



Benefits Take Larger Bite Out of District K-12 Education Budgets

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Introduction

Teacher pay has dominated the headlines lately. Recent educator strikes in Arizona¹, Colorado², Kentucky³, Oklahoma⁴, and West Virginia⁵ have reinvigorated an important debate about teacher compensation. And although it has not been covered as closely as the fight over salaries, teacher benefits like pensions and health care are a critical, if often overlooked, part of the discussion.⁶

Moreover, spending on benefits comes at the expense of classroom spending. In recent years, flat education budgets, combined with rising benefit costs, have resulted in benefit spending consuming a greater share of school district budgets. In all, fewer dollars are making it into the classroom.

To see how these trends are playing out in schools across the country, I analyzed the 10 most recent years of U.S. Department of Education school district finance data. After adjusting for inflation,⁷ I calculated overall K-12 and benefit spending over time, the percentage of K-12 budgets that go to benefits, and how spending levels have changed relative to 2005. A more complete methodology is discussed in the appendix.

The results are troubling. Benefit spending is increasing much faster than K-12 spending overall, and as a result, benefits are eating up a rising share of school district budgets.

The National Trends

Across the country, our investment in K-12 education has barely increased over the last 10 years. As Figure 1 shows, after adjusting for inflation, we spent only 1.6 percent more in 2014 than we did in 2005, despite student enrollment increasing by 3.6 percent. Meanwhile, spending on benefits increased 22 percent. While overall spending and benefit spending diverged dramatically in the wake of the 2007-09 recession, benefits were outpacing other educational spending even prior to the recession.

In 2005, benefits accounted for 16 percent of K-12 spending. That jumped to more than 19 percent by 2014. Effectively, that means fewer dollars going into classrooms.

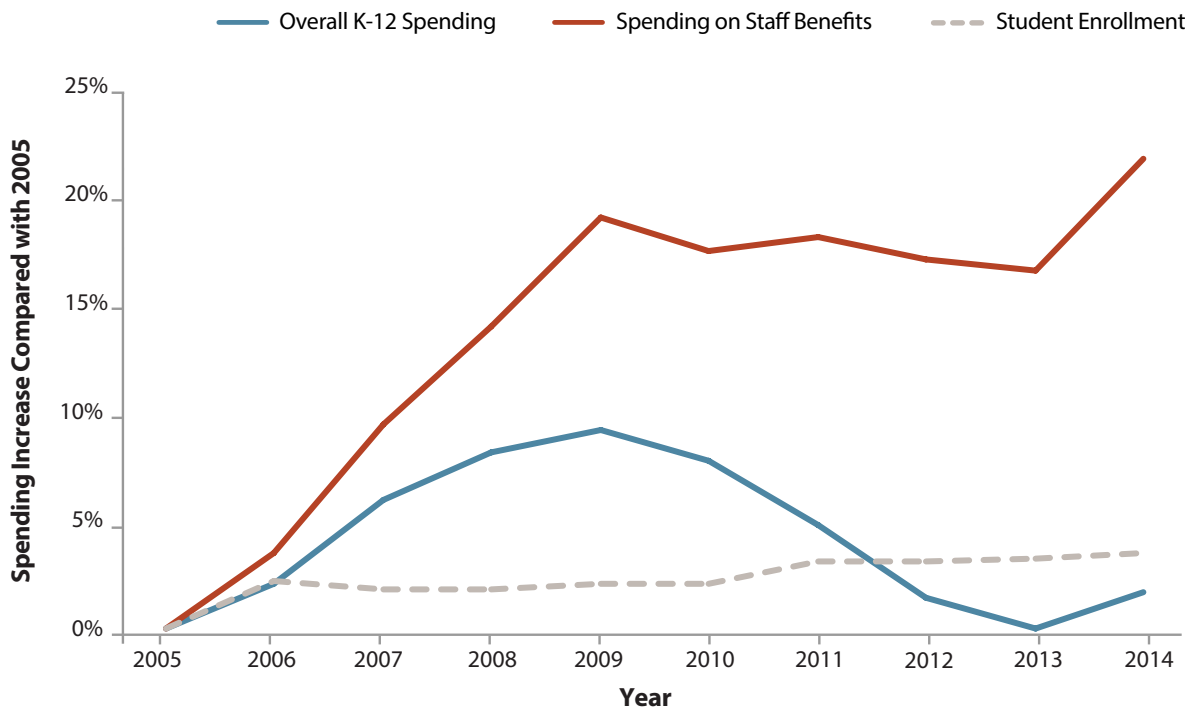
As a result of these trends, benefits comprise an increasing share of K-12 spending. In 2005, benefits accounted for 16 percent of K-12 spending. That jumped to more than 19 percent by 2014. Effectively, that means fewer dollars going into classrooms.

