

# Hidden Education Funding Cuts

## Washington

### Pension costs are consuming nearly three times as much state education funding today as 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.

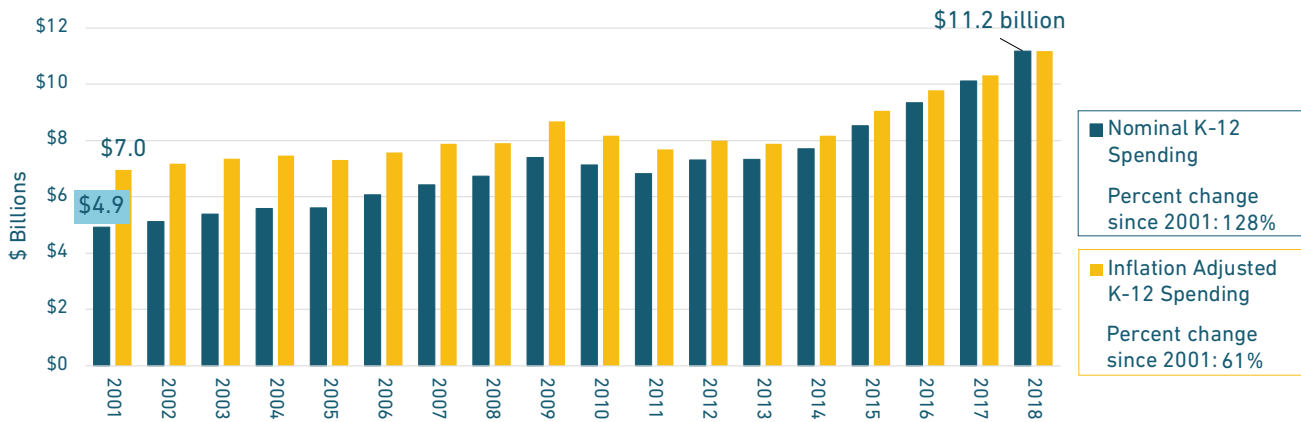
The Evergreen State is home to more than 7.6 million citizens, and 1.1 million primary and secondary school students. In 2018, the state’s total expenditures exceeded \$46 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state’s own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled \$33.7 billion.

Washington teachers are enrolled in a hybrid plan that combines elements of a guaranteed income plan (usually known as a pension) and a defined contribution plan. The hybrid “Plan 3” is administered by the Washington State Teachers’ Retirement System (TRS) as part of the state Department of Retirement Systems. TRS manages retirement benefits for roughly 145,000 active and retired teachers.

## EDUCATION SPENDING

In 2018, Washington’s state distributed K–12 expenditures totaled \$12 billion. Out of that total, \$11.2 billion came from state own-source funding while the remaining \$848 million was from federal grants and other education programs. (Local sources provided additional funding.)

**Figure WA1: Washington’s state spending on education only increased by \$4.2 billion after accounting for inflation.**



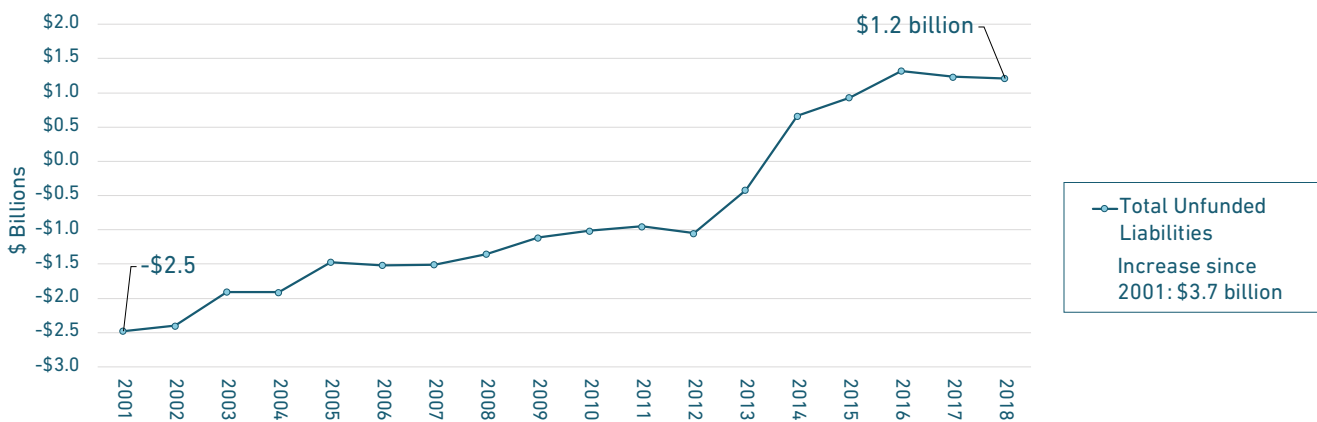
State Own-Source K–12 Spending, 2001–2018

