Hidden Education Funding Cuts

Delaware

Pension costs are consuming more than four times 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 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.

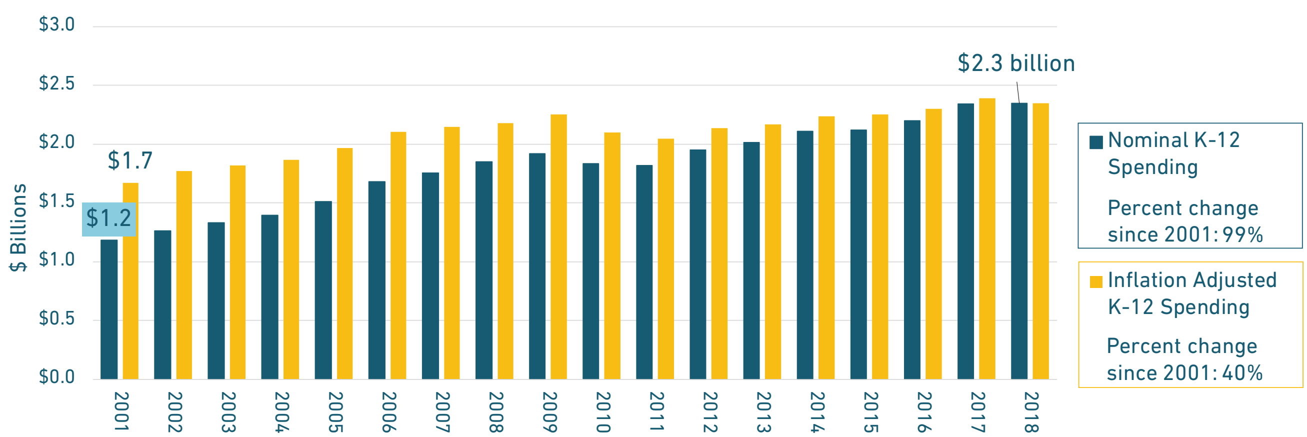
The First State is home to nearly 1 million citizens, and almost 140,000 primary and secondary school students. In 2018, the state's total expenditures exceeded $10.8 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state's own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled $8.4 billion.

Delaware teachers are enrolled in a guaranteed income plan, known as a defined benefit pension, administered by the Delaware Public Employees' Retirement System – State Employees' Pension Plan (DPERS). DPERS manages retirement benefits for nearly 70,000 active and retired teachers, state workers, and state university employees. Although DPERS provides retirement for more than just teachers, the teachers comprise a large share (26%) of plan members.

EDUCATION SPENDING

In 2018, Delaware's state distributed K–12 expenditures totaled $2.5 billion. Out of that total, $2.3 billion came from state own-source funding while the remaining $196 million was from federal grants and other education programs. (Local sources provided additional funding.)

Figure DE1: Delaware's state spending on education looks like it doubled since 2001, but after accounting for inflation the increase was only 40%.



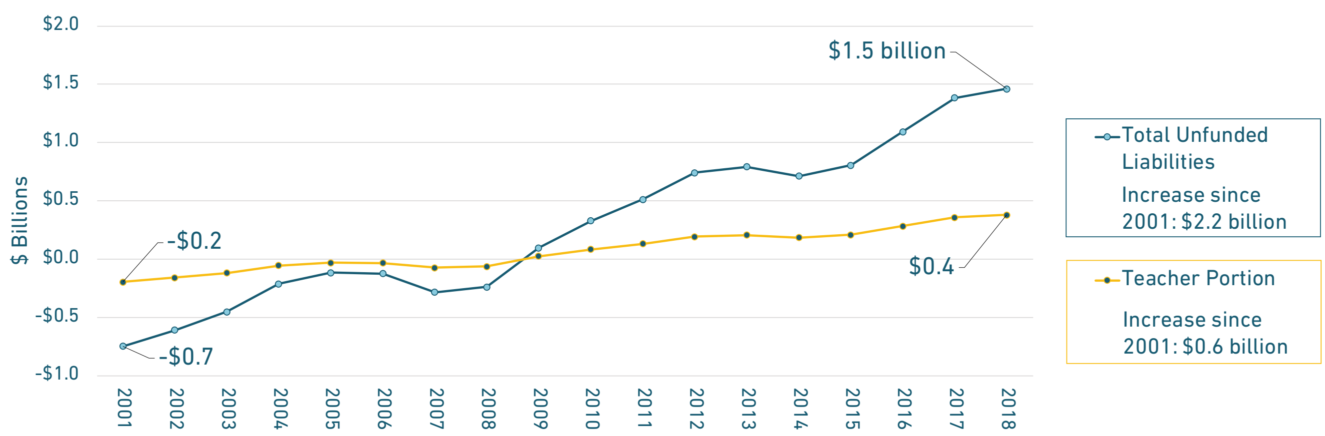
State Own-Source K–12 Spending, 2001–2018

As Figure DE1 illustrates, state spending on primary and secondary education in Delaware has increased significantly since 2001 — growing by $1.1 billion in nominal dollars; however, it only increased moderately after adjusting for inflation, growing by only $675.8 million. On a dollars per student basis, spending grew by an even smaller 17.7% since 2001 — increasing from $14,432 to $16,985 (inflation adjusted).

