

Hidden Education Funding Cuts

Ohio

Pension costs are consuming nearly 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.

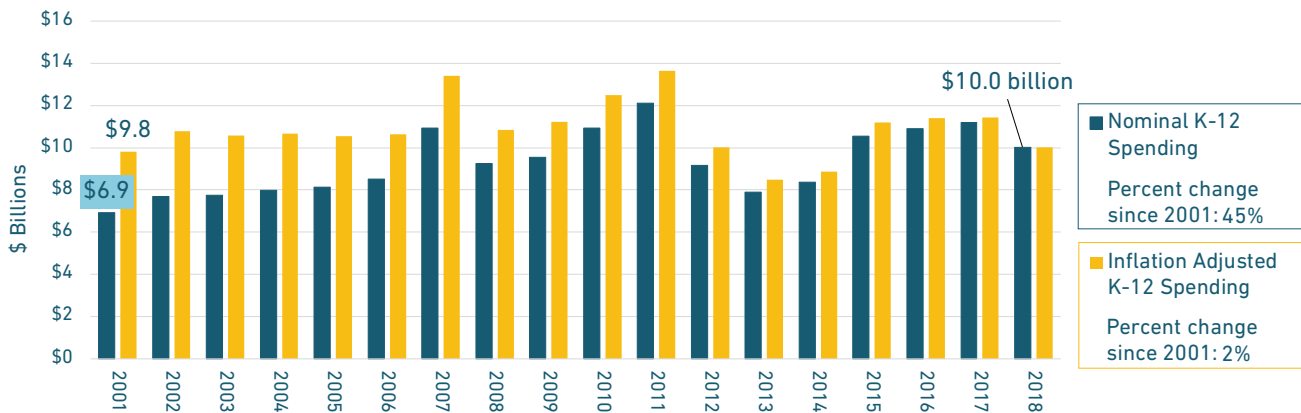
The Buckeye State is home to nearly 11.7 million citizens, and 1.7 million primary and secondary school students. In 2018, the state’s total expenditures exceeded \$69.7 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state’s own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled \$54.6 billion.

Ohio teachers have three choices for their retirement plan. One option is a guaranteed income plan, known as a defined benefit pension. Another is a stand-alone defined contribution plan. And a third option is a hybrid plan that features both a smaller guaranteed income plan and a supplemental defined contribution plan. All plans are administered by the State Teachers’ Retirement System of Ohio (STRS), which manages retirement benefits for more than 515,000 active and retired teachers. Ohio also offers a separate retirement system for other school employees that is not included in this analysis.

EDUCATION SPENDING

In 2018, Ohio’s state distributed K–12 expenditures totaled \$11.9 billion. Out of that total, \$10 billion came from state own-source funding while the remaining \$1.9 billion was from federal grants and other education programs. (Local sources provided additional funding.)

Figure OH1: Ohio’s state spending on education only increased by \$212 million after accounting for inflation.



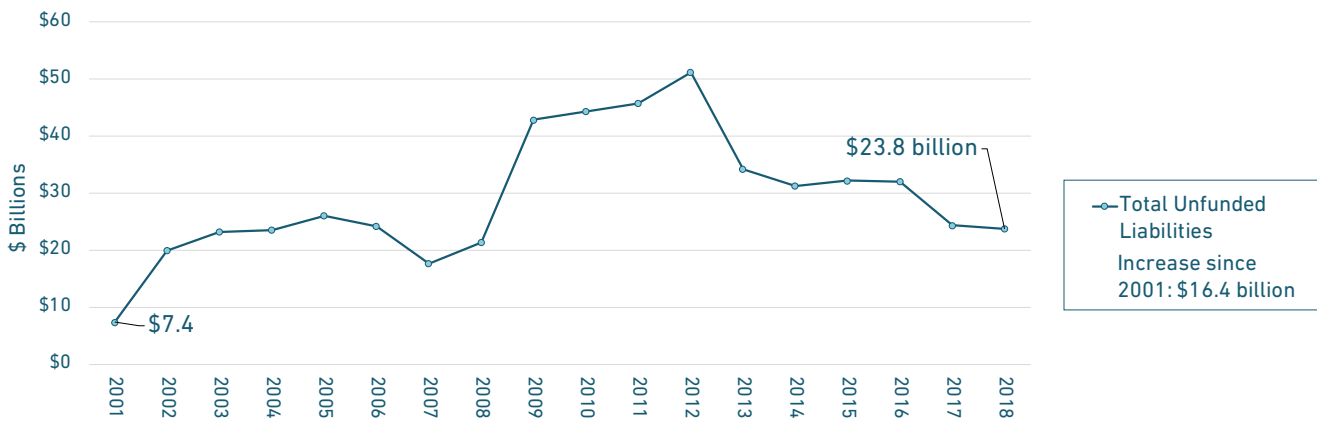
State Own-Source K–12 Spending, 2001–2018

