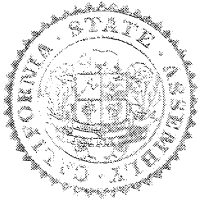


REPORT OF THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

225

IMPACT OF LEGISLATION GRANTING
RETIREMENT CREDIT FOR SCHOOL EMPLOYEES'
ACCUMULATED AND UNUSED SICK LEAVE

DECEMBER 1977



Joint Legislative Audit Committee

OFFICE OF THE AUDITOR GENERAL

California Legislature



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NATE HOLDEN
LOS ANGELES

December 20, 1977

The Honorable Speaker of the Assembly
The Honorable President pro Tempore of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's report on the impact of Chapters 89 and 1398, Statutes of 1974. This legislation allowed accumulated sick leave to be counted as public school service credit when determining retirement benefits. It was represented that a decrease in sick leave would result in cost savings because of decreased district expenditures for substitute teachers and non-certificated employees. The concept has backfired and the taxpayers have suffered additional school costs to the extent of \$43 million and rising.

The auditors are Thomas W. Hayes, Assistant Auditor General, and Eugene T. Potter.

Respectfully submitted,

MIKE CULLEN
Chairman

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SUMMARY

Chapters 89 and 1398, Statutes of 1974 provided retirement credit for accumulated and unused sick leave of school employees who are members of the State Teachers' Retirement System (STRS) or the Public Employees' Retirement System (PERS). School districts are required to pay the resulting costs. The legislation did not provide for reimbursement to school districts because there were projected savings resulting from decreased costs of hiring substitutes as well as costs resulting from the sick leave credit. The legislation required the Auditor General to conduct a study of the savings and costs and report the results to the Legislature.

Since the effective dates of the legislation, we identified \$43 million in additional costs to school districts throughout the State; however, there were no significant offsetting savings. Of the \$43 million cost, \$34 million was attributed to certificated school employee members of STRS and \$9 million was attributed to classified school employee members of PERS. There has not been any significant change in school employee sick leave usage as a result of the legislation, and the school districts have incurred the cost of sick leave credit while not receiving any identifiable savings.

INTRODUCTION

In response to Chapters 89 and 1398 of the Statutes of 1974, we have analyzed the impact of legislation allowing school employees to receive retirement credit for accumulated and unused sick leave. This examination was conducted under the authority vested in the Auditor General by Section 10527 of the Government Code.

This report presents an analysis of: (1) employee sick leave usage prior to and subsequent to the sick leave credit legislation, (2) employee awareness and understanding of the legislation, (3) effect of the legislation on employee sick leave usage, and (4) the costs of retirement contributions incurred by school districts as a result of the legislation.

The report is divided into two sections. Section I responds to Chapter 89, Statutes of 1974 which required a survey of school districts to determine the savings and costs resulting from granting retirement credit for unused sick leave to certificated school employee members of the State Teachers' Retirement System (STRS). Section II responds to Chapter 1398, Statutes of 1974 which directed the Auditor General to determine the costs and savings resulting from granting retirement credit to school employees who are members of the Public Employees' Retirement System (PERS). Although the two acts are similar, there are distinct differences between them, such as the methods of computing service credit and procedures for collecting retirement contributions from school districts.

Retirement Credit for Unused Sick Leave

School employees who are members of STRS or PERS receive retirement credit for accumulated and unused sick leave at retirement. School members of STRS receive a proportionate amount of service credit based upon the relationship between the number of unused sick leave days and the total days required to be served during the final year of service. The credit is included in computing the length of service for retirement benefits. School members of PERS are credited with four-thousandths of a year of service for each accumulated unused day of sick leave.

The 1974 legislation which provided retirement credit for unused sick leave did not provide reimbursement, appropriation or obligation for reimbursement to any school districts or local agencies because it was anticipated that the legislation would also result in savings to offset the additional costs. The legislation also required the Auditor General to conduct a study of the costs and savings between the effective date of the acts and the conclusion of the 1976-77 school year.

