NEW JERSEY
STATE PENSION STUDY
COMMISSION

MINORITY STATEMENT

SUBMITTED

TO THE GOVERNOR

April 4, 1984

April 4, 1984

Hon. Thomas H. Kean
Governor of New Jersey
State House
Trenton, New Jersey 08625

Dear Governor Kean:

The members of New Jersey State Pension Study Commission, which you formed pursuant to Executive Order #9 1982, sent their final report to you on March 15, 1984. The attached minority statement is being submitted to you by the undersigned members of that Commission.

While we agree that the Commission members worked diligently reviewing the pension and health benefits of the State, our conclusions differ somewhat from those expressed in the majority report.

Primarily we believe the procedures used by the Commission, its staff and outside consultants were designed fundamentally to reduce the cost of the pension and other benefits programs to the State and that the future economic security of public employees has been jeopardized. This is not in keeping with the mandate you set forth in your Executive Order #9, which stated, "In the course of its study, the Commmission shall consider by what means, consistent with the secure provision of fair and adequate retirement and survivorship benefits to public employees and their beneficiaries, the cost of funding these benefits may best be managed".

Specifically, we disagree with some of the basic assumptions and methodologies used by the consultants to the Commission in evaluating the perceived problems and in proposing recommendations.

This attached statement suggests that a re-examination of certain recommendations made by the majority report regarding retirement benefits and health care programs be undertaken. The past, present and future employees in State service deserve a fair benefits system. The majority report could be perceived as being detrimental to participants in the State benefits program and the State government itself.

We, the undersigned minority members, request that you avoid endorsing the recommendations proposed in the majority report. A further review of the proposals is required to assure a stable, balanced, and fair benefits program for the employees of the State of New Jersey.

Sincerely,

Ozzie Pellecchia

Vincent "Ozzie" Pellecchia
State Assemblyman
35th Legislative District

Wynona Lipman

Wynona M. Lipman
State Senator
29th Legislative District

Harry W. Baldwin

Harry W. Baldwin
Teacher's Pension and
Annuity Fund, Trustee
Principal,
Old Mill School
Wall Township, New Jersey

MINORITY STATEMENT

SUBMITTED TO GOVERNOR THOMAS H. KEAN

BY MEMBERS OF THE GOVERNOR'S PENSION STUDY COMMISSION

This statement is being submitted to the Governor by a minority of members of the Governor's Pension Study Commission regarding: (1) the procedures used by the Commission in its eighteen month review, and (2) their opposition to a number of the recommendations included in the majority report.

The full Commission spent close to two years and several hundred thousand dollars reviewing the pension and other benefits programs of the State. The recommendations included in the majority report were the culmination of many hours of consultant time, money, and analysis. It is not the purpose of this statement to provide an alternative analysis to the majority report, but rather to raise some issues and objections for the Governor to be mindful of in deciding the eventual outcome of this complex issue.

This minority statement is divided into four sections. The first section will deal with certain objections to the process used by the Governor's Pension Study Commission in studying the problems of the pension system of the State of New Jersey and in recommending solutions.

The second section will consist of a critical discussion of the assumptions and methodology used by the staff consultants to the Governor's Pension Review Commission in evaluating the perceived problems and in developing alternative recommendations to the Commission for adoption.

The third section will consist of a critical discussion of those recommendations adopted by the Commission which are objected to by the members submitting the minority statement.

The fourth and final section of the statement will include some conclusions drawn from this exercise which the members signing the minority statement feel the Governor should be aware of.

SECTION ONE

This first section deals with an overview of the process followed by the Pension Study Commission during the 18 months of its review process. It includes a critique of a number of procedures used, which in the opinion of the members filing this minority statement, did not represent the best approaches to provide for a balanced report to the Governor. Such a balanced approach, as the Governor called for, would have had as its two goals: (1) cost-containment of the current expenses of the State pension system, and (2) fairness in dealing with State employees who are the beneficiaries of this pension system.

