Hidden Education Funding Cuts

Missouri

Pension costs are consuming nearly 50% 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.

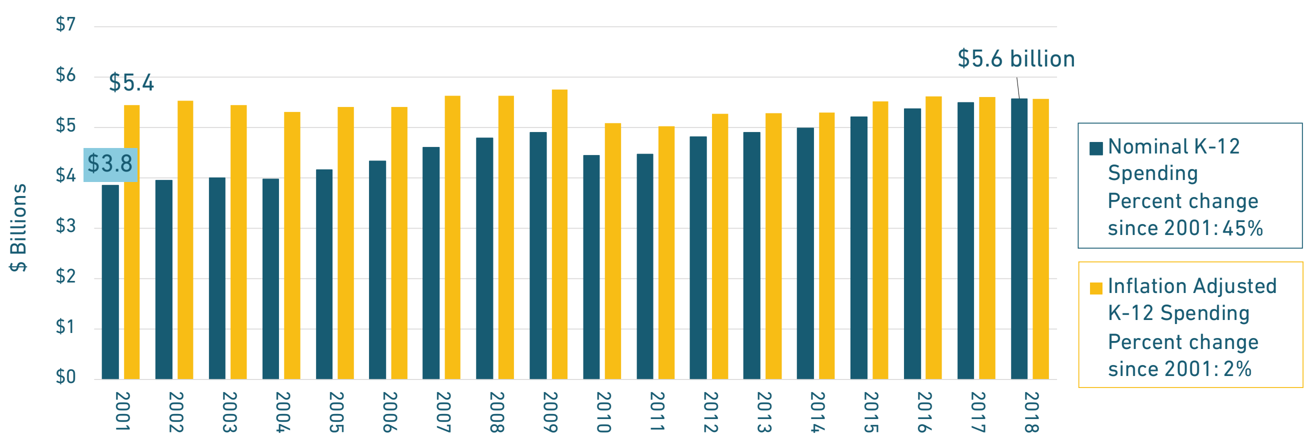
The Show-Me State is home to more than 6.1 million citizens, and 912,000 primary and secondary school students. In 2018, the state's total expenditures exceeded $26 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state's own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled $17.7 billion.

Missouri teachers are enrolled in a guaranteed income plan, known as a defined benefit pension, administered by the Public School Employee Retirement System of Missouri (PSRS). PSRS manages retirement benefits for roughly 158,000 active and retired teachers. It is important to note that non-teacher public school employees are enrolled in a separate system, the Public Education Employee Retirement System of Missouri (PEERS), while teachers in the St. Louis and Kansas City school districts are enrolled in separately managed municipal retirement systems. This profile focuses on PSRS and how it relates to Missouri own-source K–12 funding — including the costs of those other retirement systems would be relevant for additional, future analysis.

EDUCATION SPENDING

In 2018, Missouri's state distributed K–12 expenditures totaled $6.6 billion. Out of that total, $5.6 billion came from state own-source funding while the remaining $1 billion was from federal grants and other education programs. (Local sources provided additional funding.)

Figure MO1: Missouri's state spending on education only increased by $123 million after accounting for inflation.



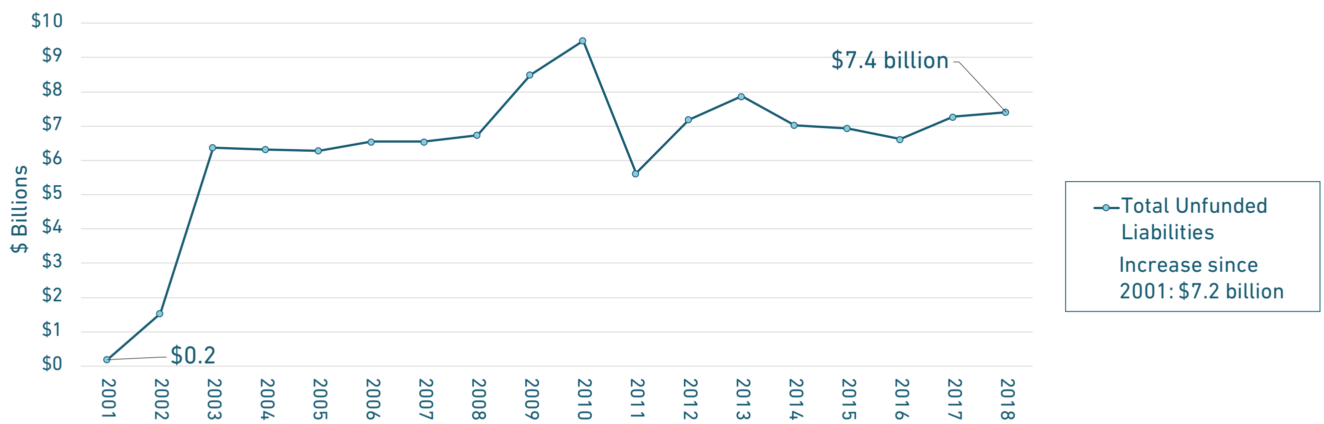
State Own-Source K–12 Spending, 2001–2018

As figure MO1 illustrates, state spending on primary and secondary education in Missouri has increased moderately since 2001 — growing by $1.8 billion in nominal dollars; however, there was practically no change in funding after adjusting for inflation, growing by only $123 million. On a dollars per student basis, spending increased 2.4% since 2001 — growing from $5,957 to $6,102 (inflation adjusted).

