Hidden Education Funding Cuts

New Jersey

Two decades ago the pension was fully funded, now pension costs are consuming 11% of state education funding

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.

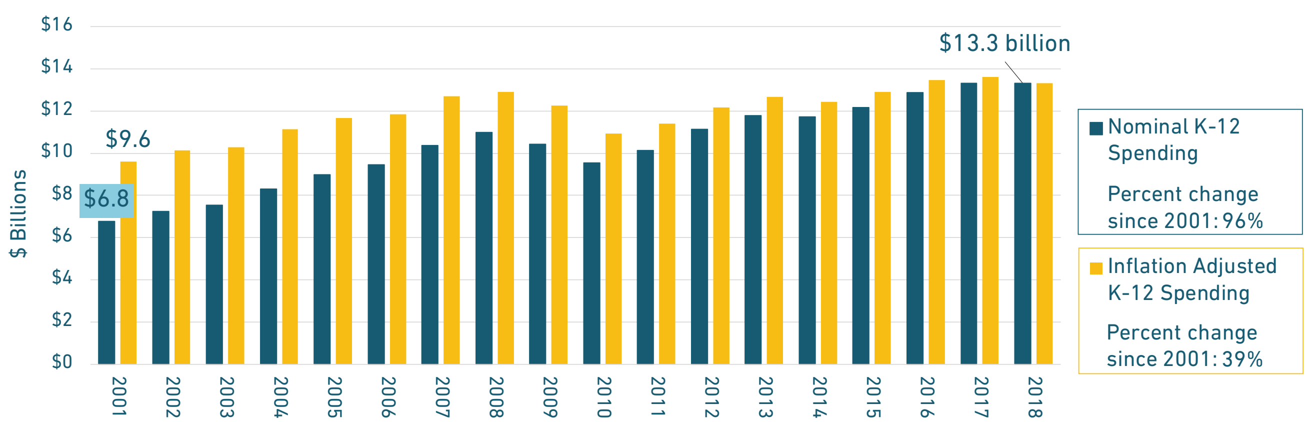
The Garden State is home to nearly 8.9 million citizens, and 1.4 million primary and secondary school students. In 2018, the state's total expenditures exceeded $60.8 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state's own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled $45.1 billion.

New Jersey teachers are enrolled in a guaranteed income plan, known as a defined benefit pension, administered by the Teachers' Pension and Annuity Fund of New Jersey (TPAF). TPAF manages retirement benefits for roughly 260,000 active and retired teachers.

EDUCATION SPENDING

In 2018, New Jersey's state distributed K–12 expenditures totaled $14.2 billion. Out of that total, $13.3 billion came from state own-source funding while the remaining $907 million was from federal grants and other education programs. (Local sources provided additional funding.)

Figure NJ1: New Jersey's state spending on education only increased by $3.7 billion after accounting for inflation and has only recently reached pre-recession funding levels from 2008.



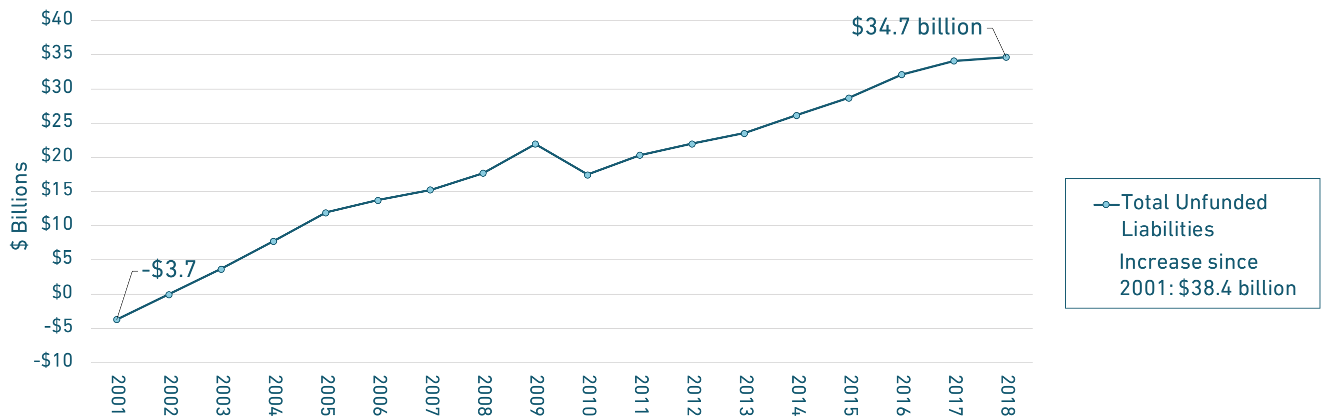
State Own-Source K–12 Spending, 2001–2018

As Figure NJ1 illustrates, state spending on primary and secondary education in New Jersey has increased significantly since 2001 — growing by $6.3 billion in nominal dollars; however, it increased moderately after adjusting for inflation, growing by only $3.7 billion. On a dollars per student basis, spending increased 31.3% since 2001 — growing from $7,246 to $9,511 (inflation adjusted).

