

# Hidden Education Funding Cuts

## Utah

### Pension costs are consuming 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 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 Beehive State is home to roughly 3.2 million citizens, and nearly 675,000 primary and secondary school students. In 2018, the state’s total expenditures exceeded \$14.8 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 \$10.9 billion.

Utah teachers hired before June 30, 2011 are participants in a guaranteed income plan, known as a defined benefit pension. New teachers joining the workforce today have a choice of retirement plans, either a hybrid plan that combines elements of a defined benefit plan and defined contribution account, or a stand-alone defined contribution only plan. All plans available are administered by the Utah Retirement System (URS). URS manages retirement benefits for roughly 225,000 active and retired teachers, state workers, local government employees, university staff and faculty, and police and firefighters. This profile focuses on the “State and School” plan, which is about 70% of the membership in URS’s Public Employees divisions.

## EDUCATION SPENDING

In 2018, Utah’s state distributed K–12 expenditures totaled \$4 billion. Out of that total, \$3.5 billion came from state own-source funding while the remaining \$493 million was from federal grants and other education programs. (Local sources provided additional funding.)

**Figure UT1: Utah’s state spending on education only increased by roughly \$1.2 billion after accounting for inflation.**



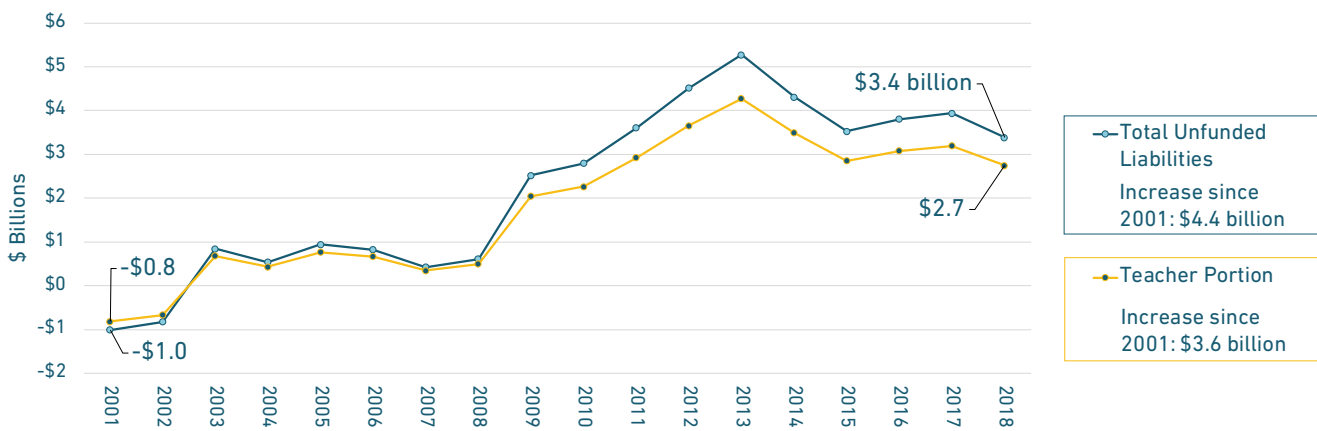
State Own-Source K–12 Spending, 2001–2018

As Figure UT1 illustrates, state spending on primary and secondary education in Utah has increased significantly since 2001 — growing by \$1.9 billion in nominal dollars; and, it increased moderately after adjusting for inflation, growing by only \$1.2 billion. On a dollars per student basis, spending increased by 10% since 2001 — climbing from \$4,744 to \$5,218 (inflation adjusted).

