STATE TEACHERS' RETIREMENT SYSTEM

Cost Analysis Report

EARLY RETIREMENT INCENTIVE PROGRAM

Fiscal Year Ended June 30, 2007

JOHN CHIANG
California State Controller

March 2008

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California State Controller

March 28, 2008

California State Legislature
State Capitol
Sacramento, CA 95814

Dear Senators and Assemblymembers:

I am pleased to provide you with the State Controller's cost analysis of the Early Retirement Incentive Program for members of the State Teachers' Retirement System for fiscal year 2005-06. This report complies with Education Code section 14502.1(d).

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

Sincerely,

Original signed by

JOHN CHIANG
California State Controller

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Cost Analysis Report

Summary

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

During fiscal year (FY) 2006-07, a total of 68 California local education agencies (LEAs) (school districts and county offices of education) participated in this program. This was an increase from the prior year, when 57 LEAs participated in the program.

The analysis was prepared using information included in LEA audit reports submitted to the State Controller's Office for FY 2006-07. We did not perform any procedures to verify the accuracy of the information included in the LEA audit reports. Those reports were reviewed to determine the net savings or costs resulting from formal actions taken by LEAs to encourage the retirement of certificated or academic employees.

An analysis of the audits of LEAs indicates that the STRS Early Retirement Incentive Program resulted in a net cost of $5,119,163 during FY 2006-07. The total program cost was $20,937,647 through June 30, 2007, and was calculated based on one-time retirement contributions by the LEAs. The annual savings realized in FY 2006-07 is estimated to be $15,818,484. Accordingly, the total program costs will be recovered in 1.32 years. Based upon data presented in this report, the LEAs will continue to achieve cost savings in future years.

Background

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, 22714.5, 44929, and 44929.1, 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

The State Controller's Office receives the annual audit reports of LEAs prepared by independent auditors. The State Controller's Office 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 specific format and audit report disclosure criteria. The analysis presented in this report was based solely on the data disclosed in those audit reports.

During FY 2006-07, a total of 68 LEAs participated in the STRS Early Retirement Incentive Program. The audit reports for those LEAs must disclose the following in the supplementary information:

- The number and type of positions vacated;
- The age, service credit, salary, and 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 68 LEAs that participated in the STRS Early Retirement Incentive Program. The supplementary information in the LEAs' audit reports was compiled to obtain the totals and averages shown in Table 1; the LEAs' independent auditors did not perform any procedures to verify the accuracy of the supplementary information relative to early retirement. We did not perform any procedures to verify the accuracy of the supplementary information included in the LEA audit reports. The table also shows cost data for FY 2004-05 and FY 2005-06 for use in making comparisons.

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 Cost for the Initial Year [2]
2006-07	60.58	26.33	5.12	$ 15,818,484	$ 20,937,647	$ 5,119,163
2005-06	60.63	26.27	4.61	$ 8,962,854	$ 13,715,777	$ 4,752,923
2004-05	59.99	26.38	5.38	$ 15,647,902	$ 21,519,140	$ 5,871,238

Source: LEA annual audit reports

[1] Current-year savings only.

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

Conclusion

As shown in Table 1, for FY 2006-07, 5.12 positions, on average, per participating LEA were vacated in exchange for the extra two years of service credit. The LEAs incurred additional one-time retirement costs totaling $20,937,647, which will be recovered in 1.32 years. Although some of the vacated positions were refilled during the year, the annual net savings of personnel costs is projected to be $15,818,484 under the premise 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, since 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 2006-07 was $5,119,163. Based on data presented in this report, the LEAs will continue to achieve cost savings in future years.

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