The costs arising from the legislation are monthly contributions by school districts for retirement credit for accumulated unused sick leave of school members of PERS and calculated payments at retirement for school members of STRS. The savings arising from the legislation were anticipated to result from reduced expenditures for substitutes because of reduced sick leave usage.

Scope of Review

In fiscal year 1976–77 there were 1,042 school districts and 70 community college districts statewide employing approximately 280,000 members of STRS and 180,000 members of PERS. To determine the impact of sick leave credit for retirement benefits, we selected a random sample of over 1,100 school employees who are members of either PERS or STRS and forwarded a questionnaire to each employee and a separate questionnaire to each employee's school district.

The district questionnaires provided information such as the actual amount of sick leave used by the employee from July 1, 1971 through April 30, 1977, whether a substitute worker is required during the employee's absence, number of sick leave days earned each year, etc. The employee questionnaire identified whether employees were aware of sick leave credit for retirement, whether they understood the benefit, whether retirement credit influenced their use of sick leave, etc.

We analyzed the questionnaire data to determine if there has been a change in sick leave usage since the legislation passed and to determine if the legislation has influenced sick leave usage.

SECTION I

IMPACT OF LEGISLATION
GRANTING RETIREMENT CREDIT FOR
UNUSED SICK LEAVE TO
CERTIFICATED SCHOOL EMPLOYEES
WHO ARE MEMBERS OF THE
STATE TEACHERS' RETIREMENT SYSTEM

STUDY RESULTS

CERTIFICATED SCHOOL EMPLOYEES SICK
LEAVE CREDIT FOR RETIREMENT HAS
COST SCHOOL DISTRICTS APPROXIMATELY
\$34 MILLION SINCE 1974

Chapter 89, Statutes of 1974 has cost school districts in excess of \$34 million for retirement contributions related to sick leave credit for certificated employees. The expected savings from decreasing the costs of hiring substitutes did not materialize because sick leave usage has not been significantly reduced.

Employee's Retirement Credit

Chapter 89, Statutes of 1974 relates to certificated school employees who are members of the State Teachers' Retirement System (STRS). The legislation:

- Requires accumulated and unused sick leave of certificated school employees to be counted as a proportionate amount of service credit in computing length of service for retirement benefits under the State Teachers' Retirement System
- Requires the employing school district to pay the present value of the unused sick leave service credit to the Teachers' Retirement Fund at retirement

- Provides neither appropriation nor obligation for reimbursement because anticipated savings would offset costs.

At age 60 with five years or more of credited California service, an employee's normal retirement benefit is two percent of final compensation for each year of credited service. Final compensation is defined as the average salary earnable for the highest three consecutive years of credited California service. Benefits are adjusted for early retirement or late retirement.

Unused sick leave is counted as a proportionate amount of service credit in computing length of service for retirement benefits. For example, a certificated full-time teacher employed under 180-day contracts with a final compensation of \$18,000 would receive retirement benefits of approximately 17 cents per month for each day of unused sick leave if retired at age 60 with at least five years credited service. By accumulating 180 days of sick leave, the employee would be credited with one full year of service credit, worth a retirement benefit of \$30 per month. It would take the employee 18 years to accumulate 180 days of sick leave if the employee earned the normal ten days per year and used no sick leave.

No Change in Sick Leave Usage

There has not been a significant change in sick leave usage by certificated employees since the legislation granting retirement credit for unused and accumulated sick leave; therefore, school districts have not had any significant savings as a result of decreased sick leave usage by certificated employees. Less sick leave usage reduces the districts' costs in hiring substitutes. When absent, approximately 80 percent of certificated school employees require substitutes.

We conducted a statewide survey to determine the legislation's effect on sick leave usage. We measured sick leave from fiscal year 1971-72 to the conclusion of fiscal year 1976-77. We also conducted a study to determine (1) if employees are aware of retirement credit for unused sick leave, (2) if employees understand the benefit, and (3) if the legislation affected their usage.

Tables 1 and 2 show that there has not been a significant change in sick leave usage between fiscal years 1971-72 and 1976-77 for school members of STRS.