## PENSION FUNDING STATUS

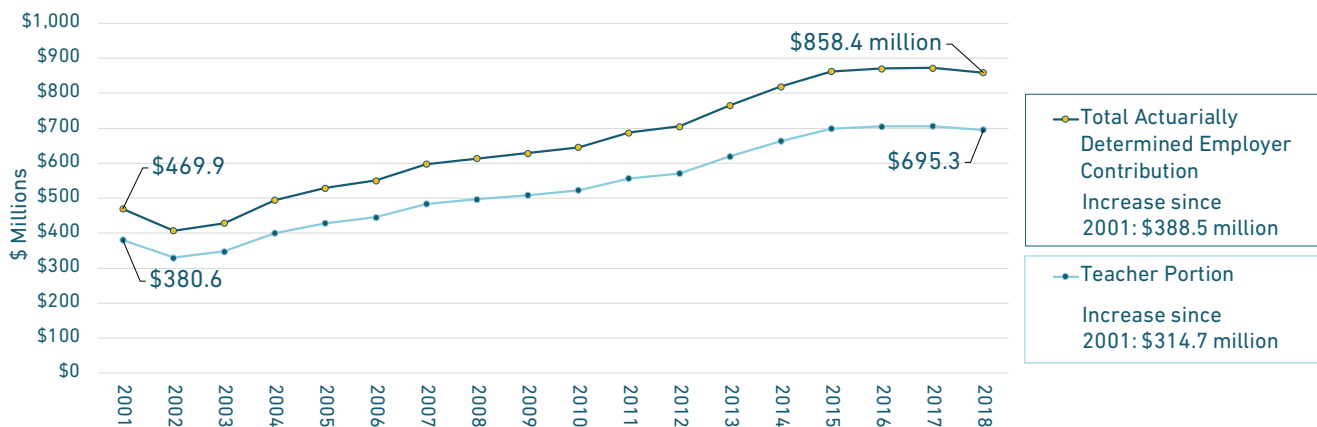
As recently as 2002, URS was fully funded with a surplus of \$823.1 million. However, over the past 16 years a combination of underperforming investments coupled with changing demographics have resulted in a growing unfunded liability for URS — reaching \$3.4 billion in 2018. Figure UT2 shows the change in the unfunded liabilities and Figure UT3 illustrates the change in what state actuaries have recommended as contributions from government employers. The “Teacher Portion” reflects the share of URS classified as “State and School.”

**Figure UT2: Since 2001 URS has transitioned from fully funded to \$3.4 billion in pension debt.**



URS Unfunded Liabilities (Actuarial Value), 2001–2018

**Figure UT3: To address the pension debt the amount actuaries recommend the state should contribute to URS for teachers has doubled.**

