September 2019 | Memorandum 1159

CITIZENS RESEARCH COUNCIL OF MICHIGAN

Stagnant Teacher Salaries in Michigan: Recent Impact of Unfunded Retirement Obligations

Key Takeaways

- Even as the average amount of per-pupil spending has increased 12 percent over the past five years, the new dollars are not finding their way into teachers' paychecks. The statewide average teacher salary has remained at about $62,000.
- Required pension obligation payments have taken on greater priority in education spending. Despite recent retirement system reforms, more and more school spending is going to meet unfunded retirement liabilities.
- Unless changes can be made to ensure retirement obligations are met while providing adequate funding for other educational services, the outlook for Michigan's teacher salaries remains gloomy.

Introduction

Michigan's state government plays as large a role in funding local schools as any state in the nation. The state assumed this lead role in 1994 with the major school finance reforms of Proposal A. During Michigan's "lost decade,"[a] state appropriations for higher education, revenue sharing to local governments, and general state administrative functions suffered from restrained revenue growth; however, spending on public K-12 education remained a relatively high priority within the state budget. Many in the teaching profession and other supporters of public education nonetheless suggest that teacher pay has not kept pace with those funding priorities in the last decade, thus contributing to the difficulties of attracting and retaining high quality teachers.

The plight of teacher pay in Michigan has not attracted the same levels of public attention as in other states. In the past year, teachers in Arizona, California, Colorado, Kentucky, Oklahoma, and West Virginia walked out of their classrooms and rallied in state capitols in protest to have their voices heard. These teachers were pressuring for smaller classroom sizes, increased support staff, and more financial resources. At the heart many of these protests is a call for increased teacher pay and benefits.

Few would dispute that quality teaching is the most important in-school component in a child's education. Teacher pay and benefits comprise the largest shares of school budgets, but education dollars must also provide for support staff, student transportation, classroom supplies, and retirement costs. While the state has increased spending on education, the large amounts necessary to finance unfunded retirement liabilities have left little for increased spending inside Michigan classrooms, as would be reflected in rising teacher salaries.

a A reference to the fiscal disruptions to state and local government finances arising from Michigan's single-state recession (2001-2007) and the Great Recession (2007-2009).

38777 Six Mile Road, Suite 208 | Livonia, MI 48152 | 734.542.8001
115 West Allegan, Suite 480 | Lansing, MI 48933 | 517.485.9444
P.O. Box 1612 | Holland, MI 49422 | 616.294.8359 | crcmich.org

National Rankings

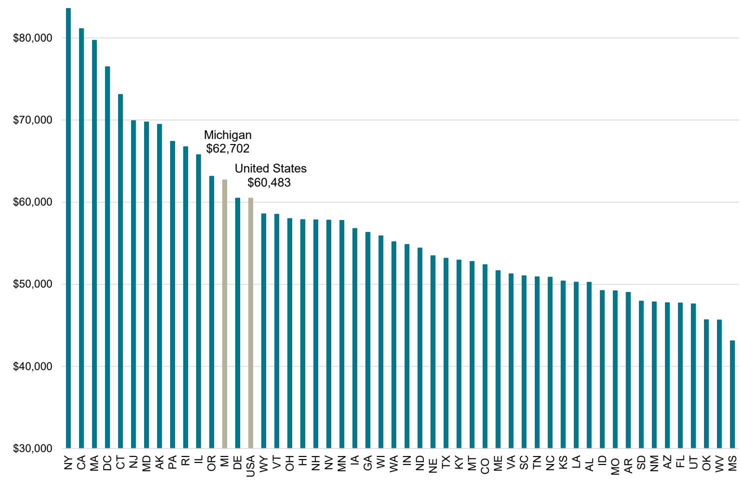
From a national perspective, Michigan teacher salaries are doing well. Michigan ranks 13th highest in the nation with an average teacher salary of $62,702 in 2018, four percent above the national average salary ($60,483) (**Chart 1**).[b] Washington ($55,175) has the median average teacher salary. The highest salaries are predominantly in the Northeast; New York (1st), Massachusetts (3rd), and Connecticut (5th). Other states with averages greater than Michigan include California (2nd), Maryland (7th), Pennsylvania (9th) and Illinois (11th). Data reported by the National Education Association (NEA), the largest teacher union in the country, also places Michigan at 13th nationally.

The National Education Association also reports the average starting salary in each state. In 2018, Michigan ranked 34th in the nation for starting salary at $36,599 and below the national average of $39,249 (see **Chart 2**).

