CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

Cost Analysis Report

EARLY RETIREMENT INCENTIVE PROGRAM

Fiscal Year Ended June 30, 2023

MALIA M. COHEN
California State Controller

March 2024

MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

March 29, 2024

The Honorable Gavin Newsom
Governor of the State of California
State Capitol, First Floor
Sacramento, CA 95814

Dear Governor Newsom:

I am pleased to provide you with the State Controller's cost analysis of the Early Retirement Incentive Program for members of the California State Teachers' Retirement System for fiscal year 2022-23. This report complies with Education Code section 14502.1(d).

This report was prepared based on limited number of annual audit reports. A total of 735 out of 935 school districts submitted their annual audit reports as of March 1, 2024.

If you have any questions regarding the enclosed report, please contact my Acting Chief Operating Officer, Cathy Leal, by telephone at (916) 552-8080. Thank you.

Sincerely,

Original signed by

MALIA M. COHEN

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MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

March 29, 2024

California State Legislature
State Capitol Building
Sacramento, CA 95814

Dear Members of the California State Legislature:

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Summary

In accordance with Education Code section 14502.1(d), the State Controller's Office (SCO) conducted a cost analysis of the Early Retirement Incentive Program for members of the California State Teachers' Retirement System (CalSTRS).

We prepared this report based on limited number of annual audit reports. A total of 735 out of 935 school districts submitted their annual audit reports as of March 1, 2024. Based on this limited data, during fiscal year (FY) 2022-23, a total of nine California local education agencies (LEAs), including school districts and county offices of education, participated in this program. In the prior year, six LEAs participated in the program.

The cost analysis was prepared using information included in LEA audit reports submitted to SCO for FY 2022-23. We reviewed the reports to determine the net savings or costs resulting from formal actions taken by LEAs to encourage the retirement of certificated or academic employees.

The CalSTRS Early Retirement Incentive Program resulted in a net cost of $745,698 during FY 2022-23. The total program cost was $3,474,878 through June 30, 2023, and was calculated based on one-time retirement contributions by the LEAs. The annual savings realized in FY 2022-23 is estimated to be $2,729,180. Accordingly, the total program cost will be recovered in 1.27 years. Based on data presented in this report, the LEAs will achieve cost savings in future years.

Background

Education Code section 14502.1(d) states:

> The Controller shall annually prepare a cost analysis, based on the information included in the audit reports for the prior fiscal year, to determine the net savings or costs resulting from formal actions taken by school districts and county offices of education pursuant to Sections 22714 and 44929, and shall report the results of the cost analysis to the Governor and the Legislature by April 1 of each year.

In addition, Education Code section 22714(a) states:

> Whenever the governing board of a school district or a community college district or a county office of education, by formal action, determines pursuant to Section 44929 or 87488 that, because of impending curtailment of, or changes in, the manner of performing services, the best interests of the district or county office of education would be served by encouraging certificated employees or academic employees to retire for service and that the retirement will result in a net savings to the district or county office of education, an additional two years of service credit shall be granted [to employees if certain specified conditions exist].

Scope and Methodology

During FY 2022-23, a total of nine LEAs participated in the CalSTRS Early Retirement Incentive Program. The audit reports for those LEAs must disclose the following in the Notes to the Basic Financial Statements:

- The number and type of positions vacated;
- The age, service credit, salary, and, separately, the benefits of the retirees receiving the additional service credit;

- A comparison of the salary and benefits of each retiree with the salary and benefits of the replacement employee, if any; and
- The resulting retirement cost, including interest, if any, and post-retirement healthcare benefit costs incurred by the employer.

SCO receives the annual audit reports of LEAs prepared by independent auditors and completes an extensive review of the financial and compliance information presented in the reports. In order to maintain consistency in the presentation of the data received, Education Code section 14502.1(c) prescribes the audit report disclosure criteria. The analysis presented in this report is based solely on the data disclosed in those audit reports.

Cost Analysis

This cost analysis was limited to the nine LEAs that participated in the CalSTRS Early Retirement Incentive Program for FY 2022-23. We compiled information from the LEAs' audited financial statements and verified the number of employees who participated in the program with CalSTRS to obtain the totals and averages shown in the following table. The table also shows cost data for FY 2020-21 and FY 2021-22 for purposes of comparison.

Fiscal Year	Average Age of Retiree (Years)	Average Years of Service Credit	Average Number of Positions Vacated	Total Annual Personnel Savings[1]	Total Additional One-Time Costs	Net (Cost) or Savings for the Initial Year[2]
2022-23	60.34	26.57	4.44	$ 2,729,180	$ 3,474,878	$ (745,698)
2021-22	60.57	26.17	8.17	$ 2,036,215	$ 4,611,972	$ (2,575,757)
2020-21	61.16	26.66	4.18	$ 2,295,611	$ 4,813,548	$ (2,517,937)

Source: LEA audit reports

[1] Current year's savings

[2] Net costs for the initial year the employees participated in the program is the difference between the total annual personnel savings and the total additional one-time costs.

Conclusion

As shown in the Table, for FY 2022-23, an average of 4.44 positions per participating LEA were vacated in exchange for the extra two years of service credit. The LEAs incurred additional one-time retirement costs totaling $3,474,878; these costs will be recovered in 1.27 years. Although some of the vacated positions were refilled during the year, the annual net savings of personnel costs is projected to be $2,729,180 on the presumption that, without the Early Retirement Incentive Program, all of the retirees would have chosen to continue working.

The payroll savings total is the difference between the payroll costs of retirees and the payroll costs of their less-costly replacements. However, as the replacements will receive periodic pay raises, the payroll savings total will decline by the amount of the raises. The net cost to the LEAs in FY 2022-23 was $745,698. Based on data presented in this report, we believe that the LEAs will achieve cost savings in future years.

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