University of California Academic Senate*

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Mark G. Yudof
President
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Lawrence H. Pitts
Provost and Chair of the PEB Steering Committee
University of California

RE: Statement Regarding Post-Employment Benefits Options

Dear Mark and Larry:

As members of the Post Employment Benefits Task Force Steering Committee, with this letter we forward to you a statement joined by faculty and staff members of the three work groups of the Task Force. We request that the statement be attached to and circulated with the Executive Summary and Final Report of the Post Employment Benefits Task Force.

The statement from our faculty and staff colleagues raises three fundamental issues with respect to the report of the Task Force. First, the statement indicates that Option A, forwarded by the Task Force Steering Committee, is unacceptable because it has been demonstrated to be uncompetitive in comparison to pension benefits provided by comparison institutions across all employee groups. Option B is marginally competitive, but only with increases in current compensation. As a corollary, the enclosed statement contains a discussion of the methodology of the total remuneration study upon which the University has relied for several years, and asserts that this work should not be disregarded in an attempt to discount results that demonstrate that the Option A design is not competitive. Second, regarding the issue of choice offered to current employees to retain existing benefits under UCRP or move to the new-tier option, the employee contribution required to remain in the current plan must be no higher than 7 percent. Third, the statement requests that you consider a third new-tier plan design with a flat 2.5 percent age factor among the available options in forming your recommendations to the Board of Regents. This third option was discussed by the Steering Committee but not endorsed.

We gratefully acknowledge that Provost Pitts, as chair of the Steering Committee, and Randy Scott, Executive Director, Talent Management & Staff Development, have been responsive to our many editorial and substantive suggestions for the Executive Summary and Final Reports. We highlight the fact that this process, while extraordinarily difficult and sometimes contentious, was based on robust consultation between the Academic Senate and members of your administration. We are proud of the hard work and substantial contribution of many of our faculty colleagues as we worked through difficult and technical complexities towards recommendations. While we do not agree with all of the recommendations that emerged from the Task Force, we acknowledge that the report generally represents a fair description of the issues considered by the Task Force, although we would have preferred more detailed description of options considered but not endorsed by the Steering Committee. We ask you to circulate the attached statement with the Executive Summary and full report in order to provide readers with a full discussion of the range of issues and options that should be considered in reaching what will be a momentous decision for the university.

In the coming months, we will circulate the reports of the Task Force to our colleagues throughout the University. We anticipate that there will be intense interest in these recommendations among both faculty and staff. We look forward to presenting you with the formal recommendations of the Academic Senate in due course.

We remain respectfully yours,

Henry C. Powell Daniel L. Simmons

*This letterhead is used by the Chair and Vice Chair of the Academic Senate for personal correspondence that does not reflect official positions of the Academic Senate.

A Dissenting Statement by Staff and Academic Senate Members of the Work Groups of The President's Task Force on Post-Employment Benefits

Edward Abeyta, Robert M. Anderson, James A. Chalfant, Helen Henry,

Lin King, Robert C. May, Shane White

August 25, 2010

The Steering Committee of the President's Task Force on Post-Employment Benefits (PEB) has made a number of recommendations, including some that we believe would be very harmful to the University. While we agree with many of the specific recommendations made, the overall emphasis on the part of the Steering Committee has been to promote cost cutting over the preservation of sustainable, competitive retirement benefits. It was the large unfunded liabilities, for UCRP and Retiree Health, that motivated the need for the Task Force; but it is the effort to reduce benefits going forward that occupied a large part of the effort.

The mission statement of the Task Force included this description: "*To help the University develop a comprehensive, long-term approach to post-employment benefits, President Mark Yudof established a task force to study and recommend funding, policy and benefits design alternatives that reflect the university's commitment to provide competitive pay and benefits programs to attract and retain excellent faculty and staff while ensuring that post-employment benefits for current and future retirees are sustainable*."

The word "sustainable" means different things to different people and has never been defined within the context of this Task Force. It is not a useful term if it means only "spend no more than some arbitrary amount." It does not sustain UC to offer uncompetitive benefits or uncompetitive total remuneration to active employees, or to provide a less than secure retirement to retirees. Although both staff and Academic Senate participants have repeatedly and consistently emphasized the need to remain competitive, one of the pension options recommended by the Steering Committee is highly uncompetitive; the other option would be competitive only after substantial salary increases. Hence, the Steering Committee has not achieved one of its fundamental objectives, and we cannot endorse their report.