The Governor's Pension Review Commission began its work in the fall of 1982. The first meetings were held in October of 1982 pursuant to Executive Order #7, signed by the Governor the previous May, which established the Commission. The original Democratic Legislative membership on the Commission consisted of Senator Wynona Lipman and Assemblyman Richard Van Wagner. Assemblyman Van Wagner was replaced by Assemblyman Vincent Ozzie Pellecchia in November of 1982. The first series of meetings included the full membership of the Commission, eleven members. After two general meetings of the full Commission, the remainder of meetings in 1983 involved mainly the three subcommittees appointed to discuss: 1) pension benefits issues, 2) health care benefits issues, and 3) pension investment issues. The effect of the Commission's work being undertaken almost exclusively by the subcommittees was that individual members were only aware of developments in one-third of the issue areas being reviewed by the Commission. No interim reports were presented by the subcommittees to the rest of the membership of the full Commission.

No meetings of the Commission or its subcommittees were held between March of 1983 and September of 1983. The combination of the subcommittee approach, the lack of general full Commission meetings and the lack of meetings for such a long period in 1983 contributed to a less than full understanding on the part of individual Commission members as to the direction in which the Commission's deliberations were heading.

An individual Commission member working with a specific subcommittee, meeting only sporadically at best with that subcommittee, was aware of only one portion of the Commission's deliberations and the proposed recommendations by the outside consultant. Members were not aware until almost the very end of the process in late 1983 and early 1984 of the recommendations being considered by the other subcommittees and the overall emphasis on cost containment in the Commission report.

It became apparent to a number of members of the Commission that a series of conclusions regarding cost savings and the characteristics to be included in the proposed new pension system had been reached even before the Commission began its discussions. Several of these conclusions related to cost containment and the "optimal" nature of a newly redesigned pension and health benefits program. At the first meeting of the full Commission, a report on pensions was presented by an outside consultant, who was identified as the staff to the pensions transition team of Governor Kean. The consultant referred to cost containment measures that had been discussed with the Governor, and that would be reviewed by the Commission. Such measures were described as being vital to contain the "runaway" pension costs in the near future. Lack of action would mean disaster, according to this consultant.

The full time consultant hired to staff the Governor's Pension Review Commission, Touche, Ross and Company, began by analyzing a large body of data to draw conclusions and propose alternative recommendations to the Commission for adoption. Certain decisions, assumptions and methodologies were used by this outside consultant with an apparent lack of direction being given to them by the Commission at large. The staff director of the Commission appeared to be in constant communication with the consultants whereas members of the Commission interacted with them at the few subcommittee meetings and even fewer general Commission meetings.

Alternative methodologies, assumptions and approaches suggested to the Touche, Ross consultants were received generally without comment but were never fully utilized in any of the analyses done for the Pension Commission's review, nor for inclusion into the final recommendations.

The total lack of meetings of the Pension Study Commission itself or its subcommittees between March, 1983 and September, 1983 cannot be underestimated. This detrimental lack of communication and discussion during this long period of time contributed to the feeling on the part of members of the Commission that work was proceeding without their guidance, under the sole authority of the staff director to the Commission and the consultants working in a vacuum. A series of letters sent to the chairman and the staff director of the Pension Study Commission by Assemblyman Ozzie Pellecchia questioning the lack of meetings, questioning the role of the outside consultants, requesting information regarding the contract signed with the outside consultant and the cost of such outside consultant went unanswered during that long period of time and remain unanswered to this date. The Governor did, however, issue Executive Order 48 on September 23, 1983 which moved back the reporting date of the Commission to March 15, 1984.

