

# Hidden Education Funding Cuts

## Virginia

### Pension costs are consuming more than twice as much 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.

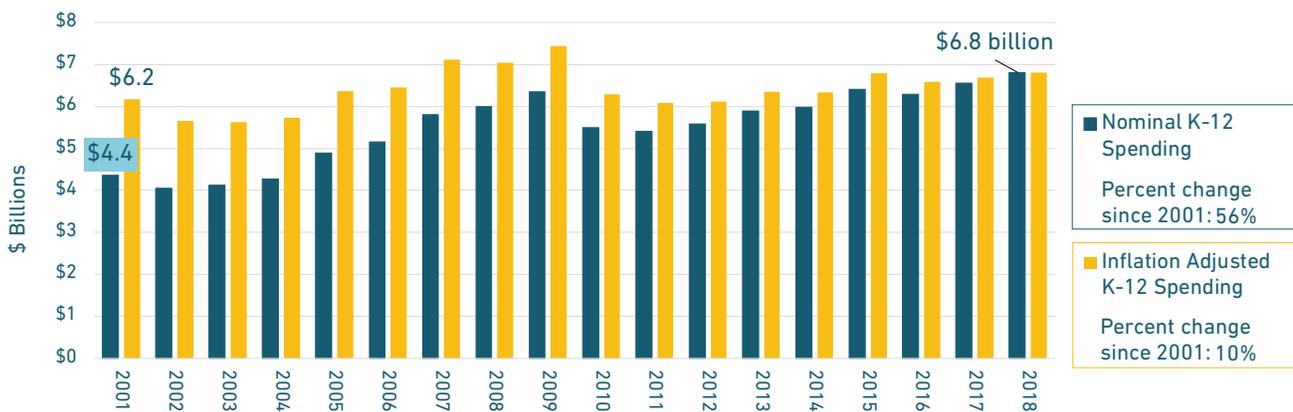
Virginia is home to more than 8.5 million citizens, and nearly 1.3 million primary and secondary school students. In 2018, the state’s total expenditures exceeded \$52.1 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state’s own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled \$41.9 billion.

Prior to 2014 Virginia teachers were enrolled in a guaranteed income plan, known as a defined benefit pension, now called “Plan 2.” Teachers hired since January 2014 are enrolled in a hybrid plan that combines elements of a guaranteed income plan and defined contribution account, called the “VRS Hybrid Retirement Plan.” Both plans are administered by the Virginia Retirement System within the Teachers division (VRS Teachers). VRS manages retirement benefits for more than 760,000 active and retired teachers, state police, judges, and state workers. Although VRS provides retirement for more than just teachers, the teachers comprise the largest share (43%) of any group of members.

## EDUCATION SPENDING

In 2018, Virginia’s state distributed K–12 expenditures totaled \$7.8 billion. Out of that total, \$6.8 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 VA1: Virginia’s state spending on education only increased by \$635 million after accounting for inflation.**



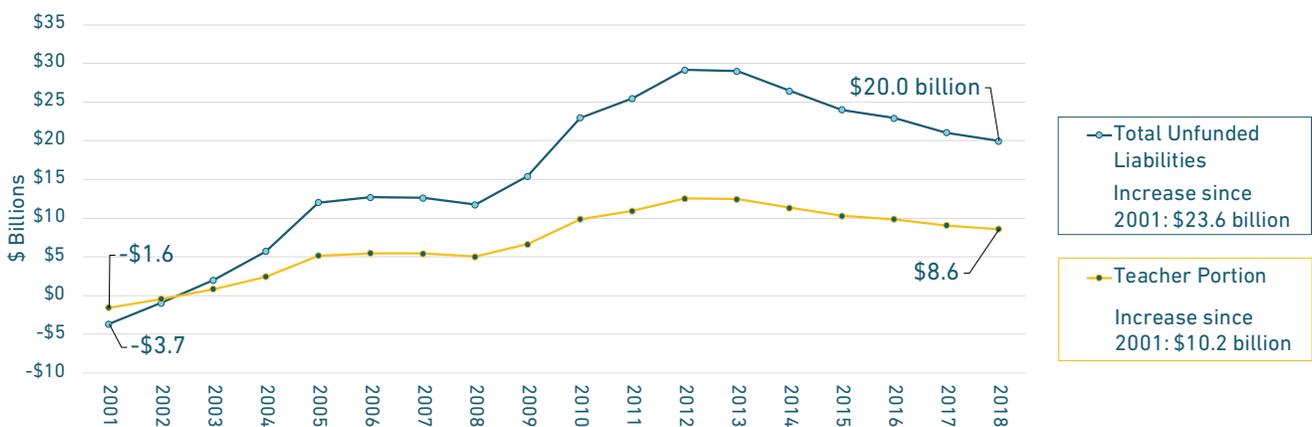
State Own-Source K–12 Spending, 2001–2018

