

# Hidden Education Funding Cuts

## Hawaii

### Pension costs are consuming nearly 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.

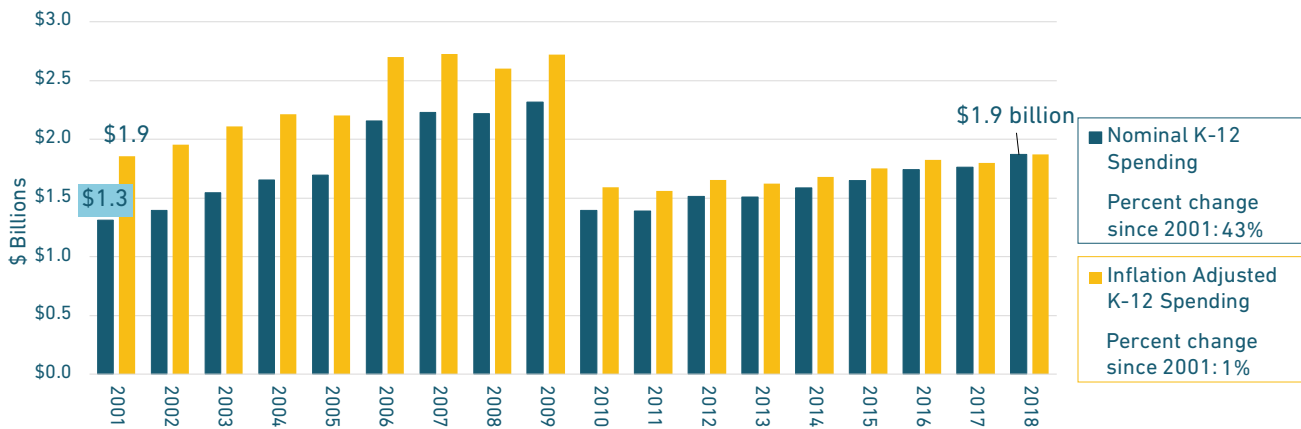
The Aloha State is home to more than 1.4 million citizens, and 180,000 primary and secondary school students. In 2018, the state’s total expenditures exceeded \$15.2 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state’s own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled \$12.6 billion.

Hawaii teachers are enrolled in a hybrid plan that combines elements of a defined benefit plan (typically called a pension) and a guaranteed return plan (an individual retirement account managed by the state with guaranteed investment returns). Both portions of the hybrid plan are administered by the Employees’ Retirement System of Hawaii (ERS). ERS also manages retirement benefits for nearly 125,000 active and retired teachers, state workers, police, and firefighters — however public school employees comprise a meaningful share (13%) of the system’s total members.

## EDUCATION SPENDING

In 2018, Hawaii’s state distributed K–12 expenditures totaled \$2.1 billion. Out of that total, \$1.9 billion came from state own-source funding while the remaining \$226 million was from federal grants and other education programs. (Local sources provided additional funding.)

**Figure H11: Hawaii’s state spending on education was hit hard by the Great Recession. As a result, state K–12 funding has only increased by \$16 million since 2001 after accounting for inflation.**



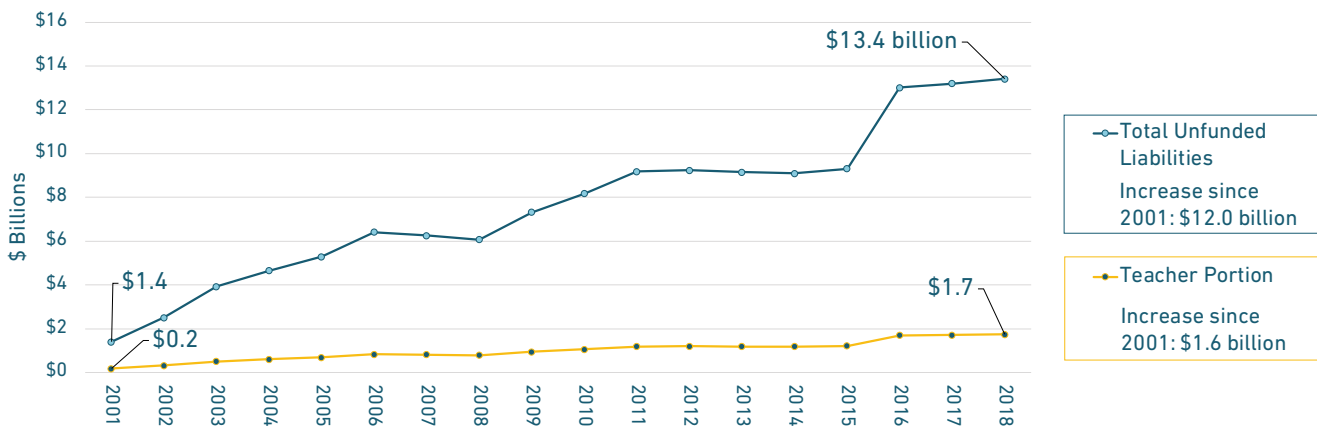
State Own-Source K–12 Spending, 2001–2018