Overall education spending is a broad category that includes capital outlays as well as payments to state and local governments. This can mask just how much benefits

eat into expenditures more easily identified as educational. To narrow the question, I also looked at instructional expenditures and benefits for instructional staff.

Over the same time period, instructional spending increased by 2.6 percent, while instructional benefit spending grew by 24 percent. In dollar terms, instructional costs grew \$7.9 billion, while spending on the benefits of instructional staff increased by \$15 billion. That is, despite the fact that the overall size of the instructional budget grew about \$7.2 billion, fewer dollars made it into the classroom in 2005 than in 2014.

Figure 1 Change in K-12 and Benefit Spending Compared with 2005 Levels



Source: Author's analysis of the Local Education Agency (School District) Finance Survey (F-33) Data, National Center for Education Statistics, available at <https://nces.ed.gov/ccd/f33agency.asp>. Enrollment data is derived from the Common Core of Data, National Center for Education Statistics, available at <https://nces.ed.gov/ccd/>. Inflation adjustments were made using the education price index from the National Center for Education Statistics, available at https://nces.ed.gov/programs/digest/d14/tables/dt14_106.70.asp.

As a comparison, a \$7 billion cut in instructional spending is comparable to cutting the main federal investment in education, Title I, Part A, by more than 40 percent. If Congress proposed slashing Title I by more than 40 percent, educators, parents, and community members across the country would inundate the Capitol with calls to protect the funds. And yet these cuts occurred quietly, state by state and year after year, and hardly anyone noticed.

Table 1 Inflation-Adjusted Per-Pupil Instructional Spending

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Change
Spending on Instruction	\$6,316	\$6,270	\$6,515	\$6,655	\$6,615	\$6,666	\$6,475	\$6,260	\$6,233	\$6,286	-\$30
Spending on Benefits	\$1,433	\$1,452	\$1,551	\$1,612	\$1,618	\$1,658	\$1,659	\$1,650	\$1,649	\$1,727	\$294
Percent Spent on Benefits	21.30%	21.73%	23.32%	22.76%	22.98%	23.35%	24.02%	24.69%	24.79%	25.73%	4.43%

Source: Author's analysis of the Local Education Agency (School District) Finance Survey (F-33) Data, National Center for Education Statistics, available at <https://nces.ed.gov/ccd/f33agency.asp>. Inflation adjustments were made using the education price index from the National Center for Education Statistics, available at https://nces.ed.gov/programs/digest/d14/tables/dt14_106.70.asp. Student enrollment numbers are from the National Center for Education Statistics, ELSI Table Generator, available at <https://nces.ed.gov/ccd/elsi/tableGenerator.aspx>.

As shown in the table above, after adjusting for inflation, we spent \$1,727 per pupil on instructional benefits nationally in 2014—an increase of \$294 per student from 2005. At the same time, our national instructional spending declined by \$30, and we spent \$6,286 per pupil in 2014. This spending on benefits means that only \$4,559 of instructional expenditures actually make it into the classroom.

The NCES data present the numbers only for the broad category of “benefits,” but data from the U.S. Census Bureau suggest that rising health-care and pension costs are the primary drivers of these trends. Over the last 10 years, spending on teacher health-care benefits is up 30 percent, and spending on teacher retirement costs is up more than 50 percent.⁸ For decades, states and districts increased the generosity of their benefits while simultaneously neglecting to save for those promises. Due to this combination, states and school districts are now dramatically increasing their investments to meet their growing obligations.

State Variation

The impact of benefit spending on state K-12 budgets varies widely by state. Alaska sits at the high end, spending 30 percent of its overall K-12 budget and 40 percent of its instructional expenditures on benefits. At the other end of the spectrum, Texas spends only around 9 percent of its K-12 budget on benefits. Washington, D.C., spends even less: only 8 percent.

