UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF NEW JERSEY (NEWARK)

PHILLIP C. ENGERS, WARREN J. MCFALL, DONALD G. NOERR and GERALD SMIT, individually and on behalf of all others similarly situated,	)	
Plaintiffs,	)	
v.	)	Civil Action No. 98-CV-3660 (SRC/CCC)
AT&T and AT&T MANAGEMENT PENSION PLAN,	)	
Defendants.	)	

DECLARATION OF CLAUDE POULIN, F.S.A., M.A.A.A., E.A.

I, Claude Poulin, am over 21 years of age and based on personal knowledge, state as follows:

1. I am an Enrolled Actuary under ERISA, a Fellow in the Society of Actuaries, and a member of the American Academy of Actuaries. I have over 30 years of experience in designing, administering, and reviewing defined benefit pension plans, including providing advice to employers, unions, governments, employees and their representatives. My Curriculum Vitae is attached as Exhibit A.

2. For over twenty-five years, I have served as the Actuarial Trustee of the Connecticut State Employees Retirement Commission. I also have been an actuarial consultant to the AARP, the EEOC, the Internal Revenue Service, the Communications Workers of America, the United Automobile Workers, and the IBEW.

3. At the time the Employee Retirement Income Security Act ("ERISA") was enacted in 1974, I was the Senior Actuary for the UAW. In that capacity I was responsible for

the review and compliance under ERISA of approximately 3,000 pension plans the UAW negotiated. I testified several times before Congressional Committees of both the U.S. House and Senate on matters related to ERISA.

4. I have been retained in this matter to offer expert actuarial analysis on the facts related to the claims in the Amended Class Action Complaint about age-related “wear-aways” and reductions in future benefit accruals under AT&T’s Management Pension Plan. I am compensated at the rate of $425 per hour.

5. I have attached as Exhibit B a list of the cases in which I have testified as an expert at trial or at deposition within the last four years.

6. I have reviewed the documents and data listed on Exhibit C.

7. In developing the spreadsheets described below, I focused on the named Plaintiffs’ benefit computations as well as the benefit data for other AT&T employees who have been deposed in this case. I also reviewed the results of Dr. Bardwell’s application of the spreadsheets that I developed to the database for the entire participant population.

Background on the AT&T Management Pension Plan and Its Conversion to a Cash Balance Formula

8. Until 1997, the AT&T Management Pension Plan was a traditional defined benefit pension plan providing retirement benefits equal to participants’ average compensation during a pay base averaging period multiplied by their number of years of credited service times a benefit accrual percentage. As the Pension Plan stood in 1997, it provided benefits equal to an average of a participant’s compensation during 1987-92 multiplied by their years of credited service through the end of 1992 times 1.6%. For years after 1992, the benefit accrual rate was 1.6% of each year’s annual compensation.

9. At a meeting held on April 16, 1997, AT&T's Board of Directors adopted resolutions that resulted in two amendments to the Plan: The first amendment was a Special Update, adopted December 19, 1997 and effective August 1, 1997, that updated the pay base averaging period under the prior formula from 1987-92 to 1994-96 and added up to one year to active participants' years of credited service as of December 31, 1996. The second amendment converted the existing plan to a cash balance pension formula, effective January 1, 1998. The latter amendment was not adopted until October 16, 2000.

10. The cash balance amendment created hypothetical cash balance accounts for active participants as of January 1, 1998 and provided future benefit accruals in the form of hypothetical pay credits and interest credits. On the date of the conversion, initial account balances related to the pension benefits that had accrued up to that date were established for all active plan participants. The initial accounts did not, however, represent the full actuarial equivalent of the previously accrued benefits at age 55, when they were most valuable. Instead, AT&T established initial accounts equal to a lump sum value of the participants' benefits deferred to age 65.

11. Before this amendment, the AT&T Management Pension Plan contained very valuable early retirement features. The value of those features was not included in the initial account balances. As a result, for employees near age 55 who were eligible for full, unreduced retirement benefits at age 55, the amount of their initial account balances represented less than 50% of the actuarial present value of the benefits they were expecting to receive starting at age 55. AT&T essentially excluded the value of ten years of undiscounted payments between ages 55 and 65 in establishing the initial account balances.

