

Right-sizing Illinois state government's payrolls



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OVERVIEW

It's almost impossible for Illinois taxpayers to know if they are paying a fair price when it comes to goods and services provided by the state-government workforce.

In the private sector, productivity is the sum of all goods and services (as measured by Gross Domestic Product) divided by the number of workers. But in the public sector, there is no reliable measure of the “goods and services” received because prices are not set on a voluntary basis. Rather, citizens pay taxes that are deemed necessary to fund government at a level determined by elected officials.

This study provides a better understanding of the productivity of Illinois' public sector by examining state-government compensation, including wage and salary and benefit levels across the 50 states.

The basis of this comparison is to examine payrolls in Illinois versus the national average. Since the national average represents an amalgam of 50 states and is the equilibrium level between government productivity and pay, this can be used as a benchmark from which to determine if any one state is more or less productive by observing the deviancy away from the national average. With this relative metric, high pay is not associated with greater productivity, since it is shown that other governments achieve the same performance with lower pay. Being above the national average indicates “low productivity” among the government's workforce and vice versa.

This analysis found that Illinois' operating deficit, which has led to more than \$6.9 billion in outstanding bills, would not exist if, since 2000, state government had simply paid its employees at a rate relative to what other state governments pay their workers.

Study overview

The first part of the study examines compensation levels in Illinois state government. In calendar year (CY) 2014, the average Illinois state-government compensation was \$85,839 per job, while the average Illinois private-sector compensation was \$66,492 per job. In other words, the average Illinois state-government job paid 29 percent higher than the average Illinois private-sector job. This is significantly above the national average of state government jobs, which compensate 16.8 percent more than private-sector jobs.

While wages and salaries and benefits contribute to the high state-government compensation levels, this study will dive deeper on wages and salaries because they also contribute to high benefits levels – pensions, for instance, are based on an employee's earnings.

There are many reasons why, nationally, state-government compensation exceeds the private sector, including differences in educational levels, and some have tried to use this as a rationale for the imbalance between state government and private pay scales. However, studies that control for such variables still find that Illinois state-government workers are richly compensated.¹ This study is not affected by this issue, because in addition to a direct private vs. public comparison, it offers

a correction of Illinois' state-government wages-and-salary ratio to the national average of state-government pay compared to private-sector pay.

Furthermore, it is worth noting that, according to data from the Council for Community and Economic Research's ACCRA Cost of Living Index, the cost of living in the Springfield metro area, as well as portions of the collar counties, are below the national average. According to data from the Office of Management in Budget, in 2014, 52 percent of the state workforce was in the Springfield area.²

The second part of the study will examine Illinois state wages and salaries by 32 government functions such as administration, corrections, highways, public welfare and higher education, among others. This detailed information will provide policymakers with a map to aid in the effort to right-size the payrolls of the state government workforce.

Possible taxpayer savings

Overall, adjusting Illinois government wage-and-salary ratios to the national average in CY 2014 would have saved taxpayers \$1 billion across all funds. However, payroll savings to the general funds are more limited because some positions are paid for through dedicated state funds, such as the gas tax to fund highways, or by the federal government, such as unemployment insurance.

THE ILLINOIS PAYROLL PROBLEM

According to the U.S. Department of Commerce's Bureau of Economic Analysis, in CY 2014, Illinois paid state government employees \$13 billion in total compensation (wages and salaries plus benefits), or 2.9 percent of non-farm private earnings. This includes payroll from all funding sources, be it from the general funds, dedicated funds or federal funds and allows for apples-to-apples comparisons across the states.

Policymakers need relative metrics to judge whether Illinois state-government employees are paid too much. The "compensation ratio" offers that perspective.

