Hidden Education Funding Cuts

Louisiana

Pension costs are consuming over 30% of state education funding today, nearly twice as much 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 steadily been 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 actuarial 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.

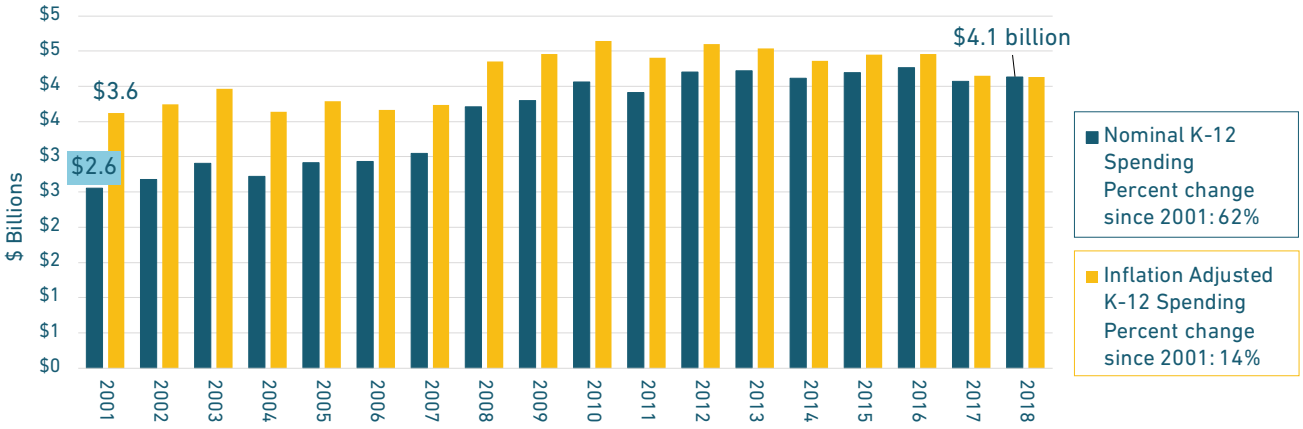
The Pelican State is home to more than 4.6 million citizens, and 715,000 primary and secondary school students. In 2018, the state's total expenditures exceeded $31.3 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state's own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled $19.2 billion.

Louisiana teachers are enrolled in a guaranteed income plan, known as a defined benefit pension, administered by the Teachers' Retirement System of Louisiana (TRSL). TRSL manages retirement benefits for roughly 175,000 active and retired teachers.

EDUCATION SPENDING

In 2018, Louisiana's state distributed K–12 expenditures totaled $5.2 billion. Out of that total, $4.1 billion came from state own-source funding while the remaining $1.1 billion was from federal grants and other education programs. (Local sources provided additional funding.)

Figure LA1: Louisiana's state spending on education only increased by $500 million after accounting for inflation.



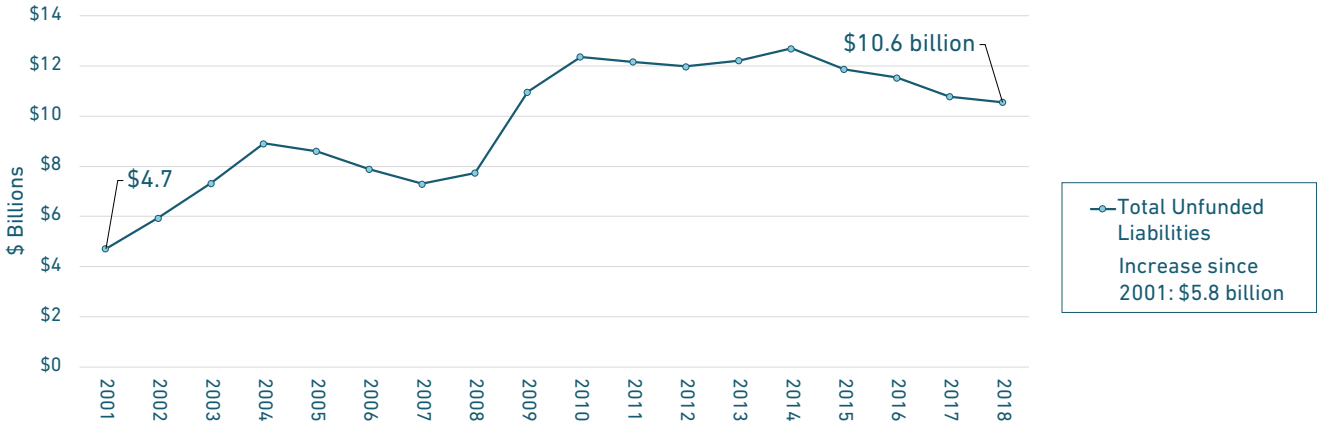
State Own-Source K–12 Spending, 2001–2018

As figure LA1 illustrates, state spending on primary and secondary education in Louisiana has increased moderately since 2001 — growing by $1.5 billion in nominal dollars; however, the moderate increase was far less after adjusting for inflation, increasing by only $513 million. On a dollars per student basis, spending increased 17.2% since 2001 — growing from $4,948 to $5,799 (inflation adjusted).

