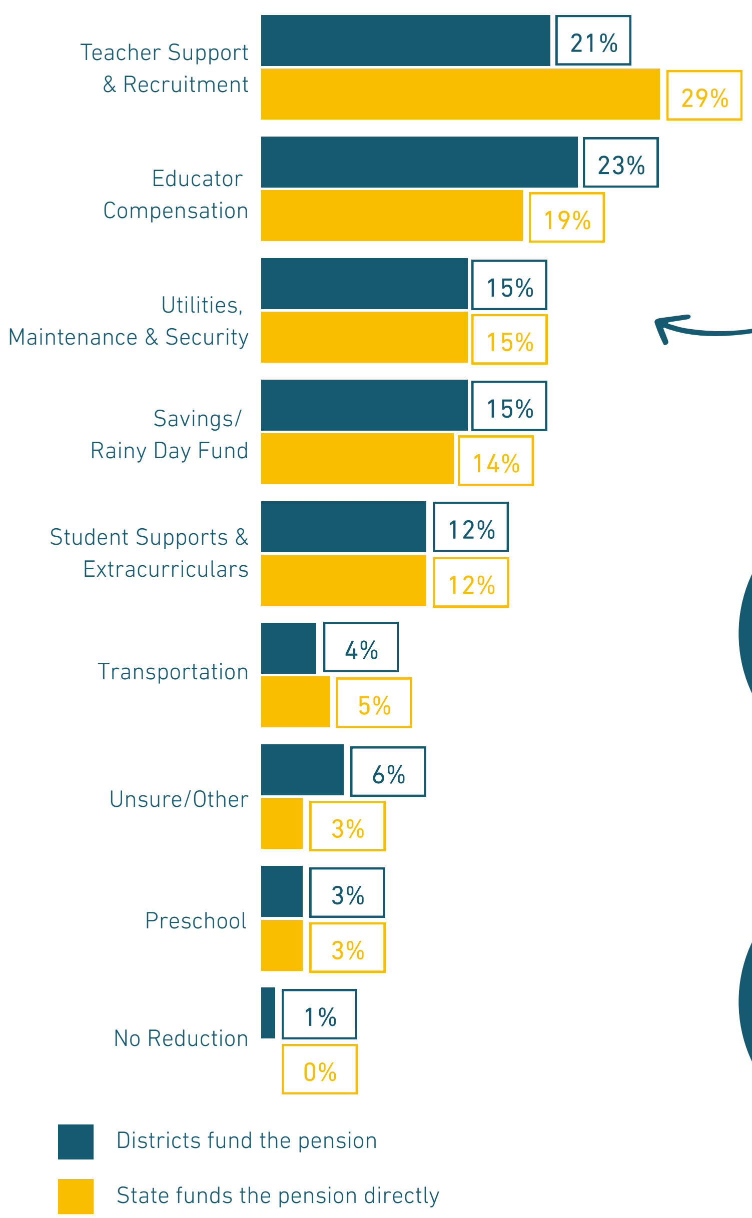
# At Least One-Third of School Districts Have Experienced Funding Cuts Due to Growing Pension Costs

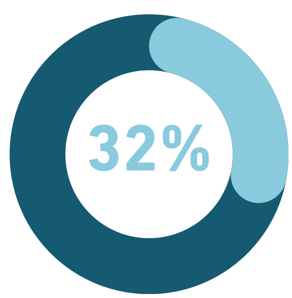
Over the last two decades, teacher pension costs have grown nearly ten times faster than the overall growth rate of state and local spending on K-12 education.[1] So Equable partnered with EdWeek Research to survey over 1,000 school board members, superintendents, and other district leaders, asking them whether growth in retirement costs had created budget pressure to cut K-12 expenses or defer priorities over the last five years.[2] Those who said "yes" also specified the areas they made budget changes explicitly due to pension costs — shown below.