12. As described below, I have also found that the tabular factors that were used to

compute the initial account balances implicitly relied on higher interest rates for older workers than for younger workers. All other things being equal, higher interest rates translate to lower initial account balances.

13. Once the initial account balances were established, AT&T added hypothetical pay credits and interest credits to the account balances each year. The following table shows the pay factors, based on the employee's attained age, which are multiplied by the employee's compensation up to the Social Security Wage Base. For compensation exceeding the Social Security Wage Base, supplemental pay credits are based on factors equal to twice the percentages shown.

Age Band	Pay Credit Up to SSWB
Below 30	3.00%
30-34	3.50%
35-39	4.25%
40-44	5.00%
45-49	6.50%
50-54	8.00%
55 and above	10.00%

14. Based on the employee's account balance at the beginning of the year, interest credits are added at the following rates:

Year	Interest Credit Rate
1998	7.0 %
1999	7.0 %
2000	7.0 %
2001	5.5 %
2002	5.5 %
2003 and after	4.0 %

15. To determine the employee's accrued benefit at normal retirement age under the AT&T Management Pension Plan after the conversion to a cash balance design, it is necessary to take the following steps as of any date of determination (DOD).

Step 1: Determine the amount of the employee's hypothetical account balance at

the DOD;

Step 2: Determine the interest credit rate to be used between the DOD and the employee's normal retirement age of 65; this interest credit rate was 7% for calendar years 1998, 1999 and 2000, 5.5% for 2001 and 2002, and 4% for subsequent years;

Step 3: Determine the employee's attained age at the DOD;

Step 4: Calculate the number of years from the DOD until the employee will attain the normal retirement age of 65;

Step 5: Increase the account balance at the DOD with interest at the interest credit rate (as specified in Step 2) for the years until the employee will attain age 65;

Step 6: Divide the account balance as "projected to age 65" by the age 65 annuity factor specified in the Plan (114.96) to determine the monthly annuity payable commencing at age 65.

16. For benefit commencements before age 65, the age 65 annuity is multiplied by a fraction which is found in a look-up table in Appendix B.03 to the AT&T Plan document. The reduction factors for early retirement in Appendix B.03 are less than what actuaries consider to be "actuarially equivalent." But the reductions are much more than under the prior Plan where benefits were offered at age 55 with no reduction.

17. As set out in Section 4.06(a) of the Plan document, participants must accept the "greater of": (1) the cash balance annuity determined in the manner described above, or (2) their frozen benefit under the prior 1.6% of pay benefit formula. For example, AT&T converted named Plaintiff Donald Noerr's benefit to a cash balance account by excluding the value of his early retirement benefits of $1,523 per month starting at age 55. This conversion methodology established an opening account balance that represented only 54% of the value of his Special Update. If Mr. Noerr selected the early retirement benefits, he lost the pay credits and interest credits to which he is entitled under the cash balance formula. If Mr. Noerr selected the cash

balance account, he gave up the value of the early retirement subsidy to which he was already entitled. Depending on his selection, there was a period during which Mr. Noerr either (a) accrued no additional retirement benefits, or (b) accrued new benefits at the expense of losing a portion of his prior benefits.

The Future Rates of Benefit Accrual Are Reduced in Comparison to the Prior Benefit Formula and Are Even Lower at Older Ages

18. To determine the rates of future benefit accrual under AT&T's cash balance formula, the annual pay credits are projected to the participant's normal retirement age (age 65) using the interest credits specified under the terms of the Plan. The annual increase in accrued benefits at age 65 is then converted to a benefit accrual rate.

19. My analysis shows that at every age after age 23, the rate of benefit accrual under AT&T's cash balance formula is lower than under the prior benefit formula on earnings up to the Social Security Wage Base. In addition the rate of benefit accrual is reduced even more for relatively older employees.

