Hidden Education Funding Cuts

Oregon

Teacher pension costs are consuming 54% more state education funding in 2018 than 2009 —when unfunded liabilities first started growing

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.

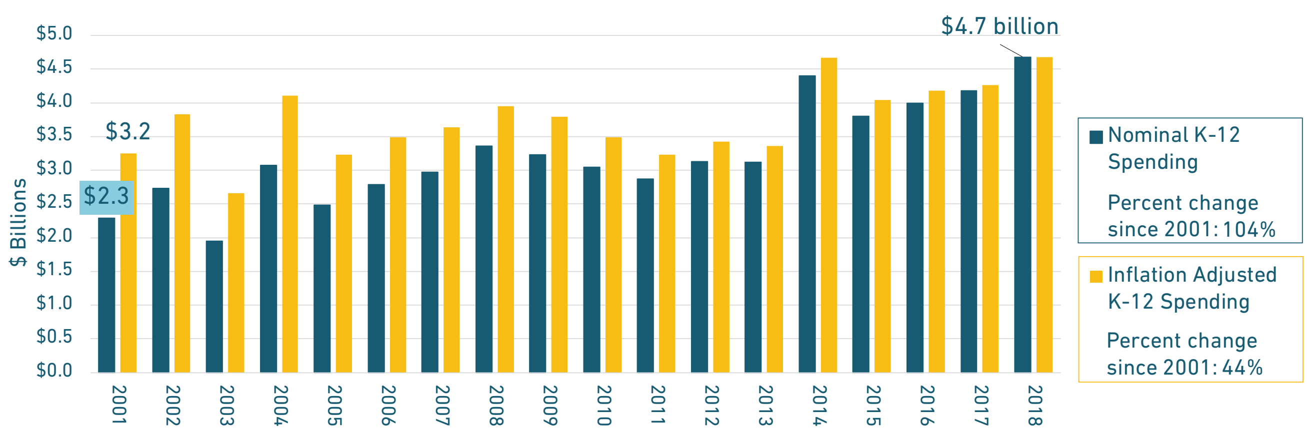
The Beaver State is home to roughly 4.2 million citizens, and more than 610,000 primary and secondary school students. In 2018, the state's total expenditures exceeded $40.6 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state's own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled $30.1 billion.

Teachers hired since 2004 are enrolled in a hybrid plan that combines elements of a guaranteed income plan (known as a defined benefit pension) and defined contribution plan called the Individual Account Program. This hybrid plan, as well as a guaranteed income plan for teachers hired prior to 2004 (known as Tier 1 and Tier 2), is administered by the Oregon Public Employees' Retirement System (OPERS) that also manages separate plans for state workers, police and firefighters, and judges. Across all plans OPERS manages retirement benefits for more than 370,000 active and retired members. While OPERS manages retirement plans for a wide array of public employees, teachers comprise a significant share, 42%, of the total system membership.

EDUCATION SPENDING

In 2018, Oregon's state distributed K–12 expenditures totaled $5.4 billion. Out of that total, $4.7 billion came from state own-source funding while the remaining $639 million was from federal grants and other education programs. (Local sources provided additional funding.)

Figure OR1: Oregon's state spending on education only increased by $1.5 billion after accounting for inflation.



