Hidden Education Funding Cuts

Nebraska

Pension costs are consuming 55% 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.

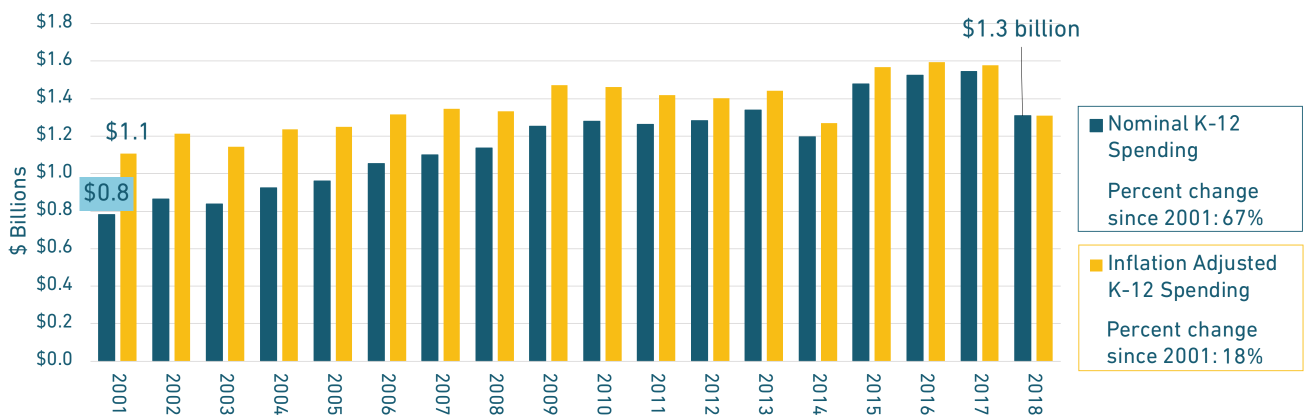
The Cornhusker State is home to nearly 2 million citizens, and more than 325,000 primary and secondary school students. In 2018, the state's total expenditures exceeded $12.1 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state's own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled $9 billion.

Nebraska teachers are enrolled in a guaranteed income plan (known as a defined benefit pension) called the School Retirement System (PERS-School), which is administered as part of the state's Public Employees' Retirement System. The statewide system manages retirement benefits for state workers, police, and judges, as well as a separate retirement system for Omaha's public school employees. Our analysis focuses specifically on the School Retirement System, with its roughly 90,000 active and retired teachers, and how it relates to state education funding.

EDUCATION SPENDING

In 2018, Nebraska's state distributed K–12 expenditures totaled $1.7 billion. Out of that total, $1.3 billion came from state own-source funding while the remaining $380 million was from federal grants and other education programs. (Local sources provided additional funding.)

Figure NE1: Nebraska's state spending on education only increased by $202 million after accounting for inflation.



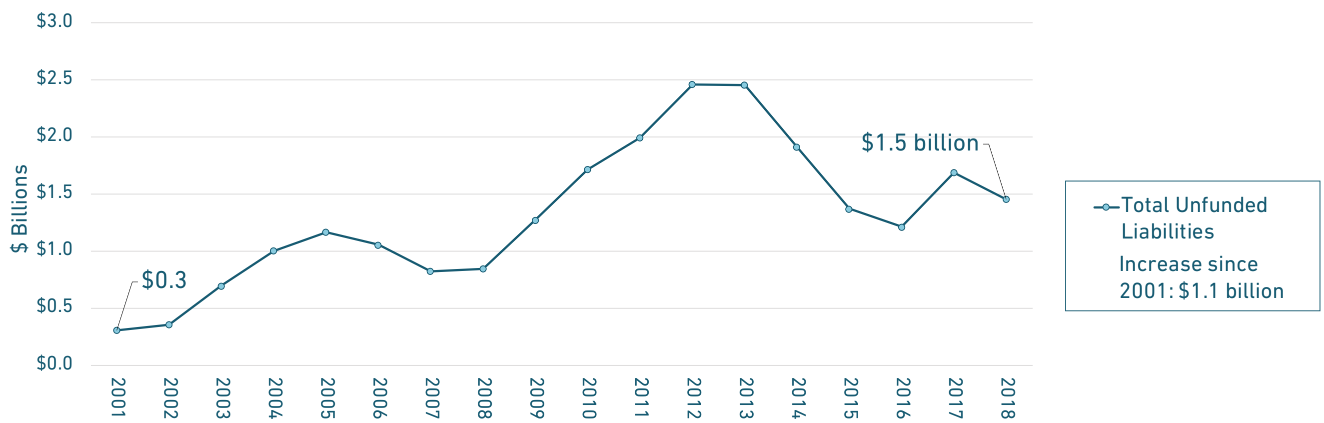
State Own-Source K–12 Spending, 2001–2018

