Hidden Education Funding Cuts

Florida

Pension costs are consuming 11% of state education funding, nearly double the amount spent in 2012

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.

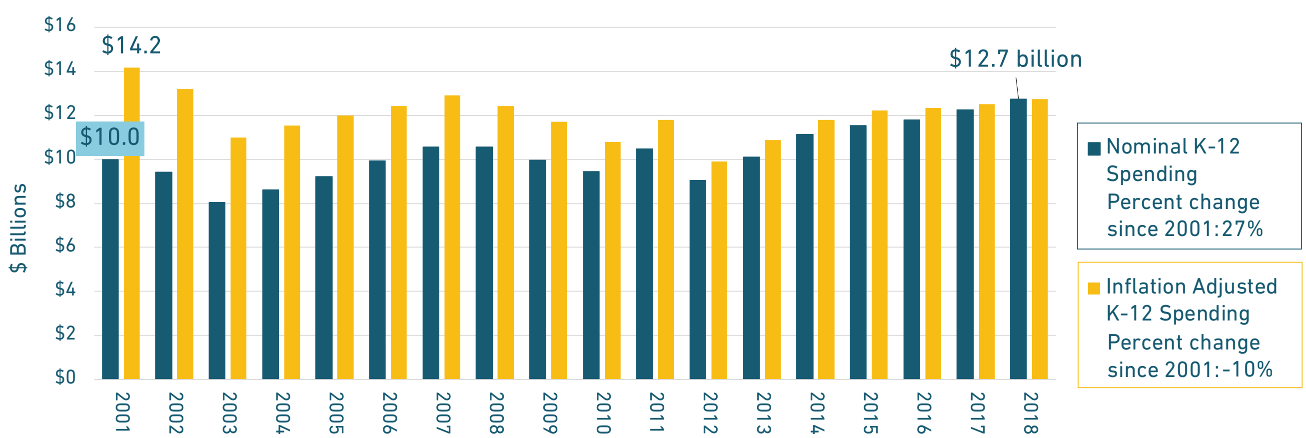
The Sunshine State is home to more than 21 million citizens, and more than 2.8 million primary and secondary school students. In 2018, the state's total expenditures exceeded $84.9 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state's own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled $52.2 billion.

Florida teachers have a choice of retirement plans, either a guaranteed income plan, known as a defined benefit pension, or a stand-alone defined contribution only plan called the "Investment Plan." Both plans are administered by the Florida Retirement System (FRS). FRS manages retirement benefits for nearly 1.1 million active and retired teachers, state workers, and municipal employees.

EDUCATION SPENDING

In 2018, Florida's state distributed K–12 expenditures totaled $14.6 billion. Out of that total, $12.7 billion came from state own-source funding while the remaining $1.9 billion was from federal grants and other education programs. (Local sources provided additional funding.)

Figure FL1: Florida's state spending on education decreased by roughly $1.5 billion after accounting for inflation.



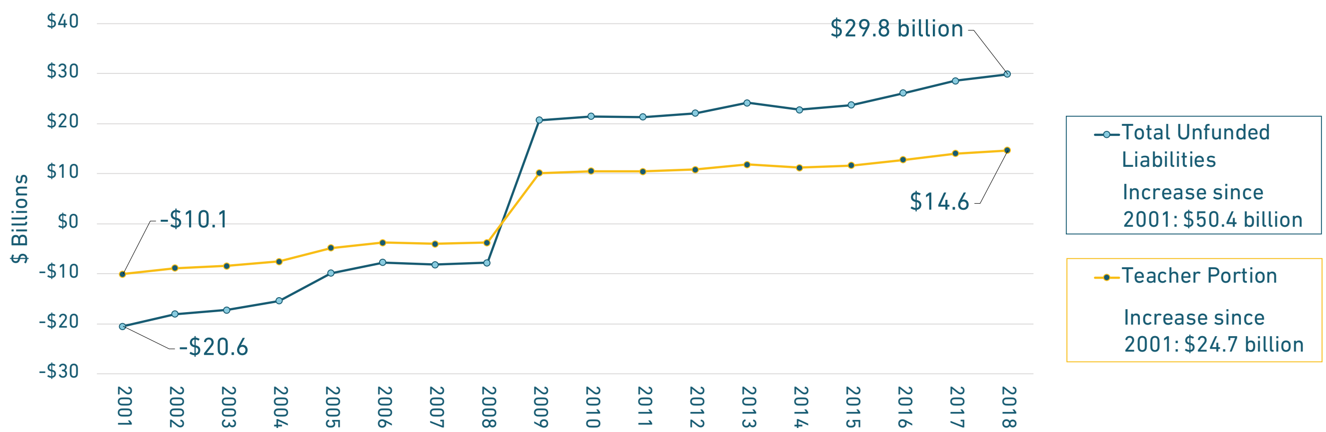
State Own-Source K–12 Spending, 2001–2018

