Hidden Education Funding Cuts

South Dakota

Pension costs are consuming nearly 30% more state education funding today than 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 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.

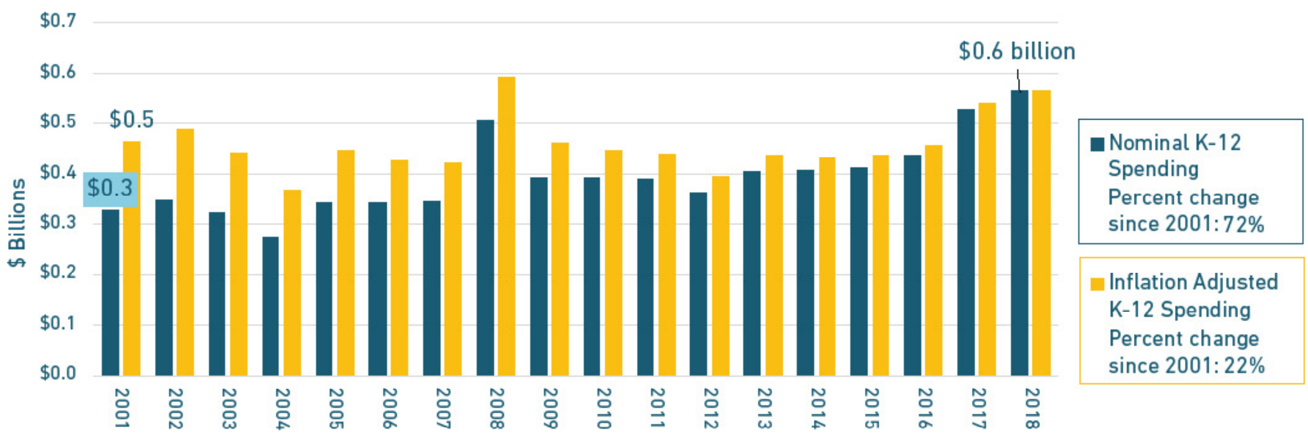
The Mount Rushmore State is home to nearly 900,000 citizens, and almost 140,000 primary and secondary school students. In 2018, the state's total expenditures exceeded $4.4 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state's own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled $3 billion.

South Dakota teachers are enrolled in a guaranteed income plan, known as a defined benefit pension, administered by the South Dakota Retirement System (SDRS). SDRS manages retirement benefits for roughly 88,000 active and retired public sector employees, of which 28% are teachers and other K–12 employees.

EDUCATION SPENDING

In 2018, South Dakota's state distributed K–12 expenditures totaled $731 million. Out of that total, $564 million came from state own-source funding while the remaining $167 million was from federal grants and other education programs. (Local sources provided additional funding.)

Figure SD1: South Dakota's state spending on education only increased by roughly $100 million after accounting for inflation.



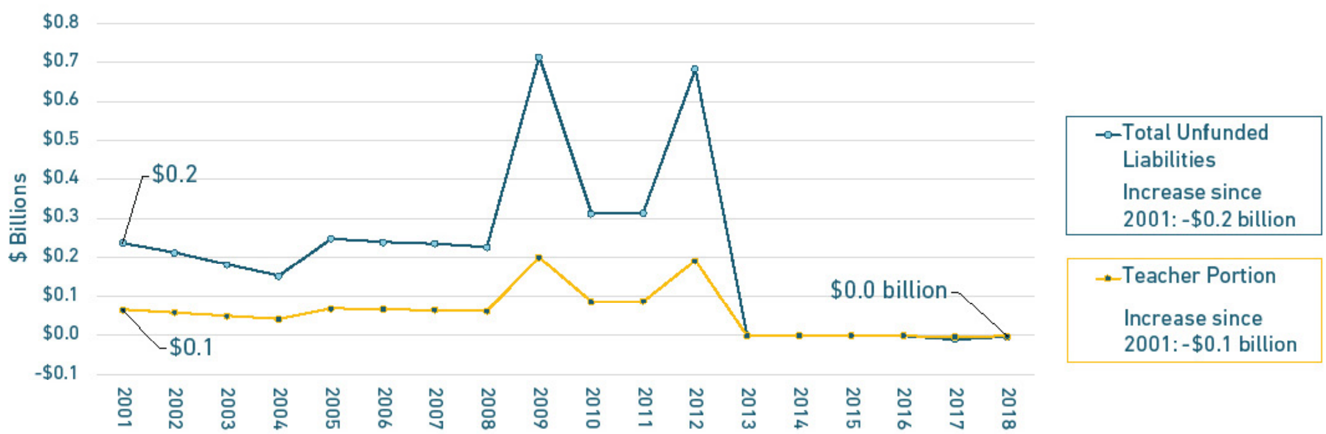
State Own-Source K–12 Spending, 2001–2018

As figure SD1 illustrates, state spending on primary and secondary education in South Dakota has increased moderately since 2001 — growing by $237 million in nominal dollars; however, the increase was less-than-half as much after adjusting for inflation, increasing by only $101.1 million. On a dollars per student basis, spending increased 11.6% since 2001 — growing from $3,634 to $4,055 (inflation adjusted).

