Hidden Education Funding Cuts

South Carolina

Pension costs are consuming 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 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.

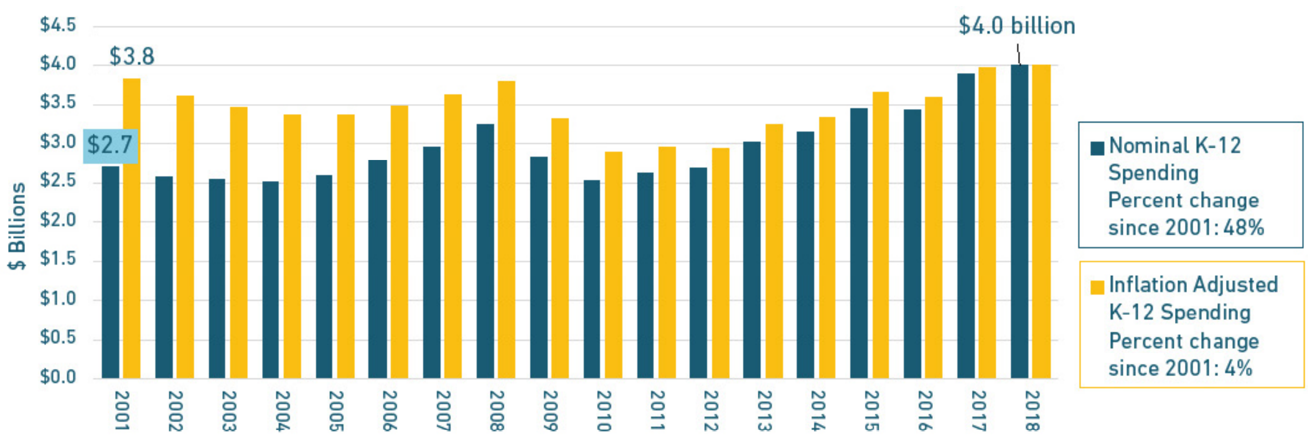
The Palmetto State is home to roughly 5 million citizens, and more than 780,000 primary and secondary school students. In 2018, the state's total expenditures exceeded $25.2 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state's own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled $16.7 billion.

South Carolina teachers have a choice of retirement plans, either a guaranteed income plan, known as a defined benefit pension, or a stand-alone defined contribution only plan. Both plans are administered by the South Carolina Retirement System (SCRS). SCRS manages retirement benefits for more than 520,000 active and retired teachers, state workers, and municipal employees.

EDUCATION SPENDING

In 2018, South Carolina's state distributed K–12 expenditures totaled $5 billion. Out of that total, $4 billion came from state own-source funding while the remaining $1 billion was from federal grants and other education programs. (Local sources provided additional funding.)

Figure SC1: South Carolina's state spending on education only increased by roughly $200 million after accounting for inflation.



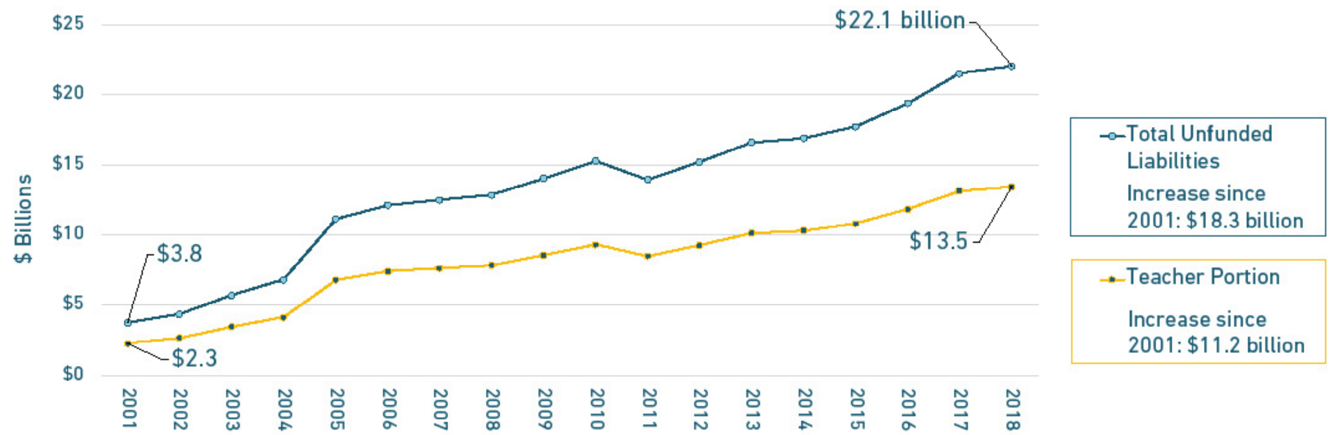
State Own-Source K–12 Spending, 2001–2018

