# Hidden Education Funding Cuts

## Pennsylvania

## Pension costs are consuming more than thirteen times 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 steadily been 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 actuarial 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.

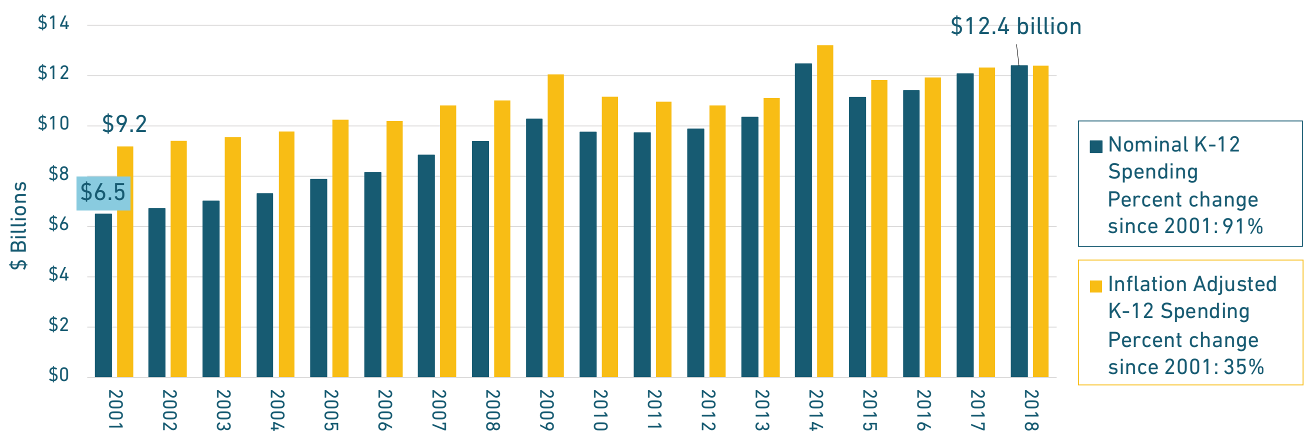
The Keystone State is home to nearly 13 million citizens, and more than 1.7 million primary and secondary school students. In 2018, the state's total expenditures exceeded $84.9 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state's own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled $55.8 billion.

Pennsylvania teachers hired before July 1, 2019 are participants in a guaranteed income plan, known as a defined benefit pension, that is closed to new members. New teachers joining the workforce today have a choice of three retirement plans: Class T-G and Class T-H "Hybrid" plans that combine elements of a defined benefit plan and defined contribution account, or a stand-alone defined contribution only plan. All the plans available are administered by the Pennsylvania Public School Employees' Retirement System (PSERS). PSERS manages retirement benefits for roughly 490,000 active and retired teachers and public school employees.

## EDUCATION SPENDING

In 2018, Pennsylvania's state distributed K–12 expenditures totaled $14.9 billion. Out of that total, $12.4 billion came from state own-source funding while the remaining $2.5 billion was from federal grants and other education programs. (Local sources provided additional funding.)

**Figure PA1: Pennsylvania's state spending on education increased by roughly $3 billion after accounting for inflation.**



