

Hidden Education Funding Cuts

Rhode Island

Pension costs are consuming almost 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.

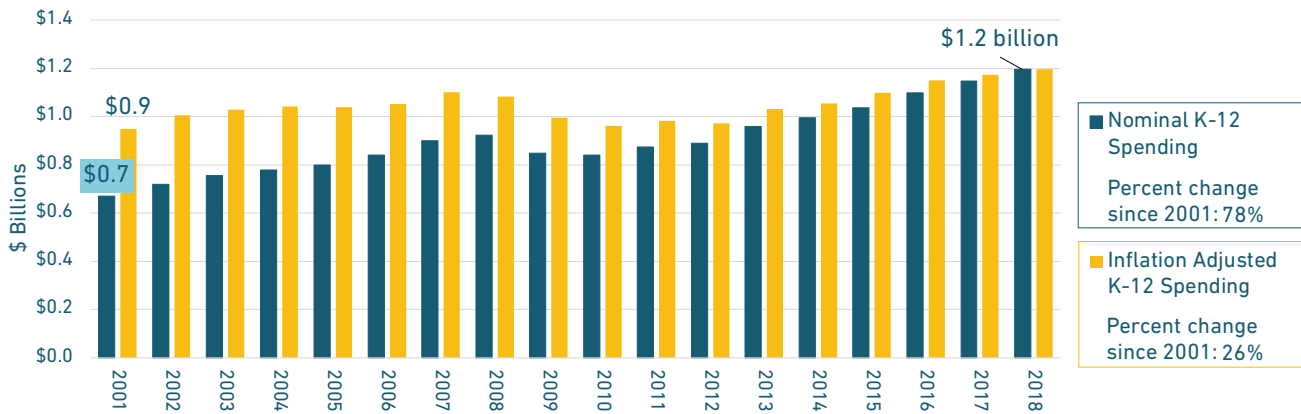
The Ocean State is home to almost 1.1 million citizens, and more than 140,000 primary and secondary school students. In 2018, the state’s total expenditures exceeded \$9.3 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state’s own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled \$6.3 billion.

Rhode Island teachers are enrolled in a guaranteed income plan, known as a defined benefit pension, administered by the Employees’ Retirement System of Rhode Island (ERSRI). ERSRI manages retirement benefits for more than 27,000 active and retired teachers and state workers. Although ERSRI provides retirement for more than just teachers, the teachers comprise the largest share (54%) of any group of members.

EDUCATION SPENDING

In 2018, Rhode Island’s state distributed K–12 expenditures totaled \$1.4 billion. Out of that total, \$1.2 billion came from state own-source funding while the remaining \$184 million was from federal grants and other education programs. (Local sources provided additional funding.)

Figure RI1: Rhode Island’s state spending on education only increased by \$245 million after accounting for inflation.



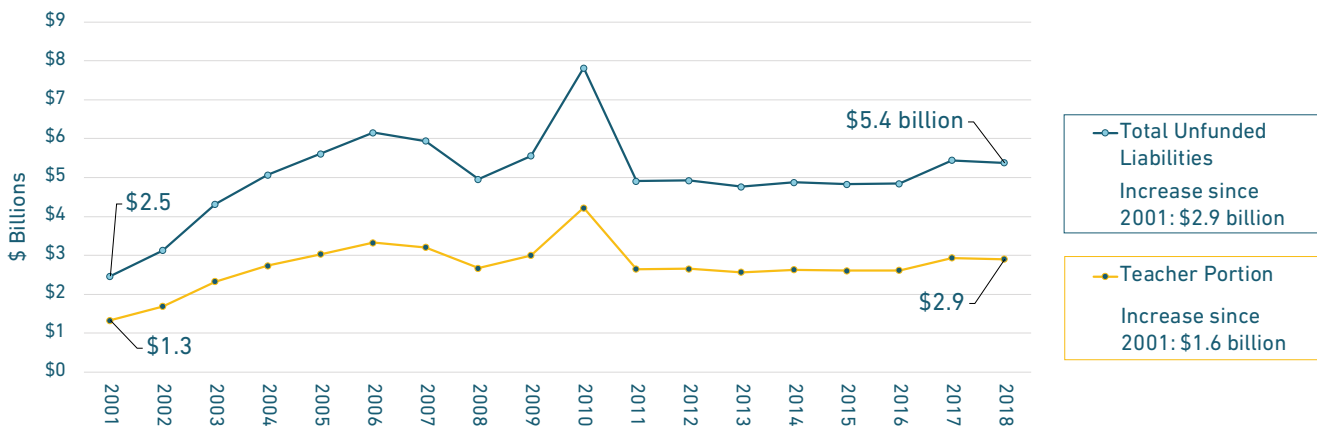
State Own-Source K–12 Spending, 2001–2018

