
Expensive, Inequitable, and Out of Reach

Summary and Key Findings

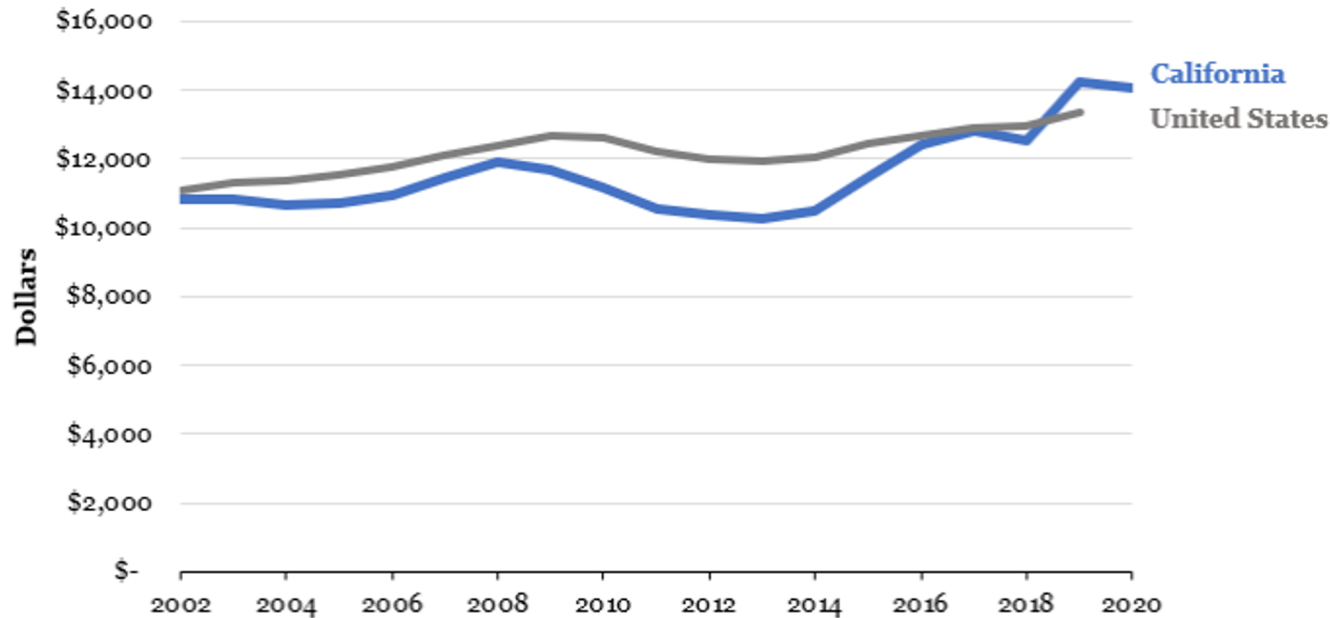
March 2022





State public education spending is at an all-time high in California

Per Pupil K-12 education spending, 2002-2020*
Inflation-adjusted to 2020 dollars



↑ \$14,053

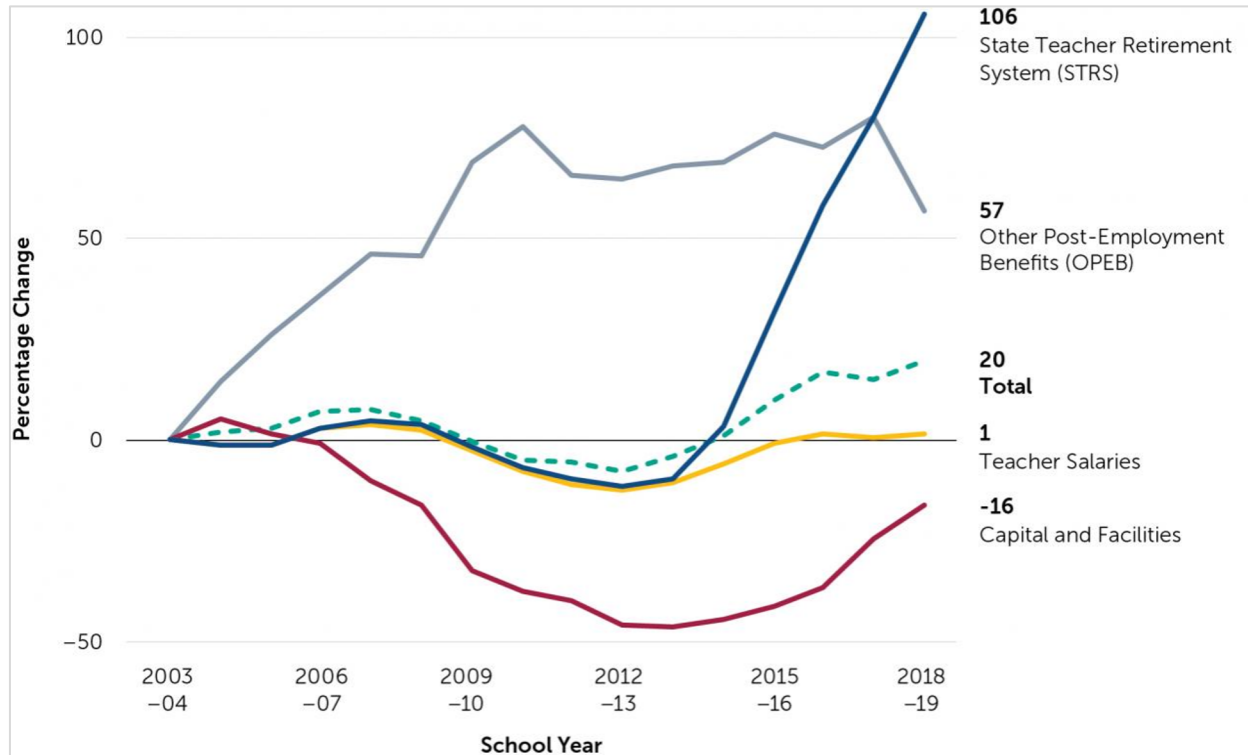
California per pupil spending
 in 2020

Source: U.S. Census Bureau Public Elementary-Secondary Education Finance Data, Per Pupil Amounts for Current Spending

Notes: 2020 data is preliminary. Since not all states have reported, United States comparison is not yet available.



