

Hidden Education Funding Cuts

Kansas

Pension costs are consuming more than twice 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.

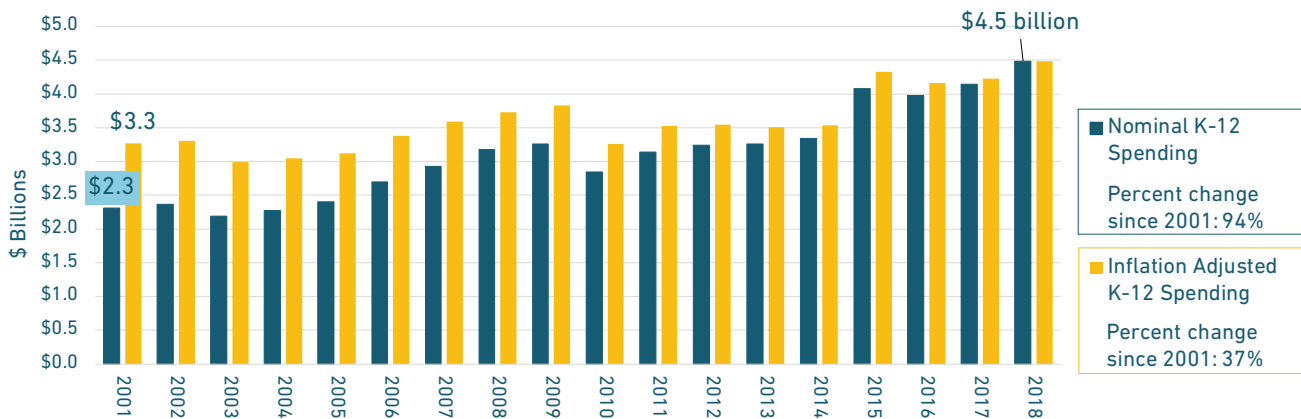
The Sunflower State is home to more than 2.9 million citizens, and 490,000 primary and secondary school students. In 2018, the state’s total expenditures exceeded \$15.9 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state’s own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled \$12.2 billion.

Kansas teachers hired prior to 2015 are enrolled in a defined benefit plan (typically called a pension), while those hired in 2015 and after are enrolled in a guaranteed return plan (an individual retirement account managed by the state with guaranteed investment returns) called the “Cash Balance Plan.” Both plans are administered by the Kansas Public Employees’ Retirement System (KPERs). In addition to teachers and public school employees, KPERs also provides retirement plans for state workers and local employees. In total, KPERs manages retirement benefits for more than 300,000 active and retired members, however our analysis focuses on the costs of the “School” membership within the KPERs plans.

EDUCATION SPENDING

In 2018, Kansas’ state distributed K–12 expenditures totaled \$5 billion. Out of that total, \$4.5 billion came from state own-source funding while the remaining \$475 million was from federal grants and other education programs. (Local sources provided additional funding.)

Figure KS1: Kansas’ state spending on education only increased by \$1.2 billion after accounting for inflation.



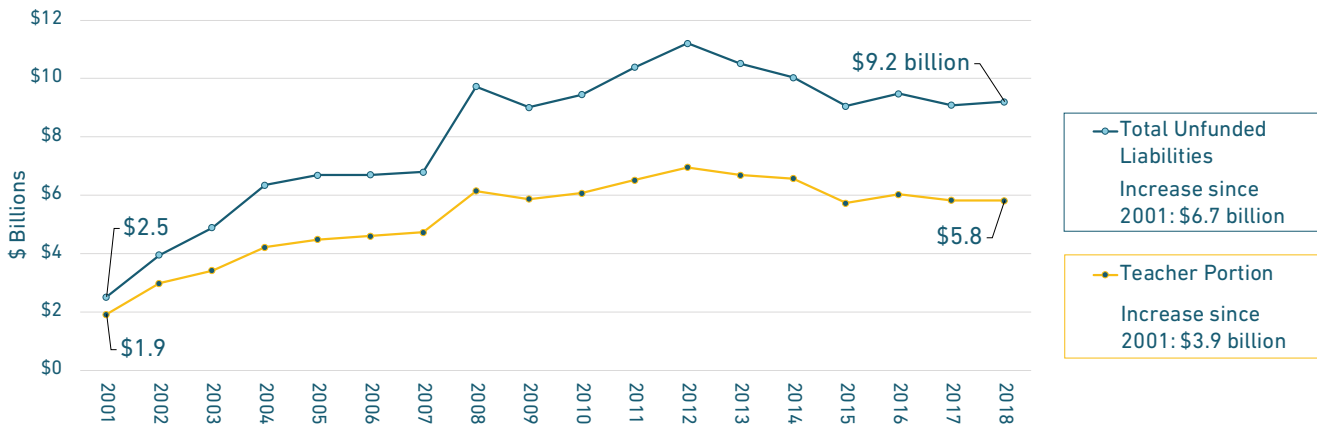
State Own-Source K–12 Spending, 2001–2018

