Hidden Education Funding Cuts

Iowa

Teacher pension costs are consuming 34% 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.

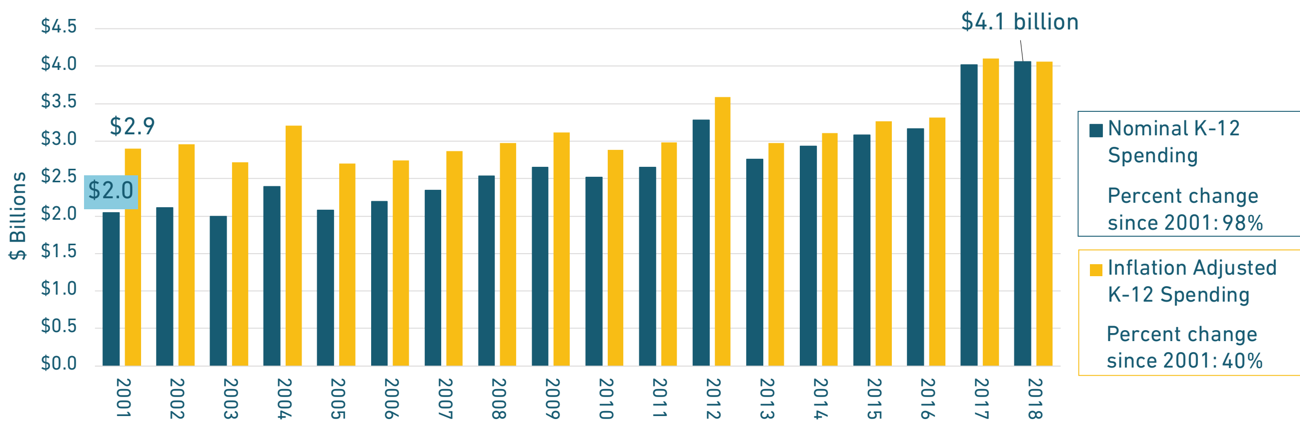
The Hawkeye State is home to more than 3.1 million citizens, and 515,000 primary and secondary school students. In 2018, the state's total expenditures exceeded $23.4 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state's own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled $17.1 billion.

Iowa teachers are enrolled in a guaranteed income plan, known as a defined benefit pension, administered by the Iowa Public Employees' Retirement System (IPERS). IPERS manages retirement benefits for nearly 320,000 active and retired teachers and state workers. Although IPERS provides retirement for more than just teachers, the teachers comprise the largest share (64%) of any group of members.

EDUCATION SPENDING

In 2018, Iowa's state distributed K–12 expenditures totaled $4.5 billion. Out of that total, $4.1 billion came from state own-source funding while the remaining $474 million was from federal grants and other education programs. (Local sources provided additional funding.)

Figure IA1: Iowa's state spending on education grew by $2.1 billion in nominal terms, but just $1.2 billion when accounting for inflation.



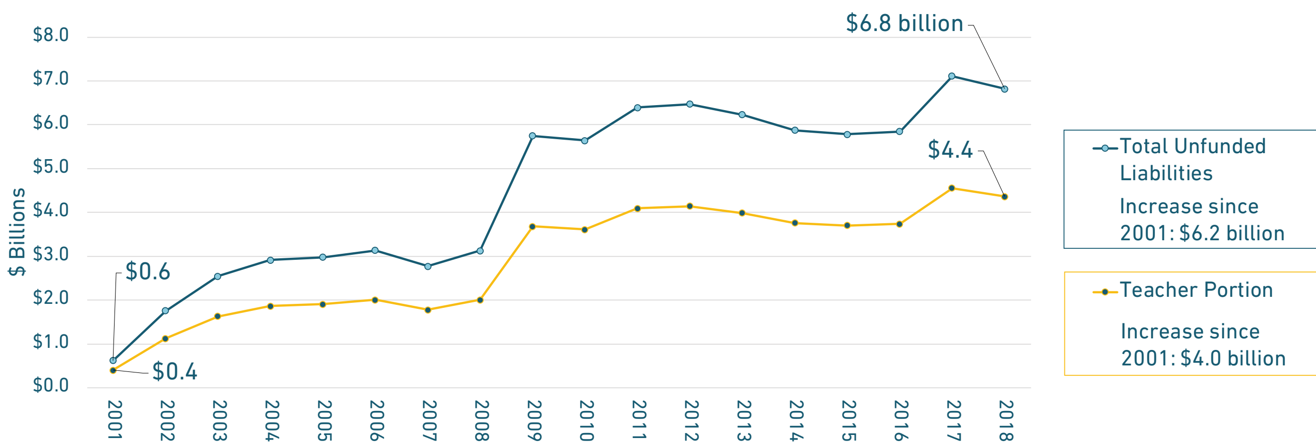
State Own-Source K–12 Spending, 2001–2018

As Figure IA1 illustrates, state spending on primary and secondary education in Iowa has increased significantly since 2001 — growing by $2.1 billion in nominal dollars; however, it only increased moderately after adjusting for inflation, growing by $1.2 billion. On a dollars per student basis, spending increased 34.4% since 2001 — growing from $5,879 to $7,902 (inflation adjusted).