Despite record spending, structural problems threaten fiscal stability

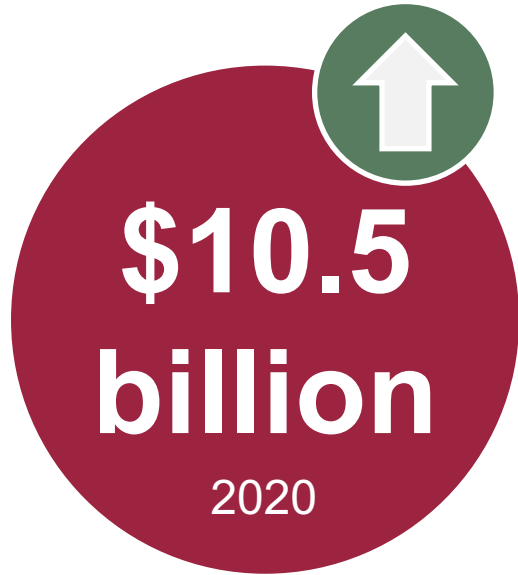


- Unfunded teacher pension liabilities
- The rising cost of healthcare for current employees and retirees
- The rising cost of unemployment insurance
- Rising special education costs
- Declining enrollment

Source: Hahnel, C. (2000). [California's Education Funding Crisis Explained in 12 Charts](#). Policy Analysis for California Education.

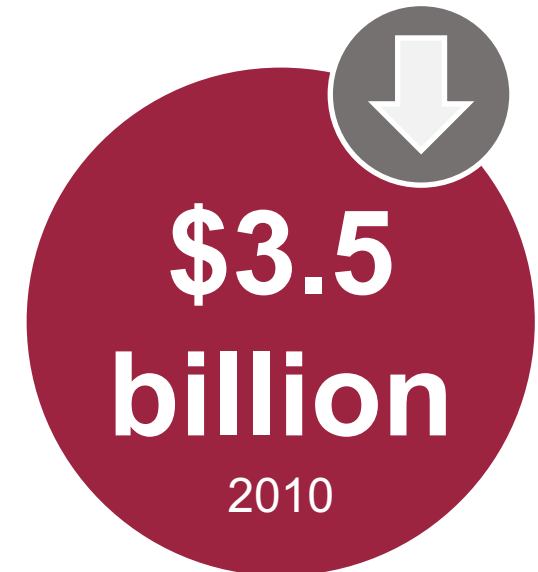


Teacher pensions liabilities are costly



In 2020, California spent about **\$10.5 billion**, or 13%, of its education budget on teacher pensions.