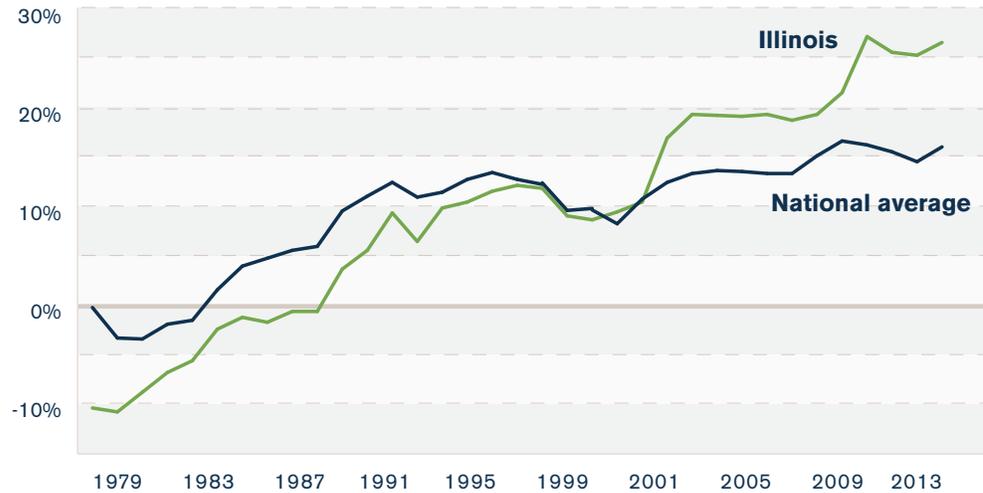
The compensation ratio

The compensation ratio is derived by dividing state-government compensation per job by private-sector compensation per job. In CY 2014, Illinois state-government compensation was \$85,839 per job, which is 29 percent higher than the private-sector compensation of \$66,492 per job.

The compensation ratio is shown in Chart 1. Between CY 1979 and 2000, Illinois' public-sector compensation was generally below the national average. However, since 2000 state-government compensation not only exceeds private-sector compensation, but also the national average compensation ratio. In CY 2014, Illinois' state compensation ratio ranked as the ninth-highest in the country, and higher than the national average ratio of 16.8 percent.

IL state-government compensation ratio is 67 percent higher than national average

State-government compensation as a percent of private-sector compensation per job, 1979-2013



Source: Source: U.S. Department of Commerce: Bureau of Economic Analysis, Illinois Policy Institute

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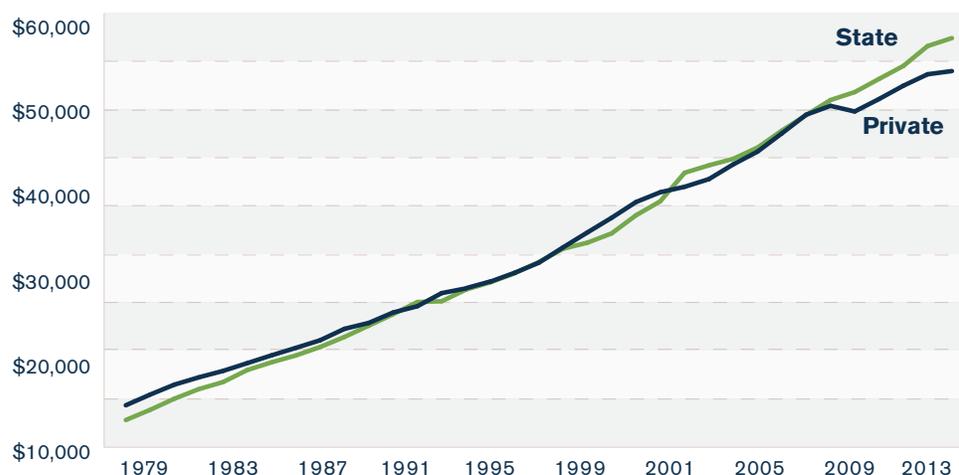
More specifically, compensation is composed of two components. The first is the wage or salary paid to the employee for services rendered. The second is benefits, which include employer-provided health insurance and retirement.

The wage-and-salary ratio

The wage-and-salary ratio is derived by dividing state-government wages and salaries per job by private-sector wages and salaries per job. As shown in Charts 2 and 3, in CY 2014, Illinois state-government wages and salaries were \$59,679 per job, which is 7 percent higher than the private-sector wages and salaries of \$55,623 per job. In CY 2013, Illinois' wage-and-salary ratio ranked as the ninth-highest in the country.

