

Pension Cheat Sheet Series

Pensions and Higher Education Funding



The **Pension Cheat Sheet** series presents short fact sheets by a board of editors and authors who are active with public pensions throughout the United States. The goal is to

offer “facts-in-a-pill” to elevate the discussion and understanding in states where pension funding threatens local city and state finances.

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Crowding Out

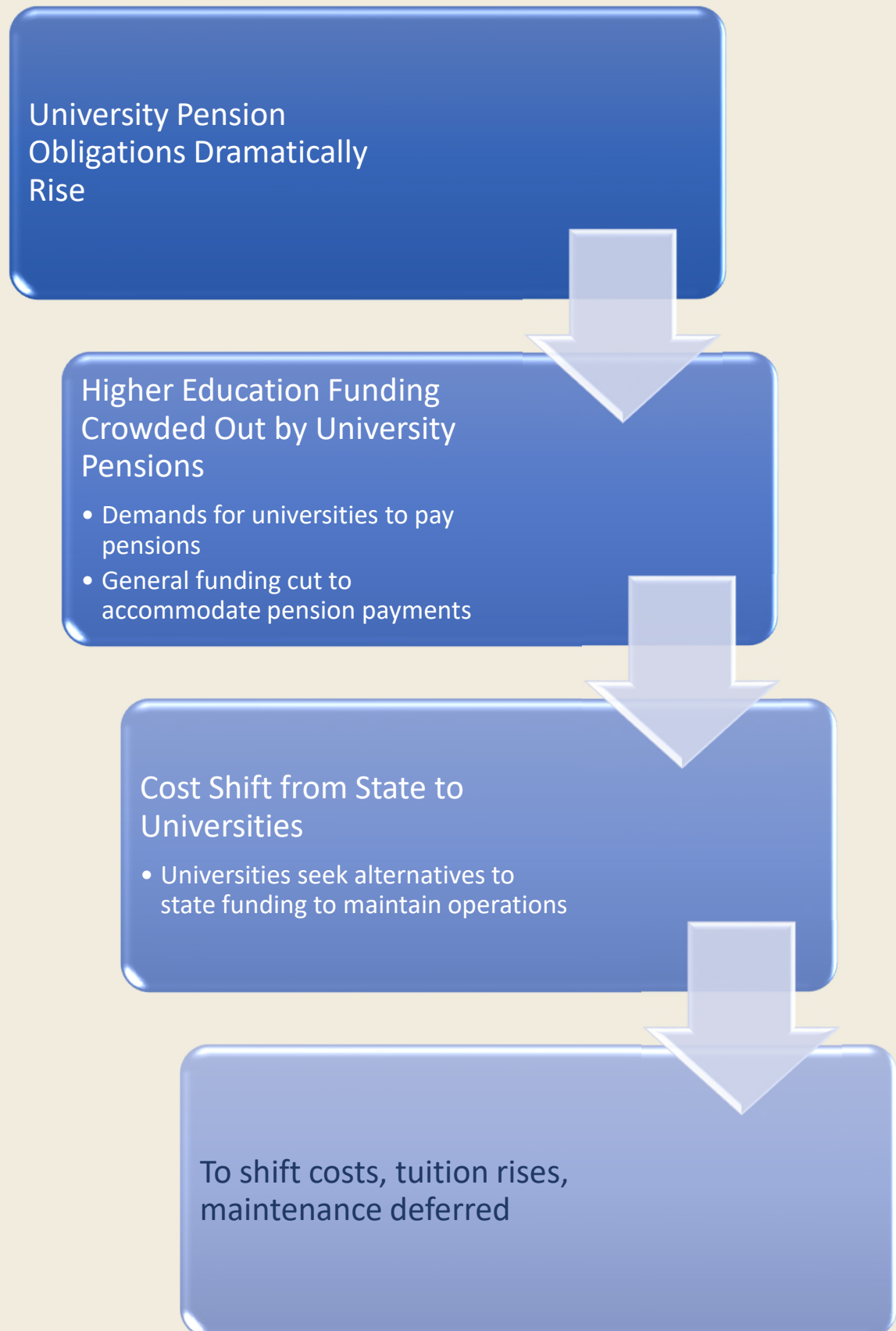
In many states, especially Illinois, higher education is among the most vulnerable sectors to pension crowding out. Rising pensions trigger a budgetary chain reaction that ends with social services and higher education suffering the greatest cuts. Higher ed is one of the shock absorbers of state budget deficits, especially Illinois.

