Hidden Education Funding Cuts

Tennessee

Pension costs from the state's teacher retirement plans are consuming nearly 50% more state education funding in 2018 than 2001

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 2002–2018, 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 2002–2018.

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.

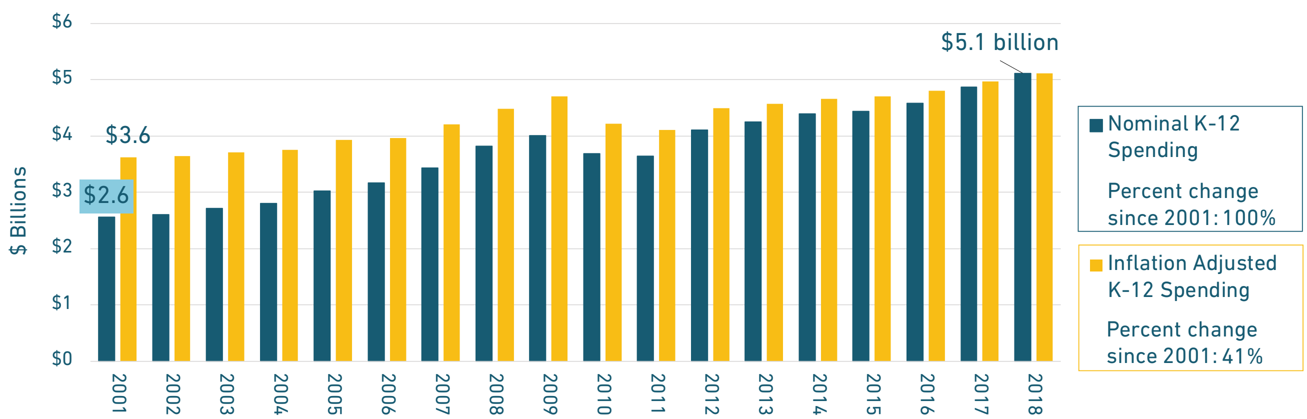
The Volunteer State is home to more than 6.8 million citizens, and roughly 1 million primary and secondary school students. In 2018, the state's total expenditures approached $34.2 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state's own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled $20.6 billion.

Prior to 2014 Tennessee teachers were enrolled in a guaranteed income plan, known as a defined benefit pension, now called the "Teachers Legacy Pension Plan." Teachers hired starting in 2014 are enrolled in a hybrid plan that combines elements of a defined benefit plan and defined contribution account, called the "Teachers Hybrid Pension Plan." Both plans are administered by the Tennessee Consolidated Retirement System (TCRS) that also manages separate plans for state workers, higher education employees, and elected officials. Across the two teacher plans TCRS manages retirement benefits for nearly 130,000 active and retired teachers.

EDUCATION SPENDING

In 2018, Tennessee's state distributed K–12 expenditures totaled $6.3 billion. Out of that total, $5.1 billion came from state own-source funding while the remaining $1.2 billion was from federal grants and other education programs. (Local sources provided additional funding.)

Figure TN1: Tennessee's state spending on education only increased by $1.5 billion after accounting for inflation.



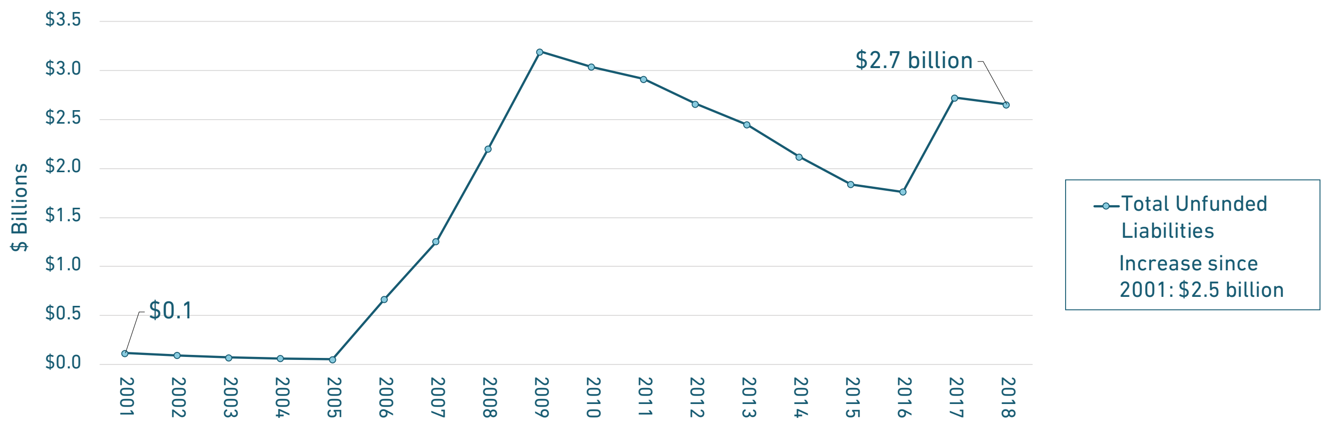
State Own-Source K–12 Spending, 2001–2018