In conclusion, the perception exists among some members of the Pension Study Commission that the procedures and methodologies used by the Commission, its staff and the outside consultants were designed to minimize the participation of the individual Pension Study Commission members and to maximize the input of the consultants. These consultants used assumptions agreed to by only certain participants to produce alternative recommendations designed to achieve the maximum cost savings to the State in any newly designed pension system. There was no consideration for the fairness of this new pension system towards employees - the actual beneficiaries of pension and health systems. The impression of several commission members was that the commission was being used to ratify and legitimize a series of pre-determined conclusions of the current administration regarding the need to save State monies at the expense of employee pension and health benefits.

SECTION TWO

Section two consists of a discussion and critique of the assumptions and methodologies used by the outside staff consultants to describe the problem, produce an overview of the financial status and future financial needs of the current pension system, and thereby draw suggested alternatives for reforming the pension system.

Touche, Ross and Company, the outside consultant, painted an extremely grim picture of the financial status of the current pension system. The text of the report makes numerous references to the gross costs of the pension system increasing approximately 400 percent over the past 13 years and makes projections for the future in terms of both gross dollar amounts, per capita cost increases, and increases in pension and health care costs as a percentage of State aid to local school districts. Very little mention is made of the increase in pension and health care costs as a percentage of the State budget. When those costs are discussed, they are displayed in a graph showing the historical trends in total State employee benefit costs from 1976 to the year 2000, including the costs of the federal Social Security system and COLA adjustments. This chart also shows that total State employee benefit costs represented 18.2 percent of the General Fund in 1983, and are projected to rise to 22 percent in 1990. An even farther projection for the year 2000 shows such costs representing 25.2 percent of the General Fund. It must be noted that these costs include the projected increases in the cost of federal Social Security payments made by the State.

In the first instance, the increase of total State employee benefit costs from 18.2 percent of the General Fund to 22 percent of the General Fund over the next seven to ten years is not an enormous projected increase. This is especially the case since the projected increase is based on the recent period of rapid pension cost growth due to program liberalization and an increased State workforce. Both of these factors, it should be noted, are expected to remain fairly stable in the near term.

The COLA figures only apply to retired members of the State pension funds. State government chose to provide this benefit to date on an unfunded pay-as-you-go basis. A separate and complete analysis of this program would be less confusing to decision-makers who are being asked to make recommendations to put it on a financially sound basis.

In the second instance, the projected increase includes an estimated rise of almost 50 percent in the cost of Social Security payments made by the State to the federal government, costs which cannot be controlled by the State of New Jersey. Finally, it should be kept in mind that projections past the year 1990 to the year 2000 are speculative at best.

In conclusion, it would seem more appropriate to separate out for each active and retired member those pension and health benefit costs incurred by the State in a system that it can control and to look at those percentage increases simply as a percentage of the General Fund and not in gross terms.

A cursory analysis of the data included in the Pension Study Commission report indicates that two other areas of concern should be noted:

(1) The use of replacement income as a benchmark from which to measure a target pension benefit needed to provide an adequate post-retirement income as a specified percentage of pre-retirement income, used data from a federal study which one outside analyst has characterized as being dated and representing costs for those people who retired in 1980. Four years of inflation representing as much as a 30 percent increase have been ignored. This suggests that the post-retirement income substitution levels are, in fact, artificially low;

(2) Another analytic review of the data base used to develop recommendations questioned the accuracy of mortality tables used to project contributions sufficient to produce desired benefits levels for future retirees. If in fact these mortality tables were not the most recent, they could underestimate the amount of needed future funding or the negative impact on employee benefits.

In sum, we must question the credibility of the data and asumptions used by the consultants in developing recommendations as well as the objectivity of those who directed their efforts.

SECTION THREE

The Recommendatons of the Majority Report

Section three consists of a critical discussion of the recommendations adopted by the Commission which the members submitting this minority report find objectionable. It is our hope that the Governor will reconsider these recommendations.

In the interest of brevity, not all of the numerous recommendations of the Commission which are deemed unsatifactory will be discussed. Instead, the major proposed changes to the retirement benefit programs and to the health care programs will be critiqued. Passing reference will be made to the approach used in discussing the pension investment issue and suggestions for further analysis will be made.

