

Hidden Education Funding Cuts

Alaska

Pension costs from the state's legacy plan are consuming nearly twice as much state education funding today as they were two decades ago

Teacher retirement systems across the country have seen costs rise over the past two decades, driven largely by growth in pension debt (known as unfunded liabilities). The costs of paying down these shortfalls in teacher pension funds have been steadily cutting into the spending on key education priorities. The effects are felt particularly hard in high-need districts which have fewer local resources to draw on to fill in the gaps when education costs rise, creating less funding for teacher salaries and programs aimed at improving academic and other outcomes.

However, this squeeze has not been felt uniformly across all states, as revenue and education spending experiences have varied. As a result, there are notable differences in the degrees of crowd out that pension debt costs have had on education spending when looking from state-to-state.

This profile provides detailed analysis for your state, supplementing the analysis highlighted in our primary research on [Hidden Education Funding Cuts](#) in America. The state profile examines three key elements:

- **State Education Spending:** the state's "own-source" K-12 spending for 2002-2018, both in the aggregate and on a per student basis. This excludes federal funding (which is typically not used to pay pension costs) and local revenues (which also vary as a funding source from state-to-state);
- **Pension Funding Status:** the pension system's unfunded actuarially accrued liabilities (UAAL) and actuarially determined employer contributions (ADEC) for 2001-2018; &
- **Education Crowd Out:** the shares of a state's own-source K-12 spending consumed for the pension contributions paid for 2002-2018.

For each element identified above analyses are from a state budgeting perspective, excluding both federal and local funding. We offer illustrations of trends over time, and a brief analysis of those trends. The last page includes a quick glossary of terms and link to the methodology for all of the data provided.

It is important to note that all charts provide figures adjusted for inflation except for displays of state own-source K-12 spending. This allows for a reference of how much of the increase in nominal education spending is just driven by inflation as opposed to the expansion of education budgets.

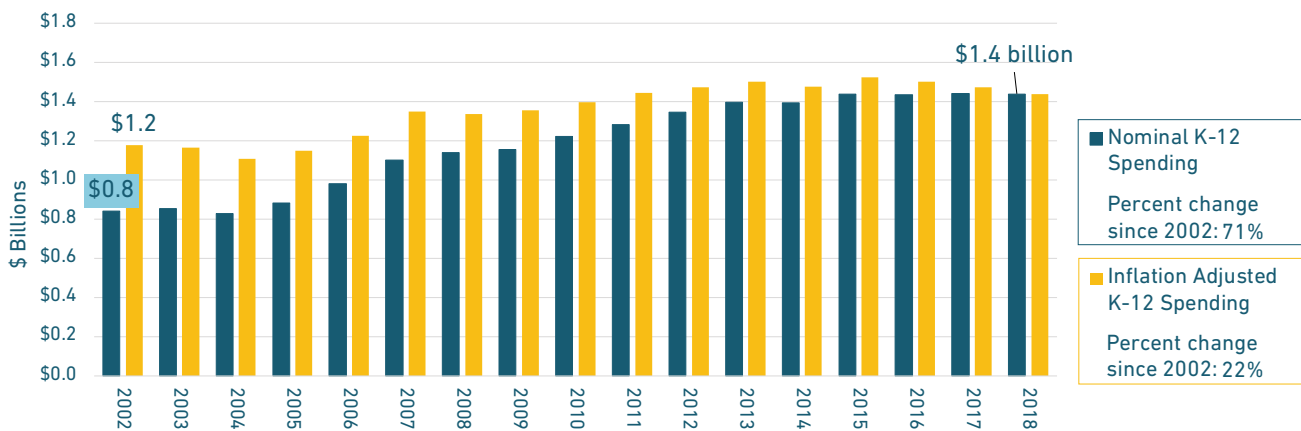
The Last Frontier State is home to more than 700,000 citizens, and 134,000 primary and secondary school students. In 2018, the state’s total expenditures exceeded \$10.3 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state’s own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled \$6.7 billion.

Prior to 2006 Alaska teachers were enrolled in a guaranteed income plan, known as a defined benefit pension. However, teachers hired starting in 2006 are enrolled in an individual retirement plan called the “Defined Contribution Retirement Plan.” Both plans are administered by the State of Alaska Teachers’ Retirement System (TRS), and collectively provide retirement benefits for more than 20,000 active and retired teachers and public school employees.

EDUCATION SPENDING

In 2018, Alaska’s state distributed K–12 expenditures totaled \$1.7 billion. Out of that total, \$1.4 billion came from state own-source funding while the remaining \$230 million was from federal grants and other education programs. (Local sources provided additional funding.)

