Attachment E

Where Have All the Workers Gone?

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Where Have All the Workers Gone?

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The COVID-19 crisis triggered profound changes in workforce management as well as the working lives and plans of workers in every sector. In the private sector, the layoffs and discharges reached a quick peak in March and April 2020 when 12.5 million and 9.0 million workers lost their jobs. For the year, 39 million were laid off or discharged. That's a quarter of the U.S. workforce and close to double the annual average over the prior decade.

In state and local government, the layoffs and discharges were slightly higher, 1.4 million for 2020 compared with an average of 1.2 million going back to 2011.

In 2021 the headlines shifted to resignations – 'quits' – and the 45.5 million private sector workers who resigned. Significantly, over the prior decade the resignation totals were increasing steadily but were unnoticed. State and local government employers saw only a modest increase to 2.1 million quits.

The 2022 focus shifted to hiring and job growth. The recent July headlines highlighted the "unexpected job growth" and the 50-year low unemployment rate, 3.5%. The media missed the drop in the participation rate (percent of the population working or looking for work) and the increase in number of people "not in the labor force". There was also a drop in the number of "reentrants", that is, fewer people were looking for a job. The "discouraged workers" increased by 60,000.

The unemployment rate is obviously good news although it was virtually the same, 3.6% in January 2020, shortly before the first COVID-19 cases. It dropped steadily from the end of the 2008-9 Great Recession.

For the 12-months ending with June 2022 job vacancies averaged over 10 million a month in the private sector. The total for July was 10.6 million; that's higher than a year ago. That includes 932,000 government vacancies.

The vacancies have not made the headlines although they contribute to other recent headlines, most notably the delays and cancellations in the airline industry. Vacancy problems are causing delays and performance problems in virtually every industry, from construction to technology.

A decade before COVID, there were 5 job seekers for every vacancy. Through the decade the ratio declined. By early 2020, it had fallen to 0.8. Today the ratio is 0.5 — that's one job seeker for every two jobs. Simply stated, there are not enough workers.

Staffing Shortages in Government and Healthcare

The headlines confirm staffing shortages are a growing problem for public employers –

"'We need them desperately': US police departments struggle with *critical staffing shortages*"

"All 50 States Report Prison Understaffing"

"The scarcity is especially severe among nurses. Hospitals across the U.S. report a critical lack of nurses in nearly every specialty. The American Hospital Association projects *a shortage of 1.1 million nurses by the end of 2022."*

"The Economic Policy Institute (EPI) projects there will be *a demand for approximately 300,000 new teachers nationwide* and a supply of just over 100,000 by 2024."

"*Three out of five nursing homes (61%) have limited new admissions due to staffing shortages*, according to a survey conducted by the American Health Care Association."

Unlike the private sector, government does not routinely report agency performance, but the vacancies are contributing to performance problems across the country and at all levels of government. A recent column in *Time*, "No Clean Water, Unplowed Streets: What the Public Sector's Hiring Problem Means For All of Us", captured the many varied problems.

"There are the little things that erode when the government is short-staffed: zoning permits take longer to process, and the wait to get a new driver's license may be even longer than usual. But long-term hiring problems in government could lead to bigger economic issues in the U.S. economy. Public sector employees maintain the roads that workers drive on every day and operate the buses and trains that move them around. On the local level, they educate children, put out fires, and keep drinking water safe. On the federal level, they guide airplanes and create weather forecasts and process taxes. In short, without enough government employees, a lot of things stop working smoothly."

The column continues with a discussion of the widely recognized problems with government hiring practices and the ramifications of working long hours. The author described an untenable reality.

It’s a Complicated Problem

Demographic trends have contributed to the growing worker shortage. Couples are having fewer babies and with increased longevity the population is getting older. That trend goes back to 1900. The age 50 and older population is approaching 100 million or 30% of the U.S. population. The predicted retirement “tsunami” has not happened in part because workers have been working into their late 60s and 70s. Prior to the pandemic, that was a long term trend in the U.S. and in other developed countries.

There is a core difference in the way the public and private sectors will be forced to address the aging workforce problem. Private employers largely terminated defined benefit pension plans years ago and shifted the costs to Social Security and to employees and their contributions to defined contribution or savings plans. Public employees continue to rely largely on more costly defined benefit plans.

