Hidden Education Funding Cuts

California

Pension costs are consuming nearly three times as much 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.

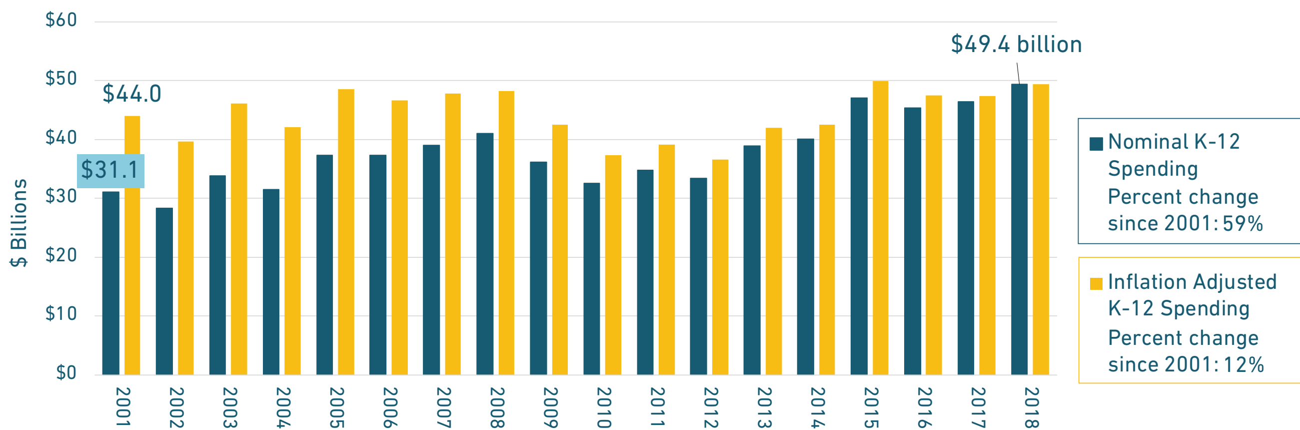
The Golden State is home to nearly 40 million citizens, and roughly 6.3 million primary and secondary school students. In 2018, the state's total expenditures were $269.7 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state's own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled $177.3 billion.

California teachers are enrolled in a guaranteed income plan, known as a defined benefit pension, administered by the California State Teachers' Retirement System (CalSTRS). CalSTRS manages retirement benefits for approximately 950,000 active and retired teachers.

EDUCATION SPENDING

In 2018, California's state K–12 expenditures totaled $56.1 billion. Out of that total, $49.4 billion came from state own-source funding while the remaining $6.7 billion was from federal grants and other education programs. (Local sources provided billions in additional funding.)

Figure CA1: California's state spending on education only increased by $5.4 billion after accounting for inflation.



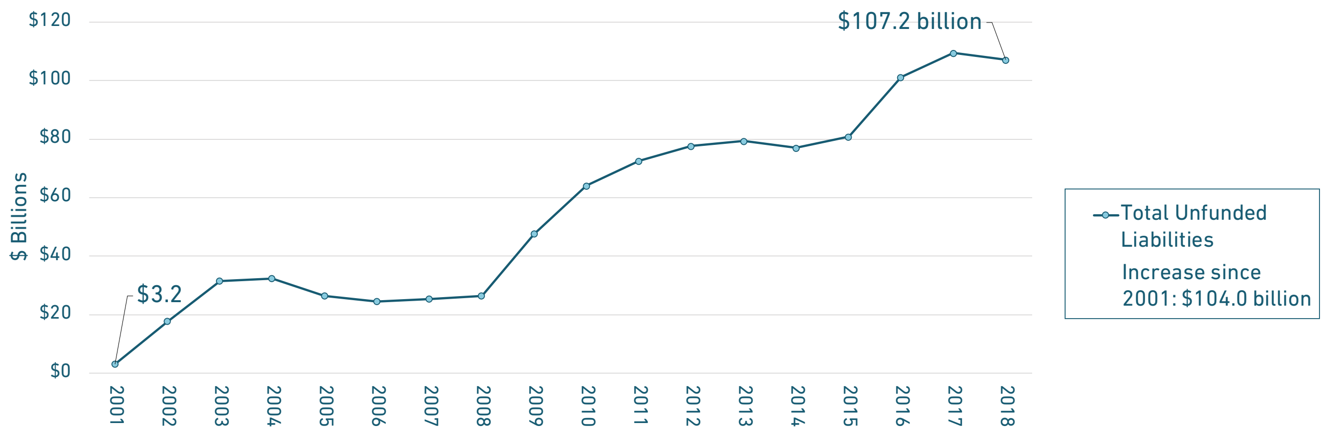
State Own-Source K–12 Spending, 2001–2018

