Hidden Education Funding Cuts

Wyoming

Pension costs are consuming 44% 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.

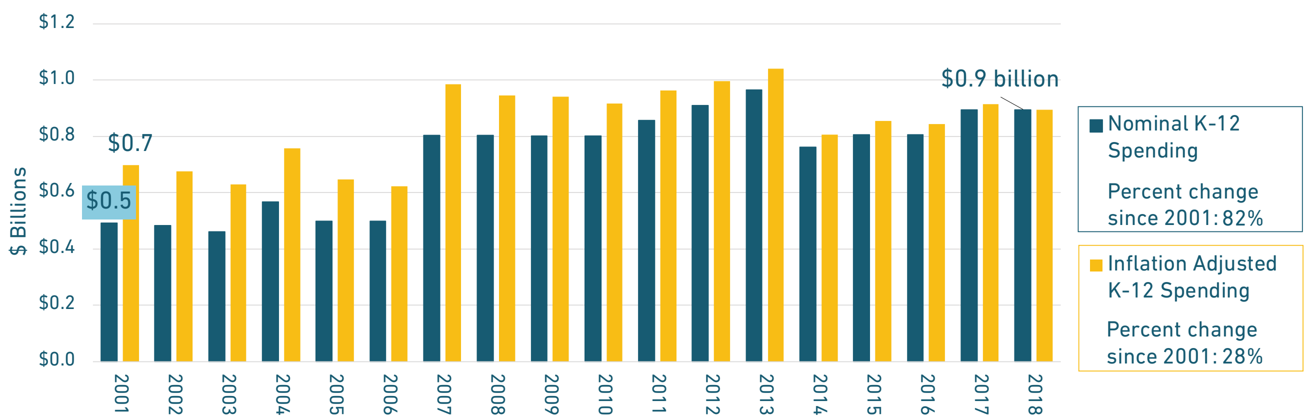
The Equality State is home to more than 575,000 citizens, and 93,000 primary and secondary school students. In 2018, the state's total expenditures exceeded $4.4 billion — funds for schools, transportation, public safety, and other public services. Out of that spending, the state's own-source expenditures — defined as all state funding that does not draw on federal or local revenue — totaled $3.5 billion.

Wyoming teachers are enrolled in a guaranteed income plan, known as a defined benefit pension, administered by the State of Wyoming Retirement System (WRS). WRS manages retirement benefits for nearly 92,000 active and retired teachers, municipal employees, and state workers. Although WRS provides retirement for more than just teachers, they comprise a significant share (49%) of plan members.

EDUCATION SPENDING

In 2018, Wyoming's state distributed K–12 expenditures totaled $896 million. Wyoming operates their education funding outside of the state general funds, as a result, all $896 million reported came from state own-source funding. As a result, the state has excluded federal funds from their reported figures since 2015. (Local sources provided additional funding.)

Figure WY1: Wyoming's state spending on education only increased by $198 million after accounting for inflation.



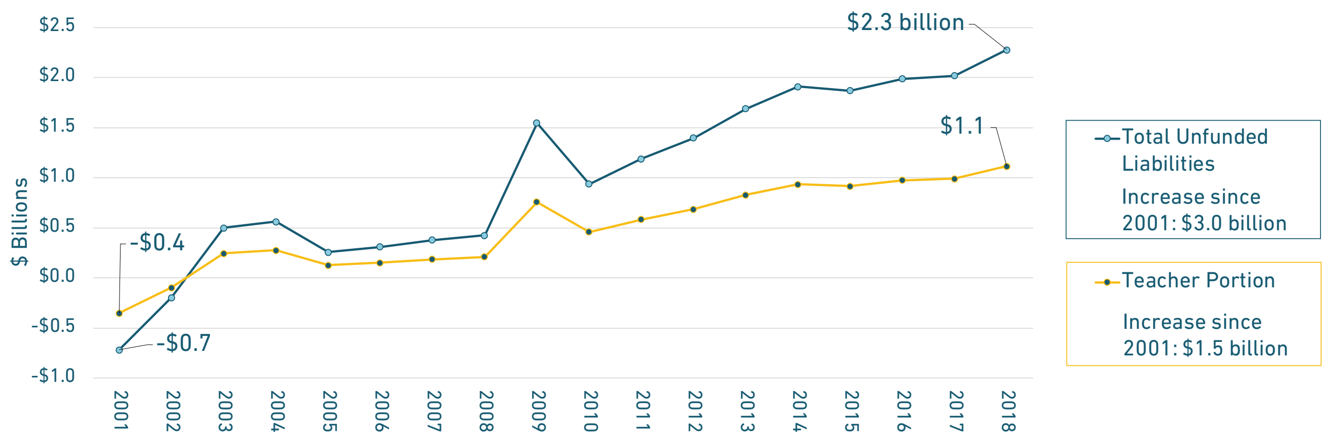
State Own-Source K–12 Spending, 2001–2018

As Figure WY1 illustrates, state spending on primary and secondary education in Wyoming has increased moderately since 2001 — growing by $403 million in nominal dollars; however, it increased less after adjusting for inflation, growing by only $198.1 million. On a dollars per student basis, spending increased 22.4% since 2001 — growing from $7,828 to $9,583 (inflation adjusted).

