

## The State and Local Workforce

### Analysis and Forecast

By Joshua Franzel

The challenges of the past decade have required the state and local sector to make many significant adjustments to its workforce.

The state and local workforce has changed significantly over the past decade — change that has been reflected in the size of the public labor force, the compensation packages provided to employees, and the ability of governments to manage their talent pipelines. Against this backdrop, a rebounding U.S. economy, decreasing overall unemployment levels, and changing public sector demographics will challenge governments' recruitment and retention in 2015 and beyond. For each of the past six years, the Center for State and Local Government Excellence (SLGE) has surveyed members of the International Public Management Association for Human Resources (IPMA-HR) and National Association of State Personnel Executives (NASPE) on workforce issues, compensation changes, and recruitment and retirement trends related to their members' governments. Highlighting recent workforce survey findings, this article will provide an overview of the size of the state and local workforce, wage and benefit considerations, and workforce management issues.

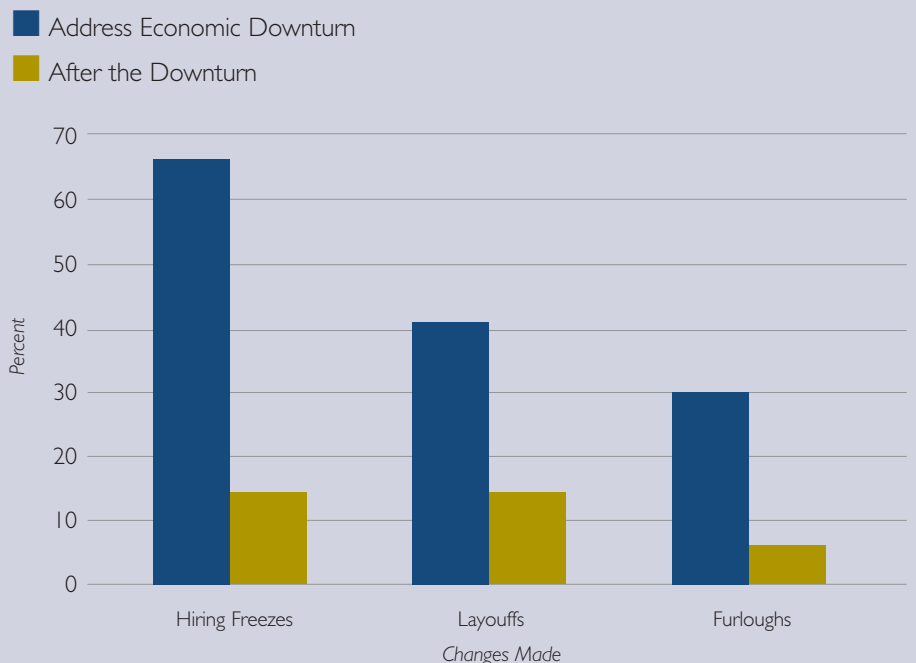
#### THE SIZE OF THE STATE AND LOCAL WORKFORCE

Over the past decade (2005-2014), the state government workforce has decreased by 2 percent, and the local government workforce has decreased by 3 percent. For the most part, these

decreases have occurred across industries, including state hospitals (-1 percent), state general administration (-6 percent), local government education (-3 percent), local government utilities (-3 percent), local hospitals (-1 percent), and local government general administration (-4 percent).<sup>1</sup> Outliers include areas such as state education, which experienced a 2 percent increase in employment levels, and local government transportation, which had an increase of 9 percent. These increases were likely due to increased enrollments in higher education during the economic downturn of 2008-2009, federal stimulus, and state and local projects related to transportation.

In part, these numbers are the result of policies that states and localities implemented in the wake of the Great Recession to cope with lost revenue from property, sales, income taxes, and other taxes and fees. In the 2009 Workforce Survey, when state and local human resource executives were asked which workforce changes their governments had implemented in response to the economic downturn, answers included hiring freezes (67 percent), layoffs (41 percent), and furloughs (30 percent). As the economy has improved and government revenues have begun to recover, albeit unevenly, the percentage of governments still using these policies has decreased. (See Exhibit 1.) In 2014, only 13 percent of state and local

## Exhibit I: Workplace Changes Governments



human resource executives reported that their governments had hiring freezes, 10 percent had layoffs, and 6 percent had furloughs.<sup>2</sup> Further, 66 percent of respondents in the 2014 Workforce Survey reported that their governments were hiring full-time employees, and 32 percent were hiring contract or temporary employees.