We offer this dissenting statement to the President, and to our faculty and staff colleagues.

<u>A New Tier for New Hires</u>

In Recommendation #3 (attributed to the Pension Team, and identical to #22 from the Finance Team), a New Tier is proposed for the pension benefit for new hires.[1] The plan would apply to new employees (beginning July, 2013), but could also affect current employees who would be given a choice between the new tier and current benefits at a higher cost as discussed below.

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[1] Some recommendations attributed to Work Groups, or Teams, are unanimously held views; others are not.

Two Options, A and B, are put forth for this New Tier.[2] Option A is completely unacceptable, and we recommend that the President reject Option A. Using the same industry-standard methodology as in the Total Remuneration Study from October, 2009[3], Hewitt and Mercer found that this new plan was substantially uncompetitive for all UC employee groups. This option would be uncompetitive, *even if the gap between UC salaries and market comparators' salaries were closed.*

Some members of the Steering Committee have attempted to discredit the Total Remuneration results. In particular, they have argued that UC takes on "uncompensated investment risk" that should be taken into account in the Total Remuneration valuation of UCRP. In fact UC is compensated in many ways for taking on this investment risk. They have acknowledged no comparable need for adjusting the value of Retiree Health, although the logic of their position requires a substantial downward adjustment in its valuation because this benefit is neither funded nor guaranteed. Academic Senate participants have provided a lengthy critique of the risk-adjustment arguments put forth by their advocates on the Steering Committee.

A second option, Option B, also involves deep cuts in UCRP benefits. The Task Force report presents a graph showing the income replacement provided at various income levels by current UCRP, Option A, and Option B for employees retiring at age 65. This graph obscures the fact that Options A and B both represent a drastic reduction in pension benefits for those who retire in their late 50s, the average retirement age of UC staff. Option A would reduce the UCRP benefit of an employee retiring at age 60 with a salary of $55,000 by 56.8%, while Option B

[2] Options A and B are integrated with Social Security, and are intended to provide total retirement income (UCRP plus Social Security) as a roughly level percentage of HAPC across all income levels. To achieve this, the employee contribution and the age factor are different when applied to income below and above Social Security Covered Compensation (SSCC). SSCC is an average of the social security wage base for the preceding 35 years; it is currently about $60,000 and rises over time according to a formula. Roughly speaking, SSCC rises along with average U.S. wages.

Option A uses an age factor of 1.5 percent below SSCC and 3.0 percent above SSCC to determine the pension benefit; the overall age factor on all covered compensation is capped at 2.5 percent. The employee contribution rate is 3.5 percent below SSCC and 9.5 percent above SSCC. The long-term employer normal cost is estimated to be 7.3 percent. Some members of the Task Force favor this plan, in the light of the gravity of the budget situation. Others believe that implementing that plan would cause unacceptable damage to the quality of the University, due to the fact that the plan is not competitive with the pension plans of our competitors. The reduction in benefits under this option particularly affects lower and middle income workers.

Option B uses an age factor of 2.0 percent below SSCC and 3.0 percent above SSCC to determine the pension benefit; the overall age factor on all covered compensation is capped at 2.5 percent. The employee contribution rate is 4.0 percent below SSCC and 8.2 percent above SSCC. The long-term employer normal cost is estimated to be 9.0 percent. Some members of the Task Force feel that this plan is too expensive. Others point out that this plan is significantly cheaper than the current UCRP terms, and that it is an acceptable option for new employees, providing a reasonably competitive plan (provided that cash compensation is raised to a competitive level) that will provide a secure retirement after a full career at UC.

[3] The study is posted at http://www.universityofcalifornia.edu/news/compensation/comparisons.html.

would reduce it by 42.4%.[4] Staff can avoid these deep cuts in pension benefits, but only by deferring retirement for several years; while we see institutional benefits in encouraging later retirement, the shifting of the age factors by five years must be acknowledged as a substantial benefit reduction for those who exercise the option to retire early. Should employees be asked to take such a cut in pension benefits, to a level well below competitive in the case of Option A, when cash compensation is also seriously uncompetitive?