As Figure KS1 illustrates, state spending on primary and secondary education in Kansas has increased significantly since 2001 — growing by \$2.4 billion in nominal dollars; however, it increased moderately after adjusting for inflation, growing by only \$1.2 billion — this means that roughly half of the growth in Kansas’ state education funding can be attributed to inflation. On a dollars per student basis, spending increased 31% since 2001 — growing from \$6,942 to \$9,092 (inflation adjusted).

PENSION FUNDING STATUS

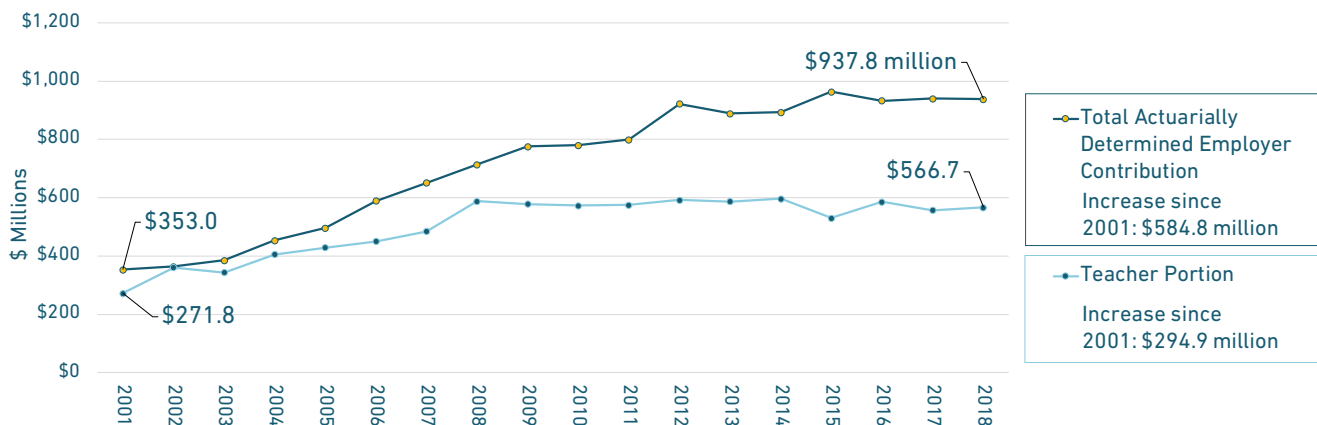
In 2001, KPERS was facing more than \$2.5 billion in pension debt. However, over the past 17 years a combination of underperforming investments coupled with changing demographics have caused the unfunded liability for KPERS to explode — reaching \$9.2 billion in 2018. Figure KS2 shows the change in the unfunded liabilities and Figure KS3 illustrates the change in what state actuaries have recommended as contributions from government employers.

Figure KS2: KPERS’s pension debt has more than tripled since 2001.