The difference between Michigan's rankings on these two measures of salaries is noteworthy. In spite of having a mean salary that falls above the U.S. average, Michigan teachers start out making less money than teachers in other states. A couple possible explanations for the ranking discrepancies are that Michigan's teachers either receive larger annual salary bumps (referred to as "steps") or receive salary increases sooner in their careers. Collective bargaining agreements in various districts around the state outline step increases with pay jumping about $2,000 per step at the beginning of a schedule. Compared

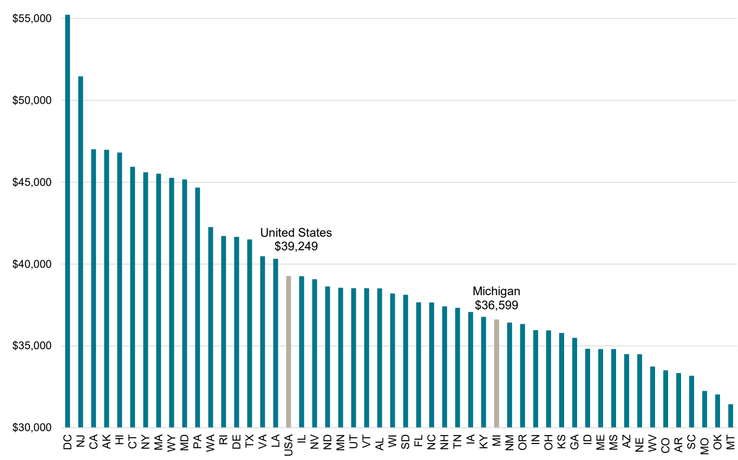
b The National Center for Education Statistics (NCES) annually publishes rankings of the states based on a variety of school finance metrics. The NCES rankings are based on information provided by state departments of education, local school districts, and other regional bodies.

Chart 1
Average Teacher Salary by State, 2018



Source: National Center for Education Statistics, Digest of Education Statistics

Chart 2
Average Starting Teacher Salary by State, 2018



Source: National Education Association

to states that have instituted statewide minimum salary schedules, many beginning step increases are about $1,000.[1]

Michigan's statewide average hides considerable district-level variation. At the extreme ends of the distribution of districts (those with at least 500 students),[c], the lowest average teacher salary in fiscal year (FY) 2018 was Webberville Community Schools in Ingham County ($38,033) while Walled Lake Schools (Oakland County) had the highest average salary at $81,168.

Perspectives on Teacher Pay

Research on teacher salaries provides a wide range of perspectives on how salaries should be set, evaluated, and potentially changed. From policy institutes to national labor organizations, there is no general consensus on how teacher pay should be addressed. While hardly exhaustive in its scope and depth, the following paragraphs highlight a few different perspectives on teacher compensation.[a]

The gap between teacher pay and other college-educated workers is at a record high. In 2018, the weekly wage gap — difference between teacher pay and other college-educated workers — was 21.4 percent. Average weekly wages for teachers, adjusted for inflation, has decreased by $20 since 1996 while the average weekly wages for other college graduates has risen by nearly $300. Further, any improvements to benefits teachers receive compared to other professionals have not been enough to offset the weekly wage gap teachers face.[b]

The Center on Budget and Policy Priorities (CBPP) writes that state funding for education across the country has fallen dramatically in the past decade, often in response to the recession. This created a gap in public school funding that local sources could not make up. Teacher salaries make up a large portion of public education spending; therefore, cuts to districts' budgets restrict their ability to increase the size of the teaching staff or boost wages.[c]

The Heritage Foundation found that when teachers and non-teachers are matched based on an objective measure of cognitive ability rather than level of education, teacher salaries are more in line with other professions. They also found that when teachers leave the profession for a non-teaching job, they face an average wage decrease of three percent. Additionally, the fringe benefits for public school teachers are often unrecognized and when factored into overall compensation can result in teachers earning more than similarly-skilled private sector workers.[d]

The American Enterprise Institute (AEI) says that teacher pay does not need to be increased or decreased, rather it should be reformed with a different system. They assert that current teacher pay systems are incredibly rigid and backloaded, citing strict salary schedules and above-average retirement benefits. Instead, AEI offers reform cost-neutral suggestions where teachers could exchange a more modest retirement plan for higher salaries.[e]

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a Differences between these perspectives may be explained in part by differing methods used when calculating teacher salaries. For example, some choose to include benefits such as healthcare and deferred compensation in their assessments. Others factor in a shorter work year for teachers with few school districts in session during the summer. These differences hinder the ability to draw comparative conclusions across all available estimates.

b Allegretto, Sylvia, and Lawrence Mishel. 2019. *The Teacher Weekly Wage Penalty Hit 21.4 Percent in 2018, A Record High*. Economic Policy Institute, Center on Wage & Employment Dynamics.

c Leachman, Michael, Kathleen Masterson, and Eric Figueroa. *A Punishing Decade for School Funding.* Report. November 29, 2017. https://www.cbpp.org/research/state-budget-and-tax/a-punishing-decade-for-school-funding#_ftn1.

d Richwine, Jason, and Andrew Biggs. *Assessing the Compensation of Public-School Teachers.* Report. November 1, 2011. https://www.heritage.org/education/report/assessing-the-compensation-public-school-teachers.

e Biggs, Andrew, and Jason Richwine. "Don't Raise Teacher Pay, Reform It." American Enterprise Institute. June 5, 2018. http://www.aei.org/publication/dont-raise-teacher-pay-reform-it/.