The employer normal cost of Option B, 9%, is higher than the 7.3% employer normal cost of Option A. However, as the Executive Summary itself documents, Options A and B result in *the same cost to the operating budget for the years 2011-2021.* The additional cost of Option B phases in slowly as new hires join the new tier over a number of years. Under the financing plan outlined in the Executive Summary, the additional cost of Option B can be paid by *postponing the long-run decline* in contributions from the operating budget more than a decade from now, once part of the unfunded liability has been amortized and the amortization charge represents a declining percentage of the operating budget. The Executive Summary correctly notes that Option B is more expensive than Option A in the long run, but fails to take into account the fact that offering an uncompetitive pension plan will either require compensating salary increases or hurt UC's ability to compete for outstanding staff and faculty. Thus, it is incorrect to assert that choosing Option A instead of Option B will result in "savings" that can be used to fund other UC priorities.

In contrast to Option A, Option B could be close to competitive, but only after first closing UC's lag in cash compensation.[5] <u>We oppose adoption of any pension plan, including Option B, which is competitive only after future hypothetical salary increases.</u> The passing statements from the Steering Committee supporting increases in salaries are not a sufficient basis to make such a sweeping, permanent reduction in UC's pension benefits. Experience suggests extreme skepticism that UC will follow through with any such salary increases. We urge that the President prepare a credible plan for salary increases to take effect simultaneously with the adoption of the new tier. When a serious salary plan is advanced and supported by the administration, it will provide a more solid foundation for determining the appropriate pension benefit.

<u>"Choice" for Current Employees</u>

In Recommendation #4 (of the Pension Team; same as #23 of the Finance Team), it is proposed that current UCRP members be offered the choice of remaining in UCRP under the current

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[4] Currently, the UCRP age factor is 2.5% at age 60. Under option A, the age factor at age 65 is 1.5% up to SSCC; at age 60, it is reduced to 1.08%; under option B, the age factor at age 65 is 2.0% up to SSCC; at age 60, it is reduced to 1.44%.

[5] The total remuneration study measures pension benefits in dollars. An increase in UC cash compensation increases the dollar value of the associated UC pension, and thus moves the new tier Options closer to being competitive.

benefit terms at a "higher cost" or having the New Tier terms (either Option A or B above) applied to their future service. It is not yet clear whether the IRS will allow employee contributions to be made with pre-tax dollars if choice is allowed. The fallback position, should the IRS return a negative decision on this point, is that current employees would remain in UCRP under the current benefit terms with a 7% or higher employee contribution. Choice appears to be the way to argue that the University is not changing pension benefits for current employees, in violation of the California Vested Rights Doctrine.

There have been no total remuneration analyses to gauge the competitiveness of the choice proposal for current employees. The proposed new tiers have been analyzed, but current UCRP with higher employee contributions for current employees has not. The current UCRP, with a 5% employee contribution is uncompetitive for faculty and just competitive for some other employee groups.[6] Increasing the cost to employees of the current plan will reduce its competitiveness, and, therefore, the competitiveness of total remuneration. This increased cost was not evaluated within the PEB process.

The recommendations in the Report are imprecise concerning what the higher cost would be. The discussion within the Pension and Finance Teams assumed a 7% employee contribution, but the Executive Summary indicates that some members of the Steering Committee proposed a higher employee contribution. This matter was not formally addressed by the Steering Committee. Historically, employee contributions to UCRP for employees enrolled in Social Security have never exceeded 3%;[7] raising contributions above 7% fundamentally alters the terms of UCRP and has the effect of coercing current employees to "choose" the new plan. This coerced "choice" raises questions under the California Vested Rights Doctrine and is likely to be challenged.[8] We urge that the President recognize that the political and morale costs to the University from litigating such a case seem sufficiently great as to make any legal victory a Pyrrhic one.

There were no substantive discussions in any of the work teams or, to our knowledge, in the Steering Committee, as to a basis, other than competitive total remuneration, for setting the employee contribution to remain in UCRP. We have consistently stated that even 7% employee contributions would have severe consequences for total remuneration; a higher employee

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[6] See the Total Remuneration Study from 2009, cited in footnote 3.

[7] More precisely, the employee contribution never exceeded 3% of covered compensation below and 5% above the Social Security Wage Base, less $19 per month. The Social Security Wage Base, currently $106,800, is indexed to the growth of U.S. wages.

[8] The California Supreme Court invalidated a plan to increase the employee contribution from 2% to 10% for Long Beach police and firefighters: "The provision raising the rate of an employee's contribution to the city pension fund from 2 percent of his salary to 10 percent obviously constitutes a substantial increase in the cost of pension protection to the employee without any corresponding increase in the amount of the benefit payments he will be entitled to receive upon his retirement." *Allen v. City of Long Beach,* (1955) 45 Cal. 2nd 128, 130.

contribution would leave us hopelessly uncompetitive. We urge the President to make competitive salaries for all employee groups–faculty and staff on the general campuses and at the medical centers–the University's top budgetary priority. We urge that the University avoid challenges to the Vested Rights Doctrine. Thus, if choice is indeed the President's recommendation to The Regents, we strongly recommend that the employee contributions not exceed 7% and that salary increases be provided to offset those contributions.