Ten years earlier, California spent just **\$3.5 billion**, or 5.6%, on teacher pensions.

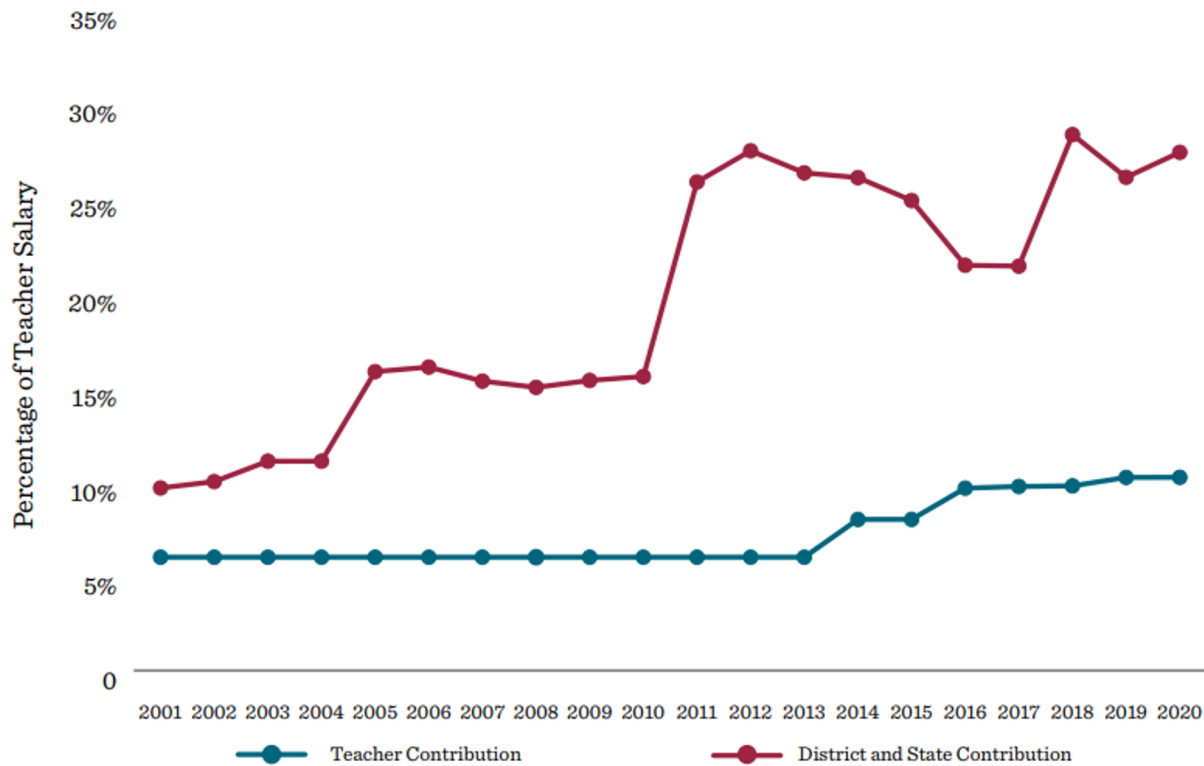




Pension costs are shared by the state, districts, and current teachers

i Each of these groups is paying more than ever before.

Change in Teacher and Employer Contribution Rates to CalSTRS



Since 2001...

employer contributions (which include payments from both the district and the state) have nearly tripled, from 10 percent of salary in 2001 to 27 percent in 2020

and...

teacher contributions to their own pensions have increased by 67 percent

Source: Marchitello, M. (2022). Expensive, Inequitable, and Out of Reach: The Problems With California’s Teacher Pension System— and What Can Be Done. The Opportunity Institute.



