

# Hidden Education Funding Cuts

## Washington, DC

### Pension costs are consuming six times as much education funding today as they were in 2011

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 steadily been 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:

- **Education Spending:** the District's "own-source" K–12 spending for 2001–2018, both in the aggregate and on a per student basis. For D.C. this includes federal funding and local revenues (though these are typically not counted in other states because they vary and are usually not used to pay pension costs);
- **Pension Funding Status:** the pension system's unfunded actuarial accrued liabilities (UAAL) and actuarially determined employer contributions (ADEC) for 2001–2018; &
- **Education Crowd Out:** the shares of the District'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 District of Columbia is home to approximately 700,000 citizens, and nearly 92,000 primary and secondary school students. During the 2017-18 academic year, about half of these students (48,000) were enrolled in schools run by DC Public Schools (DCPS). The other half attended independently run public charter schools.

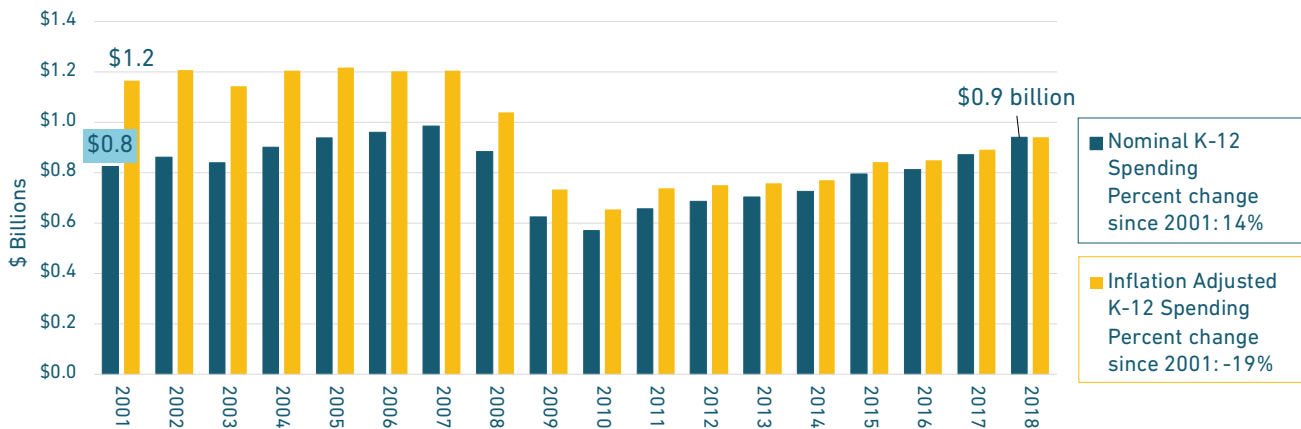
Teachers who work at DCPS schools are enrolled in a guaranteed income plan, known as a defined benefit pension, administered by the District of Columbia Teachers’ Retirement Plan (TRP). TRP manages retirement benefits for roughly 9,000 active and retired teachers.

Most teachers at independent charter schools are enrolled in an individual retirement account of some kind. But there is little publicly available, comprehensive data about what employer contributions are made to these plans each year. As such, this profile focuses on the public education expenditures for DCPS and the retirement costs of TRP.

## EDUCATION SPENDING

In 2018, Washington, DC’s K–12 expenditures totaled \$1.5 billion. Out of that total \$881 million was funding for DCPS — which is the focus of this profile. Because the District’s budget is funded entirely by the federal government, we consider all spending to be “own-source” for this analysis.