As Figure WA1 illustrates, state spending on primary and secondary education in Washington has increased significantly since 2001 — growing by \$6.2 billion in nominal dollars; however, it increased moderately after adjusting for inflation, growing by only \$4.2 billion. On a dollars per student basis, spending increased 43.7% since 2001 — growing from \$6,899 to \$9,915 (inflation adjusted).

## PENSION FUNDING STATUS

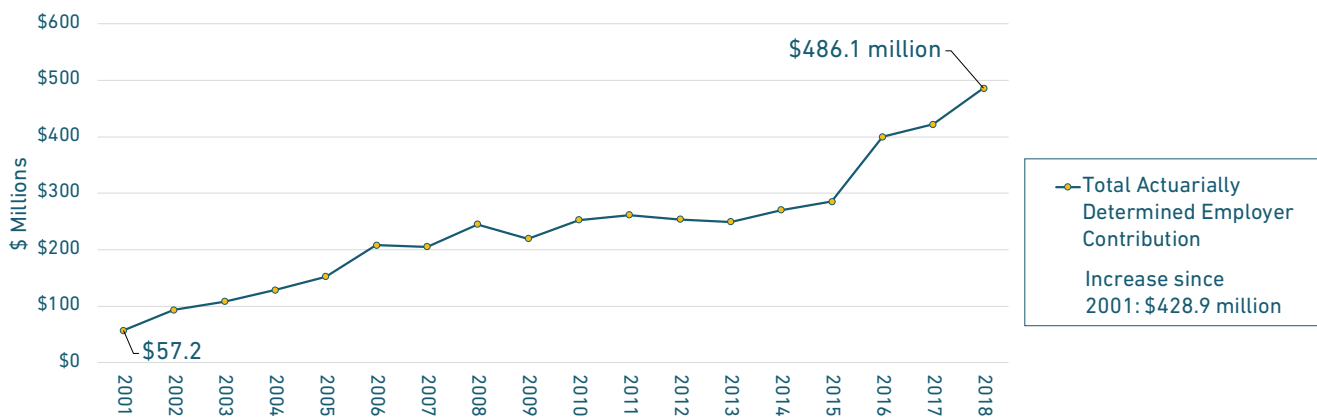
As recently as 2013 TRS was fully funded with a \$419.8 million surplus. However, over the past five years a combination of underperforming investments coupled with changing demographics have caused the unfunded liability for TRS to explode — reaching \$1.2 billion in 2018. Figure WA2 shows the change in the unfunded liabilities and Figure WA3 illustrates the change in what state actuaries have recommended as contributions from government employers.