Teacher Pay and Education Funding in Michigan

While Michigan teacher salaries are doing well in the national context, they have stagnated in recent years. To understand how teacher pay has fared over the years, it is best to start with trends in the statewide average teacher salary and the experiences of school districts across the state.[d]

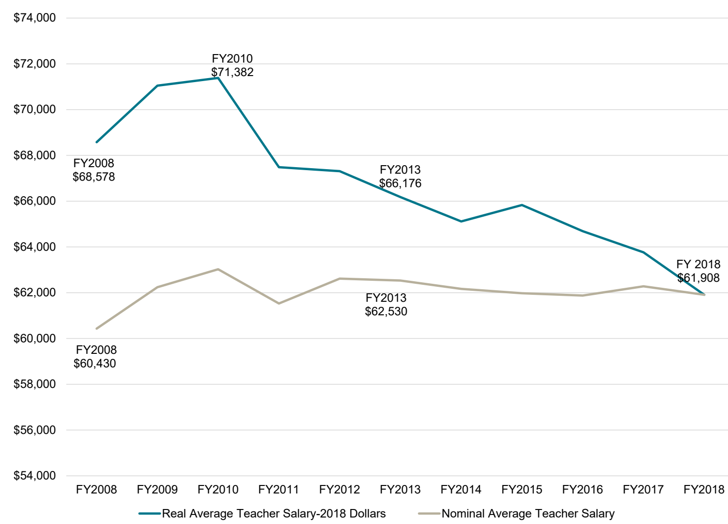
Average Teacher Salary Trends

The Michigan average teacher salary (in nominal terms) has inched up slightly over the past 10 years, but has remained fairly constant in recent years (see **Chart 3**). It increased slightly from FY2008 to FY2010, before dipping a bit in FY2011. This dip likely is the result of the early out program offered to school personnel in 2010 which caused some older, more experienced (i.e., higher paid) teachers to leave the classroom.[e] Over the entire 10-year period, the average salary rose just two percent.

However, after adjusting the average salaries for inflation, the long-term trend changes dramatically. Overall, the inflation-adjusted average teacher salary declined 10 percent over the 10-year period. Teachers are being paid less for the same work. Some may even argue that teachers are expected to work more for the same pay, given the increased demand to improve student academic performance (e.g., as measured by standardized testing) and the heavy emphasis placed on student performance in teacher evaluations.

Chart 3

Michigan Average Teacher Salary, FY2008 to FY2018



Source: Michigan Department of Education Bulletin 1014

c This analysis includes only traditional public school districts with enrollments of at least 500 students. It excludes charter schools and intermediate school districts. Charter schools (or public school academies) may not report their average teacher salaries because teaching staff and others are often hired through contracts with private management companies. Also, those traditional districts that did not have data for each year were excluded from the analysis. In the end, data from 443 districts was analyzed.

d The average teacher salary is calculated using the base salary reported by each school district to the Michigan Department of Education. Base salary is the total salaries of certified teaching staff under Basic Programs divided by the corresponding number of full-time equivalent (FTE) teachers. This analysis includes only traditional public school districts with enrollments of at least 500 students. It excludes charter schools and intermediate school districts. Charter schools (or public school academies) may not report their average teacher salaries because teaching staff and others are often hired through contracts with private management companies. Also, those traditional districts that did not have data for each year were excluded from the analysis.

e Under Public Act 75 of 2010, teachers who met the requirements to retire were offered an increase in their pension multiplier as an incentive to leave the active workforce. Following this change, many teachers at the high end of the pay scale with considerable experience left the workforce and their positions were filled with younger, lower paid teachers. See https://crcmich.org/PUBLICAT/2010s/2019/rpt404-teacher_pipeline.pdf.

Teacher Salary Schedules

Generally, teacher salaries in most public schools are set through a format often referred to as "step and lane" salary schedules. In Michigan, each school district sets its own schedule, there is no state mandated minimum. These schedules are typically determined through collective bargaining agreements between school officials and teacher unions. The step and lane that an individual teacher is in determines her/his base salary.

A step is based on the number of years worked by the teacher. School districts vary in how many years a teacher must work for a step increase; a step increase may occur each year or take more than a year to earn. A teacher earns a step increase when he/she has worked the number of years required. A step increase is most often accompanied by an increase in base salary.

A lane is based on the level of education or professional development a teacher has earned. Classification of lanes vary based on the school district, some focusing only on the degree a teacher has, while others count the number of higher education credits or amount of professional development completed. A lane change for a teacher is most often accompanied by an increase in their base salary.