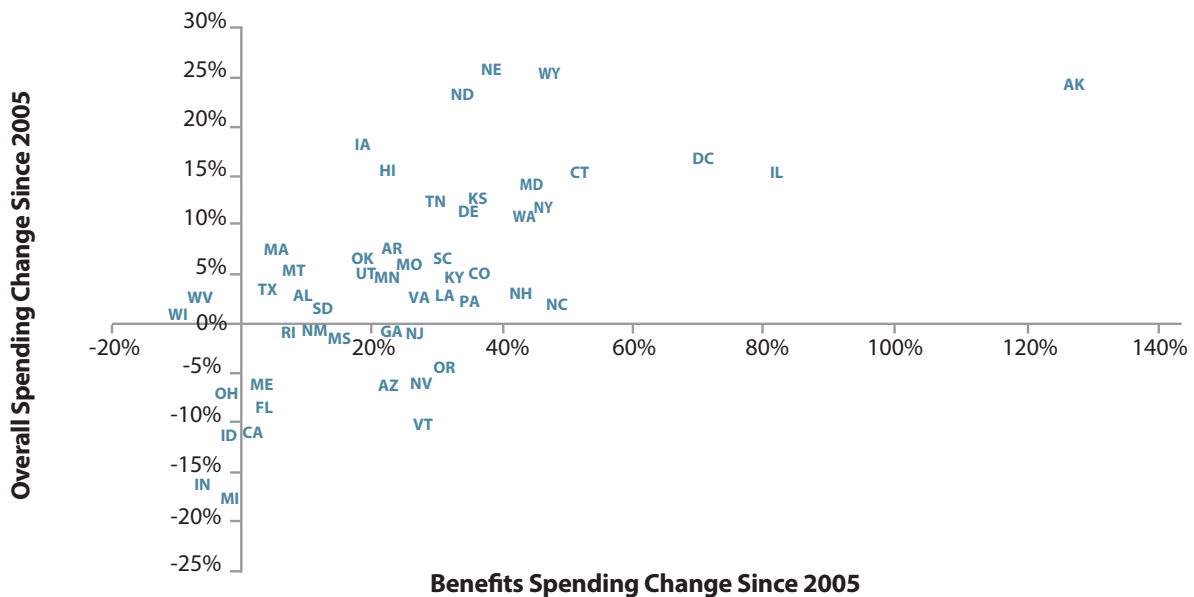
Some states, such as Colorado, Illinois, and Louisiana, increased benefit spending at more than 5 times the rate that their overall education budgets grew.

Changes in how much states spent overall on education and on benefits also vary. As shown in Figure 2, 47 states in the country and the District of Columbia increased their spending on benefits at a rate greater than they increased their K-12 budget. Some states, such as Colorado, Illinois, and Louisiana, increased benefit spending at more than 5 times the rate that their overall education budgets grew.

A handful of states, such as Indiana, Michigan, and Wisconsin, cut their spending on benefits in 2014 compared with 2005. However, Indiana and Michigan cut their overall spending at a higher rate than their benefit spending. Thus, a greater percentage of the state's K-12 budget goes toward benefits in 2014 than it did in 2005. Indiana, for example, cut its benefits spending by 6 percent while slashing its overall K-12 budget by 15 percent.

Wisconsin and West Virginia are outliers: They are the only two states that cut benefits at a rate greater than cuts to their K-12 budget. In fact, West Virginia cut benefit spending by 6.5 percent while increasing overall spending by 2.4 percent from 2005 to 2014.

Figure 2 Changes in State Overall and Benefits Spending Since 2005



Source: Author's analysis of the Local Education Agency (School District) Finance Survey (F-33) Data, National Center for Education Statistics, available at <https://nces.ed.gov/ccd/f33agency.asp>. Inflation adjustments were made using the education price index from the National Center for Education Statistics, available at https://nces.ed.gov/programs/digest/d14/tables/dt14_106.70.asp.

Spending on benefits increased dramatically from 2005 to 2014 for most states. In North Carolina, for example, the state's K-12 spending increased by 2 percent after adjusting for inflation. Benefit spending, on the other hand, grew by 48 percent over the same period. Because benefit costs so dramatically outgrew overall spending, the state and its school districts effectively delivered \$589 million less to classrooms.

Per-pupil spending on benefits also varies considerably from state to state. The table below includes instructional and instructional benefit spending for the highest and lowest five states. In fact, some of the states that spend the most per pupil on benefits are investing nearly as much in pensions and health benefits as the lowest-spending states spend on instructional expenditures overall.