Appendix E for the Highly Compensated

In recommendations #10 and #11, the Steering Committee proposes "restoring" benefits to those whose salary exceeds the IRS covered compensation cap. The Academic Senate is on record as opposing Recommendation #10 (Letter from Senate Chair Croughan to President Yudof, 03/08/09). Recommendation #11 appears to be a mechanism to extend retirement benefits (admittedly not drawn from the UCRP trust fund) to these highly compensated individuals in ways that are less visible to the public. While we advocate competitive total remuneration for all UC employee groups, it is unseemly to provide a large "restoration" of pension benefits to highly compensated employees at the same time that pension benefits of other groups are being curtailed; the effect on faculty and staff morale and on the University's public relations would be highly detrimental. The Senate chair and vice-chair registered the Senate's expressed opposition to Recommendations #10 and #11. We agree and recommend that the President table all such attempts to increase benefits for a few, highly compensated employees.

Cuts in Retiree Health

The Steering Committee has also recommended cuts in Retiree Health. These cuts are along the same lines described in the public presentations held in April, 2010. The results of the Total Remuneration study from October, 2009 identified retiree health coverage as an area where UC is well above the market. The proposed changes are likely to delay retirement dates, by design; we support those recommendations, but urge that there be no cuts beyond these recommendations: the various impacts on UC as well as on faculty and staff must be determined before further cuts are considered. The uncertain environment for health care, along with what might be proposed in the future for active employees, only add to the need to proceed gradually. In particular, we have been concerned for some time that the cuts to retirees will be matched by proposed cuts in the University contribution for active employees' health care. The health and welfare benefits for active employees are not unusually rich, and cuts will have an immediate, adverse effect on UC's competitiveness. Moreover, the desire to cut costs ignores the fact that subsidizing retiree health-care premiums is a tax-efficient way to compensate employees. We believe that serious consideration should be given to reducing the employer share of the cost of retiree health coverage by instituting an employee contribution, dedicated to prefunding the benefit, phased in at the same time as salary increases. We urge the President to recognize that the University's budget problem cannot be solved through cuts in health benefits, and to instruct the administration to develop a proposal for pre-funding retiree health benefits. Finally, we urge the President to agree that no further cuts to retiree health should be considered, beyond those recommended by the Steering Committee, until the combined effects of any changes in pension coverage and retiree health are analyzed.

Is There a Need for Risk Adjustment in the Total Remuneration Study?

As noted earlier, late in the deliberations of the Steering Committee, it was proposed that the value of UCRP to employees---and the value of any competitor's defined-benefit plan---should be adjusted for the fact that it shifts investment risks from employees to the employer. This view is based on the notion that UCRP pensions will be received with certainty, and therefore should be discounted using a risk-free rate, not the 7.5% rate currently specified. Proponents of this view argue that UC bears "*uncompensated* investment risk," which represents additional value to employees. A detailed critique by Robert Anderson, James Chalfant, and Helen Henry demonstrates that there is no justification for adjusting the total remuneration methodology. The argument for lowering the discount rate used to value employee benefits overstates the investment risk that UC bears with analogies to individuals seeking to guarantee a fixed rate of return over a specific 15-year time period. The 7.5% actuarial assumption on the plan's rate of return already contains an explicit risk adjustment of 1.75%, plus additional assurance, in the form of conservative assumptions, that the recommended contributions will result in sufficient resources to pay the promised benefits.[9] Moreover, UC enjoys significant institutional benefits from UCRP, related to retention in midcareer and then retirement near a targeted age. The existing risk adjustment, and the conservative assumptions, made possible a nearly two-decade contribution holiday. As an analysis by the Office of the Treasurer showed, had UC contributed normal cost each year during the contribution holiday, the plan would be 120% funded today, *even with the substantial declines of 2008-09.*[10] Hence, it is not accurate to blame the investment risk for the large unfunded liability. Moreover, it is not legitimate to abandon the methodology of the Total Remuneration study by insisting that it understates the value of UCRP. None of the three national consulting firms who bid to conduct the study for UC use such an adjustment. The Total Remuneration Study has been widely promoted by the University of California, most recently in a Letter to the Editor by Russell Gould, Chairman of the UC Board of Regents.[11] Many in the UC community will interpret insistence on changing the

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[9] University of California Retirement Plan ACTUARIAL EXPERIENCE STUDY: Analysis of Actuarial Experience During the Period July 1, 2002 through June 30, 2006. (April, 2007) (**http://www.universityofcalifornia.edu/regents/regmeet/may07/c14attach2.pdf**).