## What Have School Districts Cut or Deferred Because of Growing Pension Costs?

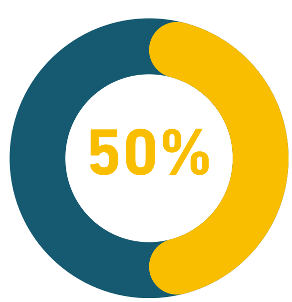



The most likely items to experience budget cuts were teacher support, recruitment, and compensation, regardless of whether a district leader was in a state that paid for pension costs directly or where school districts covered costs.

Utilities, building maintenance, and security were common targets as well. Cuts to long-term savings and rainy-day funds may result in future fiscal challenges for districts.




In states where districts pay all or most pension costs directly, 32% of district leaders report cutting or deferring current or future investments explicitly because pension costs increased.




In states where the legislature pays all or most pension costs directly, 50% of district leaders believe pension costs lead to lower state funding for public schools.

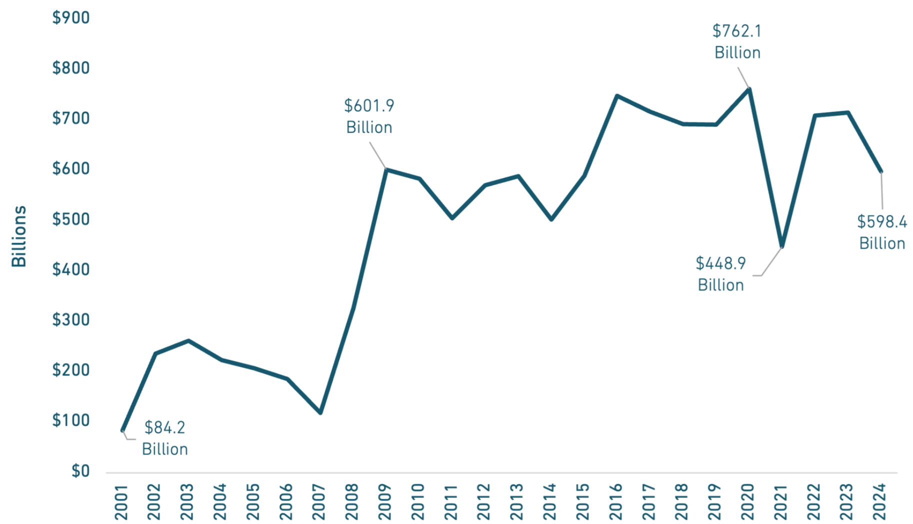
# Teacher Pension Debt Erodes Education Budgets

Employer contribution requirements for teacher pension plans have tripled from 9.3% of payroll to 31.7% of payroll over the last 25 years.

**Why? Pension debt.**

Between 2001 and 2024, teacher pension funds have accumulated $600 billion in unfunded liabilities — or pension debt — shown on the right.[3] The last few years saw improved investment returns and extra state contributions, but that only slowed the growth in pension debt, not erased it.

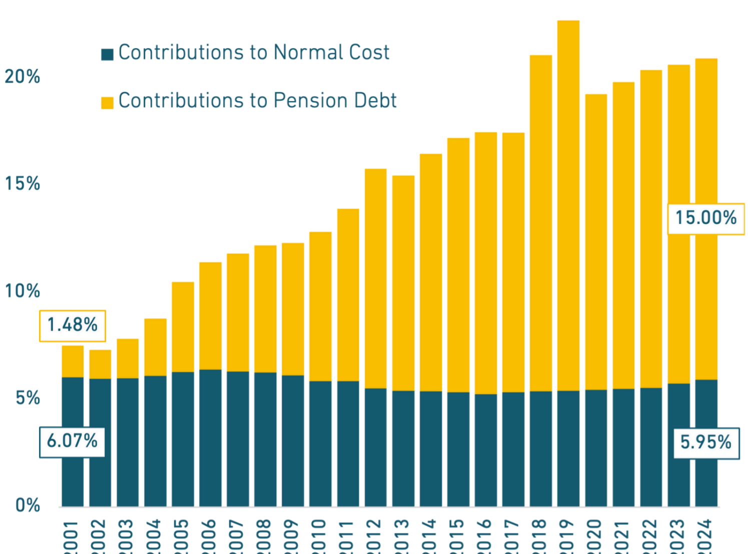
## Unfunded Liabilities for State and Local K-12 Pension Plans | 2001-2024



