CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

Cost Analysis Report

EARLY RETIREMENT INCENTIVE PROGRAM

Fiscal Year Ended June 30, 2024

MALIA M. COHEN

CALIFORNIA STATE CONTROLLER

April 2025

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April 2, 2025

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 fiscal year 2023-24 cost analysis of the Early Retirement Incentive Program for members of the California State Teachers' Retirement System. This report complies with California Education Code section 14502.1(d).

Questions regarding the report should be directed to my Chief Operating Officer, Cathy Leal, at 916-552-8080. Thank you.

Sincerely,

Original signed by

Malia M. Cohen

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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) 2023-24, a total of seven California local education agencies (LEA), including school districts and county offices of education, participated in this program. In the prior year, 10 LEAs participated in the program.

The analysis was prepared using information included in LEA audit reports submitted to SCO for FY 2023-24. 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 savings of $167,860 during FY 2023-24. The total program cost was $2,064,852 through June 30, 2024, and was calculated based on one-time retirement contributions by the LEAs. The annual savings realized in FY 2023-24 is estimated to be $2,232,712. Accordingly, the total program cost will be recovered in one year. Based on data presented in this report, the LEAs will achieve cost savings in future years.

Background

California 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, 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 audit report disclosure criteria. The analysis presented in this report is based solely on the data disclosed in those audit reports.

During FY 2023-24, a total of seven 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 seven LEAs that participated in the CalSTRS Early Retirement Incentive Program for FY 2023-24. 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 2021-22 and FY 2022-23 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	Total Additional One-Time Costs	Net Costs (Savings) for the Initial Year
2023-2024	61.13	28.93	3.57	$ 2,232,712	$ 2,064,852	$ (167,860)
2022-2023	60.34	26.57	4.44	2,729,180	3,474,878	745,698
2021-2022	60.57	26.17	8.17	2,036,215	4,611,972	2,575,757

Conclusion

As shown in Table 1, for FY 2023-24, an average of 3.57 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 $2,064,852; these costs will be recovered in one year. Although some of the vacated positions were refilled during the year, the annual net savings of personnel costs is projected to be $2,232,712 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 savings to the LEAs in FY 2023-24 was $167,860. Based on data presented in this report, we believe that the LEAs will achieve cost savings in future years.

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