Talking Points

- The theme of this cheat sheet is based in large part on my personal experience on the Universities pension board and working directly with Illinois higher education administrators and faculty.
- The pain in higher ed has been acute – both institutionally and to the many persons who have seen salary cuts or lost their jobs.
- Illinois public universities have resorted to among the most extreme measures in the country to cope with the budget crisis – substantial tuition increases and aggressive budget cutbacks.
- The impact of these changes and cuts is predictable – lower demand for Illinois education. Many middle-aged parents in Illinois can attest to the aggressive recruiting tactics of other non-Illinois schools exploiting the image of Illinois universities as financially fragile and undependable.
- The largest campuses can best withstand the storm – Champaign and Chicago. Smaller campuses outside of the Chicago area, however, are very vulnerable to long-term damage from budget cuts.

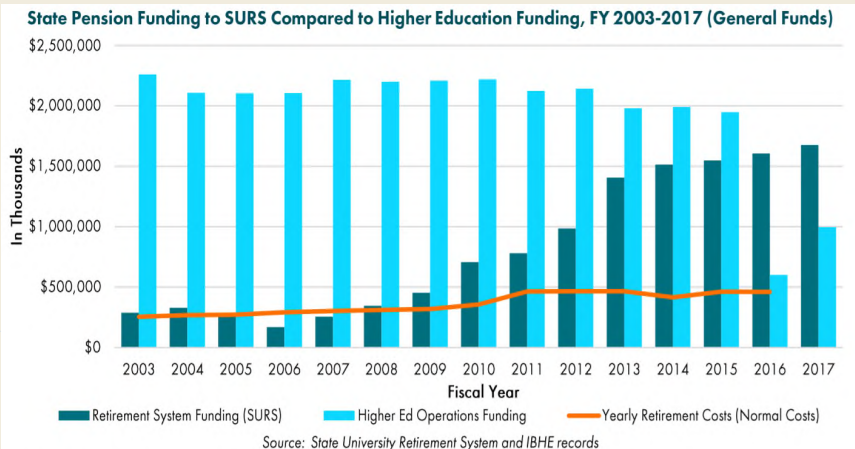
See Pension Impact on Higher Education Funding

Dominos - Pensions, Shifting Costs and Declining Enrollment

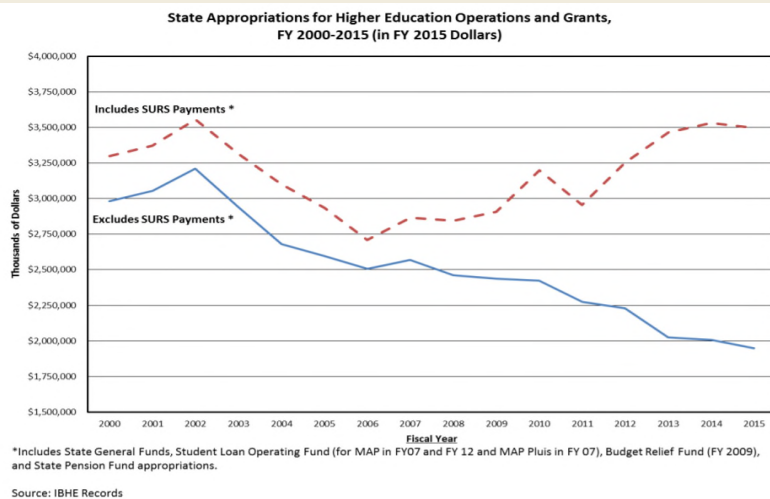


First Domino – Bulging Pension Payments

Expected “normal” pensions costs in theory are flat. The State increases payments to pensions to make-up for prior shortfall, displacing higher education spending.