As Figure RI1 illustrates, state spending on primary and secondary education in Rhode Island has increased moderately since 2001 — growing by \$524 million in nominal dollars; but, after adjusting for inflation, it only increased by only \$245.2 million. On a dollars per student basis, spending grew by 38.5% since 2001 — climbing from \$6,074 to \$8,410 (inflation adjusted).

PENSION FUNDING STATUS

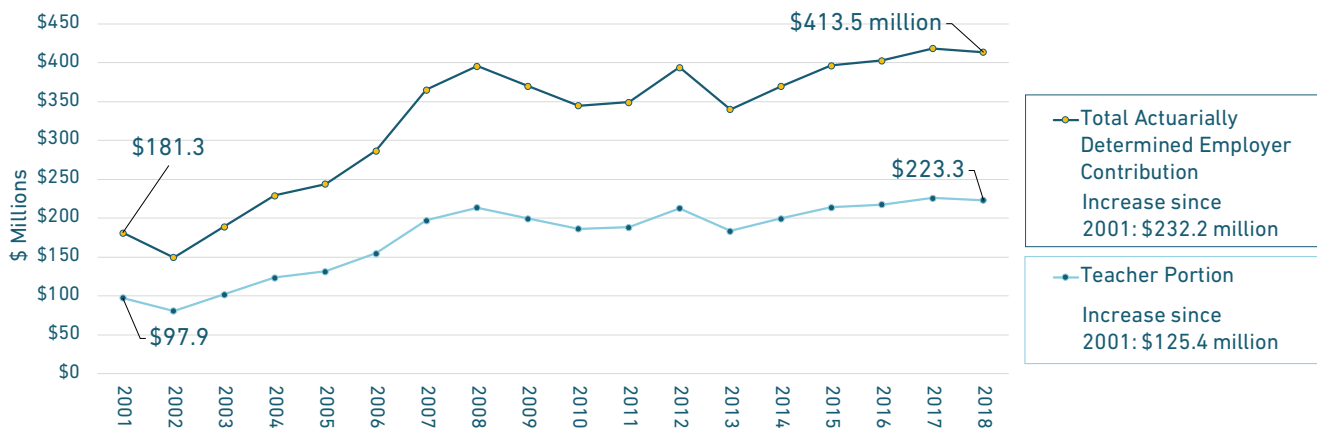
In 2001, ERSRI was struggling with \$2.5 billion in pension debt. However, over the past 17 years a combination of underperforming investments coupled with changing demographics have resulted in the expansion of its unfunded liability — reaching roughly \$5.4 billion in 2018. Figure RI2 shows the change in the unfunded liabilities and Figure RI3 illustrates the change in what state actuaries have recommended as contributions from government employers.

Figure RI2: Since 2001 ERSRI’s pension debt has more than doubled.



ERSRI Unfunded Liabilities (Actuarial Value), 2001–2018

Figure RI3: To address the pension debt the amount actuaries recommend the state should contribute to ERSRI has more than doubled.