When compared against totals in 2009, state education spending is down considerably in nominal, inflation adjusted, and per student figures. The Hawaii state budget, including funding for K–12 education, was hit particularly hard by the Great Recession and losses in tourism revenue. In the years since, state education funding has increased slowly. And only in 2018 did the state’s K–12 funding levels return to 2001 funding levels on an inflation adjusted basis — increasing by only \$15.6 million. The same nearly flat change exists when measuring state funding on a per student basis, with an increase of only 2.5% since 2001 — growing from \$10,092 to \$10,349 (inflation adjusted).

## PENSION FUNDING STATUS

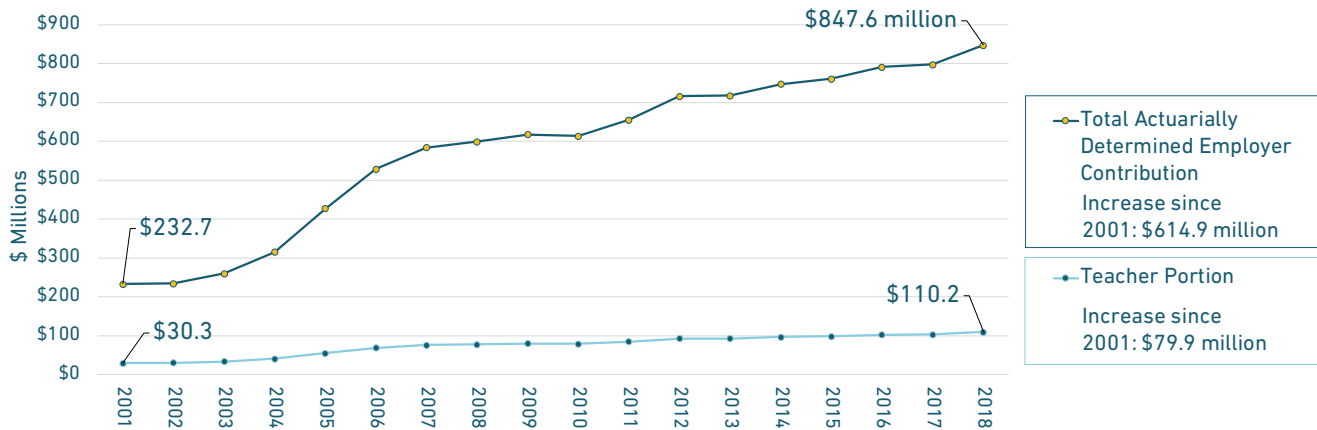
In 2001, ERS was much closer to being fully funded but already faced more than \$1.4 billion in pension debt. However, over the past 17 years a combination of underperforming investments coupled with changing demographics have caused the unfunded liability for ERS to explode — reaching \$13.4 billion in 2018. Figure HI2 shows the change in the unfunded liabilities and Figure HI3 illustrates the change in what state actuaries have recommended as contributions from government employers.

**Figure HI2: Since 2001 ERS has seen its pension debt increase nearly ten-fold.**



ERS Unfunded Liabilities (Actuarial Value), 2001–2018

**Figure HI3: To address the pension debt the amount actuaries recommend the state contribute to ERS has more than tripled.**