As figure FL1 illustrates, state spending on primary and secondary education in Florida has increased moderately since 2001 — growing by $2.7 billion in nominal dollars; however, it decreased slightly after adjusting for inflation, shrinking by $1.5 billion. On a dollars per student basis, spending decreased by 22.3% since 2001 — declining from $5,722 to $4,448 (inflation adjusted).

PENSION FUNDING STATUS

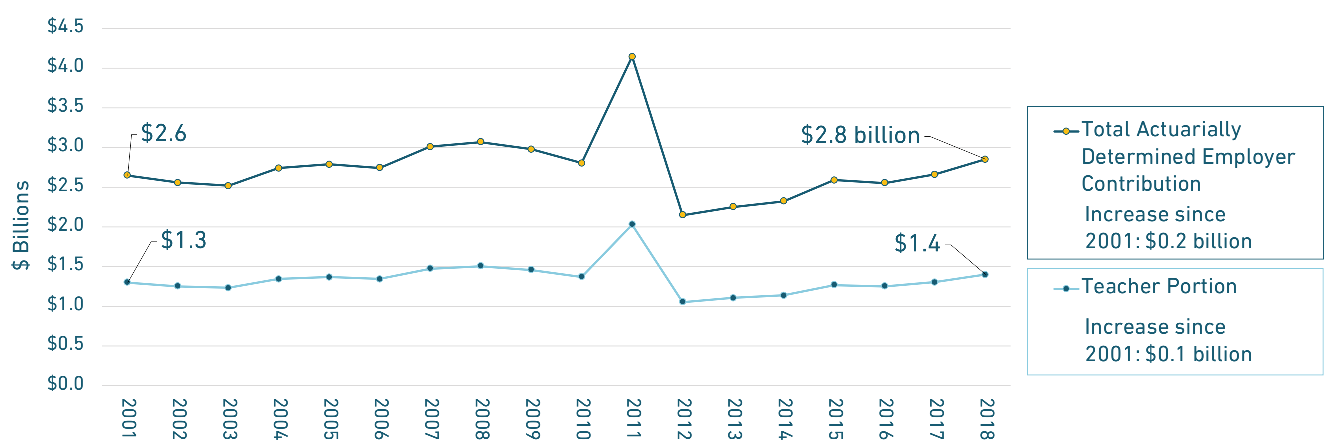
As recently as 2008, FRS was running a $6.6 billion surplus. However, over the past 10 years a combination of underperforming investments coupled with changing demographics have resulted in a growing unfunded liability for FRS — reaching roughly $29.8 billion in 2018. Figure FL2 shows the change in the unfunded liabilities and Figure FL3 illustrates the change in what state actuaries have recommended as contributions from government employers.

Figure FL2: Since 2008 FRS has transitioned from a $6.6 billion surplus to nearly $30 billion in pension debt.