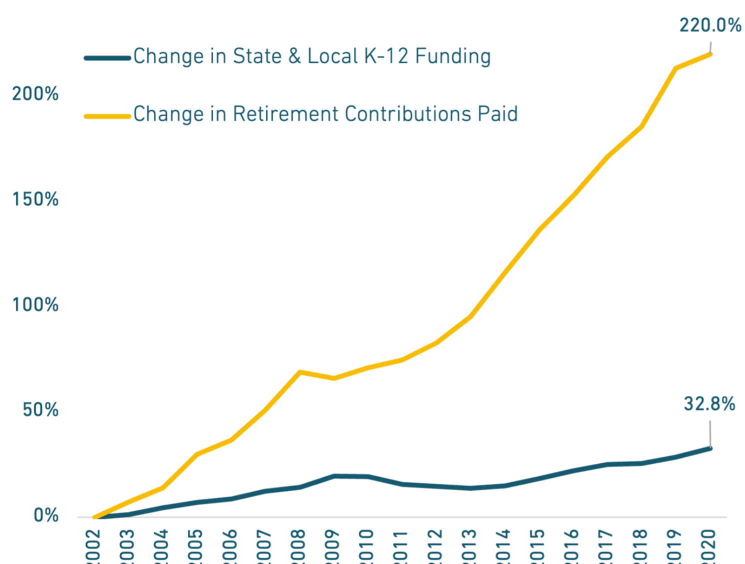

The result of increased pension debt is a steady increase in required costs to pay down school district pension debt — money that could have otherwise been used by schools for salaries and programs (see bottom left).

If states had increased their K-12 appropriations to accommodate rising retirement costs, school district budgets wouldn't be feeling a budgetary pinch. However, since 2001 retirement costs have grown 220%, while K-12 budgets have only grown by 33% (see bottom right). This creates hidden education funding cuts.

## Average Employer Contribution Rate as a Percentage of Payroll | 2001-2024



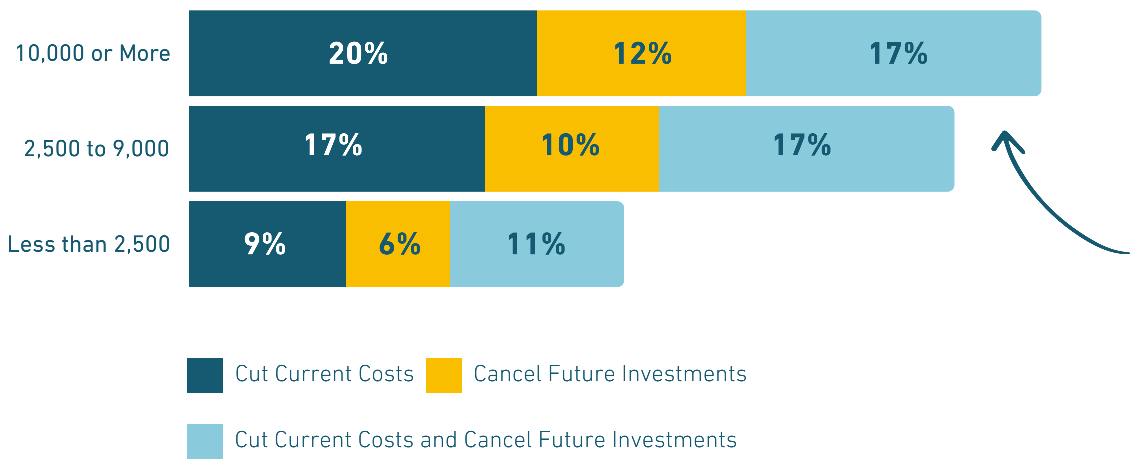

## Growth in State & Local K-12 Spending v. Retirement Spending | 2002-2020



# Large and Suburban Districts Were the Most Likely to Report Cuts or Deferrals Due to Rising Pension Costs Over the Last Five Years

