EDUNOMICS LAB The Study of Education Finance

Leaders Ignored Teacher Pension Debt. Now There's Less Money for Teacher Salaries and Students. How Much Less Depends on the State.

Marguerite Roza

Bring up the issue of pension debt and most educators quickly lose interest. That's a mistake, as pension debt will have a devastating impact on the spending available for students and teachers. Maybe the problem seems too far off into the future, or too muddled in technical pension-speak, or perhaps it's just that citing dollar figures in the billions doesn't mean much to those of us who've never seen that much money.[1] There is certainly no shortage of reports describing debt as "soaring,"[2] "skyrocketing,"[3] or "ballooning"[4] from unfunded teacher pensions. Experts title their reports with warnings that pension debt "hurts school districts"[5] and is "harming teachers and students."[6] But these alarms have triggered a surprisingly muted response in many education quarters among rank-and-file teachers and education leaders alike. And almost never do we hear of parents engaging on the topic.

It isn't just teachers and parents that seem disinterested. In a recent finance presentation to state education chiefs, I vividly recall the moment I shifted to the subject of pension debt. That was the moment I saw several chiefs tune out and reach for their cell phones to scroll through email.

The lack of urgency has been vexing to many who have worked to quantify the problem. Gather a handful of pension researchers and inevitably the conversation turns to an exploration of why so few education leaders are engaged in addressing the challenges of teacher pension debt **when so much is at stake for schools**.

Though many clearly do not find the pension debt topic riveting, it is far from esoteric, especially in a year when teachers are rightly asking for salary increases and leaders are calling for new investments in early learning and other schooling services. That's because where states are attempting to pay down pension debt accumulated over years, it comes

1. National Council on Teacher Quality estimates teacher pension debt totals $516 billion. NCTQ, *Lifting the Pension Fog*, 2017. Accessed August 27, 2019.
2. Ed Mendel, "CalSTRS debt soars under new accounting rules," *Calpensions*, September 16, 2013.
3. Keith Phaneuf, "Panel seeks new ways to slow skyrocketing state pension costs,"CT Mirror, July 24, 2018.
4. Elizabeth Hewitt, "Vermont's ballooning pension debt threatens state's financial future," *VT Digger*, August 1, 2018.
5. Sarah Butrymowicz, "How Rising Teacher Pension Costs Hurt School Districts," *The Hechinger Report*, April 22, 2019.
6. Cory Koedel, "California's pension debt is harming teachers and students now—and it's going to get worse," *Brookings Chalkboard*, May 3, 2019.

at the expense of other investments, like teacher salaries or funding for students. Just like an unpaid credit card balance that grows over time, the longer states delay paying off the debt, the bigger the debt price tag becomes, consuming an ever-greater share of the finite pool of public dollars available for teachers and students.

Just how much money is at stake? This brief quantifies in immediately relatable terms—by student and by teacher—the magnitude of the crowd-out that pension debt creates for six states. In translating debt payments into the equivalent spend per pupil, and the equivalent spend per teacher, the goal is to help education leaders grasp the relationship between their pension debt bills and their aspirations for spending on schooling inputs, including teacher salaries. Money spent on one thing can't be spent on another.

How Did We Get Here?

States are supposed to balance their budgets, but many have wiggled around that requirement by leaving unpaid teacher retirement bills for future leaders to pay. That means states (and school districts) can hire a teacher for the school year but not set aside enough money to pay their promised retirement benefits. A federal law (called ERISA) prohibits businesses from similarly not paying their retirement bills in the year the benefits are earned, but that law excludes state and local government employers. So, as years have gone by, states haven't set aside enough money to cover their retirement promises to teachers.

This happened in myriad ways over many years and resulted in different levels of debt in states. Some approaches have been indirect—state pension funds assume unrealistically high rates of return on their investments, which then lets them argue they don't need as much money from state budgets.[7] (States that use more reasonable investment assumptions have to put more money into their pension fund each year in annual contributions, but those states also tend to be better funded.)

Other approaches have more directly underfunded pensions. Back in the 1990s, state leaders approved increases in benefits they could not afford. Sometimes they failed to make the contributions they had promised. With pensions, unlike 401K plans, states make promises to cover a dollar benefit regardless of whether investment growth stalls in a recessionary year. In many states today, after years of not fully paying these bills, state teacher pension debt is often what stands in the way of spending more on students or raising teacher salaries.

7. Chad Aldeman, "The Pension Pac-Man: How Pension Debt Eats Away at Teacher Salaries," Bellwether Education Partners, May 13, 2016.