There is a large disparity in per-pupil benefits spending among the highest- and lowest-spending states. This could be due to many different factors. Some states may simply provide less generous health and/or pension benefits. Lower average salaries also would affect how much the state needs to pay for retirement benefits, since they are a function of salaries and years of experience.

But whether a state is a high or low spender on benefits now, the problem of pension legacy costs and debt nevertheless looms large. Barring a pension buyout or some other reform, it is likely that all states will need to increase their benefits spending sooner rather than later.

Table 2 States with Highest and Lowest Per-Pupil Instructional Expenditures and Benefits

States with Highest Per-Pupil Instructional Benefits Spending in 2014				
	State	Percent Spending on Instructional Benefits	Spending on Instruction	Spending on Instructional Benefits
1	Alaska	40.02%	\$10,311	\$4,126
2	Oregon	33.18%	\$5,606	\$1,860
3	Indiana	33.09%	\$5,415	\$1,792
4	Michigan	32.61%	\$6,224	\$2,030
5	New York	32.60%	\$10,600	\$3,456

States with Lowest Per-Pupil Instructional Benefits Spending in 2014				
	State	Percent Spending on Instructional Benefits	Spending on Instruction	Spending on Instructional Benefits
47	Nebraska	22.21%	\$7,500	\$1,666
48	Colorado	19.05%	\$5,137	\$978
49	Florida	17.77%	\$5,370	\$955
50	Washington, D.C.	14.21%	\$10,362	\$1,473
51	Texas	12.14%	\$5,095	\$619

Source: Author's analysis of the Local Education Agency (School District) Finance Survey (F-33) Data, National Center for Education Statistics, available at <https://nces.ed.gov/ccd/f33agency.asp>. Inflation adjustments were made using the education price index from the National Center for Education Statistics, available at https://nces.ed.gov/programs/digest/d14/tables/dt14_106.70.asp. Student enrollment numbers are from the National Center for Education Statistics, ELSI Table Generator, available at <https://nces.ed.gov/ccd/elsi/tableGenerator.aspx>.

The Example of Illinois

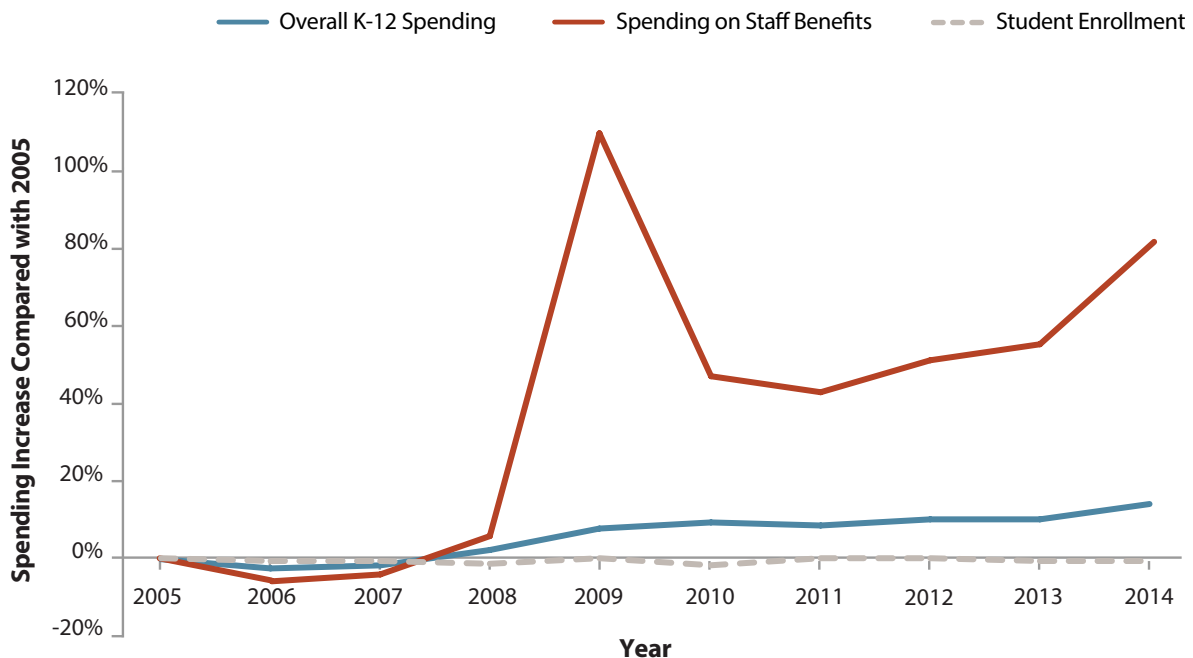
Illinois has nearly \$74 billion in unfunded pension liabilities.⁹ It is no wonder, then, that its benefit spending increased dramatically from 2005 to 2014. And although Illinois was among the top half of states in terms of increasing its overall investments in K-12 education, benefit spending grew five times faster.