As Figure OH1 illustrates, state spending on primary and secondary education in Ohio has increased moderately since 2001 — growing by \$3.1 billion in nominal dollars; however, it barely changed after adjusting for inflation, growing by only \$212.4 million. On a dollars per student basis, spending increased 11.2% since 2001 — growing from \$5,348 to \$5,946 (inflation adjusted).

PENSION FUNDING STATUS

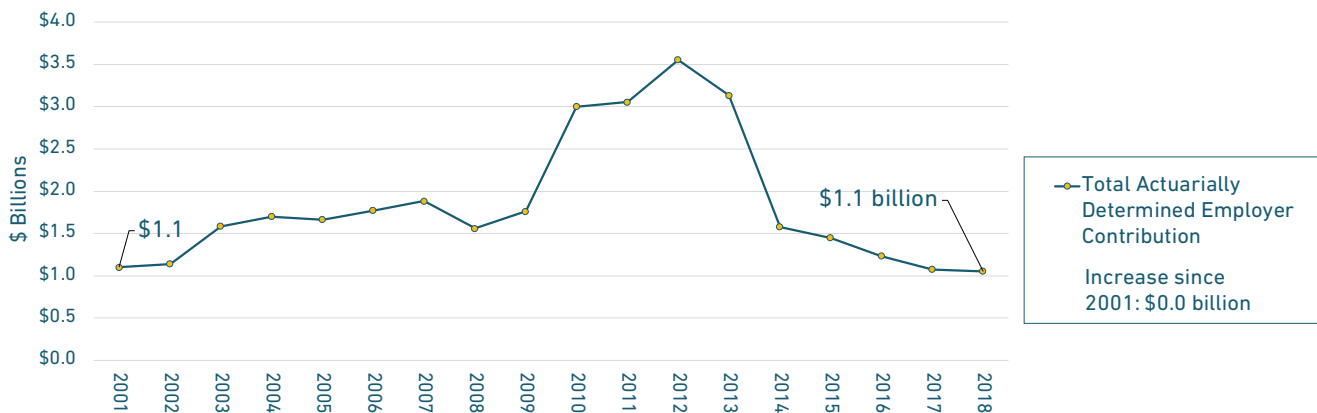
In 2001, STRS was facing more than \$7.4 billion in pension debt. However, over the past 17 years a combination of underperforming investments coupled with changing demographics have caused the unfunded liability for STRS to more than triple — reaching \$23.8 billion in 2018. However, it is important to note that STRS’s debt has been declining since reaching its peak at \$51.2 billion in 2012. Figure OH2 shows the change in the unfunded liabilities and Figure OH3 illustrates the change in what state actuaries have recommended as contributions from government employers.

Figure OH2: Since 2001 STRS’s pension debt has more than tripled, even after a steadily decline from 2012.