Also contributing to changes in the size of the state and local workforce are its underlying demographics. In 1994, the average age of state and local workers was 41. In 2014 it was 45, with the local workforce skewing older by one to three years, depending on the year. About 13 percent of state and local employees were 55 or older in 1994. By 2014, 25 percent were in this range.<sup>3</sup> (See Exhibit 2.) Related to these aging demographics, in the midst of the recession, 46 percent of state and local human resource officers reported in the

2009 Workforce Survey that retirement-eligible employees were delaying their retirement, likely doing so to compensate for 2008/2009 market losses in supplemental savings, housing value impacts, family income, and overall personal financial challenges. In 2014, only 29 percent answered that retiree-

ment-eligible employees were delaying their plans.

## WAGES AND BENEFITS

Public employee benefit costs have exceeded inflation for more than a decade. This includes a rise in the required pension contributions of public employers linked to 2008/2009 equity losses and (in many cases) a pattern of underfunding.<sup>4</sup> Combined with health care inflation and an aging workforce, in the aggregate, governments have experienced an increase in the portion that benefits contribute to that overall compensation, while the portion that wages contribute has been decreasing. In 2005, wages made up 68 percent of employer costs for employee compensation, health insurance made up 10 percent, and defined benefit pensions 6 percent. In the first three quarters of 2014, the portion wages made up decreased to 64 percent, while health insurance increased to 12 percent and pensions to 9 percent.<sup>5</sup> Benefit costs have been increasing at a time when about half of all workforce survey respondents (between 2009 and 2013) noted that their governments had pay freezes in place and 7 percent had implemented pay cuts.

To address the increases in benefit costs, many state and local governments have implemented changes to their health and retirement benefits. As seen in Exhibit 3, within the past five years, between 30 and 44 percent of human resource professionals who were surveyed reported that their state or local employer had implemented retirement benefit changes over the previous year. For new hires the most common changes were:

## Exhibit 2: Underlying Demographics of the Workforce

### 1994

Average Age of Local Workers: 41

Percentage of Employees

Aged 55 or Older: 13%

### 2014

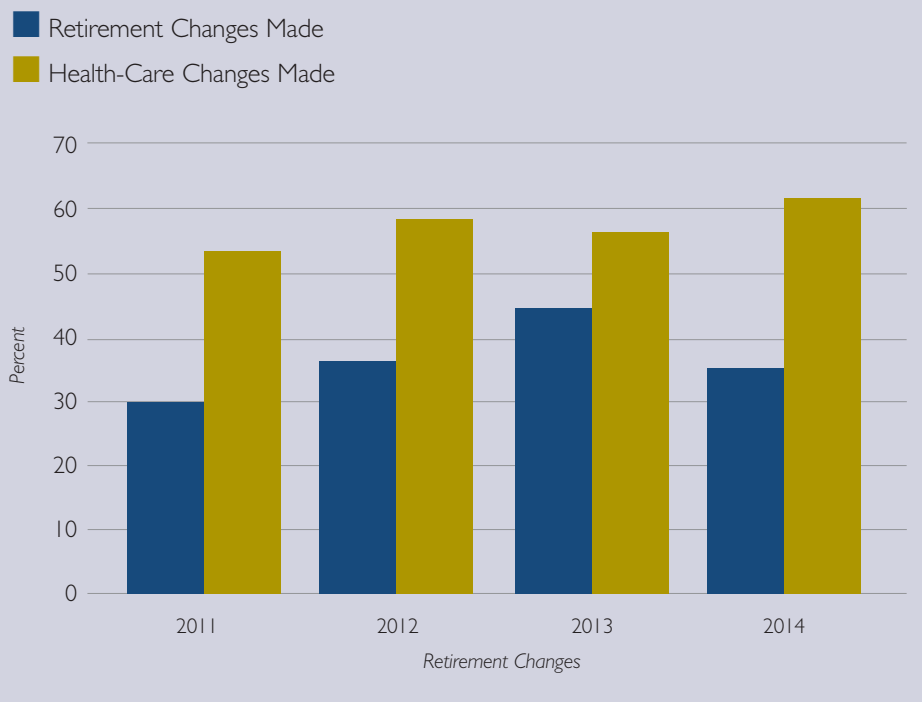
Average Age of Local Workers: 45

Percentage of Employees

Aged 55 or Older: 25%

### Exhibit 3: Changes in Benefits

Human resource professionals were asked if their governments had made changes to retirement and health benefits over the past year.