As preface to this section, it must be pointed out to the Governor that in the view of the members signing this minority statement retirement payments benefits and health care programs benefits are most accurately viewed as part of the remuneration provided to employees. Health care benefits are specifically agreed to by both workers and management through the process of collective bargaining. In many cases in lieu of higher salary increases. It is the opinion of the minority members of the Commission that the Commission, in its deliberations, did not take this fact into sufficient consideration. In many cases these benefits were discussed and treated as if they were rewards granted to workers by the largesse of State government and not, in fact, substitutes for higher wages. It is no secret that the salary levels of State employees are substantially below what could be earned by similar employees in the private sector.

The authors of the report failed to point out the effect on locally-negotiated contracts, as they impact on retired members of local political subdivisons of the State, if these recommendations are implemented. One of the things that offsets a lower level of salary in any industry is the level of benefits provided. When comparing the salary levels of private sector and public sector employees this fact has not been given adequate weight in these discussions.

The following are the proposed changes contained in the majority report to the Governor which the Commission members participating in this minority statement feel most need re-examination.

1. THE REPORT RECOMMENDS THAT THE NEW PENSION SYSTEM APPLY TO ALL FUTURE EMPLOYEES AND TO ALL CURRENT EMPLOYEES BELOW THE AGE OF 40 WHO HAVE NOT ACHIEVED TEN YEARS OF SERVICE.

Requiring all future employees entering State service to participate in a newly designed pension system is in fact a reduction in benefits being offered in advance to future potential employees. Requiring that current employees under the age of 40 who have worked for the State for less than ten years enter the new system is nothing short of changing rules in the middle of the game. Employees under the age of 40 who have worked for the State for, as an example, nine years agreed to become State employees and worked those nine years with certain expectations regarding benefits which would be available to them when sufficient retirement credits were earned. The issue of fairness referred to in the Governor's original charge to the Commission seems to have been discarded in requiring that any employee forcibly enter a restructured pension system.

Additionally, to have two different pension systems for members of the same profession can only lead to a breakdown in morale and inevitable future pressure on elected officials to equalize the benefits once again.

2. THE REPORT RECOMMENDS RAISING THE RETIREMENT AGE FROM 60 TO 65 OR FROM AGE 55 TO 62 GIVEN 25 YEARS OF SERVICE.

This recommended change has an effect on workers at the end of their State service similar to the previous recommendation. It changes the rules once the game has begun by stretching out the amount of service that one must complete before full retirement benefits are achieved. This recommendation also has the effect of lowering the level of pension benefits available at younger age levels if early retirement is desired.

The report also fails to analyze the increase in costs to the state and its political subdivisions for salaries paid to employees forced to work an additional five to seven years. In our judgement the cost will wipe out any measure of saving projected by the authors of this report.

The effect that this recommendation would have on the concept of early retirement is catastrophic. In effect people would be required to work more years for a pension benefit, a benefit which may be awarded at a lower level. It should be pointed out that this recommendation is entirely counterproductive to the Governor's recently stated interest in promoting early retirement as witnessed by his recommendation for a $12 million program in the FY '85 budget for this purpose among public employees.

3. THIS REPORT RECOMMENDS A PROPOSED REDUCTION IN THE PENSION BENEFIT LEVEL TO A "DEFINED BENEFIT" LESS THAN ONE HALF THE SIZE OF THE CURRENT PENSION PAYMENT

The new pension system would be non-contributory and would eliminate the requirement that an employee contribute up to seven percent of his salary to the pension system. While on the surface this appears to be a benefit in favor of the employee and would increase take-home pay, it would however reduce the pension benefit by more than fifty percent.

Operating in tandem with this recommendation is the proposal to create an incentive savings plan to which employees could voluntarily make contributions. These funds would be invested and would provide an annuity to the employee at the time of retirement. Hopefully, this annuity would represent the difference between the lower defined benefit level and the current higher pension.

