Hidden Education Funding Cuts

Vermont

Pension costs are consuming nearly 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.

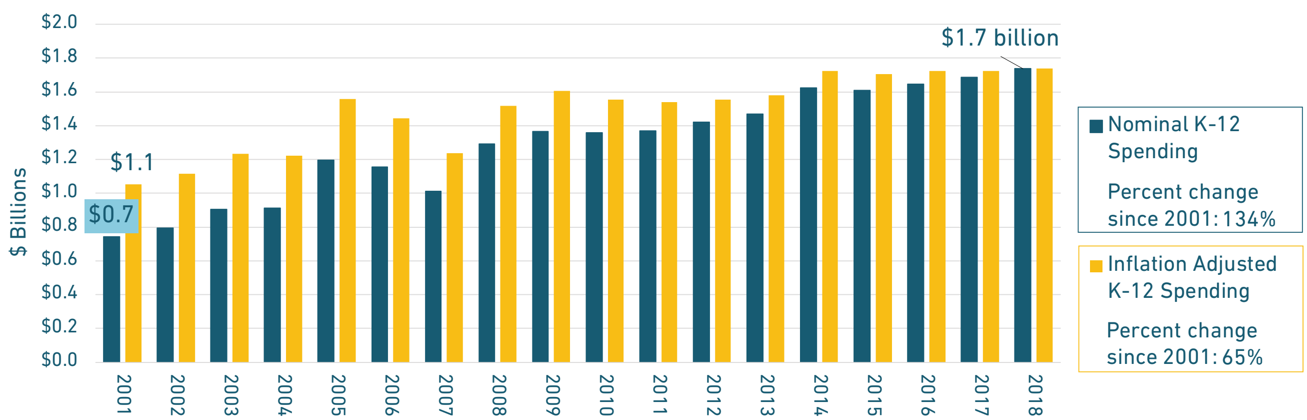
The Green Mountain State is home to more than 600,000 citizens, and nearly 86,000 primary and secondary school students. In 2018, the state's total expenditures exceeded $5.7 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state's own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled $3.7 billion.

Vermont teachers are enrolled in a guaranteed income plan, known as a defined benefit pension, administered by the Vermont State Teachers' Retirement System (TRS). TRS manages retirement benefits for roughly 22,500 active and retired teachers.

EDUCATION SPENDING

In 2018, Vermont's state distributed K–12 expenditures totaled $1.9 billion. Out of that total, $1.7 billion came from state own-source funding while the remaining $128 million was from federal grants and other education programs. (Local sources provided additional funding.)

Figure VT1: Vermont's state spending on education only increased by $685 million after accounting for inflation.



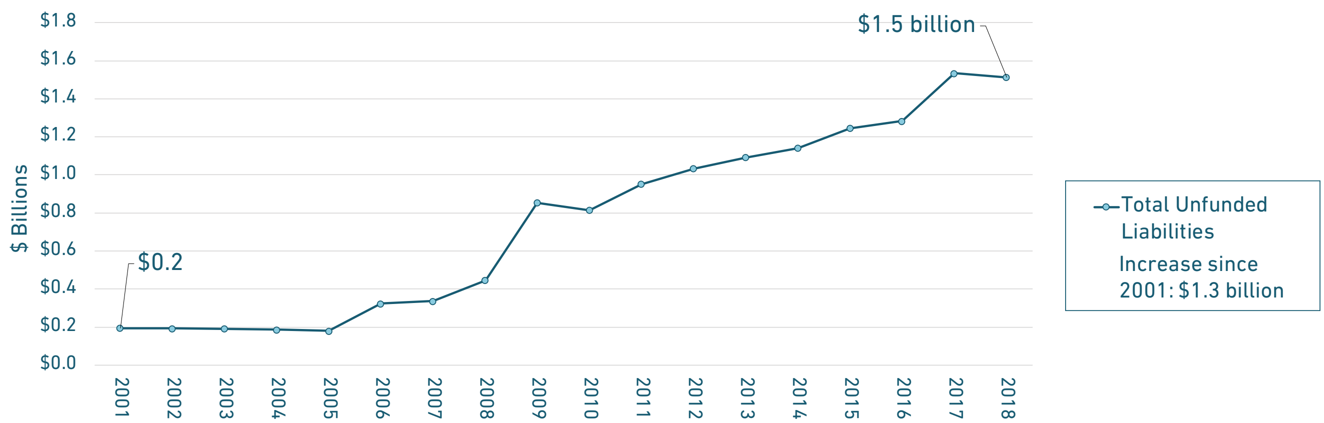
State Own-Source K–12 Spending, 2001–2018

As Figure VT1 illustrates, state spending on primary and secondary education in Vermont has increased significantly since 2001 — growing by $994 million in nominal dollars; however, it increased moderately after adjusting for inflation, growing by only $684.8 million. On a dollars per student basis declining enrollment offset a sizable share of the inflation adjustment as spending increased 93.9% since 2001 — growing from $10,434 to $20,233 (inflation adjusted).

