAs. The assumed health-care cost trend rate in 1992 was 10 percent, and is assumed to decrease gradually to 4 percent in 2007 and remain at that level. The assumed increase in health-care cost is 9.6 percent for 1993. The health-care cost trend rate has a significant effect on the amounts reported for costs each year as well as on the accumulated postretirement benefit obligation.

Specifically, increasing the assumed health-care cost trend rate by one percentage point in each year would increase the aggregate of the service and interest cost components of 1992 by $45.8 million, and would have increased the accumulated postretirement benefit obligation as of December 31, 1992, by $398.4 million.

The investments held by the management VEBA earn income after a deduction for income taxes at 31 percent, whereas the nonmanagement VEBA and RFAs earn income without tax.

During 1991 and 1990, the cost of postretirement health-care benefits for retirees was $242.1 million and $240.2 million, respectively.

As of December 31, 1992, the company had approximately 49,000 retirees eligible to receive health-care and group life insurance benefits.

Postemployment Benefits Effective January 1, 1992, the company adopted Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits" (SFAS No. 112). SFAS No. 112 requires employers to accrue the future cost of certain benefits such as workers' compensation, disability benefits and health-care continuation coverage. A one-time charge related to adoption of this statement was recognized as a change in accounting principle, effective as of January 1, 1992. The charge was $101.6 million, net of a deferred tax benefit of $58.5 million. Previously, the company used the cash method to account for such costs. Future expense levels are dependent upon actual claim experience, but are not expected to be materially different than prior charges to income.

Leveraged Employee Stock Ownership Plans In 1989, the company created leveraged employee stock ownership plans (LESOPs) within its existing employee savings plans. To fund the LESOPs, the Trustee for the savings plans issued $665.0 million of debt, at 8.1 percent interest, payable in semiannual installments through 2001, which the company guaranteed. The Trustee used the proceeds to purchase at fair market value 11,283,138 shares of the company's common stock from the company's treasury. The trusts repay the notes, including interest, with funds from the company's contributions to the savings plans and from dividends paid on the shares of company common stock held by the Trustee.

As a result of the company's unconditional guarantee, the notes of the trusts are recorded as long-term debt and as deferred compensation in the company's balance sheets. Deferred compensation represents a reduction of shareowners' equity. As the Trustee makes principal payments, the company reduces the debt and deferred compensation. As of December 31, 1992, the company had $490.5 million in long-term debt and $17.2 million included in long-term debt maturing within one year as a result of the company's guarantee.

The company maintains savings plans that cover substantially all of its employees. Under these plans, the company matches a certain percentage of eligible contributions made by the employees. The LESOP provisions of the savings plans became effective January 1, 1990. Under these provisions, company matching contributions are allocated to employees in company stock from the LESOP trusts. Employees are not allowed to switch the company matching contributions from company stock to alternative investments for the life of the LESOPs except under certain circumstances. Company stock is released for allocation to employees in the proportion that principal and interest paid in a year bears to the total principal and interest due over the life of the notes.

Company matching contributions to the plans are recorded as compensation expense. Any change in the required contribution as a result of leveraging this obligation is recorded as a gain or loss in other income. The amount expensed and contributed to the LESOPs for 1992 and 1991 totaled $72.1 million and $72.5 million, respectively. Interest expense incurred by the savings plans for 1992 and 1991 was $45.2 million and $49.5 million, respectively. Dividends paid on shares of stock held by the Trustee used to partially satisfy debt repayment requirements were $39.2 million and $38.3 million for 1992 and 1991, respectively.

5. Financial Instruments

The following table presents the estimated fair value of the company's financial instruments as of December 31, 1992:

	Carrying Value	Fair Value
Cash and temporary cash investments	$ 92.4	$ 92.4
Debt	6,773.2	6,779.3
Other assets	383.0	446.8
Other liabilities	79.3	78.8

The following methods and assumptions were used to estimate the fair value of financial instruments:

Cash and Temporary Cash Investments The carrying value approximates fair value because of the short-term maturity of these instruments.

Debt The carrying amount (including accrued interest) of the company's debt maturing within one year approximates fair value because of the short-term maturities involved. The fair value of the company's long-term debt was estimated based on the year-end quoted market price for the same or similar issues.

Other Assets and Liabilities These financial instruments consist primarily of long-term receivables, other investments, financial contracts and customer deposits. The fair values of these items were based on expected cash flows or, if available, quoted market prices.