PENSION FUNDING STATUS

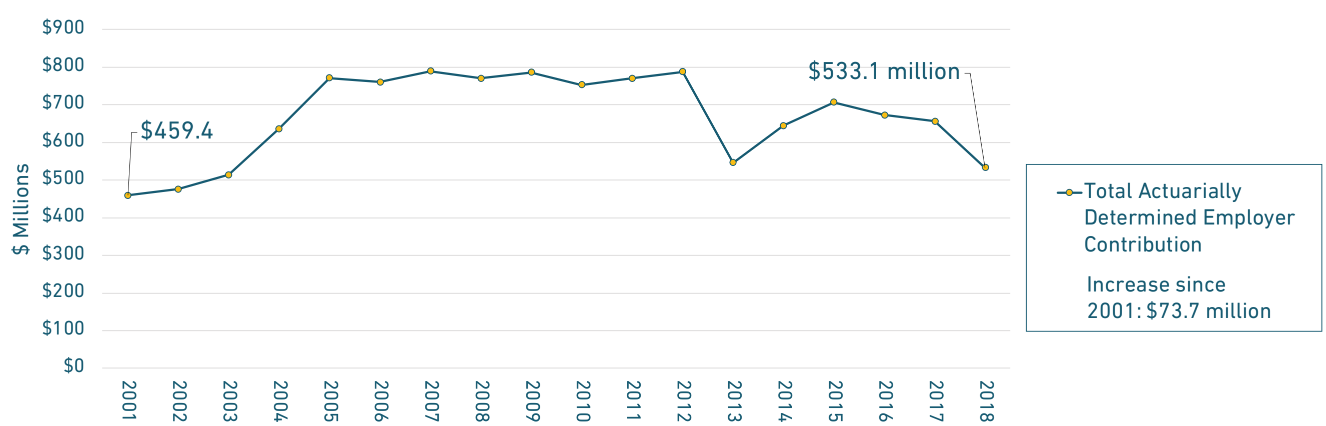
In 2001, PSRS was nearly fully funded, facing less than $200 million in pension debt. However, over the past 17 years a combination of underperforming investments coupled with changing demographics have caused the unfunded liability for PSRS to explode — reaching $7.4 billion in 2018. Figure MO2 shows the change in the unfunded liabilities and Figure MO3 illustrates the change in what state actuaries have recommended as contributions from government employers.

Figure MO2: PSRS's pension debt has exploded since 2001.



PSRS Unfunded Liabilities (Actuarial Value), 2001–2018

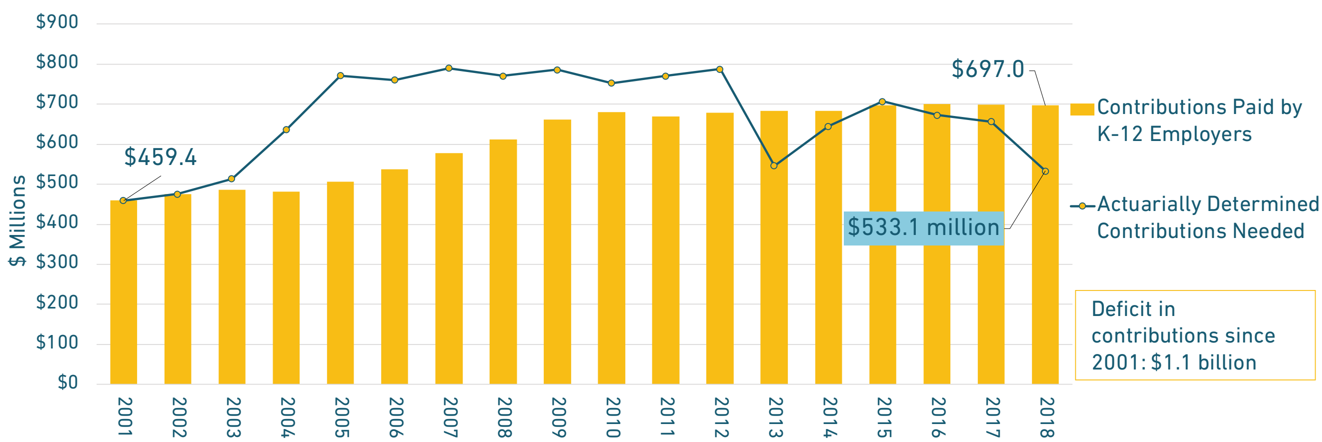
Figure MO3: While PSRS's pension debt has grown, the amount actuaries recommend the state contribute to PSRS has only increased $74 million.



