Hidden Education Funding Cuts

North Dakota

State education funding has grown steadily over the past two decades — and so have teacher pension costs

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.

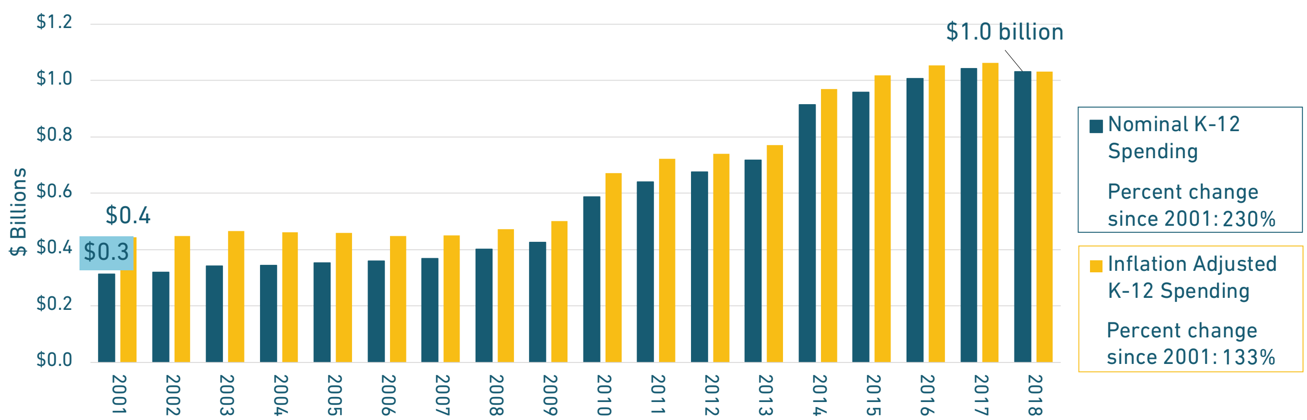
The Peace Garden State is home to more than 760,000 citizens, and roughly 110,000 primary and secondary school students. In 2018, the state's total expenditures neared $5.9 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state's own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled $4.7 billion.

North Dakota teachers are enrolled in a guaranteed income plan, known as a defined benefit pension, administered by the North Dakota Teachers' Fund for Retirement (TFFR). TFFR manages retirement benefits for roughly 22,000 active and retired teachers.

EDUCATION SPENDING

In 2018, North Dakota's state distributed K–12 expenditures totaled $1.2 billion. Out of that total, $1 billion came from state own-source funding while the remaining $139 million was from federal grants and other education programs. (Local sources provided additional funding.)

Figure ND1: North Dakota's state spending on education more than doubled even after accounting for inflation.



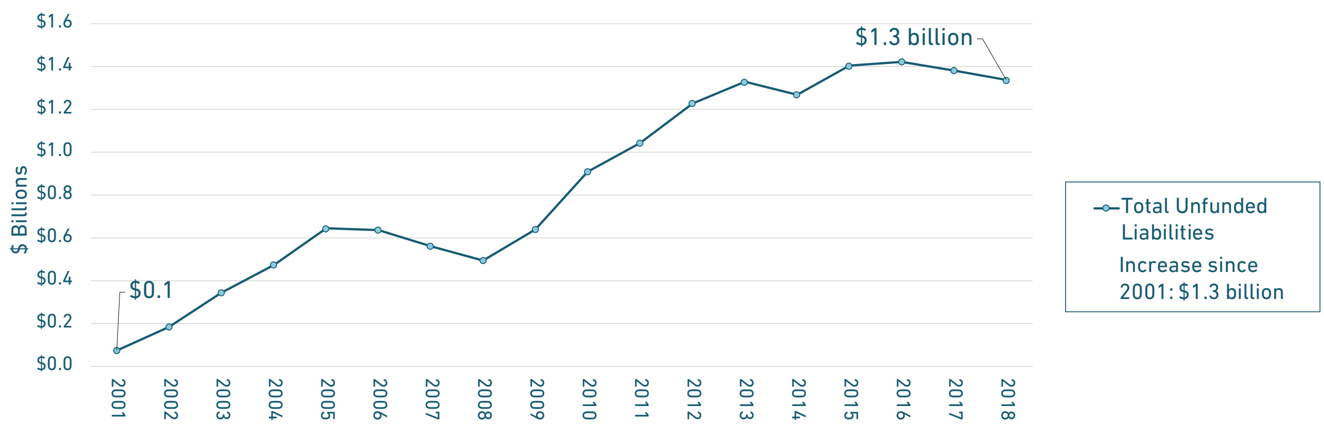
State Own-Source K–12 Spending, 2001–2018

As Figure ND1 illustrates, state spending on primary and secondary education in North Dakota has increased significantly since 2001 — growing by $719 million in nominal dollars. In fact, even after adjusting for inflation, it still increased significantly, growing by $588.9 million. On a dollars per student basis, spending increased 125.4% since 2001 — growing from $4,137 to $9,322 (inflation adjusted).