TABLE 1
 CERTIFICATED SCHOOL EMPLOYEES
 AVERAGE NUMBER OF SICK LEAVE DAYS PER EMPLOYEE
FISCAL YEARS 1971-72 - 1976-77

<u>Fiscal Year</u>	<u>Employees Requiring Substitutes</u>	<u>Employees Not Requiring Substitutes</u>	<u>All Employees</u>
1976-77	6.1 days	3.6 days	5.5 days
1975-76	5.4	3.7	5.0
1974-75	5.8	3.7	5.4
1973-74*	5.4	4.2	5.1
1972-73	5.6	5.5	5.6
1971-72	5.7	2.8	5.1

* Legislation granting sick leave credit toward retirement became effective March 21, 1974.

TABLE 2
 CERTIFICATED SCHOOL EMPLOYEES
 RELATIVE FREQUENCY DISTRIBUTION
 OF SICK LEAVE USAGE
FISCAL YEARS 1971-72 - 1976-77

<u>Number of Days Sick Leave Used</u>	<u>Percentages of Employees Using The Number of Days Indicated or Less</u>					
	<u>FY 76/77</u>	<u>FY 75/76</u>	<u>FY 74/75</u>	<u>FY 73/74*</u>	<u>FY 72/73</u>	<u>FY 71/72</u>
3 or less	49%	47%	49%	50%	45%	53%
6 or less	69	68	70	69	66	72
9 or less	82	85	84	85	82	86
12 or less	91	93	92	94	91	93

* Legislation granting sick leave credit toward retirement became effective March 21, 1974.

Our sample indicates that between 12 and 22 percent of the employees used half of the sick leave reported in our study. Only four or five percent of the employees used more than 15 days of sick leave in any one year. Because the average can be distorted by a few heavy users of sick leave, we excluded the four or five percent of employees who used more than 15 days in order to measure the usage of the majority of employees. Excluding those employees using over 15 sick leave days from the analysis, the average sick leave used per employee remained relatively stable (Table 3).

TABLE 3

CERTIFICATED EMPLOYEE AVERAGE
ANNUAL SICK LEAVE USAGE
FISCAL YEARS 1971-72 - 1976-77

<u>Fiscal Year</u>	<u>Average Days Used Per Employee (All Employees)</u>	<u>Average Days Used (Employees Using 15 days or less)</u>	<u>Percent of Total Employees Using 15 days or less</u>
1976-77	5.5	3.8	95%
1975-76	5.0	4.3	96
1974-75	5.4	4.3	96
1973-74	5.1	4.2	96
1972-73	5.6	4.5	96
1971-72	5.1	3.8	95

Cost to School Districts

When a certificated school employee retires, the school district determines the retiree's unused sick leave balance and calculates

the present value* of the unused sick leave service credit based upon formulas provided by STRS. The district then pays the present value to the Teachers' Retirement Fund.

School districts have paid approximately \$34 million in present value contributions related to sick leave credit of certificated employees who retired since March 21, 1974, the effective date of the legislation allowing sick leave service credit, through the end of the school year 1976-77.

For fiscal year 1976-77, school districts paid approximately \$11 million in present value retirement contributions related to sick leave credit of certificated employees. We estimate that the average annual sick leave usage per employee would have to be reduced by 25 percent (1.4 days) to reduce the cost of hiring substitutes sufficiently to offset the \$11 million cost to the districts.

Legislative Impact on Employee Attitude

The responses received from a questionnaire survey of certificated school employees generally confirmed that the legislation has not influenced sick leave usage. Responses were anonymous, and employees in the sample were asked what effect the policy of allowing unused sick leave for retirement benefits has had on their sick leave usage. The responses were:

* The present value is the amount the school district must pay to the Teachers' Retirement Fund to pay the retirement benefit over the estimated life of the retiree.

- 2 percent increased their sick leave usage
- 8 percent decreased their sick leave usage
- 90 percent have not changed their sick leave usage.

According to the questionnaire responses, 82 percent of the certificated employees were aware of the benefit, but only 35 percent understood the extent of the benefit.