As figure SC1 illustrates, state spending on primary and secondary education in South Carolina has increased moderately since 2001 — growing by $1.3 billion in nominal dollars; and it barely changed after adjusting for inflation, increasing by only $200 million. On a dollars per student basis, spending actually decreased by 8.8% since 2001 — declining from $5,619 to $5,127 (inflation adjusted).

PENSION FUNDING STATUS

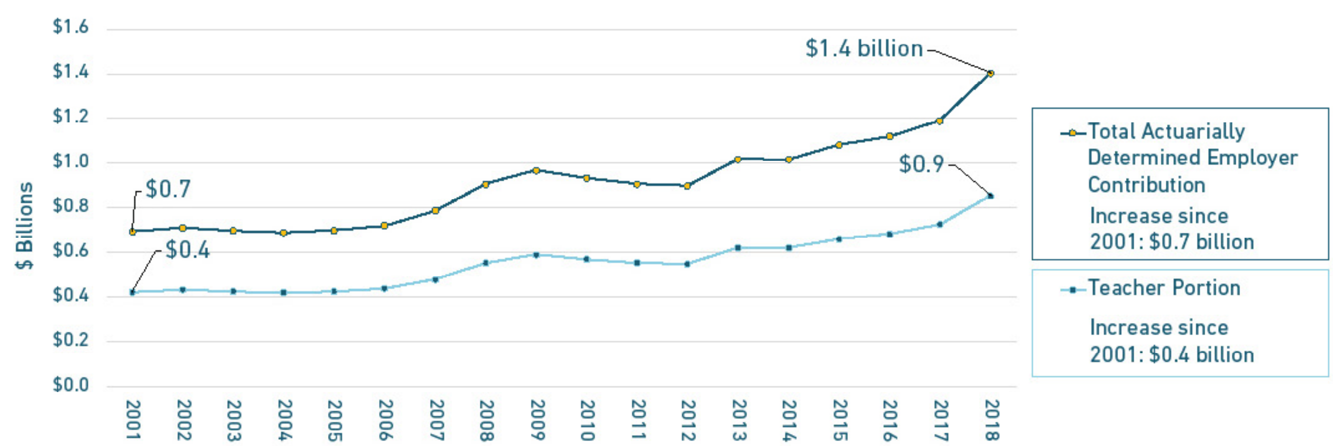
SCRS was nearly fully funded at 99% back in 1999. However, by 2001 the funded status was 87% with $3.8 billion in unfunded liabilities. And since then a combination of underperforming investments coupled with changing demographics have resulted in unfunded liabilities reaching $22.1 billion in 2018. Figure SC2 shows the change in the unfunded liabilities and Figure SC3 illustrates the change in what state actuaries have recommended as contributions from government employers.

Figure SC2: Since 2001 SCRS has transitioned from being nearly fully funded to more than $22 billion in pension debt.



