Hidden Education Funding Cuts

Wisconsin

Pension costs are consuming more than 50% 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.

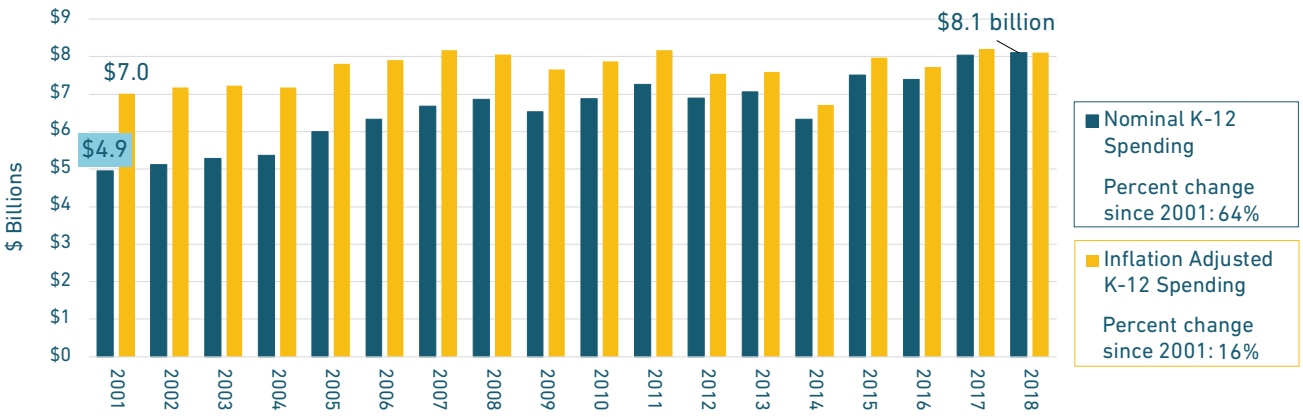
The Badger State is home to roughly 5.8 million citizens, and more than 850,000 primary and secondary school students. In 2018, the state's total expenditures exceeded $48.2 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state's own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled $36.6 billion.

Wisconsin teachers are enrolled in a guaranteed income plan, known as a defined benefit pension, administered by the Wisconsin Retirement System (WRS). WRS manages retirement benefits for more than 635,000 active and retired teachers, local government employees, executive and elected officials, and state workers. Although WRS provides retirement for more than just teachers, the teachers comprise a significant share (38%) of members.

EDUCATION SPENDING

In 2018, Wisconsin's state distributed K–12 expenditures totaled $8.9 billion. Out of that total, $8.1 billion came from state own-source funding while the remaining $803 million was from federal grants and other education programs. (Local sources provided additional funding.)

Figure WI1: Wisconsin's state spending on education only increased by $1.1 billion after accounting for inflation.



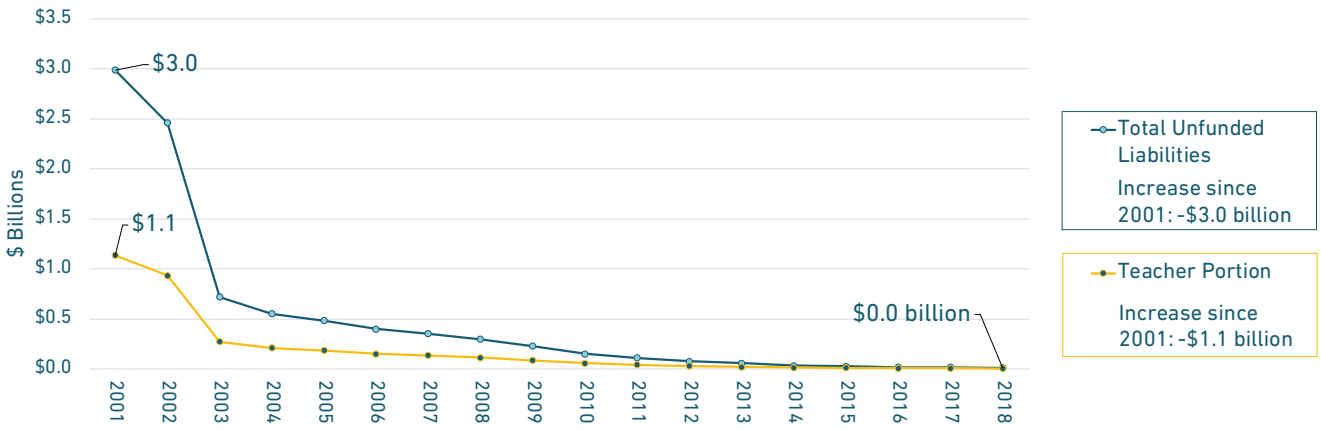
State Own-Source K–12 Spending, 2001–2018

As Figure WI1 illustrates, state spending on primary and secondary education in Wisconsin has increased moderately since 2001 — growing by $3.2 billion in nominal dollars; and, it increased far less after adjusting for inflation, growing by only $1.1 billion. On a dollars per student basis, spending grew by 18.6% since 2001 — climbing from $7,968 to $9,451 (inflation adjusted).