Figure 1

Example Salary Schedule: Williamston Community Schools 2018-19 (Selected Steps)

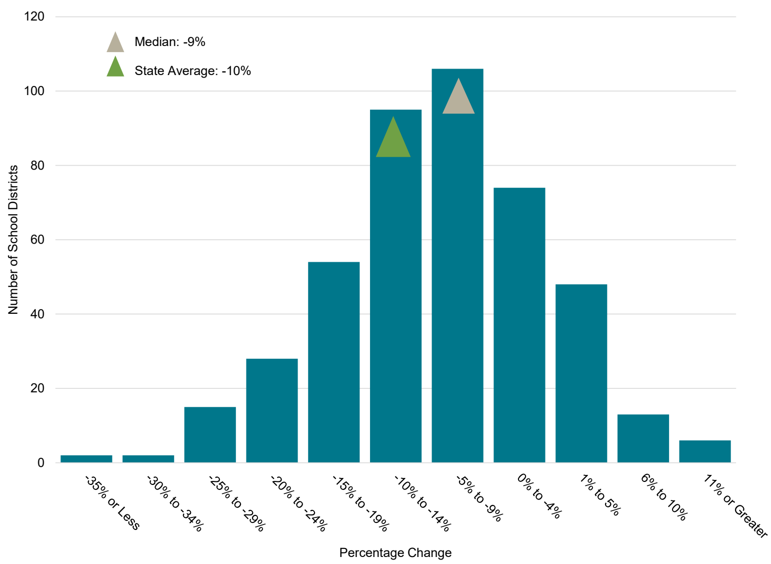
Step	Bachelor's	Bachelor's-Plus	Masters	Masters-Plus
0	$35,288	$36,861	$38,382	$40,171
1	37,053	38,704	40,303	42,178
5	45,039	47,046	48,986	51,271
8	52,137	54,460	56,708	59,351
11	61,564	64,311	66,965	70,092

Source: Williamston Education Association Agreement 2018-2020

For example, a new teacher in the Williamston Community Schools with no experience and a bachelor's degree would start in the upper left corner of the salary schedule with a salary of $35,288. For each subsequent year of experience, they would earn a step increase and move further down the schedule, earning a base salary increase as well. If that teacher continued their education beyond a bachelor's, they would then move to the next lane and possibly earn a base increase (see **Figure 1**).

A total of 376 of 443 school districts, 85 percent, analyzed from FY2008 to FY2018 faced a decline in inflation-adjusted average teacher salary (see **Chart 4**). The median district salary fell 9 percent, whereas the statewide average salary dropped 10 percent.

Chart 4
Distribution of Change in School Districts' Inflation-Adjusted Teacher Salaries, FY2008 to FY2018



Source: Michigan Department of Education Bulletin 1014

Per-Pupil Expenditure Trends

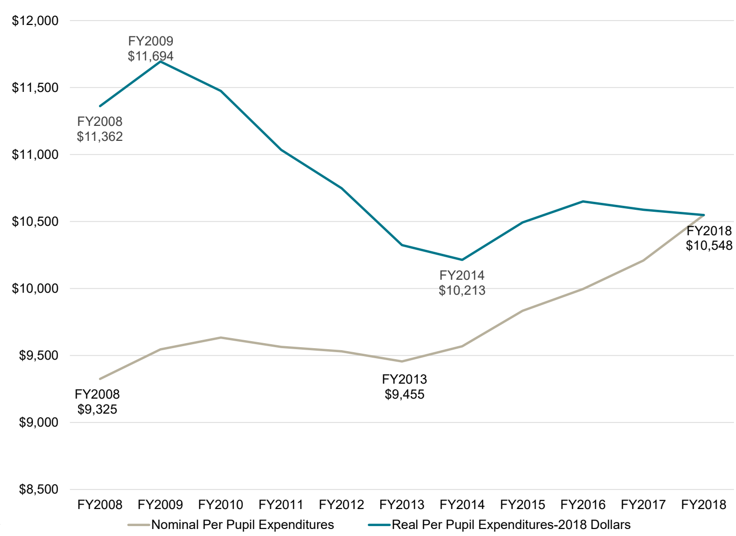
Statewide general fund per-pupil expenditures from FY2008 to FY2018 depict a somewhat different story than the average teacher salary trend. Nominal per-pupil spending increased through FY2010, then fell slightly in response to the financial strains on school budgets arising from the Great Recession and a general downturn in state-level tax effort (see **Chart 5**).[2] Following this period of decline, the average per-pupil expenditure increased nearly $1,100 (12 percent) from FY2013 to FY2018.

