Hidden Education Funding Cuts

Mississippi

Pension costs are consuming nearly 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 steadily been 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 actuarial 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.

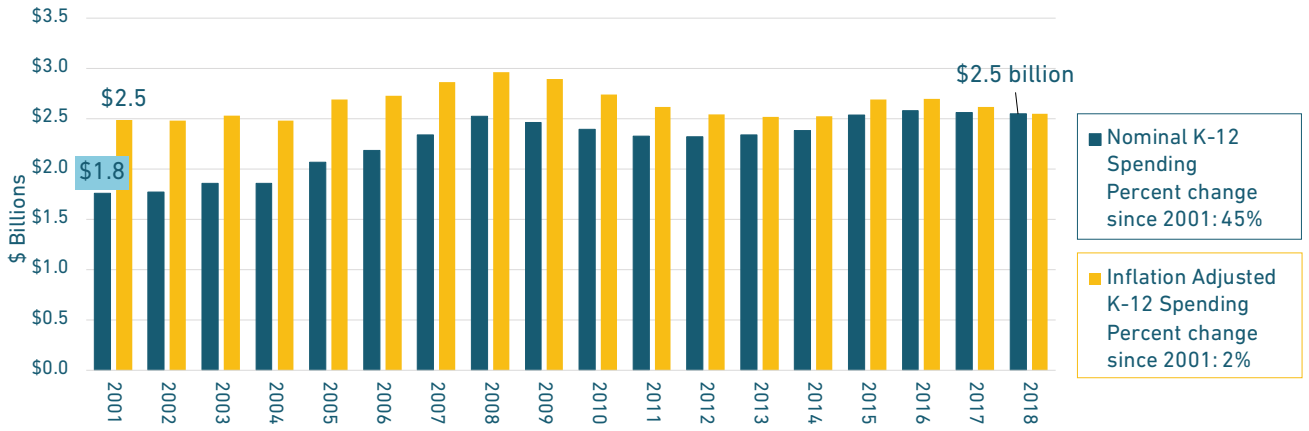
The Magnolia State is home to nearly 3 million citizens, and more than 470,000 primary and secondary school students. In 2018, the state's total expenditures exceeded $19.7 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state's own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled $11.2 billion.

Mississippi teachers are enrolled in a guaranteed income plan, known as a defined benefit pension, administered by the Public Employees' Retirement System of Mississippi (PERS). PERS manages retirement benefits for nearly 250,000 active and retired teachers, municipal employees, and state workers. Although PERS provides retirement for more than just teachers, the teachers comprise a large share (39%) of plan members.

EDUCATION SPENDING

In 2018, Mississippi's state distributed K–12 expenditures totaled $3.2 billion. Out of that total, $2.5 billion came from state own-source funding while the remaining $700 million was from federal grants and other education programs. (Local sources provided additional funding.)

Figure MS1: Mississippi's state spending on education only increased by $59 million after accounting for inflation.



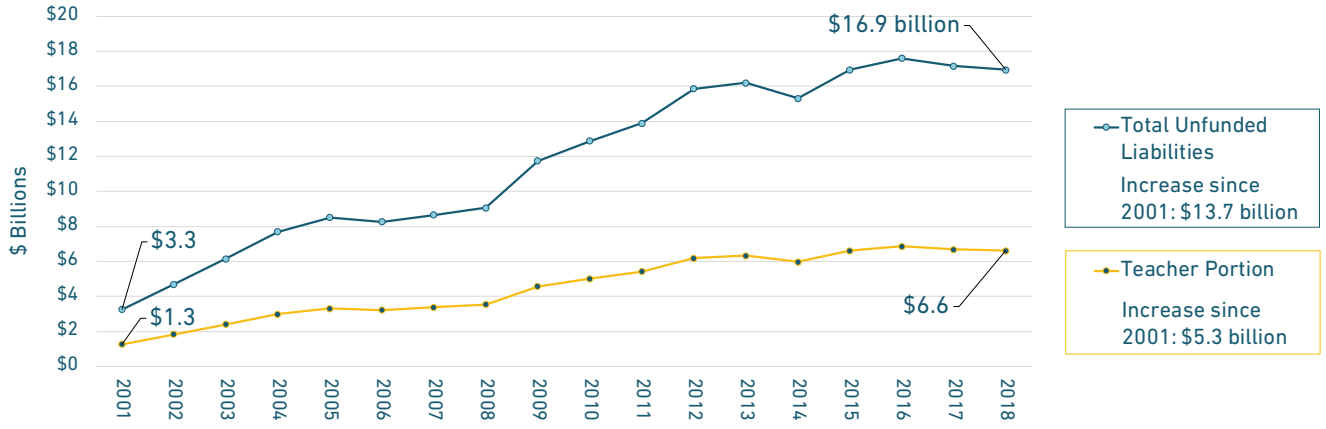
State Own-Source K–12 Spending, 2001–2018

As figure MS1 illustrates, state spending on primary and secondary education in Mississippi has increased moderately since 2001 — growing by $700 million in nominal dollars; and, it barely changed after adjusting for inflation (increasing by only $59 million). On a dollars per student basis, spending increased by 7.6% since 2001 — growing from $4,998 to $5,376 (inflation adjusted).

