Hidden Education Funding Cuts

Minnesota

State education funding has kept pace with growing pension costs, but only because pension contributions have been less than actuarially required

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.

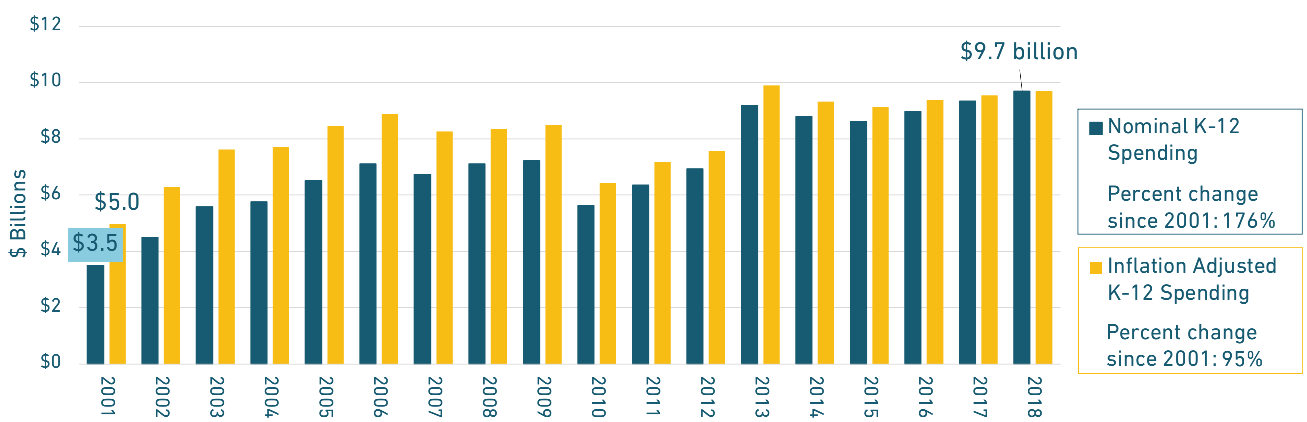
The Land of 10,000 Lakes is home to more than 5.6 million citizens, and nearly 900,000 primary and secondary school students. In 2018, the state's total expenditures exceeded $39.8 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state's own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled $28.5 billion.

Minnesota teachers are enrolled in a guaranteed income plan, known as a defined benefit pension, administered by the Teachers' Retirement Association of Minnesota (TRA). TRA manages retirement benefits for roughly 200,000 active and retired teachers.

EDUCATION SPENDING

In 2018, Minnesota's state distributed K–12 expenditures totaled $10.5 billion. Out of that total, $9.7 billion came from state own-source funding while the remaining $772 million was from federal grants and other education programs. (Local sources provided additional funding.)

Figure MN1: Minnesota's state spending on education nearly doubled — increasing by $4.7 billion even after accounting for inflation.



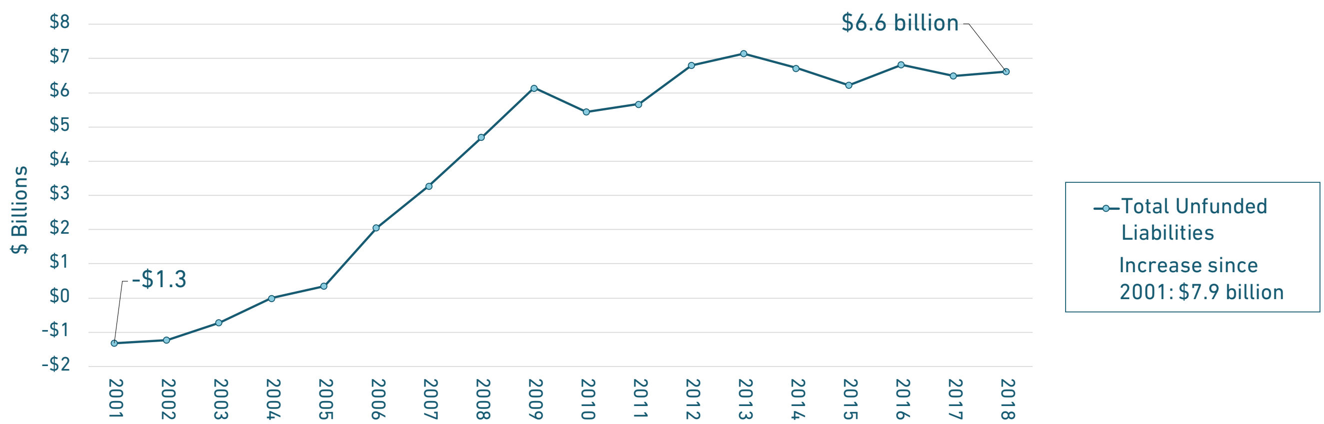
State Own-Source K–12 Spending, 2001–2018

As Figure MN1 illustrates, state spending on primary and secondary education in Minnesota has increased significantly since 2001 — growing by $6.2 billion in nominal dollars; however, it still increased significantly after adjusting for inflation, still growing by $4.7 billion. On a dollars per student basis, spending increased 86.4% since 2001 — growing from $5,835 to $10,878 (inflation adjusted).