STRS Unfunded Liabilities (Actuarial Value), 2001–2018

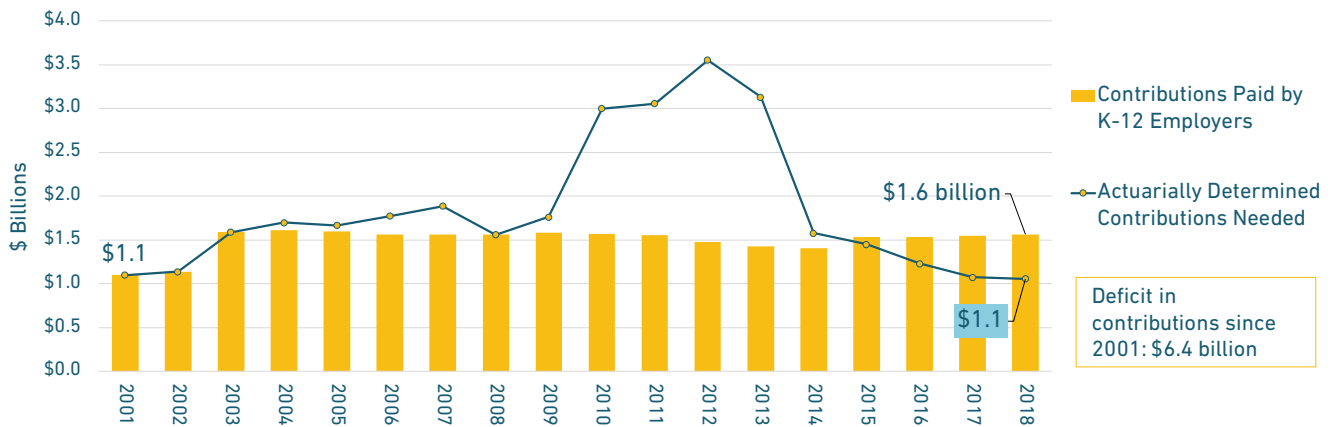
Figure OH3: The amount actuaries recommend the state and school districts should contribute to STRS grew with unfunded liabilities up to 2012 and have decreased since then.



STRS 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, Ohio is one of those states, failing to pay the full pension bill in each year from 2004 through 2014, shown in Figure OH4. As a result, the contributions actually paid by K–12 employers have been relatively stable over-time and do not reflect the trend displayed in Figure OH3. As a point of comparison, contributions paid have still increased by 42.3% from \$1.1 billion in 2001 to \$1.6 billion in 2018.

Figure OH4: Ohio did not pay its full actuarial bill to STRS from 2004 through 2014, shorting the plan by \$6.4 billion since 2001.



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

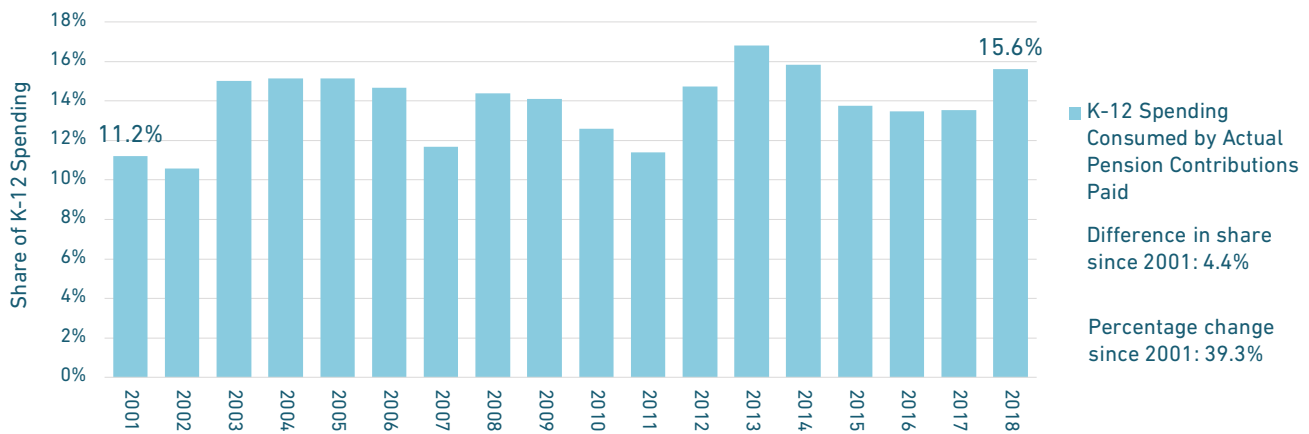
The primary driver of reduced unfunded liabilities and thus the reduced ADEC was a set of changes implemented in 2013 that reduced benefits and increased contributions from members. Key benefit change provisions included expanding final average salary calculations and reducing the value of cost-of-living adjustments. These adjustments reduced the projected benefits that STRS will have to pay out, and thus also reduced the contribution rate requirements.

