Hidden Education Funding Cuts

New York

Pension costs are consuming nearly five times 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.

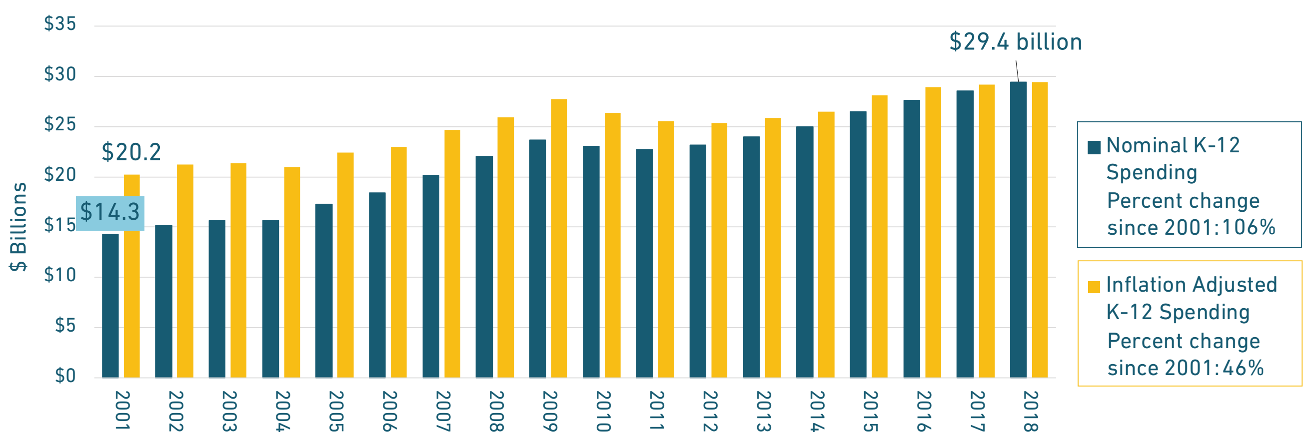
The Empire State is home to nearly 20 million citizens, and more than 2.7 million primary and secondary school students. In 2018, the state's total expenditures exceeded $163.7 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state's own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled $106.9 billion.

New York teachers are enrolled in a guaranteed income plan, known as a defined benefit pension, administered by the New York State Teachers' Retirement System (NYSTRS). NYSTRS manages retirement benefits for more than 400,000 active and retired teachers. Teachers in New York City's five boroughs are enrolled in a separate retirement system.

EDUCATION SPENDING

In 2018, New York's state K–12 expenditures totaled $32.8 billion. Out of that total, $29.4 billion came from state own-source funding while the remaining $3.4 billion was from federal grants and other education programs. (Local sources provided additional funding.)

Figure NY1: The increase in New York's state spending on education was $6 billion less after accounting for inflation.



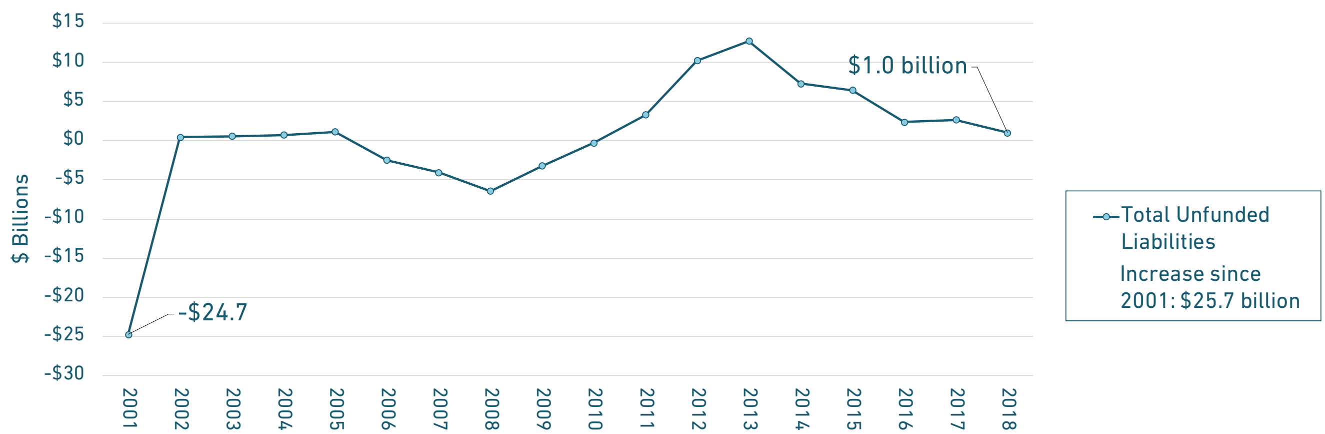
State Own-Source K–12 Spending, 2001–2018