Why do pensions cost so much?

It's not because teacher retirees are earning large paychecks – most are not. Or because benefits are getting better – they aren't.

It's because of state **debt**.

98%

funded in 2001

In 2001 the California State Teacher Retirement System (CalSTRS) was 98 percent funded – which means it had most of the funding needed to make promised pension payments.

66%

funded in 2019

But by 2019, the system was only 66 percent funded and the unfunded liability – the projected shortfall between the amount owed to retirees and expected capital – had skyrocketed from \$2 billion to \$106 billion.

\$106

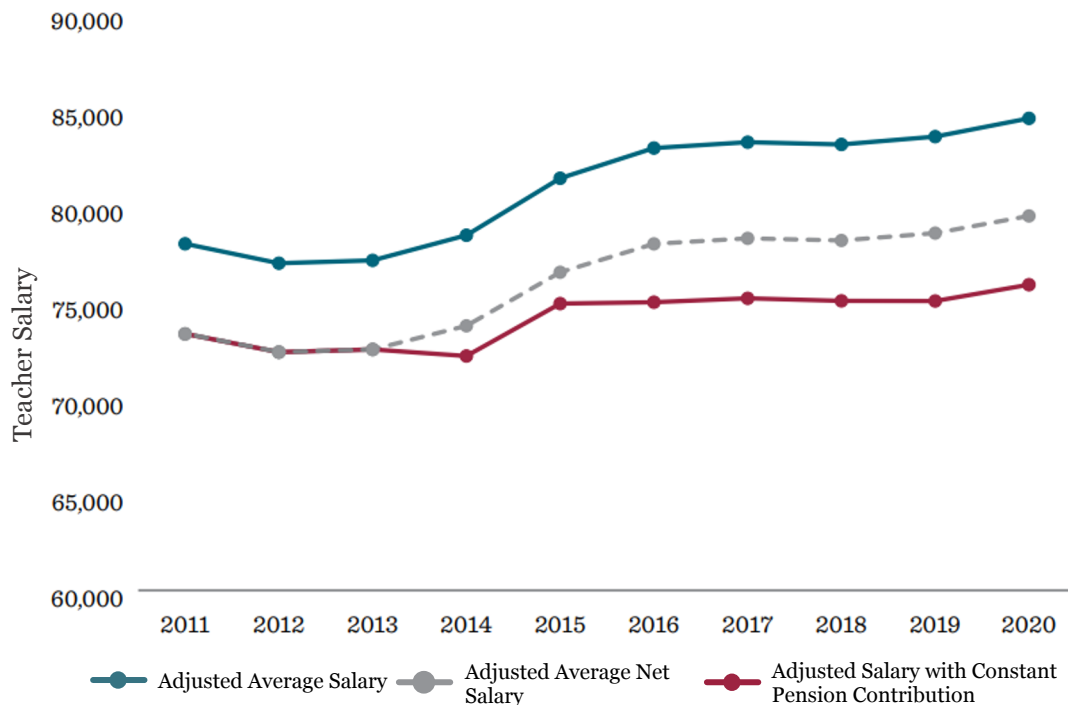
billion

shortfall between the amount owed to retirees and expected capital



What's the impact on current teachers?

Pension Costs Eat into Teacher Salaries, 2011 to 2020



Source: Marchitello, M. (2022). Expensive, Inequitable, and Out of Reach: The Problems With California's Teacher Pension System— and What Can Be Done. The Opportunity Institute.

Teachers' spending on their pensions has increased at nearly three times the rate as their salaries. That significantly affects take-home pay.



If teachers' pension contributions hadn't increased over the past 10 years, the average teacher would have earned an additional \$19,588 in salary during that time.



What's the impact on students?