PENSION FUNDING STATUS

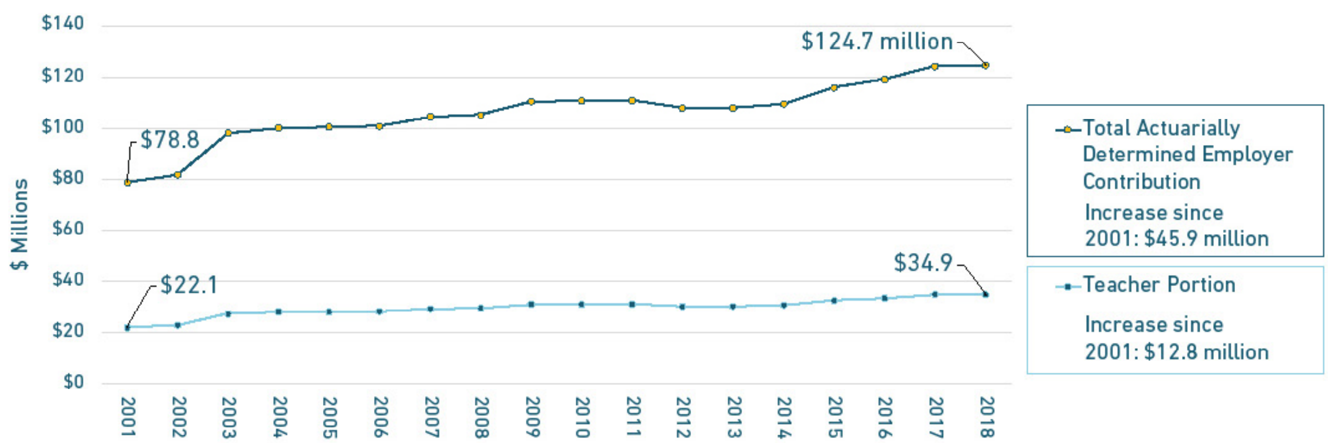
In 2001, SDRS had $236 million in pension debt. However, over the past 17 years a commitment to paying pension costs and good management of the system have resulted in a fully funded pension — reporting a $2.3 million surplus in 2018. Figure SD2 shows the change in the unfunded liabilities and Figure SD3 illustrates the change in what state actuaries have recommended as contributions from government employers.

Figure SD2: Since 2001 SDRS has transitioned from more than $230 million in pension debt to a surplus.



SDRS Unfunded Liabilities (Actuarial Value), 2001–2018

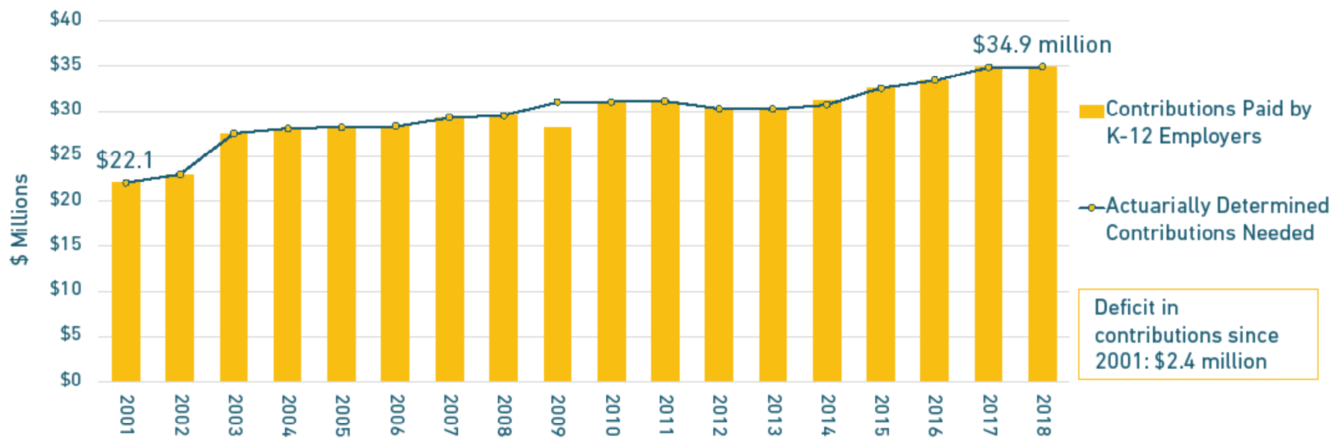
Figure SD3: As South Dakota has grown over the past decades, the dollar amount actuaries recommend for SDRS has also grown.



SDRS 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. Unfortunately, South Dakota missed making its full contribution in 2010, resulting in a $2.4 million deficit for the system. This is because SDRS operates using fixed contribution rates as a percentage of public employee payroll, determined by the legislature. However, South Dakota law also requires benefit adjustments when the funded status of the retirement system is threatened. As a result, in most years South Dakota's contributions are at least as much as the full ADEC, shown in Figure SD4.

Figure SD4: South Dakota paid its full actuarial bill to SDRS each year (except 2009) and that means contributions went up 58%.



