Hidden Education Funding Cuts

West Virginia

Pension costs are consuming nearly 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.

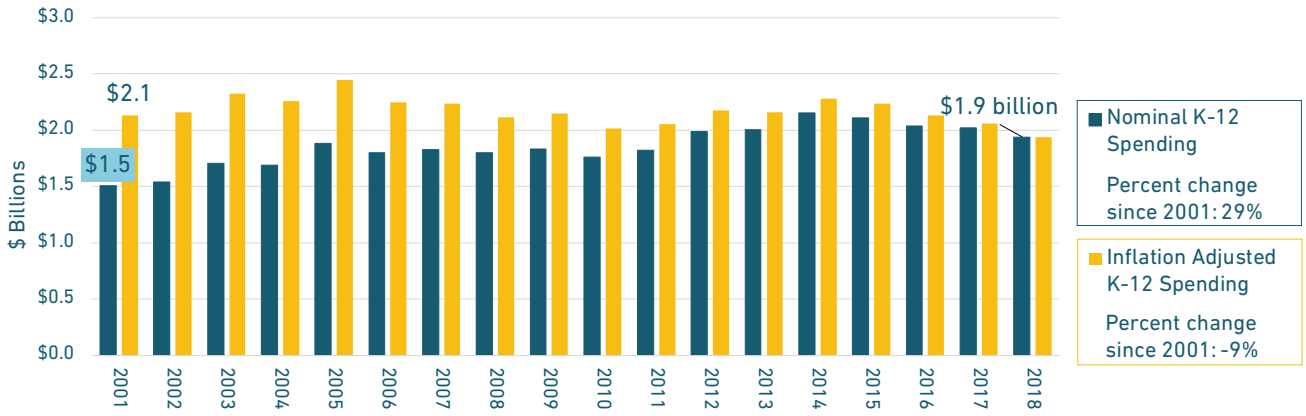
The Mountain State is home to nearly 1.8 million citizens, and almost 270,000 primary and secondary school students. In 2018, the state's total expenditures exceeded $16.9 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state's own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled $12.4 billion.

West Virginia teachers are enrolled in a guaranteed income plan, known as a defined benefit pension, administered by the West Virginia Teachers' Retirement System (TRS). TRS manages retirement benefits for roughly 80,000 active and retired teachers.

EDUCATION SPENDING

In 2018, West Virginia's state distributed K–12 expenditures totaled $2.3 billion. Out of that total, $1.9 billion came from state own-source funding while the remaining $348 million was from federal grants and other education programs. (Local sources provided additional funding.)

Figure WV1: West Virginia's state spending on education decreased by $193 million after accounting for inflation.



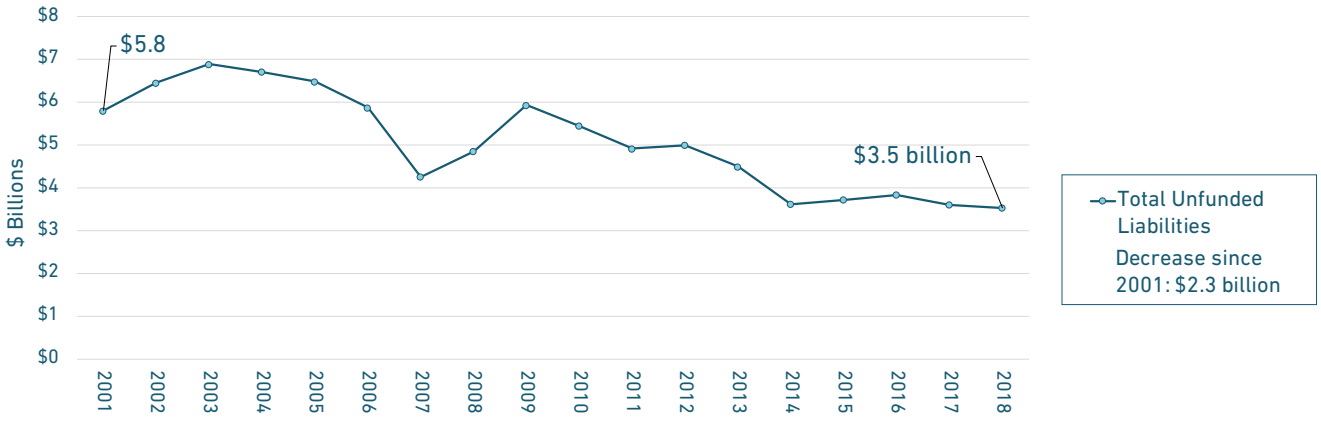
State Own-Source K–12 Spending, 2001–2018

As Figure WV1 illustrates, state spending on primary and secondary education in West Virginia has increased moderately since 2001 — growing by $433 million in nominal dollars; however, it actually decreased slightly after adjusting for inflation, shrinking by $192.9 million. On a dollars per student basis, spending declined 2.9% since 2001 — falling from $7,464 to $7,249 (inflation adjusted).

