

Hidden Education Funding Cuts

Maine

Pension costs are consuming 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.

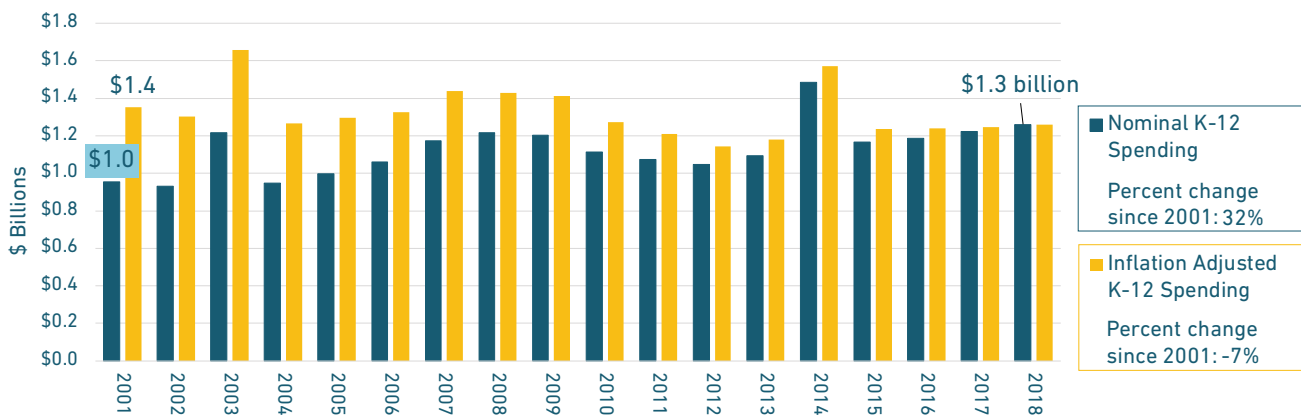
The Pine Tree State is home to roughly 1.3 million citizens, and nearly 180,000 primary and secondary school students. In 2018, the state’s total expenditures exceeded \$8.4 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state’s own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled \$5.7 billion.

Maine teachers are enrolled in a guaranteed income plan, known as a defined benefit pension, administered by the Maine Public Employees’ Retirement System (PERS). PERS manages retirement benefits for more than 83,000 active and retired teachers and state workers. Although PERS provides retirement for more than just teachers, the teachers comprise the largest share (51%) of any group of members.

EDUCATION SPENDING

In 2018, Maine’s state distributed K–12 expenditures totaled \$1.5 billion. Out of that total, \$1.3 billion came from state own-source funding while the remaining \$220 million was from federal grants and other education programs. (Local sources provided additional funding.)

Figure ME1: Maine’s state spending on education declined by \$92 million after accounting for inflation.



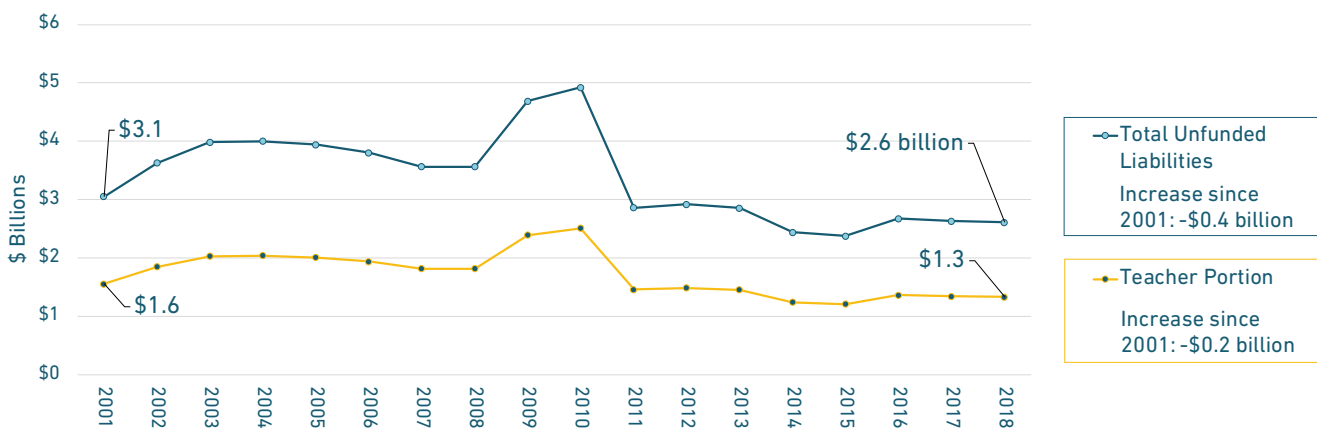
State Own-Source K–12 Spending, 2001–2018