FRS Unfunded Liabilities (Actuarial Value), 2001–2018

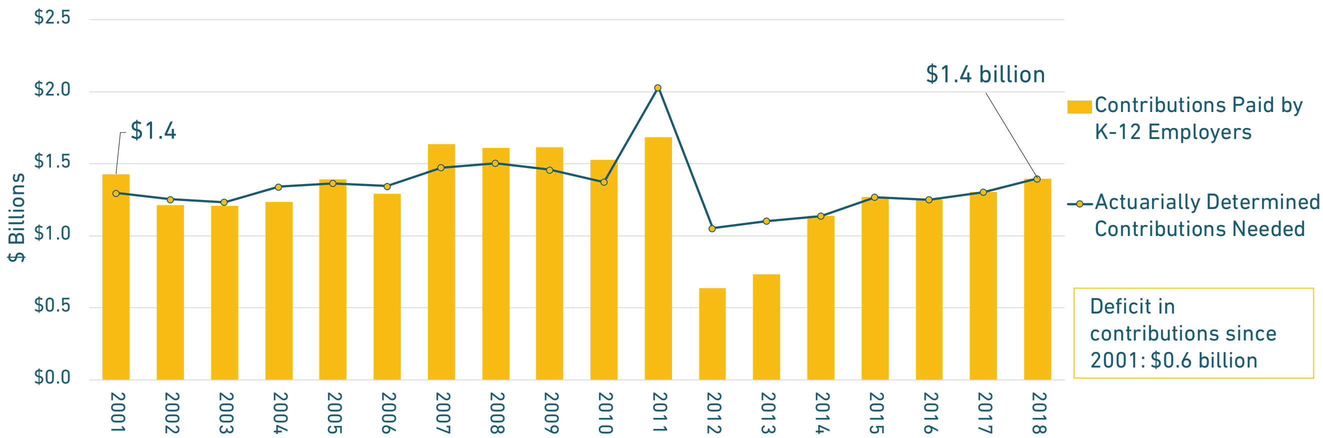
Figure FL3: Despite growing pension debt the amount actuaries recommend Florida contribute to FRS has held relatively steady.



FRS 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, Florida is one of those states, failing to pay the full pension bill seven times since 2001, shown in Figure FL4. However, it is also important to note that Florida contributed more than necessary several times as well, offsetting some of the deficit in contributions.

Figure FL4: Florida has had a turbulent history paying its full actuarial bill. As a result there has been a $600 million deficit in contributions to FRS since 2001.



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

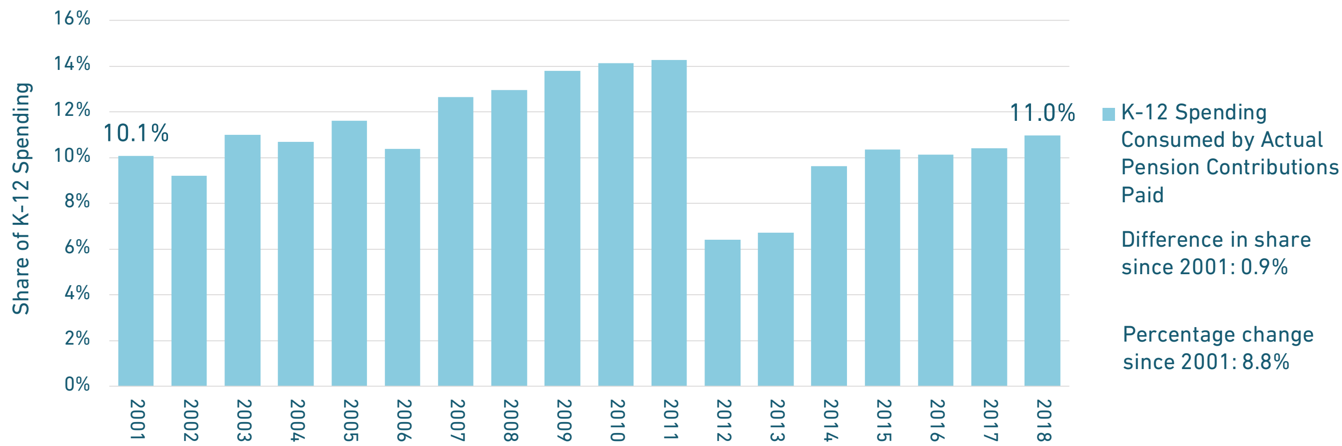
Florida is a somewhat unique case where education spending has declined, pension debt has exploded, and yet pension costs have stayed relatively constant. The state introduced changes to the plan's funding policy with Senate Bill 2100 in 2011, which allowed the brief spike in pension costs to revert to pre-recession levels and they have only grown slightly since, shown in Figure FL4. Provisions within this legislation froze the ability for FRS members to earn cost-of-living adjustments on pension benefits, which reduced projected costs. As a result, the actuarial cost for FRS has only increased by roughly $700 million since 2012.