As figure CA1 illustrates, state spending on primary and secondary education in California has increased moderately since 2001 — growing by $18.3 billion in nominal dollars; however, after adjusting for inflation, it only grew by $5.4 billion. On a dollars per student basis, spending increased 10.3% since 2001 — growing from $7,117 to $7,852 (inflation adjusted).

PENSION FUNDING STATUS

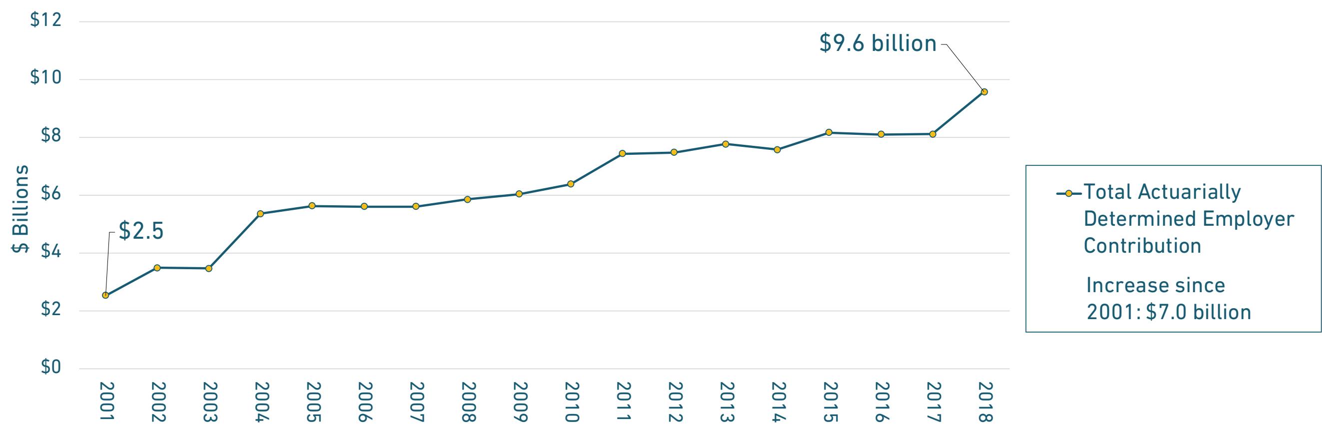
In 2001, CalSTRS was facing $3.2 billion in pension debt. However, over the past 17 years a combination of underperforming investments coupled with changing demographics have caused the unfunded liability for CalSTRS to explode — reaching $107.2 billion in 2018. Figure CA2 shows the change in the unfunded liabilities and Figure CA3 illustrates the change in what state actuaries have recommended as contributions from government employers.

Figure CA2: CalSTRS's pension debt has exploded since 2001.