Adjusting general fund per-pupil expenditures for inflation shows a few distinct trends over the 10-year period.[f] From FY2008 to FY2014, real spending fell sharply by 10 percent. Between FY2014 and FY2018, real spending is up three percent, but all of this growth came in the early part of this period as spending has more or less remained constant with the rise in inflation since FY2016 (see **Chart 5**). The gains since FY2014, however, have not been sufficient to reclaim the lost ground from the earlier period. As a result, real spending in FY2018 ($10,548) is nearly seven percent below FY2008 level ($11,362)

Salary-to-Spending Ratio

The ratio of average teacher salary to per-pupil expenditures provides an understanding of teacher salaries in the context of the larger fiscal situation facing schools. More specifically, it provides insight into the priority given to teacher salaries relative to other education spending. Michael J. Petrilli of the Thomas B. Fordham Institute, an education policy think tank, introduced this ratio in a recent blog post looking at salaries across states.[3] Petrilli observed that K-12 spending has dramatically increased between 1990 and 2016, yet teachers' salaries did not increase at the same rate, resulting in a noticeable ratio decline.

Chart 5
Michigan Per-Pupil Education Expenditures, FY2008 to FY2018



Source: Michigan Department of Education Bulletin 1014; Senate Fiscal Agency; U.S. Bureau of Economic Analysis; Citizens Research Ccouncil calculations

f Real per-pupil expenditures are calculated using the State and Local Government Price Deflator. This price index is generated by the U.S. Bureau of Economic Analysis to measure the value of goods and services typically purchased by government.

Using this ratio concept, **Chart 6** examines what has happened in Michigan between FY2008 and FY2018. The ratio is calculated for the state as a whole, based on the statewide averages, as well as for each individual district. A constant ratio suggests that teacher salaries are keeping up with changes (increase or decrease) in per-pupil expenditures, maintaining their relative importance in the larger fiscal picture of schools. An increase in the ratio suggests that either more school funding is going to teacher salaries while per-pupil expenditures remain constant, or that per-pupil expenditures are trending downward while the average teacher salary remains constant. On the other hand, a decline in the ratio could be caused by per-pupil expenditures increasing while the average teacher salary remains constant or a drop in average teacher salary while per-pupil expenditures remain constant.

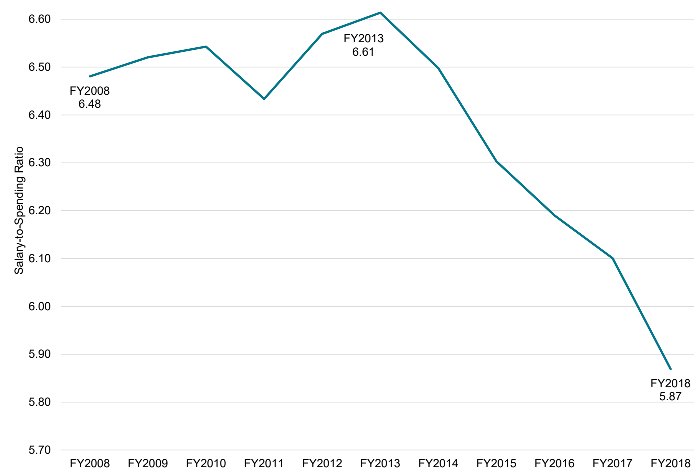
Michigan's statewide ratio increased slightly from FY2008 to FY2013, with a minor dip in FY2011 that is largely attributable to the 2010 early retirement incentive offered to school personnel and the slight dip in average teacher salary discussed earlier. Following this clear rising trend early in the 10-year period, the ratio reversed course and has declined sharply, from 6.6 in FY2013 to 5.9 in FY2018.

The stark change in trend following FY2013 clearly reflects a substantial change in resource allocations of Michigan school districts as a whole. Teacher salaries have not changed in concert with the rise in per-pupil spending documented earlier. Had the FY2008 ratio remained unchanged through FY2018, the average teacher salary would be $68,356, almost $7,000 higher in FY2018. Using the peak FY2013 salary-to-spending ratio, the average teacher salary would be $69,758 today, nearly $8,000 more.

From FY2008 to FY2018, 376 of the 443 school districts analyzed, 85 percent, had a decreased salary-to-spending ratio (see **Chart 7**).

Chart 6

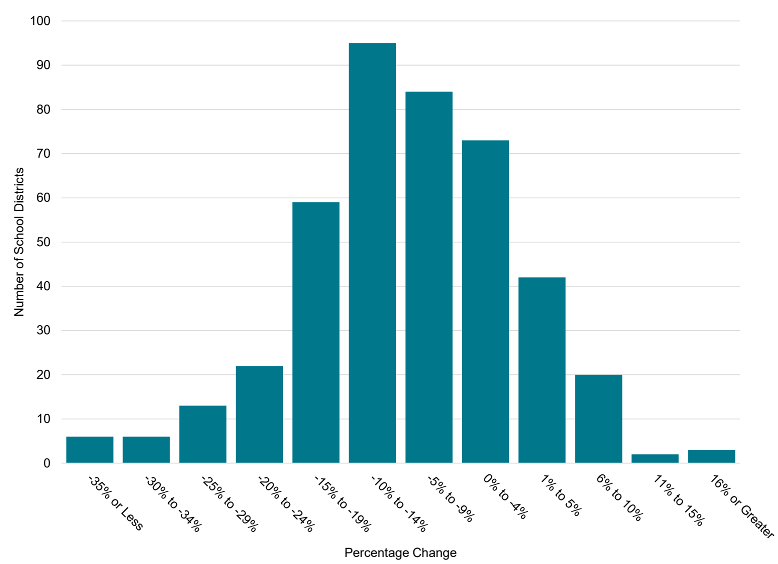
Michigan's Teacher Salary-to-Education Spending Ratio, FY2008 to FY2018