As Figure NE1 illustrates, state spending on primary and secondary education in Nebraska has increased moderately since 2001 — growing by $527 million in nominal dollars; however, it grew even less after adjusting for inflation, increasing by only $202 million. On a dollars per student basis, spending barely changed, increasing 3.9% since 2001 — growing from $3,860 to $4,011 (inflation adjusted).

PENSION FUNDING STATUS

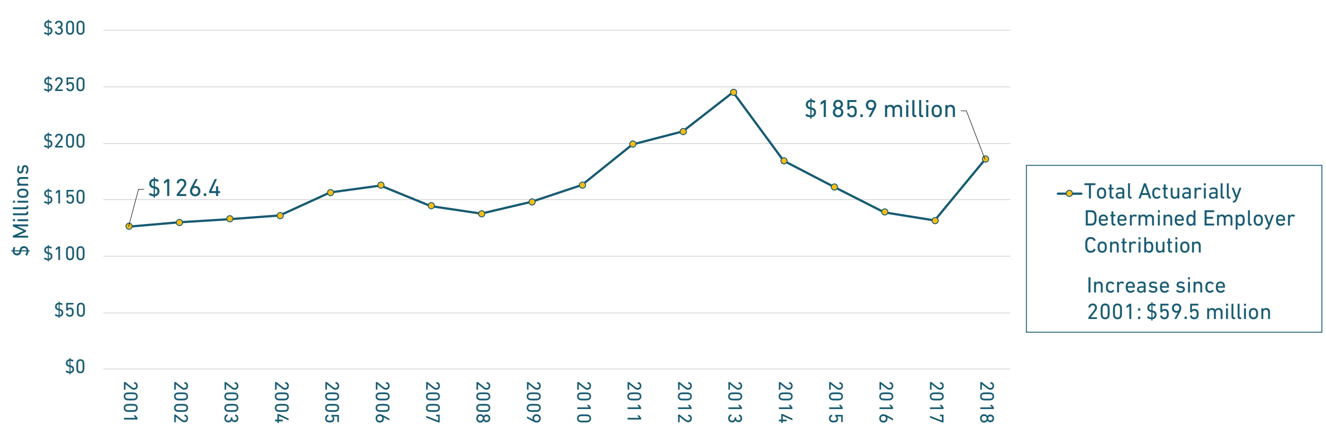
In 2001, PERS-School was facing $308.9 million in pension debt. However, over the past 17 years a combination of underperforming investments coupled with changing demographics have caused the unfunded liability for PERS-School to explode — reaching $1.5 billion in 2018. Figure NE2 shows the change in the unfunded liabilities and Figure NE3 illustrates the change in what state actuaries have recommended as contributions from government employers.

Figure NE2: PERS-School's pension debt has increased roughly five-fold since 2001.



