Hidden Education Funding Cuts

Oklahoma

Pension costs are consuming more than twice as much state education funding today as 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.

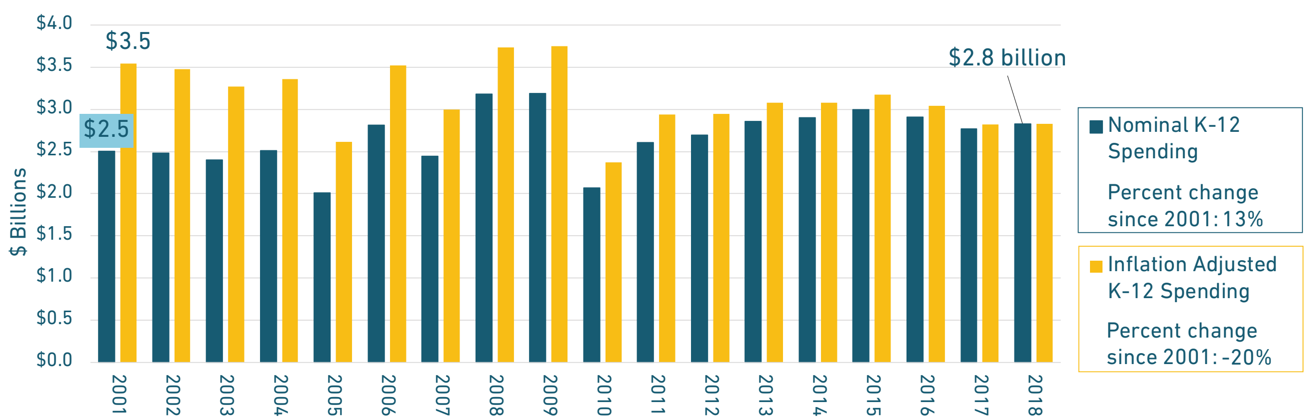
The Sooner State is home to nearly 4 million citizens, and 700,000 primary and secondary school students. In 2018, the state's total expenditures approached $22.7 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state's own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled $15.1 billion.

Oklahoma teachers are enrolled in a guaranteed income plan, known as a defined benefit pension, administered by the Teachers' Retirement System of Oklahoma (TRS). TRS manages retirement benefits for roughly 178,000 active and retired teachers.

EDUCATION SPENDING

In 2018, Oklahoma's state distributed K–12 expenditures totaled $3.5 billion. Out of that total, $2.8 billion came from state own-source funding while the remaining $661 million was from federal grants and other education programs. (Local sources provided additional funding.)

Figure OK1: Oklahoma's state spending on education declined by $1.3 billion after accounting for inflation.



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

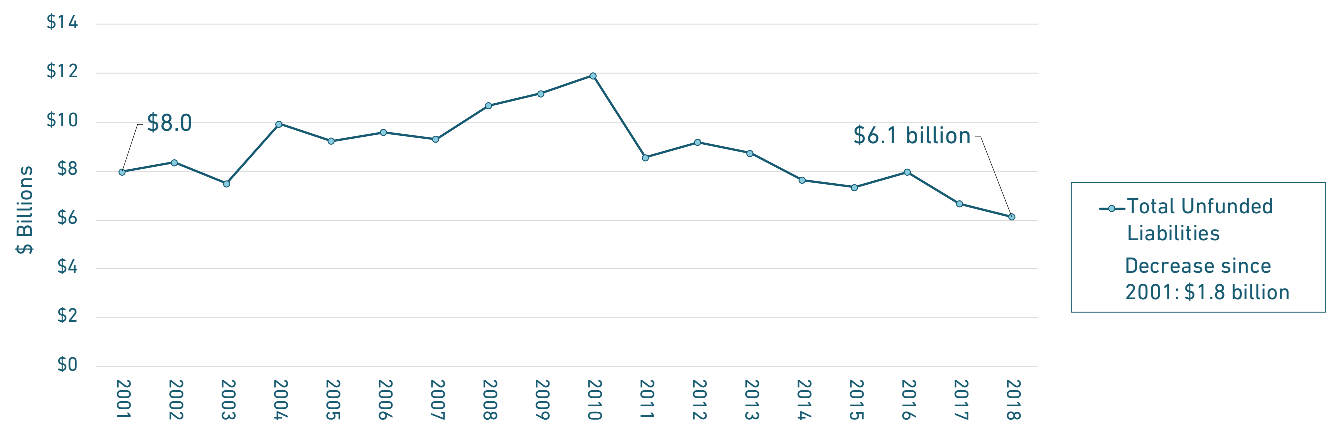
As Figure OK1 illustrates, state spending on primary and secondary education in Oklahoma has barely changed since 2001 — growing by $327 million in nominal dollars; however, it decreased moderately after adjusting for inflation, shrinking by $713.6 million. On a dollars per student basis, spending declined 28.4% since 2001 — falling from $5,664 to $4,054 (inflation adjusted).

(Note: The data above do not reflect increases in state education funding that were authorized in the spring of 2018 to take effect the following year, all in the wake of a prolonged teacher strike.)