PENSION FUNDING STATUS

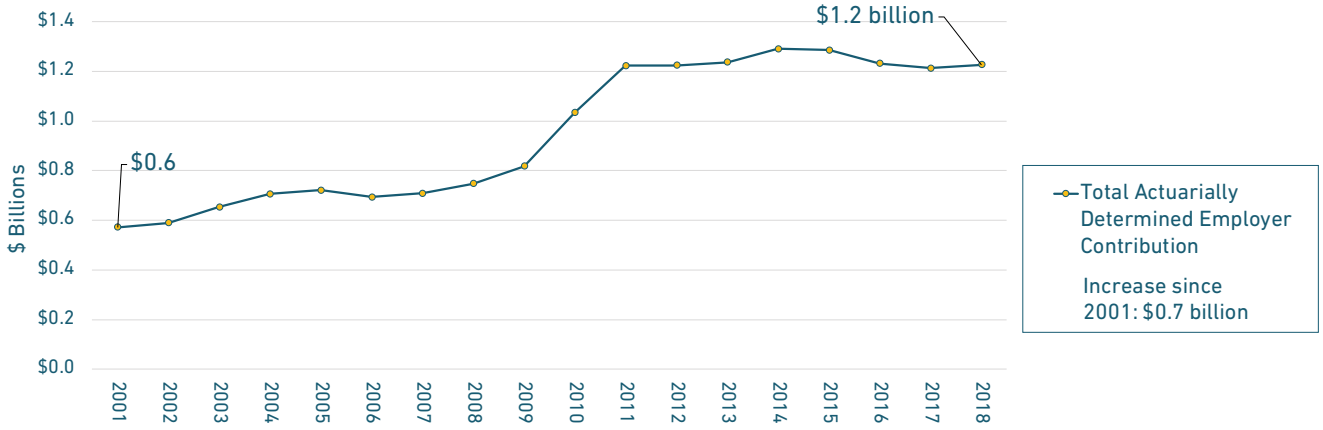
In 2001, TRSL was facing more than $4.7 billion in pension debt. However, over the past 17 years a combination of underperforming investments coupled with changing demographics have caused the unfunded liability for TRSL to swell — reaching $10.6 billion in 2018. Figure LA2 shows the change in the unfunded liabilities and Figure LA3 illustrates the change in what state actuaries have recommended as contributions from government employers.

Figure LA2: TRSL's pension debt more than doubled since 2001.



TRSL Unfunded Liabilities (Actuarial Value), 2001–2018

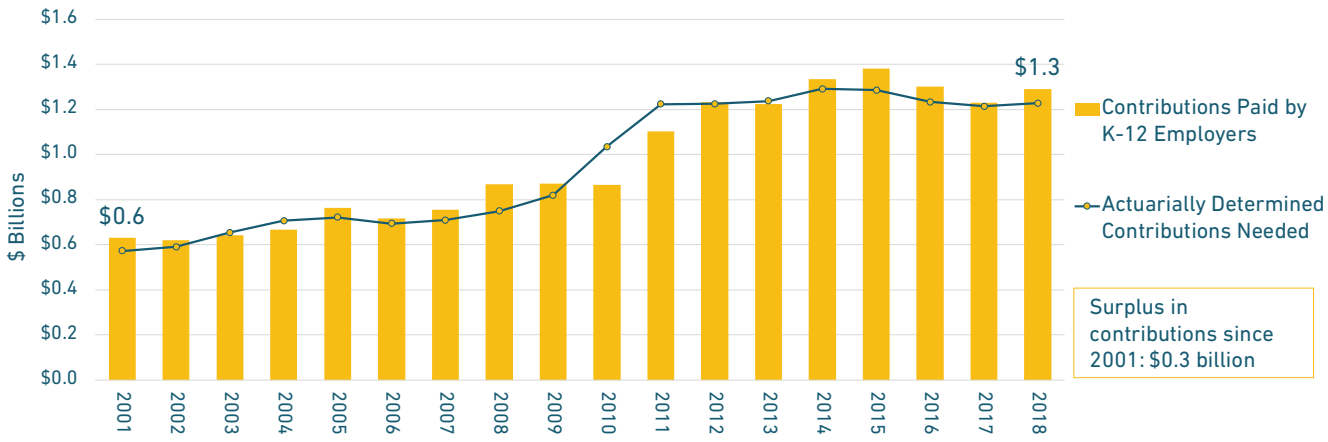
Figure LA3: To address growing pension debt the amount actuaries recommend K-12 education employers contribute to TRSL has doubled.



TRSL Actuarially Determined Employer Contributions, 2001–2018

There are a number of states across the country that do not always ensure that the actuarially defined employer contribution is paid in full to the pension fund each year. Unfortunately, Louisiana is one of those states, failing to consistently pay the full pension bill, shown in Figure LA4. However, the state contributed slightly more than was actuarially required 12 times since 2001. As a result, the actual contributions paid into TRSL using education funds have actually been $305 million more than if the state had paid exactly the ADEC trend displayed previously in Figure LA3.