PERS-School Unfunded Liabilities (Actuarial Value), 2001–2018

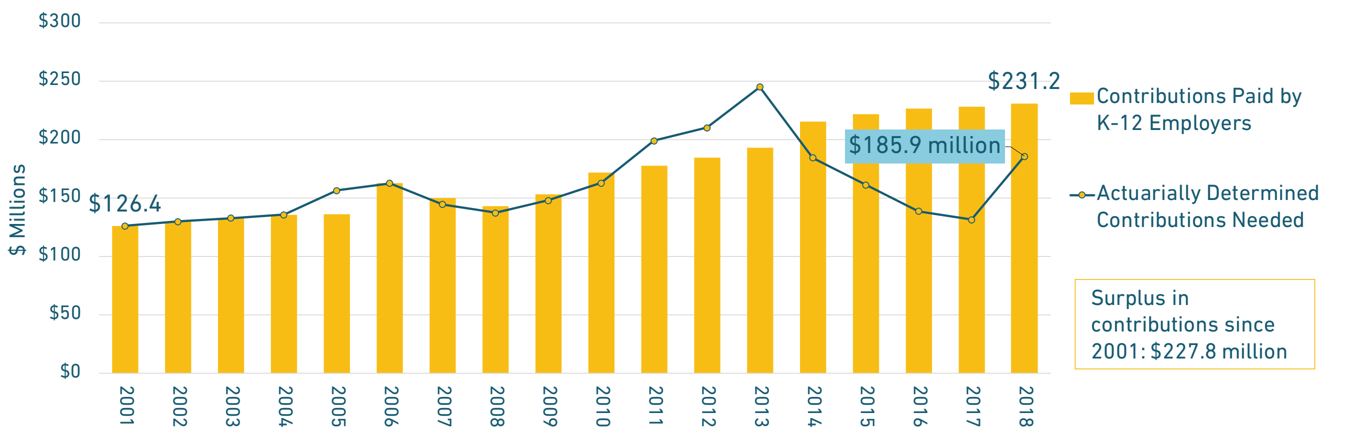
Figure NE3: To address the increased pension debt the amount actuaries recommend the state should contribute to PERS-School has increased by 50%.



PERS-School 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, Nebraska is one of those states, failing to pay the full pension bill four times since 2001, shown in Figure NE4. However, while pension costs have fallen since peaking in 2013, the state has made contributions above their ADEC each year since 2014. As a result, the actual contributions paid into PERS-School using education funds does not follow the same trend as the ADEC displayed in Figure NE3. In fact, the actual contributions paid to PERS-School have continued to grow in each year, almost doubling from $126.4 million in 2001 to $231.2 million in 2018.

Figure NE4: Nebraska's contributions to PERS-School haven't followed the ADEC in recent years. However, after a few years of missed contributions in the early 2010s, $228 million in overpayments have helped improved the overall funded level of the retirement system.



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

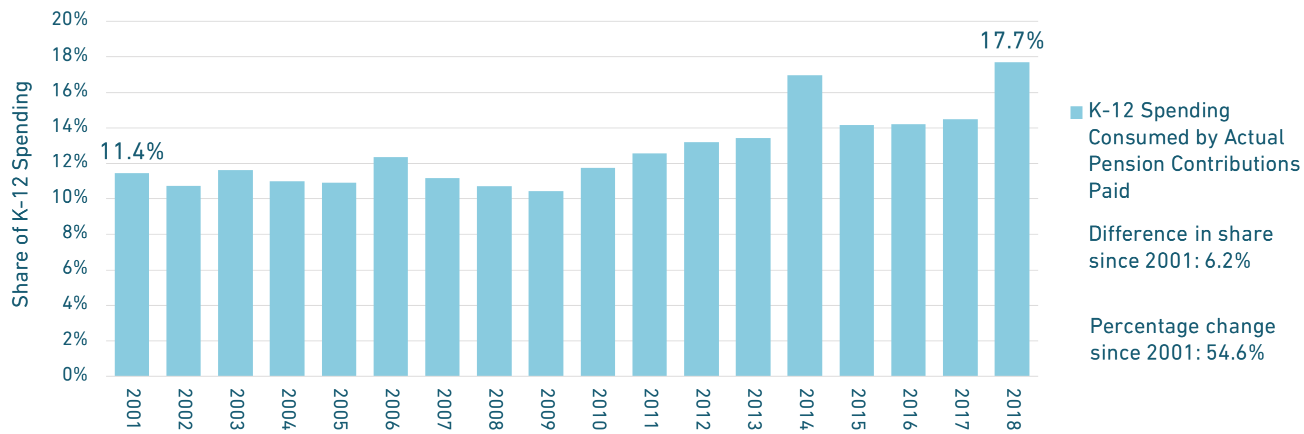
As indicated in Figure NE4, the payments above the ADEC to PERS-School have resulted in a contribution surplus in recent years, helping to rein in some of the retirement system's unfunded liabilities. But paying the full required pension bill each year is the bare minimum for ensuring a pension system is fully funded, and Nebraska hasn't stuck to that every year. While the past few years of overpayments have been good decisions by the legislature, best practice would be for Nebraska to adopt a policy of ensuring at least the ADEC is paid every year.