PENSION FUNDING STATUS

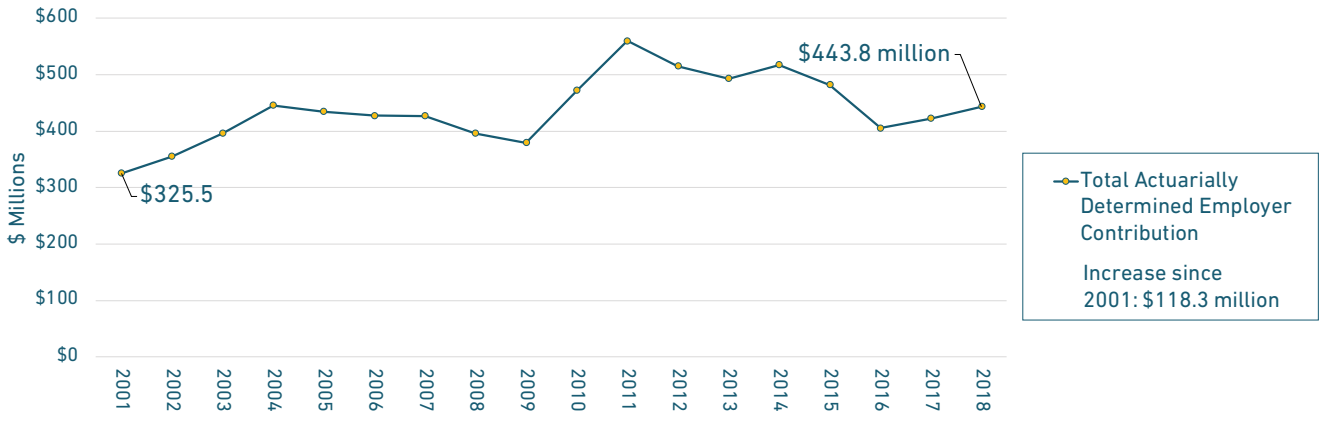
In 2001, TRS was struggling with more than $5.8 billion in pension debt. However, over the past 17 years a commitment to paying at least the full ADEC has helped reduce TRS's unfunded liabilities by $2.3 billion. Figure WV2 shows the change in the unfunded liabilities and Figure WV3 illustrates the change in what state actuaries have recommended as contributions from government employers.

Figure WV2: Since 2001 West Virginia has paid down $2.3 billion of TRS's pension debt, but another $3.5 billion still remains.



TRS Unfunded Liabilities (Actuarial Value), 2001–2018

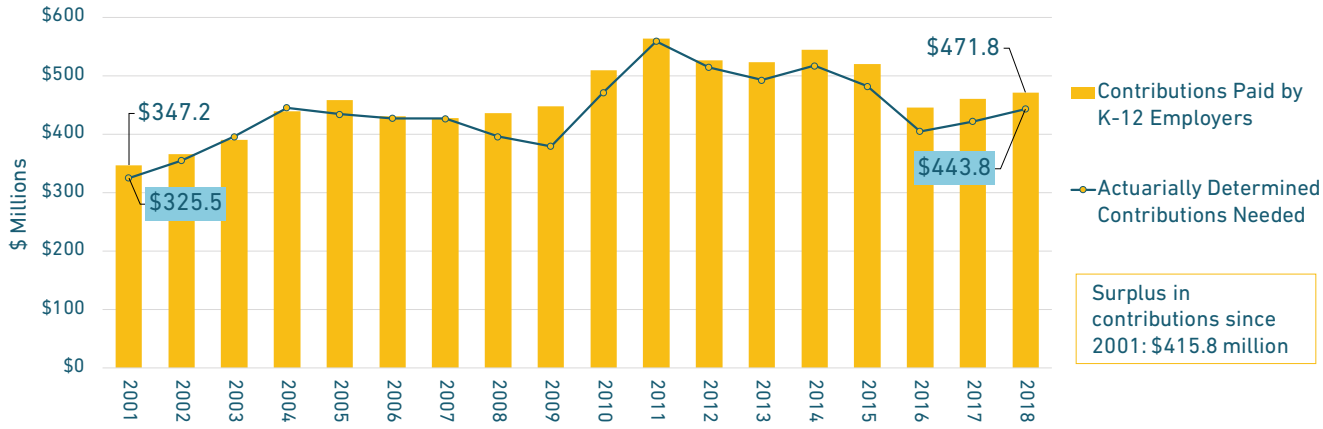
Figure WV3: Although the pension debt is shrinking, TRS's costs are growing. Actuaries recommended the state should contribute $118.3 million more in 2018 than in 2001.



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 into the pension fund each year. West Virginia is one of the states that has demonstrated a strong commitment to paying at least the full required contribution, as shown in Figure WV4. In fact, West Virginia has contributed more than the ADEC most years. As a result, the increase in contributions actually paid by the state exceeds the growing trend displayed in Figure WV3, with contributions increasing 35.9% from $347.2 million in 2001 to $471.8 million in 2018.

Figure WV4: West Virginia paid at least the full actuarial bill to TRS each year, creating a surplus of $416 million to help pay down TRS's pension debt.