As Figure VA1 illustrates, state spending on primary and secondary education in Virginia has increased moderately since 2001 — growing by \$2.4 billion in nominal dollars; however, it increased much less after adjusting for inflation, growing by only \$635.9 million. On a dollars per student basis, increasing student enrollment combined with slow state education funding resulted in a decline of 1.1% since 2001 — shrinking from \$5,336 to \$5,276 (inflation adjusted).

## PENSION FUNDING STATUS

As recently as 2002, VRS was fully funded and enjoyed a \$968.5 million surplus, about 60% of which was for the Teachers division. However, over the past 16 years a combination of underperforming investments coupled with changing demographics have caused the unfunded liability for VRS to explode — reaching \$8.6 billion for VRS Teachers. Figure VA2 shows the change in the unfunded liabilities and Figure VA3 illustrates the change in what state actuaries have recommended as contributions from government employers.

**Figure VA2: VRS Teachers has transitioned from a surplus to \$8.6 billion in pension debt since 2001.**



VRS Unfunded Liabilities (Actuarial Value), 2001–2018

**Figure VA3: To address growing pension debt the amount actuaries recommend the state should contribute to VRS Teachers has more than doubled.**

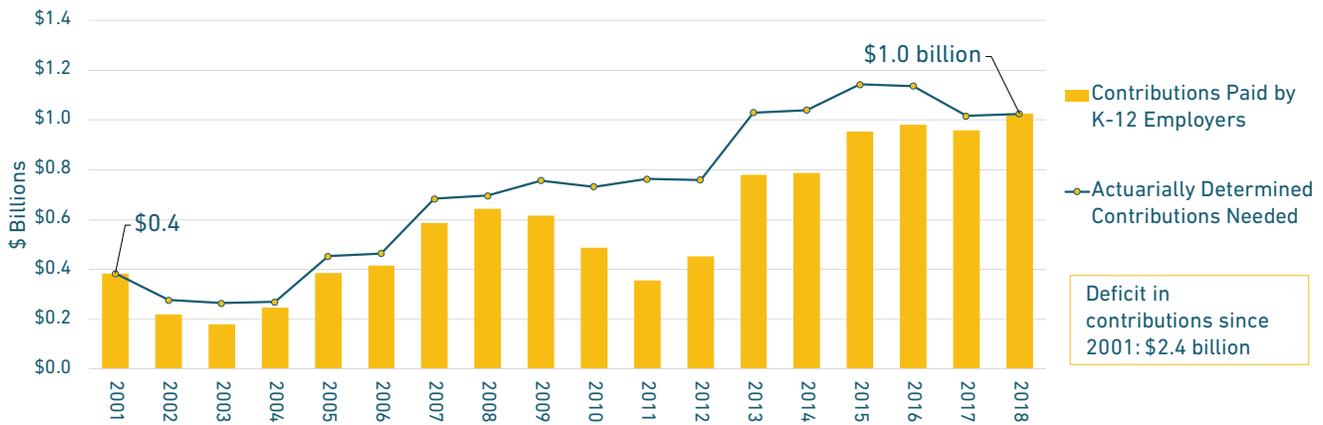


VRS Actuarially Determined Employer Contributions, 2001–2018