PENSION FUNDING STATUS

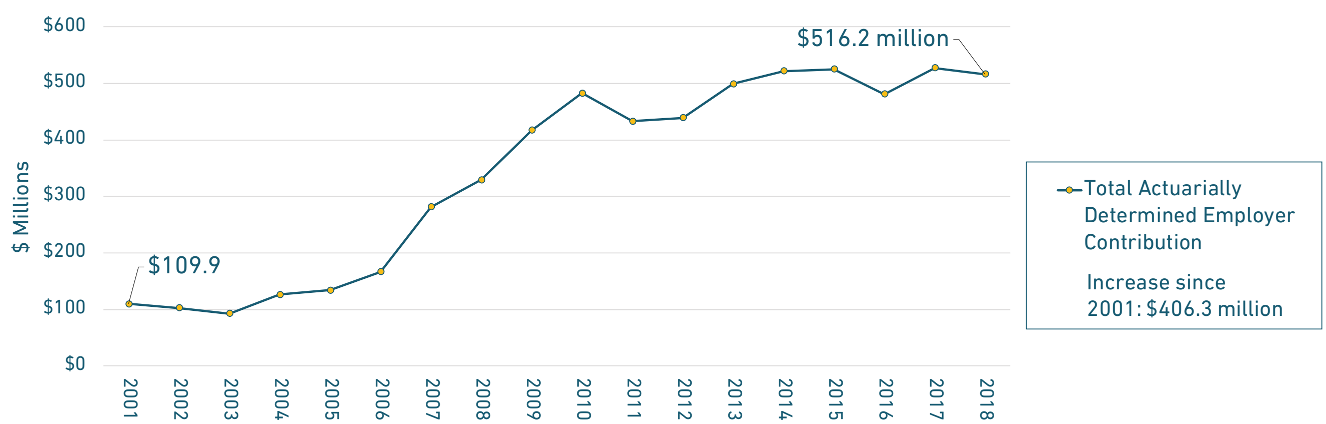
In 2001, TRA was fully funded and enjoyed a $1.3 billion surplus. However, over the past 17 years a combination of underperforming investments coupled with changing demographics have caused the plan to transition from a surplus to $6.6 billion in unfunded liabilities in 2018. Figure MN2 shows the change in the unfunded liabilities and Figure MN3 illustrates the change in what state actuaries have recommended as contributions from government employers.

Figure MN2: TRA has transitioned from a surplus in 2001 to a $6.6 billion shortfall as of 2018.



TRA Unfunded Liabilities (Actuarial Value), 2001–2018

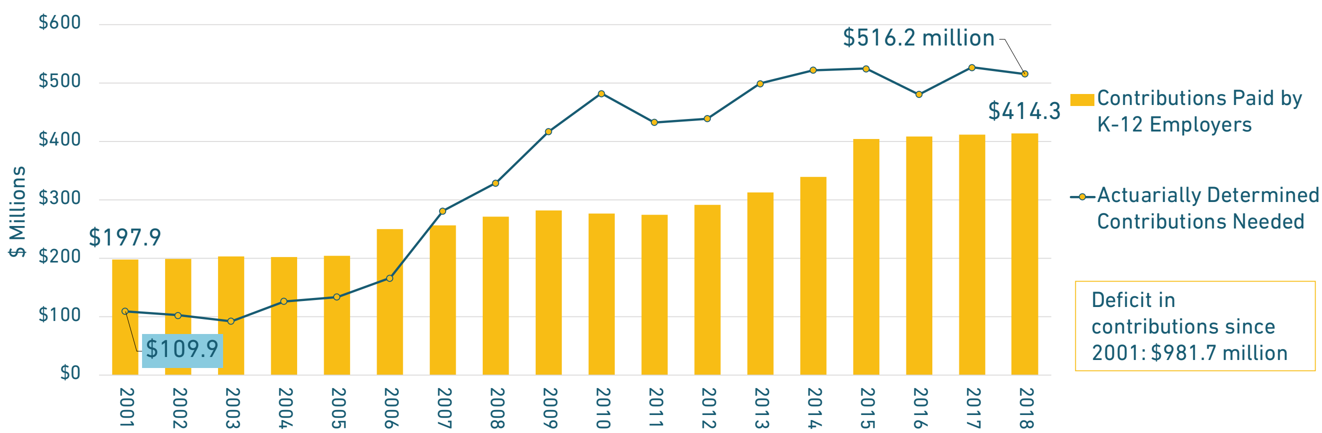
Figure MN3: To address growing pension debt the amount actuaries recommend the state should contribute to TRA has exploded.



TRA 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, Minnesota is one of those states, failing to pay the full pension bill every year since 2007, shown in Figure MN4. As a result, the actual contributions paid into TRA using education funds have been less than if the ADEC trend displayed in Figure MN3 was paid in full, but the actual contributions paid to TRA have still more than doubled from $197.9 million in 2001 to $414.3 million in 2018.

