

# Hidden Education Funding Cuts

## Massachusetts

### Pension costs are consuming more than one third 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.

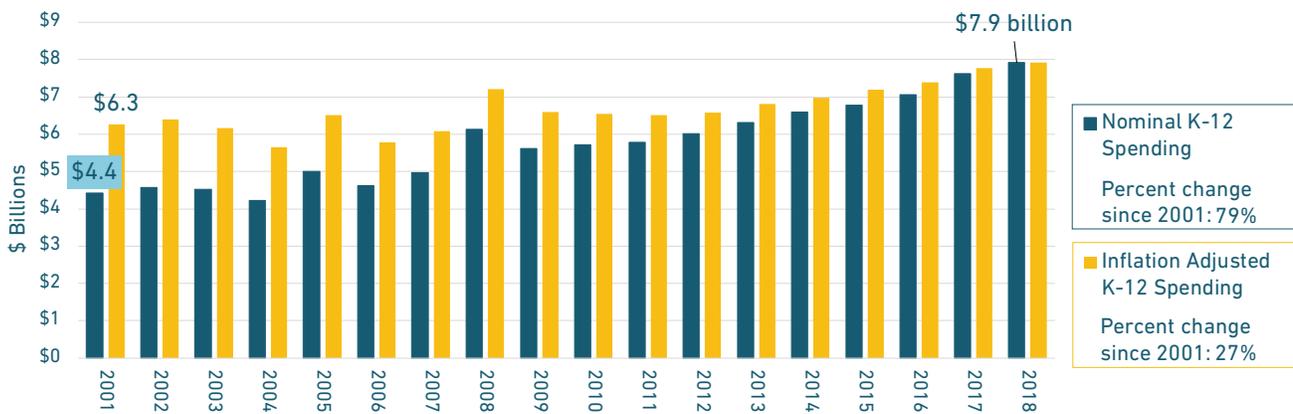
The Bay State is home to nearly 7 million citizens, and more than 960,000 primary and secondary school students. In 2018, the state’s total expenditures exceeded \$57.1 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state’s own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled \$42.7 billion.

Massachusetts teachers are enrolled in a guaranteed income plan, known as a defined benefit pension, administered by the Massachusetts Teachers’ Retirement System (TRS). TRS manages retirement benefits for roughly 160,000 active and retired teachers. Note, however, that Boston teachers are enrolled in a separate retirement plan that is not included in our analyses.

## EDUCATION SPENDING

In 2018, Massachusetts’ state distributed K–12 expenditures totaled \$9.2 billion. Out of that total, \$7.9 billion came from state own-source funding while the remaining \$1.2 billion was from federal grants and other education programs. (Local sources provided additional funding.)

**Figure MA1: Massachusetts’ state spending on education only increased by \$1.6 billion after accounting for inflation.**



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

As Figure MA1 illustrates, state spending on primary and secondary education in Massachusetts has increased significantly since 2001 — growing by \$3.5 billion in nominal dollars; however, it increased moderately after adjusting for inflation, growing by only \$1.6 billion. On a dollars per student basis, spending increased 28.3% since 2001 — growing from \$6,425 to \$8,241 (inflation adjusted).

## PENSION FUNDING STATUS

In 2001, TRS was facing more than \$5.3 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 TRS to explode — reaching \$24.6 billion in 2018. Figure MA2 shows the change in the unfunded liabilities and Figure MA3 illustrates the change in what state actuaries have recommended as contributions from government employers.

**Figure MA2: TRS’s pension debt has increased nearly five-fold since 2001.**



TRS Unfunded Liabilities (Actuarial Value), 2001–2018

**Figure MA3: To address growing pension debt the amount actuaries recommend the state should contribute to TRS 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 to the pension fund each year. Unfortunately, Massachusetts is one of those states, failing to pay the full pension bill in 10 of the last 18 years, shown in Figure MA4. As a result, the actual contributions paid into TRS using education funds have been less than if the ADEC trend displayed in Figure MA3 was paid in full, but the actual contributions paid to TRS have still nearly doubled from \$759.9 million in 2001 to \$1.3 billion in 2018.