Figure AK1: Alaska’s state spending on education only increased by \$260 million after accounting for inflation.



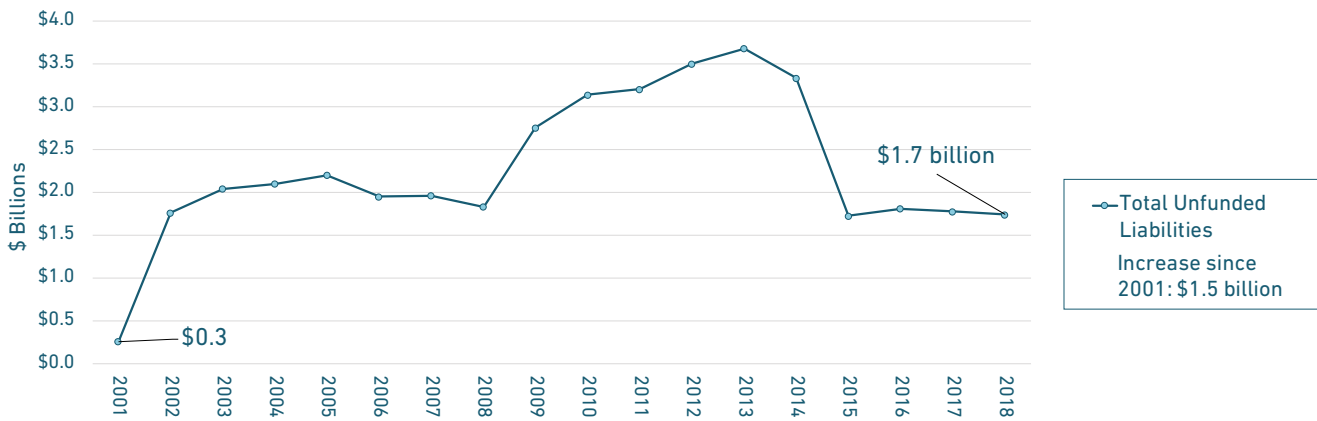
State Own-Source K–12 Spending, 2002–2018

As Figure AK1 illustrates, state spending on primary and secondary education in Alaska has increased moderately since 2002 — growing by \$600 million in nominal dollars; however, it increased much less after adjusting for inflation, growing by only \$260 million. On a dollars per student basis, spending increased 21.2% since 2002 — growing from \$8,843 to \$10,715 (inflation adjusted). (Note: Alaska did not report 2001 state education spending data to the National Association of State Budget Officers, a primary data source for our analysis.)

PENSION FUNDING STATUS

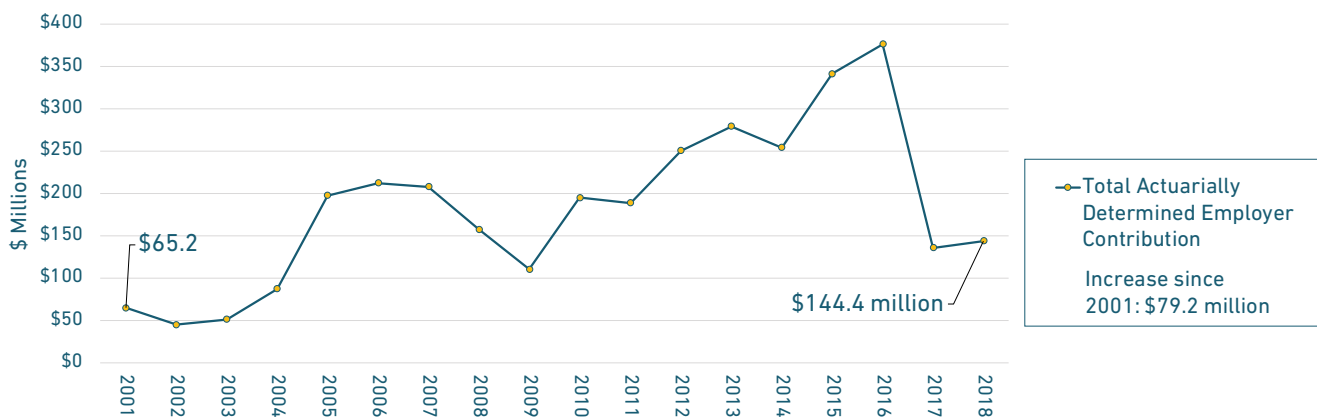
In 2001, TRS was nearly fully funded with less than \$260 million in pension debt. However, in the years that followed a combination of underperforming investments coupled with changing demographics caused the unfunded liability for TRS to explode — reaching a peak of \$3.7 billion in 2013. By 2018, pension debt levels had been reduced to a more manageable level due primarily to a one-time supplemental contribution of \$1.4 billion from the state’s natural resource funds. Figure AK2 shows the change in the unfunded liabilities and Figure AK3 illustrates the change in what state actuaries have recommended as contributions from government employers.