That helps older public employees, but it also serves to lock them in – that is, until they decide to retire. (In the private sector, turnover holds down benefit costs when the ‘quits’ freeze vested benefits.) That has contributed to government’s older workforce. When this is combined with the influence of unions in government, it makes it politically difficult to gain agreement on changes in benefit plan provisions.

The cost differences are compounded by early retirement provisions in defined benefit plans. When retiree benefits start early and are paid over a longer period, it shortens the funding years and adds to the costs. Notably that’s far less important for employers that rely on savings plans. Early retirement was once seen as a ‘reward’ for hard work and a long career but that’s now contrary to the trend to defer retirement. For decades, the public and private sectors have been going in different directions.

Another difference is the continuing prevalence of seniority policies in government. Those polices have largely disappeared in the private sector and replaced with policies and rewards based on performance. When careers are governed by seniority, it creates a harmful divide between younger and older workers. Older workers are seen as a barrier to their careers.

The increase in life expectancy also adds to the costs. When the Social Security Act was enacted in 1935 was just under 62 years. Today a 65-year old can expect to live 20 more years. Social Security is a ‘pay-as-you-go’ system since current benefits are paid with current taxes. A longer life span increases the years when benefits are paid – and the costs. It was recently announced future Social Security benefits will have to be reduced in a little over a decade because of inadequate funding. Analyses of government pension plans show many are poorly funded. The money needed to fund benefits limits agency investments in staffing and training.

An added problem is the impact of ageism – biased or prejudiced views of older workers. Its effectively a global reality that impacts the working lives of older workers. It's been the subject of strongly worded, critical statements by the United Nations, the World Economic Forum (WEF), and the Organization for Economic Cooperation and Development (OECD) in Paris. It contributes to harassment and lack of support for older workers. A recent headline captured the problem, "Older workers seen as costly and unproductive in the workplace."

Going forward, the demographic trends – fertility and longevity – will exacerbate the vacancy problem and drive up payroll costs. Retiree benefits have to be funded. Businesses have the advantage that they can hike prices (to some degree) to absorb increased payroll costs. But it's not strictly a numbers problem. Contrary to the stereotypes, studies show the experience and work ethic of retiring workers makes them more productive than their replacements. When a worker's value depends on what they know, the common image of older workers is clearly not valid. Those old 'strong back' jobs have largely disappeared.

In the private sector, the competition for qualified applicants is driving up salaries. BLS recently reported private sector employee compensation increased 5.5% over the past year. High demand jobs command larger increases. The increase for public employees was 3.4%. Across-the-board increases are outdated.

Private sector employers have considerably greater flexibility to respond to competitor pay increases. In recent months the hike in inflation is another factor pressuring businesses to offer higher starting wages and other perks. The implications for public employers are obvious.

Surveys show pay is often not the highest priority for many job applicants but that is when the difference in competing salary offers are minor. Everyone, old and young, wants to be paid fairly. The DEI movement and calls for pay equity have made that a hot-button issue.

(Note: Comparisons of public and private sector total compensation consistently show public employers commit a far larger percentage of the total to benefits. That basic conclusion is accurate, but the dollars or percentages shown in the comparisons are highly dependent on core assumptions. The basic policy point is valid – committing budget dollars to benefits means fewer dollars are available for cash compensation.)

This "new normal" work environment is forcing all employers to rethink employment policies and practices.

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Turning to Older Workers

When employment statistics show ‘everyone who wants a job has a job’, the talent available for filling those 5 million vacant jobs is limited to two possibilities: new immigrants or enticing retired workers to ‘unretire.’ In today’s political climate, new immigrants are not a timely or feasible answer.

Prior to the COVID crisis, there was a trend for older workers to work into their late 60 and 70s. When the pandemic started and companies were laying workers off, there were reports older workers were being encouraged or forced to retire. A number of studies document the work experience of older workers is commonly affected by ageism and age discrimination.

Older workers in far too many workplaces have had to endure those age-related jokes or subtle comments. More research would be helpful but there is evidence ageist behaviors are part of a broader and unfortunately common problem, toxic workplaces. Age discrimination is an added problem that can take many forms (e.g., excluding older workers from training, promoting less qualfied younger workers) but is hard to prove in court.