KPERS Unfunded Liabilities (Actuarial Value), 2001–2018

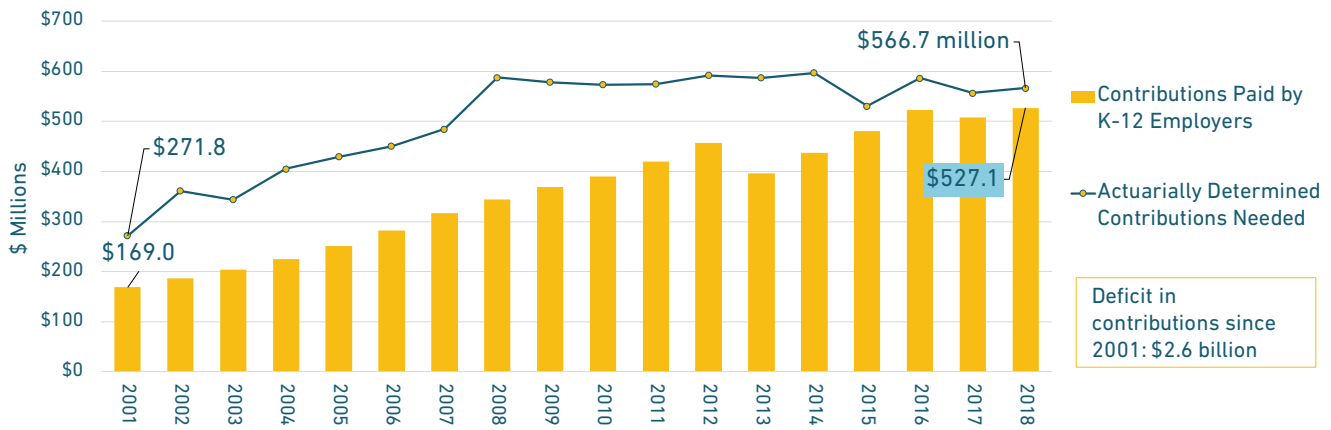
Figure KS3: To address the pension debt the amount actuaries recommend the state should contribute to KPERS has nearly tripled.



KPERS 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, Kansas is one of those states, failing to pay the full pension bill in each of the last 18 years, shown in Figure KS4. Despite this, the increase in contributions actually paid by K-12 employers follows the same growing trend displayed in Figure KS3, with contributions more than tripling from \$169 million in 2001 to \$527.1 million in 2018.

Figure KS4: Kansas did not pay its full actuarial bill to the school division of KPERS each year, shorting the plan by \$2.6 Billion since 2001.



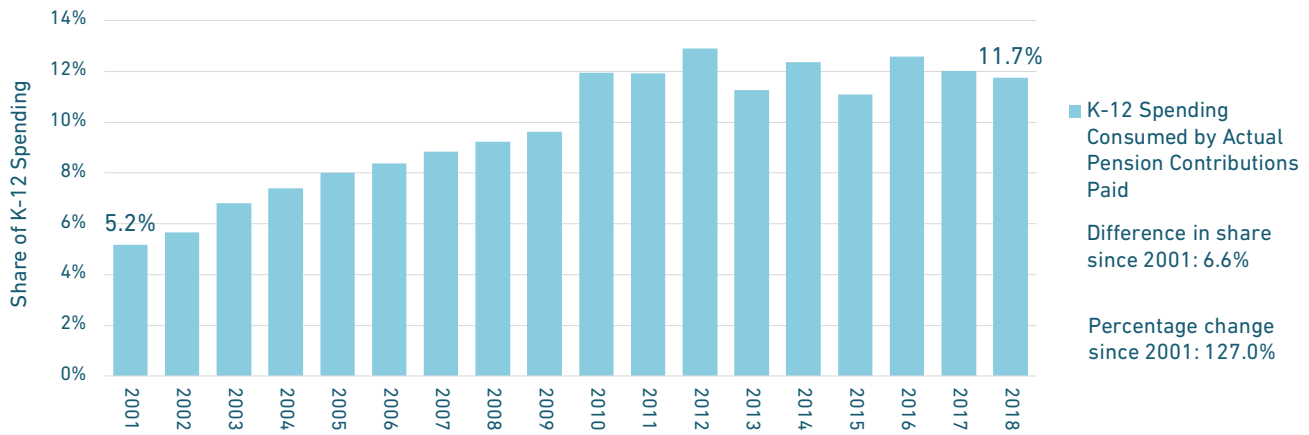
Actuarially Determined Employer Contribution Compared to Actual Contributions Paid to KPERS, 2001–2018

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 Kansas 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 Kansas’ 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 KPERS have soaked up an increasing share of Kansas' education spending. This is especially important for teachers, as the growth in KPERS's costs outpaced the growth in state own-source K-12 spending. In fact, KPERS contributions reported as a share of K-12 spending increased from 5.2% in 2001 to 11.7% in 2018.

