

# Hidden Education Funding Cuts

## New Mexico

### Pension costs are consuming 40% 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.

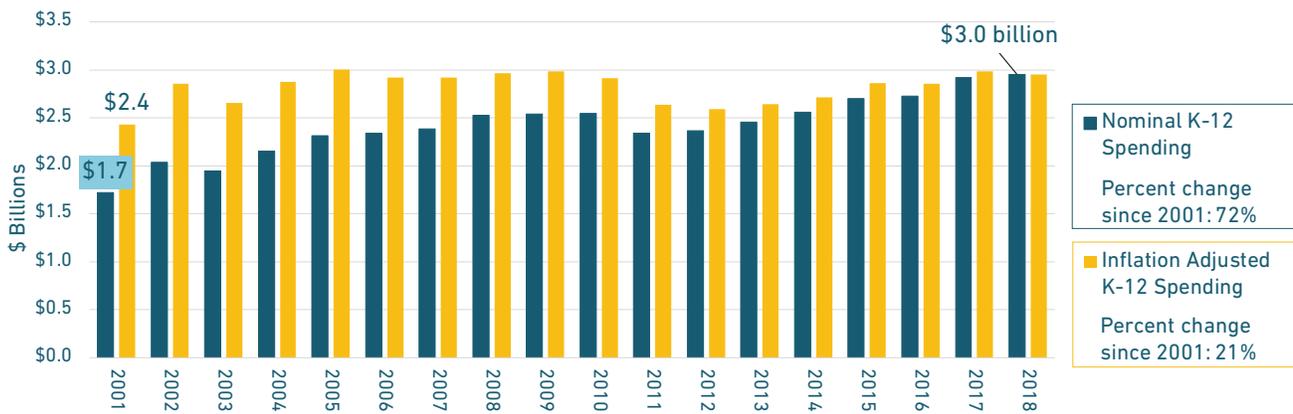
The Land of Enchantment is home to nearly 2.1 million citizens, and 330,000 primary and secondary school students. In 2018, the state’s total expenditures exceeded \$20.5 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state’s own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled \$12 billion.

New Mexico teachers are enrolled in a guaranteed income plan, known as a defined benefit pension, administered by the New Mexico Educational Retirement Board (ERB). ERB manages retirement benefits for roughly 157,000 active and retired teachers.

## EDUCATION SPENDING

In 2018, New Mexico’s state distributed K–12 expenditures totaled \$3.4 billion. Out of that total, \$3 billion came from state own-source funding while the remaining \$414 million was from federal grants and other education programs. (Local sources provided additional funding.)

**Figure NM1: New Mexico’s state spending on education only increased by \$521 million after accounting for inflation.**



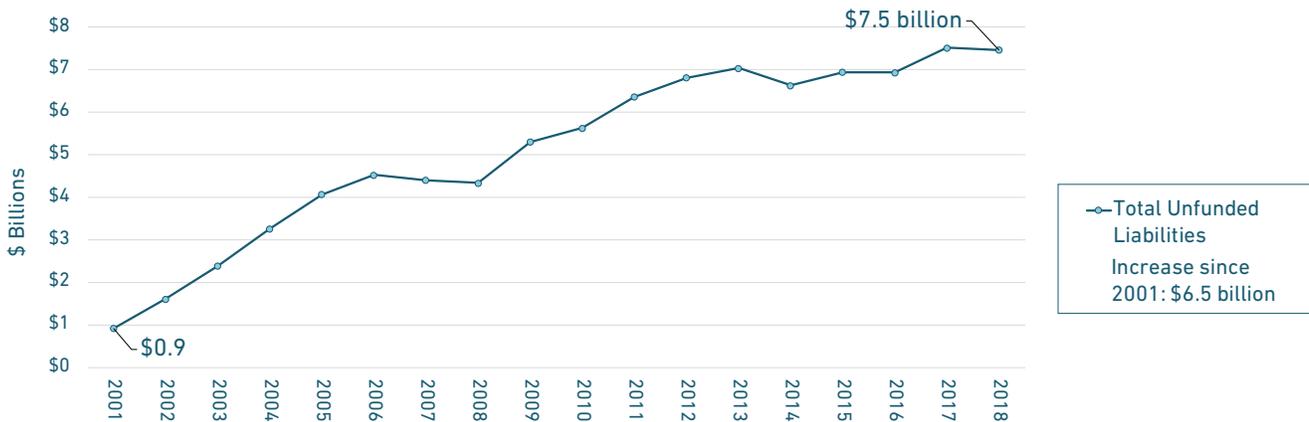
State Own-Source K–12 Spending, 2001–2018

As Figure NM1 illustrates, state spending on primary and secondary education in New Mexico has increased moderately since 2001 — growing by \$1.3 billion in nominal dollars; however, it increased less after adjusting for inflation, growing by only \$521.5 million. On a dollars per student basis, spending increased 17.5% since 2001 — growing from \$7,557 to \$8,878 (inflation adjusted).