PENSION FUNDING STATUS

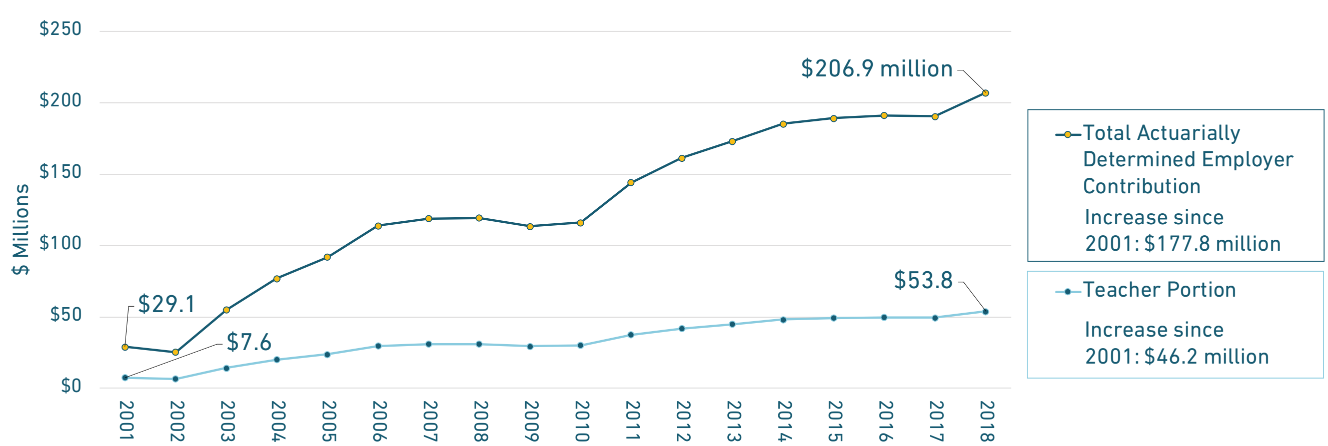
As recently as 2008, DPERS was fully funded and running a surplus. However, over the past 10 years a combination of underperforming investments coupled with changing demographics have resulted in a growing unfunded liability for DPERS — reaching roughly $1.5 billion in 2018. Figure DE2 shows the change in the unfunded liabilities and Figure DE3 illustrates the change in what state actuaries have recommended as contributions from government employers.

Figure DE2: Since 2001 DPERS has transitioned from a surplus to nearly $1.5 billion in pension debt.



DPERS Unfunded Liabilities (Actuarial Value), 2001–2018

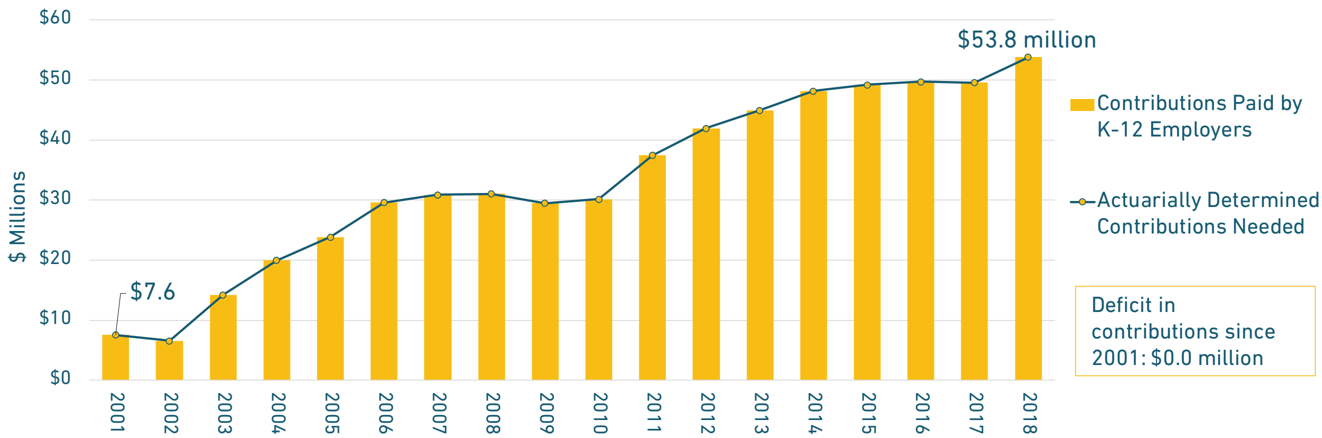
Figure DE3: To address the pension debt the amount actuaries recommend the state should contribute to DPERS has increased nearly seven-fold.



DPERS 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. Delaware is one of the states that has demonstrated a strong commitment to paying the full required contribution, as shown in Figure DE4. As a result, the increase in contributions actually paid by K–12 employers mirrors the growing trend displayed in Figure DE3, with contributions paid increasing more than seven-fold from $7.6 million in 2001 to $53.8 million in 2018.