As Figure ME1 illustrates, state spending on primary and secondary education in Maine has increased moderately since 2001 — growing by \$305 million in nominal dollars; but, it actually declined after adjusting for inflation, dropping by \$92 million. On a dollars per student basis, spending actually increased by 7.3% due to declining enrollment since 2001 — growing from \$6,599 to \$7,083 (inflation adjusted).

PENSION FUNDING STATUS

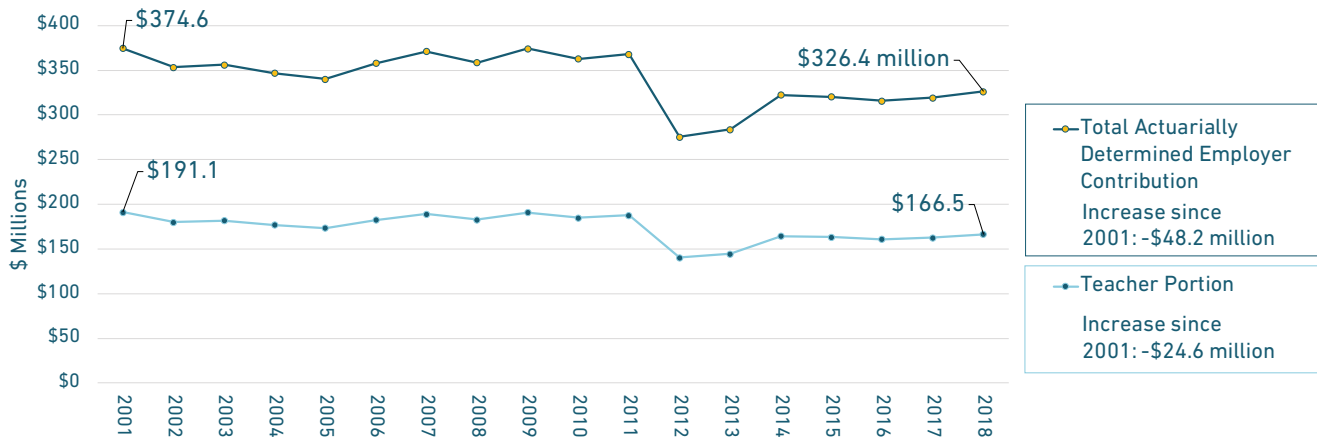
In 2001, PERS was facing \$3.1 billion in pension debt. However, in the years that followed, a strong commitment to paying the full actuarial pension bill and a supplemental contribution of \$163 million in 2002 have helped shrink the unfunded liabilities. By 2018 the pension debt for PERS in total was \$2.6 billion and the share attributable to teachers had shrunk to \$1.3 billion. Figure ME2 shows the change in the unfunded liabilities and Figure ME3 illustrates the change in what state actuaries have recommended as contributions from government employers.

Figure ME2: Since 2001 PERS has paid down more than \$400 million in pension debt – more than \$200 million from the teacher portion.