While the increase in contributions has been relatively muted by this reduction in future benefit earnings, costs have still increased. And though it was a positive step for Florida to start consistently paying the full required pension bill each year since 2014, 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, Florida 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 always happened.

PENSION COSTS CROWDING OUT K–12 SPENDING

The growing costs of funding FRS have soaked up an increasing share of Florida's education spending since 2012. This is especially important for teachers, as FRS's costs have grown while state own-source K–12 spending has declined. Even measuring the full 18-year period for which data is available shows that FRS's contributions reported as a share of K–12 spending increased from 10.1% in 2001 to 11% in 2018.

Figure FL5: FRS contributions are consuming more K–12 funding in 2018 than 2001 and have grown every year since the funding policy changes in 2011.



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

As Figure FL5 indicates, FRS's policy changes adopted in 2011 resulted in a sharp decline in the share of state education funding going to pension costs — because pension costs were reduced. But the share has grown each year since 2012 — from 6.4% to the current 11%.

It may be tempting to view the relatively stable 18-year trend as evidence that all is well. However, the UAAL has grown 35.4% since 2012 — *after* the state attempted to fix the problem with benefit reductions. In the years since, FRS has had a relatively high assumed rate of return and investments have underperformed this target. As a result, Florida finds itself in a potentially precarious position, where realization of the costs needed to push FRS back toward full funding could easily overwhelm the state's education budget.

Unless there is a change that reduces FRS costs and/or adjusts the state's education funding to fully account for pension contributions, Florida'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 FL1 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 how unfunded pension liabilities and related pension contributions have grown while per student spending by the state has declined, resulting in an even larger per student impact. In fact, after accounting for inflation and pension costs, Florida spent nearly $2,000 less per student in 2018 than 2001.

Table FL1: State education spending has declined roughly $1,300 per student. Meanwhile, pension debt has exploded and contributions have held stable.

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	$5,722	-$4,072	Fully Funded	$577	$5,145
2002	$5,247	-$3,529	Fully Funded	$483	$4,764
2003	$4,301	-$3,313	Fully Funded	$473	$3,828
2004	$4,451	-$2,914	Fully Funded	$476	$3,976
2005	$4,557	-$1,842	Fully Funded	$529	$4,028
2006	$4,647	-$1,417	Fully Funded	$483	$4,164
2007	$4,844	-$1,511	Fully Funded	$613	$4,231
2008	$4,720	-$1,451	Fully Funded	$611	$4,108
2009	$4,444	$3,845	86.5%	$613	$3,831
2010	$4,084	$3,970	97.2%	$577	$3,507
2011	$4,418	$3,918	88.7%	$631	$3,788
2012	$3,676	$4,012	109.1%	$236	$3,441
2013	$4,000	$4,351	108.8%	$269	$3,730
2014	$4,280	$4,051	94.6%	$413	$3,868
2015	$4,378	$4,160	95.0%	$454	$3,924
2016	$4,375	$4,536	103.7%	$444	$3,932
2017	$4,402	$4,925	111.9%	$458	$3,944
2018	$4,448	$5,108	114.8%	$488	$3,960

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 FRS Unfunded Liabilities and Actual K–12 Employer Contributions, 2001–2018

THE INVESTMENT PLAN IN FRS

In addition to the guaranteed income plan offered by FRS, the system also offers the Investment Plan. Under this plan teachers contribute to individual retirement accounts and those funds are supplemented by contributions from their employer. In 2018, nearly 125,000 employees were enrolled in the Investment Plan. A total of roughly $600 million was paid into those retirement accounts. As a point of comparison, the total contributions to the pension portion of FRS totaled nearly $3.6 billion.

Despite the availability of the Investment Plan for FRS members and its size, complete employer contribution data are not clearly reported publicly going back to 2001 to allow for its inclusion in these analyses. As a result, the Investment 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 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.