Illinois is Broke, But Other States Might Not Be Much Better

In case you missed the Associated Press story from this weekend, it's clear that Illinois' financial woes are finally coming to a head. [Via the AP]:

> *"Comptroller Susana Mendoza is warning that new court orders in lawsuits filed by state suppliers that are owed money mean her office is required to pay out more than Illinois receives in revenue each month. That means there would be no money left for so-called "discretionary" spending — a category that in Illinois includes school buses, domestic violence shelters and some ambulance services.*
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> *"I don't know what part of 'We are in massive crisis mode' the General Assembly and the governor don't understand. This is not a false alarm," said Mendoza, a Chicago Democrat. "The magic tricks run out after a while, and that's where we're at."*
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> *It's a new low, even for a state that's seen its financial situation grow increasingly desperate amid a standoff between the Democrat-led Legislature and Republican Gov. Bruce Rauner.*
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> *Illinois already has $15 billion in overdue bills and the lowest credit rating of any state, and some ratings agencies have warned they will downgrade the rating to "junk" if there's no budget before the next fiscal year begins July 1."*

This is no surprise. For more than a decade, tax policy experts been have placing bets as to which state would be the first to reach the fiscal cliff—Illinois, California, or New Jersey.

Who wants to address dangerously underfunded worker pensions today when one can kick it out another few years? Illinois' five pension plans currently stand only 37.6 percent funded, tied for lowest in the nation with Kentucky. The frustrating part is that Illinois has known about this problem for years and done virtually nothing to address the problem.

Care to take a guess how many people the state was paying six-figure pensions to in 2009? Thousands. Do you know what happens when governments annually pay people small fortunes to stay at home? The money eventually runs out, which is why Illinois' own governor is comparing its fiscal situation to that of "a banana republic."

I suspect we'll soon hear calls for a federal bailout, which is comical, since the federal government is itself $20 trillion in debt.

The most sobering part of all this is that many other states could soon find themselves in Illinois' position.

While corporate pension plans are required by statute to be at least 80 percent funded, public plans have no such obligation. (Many actuaries, however, say that 80 percent is not a sufficient amount.) As a result, state pension plans were only 72 percent funded in 2015, according to a recent Pew Charitable Trusts report, with some states as low as 38 percent.

The overall outlook is not pretty:

> *"The gap between the total assets reported by state pension*

systems across the United States and the benefits promised to workers, now reported as the net pension liability, reached $1.1 trillion in fiscal year 2015, the most recent year for which complete data are available. That represents an increase of $157 billion, or 17 percent, from 2014.”

I don’t think it’s unreasonable to assume that we’re one good recession away from numerous states facing crises similar to Illinois, in which mandated spending is eating up essentially all of the budget because of outlays to retirees.

An author on these pages recently asked: Can the West survive the next market crash? I don’t know, but we’ll soon find out.

There is nothing unique or extraordinary about recessions and market crashes; they are part of the regular economic cycle. The question is, to what degree are governments and citizens equipped to withstand them?

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[Image Credit: Pexels]