PENSION FUNDING STATUS

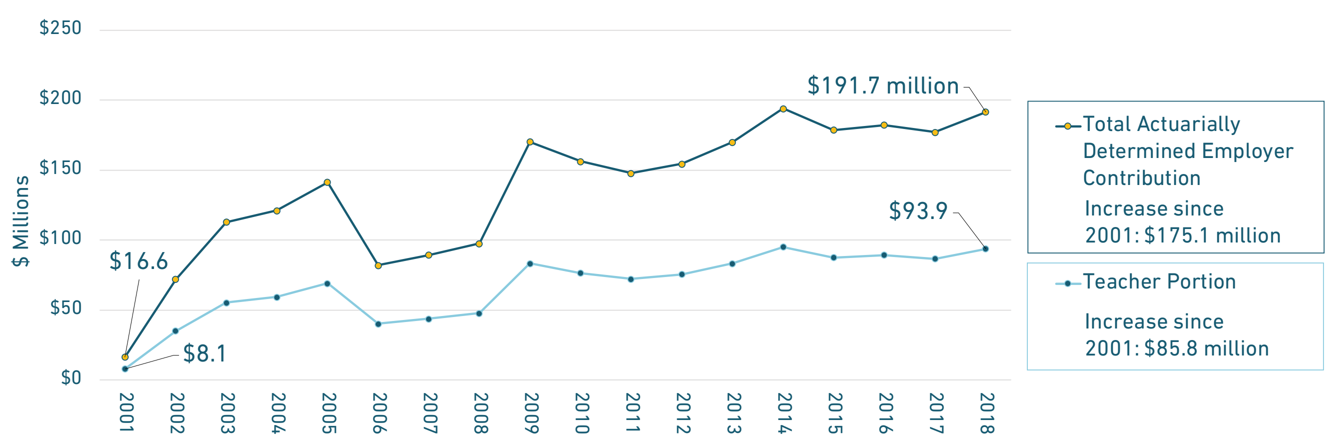
As recently as 2002, WRS was fully funded with a surplus of $196.5 million. However, over the past 16 years a combination of underperforming investments coupled with changing demographics have caused the unfunded liability for WRS to explode — reaching $2.3 billion in 2018. Figure WY2 shows the change in the unfunded liabilities and Figure WY3 illustrates the change in what state actuaries have recommended as contributions from government employers.

Figure WY2: Since 2001 WRS has transitioned from being fully funded to more than $2.3 billion in pension debt.



WRS Unfunded Liabilities (Actuarial Value), 2001–2018

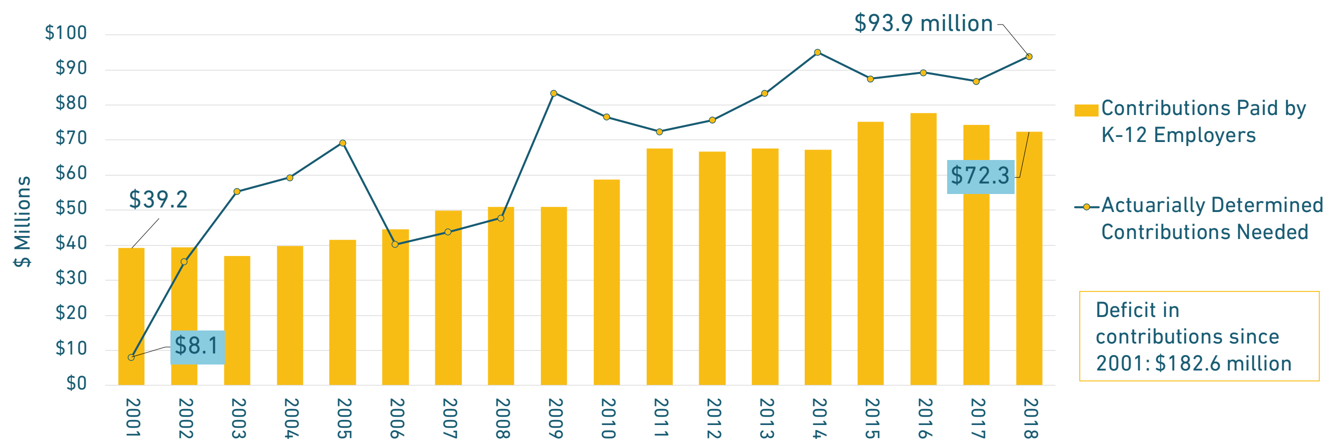
Figure WY3: To address the pension debt the amount actuaries recommend the state should contribute to WRS has increased more than ten-fold.