Source: Michigan Department of Education Bulletin 1014; Citizens Research Ccouncil calculations

Chart 7

Distribution of School Districts by Salary-to-Spending Ratio Percentage Change, FY2008 to FY2018

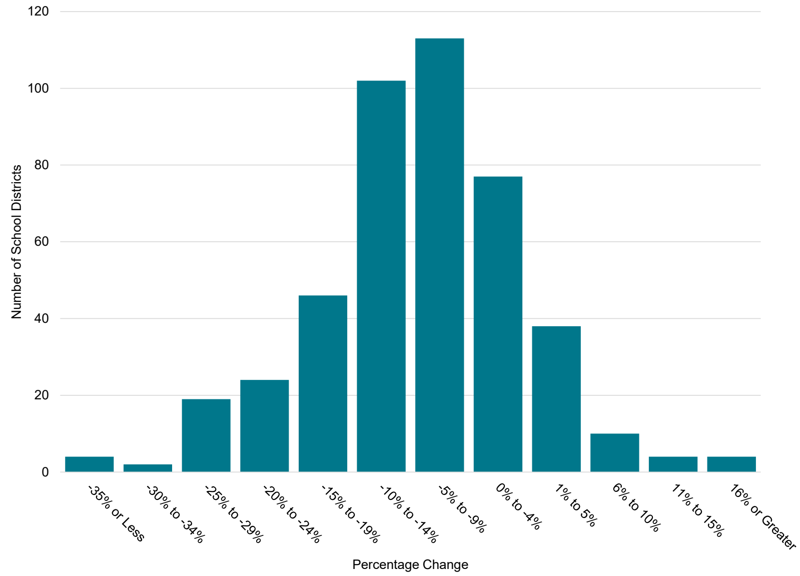


Source: Michigan Department of Education Bulletin 1014; Citizens Research Ccouncil calculations

What's more, nearly 90 percent of school districts had a decreasing salary-to-spending ratio when looking only at the most recent period, when the statewide ratio sharply declines (see **Chart 8**).

Chart 8

Distribution of School Districts by Salary-to-Spending Ratio Percentage Change, FY2013 to FY2018



Source: Michigan Department of Education Bulletin 1014; Citizens Research Ccouncil Calculations

Impact of Retirement Obligations on Teacher Pay

In recent years, inflation-adjusted per-pupil expenditures have increased, yet the added spending is not reflected in higher average teacher salaries. One possible explanation for stagnant salaries - the addition of support and non-instructional staff – is not supported by the data. Statewide staffing numbers show that non-teaching staff has not increased, at least relative to the number of full-time teachers, over the past 10 years.[4] Similarly, a flat average salary might be explained by changes in teacher composition. We would expect average salaries to drop or remain constant if the workforce becomes younger over time. Again, the composition of the teaching force, at least the oldest and youngest cohorts, has not changed much since 2013.[5]

Another possible reason for the observed ratio trends would be other spending demands facing schools, including other personnel related categories such as employee benefits and/or retirement obligations. This is evident in the increased contributions for teacher pensions and other post-employment benefits provided through the Michigan Public School Employee Retirement System (MPSERS).

In 2004, the Citizens Research Council explored the potential for public school finance disruptions arising from pension funding, warning that the combined increasing costs for retirement contributions and health benefits for working employees leaves little room for increased spending elsewhere in school budgets, even with an improving economy and rising tax receipts.[6] The same sentiments were expressed again in a 2013 update shortly after the impacts of 2012 MPSERS reforms began to take root. It was noted that increased MPSERS employer contributions have had a substantial financial impact on public schools with an increasing proportion of available resources being needed to meet these costs.[7] Ultimately, the increasing MPSERS costs have crowded out spending in other areas of schools' budgets.