By 2015, actual contributions paid exceeded the ADEC for the first time in the 18-year period measured and have done so since then. But 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 Ohio 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 Ohio’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 STRS have soaked up an increasing share of Ohio’s education spending. This is especially important for teachers, as the growth in STRS’s costs outpaced the growth in state own-source K-12 spending. In fact, STRS’s contributions reported as a share of K-12 spending increased from 11.2% in 2001 to 15.6% in 2018.

Figure OH5: The hidden cut to Ohio’s state education funding is serious. STRS contributions are consuming nearly 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

State K-12 funding has barely changed since 2001 and pension debt has more than tripled, leading to a steady increase in contributions to STRS. The result has been a gradual increase in the share of state education spending consumed by STRS, shown in Figure OH5. This increase in the share of education funding going to pension costs is definitely not a good thing, but it could have been much worse had the state been paying the full ADEC in 2012 when unfunded liabilities eclipsed \$51 billion.

From the perspective of retirement plan participants, the cut to benefits in 2012 is likely unwelcome. From the perspective of overall education funding, the reduced cost pressures were most welcome in the face of stagnated state education funding. Ohio has failed to meet its commitments to funding STRS by not paying the full ADEC from 2004 through 2014. But even the actual amounts paid have grown faster than the state’s own-source education spending.

Unless there is a change that adjusts the state’s education funding to fully account for pension contributions and/or ensures costs for STRS do not grow in the future, Ohio’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 OH1 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, despite the policy changes in 2013, growth in unfunded pension liabilities and related pension contributions have still easily outpaced per student spending by the state. Although the state increased total spending per student by roughly \$600 from 2001 to 2018, after accounting for pension costs only about \$250 more per student is making it into the classroom.

Table OH1: State education spending per student increased, but pension debt and contributions have consumed more than 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	\$5,348	\$4,034	75.4%	\$600	\$4,749
2002	\$5,868	\$10,870	185.2%	\$621	\$5,247
2003	\$5,765	\$12,659	219.6%	\$865	\$4,900
2004	\$5,809	\$12,839	221.0%	\$880	\$4,929
2005	\$5,751	\$14,192	246.8%	\$871	\$4,880
2006	\$5,784	\$13,177	227.8%	\$849	\$4,935
2007	\$7,333	\$9,688	132.1%	\$857	\$6,477
2008	\$5,971	\$11,783	197.3%	\$859	\$5,112
2009	\$6,356	\$24,312	382.5%	\$897	\$5,460
2010	\$7,124	\$25,284	354.9%	\$896	\$6,227
2011	\$7,835	\$26,298	335.7%	\$892	\$6,943
2012	\$5,795	\$29,592	510.6%	\$853	\$4,942
2013	\$4,928	\$19,838	402.5%	\$829	\$4,099
2014	\$5,145	\$18,129	352.4%	\$814	\$4,330
2015	\$6,513	\$18,757	288.0%	\$895	\$5,618
2016	\$6,665	\$18,746	281.3%	\$897	\$5,767
2017	\$6,733	\$14,391	213.7%	\$911	\$5,822
2018	\$5,946	\$14,105	237.2%	\$928	\$5,018

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 STRS Unfunded Liabilities and Actual K–12 Employer Contributions, 2001–2018

THE DEFINED CONTRIBUTION PLANS IN STRS

In addition to the guaranteed income plan offered by STRS, the system also offers both a stand-alone defined contribution plan and a hybrid option that includes a defined contribution portion. Under these plans teachers contribute to individual retirement accounts and those funds are supplemented by contributions from their employer. In 2018, 9,682 active members were enrolled in a defined contribution plan. The combined defined contribution plans held a little less than \$1.5 billion in total assets. As a point of comparison, the pension portion of STRS held more than \$77.3 billion.

Despite the availability of the defined contribution plans for STRS members, complete employer contribution data are not clearly reported publicly going back to 2001 to allow for their inclusion in these analyses. As a result, the defined contribution plan and defined contribution portion of the hybrid option are not incorporated into our figures or analyses. This makes the total hidden funding cut figures show more conservative than if we were able to incorporate this data.

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.