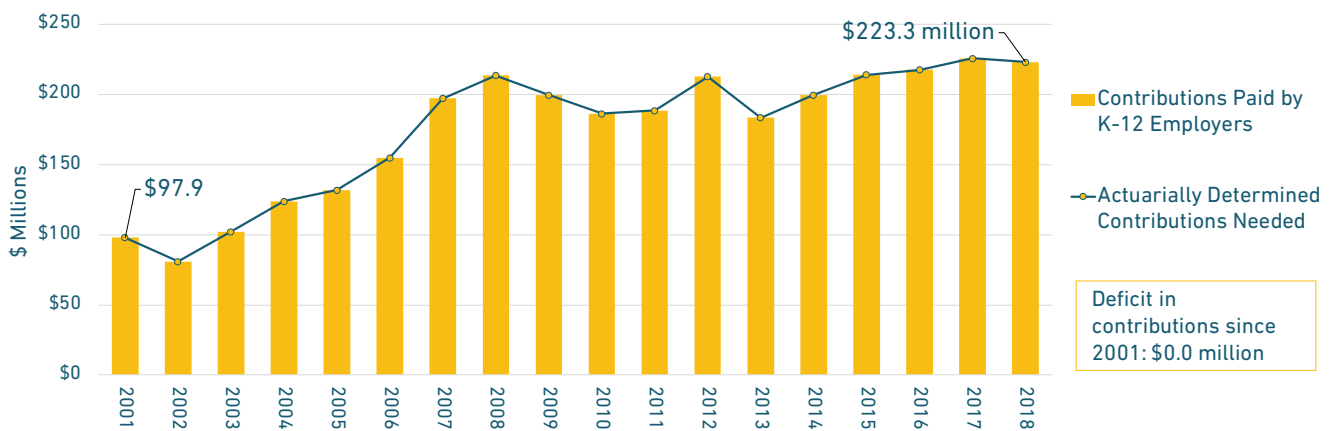


ERSRI Actuarially Determined Employer Contributions, 2001–2018

It is important to highlight that in 2011, Rhode Island adopted a sweeping set of changes to ERSRI that reduced liabilities and changed the trend line of cost increases. While costs have grown slightly since 2011, much of this has been because ERSRI adopted a more realistic measurement of its promised benefits. Without the 2011 changes, the unfunded liability and ADEC today would be much higher than they currently are. Moreover, if we look at the funding ratio of ERSRI, it has improved from roughly 48% in 2011 to 53% in 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. Rhode Island is one of the states that has demonstrated a strong commitment to paying the full required contribution, as shown in Figure RI4. As a result, the increase in contributions actually paid by K-12 employers mirrors the growing trend displayed in Figure RI3, with contributions more than doubling from \$97.9 million in 2001 to \$233.3 million in 2018.

Figure RI4: Rhode Island paid its full actuarial bill to ERSRI each year, that means pension contributions paid have more than doubled since 2001.



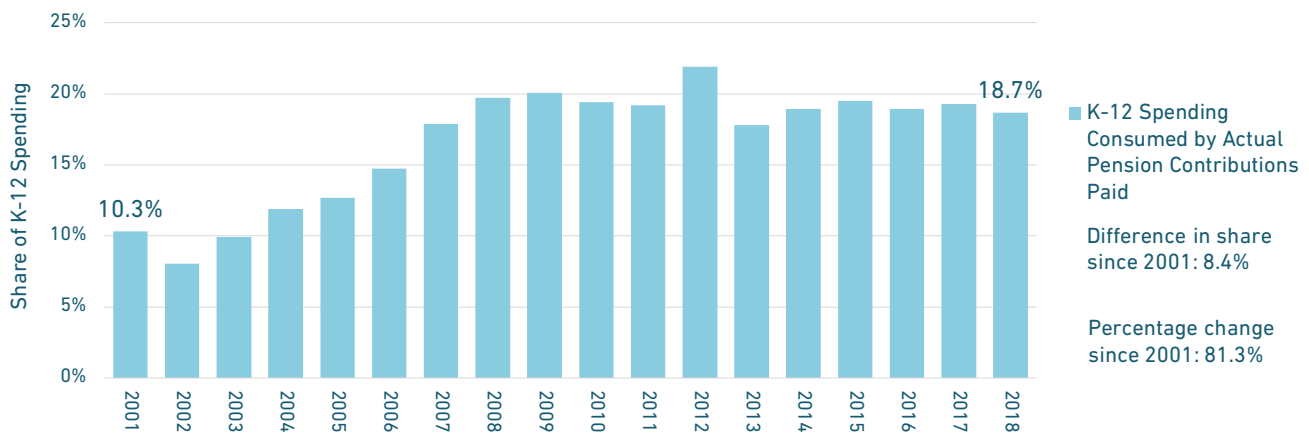
Actuarially Determined Employer Contribution Compared to Actual Contributions Paid to ERSRI, 2001–2018