IL private-sector workers earn \$3,882 less in wages and salaries than state-government workers

Private-sector vs. state-government wages and salaries per job, 1979-2013

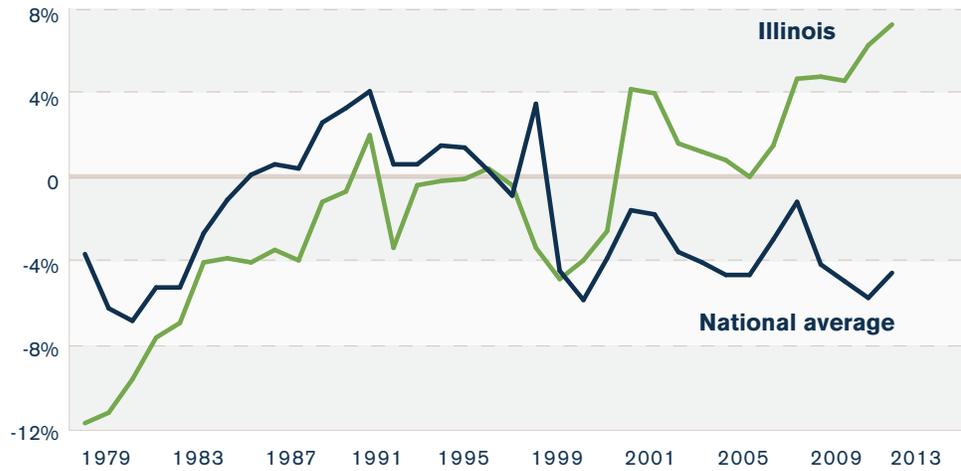


Source: Source: U.S. Department of Commerce: Bureau of Economic Analysis, Illinois Policy Institute

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IL state-government wages-and-salaries ratio greatly exceeds national average

State-government wages and salaries as a percent of private-sector wages and salaries per job, 1979-2013



Source: Source: U.S. Department of Commerce: Bureau of Economic Analysis, Illinois Policy Institute

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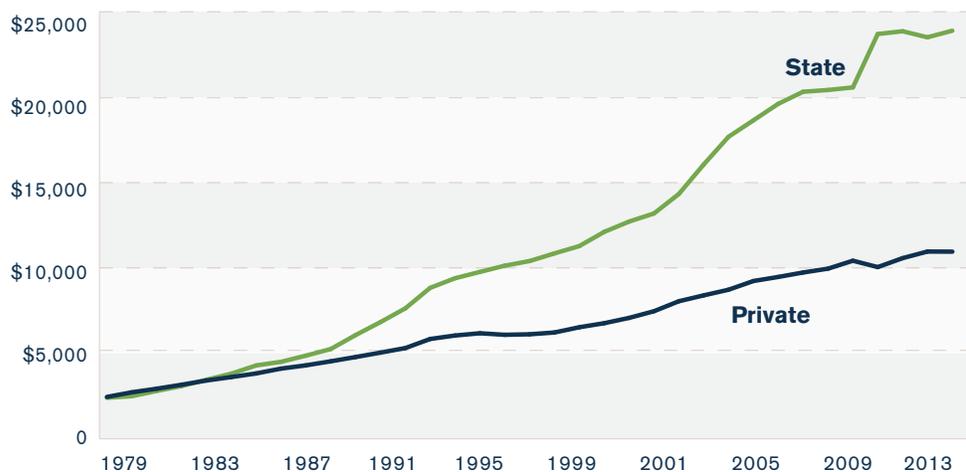
These data show that Illinois is very much out of step with pay scales in other states. Generally speaking, the old adage that government workers take lower pay in exchange for higher future benefits, such as pensions, is true on a national basis – but not in Illinois. Overwhelming data show that state-government workers in Illinois earn high pay and high benefits.

The benefits ratio

The benefit ratio is derived by dividing state-government benefits per job by private-sector benefits per job. As shown in Charts 4 and 5, in CY 2014, Illinois' state-government benefits were \$26,160 per job, which is 141 percent above the private-sector benefits of \$10,869 per job. In 2013, Illinois' benefit ratio ranked as the 14th-highest in the country.