PENSION FUNDING STATUS

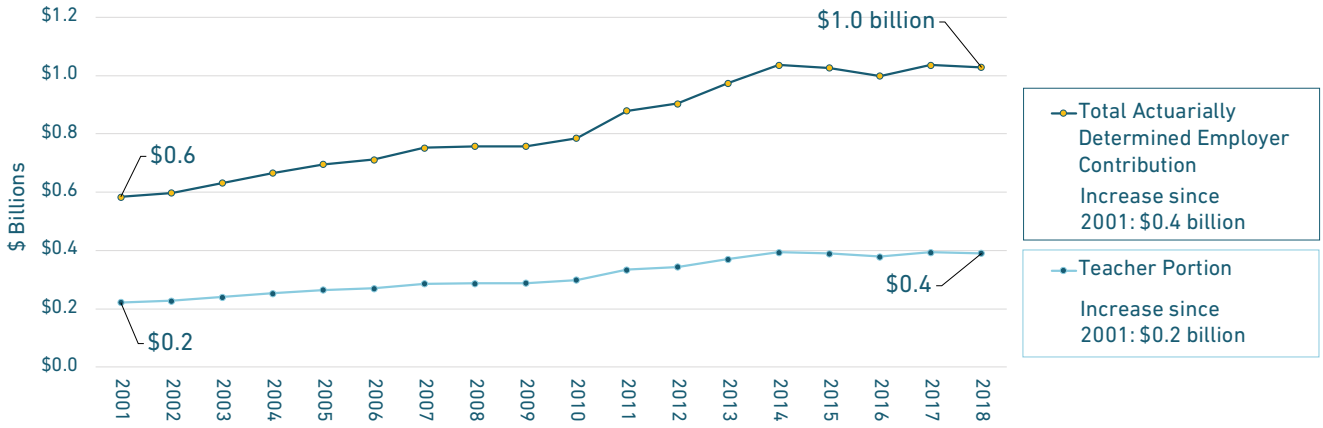
WRS in 2001 was 96% funded with around $3 billion in unfunded liabilities. However, over the past 17 years a strong commitment by the state to fully fund its retirement system, combined with good management and the implementation of risk sharing policies after the financial crisis, has helped WRS to pay down its pension debt. The system has been fully funded since 2015. Figure WI2 shows the change in the unfunded liabilities and Figure WI3 illustrates the change in what state actuaries have recommended as contributions from government employers.

Figure WI2: Since 2001 WRS has fully paid down its pension debt.



WRS Unfunded Liabilities (Actuarial Value), 2001–2018

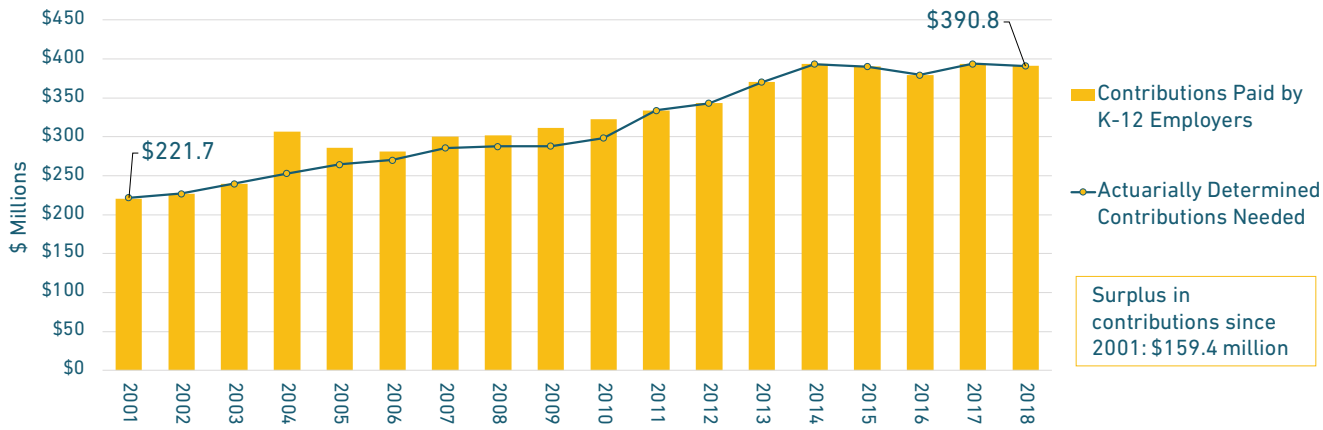
Figure WI3: Despite paying down the pension debt, the amount actuaries recommend the state should contribute to WRS has roughly doubled.



WRS 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 into the pension fund each year. Fortunately, Wisconsin is one of the states that has demonstrated a strong commitment to paying at least the full required contribution, as shown in Figure WI4. As a result, the increase in contributions actually paid by K–12 employers mirrors the growing trend displayed in Figure WI3, with contributions almost doubling from $221.7 million in 2001 to $390.8 million in 2018. It is important to note that all retirement systems have seen an increase in costs as the population has aged and retirees live longer, which explains how WRS's costs have continued to increase despite being fully funded.

