

Exhibit No.:
Issues: SERP
Witness: Marla J. Langenhorst
Sponsoring Party: Union Electric Company
Type of Exhibit: Rebuttal Testimony
File No.: ER-2016-0179
Date Testimony Prepared: January 20, 2017

MISSOURI PUBLIC SERVICE COMMISSION

FILE NO. ER-2016-0179

REBUTTAL TESTIMONY

OF

MARLA J. LANGENHORST

ON

BEHALF OF

**UNION ELECTRIC COMPANY
d/b/a Ameren Missouri**

**St. Louis, Missouri
January 2017**

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1 **REBUTTAL TESTIMONY**

2 **OF**

3 **MARLA J. LANGENHORST**

4 **FILE NO. ER-2016-0179**

5 **I. INTRODUCTION**

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

7 A. My name is Marla J. Langenhorst. My business address is One Ameren
8 Plaza, 1901 Chouteau Avenue, St. Louis, Missouri 63103.

9 **Q. By whom are you employed and what is your position?**

10 A. I am employed by Ameren Services Company (“Ameren Services”) as
11 Director, Benefits & HR Technology. Ameren Services provides various corporate
12 support services to Union Electric Company d/b/a Ameren Missouri (“Ameren Missouri”
13 or “Company”) and to Ameren Corporation and its other subsidiaries.

14 **Q. Please describe your current job responsibilities, educational**
15 **background, employment experience, and other qualifications.**

16 A. In my current position, I am responsible for overseeing the strategy,
17 design and delivery of broad-based benefits and HR technology programs for Ameren
18 Corporation and its subsidiary companies. This encompasses qualified, non-qualified and
19 executive benefits programs such as pension, 401(k), medical, employee wellness and life
20 insurance, human resources technology strategy, human resources strategy planning, and
21 other human resources and benefits-related responsibilities.

22 I received my Bachelor of Science degree in Education in 1991 from Southern
23 Illinois University in Carbondale, Illinois, and a Master’s degree in Business

1 Administration in 2011 from the same university. In addition to my academic training, I
2 have over twenty years of experience in employee benefits and human resources-related
3 activities, in roles of increasing and varying scope and responsibility throughout this time
4 period. I have attended many continuing education programs related to human resources,
5 benefits and compensation. I obtained a Senior Professional in Human Resources
6 (“SPHR”) certification in 2005 from the Society of Human Resources Management and I
7 continue to maintain this certification today.

8 I began my professional career as a Benefits Analyst in Ameren Services’ (then
9 Union Electric) Employee Benefits Department in 1992, providing analysis and design
10 support for qualified, non-qualified and executive benefits programs. I continued in this
11 role until 1996, when I became a Supervisor in Employee Benefits, overseeing healthcare
12 and life insurance benefits. In 1998, I became General Supervisor, and in 2000, I was
13 named Manager of the department. I continued in the Employee Benefits Manager role
14 until 2011, and during that time led many strategic projects, including the human
15 resources and benefits integration for Ameren Corporation's acquisitions of Central
16 Illinois Light Company and Illinois Power Company.

17 In 2011, I was named Manager (now Director) of Total Rewards and assumed
18 responsibility for broad-based compensation strategy, design and delivery, in addition to
19 my benefits role. In 2015, I was named Director, Benefits & HR Technology, with
20 continued responsibility for broad-based benefits programs, as well as oversight of
21 human resources technology strategy, design and delivery.

1 A. Importantly, he does not. SERP plans such as Ameren Missouri's are very
2 common both in and outside of the utility industry, and are provided to ensure that the
3 Company can attract, retain, and motivate executives to achieve superior customer
4 satisfaction and utility performance. Offering a benefits package that is less generous
5 than the other broad-based plans that are typically offered would not allow the Company
6 to attract and retain qualified executives needed to operate the Company successfully.
7 The costs of these plans have been routinely included in the Company's revenue
8 requirement for years.

9 **Q. Do you agree with Mr. Hyneman's recommendations?**

10 A. We accept the second recommendation and, as a result, are willing to re-
11 calculate the SERP expense used to set the revenue requirement in this case on a cash
12 basis rather than an accrual basis. However, we disagree with his remaining
13 recommendations.

14 **Q. Do you agree with his classification of Ameren Missouri's plan as a**
15 **SERP-Plus plan?**

16 A. No. First, it should be recognized that these terms ("SERP-Plus" and
17 "SERP-Restoration") are not standard vernacular in the benefits industry, although I have
18 heard them used from time to time and I believe I understand what Mr. Hyneman means
19 when he uses the phrases. In fact, he provides his definition at page 24, lines 6-8 of his
20 direct testimony, indicating that the plan is a SERP-Restoration plan if it is "created
21 solely to restore benefits an employee would receive if the IRS had no maximum income
22 restrictions for qualified pension plans." That is what our SERP plan does – restores
23 benefits the employee would receive if there were no IRS maximum income restrictions

1 for qualified pension plans. Consequently, Mr. Hyneman's premise that the plan does
2 more than that, and is thus a "SERP-Plus" plan, is incorrect.

3 At times, SERP-Plus plans can be provided when necessary for the Company to
4 be able to attract needed talent. In those cases, an additional benefit could be paid and the
5 Company believes that would be appropriate. Currently, however, the Company does not
6 have any SERP-Plus arrangements.