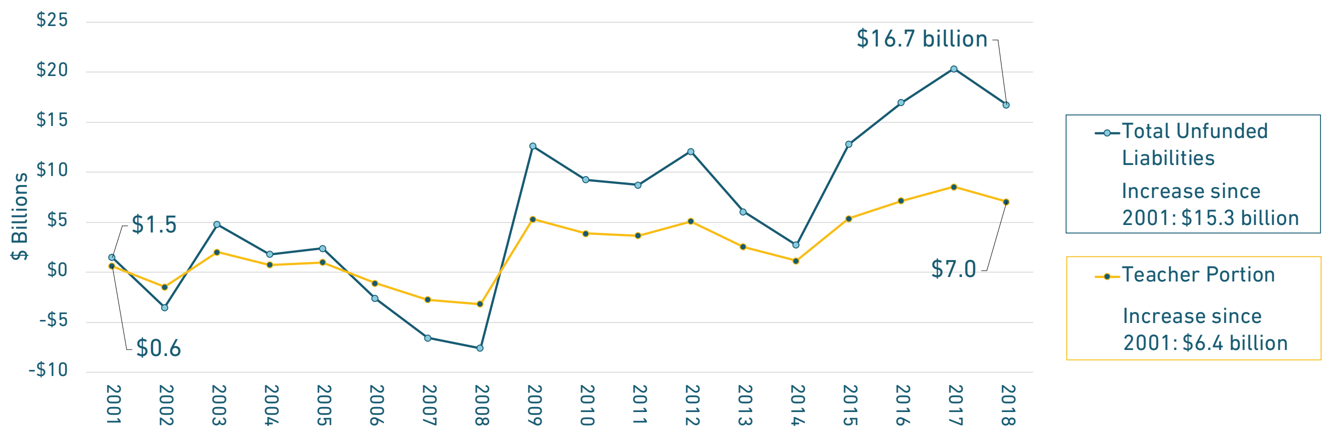
State Own-Source K–12 Spending, 2001–2018

A Figure OR1 illustrates, state spending on primary and secondary education in Oregon has increased significantly since 2001 — growing by $2.4 billion in nominal dollars; but it increased moderately after adjusting for inflation, growing by only $1.5 billion. On a dollars per student basis, spending increased by 29% since 2001 — climbing from $5,913 to $7,625 (inflation adjusted).

PENSION FUNDING STATUS

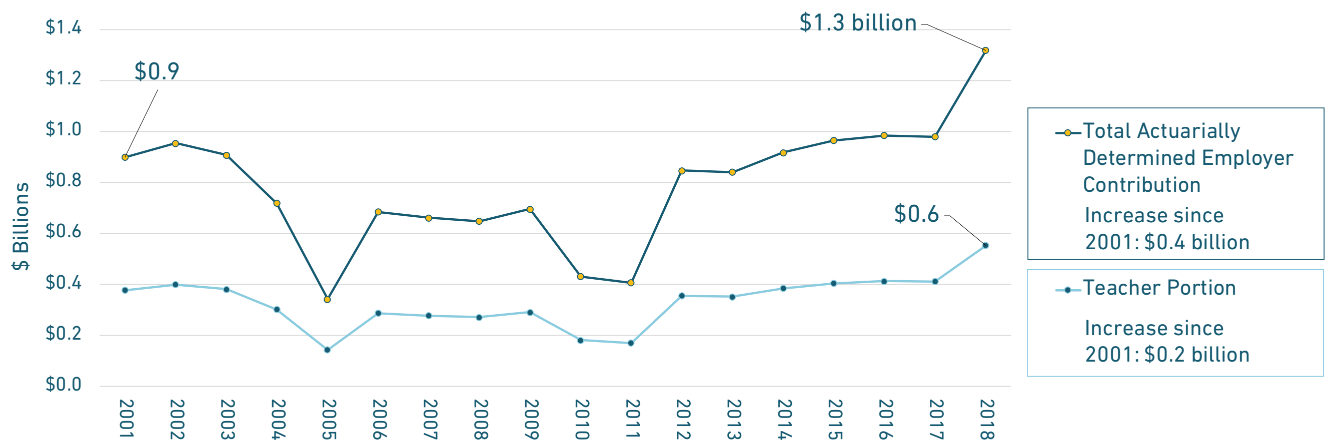
As recently as 2008 OPERS was fully funded and running a multi-billion-dollar surplus. However, the combination of the financial crisis, underperforming investments, and changing demographics have resulted in a large unfunded liability for OPERS — reaching a peak of $20.3 billion in 2017 and declining slightly to $16.7 billion in 2018. Figure OR2 shows the change in the unfunded liabilities and Figure OR3 illustrates the change in what state actuaries have recommended as contributions from government employers.

Figure OR2: Since 2008 OPERS has transitioned from a surplus to more than $16.7 billion in pension debt.