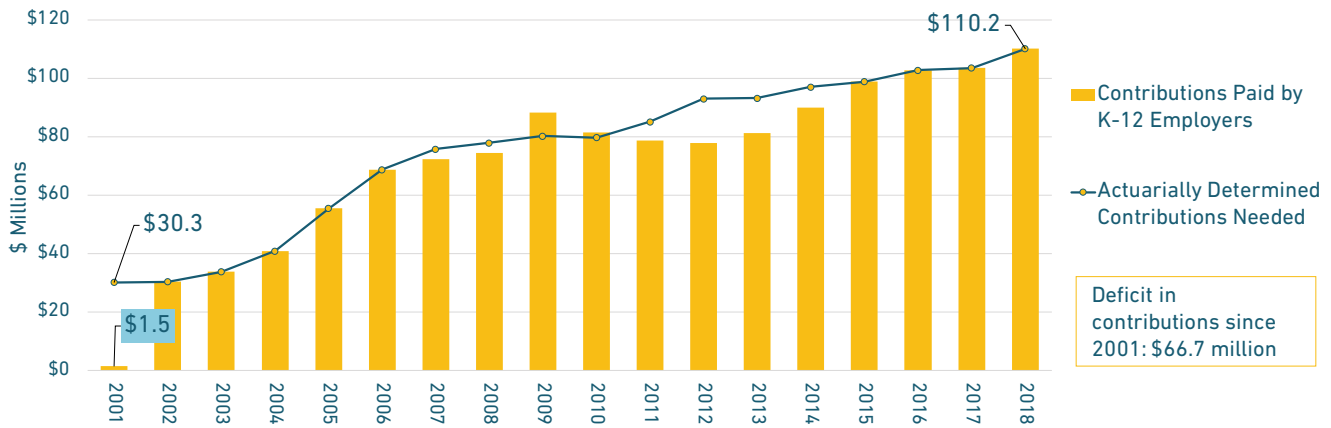


ERS Actuarially Determined Employer Contributions, 2001–2018

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, Hawaii is one of those states, failing to pay the full pension bill seven times since 2001, shown in Figure HI4. As a result, the increase in contributions actually paid by K–12 employers does not perfectly mirror the growing trend displayed in Figure HI3, but it is close.

The state’s contributions in 2001 were particularly low, with only \$1.5 million being paid toward ERS instead of the prescribed \$30.3 billion. The following year Hawaii resumed its typical pattern of actual contributions paid being close to the ADEC. So, measuring change from 2001 can create a misleading point of comparison for the overall contribution trend. Using 2002 as a starting point, contributions more than tripled from \$30.5 million in 2002 to \$110.2 million in 2018.

**Figure HI4: Hawaii did not pay its full actuarial bill to ERS each year, shorting the plan by nearly \$67 million since 2001.**

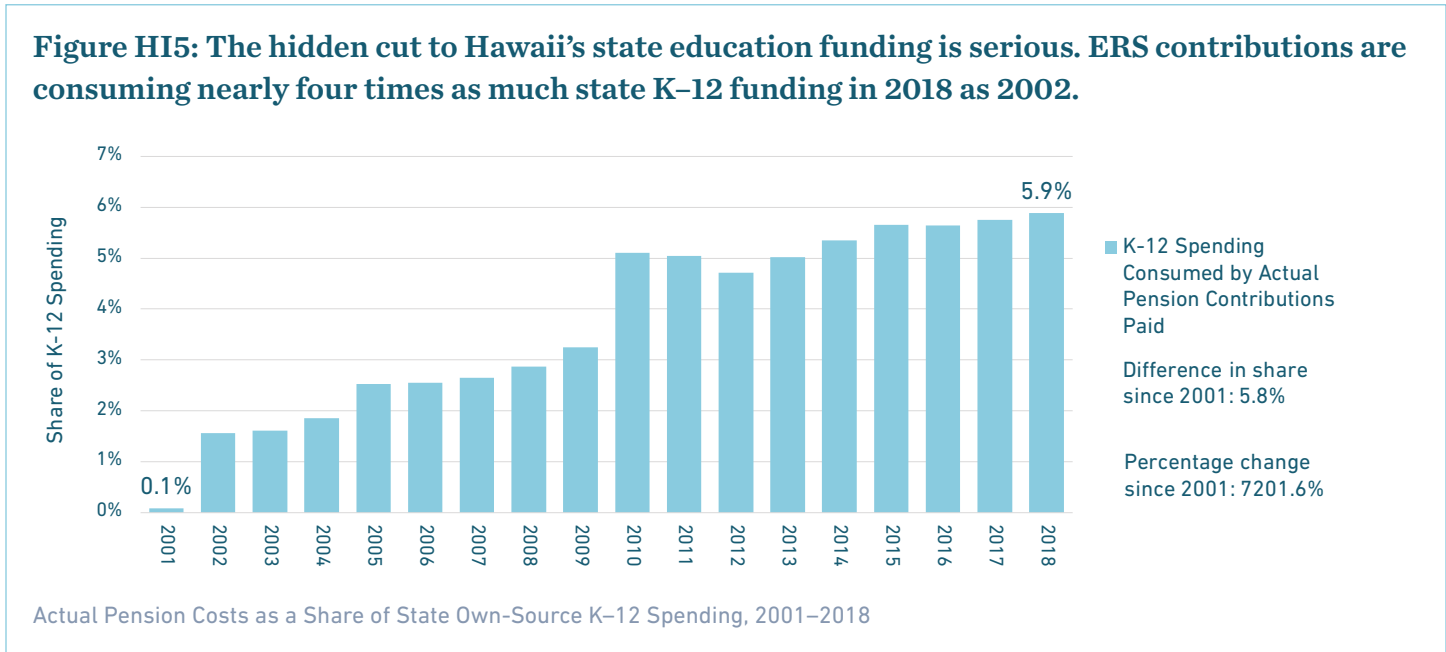


Actuarially Determined Employer Contribution Compared to Actual Contributions Paid to ERS, 2001–2018

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 Hawaii 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. If the ADEC had been paid every year without some adjustment to expand Hawaii’s education funding, then the state could have suffered an even larger hidden cut than we show in the final chart on the next page.