**Figure DC1: D.C.’s spending on education decreased by roughly \$300 million after accounting for inflation.**



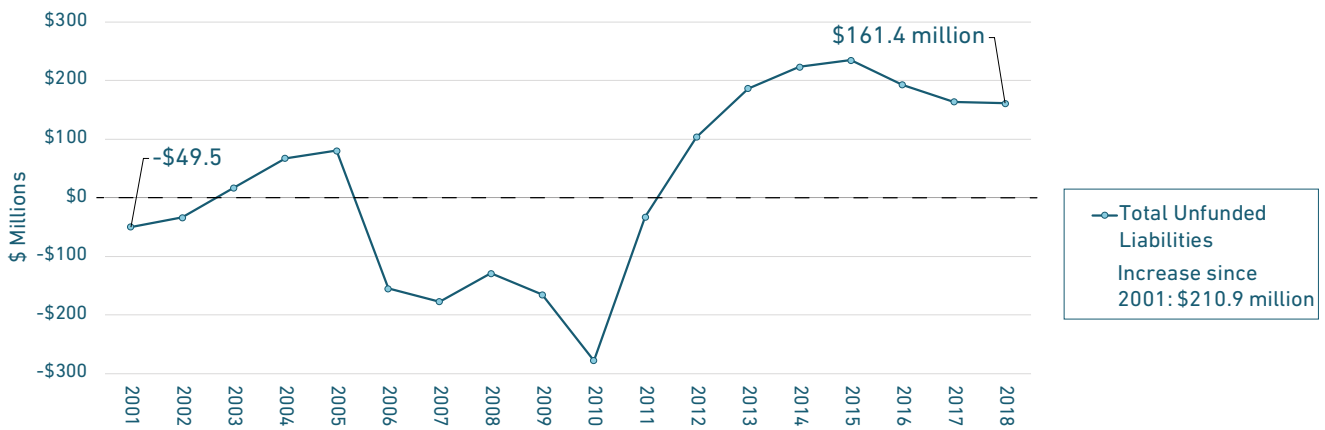
State Own-Source K–12 Spending, 2001–2018

As Figure DC1 illustrates, *total* spending on primary and secondary education in the District has increased moderately since 2001. But DCPS specific funding has increased by \$60 million in nominal dollars, and it has decreased by \$225 million after adjusting for inflation. Still, in part because of school enrollment at DCPS facilities falling faster than aggregate funding (there were 30.2% fewer students at DCPS schools in 2018 than 2001), District funding on a dollars per DCPS student basis has increased 15.5% since 2001 — climbing from \$16,920 to \$19,534 (inflation adjusted).

## PENSION FUNDING STATUS

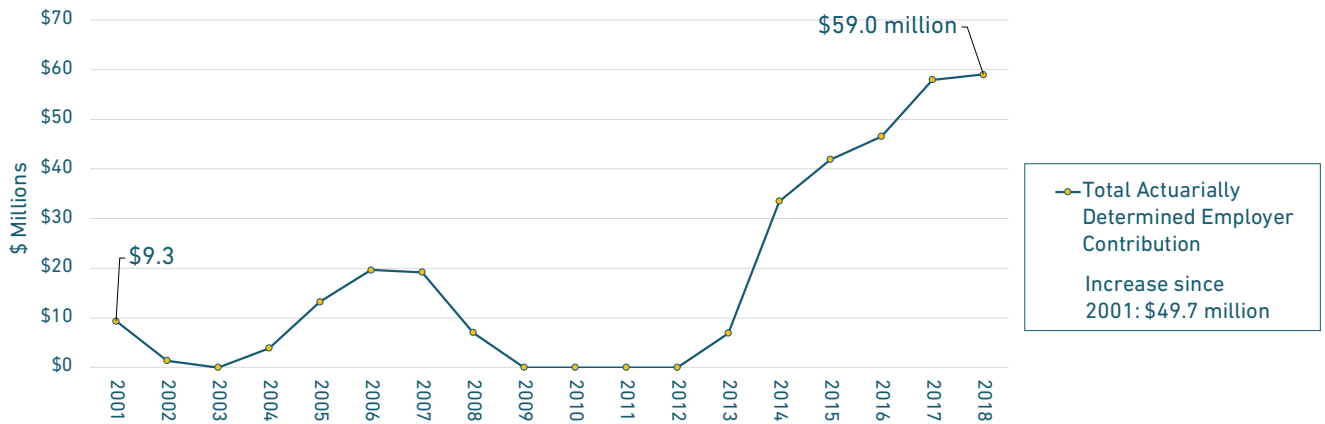
As recently as 2011, TRP was running a surplus. However, over the past 6 years a combination of underperforming investments coupled with changing demographics have resulted in a growing unfunded liability for TRP — reaching more than \$160 million in 2018. Figure DC2 shows the change in the unfunded liabilities and Figure DC3 illustrates the change in what state actuaries have recommended as contributions from government employers.