20. I prepared the attached Exhibit D to show the annual pension benefit accrual at age 65 (Column 8) and the rate of benefit accrual (Column 9) under the cash balance plan based on the above pay factor table, interest credits of 4% a year and a compensation of $40,000. In the case of a 25-year old employee, a pay credit of $1,200 (3% of $40,000) in Column 6 accumulates to $5,761 with an interest credit of 4% a year during the 40-year period from age 25 to age 65. Based on the annuity conversion factors found in the Plan, this latter amount provides an annual pension benefit of $601 at the normal retirement age of 65, which represents 1.50% of the employee's $40,000 compensation. In other words, under these assumptions, the AT&T Management Pension Plan provides a benefit accrual rate of 1.50% to employees age 25. On the

other hand, in the case of an employee age 60, even though the pay credit of $4,000 (10% of $40,000) is greater, it only accumulates to $4,867 with the interest credit of 4% during the 5-year period from age 60 to 65, which in turn provides an annual pension benefit of only $508 at age 65. The latter amount is 1.27% of $40,000 and therefore represents a benefit accrual rate of only 1.27% at that age.

21. Comparing the rates of benefit accrual at each age after the AT&T Management Pension Plan was converted to a cash balance plan (Column 9) with the 1.6% benefit accrual rate in effect before the conversion (Column 10) shows that for all employees over age 23 who are earning less than the Social Security Wage Base, the amended Plan offers a lower rate of benefit accrual. The reduction is significant at all ages and even more substantial at the older ages.

22. The average reduction in the rate of benefit accrual as a result of the conversion to the cash balance formula was 15% for all ages combined. Plan participants between the ages of 55 and 65 experienced a 20% reduction in their benefit accrual rates. The benefit accrual rate of 1.04% at age 65 represented a 35% reduction compared to the 1.6% benefit accrual rate under the previous version of the plan. Exhibit E graphs the same reductions.

23. A similar analysis with respect to employees earning in excess of the Social Security Wage Base shows that, while the impact of the double pay credit for earnings in excess of the Social Security Wage Base results in higher rates of benefit accrual than for lower paid employees, a substantial portion of such plan participants still suffered a reduction in their rates of benefit accrual as a result of the plan amendment.

24. My findings that the new rates of benefit accrual are significantly lower under the AT&T Cash Balance Pension Plan are corroborated by calculations and graphs prepared by AT&T, which are attached in Exhibit F. AT&T's calculations show the same accrual rates as

mine. In particular, they show lower rates for all employee groups, and still lower rates for older employees, with the exception of highly paid employees ($160,000+). As described next, the lower rates of accrual for relatively older employees are compounded by the fact that even those lower rates of accrual are not actually payable because of the Plan's wear-away design.

The Wear-Aways of Frozen Pension Benefits Often Last 8 or More Years

25. The most striking fact about AT&T's cash balance design is that for periods often lasting 8, 9 10 or more years, older plan participants like Mr. Engers, Mr. Smit, and Ms. Dobbins actually accrue no additional benefit under the cash balance formula. This occurs as long as the value of their cash accounts are less than the value of the pension benefit they had already accrued (the frozen prior plan benefit). Ultimately, in the years immediately before age 65, the benefit accruals would resume. But very few individuals continue to be employed by AT&T past age 60.

26. A period of wear-away is not an inherent or legally-required feature of a cash balance conversion. Surveys by benefit consulting companies such as Mellon show that a large percentage of cash balance conversions have taken place without wear-aways. Exhibit G at 5 and 8-11. There are many examples of this approach in the telecommunications industry. In 1998, AT&T converted the pension plan for its union employees to a cash balance formula with no wear-ways. SBC, the company that acquired AT&T in 2005, converted its pension plan to a cash balance formula with no wear-away. Michael Gulotta, the principal consulting actuary to AT&T, testified at his deposition that AT&T was the first cash balance design that he and his consulting company had worked on that produced wear-aways and that his company had converted the pension plans of several other telecommunications companies to cash balance formulas without wear-aways. Exhibit H at 19-20 and 192-93. Discovery also showed that Mr. Gulotta secured

special provisions for himself and the other employees in his consulting company (who at that time had a dual status as AT&T employees) so they would not suffer from wear-aways. I explained how this happened in Paragraph 5 of my Supplemental Declaration dated June 14, 2004.