IL private-sector workers earn \$13,368 less in benefits than state-government workers

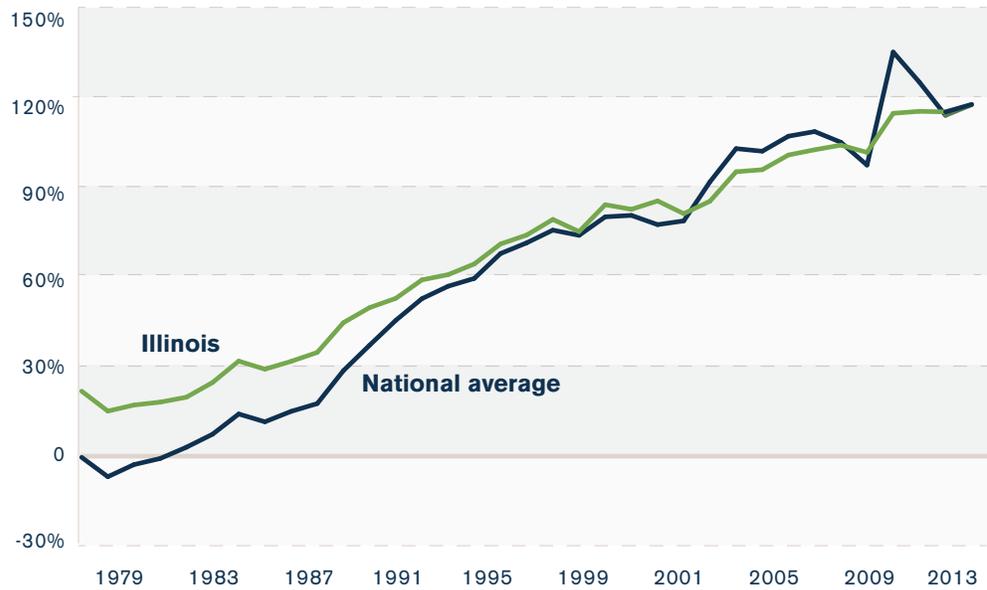
Private-sector versus state-government benefits per job, 1979-2013



Source: Source: U.S. Department of Commerce: Bureau of Economic Analysis, Illinois Policy Institute

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IL state-government worker benefits exceed private-sector benefits by 120 percent
 State-government benefits as a percent of private-sector benefits per job, 1979-2013



Source: Source: U.S. Department of Commerce: Bureau of Economic Analysis, Illinois Policy Institute

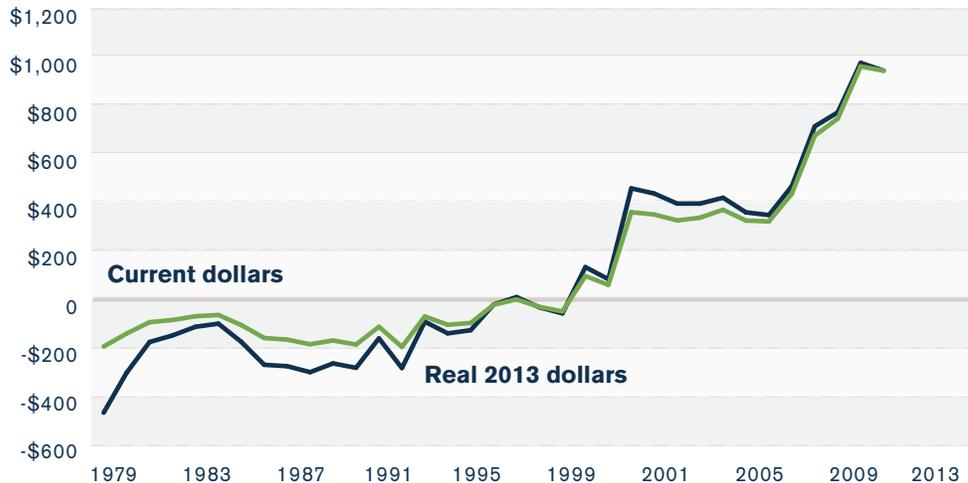
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Missed opportunities for savings

Chart 6 shows how much state government money could have been saved if the Illinois wage-and-salary ratio was aligned with the national average in each year between CY 1979 and 2014. Since 2000, taxpayers would have saved up to \$7.7-plus billion (in nominal dollars). In CY 2014 alone, adjusting the wage-and-salary ratio to the national average would have saved taxpayers \$1 billion across all funds.