Pension obligations, once made, can be nearly impossible to renegotiate or discharge.[8] That said, policy options do exist to tackle the problem. Some states are starting to tweak pension formulas, introduce alternative teacher retirement systems, cap pensionable pay raises, eliminate loopholes, and so on. Of course, one option is to get serious about paying down the debt, to keep the price tag from growing even bigger. Notably, California has gone this route by spelling out a payment plan whereby the state, districts, and current teachers all pay more each year.[9]

Paying off the debt uses today's dollars to pay yesterday's schooling bills. Those payments mean money is spent on the debts incurred by previous administrations on behalf of students who may have long since graduated or teachers who may now be retired. It means that the system can't use the available funding we have now for the students we have today.

Teacher Pension Debt Payments Come at the Expense of Spending More on Students

Paying the teacher pension debt requires making payments **above and beyond** the typical annual pension payments.[10] As states pay these pension debt bills (and ultimately, they will have to) dollars that could have gone to improve schools, add new services, or raise teacher pay instead go to the debt payments.

In Table 1 and Table 2, we break down these multi-billion-dollar pension liabilities in California, Illinois, Louisiana, South Carolina, Texas, and Vermont to the unit of the student and the unit of the teacher to offer needed perspective on magnitude and tradeoffs.[11] The six states were selected to illustrate the range of state debt, and because their pension debt and membership data were readily available. This analysis isolates each plan's existing debt (the difference between the present-day value of the total retirement plan liabilities and the current value of the assets).[12] Then, because some state pension systems aren't only open to K-12 teachers, or exclude some districts,[13] we narrow the analysis to those active members who are K-12 teachers in order to explore how much money is at stake for teachers and students. The current pension debt per teacher represents the dollar amount if a state were to wipe clean the debt slate today (in a present-day payoff). We acknowledge that this represents a theoretical scenario, as most states do not have the available funds to rid themselves of their pension debt in one fell swoop.

8. Chuck DeVore, "$5.2 Trillion of Government Pension Debt Threatens to Overwhelm State Budgets, Taxpayers," *Forbes*, May 31, 2019.
9. In 2014, California passed AB1469 which aims to eliminate pension debt by 2046, via sizable payment hikes in employee, employer, and State contributions.
10. By this we mean other than just the "normal cost" for a pension fund, which is a technical way of saying the money required to prefund future retirement benefits that are earned by the current year of teaching.
11. Marguerite Roza, "Now Is a Great Time to Compute the Per-Unit Cost of Everything in Education," in Frederick M. Hess and Eric Osberg, *Stretching the School Dollar: How Schools and Districts Can Save Money While Serving Students Best*, Harvard Education Press, 2010.
12. Each state's pension system reports an annual actuarial valuation. In this analysis, we refer to the valuations of California's STRS in 2017; Illinois' TRS in 2018; Louisiana's TRSL in 2018; South Carolina's SCRS in 2018; Texas' TRS in 2018; and Vermont's VSTRS in 2018.
13. For example, California's teacher plan includes community college members, and Louisiana's includes higher education faculty, while the Illinois system excludes teachers from Chicago public schools.

The analysis also computes the costs of a 10-year debt pay-off in per-student terms, with a payment plan that assumes an interest rate of 7.5% (which mirrors the current investment rate several of the states used in their projections). Summing the teacher debt and dividing by relevant pupils in each state provides the figures in Table 1.[14]

TABLE 1: Putting current pension debt in per-*student* terms across six states

State	Current pension debt per K-12 student[15]	For the same price the state would pay to wipe out its pension debt in a decade, students could get this much more in funding each year over 10 years
California	$10,206	$1,452 per student
Illinois*	$39,820	$5,676 per student
Louisiana	$9,804	$1,392 per student
South Carolina	$9,217	$1,308 per student
Texas	$2,733	$384 per student
Vermont	$18,696	$2,664 per student

* Excludes Chicago Public Schools

As seen in Table 1, translating today's pension debt bill into per-student terms shows that Texas, on the low end, is carrying more than $2,700 in unfunded pension liability for every student, whereas Illinois, on the high end, is carrying nearly $40,000 in debt per student.[16] Paying off the pension debt comes at the expense of spending an additional $384 per year for a decade on each Texas student, or well over $5,000 per year for each Illinois student for each of the next ten years.

To further illustrate the value of debt, we might imagine a state putting an equivalent investment into a college savings account for each school-age student in the state. Every Vermont student could get more than $18,000 to spend on college. Every California student could get more than $10,000 to spend on college.

Or the money could be used for schooling upgrades, new preschool programs, high school STEM classes, supports for low-income children, or career tech offerings—all of which have been recently proposed by state leaders. The point here is that the money that will pay off the debt—whether it is paid off now or later—will come at the expense of other investments. The later it is paid off, the bigger the debt bill will be and the bigger the bite it will take out of other education investments.

14. We rely on the National Education Association's Rankings and Estimates (2018) for student enrollment data from the relevant year.
15. Per above, this calculation includes only the K-12 teacher portion of the pension debt.
16. As shown in Table 1, Illinois figures exclude the state's largest district, Chicago, because that city school district has its own pension plan that operates separately from that of the rest of the state.