It is important to highlight that in 2014, Virginia began implementing a sweeping set of changes to VRS that reduced liabilities and changed the trend line of cost increases. While costs have grown since 2014, without the changes unfunded liabilities and the ADEC today would be much higher than they currently are. And when looking at the funding ratio of VRS Teachers, it has improved from roughly 62% in 2013 to 75% in 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, Virginia is one of those states, failing to pay the full pension bill in 16 of the last 18 years, shown in Figure VA4. As a result, the actual contributions paid into VRS using education funds have been less than if the ADEC trend displayed in Figure VA3 was paid in full, but the actual contributions paid to VRS Teachers have still almost tripled from \$383.7 million in 2001 to \$1 billion in 2018.

**Figure VA4: Virginia did not pay its full actuarial bill to VRS Teachers every year, shorting the plan by \$2.4 billion since 2001.**

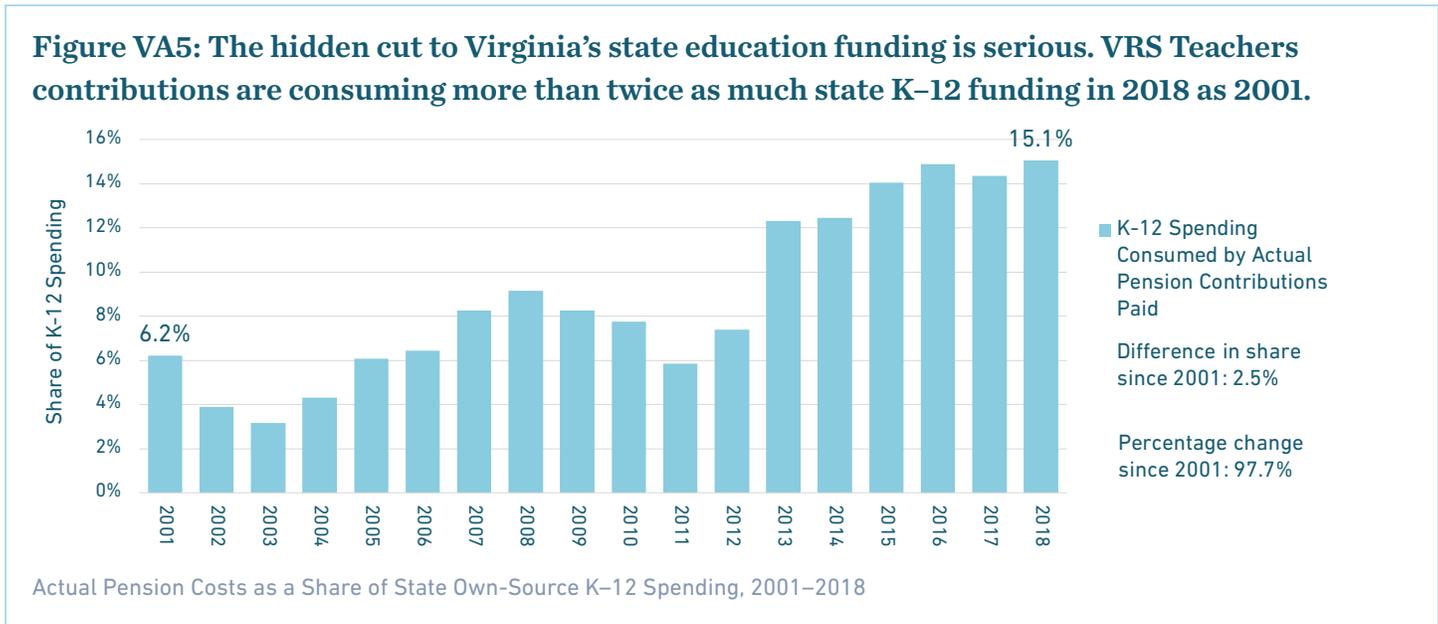


Actuarially Determined Employer Contribution Compared to Actual Contributions Paid to VRS, 2001–2018

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 Virginia 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 Virginia’s 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 VRS Teachers have soaked up an increasing share of Virginia’s education spending. This is especially important for teachers, as the growth in VRS Teachers’ costs outpaced the growth in state own-source K-12 spending. In fact, VRS Teachers contributions reported as a share of K-12 spending increased from 6.2% in 2001 to 15.1% in 2018.