OPERS Unfunded Liabilities (Actuarial Value), 2001–2018

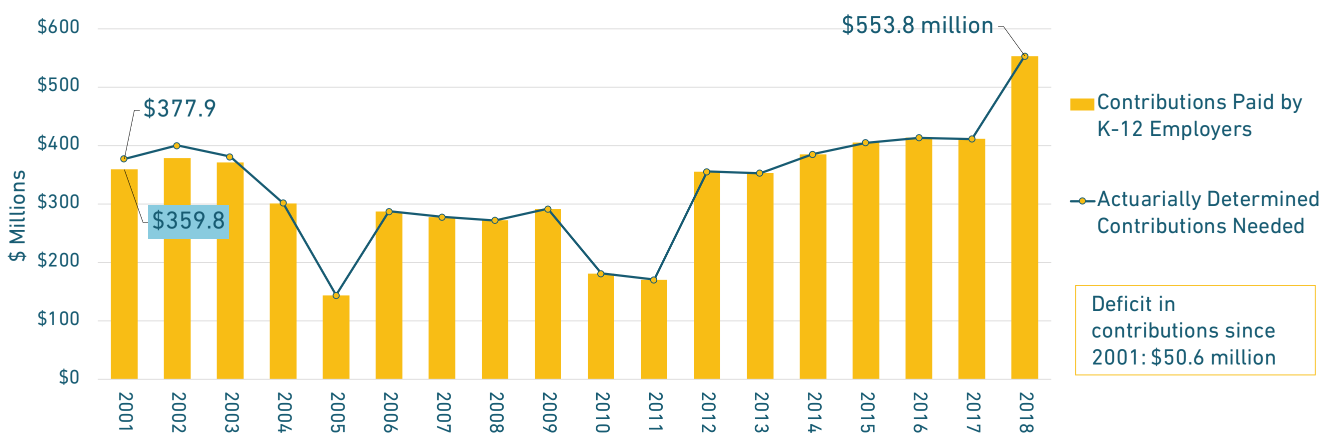
Figure OR3: To address the increased pension debt the amount actuaries recommend the state should contribute to OPERS has increased by more than 45%.



OPERS 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. Since 2004 Oregon has been among the states that has demonstrated a strong commitment to paying the full required contribution, as shown in Figure OR4. As a result, the increase in contributions actually paid by the state mirrors the growing trend displayed in Figure OR3, with contributions increasing more than 50% from $359.8 million in 2001 to $553.8 million in 2018.

Figure OR4: Oregon paid its full actuarial bill to OPERS every year since 2004, and that means pension contributions paid have increased 54% since 2001.



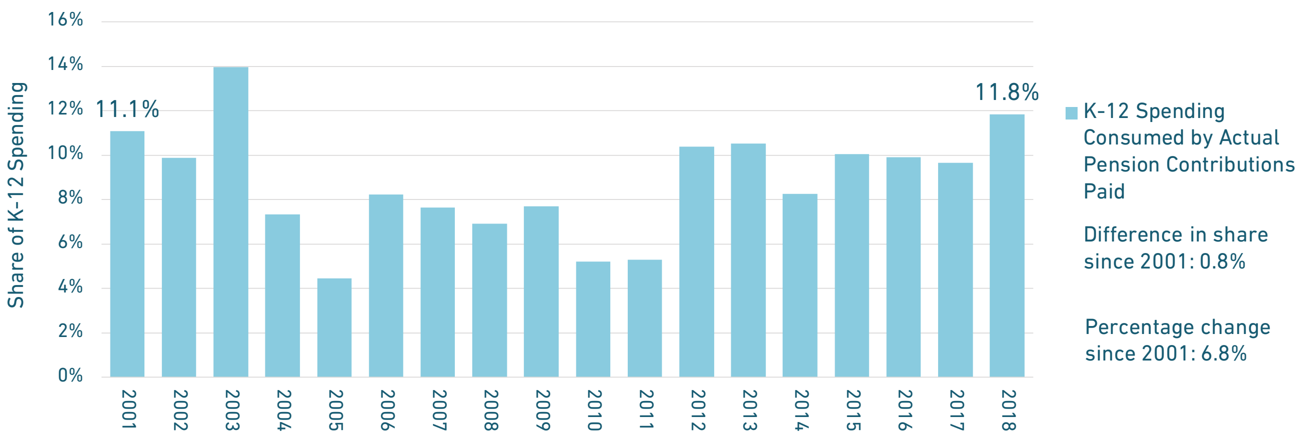
Actuarially Determined Employer Contribution Compared to Actual Contributions Paid to OPERS, 2001–2018

Paying the full required pension bill each year is the bare minimum for ensuring a pension system is fully funded. Oregon has met this threshold after missing the mark a few years in the early 2000s. 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, Oregon would have ensured that funding for education expanded at least as fast as the growth in the ADEC shown above. But as we show in the final chart on the next page, that hasn't happened.

