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# CONFUSED ABOUT…

## THE INTERSECTION BETWEEN TEACHER PENSIONS AND FEDERAL STIMULUS FUNDS?

Another edition of Stand for Children's "Confused About…" blog series

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*Read this online at:* [*bit.ly/ConfusedAboutPensionsFederalFunds*](bit.ly/ConfusedAboutPensionsFederalFunds)

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Illinois schools are getting a *lot* of federal COVID-19 recovery funds. That's good because among the remote learning expenses, learning loss investments, and costs to safely re-open, Illinois schools have a boatload of new expenses. When all is said and done, Illinois schools will have gotten nearly $8 billion in federal funds through 2024 for COVID recovery through three recovery packages enacted that allocated funding to the Elementary and Secondary Schools Emergency Relief (ESSER) fund.

| | CARES | CRRSA | ARPA |
|---|---|---|---|
| Total IL Allocation | **$569 million** | **$2.25 billion** | **$5.05 billion** |
| 90% to Districts via Title I formula (ISBE allocates the remaining 10%) | $513 million | $2.03 billion | $4.55 billion |
| Date enacted | March 27, 2020 | December 27, 2020 | March 11, 2021 |
| Deadline to spend | September 30, 2022 | September 30, 2023 | September 30, 2024 |

Most of those funds flow directly to school districts through the Title I formula, which is based on student poverty.

***A quick intro to how teacher pensions are funded***

The Teachers' Retirement System (TRS) is the pension system for public school teachers and administrators outside of Chicago. Generally, the State of Illinois pays the employer costs of teacher pensions, even though the teachers are actually employed by their local school districts. Those employer costs include the *normal cost* (that is, the cost to keep up with current pension obligations without paying off or stacking up any debt) and the *unfunded liability* (which is the large amount of debt that has accrued from many previous years when the State failed to pay the normal cost).

There are some exceptions to this, requiring school districts to pay:

- A small employer contribution of 0.58% of payroll for all employees covered by TRS.

- The normal cost rate for employees paid with federal funding.
- The amount of each pension attributable to raises over 6% in the final years of salary or salary higher than the Governor's.

Everything in this blog relates to TRS-covered teachers and their school districts. In other words, it's not relevant for Chicago Public Schools (CPS) and their teachers. Since CPS pays for its own teacher pensions, it doesn't have the same kind of disconnect that other school districts and the State face between who spends the money and who pays the bill.

Now let's look at a couple of the ways these exceptions get a little complicated in practice. (There are complexities even under normal circumstances, but the infusion of federal funds has amplified the impact.)

***The TRS Surcharge***

School districts will be on the hook for paying pension normal costs associated with the federal funding they choose to spend on teacher and administrator salaries. If they used state or local money to pay those salaries, they would only pay 0.58% of salary to TRS. But since they are using federal funding, they have to pay 10% of salary to TRS. It could be worse: four years ago, districts paid the full unfunded liability rate for salaries of federally-funded teachers – a whopping 45%.

Four years ago, we wrote "An Education Funding No-Brainer" about this issue. Because federal funds are heavily directed toward areas of high poverty and to fund special education, the State was disproportionately using funding designated for our most vulnerable children to pay down pension debt. HB 656 was enacted in 2017, bringing the federal funds rate from the unfunded liability rate (then 45%, and now 50%) to the normal cost rate (10%).[1]

For clarity, here are the four different rates we're talking about:

- School district contribution rate for state- and locally-paid teachers: 0.58%
- School district contribution rate for federally-funded teachers: 10%
- Unfunded liability rate: 50%. (This would be the rate a school district would pay for a federally-funded position if HB 656 hadn't passed. It literally means that if a district hired a teacher at a salary of $50,000, it would have to pay TRS $25,000 as the pension contribution.)
- Teacher's employee contribution rate: 9%.[2]

The upshot here is that the $8 billion in federal funds won't stretch quite as far for school districts as it would if it was state money. School districts will still probably weigh their options and maximize their accounting expertise to pay for salaries with state and local money, while buying materials with federal funds.

We fought hard against the unfunded liability rate because it was a tremendous inequity, so some have wondered whether it's fair to charge the 10% normal cost rate, as opposed to the

[1] This is seriously a big deal. It's the kind of structural change that advances equity and changes lives. We appreciate the sponsors and legislators who voted to make it happen.

[2] Yes, I know I didn't actually mention this rate anywhere else, but it is worth mentioning that teachers also contribution a substantial chunk of change from their own paychecks toward their pension benefits. Sometimes districts agree to pick up some or all of that cost through their contract negotiation process; other times, teachers pay the whole thing.

nominal 0.58. After all, it still charges local districts more if their money comes from federal sources based on poverty than if it comes from local sources driven by property wealth.