Making this proposal an option for the employee places a substantial responsibility of pension planning on his or her shoulders. Planning for one's pension is a laudable endeavor, however it must be pointed out that the attractiveness of higher weekly take home pay would be a seductive attraction to younger employees and might over-ride the long term planning needed to provide for an adequate level of future pension income. Asking an employee of age 25 or 30 to set aside a substantial portion of his or her salary on a voluntary basis to be invested in an annuity plan in order to make up the amount of pension benefit which is to be taken away by the proposed recommendations puts that employee in a difficult position. What we fear is that many employees will not opt to save at an adequate level to provide for future pension income and that many employees will see the short-term benefit of higher take home pay as more desirable than savings for future pension income.

In addition, it must be pointed out that many employees do not have the financial expertise to enable them to choose the appropriate savings vehicles to provide for the most advantageous pension income. In short, it is somewhat unfair to ask the employee to shoulder these responsibilities to ensure savings to the State. Employees will demand, and have strong arguments for, higher wages to make up for the overwhelming loss of benefits.

4. THE REPORT RECOMMENDED PREFUNDING THE COST OF LIVING ALLOWANCE (COLA) AND TO CAP IT AT A MAXIMUM OF THREE PERCENT PER YEAR.

While the concept of prefunding the cost of living allowance (COLA) incurred by the recommendations of this study, it comes with a provision which is highly objectionable to the undersigned members of the Commission.

Along with prefunding the COLA the recommendation includes a provison for capping the COLA adjustment at three percent of salary. The COLA currently floats as a percentage of the consumer price index. This percentage is currently sixty percent of the Consumer Price Index. What this recommendation proposes is that the COLA remain at sixty percent of the CPI but that it be capped at three percent in any given year. This would mean that even if the CPI were to rise above the five percent level the COLA would stay at three percent.

This provision as recommended would apply to every employee currently in the system and every current retired State employee. We feel the prefunding of the COLA is a desirable goal. However if included in the cost of prefunding of the COLA is the concept of capping it at three percent, the combination is not a desirable one. While we can support prefunding, we cannot agree that capping the COLA is an equitable recommendation.

Health Benefits Recommendations

The second category of recommendations to the Governor involve the health benefits program changes. All of the recommendations included in the majority report will wind up costing employees more and will eventually save the State money. We feel that this is an undue emphasis on saving money for the State at the expense of employees. In addition, a number of recommendations are designed to make it more difficult for employees to claim benefits by lowering the percentage of medical costs covered by health insurance, or, by increasing the criteria by which one would become eligible for benefits.

The specific recommendations that signatories to this minority report must oppose are:

POINT 1: THE INCREASE IN THE MAJOR MEDICAL DEDUCTIBLE 100 PERCENT FROM $100 TO $200.

POINT 2: THE INTRODUCTION OF CO-INSURANCE TO COVER HOSPITAL FEES.

This would increase the cost of a hospital stay by requiring the employeees to cover 10 percent of the first $2,000 in expenses. This could result in a $200 cost to the employee.

POINT 3: THE MANDATORY INCREASE IN THE COST OF DEPENDENT HEALTH COVERAGE.

According to the wording of the report, this is designed specifically to drive people out of the system. Such a blatant attempt to save money for the State would be accomplished by shifting dependents of State employees from the State health coverage for dependents of covered employees to some other system. In addition to being unfair, the concept serves to upset the fair rule of co-ordination of benefits applied to group health plans promulgated by the New Jersey Department of Insurance. We point out that if adopted, families with no substitute coverage would have even less to save for retirement and have even stronger arguments for increased wages to compensate for the loss. This could result in increased costs to the employee.

POINT 4: THE CONCEPT OF A HIGHER ANNUAL MAXIMUM OUT-OF-POCKET EXPENSE FOR HEALTH CARE.