Financial Contracts Primarily to hedge exposure to adverse exchange rate risks, the company enters into foreign currency options, forward exchange contracts and swaps.

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]
For the fiscal year ended December 31, 1992

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-2222

Illinois Bell Telephone Company

An Illinois Corporation

I.R.S. Employer
No. 36-1253600

225 West Randolph Street, Chicago, Illinois 60606

Telephone Number 312 727-9411

Securities registered pursuant to Section 12(b) of the Act:
(See attached Schedule A)

Securities registered pursuant to Section 12(g) of the Act:
None.

THE REGISTRANT, A WHOLLY-OWNED SUBSIDIARY OF AMERITECH CORPORATION, MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION J(1)(a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION J(2).

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ✓ No ____

Certain disclosures are required to be made of the components of pension (income) costs and the funded status of the plans, including the actuarial present value of accumulated plan benefits, accumulated projected benefit obligation and the fair value of plan assets. Such disclosures are not presented for the Company because the structure of the Ameritech plans does not permit the plans' data to be readily disaggregated.

The assets of the Ameritech plans consist principally of debt and equity securities, fixed income securities and real estate. The assumed long term rate of return on plan assets used in determining pension income was 7.25% for 1992, 1991 and 1990. The assumed increase in future compensation levels, also used in the determination of the projected obligation, was 4.5% in 1992 and 1991. As of December 31, 1992, the fair value of plan assets available for plan benefits exceeded the projected benefit obligation (calculated using a discount rate of 5.8% in 1992 and 6.3% in 1991).

During 1992, 676 management employees left the Company through voluntary early retirement programs and involuntary terminations. The net cost of this program, along with other transfers from the pension plan, was a credit to income of $5.4. During 1991, the Company offered most of its management employees an early retirement program. The net cost of this program, including termination benefits and a settlement gain from the pension plan, was $1.2.

Postretirement Benefits Other Than Pensions—Effective January 1, 1992, the Company adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions". SFAS No. 106 requires the cost of postretirement benefits granted to employees to be accrued as expense over the period in which the employee renders service and becomes eligible to receive benefits. The cost of postretirement healthcare and life insurance benefits for current and future retirees was recognized as determined under the projected unit credit actuarial method.

In adopting SFAS No. 106, the Company elected to immediately recognize, effective January 1, 1992, the transition obligation for current and future retirees. The charge to income was $867.6, net of a deferred income tax benefit of $336.8. To this amount is added the Company's 33% share of ASI's transition obligation of $20.4 for a total charge of $551.2.

As defined by SFAS No. 71, a regulatory asset associated with the recognition of the transition obligation was not recorded because of uncertainties as to the timing and extent of recovery in the rate-making process.

Substantially all current and future retirees are covered under postretirement benefit plans sponsored by Ameritech. Such benefits include medical, dental and group life insurance. Ameritech has been prefunding (including cash received from the Company) certain of these benefits through Voluntary Employee Benefit Association trust funds ("VEBAs") and Retirement Funding Accounts ("RFAs"). The associated plan assets (primarily corporate securities and bonds) were considered in determining the transition obligation under SFAS No. 106. Ameritech intends to continue to fund the VEBAs and RFAs, and is exploring other available funding and cost containment alternatives. Ameritech allocates its retiree healthcare cost on a per participant basis, whereas group life insurance is allocated based on compensation levels.

SFAS No. 106 requires certain disclosures as to the components of postretirement benefit costs and the funded status of the plans. Such disclosures are not presented for the Company as the structure of the Ameritech plans does not permit the data to be readily disaggregated. However, the Company has been advised by Ameritech as to the following assumptions used in determining its SFAS No. 106 costs. The assumed discount rate used to measure the accumulated postretirement benefit obligation was 7.5% for 1992 and the expected long term rate of return was 7.25% on VEBA plan assets and 8% on RFA assets. The assumed healthcare cost trend rate was 10.0% in 1992, and is assumed to decrease gradually to 4.0% in 2007 and remain at that level. The assumed increase in

healthcare cost is 9.6% for 1993. The healthcare cost trend rate has a significant effect on the annual expense amount. Specifically, increasing the assumed healthcare trend rate by one percentage point in each year would have increased the Company's 1992 expense by approximately 18.0%.