IL would have up to \$973 million in state-budget savings with state-government wages and salaries at a national average

State-government benefits as a percent of private-sector benefits per job, 1979-2013 (in millions)



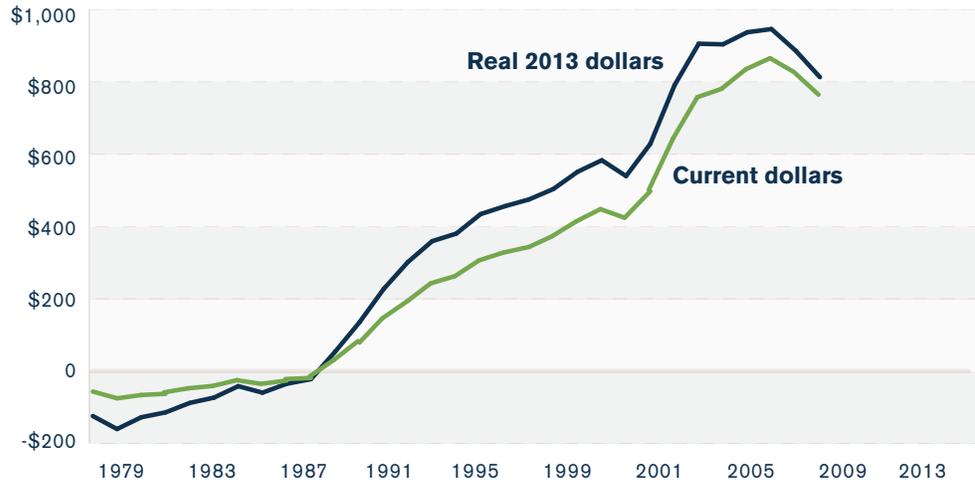
Source: Source: U.S. Department of Commerce: Bureau of Economic Analysis, Illinois Policy Institute

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Chart 7 shows how much state government spending could have been reduced if state workers were to meet taxpayers halfway on the benefits side by cutting the benefit ratio to 60 percent from 120 percent. In CY 2014, this adjusted benefit ratio would have saved taxpayers up to \$1.2 billion or more.

IL would have up to \$1 billion in state budget savings with state-government benefits at half of the national average

Private and public benefits ratio equal to half of the national average, 1973-2013 (in millions)



Source: Source: U.S. Department of Commerce: Bureau of Economic Analysis, Illinois Policy Institute

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Reducing wages and salaries would also provide a significant down payment toward achieving the important goal of putting the Illinois pension system on a more sustainable path.

ILLINOIS WAGES AND SALARIES RATIO BY STATE GOVERNMENT FUNCTION

This section of the study will delve deeper into the functions of Illinois state government to better pinpoint the areas where state wages and salaries are most out of line with the private sector relative to the national average. Given the large gap for state government wages and salaries between Illinois and the national average, it is not surprising that this situation exists for 14 government functions, as shown in Table 1 for fiscal year 2014. Potential wage-and-salary savings are shown in Table 2 and necessary percent reduction in wages and salaries in Table 3.

IL wages-and-salaries ratios exceed national average in 14 government functions

Wages-and-salaries ratios by government function, fiscal year 2013

Government function	National average	Wages-and-salaries ratio	Percentage point difference	Rank
Total	-7%	-4%	3%	25
Financial administration	8%	22%	14%	14
Other government administration	3%	42%	40%	3
Judicial and legal	27%	92%	65%	4
Police protection - officers	54%	72%	18%	9
Police - other	-5%	38%	43%	4
Correction	1%	27%	24%	6
Highways	7%	26%	18%	10
Public welfare	-9%	23%	32%	5
Health	-1%	47%	47%	2
Hospitals	6%	15%	9%	14
Social-insurance administration	-3%	23%	25%	7
Parks and recreation	-30%	7%	37%	6
Other education	-3%	14%	16%	17
Other and unallocable	9%	21%	13%	13

Source: U.S. Department of Commerce: Bureau of Economic Analysis, U.S. Census Bureau, Illinois Policy Institute

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IL would see nearly \$1 billion in budget savings for all funds from right-sizing wage and salary ratios

Budget savings by government function, millions of dollars, fiscal year 2013

Government function	Potential budget savings	
Total	Up to	\$973
Financial administration	Up to	\$46
Other government administration	Up to	\$55
Judicial and legal	Up to	\$114
Police protection - officers	Up to	\$24
Police - other	Up to	\$36
Correction	Up to	\$176
Highways	Up to	\$92
Public welfare	Up to	\$193
Health	Up to	\$70
Hospitals	Up to	\$57
Social-insurance administration	Up to	\$31
Parks and recreation	Up to	\$10
Other education	Up to	\$18
Other and unallocable	Up to	\$52