Teachers Should See Pension Debt as Competing with Efforts to Raise Salaries

As seen in Table 2, translating today's pension debt bill into per-teacher terms shows Texas, on the low end, is carrying more than $36,000 in unfunded teacher pension liability for every teacher currently employed in that state. Illinois, on the high end, is carrying close to $600,000 in debt for every teacher in the state.[17] That's equivalent to the state using existing education funding to foot the bill for a $600,000 home mortgage for every single teacher—except that there is no house at the end of the payment structure.

TABLE 2: Putting current pension debt in per-*teacher* terms across six states

State	Current pension debt per teacher[18]	Average salary in 2018[19]	For the same price the state would pay to wipe out its pension debt in a decade, teachers could see their salary grow each year over 10 years by	That's enough to raise 2018 salaries by
California	$206,100	$81,126	$29,352 per teacher	36%
Illinois*	$582,717	$65,776	$83,004 per teacher	126%
Louisiana	$118,752	$50,256	$16,920 per teacher	34%
South Carolina	$114,213	$51,027	$16,272 per teacher	32%
Texas	$36,627	$53,167	$5,220 per teacher	10%
Vermont	$175,754	$58,527	$25,032 per teacher	43%

* Excludes Chicago Public Schools

Imagine that instead of paying the pension debt off over the next 10 years, that same cash could be applied to salaries. As indicated in Table 2, Louisiana and South Carolina would have enough money to raise every teacher's salary by over $16,000 each year, and California could boost salaries by nearly $30,000 each year, for a decade.

If You Care About Students and Schools, It's Time to Care About Teacher Pension Debt

Some have argued that the propensity for education leaders to ignore the pension debt problem is "magical thinking"[20] or that they're suffering from a "pension fog."[21] This

17. Again, Illinois figures exclude the debt and teachers from the state's largest district, Chicago, because that city school district has its own pension plan that operates separately from the of the rest of the state.
18. In some states, pension programs include members from higher education and other schooling positions. This calculation includes only the K-12 teacher portion of the total pension debt.
19. Average salary is the 2018 figure (the most recent available) from the National Education Association's Rankings and Estimates for certificated instructional staff.
20. NCTQ, Lifting the Pension Fog.
21. Ibid.

analysis makes transparent just how much money is already at stake in states' teacher pension debt. And it illustrates that groups that have typically been outside the discussion on pensions—like parents and teachers far from retirement—have much reason to care about the topic and press for transparency and progress.

Why can't we just assume that state leaders are taking care of it? Think back to those state school chiefs scrolling their mobile phones during my pension debt talk. With so few education leaders embracing the pension debt challenge, the issue has been left mainly to state budget and finance experts who don't have the same connection to schooling as most education leaders do. That's not to say that a state budget director doesn't care about education, but rather that their focus is on balancing the totality of the state's financial commitments, including those for Medicaid programs, social services, higher education, corrections, and more. Unfortunately, the track record in many states shows that the debt issue tends to get kicked down the road. Each year that happens, the problem only gets worse. And those who bear the brunt of the crisis are teachers and students.

States have a variety of ways they can tackle elements of the retirement debt—some of which might work to deliver benefits in a more efficient and equitable manner to the entire teaching corps.[22] States can tweak an array of decisions within the defined benefit plan framework, consider well-designed 401K-like plans or a hybrid of sorts. But regardless of what direction states choose to move, they all need to stop sticking the bill in the desk drawer and pretending it isn't there. Instead, states need to commit to paying the bill.

None of the options on the table are politically easy. But that's exactly why those with skin in the game on schools need to turn up the pressure. As this analysis illustrates, the sums at play are not just abstract figures on a spreadsheet. Calling for progress on pension debt is much more than an "eat your spinach" exercise. Pension debt consumes real dollars that could otherwise be used to raise teacher salaries and funnel more dollars to students. And that's why educators and parents are just the groups needed to hold officials' feet to the fire on addressing the pension debt crisis.

THIS SERIES OF RAPID RESPONSE BRIEFS IS DESIGNED TO BRING RELEVANT FISCAL ANALYSES TO POLICYMAKERS AND EDUCATION LEADERS AMIDST THE CURRENT ECONOMIC ENVIRONMENT.

Dr. Marguerite Roza is the Founder and Director of Edunomics Lab and Research Professor at Georgetown University.

Edunomics Lab is a university-based research center dedicated to exploring and modeling complex education fiscal decisions and growing the capacity of education leaders on the topic of education finance. The Edunomics Lab is affiliated with the McCourt School of Public Policy at Georgetown University.

This work was supported by Equable Institute.

22. Leslie Kan and Chad Aldeman, "Eating Their Young: How Cuts to State Pension Plans Fall on New Workers," Bellwether Education Partners, July 2015; Marguerite Roza, "Breaking Tradition: A Fixed-Dollar Pay Raise Strategy That Benefits Teachers and School Districts," Edunomics Lab, November 2015.