As figure NY1 illustrates, state spending on primary and secondary education in New York has increased significantly since 2001 — growing by $15.1 billion in nominal dollars; however, it only grew moderately after adjusting for inflation, increasing by only $9.2 billion. On a dollars per student basis, spending increased 53.9% since 2001 — growing from $7,046 to $10,840 (inflation adjusted).

PENSION FUNDING STATUS

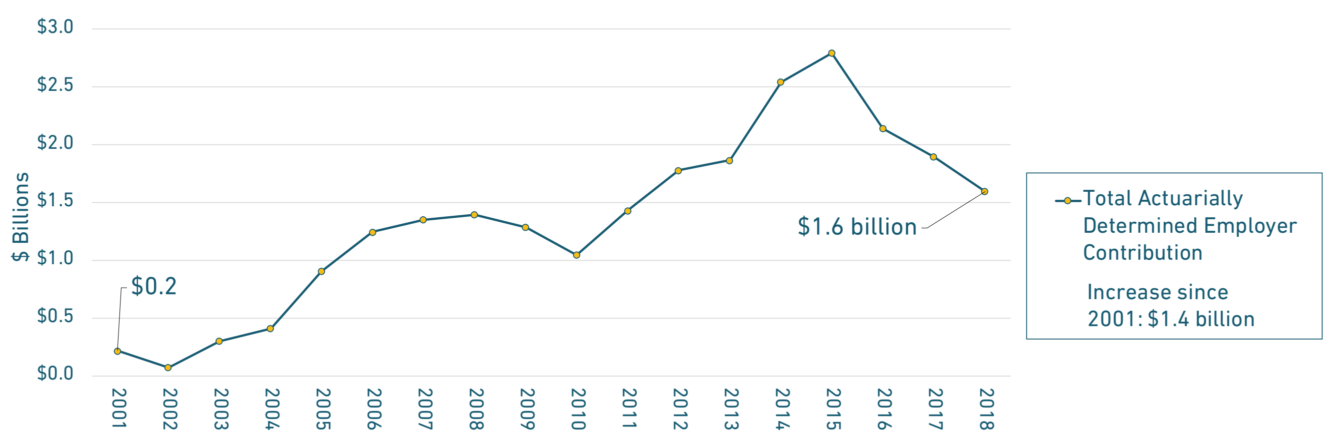
As recently as 2010, NYSTRS was running a surplus. By the end of 2018 the system was still 99.2% funded. However, over the past 8 years the need to lower investment expectations coupled with changing demographics has meant the need to report a slight unfunded liability for NYSTRS — reaching more than $1 billion in 2018. Figure NY2 shows the change in the unfunded liabilities and Figure NY3 illustrates the change in what state actuaries have recommended as contributions from government employers.

Figure NY2: Since 2010, NYSTRS accumulated billions in pension debt that resulted in increased contributions.



