Higher Education and Pensions

National and state trends in higher education have already stressed Illinois universities and community colleges. The pension funding crowding out of higher education funding has intensified the already precarious operation of state schools. Unlike Illinois elementary and high schools, or Illinois government agencies, the universities confront direct and immediate competition from other states. Therefore, the added pension fund pressure more significantly affects Illinois higher education than other public institutions.

Talking Points

- Unlike most other state agencies and Illinois institutions that receive state pension funding, many Illinois higher education schools compete in a regional, if not national, market. As a result, to understand the impact of pensions and crowding out, policy makers must also appreciate the underlying trends and demands affecting Illinois universities and community colleges.

- Universities suffer from a domino effect of forces. First, a mixed Illinois recovery. Second, challenges in Illinois employment growth. Third, muted population growth. Third, a stagnant pool of candidates for students. Fourth, general reductions in student populations. Fifth, new competition from online learning. (Yes, really - online learning.)

- As a result of the pension crowding out, combined with longer-term higher education trends, universities and community colleges are restructuring their finances and operations. For example, schools are leaning on students more than ever for greater tuition and fees. Second, staffing is being revised to include fewer tenure-tracked professors and more part-time or short-term teaching staff.

- RESULT: Negative feedback loop. Crushing pensions result in fewer university staff members. Fewer staff means lower employee contributions to university pension fund. Smaller fund means smaller investment returns. Smaller investment returns means need for more state funding. And so on and so on...

See Graphs on Higher Ed and Pension Trends
Cascading Impact of Economics, Employment, Demographics, University Enrollment and Pensions

Illinois Economics
- Low growth
- Negative growth compared to competing states

Illinois Employment
- Lower growth, less employment

Illinois Population
- Low growth or decline

Reduced Student Populations and University Enrollment

Competition from Online Courses
- New online courses divert students from enrolling at Illinois state universities, reducing demand; competition can be from other states and universities, or from Illinois public universities

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Higher Ed and Pensions - Trends
Uneven growth and declines – reflect a mixed economic recovery.

Illinois growth lagging other states.

Uneven growth and declines – reflect a mixed economic recovery.
Illinois employment growth lags other states and impedes population growth.
Population growth of potential students projected to be flat.

As with the economy, population growth in Illinois lagging other states.
Nationally, universities facing a flat or declining market.

Illinois confronted with extreme variances in rates of growth and decline. Are some campuses cannibalizing from others?
Projections of Enrollment Into the Next Decade

University feeder enrollment – public elementary and secondary schools.


Same story as above, by age group.
Online education

The number of students taking at least one online class has grown so much that nearly one-third of students enrolled in degree-granting postsecondary institutions take an online class.

<table>
<thead>
<tr>
<th>Year</th>
<th>Students Taking At Least One Online Course</th>
<th>Annual Growth Rate of Online Enrollment</th>
<th>Online Enrollment Percent of Total Enrollment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>1,602,970</td>
<td>N/A</td>
<td>9.6%</td>
</tr>
<tr>
<td>2003</td>
<td>1,971,397</td>
<td>23.0%</td>
<td>11.7%</td>
</tr>
<tr>
<td>2004</td>
<td>2,329,783</td>
<td>18.2%</td>
<td>13.5%</td>
</tr>
<tr>
<td>2005</td>
<td>3,180,050</td>
<td>36.5%</td>
<td>18.2%</td>
</tr>
<tr>
<td>2006</td>
<td>3,488,381</td>
<td>9.7%</td>
<td>19.6%</td>
</tr>
<tr>
<td>2007</td>
<td>3,938,111</td>
<td>12.9%</td>
<td>21.6%</td>
</tr>
<tr>
<td>2008</td>
<td>4,606,353</td>
<td>16.9%</td>
<td>24.1%</td>
</tr>
<tr>
<td>2009</td>
<td>5,579,022</td>
<td>21.1%</td>
<td>28.6%</td>
</tr>
<tr>
<td>2010</td>
<td>6,142,280</td>
<td>10.1%</td>
<td>31.3%</td>
</tr>
</tbody>
</table>

Source: "Going the Distance: Online Education in the United States, 2011" Post-Gazette by the Babson Survey Research Group, Babson College

Online learning is rapidly growing

Sunny Skies Ahead (Figure 1)

Current growth trends indicate that 50 percent of all courses in grades 9-12 will be taken online by 2019.

Enrollments up from 45,000 in 2000 to 1,000,000 in 2007

Source: Christensen & Horn (2003), How Do We Transform Our Schools?

Online Takes Hold (Figure 1)

The proportion of higher education students taking at least one online course has increased steadily over the last decade.

College Students Taking at Least One Online Course

Craig McCrohon
Higher Ed and Pensions - Trends
Impact of Trends on University Revenue and Structure – Lower Pension Contributions!

Tight supply of students, together with increasing online competition, results in flatter growth in tuition. Probably worse for Illinois, and even worse for State universities other than Champaign and Chicago.

To accommodate changes, universities may restructure staff – more part-timers, fewer tenure track, more short-term junior faculty members.

RESULT: FEWER EMPLOYEES TO CONTRIBUTE TO ILLINOIS UNIVERSITY PENSIONS
The Negative Feedback Loop

More money needed from Illinois

Extreme pension funding

Less money to invest, lower investment returns

Lower higher ed funding

Fewer employees to contribute to university pension fund

Smaller higher ed staff

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Higher Ed and Pensions - Trends
Pension Cheat Sheet Series

Pension360 has, or will receive from its board of authors, cheat sheets on the following topics:

- State Comparison of Constitutional Pension Protections
- List of State Pension Reforms Nationally
- Summary of Illinois Constitutional and Legal Arguments Protecting Pensions
- Risk-Mitigating Investment Strategies for Pensions Before the Next Big Crash
- Personal Pensions Perspectives – Term of Employee Pensions - Illinois
- Personal Pensions Perspectives – Terms of Employee Pensions - California
- Personal Pensions Perspectives – Terms of Employee Pensions - New Jersey
- Illinois Pension Crowding Out - The Numbers
- Who Get’s What - Graphs of Annual Pension Payments
- Pension Population Politics - When Will Tier II Members Exceed Tier I Members
- Pension Asset Transfers
- Pension Buyouts - Worth the Risk and Trouble?
- Pension Particulars - Ways to Raise or Lower Funding Without Spending a Dollar
- Illinois Pension Dashboards
- Chicago and Cook County Pension Dashboards
- Pension Funding – California – Tax Base and Cash Flow
- Pension Funding – Illinois – Tax Base and Cash Flow

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