Figure MN4: Minnesota did not pay its full actuarial bill to TRA every year since 2007, shorting the plan by $982 million since 2001.



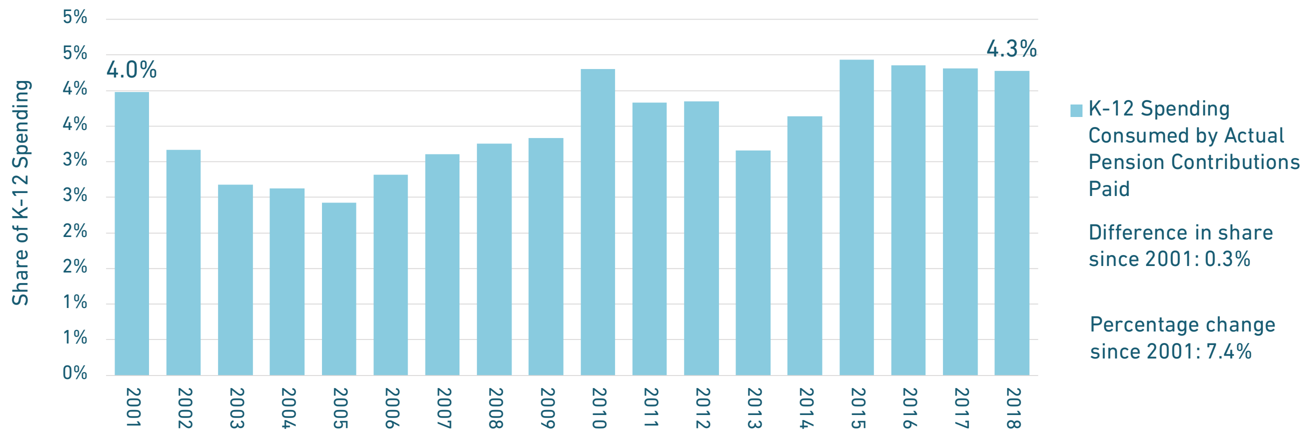
Actuarially Determined Employer Contribution Compared to Actual Contributions Paid to TRA, 2001–2018

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 Minnesota 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 Minnesota'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 TRA have soaked roughly the same share of Minnesota's education spending over the past two decades. This should be alarming because state K–12 funding has basically doubled since 2001. In particular, this is important for teachers, as the growth in TRA's costs has outpaced the growth in state own-source K–12 spending. Actual contributions to TRA reported as a share of K–12 spending increased from 4% in 2001 to 4.3% in 2018.

Figure MN5: The hidden cut to Minnesota's state education funding has been consistent over time, despite state K–12 funding doubling. The size of the cut would be even larger if the full actuarial bill for TRA is paid using dollars intended for education.



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

As Figure MN5 shows, the share of state education funding going to pension costs actually declined between 2015 and 2018. By the close of 2018 the share of state education spending going toward pension costs was only slightly higher than at the start of the century, when TRA was running a surplus. In effect, Minnesota increased state K–12 funding at a sufficient rate to outpace the growth in pension costs for most years. That means some portion of that increased education funding was consumed by the teacher pension system.

Meanwhile, TRA's unfunded pension liabilities have continued to climb over the past 18-years with little sign of stopping. And the state isn't even yet ensuring the full ADEC is paid each year. Unless there is a change that reduces the costs for TRA, Minnesota runs the risk that education funding will suffer an even higher hidden cut in dollars intended for serving the state's children in the future, than has persisted over the past two decades.

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 MN1 shows the UAAL and actual pension contributions on a per student basis compared against state education spending. Breaking the numbers down this way shows the significant growth in per student spending by the state and how unfunded pension liabilities and related pension contributions have also grown. State education funding has grown much faster, climbing by roughly $5,000, showing faster growth in a dollars per student basis; however, when measuring growth rates, pension costs have grown faster — more than doubling since 2001.

Table MN1: State education spending per student has increased significantly, 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	$5,835	-$1,545	Fully Funded	$232	$5,603
2002	$7,402	-$1,443	Fully Funded	$234	$7,168
2003	$9,000	-$850	Fully Funded	$241	$8,759
2004	$9,121	-$2	0.0%	$239	$8,882
2005	$10,040	$414	4.1%	$243	$9,797
2006	$10,579	$2,444	23.1%	$298	$10,281
2007	$9,860	$3,912	39.7%	$306	$9,554
2008	$9,991	$5,624	56.3%	$325	$9,666
2009	$10,125	$7,338	72.5%	$338	$9,788
2010	$7,677	$6,495	84.6%	$330	$7,346
2011	$8,541	$6,754	79.1%	$327	$8,214
2012	$8,961	$8,045	89.8%	$345	$8,616
2013	$11,630	$8,404	72.3%	$368	$11,262
2014	$10,873	$7,845	72.2%	$396	$10,477
2015	$10,567	$7,197	68.1%	$468	$10,098
2016	$10,721	$7,798	72.7%	$467	$10,254
2017	$10,785	$7,341	68.1%	$465	$10,320
2018	$10,878	$7,429	68.3%	$465	$10,413

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 TRA 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 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.