NYSTRS Unfunded Liabilities (Actuarial Value), 2001–2018

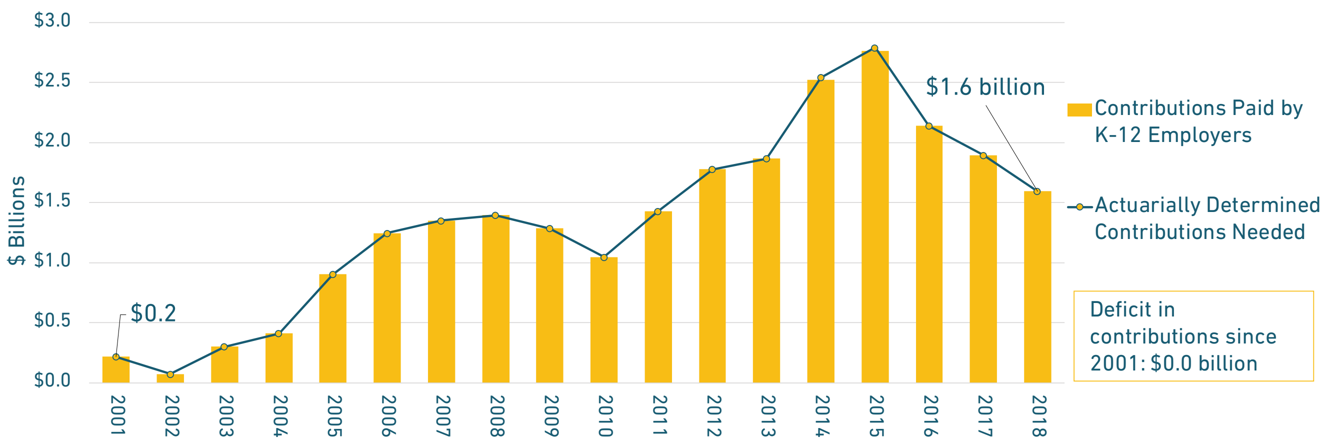
Figure NY3: To keep pension debt from accumulating, the contributions recommended by actuaries were ramped up until 2015.



NYSTRS 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 into the pension fund each year. New York is one of the states that has demonstrated a strong commitment to paying the full required contribution, as shown in Figure NY4. As a result, the increase in contributions actually paid by the state mirrors the growing trend displayed in Figure NY2, with contributions exploding from $153 million in 2001 to $1.6 billion in 2018.

Figure NY4: New York paid its full actuarial bill to NYSTRS each year. Pension contributions paid have increased significantly since 2001 to prevent unfunded liability accumulation.



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

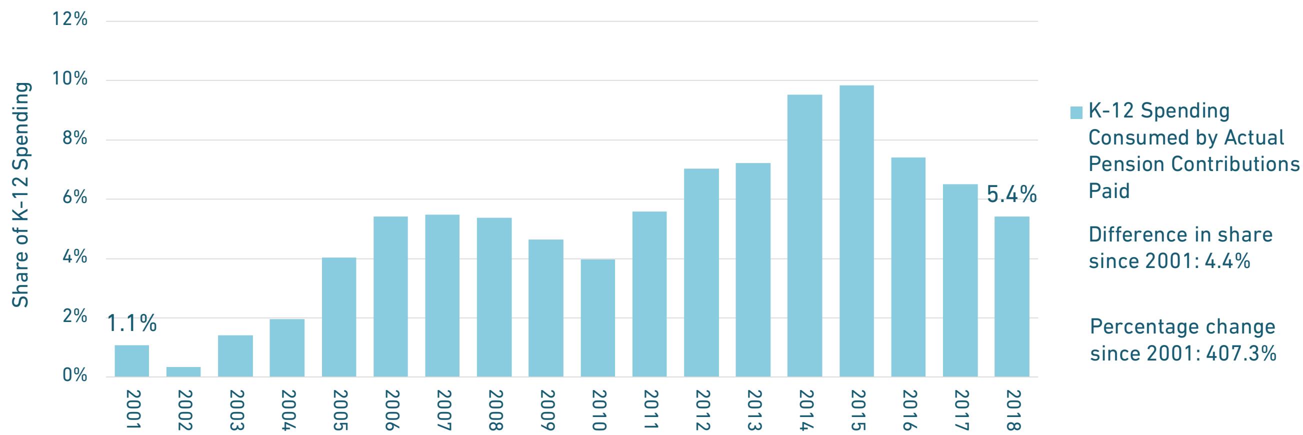
Paying the full required pension bill each year is the bare minimum for ensuring a pension system is fully funded. New York State is one of the few jurisdictions with a nearly fully funded teacher pension system. The state has had a steadfast commitment to paying the full ADEC every year and has worked to avoid carrying sizable unfunded liabilities over time. In fact, a source of the increase in contribution rates has been adapting to market and demographic changes by adjusting actuarial assumptions that require additional pre-funding of benefits.