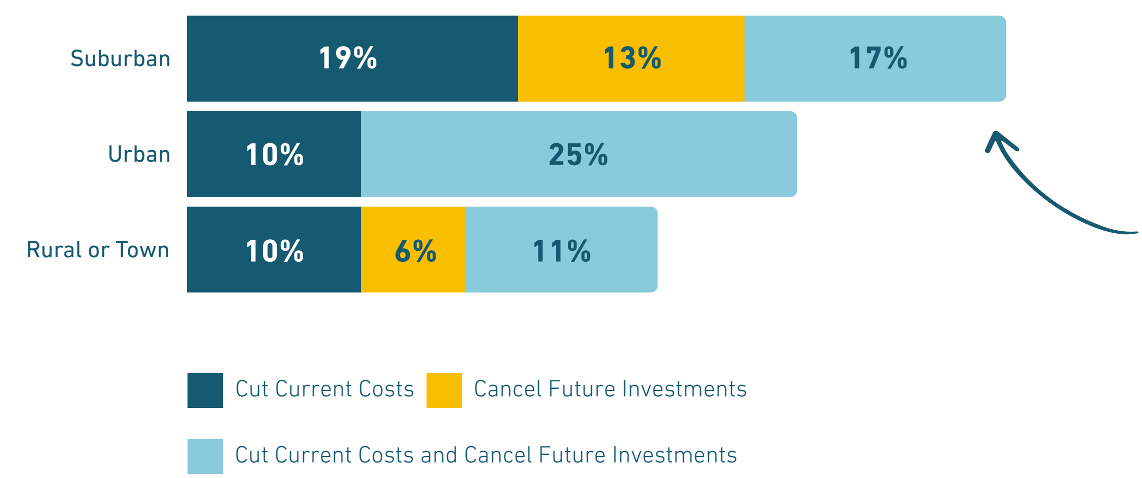
Within the states where school districts pay pension costs directly, the effect of increased pension spending was not felt evenly. Large districts were nearly twice as likely to make cuts or defer spending priorities because of pension debt costs as the smallest districts, according to district leaders. Suburban districts reported cuts/deferrals at a rate 20 percentage points higher than towns or rural areas.

## District Size




Large districts were most likely to experience budget cuts/deferrals over the last five years. They also were most likely to say pension costs would lead to future cuts/deferrals.

## District Location




Suburban districts were most likely to experience budget cuts. Urban districts were most likely, however, to make cuts both to current and future expenses.