PENSION FUNDING STATUS

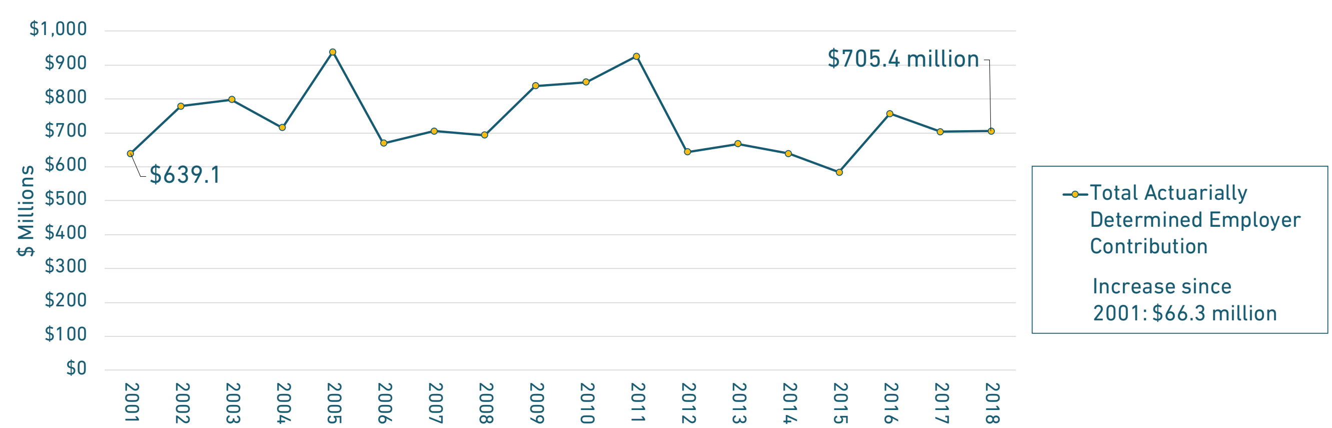
In 2001, TRS was facing nearly $8 billion in pension debt. A combination of underperforming investments coupled with changing demographics caused the unfunded liability to swell to nearly $12 billion in 2010, but it has been declining in the years since — falling to $6.1 billion in 2018. Figure OK2 shows the change in the unfunded liabilities and Figure OK3 illustrates the change in what state actuaries have recommended as contributions from government employers.

Figure OK2: TRS's pension debt has shrunk by nearly 50% since peaking at $12 billion in 2010.



TRS Unfunded Liabilities (Actuarial Value), 2001–2018

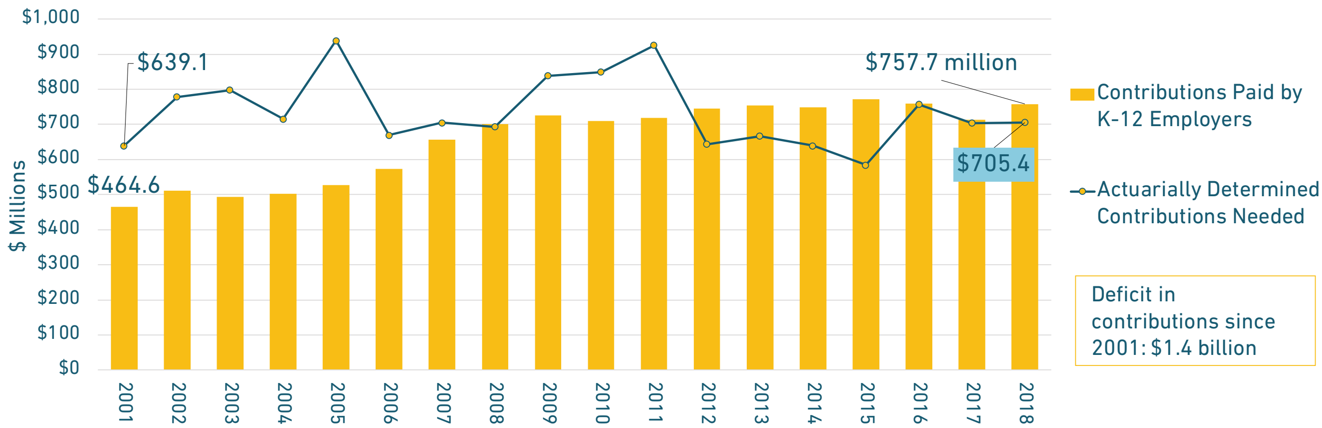
Figure OK3: To address TRS's pension debt the amount actuaries recommend the state should contribute to TRS has increased more than 10%.



TRS 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, Oklahoma is one of those states, only paying the full pension bill once from 2001 through 2011, shown in Figure OK4. However, since 2012 the state has improved its commitment to funding TRS, paying at least the full ADEC each year. The result of underfunding TRS so many years is that the actual contributions paid into TRS using education funds have been less than if the ADEC trend displayed in Figure OK3 was paid in full, but the actual contributions paid to TRS have still nearly doubled from $464.6 million in 2001 to $757.7 million in 2018.