PENSION COSTS CROWDING OUT K–12 SPENDING

The costs of funding OPERS have soaked up an increasing share of Oregon's education spending, particularly since 2009. This is especially important for teachers, as the growth in OPERS's costs outpaced the growth in state own-source K–12 spending. When comparing OPERS's contributions as a share of state K–12 spending, figures are relatively similar from 2001 to 2018. But when comparing between the hidden cut levels prior to the financial crisis, when OPERS was last fully funded, and levels in 2018, the growth rate is much more pronounced.

Figure OR5: The hidden cut to Oregon's state education funding is serious. OPERS contributions are consuming 54% more state K–12 funding in 2018 than 2009, the first year the plan wasn't fully funded.



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

Figure OR5 shows that since 2009 — when unfunded pension liabilities first emerged after the financial crisis — the share of state education funding being consumed by OPERS costs has increased from 7.7% to 11.8%. The past two-decades indicate a relatively tumultuous hidden cut experience in Oregon. The volatility in the share of state K–12 spending going to pension costs is the result of a change in OPERS's contribution rate and steady growth in state education funding. But, one point is clear: the share of state K–12 education funding in 2018 is higher than it was both at the turn of the century and immediately following the financial crisis, and that is a problem.

Oregon has met its commitments to funding OPERS by paying the full ADEC each year since 2004, but the costs of paying down the system's debt have grown faster than the state's own-source education spending. Unless there is a change that reduces OPERS's costs and/or adjusts the state's education funding to fully account for pension contributions, Oregon'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 OR1 shows the public school employer 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 where the inflation adjusted increase in per student state spending has been more than $1,700, roughly $250 of that has been cut away by growing OPERS costs for teacher pensions, driven by the cost of teacher pension debt.

Table OR1: State education spending per student increased by roughly $1,700, but pension debt costs have eaten into 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	$5,913	$1,131	19.1%	$655	$5,258
2002	$6,944	-$2,679	Fully Funded	$687	$6,257
2003	$4,803	$3,617	75.3%	$670	$4,133
2004	$7,377	$1,337	18.1%	$541	$6,837
2005	$5,776	$1,772	30.7%	$257	$5,519
2006	$6,201	-$1,949	Fully Funded	$511	$5,690
2007	$6,432	-$4,877	Fully Funded	$492	$5,941
2008	$6,857	-$5,534	Fully Funded	$473	$6,384
2009	$6,504	$9,085	139.7%	$501	$6,002
2010	$6,111	$6,803	111.3%	$318	$5,793
2011	$5,681	$6,444	113.4%	$301	$5,380
2012	$5,827	$8,622	148.0%	$605	$5,222
2013	$5,663	$4,285	75.7%	$595	$5,068
2014	$7,762	$1,909	24.6%	$641	$7,120
2015	$6,632	$8,826	133.1%	$666	$5,966
2016	$6,892	$11,739	170.3%	$682	$6,210
2017	$6,998	$13,998	200.0%	$675	$6,323
2018	$7,625	$11,451	150.2%	$903	$6,723

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

THE INDIVIDUAL ACCOUNT PROGRAM IN OPERS

In addition to the guaranteed income plans managed by OPERS, the system also offers the Individual Account Program (IAP) defined contribution plan. The IAP was a supplemental plan for Tier 1 and Tier 2 plan members but has become an automatic component of OPERS for plan members hired since 2004. Under the IAP teachers contribute to individual retirement accounts and those funds are supplemented by contributions from their employer.

Despite the availability of the IAP plans for OPERS 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 IAP plans 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.