Hidden Education Funding Cuts

Nevada

Pension costs are consuming more than a third of state education funding — that share has been stable, but could grow in the future

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.

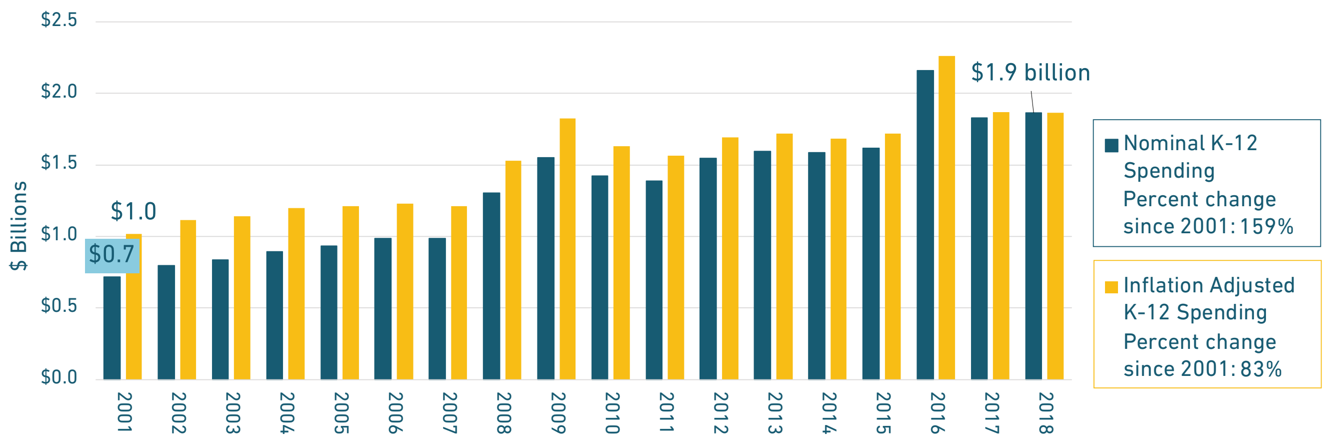
The Silver State is home to more than 3 million citizens, and 485,000 primary and secondary school students. In 2018, the state's total expenditures exceeded $13.9 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state's own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled $9.5 billion.

Nevada teachers are enrolled in a guaranteed income plan, known as a defined benefit pension, administered by the Public Employees' Retirement System of Nevada (PERS). PERS manages retirement benefits for roughly 190,000 active and retired teachers, municipal employees, and state workers. Although PERS provides retirement for more than just teachers, the teachers comprise the largest share (46%) of any group members.

EDUCATION SPENDING

In 2018, Nevada's state distributed K–12 expenditures totaled nearly $2.2 billion. Out of that total, $1.9 billion came from state own-source funding while the remaining $300 million was from federal grants and other education programs. (Local sources provided additional funding.)

Figure NV1: Nevada's state spending on education nearly doubled even after accounting for inflation.



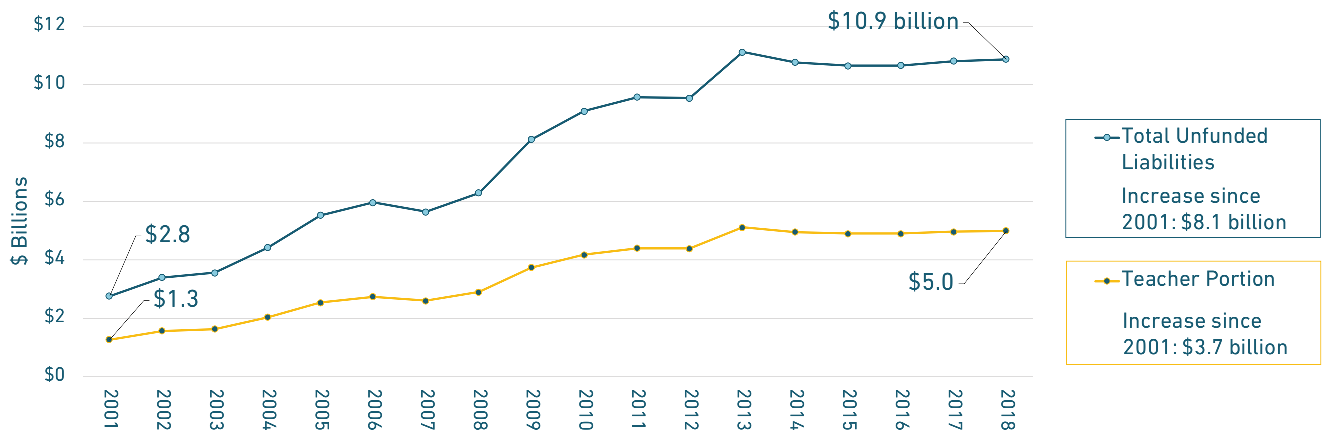
State Own-Source K–12 Spending, 2001–2018

As figure NV1 illustrates, state spending on primary and secondary education in Nevada has increased significantly since 2001 — growing by $1.2 billion in nominal dollars; however, the increase was slightly less after adjusting for inflation, growing by roughly $900 million. On a dollars per student basis, spending increased 33.8% since 2001 — growing from $2,869 to $3,838 (inflation adjusted).