## PENSION COSTS CROWDING OUT K-12 SPENDING

The growing costs of funding ERS have soaked up an increasing share of Hawaii’s education spending. This is especially important for teachers, as the growth in ERS’s costs outpaced the growth in state own-source K-12 spending. Figure HI5 show the trend of this hidden funding cut — including a 1,016.3% increase between 2002 and 2018.



As Figure HI4 indicates, pension costs have grown nearly every year since 2001. Meanwhile, the growth in state K-12 education funding in the early 2000s was undone by the Great Recession, resulting in a severe drop in spending from 2009 to 2010. As a result, the share of education funding going toward pension costs jumped in 2010, explaining much of the increase, but it has continued to grow in the years since.

Hawaii has failed to meet its commitments to funding ERS 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. Unless there is a change that reduces ERS’s costs and/or adjusts the state’s education funding to fully account for pension contributions, Hawaii’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 HI1 shows 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 growth in unfunded pension liabilities and related pension contributions have easily outpaced per student spending by the state.

To further underscore the impact of the recession on education spending, in 2018 the state was spending roughly \$4,700 less per student than in 2009. But this visible cut is only exacerbated further by the hidden funding cut coming from the increased costs of ERS. In fact, after accounting for inflation and pension costs, Hawaii spent \$345 less per student per student in 2018 than 2001 and roughly \$5,200 less than in 2009.

**Table H11: State education spending per student took a hit following the recession, but pension debt and contributions have added a hidden funding cut to make things even worse.**

| 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 | \$10,092                              | \$992                             | 9.8%                                      | \$8                               | \$10,084                                |
| 2002 | \$10,668                              | \$1,783                           | 16.7%                                     | \$166                             | \$10,502                                |
| 2003 | \$11,546                              | \$2,796                           | 24.2%                                     | \$185                             | \$11,361                                |
| 2004 | \$12,174                              | \$3,322                           | 27.3%                                     | \$225                             | \$11,949                                |
| 2005 | \$12,135                              | \$3,794                           | 31.3%                                     | \$306                             | \$11,829                                |
| 2006 | \$14,925                              | \$4,614                           | 30.9%                                     | \$381                             | \$14,545                                |
| 2007 | \$15,159                              | \$4,519                           | 29.8%                                     | \$402                             | \$14,757                                |
| 2008 | \$14,499                              | \$4,396                           | 30.3%                                     | \$416                             | \$14,083                                |
| 2009 | \$15,088                              | \$5,282                           | 35.0%                                     | \$490                             | \$14,598                                |
| 2010 | \$8,872                               | \$5,910                           | 66.6%                                     | \$453                             | \$8,419                                 |
| 2011 | \$8,551                               | \$6,530                           | 76.4%                                     | \$431                             | \$8,119                                 |
| 2012 | \$8,961                               | \$6,495                           | 72.5%                                     | \$422                             | \$8,539                                 |
| 2013 | \$8,682                               | \$6,363                           | 73.3%                                     | \$435                             | \$8,247                                 |
| 2014 | \$9,215                               | \$6,479                           | 70.3%                                     | \$493                             | \$8,721                                 |
| 2015 | \$9,615                               | \$6,648                           | 69.1%                                     | \$544                             | \$9,072                                 |
| 2016 | \$10,039                              | \$9,320                           | 92.8%                                     | \$567                             | \$9,472                                 |
| 2017 | \$9,915                               | \$9,446                           | 95.3%                                     | \$571                             | \$9,344                                 |
| 2018 | \$10,349                              | \$9,644                           | 93.2%                                     | \$610                             | \$9,739                                 |

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

## THE GUARANTEED RETURN PLAN IN ERS

In addition to the guaranteed income plan offered by ERS, the hybrid plan also features a guaranteed return plan, sometimes called a cash balance plan. Under this plan teachers contribute to individual retirement accounts and the system guarantees that plan members will receive a minimum return on their investments each year, with the guarantee supported by state and employer contributions.

Despite the hybrid plan having been the automatic retirement plan since 2003 for ERS members, complete data for the guaranteed return plan are not clearly reported publicly going back to 2001 to allow for its inclusion in these analyses. As a result, the guaranteed return 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](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.