**Figure WA2: TRS has transitioned from a surplus to more than \$1.2 billion in pension debt since 2001.**



TRS Unfunded Liabilities (Actuarial Value), 2001–2018

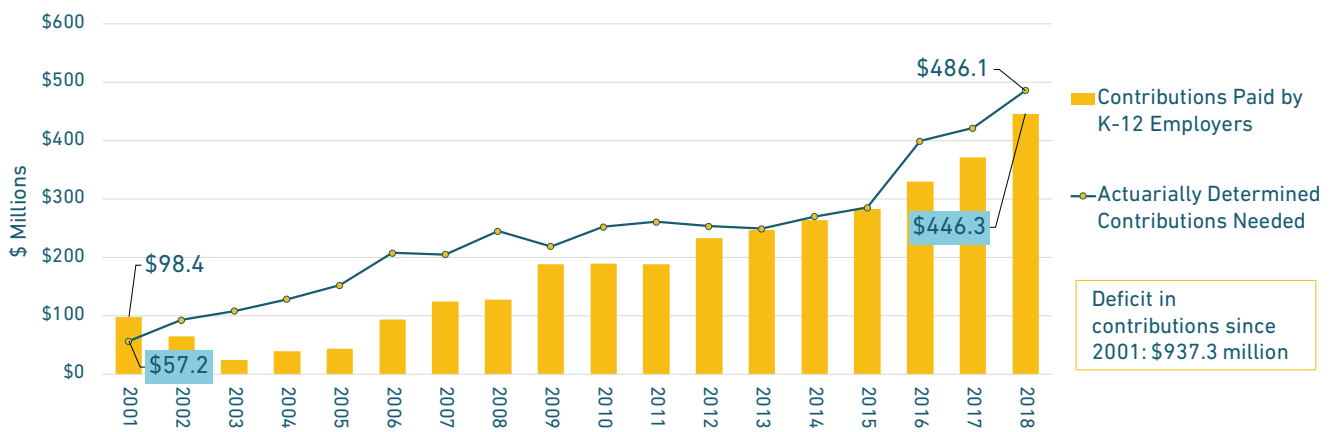
**Figure WA3: The amount actuaries recommend the state should contribute to TRS has exploded since 2001, growing most since the plan started accumulating pension debt.**



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, Washington is one of those states, failing to pay the full pension bill in every year since 2002, shown in Figure WA4. As a result, the actual contributions paid into TRS using education funds have been less than if the ADEC trend displayed in Figure WA3 was paid in full, but the actual contributions paid to TRS have still increased eight-fold from \$57.2 million in 2001 to \$446.3 million in 2018. While underpaying the ADEC was less of an issue when TRS was fully funded, it is a major problem as the plan moves forward.

**Figure WA4: Washington did not pay its full actuarial bill to TRS every year since 2002, shorting the plan by \$937 million.**



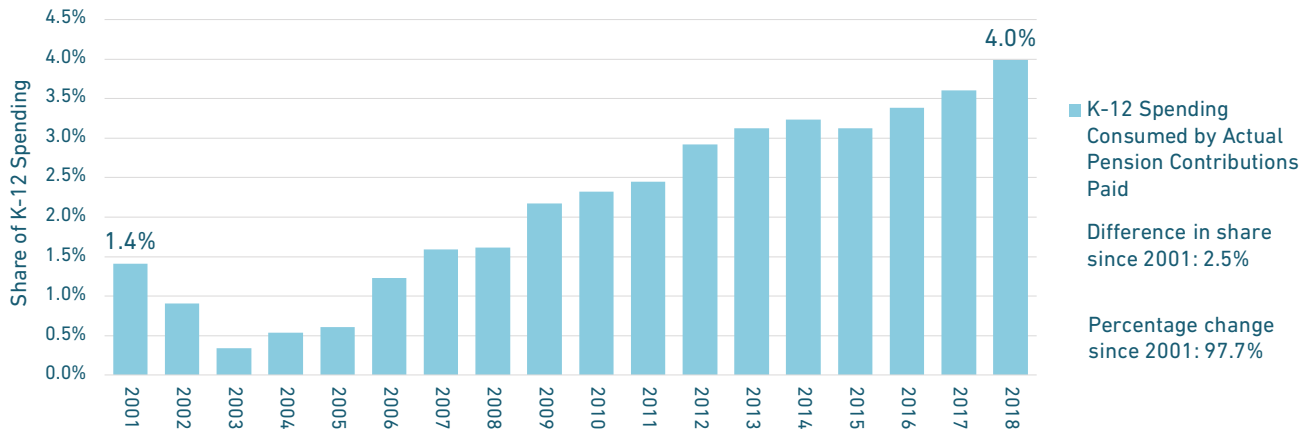
Actuarially Determined Employer Contribution Compared to Actual Contributions Paid to TRS, 2001–2018

Paying the full required pension bill each year is the bare minimum for ensuring a pension system is fully funded. Best practice would be for Washington 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 Washington’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 Washington education spending. This is 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 1.4% in 2001 to 4.0% in 2018.