A massive analysis of workplace data based primarily on jobs and employee comments posted on Glassdoor, found the primary reason employees resigned was:

“A toxic corporate culture is by far the strongest predictor of industry-adjusted attrition and is 10 times more important than compensation in predicting turnover.”

That was followed by job insecurity, high levels of innovation [i.e., rate of change] and “failure to recognize performance.” The latter is a warning for public employers. Employers with the highest attrition failed “to distinguish between high performers and laggards when it comes to recognition and rewards.”

The study did not focus on older workers but the cost – and it is a cost – of ignoring a toxic work environment is high. For older workers that’s ageist comments, exclusion from training and meetings, failure to show respect, pressure to retire, etc. The months working at home made older workers more fully realize their lives would be better if they resigned. Older workers dominated the ‘quits’ in late 2021.

Forcing or encouraging older workers to retire has been a problem for years. It could be that millions were pressured to retire over the years. Toxic work environments are far too common, and the experience often causes workers at all ages to resign. The resignations peaked in the last half of 2021, a time when investment returns and home values made older workers feel they could afford to retire.

Now they could be the solution to the vacancy problem. Stock prices have declined, inflation has been surging, and employers are hiring. The early data show retirees are ‘unretiring.’ But – and this is important – if they return to the same toxic environment, they are likely to quit again as soon as they can afford it.

Older Workers Want To Work

Prior to COVID, surveys found 68% of Baby Boomers expected to or were already working beyond age 65. The reasons cited for deferring retirement, ranked by importance, are: Staying mentally active, Staying physically active, Being productive and useful, Do something interesting. On the list, “need money” was #8. A similar survey found maintaining an established lifestyle is a priority. “Purpose” has become a buzzword.

A more recent study, the 2022 Schroders US Retirement Survey, reports that only 22% of people approaching retirement age believe that they’ll have enough money to maintain a comfortable standard of living. “Only 1 out of every 5 are prepared for retirement.” They apparently understand their invested funds may have to last 20 years or more.

The flipside is the value of older workers to their organizations. Studies confirm older workers — in those increasingly important jobs where knowledge and skills are important — have proven to be better, more dependable performers. Their experience gives them a better understanding of how to tackle new problems. They are also better working remotely, with minimal supervision. That’s been documented.

It’s important to keep in mind that many elected and appointed officials work well beyond age 65. There are also thousands of physicians, lawyers, judges, academics who are productive into their 70s.

A survey from shortly before the 2008-9 recession compared the attitudes of older workers with a group early in their careers. It found they are more loyal to their employers, have a higher work ethic, are more reliable, and have lower turnover rates. They take pride in their employer’s success.

An added issue is that older workers are no longer focused on building careers. Many want a “bridge” job to provide additional income until they decide to stop working. A key to retaining or attracting many older workers is flexibility – shorter workweeks or fewer days, working at home, time off to care for a family member, time to volunteer. Unfortunately, far too few employers provide those opportunities.

Changing the Work Environment is the Key

Older workers want their employers to be successful, that helps them feel valuable in their local communities. They are well aware of the problems that undermine their performance and that of their colleagues. They are by far the best resource to improve the work experience for everyone.

A recent McKinsey column emphasized the importance of simply asking employees for help. "*By not understanding what their employees are running from, and what they might gravitate to, company leaders are putting their very businesses at risk."*

Employee surveys and focus group discussions occur regularly in many organizations. Employees value the respect it shows for their opinions. Here group discussions should include all age groups. Since changes in work management practices will have to be accepted by management – and managers, it may be important to rely on outsiders to gather and present the information.

There is effectively a universal practice in higher education to rely on employee teams to plan and implement new policies. Its basic in their collegial cultures. The team members take their work seriously – their co-workers will have to live with the changes. They also understand the importance of keeping their co-workers informed. Again, experienced outsiders could be valuable in providing guidance.

This is a very different strategy than the traditional top down, "do what you're told" approach to management. But then that approach to management created the problems that triggered support for the Diversity, Equity and Inclusion (DEI) movement. Those leaders also focus on the need for change. It's often forgotten but half the older workers are women and minorities. A "new normal' is badly needed.

Howard is the author of the forthcoming book – Wanted and Needed: Older Workers

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