27. The periods of wear-away could have been avoided by protecting previously-earned benefits in annuity form and adding the benefits earned under the cash balance formula to those benefits. The periods of wear-away could also be avoided by establishing initial account balances equal to the full value of the benefits accrued on the date of conversion. These approaches are variously described as the "A + B" or the "sum of" approach. For all cash balance conversions after June 2005, the 2006 Pension Protection Act mandates an "A + B" approach. P.L. 109-280, Section 701(a) (adding ERISA Section 204(b)(5)(B)(ii)-(iv)). By comparison, AT&T's approach effectively offered either A, the previously-earned benefit, with no B, or else about one-half of A plus B.

28. There are two preconditions for these wear-aways:

a) A conversion design is adopted that uses a "greater of" approach rather than a simple additive or "A+B" approach to join the benefits earned before the conversion with those earned after, and

b) There is a difference between the value of the frozen benefit under the old formula and the value of the cash balance account, which means that the cash account has a way to go before it catches up with the value of the frozen benefit.

29. The series of spreadsheets under Exhibits I and J illustrate the impact of the initial cash balance accounts being lower than the values of the frozen benefits under the old formula for the named Plaintiffs and three of the individual employees who have been deposed. For example, Donald Noerr was eligible for a pension benefit of $1,523 a month at age 55 or over at the end of 1997. His initial account balance of $111,481, however, represents the actuarial

equivalent of only $927 per month at age 55. The pay credits and the interest credits assigned between 1997 and 2002 were illusory because they would not be paid if Mr. Noerr elects to receive a pension benefit during that period as opposed to his cash balance account.

30. Other older plan participants experienced the same treatment. AT&T's own calculations show that named Plaintiff Gerald Smit had a wear-away period in which he did not actually accrue additional retirement benefits of 9 years. Exhibit K. A cash balance account modeler on an AT&T intranet projected that class member Bonny Berger had a "crossover" period of 13 years. Exhibit L.

31. In addition to the pre-conditions described above, there are three reasons for the differences in value under AT&T's design: First, in establishing opening cash balance accounts, AT&T excluded the value of previously-earned early retirement benefits. The effect of excluding early retirement benefits from the opening balances was much greater for older employees because the value of early retirement features is greater for employees who are close to early retirement eligibility, i.e., for older employees.

32. Second, the interest rates underlying the tabular conversion factors used to establish opening account balances discriminated against older workers. My review showed that the tabular conversion factors that AT&T used to establish the initial account balances were computed using an interest rate of 7.9% and the GATT mortality table to value the pension benefits payable after age 65. The conversion factors applicable before age 65 were computed with the 7.9% rate at age 65 and a 4% discount for the years before age 65. The 7.9% interest rate was substantially higher than the prevailing Section 417(e) rates prescribed by the IRS to calculate lump sum values. The 30-year Treasury rate under Section 417(e) was 5.81% at that time. The PBGC interest rate under the same section was 4.25%. A 2.1% to 3.65% higher

interest rate produces lower lump sum values – and lower initial account balances.

33. AT&T's conversion factors can also be analyzed in terms of the implicit overall interest rates. On this basis the conversion factors translate to the following interest rates which are more favorable at the younger ages:

Age	Implicit Interest Rate
65	7.90%
60	6.11%
55	5.28%
50	4.85%
45	4.60%
40	4.37%
35	4.23%
30	4.19%
25	4.65%
20	4.57%

Defendants' expert, Lawrence Sher, has agreed that these are the implicit interest rates in AT&T's conversion factors. Exhibit M.

34. The tabular conversion factors that AT&T used were not developed on the basis of consistent actuarial assumptions. I agree with the memo that AT&T prepared after a meeting with CWA representatives which recognized that the tabular conversion factors have "no true actuarial basis." Exhibit N. I have also reviewed a table prepared by AT&T with different conversion factors that would have produced a maximum of four years of "crossover" by increasing the conversion factors "from [ages] 44-54." Exhibit O.

35. To illustrate the difference that the conversion factors make, if the previously-earned retirement benefits of an age 54 year old employee like Mr. Noerr is converted to an opening account balance with a factor based on a 4.19% interest rate rather than a 5.28% interest rate, the initial balance would be 20% greater.