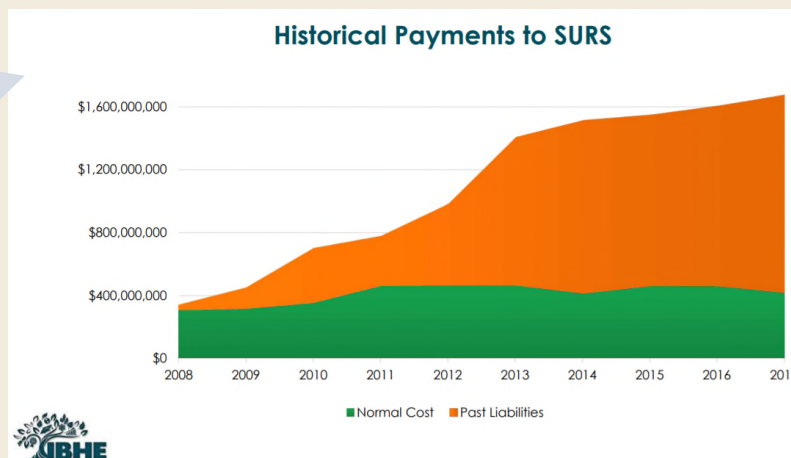


As Figure 2 indicates, years of underfunding the pension system has taken a toll. Illinois began making significant contributions after FY 2009 that required payments of amounts well above the normal costs of current pension obligations. Only 29% of the state contributions paid in FY 2016 was attributable to contributions specific to current liabilities.



Total higher education funding looks as if it is rising. However, operating funds for higher education actually declined. The cuts are masked by adding pension payments to the reported higher education budget.

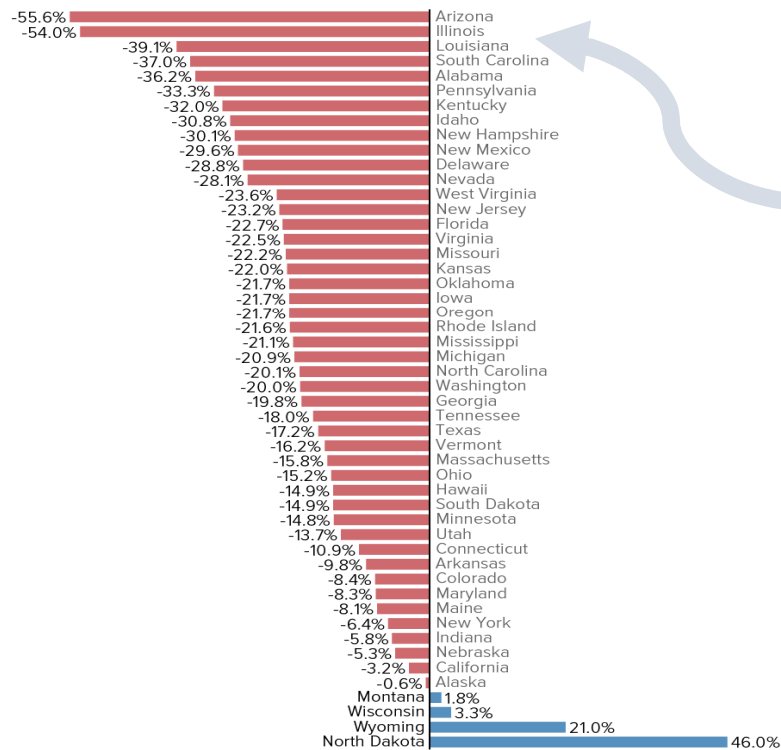
Another look at the breakdown between the “normal” annual pension costs, and the “make-up” costs to account for prior underfunding and inaccurate actuarial assumptions.



Second Domino –Higher Education Funding Cut

State Funding for Higher Education Remains Far Below Pre-Recession Levels in Most States