CONCLUSIONS

Legislation granting retirement credit for unused sick leave to school employee members of STRS has cost school districts over \$34 million; however, the districts have not received the projected savings to offset those costs.

The average number of sick leave days used per employee has not significantly changed as a result of the legislation; therefore, no significant savings in the cost of hiring substitutes were realized.

Employees are generally unfamiliar or unaware of the policy allowing retirement credit for unused sick leave.

SECTION II

IMPACT OF LEGISLATION
GRANTING RETIREMENT CREDIT FOR
UNUSED SICK LEAVE TO
CLASSIFIED SCHOOL EMPLOYEES
WHO ARE MEMBERS OF THE
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

CLASSIFIED SCHOOL EMPLOYEES'
SICK LEAVE CREDIT FOR RETIREMENT
HAS COST SCHOOL DISTRICTS APPROXIMATELY
\$9 MILLION SINCE 1974

Legislation permitting classified* school employee members of the Public Employees' Retirement System (PERS) to receive retirement credit for unused sick leave has cost school districts approximately \$9 million. The expected savings to offset the cost did not occur because there has not been a reduction of sick leave usage necessary to reduce the districts' cost of hiring substitutes.

Employees' Retirement Benefit

Chapter 1398, Statutes of 1974 provides that a school employee member of PERS shall be credited at retirement with four-thousandths of a year of service for each unused day of sick leave. The legislation also provides that there is no reimbursement to school districts because savings as well as costs should result. The legislation directs the Auditor General to determine the costs and savings and to report the findings to the Legislature.

At age 60 school employee members of PERS are guaranteed a service retirement allowance of two percent per year of their final compensation for each year of credited service. Final compensation is the

* Classified school employees are noncertificated employees such as bus drivers, maintenance persons, etc.

average salary rate over the last three consecutive years of employment unless the member elects a different period. Retirement can occur before age 60 on a discounted basis or between ages 60 and 63 at an increased benefit rate.

Each day of unused sick leave is credited for retirement at four-thousandths of a year of service credit. For example, a classified school employee with final compensation of \$12,000 would receive eight cents per month retirement benefit for each unused day of sick leave if retired at age 60. By accumulating 250 days of unused sick leave, the employee would earn one year of service credit or \$20 per month. It would take an employee 25 years, earning ten days per year and not using any sick leave, to accumulate 250 days of sick leave.

School districts are required to pay sick leave related retirement contributions to PERS based on 0.23 percent of the wages of PERS members. Between the effective date of the legislation, September 26, 1974, and June 30, 1977, the retirement contribution cost to the districts was approximately \$9 million.

No Change In Sick Leave Usage

School districts have not received any significant savings as a result of sick leave credit for retirement because the sick leave absences for classified employees have not been reduced. Savings would primarily

result from a reduction in the cost of hiring substitutes if employees reduced their sick leave usage. Approximately 42 percent of the classified school employees in our sample required substitutes when absent.

We contacted the employing school district of each classified employee in a statewide random sample. The average sick leave days used per employee was measured for each of three years prior to and subsequent to the legislation allowing sick leave credit for retirement. There has not been a significant change in the average amount of sick leave used (Table 4) or in the percentage of employees using varying numbers of sick leave days (Table 5).

TABLE 4
 CLASSIFIED SCHOOL EMPLOYEES
 AVERAGE NUMBER OF SICK LEAVE DAYS
 USED PER EMPLOYEE
FISCAL YEARS 1971-72 - 1976-77

<u>Fiscal Year</u>	<u>Employees Requiring Substitutes</u>	<u>Employees Not Requiring Substitutes</u>	<u>All Classified Employees</u>
1976-77	7.4 days	6.0 days	6.7 days
1975-76	7.9	6.4	7.1
1974-75	7.1	6.3	6.7
1973-74*	8.3	6.5	7.5
1972-73	6.0	7.4	6.6
1971-72	6.5	5.3	5.8

*The legislation permitting sick leave credit toward retirement became effective September 26, 1974.