It *is* still an inequity – just like the overall teacher pension funding system, where better-off districts rack up more pension costs to be paid by the State than poorer districts. But continuing to charge the normal cost rate is the responsible policy decision here. Federal funds going to schools can be budgeted for this purpose, and digging the state's pension funding hole deeper is not a wise decision in the long-term. We can fix the inequity by integrating pension funding with the Evidence-Based Funding Formula, or by gradually shifting pension costs for locally-paid employees to the local districts while increasing Evidence-Based Funding proportionally. (But this is an issue that lives to fight another day…)

***The 6% cap***
This one is trickier and I don't know if there's a perfect solution. In 2005, the legislature imposed the "6% cap" as a way to crack down on golden parachutes. That is, some school districts had gotten into the habit of bargaining for large end-of-career pay spikes for teachers, whose pensions would increase proportionally for life – with the State being on the hook for paying for it. That's the disconnect between having local employers setting salaries with the State picking up their tab for the pensions.

So the 6% cap was a creative response to discourage this sort of behavior, and it has pretty much tamped down on the egregious pay spiking as intended. But ever since then, there have always been exceptions – like a school district in the midst of a teacher shortage that needs a current teacher to teach an overload, or a teacher taking on a new after-school tutoring responsibility. Those cases might necessitate a raise over 6% without any intention to game the system and spike a pension.

There are a few ways the pandemic will impact the 6% cap:

- First, with the infusion of federal funding for learning recovery, school districts should be ramping up programs for high-quality tutoring, summer school, enrichment, social-emotional support, extended school days and school years, and other programs. If we want those programs to be effective, we are going to depend on licensed teachers who have the expertise to best support students. And if we want those teachers – many of whom just came off the most stressful teaching year of their career – to sign up to teach and tutor and enrich and support and otherwise significantly extend their work hours, they are going to need more than a 6% salary increase to do it.
- Second, even without the federal funds, school districts may bump up against the 6% cap in the cases of teachers who used to coach or teach summer school before the pandemic started – but took a pandemic-related pause on those extras. Now, when they get back into the swing of things, they will return to getting the stipends they used to get. Except now, it will trigger the 6% cap.
- And third, coupling the above considerations with the prospect that school districts may be in a position to provide increases across the salary schedule for teachers who have just completed an exceptionally challenging school year since there will be funding available, the chances of busting the 6% cap is even greater.

So… what's the policy solution? The intention of the 6% cap was to curb end-of-career salary spiking, not to create barriers to getting great teachers to fill desperately-need positions to

make up for learning loss caused by a global pandemic. By the time the bill becomes due (a one-time payment right after the teacher retires), in most cases, it will be past the deadline to spend those federal funds and the school district will have to dip into their state and local resources to pay it.

While in my opinion, there's no perfect way to handle this, here are some thoughts for reasonable solutions for this year:

1. Pause the 6% cap for the year for salary increases tied to additional work responsibilities related to summer school, extended day and year, and other learning recovery-related duties. This could be strengthened with guardrails clarifying that any increase disproportionally targeting end-of-career teachers would not be exempt so as not to open doors to golden parachutes. And heck, might as well make it for 2 – 3 years, because the federal funds are available 2024 and no one wants to see a mad scramble to spend all of it immediately without thoughtful implementation over time.
2. Allow districts to pre-pay any estimated 6% overage, which would enable them to use the federal funds for that purpose. (Of course, this creates another hiccup because no one really who all is going to retire when, so any pre-payment would be an estimate.)
3. Appropriate the minimum funding level increase of $350 million in Evidence-Based Funding, because one-time federal funding is nice, but it won't last over the long-term.
4. For school districts, consider whether the work you prioritize with your recovery funds is eligible for TRS credit. Extending the school day and year? Those salary increases are pensionable; teacher licensure is required to teach. But what about tutoring? Are districts requiring licensure for tutors? If not, that salary isn't eligible for TRS. (Apparently this is a frequent subject of audit. If a teacher works the football game for $100, that $100 shouldn't actually be reported to TRS. But people do it all the time.)
5. At a minimum, before criticizing school districts for hitting the 6% and paying some overage, consider the extenuating circumstances this year and give everyone a little grace.

Stand for Children would support any of these ideas. We are especially partial to #3, which should happen regardless of any of this. Perhaps #1 may be the most practical concept to work with. As the budget gets crafted over the next two weeks, minimizing the unintended consequences of the 6% cap would certainly be an appropriate inclusion in any budget implementation bill.