Hidden Education Funding Cuts

Arkansas

Pension costs are consuming nearly 50% more state education funding today than 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 2001–2018, 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 2001–2018.

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.

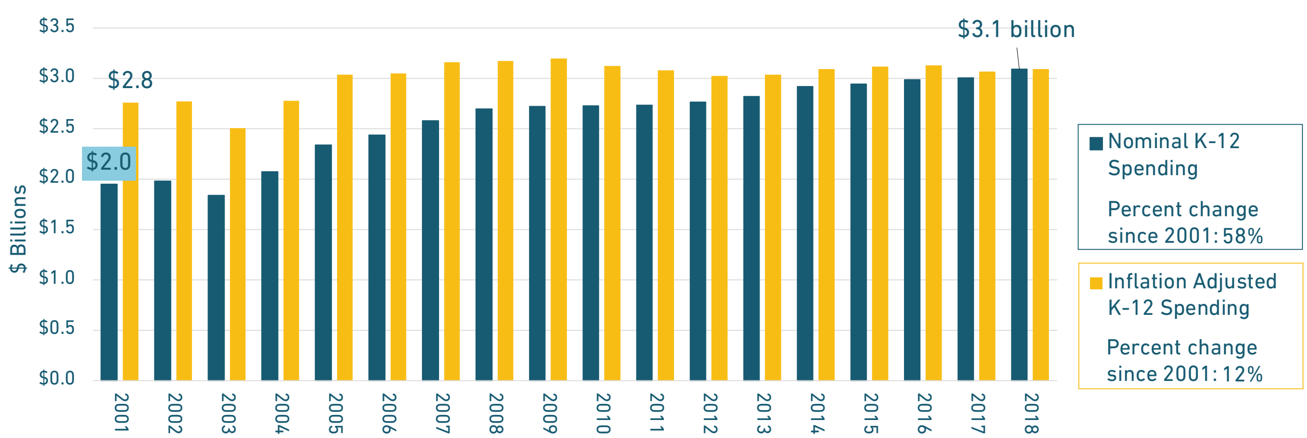
The Natural State is home to more than 3 million citizens, and nearly 500,000 primary and secondary school students. In 2018, the state's total expenditures exceeded $25.6 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state's own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled $17.7 billion.

Arkansas teachers are enrolled in a guaranteed income plan, known as a defined benefit pension, administered by the Arkansas Teacher Retirement System (TRS). TRS manages retirement benefits for roughly 120,000 active and retired teachers.

EDUCATION SPENDING

In 2018, Arkansas' state distributed K–12 expenditures totaled $3.6 billion. Out of that total, $3.1 billion came from state own-source funding while the remaining $543 million was from federal grants and other education programs. (Local sources provided additional funding.)

Figure AR1: Arkansas' state spending on education only increased by $330 million after accounting for inflation.



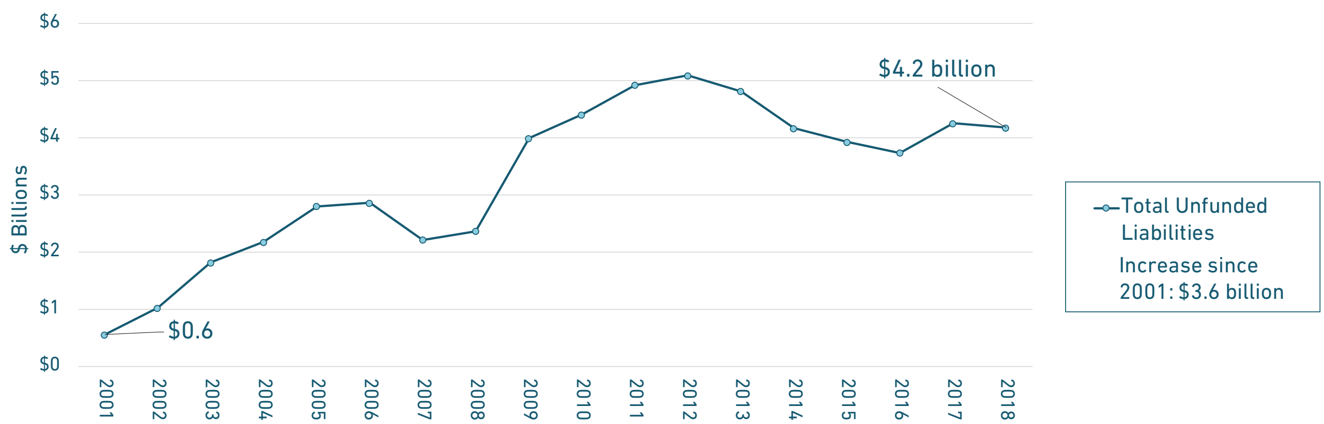
State Own-Source K–12 Spending, 2001–2018

As figure AR1 illustrates, state spending on primary and secondary education in Arkansas has increased moderately since 2001 — growing by $1.1 billion in nominal dollars; however, it increased much less after adjusting for inflation, growing by only $330 million. On a dollars per student basis, spending increased only 3% since 2001 — growing from $6,079 to $6,259 (inflation adjusted).