PENSION FUNDING STATUS

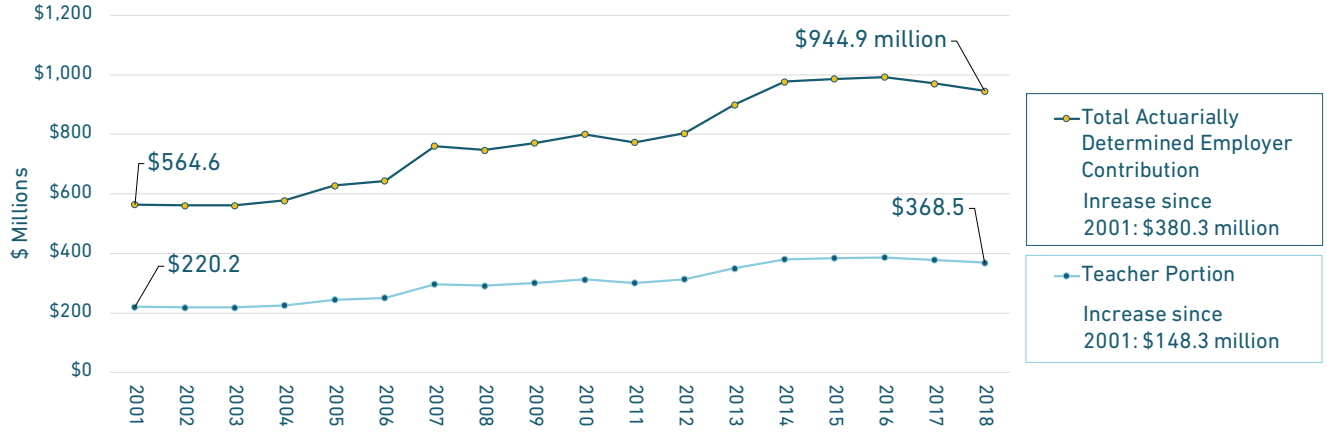
In 2001, PERS was nearly fully funded. However, over the past 17 years a combination of underperforming investments coupled with changing demographics have resulted in a growing unfunded liability for PERS — reaching roughly $16.9 billion in 2018. Figure MS2 shows the change in the unfunded liabilities and Figure MS3 illustrates the change in what state actuaries have recommended as contributions from government employers.

Figure MS2: Since 2001 PERS has transitioned from being nearly fully funded to nearly $17 billion in pension debt.



PERS Unfunded Liabilities (Actuarial Value), 2001–2018

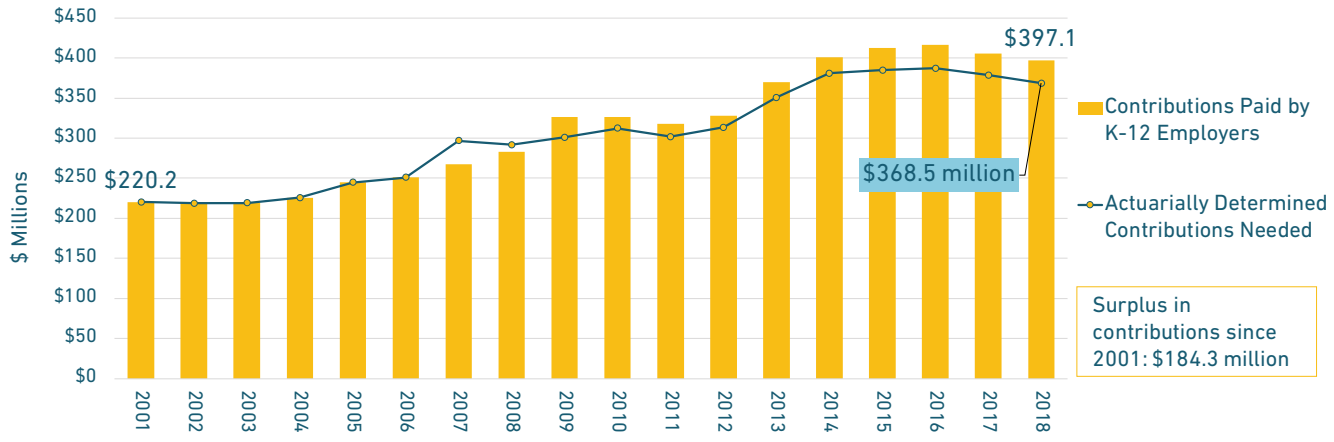
Figure MS3: To address the pension debt the amount actuaries recommend K-12 employers contribute to TRS has nearly doubled.



PERS Actuarially Determined Employer Contributions, 2001–2018

There are a number of states across the country that do not always ensure that the actuarially defined employer contribution is paid in full into the pension fund each year. Mississippi is one of the states that has demonstrated a strong commitment to paying the full required contribution, as shown in Figure MS4. However, the contributions actually paid by K–12 employers actually exceeded the growing trend displayed in Figure MS3, with contributions nearly doubling from $220 million in 2001 to $397 million in 2018. In fact, Mississippi actually had a surplus of $184 million from contributing more than the actuarially defined amount in each of the last 10 years.