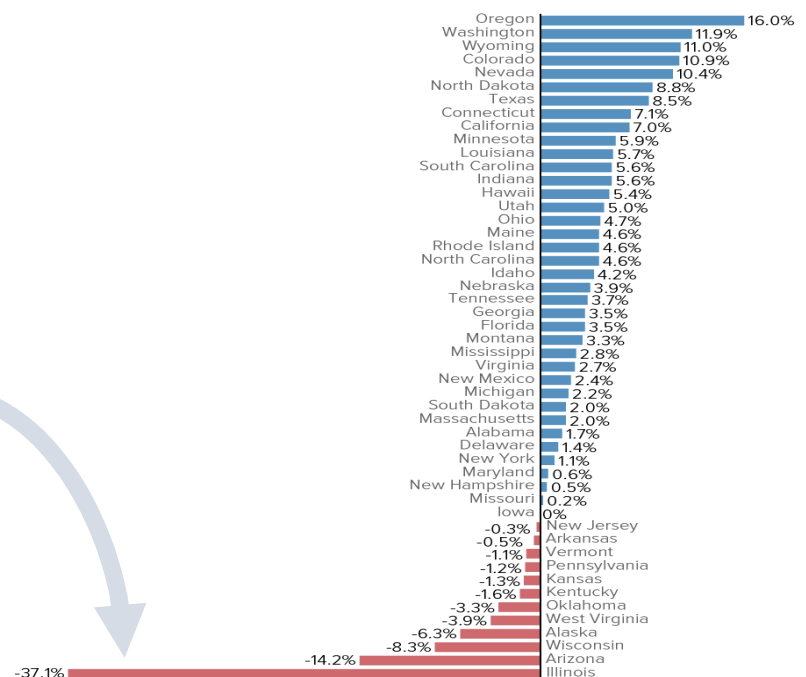
Percent change in state spending per student, inflation adjusted, 2008-2016



Illinois and Arizona were the states whose higher education funding plummeted, even after the recovery from the 2008 recession.

Most States Increased Higher Education Funding Over Last School Year, but Some States Are Still Cutting

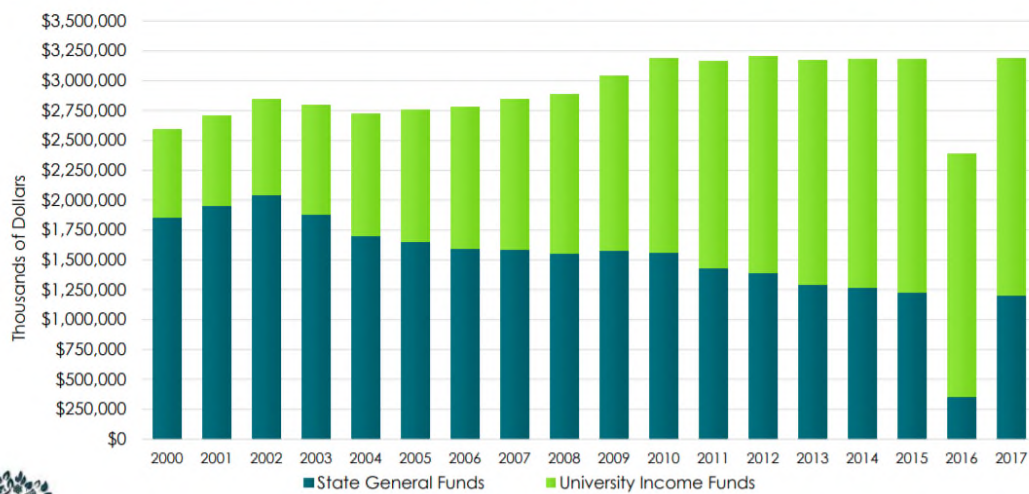
Percent change in state spending per student, inflation adjusted, 2015-2016



Illinois was last in this review of change in higher education funding from 2015-2016. The budget impasse devastated Illinois higher education funding.