PENSION FUNDING STATUS

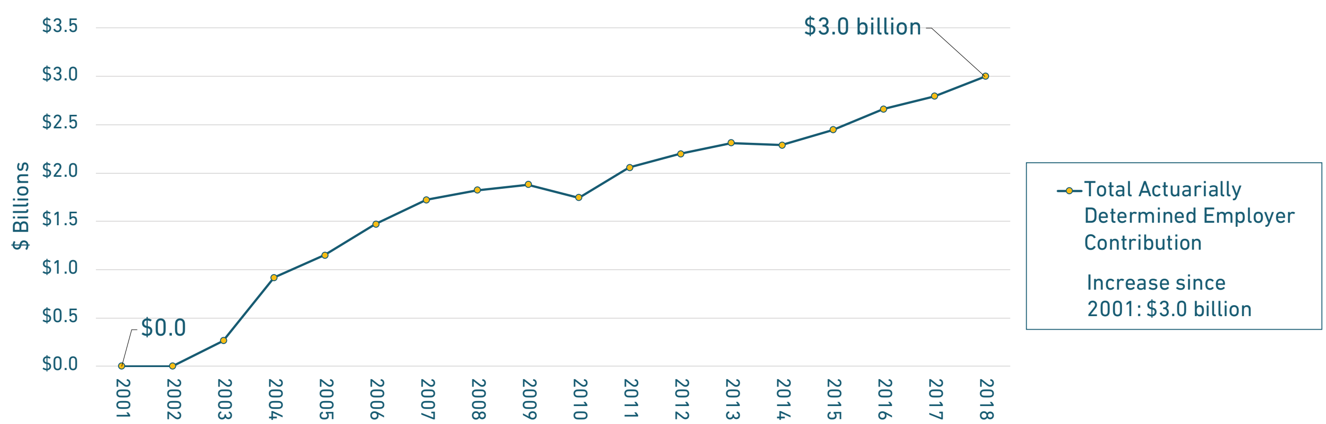
In 2001, TPAF was fully funded with a $3.7 billion surplus. However, over the past 17 years a combination of underperforming investments coupled with changing demographics have caused the unfunded liability for TPAF to explode — reaching $34.7 billion in 2018. Figure NJ2 shows the change in the unfunded liabilities and Figure NJ3 illustrates the change in what state actuaries have recommended as contributions from government employers.

Figure NJ2: TPAF has gone from a surplus in 2001 to a $34.7 billion funding shortfall in 2018.



TPAF Unfunded Liabilities (Actuarial Value), 2001–2018

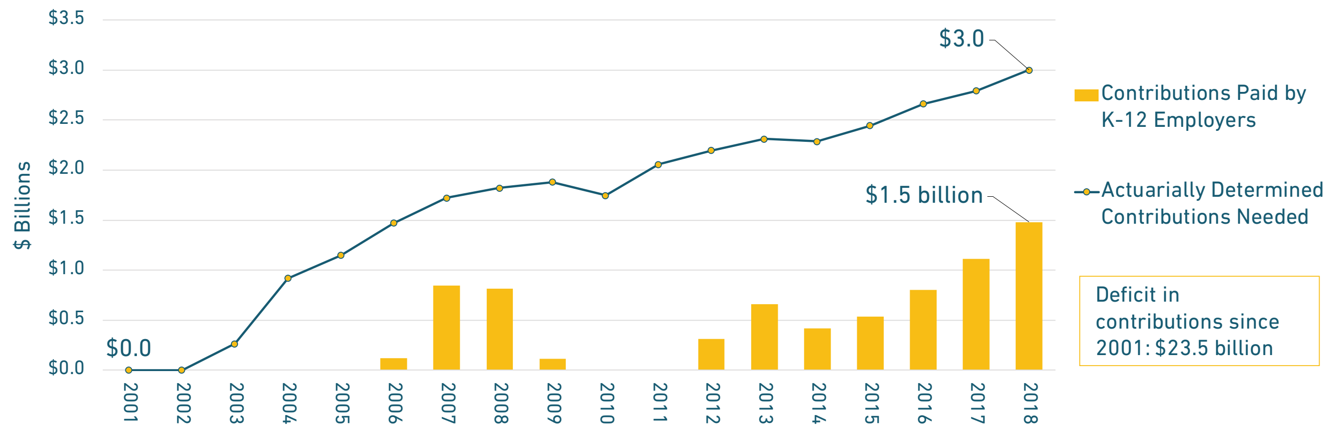
Figure NJ3: To address growing pension debt the amount actuaries recommend the state should contribute to TPAF has exploded.



TPAF 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, New Jersey is one of those states, failing to pay the full pension bill in each year since 2003, the first year of a non-zero ADEC shown in Figure NJ4. As a result, the actual contributions paid into TPAF using education funds have been less than if the ADEC trend displayed in Figure NJ3 was paid in full, but the actual contributions paid to TPAF have still increased significantly from $0 in 2001 to $1.5 billion in 2018. Under both former Governor Christie and Governor Murphy the state has increased contributions in an effort to reach paying the full ADEC, but a significant gap still remains.