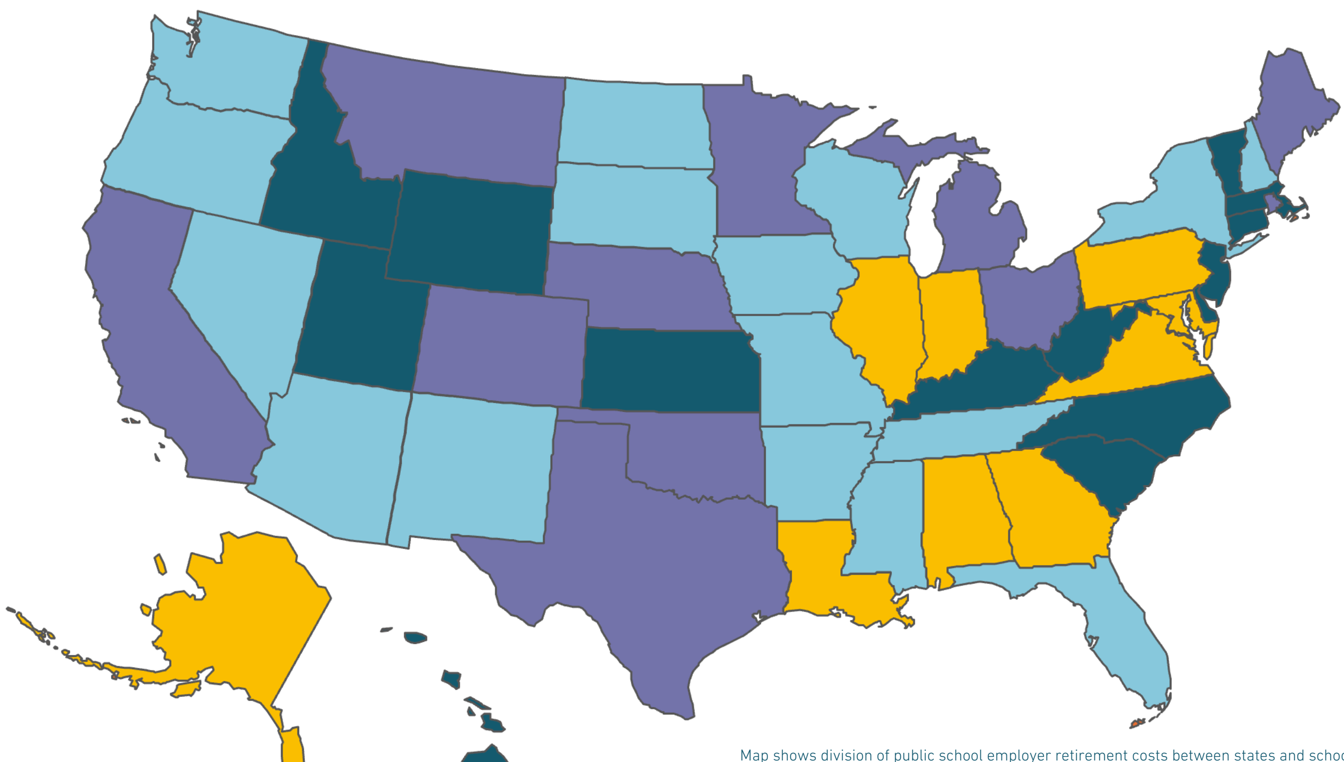
# States Share Teacher Pension Costs Differently, and Each Model Has Important Trade-Offs to Consider

### State pays 100% of costs

This approach can help distribute pension funding equitably because the state payments act as a subsidy. However, if legislatures don't account for this subsidy in their school funding formula, it can disproportionately benefit wealthier districts. School district leaders also often do not realize how much pension costs consume from K-12 budgets.

### State pays >50% of costs

It can be efficient for states to directly pay a large portion of pension costs—particularly for paying down pension debt. But, like states paying 100%, legislatures should ensure this subsidy isn't disproportionally distributed to districts that can afford to pay higher salaries. School district leaders also often do not realize how much pension costs consume from K-12 budgets.



Map shows division of public school employer retirement costs between states and school districts for FY 2025. Sources: Equable Institute[4] and Center for Retirement Research.[5]

### State pays <50% of costs

Because salary is directly related to pension costs, some states pay a smaller fixed share of required pension costs to ensure school districts understand the effects of their salary decisions, while providing some support. But, states should ensure any pension subsidies are appropriately distributed and that the costs districts carry aren't favoring wealthier school districts. It is further important to ensure transparency of all costs for state policymakers.

### Districts pay 100% of costs

It is valuable to have districts understand the effects of their salary decisions on retirement costs. However, school districts should not have to pay pension debt costs. Further, pension cost increases passed to districts consume a greater share of funding in lower wealth districts that can struggle to raise revenue compared to higher-wealth districts. And this approach can create a lack of transparency in pension costs for state policymakers.

# How to Account for Pension Debt in School Funding Formulas

Growing pension debt costs can effectively result in cuts to K-12 education spending. To address this problem, states should diagnose how these costs affect their districts and assess how best to meet their particular challenges.

## The Problems

1. Public school and teacher retirement systems have accumulated hundreds of billions in unfunded liabilities, and this has pushed up required contribution rates.