This said, 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. Had the ADEC been paid every year, then the state's hidden cut would have been quite different than what we show in the final chart on the next page.

PENSION COSTS CROWDING OUT K–12 SPENDING

The costs of funding PERS-School have soaked up an increasing share of Nebraska's education spending. This is especially important for teachers, as the growth in PERS-School's costs outpaced the growth in state own-source K–12 spending. In fact, PERS-School's contributions reported as a share of K–12 spending increased from 11.4% in 2001 to 17.7% in 2018.

Figure NE5: The hidden cut to Nebraska's state education funding is serious. PERS-School contributions are consuming more than 17% of the state's K–12 spending.



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

The recent increase in actual contributions to PERS-School (shown in Figure NE4's yellow columns) has been helpful in reducing unfunded pension liabilities. But it has come at a time when Nebraska's education funding has stagnated, as laid out in Figure NE1. As a result, Figure NE5 documents how over the past decade there has been a gradual increase in the hidden cut of Nebraska's state funding of K–12 education.

The share of state K–12 funding going toward pension costs climbed to a relative peak in 2014, dipped after a momentary surge in state education funding in 2015, but surged back up in 2018 with a cut to K–12 spending. This suggests that the recent year-to-year hidden funding cut trend has been driven largely by the state's education budget, rather than volatility in pension costs.

Whatever the cause of the recent fluctuations, though, the reality is that the share of education dollars going toward pension costs has increased by 54.6% between 2001 and 2018. And that is a serious problem that needs to be addressed now.

The actual contributions to PERS-School have grown faster than the state's own-source education spending. Unless there is a change that reduces PERS-School's costs and/or adjusts the state's education funding to fully account for pension contributions, Nebraska'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 NE1 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 easily outpaced stagnant per student spending by the state. In fact, after accounting for inflation and pension costs, Nebraska spent roughly $100 less per student in 2018 than 2001.

Table NE1: State education spending per student barely increased since 2001. Meanwhile, pension debt and contributions have grown.

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	$3,860	$1,078	27.9%	$441	$3,419
2002	$4,228	$1,250	29.6%	$454	$3,774
2003	$3,989	$2,433	61.0%	$464	$3,525
2004	$4,310	$3,497	81.1%	$474	$3,836
2005	$4,347	$4,067	93.6%	$475	$3,872
2006	$4,577	$3,674	80.3%	$566	$4,012
2007	$4,624	$2,834	61.3%	$516	$4,108
2008	$4,558	$2,896	63.5%	$489	$4,070
2009	$4,983	$4,311	86.5%	$519	$4,463
2010	$4,898	$5,753	117.4%	$576	$4,323
2011	$4,711	$6,620	140.5%	$591	$4,120
2012	$4,619	$8,108	175.5%	$609	$4,010
2013	$4,687	$7,983	170.3%	$629	$4,058
2014	$4,060	$6,115	150.6%	$689	$3,371
2015	$4,959	$4,339	87.5%	$703	$4,256
2016	$4,997	$3,807	76.2%	$710	$4,287
2017	$4,881	$5,227	107.1%	$707	$4,174
2018	$4,011	$4,464	111.3%	$709	$3,302

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-School 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.