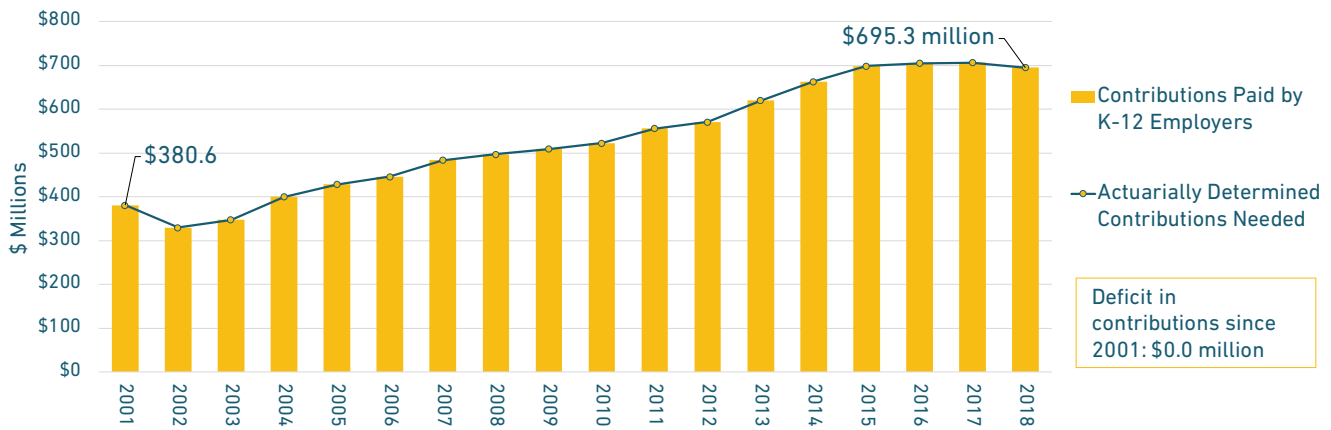


URS Actuarially Determined Employer Contributions, 2001–2018

It is important to highlight that in the fiscal year ending 2012, Utah began implementing a sweeping set of changes to URS that reduced liabilities and changed the trend line of cost increases. While costs have grown since 2012, much of this has been because URS adopted a more realistic measurement of its promised benefits (lowering its assumed rate of return from 7.5% to 6.95%). Without the changes (originally adopted in 2010), the unfunded liability and ADEC today would be much higher than it currently is. And when looking at the funding ratio of URS, it has improved from roughly 77% in 2012 to 87% 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. Fortunately, Utah is one of the states that has demonstrated a strong commitment to paying the full required contribution, as shown in Figure UT4. As a result, the increase in contributions actually paid by the state for teachers mirrors the growing trend displayed in Figure UT3, with contributions doubling from \$323.4 million in 2001 to \$645.6 million in 2018.

**Figure UT4: Utah paid its full actuarial bill to URS each year, and that means pension contributions paid have doubled since 2001.**



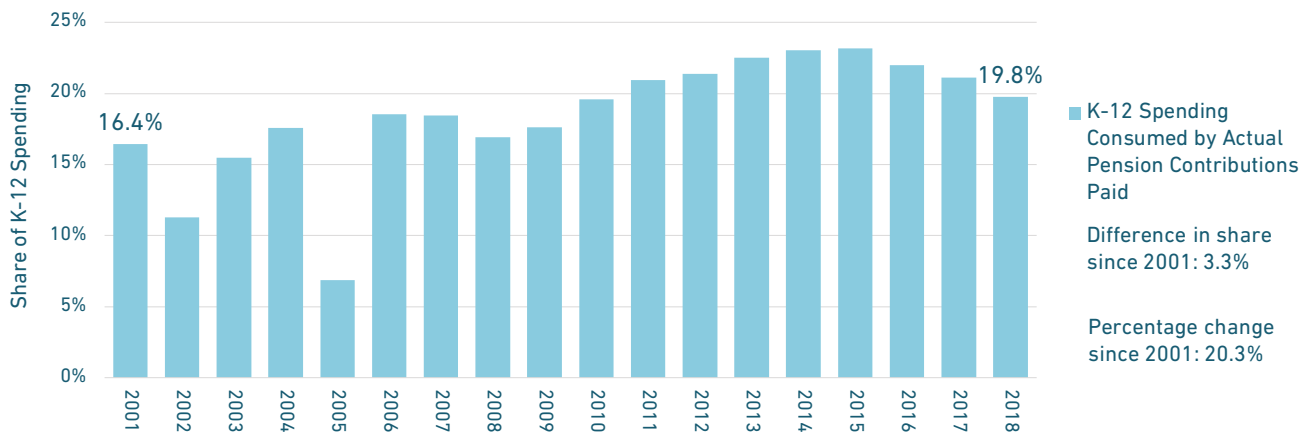
Actuarially Determined Employer Contribution Compared to Actual Contributions Paid to URS, 2001–2018

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, Utah 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 URS have soaked up an increasing share of Utah’s education spending. This is especially important for teachers, as the growth in URS’s costs outpaced the growth in state own-source K-12 spending. In fact, URS’s contributions reported as a share of K-12 spending increased from 16.4% in 2001 to 19.8% in 2018.

**Figure UT5: The hidden cut to Utah’s state education funding is serious. URS contributions for teachers are consuming almost 20% of state K-12 funding in 2018.**



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

As Figure UT5 shows, pension costs consumed a smoothly increasing share of education spending through 2015, when it peaked at 20.6%. URS’s unfunded liabilities have been on the decline since 2015, and state K-12 spending has continued to increase, resulting in a decline in the share of K-12 spending comprised of pension contributions since 2015. This trend suggests that Utah may have turned the corner on their pension debt, especially as the total plan membership continues to shift toward the new retirement plan designs implemented in the 2011-12 fiscal year.

However, that does not mean all is well, as URS’s costs are still consuming 20.3% more state K-12 spending than in 2001 — almost 20% of the state’s education budget. Utah has met its commitments to funding URS 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 reduces URS’s costs and/or adjusts the state’s education funding to fully account for pension contributions, Utah’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 UT1 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 spending by the state increased by roughly \$500 per student, while unfunded pension liabilities and related pension contributions have grown at a faster rate. In fact, after accounting for inflation and pension costs, Utah only spent \$200 more per student in 2018 than 2001.