Pension spending crowds out other expenditures, leaving districts with fewer dollars to spend on services and resources for students, such as:



enrichment opportunities



after school activities



access to critical technology



supports for English language learners

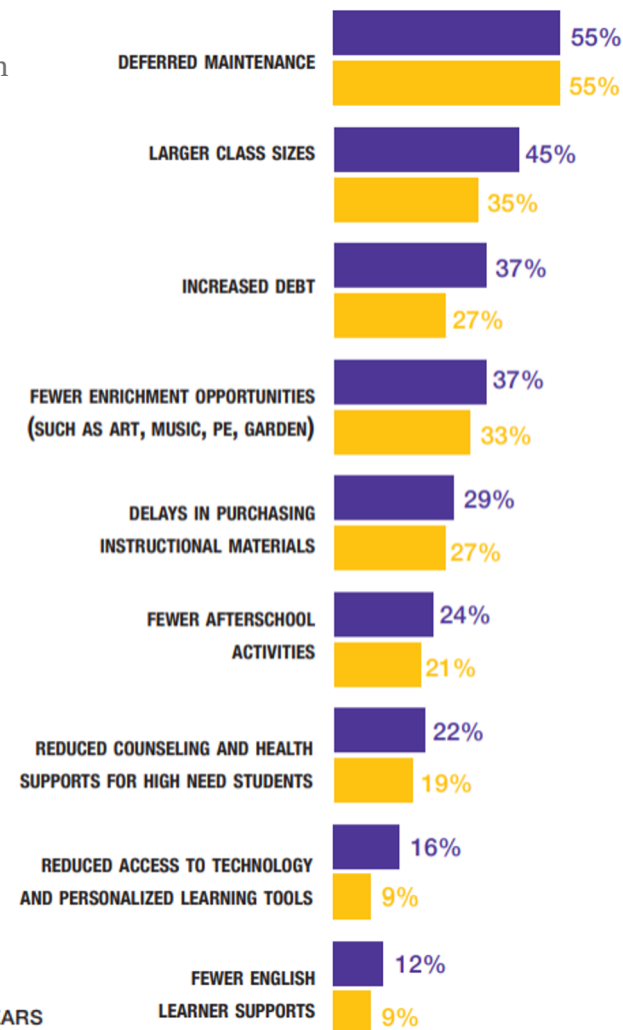


In a 2018 survey, school board members said they had already or planned to make cuts in the future because of pension costs.

Cost-Saving Changes Survey Respondents Say their Districts Have Made and Plan To Make in Response to the Rising Cost of Pension and Health Benefits



Where are districts saving money?



Source: Melnicoe, H., Hahnel, C., Koedel, C., and Ramanathan, A. (2019). The Big Squeeze: How Unfunded Pension Costs Threaten Educational Equity, Pivot Learning.

■ NEXT 5 YEARS ■ PAST 5 YEARS



But don't teachers ultimately benefit when they retire?



Yes, some do.

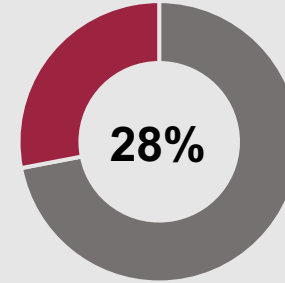
Teachers that serve the **full 37 years** to reach normal retirement age can expect to earn an annual benefit worth **74 percent** of their final average salary. That's a quality benefit.



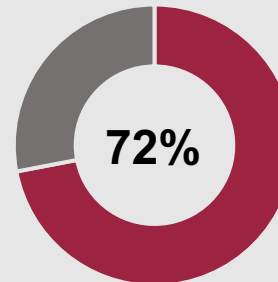
74%
of final salary



But most don't.



28 percent of teachers will not vest since they will leave teaching within 5 years.



Even more, about **72 percent** of teachers, are estimated by CalSTRS to leave the system before normal retirement age.