Michigan Public School Employee Retirement System

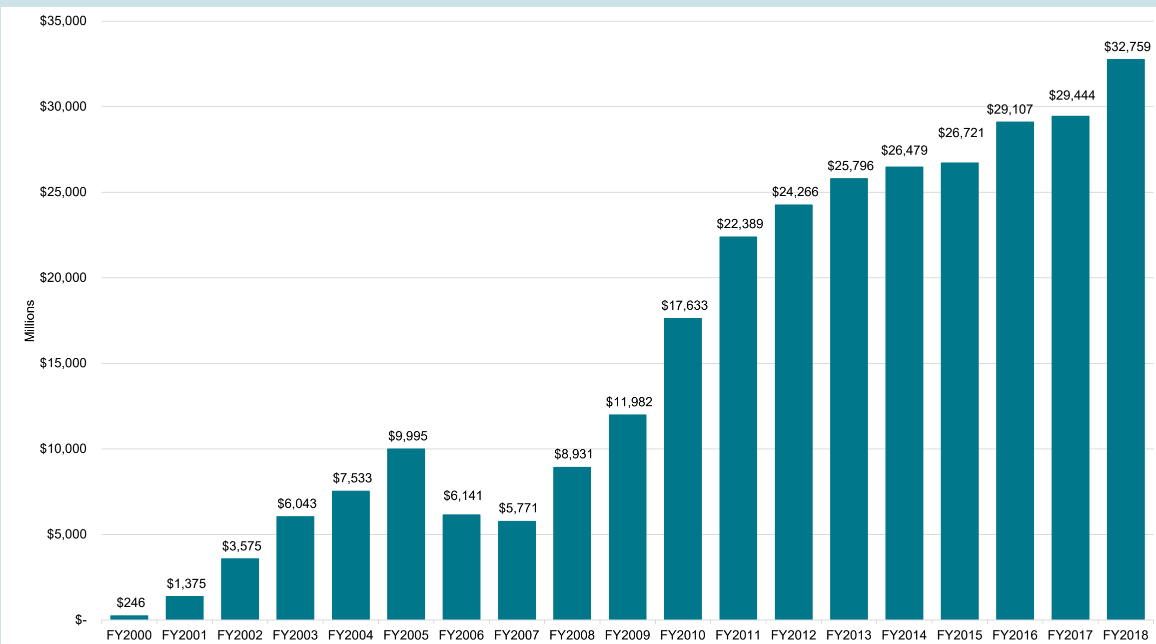
The Michigan Public School Employee Retirement System (MPSERS) is a state-run retirement system that provides pension and retiree health care benefits to employees of public school districts and intermediate school districts, some public school academies, as well as certain community colleges, district libraries, and state universities.

MPSERS has had, and continues to have, large unfunded actuarial liabilities (UAL) related to poor market performance, the failure of the system to meet other actuarial assumptions, and short-term budgeting decisions.

The system's UAL has increased drastically over the past two decades (see **Chart 9**). MPSERS costs will continue to increase as the actuarial assumptions made in the system are revised over time. Currently, the UAL is scheduled to be paid off by 2038 with the system fully funded. In FY2014, the number of retirees surpassed the number of active employees, also placing strain on the system.

Chart 9

MPSERS Pension Unfunded Actuarial Liabilities, FY2000 to FY2018



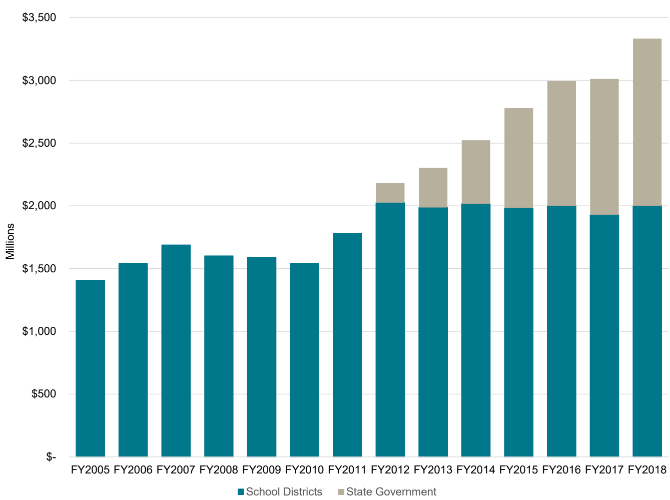
Source: Senate Fiscal Agency

Various state level reforms have been enacted to address and mitigate the rising legacy costs and ensure that retirees receive the benefits they paid into and are constitutionally guaranteed. Cost offset grants were first appropriated to help school districts cover their growing retirement costs but did nothing to address the underlying UAL cost pressures. Notably for employers, a rate cap for employer UAL contributions (pension and retiree health) was established to help stabilize their contribution rates and make fiscal planning a bit more predictable (the employer UAL rate (as a percent of payroll) is frozen at the FY2012 level). Because the total UAL rate is higher than the employer cap, the state makes up the difference through a separate allocation coming from the School Aid Fund, the same funding source from which districts receive their operating funding to spend on teacher salaries.