According to the report, an individual is currently responsible for a maximum $500 per year out-of-pocket cost of health care, the maximum family cost is at $1,000. It is proposed that these levels rise to $1,000 maximum per individual and $2,000 maximum per family in a given calendar year. Not only does this represent a 100 percent increase, but it proposes the possible liability of an additional $1,000 per family which may have to be expended for health care in each calendar year. This situation could add to catastrophic family health problems, an additional economic burden, coming at a time when families are hard pressed to cover bills and meet existing expenses. Although the report speaks of a maximum out-of-pocket expenses this is misleading, since it does not include the significant penalties and loss in benefits for certain surgical procedures and treatment for mental and nervous disorders.

POINT 5: <u>THE PROPOSED CHANGES IN THE HEALTH CARE SECTION OF THIS REPORT ARE DRAFTED IN AN OVERWHELMING NEGATIVE VEIN</u>.

In almost every instance, discussions of changes to the system revolve around reductions of coverage if certain conditions are not met. For example, a reduction in benefits is proposed if certain procedures, such as a second opinion on voluntary surgery are not obtained. The Commission discussed the concept of positive re-enforcements for certain desirable behavior, such as obtaining the second medical opinion. A proposal was made to set the coverage level at such a rate that, if the second opinion were in fact obtained, the benefit would increase, rather than decrease if the second opinion is not obtained. This proposal was not adopted. Such positive incentives deserve more attention than was given by the Commission to other areas in health care benefits.

POINT 6: <u>THE TOTAL LACK OF ANY RECOMMENDATIONS IN THIS REPORT DESIGNED TO ATTACK THE PROBLEM OF RISING HEALTH CARE COSTS WHERE THAT PROBLEM ORIGINATES</u>: <u>WITHIN THE HEALTH CARE INDUSTRY</u>.

Numerous discussions in the public sector have taken place regarding the need to contain costs of the health care industry itself, both regarding hospitals and providers of health care. No where in this report is there any discussion of recommended improvements to the system to provide for this containment of costs at the root of the problem. In point of fact, there were discussions that took place in the health care subcommittee and at full Commission meetings regarding such programs as the PACE program run by the Blue Shield Company of New Jersey which is designed to contain health care provider fees. However, no recommendations regarding these concepts were included in the majority report. In fact the report focused primarily on national concepts neglecting the programs available in our own state unique to the rest of the nation.

The staff to the subcommittee indicated that the PACE system had been discussed and had in essence been dismissed as not being appropriate with no substantive analysis presented. Other examples of cost savings plans exist. These ideas, once again, deserve more evaluation and consideration than was afforded by the Commission report.

POINT 7: COMPARISONS OF HEALTH COVERAGE IN THE PUBLIC AND PRIVATE SECTORS.

Most of the changes recommended for health benefits programs are rationalized by comparisons to certain private sector plans. While the commission report bases conclusions on what it described as the less generous benefits of the private sector, it does not provide any substantial evidence that the private sector, indeed, has less generous benefits for its employees. It must also be reiterated that many of the current health benefits were obtained by State employees in lieu of increases in salary. Lower paid State employees have as one of the offsetting benefits of a paycheck comparably less than the private sector a basically adequate health care benefits package of which the State can be proud. To attempt now to reduce that health care package without a concurrent increase in take home base pay would be unreasonable.

Investment Policy Recommendations

In general the only concerns regarding the investment policy section of the majority report revolve around the concept of socially-sensitive investments. This report contains a significant lack of emphasis on the possibility of the State engaging in investments which would at the same time provide for the maximum rate of investment return and address some socially desirable goals. The report discusses socially sensitive investments in which social goals are not the prime objective but in which an agreed upon social good is an indirect goal. Investment policy moves toward that goal while the investments are earning a maximum possible return. While the full report discusses this concept, it dismisses it in somewhat summary terms by stating that it is usually impossible to address socially sensitive investment while at the same time achieving maximum return on investment dollars.