36. With the conversion factors that the CWA and IBEW negotiated with AT&T in a

May 10, 1998 Agreement, the wear-away for Mr. Noerr would be reduced even more. A 105.36 conversion factor appears in the conversion factor schedule in the May 10, 1998 Agreement for a 54 year old, which is 44% more than the 73.20 conversion factor in Appendix B of the AT&T Management Plan document after the cash balance amendments. For a 54-year-old employee like Mr. Noerr, this produces a $160,459 opening account balance, compared to a $111,484 opening account. With the higher conversion factor, Mr. Noerr's period of "wear-away" would be reduced to two years.

37. The Voluntary Retirement Incentive Program (VRIP) that AT&T announced in late January 1998 provided 54 year old employees like Mr. Noerr with a conversion factor of 147.71 (157.14 x (1 – 6%)). These conversion factors were described in the AT&TMPP as representing "the present value of the monthly benefit (including any subsidy for early retirement)." Exhibit P at 154 and 156. The financial and actuarial reports in AT&T's 1998 Form 5500 also describe these factors as giving a participant the "full value" of his or her Special Update annuity. The conversion factor of 147.71 for a 54-year-old doubles Mr. Noerr's initial account balance and eliminates the wear-away entirely.

38. Third, as described above, the rates at which employees earn monthly benefits are reduced in comparison to the prior benefit formula, and are even lower for older employees. If there is a difference between the prior benefit and the account balance expressed in the form of an annuity, the lower accrual rates, especially at older ages, mean it takes longer to catch up.

39. To calculate the expected wear-away periods precisely, I prepared the series of spreadsheets attached as Exhibits I and J for the named Plaintiffs and three of the individuals who have been deposed. The underlying spreadsheets are the same for each person except that those under Exhibit I calculate the potential duration of the wear-away and the potential damages

and those under Exhibit J calculate the actual duration of the wear-away and the actual damages. To calculate the duration of the wear-away, the inputs are age, service, the Special Update Benefit (or Frozen Accrued Benefit, if higher), the opening cash balance account, and salary. The key assumptions are 4% salary increases and constant interest crediting rates and conversion rates going forward. If salaries were not assumed to increase by 4% per year, the wear-away periods would last even longer. Damages are brought forward to the end of 2008 with a 5% interest rate.

40. The spreadsheets measure the wear-away periods by comparing the annuities derived from the cash balance accounts accumulated to age 65 with the frozen prior benefits that are already in annuity form. For older participants, the spreadsheets show that the wear-away periods last a very long period of time, often 9 or more years. For example, named Plaintiff Gerry Smit had a projected and actual period of wear-away in excess of 9 years.

41. In his report, Dr. Bardwell, the Plaintiffs' statistical expert, analyzes the duration of the wear-aways statistically. My actuarial analysis and the results that I have observed are consistent with his statistical analysis. The periods of wear-away for younger employees are very short or non-existent. By contrast, practically all of the employees in their late 30's, 40's or 50's have significant periods of wear-away. In fact, almost all of those employees lose their jobs with AT&T before the period of wear-away ends. Because of the Plan's "greater of" design and the manner in which the initial account balances were established, the periods of wear-away for such employees are virtually always career-ending, that is, the employee is unlikely to continue to be employed by AT&T beyond the period when the wear-away ends.

42. Another noticeable feature in the results is that the periods of wear-away nearly always end by ages 62 to 63. For the oldest group of employees, like Warren McFall who was

age 58 at the time of the conversion, this means that the potential period of wear-away is somewhat shorter than for employees in their middle or late 40's such as Mr. Smit, e.g., four years in Mr. McFall's case compared to ten years for Mr. Smit who was age 45 at the conversion. In both cases, however, the period of wear-away extended to the end of their careers. Mr. Smit lost his job at the end of 2004 just before his wear-away would have ended. Mr. McFall lost his job at age 62 just as his wear-away was ending. AT&T's Form 5500's show that Mr. McFall's experience is typical: Only 1% of the participants in the AT&T Management Pension Plan are age 60 or over.