**Figure MA4: Massachusetts did not pay its full actuarial bill to TRS most years, shorting the plan by \$1.9 billion since 2001.**



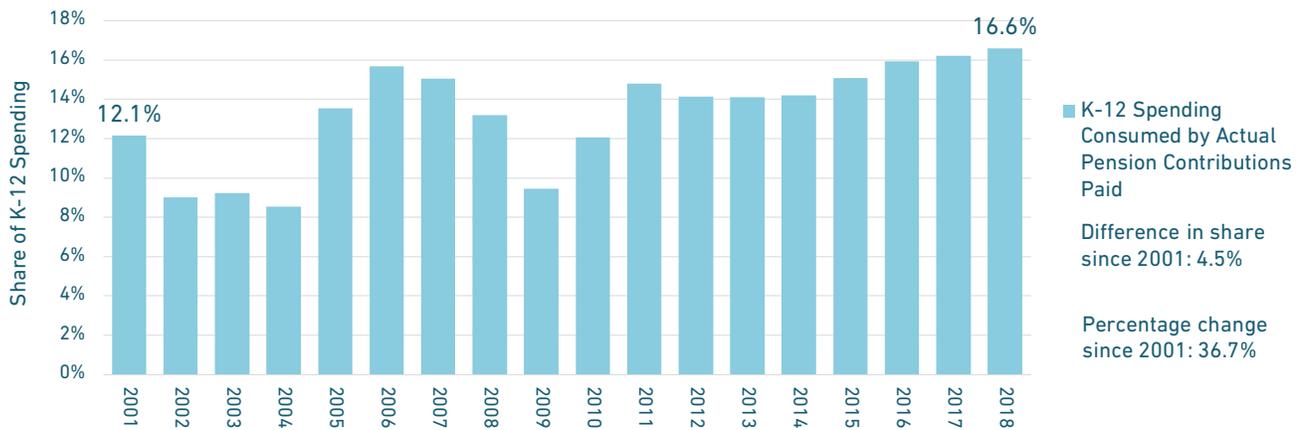
Actuarially Determined Employer Contribution Compared to Actual Contributions Paid to TRS, 2001–2018

Paying the full required pension bill each year is the bare minimum for ensuring a pension system is fully funded. Best practice would be for Massachusetts 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 Massachusetts’ 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 TRS have soaked up an increasing share of Massachusetts’ 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 12.1% in 2001 to 16.6% in 2018.

**Figure MA5: The hidden cut to Massachusetts’ state education funding is serious. TRS contributions are consuming more than a 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 MA5 indicates, the share of state education spending going toward pension costs has increased slightly but has held relatively stable since 2011. However, as Figures MA2 and MA3 illustrate, TRS’s unfunded liabilities have been climbing steadily almost every year since 2001 and the ADEC has been growing to keep pace. The reason why the share of K-12 spending has not grown even more is due to the growth in education spending since 2011, which has increased enough to at least slow the expansion of the hidden funding cut.

Massachusetts has failed to meet its commitments to funding TRS 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 TRS’s costs and/or adjusts the state’s education funding to fully account for pension contributions, Massachusetts’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 MA1 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. Although the state increased K-12 spending by roughly \$1,800 per student, after accounting for inflation and pension costs, Massachusetts only spent \$1,200 more per student in 2018 than 2001 — that means roughly 1 out of every additional \$3 in state education funding was consumed by pension costs.

**Table MA1: State education spending per student has increased, but pension debt and contributions are growing 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	\$6,425	\$5,492	85.5%	\$780	\$5,644
2002	\$6,571	\$7,060	107.4%	\$592	\$5,980
2003	\$6,344	\$11,410	179.9%	\$585	\$5,759
2004	\$5,825	\$10,263	176.2%	\$497	\$5,328
2005	\$6,714	\$11,370	169.4%	\$910	\$5,804
2006	\$5,963	\$11,748	197.0%	\$935	\$5,028
2007	\$6,312	\$10,809	171.2%	\$950	\$5,363
2008	\$7,518	\$9,885	131.5%	\$991	\$6,527
2009	\$6,894	\$16,702	242.3%	\$650	\$6,243
2010	\$6,851	\$14,935	218.0%	\$826	\$6,025
2011	\$6,830	\$13,899	203.5%	\$1,010	\$5,820
2012	\$6,889	\$16,426	238.4%	\$973	\$5,916
2013	\$7,118	\$19,537	274.5%	\$1,004	\$6,114
2014	\$7,303	\$19,735	270.2%	\$1,038	\$6,266
2015	\$7,463	\$22,189	297.3%	\$1,124	\$6,339
2016	\$7,655	\$23,830	311.3%	\$1,220	\$6,436
2017	\$8,073	\$24,959	309.2%	\$1,309	\$6,763
2018	\$8,241	\$25,594	310.6%	\$1,368	\$6,873

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](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.