Third Domino – “Cost Shift” At Public Universities

Education and Related Revenues for Illinois Public Universities*



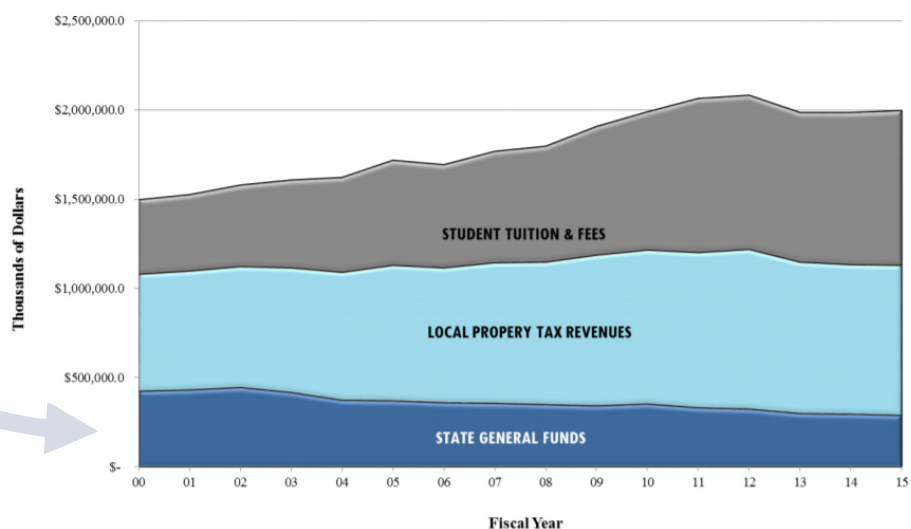
*Adjusted to 2017 dollars



Since 2000, higher education sought alternative sources of funds other than from the State. 2016 was an especially challenging year.

Community colleges raised funds through local taxes, as well as increased tuition and fees.

**Trends in Educational and Related Revenues at Illinois Community Colleges
Fiscal Years 2000 to 2015* (in FY 2015 dollars)**



*Local Property Tax Revenues and Student Tuition and Fees amounts for fiscal years 2014 and 2015 are estimated.

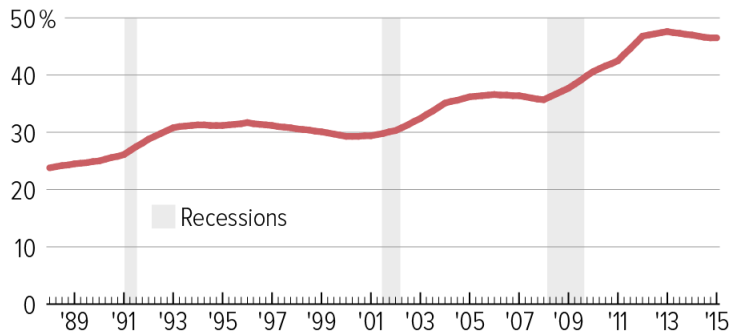
Source: IBHE records.

Fourth Domino – Higher Student Costs, Less Maintenance

“Cost Shift” to students is a national trend. However, the pension crowding out in Illinois has magnified this shift locally..