Source: U.S. Department of Commerce: Bureau of Economic Analysis, U.S. Census Bureau, Illinois Policy Institute

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Percent reduction in wages and salaries required to equal national average

Fiscal year 2013

Government function	Current wages and salaries per job	Adjusted wages and salaries per job	Percent reduction in wages and salaries per job
Financial administration	\$65,598	\$58,099	11%
Other government administration	\$76,689	\$55,330	28%
Judicial and legal	\$103,763	\$68,575	34%
Police protection - officers	\$92,614	\$82,749	11%
Police - other	\$74,546	\$51,382	31%
Correction	\$67,704	\$54,643	19%
Highways	\$67,753	\$57,864	15%
Public welfare	\$66,421	\$49,074	26%
Health	\$79,033	\$53,549	32%
Hospitals	\$61,949	\$57,352	7%
Social-insurance administration	\$66,112	\$52,549	21%
Parks and recreation	\$57,832	\$37,996	34%
Other education	\$61,214	\$52,525	14%
Other and unallocable	\$65,414	\$58,607	10%

Source: U.S. Department of Commerce: Bureau of Economic Analysis, U.S. Census Bureau, Illinois Policy Institute

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- **Other government administration** (Illinois ranks third-highest nationally in this function): Includes administrative functions not included in financial, social insurance, judicial and legal administration.

- o Lowering the wage-and-salary ratio of 42 percent to the national average of 3 percent would save up to \$53 million or more. This would require a reduction in the average wages and salaries per job of 26 percent to \$56,312 from \$76,307.

- **Judicial and legal** (Illinois ranks fourth-highest nationally in this function): Includes courts (criminal and civil) and activities associated with courts, legal services and legal counseling of indigent or other needy persons.

- o Lowering the wage-and-salary ratio of 92 percent to the national average of 27 percent would save up to \$121 million or more. This would require a reduction in the average wages and salaries per job of 34 percent to \$69,546 from \$105,934.

- **Police protection/officers** (Illinois ranks sixteenth highest nationally in this function): Includes employees of general police, sheriff, state police and other governmental departments that preserve law and order, protect persons and property from illegal acts, and work to prevent, control, investigate and reduce crime.

- o Lowering the wage-and-salary ratio of 72 percent to the national average of 53 percent would save up to \$4 million or more. This would require a reduction in the average wages and salaries per job of 2 percent to \$85,157 from \$86,567.

- **Police/other** (Illinois ranks seventh highest nationally in this function): Includes police functions other than for police officers.

- o Lowering the wage-and-salary ratio of 38 percent to the national average of -5 percent would save up to \$28 million or more. This would require a reduction in the average wages and salaries per job of 25 percent to \$52,129 from \$69,274.

- **Correction** (Illinois ranks fifth highest nationally in this function): Includes all institutional and non-institutional correctional activities. Institutional activities are residential institutions or facilities for the confinement, correction and rehabilitation of convicted adults or juveniles adjudicated delinquent or in need of supervision, and for the detention of adults and juveniles charged with a crime and awaiting trial. Non-institutional correctional activities consist of pardon, probation and parole activities.

- o Lowering the wage-and-salary ratio of 26 percent to the national average of 1 percent would save up to \$246 million or more. This would require a reduction in the average wages and salaries per job of 24 percent to \$55,938 from \$73,514.

- **Highways** (Illinois ranks sixth highest nationally in this function): Includes the maintenance, operation, repair and construction of highways, streets, roads, alleys, sidewalks, bridges, tunnels, ferry boats and related structures, including those operated on a toll basis.

- o Lowering the wage-and-salary ratio of 26 percent to the national average of 7 percent would save up to \$117 million or more. This would require a reduction in the average wages and salaries per job of 15 percent to \$59,511 from \$71,801.

- **Public welfare** (Illinois ranks fifth highest nationally in this function): Includes employees engaged in all public welfare activities, including the administration of public assistance and providing direct assistance such as Medicaid and TANF (Temporary Assistance to Needy Families) cash assistance.