43. To compute damages from the wear-aways to date, I set up columns in Exhibit J to accumulate the pay credits and interest on those pay credits (at the interest crediting rates) that were credited to participants' cash accounts but are not actually paid because of the wear-away design. For example, the spreadsheet under Exhibit J for Gerry Smit shows that his cash balance pay and interest credits from January 1, 1997 to the end of 2004 accumulated to $78,603.

44. The results of these calculations are included in the results attached to Dr. Bardwell's report. The total damages to date can be calculated by summing the results.

The 6% Per Year Reduction for Commencement of Benefits Before Age 55 Produces an Additional Loss for Older Employees Who Separate from Service and Start Their Benefits Before Age 55

45. For participants who lose their jobs or leave and commence benefits before age 55, the "greater of" transition provision in Section 4.06(a)(ii)(A)(2) of the amended Plan document provided for a further reduction in the frozen traditional benefit equal to "one half percent for each calendar month or part thereof by which the Participant's age at the Pension

Commencement Date is less than fifty-five years."[1] In other words, the early retirement reductions provided under this section of the Plan are 6% for each year that a Participant commences benefits before age 55. This results in a pension benefit reduced to zero at age 38 and 4 months. Needless to say, a pension benefit equal to zero cannot be the actuarial equivalent of another benefit, at any age.

46. I prepared the attached Exhibit Q to compare the percentage of the age 55 benefit that would be payable at each retirement age from 38 to 55 under:

a) Reduction factors of 6% per year,

b) Reduction factors of 3% per year,

c) Reduction factors based on the table in Section B.03 of the monthly benefit derived from Cash Balance Accounts payable before Normal Retirement Age, and

d) Reduction factors based on GATT mortality and an interest rate of 5%.

Exhibit Q shows that the pension benefit payable at age 40 is reduced to 10% of the age 55 benefit using a 6% reduction, while it would remain at between 39% and 55% of the age 55 benefit under the other three sets of factors. While the percentages in Columns (4) and (5) vary because they are based on different interest and mortality tables, both represent "reasonable actuarial reductions." The same cannot be said of the 6% reduction. Between the factors in Columns (4) and (5), the factors in Column (4) are preferable because they are based on the Plan's provisions, specifically, Appendix B.03.

47. Exhibit Q also shows the average reduction factor by age band (38-40, 41-45, 46-50, and 51-55) under each set of factors. This shows that at ages below 50, the 6% reduction

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[1] "[E]xcept that each Participant with a Term of Employment of thirty or more years shall receive a monthly pension benefit reduced by one fourth percent for each calendar month or part thereof by which such Participant's age … is less than fifty-five years."

applied under the Plan was more than an actuarially equivalent reduction. Dollie Dobbins, an employee who separated at age 48 and 4 months with nearly 30 years of service, incurred a discount that was 12% more than an actuarial equivalent. In Bonny Berger's case, an actuarially equivalent benefit at age 41 and 1 month would be 34% greater than AT&T provided.

48. The 6% per year reductions provided in the amended Plan thus caused further losses for relatively older employees like Ms. Berger and Ms. Dobbins. To calculate those losses, I prepared another spreadsheet for employees who separated from service and commenced benefits before age 55. Exhibit R computes the losses from the 6% per annum reductions compared with the actuarial reduction factors that AT&T otherwise uses. For example, Exhibit R shows that Ms. Dobbins effectively lost 17% of her frozen age 55 benefits, which had a value of approximately $90,746 at the end of 2008. Ms. Berger lost 28% of her benefits with AT&T's 6% reduction factors, which had a value of approximately $66,435. Ms. Berger's damages were limited because her cash balance benefit at 41 and 1 month was greater than the benefit reduced with the 6% reduction factors.

49. Analytically, the effect of the 6% per year reduction was to take away part of the value of the Special Update for employees in their 40's or early 50's whose employment with AT&T ended before age 55. Employees in their 20's and 30's were not significantly affected by this feature. Dr. Bardwell's results show the individual-by-individual and aggregate losses.

AT&T Has Not Incurred Actual Costs or Service Costs for Older Employees During the Periods of Wear-away

50. Based on AT&T's Form 5500's and Actuarial Valuation Reports, AT&T has not made any actual contributions to the AT&T Management Pension Plan between 1996 and 2006 (the latest year for which information has been produced).