[10] UCOP Human Resources and Benefits, Spring 2010 Post-Employment Benefit Forums Materials.

[11] *Sacramento Bee* 08/10/10 http://www.sacbee.com/2010/08/10/2947949/letters-to-the-editor-uc-krugman.html: "Repeated studies have also shown that the salaries of most UC employees lag behind those of their peers."

methodology to be manipulating the results. We recommend that the President declare that the University will not abandon the industry-standard total remuneration methodology that has already guided the analysis of salaries and benefits for several years, and to reiterate the administration's commitment to competitive total remuneration as its top budgetary priority.

Other Alternatives for Pensions

An additional option for a new tier plan was considered but not endorsed by the Steering Committee; it is mentioned briefly in the Executive Summary but not named. Here, we refer to it as Option C. This option would not be integrated with Social Security, and instead modifies the current UCRP provisions. It retains several of the specific cuts from Options A and B, such as ending the Inactive COLA and lump-sum cashout options, but it retains the formula for pensions: all employees, regardless of income levels, would receive a maximum age factor of 2.5%, as in the current Plan. However, eligibility would shift by five years, so that the 2.5% maximum age factor pertains to retirement at age 65 or later. The annual reduction of 5.6% per year, for earlier retirements, would remain, with initial eligibility beginning at 55, not 50. This plan has several virtues. First, it is easily understood as a natural modification of the current UCRP, one that reduces the incentive to retire early, but does not reduce pensions more for lower income levels. Second, it should be simpler to implement; in contrast, we understand that our current, legacy payroll system may be unable to cope with the more complex calculations required by Options A or B. The Steering Committee declined to endorse this option because its total (employer plus employee) normal cost was deemed to be an insufficient reduction in total normal cost relative to the existing plan. We view this as another example of the misplaced emphasis on cost-cutting: the *employer normal cost of Option C is 9%, exactly the same as that of Option B.* For most faculty and staff with higher salaries, Option C provides pension benefits and employee contributions essentially the same as those provided by Option B. For lower and middle-pay staff members, relative to Option B, Option C provides higher benefits in return for higher employee contributions. The Steering Committee made no attempt to assess whether these critical lower and middle-pay staff members would prefer higher pension benefits (Option C) or lower employee contributions (Option B), and none of the members of the Steering Committee are members of these income groups. Recall that Option B (and hence C) requires exactly the same employer contributions as Option A from the operating budget through 2021. We recommend that Option C be considered by the President as a simpler, more transparent alternative to Option B. We believe that policy-covered staff might prefer C, and that their views should be taken into account. Similarly, we believe that C should remain on the table for collective bargaining.

The Damaged Credibility of the Institution

The single, overriding concern of the Staff and Academic Senate members of the PEB workgroups has been this question: *What effect will the action under consideration have on the quality of the University one, two, or three decades from now?* We have emphasized the need to recruit and retain excellent faculty and staff. Thus, we have paid especially close attention to three issues which are absolutely critical to maintaining UC's excellent faculty and staff: (1) the need for competitive total remuneration for new faculty and staff, to bring them to the University; (2) the need for competitive total remuneration of current faculty and staff, to keep them here; and (3) the credibility these offers have when they are made.

There may be differences of opinion as to the *extent* to which these issues will affect the willingness of faculty and staff to join or remain at the University, but there can be no dispute concerning the important, fundamental role played by competitive total remuneration. We can ill afford to do the experiment to find out how large the damage will be, or just how soon it will become evident, because one certainty is that the damage will be irreversible.

We have noted that challenging the California Vested Rights Doctrine would bring substantial costs. It should not be overlooked that the University's credibility with current employees will be severely damaged, and it will be understood that furloughs are to be replaced with permanent cuts in total remuneration---furloughs by another name. The underlying shift in the character of the institution will affect not just whether potential employees believe that their retirement benefits will be what they are told, but whether commitments regarding cash compensation issues (amounts, the merit review process), initial complements, and other promises the University makes to entice the very best people to join it have any value, or whether the University can and therefore will renege on these terms.

