

Hidden Education Funding Cuts

Maryland

Pension costs are consuming nearly 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.

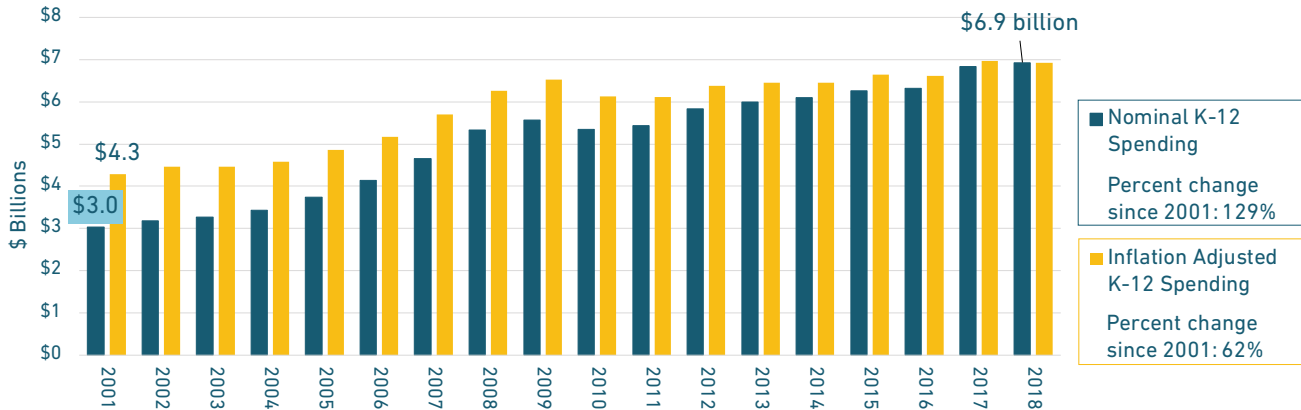
The Free State is home to more than 6 million citizens, and nearly 900,000 primary and secondary school students. In 2018, the state’s total expenditures exceeded \$43.8 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state’s own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled \$31.6 billion.

Maryland teachers are enrolled the Teachers’ Combined System (TCS), a guaranteed income plan (also known as a defined benefit pension) administered by the Maryland State Retirement and Pension System (MSRPS). As a whole MSRPS manages retirement benefits for roughly 405,000 active and retired teachers, municipal employees, and state workers. But the public school employee TCS division comprises roughly 52% and is the focus of this analysis.

EDUCATION SPENDING

In 2018, Maryland’s state distributed K–12 expenditures totaled \$8 billion. Out of that total, \$6.9 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 MD1: Maryland’s state spending on education only increased by \$2.6 billion after accounting for inflation.



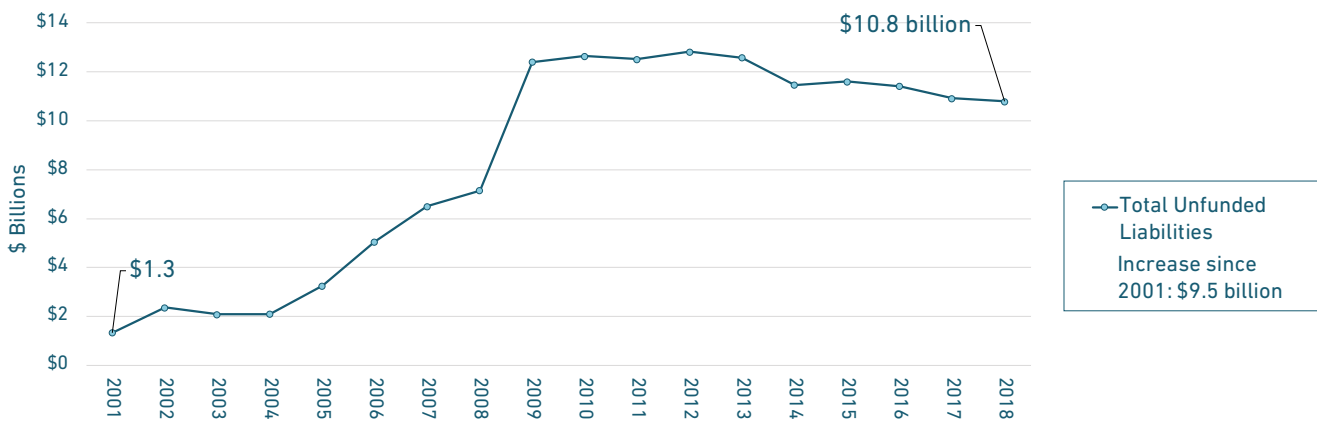
State Own-Source K–12 Spending, 2001–2018

As Figure MD1 illustrates, state spending on primary and secondary education in Maryland has increased significantly since 2001 — growing by \$3.9 billion in nominal dollars; however, it increased moderately after adjusting for inflation, growing by only \$2.6 billion. On a dollars per student basis, spending increased 53.5% since 2001 — growing from \$5,023 to \$7,711 (inflation adjusted).