Figure NJ4: New Jersey did not pay its full actuarial bill to TPAF each year since 2003, shorting the plan by $23.5 billion.



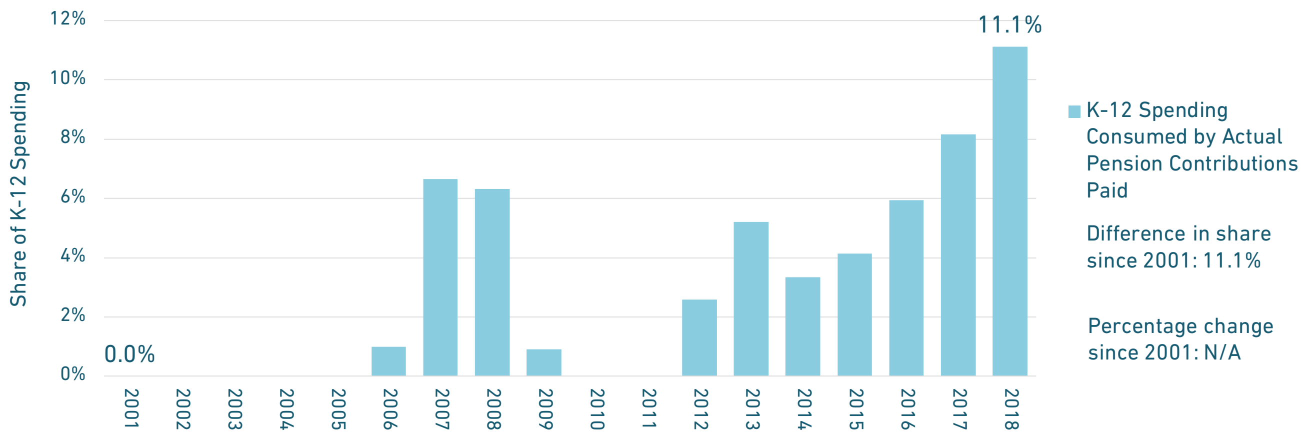
Actuarially Determined Employer Contribution Compared to Actual Contributions Paid to TPAF, 2001–2018

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 New Jersey to adopt a policy that would increase their contributions quickly and then ensure the ADEC is paid in full 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 New Jersey'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 TPAF have soaked up an increasing share of New Jersey's education spending. This is especially important for teachers, as the growth in TPAF's costs outpaced the growth in state own-source K–12 spending. In fact, TPAF's contributions reported as a share of K–12 spending increased from 0% in 2001 to 11.1% in 2018. If compared against 2006, the first year the state made contributions to TPAF to help pay down the debt, the increase in state education funding going to pension costs is still significant — growing from 1% to 11.1% in 2018.

Figure NJ5: The hidden cut to New Jersey's state education funding is serious. TPAF contributions are only half of the actuarially required rate and are still consuming more than 11% of the state's K–12 budget.



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

New Jersey's pension experience is relatively unique among the states. TPAF was fully funded at the turn of the century, but has seen an enormous amount of pension debt accumulate very quickly. This is largely due to the state's failure to meet its obligation to ensure TPAF is fully funded by paying the full ADEC, along with changes to demographics and underperforming investments.

But even the contributions that New Jersey has paid have grown faster than the state's own-source education spending, resulting in the surge in the share shown in Figure NJ5. Unless there is a change that reduces TPAF's costs and/or adjusts the state's education funding to fully account for pension contributions, New Jersey'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 NJ1 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. Although the state increased spending by roughly $2,300 per student, more than $1,000 of that increase has been consumed by the rising costs from TPAF.

Table NJ1: State education spending per student increased roughly $2,300, but pension debt and contributions have consumed nearly half of that growth.

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	$7,246	-$2,782	Fully Funded	$0	$7,246
2002	$7,564	-$2	Fully Funded	$0	$7,564
2003	$7,602	$2,758	36.3%	$0	$7,602
2004	$8,161	$5,706	69.9%	$0	$8,161
2005	$8,484	$8,668	102.2%	$0	$8,484
2006	$8,520	$9,908	116.3%	$85	$8,435
2007	$9,181	$11,026	120.1%	$612	$8,569
2008	$9,343	$12,827	137.3%	$591	$8,752
2009	$8,774	$15,734	179.3%	$81	$8,693
2010	$7,795	$12,463	159.9%	$0	$7,795
2011	$8,416	$14,991	178.1%	$0	$8,416
2012	$8,868	$16,030	180.8%	$229	$8,639
2013	$9,249	$17,200	186.0%	$482	$8,766
2014	$8,876	$18,691	210.6%	$297	$8,580
2015	$9,156	$20,369	222.5%	$380	$8,776
2016	$9,556	$22,770	238.3%	$567	$8,989
2017	$9,679	$24,258	250.6%	$790	$8,889
2018	$9,511	$24,744	260.2%	$1,057	$8,454

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 TPAF 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.