Hidden Education Funding Cuts

Georgia

Pension costs are consuming 25% 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.

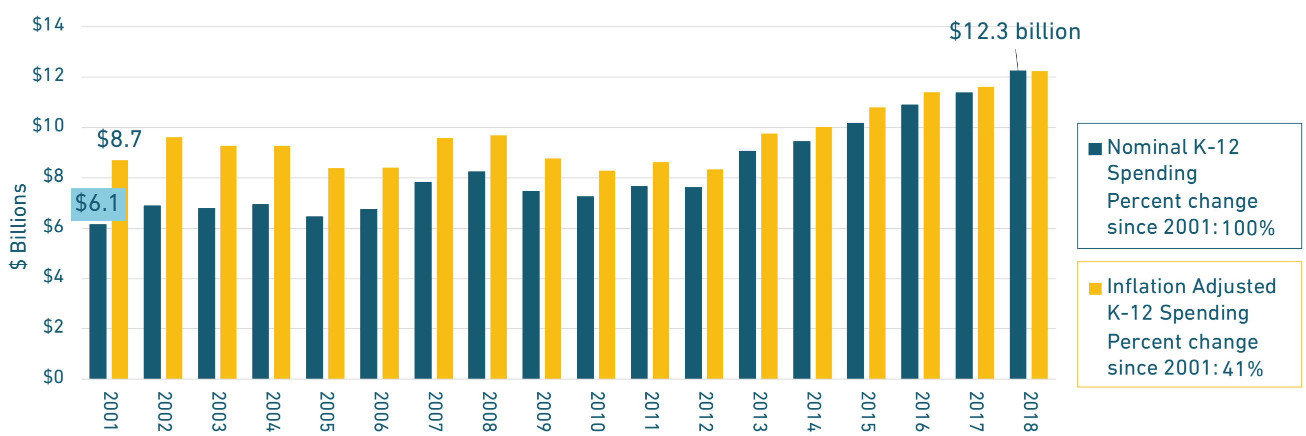
The Peach State is home to more than 10.6 million citizens, and nearly 1.8 million primary and secondary school students. In 2018, the state's total expenditures $51.4 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state's own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled $36.9 billion.

Georgia teachers are enrolled in a guaranteed income plan, known as a defined benefit pension, administered by the Teachers' Retirement System of Georgia (TRS). TRS manages retirement benefits for roughly 350,000 active and retired teachers.

EDUCATION SPENDING

In 2018, Georgia's state distributed K–12 expenditures totaled $14.6 billion. Out of that total, $12.3 billion came from state own-source funding while the remaining $2.3 billion was from federal grants and other education programs. (Local sources provided additional funding.)

Figure GA1: Georgia's state spending on education increased by roughly $3.6 billion after accounting for inflation.



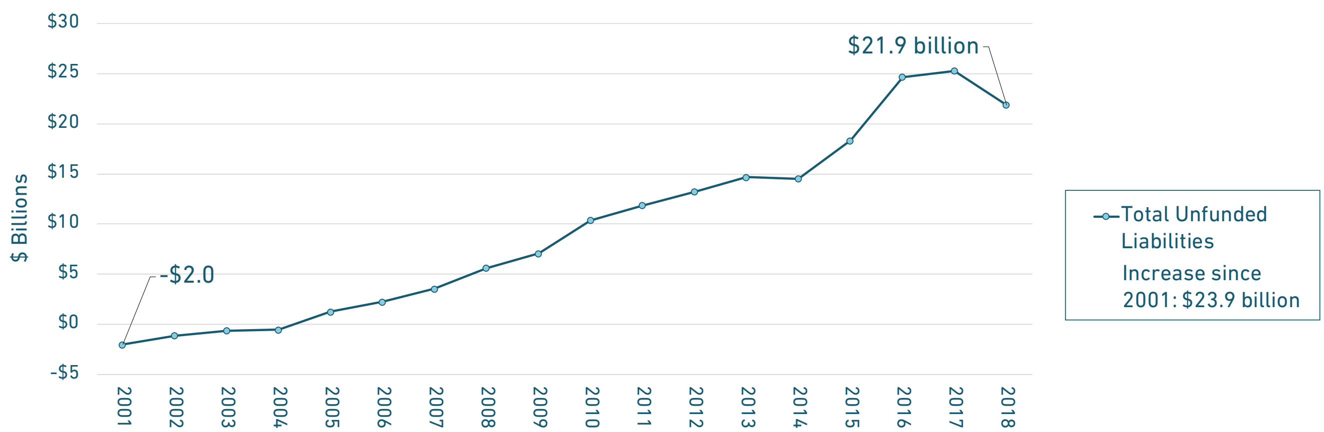
State Own-Source K–12 Spending, 2001–2018

As figure GA1 illustrates, spending on primary and secondary education in Georgia has increased significantly since 2001 — growing by roughly $6.2 billion in nominal dollars; however, it only increased moderately after adjusting for inflation, growing by $3.6 billion. On a dollars per student basis, spending increased 17% since 2001 — growing from $5,888 to $6,915 (inflation adjusted).