As Figure TN1 illustrates, state spending on primary and secondary education in Tennessee has increased significantly since 2001 — growing by $2.5 billion in nominal dollars; however, it increased much less after adjusting for inflation, growing by only $1.5 billion. On a dollars per student basis, spending increased 30% since 2001 — growing from $3,931 to $5,112 (inflation adjusted).

PENSION FUNDING STATUS

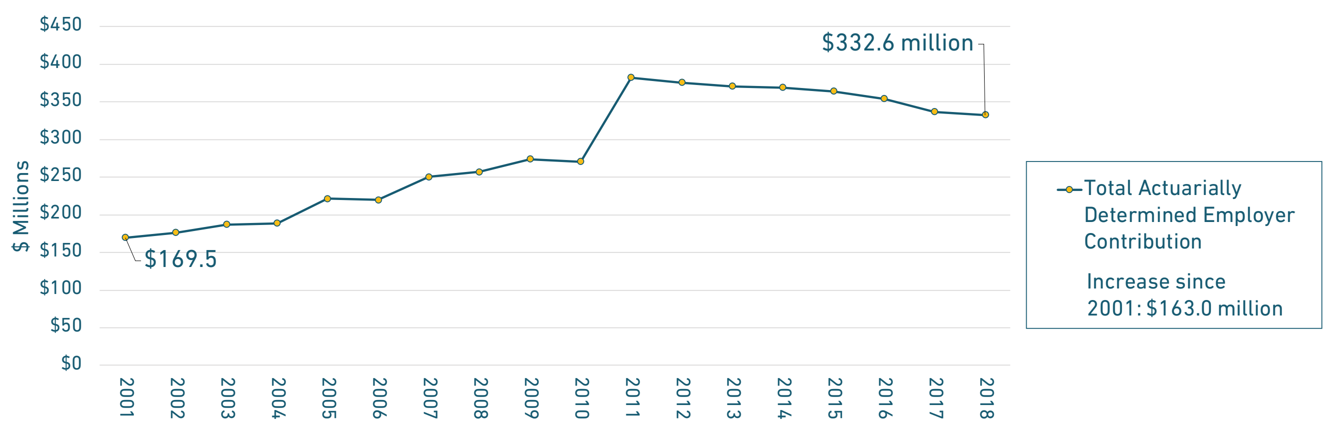
In 2001, the Teachers Legacy Pension Plan was nearly fully funded with only $115 million in pension debt. Since then a combination of underperforming investments coupled with changing demographics has led to growth in unfunded liabilities for the consolidated TCRS teacher plans. The Teachers Hybrid Pension Plan was introduced in 2014 and has not yet accumulated any meaningful unfunded liabilities. Despite being among the best funded teacher retirement systems in the country, by 2018 the combined TCRS teacher plans still had accumulated $2.7 billion in pension debt. Figure TN2 shows the change in the unfunded liabilities and Figure TN3 illustrates the change in what state actuaries have recommended as contributions from government employers.

Figure TN2: Roughly $2.5 billion in pension debt has accumulated since 2005.