**Table UT1: While state education spending per student has increased, pension debt and contributions have grown faster.**

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	\$4,744	-\$1,362	Fully Funded	\$662	\$4,082
2002	\$5,907	-\$1,074	Fully Funded	\$565	\$5,342
2003	\$4,469	\$1,265	28.3%	\$586	\$3,883
2004	\$4,474	\$826	18.5%	\$668	\$3,807
2005	\$4,533	\$1,360	30.0%	\$705	\$3,829
2006	\$4,593	\$653	14.2%	\$723	\$3,870
2007	\$4,556	\$840	18.4%	\$712	\$3,845
2008	\$5,255	\$3,189	60.7%	\$751	\$4,504
2009	\$5,048	\$3,534	70.0%	\$753	\$4,296
2010	\$4,558	\$4,367	95.8%	\$755	\$3,803
2011	\$4,441	\$5,375	121.0%	\$787	\$3,654
2012	\$4,361	\$6,035	138.4%	\$803	\$3,559
2013	\$4,406	\$4,829	109.6%	\$866	\$3,540
2014	\$4,525	\$3,817	84.4%	\$920	\$3,604
2015	\$4,659	\$4,077	87.5%	\$961	\$3,698
2016	\$4,854	\$4,188	86.3%	\$961	\$3,893
2017	\$5,013	\$3,549	70.8%	\$966	\$4,047
2018	\$5,218	\$3,697	70.8%	\$957	\$4,261

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 URS Unfunded Liabilities and Actual K-12 Employer Contributions, 2001-2018

## THE DEFINED CONTRIBUTION PORTION OF THE URS HYBRID PLAN

All teachers hired since 2011 are offered a choice between enrolling into the Hybrid Plan that features both a guaranteed income portion and a defined contribution portion, or the defined contribution only plan. Under the 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. Under the defined contribution only plan both teachers and their employers make contributions into their individual retirement accounts.

Despite the fact that URS has offered plans that include defined contribution plan options or components dating back to 2011, complete data for these defined contribution components are not publicly reported at a level sufficiently to allow for their inclusion in these analyses. As a result, both the defined contribution portion of the hybrid plan and the defined contribution only plan are 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.

## UTAH DATA ADJUSTMENTS

URS is among the more complex retirement systems across the country with respect to how benefits are offered, the different groups of plan members, and how data are reported. Most states that offer retirement benefits to teachers either have a stand-alone system, have an umbrella organization that includes a clearly defined teachers division, or offer the same benefit package to all civilian public employees including teachers. URS offers varying benefits to teachers, state workers, local government employees, university staff and faculty, and police and firefighters, and these are arranged across three types of plans: contributory pensions, noncontributory pensions, and the relatively new Tier 2 hybrid plans as well.

All public school employees are provided benefits through the Public Employees Retirement System (PERS), a division of URS. Within that system are a group classified as “State and School” employees. We focused our analysis on this group, as this helps ensure that our assessment of the hidden cut to Utah’s state K–12 funding is examining only the portion that could realistically be drawn out of education spending as a part of teacher compensation. Note, however, that we are unable to parse what share of the State and School division is attributable specifically to teachers (or state workers) as the membership data provided in their actuarial valuations do not offer that level of detail.

URS classifies employees types in its public reporting of the PERS “Contributory” and “Noncontributory” plans, but it does not break out this data for the PERS Tier 2 plan. To isolate the appropriate share of contributions from PERS Tier 2 that should be included in the hidden education cuts analysis, we calculated the State and School membership share of the contributory and noncontributory public employees plan, and applied this to the overall UAAL, ADEC, and contributions paid data for PERS Tier 2.

Using this approach, we are able to report both unfunded liabilities and pension costs for both the entirety of URS and the share that focuses most on teachers for our analyses. And, although this methodology does not lead to precise values attributable to only teachers, this reflects the most accurate representation of teacher pension costs in Utah available.

## 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.