Postretirement benefit cost for 1992 was $79.8 under SFAS No. 106. During 1991 and 1990, the cost of postretirement healthcare benefits for retirees was $83.8 and $83.2, respectively.

As of December 31, 1992, the Company had approximately 16,834 retirees eligible to receive health care and group life insurance benefits.

Postemployment Benefits—Effective January 1, 1992, the Company adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits". SFAS No. 112 requires employers to accrue the future cost of certain benefits such as workers' compensation, disability benefits and health care continuation coverage. A one-time charge related to adoption of this statement was recognized as a change in accounting principle, effective as of January 1, 1992. The charge was $60.2, net of a deferred income tax benefit of $23.4. To this amount is added the Company's 33% share of ASI's one-time charge of $0.6 for a total charge of $37.4. Previously the Company used the cash method to account for such costs. Future expense levels are dependent upon actual claim experience, but are not expected to be materially different than prior charges to income.

(D) DEBT MATURING WITHIN ONE YEAR—Debt maturing within one year is included as debt in the computation of debt ratios and consists of the following at December 31:

	Amounts			Weighted Average Interest Rates*		
	1992	1991	1990	1992	1991	1990
Notes payable						
Bank loans	$ —	$ —	$127.8	—%	—%	10.3%
Commercial paper	—	—	30.0	—	—	7.8
Parent (Ameritech)	275.7	245.0	—	3.4	5.1	—
Long term debt maturing within one year	1.5	2.1	2.0			
Total	$277.2	$247.1	$159.8			
Average notes payable outstanding during the year	$197.3	$236.4	$ 69.0	3.9%	5.9%	8.1%
Maximum notes payable at any month end during the year	$277.5	$298.0	$157.8			

*Computed by dividing the average daily face amount of notes payable into the aggregate related interest expense.

During 1991, Ameritech entered into an arrangement with its subsidiaries, including the Company, for the provision of short term financing and cash management services. Ameritech issues commercial paper and notes and secures bank loans to fund the working capital requirements of its subsidiaries and invests short term, excess funds on their behalf. In connection with this arrangement, the Company recognized $7.8 and $12.1 of interest expense for 1992 and 1991, respectively.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1992

or

( ) Transition Report Pursuant to Section 13
or 15(d) of the Securities Exchange Act of 1934

Commission file number 1-6746

INDIANA BELL TELEPHONE COMPANY, INCORPORATED

An Indiana Corporation — I.R.S. Employer No. 35-0407820

240 North Meridian Street, Indianapolis, Indiana 46204

Telephone Number 317 265-2266

Securities registered pursuant to Section 12(b) of the Act: (See Attached Schedule A)

Securities registered pursuant to Section 12(g) of the Act: None

THE REGISTRANT, A WHOLLY OWNED SUBSIDIARY OF AMERITECH CORPORATION, MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION J(1)(a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION J(2).

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes _X_ No ____

As of December 31, 1992, the balance in accumulated deferred income taxes is due principally to temporary differences associated with telecommunications plant. This balance is net of a deferred tax asset associated with the adoption of two accounting standards discussed below in Note C, of $90.3.

C. PENSIONS AND OTHER EMPLOYEE BENEFIT PLANS

Pension Plans - Ameritech maintains noncontributory defined pension and death benefit plans covering substantially all of the Company's management and nonmanagement employees. The pension benefit formula used in the determination of pension cost is based on the average compensation earned during the five highest consecutive years of the last ten years of employment for the management plan and a flat dollar amount per year of service for the nonmanagement plan. Pension income is allocated to subsidiaries based on the percentage of compensation for the management plan and per employee for the nonmanagement plan. The Company's funding policy is to contribute annually an amount up to the maximum amount that can be deducted for federal income tax purposes. However, due to the funded status of the plans, no contributions have been made for the years reported below. The following data provides information on the Company's income for the Ameritech plans:

	1992	1991	1990
Pension income	$ (7.2)	$ (6.5)	$ (3.9)
Current year income as a percentage of salaries and wages	(3.2)%	(2.7)%	(1.5)%

Pension income was determined using the projected unit credit actuarial method in accordance with Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions." The increase in pension income over the last two years is primarily attributable to favorable investment performance and the funded status of the plans.

Certain disclosures are required to be made of the components of pension income and the funded status of the plans, including the actuarial present value of accumulated plan benefits, accumulated projected benefit obligation and the fair value of plan assets. Such disclosures are not presented for the Company because the structure of the Ameritech plans does not permit the plans' data to be readily disaggregated.