Virginia’s contributions to VRS Teachers have been much more volatile over the past few years than if the state had simply paid the ADEC, as shown previously in Figure VA4. When combined with stagnant growth in state K-12 education funding, the pension costs have produced a surging hidden cut, documented above in Figure VA5.

Since the implementation of improvements to VRS in 2014, there have been reductions in unfunded liabilities. And the increase in contributions is a positive thing from the perspective of pension financing because the state has been catching up to paying the ADEC. But because K-12 funding has not kept pace with this funding improvement, the net effects for students have been negative. As of 2018, contributions to VRS Teachers were consuming more than 15% of state K-12 spending.

Virginia has failed to meet its commitments to funding VRS by not paying the full ADEC each year. But even the actual amounts paid have grown significantly faster than the state’s own-source education spending. Unless there is a change that reduces VRS’s costs and/or adjusts the state’s education funding to fully account for pension contributions, Virginia’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 VA1 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 uncovers an even more troubling set of trends. Not only has state education spending stagnated in the aggregate, it has actually declined on a per student basis. Meanwhile, pension contributions per student have increased. After accounting for inflation and pension costs, Virginia spent over \$500 less per student in state education funding in 2018 than 2011.

**Table VA1: State education spending per student declined, that means pension debt and contributions have exacerbated a cut in funding.**

| 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 | \$5,336                               | -\$1,359                          | Fully Funded                              | \$331                             | \$5,004                                 |
| 2002 | \$4,836                               | -\$356                            | Fully Funded                              | \$188                             | \$4,648                                 |
| 2003 | \$4,761                               | \$722                             | 15.2%                                     | \$151                             | \$4,610                                 |
| 2004 | \$4,789                               | \$2,054                           | 42.9%                                     | \$207                             | \$4,582                                 |
| 2005 | \$5,268                               | \$4,283                           | 81.3%                                     | \$320                             | \$4,948                                 |
| 2006 | \$5,285                               | \$4,471                           | 84.6%                                     | \$341                             | \$4,944                                 |
| 2007 | \$5,777                               | \$4,407                           | 76.3%                                     | \$478                             | \$5,300                                 |
| 2008 | \$5,695                               | \$4,088                           | 71.8%                                     | \$522                             | \$5,173                                 |
| 2009 | \$5,979                               | \$5,325                           | 89.1%                                     | \$494                             | \$5,485                                 |
| 2010 | \$5,022                               | \$7,889                           | 157.1%                                    | \$390                             | \$4,632                                 |
| 2011 | \$4,842                               | \$8,705                           | 179.8%                                    | \$284                             | \$4,558                                 |
| 2012 | \$4,827                               | \$9,902                           | 205.1%                                    | \$357                             | \$4,470                                 |
| 2013 | \$4,985                               | \$9,793                           | 196.5%                                    | \$613                             | \$4,371                                 |
| 2014 | \$4,949                               | \$8,875                           | 179.3%                                    | \$616                             | \$4,333                                 |
| 2015 | \$5,296                               | \$8,039                           | 151.8%                                    | \$743                             | \$4,553                                 |
| 2016 | \$5,117                               | \$7,660                           | 149.7%                                    | \$762                             | \$4,356                                 |
| 2017 | \$5,184                               | \$7,019                           | 135.4%                                    | \$744                             | \$4,440                                 |
| 2018 | \$5,276                               | \$6,650                           | 126.1%                                    | \$794                             | \$4,481                                 |

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

## THE DEFINED CONTRIBUTION PORTION OF VRS HYBRID RETIREMENT PLAN

All teachers hired since 2014 are enrolled into the VRS Hybrid Retirement 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 Virginia 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 VRS Hybrid Retirement 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](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.