PENSION FUNDING STATUS

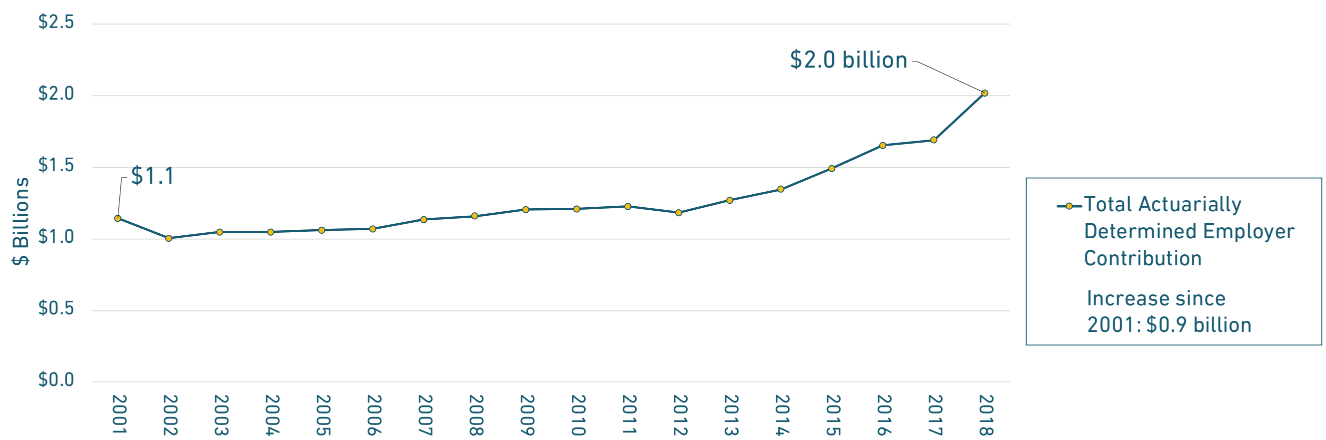
As recently as 2004, TRS was running a surplus. However, over the past 14 years a combination of underperforming investments coupled with changing demographics have resulted in a growing unfunded liability for TRS — reaching almost $21.9 billion in 2018. Figure GA2 shows the change in the unfunded liabilities and Figure GA3 illustrates the change in what state actuaries have recommended as contributions from government employers.

Figure GA2: Since 2004 TRS has transitioned from a surplus to more than $20 billion in pension debt.



TRS Unfunded Liabilities (Actuarial Value), 2001–2018

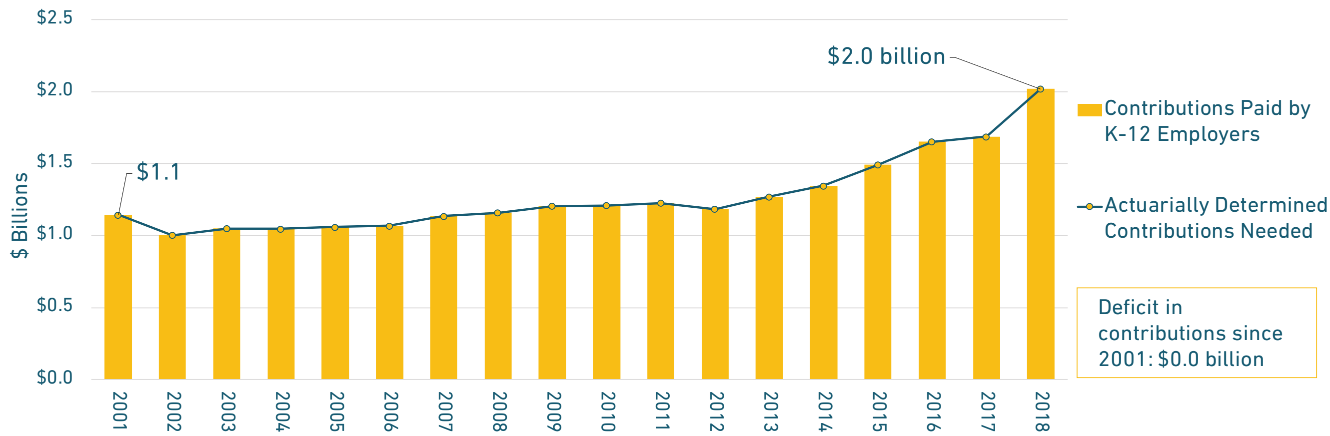
Figure GA3: To address growing pension debt the amount actuaries recommend the state contribute has nearly doubled.