Figure LA4: Louisiana did not stick paying to the actuarial bill to TRSL each year, shorting some years and overpaying others.



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

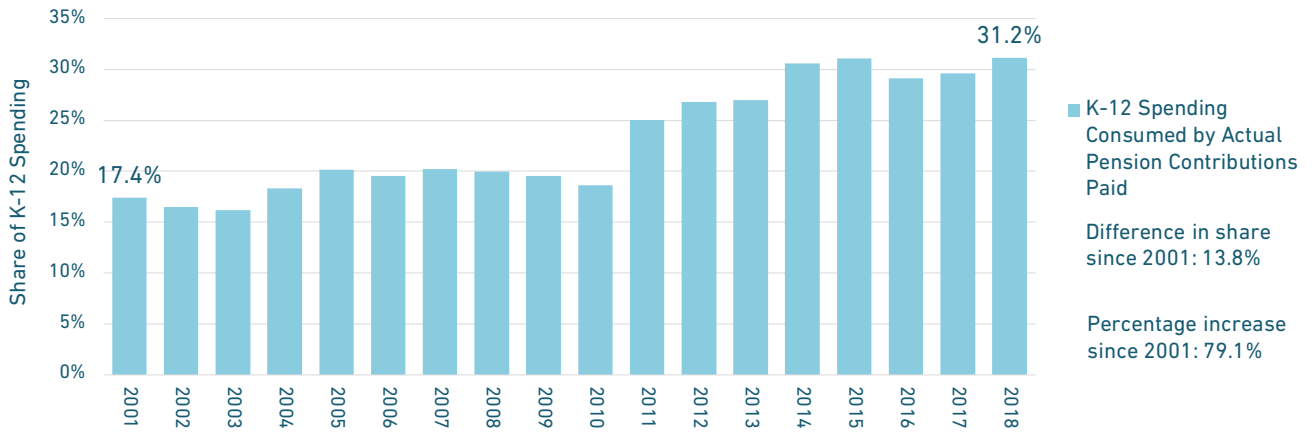
Even though total contributions were more than sufficient on average to meet the ADEC over the past two decades, unfunded liabilities (shown in LA2) were still increasing because the assumptions used to determine the ADEC were not consistent with actual experience. So, the contributions paid to TRSL have more than doubled from $0.6 billion in 2001 to $1.3 billion in 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, Louisiana 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 TRSL have soaked up an increasing share of Louisiana's education spending. This is especially important for teachers, as the growth in TRSL's costs outpaced the growth in state own-source K–12 spending. In fact, TRSL's contributions reported as a share of K–12 spending increased from 17.4% in 2001 to 31.2% in 2018.

Figure LA5: The hidden cut to Louisiana state education funding is serious. TRSL contributions are consuming nearly two times as much K–12 funding in 2018 as in 2001.



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

Figure LA5 shows a period of relative stability in the share of K–12 spending consumed by pension costs from 2014 through 2018. This mirrors the plateau in pension costs shown in Figure LA3. However, even if there is a leveling off in the growth of pension costs (which isn't guaranteed since TRSL is assuming an investment return well above the national average), the hidden funding cut is still stuck at more than 30% of education spending. This is a very serious problem that needs to be addressed as soon as possible.

The costs of paying down Louisiana's pension debt have grown significantly faster than the state's own-source education spending. Unless there is a change that reduces TRSL's costs and/or adjusts the state's education funding to fully account for pension contributions, Louisiana'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 LA1 shows 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 pension costs and inflation, Louisiana spent nearly $100 less in state money per student in 2018 than 2001.

Table LA1: 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	$4,948	$6,437	130.1%	$861	$4,086
2002	$5,201	$8,241	158.5%	$858	$4,343
2003	$5,590	$10,325	184.7%	$903	$4,687
2004	$5,213	$12,762	244.8%	$955	$4,258
2005	$5,509	$12,518	227.2%	$1,109	$4,400
2006	$5,423	$11,656	215.0%	$1,059	$4,364
2007	$5,482	$10,716	195.5%	$1,109	$4,374
2008	$6,356	$11,287	177.6%	$1,269	$5,087
2009	$6,451	$15,867	245.9%	$1,260	$5,191
2010	$6,666	$17,746	266.2%	$1,241	$5,425
2011	$6,263	$17,298	276.2%	$1,569	$4,694
2012	$6,467	$16,852	260.6%	$1,734	$4,733
2013	$6,380	$17,168	269.1%	$1,721	$4,658
2014	$6,083	$17,701	291.0%	$1,861	$4,222
2015	$6,189	$16,512	266.8%	$1,924	$4,265
2016	$6,224	$16,093	258.6%	$1,815	$4,409
2017	$5,797	$15,045	259.5%	$1,718	$4,080
2018	$5,799	$14,798	255.2%	$1,807	$3,991

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 TRSL 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 or to read notes on data sources and methodology, visit Equable.org/hiddenfundingcuts and check out: "Hidden Education Funding Cuts: How Growing Teacher Pension Debt Payments Are Eating into K–12 Education Budgets"

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 paydown 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.