Consolidated TCRS Teachers Unfunded Liabilities (Actuarial Value), 2001–2018

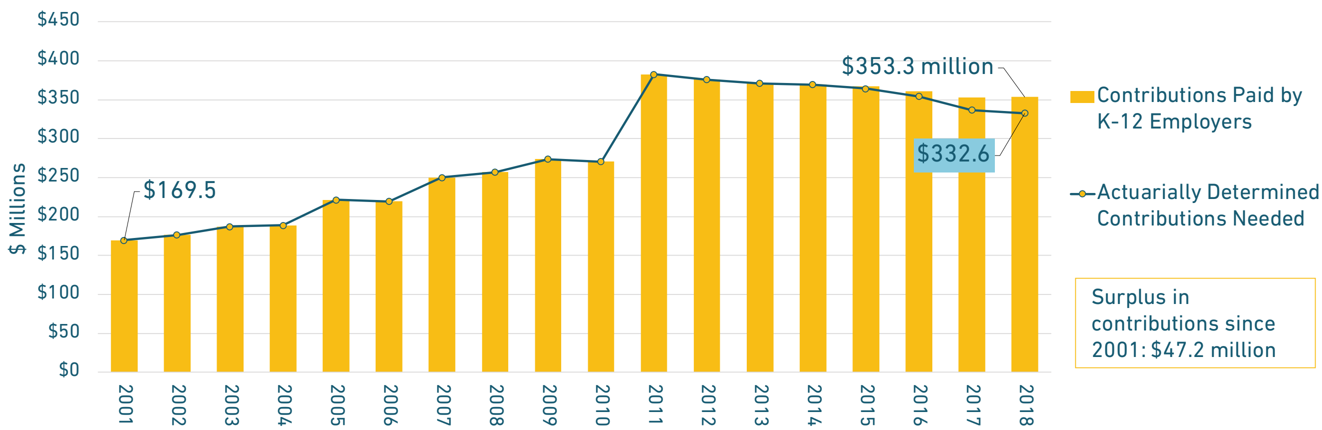
Figure TN3: Pension debt has grown slowly, but the amount actuaries recommend the state contribute to TCRS teacher plans has nearly doubled.



Consolidated TCRS Teachers 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 its pension funds each year. But Tennessee is one of the states that has demonstrated a strong commitment to paying the full required contribution, as shown in Figure TN4. As a result, the increase in contributions actually paid by the state roughly mirrors the growing trend displayed in Figure TN3. In fact, Tennessee has overpaid the ADEC in recent years such that actual contributions paid more than doubled from $169.5 million in 2001 to $353.3 million in 2018.

Figure TN4: Tennessee has always paid the full pension bill, but that means contributions have more than doubled since 2001.



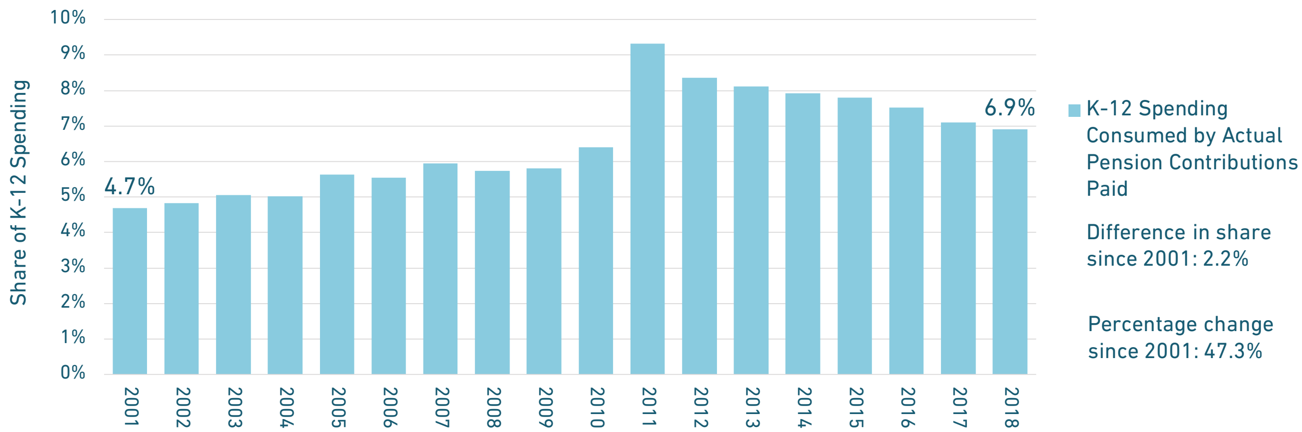
Actuarially Determined Employer Contribution Compared to Actual Contributions Paid to Consolidated TCRS Teachers, 2001–2018