PENSION FUNDING STATUS

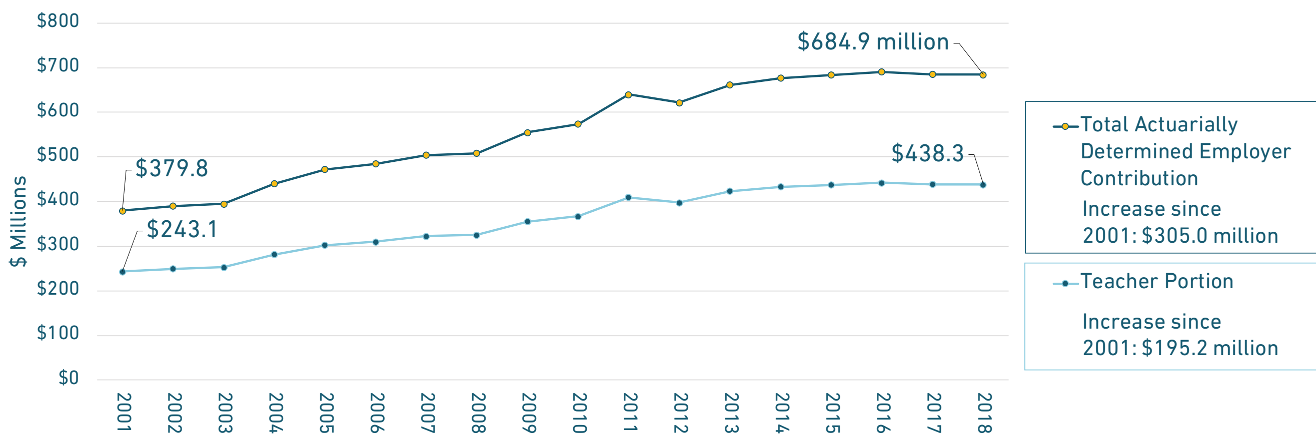
In 2001, IPERS was nearly fully funded with only $624 million in pension debt. However, over the past 17 years a combination of underperforming investments coupled with changing demographics have caused the unfunded liability for IPERS to explode — reaching $6.8 billion in 2018. Figure IA2 shows the change in the unfunded liabilities and Figure IA3 illustrates the change in what state actuaries have recommended as contributions from government employers.

Figure IA2: Since 2001 IPERS has transitioned from being nearly fully funded to more than $6.8 billion in pension debt.



IPERS Unfunded Liabilities (Actuarial Value), 2001–2018

Figure IA3: To address growing pension debt the amount actuaries recommend the state should contribute to IPERS has nearly doubled.

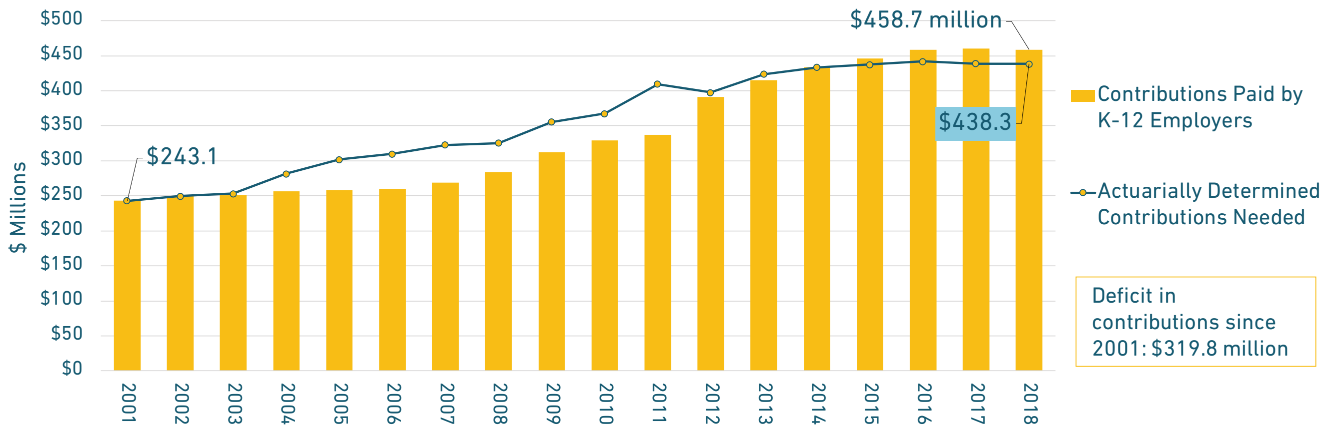


IPERS Actuarially Determined Employer Contributions, 2001–2018

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, Iowa is one of those states, failing to pay the full pension bill ten times in the last 18 years. In 2014, Iowa adopted a new policy that would require employer contributions to IPERS to increase each year to try and pay the ADEC. However, there is a maximum amount that contributions can be increased each year, that could mean contributions still may not be enough to pay the full pension bill some years.

