

Hidden Education Funding Cuts

North Carolina

Pension costs are consuming more than three times 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.

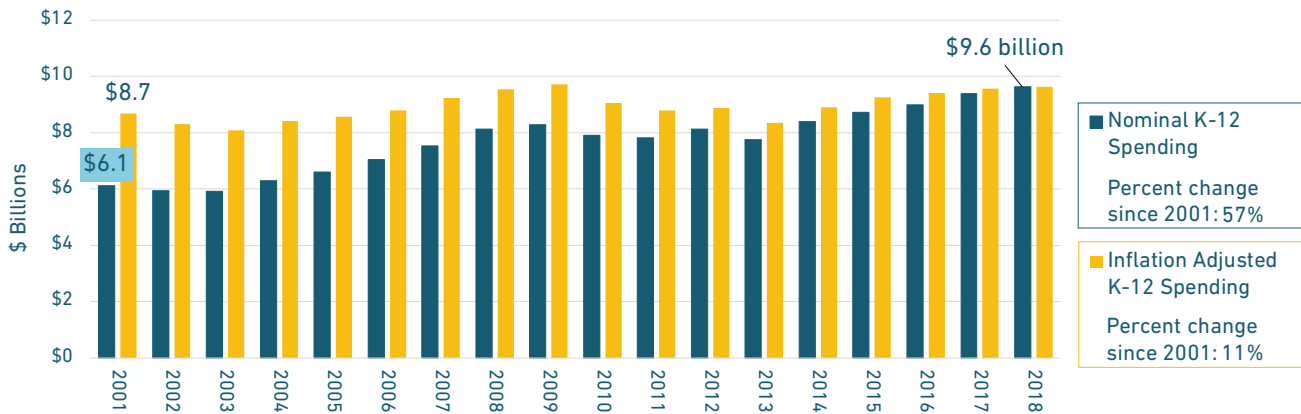
The Tar Heel State is home to roughly 10.5 million citizens, and more than 1.5 million primary and secondary school students. In 2018, the state’s total expenditures exceeded \$49.8 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state’s own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled \$34.5 billion.

North Carolina teachers are enrolled in a guaranteed income plan, known as a defined benefit pension, administered by the North Carolina Teachers & State Employees’ Retirement System (TSERS). TSERS manages retirement benefits for roughly 700,000 active and retired teachers and state workers. Although TSERS provides retirement for more than just teachers, they comprise a majority (57%) of members.

EDUCATION SPENDING

In 2018, North Carolina’s state distributed K–12 expenditures totaled \$11.1 billion. Out of that total, \$9.6 billion came from state own-source funding while the remaining \$1.5 billion was from federal grants and other education programs. (Local sources provided additional funding.)

Figure NC1: North Carolina’s state spending on education only increased by \$951 million after accounting for inflation.



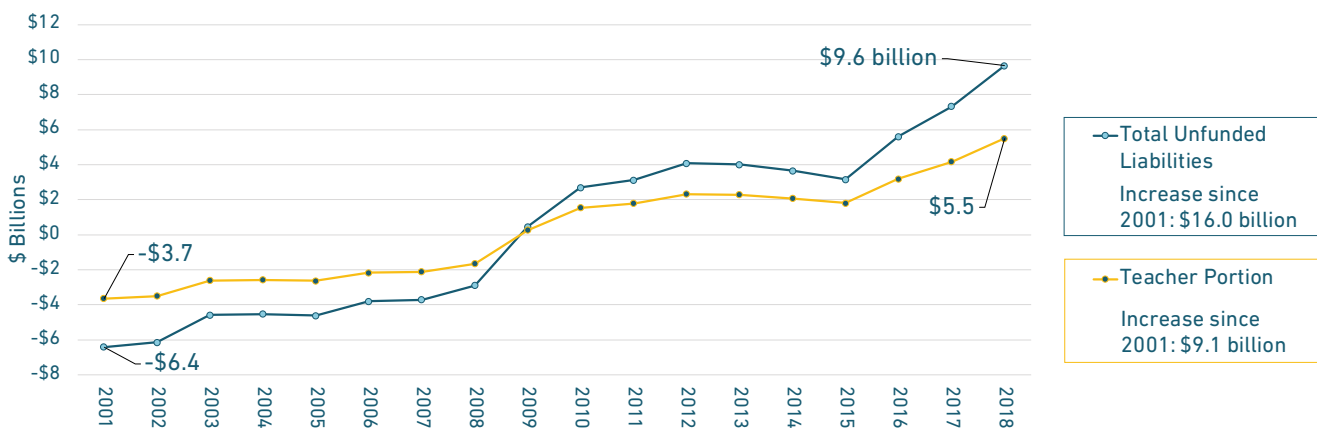
State Own-Source K–12 Spending, 2001–2018

