

Hidden Education Funding Cuts

Texas

Pension costs are consuming almost 40% 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 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.

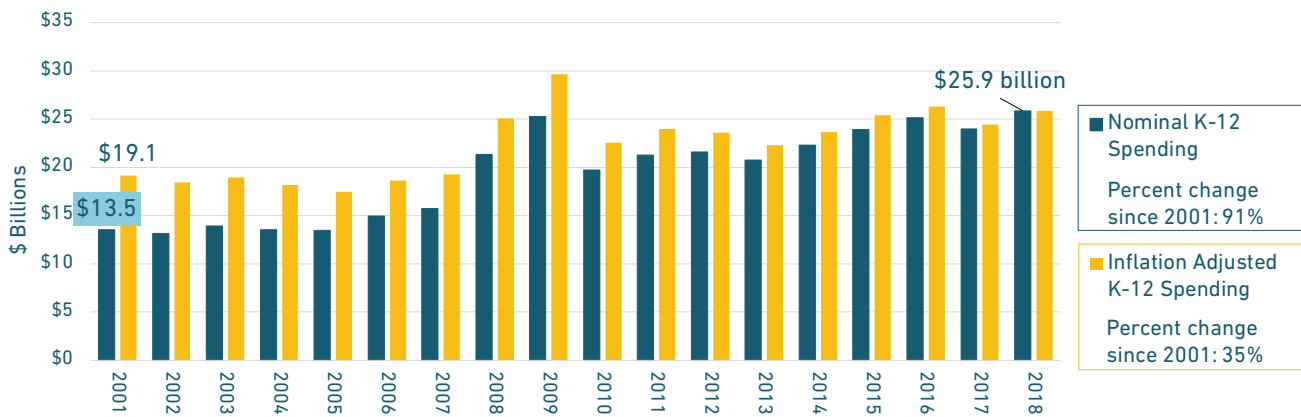
The Lone Star State is home to nearly 29 million citizens, and almost 5.5 million primary and secondary school students. In 2018, the state’s total expenditures exceeded \$115.2 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state’s own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled \$75.8 billion.

Texas teachers are enrolled in a guaranteed income plan, known as a defined benefit pension, administered by the Teachers’ Retirement System of Texas (TRS). TRS manages retirement benefits for roughly 1.6 million active and retired teachers.

EDUCATION SPENDING

In 2018, Texas’ state distributed K–12 expenditures totaled \$31 billion. Out of that total, \$25.9 billion came from state own-source funding while the remaining \$5.1 billion was from federal grants and other education programs. (Local sources provided additional funding.)

Figure TX1: Texas’ state spending on education increased by \$12.4 billion in nominal dollars, but only \$6.7 billion after accounting for inflation.



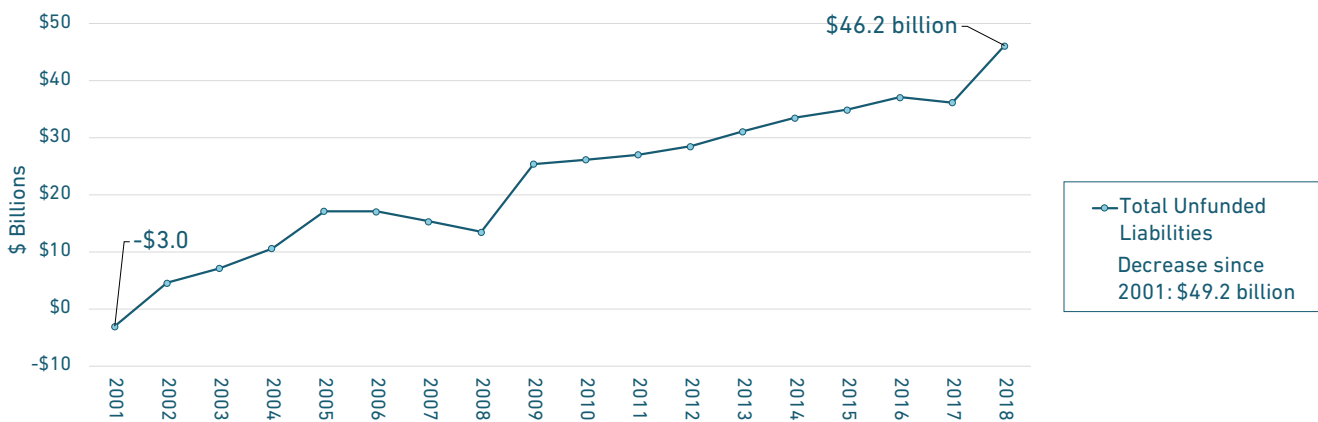
State Own-Source K–12 Spending, 2001–2018

As Figure TX1 illustrates, state spending on primary and secondary education in Texas has increased significantly since 2001 — growing by \$12.4 billion in nominal dollars; however, it increased moderately after adjusting for inflation, growing by only \$6.7 billion. On a dollars per student basis the effect of climbing enrollment is apparent, as spending increased only 2.8% since 2001 — growing from \$4,608 to \$4,735 (inflation adjusted).