Figure KS5: The hidden cut to Kansas' state education funding is serious. KPERS contributions are consuming more than twice 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 KS5 illustrates, despite failing to pay the full ADEC each year the growth in KPERS costs has clearly outpaced increases to state K-12 spending. This trend carried from 2001 through 2010, but in the years since the share of state education funding going to pension costs appears to have plateaued. However, a few years of relative stability do not mean all is well. Limits on how much the statutory contribution rate can increase prevent the state from paying the full ADEC, running the risk of accruing even more pension debt in the future.

Kansas has failed to meet its commitments to funding KPERS 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 KPERS's costs and/or adjusts the state's education funding to fully account for pension contributions, Kansas' 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 KS1 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 outpaced per student spending by the state. After accounting for inflation and pension costs, Kansas only spent \$1,500 more per student in 2018 than 2001 — this means that pension costs consumed roughly one quarter of the total increase in state K-12 spending.

Table KS1: State education spending per student increased by roughly \$2,100, 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	\$6,942	\$4,096	59.0%	\$359	\$6,583
2002	\$7,027	\$6,349	90.4%	\$398	\$6,629
2003	\$6,367	\$7,275	114.3%	\$433	\$5,934
2004	\$6,480	\$8,975	138.5%	\$479	\$6,001
2005	\$6,653	\$9,562	143.7%	\$533	\$6,119
2006	\$7,191	\$9,799	136.3%	\$602	\$6,589
2007	\$7,659	\$10,098	131.8%	\$678	\$6,981
2008	\$7,920	\$13,059	164.9%	\$731	\$7,188
2009	\$8,070	\$12,368	153.2%	\$777	\$7,293
2010	\$6,735	\$12,563	186.5%	\$805	\$5,930
2011	\$7,261	\$13,424	184.9%	\$865	\$6,396
2012	\$7,252	\$14,236	196.3%	\$936	\$6,316
2013	\$7,075	\$13,491	190.7%	\$798	\$6,277
2014	\$7,115	\$13,222	185.8%	\$880	\$6,235
2015	\$8,731	\$11,561	132.4%	\$969	\$7,762
2016	\$8,417	\$12,208	145.0%	\$1,058	\$7,359
2017	\$8,550	\$11,801	138.0%	\$1,028	\$7,522
2018	\$9,092	\$11,797	129.7%	\$1,068	\$8,024

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

THE GUARANTEED RETURN PLAN IN KPERS

Kansas teachers hired since 2015 are enrolled in 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.

The guaranteed return plan is formally a defined benefit retirement plan. KPERS reports liabilities and contributions in a consistently combined format for the old guaranteed income (pension) plan and the current guaranteed return plan. This allowed us to include all KPERS employer contributions in our analysis above.

KANSAS DATA ADJUSTMENTS

KPERS is a relatively unique retirement system in the United States with respect to how the financial reporting is organized. Most states that offer retirement benefits to teachers either have a stand-alone system, have an umbrella organization that includes a clearly defined teachers division, or offer the same benefit package to all civilian public employees including teachers. KPERS has restructured its financial reporting a few times over the past two decades, meaning it does not fit neatly into one of these categories.

For this analysis we compiled data specific to the School division that is comprised of only Kansas teachers and report those figures throughout this profile. This approach helps ensure that our assessment of the hidden cut to Kansas' state K-12 funding is examining only the share that would be drawn out of education spending as a part of teacher compensation.

Recently provided financials have a clearly defined set of contribution and liability data for a School division of KPERS, with membership data also broken out across the three tiers of retirement plans offered (which are determined based on hire date). For all years where KPERS valuation reports provided separated contribution and liability data for the School division, we've used those numbers.

Older KPERS reports blend "State" and "School" division data on contributions and liabilities, and for these years we have measured what share of the combined membership belongs to the School division and used that percentage to approximate the share of liabilities and contributions from the blended data. This methodology is similar to the approach that we have used with other state retirement systems that blend teachers with other public employees.

We did also note that KPERS valuation reports have a different fiscal year end (December 31) than the system's CAFRs (June 30). As a result, there are slightly varying figures for contributions and liabilities for each year depending on the report chosen. The figures are effectively offset by six months from each other, which is large enough to be different, but not large enough to change the kind of analysis we have in this paper. We used the data in the valuation reports, consistent with the methodology in our full [Hidden Education Funding Cuts](#) project.

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.