As Figure NC1 illustrates, state spending on primary and secondary education in North Carolina has increased moderately since 2001 — growing by \$3.5 billion in nominal dollars; and, it barely changed after adjusting for inflation, increasing by only \$950.7 million. On a dollars per student basis, spending actually decreased by 5.9% since 2001 — declining from \$6,577 to \$6,191 (inflation adjusted). This decline in per student spending can be attributed to the combination of stagnant growth in aggregate funding and climbing enrollment, which increased by more than 200,000 students since 2001.

PENSION FUNDING STATUS

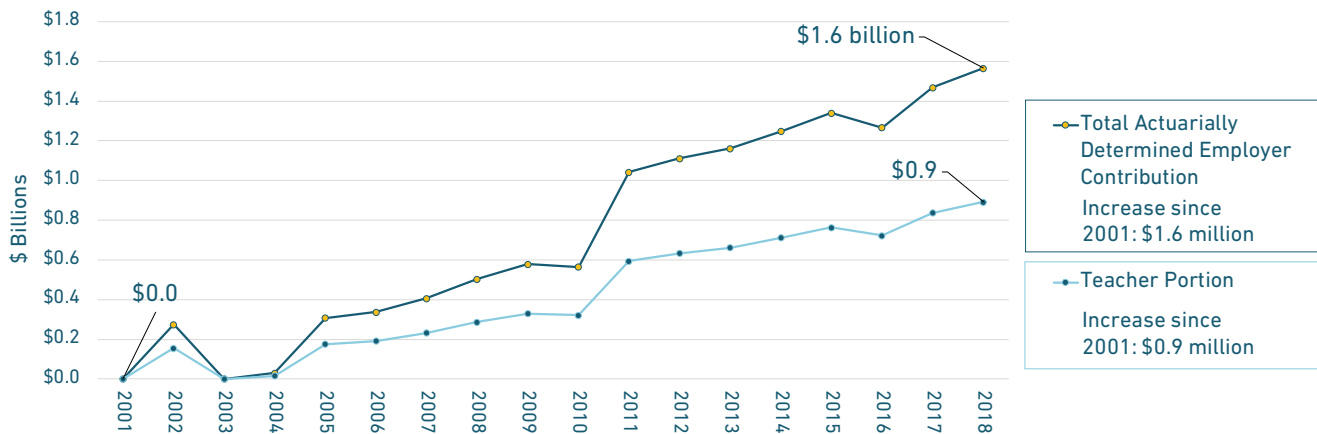
As recently as 2008, TSERS was fully funded with a \$2.9 billion surplus. However, over the past 11 years a combination of underperforming investments coupled with changing demographics have resulted in TSERS's transition from a surplus to a growing unfunded liability — reaching \$9.6 billion in 2018. Figure NC2 shows the change in the unfunded liabilities and Figure NC3 illustrates the change in what state actuaries have recommended as contributions from government employers.

Figure NC2: Since 2001 TSERS has transitioned from a \$6.4 billion surplus to more than \$9.6 billion in pension debt.