<u>Steering Committee Recommendations That We Support</u>

Our disagreement with the Steering Committee recommendations centers on the failure to provide competitive Total Remuneration. We advocate (1) removing Option A from further consideration; (2) continuing consideration of Option C; (3) limiting employee contributions to 7% under "Choice" for current employees to keep the current UCRP benefit terms; (4) careful evaluation of the consequences of *all* recommendations for total remuneration, using the methodology that we have worked with since 2007.

We support the recommendations to reduce the employer cost of providing retiree health benefits through proposed changes in eligibility requirements that reduce the early-retirement subsidy. We also support the proposed, gradual reductions in the University's share of the cost of retirees' health-care premiums. We support these reductions based on the Total Remuneration Study, which documents that our retiree health benefits are substantially more generous than those provided by our competitors. At the same time, we recognize that these represent deep cuts that will be painful for current retirees and future retirees: our current active employees. These are particularly painful at a time when cash compensation for current employees is dramatically uncompetitive.

We also support the effort to move, as quickly as possible, to full funding of the Annual Required Contribution (ARC) for UCRP. Indeed, we favor consideration of a more aggressive plan than has been conveyed by the Steering Committee's recommendation. Any delay in fully funding ARC represents, in effect, borrowing from UCRP at 7.5% when we can borrow from STIP at less than 3%. We believe that the President and The Regents should be presented with a funding plan to go to full ARC funding no later than 7/1/12, via STIP borrowing and debt restructuring.[12] We support pre-funding the retiree-health benefit, once the University is able to fully fund the ARC for UCRP, and support consideration of an employee contribution to prefunding, phased in along with salary increases.

We support several of the cost-cutting measures that put UCRP on a sounder financial footing: for instance, delaying the targeted retirement age to 65 and ending the inactive COLA; both seem to be beneficial to the University and consistent with competitive Total Remuneration. The statements from the Steering Committee about lags in cash compensation are welcome; we strongly support accelerated progress toward closing our lag relative to market salaries for faculty and staff. However, we do not support Draconian cuts to pension benefits in exchange for vague hopes that the salary lag will be addressed at some unspecified future time.

Summary

We provide this document to accompany the distribution and dissemination of the Steering Committee's Executive Summary. We hope that our statement serves to add balance and completeness to the record and to call attention to the serious shortcomings in the Committee's report.

We have consistently emphasized the need for competitive total remuneration for faculty and staff. It took a long time to build UC's excellence, but it can be destroyed very quickly. We urge the President to ask The Regents to declare that there is no higher budgetary priority than to move as quickly as possible to competitive total remuneration, and that the administration will not deviate from this goal. In particular, it should be stated that the University will never again

[12] The Academic Senate had earlier recommended the use of Pension Obligation Bonds for this purpose. However, as UCOP Finance pointed out, STIP is a large pool of short-term UC funds that UC invests in short-term government and corporate securities. UC is, in effect, lending this money to governments and corporations at 2.5-3% interest, while Pension Obligation Bonds would require interest payments in the 6-6.5% range. It makes little sense for UC to lend money, through STIP, at 2.5-3%, while borrowing at 6-6.5%.

risk its excellence by reducing total remuneration. Many competing budgetary priorities exist, including preserving UC's excellence in research and service to California, and providing access to an affordable, UC-quality education. To erode the excellence of service, research, and teaching, through the adoption of plans that have no chance of being competitive, is to join a race to the bottom among public universities, offering access to an affordable but second-rate education and compromising the research enterprise.

The retiree health recommendations and the pension Option B already represent drastic cuts, *as would Option C*. There appears to be a belief, within the PEB Task Force, that the effort will be a failure unless the recommendations call for even more Draconian cuts. UC has not offered "Cadillac benefits". Where the benefits have been more than competitive, it has been because employee contributions were not required, not because the benefits themselves were overly generous. Option A will have no chance of preserving competitive total remuneration, even with substantial salary increases, and we therefore find it unacceptable. The PEB Task Force was a great success while it remained focused on the need for both employee and employer contributions to stabilize the funding situation for our benefits. It failed in letting the desire to cut costs dominate the far more important objective, providing benefits that are competitive and designed to support the preservation of the University's excellence. Because of that failure, we cannot support the recommendations of the Executive Summary or the full report of the Steering Committee.