PENSION FUNDING STATUS

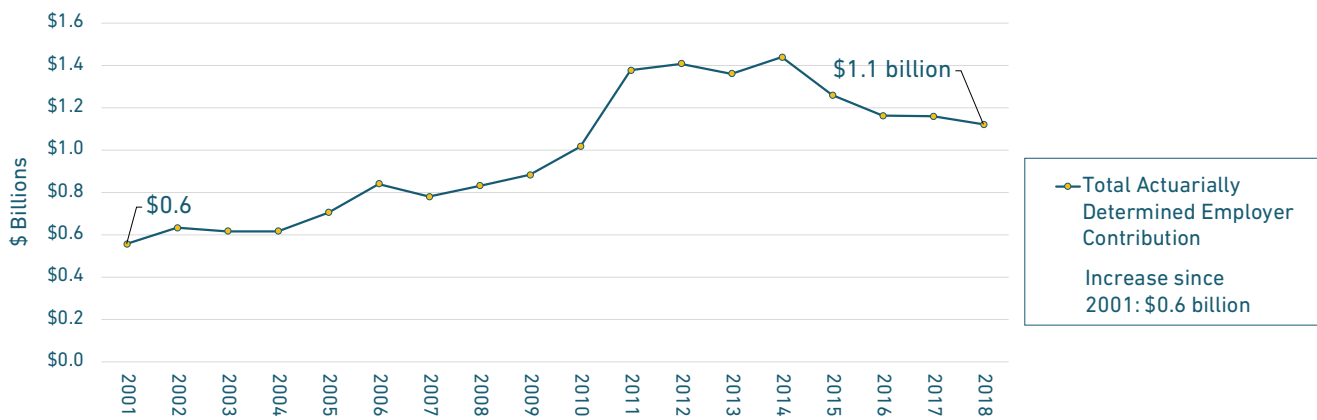
In 2001, MSPRS TCS was facing more than \$1.3 billion in pension debt. However, over the past 17 years a combination of underperforming investments coupled with changing demographics have caused the unfunded liability for MSPRS TCS to explode — reaching \$10.8 billion in 2018. Figure MD2 shows the change in the unfunded liabilities and Figure MD3 illustrates the change in what state actuaries have recommended as contributions from government employers.

Figure MD2: Pension debt for the TCS division of MSPRS has increased more than eight-fold since 2001.



MSPRS TCS Unfunded Liabilities (Actuarial Value), 2001–2018

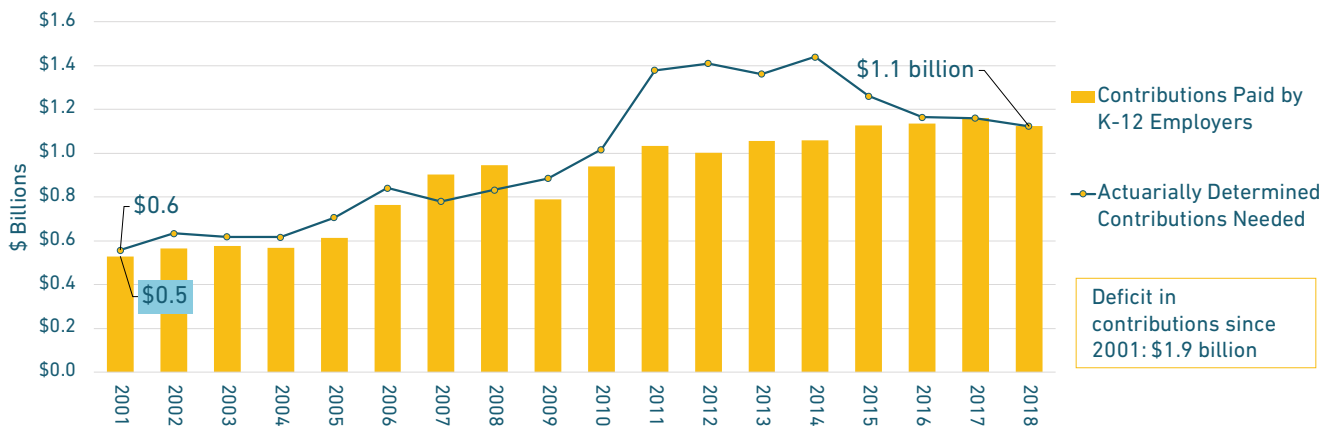
Figure MD3: To address growing pension debt the amount actuaries recommend the state and TCS employers should contribute to MSPRS has nearly doubled.



MSPRS TCS 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, Maryland is one of those states, failing to pay the full pension bill in 14 of the last 18 years, shown in Figure MD4. As a result, the actual contributions paid into MSPRS TCS using education funds have been less than if the ADEC trend displayed in Figure MD3 was paid in full, but the actual contributions paid to MSPRS TCS have still more than doubled from \$528.7 million in 2001 to \$1.1 billion in 2018.