PENSION FUNDING STATUS

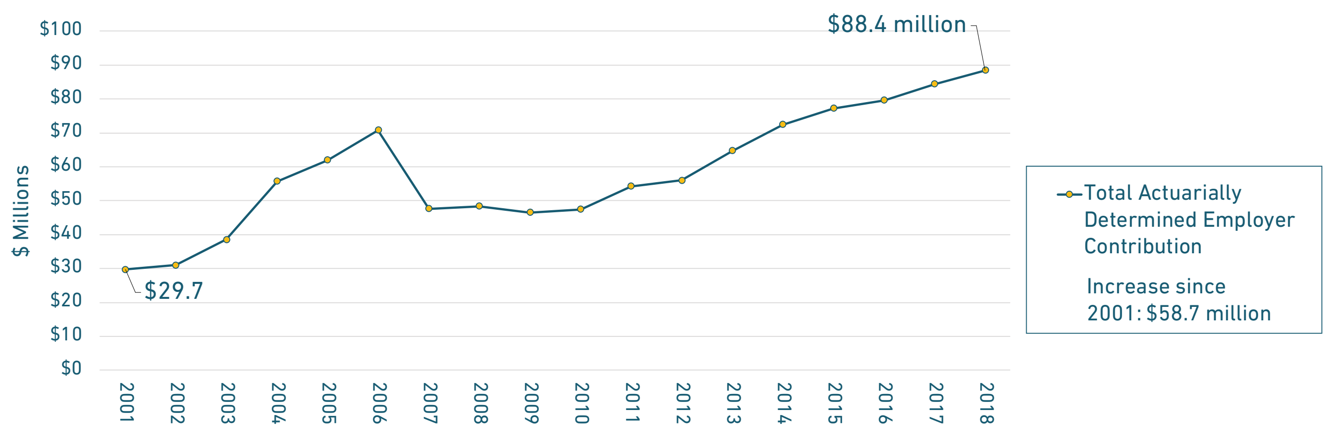
In 2001 TRS was in a much better situation with only $194.6 million in pension debt. However, over the past 17 years a combination of underperforming investments coupled with changing demographics have caused unfunded liabilities to explode — reaching $1.5 billion in 2018. Figure VT2 shows the change in the unfunded liabilities and Figure VT3 illustrates the change in what state actuaries have recommended as contributions from government employers.

Figure VT2: TRS's pension debt increased nearly seven-fold since 2001.



TRS Unfunded Liabilities (Actuarial Value), 2001–2018

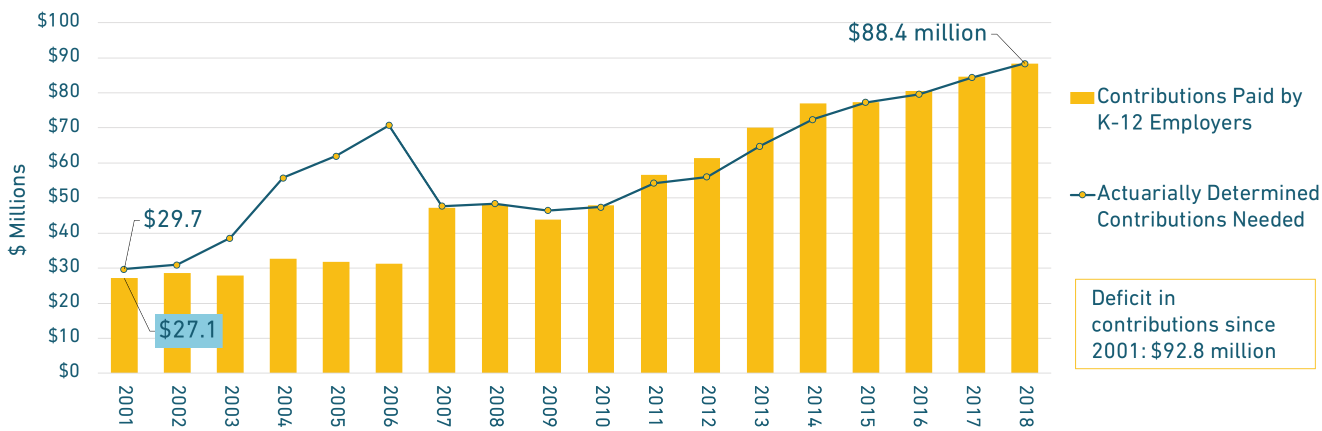
Figure VT3: To address growing pension debt the amount actuaries recommend the state should contribute to TRS has nearly tripled.



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, Vermont is one of those states, failing to pay the full pension bill seven times since 2001. The state has improved its commitment to paying the full ADEC, paying at least the full pension bill every year since 2010, shown in Figure VT4. But, as a result of the underpayments, the actual contributions paid into TRS using education funds have been less than if the ADEC trend displayed in Figure VT3 was paid in full, but the actual contributions paid to TRS have still more than tripled from $27.1 million in 2001 to $88.4 million in 2018.