Figure WI4: Wisconsin paid at least its full actuarial bill to WRS each year, resulting in a contribution surplus of $159 million.



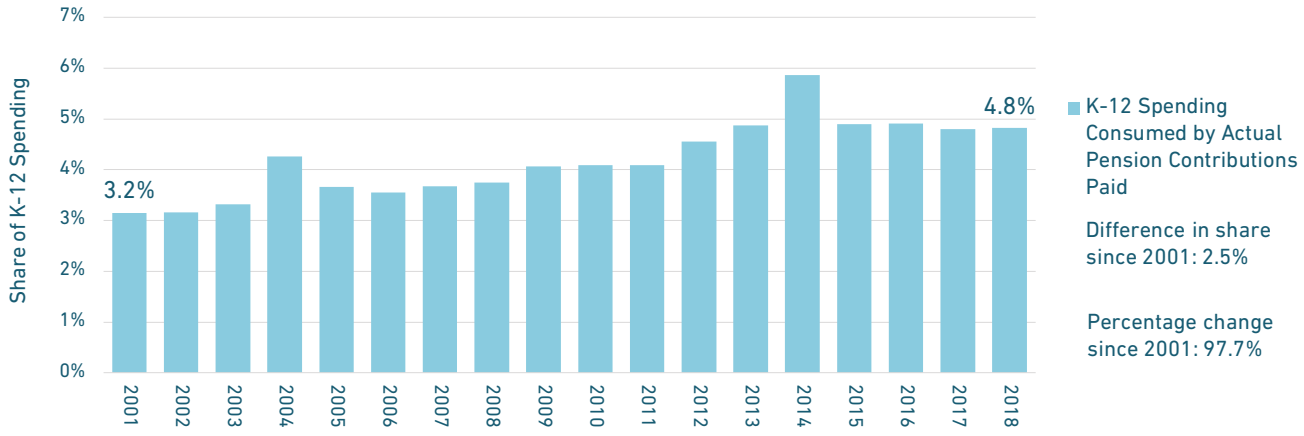
Actuarially Determined Employer Contribution Compared to Actual Contributions Paid to WRS, 2001–2018

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, Wisconsin 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, state education funding has not kept pace.

PENSION COSTS CROWDING OUT K–12 SPENDING

The growing costs of funding WRS have soaked up an increasing share of Wisconsin's education spending. This is especially important for teachers, as the growth in WRS's costs outpaced the growth in state own-source K–12 spending. In fact, WRS's contributions reported as a share of K–12 spending increased from 3.2% in 2001 to 4.8% in 2018.

Figure WI5: The hidden cut to Wisconsin's state education funding is worth monitoring. WRS is fully funded but the normal growth in pension costs have outpaced state K–12 spending.



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

Wisconsin is one of the best funded retirement systems in the United States, mostly because of its flexible benefit design utilizing risk sharing tools as well as a dedication to funding discipline (read more about this in Equable's WRS case study). However, despite running one of the best funded pension systems in the country, Wisconsin's state education spending has lagged behind the natural growth in the costs of administering WRS. As a result, the share of state K–12 funding being consumed by pension costs has grown by 53% since 2001.

Wisconsin has met its commitments to funding WRS by paying at least the full ADEC each year, but the costs of the system have still grown faster than the state's own-source education spending. Unless there is a change that reduces WRS's costs and/or adjusts the state's education funding to fully account for pension contributions, Wisconsin'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 WI1 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 grew by roughly $1,500 per student since 2001. By contrast, pension contributions have nearly doubled from $251 to $456. As a result, the costs of administering WRS have cut into education spending. In fact, Wisconsin only spent about $1,200 more per student in 2018 than 2001 after accounting for inflation and pension costs.

Table WI1: While state education spending per student has grown, pension 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	$7,968	$1,291	16.2%	$251	$7,717
2002	$8,164	$1,064	13.0%	$258	$7,907
2003	$8,220	$311	3.8%	$273	$7,947
2004	$8,185	$239	2.9%	$349	$7,836
2005	$8,893	$210	2.4%	$326	$8,567
2006	$9,023	$174	1.9%	$321	$8,703
2007	$9,339	$153	1.6%	$343	$8,996
2008	$9,226	$129	1.4%	$346	$8,881
2009	$8,779	$99	1.1%	$357	$8,422
2010	$9,030	$66	0.7%	$370	$8,660
2011	$9,384	$49	0.5%	$384	$9,001
2012	$8,645	$33	0.4%	$393	$8,252
2013	$8,688	$25	0.3%	$423	$8,265
2014	$7,701	$15	0.2%	$451	$7,249
2015	$9,178	$11	0.1%	$449	$8,729
2016	$8,937	$8	0.1%	$439	$8,498
2017	$9,529	$8	0.1%	$457	$9,071
2018	$9,451	$5	0.1%	$456	$8,995

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 WRS 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.