Figure AK2: A one-time extra contribution in 2015 helped stabilize solvency levels, but 2018 pension debt was still nearly six-times 2001’s funding shortfall.



TRS Unfunded Liabilities (Actuarial Value), 2001–2018

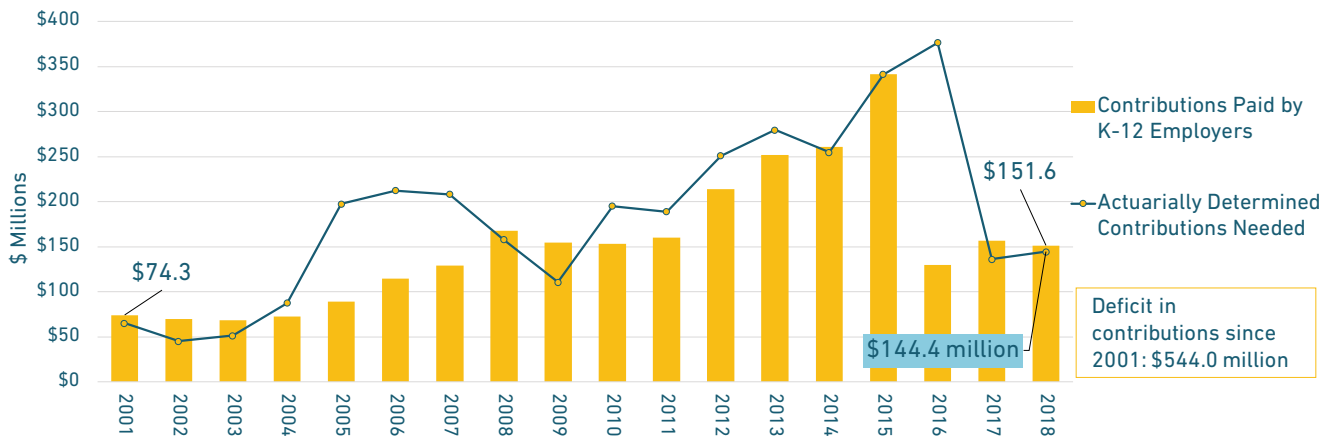
Figure AK3: The amount actuaries recommended be contributed to TRS in 2018 was more than double what it was in 2001, even after a large extra payment in 2015.



TRS Actuarially Determined Employer Contributions, 2001–2018

There are a number of states across the country that do not always ensure that the ADEC is paid in full to the pension fund each year. Unfortunately, Alaska is one of those states, failing to pay the full pension bill nine times since 2001, shown in Figure AK4. As a result, the actual contributions paid into TRS using education funds have been less than if the ADEC trend displayed in Figure AK3 was paid in full, but the actual contributions paid to TRS have still more than doubled from \$74 million in 2001 to \$152 million in 2018.

Figure AK4: Alaska did not pay its full actuarial bill to TRS each year, shorting the plan by \$544 million since 2001.



Actuarially Determined Employer Contribution Compared to Actual Contributions Paid to TRS, 2001–2018

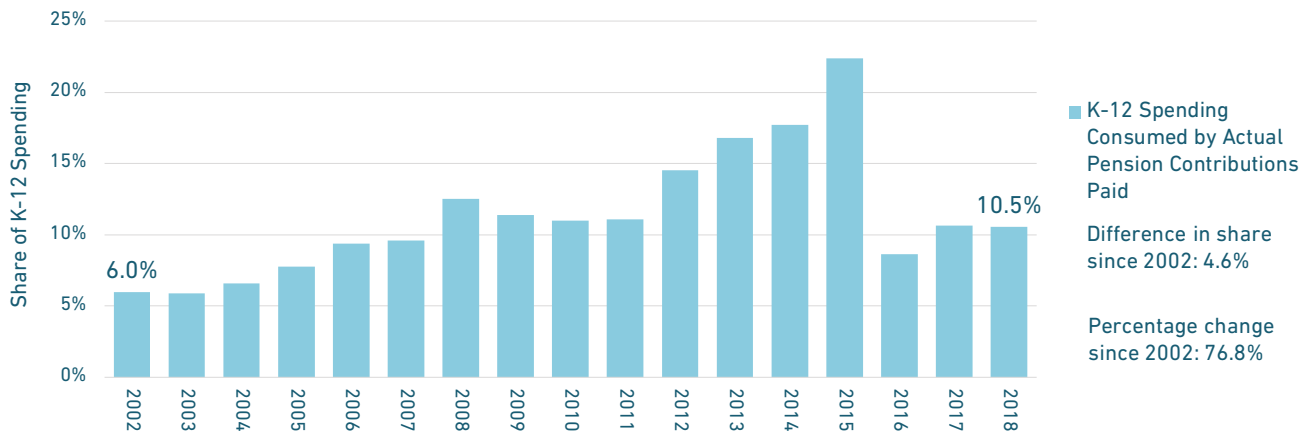
Note that this graph does not show the supplemental payment made using non-education state dollars in 2015. The extra funds more than made up for the deficit in contributions.