As shown in Figure 3, benefit and overall spending compared with 2005 levels remained in lockstep until 2009.¹⁰ At that point, benefit spending more than doubled, while overall K-12 investment increased only slightly. After a subsequent dip, benefit spending again

continued its upward trajectory; by 2014, benefit spending was 82 percent greater than it was in 2005.

Unfortunately, Illinois' problem of ballooning benefits spending is unlikely to slow down anytime soon. The state's recent reform of its school funding system and the decision for the state to pick up the bill for Chicago Public School's benefit costs are positive but won't be sufficient to disrupt this troubling pattern.

Figure 3 Change in Illinois' Overall and Benefits Spending Compared with 2005



Source: Author's analysis of the Local Education Agency (School District) Finance Survey (F-33) Data, National Center for Education Statistics, available at <https://nces.ed.gov/ccd/f33agency.asp>. Enrollment data is derived from the Common Core of Data, National Center for Education Statistics, available at <https://nces.ed.gov/ccd/>. Inflation adjustments were made using the education price index from the National Center for Education Statistics, available at https://nces.ed.gov/programs/digest/d14/tables/dt14_106.70.asp.

The Example of Michigan

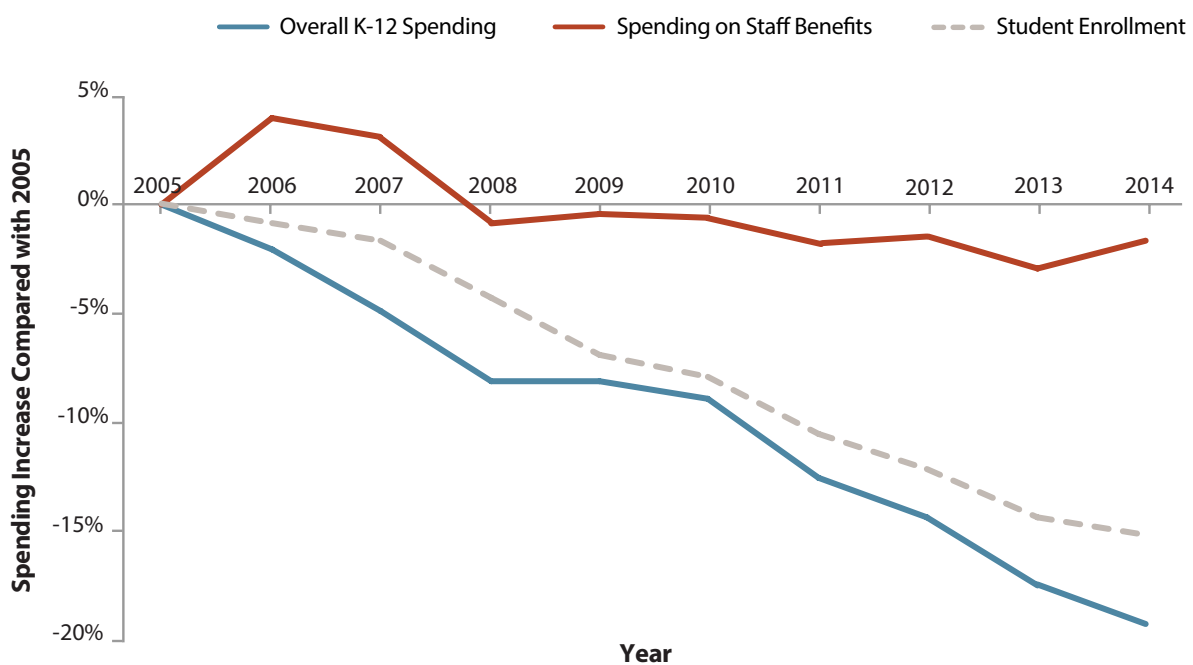
The situation in Michigan is quite different than the one in Illinois. Unlike in Illinois, Michigan is spending less on benefits and less on education overall. Some of the decrease is likely due to dropping enrollment; however, the state's overall spending on K-12 education decreased at a much higher rate than one might anticipate, given lower enrollment. The rate of benefit spending, on the other hand, decreased more slowly than enrollment.