2. State and local budgets for K-12 have not increased at the same rate as these growing pension costs over the past two and half decades, which has translated into a hidden education funding cut.

3. The way that hidden funding cuts to K-12 budgets manifest is not equally distributed or universally understood — both because some states manage their teacher pension funds better than others, and states vary in how they pay for retirement costs.

4. In states where the legislature covers all or most of pension costs on behalf of districts, half of school district leaders say growing pension costs have reduced K-12 resources.

   One third of these district leaders also say they can point to specific expenses they have had to cut or defer in the last five years because of pension cost growth.

5. Differences in local resources have contributed to the variance in how school districts have experienced the effects of pension debt growth — wealthier districts have more capacity to change local revenues to account for ways the state is passing along retirement cost increases. Larger and more suburban districts were also more likely to report cuts and deferred expenditures because of pension cost growth.

## The Solutions

1. **Monitor Hidden Cuts**
   Annually review the share of K-12 state and local resources that are consumed by retirement cost expenditures — whether paid by districts or on their behalf by the state. When pension costs increase, the state should adopt policies to increase K-12 funding proportionally.

2. **Don't Make Districts Pay Pension Debt**
   Do not require school districts to cover the cost of unfunded liability amortization payments using funds intended for K-12 educator salaries, facilities, or programs.

3. **Require Districts Share Some of the Normal Cost**
   Do require that school districts contribute some portion of the "normal" retirement benefit costs, an amount sufficient to ensure they are incorporating the effect of retirement costs in their salary decisions and negotiations.

4. **Review the Balanced Resource Effects of Pension Subsidies and District Requirements**
   A basic principle of state education funding is to ensure that all basic costs for providing education are covered while assessing the ability of local jurisdictions to cover those costs.

5. **Integrate Retirement Costs Explicitly into School Funding Formulas**
   States should directly incorporate a consideration of pension costs in their school funding formulas. State aid to school districts is generically intended to cover basic education needs, but if pension costs are only implicitly covered in these appropriated dollars it is more likely that policymakers will unintentionally allow for hidden education funding cuts to grow.

Read more about state-specific policy solutions here.

## FOOTNOTES

[1] Equable Institute, "America's Hidden Education Funding Cuts: How Growing Teacher Pension Debt Stresses America's K–12 Education Budgets," March 2023.

[2] The survey was administered to 970 school board members and 211 district leaders by EdWeek Research Center between 2/6/24 to 2/20/24.

[3] Equable Institute, "State of Pensions 2024," January 2025.

[4] Equable Institute "Who Pays the Employer Contribution Rates for Teacher Pension Plans?" May 2025.

[5] Center for Retirement Research, "What Role Does State Government Play in Funding Teacher Pensions?" September 2024; and, Map notes: The state of Delaware is formally the employer for school district employees. Washington D.C. and Hawaii are single-school district states. Ohio's education agency subtracts estimated pension payments from each school district's state appropriated funding and sends the money directly to the state's teacher retirement system, which effectively means school districts don't see pension payments in their budgets even though they are responsible for the costs. Pennsylvania reimburses school districts for around 50% of their retirement costs, which means that district budgets are regularly seeing pension payments on the expense and revenue sides of their ledgers. South Carolina determines the amount of money needed for pension costs and appropriates that explicitly as part of their education allocation process; districts then send the money to their state retirement system so their budgets have this as an expense, but as a practical matter all costs are covered by the state.

## ABOUT THIS BRIEF

This policy brief was written by Anthony Randazzo and Max Marchitello, based on research from Equable Institute and survey data published by EdWeek Research Center.

## ABOUT EQUABLE

Equable is a bipartisan non-profit that works with public retirement system stakeholders to solve complex pension funding challenges with data-driven solutions. We exist to support public sector workers in understanding how their retirement systems can be improved, and to help state and local governments find ways to both fix threats to municipal finance stability and ensure the retirement security of all public servants

**CONTACT:**

Sam Shaw | Vice President of Communications | Sam@Equable.org