SCRS Unfunded Liabilities (Actuarial Value), 2001–2018

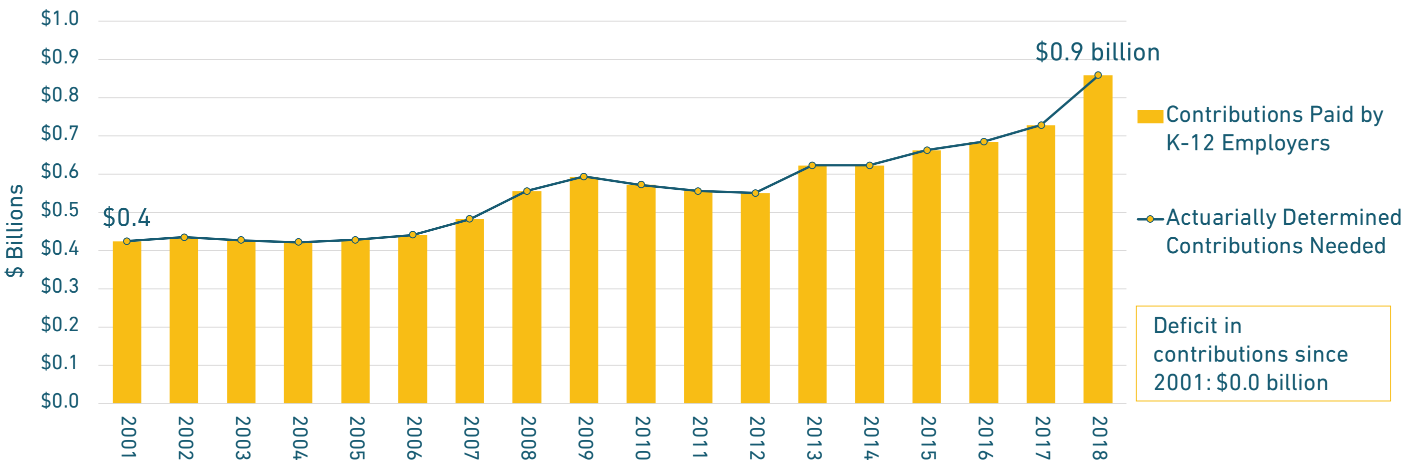
Figure SC3: To address the pension debt the amount actuaries recommend the state contribute to SCRS has more than doubled.



SCRS Actuarially Determined Employer Contributions, 2001–2018

South Carolina is one of a number of states that have prescribed contribution rates established in statute, rather than a simple requirement by law to pay whatever the actuarially required contribution is each year. Statutory contribution rates typically mean states fail to pay the full required contribution each year, but as shown in Figure SC4 South Carolina has technically avoided this fiduciary mistake. The resulting increase in contributions actually paid by K–12 employers mirrors the growing trend displayed in Figure SC3, with contributions more than doubling from $424 million in 2001 to $857 million in 2018.

Figure SC4: South Carolina paid its full actuarial bill to SCRS each year, and that means pension contributions paid have roughly doubled since 2001 .



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

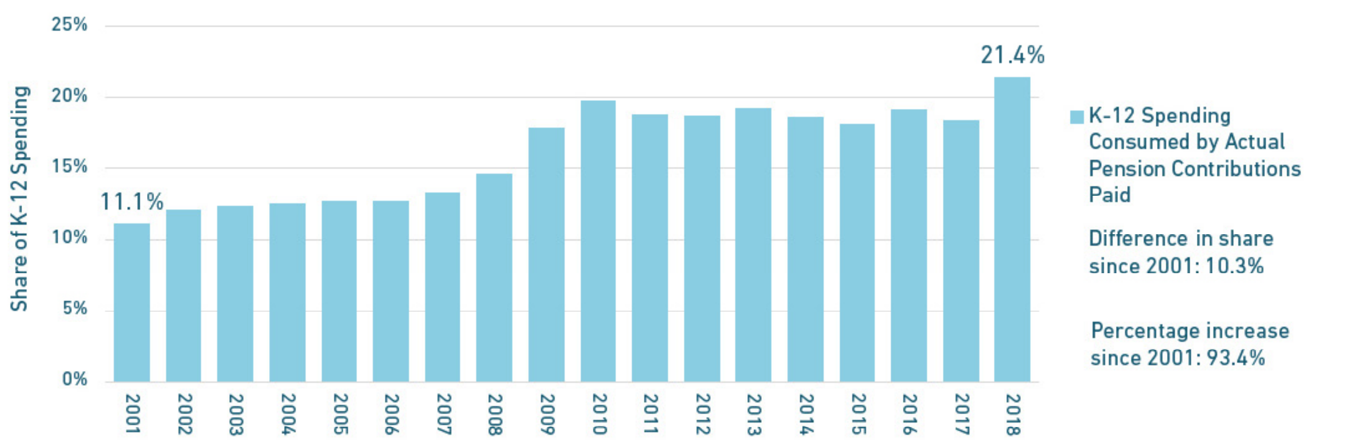
Paying the full required pension bill each year is the bare minimum for ensuring a pension system is fully funded. However, from the perspective of education funding, any increase in pension costs is going to be viewed negatively if it is shrinking the dollars available for teacher salaries and serving kids. In an ideal world, South Carolina 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 SCRS have soaked up an increasing share of South Carolina's education spending. This is especially important for teachers, as the growth in SCRS's costs outpaced the growth in state own-source K–12 spending. In fact, SCRS's contributions reported as a share of K–12 spending increased from 11.1% in 2001 to 21.4% in 2018.