PERS Unfunded Liabilities (Actuarial Value), 2001–2018

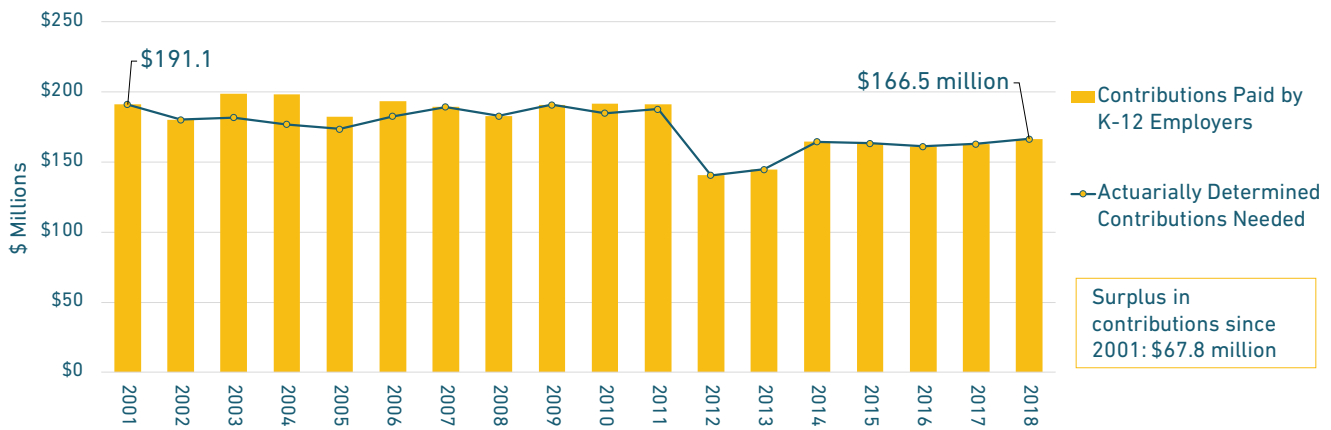
Figure ME3: The shrinking pension debt and a supplemental payment in 2002 have reduced the pension costs for PERS.



PERS 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 into the pension fund each year. Maine is one of the states that has demonstrated a strong commitment to paying the full required contribution, as shown in Figure ME4. As a result, the decrease in contributions actually paid by K–12 employers mirrors the trend displayed in Figure ME3, with contributions paid shrinking from \$191.1 million in 2001 to \$166.5 million in 2018.

Figure ME4: Maine paid at least its full actuarial bill to PERS Each year, resulting in a \$68 million surplus.



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

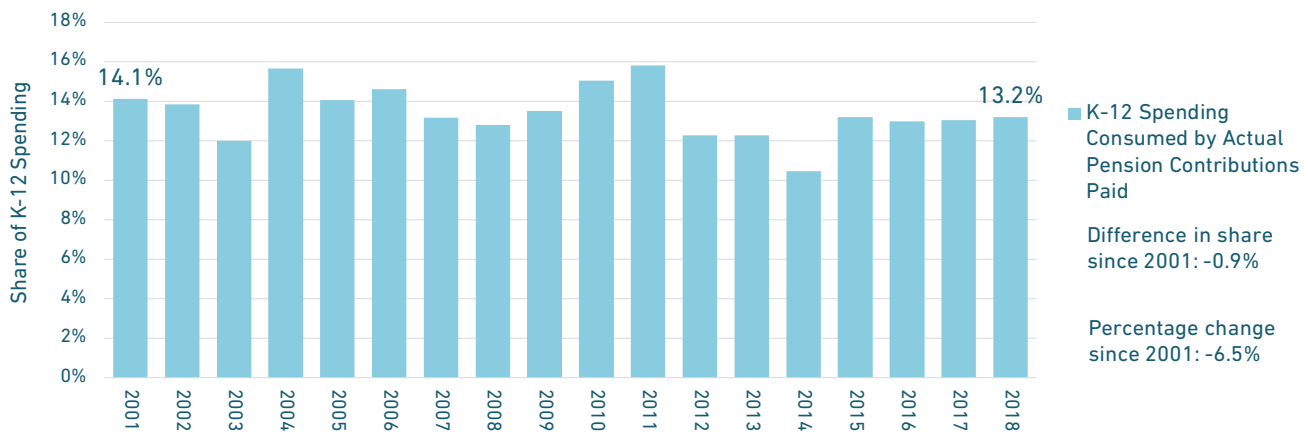
Paying the full required pension bill each year is the bare minimum for ensuring a pension system is fully funded. However, from the perspective of education funding, any increase in pension costs is going to be viewed negatively if it is shrinking the dollars available for teacher salaries and serving kids. In an ideal world, Maine would establish policies to ensure that funding for education will expand if the ADEC grows. As we show in the final chart on the next page, Maine has managed to keep pension costs from consuming a larger share of state K–12 spending, but any new pension debt could reverse that trend quickly.