As shown in Figure 4, the state's spending on benefits is decreasing more slowly than K-12 education spending. As a result, Michigan's classrooms have even fewer resources

than their shrinking budget suggests. By 2014, K-12 spending was down by 19 percent compared with a 2 percent drop in benefit spending.

Michigan's education spending patterns show that even cutting budgets does not mitigate the problem of benefits consuming a larger share of overall education spending. In fact, from 2005 to 2014, benefit spending in Michigan grew from 20 percent to 25 percent of all K-12 spending. And although the state recently reformed its teacher retirement system, it nevertheless still has large debts and legacy costs that will continue to drive up benefit spending.

Figure 4 Change in Michigan's Overall and Benefits Spending Compared with 2005



Source: Author's analysis of the Local Education Agency (School District) Finance Survey (F-33) Data, National Center for Education Statistics, available at <https://nces.ed.gov/ccd/f33agency.asp>. Enrollment data is derived from the Common Core of Data, National Center for Education Statistics, available at <https://nces.ed.gov/ccd/>. Inflation adjustments were made using the education price index from the National Center for Education Statistics, available at https://nces.ed.gov/programs/digest/d14/tables/dt14_106.70.asp.

Problem of Growing Benefit Spending Is More Pronounced in Large Districts

Analyzing the changes in the share of K-12 budgets spent on benefits at the state level is important and reveals a troubling trend. But only looking at benefit spending at the state level risks obscuring how increases in benefit spending and changes to overall K-12 budgets affect individual districts.

I looked at 10 years of overall and benefit spending for the 20 largest school districts in 2014 to understand how their K-12 investment and the percent of budgets spent on benefits changed between 2005 and 2014 compared with their state.¹¹

As shown in the table below, nine of the 20 largest school districts in the country have seen their spending on benefits as a share of their overall K-12 budget increase at a rate greater than the rate at the state level. In five of the remaining 11 districts, the share of their K-12 spending invested in benefits is roughly the same as the state's. Only six districts have a lower share of their budgets spent on benefits than the state does.

District benefit spending is increasing as fast or faster than their states for two different reasons. First, their benefit costs simply are rising more quickly than the state's. Chicago Public Schools provide an example of this. The share of the district's spending on benefits increased 9.9 percentage points, slightly more quickly than the state, and its overall budget grew at a higher rate than the state's.

Alternatively, districts spend a greater share of the education budgets on benefits due to the decrease in how much money they have to spend. Consider Dallas Independent School District in Texas. The district's overall budget is only 68 percent of what it was in 2005, after adjusting for inflation. At the state level, however, the K-12 budget is 104 percent of what it was in 2005. In fact, the district spent approximately \$13.2 million less on benefits in 2014 than in 2005, but this resulted in an increase 58 times greater than the state in the share of spending on benefits.

Table 3 19 Out of 20 of the Largest Districts Spent a Higher Share of Their Budgets on Benefit Costs

	LEA Name	State	2005	2014	Percentage Point Change in District Benefit Spending
1	New York Public Schools	NY	20.09%	23.78%	3.68%
2	Los Angeles Unified School District	CA	17.13%	20.95%	3.82%
3	Chicago Public Schools	IL	11.35%	21.25%	9.90%
4	Miami-Dade County	FL	15.65%	17.36%	1.70%
5	Broward County	FL	13.51%	14.98%	1.47%
6	Houston Independent School District	TX	8.63%	8.59%	-0.04%
7	Hillsborough County	FL	13.83%	14.39%	0.56%
8	Orange County	FL	14.35%	15.86%	1.51%
9	Hawaii Public Schools	HI	18.16%	19.20%	1.05%
10	Fairfax County	VA	17.79%	22.89%	5.10%
11	Palm Beach County	FL	12.86%	15.95%	3.09%
12	Gwinnett County	GA	14.23%	16.94%	2.71%
13	Dallas Independent School District	TX	6.80%	8.56%	1.76%
14	Wake County	NC	11.90%	18.66%	6.76%
15	Montgomery County	MD	19.77%	25.56%	5.79%
16	Charlotte—Mecklenburg	NC	12.35%	17.08%	4.73%
17	Philadelphia School District	PA	14.63%	14.78%	0.14%
18	San Diego Unified School District	CA	17.51%	21.17%	3.66%
19	Duval County	FL	15.33%	15.87%	0.54%
20	Prince George's County	MD	17.61%	22.95%	5.34%

Source: Author's analysis of the Local Education Agency (School District) Finance Survey (F-33) Data, National Center for Education Statistics, available at <https://nces.ed.gov/ccd/f33agency.asp>.