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 to the pension fund each year. Unfortunately, Wyoming is one of those states, failing to pay the full pension bill 13 times in the lasts 18 years — including every year since 2009. As shown in Figure WY4, the increase in contributions actually paid by K–12 employers does not perfectly track the ADEC trend displayed in Figure WY3. While contributions have frequently been less than the full ADEC, they have still almost doubled from $39.2 million in 2001 to $72.3 million in 2018.

Figure WY4: Wyoming did not pay its full actuarial bill to WRS every year, shorting the plan by $183 million since 2001.



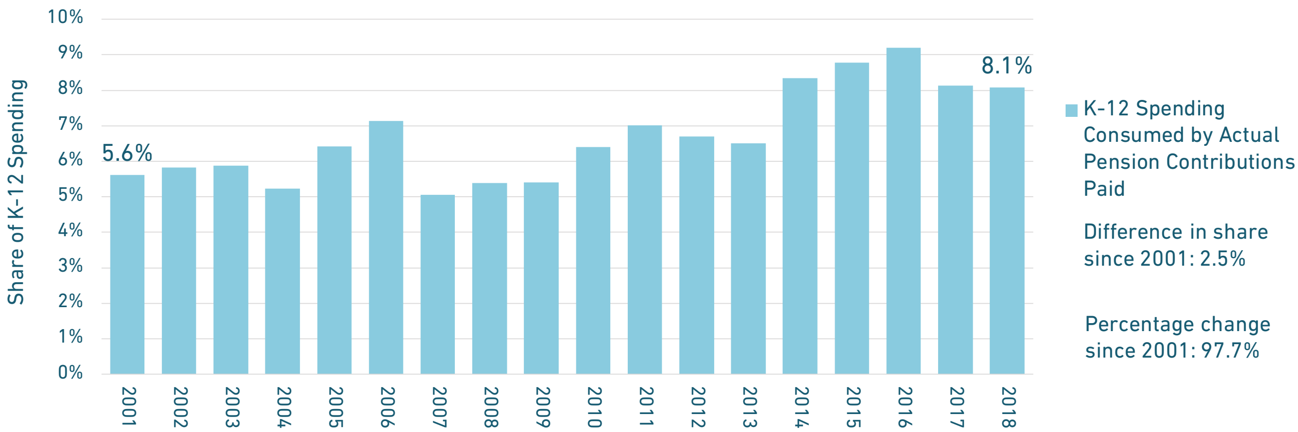
Actuarially Determined Employer Contribution Compared to Actual Contributions Paid to WRS, 2001–2018

Paying the full required pension bill each year is the bare minimum for ensuring a pension system is fully funded. Best practice would be for Wyoming 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 Wyoming'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 WRS have soaked up an increasing share of Wyoming 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 5.6% in 2001 to 8.1% in 2018.

Figure WY5: The hidden cut to Wyoming's state education funding is serious. WRS contributions are consuming 44% more state K–12 funding in 2018 than 2001.



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

The clear takeaway for Wyoming is that the increasing contributions to WRS have grown at a faster pace than state K–12 spending. The share of state education funding grew rather consistently from 2007 through 2016 when it reached a peak at 9.2%, only to see a slight decline in 2017. This drop can be attributed to the combination of a small jump in K–12 spending paired with declining contributions.

Wyoming has failed to meet its commitments to funding WRS 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 WRS's costs and/or adjusts the state's education funding to fully account for pension contributions, Wyoming'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 WY1 shows 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 growth in unfunded pension liabilities and related pension contributions have outpaced per student spending by the state. State K–12 spending has increased by roughly $1,700 per student, but pension contributions grew by 84.5% from $440 to $774. As a result, Wyoming only spent roughly $1,400 more per student in state dollars in 2018 than 2001, after accounting for inflation and pension costs.

Table WY1: State education spending per student increased, 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	$7,828	-$3,947	Fully Funded	$440	$7,388
2002	$7,651	-$1,090	Fully Funded	$445	$7,205
2003	$7,197	$2,795	38.8%	$423	$6,775
2004	$8,745	$3,171	36.3%	$458	$8,287
2005	$7,528	$1,467	19.5%	$483	$7,045
2006	$7,321	$1,782	24.3%	$522	$6,799
2007	$11,406	$2,136	18.7%	$577	$10,829
2008	$10,845	$2,390	22.0%	$584	$10,261
2009	$10,667	$8,589	80.5%	$577	$10,089
2010	$10,307	$5,162	50.1%	$660	$9,647
2011	$10,702	$6,465	60.4%	$750	$9,951
2012	$10,888	$7,469	68.6%	$730	$10,158
2013	$11,213	$8,925	79.6%	$730	$10,483
2014	$8,584	$9,939	115.8%	$716	$7,868
2015	$9,036	$9,662	106.9%	$794	$8,243
2016	$8,966	$10,335	115.3%	$825	$8,141
2017	$9,760	$10,549	108.1%	$794	$8,966
2018	$9,583	$11,917	124.4%	$774	$8,809

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.