TABLE 5
 CLASSIFIED SCHOOL EMPLOYEES
 RELATIVE FREQUENCY DISTRIBUTION
 OF SICK LEAVE USAGE
FISCAL YEARS 1971-72 - 1976-77

<u>Number of Sick Leave Days Used</u>	Percentages of Employees Using The Number of Days Indicated or Less					
	<u>FY 76/77</u>	<u>FY 75/76</u>	<u>FY 74/75</u>	<u>FY 73/74</u>	<u>FY 72/73</u>	<u>FY 71/72</u>
3 or less	37%	40%	40%	36%	42%	49%
6 or less	62	57	59	57	64	68
9 or less	75	75	73	76	79	84
12 or less	87	85	88	86	88	88

* The legislation permitting sick leave credit toward retirement became effective September 26, 1974.

Approximately seven to nine percent of the classified school employees in our sample used over 15 sick leave days. To determine if the average sick leave usage per employee remained constant because of a relatively few heavy users of sick leave, a separate analysis was made for employees using 15 days or less sick leave. There still was no significant change in the average sick leave usage per employee (Table 6).

TABLE 6
 CLASSIFIED SCHOOL EMPLOYEES
 AVERAGE NUMBER OF SICK LEAVE DAYS PER EMPLOYEE
FISCAL YEARS 1971-72 - 1976-77

<u>Fiscal Year</u>	<u>Average Days Used All Employees</u>	<u>Average (Employees Using 15 days or less)</u>	<u>Percentage of Employees Using 15 days or less</u>
1976-77	6.7	5.0	92%
1975-76	7.1	5.3	93
1974-75	6.7	5.0	91
1973-74	7.5	5.1	91
1972-73	6.6	4.7	92
1971-72	5.8	4.1	93

Legislative Impact on Employee Attitude

In a statewide questionnaire survey of school employee members of PERS, employees anonymously responded to indicate their familiarity with the legislation and the legislation's effect on their sick leave usage.

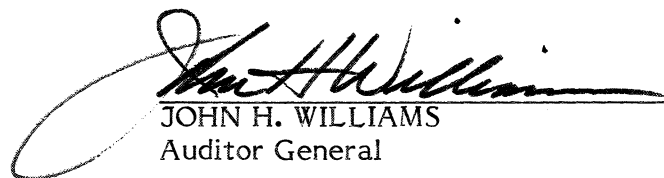
Approximately 71 percent of the classified school employees were aware of sick leave credit toward retirement, but only 23 percent were familiar with the extent of the benefit. They indicated that the policy of allowing unused sick leave for retirement benefits had the following effect on their sick leave usage:

- 2 percent increased sick leave usage
- 4 percent decreased sick leave usage
- 94 percent indicated no change in sick leave usage.

CONCLUSION

School districts have incurred a cost of approximately \$9 million as a result of legislation permitting retirement benefits for school employee members of the Public Employees' Retirement System. The legislation was expected to decrease sick leave usage and produce savings to offset the costs by reducing the need for substitutes; however, there has not been a significant change in sick leave usage since the legislation passed.

Respectfully submitted,


JOHN H. WILLIAMS
Auditor General

December 15, 1977

Staff: Thomas W. Hayes, Assistant Auditor General
Eugene T. Potter

OTHER PERTINENT INFORMATION

Regarding the provisions of Chapters 89 and 1398 of the Statutes of 1974 which provided retirement credit for unused sick leave of school employees, we asked the Legislative Counsel whether the State would be required to reimburse school districts if our survey determines that costs exceed savings.

The Legislative Counsel (Opinion No. 1095 -- Appendix A) states "The State would not be required to reimburse school districts if the Auditor General's survey determines that costs exceed savings."

STATE TEACHERS' RETIREMENT SYSTEM

1416 NINTH STREET, ROOM 616
SACRAMENTO 95814 916-445-0719



December 15, 1977

Mr. John H. Williams
Auditor General
925 L Street, Suite 750
Sacramento, CA 95814


Re: Review of Draft Report on Impact of Legislation Granting
Retirement Credit for School Employees' Accumulated and
Unused Sick Leave

Dear Mr. Williams:

We appreciated the opportunity to review the subject draft report. Our records substantiate the \$34 million cost attributed to certificated school employees who are members of STRS and the formula used is accurately stated.