**Figure DC2: Since 2011, TRP’s surplus has disappeared and more than \$160 million in pension debt accumulated.**



TRP Unfunded Liabilities (Actuarial Value), 2001–2018

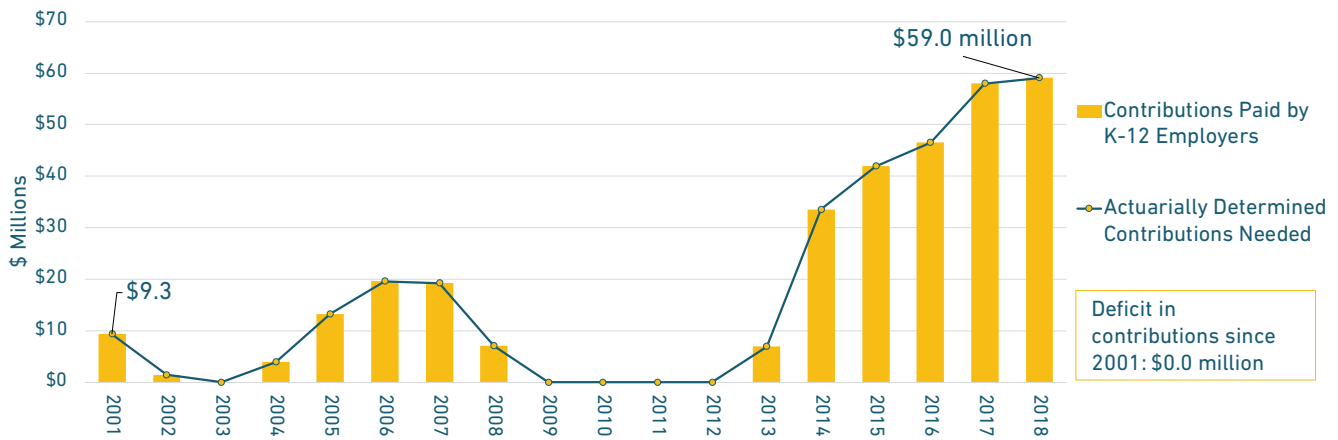
**Figure DC3: To address pension debt, actuaries recommended Washington, DC should contribute an increasing amount to TRP.**



TRP 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 into the pension fund each year. However, D.C. has demonstrated a strong commitment to paying the full required contribution, as shown in Figure DC4. As a result, the increase in contributions actually paid by the District mirrors the growing trend displayed in Figure DC3, with contributions more than doubling from \$9.3 million in 2001 to \$59 million in 2018.

**Figure DC4: D.C. paid its full actuarial bill to TRP each year, that means pension contributions have grown to account for unfunded liabilities.**



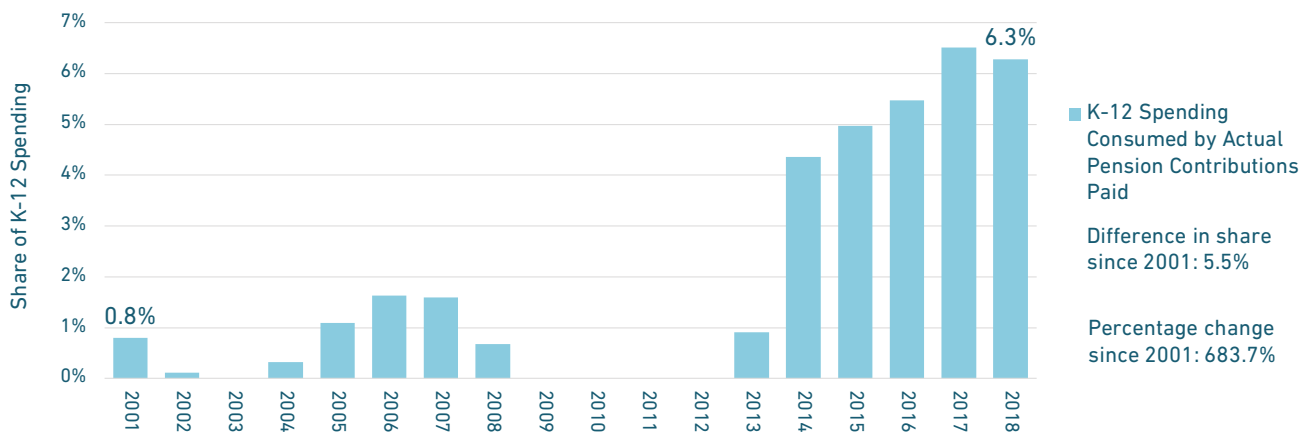
Actuarially Determined Employer Contribution Compared to Actual Contributions Paid to TRP, 2001–2018