PSRS 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, Missouri is one of those states, failing to pay the full pension bill each year from 2003 through 2012 and again in 2015, shown in Figure MO4. As a result, the actual contributions paid into PSRS using education funds have been less than if the ADEC trend displayed in Figure MO3 was paid in full, but the actual contributions paid to PSRS have increased more than the ADEC, going from $459.4 million in 2001 to $697 million in 2018.

Figure MO4: Missouri did not pay its full actuarial bill to PSRS 11 times from 2001 through 2018, shorting the plan by $1.1 billion.



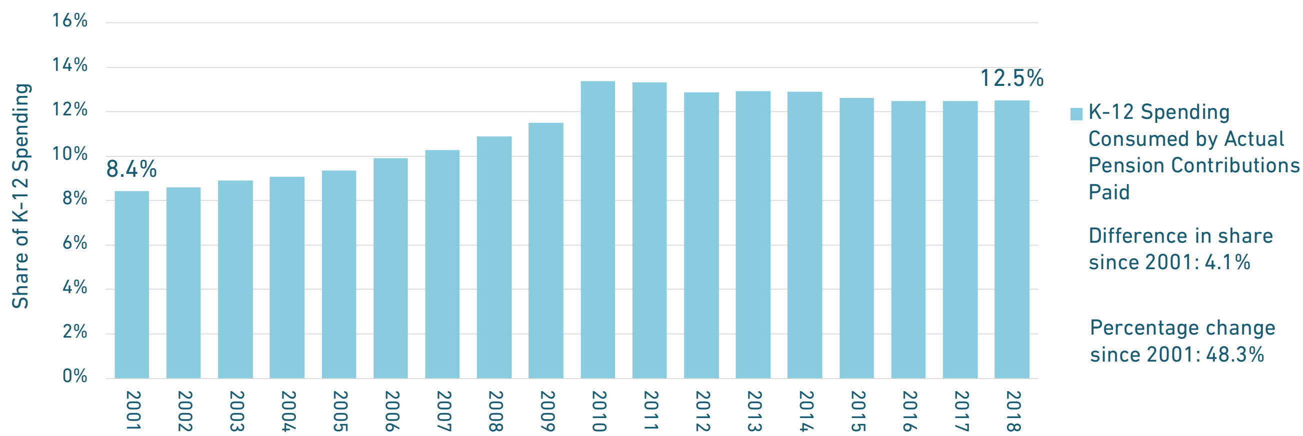
Actuarially Determined Employer Contribution Compared to Actual Contributions Paid to TRS, 2001–2018

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 Missouri 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 Missouri'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 costs of funding PSRS have soaked up a larger share of Missouri's state education spending than in years past. This is especially important for teachers, as the growth in PSRS's costs outpaced the growth in state own-source K–12 spending. In fact, PSRS's contributions reported as a share of K–12 spending increased from 8.4% in 2001 to 12.5% in 2018.

Figure MO5: The hidden cut to Missouri's state education funding is serious. PSRS contributions are consuming nearly 50% 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 MO4 indicates, the actual contributions paid to PSRS increased through the late 2000s but have plateaued in the eight years since. Similarly, the ADEC, illustrated in Figure MO3, has also been in decline in recent years. However, despite the successes of PSRS to stabilize their unfunded liabilities and costs, stagnant levels of state K-12 funding have resulted in a nearly 50% larger share of state education funds going toward pension costs. The effect of this rise is best seen in the per student figures presented on the next page.

Missouri has failed to meet its commitments to funding PSRS 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, which has remained largely unchanged since 2001. Unless there is a change that reduces PSRS's costs and/or adjusts the state's education funding to fully account for pension contributions, Missouri'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 MO1 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. In fact, after accounting for inflation and pension costs, Missouri actually spent $116 less per student in 2018 than 2001.

Table MO1: State education spending per student only increased by $150 from 2001 to 2018, but pension debt and contributions have consumed that growth and more.

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	$5,957	$210	3.5%	$503	$5,455
2002	$6,048	$1,679	27.8%	$520	$5,528
2003	$5,944	$6,953	117.0%	$530	$5,415
2004	$5,789	$6,888	119.0%	$525	$5,264
2005	$5,882	$6,834	116.2%	$551	$5,332
2006	$5,880	$7,110	120.9%	$583	$5,297
2007	$6,140	$7,140	116.3%	$630	$5,510
2008	$6,127	$7,342	119.8%	$667	$5,460
2009	$6,271	$9,251	147.5%	$721	$5,550
2010	$5,531	$10,337	186.9%	$740	$4,791
2011	$5,483	$6,135	111.9%	$730	$4,752
2012	$5,737	$7,833	136.5%	$739	$4,998
2013	$5,751	$8,574	149.1%	$743	$5,007
2014	$5,764	$7,662	132.9%	$744	$5,020
2015	$6,008	$7,542	125.5%	$758	$5,250
2016	$6,136	$7,232	117.9%	$766	$5,370
2017	$6,127	$7,958	129.9%	$765	$5,362
2018	$6,102	$8,119	133.1%	$764	$5,339

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 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.