Paying the full required pension bill each year is the bare minimum for ensuring a pension system is fully funded. Best practice would be for Alaska to adopt a policy of ensuring the ADEC is paid every year. However, from the perspective of education funding, any increase in pension costs will be viewed negatively if it is shrinking the dollars available for teacher salaries and serving kids. If the ADEC had been paid every year without some adjustment to expand Alaska’s education funding, then the state could have suffered an even larger hidden cut than we show in the final chart on the next page.

PENSION COSTS CROWDING OUT K-12 SPENDING

The growing costs of paying down TRS’s legacy debt have soaked up an increasing share of Alaska’s education spending. This is especially important for teachers, as the growth in TRS’s costs outpaced the growth in state own-source K-12 spending. In fact, TRS’s contributions reported as a share of K-12 spending increased from 6% in 2002 to 10.5% in 2018.

Figure AK5: The hidden cut to Alaska’s state education funding is serious. TRS contributions are consuming nearly twice as much state K-12 funding in 2018 as 2002.



Actual Pension Costs as a Share of State Own-Source K-12 Spending, 2002–2018

Alaska’s experience over the last two decades has been a unique one. The closure of the legacy pension system in 2006 marked a significant shift by the state to limit the costs of retirement benefits for Alaska teachers. However, the state then failed to appropriately manage funding for the benefits of teachers already enrolled in the guaranteed income plan. In particular, the state failed to ensure the ADEC was paid on time and maintained an unrealistic 8% assumed rate of return. As a result, TRS saw their unfunded liabilities grow and the share of K-12 spending being funneled toward pension costs climbed, reaching a peak of 22.4% in 2015.

Fortunately, the state opted to make a supplemental contribution of nearly \$1.4 billion to pay down a part of TRS unfunded liabilities, reducing not just pension debt levels but the size of Alaska’s hidden education funding cut. However, even with that payment and other improvements to TRS funding policy, the share of state education funding consumed by pension costs remains at nearly double what it was in 2002. Unless there is a change that reduces TRS costs and/or adjusts the state’s education funding to fully account for pension contributions, Alaska’s education funding will continue to suffer this hidden cut in dollars intended for serving the state’s children.

An even more concrete way to understand how changes in pension debt and pension costs have influenced education resources is to think about them relative to total student enrollment. Table AK1 shows the UAAL and actual pension contributions on a per student basis compared against state education spending. Breaking the numbers down this way shows that growth in unfunded pension liabilities and related pension contributions have outpaced per student spending by the state. In fact, out of the roughly \$2,000 increase in state spending per student from 2002 to 2018, only about \$1,200 actually made it to classrooms. Moreover, had the state not made the supplemental contribution in 2015, even more state education funding would have been consumed by TRS’s pension debt costs.

Table AK1: State education spending increased roughly \$2,000 per student, but pension costs consumed almost half of the growth.

Year	Total State K–12 Spending Per Student	Per Student Share of Pension Debt	Pension Debt as % of Per Student Spending	Employer Pension Cost Per Student	Per Student Spending Minus Pension Cost
2002	\$8,843	\$13,254	149.9%	\$527	\$8,316
2003	\$8,750	\$15,348	175.4%	\$516	\$8,235
2004	\$8,331	\$15,803	189.7%	\$548	\$7,783
2005	\$8,647	\$16,588	191.8%	\$671	\$7,976
2006	\$9,247	\$14,727	159.3%	\$865	\$8,381
2007	\$10,289	\$14,968	145.5%	\$988	\$9,301
2008	\$10,236	\$14,034	137.1%	\$1,282	\$8,955
2009	\$10,289	\$20,938	203.5%	\$1,173	\$9,117
2010	\$10,581	\$23,787	224.8%	\$1,163	\$9,419
2011	\$11,001	\$24,457	222.3%	\$1,220	\$9,781
2012	\$11,194	\$26,653	238.1%	\$1,627	\$9,568
2013	\$11,475	\$28,106	244.9%	\$1,926	\$9,549
2014	\$11,245	\$25,448	226.3%	\$1,991	\$9,254
2015	\$11,512	\$13,042	113.3%	\$2,578	\$8,935
2016	\$11,311	\$13,644	120.6%	\$978	\$10,333
2017	\$11,009	\$13,289	120.7%	\$1,171	\$9,838
2018	\$10,715	\$12,961	121.0%	\$1,129	\$9,586