As Figure SC5 indicates, pension costs consumed a relatively stable share of education spending for 2010 through 2017 as K–12 spending increased from year-to-year. However, the costs of contributions to SCRS continued to rise in 2018 while K–12 spending barely changed from 2017, resulting in a sizable jump in the share of K–12 spending comprised of pension contributions.

Figure SC5: The hidden cut to South Carolina state education funding is serious. Increasing SCRS contributions are consuming nearly two 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

South Carolina has met its commitments to funding SCRS by paying the full ADEC each year, 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 adjusts the state's education funding to fully account for increasing pension contributions (which are scheduled to grow until at least 2023 per a statute adopted in 2016), South Carolina'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 SC1 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, after accounting for inflation and pension costs, South Carolina spent less per-student in 2018 than 2001.

Table SC1: State education spending declined while pension debt and pension contributions grew, creating a near $1,000 per student cut.

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	$5,619	$3,385	60.2%	$622	$4,997
2002	$5,255	$3,909	74.4%	$632	$4,623
2003	$5,002	$5,046	100.9%	$615	$4,387
2004	$4,822	$5,984	124.1%	$604	$4,218
2005	$4,784	$9,691	202.6%	$608	$4,176
2006	$4,910	$10,473	213.3%	$622	$4,288
2007	$5,078	$10,723	211.2%	$676	$4,403
2008	$5,290	$10,936	206.7%	$772	$4,518
2009	$4,591	$11,851	258.1%	$819	$3,771
2010	$3,989	$12,857	322.3%	$787	$3,202
2011	$4,058	$11,714	288.6%	$763	$3,295
2012	$3,989	$12,613	316.2%	$747	$3,242
2013	$4,349	$13,598	312.7%	$835	$3,514
2014	$4,414	$13,653	309.3%	$823	$3,591
2015	$4,788	$14,195	296.5%	$866	$3,922
2016	$4,649	$15,363	330.5%	$888	$3,761
2017	$5,105	$16,941	331.8%	$937	$4,169
2018	$5,127	$17,228	336.0%	$1,097	$4,030

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

THE STATE OPTIONAL RETIREMENT PLAN

In addition to the guaranteed income plan offered by SCRS, the system also offers the State Optional Retirement Plan (SORP). Under this plan teachers contribute to individual retirement system accounts and those funds are supplemented by contributions from their employer. In 2018, roughly 30,000 employees were enrolled in SORP. A total of $210.8 million was paid into those retirement accounts. As a point of comparison, the total contributions to the pension portion of SCRS totaled nearly $2.3 billion.

Despite the availability of SORP for South Carolina teachers its size, complete employer contribution data are not clearly reported publicly going back to 2001. As a result, SORP is not included in our figures or analyses. This makes the total hidden funding figures more conservative than if we were able to incorporate these 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.