PENSION FUNDING STATUS

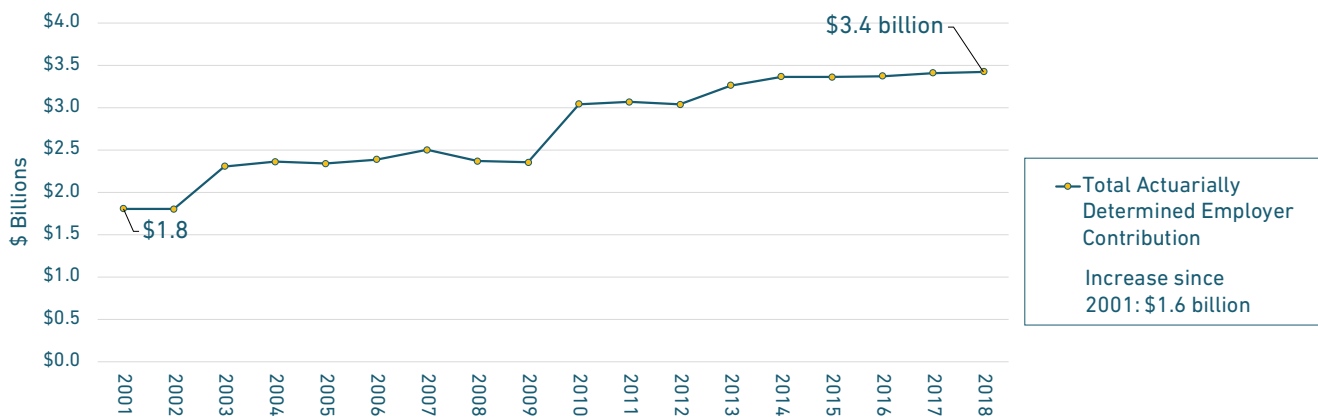
As recently as 2001, TRS was fully funded with a more than \$3 billion surplus. However, over the past 17 years a combination of underperforming investments coupled with changing demographics have caused TRS to transition from a surplus to having unfunded liabilities that have exploded — reaching \$46.2 billion in 2018. Figure TX2 shows the change in the unfunded liabilities and Figure TX3 illustrates the change in what state actuaries have recommended as contributions from government employers.

Figure TX2: TRS transitioned from a \$3 billion surplus to more than \$46.2 billion in pension debt since 2001.



TRS Unfunded Liabilities (Actuarial Value), 2001–2018

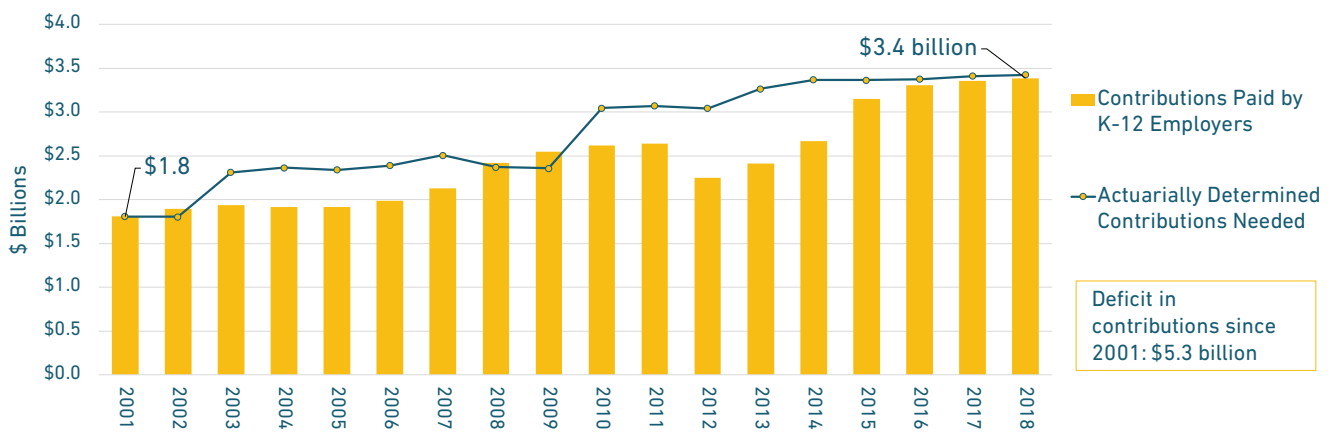
Figure TX3: To address growing pension debt the amount actuaries recommend the state should contribute to TRS has nearly doubled.



TRS 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 to the pension fund each year. Unfortunately, Texas is one of those states. The Lone Star State makes its contributions using a statutory rate determined by the legislature. Although the statutory rate is usually based on actuarial recommendations, the rate can only be changed every two years and political pressure is frequently aligned against increases in the contributions. As a result, Texas failed to pay the full ADEC 14 times since 2001, shown in Figure TX4.

Figure TX4: Texas did not pay its full actuarial bill to TRS every year, shorting the plan by \$5.3 billion since 2001.