TSERS Unfunded Liabilities (Actuarial Value), 2001–2018

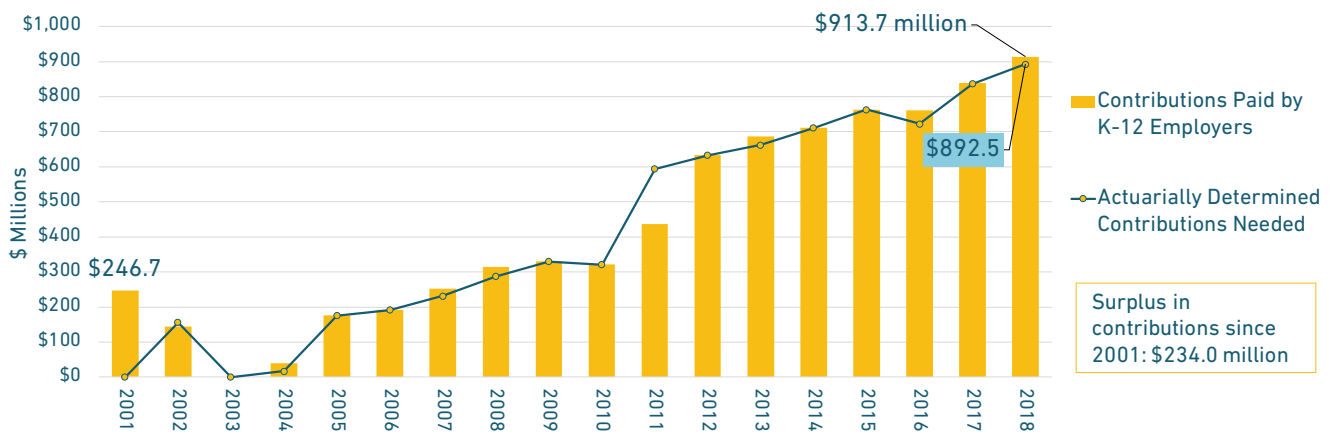
Figure NC3: The amount actuaries recommend the state should contribute to TSERS has more than doubled since 2008, the first year there was pension debt.



TSERS 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. North Carolina failed to pay the full ADEC in 2011 but is otherwise one of the states that has demonstrated a strong commitment to paying at least the full required contribution, as shown in Figure NC4. As a result, the increase in contributions actually paid by K–12 employers mirrors the growing trend displayed in Figure NC3, with contributions more than tripling from \$246.7 million in 2001 to \$913.7 million in 2018. When compared against 2008, the first year TSERS had unfunded liabilities, contributions have more than doubled.

Figure NC4: North Carolina paid at least its full actuarial bill to TSERS most years, resulting in a contribution surplus of \$234 million.



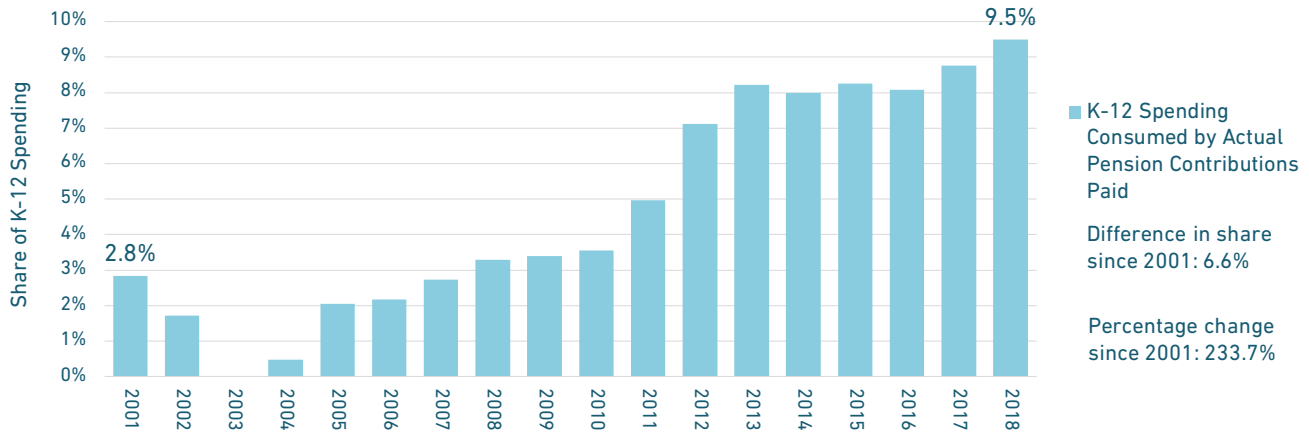
Actuarially Determined Employer Contribution Compared to Actual Contributions Paid to TSERS, 2001–2018