## PENSION FUNDING STATUS

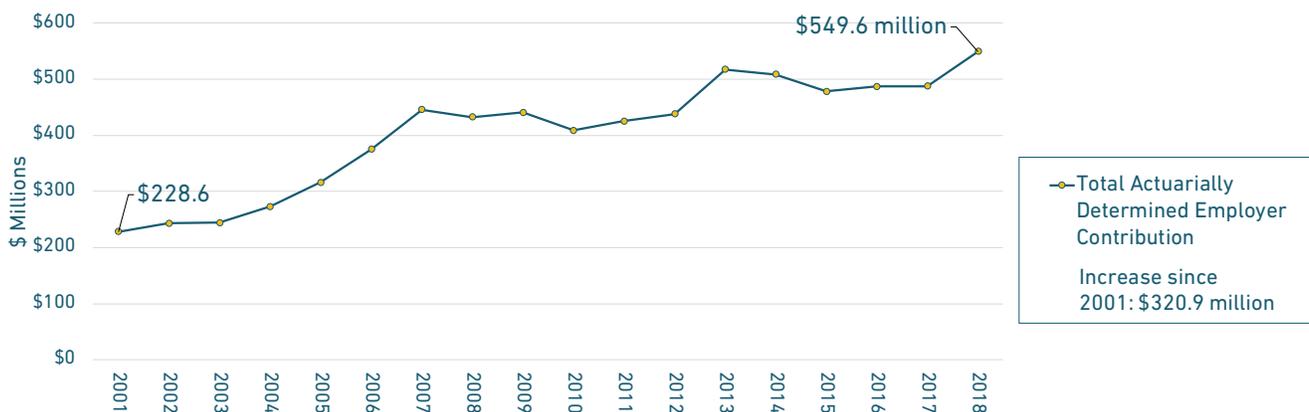
In 2001, ERB was facing \$923 million in pension debt. However, over the past 17 years a combination of underperforming investments coupled with changing demographics have caused the unfunded liability for ERB to explode — reaching \$7.5 billion in 2018. Figure NM2 shows the change in the unfunded liabilities and Figure NM3 illustrates the change in what state actuaries have recommended as contributions from government employers.

**Figure NM2: ERB’s pension debt has increased more than eight-fold since 2001.**



ERB Unfunded Liabilities (Actuarial Value), 2001–2018

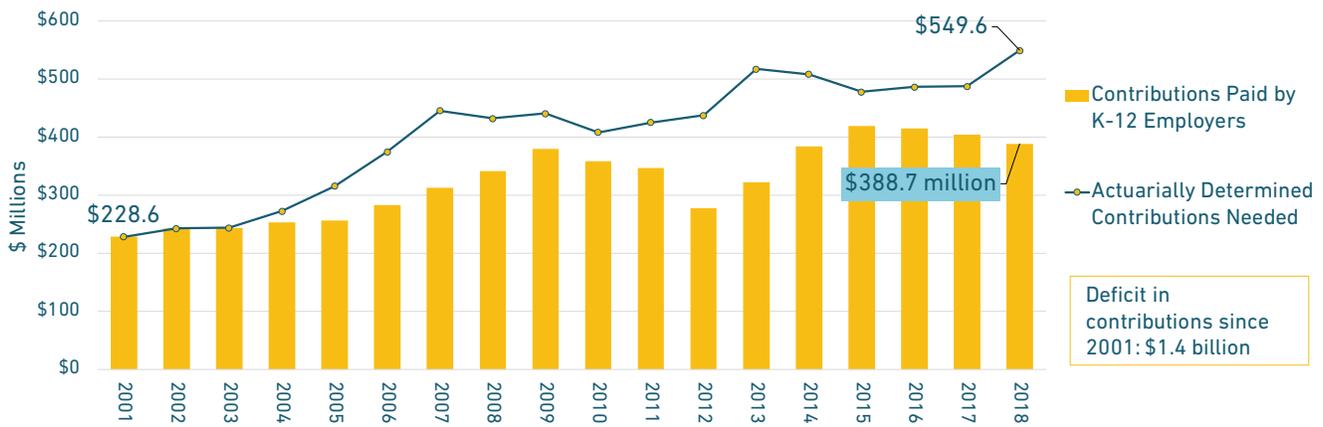
**Figure NM3: To address growing pension debt the amount actuaries recommend the state should contribute to ERB has more than doubled.**



ERB 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 Mexico is one of those states, failing to pay the full pension bill in every year since 2004, shown in Figure NM4. As a result, the actual contributions paid into ERB using education funds have been less than if the ADEC trend displayed in Figure NM3 was paid in full, but the actual contributions paid to ERB have still increased by 70% from \$228.6 million in 2001 to \$388.7 million in 2018.

