THE BIG SQUEEZE:

HOW UNFUNDED PENSION COSTS THREATEN EDUCATIONAL EQUITY

This report was developed by Pivot Learning, in collaboration with the California School Boards Association and Dr. Cory Koedel from the University of Missouri.

The Big Squeeze: How Unfunded Pension Costs Threaten Educational Equity asks how school districts across California have responded to rapidly increasing pension costs and examines the impact on students, teachers and schools. The report finds that in order to offset the costs of required and growing contributions to the state's unsustainable pension system, California school districts are increasing class sizes; cutting enrichment opportunities like art, music and after-school activities; reducing counseling and health supports; and making other compromises that stifle learning.

The study shows that the students who stand to lose the most are those who already need the most — including low-income students, English learners, students with disabilities and trauma-impacted youth — as well as those who have historically and systematically been denied equal opportunities to learn, particularly students of color. The report finds that many school districts are taking money received through the state's Local Control Funding Formula's "supplemental and concentration" grants — which are designated to support high-need students — and instead putting it toward their pension contributions.

The Big Squeeze finds that the solution isn't to take away pensions or slash benefits, but to increase state revenues and enact strategic policy changes so that public education is adequately and equitably funded. State leaders need to keep California's promises to retirees, current teachers and today's students, particularly the most vulnerable, and work closely with districts, schools, teachers and other community members to better understand the crisis, make tough decisions, plan ahead, and find equitable and effective statewide solutions.

BACKGROUND

In 2012, after years of devastating program cuts and teacher layoffs, K-12 school district administrators and community members in California breathed a collective sigh of relief. An improving economy and voter approval of Proposition 30 began pumping billions of dollars back into California schools. Districts began to restore teaching positions, reduce class sizes, and bring back counselors and other supports to improve student opportunities and achievement.

Less than a year later, Governor Jerry Brown pushed through the Local Control Funding Formula (LCFF). As LCFF has been phased in, districts have gained more local control over spending and have received supplemental funding for low-income students, foster youth and English learners.

The following year, policymakers in Sacramento shifted their attention toward another priority, the state's massively underfunded teacher pension plan. The California State Teachers' Retirement System (CalSTRS) is one of the largest pension funds in the nation. The fund covers educators from the state's K-12 and community college districts and, in 2014, had a portfolio valued at nearly $190 billion. After years of chronic underfunding, however, CalSTRS still had a $75 billion funding gap. Based on projections, like pension systems in many other states, CalSTRS would eventually run out of resources to pay the pensions owed to hundreds of thousands of current and future retirees.

To fill this funding gap, in 2014 Governor Brown quietly signed Assembly Bill (AB) 1469. AB 1469 vastly increases the pension obligations felt by local school districts by, in part, mandating that district payments into the CalSTRS pension system increase over a seven-year period: from 8.25% of teacher salaries to 19.1% of teacher salaries. Simultaneously, the California Public Employees' Retirement System (CalPERS) board approved employer contribution rate increases that meant that districts were required to put more money into the pension fund that covers non-certificated school employees such as administrative staff and custodians. These two reforms, while addressing the funding gap, resulted in large increases in pension contributions for districts. California's districts will pay $9 billion per year towards employee pensions in the school year 2020–21.

RESEARCHING THE IMPACT

To assess the impact of increasing pension costs on school districts, a team of researchers:

- Collected and analyzed 10 years of district budget data for 98 districts.
- Surveyed school board presidents representing 115 districts in partnership with the California School Boards Association.
- Conducted interviews and focus groups with district leaders, community advocates, and pension experts.

FINDINGS

According to California's Legislative Analyst's Office, while districts paid approximately $500 per pupil in 2013 for employee pension costs, they will pay $1600 per pupil in 2020. District leaders must contend with not only increasing pension obligations, but also other rising costs. Increasing pension and employee benefit costs are impacting district spending, including teacher salaries.

California's pension squeeze is exacerbating the inequity in public schools by forcing school districts to decrease services to our neediest students. In order to pay for their growing pension obligations, almost 1 in 4 districts — 23% — are using Local Control Funding Formula supplemental and concentration grants. These grants are supposed to be used to increase and improve services for low-income students, English learners and foster youth.

School districts are also raising class sizes; cutting enrichment opportunities like art, music and after-school activities; reducing counseling and health supports; and making other cuts and compromises. For example:

- 35% of districts have raised class sizes and 45% plan to do so in the next five years.
- 33% have cut enrichment programs and 37% plan to in the next five years.
- 19% have reduced counseling and health supports and 22% plan to in the next five years.
- 9% have reduced access to technology and personalized learning tools and 16% plan to in the next five years.

The rising cost of pensions is also forcing districts to make cuts and compromises that negatively impact teachers:

- The analysis of 98 district budgets reveals that as the portion of district budgets spent on benefits has increased, the portion spent on teacher salaries has declined by five percentage points.
- 88% of districts say that increased pension and benefits costs impede their ability to provide higher salaries for teachers.
- 45% say these costs impede their ability to recruit and retain teachers.

RECOMMENDATIONS

The Big Squeeze provides recommendations for school district and state leaders to address a crisis that, if unaddressed, will continue to harm both teachers and our state's most vulnerable students. It urges leaders to uphold promises made to both teachers and students and avoid false divides between under-resourced teachers and needy students. Given the scale of the crisis and the extent to which students are likely to be harmed, far more revenue must be raised and more attention must be devoted to finding equity-centered solutions. Policy changes must also account for the fact that our students and communities need to attract, support, and retain the highest quality teachers — and we cannot do this without offering teachers fair compensation, including strong retirement packages. This is particularly true in California, where teachers are not eligible for Social Security.

WHAT OPTIONS DO SCHOOL DISTRICT LEADERS HAVE?

- Collaborate with stakeholders to understand The Big Squeeze, make tough decisions, plan ahead, and advocate for a statewide solution. District leaders should work with their communities to build awareness of The Big Squeeze and the need for local and state solutions.
- Align instructional goals and initiatives with budget realities. Assess which programs are producing the greatest benefits for students, especially the most vulnerable.
- Before making new investments, develop a plan for how those programs can be sustained in good times and bad.

WHAT OPTIONS DO STATE LEADERS HAVE?

- Increase state revenues for education. The passage of Proposition 30 in 2012 was the first step in reversing California's declining investment in education, but more needs to be done to ensure public education is adequately and equitably funded. One way to address this is by reassessing Proposition 13, the 1978 cap on property taxes that has led to a sharp reduction in public school funding.
- Move unfunded pension liabilities outside of Proposition 98 or increase the size of the guarantee.
- Learn from other states that have reformed their pension plans without taking away retirement security from teachers or any other public employees. There are a variety of ways in which California can restructure programs to reduce debt, eliminate loopholes, and limit the growth of liabilities moving forward.

For more detailed information,
read *The Big Squeeze* at
www.PivotLearning.org/BigSqueeze.