Since we had very limited participation in the study, we are unable to substantiate the conclusion stated. We are, however, most interested in the results which should assist us in analyzing any future legislation concerning unused sick leave.

Sincerely,



LEIGHTON E. CASE
Assistant Chief Executive Officer

Memorandum

To : John H. Williams, Auditor General
Suite 750 - 925 L Street
Sacramento, CA 95814

Date : December 13, 1977

File No.:

From : Carl J. Blechinger, Executive Officer
Public Employees' Retirement System 

Subject: PERS Response to Draft Report on Impact of Legislation Granting Retirement Credit for School Employees' Accumulated and Unused Sick Leave, December, 1977

We have verified those items in the Report that relate to the Public Employees' Retirement System are correct as stated, including the 0.23% employer contribution rate and approximately \$9 million in payments for the 33-month period covered by the Report.

Obviously, we are in no position to comment on the conclusions reached by the study with respect to sick leave usage.

We appreciate the opportunity to participate in the study, even though our contribution was minimal.

CJB:mw

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Legislative Counsel of California

BION M. GREGORY

Sacramento, California
May 4, 1977

Honorable Mike Cullen
Assembly Chamber

Sick Leave: Retirement Credit - #1095

Dear Mr. Cullen:

You have asked the following question regarding the provisions of Chapters 89 and 1398 of the Statutes of 1974, which, among other things, provided, respectively, that members of the State Teachers' Retirement System and school members of the Public Employees' Retirement System would receive service credit for unused sick leave upon retirement. Both chapters contain the following provision:

"Notwithstanding Section 2231 of the Revenue and Taxation Code, there shall be no reimbursement pursuant to this act nor shall there be any appropriation made by this act because there are savings as well as costs in this act which, in the aggregate, do not result in significant identifiable cost changes.

"The Auditor General shall conduct a survey of school districts to determine the savings and the costs resulting from implementation of this act during the period between the effective date of this act and the conclusion of the 1976-77 school year and shall report his findings thereon to the Legislature on or before December 31, 1977."

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JIMMIE WING
CHRISTOPHER ZIRKLE
DEPUTIES

QUESTION

If the Auditor General's survey determines that costs exceed savings is the state required to reimburse school districts?

OPINION

The state would not be required to reimburse school districts if the Auditor General's survey determines that costs exceed savings.

ANALYSIS

Section 2231 of the Revenue and Taxation Code provides, among other things, that the state shall reimburse each school district only for "costs mandated by the state" specified in subdivision (a) of Section 2207 of the Revenue and Taxation Code. That subdivision provides that "costs mandated by the state" means any increased costs which a school district is required to incur as a result of any law enacted after January 1, 1973, which mandates a new program or an increased level of service of an existing program.

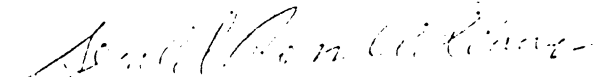
While the statutes in question were enacted after January 1, 1973, they both contain the provision in question disclaiming any reimbursement or any appropriation notwithstanding Section 2231 of the Revenue and Taxation Code for reasons specified. Since none of these statutes or any other provision of law requires any action to be taken if the Auditor General's survey determines that costs exceed savings, there would be no statutory obligation with respect to such costs.

In this regard, it is a general rule that one legislative body cannot restrict or limit its own power or that of subsequent legislatures and that the act of one legislature does not bind its successors (In re Collie, 38 Cal. 2d 396, 398; Mueller v. Brown, 221 Cal. App. 2d 319, 325). Therefore, future sessions of the Legislature may--or may not--elect to appropriate funds to reimburse school districts if the Auditor General's survey determines that costs exceed savings.

Therefore, in our opinion, the state would not be required to reimburse school districts if the Auditor General's survey determines that costs exceed savings.

Very truly yours,

Bion M. Gregory
Legislative Counsel

By 
Gerald Ross Adams
Deputy Legislative Counsel

GRA:djb

Office of the Auditor General

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
California State Department Heads
Capitol Press Corps