

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

CASE 11-W-0200

**PROCEEDING ON THE MOTION OF THE COMMISSION AS TO THE
RATES, CHARGES, RULES AND REGULATIONS OF
LONG ISLAND WATER CORPORATION D/B/A
LONG ISLAND AMERICAN WATER FOR WATER SERVICE**

Rebuttal Testimony of Cynthia King, FSA

OCTOBER 3, 2011

1 **1. Q. Please state your name and business address**

2 A. My name is Cynthia King. My business address is Towers Watson, Centre Square
3 East, 1500 Market Street, Philadelphia, PA 19102.

4 **2. Q. By whom are you employed and in what capacity?**

5 A. I am a Senior Consulting Actuary for Towers Watson.

6 **3. Q. Would you describe your education and professional background?**

7 A. I received a B.A. degree in Mathematics and Statistics from The College of New
8 Jersey in 1992. I am a Fellow of the Society of Actuaries, an Enrolled Actuary and
9 a Member of the American Academy of Actuaries. I began my career as a
10 Retirement Actuary with Kwasha Lipton in 1992 and moved to Towers Perrin in
11 1996. I have worked as a Retirement Actuary for my entire career. From 2008
12 through 2009 I worked at Lincoln Financial as Head of Defined Contribution
13 Products within the Retirement Solutions business unit. I returned to Towers
14 Watson at the end of 2009.

15 **4. Q. What is the purpose of your testimony?**

16 A. In response to issues raised in Staff's initial testimony, I was asked by Long Island
17 American Water to provide additional information regarding the differences in
18 determining, and accounting for, pension expense under a consolidated versus
19 stand-alone basis.

20 **5. Q. Does American Water follow the standards under FAS 87 in determining the
21 pension expense for the American Water pension plan?**

22 A. Yes. American Water adheres to the standards and methods outlined in FAS 87
23 (now ASC 715-30) in determining the expense for the pension plan.

1 **6. Q. How does American Water allocate pension expense to the various**
2 **jurisdictions covered by the pension plan?**

3 A. American Water has an established methodology that allocates total pension
4 expense to each of the jurisdictions based on payroll of covered participants.

5 **7. Q. Is this methodology reasonable?**

6 A. Yes. Since the jurisdictions have either the same or similar benefit formula, this is
7 a key determinant in the level of service cost and active obligation. This
8 methodology is reviewed from time to time for reasonableness.

9 **8. Q. Does American Water use any other method for determining pension expense**
10 **for participants in Long Island?**

11 A. Yes. American Water also determines pension expense for the participants
12 attributable to Long Island American Water using a stand-alone method. This
13 method is based on the standards and methods outlined in FAS 87 (now ASC 715).

14 **9. Q. Are there any differences in methodology for determining the pension expense**
15 **for the total American Water plan vs. for the LIAW stand-alone basis?**

16 A. The service cost, interest cost, expected return on assets and amortization of prior
17 service cost components of pension expense are the calculated using the same
18 methodology for the total American Water plan and the LIAW stand-alone basis.
19 The only component of cost that is calculated using a different methodology is the
20 amortization of gains and losses. American Water calculates amortization of gains
21 and losses by determining if the unrecognized gain/loss for that year is outside the
22 10% corridor (10% of the greater of assets or Project Benefit Obligation) and
23 amortizing the amount outside the corridor over the average remaining service

1 period of active employees expected to receive benefits under the plan. The LIAW
2 stand-alone basis calculates amortization of gains/losses by recording a new
3 amortization base each year based on the actuarial gains/losses incurred in the prior
4 year and dividing by 10. In essence, this method smoothes each year's gains/losses
5 over the next 10 years.

6 **10. Q. Are both of these amortization methods acceptable under FAS 87 (ASC 715)?**

7 A. Yes. Both methods are acceptable amortization methods under FAS 87. The most
8 commonly used method for plan sponsors is the 10% corridor approach.

9 **11. Q. If the same methodology is used to determine the amortization of prior service**
10 **cost, why is there a big difference between the allocated method and the stand-**
11 **alone method?**

12 A. The methodology is the same, however, the amortization of plan amendments
13 attributable solely to Long Island participants are reflected in full in the Long Island
14 stand-alone expense. For example, the unrecognized prior service cost of
15 \$3,762,029 as of December 31, 2010 was attributable only to Long Island union
16 participants. Therefore, while the allocated method reflected only a portion of this
17 amount for LIAW, the stand-alone method reflects the entire amount.

18 **12. Q. Does the allocated method comply with the Statement of Policy?**

19 A. The basic premise within the Statement of Policy is that it requires FAS 87 to be
20 used to determine the cost of the plan. As stated before, both the allocated basis
21 and the stand-alone basis use the standards and methods under FAS 87. Section N
22 of the Statement of Policy, permits an alternative approach that satisfies the

1 objectives of the Statement of Policy if a jurisdictional company participates in a
2 consolidated group pension plan with non-jurisdictional affiliates.

3 **13. Q. Why is the allocated method a reasonable alternative approach?**

4 A. As stated before, the allocated method provides a reasonable allocation of the FAS
5 87 expense to each of the participating companies. The stand-alone cost basis will
6 continue to be calculated and the differences between the costs can be easily
7 reconciled and explained.

8 **14. Q. Are there any risks associated with continuing to account for LIAW on a
9 consolidated basis?**

10 A. No. There are no risks to the plan or the participants for accounting for the LIAW
11 pension expense on a consolidated basis. From an actuarial basis, the plan will not
12 fail to meet minimum funding requirements or exceed maximum tax deductible
13 thresholds, as prescribed by the IRS. There are also no issues from a plan
14 compliance perspective on how the LIAW pension expense is recorded. The
15 accounting expense, on either a consolidated or stand-alone basis, is one way to
16 measure annual cost but does not impact the application of the IRS funding rules or
17 the qualified status of the plan.

18 **15. Q. Would it be prudent for American Water to spin-off the LIAW assets and
19 obligations into a stand-alone plan?**

20 A. No. For American Water to manage and administer a stand-alone plan for LIAW
21 would involve separate actuarial valuations, government filings, audit reports, plan
22 documents, Summary Plan Descriptions and other required notifications, forms and
23 filings. This would increase annual legal, administrative, accounting and actuarial

1 fees, in addition to internal resources needed to administer the plan on a stand-alone
2 basis. These increased fees would be passed to the New York ratepayers. The
3 current consolidated plan allows the New York ratepayers to benefit from the
4 economies of scale, reduced administrative burden and lower overall plan
5 management fees.

6 **16. Q. Does this conclude your rebuttal testimony?**

7 A. Yes, it does.