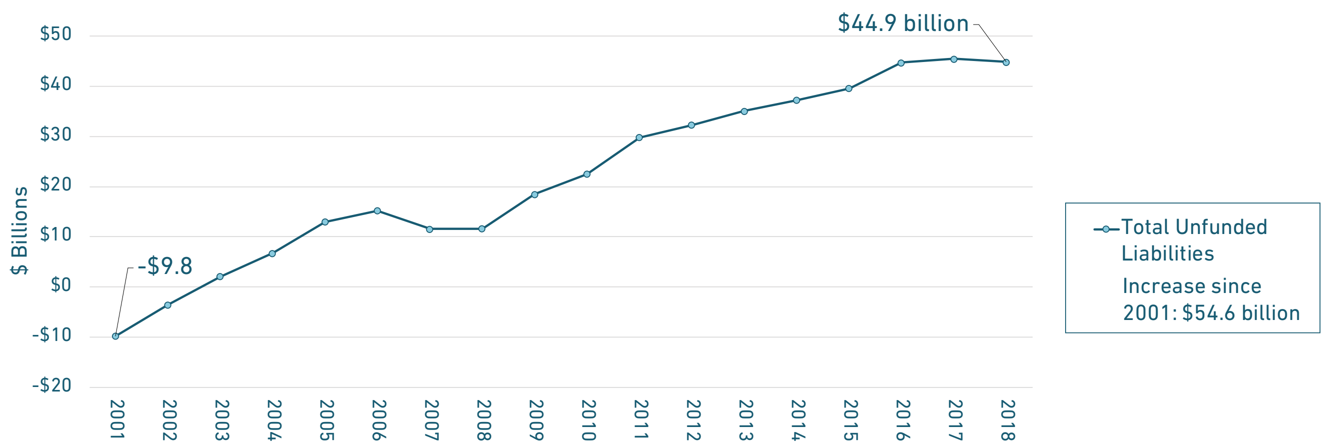

State Own-Source K–12 Spending, 2001–2018

As figure PA1 illustrates, state spending on primary and secondary education in Pennsylvania has increased significantly since 2001 — growing by $5.9 billion in nominal dollars; however, it only increased moderately after adjusting for inflation, growing by $3.2 billion. On a dollars per student basis, spending increased 43.4% since 2001 — growing from $5,031 to $7,214 (inflation adjusted).

## PENSION FUNDING STATUS

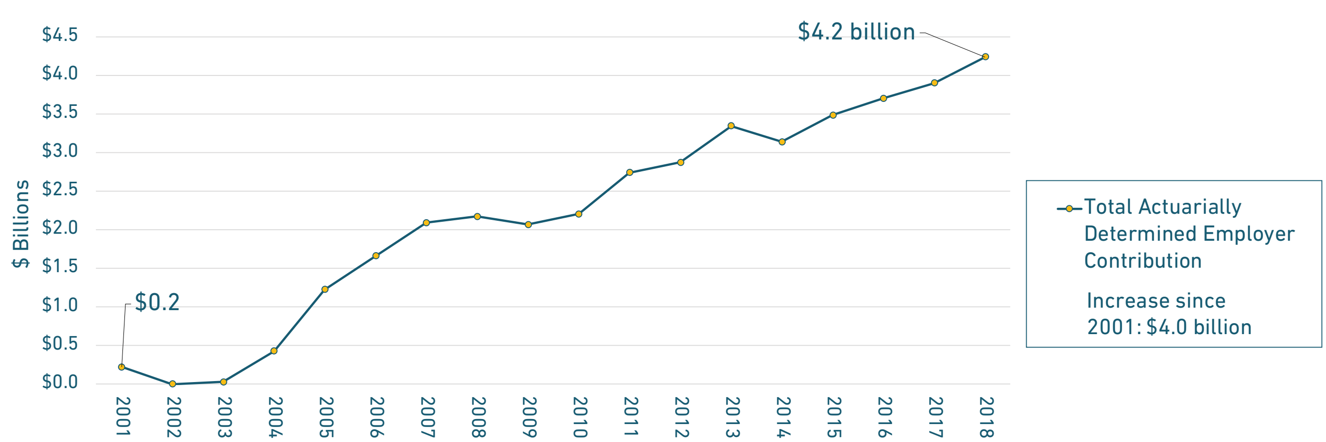
In 2001, PSERS had a nearly $10 billion surplus. However, over the past 17 years a combination of underperforming investments coupled with changing demographics have resulted in a growing unfunded liability for PSERS — reaching $44.9 billion in 2018. Figure PA2 shows the change in the unfunded liabilities and Figure PA3 illustrates the change in what state actuaries have recommended as contributions from government employers.