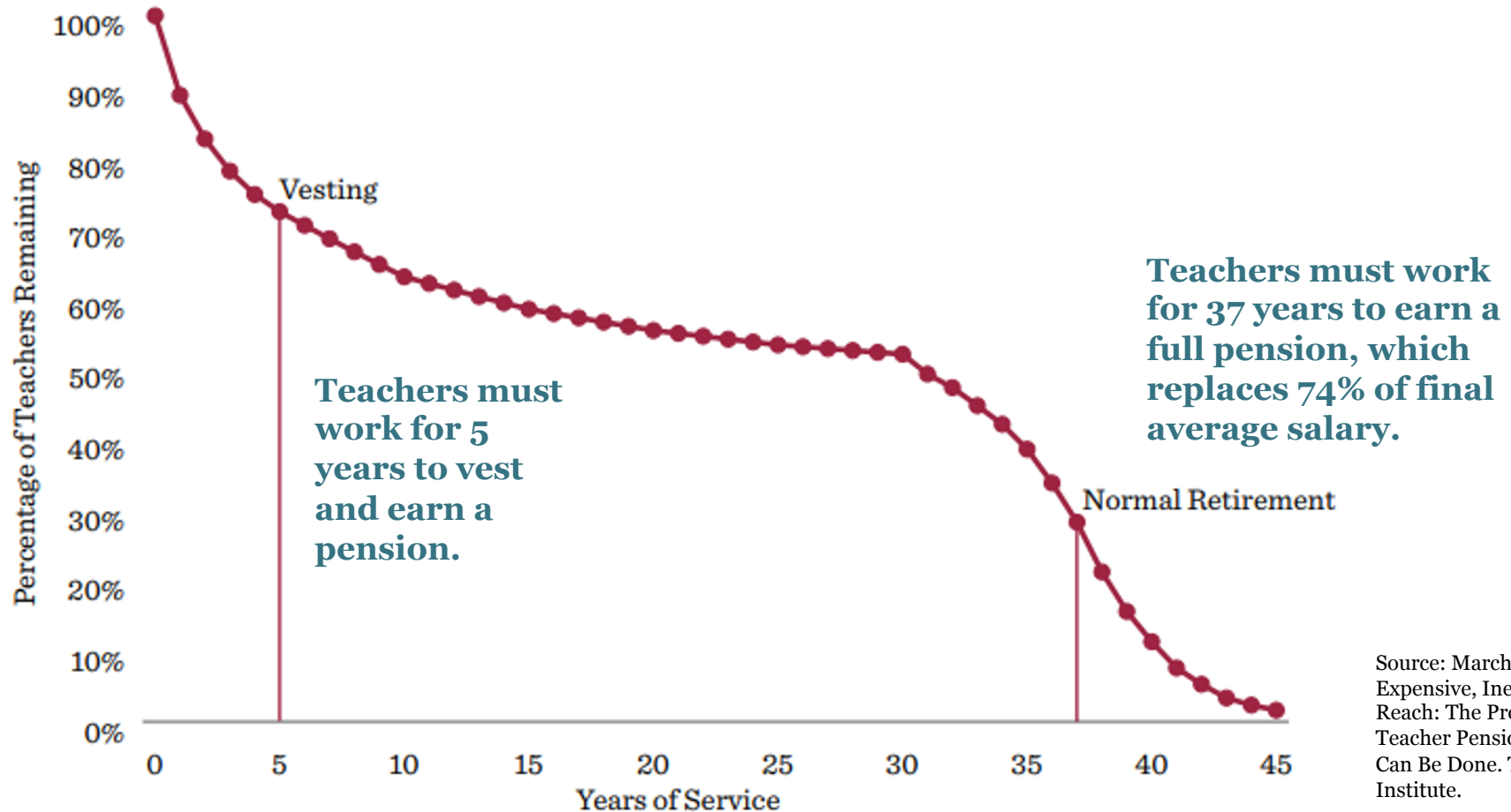


Many of these teachers will earn a pension, but it will be worth less than their own contributions plus interest.



The majority of California teachers never earn a full pension

CallSTRS Assumed Percent of Teachers Remaining at end of the Year



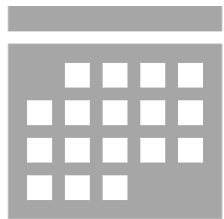
Source: Marchitello, M. (2022). Expensive, Inequitable, and Out of Reach: The Problems With California's Teacher Pension System— and What Can Be Done. The Opportunity Institute.



Who benefits from the current system?

Long-term teachers

Since the value of a pension is determined by a teacher's years of experience and their final average salary, teachers with 37+ years of teaching in California schools benefit most.



Educators with high ending salaries.

Since pension value is based on final average salaries, educators who end their careers as well-paid administrators earn the largest pensions.



Affluent school districts.

Since the state picks up 30% of the pension contribution cost, and since pension costs are based directly on salaries, the state effectively subsidizes districts that can pay higher teacher salaries.