Notes: Values are inflation adjusted dollars spent per student to allow for comparison of spending over time. Figures reflect the K–12 employer portion of liabilities and employer contributions.

Per Student Share of TRS Unfunded Liabilities and Actual K–12 Employer Contributions, 2002–2018

The Defined Contribution Retirement Plan in TRS

Following the closure of the guaranteed income plan offered by TRS in 2005, all newly hired teachers are enrolled into a defined contribution plan, which has become the primary retirement offering for Alaska teachers. Under this plan teachers contribute to individual retirement accounts and those funds are supplemented by contributions from their employer. In 2018, nearly 5,000 teachers were enrolled in the Defined Contribution Retirement Plan. The investment portfolio for the Defined Contribution Retirement Plan totaled \$587.2 million at the close of 2018. As a point of comparison, the pension plan's investment portfolio of TRS totaled \$8.3 billion.

Despite the fact that the Defined Contribution Retirement Plan has been the default retirement option for Alaska teachers dating back to 2006, complete employer contribution data are not clearly reported publicly sufficiently to allow for its inclusion in these analyses. As a result, the Defined Contribution Retirement Plan is not incorporated into our figures or analyses. This makes the total hidden funding cut figures show more conservative than if we were able to incorporate this data.

ABOUT THIS PROJECT

The growing cost of unfunded pension promises is having direct and immediate influence on the ability of local school districts to serve children. To show how hidden education funding cuts work, we built a dataset of state-level K–12 education spending and combined it with contribution rate data for state pension plans where teachers are participants. Merging these two data types shows how the rate of change in teacher pension costs is growing much faster than education budgets nationally.

To review data at the national level, visit [Equable.org/hiddenfundingcuts](https://equable.org/hiddenfundingcuts) and check out: “[Hidden Education Funding Cuts: How Growing Teacher Pension Debt Payments Are Eating into K–12 Education Budgets.](#)” To learn more about our data and how we calculate a state’s hidden education funding cut, check out the methodology.

However, the hidden funding cuts to education have not been felt uniformly across all states, as revenue and education spending experiences have varied. For some states, slow growth in K–12 spending has combined with the explosion in pension debt to create a significant threat, potentially crowding other items out of the education budget. In California, for example, a report by Pivot Learning found that rising pension contributions, driven by efforts to repay pension debt, have led to deferred maintenance of schools, larger class sizes, reduction or elimination of after-school programs, and a reduction in educational equity.

But, for other states, K–12 spending itself has grown significantly, even after accounting for inflation, and this has offset part of, or most of, the state’s increase in pension costs (though in these cases, it is likely that policymakers were not increasing K–12 spending simply to offset the growth in pension costs). And a few states have even managed to buck the trend entirely. While this profile details the experience of an individual state, we encourage you to explore the profiles of other states to see how their trends compare. A collection of profiles for all 50 states and Washington, DC can be found [here](#).

ABOUT THE AUTHORS

Jonathan Moody is vice president of Equable Institute, where Anthony Randazzo is executive director. Moody has worked on state fiscal policy since 2014 including time as research officer at the Pew Charitable Trusts. Randazzo has worked with over a dozen states on retirement system improvements, and formerly was managing director of the Pension Integrity Project.

QUICK GLOSSARY

Actuarially Determined Employer Contributions (ADEC): This is the money that actuaries calculate should be paid each year by the state and local employers to cover pension benefits earned plus to pay down any pension debt (after accounting for any employee contributions).

Unfunded Liability (UAAL): This is the shortfall in money that a pension fund should have on hand to pay all future promised benefits. Think of this as pension debt owed to retirement systems to pay promised pension benefits. In technical terms, this refers to the Unfunded Actuarially Accrued Liability.

Own-Source K–12 Spending: This is the money spent on primary education using state resources only, excluding any federal funding, local resources, or expenditures on higher education.