Paying the full required pension bill each year is the bare minimum for ensuring a pension system is fully funded. 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, Rhode Island 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 growing costs of funding ERSRI have soaked up an increasing share of Rhode Island’s education spending over the past 18 years. This is especially important for teachers, as the growth in ERSRI’s costs outpaced the growth in state own-source K-12 spending. Fortunately, over the past decade, ERSRI’s contributions reported as a share of K-12 spending have been relatively stable.

Figure RI5: The hidden cut to Rhode Island’s state education funding is serious. ERSRI contributions are consuming almost 20% of state K-12 funding, and nearly 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

As Figure RI5 indicates, pension costs consumed an increasing share of education spending from 2001 through 2008 as unfunded liabilities for ERSRI were accruing. In the years since, both pension debt and the ADEC have stabilized while K-12 spending slowly increased. As a result, the share of education funding going toward ERSRI contributions has held stable and even declined slightly over the last decade. However, that does not mean all is well. While the hidden education funding cut has not returned to 2001 levels, if unfunded liabilities begin to grow again or the state slows its investments in education, then the hidden funding cut could grow further.

Rhode Island has met its commitments to funding ERSRI by paying the full ADEC each year, but the costs of paying down the system’s debt have grown significantly faster than the state’s own-source education spending. Unless there is a change that further reduces ERSRI’s costs and/or adjusts the state’s education funding to fully account for pension contributions, Rhode Island’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 RI1 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 growth in unfunded pension liabilities and related pension contributions have easily outpaced per student spending by the state. In fact, Rhode Island increased per student spending by roughly \$2,400 since 2001. However, after accounting for inflation and pension costs, Rhode Island only spent about \$1,400 more per student in 2018 than 2001.

Table RI1: While state education spending grew \$2,400 per student, pension debt and contributions consumed almost 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	\$6,074	\$8,516	140.2%	\$626	\$5,448
2002	\$6,465	\$10,860	168.0%	\$520	\$5,945
2003	\$6,658	\$15,086	226.6%	\$662	\$5,996
2004	\$6,782	\$17,821	262.8%	\$807	\$5,975
2005	\$6,807	\$19,866	291.9%	\$865	\$5,942
2006	\$6,934	\$21,925	316.2%	\$1,022	\$5,911
2007	\$7,465	\$21,731	291.1%	\$1,336	\$6,129
2008	\$7,449	\$18,404	247.1%	\$1,470	\$5,979
2009	\$6,860	\$20,654	301.1%	\$1,377	\$5,483
2010	\$6,682	\$29,356	439.3%	\$1,296	\$5,386
2011	\$6,878	\$18,555	269.8%	\$1,320	\$5,558
2012	\$6,815	\$18,662	273.8%	\$1,493	\$5,322
2013	\$7,261	\$18,101	249.3%	\$1,292	\$5,969
2014	\$7,435	\$18,551	249.5%	\$1,407	\$6,028
2015	\$7,737	\$18,351	237.2%	\$1,507	\$6,230
2016	\$8,081	\$18,401	227.7%	\$1,531	\$6,551
2017	\$8,240	\$20,654	250.7%	\$1,589	\$6,651
2018	\$8,410	\$20,426	242.9%	\$1,571	\$6,838

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 ERSRI 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](https://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.