

of an ERIP, increases (changes) in salaries and benefits over time, and the cost of the ERIP payout to retirees.

Using the available data (including HR's recent survey of LAUSD's certificated employees), our current projection suggests that, rather than save money, implementation of a 40-percent ERIP (i.e., retirees receive 40 percent of their final annual salary, possibly distributed over several years) would increase the District's expenditures for certificated employees by roughly \$50 million over the next 5 years—an aggregate reduction in the cost of employee compensation of about \$28 million would be overwhelmed by a total ERIP payout of about \$79 million (see Table 1).

We have also begun to analyze the sensitivity of these findings to the projected number of staff who may accelerate their retirement in response to incentives. Table 2 below illustrates how variations in this number (from 2 to 552 certificated administrators) could affect the cost impact of ERIP. Our preliminary finding is that, over the next five years, a 40% ERIP for certificated administrators would cost the District between \$6 million and \$25 million, with the cost rising as the number of ERIP-affected retirees rises. These preliminary results suggest that, from a cost perspective, an ERIP (of the type described here) would almost surely worsen the District's financial condition.

We will continue to work with staff to improve our projections and to look for other ways to improve the District's financial condition. As applicable, we may also develop a detailed informative on the cost implications of ERIP that would:

- Provide an update to our cost projections
- Summarize our review of the literature regarding the benefits and costs of ERIP initiatives
- Discuss the conditions under which ERIPs could save money
- Fully describe the IAU's cost model for projecting the impact of ERIP on LAUSD's expenditures.

TABLE 1: IAU Preliminary Analysis: Fiscal Impact of ERIP

Summary: 40% ERIP would increase LAUSD expenditures by \$50 million over next five years

CERTIFICATED EMPLOYEE GROUP	Assumptions: # of Employees			Five-Year Impact of 40% ERIP on LAUSD Expenditures (\$millions)						
	Total Reduction In Force	# Retiring w/o ERIP	# Retiring with ERIP	Average Salary of Laid-off Employees or new hires	Average Salary of Retirees under ERIP	Reduction in Employee Compensation Costs – before ERIP payout	Reduction in Employee Compensation Costs – w/o ERIP	Net Reduction in Employee Compensation Costs	less ERIP payout (incl. 5% admin cost)	Net impact of ERIP on Savings
Elementary Teachers	1,500	350	650	\$ 50,000	\$ 72,000	\$ 560	\$ 555	\$ 5	\$ (20)	\$ (15)
Certificated Administrators	700	150	400	\$ 96,000	\$ 110,000	\$ 434	\$ 432	\$ 2	\$ (18)	\$ (17)
Secondary Teachers	-	375	750	\$ 50,000	\$ 72,000	\$ 48	\$ 33	\$ 16	\$ (23)	\$ (7)
Other Certificated	-	250	500	\$ 65,000	\$ 85,000	\$ 24	\$ 18	\$ 6	\$ (18)	\$ (12)
TOTAL Certificated	2,200	1,125	2,300			\$ 1,065	\$ 1,037	\$ 28	\$ (79)	\$ (50)

SOURCE: Projections developed by the Independent Analysis Unit

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TABLE 2: IAU - ERIP Preliminary Analysis - Certificated Administrators

Sensitivity Analyses: Summary Table

Assumption: Cert. Adms. who would retire without ERIP	with ERIP	Increas ed # of retiree s	Reduction in Employee Compen- sation Costs w/o ERIP (\$millions)	Reduction in Employee Compen- sation Cost with higher # of retirees (pre-ERIP payout) (\$millions)	Net change in Employee Compen- sation - 5 years (pre- ERIP payout) (\$millions)	Less Cost of ERIP Incentive Pay (\$millions) - 40% plan	Net Impact of ERIP on Savings - 5 years (\$millions)
148	148	0	\$ 436.0	\$ 436.0	\$ -	NA	
148	150	2	\$ 436.0	\$ 436.0	\$ 0.0	\$ (6.6)	\$ (6.6)
148	200	52	\$ 436.8	\$ 434.0	\$ (2.8)	\$ (8.8)	\$ (11.6)
148	250	102	\$ 437.6	\$ 435.6	\$ (2.0)	\$ (11.0)	\$ (13.0)
148	300	152	\$ 438.4	\$ 437.3	\$ (1.1)	\$ (13.2)	\$ (14.3)
148	350	202	\$ 439.2	\$ 439.0	\$ (0.3)	\$ (15.4)	\$ (15.7)
148	375	227	\$ 439.6	\$ 439.8	\$ 0.2	\$ (16.5)	\$ (16.3)
148	400	252	\$ 440.1	\$ 440.6	\$ 0.6	\$ (17.6)	\$ (17.0)
148	450	302	\$ 440.9	\$ 442.3	\$ 1.5	\$ (19.8)	\$ (18.3)
148	500	352	\$ 441.7	\$ 444.0	\$ 2.3	\$ (22.0)	\$ (19.7)
148	550	402	\$ 442.5	\$ 445.7	\$ 3.2	\$ (24.2)	\$ (21.0)
148	600	452	\$ 443.3	\$ 447.3	\$ 4.0	\$ (26.4)	\$ (22.4)
148	650	502	\$ 444.1	\$ 449.0	\$ 4.9	\$ (28.6)	\$ (23.7)
148	700	552	\$ 444.9	\$ 450.7	\$ 5.8	\$ (30.8)	\$ (25.0)

SOURCE: IAU, January 28, 2009

Note: Entries may not add to totals because of rounding.

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