PENSION FUNDING STATUS

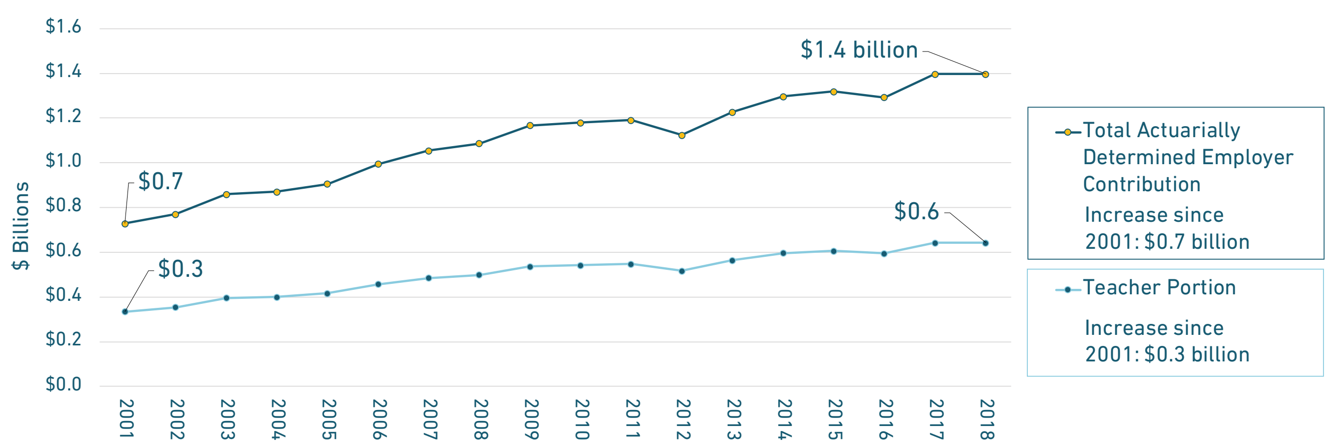
In 2001, PERS was facing $2.8 billion in pension debt. However, over the past 17 years a combination of underperforming investments coupled with changing demographics have caused the unfunded liability for TRS to explode — reaching $10.9 billion in 2018. Figure NV2 shows the change in the unfunded liabilities and Figure NV3 illustrates the change in what state actuaries have recommended as contributions from government employers.

Figure NV2: PERS's pension debt has more than tripled since 2001. The share attributable to teachers has reached $5 billion.



PERS Unfunded Liabilities (Actuarial Value), 2001–2018

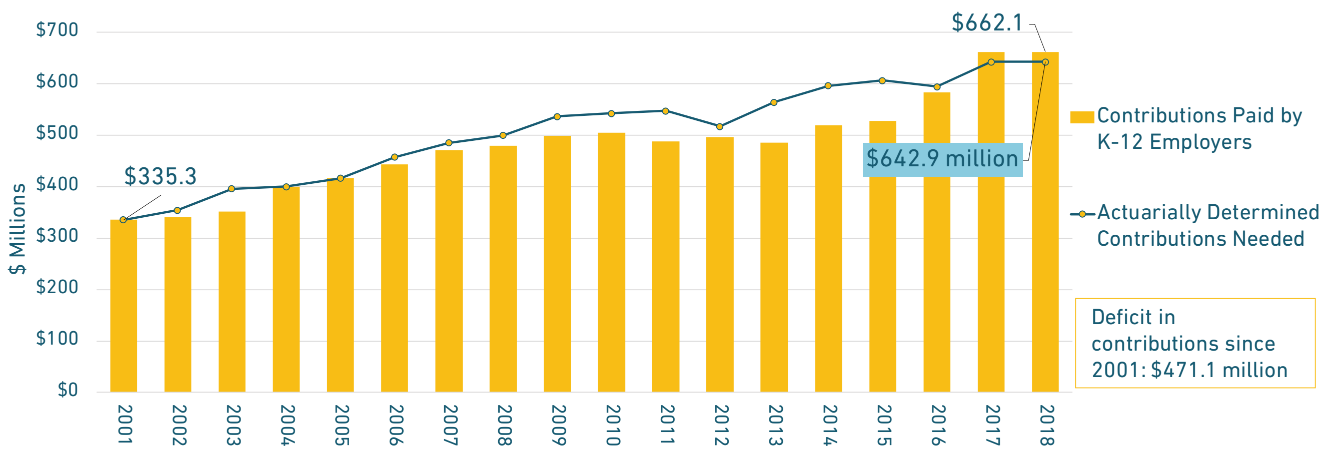
Figure NV3: To address growing pension debt the amount actuaries recommend the state contribute to PERS has doubled.



PERS 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, Nevada is one of those states, failing to pay the full pension bill 13 times since 2001, shown in Figure NV4. As a result, the actual contributions paid into PERS using education funds have been less than if the ADEC trend displayed in Figure NV3 was paid in full, but the actual contributions paid to PERS have still roughly doubled from $335.3 million in 2001 to $662.1 million in 2018. More recently the state has increased its commitment to paying the full ADEC, overpaying in both 2017 and 2018.