CalSTRS Unfunded Liabilities (Actuarial Value), 2001–2018

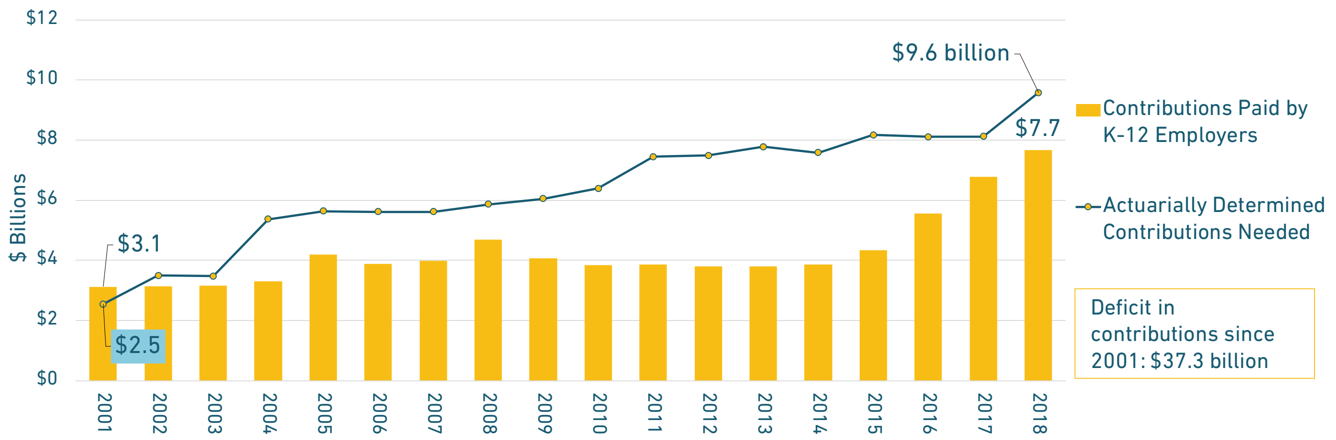
Figure CA3: To address growing pension debt, the amount actuaries recommend the state contribute to CalSTRS has more than tripled.



CalSTRS 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, California is one of those states, failing to pay the full pension bill each year since 2002, shown in Figure CA4. As a result, the actual contributions paid into CalSTRS using education funds have been less than if the ADEC trend displayed in Figure CA3 was paid in full, but the actual contributions paid to CalSTRS have still more than doubled from $3.1 billion in 2001 to $7.7 billion in 2018.

Figure CA4: California did not pay its full actuarial bill to CalSTRS each year, shorting the plan by $37 billion since 2001.



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

The contributions from K-12 employers shown in Figure CA4 include both payments by the state and payments from school districts. In 2014 the state adopted a revised funding plan under AB 1469, that began increasing contribution rates by both the state and school districts to help pay down the pension debt. Those increases have not been enough to reverse the growth in unfunded pension liabilities for CalSTRS, though. And they have not been enough for total contributions to catch up to the ADEC yet, but contributions will continue ramping up through the 2022-23 school year.

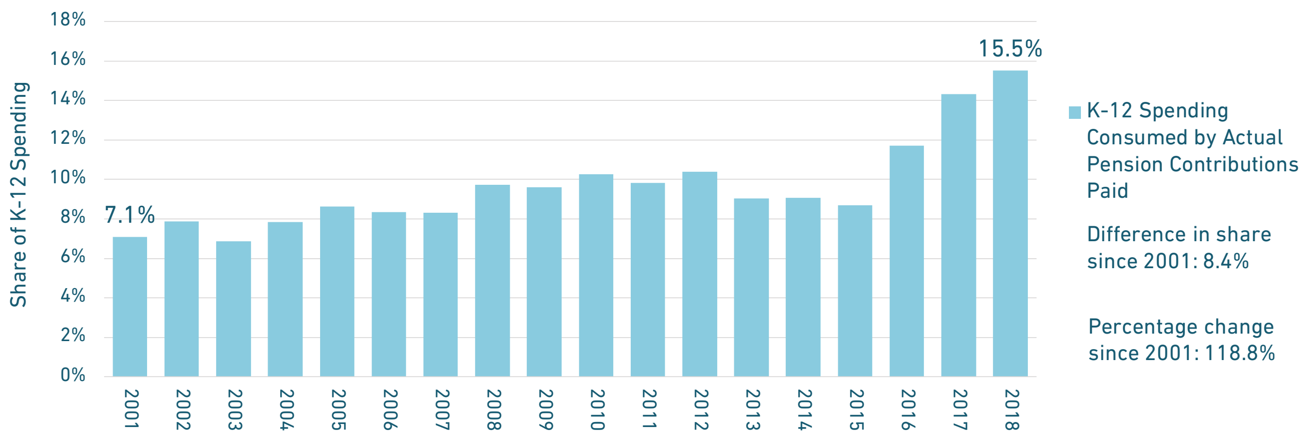
Paying the full required pension bill each year is the bare minimum for ensuring a pension system is fully funded. Best practice would be for California to adopt a policy of ensuring the ADEC is paid every year.