Even though Iowa has not always ensured they are paying the full ADEC, actual contributions paid by K–12 employers have roughly doubled from $243.1 million in 2001 to $458.7 million in 2018, shown in Figure IA4.

Figure IA4: Iowa did not pay the full actuarial bill to IPERS every year, shorting the plan by $320 million since 2001.



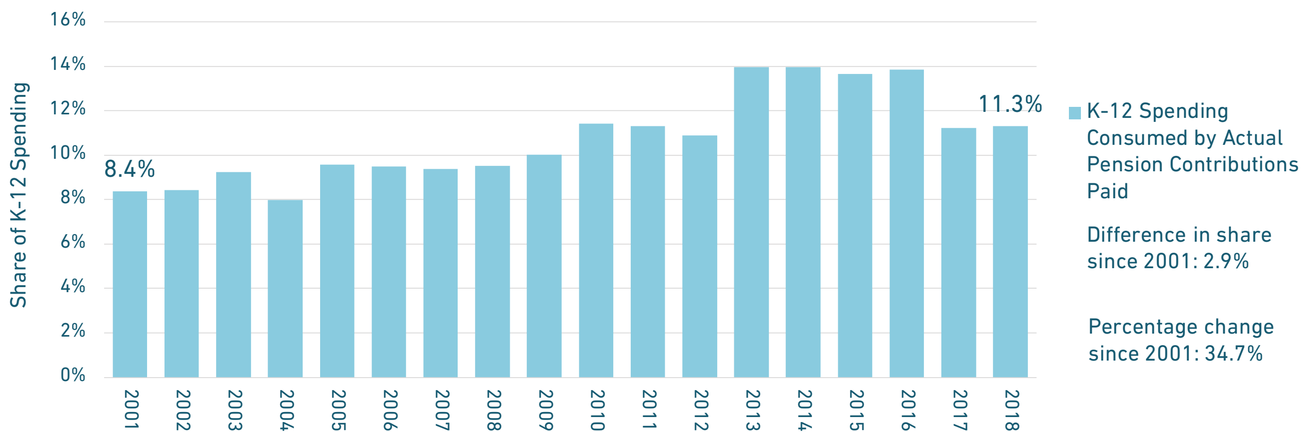
Actuarially Determined Employer Contribution Compared to Actual Contributions Paid to IPERS, 2001–2018

Paying the full required pension bill each year is the bare minimum for ensuring a pension system is fully funded. Best practice from the perspective of the pension plan would be for Iowa to improve its current funding policy to ensure the ADEC is paid every year even if that means a large jump from year to 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 Iowa'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 IPERS have soaked up an increasing share of Illinois education spending. This is especially important for teachers, as the growth in IPERS's costs outpaced the growth in state own-source K–12 spending. In fact, IPERS's contributions reported as a share of K–12 spending increased by more than one-third from 8.4% in 2001 to 11.3% in 2018.

Figure IA5: The hidden cut to Iowa's state education funding is serious. IPERS contributions are consuming more than one-third more state K–12 funding in 2018 than 2001.



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

As Figure IA5 shows, the growth in the hidden funding cut has been slow, but consistent for Iowa. While inflation adjusted K–12 spending has only grown by 40% since 2001, pension costs have more than doubled that pace, with contributions paid nearly doubling in the same amount of time. The result is that the hidden funding cut to Iowa's schools has continued to grow.

Iowa has failed to meet its commitments to funding IPERS 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 IPERS's costs and/or adjusts the state's education funding to fully account for pension contributions, Iowa'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 IA1 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 growth in unfunded pension liabilities and related pension contributions have outpaced per student spending by the state. Although Iowa increased state funding by approximately $2,100 per student, after accounting for inflation and pension costs, only roughly $1,700 of that total made it to classrooms or teacher salaries.

Table IA1: State education spending per student increased since 2001, but pension debt and contributions have grown much 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	$5,879	$810	13.8%	$493	$5,386
2002	$6,030	$2,290	38.0%	$508	$5,522
2003	$5,559	$3,332	60.0%	$513	$5,045
2004	$6,580	$3,827	58.2%	$526	$6,055
2005	$5,565	$3,924	70.5%	$533	$5,032
2006	$5,669	$4,151	73.2%	$538	$5,131
2007	$5,909	$3,662	62.0%	$554	$5,355
2008	$6,108	$4,108	67.3%	$582	$5,526
2009	$6,335	$7,477	118.0%	$634	$5,700
2010	$5,812	$7,281	125.3%	$663	$5,149
2011	$6,015	$8,254	137.2%	$680	$5,335
2012	$7,174	$8,284	115.5%	$782	$6,392
2013	$5,911	$7,926	134.1%	$825	$5,086
2014	$6,146	$7,441	121.1%	$858	$5,289
2015	$6,428	$7,289	113.4%	$878	$5,550
2016	$6,497	$7,336	112.9%	$899	$5,598
2017	$8,016	$8,896	111.0%	$900	$7,117
2018	$7,902	$8,486	107.4%	$892	$7,010

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 IPERS 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.