Figure NV4: Nevada did not pay its full actuarial bill to PERS each year, shorting the plan by $471 million.



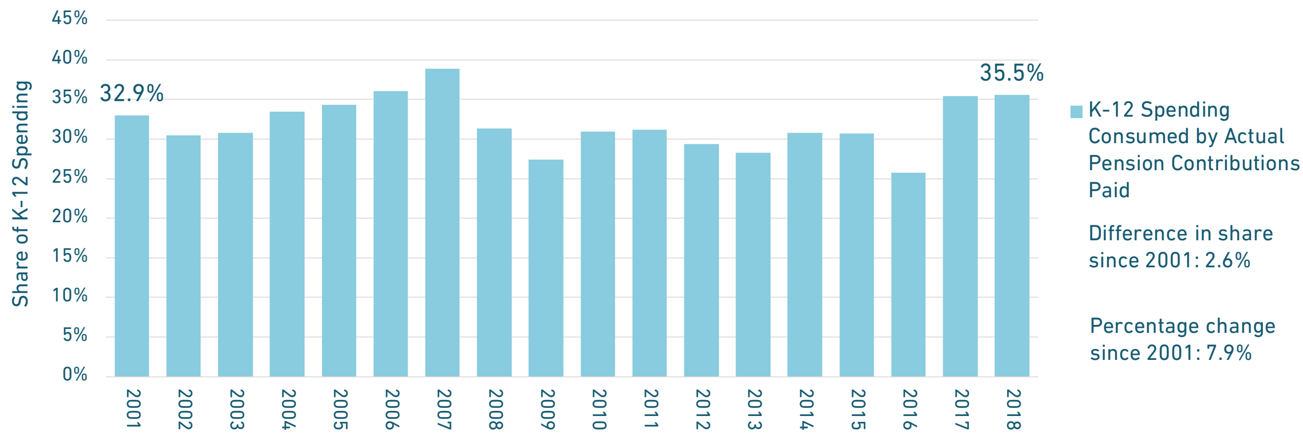
Actuarially Determined Employer Contribution Compared to Actual Contributions Paid to TRS, 2001–2018

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 Nevada 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 Nevada'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 PERS have soaked up an increasing share of Nevada's state education spending. This is especially important for teachers, as the growth in PERS's costs outpaced the growth in state own-source K–12 spending in recent years. In fact, PERS's contributions reported as a share of K–12 spending increased from 32.9% in 2001 to 35.5% in 2018.

Figure NV5: The hidden cut to Nevada's state education funding has been consistent over time. PERS contributions are consuming more than a third of state K–12 funding.



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

As Figure NV5 shows, the share of state education funding going to pension costs has been relatively constant and actually declined between 2001 and 2016, when the share fell to 25.8%. This is because Nevada increased state K–12 funding at a sufficient rate to actually outpace the growth in pension costs from 2001 through 2016. However, that doesn't mean the growing pension costs are problem-free —education funding declined from 2016 to 2017 and has held relatively constant through 2018, suggesting that it is unlikely that K–12 spending can continue to keep pace.

Nevada PERS unfunded pension liabilities have continued to climb over the past 18-years with little sign of stopping. That means the state faces a challenge of continuing to ensure that education funding keeps pace with growing pension costs. Unless there is a change that reduces the costs for PERS, Nevada runs the risk that education funding will suffer an even higher hidden cut in dollars intended for serving the state's children in the future, than has persisted over the past two decades.

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 NV1 shows the teacher 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 that growth in unfunded pension liabilities and related pension contributions have outpaced per student spending by the state. In fact, after accounting for inflation and pension costs, Nevada only spent $550 more per student in 2018 than 2001.

Table NV1: State education spending per student increased by $1,000 from 2001 to 2018, but pension debt and contributions have consumed 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	$2,869	$3,588	125.0%	$945	$1,924
2002	$3,025	$4,250	140.5%	$923	$2,102
2003	$2,987	$4,283	143.4%	$920	$2,067
2004	$3,019	$5,131	169.9%	$1,009	$2,010
2005	$2,956	$6,189	209.4%	$1,014	$1,941
2006	$2,899	$6,468	223.1%	$1,044	$1,854
2007	$2,818	$6,056	214.9%	$1,096	$1,722
2008	$3,531	$6,685	189.3%	$1,107	$2,424
2009	$4,250	$8,723	205.2%	$1,164	$3,086
2010	$3,729	$9,570	256.6%	$1,154	$2,575
2011	$3,556	$10,027	282.0%	$1,108	$2,448
2012	$3,796	$9,852	259.6%	$1,114	$2,681
2013	$3,802	$11,322	297.8%	$1,074	$2,728
2014	$3,667	$10,785	294.1%	$1,130	$2,537
2015	$3,675	$10,478	285.1%	$1,128	$2,547
2016	$4,770	$10,360	217.2%	$1,230	$3,540
2017	$3,899	$10,375	266.1%	$1,381	$2,518
2018	$3,838	$10,307	268.5%	$1,364	$2,474

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 TRS 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.