CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

Final Cost Analysis Report

EARLY RETIREMENT INCENTIVE PROGRAM

Fiscal Year Ended June 30, 2021

BETTY T. YEE
California State Controller

November 2022

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California State Controller

November 30, 2022

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 2020-21. This report complies with Education Code section 14502.1(d).

Due to the COVID-19 pandemic, all California local educational agencies received an automatic extension of the due date for submission of their annual audit reports. Per Education Code section 41020(h)(3), the due date was extended to January 31, 2022.

The interim cost analysis report dated March 30, 2022, was prepared based on a limited number of annual audit reports received as of February 24, 2022. This final cost analysis report is based on our review of all local education agency audit reports submitted for fiscal year 2020-21.

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

Sincerely,

Original signed by

BETTY T. YEE

300 Capitol Mall, Suite 1850, Sacramento, CA 95814 P.O. Box 942850, Sacramento, CA 94250 Fax: (916) 322-4404
www.sco.ca.gov

BETTY T. YEE
California State Controller

November 30, 2022

Members of the California State Legislature
State Capitol Building
Sacramento, CA 95814

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 2020-21. This report complies with Education Code section 14502.1(d).

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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). The analysis was based solely on information included in fiscal year (FY) 2020-21 audit reports submitted to SCO by local educational agencies (LEAs).

Due to the COVID-19 pandemic, all California LEAs received an automatic extension of the due date for submission of their annual audit reports. Per Education Code section 41020(h)(3), the due date was extended to January 31, 2022.

The interim report issued March 30, 2022, was prepared based on a limited number of annual audit reports received as of February 24, 2022. This final cost analysis report is based on reports for FY 2020-21, submitted by all 11 LEAs participating in the Early Retirement Incentive Program.

The CalSTRS Early Retirement Incentive Program resulted in a net cost of $2,517,937 during FY 2020-21. The total program cost was $4,813,548 through June 30, 2021, and was calculated based on one-time retirement contributions by the LEAs. The annual savings realized in FY 2020-21 is estimated to be $2,295,611. Accordingly, the total program cost will be recovered in 2.1 years. Based on data presented in this report, the LEAs will achieve cost savings in future years.

Background

The CalSTRS Early Retirement Incentive Program is intended to encourage the early retirement of certificated and academic employees. Statute requires LEAs to submit annual audit reports to SCO. Statute further requires SCO to propose audit guide content instructing LEAs how to implement the program, and to prepare a cost analysis based on the information in those reports.

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].

Education Code section 14502.1(c) states:

> For the audit of school districts or county offices of education electing to take formal action pursuant to Sections 22714 and 44929, the audit guide content proposed by the Controller shall include, but not be limited to, the following:
>
> (1) The number and type of positions vacated.
>
> (2) The age and service credit of the retirees receiving the additional service credit provided by Sections 22714 and 44929.

(3) A comparison of the salary and benefits of each retiree receiving the additional service credit with the salary and benefits of the replacement employee, if any.

(4) The resulting retirement cost, including interest, if any, and postretirement health care benefits costs, incurred by the employer.

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.

LEAs' annual audit reports are prepared by independent auditors. The LEAs' independent auditors do not perform any procedures to verify the accuracy of the early retirement information contained in the Notes to the Basic Financial Statements.

Scope and Methodology

During FY 2020-21, a total of 11 LEAs participated in the CalSTRS Early Retirement Incentive Program. Our cost analysis was based solely on the data disclosed in FY 2020-21 audit reports submitted by the LEAs that participated in the program in that fiscal year.

SCO reviewed the financial and compliance information presented in the LEAs' audit reports to determine the net savings or costs resulting from the CalSTRS Early Retirement Incentive Program. However, SCO did not perform any procedures to verify the accuracy of the information included in the LEAs' audit 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 reports 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

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 2018-19 and FY 2019-20 for purposes of comparison.

Table 1—Final 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 (Cost) or Savings for the Initial Year[2]
2020-21	61.16	26.66	4.18	$ 2,295,611	$ 4,813,548	$ (2,517,937)
2019-20	61.69	27.98	7.07	$ 5,710,810	$ 8,132,528	$ (2,421,718)
2018-19	62.66	26.02	5.57	$ 3,836,903	$ 5,531,272	$ (1,694,369)

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 Table 1, for FY 2020-21, an average of 4.18 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 $4,813,548; these costs will be recovered in 2.1 years. Although some of the vacated positions were refilled during the year, the annual net savings of personnel costs is projected to be $2,295,611 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 2020-21 was $2,517,937. Based on data presented in this report, we believe that the LEAs will achieve cost savings in future years.

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