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

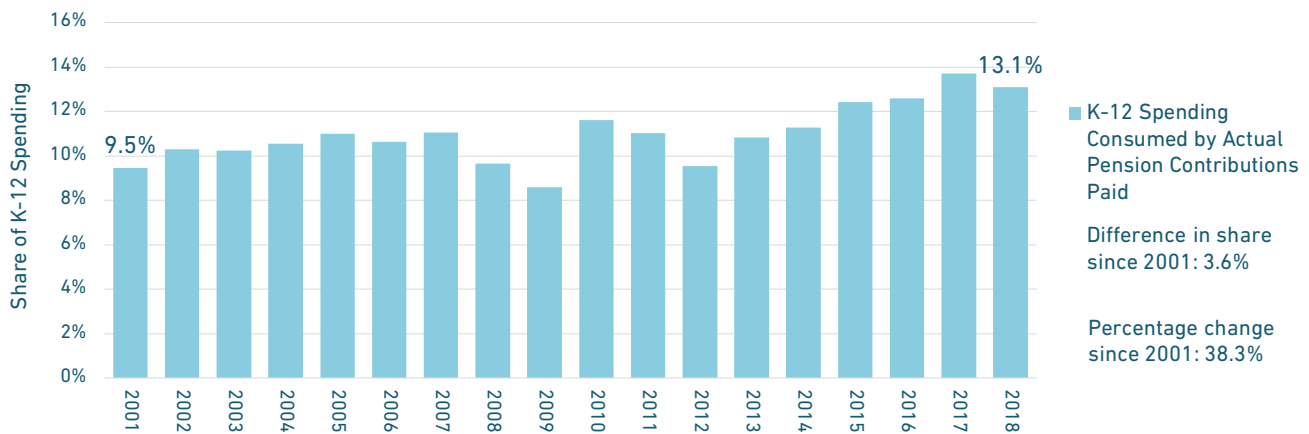
The actual contributions paid into TRS using education funds have been less than if the ADEC was paid in full each year, but even with the shortfall in funding responsibility, actual contributions paid to TRS have almost doubled from \$1.8 billion in 2001 to \$3.4 billion in 2018.

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 Texas to adopt a policy of ensuring the ADEC is paid every year. 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 Texas’ 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 TRS have soaked up an increasing share of Texas’ education spending. This is especially important for teachers, as the growth in TRS’s costs outpaced the growth in state own-source K-12 spending. In fact, TRS’s contributions reported as a share of K-12 spending increased from 9.5% in 2001 to 13.1% in 2018.

Figure TX5: The hidden cut to Texas’ state education funding is serious. TRS contributions are consuming almost 40% more state K-12 funding in 2018 than 2001.



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

Despite the explosion of pension debt and its associated costs, the share of state K-12 education funding being consumed by TRS’s pension costs has only grown 38.3%. Such a growth in hidden cuts is bad on its own terms, but part of the reason why the cut isn’t larger is because of statutory restrictions on the contributions that can be paid from the state to TRS. Increases in state education funding have also prevented this problem from getting worse, but overall the issue is still quite serious, as a growing share of education dollars are being consumed by the pension system while the pension debt continues to grow.

In 2019 the state took a positive step toward improving TRS funding (via a bill known as “SB12”), which made a supplemental payment to TRS and scheduled increases in both the member and employer contribution rates. The benefit of SB12 is that it put TRS on a more reasonable path to solvency. However, the increased state and employer contributions will only exacerbate the hidden cuts problem emphasized above. The Texas legislature also adopted in 2019 an increase to education funding (via a bill known as “HB3”), but it is unclear whether those additional education dollars will offset the additional TRS costs.

Texas will need to monitor carefully the state’s hidden cut in future years, because if left unchecked education funding will continue to suffer this reduction 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 TX1 shows 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, Texas spent roughly \$50 less per student in 2018 than 2001.

Table TX1: State education spending only increased roughly \$100 per student, but pension debt and contributions grew twice as much.

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	\$4,608	-\$728	-15.8%	\$436	\$4,172
2002	\$4,342	\$1,085	25.0%	\$448	\$3,895
2003	\$4,374	\$1,648	37.7%	\$448	\$3,925
2004	\$4,105	\$2,408	58.7%	\$433	\$3,671
2005	\$3,875	\$3,803	98.2%	\$426	\$3,449
2006	\$4,054	\$3,721	91.8%	\$431	\$3,623
2007	\$4,125	\$3,286	79.7%	\$456	\$3,669
2008	\$5,278	\$2,847	53.9%	\$509	\$4,769
2009	\$6,119	\$5,239	85.6%	\$525	\$5,594
2010	\$4,567	\$5,307	116.2%	\$531	\$4,036
2011	\$4,791	\$5,416	113.0%	\$528	\$4,263
2012	\$4,645	\$5,621	121.0%	\$443	\$4,202
2013	\$4,329	\$6,043	139.6%	\$469	\$3,860
2014	\$4,514	\$6,406	141.9%	\$509	\$4,004
2015	\$4,784	\$6,595	137.9%	\$594	\$4,190
2016	\$4,902	\$6,919	141.2%	\$617	\$4,285
2017	\$4,514	\$6,687	148.1%	\$619	\$3,895
2018	\$4,735	\$8,451	178.5%	\$620	\$4,115

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 TRS 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.