

STATE TEACHERS' RETIREMENT SYSTEM

Cost Analysis Report

EARLY RETIREMENT INCENTIVE PROGRAM

Year Ended June 30, 2002



STEVE WESTLY
California State Controller

March 2003



STEVE WESTLY
California State Controller

March 28, 2003

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 2001-02. This report complies with Chapter 20, Statutes of 1994.

If you have any questions regarding the report, please contact Walter Barnes, Chief Deputy Controller, Finance, at (916) 445-2636.

Sincerely,

Original signed by

STEVE WESTLY
State Controller

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Cost Analysis Report

Summary

In accordance with *Education Code* Section 14502(c), 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 2001-02, a total of 19 California school districts and county offices of education participated in this program.

This was a slight decrease from the prior year, when 20 school districts participated in the program.

The analysis was prepared using information included in school district and county office of education audit reports submitted to the State Controller's Office for fiscal year 2001-02. Those reports were reviewed to determine the net savings or costs resulting from formal actions taken by school districts and county offices of education to encourage the retirement of certificated or academic employees.

An analysis of the audits of local educational agencies indicates that the STRS Early Retirement Incentive Program resulted in a net cost of \$1,917,826 during fiscal year 2001-02. The total program cost was \$7,165,233 through June 30, 2002, and was calculated based on one-time retirement contributions by the school districts. The annual savings realized in fiscal year 2001-02 is estimated to be \$5,247,407. Accordingly, the total program costs will be recovered in 1.37 years. Based upon data presented in this report, the agencies will continue to achieve cost savings in future years.

Background

Chapter 20, Statutes of 1994, added Section 14502(c) to the *Education Code*, which 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, *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 taken prior to January 1, 1999, 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 the retirement of certificated employees or academic employees to retire for service and that the retirement will either: result in a net savings to the district or county office of education; result in a reduction of the number of certificated employees or academic employees as a result of declining enrollment; or result in the retention of certificated employees who are credentialed to teach in, or faculty who are qualified to teach in, teacher shortage disciplines, including, but not limited to, mathematics and science, an additional two years of service shall be credited to [employees if certain specified conditions exist].

Scope and Methodology

The State Controller's Office receives the annual audit reports of school districts and county offices of education 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, the State Controller's Office recommends a specific format and audit report disclosure criteria in its publication, *Standards and Procedures for Audits of California K-12 Local Educational Agencies*. The analysis presented in this report was based solely on the data disclosed in those audit reports.

During fiscal year 2001-02, a total of 19 school districts and county offices of education participated in the STRS Early Retirement Incentive Program. The audit reports for those agencies 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 additional retirement (including interest, if any), post-retirement health benefits, and administrative costs resulting from the program.

Cost Analysis

This cost analysis was limited to the 19 school districts and county offices of education that participated in the STRS Early Retirement Incentive Program. The supplementary information in the school districts' audit reports was compiled to obtain the totals and averages shown in Table 1. The school districts' independent auditors did not perform any procedures to verify the accuracy of the supplementary information relative to early retirement. The table also shows cost data for fiscal years 1999-2000 and 2000-01 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 Savings¹	Total Additional One-Time Costs	Net Cost for the Initial Year²
2001-02	59.88	26.34	7.16	\$5,247,407	\$7,165,233	\$1,917,826
2000-01	60.12	28.20	6.70	5,735,904	6,255,150	519,246
1999-2000	59.71	27.21	6.02	9,151,845	12,862,544	3,710,699

Source: School district annual audit reports

¹ Current-year savings only; cumulative total is not available because school district reports reflect only current-year retiree costs and savings.

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

Conclusion

As shown in Table 1, for fiscal year 2001-02, an average of 7.16 positions per participating school district were vacated in exchange for the extra two years of service credit. The local educational agencies incurred additional one-time retirement costs totaling \$7,165,233, which will be recovered in 1.37 years. Although some of the vacated positions were refilled during the year, the annual net savings of personnel costs is projected to be \$5,247,407 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 agencies in fiscal year 2001-02 was \$1,917,826. Based upon data presented in this report, the agencies will continue to achieve cost savings in future years.

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