**Figure PA2: PSERS has accumulated nearly $45 billion in pension debt, erasing the surplus from as recently as 2002.**




PSERS Unfunded Liabilities (Actuarial Value), 2001–2018

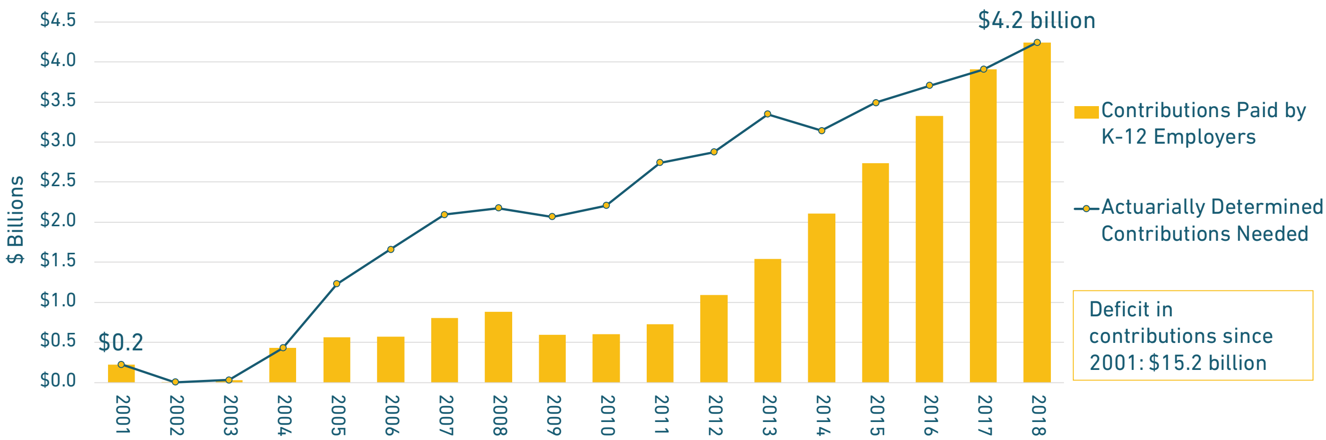
**Figure PA3: To address growing pension debt the amount actuaries recommend the state contribute to PSERS has exploded.**




PSERS Actuarially Determined Employer Contributions, 2001–2018

There are a number of states across the country that do not always ensure that the actuarially defined employer contribution is paid in full to the pension fund each year. Unfortunately, Pennsylvania is one of those states, failing to pay the full pension bill each year from 2005 through 2016, shown in Figure PA4. As a result, the actual contributions paid into PSERS using education funds have been less than if the ADEC trend displayed in Figure PA3 was paid in full, but the actual contributions paid to PSERS have still exploded from $223 million in 2001 to $4.2 billion in 2018.

**Figure PA4: Pennsylvania did not pay its full actuarial bill to PSERS each year, shorting the plan by $15.2 Billion since 2001.**