- Increased employee contributions to retirement plans.
- Increased age and service requirements for full retirement benefit eligibility.
- Reduced pension benefits.
- Reduced or eliminated cost-of-living adjustments.
- Increasing the requirements needed to be eligible for the benefit.

Changes for current workers included:

- Increased employee contributions.
- Increased employer contributions.
- Reduced or eliminated cost-of-living adjustments.
- Increased age and service requirements for full retirement benefit eligibility.

In addition to the increases in overall health-care costs, many states and localities continue to fund retiree health care on a pay-as-you-go basis, with an increasing number of governments partially prefunding the benefit.<sup>6</sup> Also, since 2011, between 53 and 61 percent of human resource professionals who were surveyed reported that changes were made to health-care benefits offered by their governments, as noted in Exhibit 3. The most common changes were shifting more costs from the public employer to employees, retirees, and dependents (if applicable) in the form of higher premiums, deductibles, and copayments, and implementing wellness programs. A smaller number of governments have implemented chronic care management programs and defined contribution retiree health-care programs.

### RECRUITMENT AND RETENTION

Program changes and shifting workforce demographics are being reflected in the priorities of public human resource professionals. In the 2014 Workforce Survey, human resource professionals ranked the three issues of greatest importance to their organizations as: 1) recruiting and retaining qualified personnel (89 percent); 2) staff development (80 percent); and 3) workforce succession planning (76 percent). Other important issues ranked by the majority of respondents included employee morale, retaining core service staff, competitive compensation packages, the public's perception of government, reducing employee health costs, and managing workload given staff levels and hiring restrictions.

**Many state and local governments have implemented changes to their health and retirement benefits to address cost increases.**

In 2014, respondents to the Workforce Survey reported that they had a hard time filling many positions, including corrections officers, dispatchers, engineers (all types), epidemiologists, finance workers (all types), firefighters/EMS, human resource specialists, management (mid- and upper-level), mental health specialists, nurses, physicians, psychiatrists, public health professionals (all), public works, scientific researchers, seasonal employees,

skilled trades (all types), technology professionals, social workers, and water treatment plant occupations (all types).

Many of these positions had been identified as hard to fill in previous workforce surveys, as well. Many of them require a college education, specialized training, and/or advanced degrees. Given that the unemployment rate for those with a bachelor's degree or higher was 2.9 percent in December 2014, while the overall unemployment rate was 5.6 percent, competition with other sectors for the positions listed above is likely to continue.<sup>7</sup> Looking forward, the Bureau of Labor Statistics projects that between 2012 and 2022, the total number of state and local employees will increase by 4 percent. On the upper end, mathematical science occupations, which include operations research analysts and statisticians, are expected to increase by at least 16 percent. Also, metal and plastic worker positions such as machinists are expected to grow by at least 10 percent. Conversely, communications equipment operators (switchboard and telephone operators, etc.) are expected to decrease by at least 16 percent, and office and administrative support workers by at least 8 percent.<sup>8</sup>

## CONCLUSIONS

The challenges of the past decade have required the state and local sector to make many significant adjustments to its workforce. This change has been driven by fiscal realities, workforce demographics, and service demands. Looking ahead, it will be important for public employers to continue to strategically position themselves to be able to attract and retain workers with needed skill sets, while also struc-

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turing wages and benefits to be both competitive in the labor market and sustainable over the long term. ■

### Notes

1. Author analysis of the U.S. Bureau of Labor Statistics Current Employment Statistics. 2015. 2014 estimates are used.
2. SLGE/IPMA-HR/NASPE 'State and Local Government Workforce' survey series.
3. Author analysis of Miriam King, et al., "Integrated Public Use Microdata Series, Current Population Survey: Version 3.0." (Machine-readable database), Minneapolis: University of Minnesota, 2010.
4. Alicia Munnell, J.P. Aubry, and Mark Cafarelli, *The Funding of State and Local Pensions: 2013–2017*, Center for State and Local Government Excellence and Center for Retirement Research at Boston College, 2014.
5. Author analysis of Bureau of Labor Statistics Employer Cost for Employee Compensation. 2015.
6. Alex Brown and Joshua Franzel. *Spotlight on Retiree Health Care Benefits for State and Local Employees in 2014*, Center for State and Local Government Excellence and National Association of State Retirement Administrators, 2014.
7. U.S. Bureau of Labor Statistics, Economic News Release — January 9, 2015.
8. Employment Projections program, U.S. Bureau of Labor Statistics, 2015.

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