PENSION FUNDING STATUS

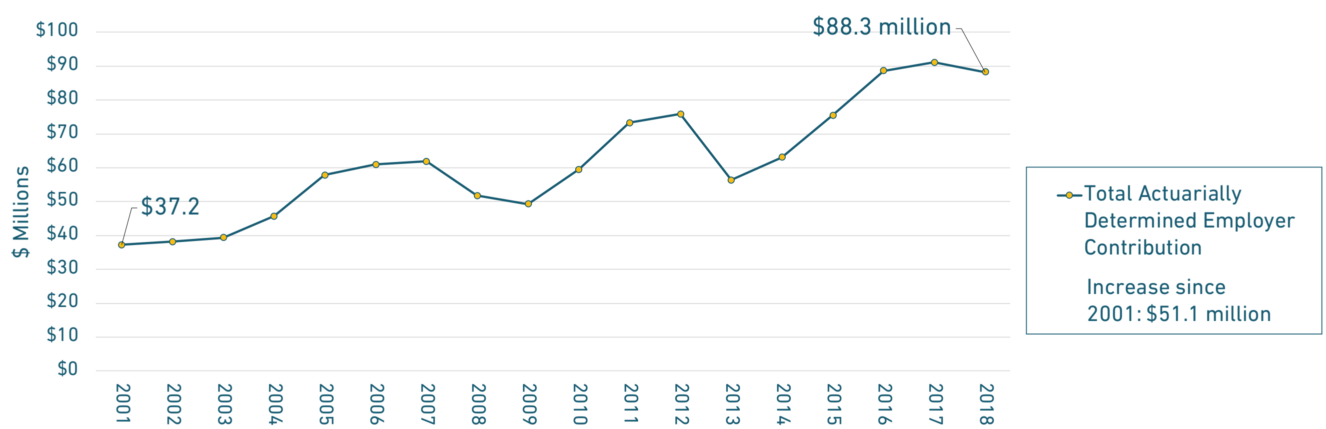
In 2001, TFFR was nearly fully funded with only $75 million in pension debt. However, over the past 17 years a combination of underperforming investments coupled with changing demographics have caused the unfunded liability for TFFR to explode — reaching $1.3 billion in 2018. Figure ND2 shows the change in the unfunded liabilities and Figure ND3 illustrates the change in what state actuaries have recommended as contributions from government employers.

Figure ND2: TFFR's pension debt has increased more than ten-fold since 2001.



TFFR Unfunded Liabilities (Actuarial Value), 2001–2018

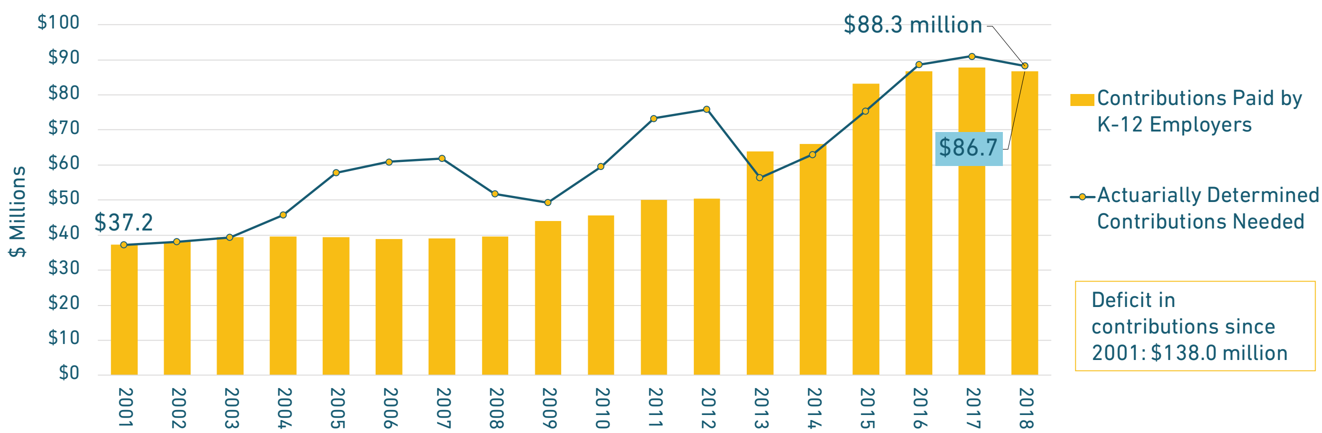
Figure ND3: To address growing pension debt the amount actuaries recommend the state should contribute to TFFR has more than doubled.



TFFR 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, North Dakota is one of those states, failing to pay the full pension bill twelve times in the lasts 18 years, shown in Figure ND4. As a result, the actual contributions paid into TFFR using education funds have been less than if the ADEC trend displayed in Figure ND3 was paid in full, but the actual contributions paid to TFFR have still more than doubled from $37.2 million in 2001 to $86.7 million in 2018.