The signatories to this minority report are not asking that the Governor consider socially directed investment which could result in lower investment earnings to the State investment funds. Rather what we are asking the Governor to examine is an improvement of the State's effort in considering social goals while achieving maximum investment return. The concerted energy of the State can be directed towards emphasizing investments in certain economic sectors which will further social goals without a loss of investment earnings. Similarly, the State could make more of an attempt to avoid investments outside of the United States in countries whose economic and political systems are contrary to the principles upon which this country was founded, or in countries where economies are designed to undercut domestic American industries. Such investments could be engaged in while at the same time assuring the maximum possible return on those investment dollars.

It is the opinion of the signatories to this minority report that the majority report and for that matter the investment policies of the State give nothing more than passing reference to this approach. Such techniques appear to be dismissed as a goal which cannot be reached and in fact little effort is expended in trying to attain this goal. We would urge that the Investment Council continue to take sole responsibility for investment of state funds, but that recommendations, without mandate be made to the Council for more socially sensitive investment.

SECTION FOUR

Conclusion

At the organizational meeting of the Governor's Pension Study Commission in the Fall of 1982 then Treasurer Kenneth Biederman asked the legislative members of the Study Commission to agree to a moratorium on pension bills then pending in the State Legislature in order for this Study Commission to complete its analysis of its overall pension program in the State and to make its recommendations. Since that date, while such a moratorium was not universally followed, many legislators, in deference to the deliberations of the Commission, deferred action on pension reform bills they had not sponsored. The fifty or sixty pension bills which are currently awaiting action in the Legislature address a wide variety of issues, including liberalization of benefits and changes in coverage in both pension and health care. In general, few of these concerns are addressed anywhere in this report. Many of the concerns expressed in those bills are in fact swept aside by the recommendations of the majority report. Instead the recommendations propose to go in a totally different direction.

In sum, the majority report is a great disappointment to the members who sat on the Commission and who disagreed with much of the discussion and the procedures under which that discussion took place.

The pension systems of this state are seen as a benefit provided to employees who have engaged in state service at lower levels of remuneration than they could have received in the private sector. The health care benefits programs provided by the State are also seen as in lieu of salary benefits. The proposals contained in the majority report could be perceived as decimating both the pension and the health care programs.

Finally, one must question the effects that these proposals might have on the relationship between the State and its employees as well as on such concrete items as collectively bargained contracts. Certainly the health care changes would have to be included in contract negotiations. Pension changes would have to be included in bills to be considered by the Legislative branch of State government.

One cannot help but see the recommendations in the majority report as a series of promises broken, and lower relative paychecks endured for non-existent future rewards. The pernicious effect on State employees is to be deplored.

A final observation must relate to the costs and/or cost savings which are represented by the majority report recommendations. Implementation of the recommendations in this report today would result in an increase in costs to the State; increases due in major part to the prefunding of the cost-of-living allowance. These costs would not be exceeded by expected savings for at least five to ten years. Cost savings would then escalate past the year 2000 and result in major cost savings to the State after the turn of the century. However, what must be kept in mind is that the implementation of the majority recommendations, while saving the State some money after that initial period, would incur substantial costs in the short run. Such costs would be substanial both in real terms, in that these recommendations would result in increased demands for higher wage rates by State employees, and in the less abstract sense given the possible destruction of the good relationship between participants in the State benefits program and State government itself.

The Governor's press release which accompanied the full majority report, refers to the need for the 350,000 public employees who rely on government pension and benefits programs to work towards assuring a stable program. Indeed these workers are eager, we feel, to work towards a stable program. They must not be asked to accept a program which, reneges on hard won and badly needed benefits. We the members of the Governor's Pension Study Commission who have signed this minority statement feel that the Governor must avoid accepting the recommendations included in the majority report.