

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

Cost Analysis Report

EARLY RETIREMENT INCENTIVE PROGRAM

Fiscal Year Ended June 30, 2017



BETTY T. YEE
California State Controller

March 2018



BETTY T. YEE
California State Controller

March 30, 2018

The Honorable Edmund G. Brown Jr.
Governor of the State of California
State Capitol, First Floor
Sacramento, CA 95814

Dear Governor Brown:

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 2016-17. This report complies with California Education Code section 14502.1(d).

Questions regarding the report should be directed to my Chief Operating Officer, George Lolas, at (916) 552-8080.

Sincerely,

Original signed by

BETTY T. YEE



BETTY T. YEE
California State Controller

March 30, 2018

California State Senate
State Capitol, Room 3044
Sacramento, CA 95814
ATTN: Daniel Alvarez, Secretary of the Senate

California State Assembly
State Capitol, Room 3196
Sacramento, CA 95814
ATTN: E. Dotson Wilson, Chief Clerk

Dear Senators and Assembly Members:

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 2016-17. This report complies with California Education Code section 14502.1(d).

Questions regarding the report should be directed to my Chief Operating Officer, George Lolas, at (916) 552-8080.

Sincerely,

Original signed by

BETTY T. YEE

Summary

In accordance with California 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).

During fiscal year (FY) 2016-17, a total of 15 California local education agencies (LEA), including school districts and county offices of education, participated in this program. In the prior year, 24 LEAs participated in the program.

The analysis was prepared using information included in LEA audit reports submitted to SCO for FY 2016-17. SCO did not perform any procedures to verify the accuracy of the information included in the LEA audit reports. SCO 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 \$1,130,665 during FY 2016-17. The total program cost was \$6,065,814 through June 30, 2017, and was calculated based on one-time retirement contributions by the LEAs. The annual savings realized in FY 2016-17 is estimated to be \$4,935,149. Accordingly, the total program cost will be recovered in 1.229 years. Based on data presented in this report, the LEAs will achieve savings in future years.

Background

California Education Code section 14502.1(d) states that the State 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, California 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

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, California Education Code section 14502.1(c) prescribes the specific format and audit report disclosure criteria. The analysis presented in this report is based solely on the data disclosed in those audit reports.

During FY 2016-17, a total of 15 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.

Cost Analysis

This cost analysis was limited to the 15 LEAs that participated in the CalSTRS Early Retirement Incentive Program for FY 2016-17. The LEA independent auditors did not perform any procedures to verify the accuracy of the early retirement information contained in the Notes to the Basic Financial Statements. SCO compiled information from the Notes to the Basic Financial Statements to obtain the totals and averages shown in Table 1. The table also shows cost data for FY 2014-15 and FY 2015-16 for purposes of comparison.

Table 1—Cost Analysis

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 Costs for the Initial Year ²
2016-17	61.67	25.74	7.13	\$ 4,935,149	\$ 6,065,814	\$(1,130,665)
2015-16	61.85	24.75	5.25	\$ 6,188,808	\$ 7,562,200	\$(1,373,392)
2014-15	62.07	25.40	4.78	\$ 5,813,511	\$ 7,550,549	\$(1,737,038)

Source: LEA annual audit reports

¹ Current year savings only.

² Net costs for the initial year in which 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 Table 1, for FY 2016-17, an average of 7.13 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 \$6,065,814; these costs will be recovered in 1.229 years. Although some of the vacated positions were refilled during the year, the annual net savings of personnel costs is projected to be \$4,935,149 on the presumption that, without the Early Retirement Incentive Program, all of the retirees would have chosen to remain on the job.

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 2016-17 was \$1,130,665. Based on data presented in this report, we believe the LEAs will achieve savings in future years.

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

www.sco.ca.gov