While the few billion in unfunded liabilities for Tennessee does not pose any immediate solvency threat, it has meant an increase in pension costs. Paying the full required pension bill each year to cover those costs 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, Tennessee would have ensured that funding for education expanded at least as fast as the growth in the ADEC and contributions paid 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 TCRS's teacher plans have soaked up an increasing share of Tennessee's education spending. This is especially important for teachers, as the growth in TCRS's teacher costs outpaced the growth in state own-source K–12 spending. In fact, contributions reported as a share of K–12 spending increased from 4.7% in 2001 to 6.9% in 2018.

Figure TN5: TCRS's contributions for its teacher plans are consuming nearly 50% more state education funding in 2018 than 2001.



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

Tennessee has one of the best managed teacher retirement systems in the country, with a combined funded ratio of 97% across both plans. Moreover, the state has met its commitments to funding TCRS's teacher plans by paying at least the full ADEC each year. But, despite the system's stability and relatively low pension debt, the costs of paying down what funding shortfall does exist have grown faster than the state's own-source education spending. Unless there is a change that reduces TCRS's teacher pension costs and/or adjusts the state's education funding to fully account for pension contributions, Tennessee'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 TN1 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 pension contributions have outpaced per student spending by the state. In fact, after accounting for inflation and pension costs, Tennessee only spent $1,000 more per student with state dollars in 2018 than 2001.

Table TN1: State education spending per student increased by nearly $1,200, but pension costs per student have nearly doubled.

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	$3,931	$125	3.2%	$184	$3,747
2002	$3,914	$100	2.6%	$189	$3,725
2003	$3,929	$76	1.9%	$198	$3,730
2004	$3,937	$65	1.6%	$198	$3,739
2005	$4,071	$54	1.3%	$229	$3,842
2006	$4,054	$680	16.8%	$224	$3,829
2007	$4,369	$1,302	29.8%	$260	$4,109
2008	$4,615	$2,262	49.0%	$264	$4,351
2009	$4,844	$3,283	67.8%	$282	$4,562
2010	$4,279	$3,075	71.9%	$274	$4,005
2011	$4,106	$2,915	71.0%	$383	$3,723
2012	$4,523	$2,676	59.2%	$378	$4,145
2013	$4,603	$2,462	53.5%	$373	$4,230
2014	$4,680	$2,131	45.5%	$371	$4,309
2015	$4,705	$1,836	39.0%	$367	$4,338
2016	$4,794	$1,760	36.7%	$360	$4,433
2017	$4,964	$2,716	54.7%	$352	$4,612
2018	$5,112	$2,649	51.8%	$353	$4,760

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 Consolidated TCRS Teachers Unfunded Liabilities and Actual K–12 Employer Contributions, 2001–2018

THE DEFINED CONTRIBUTION PORTION OF TEACHERS HYBRID PENSION PLAN

All teachers hired since 2014 are enrolled into the Teachers Hybrid Pension Plan that features both a guaranteed income portion and a defined contribution portion. Under this hybrid plan teachers participate in both a defined benefit pension and also individual retirement accounts. Employees and employers make contributions to both retirement benefit components.

Despite the fact that the hybrid plan has been the default retirement plan for Tennessee teachers dating back to 2014, complete data for the defined contribution portion of the hybrid plan are not publicly reported at a level sufficiently to allow for their inclusion in these analyses. As a result, the defined contribution portion of the Teachers Hybrid Pension Plan is not incorporated into our figures or analyses. This makes the total hidden funding cut figures more conservative than if we were able to incorporate this data into the “pension cost” share of state K–12 education funding.

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.