Students Funding Larger Share of Education Funds After Recessions

Tuition as a percent of “total educational revenue,” 1988 -2015

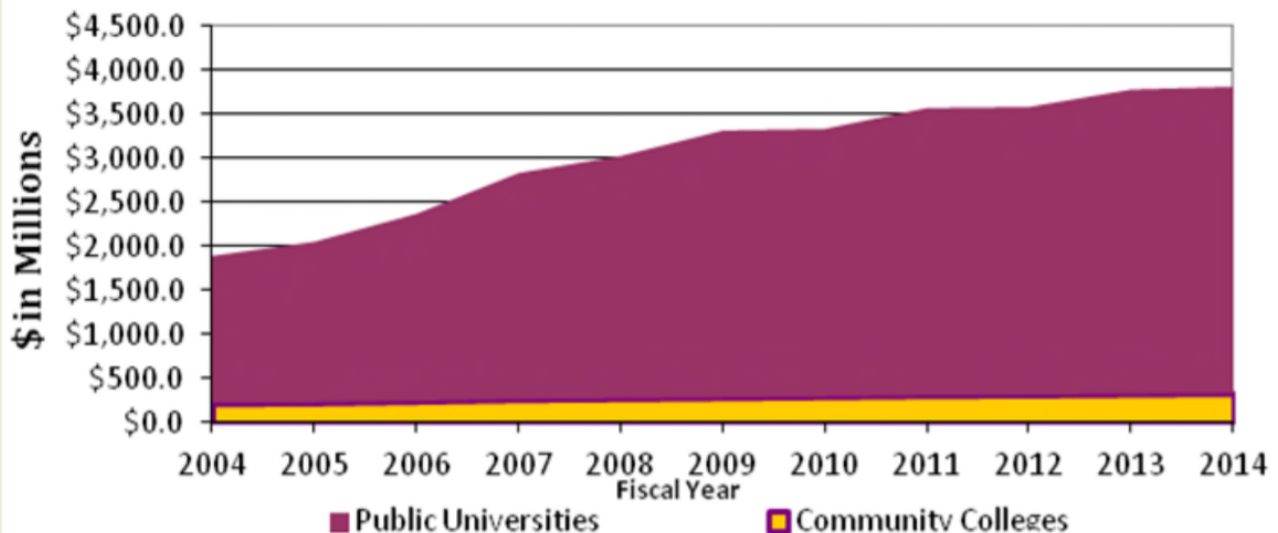


Source: State Higher Education Financing FY2015, State Higher Education Executive Officers Association. Total educational revenue is the sum of educational appropriations and net tuition revenue excluding any tuition revenue used for capital and debt service. It measures the amount of revenue available to public institutions to support instruction (excluding medical students).

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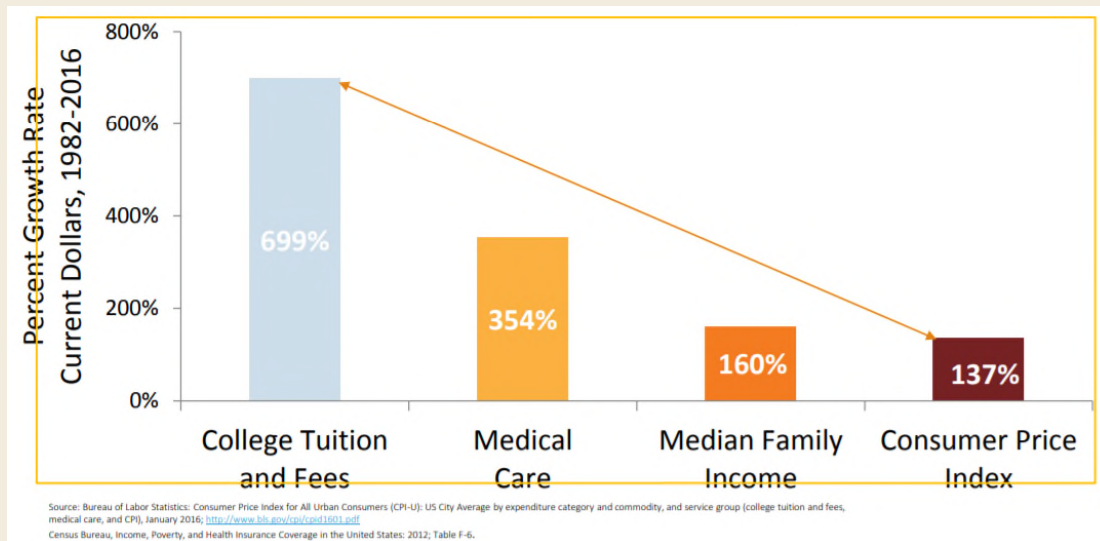
Deferred maintenance has generally increases. HIDDEN in this general graph are selected schools suffering from a crisis in dilapidated plant and facilities.

Total Public Higher Education Deferred Maintenance Estimates Fiscal Year 2004 - Fiscal Year 2014