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

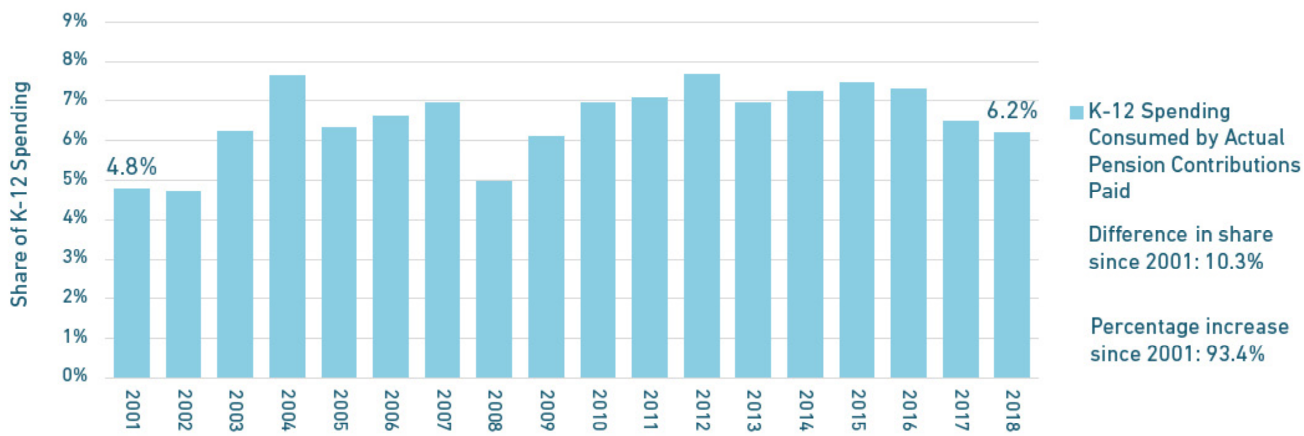
The increase in contributions actually paid by the state for teachers mirrors the growing trend displayed in Figure SD2, with contributions growing by 58% from $22.1 million in 2001 to $34.9 million in 2018.

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. South Dakota has done a good job ensuring that funding for education has expanded at a comparable rate as the growth in the ADEC shown above. But as we show in the final chart on the next page, pension contributions still consume more of the state's education budget than at the turn of the century.

PENSION COSTS CROWDING OUT K–12 SPENDING

The growing costs of funding SDRS have soaked up an increasing share of South Dakota's education spending. This is especially important for teachers, as the growth in SDRS's costs outpaced the growth in state own-source K–12 spending. In fact, SDRS's contributions reported as a share of K–12 spending increased from 4.8% in 2001 to 6.2% in 2018 — a nearly 30% increase, shown in Figure SD5.

Figure SD5: The hidden cut to South Dakota's state education funding is worth monitoring. TRS contributions are consuming 30% more state K–12 funding in 2018 than 2001.



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

As Figure SD3 previously showed, South Dakota pension costs have continued to climb over the past few years. But the state's efforts to improve education funding in conjunction with reaching fully funded status in 2013 have mostly helped mitigate the increase in SDRS K–12 employer contributions as a share of own-source K–12 spending.

South Dakota has met its commitments to funding SDRS by paying the full ADEC nearly every year, but the costs of the system have grown since 2001. While the state has generally managed to keep pace, it will be important that the state continue adjusting education funding to fully account for pension contributions as they evolve in the coming years. Otherwise South Dakota education funding may see a growing hidden cut in dollars intended for serving the state's children.

An even more concrete way to understand how the changes in pension costs to keep SDRS fully funded have influenced education resources is to think about them relative to total student enrollment. Table SD1 shows the teacher 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 per student education spending has mostly kept pace with the growth in costs to funded SDRS – but about 20% of the $421 per student increase in education funding has gone to the slightly increased SDRS costs.

Table SD1: While pension contributions have grown, increased state education spending has still resulted in more funding per student.

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	$3,634	$520	14.3%	$173	$3,461
2002	$3,862	$471	12.2%	$182	$3,680
2003	$3,528	$407	11.5%	$220	$3,308
2004	$2,966	$346	11.7%	$227	$2,739
2005	$3,642	$567	15.6%	$230	$3,412
2006	$3,528	$553	15.7%	$233	$3,295
2007	$3,464	$542	15.6%	$241	$3,223
2008	$4,690	$501	10.7%	$233	$4,457
2009	$3,729	$1,618	43.4%	$228	$3,501
2010	$3,546	$694	19.6%	$246	$3,300
2011	$3,429	$686	20.0%	$243	$3,186
2012	$3,026	$1,467	48.5%	$232	$2,794
2013	$3,331	$0	Fully Funded	$231	$3,099
2014	$3,242	$0	Fully Funded	$234	$3,008
2015	$3,247	$0	Fully Funded	$242	$3,005
2016	$3,354	$0	Fully Funded	$245	$3,109
2017	$3,917	$0	Fully Funded	$253	$3,663
2018	$4,055	$0	Fully Funded	$251	$3,804

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 SDRS 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.