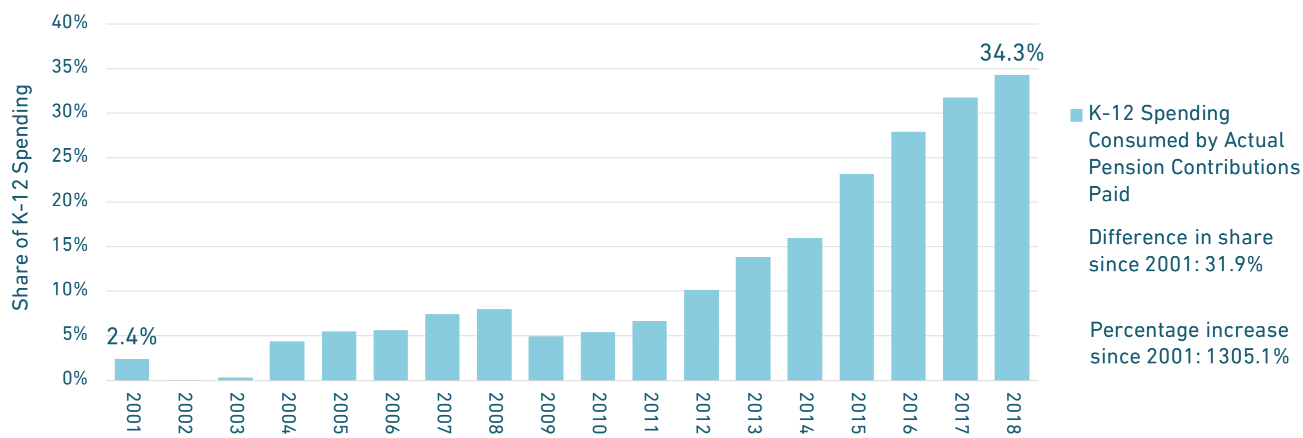

Actuarially Determined Employer Contribution Compared to Actual Contributions Paid to PSERS, 2001–2018

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 Pennsylvania to adopt a policy to ensure the ADEC is paid every year going forward, as they have done in 2017 and 2018. 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 Pennsylvania'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 PSERS have soaked up an increasing share of Pennsylvania's education spending. This is especially important for teachers, as the growth in PSERS's costs outpaced the growth in state own-source K–12 spending. In fact, PSERS' contributions reported as a share of K–12 spending increased from 2.4% in 2001 to 34.3% in 2018.

**Figure PA5: The hidden cut to Pennsylvania state education funding is serious. Increasing PSERS contributions are consuming more than thirteen times as much of K–12 funding in 2018 as in 2001.**




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

As Figure PA5 indicates, pension costs have only continued to climb over time, completely offsetting the state's increasing commitment to education. In fact, despite increasing K–12 funding by almost $2,200 per student, the explosion of pension debt and rising costs has still resulted in a sizable hidden funding cut for Pennsylvania schools – the largest hidden cut in the nation.

Pennsylvania adopted sweeping improvements to its retirement systems in 2017. But failure to meet its commitments to funding PSERS earlier in the decade have taken a serious toll. Even the less-than-necessary actual amounts paid have grown significantly faster than the state's own-source education spending. Unless there is a change that reduces PSERS's costs and/or adjusts the state's education funding to fully account for pension contributions, Pennsylvania'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 PA1 shows the UAAL and actual pension contributions on a per student basis compared against state education spending. The per student figures show that the growth in the unfunded pension liabilities and growth in associated contributions have easily outpaced per student spending by the state. In fact, after accounting for inflation and pension costs, Pennsylvania spent less per student in 2018 than 2001.

**Table PA1: While state education spending grew per student, pension debt and contributions have outpaced and offset 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 | $5,031 | -$5,366 | Fully Funded | $123 | $4,908 |
| 2002 | $5,126 | -$1,909 | Fully Funded | $0 | $5,125 |
| 2003 | $5,183 | $1,143 | 22.0% | $15 | $5,167 |
| 2004 | $5,274 | $3,634 | 68.9% | $232 | $5,042 |
| 2005 | $5,499 | $6,987 | 127.1% | $301 | $5,198 |
| 2006 | $5,443 | $8,125 | 149.3% | $305 | $5,137 |
| 2007 | $5,995 | $6,414 | 107.0% | $448 | $5,547 |
| 2008 | $6,204 | $6,565 | 105.8% | $499 | $5,706 |
| 2009 | $6,745 | $10,345 | 153.4% | $331 | $6,414 |
| 2010 | $6,218 | $12,565 | 202.1% | $336 | $5,882 |
| 2011 | $6,182 | $16,837 | 272.4% | $411 | $5,771 |
| 2012 | $6,123 | $18,311 | 299.0% | $621 | $5,503 |
| 2013 | $6,330 | $19,991 | 315.8% | $880 | $5,451 |
| 2014 | $7,570 | $21,350 | 282.0% | $1,211 | $6,359 |
| 2015 | $6,878 | $23,057 | 335.2% | $1,595 | $5,283 |
| 2016 | $6,897 | $25,875 | 375.2% | $1,927 | $4,970 |
| 2017 | $7,149 | $26,400 | 369.3% | $2,269 | $4,881 |
| 2018 | $7,214 | $26,152 | 362.5% | $2,474 | $4,740 |

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 PSERS 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.