- o Lowering the wage-and-salary ratio of 23 percent to the national average of -9 percent would save up to \$224 million or more. This would require a reduction in the average wages and salaries per job of 27 percent to \$50,255 from \$68,842.

- **Water transport and terminals** (Illinois ranks seventh highest nationally in this function): Construction, maintenance, operation, and support of canals and other waterways, harbors, docks, wharves, and related marine terminal facilities.

- o Lowering the wage-and-salary ratio of 38 percent to the national average of 13 percent would save up to \$400,000 or more. This would require a reduction in the average wages and salaries per job of 9 percent to \$69,295 from \$76,502.

- **Health** (Illinois ranks second highest nationally in this function): Includes provision of services for the conservation and improvement of public health, other than hospital care.

- o Lowering the wage-and-salary ratio of 47 percent to the national average of -1 percent would save up to \$71 million or more. This would require a reduction in the average wages and salaries per job of 30 percent to \$55,862 from \$79,429.

- **Hospitals** (Illinois ranks twelfth highest nationally in this function): Includes hospital facilities providing in-patient medical care and institutions primarily for care and treatment of handicapped (rather than education), which are directly administered by a government, including those operated by public universities.

- o Lowering the wage-and-salary ratio of 15 percent to the national average of 6 percent would save up to \$49 million or more. This would require a reduction in the average wages and salaries per job of 6 percent to \$58,828 from \$62,593.

- **Social insurance administration** (Illinois ranks fifth highest nationally in this function): Includes administration of unemployment compensation systems.

- o Lowering the wage-and-salary ratio of 23 percent to the national average of -3 percent would save up to \$33 million or more. This would require a reduction in the average wages and salaries per job of 21 percent to \$55,447 from \$71,690.

- **Parks and recreation** (Illinois ranks fifth highest nationally in this function): Includes provision and support of recreational and cultural-scientific facilities maintained for the benefit of residents and visitors.

- o Lowering the wage-and-salary ratio of 7 percent to the national average of -30 percent would save up to \$9 million or more. This would require a reduction in the average wages and salaries per job of 33 percent to \$38,883 from \$58,011.

- **Other education** (Illinois ranks 30th-highest nationally in this function): Includes employees in support of special programs and institutions primarily for: Training and education (rather than care) of the blind, deaf or other handicapped, programs for adult, vocational or special education that operate outside school systems, educational activities not assignable to other education functions.

- o Lowering the wage-and-salary ratio of 14 percent to the national average of -3 percent would save up to \$8 million or more. This would require a reduction in the average wages and salaries per job of 6 percent to \$54,696 from \$ 57,926.

- **Other and unallocable** (Illinois ranks twelfth highest nationally in this function): Includes employees engaged in activities that are not applicable to other employment functions or are multifunctional such as voter registration and elections, economic development and code enforcement.

- o Lowering the wage-and-salary ratio of 21 percent to the national average of 9 percent would save up to \$60 million or more. This would require a reduction in the average wages and salaries per job of 11 percent to \$60,429 from \$67,951.

Possible taxpayer savings

Right-sizing Illinois state government payrolls along these lines could save up to \$1 billion a year.

However, not all of the potential wage-and-salary savings will flow to the general funds because some positions are paid for by dedicated state funds, such as the gas tax to fund highways, or by the federal government, such as unemployment insurance.

THE NEED TO ACT NOW

As shown in Chart 2, the gap between state-government wages and salaries and private-sector wages and salaries is growing at an alarming rate. In fact, the pay gap could double to 14 percent from 7 percent in just a few years if terms similar to those in the existing contract persist.

The only sure way to prevent the disparity from growing is for the governor to insist on an immediate across-the-board pay freeze for three years. The expiration of the current state-government labor contract provides opportunities to find real savings for the next fiscal year.

Lower wages and salaries will result in lower benefits because a significant factor in determining a state employee's pension is his or her wage or salary level at retirement. Reducing wages and salaries would therefore be a significant step toward putting Illinois' government-worker pension system on a more sustainable path.

Finally, policymakers should remember the best course of action is to allow the private sector to grow, which will boost income and employment. Policymakers must pursue pro-growth economic policies – such as reducing regulatory burdens, lowering taxes and securing property rights – that will promote economic development by allowing private-sector businesses to better compensate and hire additional employees. Such policies are a win-win for both the private and public sectors.