The share of K-12 education spending dedicated to benefits varies from district to district, just as it does from state to state. The added wrinkle, however, is that districts do not entirely control their budgets. Thus, part of the reason that benefits comprise an increasing percentage of districts' overall education budgets is their total available funding decreased. In some cases, large districts see their K-12 budgets cut, even if the state's overall funding level remains the same or even increases. This can cause even fewer dollars to go into the classroom, since benefit costs eat up an increasing share of the diminished budget.

Conclusion

The rising cost of benefits poses problems for educators and legislators alike. For teachers, higher benefit costs do not necessarily mean they're receiving more valuable pensions or more generous health care. It is instead more likely that the state is spending more to pay down debts. Worse still, growing benefit costs make salary increases far less likely because states by and large are not increasing their K-12 investments.

Legislators also feel the squeeze. Their investments in education are not going as far as they used to, and fewer dollars make their way into the classroom. To increase K-12 funding, state policymakers need to make even larger allocations to accommodate the ever-increasing benefit costs. Doing so can lead to politically difficult decisions, such as raising taxes, as Arizona recently did.

The problem of growing benefit spending is unlikely to go away soon. On the contrary, it is likely to get worse before it gets better. To help address the situation, states should consider carefully how to both accommodate past and current obligations while also considering reforms that will ensure these trends don't continue into the foreseeable future.

Appendix

Methodology

This analysis starts with changes in spending patterns at the school district level. The finance data used in this study is derived from the Local Education Agency (School District) Finance Survey (F-33) from the National Center for Education Statistics. Included in the analysis are district spending levels from 2005 to 2014 on four key district-level finance measures: total expenditures, total benefits expenditures, instructional expenditures, and expenditures on instructional staff benefits. The school district enrollment data used in this study is from the National Center for Education Statistics's Common Core of Data.

Districts were included in the final analysis only if they had financial and demographic data for all 10 years. In the end, the data set included more than 14,000 school districts with complete expenditure and enrollment data for each year from 2005 to 2014. There were two exceptions. In 2005, all districts in both Nevada and Tennessee did not have reported school enrollment figures. To get around this, I substituted the 2006 enrollment counts for each district. If, in 2006, that district reported missing data, it still carried over into the 2005 data. Although this method is imperfect and likely had some marginal impact on the state-level per-pupil calculations, it permitted these two states to be included in the analysis.

All financial data were adjusted for inflation. To do so, I used the Consumer Price Index adjusted on a school year basis (July through June) by the National Center for Education Statistics in the Digest of Education Statistics. This allowed me to compare yearly expenditures in the same terms.

I analyzed the data by comparing spending year over year across all four expenditure types. Using 2005 as a spending baseline, I then compared the spending levels for 2006 to 2014. To determine how much funding is available for the classroom (i.e., not committed to benefits) in 2014 compared with 2005, I subtracted benefits from total spending in 2005 and in 2014, and compared the two figures.

Definitions

Total expenditures—all district-level expenditures, including all elementary and secondary education spending, non-elementary and secondary spending, capital outlays, payments to state, local, and other governments, as well as interest on debt.

Instructional expenditures—a district's total current instructional expenditures.

Total benefits—all employee benefits, such as health and retirement benefits.

Instructional benefits—all benefits for instructional staff, such as health and retirement benefits.

Endnotes

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- ⁹ Teachers' Retirement System of the State of Illinois, "Report of Allocation of Pension Amounts, for the Year Ended June 30, 2017," <https://www.trsil.org/sites/default/files/documents/FY17-TRS-Pension-Allocation-Rpt-Full.pdf>.
- ¹⁰ The dramatic increase in the share of Illinois' spending going to benefits in 2009 is likely due to lower overall K-12 education spending resulting from the recession combined with obligatory pension costs.
- ¹¹ There were data quality issues with student enrollment in New York City in 2005. To get around this, I used the district's 2006 enrollment figures.

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