Figure OK4: Oklahoma only paid its full actuarial bill to TRS once prior to 2012, shorting the plan by $1.4 billion since 2001.



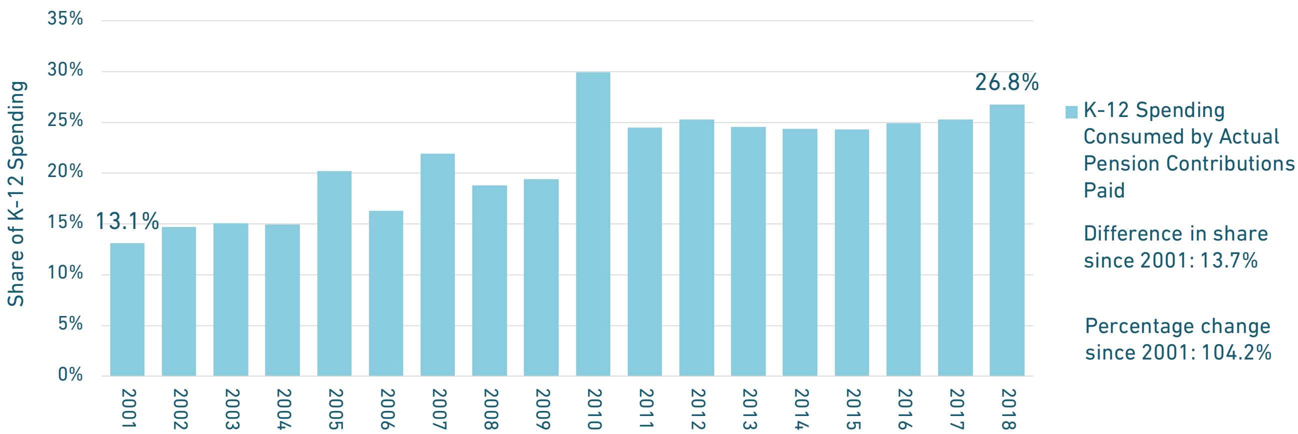
Actuarially Determined Employer Contribution Compared to Actual Contributions Paid to TRS, 2001–2018

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 Oklahoma to adopt a policy of ensuring the ADEC is paid every year. Of note, the state has paid at least the full ADEC each year since 2012. 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 Oklahoma'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 TRS have soaked up an increasing share of Oklahoma's education spending. This is especially important for teachers, as the growth in TRS's costs outpaced the growth in state own-source K–12 spending. In fact, TRS's contributions reported as a share of K–12 spending increased from 13.1% in 2001 to 26.8% in 2018.

Figure OK5: The hidden cut to Oklahoma's state education funding is serious. TRS contributions are consuming more than twice 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

Although Oklahoma has managed to start paying down TRS's pension debt, the share of state education spending consumed by pension costs has continued to grow, as shown in Figure OK5. This trend is largely attributable to declining state K–12 funding, which has fallen by roughly one-fifth since 2001. Had pension costs remained static, the decline in education funds would have been enough to increase the share moderately, but the fact that TRS contributions have nearly doubled at the same time has exacerbated the situation further.

Oklahoma has failed to meet its commitments to funding TRS by not paying the full ADEC each year. But even the actual amounts paid have grown significantly faster than the state's own-source education spending. Unless there is a change that reduces TRS's costs and/or adjusts the state's education funding to fully account for pension contributions, Oklahoma'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 OK1 shows the UAAL and actual pension contributions on a per student basis compared against state education spending. Breaking the numbers down this way shows the growth in unfunded pension liabilities and related pension contributions while per student spending by the state has declined. In fact, Oklahoma is spending roughly $1,600 less per student in 2018 than 2001. However, after accounting for inflation and pension costs, that drop increases to roughly $2,000 less in state per student spending.

Table OK1: State education spending per student decreased by 20%, and growing pension debt and contributions have exacerbated those cuts.

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	$5,664	$12,739	224.9%	$742	$4,921
2002	$5,527	$13,283	240.3%	$812	$4,714
2003	$5,184	$11,860	228.8%	$783	$4,402
2004	$5,297	$15,663	295.7%	$793	$4,504
2005	$4,101	$14,494	353.4%	$828	$3,273
2006	$5,507	$15,000	272.4%	$898	$4,609
2007	$4,667	$14,499	310.7%	$1,022	$3,645
2008	$5,788	$16,547	285.9%	$1,087	$4,702
2009	$5,722	$17,053	298.0%	$1,109	$4,613
2010	$3,592	$18,052	502.6%	$1,076	$2,516
2011	$4,407	$12,842	291.4%	$1,079	$3,328
2012	$4,376	$13,635	311.6%	$1,107	$3,269
2013	$4,512	$12,806	283.8%	$1,107	$3,405
2014	$4,468	$11,091	248.2%	$1,088	$3,380
2015	$4,584	$10,594	231.1%	$1,115	$3,469
2016	$4,389	$11,482	261.6%	$1,094	$3,295
2017	$4,051	$9,574	236.4%	$1,023	$3,027
2018	$4,054	$8,776	216.5%	$1,085	$2,969

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.