51. Under Financial Accounting Standard ("FAS") 87, employers that offer pension benefits to their employees are required to record the net periodic expense, including the "service cost," for pension benefits earned in a year. "The service cost component of net periodic pension cost is the actuarial present value of benefits attributed by the plan's benefit formula to services rendered by employees during that period." *Id*. at ¶¶16, 20 and 124. FAS 87 "uses the terms of the plan to determine the benefits earned during a period … and then calculates the actuarial present value of those benefits." *Id*. at ¶132.

52. When an employee is under a wear-away, no service cost is generated. For example, a July 18, 1997 memorandum from Ray Thomas, one of the principal actuaries for AT&T, acknowledges that "Since the special update is a frozen minimum and for the first few years exceeds the cash balance annuity, there is no increase in the benefits attributable to service for those years. As a result the service cost is reduced." As a result, Mr. Thomas predicted a <u>decrease</u> in the annual service cost of $105 million from the cash balance changes. Exhibit S.

53. In actuarial funding methods, the counterpart to the concept of "service cost" is called the "normal cost." The normal cost is the actuarially-determined cost to the Plan of the benefit that the participant earns during the year. See, e.g., D. McGill, et al., *Fundamentals of Private Pensions* (7th ed.) at 527.

54. AT&T's Actuarial Valuation Reports and Form 5500 Annual Return/Reports show an even larger decrease in the Plan's "normal cost" from the cash balance changes than Mr. Thomas predicted. The 1997 to 1999 Actuarial Valuation Reports and Form 5500's show the "normal cost" dropping from $281 million in 1997 to $122 million in 1998 and $103 million in 1999. As a percentage of payroll, the Plan's normal cost fell from 7% in 1997 to 3% in 1998-99.

55. The difference between 7% of payroll in 1997 and 3% of payroll thereafter

indicates that no normal costs are being incurred for many employees after the cash balance conversion. Thus, even though AT&T has assigned hypothetical pay credits equal to 10% of pay to the account balances of Mr. Smit, Ms. Dobbins and other relatively older participants who are under wear-aways, AT&T has actually been providing them no additional benefits and has incurred no actual costs, service costs, or normal costs for such individuals.

56. In addition to Mr. Thomas' memorandum, the Actuarial Valuation Reports and the Form 5500's, AT&Ts actuaries and its accountants should have in their possession records of the actual costs, service costs, and normal costs incurred for older and younger workers after 1997 which will further confirm that no costs are incurred for older workers during the periods of wear-away while additional benefits are provided and service costs as well as normal costs are incurred for younger workers.

The Special Update Does Not Provide an Excuse for Age-Based Wear-Aways

57. I understand that AT&T advances an argument that the Special Update excuses the age-based wear-aways because the Special Update was a substantial benefit improvement that AT&T's Board of Directors authorized at the same time it authorized the cash balance changes. AT&T characterizes the Special Update as though it were an advance payment of accruals under the cash balance formula for older workers. This is simply not the case. The Special Update was a one-time update in the compensation base that applied regardless of whether an employee continued to work for AT&T in 1998 or thereafter. The Special Update also applied to all active participants, regardless of whether they were young or old.

58. Updating the compensation base for benefit purposes is a well-established practice for modified career average plans such as the AT&T Management Pension Plan prior to 1998. Before 1980, the AT&T Management Pension Plan was a final average plan, which meant

that pension benefits were based on the average compensation of plan participants for the period immediately preceding their retirement. Such plans do not need to be "updated" because the plan formula automatically adjusts the compensation base. The situation is different for career average plans because their fixed pay base results in increasingly lower benefits in comparison to the employees' current salaries. Periodic adjustments to the pay base used for pension benefit purposes represent attempts to temporarily correct this feature of career average plans.