Elected officials and other policymakers

Policymakers have few incentives to fully fund pensions today, since the bill is due in the future. They benefit when they can spend limited state dollars on more politically attractive budget items

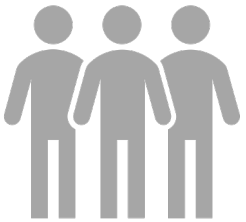




Who loses under the current system?

New Teachers

Pension contribution rates have risen in recent years, which means that recently hired teachers pay more for the same benefits than their longer-tenured colleagues did. This erodes their earnings.



Teachers who stay in the profession fewer than 5 years

They will not vest. And since California does not participate in Social Security, their years of teaching don't count toward their Social Security when they retire.



Teachers who move across state lines

When a vested teacher moves across state lines, she cannot take her pension with her. A teacher with two pensions in two states typically receives less upon retirement than a teacher with one pension reflective of a full career.



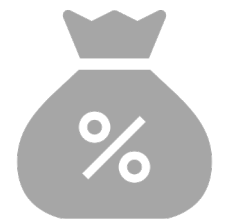
Students

Pension spending pushes out other expenditures, leaving school districts with fewer dollars to spend on today's students.



Taxpayers

Taxpayers have to pay increasingly more to fund the same quality of education, since a greater share of tax revenues must be diverted to pay pension debt.





What can be done?

1

Deal with
the debt.



In years of high economic growth, the state could make additional payments to CalSTRS to address unfunded liabilities.

Reduce the assumed rate of return. a lower assumed rate of return is safer approach that mitigates, at least somewhat, against years of lower market returns.

Implement a formal policy to ensure full annual funding for CalSTRS.



What can be done?

2

Provide
teachers
better
benefits



• Increase the return on investment for teachers who do not vest; at minimum, match the rate of inflation.

• Provide other retirement options, like hybrid plans that include elements of defined contribution plans.

• Join Social Security.



What can be done?

3

Decrease
disparities



Limit state subsidies to high-wealth districts.

The state makes the same contribution rate on behalf of each district, regardless of a district's ability to pay. The state could instead assume a greater share of the pension contribution in low-wealth districts.

Encourage differential pay opportunities in high-need communities.

Create more financial incentives for teachers to work in low-income communities serving concentrations of low-income students; this could address inequities in teacher pay which translate into inequities in pension benefits.



Take Action

Influence state budget actions.

Ask state lawmakers to deal with pension debt as part of the annual budgeting process, doing so in ways that advance the interests both of children in under-resourced schools and of under-compensated teachers.

Learn about the state budget process and how you can engage: [Dollars and Democracy: A Guide to the California State Budget Process](#) (from the California Budget and Policy Center)

Uplift district stories.

Ask local school district leaders how pension contributions are impacting their budgets and what the state can do to help.

Uplift teacher voices.

Ask current and prospective teachers what compensation and benefits would be most attractive to them. Make sure state and local leaders hear from them and craft total compensation packages to reflect the needs of today's teachers.

Look at the whole budget.

When studying school funding, remember that pensions account for about 13% of the total state education budget and rising costs disproportionately harm low-wealth communities. Keep asking state and local leaders how this massive line-item is supporting students.

Share this information with your colleagues. Use the hashtags #TeacherPensions #CAedu #resourceequity #edequity



Resources

- [Teacher Retirement Systems: A Ranking of the States](#) | Bellwether Education Partners (2021)
- [Hidden Education Funding Cuts: California](#) | Equable Institute (2020)
- [California's Education Funding Crisis Explained in 12 Charts](#) | Policy Analysis for California Education (2020)
- [Understanding the State of Teacher Pension Funding in 2020](#) | Equable Institute
- [California's Hidden Pension Gap: State Spending on Teacher Pensions Exacerbates School District Inequities](#) | TeacherPensions.org (2019)
- [Teacher Pension Plans: How They Work, and How They Affect Recruitment, Retention, and Equity](#) | Bellwether Education Partners (2019)
- [The Big Squeeze: How Pension Costs Threaten Educational Equity](#) | Pivot Learning (2019)
- [Pensions and California Public Schools](#) | Policy Analysis for California Education (2018)