The combination of these factors has played a key role in helping to keep the system close to full funding. By preventing most unfunded liabilities from accruing and ensuring that any pension debt that does arise is resolved quickly, New York State has managed NYSTRS sustainably. However, from the perspective of education funding, any increase in pension costs is going to be viewed negatively if it is shrinking the dollars available for teacher salaries and serving kids. In an ideal world, New York could ensure that funding for education expands with the changes in their contributions to NYSTRS to ensure that education priorities are fully funded. But as we show below, the state has not always matched growth of NYSTRS's contributions with additional funds from the state's education budget.

PENSION COSTS CROWDING OUT K–12 SPENDING

The costs of funding NYSTRS have soaked up a larger share of New York education spending than in the past. This is especially important for teachers, as the growth in NYSTRS's costs outpaced the growth in state own-source K–12 spending. In fact, NYSTRS's contributions reported as a share of K–12 spending increased from 1.1% in 2001, peaked at 9.8% in 2015, and have receded to 5.4% in 2018.

Figure NY5: The hidden cut to New York State education funding is cause for some concern. Even though NYSTRS contributions peaked in 2015, they are still consuming nearly five times as much state K–12 funding in 2018 as 2001.



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

New York has met its commitments to funding NYSTRS by paying the full ADEC each year, but the costs of paying down the system's funding shortfall and ensuring no new unfunded liabilities accumulate have outrun growth in the state's own-source education spending. Unless there is a change that reduces NYSTRS costs and/or adjusts the state's education funding to fully account for pension contributions, New York'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 NY1 shows the UAAL and actual pension contributions on a per student basis compared against state education spending. Breaking the numbers down this way shows both the state's increased commitment to funding education and the volatility in pension contribution. However, after accounting for inflation and pension costs, we can see that not all of the funds made it into the classroom and when NYSTRS had accumulated pension debt in 2015, there was a hidden funding cut of more than $1,000 per student.

Table NY1: New York's state education spending has grown by nearly $4,000 per student. But per student pension costs are up by over $500, cutting into the additional funding.

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	$7,046	-$8,621	Fully Funded	$75	$6,970
2002	$7,417	$156	2.1%	$25	$7,391
2003	$7,504	$206	2.7%	$105	$7,398
2004	$7,392	$265	3.6%	$145	$7,247
2005	$7,948	$408	5.1%	$320	$7,628
2006	$8,179	-$882	Fully Funded	$444	$7,735
2007	$8,930	-$1,471	Fully Funded	$489	$8,441
2008	$9,453	-$2,347	Fully Funded	$509	$8,944
2009	$10,036	-$1,164	Fully Funded	$465	$9,570
2010	$9,630	-$94	Fully Funded	$383	$9,247
2011	$9,447	$1,220	12.9%	$528	$8,919
2012	$9,343	$3,784	40.5%	$656	$8,687
2013	$9,451	$4,664	49.4%	$683	$8,768
2014	$9,660	$2,666	27.6%	$921	$8,739
2015	$10,367	$2,386	23.0%	$1,020	$9,347
2016	$10,584	$868	8.2%	$784	$9,800
2017	$10,708	$979	9.1%	$696	$10,012
2018	$10,840	$369	3.4%	$588	$10,252

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 NYSTRS 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.