As of December 31, 1992, the fair value of the plan assets available for plan benefits exceeded the projected benefit obligation (calculated using a discount rate of 5.8% in 1992 and 6.3% in 1991). The assets of the Ameritech plans consist principally of debt and equity securities, fixed income securities and real estate. The assumed long term rate of return on plan assets used in determining pension income was 7.25% for 1992, 1991, and 1990. The assumed increase in future compensation levels, also used in the determination of the projected benefit obligation, was 4.5% in 1992 and 1991.

During 1992, 191 management employees and 19 nonmanagement employees left the Company through voluntary early retirement programs and involuntary terminations. These programs, including termination benefits as well as settlement and curtailment gains, resulted in a $0.2 net gain. During 1991, the Company offered most of its management employees an early retirement program. The net cost of this program, including termination benefits and a settlement gain from the pension plan, was $0.8.

Postretirement Benefits Other Than Pensions - Effective January 1, 1992, the Company adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (SFAS No. 106). SFAS No. 106 requires the cost of postretirement benefits granted to employees to be accrued as expense over the period in which the employee renders service and becomes eligible to receive benefits. The cost of healthcare and postretirement life insurance benefits for current and future retirees was recognized as determined under the projected unit credit actuarial method.

In adopting SFAS No. 106, the Company elected to immediately recognize, effective January 1, 1992, the transition benefit obligation for current and future retirees. The charge to income was $231.8 less a deferred tax benefit of $85.7. To this amount, is added the Company's 10% share of ASI's transition benefit obligation of $6.2 for a total charge of $152.3.

As defined by SFAS No. 71, a regulatory asset and any corresponding regulatory liability associated with the recognition of the transition obligation was not recorded because of uncertainties as to the timing and extent of recovery in the rate-making process.

Substantially all current and future retirees are covered under postretirement benefit plans sponsored by Ameritech. Such benefits include medical, dental, and group life insurance. Ameritech has been prefunding (including cash received from the Company) certain of these benefits through Voluntary Employee Benefit Association trust funds (VEBAs) and Retirement Funding Accounts (RFAs). The associated plan assets (primarily corporate securities and bonds) were considered in determining the transition obligation under SFAS No. 106. Ameritech intends to continue to fund the VEBAs and RFAs, and is exploring other available funding and cost containment alternatives. Ameritech allocates its retiree healthcare cost on a per participant basis, whereas group life insurance is allocated based on compensation levels.

SFAS No. 106 requires certain disclosures as to the components of postretirement benefit costs and the funded status of the plans. Such disclosures are not presented for the Company as the structure of the Ameritech plans does not permit the data to be readily disaggregated. However, the Company has been advised by Ameritech as to the following assumptions used in determining its SFAS No. 106 costs. The assumed discount rate used to measure the accumulated postretirement benefit obligation was 7.5% for 1992 and the expected long term rate of return was 7.25% on VEBA plan assets and 8.0% on RFA assets. The assumed healthcare cost trend rate in 1992 was 10.0%, and is assumed to decrease gradually to 4.0% in 2007 and remain at that level. The assumed increase in healthcare cost is 9.6% in 1993. The healthcare cost trend rate has a significant effect on the annual expense amount. Specifically, increasing the assumed healthcare cost trend rate by one percentage point in each year would have increased the transition obligation and annual expense by 18.0%.

Postretirement benefit cost for 1992 was $21.8. During 1991 and 1990, the cost of postretirement healthcare benefits for retirees was $21.5 and $20.0, respectively.

As of December 31, 1992, the Company had approximately 4,574 retirees eligible to receive healthcare and group life insurance benefits.

Postemployment Benefits - Effective January 1, 1992, the Company adopted Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits" (SFAS No. 112). SFAS No. 112 requires employers to accrue the future cost of certain benefits such as workers compensation, disability benefits and healthcare continuation coverage. A one-time charge related to adoption of this statement was recognized as a change in accounting principle. The charge was $12.3 less a deferred tax benefit of $4.6. To this amount, is added the Company's 10% share of ASI's one-time charge of $0.2 for a total charge of $7.9. Previously the Company used the cash method to account for such costs. Future expense levels are dependent upon actual claim experience, but are not expected to be materially different than prior charges to income.