**Figure WA5: The hidden cut to Washington’s state education funding is serious. TRS contributions are consuming nearly three times 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

Unlike the many states who have seen pension debt accumulating since the early 2000s, Washington’s experience has been different. TRS was fully funded throughout the entirety of the 2000s and even managed to persist through the financial crisis and recession. However, starting in 2014 the plan began to fall behind, and unfunded liabilities started to accumulate. As Figure WA5 shows, the costs of maintaining TRS were outpacing growth in state K-12 funding even before the plan had any pension debt. The addition of pension debt payments to TRS costs have caused the pension contributions to cut deeper into state education funding. The share of state K-12 spending going toward pensions has almost doubled from \$264.2 million in 2014 to \$446.3 million in 2018. As more pension debt accumulates, this trend and the hidden funding cut will only get worse.

TRS’s “Plans 2/3” were 90% funded at the end of 2018, which is strong relative to the rest of the country. But relative fiscal health does not change that Washington has failed to meet its commitments to funding TRS by not paying the full ADEC each year. And 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, Washington’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 WA1 shows the UAAL and actual pension contributions on a per student basis compared against state education spending. Breaking the numbers down this way shows how per student spending by the state increased by roughly \$3,000, but unfunded pension liabilities and related pension contributions have grown at a faster rate. In fact, state spending grew 43.7% while pension costs grew 305.5%. In dollar terms, this means that the increase in spending was closer to \$2,700 per student after accounting for pension costs.

**Table WA1: State education spending per student increased significantly, but 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	\$6,899	-\$2,457	Fully Funded	\$98	\$6,801
2002	\$7,085	-\$2,372	Fully Funded	\$65	\$7,021
2003	\$7,249	-\$1,876	Fully Funded	\$25	\$7,225
2004	\$7,327	-\$1,873	Fully Funded	\$39	\$7,288
2005	\$7,139	-\$1,437	Fully Funded	\$43	\$7,095
2006	\$7,389	-\$1,475	Fully Funded	\$91	\$7,298
2007	\$7,651	-\$1,461	Fully Funded	\$122	\$7,530
2008	\$7,618	-\$1,304	Fully Funded	\$123	\$7,495
2009	\$8,381	-\$1,074	Fully Funded	\$182	\$8,199
2010	\$7,830	-\$971	Fully Funded	\$182	\$7,648
2011	\$7,351	-\$906	Fully Funded	\$180	\$7,171
2012	\$7,611	-\$997	Fully Funded	\$222	\$7,389
2013	\$7,458	-\$396	Fully Funded	\$233	\$7,225
2014	\$7,606	\$618	8.1%	\$246	\$7,359
2015	\$8,330	\$858	10.3%	\$261	\$8,070
2016	\$8,877	\$1,197	13.5%	\$300	\$8,577
2017	\$9,255	\$1,107	12.0%	\$333	\$8,922
2018	\$9,915	\$1,072	10.8%	\$395	\$9,520

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

## **THE DEFINED CONTRIBUTION PORTION OF WASHINGTON TRS “PLAN 3” HYBRID RETIREMENT PLAN**

All Washington teachers hired since 1996 are enrolled into the TRS “Plan 3” Hybrid Retirement Plan that features both a guaranteed income portion and a defined contribution portion. Under this plan teachers make contributions into individual retirement accounts while their employers make contributions to a defined benefit pension.

Even though the hybrid plan has been the default retirement plan for Washington teachers, 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 Washington TRS Plan 3 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.