Source: University responses to IBHE technical questions; ICCB

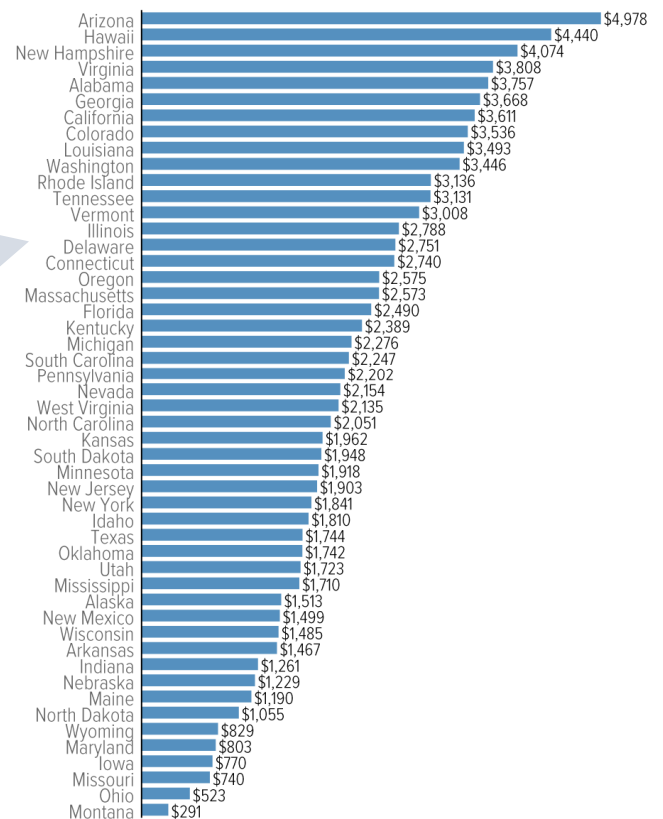
Fourth Domino Examined – Rising Tuition



Rising tuition is a national trend as universities struggle to pay both pensions and operating expenses. Illinois is one of the most aggressive public systems to increase tuition. Are students bearing the tuition increases tapped out?

Tuition Has Increased Sharply at Public Colleges and Universities

Change in average tuition at public, four-year colleges, inflation adjusted, 2008 - 2016



Source: College Board, "Trends in College Pricing," 2015. Years are fiscal years.

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Future Dominos – More Pensions, Fewer Students

Actuaries have projected substantial increases in an already punishing pension cost. This will exacerbate the problems that have triggered enrollment declines. Some schools are much more vulnerable than others in the system to such decreases in student population.

Projected Benefit Payments
Actuarial Valuation as of June 30, 2017
(\$ in Millions)

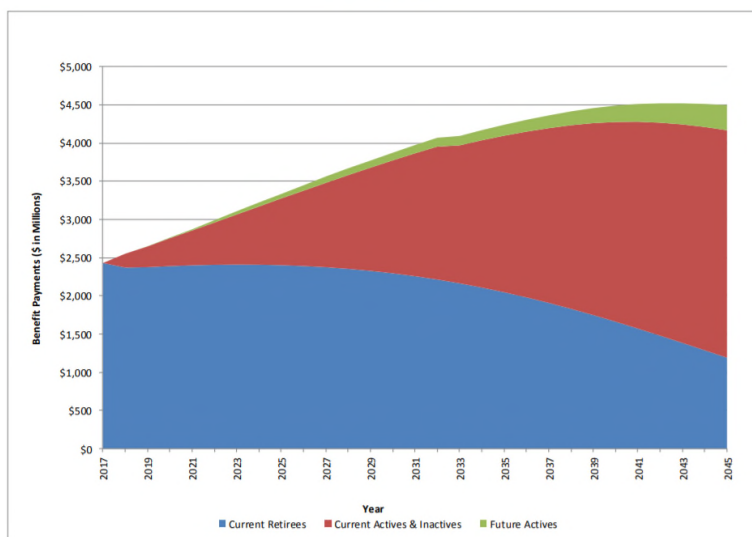


Table 1: Combined Undergraduate and Graduate Enrollment (based on FTE)

	Combined Enrollment				Change in Enrollment in 2018	
	Fall 2015	Fall 2016	Fall 2017	Fall 2018	From 2015	From 2017
CSU	3,618	2,734	2,429	2,267	-37%	-7%
EIU	7,282	6,234	5,339	5,892	-19%	10%
GSU	3,920	3,886	3,554	3,320	-15%	-7%
ISU	18,183	18,533	18,308	18,115	0%	-1%
NEIU	6,366	6,101	5,777	5,201	-18%	-10%
NIU	16,502	15,712	14,982	14,352	-13%	-4%
SIUC	14,995	13,880	12,463	10,851	-28%	-13%
SIUE	11,985	11,870	11,523	10,942	-9%	-5%
UIC	28,687	28,935	30,418	31,620	10%	4%
UIS	3,921	3,985	3,526	3,211	-18%	-9%
UIUC	47,644	48,765	49,634	50,755	7%	2%
WIU	9,561	8,934	8,134	7,260	-24%	-11%
Total	172,664	169,569	166,087	163,786	-5%	-1%

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