HOW DOES ILLINOIS COMPARE TO OTHER STATES?

Illinois ranks 50th among US states for its fiscal health, based on its fiscal solvency in five separate categories.

Illinois's fiscal position was the lowest among all 50 states in FY 2013. The state had only between 49 and 79 percent of the most liquid forms of cash to pay for short-term obligations. Although Illinois balanced the budget in FY 2013, it also ran a deficit during that fiscal year. Long-term obligations were significant, with liabilities exceeding total assets. Other areas of fiscal stress included the size of the unfunded pension liability, which totaled $275 billion on a guaranteed basis, plus a further $33 billion in bonded indebtedness and $34 billion in unfunded other postemployment benefits (OPEB).

1. Illinois ranks 49th in terms of cash solvency.

Cash solvency measures whether a state has enough cash to cover its short-term bills, which include accounts payable, vouchers, warrants, and short-term debt. Illinois's cash position was poor. When only considering the most liquid forms of cash, the state could meet between 49 percent and 79 percent of its short-term obligations. The current ratio, which included less liquid forms of cash, indicates Illinois could cover its short term bills with about 26 percent to spare. These ratios were far lower than the national average, which was two to three times the cash available to cover short-term expenses.

	Cash ratio	Quick ratio	Current ratio
Illinois	0.49	0.79	1.26
National average	2.23	3.02	3.37

2. Illinois ranks 43rd in terms of budget solvency.

Long-run solvency measures whether a state has a hedge against large long-term liabilities. Are there enough assets available to cushion the state from potential shocks or long-term fiscal risks? A negative net asset ratio indicates that Illinois did not have sufficient assets to meet all of its long-term obligations. (Net assets are those left over after the government has paid its debts. They are a subset of total assets, which also include capital and government buildings. The net asset ratio measures the total of restricted and unrestricted assets, or net assets, as a portion of total assets.) The long-term liability ratio of 1.44 means Illinois had liabilities that exceeded total assets by 44 percent. On a per capita basis, Illinois's long-term liability was $5,710, twice the national average.

	Operating Ratio	Surplus (deficit) per capita
Illinois	1.00	($3.80)
National average	1.07	$473

3. Illinois ranks 49th in terms of long-run solvency.

Long-run solvency measures whether a state has a hedge against large long-term liabilities. Are there enough assets available to cushion the state from potential shocks or long-term fiscal risks? On a long-run basis, Virginia's assets match its debts, leaving little cushion. (The net asset ratio measures the total of restricted and unrestricted assets, or net assets, as a portion of total assets. Net assets are a subset of total assets, which also include capital and government buildings.) Long-term liabilities account for 30 percent of total assets with a liability per capita of $1,483, about half the national average.

	Net asset ratio	Long-term liability ratio	Long-term liability per capita
Illinois	−1.17	1.44	$5,710
National average	0.03	0.40	$2,768

4. Illinois ranks 23rd in terms of service-level solvency.

Service-level solvency measures how high taxes, revenues, and spending are when compared to state personal income. Do states have enough "fiscal slack"? If spending commitments demand more revenues, are states in a good position to increase taxes without harming the economy? Is spending high or low relative to the tax base? Illinois's total taxes as a proportion of state personal income were on a par with the national average at 6 percent. Revenues and expenses were 12 percent of state income.

	Tax to income ratio	Revenues to income ratio	Expenses to income ratio
Illinois	0.06	0.12	0.12
National average	0.06	0.14	0.13

5. Illinois ranks 45th in terms of trust fund solvency.

Trust fund solvency measures how much debt a state has. How large are unfunded pension liabilities, OPEB liabilities, and state debt compared to the state personal income? When calculated on a guaranteed-to-be-paid basis, Illinois's unfunded pension liabilities accounted for 45 percent of total personal income. (Pension benefits are recalculated based on a discount rate of 3.38 percent to account for the government's guarantee to pay employees earned benefits.) OPEB and bonded indebtedness each accounted for 6 percent of total personal income.

	Pension to income ratio	OPEB to income ratio	Debt to income ratio
Illinois	0.45	0.06	0.06
National average	0.29	0.04	0.04

State Debt

State debt is calculated from each state's Comprehensive Annual Financial Report. Illinois carried a higher than average level of indebtedness, with more than $33 billion in total primary government debt, which represented 5.6 percent of state total personal income.

	General obligation bonds	Total primary government debt	Personal income	Ratio of debt to personal income	Total primary debt per capita
Illinois	$27.40 billion	$33.66 billion	$605.20 billion	5.6%	$2,615
National average	$6.08 billion	$12.60 billion	$282.05 billion	4.0%	$1,824

Pension Liability

Pension liability is calculated from each state's pension actuarial reports. Illinois's total unfunded pension liabilities were significant. According to the state's estimates, unfunded pension liabilities totaled $105 billion, but when calculated based on the state's promise to pay these benefits, the total unfunded liability was $275 billion.

	Unfunded liability	Funded ratio	Market value of unfunded liability (risk-free discount rate)	MVL funded ratio
Illinois	$105.61 billion	47%	$275.36 billion	25%
National average	$19.85 billion	70%	$78.79 billion	40%

OPEB Liability

OPEB liability is calculated from each state's Comprehensive Annual Financial Report. As with most states, Illinois's OPEB was unfunded, with no assets to back liabilities. The total unfunded liability for OPEB public sector benefits was $34 billion. Illinois's combined pension and OPEB unfunded liabilities were over half of state personal income.

	Total unfunded OPEB liability	Funded ratio
Illinois	$34.49 billion	0%
National average	$10.84 billion	11%

Interpreting the Ratios: Financial Indicators Used to Measure Fiscal Condition

See mercatus.org/statefiscalrankings for a complete explanation of the methodology used to calculate Illinois's fiscal health rankings.

Eileen Norcross, "Ranking the States by Fiscal Condition"
(Mercatus Research, Mercatus Center at George Mason University, Arlington, VA, July 2015).