PENSION FUNDING STATUS

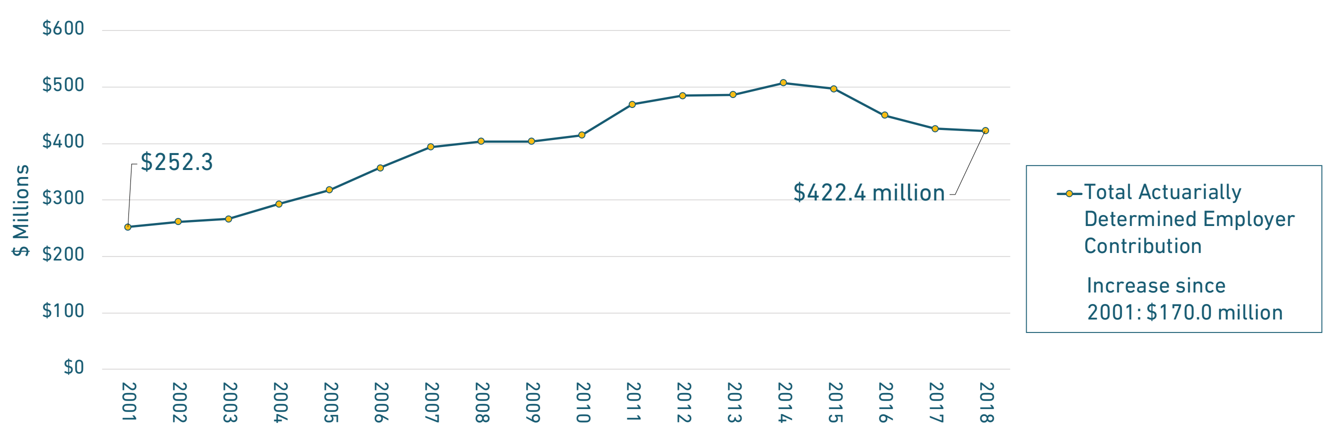
In 2001, TRS was nearly fully funded with only $560 million in pension debt. However, over the past 17 years a combination of underperforming investments coupled with changing demographics have caused the unfunded liability for TRS to explode — reaching $4.2 billion in 2018. Figure AR2 shows the change in the unfunded liabilities and Figure AR3 illustrates the change in what state actuaries have recommended as contributions from government employers.

Figure AR2: TRS's pension debt has increased more than six-fold since 2001.



TRS Unfunded Liabilities (Actuarial Value), 2001–2018

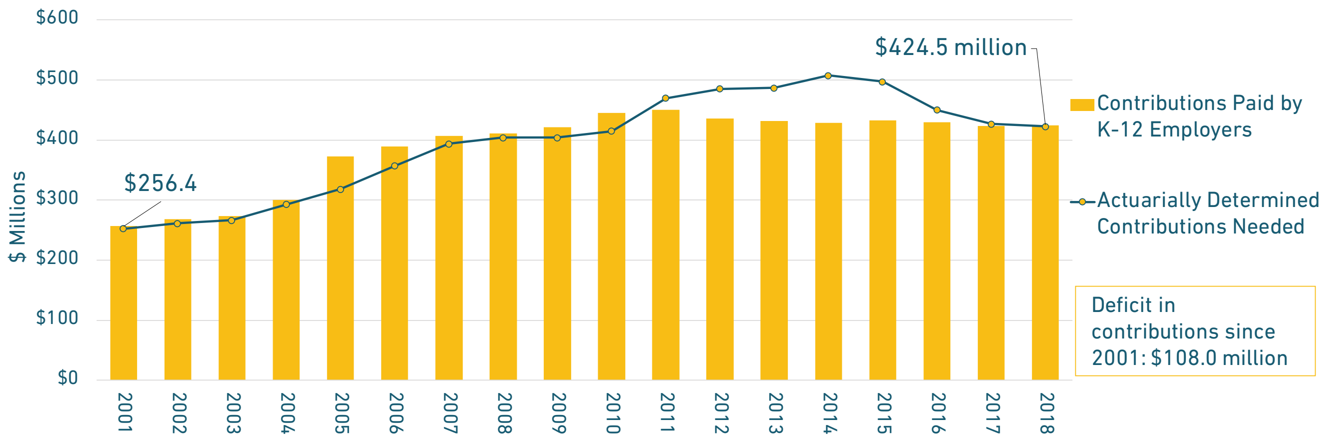
Figure AR3: To address growing pension debt the amount actuaries recommend should be contributed to TRS by the state and school districts has almost doubled.