7 **Q. Why does Mr. Hyneman claim the Company's plan is a SERP-Plus**
8 **plan?**

9 A. Mr. Hyneman incorrectly classifies Ameren Missouri's SERP plan as a
10 SERP-Plus plan rather than a SERP-Restoration plan because he has incorrectly
11 concluded that it "allows for benefits such as long-term deferred compensation (such as
12 equity compensation)." In fact, it does not. The deferral of compensation under our SERP
13 plan is not equity compensation; it is a deferral of that employee's current base salary.
14 Accordingly, the amounts restored by the Company's SERP benefit are the pay which the
15 participant would have received in the current year had the employee not elected to defer
16 a part of his or her salary. Perhaps Mr. Hyneman made the incorrect assumption that an
17 employee can defer part of separate, long-term incentive compensation (which may
18 consist of stock; i.e., equity) and that the ability to do so would be a benefit beyond
19 simply restoring the benefits the employee would have received had there been no IRS
20 limits. That assumption is not true. The only thing the Ameren SERP plan does is put the
21 employee in the same position he or she would have been in had there been no IRS limits.

22 In the example provided by Mr. Hyneman on page 25 of his testimony, if an
23 executive's eligible 2016 compensation is \$300,000, and if under the IRS regulations,

1 only \$265,000 can be used in the calculation of benefits in the Company's qualified
2 pension plan. The participant will be made whole in terms of the benefits he would have
3 received but for the \$265,000 limit (i.e., restored through the SERP for any pay above
4 \$265,000). Further, if the participant elected to defer \$25,000 into the Deferred
5 Compensation Plan (basically deferring receipt of this pay until a future year), his benefit
6 calculation in the SERP would include the deferred pay. He is made whole such that the
7 entirety of his eligible compensation is used in the calculation of retirement benefits. In
8 this way, Ameren's SERP is designed to treat highly-compensated employees on the
9 same basis as non-highly compensated employees as it relates to pension benefits.

10 The current plan design is absolutely used as a restoration benefit and does not
11 provide additional benefits as would a SERP-Plus design. To use Mr. Hyneman's words,
12 it *is* a "basic restoration plan." While it does include wages that are being voluntarily
13 deferred, these wages would have been paid in the current year were it not for this
14 election. In this manner, the plan is only restoring the participant to the full amount of his
15 eligible compensation – the same definition of pay used in the qualified retirement plan.

16 **III. CASH VERSUS ACCRUAL ACCOUNTING AND LUMP SUM**
17 **PAYMENTS**

18 **Q. Mr. Hyneman suggests that the cash basis of accounting should be**
19 **used to determine rate recovery of SERP expenses, rather than the accrual method.**
20 **Do you agree with his recommendation?**

21 A. Although Ameren Missouri believes that the accrual basis of accounting is
22 a fair way to determine the applicable expense because it reflects the long-term nature of
23 the benefit accumulation, we are willing to accept the cash-basis calculation methodology

1 as a way to partially resolve this matter. But, in doing so, lump sum payments should not
2 be eliminated.

3 **Q. Why should lump sum payments not be ignored?**

4 A. Because doing so is arbitrary. Whether the pension benefit is paid over
5 time (via an annuity) or in a lump sum does not change the fact that the benefit is being
6 paid. Ignoring the lump sum payments artificially reduces the actual cost of the plan. If
7 cash SERP payments are going to be used to set the revenue requirement, then all of the
8 cash paid should be included.

9 **IV. REDUCTION OF SERP COST FOR FORMER EMPLOYEE**

10 **Q. Please address Mr. Hyneman's recommendation to remove an**
11 **amount associated with a former employee who is paid more than \$100,000 annually**
12 **in SERP benefits.**

13 A. The recommendation by Mr. Hyneman is arbitrary because it is based
14 solely on his opinion that the payment is "excessive and unreasonable." His justification
15 for the disallowance is reflected in the simplistic statement that no former employee
16 should be paid "more than \$100,000" annually as part of this benefit.¹ It is true that the
17 value of this individual's SERP benefit is larger than that of most other participants, but
18 that is because of the position this employee held during his employment (President and
19 Chief Executive Officer) and the corresponding salary he received for that position.
20 There was no showing (nor any claim) while this employee was employed that his salary
21 was excessive or imprudently set or paid. Therefore, there is no basis to now disallow the
22 corresponding SERP benefit for this individual, an amount that is simply a function of the

¹ Ameren Missouri is only allocating about 45% of the SERP obligation to this former employee, or approximately \$53,000.

1 salary that he was paid. To adjust this payment to the “average annual SERP payment for
2 services company employees,” as Mr. Hyneman proposes, is unreasonable as it does not
3 consider the level of pay that is necessary to attract and retain executives to this role and
4 to ensure customer satisfaction and safe operations. Since the SERP simply restores the
5 salary values for the limitations placed on the qualified plan by the IRS, as mentioned
6 previously, the greater value is directly due to the participant's compensation level which
7 was based on his position as President and Chief Executive Officer. The effect of
8 Mr. Hyneman's recommendation is to limit this benefit based on an arbitrary ceiling and
9 should be rejected by the Commission.

10 **V. SUMMARY OF POSITION ON SERP**

11 **Q. You agreed to use a cash-basis amount of SERP expenses to set the**
12 **revenue requirement in this case, but disagreed with Mr. Hyneman's adjustments**
13 **based on his mistaken claim that your plan is a SERP-Plus plan, his exclusion of**
14 **lump sum expenses, and his exclusion of an actual SERP sum owed to the former**
15 **President and Chief Executive Officer. Based on those positions, what is the**
16 **appropriate level of SERP expense to use for the revenue requirement in this case?**

17 A. The level of SERP expense used to set the revenue requirement in this
18 case should consist of the actual cash payments for the 12 months ending December 31,
19 2015, including actual annuity and lump sum payments, normalized over four years, to all
20 eligible employees. This amount is approximately \$1,100,000.

21 **Q. Does this conclude your rebuttal testimony?**

22 A. Yes, it does.