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. This is especially pointed for California, as AB 1469 pushed much of the increased employer contributions down to school districts, creating budget crunches for many of the state's 977 districts. For an in-depth analysis of how these growing pension debt costs are resulting in hidden funding cuts for California districts, you can read more here.

PENSION COSTS CROWDING OUT K–12 SPENDING

The growing costs of funding CalSTRS have soaked up an increasing share of California education spending. This is especially important for teachers, as the growth in CalSTRS's costs outpaced the growth in state own-source K–12 spending. In fact, CalSTRS's contributions reported as a share of K–12 spending increased from 7.1% in 2001 to 15.5% in 2018. Moreover, under the contribution ramp-up adopted under AB 1469, this trend is only expected to continue through 2023.

Figure CA5: The hidden cut to California state education funding is serious. CalSTRS contributions are consuming more than twice as much state K–12 funding in 2018 as in 2001.



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

(We also note that most school district employees who are not in the classroom receive their benefits from the California State Employees Retirement System (CalPERS), which has its own costs. We did not include the CalPERS contributions in our dataset, making the hidden funding cut figure shown above a more conservative estimate of state education funds being consumed by pension costs.)

As Figure CA4 indicates, pension costs (both actuarial and contributions paid) have continued to climb over the past few years. The direct result of the funding plan adopted in 2014 is that these pension payments will continue to grow for several more years, mostly at the district level, resulting in an increasing hidden funding cut for school districts.

California has failed to meet its commitments to funding CalSTRS 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. Moreover, shifting the increasing costs down to school districts have forced many schools to make difficult decisions regarding which education priorities will be funded — and those hidden cuts are not specifically reflected in this analysis. Unless there is a change that moves the burden of paying down CalSTRS's pension debt to the state level and/or adjusts the state's education funding to districts to offset their increasing required pension contributions, California'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 CA1 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 consumed nearly every dollar of increased education spending. In fact, after accounting for inflation and pension costs, California gave only $23 more per student to districts in 2018 than 2001.

Table CA1: State education spending per student increased by $700, but pension debt and contributions have consumed nearly all of that 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 State Spending Minus Pension Cost
2001	$7,117	$510	7.2%	$504	$6,612
2002	$6,377	$2,846	44.6%	$502	$5,875
2003	$7,361	$5,025	68.3%	$505	$6,856
2004	$6,671	$5,118	76.7%	$523	$6,148
2005	$7,636	$4,149	54.3%	$658	$6,978
2006	$7,281	$3,831	52.6%	$607	$6,674
2007	$7,540	$3,998	53.0%	$628	$6,912
2008	$7,633	$4,182	54.8%	$742	$6,892
2009	$6,783	$7,598	112.0%	$651	$6,132
2010	$5,935	$10,189	171.7%	$610	$5,325
2011	$6,230	$11,541	185.3%	$613	$5,617
2012	$5,805	$12,318	212.2%	$602	$5,203
2013	$6,646	$12,561	189.0%	$600	$6,046
2014	$6,736	$12,207	181.2%	$611	$6,124
2015	$7,923	$12,817	161.8%	$688	$7,235
2016	$7,533	$16,040	212.9%	$882	$6,651
2017	$7,515	$17,357	231.0%	$1,076	$6,438
2018	$7,852	$17,027	216.8%	$1,218	$6,635

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 CalSTRS 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.