Figure DE4: Delaware paid its full actuarial bill to DPERS each year, and that means pension contributions have exploded since 2001.



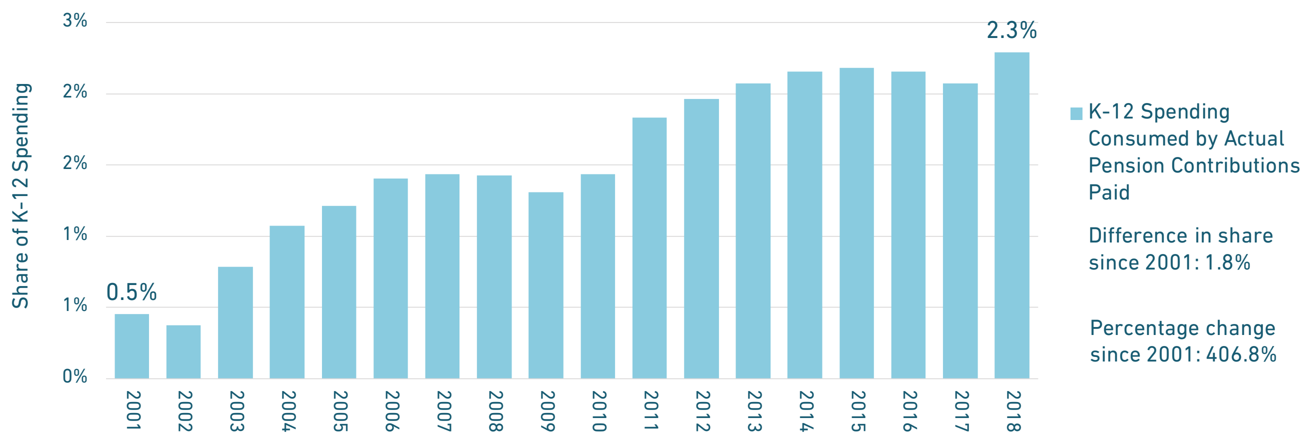
Actuarially Determined Employer Contribution Compared to Actual Contributions Paid to DPERS, 2001–2018

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, Delaware 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 DPERS have soaked up an increasing share of Delaware's education spending. This is especially important for teachers, as the growth in DPERS's costs outpaced the growth in state own-source K–12 spending. In fact, DPERS's contributions reported as a share of K–12 spending increased from 0.5% in 2001 to 2.3% in 2018.

Figure DE5: The hidden cut to Delaware's state education funding is serious. DPERS contributions are consuming more than four times as much state K–12 funding in 2018 as 2001.



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

As Figure DE5 indicates, pension costs have consumed a growing share of education spending almost every year since 2001. Although the state increased funding to education by 40%, this growth has been completely offset by climbing pension costs. While some might indicate that DPERS costs comprise less than 3% of state K–12 funding, the troubling result is the trend of growing unfunded liabilities and increasing costs. The hidden cut to Delaware classrooms might not be undercutting the education budget yet, but if these trends continue then the effects will only grow.

Delaware has met its commitments to funding DPERS by paying the full ADEC each year, but the costs of paying down the system's debt have grown significantly faster than the state's own-source education spending. Unless there is a change that reduces DPERS's costs and/or adjusts the state's education funding to fully account for pension contributions, Delaware'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 DE1 shows the public school employer portions of the UAAL and actual pension contributions on a per student basis compared against state education spending. Breaking the numbers down this way shows that unfunded pension liabilities and related pension contributions are growing at a faster rate than per student spending by the state. While the state increased K–12 education funding by around $2,500 per student — a 17.7% increase, the employer pension cost per student increased from $65 in 2001 to $389 in 2018 — a 498.4% increase.

Table DE1: Although state education spending grew by roughly $2,500 per student, pension debt and contributions grew at a faster rate.

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	$14,432	-$1,672	Fully Funded	$65	$14,367
2002	$15,118	-$1,349	Fully Funded	$56	$15,062
2003	$15,350	-$990	Fully Funded	$120	$15,230
2004	$15,583	-$458	Fully Funded	$167	$15,416
2005	$16,265	-$244	Fully Funded	$197	$16,067
2006	$17,218	-$260	Fully Funded	$242	$16,976
2007	$17,543	-$597	Fully Funded	$252	$17,291
2008	$17,357	-$492	Fully Funded	$247	$17,110
2009	$17,785	$200	1.1%	$232	$17,552
2010	$16,230	$660	4.1%	$233	$15,997
2011	$15,860	$1,035	6.5%	$291	$15,569
2012	$16,552	$1,497	9.0%	$325	$16,227
2013	$16,478	$1,567	9.5%	$341	$16,137
2014	$16,688	$1,383	8.3%	$359	$16,329
2015	$16,698	$1,557	9.3%	$365	$16,333
2016	$16,907	$2,084	12.3%	$365	$16,542
2017	$17,405	$2,619	15.0%	$360	$17,045
2018	$16,985	$2,749	16.2%	$389	$16,596

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 DPERS 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.