**Figure NM4: New Mexico did not pay its full actuarial bill to ERB each year since 2004, shorting the plan by \$1.4 billion.**



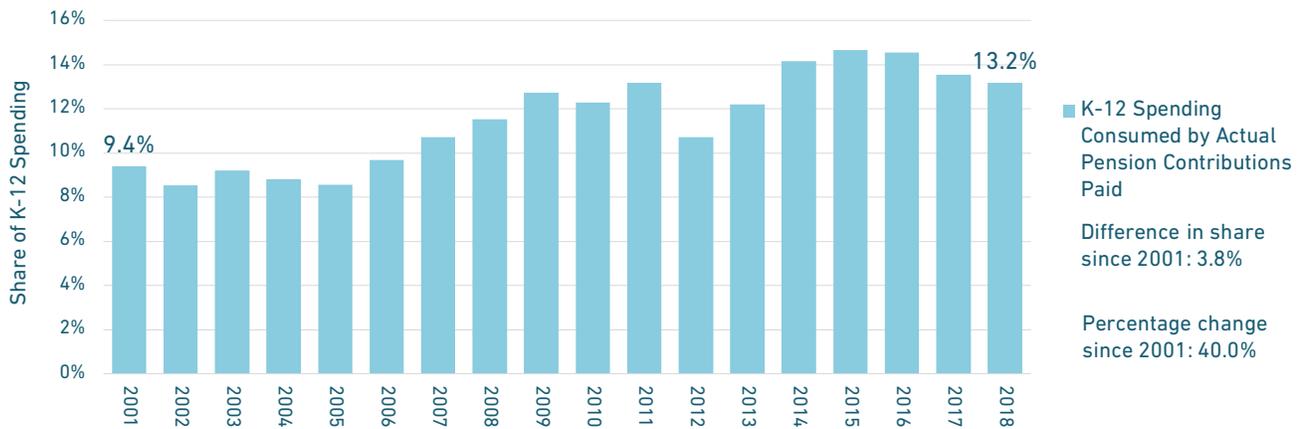
Actuarially Determined Employer Contribution Compared to Actual Contributions Paid to ERB, 2001–2018

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 Mexico 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 New Mexico’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 ERB have soaked up an increasing share of New Mexico’s education spending. This is especially important for teachers, as the growth in ERB’s costs outpaced the growth in state own-source K-12 spending. In fact, ERB’s contributions reported as a share of K-12 spending increased from 9.4% in 2001 to 13.2% in 2018.

**Figure NM5: The hidden cut to New Mexico’s state education funding is serious. ERB contributions are consuming 40% more state K-12 Funding in 2018 than 2001.**



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

New Mexico’s pension experience has followed the national trend quite closely. While the state’s K-12 spending has been growing slowly, pension debt and pension costs have been growing much faster and more consistently since 2001. As a result, the share of state education funding that is going to pay pension costs has increased. Although New Mexico has failed to meet its commitments to funding ERB by not paying the full ADEC each year, even the actual amounts paid have grown significantly faster than the state’s own-source education spending, shown in Figure NM5.

Unless there is a change that reduces ERB’s costs and/or adjusts the state’s education funding to fully account for pension contributions, New Mexico’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 NM1 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. New Mexico increased their spending by roughly \$1,300 per student, but after accounting for inflation \$400 of that increase has been consumed by pension costs.

**Table NM1: State education spending per student increased roughly \$1,300, but 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	\$7,557	\$2,870	38.0%	\$711	\$6,846
2002	\$8,832	\$4,996	56.6%	\$753	\$8,079
2003	\$8,195	\$7,356	89.8%	\$754	\$7,442
2004	\$8,834	\$10,026	113.5%	\$778	\$8,056
2005	\$9,189	\$12,462	135.6%	\$786	\$8,402
2006	\$8,900	\$13,795	155.0%	\$862	\$8,038
2007	\$8,880	\$13,393	150.8%	\$953	\$7,927
2008	\$8,975	\$13,136	146.4%	\$1,034	\$7,941
2009	\$8,920	\$15,856	177.8%	\$1,136	\$7,784
2010	\$8,620	\$16,652	193.2%	\$1,060	\$7,560
2011	\$7,810	\$18,860	241.5%	\$1,029	\$6,781
2012	\$7,653	\$20,145	263.2%	\$821	\$6,832
2013	\$7,793	\$20,731	266.0%	\$951	\$6,842
2014	\$7,964	\$19,478	244.6%	\$1,128	\$6,835
2015	\$8,524	\$20,669	242.5%	\$1,248	\$7,276
2016	\$8,491	\$20,630	243.0%	\$1,235	\$7,256
2017	\$8,903	\$22,440	252.1%	\$1,206	\$7,696
2018	\$8,878	\$22,440	252.8%	\$1,169	\$7,709

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 ERB 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.