# Bond Case Briefs

*Municipal Finance Law Since 1971*

---

## Feeling the Squeeze: Pension Costs Are Crowding Out Education Spending.


**Abstract**

Almost every state increased retirement benefits for teachers in the booming 1990s, but the additional promises were not accompanied by responsible funding plans. By 2003, the funding for teacher pension plans overall was short by $235 billion; and by 2009, pension debt had more than doubled, to $584 billion. The strong bull market since the Great Recession has barely put a dent in the shortfall, which still totals approximately $500 billion. Another way of understanding the scale of the problem is by looking at pension debt per pupil—which increased by an inflation-adjusted $9,588 between 2000 and 2013. Over this period, the growth of pension debt per pupil was more than nine times larger than the increase in total annual education expenditures per pupil. Almost every state has experienced large pension cost increases, but eight states—Arizona, Colorado, Indiana, Michigan, North Carolina, Nevada, Texas, and Wisconsin—experienced the double whammy of declining per-pupil expenditures and growing pension contributions.


**Key Findings**

Taxpayer contributions to teachers' retirement plans are expected to grow substantially over the next decade. But the underfunding shortfall is so large that aggregate pension debt will also continue to grow. Retirement costs per pupil are already approaching 10% of all education expenditures. Without meaningful reform, these costs, as well as the aggregate pension debt vowed to teachers' plans, will continue to rise and continue to crowd out education spending on the state and local levels.

Per-pupil spending on equipment, facilities, and property fell by 26% between 2000 and 2013, likely resulting in a growing backlog of expensive repairs and replacements that will need to be made sometime down the road. Spending on instructional supplies (e.g., textbooks) declined by 10% per pupil. More than half of states (29) spent less per pupil on instructional supplies in 2013 than in 2000; in several states, the decline was substantial: Arizona (37%), California (30%), Michigan (39%), and Oklahoma (30%). Teachers' salaries overall were basically flat between 2000 and 2013, and retirement benefits were reduced in almost every state, sometimes by very large amounts.

The vast majority of taxpayer contributions into teachers' pension plans are now used to pay down pension debt owed for past service rather than to pay for new benefits earned by today's teachers. As the value of this debt has increased, most current teachers have experienced stagnant salaries and reduced retirement benefits, while pending on classroom supplies, equipment, and building upkeep has declined relatively or even absolutely.

Read the full report.

**The Manhattan Institute**

by Josh B. McGee

October 18, 2016

*Josh B. McGee is a senior fellow at the Manhattan Institute and vice president of public accountability at the Laura and John Arnold Foundation. In 2015, McGee was appointed to chair the Texas Pension Review Board by Governor Greg Abbott.*