Figure MS4: Mississippi paid at least its full actuarial bill to PERS most years since 2001, and that means actual contributions paid have nearly doubled.



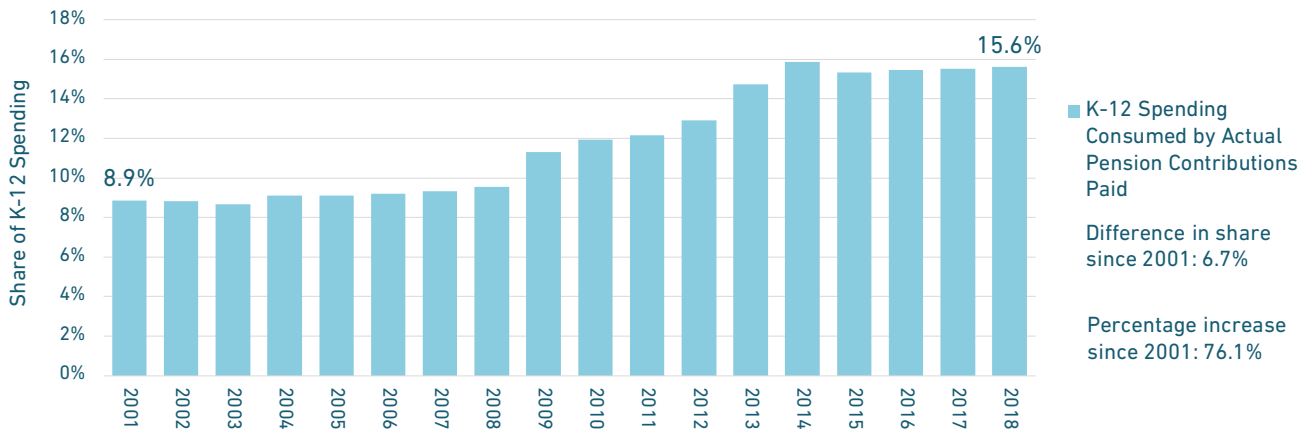
Actuarially Determined Employer Contribution Compared to Actual Contributions Paid to PERS, 2001–2018

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, Mississippi would have ensured that funding for education expanded at least as fast as the growth in the ADEC shown above. But as we show in the final chart on the next page, that hasn't happened.

PENSION COSTS CROWDING OUT K–12 SPENDING

The growing costs of funding PERS have soaked up an increasing share of Mississippi's education spending. This is especially important for teachers, as the growth in PERS's costs outpaced the growth in state own-source K–12 spending. In fact, PERS's contributions reported as a share of K–12 spending increased from 8.9% in 2001 to 15.6% in 2018.

Figure MS5: The hidden cut to Mississippi's state education funding is serious. Increasing PERS contributions are consuming nearly two times as much K–12 funding in 2018 as 2001.



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

As Figure MS5 indicates, pension costs consumed a relatively stable share of education spending for 2001 through 2008. However, the costs of contributions to PERS began to rise even faster in 2009 while K–12 spending couldn't keep pace. Even though K–12 employers contributed at least the full actuarially determined contribution rate, PERS pension debt—both for teachers and other public workers—continued to increase because the assumptions used to calculate those ADEC rates weren't realistic and investments underperformed expectations.

Ultimately, the costs of paying down Mississippi's pension debt have grown significantly faster than the state's own-source education spending. Unless there is a change that reduces PERS costs and/or adjusts the state's education funding to fully account for pension contributions, Mississippi'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 MS1 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 liabilities and related pension contributions have outpaced the growth in per student spending by the state. In fact, after accounting for inflation and pension costs, Mississippi spent almost exactly the same state money per student in 2018 than 2001.

Table MS1: While state education spending increased $400 per student, 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	$4,998	$2,556	51.1%	$443	$4,555
2002	$4,988	$3,688	73.9%	$440	$4,548
2003	$5,094	$4,829	94.8%	$441	$4,653
2004	$5,003	$6,045	120.8%	$455	$4,548
2005	$5,425	$6,697	123.5%	$494	$4,931
2006	$5,505	$6,507	118.2%	$507	$4,998
2007	$5,792	$6,834	118.0%	$541	$5,251
2008	$6,013	$7,187	119.5%	$575	$5,438
2009	$5,871	$9,294	158.3%	$663	$5,208
2010	$5,578	$10,238	183.5%	$665	$4,913
2011	$5,329	$11,040	207.2%	$648	$4,682
2012	$5,142	$12,527	243.6%	$664	$4,477
2013	$5,102	$12,160	251.4%	$752	$4,351
2014	$5,144	$12,828	236.4%	$816	$4,327
2015	$5,521	$13,575	245.7%	$846	$4,675
2016	$5,576	$14,198	254.6%	$862	$4,713
2017	$5,458	$13,975	256.1%	$848	$4,610
2018	$5,376	$13,956	259.6%	$839	$4,537

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 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.