Figure MD4: Maryland did not pay its full actuarial bill to MSPRS TCS most years, shorting the plan by \$1.9 billion since 2001.



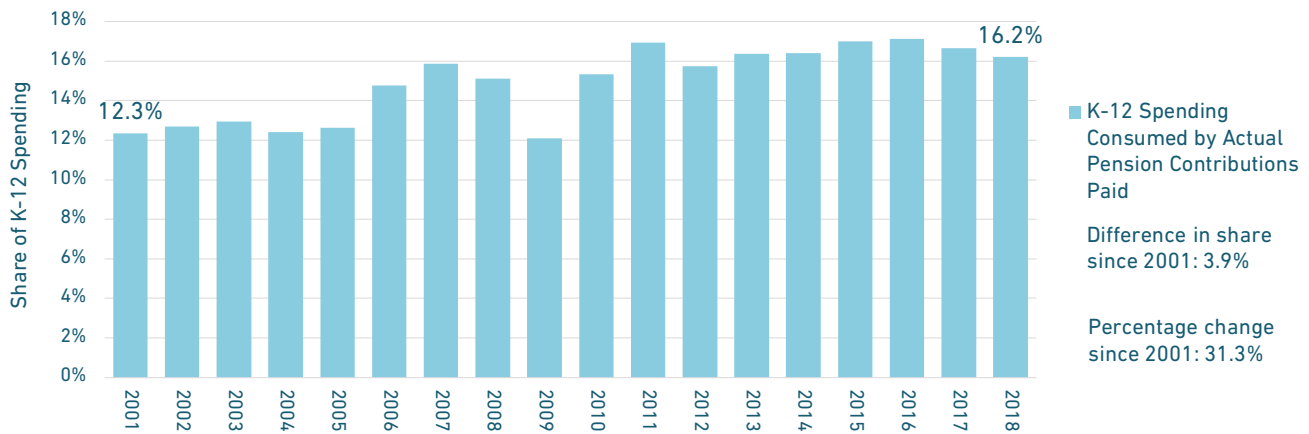
Actuarially Determined Employer Contribution Compared to Actual Contributions Paid to MSPRS, 2001–2018

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 Maryland 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 Maryland’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 MSPRS TCS have soaked up an increasing share of Maryland’s education spending. This is especially important for teachers, as the growth in MSPRS TCS’s costs outpaced the growth in state own-source K-12 spending. In fact, MSPRS TCS’s contributions reported as a share of K-12 spending increased from 12.3% in 2001 to 16.2% in 2018.

Figure MD5: The hidden cut to Maryland’s state education funding is serious. MSPRS TCS contributions are consuming nearly 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 MD2 indicates, MSPRS TCS’s unfunded liabilities have held relatively stable since 2009, despite the state’s failure to pay the full ADEC most years. However, 2009 marks the low point for the share of education spending consumed by pension costs, shown in Figure MD5. Actual contributions have still increased by roughly 50% since then. The result is that more than 16% of all state K-12 spending was being consumed by MSPRS TCS’s costs in 2018.

Maryland has failed to meet its commitments to funding MSPRS TCS 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 MSPRS TCS’s costs and/or adjusts the state’s education funding to fully account for pension contributions, Maryland’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 MD1 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 \$2,700 per student, after accounting for inflation and pension costs, Maryland only spent \$2,000 more per student in 2018 than 2001 — that means roughly \$1 out of every additional \$4 in state education funding was consumed by pension costs.

Table MD1: State education spending per student has increased, 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	\$5,023	\$1,567	31.2%	\$620	\$4,403
2002	\$5,227	\$2,780	53.2%	\$664	\$4,564
2003	\$5,236	\$2,442	46.6%	\$677	\$4,559
2004	\$5,380	\$2,464	45.8%	\$667	\$4,713
2005	\$5,707	\$3,820	66.9%	\$721	\$4,985
2006	\$6,075	\$5,933	97.7%	\$897	\$5,178
2007	\$6,739	\$7,686	114.0%	\$1,068	\$5,671
2008	\$7,413	\$8,467	114.2%	\$1,119	\$6,293
2009	\$7,695	\$14,622	190.0%	\$932	\$6,763
2010	\$7,186	\$14,839	206.5%	\$1,102	\$6,085
2011	\$7,153	\$14,649	204.8%	\$1,211	\$5,942
2012	\$7,416	\$14,920	201.2%	\$1,167	\$6,249
2013	\$7,442	\$14,521	195.1%	\$1,219	\$6,223
2014	\$7,386	\$13,104	177.4%	\$1,212	\$6,175
2015	\$7,548	\$13,190	174.7%	\$1,283	\$6,265
2016	\$7,468	\$12,884	172.5%	\$1,280	\$6,188
2017	\$7,806	\$12,221	156.6%	\$1,299	\$6,506
2018	\$7,711	\$12,008	155.7%	\$1,249	\$6,461

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 MSPRS TCS 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.