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, North Carolina 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 TSERS have soaked up an increasing share of North Carolina’s education spending. This is especially important for teachers, as the growth in TSERS’s costs outpaced the growth in state own-source K-12 spending. In fact, TSERS’s contributions reported as a share of K-12 spending increased from 2.8% in 2001 to 9.5% in 2018.

Figure NC5: The hidden cut to North Carolina’s state education funding is serious. TSERS contributions are consuming over 300% more state K-12 funding in 2018 as 2001, and nearly 1/10th of the state’s education budget in total.



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

North Carolina has historically reported its statewide retirement systems as well funded. As recently as 2015, TSERS was more than 90% funded. However, that figure was based on an unrealistic assumption that TSERS could earn 7.25% on investments. Over the past few years, North Carolina has started to improve the accuracy of their accounting of TSERS funding. In the process, the state has had to report a larger unfunded pension liability than previously anticipated.

From the perspective of pension finance reporting, this recent trend of increased contributions has been positive. But the state’s K-12 education funding has stagnated at the same time. As a result, the combined effect has been for a hidden education funding cut to steadily increase, as shown in Figure NC5.

North Carolina has met its commitments to funding TSERS by at least paying the full ADEC in most years, but the costs of paying down the system’s debt have grown significantly faster than the state’s own-source education spending. Unless there is a change that reduces TSERS’s costs and/or adjusts the state’s education funding to fully account for pension contributions, North Carolina’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 NC1 shows the public school employer 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 the decline in per student spending by the state and how unfunded pension liabilities and related pension contributions have grown. In fact, after accounting for inflation and pension costs, North Carolina spent roughly \$800 less per student in state dollars in 2018 than 2001.

Table NC1: While state education spending per student declined, pension debt and contributions have grown – increasing the cut in per student funding.

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	\$6,577	-\$2,769	Fully Funded	\$187	\$6,390
2002	\$6,181	-\$2,606	Fully Funded	\$107	\$6,074
2003	\$5,901	-\$1,910	Fully Funded	\$0	\$5,901
2004	\$6,034	-\$1,852	Fully Funded	\$29	\$6,005
2005	\$6,046	-\$1,856	Fully Funded	\$124	\$5,922
2006	\$6,095	-\$1,502	Fully Funded	\$133	\$5,962
2007	\$6,199	-\$1,419	Fully Funded	\$170	\$6,029
2008	\$6,406	-\$1,110	Fully Funded	\$211	\$6,195
2009	\$6,550	\$176	2.7%	\$222	\$6,328
2010	\$6,075	\$1,032	17.0%	\$216	\$5,859
2011	\$5,830	\$1,180	20.2%	\$290	\$5,541
2012	\$5,854	\$1,528	26.1%	\$417	\$5,437
2013	\$5,459	\$1,490	27.3%	\$449	\$5,010
2014	\$5,747	\$1,342	23.4%	\$459	\$5,288
2015	\$5,988	\$1,166	19.5%	\$494	\$5,494
2016	\$6,067	\$2,059	33.9%	\$491	\$5,577
2017	\$6,161	\$2,684	43.6%	\$539	\$5,621
2018	\$6,191	\$3,535	57.1%	\$588	\$5,603

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 TSERS 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.