PENSION COSTS CROWDING OUT K-12 SPENDING

The costs of funding PERS have soaked up a decreasing share of Maine’s education spending. This is especially important for teachers, as the drops in PERS’s costs have offset the decline in state own-source K-12 spending. In fact, PERS’s contributions reported as a share of K-12 spending shrank from 14.1% in 2001 to 13.2% in 2018.

As Figure ME5 indicates, pension costs consumed a slowly declining share of education spending most years from 2001 through 2018, despite the decline in state K-12 spending. This can be attributed to both the state’s strong commitment to paying at least the full ADEC each year and a supplemental contribution the state made in 2002 to help prevent the accrual of added unfunded liabilities. As a result, we observe a decline in the share of state K-12 spending going toward PERS.

Figure ME5: The hidden cut to Maine’s state education funding should be watched closely. While PERS contributions are declining, they still consume more than one-tenth of state K-12 funding.



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

Maine has met its commitments to funding PERS by paying at least the full ADEC each year, and, as a result, the costs of continuing to pay down the system’s debt have declined faster than the state’s own-source education spending. But if either trend were to change it may be important for Maine lawmakers to consider a change that reduces PERS’s costs and/or adjusts the state’s education funding to fully account for pension contributions.

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 ME1 shows the teacher 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 how there is growth in per student spending by the state, despite the decline in total state K-12 spending.

The result of these counter-intuitive trends on a per student basis can be attributed to falling enrollment, where Maine lost roughly 20,000 students from 2001 to 2018. As a result, the rise in state K-12 spending and nearly constant pension costs has helped to ensure that dollars sent to schools from the state have the greatest chance of making it to the classroom.

Table ME1: State education spending has grown slowly, but pension debt and contributions have been mostly constant.

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	\$6,599	\$7,603	115.2%	\$933	\$5,666
2002	\$6,429	\$9,130	142.0%	\$889	\$5,539
2003	\$8,270	\$10,136	122.6%	\$991	\$7,279
2004	\$6,390	\$10,289	161.0%	\$1,000	\$5,390
2005	\$6,600	\$10,255	155.4%	\$928	\$5,671
2006	\$6,830	\$10,000	146.4%	\$997	\$5,833
2007	\$7,326	\$9,268	126.5%	\$964	\$6,361
2008	\$7,401	\$9,425	127.4%	\$948	\$6,453
2009	\$7,469	\$12,641	169.2%	\$1,009	\$6,461
2010	\$6,727	\$13,279	197.4%	\$1,013	\$5,715
2011	\$6,403	\$7,730	120.7%	\$1,011	\$5,391
2012	\$6,158	\$8,025	130.3%	\$757	\$5,402
2013	\$6,406	\$7,915	123.6%	\$786	\$5,620
2014	\$8,620	\$6,820	79.1%	\$901	\$7,718
2015	\$6,815	\$6,674	97.9%	\$900	\$5,916
2016	\$6,868	\$7,559	110.1%	\$892	\$5,976
2017	\$6,964	\$7,501	107.7%	\$909	\$6,055
2018	\$7,083	\$7,486	105.7%	\$936	\$6,147

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 PERS 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.