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, Arkansas is one of those states, failing to pay the full pension bill from 2011 through 2017, shown in Figure AR4. As a result, the actual contributions paid into TRS using education funds have been less than if the ADEC trend displayed in Figure AR3 was paid in full, but the actual contributions paid to TRS have still grown from $256.4 million in 2001 to $424.5 million in 2018.

Figure AR4: Arkansas did not pay the full actuarial bill to TRS from 2011 through 2017, shorting the plan by $108 million.



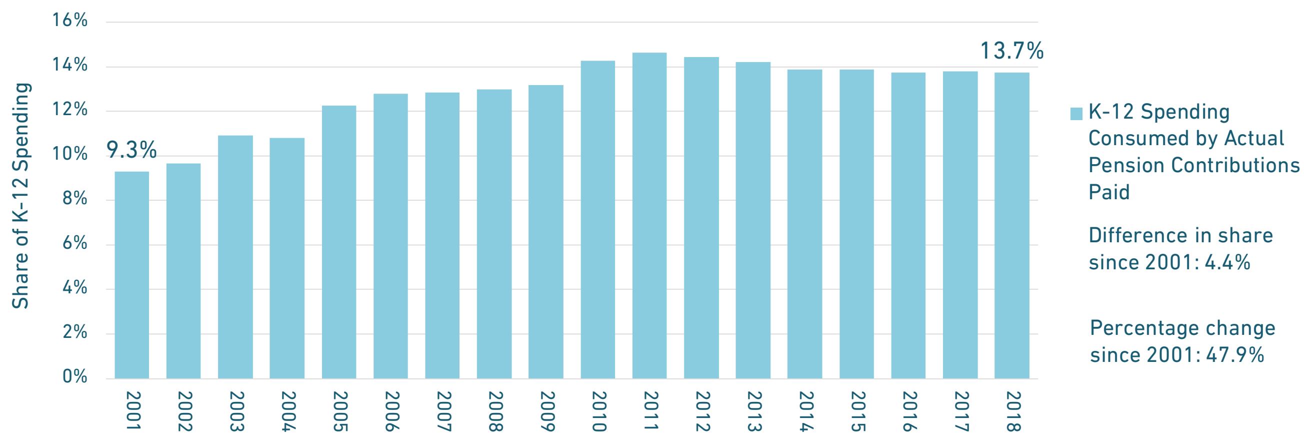
Actuarially Determined Employer Contribution Compared to Actual Contributions Paid to TRS, 2001–2018

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 Arkansas 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 Arkansas' 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 funding TRS have soaked up an increasing share of Arkansas' 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 9.3% in 2001 to 13.7% in 2018.

Figure AR5: The hidden cut to Arkansas' state education funding is serious. TRS contributions are consuming almost 50% more state K–12 funding in 2018 than 2001.



Actual Pension Costs as a Share of State Own-Source K–12 Spending, 2001–2018

As Figure AR4 previously showed, pension costs have grown considerably since 2001, whether measured as the ADEC or contributions actually paid. Meanwhile, state K–12 education funding has been relatively stagnant since 2001. In fact, state education spending in 2018 is lower than it was in 2008, right before the Great Recession, and in 2010, when the effects of the recession were still being felt. As a result, the share of state K–12 funding that is being consumed by pension costs has increased by nearly 50%.

Arkansas has failed to meet its commitments to funding TRS by not paying the full ADEC each year. But even the actual amounts paid have grown significantly faster than the state's own-source education spending. Unless there is a change that reduces TRS costs and/or adjusts the state's education funding to fully account for pension contributions, Arkansas' 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 AR1 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, measured both in real 2018 dollars and percentage growth. In fact, after accounting for inflation and pension costs, Arkansas spent roughly $100 less state dollars per student per student in 2018 than 2001.

Table AR1: State education spending per student only increased by roughly $200, but pension debt and contributions have grown faster.

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
2001	$6,079	$1,231	20.2%	$564	$5,514
2002	$6,045	$2,239	37.0%	$584	$5,461
2003	$5,413	$3,923	72.5%	$590	$4,823
2004	$5,934	$4,654	78.4%	$642	$5,292
2005	$6,438	$5,937	92.2%	$789	$5,649
2006	$6,399	$6,011	93.9%	$818	$5,581
2007	$6,601	$4,627	70.1%	$848	$5,752
2008	$6,620	$4,940	74.6%	$859	$5,761
2009	$6,652	$8,311	124.9%	$877	$5,775
2010	$6,473	$9,139	141.2%	$924	$5,549
2011	$6,376	$10,193	159.8%	$933	$5,444
2012	$6,219	$10,471	168.4%	$897	$5,322
2013	$6,201	$9,822	158.4%	$881	$5,321
2014	$6,298	$8,494	134.9%	$874	$5,424
2015	$6,340	$7,978	125.8%	$880	$5,460
2016	$6,337	$7,576	119.5%	$870	$5,467
2017	$6,219	$8,616	138.5%	$858	$5,361
2018	$6,259	$8,460	135.2%	$859	$5,400

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, 2001–2018

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 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.