Paying the full required pension bill each year is the bare minimum for ensuring a pension system is fully funded. However, from the perspective of education funding, any increase in pension costs is going to be viewed negatively if it is shrinking the dollars available for teacher salaries and serving kids. In an ideal world, D.C. would have ensured that funding for education expanded at least as fast as the growth in the ADEC shown above. But as we show in the final chart on the next page, that hasn't happened.

## PENSION COSTS CROWDING OUT K-12 SPENDING

The growing costs of funding TRP have soaked up an increasing share of D.C.’s education spending. This is especially important for teachers, as the growth in TRP’s costs outpaced the growth in DCPS K-12 spending. In fact, TRP’s contributions reported as a share of DCPS K-12 spending increased from 0.8% in 2001 to 6.3% in 2018.

**Figure DC5: The hidden cut to DCPS education funding needs attention. Increasing TRP contributions are consuming more and more K-12 funding intended to support education.**



Actual Pension Costs as a Share of District Own-Source DCPS Spending, 2001–2018

As Figure DC5 indicates, pension costs climbed quickly over the past few years. This was partially the result of adopting a more conservative 6.5% investment return assumption in 2013 — which will be good for the pension plan in the long-run. But since increasing contributions were not fully off-set with other District funding, there has been a rising share of K-12 spending being consumed by pension costs.

The District of Columbia has met its commitments to funding TRP by paying the full ADEC each year, and the current funded status is relatively strong (with a funded ratio above 90%). But unless there is a change that reduces TRP costs and/or adjusts the District’s education funding to fully account for pension contributions, D.C. will continue to suffer this hidden cut in dollars intended for serving its 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 DC1 shows the UAAL and actual pension contributions on a per student basis compared against District education spending for DCPS. Breaking the numbers down this way shows that growth in unfunded pension liabilities and related pension contributions since 2011 have really cut into per student DCPS spending by the District. In fact, while the DCPS enrollment decline has meant increasing per student spending by roughly \$2,500, when inflation and pension costs are factored in, the increase from 2011 (the last year TRP was fully funded) to 2018 has been just \$1,500 more per student.

**Table DC1: DCPS education spending per student is growing, but pension costs are still increasing at a faster pace.**

Year	Total District 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	\$16,920	-\$718	Fully Funded	\$136	\$16,784
2002	\$18,334	-\$511	Fully Funded	\$21	\$18,313
2003	\$17,790	\$266	1.5%	\$0	\$17,790
2004	\$19,580	\$1,099	5.6%	\$63	\$19,517
2005	\$20,752	\$1,374	6.6%	\$226	\$20,526
2006	\$21,730	-\$2,803	Fully Funded	\$355	\$21,375
2007	\$22,892	-\$3,366	Fully Funded	\$365	\$22,527
2008	\$21,016	-\$2,604	Fully Funded	\$143	\$20,874
2009	\$16,235	-\$3,650	Fully Funded	\$0	\$16,235
2010	\$14,610	-\$6,208	Fully Funded	\$0	\$14,610
2011	\$16,166	-\$710	Fully Funded	\$0	\$16,166
2012	\$16,599	\$2,297	13.8%	\$0	\$16,599
2013	\$16,647	\$4,094	24.6%	\$151	\$16,496
2014	\$16,595	\$4,811	29.0%	\$723	\$15,873
2015	\$17,721	\$4,936	27.9%	\$881	\$16,839
2016	\$17,538	\$3,978	22.7%	\$960	\$16,577
2017	\$18,343	\$3,373	18.4%	\$1,194	\$17,149
2018	\$19,534	\$3,353	17.2%	\$1,226	\$18,308

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.

## 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.