59. Once AT&T switched to a modified career average formula in 1980, it had to make periodic updates in the benefit formula or risk the human relations consequences of continuing to use an outdated salary average to compute retirement benefits. Between 1980 and 1994, AT&T made seven such updates, at intervals of three years or less, which resulted in average benefit increases exceeding 10%. Exhibit T. The Special Update of August 1997 continued this practice. Although AT&T describes the last update as "special" in comparison to previous updates, the percentage improvement was largely a product of how far out-of-date the preceding benefit formula had become. Before the Special Update, AT&T was still using an average of salary from 1987 to 1992 to compute retirement benefits. AT&T has also described the up to one year of service credit that was offered as "special," but the crediting of that service was in lieu of crediting employees' service during 1997 under the prior formula. For employees with less than 20 years of service, the "adder" was often less than their service in 1997.

60. AT&T has also advanced an argument that there would be no wear-aways without the Special Update. This is simply not true. AT&T's "greater of" plan design would have produced wear-aways even if there had been no Special Update. All of the pre-conditions and reasons for the wear-aways that I have described apply regardless of the Special Update. To illustrate this, I prepared Exhibit V which shows, for example, that Mr. Noerr's wear-away

would have been 5 years if there had been no Special Update at all to his monthly benefit. See Exhibit V-3. The only difference is that the period of wear-away would end earlier in the 5th year (2001) without the Special Update. The reason the period of wear-away is nearly the same is because the period of wear-away is based on the difference between the value of the initial account balance and the full value of the participant's previously-earned benefits. It is not due to the amount by which the Special Update increased the monthly benefit.

61. The related argument that AT&T could not afford the Special Update except for the cost-savings from age-related wear-aways is also belied by the facts. First, whether or not it is lawful under the ADEA, I have seen no evidence that AT&T's Board of Directors or its delegate calibrated the parameters of the Special Update on the basis of the cost-savings to be derived from wear-aways. Second, it is illogical to argue that the Management Pension Plan could not afford to provide the Special Update without the cost-savings from age-based wear-aways, when AT&T determined less than a year later that the Pension Plan could afford an early retirement incentive program that cost $2.25 billion. The 1997 and 1998 Actuarial Valuation Reports show that the increase in prior service costs for active employees due to the Special Update was no more than $900 million. Mr. Thomas' July 1997 memo indicates that the Special Update may have increased the Plan's prior service costs by much less than that: I derive a figure of $426 million from the prior service cost amortization in Exhibit S of $62 million per year over 10 years at a 7.5% discount rate. By comparison, according to AT&T's 1998 Annual Report, the Voluntary Retirement Incentive Program ("VRIP") that AT&T instituted in January 1998 cost the Pension Plan over $2.25 billion. Exhibit U at 63. Even after that expense, the Management Pension Plan still had a surplus of over $3.79 billion. Exhibit W at 39199.

I declare under penalty of perjury that the foregoing is true to the best of my knowledge.

Dated: September 22, 2008

Signed:
Claude Poulin

Exhibits

Exhibit A	Curriculum vitae
Exhibit B	Prior expert testimony
Exhibit C	Documents reviewed
Exhibit D	Table of benefit accrual rates
Exhibit E	Graphs: Benefit accrual rates by age
Exhibit F	Calculations and graphs on accrual rates prepared by AT&T
Exhibit G	Mellon survey excerpt
Exhibit H	Gulotta Deposition excerpts
Exhibit I	Wearaway spreadsheet - potential damages
Exhibit J	Wearaway spreadsheet – actual damages
Exhibit K	Smit's benefit statements, etc.
Exhibit L	Berger's benefit statements, etc.
Exhibit M	Sher Deposition excerpt and Exhibit
Exhibit N	CWA memo that conversion factors were not actuarial
Exhibit O	4-year cross table prepared by AT&T
Exhibit P	VRIP is "present value of the monthly benefit (including any subsidy for early retirement)"
Exhibit Q	Table of early retirement reduction factors
Exhibit R	Spreadsheet on additional loss from 6% reduction
Exhibit S	July 18, 1997 memo by Raymond Thomas
Exhibit T	AT&T pay base update history prepared by AT&T
Exhibit U	1998 AT&T Annual Report
Exhibit V	Spreadsheet on wear-away without Special Update
Exhibit W	Chairman's Briefing Binder showing $3.793 billion Surplus in Management Pension Plan as of 12/31/2000