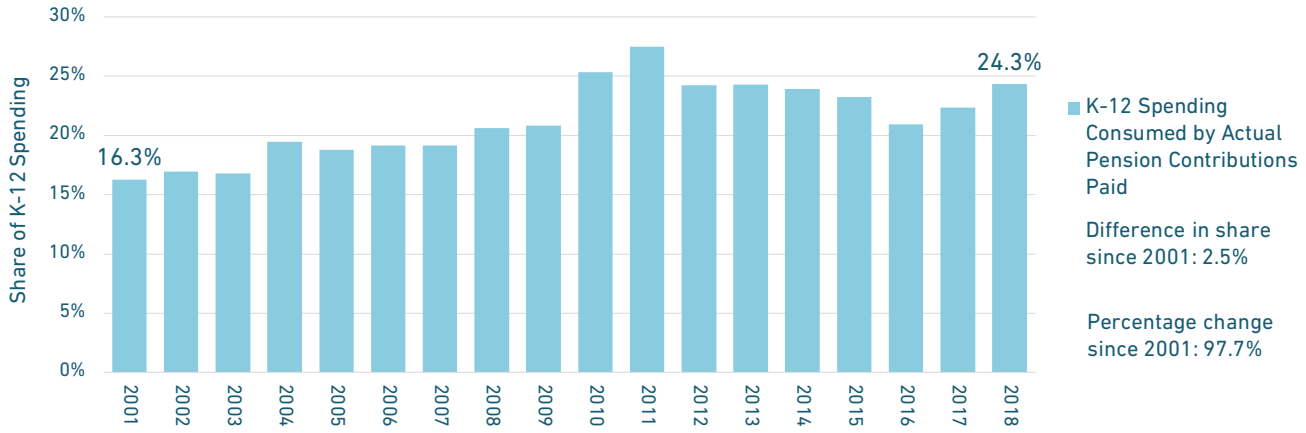
Actuarially Determined Employer Contribution Compared to Actual Contributions Paid to TRS, 2001–2018

Paying the full required pension bill each year is the bare minimum for ensuring a pension system is fully funded. West Virginia has exceeded this expectation with contributions exceeding the ADEC most years. 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, West Virginia 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 TRS have soaked up an increasing share of West Virginia's education spending. This is especially important for teachers, as the growth in TRS's costs combined with a decline in state own-source K–12 spending. In fact, TRS's contributions reported as a share of K–12 spending increased from 16.3% in 2001 to 24.3% in 2018.

Figure WV5: The hidden cut to West Virginia's state education funding is serious. TRS contributions are consuming nearly 50% more state K–12 Funding in 2018 than 2001.



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

West Virginia's pension experience over the past two decades has been mixed. Despite facing $5.8 billion in unfunded liabilities at the turn of the century, the state has overpaid the ADEC and otherwise worked hard to pay down their pension debt — to considerable success as their debt has decreased by $2.3 billion. However, this commitment to addressing the teacher pension system was not met with a similar push to increase state K–12 funding. The decline in state education spending was fast enough to outrun declining enrollment. Moreover, as TRS's pension costs have climbed, the lack of additional state education dollars has meant that the hidden funding cut has grown to almost 25% of the education budget.

West Virginia has met its commitments to funding TRS by paying the full ADEC each year and those efforts have paid off more than $2 billion in pension debt. But the added costs of paying down the system's debt have not been offset by increases in 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, West 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 WV1 shows the UAAL and actual pension contributions on a per student basis compared against state education spending. Breaking the numbers down this way shows the extent of the state's declining education spending — roughly $200 less per student. But when coupled with the increases to pension costs, the cut is even deeper. In fact, after accounting for inflation and pension costs, West Virginia spent roughly $800 less per student in 2018 than 2001.

Table WV1: State education spending per student has declined, and pension contributions have only made the drop in K–12 funding sharper.

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	$7,464	$20,310	272.1%	$1,216	$6,248
2002	$7,580	$22,650	298.8%	$1,287	$6,294
2003	$8,181	$24,256	296.5%	$1,375	$6,805
2004	$7,976	$23,674	296.8%	$1,551	$6,425
2005	$8,649	$22,946	265.3%	$1,623	$7,026
2006	$7,980	$20,852	261.3%	$1,528	$6,452
2007	$7,923	$15,069	190.2%	$1,516	$6,406
2008	$7,489	$17,173	229.3%	$1,543	$5,946
2009	$7,604	$20,986	276.0%	$1,584	$6,021
2010	$7,125	$19,251	270.2%	$1,803	$5,322
2011	$7,258	$17,390	239.6%	$1,994	$5,264
2012	$7,684	$17,649	229.7%	$1,863	$5,821
2013	$7,685	$16,011	208.3%	$1,865	$5,820
2014	$8,135	$12,916	158.8%	$1,944	$6,191
2015	$8,066	$13,408	166.2%	$1,876	$6,190
2016	$7,786	$14,013	180.0%	$1,630	$6,156
2017	$7,612	$13,311	174.9%	$1,700	$5,912
2018	$7,249	$13,212	182.3%	$1,764	$5,485

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.