Figure VT4: Vermont did not pay its full actuarial bill to TRS every year, shorting the plan by $92.8 million since 2001.



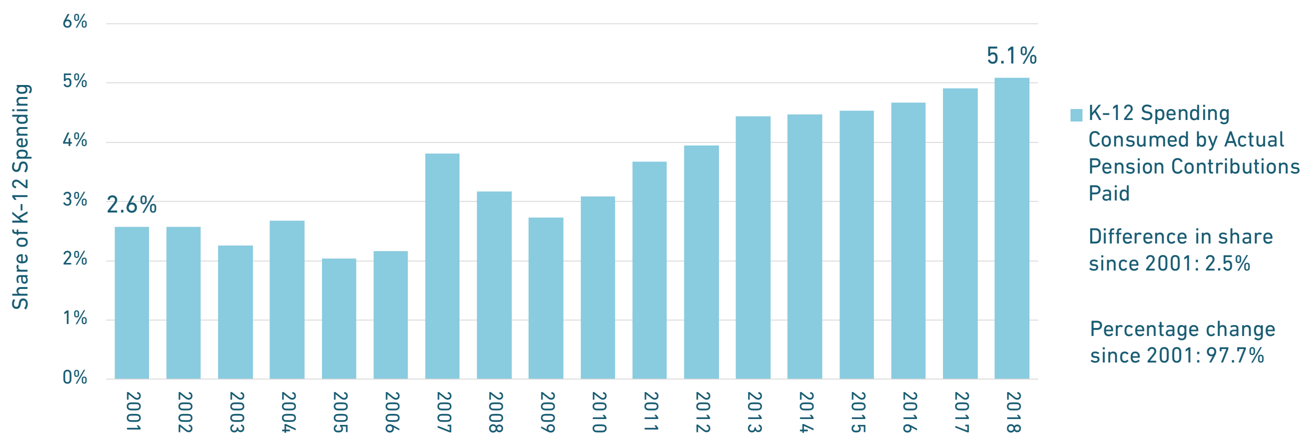
Actuarially Determined Employer Contribution Compared to Actual Contributions Paid to TRS, 2001–2018

Paying the full required pension bill each year is the bare minimum for ensuring a pension system is fully funded. Vermont has done this every year since 2010, but underpayments in the years prior have contributed to the pension debt. 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 Vermont'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 TRS have soaked up an increasing share of Vermont's 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 nearly doubled from 2.6% in 2001 to 5.1% in 2018.

Figure VT5: The hidden cut to Vermont's state education funding is serious. TRS contributions are consuming nearly twice as much state K–12 funding in 2018 as 2001.



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

Vermont has increased state K–12 spending considerably since 2001. Meanwhile, Vermont's pension debt and contributions have increased at an even faster clip, resulting in the share of state education funding going to cover TRS's costs nearly doubling, shown in Figure VT5. To put this into context, state education spending still increased by roughly two-thirds after accounting for inflation, but pension contributions nearly tripled.

Vermont has met its commitments to funding TRS by paying at least the full ADEC each year since 2010, but the costs of paying down the system's debt have grown faster than the state's own-source education spending. 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 TRS's costs and/or adjusts the state's education funding to fully account for pension contributions, Vermont'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 VT1 shows the UAAL and actual pension contributions on a per student basis compared against state education spending. Breaking the numbers down this way shows a more mixed portrait. Student enrollment in Vermont declined by 14.9% from 2001 to 2018, which, when combined with the growth in state education spending, resulted in a 93.9% increase in per student spending. In actual dollars that translated into a nearly $10,000 increase in state funding per student. Growth in unfunded pension liabilities and related pension contributions are much less in dollar terms, growing by only roughly $800 per student, but the rate of growth easily outpaced per student spending by the state — growing by 226.2%. As a result, after accounting for pension contributions, the increase in state per student education funding was only roughly $9,000.

Table VT1: 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	$10,434	$1,928	18.5%	$268	$10,165
2002	$11,159	$1,933	17.3%	$287	$10,873
2003	$12,511	$1,946	15.6%	$283	$12,229
2004	$12,518	$1,917	15.3%	$335	$12,183
2005	$16,135	$1,861	11.5%	$329	$15,805
2006	$15,146	$3,395	22.4%	$327	$14,819
2007	$13,165	$3,578	27.2%	$501	$12,664
2008	$16,192	$4,760	29.4%	$514	$15,679
2009	$17,561	$9,342	53.2%	$479	$17,081
2010	$16,062	$8,407	52.3%	$495	$15,567
2011	$17,138	$10,580	61.7%	$629	$16,509
2012	$17,350	$11,536	66.5%	$685	$16,665
2013	$17,816	$12,305	69.1%	$790	$17,026
2014	$19,730	$13,068	66.2%	$882	$18,848
2015	$19,409	$14,183	73.1%	$880	$18,529
2016	$19,498	$14,502	74.4%	$910	$18,588
2017	$19,861	$17,688	89.1%	$976	$18,885
2018	$20,233	$17,619	87.1%	$1,029	$19,204

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 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.