Figure ND4: North Dakota did not pay its full actuarial bill to TFFR every year, shorting the plan by $138 million since 2001.



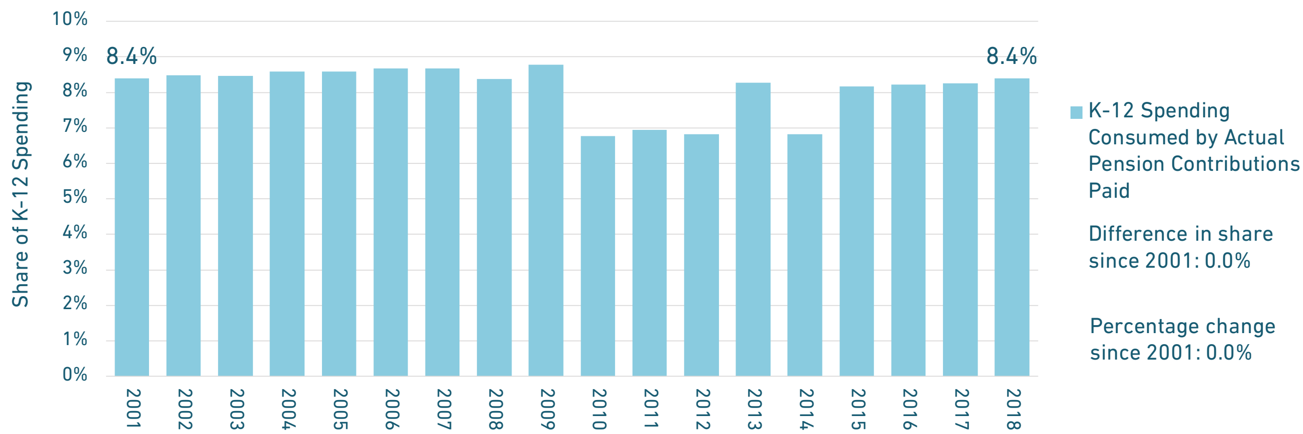
Actuarially Determined Employer Contribution Compared to Actual Contributions Paid to TFFR, 2001–2018

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 North Dakota 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 North Dakota'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 TFFR have been consistently matched by a similar increase in North Dakota's state education spending over the past two decades. Even though pension costs are over $50 million more per year in 2018 than 2001, Figure ND5 shows the hidden education funding cut has been consistently around the same rate for 18 years.

Figure ND5: The hidden cut to North Dakota's state education funding is serious. TFFR contributions have kept pace with growing state K–12 funding, but overall still continue to consume nearly 10% of state education spending.



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

North Dakota's experience with hidden education funding has been especially unique. Despite a significant increase in pension debt and the ADEC since 2001, the share of state K–12 spending going toward contributions to TFFR has remained practically unchanged since 2001. Most states facing those same trends have experienced a growing hidden cut of state education funding. However, because North Dakota has made notable increases to state education funding (as the state population grew following the boom in the fracking and other oil extraction industries) the share of that money going to pension costs has been stable.

However, that is where the good news ends. As of 2018, TFFR has only 65% of the funds it needs to pay out all promised pension benefits — and that assumes they will earn 7.75% on their investments going forward (which is particularly unrealistic). It is likely that unfunded liabilities will continue growing for teacher pensions in North Dakota and that will only drive up pension costs in the future.

Unless there is a change that reduces TFFR's costs and/or adjusts the state's education funding to fully account for pension contributions, North Dakota'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 ND1 shows the UAAL and actual pension contributions on a per student basis compared against state education spending. Breaking the numbers down this way shows how closely unfunded pension liabilities and related pension contributions have kept with growth in per student spending by the state.

Table ND1: State education spending is being reduced by nearly $800 per student, accounting for pension costs.

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	$4,137	$700	16.9%	$347	$3,789
2002	$4,278	$1,763	41.2%	$363	$3,915
2003	$4,519	$3,338	73.9%	$382	$4,137
2004	$4,579	$4,709	102.8%	$393	$4,185
2005	$4,659	$6,521	140.0%	$400	$4,259
2006	$4,642	$6,593	142.0%	$403	$4,239
2007	$4,741	$5,915	124.8%	$411	$4,330
2008	$4,983	$5,221	104.8%	$418	$4,566
2009	$5,272	$6,737	127.8%	$463	$4,810
2010	$6,983	$9,444	135.2%	$473	$6,510
2011	$7,389	$10,687	144.6%	$513	$6,875
2012	$7,311	$12,154	166.2%	$499	$6,812
2013	$7,425	$12,787	172.2%	$614	$6,810
2014	$9,097	$11,913	131.0%	$620	$8,477
2015	$9,372	$12,932	138.0%	$766	$8,606
2016	$9,603	$12,971	135.1%	$790	$8,813
2017	$9,784	$12,716	130.0%	$808	$8,976
2018	$9,322	$12,082	129.6%	$783	$8,540

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 TFFR 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.