METHODOLOGY

The employment and compensation data used in this study are from the Bureau of Economic Analysis' Regional Economic Accounts. All calculations were performed by the authors. The data exclude farm and proprietorship income, as well as dividends, interest, rents and personal current transfer receipts. The data were adjusted for inflation using the GDP deflator.

Calculating State Government Compensation Ratios: All data are from the Bureau of Economic Analysis, Regional Economic Accounts, "State Annual Personal Income" interactive database, which is available at <http://www.bea.gov/regional/spi/>.

1. To derive total supplemental benefits for any industry, find the industry line in Table SA05N (Personal Income by Major Source and Earnings by NAICS Industry) and subtract the same industry line from Table SA07N ("Wage and Salary Disbursements by NAICS Industry").
2. Average private-sector compensation is derived by adding "private wage and salary disbursements" (see table SA07N) and "supplements to wages and salaries" (see table SA05N), then dividing by private sector employment. Total supplemental income for private sector employees can also be derived by taking "private earnings" (see table SA05N) and subtracting "private wage and salary disbursements" (see table SA07N) and "nonfarm proprietors income" (see table SA05N).
3. Private-sector employment comes from Table SA25N ("total full-time and part-time employment by NAICS industry"), and equals "private employment" minus "nonfarm proprietors employment."
4. Total state government employee compensation is "wage and salary disbursements" (see table SA07) plus "supplemental income," which is equal to "personal income" (see table SA05N) minus "wage and salary disbursements."
5. State-government employment is from Table SA25.
6. Number of state-government jobs per 100 was calculated by dividing total state-government employment by total private-sector employment.
7. Compensation ratios are created by dividing the average state-government compensation by job by the average private-sector compensation per job.
8. Wage-and-salary ratios are created by first dividing wage and salary disbursements for state-government workers (see table SA07N) by state-government employment to derive an average state-government wage and salary per job. Next, the same is done with private-sector jobs (see table SA07N) to obtain an average private-sector salary. Finally, the average state-government salary per job was divided by the average private-sector salary.
9. Benefit ratios for state-government employees are created by first subtracting state "wage and salary disbursements by NAICS industry" (see table SA07N) from "personal income by major source and earnings by NAICS industry" (see

table SA05N) to derive total supplemental benefits for state personnel. Next, this remainder is divided by total state-government employment to obtain average public-sector benefits. The same is done with private-sector employees (see table SA05N), to obtain average private-sector benefits. Finally, public-sector benefits are divided by private-sector benefits to obtain a public-sector employee benefit ratio.

The data for wages and salaries by government function are from the Annual Survey of Public Employment & Payroll published by the U.S. Census Bureau. The data can be found here: <http://www.census.gov//govs/apes/>. The definitions for the government functions were taken from the 2006 Classification Manual found here: http://www2.census.gov/govs/pubs/classification/2006_classification_manual.pdf.

The payroll data in this survey, while providing more details by government function, are also limited in their temporal scope. The payroll data are derived from one month's earnings in March. This study extrapolates it to a year by multiplying by 12. However, the extrapolation is subject to biases due to differences in payroll in the other non-surveyed months. Generally, these data show smaller payrolls than the more comprehensive measure from the Bureau of Economic Analysis.

As such, the results derived from this survey are applied to the findings using the BEA data for purposes of consistency and comprehensiveness.

To estimate the payroll savings for the general funds, data was used from the "Fiscal Year 2015 Agency Fact Sheets" that show agency headcounts by fund – general funds, other state funds and federal funds. The data can be found here: <http://www2.illinois.gov/gov/budget/Documents/Budget%20Book/FY%202015%20Budget%20Book/FY%202015%20Agency%20Budget%20Fact%20Sheets.pdf>.

ENDNOTES

1 Biggs, Andrew G. and Richwine, Jason, "Overpaid or Underpaid? A State-by-State Rankings of Public Employee Compensation," AEI Economic Policy Working Paper 2014-04, April 24, 2014. http://www.aei.org/wp-content/uploads/2014/04/-biggs-overpaid-or-underpaid-a-statebystate-ranking-of-public-employee-compensation_112536583046.pdf

2 Capitol Fax, Dec. 18, 2014. <http://capitolfax.com/2014/12/18/todays-number-3000>

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