Employer liabilities to the retirement system have grown largely in response to the escalating UAL obligation. Large increases in employer UAL costs occurred just prior to the MPSERS rate cap. However, employer contributions stabilized in FY2013 as the state began to cover a share of these costs and the impact of the rate cap for employers became effective (see **Chart 10**). While the employer share has stabilized, the state share continues to grow (see **Chart 11**). In FY2018, the state appropriated over $1.3 billion for retirement costs outside of the capped employer share; just over $1 billion of this is tied to UAL payments.

Chart 10

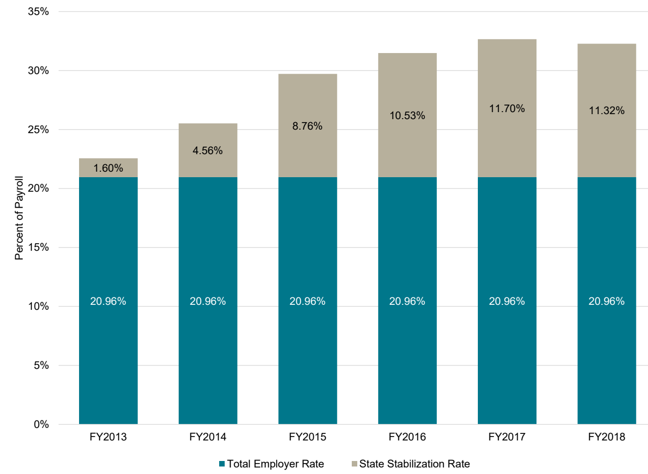
Employer and State of Michigan Contributions to Retirement Fund, FY2005 to FY2018



Source: State of Michigan, Office of Retirement Services; Senate Fiscal Agency

Chart 11

UAL Contribution Rates as a Percent of Payroll, FY2008 to FY2018



Source: State of Michigan, Office of Retirement Services

State appropriations for MPSERS, including those to cover the UAL obligations above the employer rate cap flow through the School Aid Fund to local school districts and other units, before being returned to the Office of Retirement Services for final payment to the retirement system. Through this fiscal arrangement, a portion of the funding to meet the annual UAL obligations is provided to school districts where it is counted in per-pupil funding (and reflected in the per-pupil spending) before being paid to the retirement system. The rise in retirement contributions of approximately $1 billion since FY2012 to meet unfunded liabilities directly accounts for the majority of the increase in per-pupil expenditures noted in this report. These dollars, while showing up in annual school spending figures, are returned to the state-run teachers' retirement system to meet funding obligations related to paying down past debts. These debts cannot be skirted; the promised benefits to current and former teachers are constitutionally protected.

Conclusion

The outlook for Michigan's teacher salaries is gloomy. They have fallen victim to a crowding-out effect arising from the requirements to meet pension obligations. As a result, school budgets have continued to be tight, preventing teacher salary increases and reflected in a noticeable decline in the salary-to-spending ratio. The bottom line is that pension obligations have taken on greater priority in the overall education spending picture, not because of decisions made at the local level but because of the past funding decisions at the state level. School districts have little option but to pay these pension requirements, whether the funding comes from a portion of the discretionary state aid they receive (per-pupil foundation grant) or via a designated state appropriation for retirement obligations. Unless changes can be made to ensure the funding of MPSERS while providing adequate funding for other educational services, teachers will likely bear the burden with little to no increase in pay.

Endnotes

1 Griffith, Michael. *State Teacher Salary Schedules.* Report. March 2016. https://www.ecs.org/wp-content/uploads/State-Teacher-Salary-Schedules-1.pdf.

2 Arsen, David, Tanner Delpier, and Jesse Nagal. *Michigan School Finance at the Crossroads.* Report. January 2019. https://education.msu.edu/ed-policy-phd/pdf/Michigan-School-Finance-at-the-Crossroads-A-Quarter-Center-of-State-Control.pdf.

3 Petrilli, Michael J. "You Might Be Surprised Which States Prioritize Higher Teacher Salaries." The Thomas B. Fordham Institute. April 24, 2019. https://fordhaminstitute.org/national/commentary/you-might-be-surprised-which-states-prioritize-higher-teacher-salaries.

4 Citizens Research Council of Michigan. February 2019. *Michigan's Leaky Teacher Pipeline Examining Trends in Teacher Demand and Supply*. Report 404. https://crcmich.org/PUBLICAT/2010s/2019/rpt404-teacher_pipeline.pdf

5 Ibid.

6 Citizens Research Council of Michigan. September 2004 *Financing Michigan Retired Teacher Pension and Health Care Benefits.* Report 337. https://crcmich.org/PUBLICAT/2000s/2004/rpt337.pdf.

7 Citizens Research Council of Michigan. May 2013. Funding for Public Education: *The Recent Impact of Increased MPSERS Contributions.* State Budget Note 2013-01. http://crcmich.org/PUBLICAT/2010s/2013/funding_public_education_drivers_policy_options-2013.pdf.

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