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 into the pension fund each year. Georgia is one of the states that has demonstrated a strong commitment to paying the full required contribution, as shown in Figure GA4. As a result, the increase in contributions actually paid by the state mirrors the growing trend displayed in Figure GA3, with contributions nearly doubling from $1.1 billion in 2001 to $2 million in 2018.

Figure GA4: Georgia paid its full bill to TRS each year, And that means contributions paid have nearly doubled since 2001.



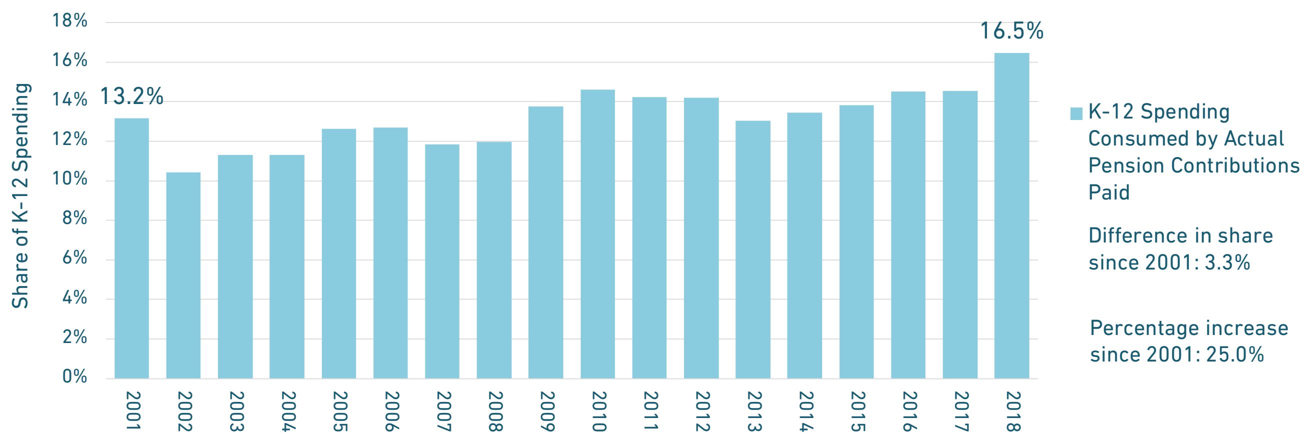
Actuarially Determined Employer Contribution Compared to Actual Contributions Paid to TRS, 2001–2018

Paying the full required pension bill each year is the bare minimum for ensuring a pension system is fully funded. 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, Georgia 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 TRS have soaked up an increasing share of Georgia 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 13.2% in 2001 to 16.5% in 2018, shown in Figure GA5.

Figure GA5: The hidden cut to Georgia's state education funding is serious. TRS contributions are consuming 25% more state K–12 funding in 2018 than 2001.



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

The relative increase in hidden education funding cuts for Georgia is larger for the period 2002 to 2018 than 2001 to 2018. And things were getting better from 2010 to 2013. But stepping back to view the past two decades as a whole, we can see a clear upward trend in the hidden cut as education funding itself grew at a slower pace than increases in TRS pension costs. And the main reason that TRS pension costs increased during this time frame was the growth in unfunded liabilities.

Georgia has met its commitments to funding TRS 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 TRS costs and/or adjusts the state's education funding to fully account for pension contributions, Georgia'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 GA1 shows the UAAL and actual pension contributions on a per student basis. Breaking the numbers down this way shows that growth in unfunded pension liabilities and related pension contributions have nearly outpaced per student spending by the state.

Table GA1: State education spending increased by $1,000 per student, 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	$5,888	-$1,373	Fully Funded	$776	$5,113
2002	$6,390	-$739	Fully Funded	$666	$5,724
2003	$6,037	-$414	Fully Funded	$682	$5,355
2004	$5,912	-$331	Fully Funded	$668	$5,244
2005	$5,248	$792	15.1%	$663	$4,585
2006	$5,168	$1,378	26.7%	$656	$4,512
2007	$5,816	$2,151	37.0%	$688	$5,128
2008	$5,850	$3,390	57.9%	$700	$5,150
2009	$5,256	$4,232	80.5%	$722	$4,533
2010	$4,940	$6,181	125.1%	$721	$4,219
2011	$5,115	$7,048	137.8%	$728	$4,387
2012	$4,895	$7,759	158.5%	$695	$4,200
2013	$5,658	$8,508	150.4%	$737	$4,921
2014	$5,744	$8,328	145.0%	$772	$4,972
2015	$6,142	$10,428	169.8%	$849	$5,293
2016	$6,464	$13,971	216.1%	$937	$5,527
2017	$6,563	$14,287	217.7%	$955	$5,609
2018	$6,915	$12,343	178.5%	$1,139	$5,776

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.