Surviving the 'Silver Tsunami'

In 2016, *Governing* magazine announced, "The 'Silver Tsunami' Has Arrived in Government." Silver Tsunami is a metaphor used to describe the wave of retirements created by baby boomers leaving the workforce.

This is important for all employers because the generation that follows, Generation X, is substantially smaller than the baby boom generation. That means that the supply of experienced workers is decreasing at the same time demand for them is increasing. This is *especially* important for public employers like Michigan's townships because public-sector workers tend to be older, and often must possess higher levels of education or necessary certifications than private-sector workers. State and local governmental employers have the oldest average workforce of any major industry.

While this demographic reality could be seen coming decades in advance, few employers are prepared for it. In 2010, *The Economist* stated, "There was a flicker of interest in the problem a few years ago but it was snuffed out by the recession." The Great Recession created both the economic and political leverage public employers needed to reduce local government compensation and employment.

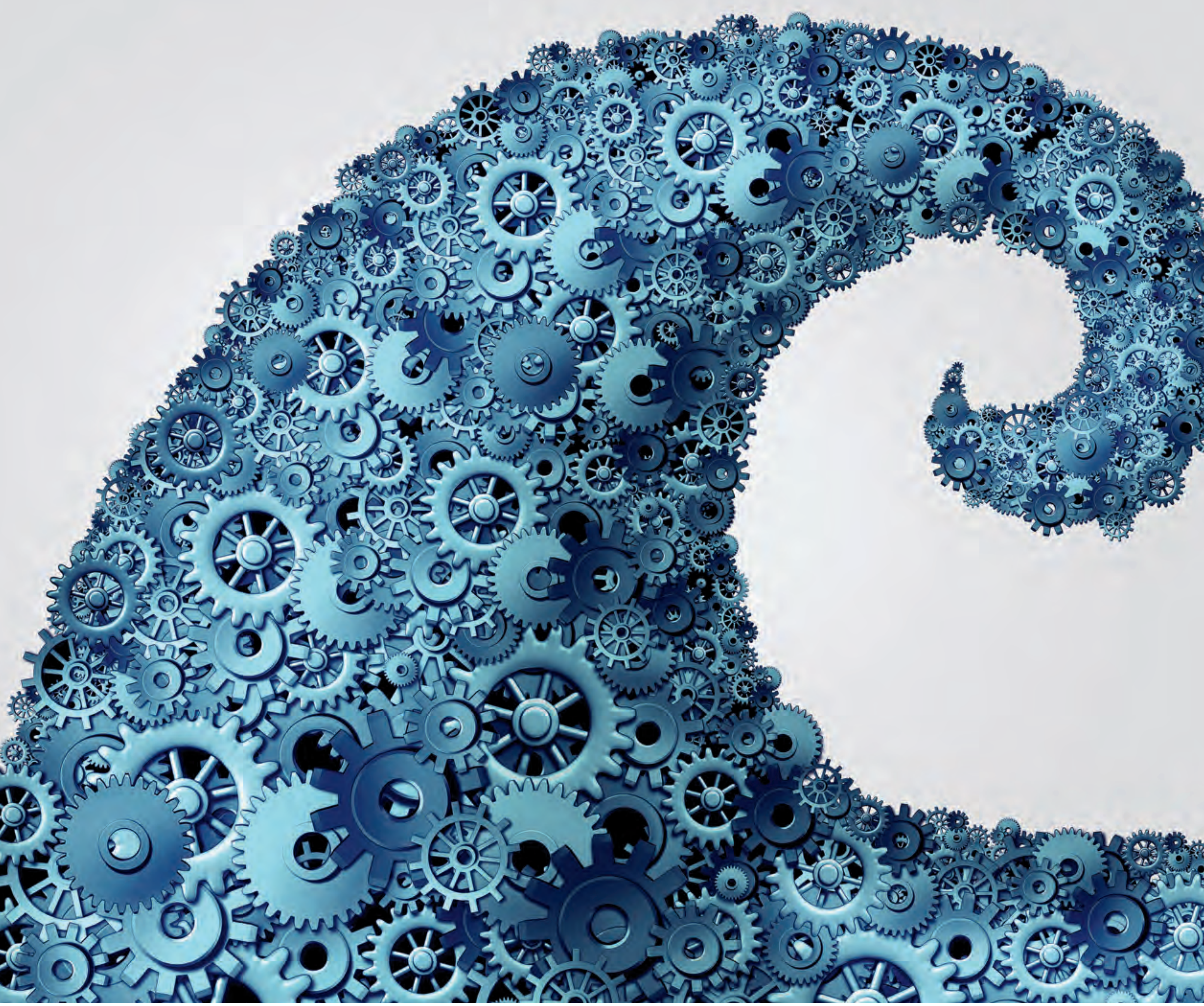
Government employment is the only sector that has not recovered from the Great Recession. Public employers struggle in vain to fill vacancies created by baby boomer retirements as full employment has transformed the war "on" public workers into a war "for" public workers. Shortages in specialized professions requiring certifications, licenses or registration—such as assessors, building inspectors and even public safety workers—aptly demonstrate this quiet crisis.

Public employers, like townships, must learn how to attract and retain younger workers, or taxpayers and residents will pay the consequences of failure.

Causing waves

Demographic

World War II ended in 1945 and 3.4 million Americans were born in 1946. This was a nearly 20 percent increase from 1945, and more births than any year before. Births continued



Michigan's public employers—like townships—now find themselves competing for talent more directly with private employers than they have before. To make matters worse, Michigan's broken municipal funding model makes careers in local government less attractive than ever.

to increase and peaked at 4.3 million in 1957. The baby boom ended in 1965 when births dropped below four million—a level not exceeded again until 1989, when baby boomers were having children of their own (millennials).

Approximately 76 million Americans were born during the baby boom between 1946 and 1964, and this age cohort peaked at 78.8 million in 1999. Age cohorts continue to grow after births stop as individuals born outside the U.S. immigrate. The following age cohort, Generation X, is expected to peak at 65.8 million in 2018. This peak will be 16 percent less than the baby boom peak—creating a "talent gap" in the workforce.

The baby boomers began reaching normal retirement age—65 years old—on Jan. 1, 2011. Americans age 65 years and over accounted for nearly 13 percent of the population that year. Approximately 10,000 baby boomers turned 65 each day since then and will continue to do so through 2029, when the last baby boomers reach 65. As a result, Americans age 65 years and over accounted for nearly 15 percent of the population in 2016 and are expected to account for more than 20 percent by 2029.

Economic

Public employers traditionally competed for talent by offering lower wages and more generous health care and retirement benefits than their private-sector competition. A 2010 study by the Center for State and Local Government Excellence and the National Institute on Retirement Security found state and local government employees earned 11 to 12 percent less than comparable private-sector workers when factors such as education and experience were accounted for. However, defined benefit retirement plans and other postemployment benefits (OPEB) discouraged turnover in the public sector.

The State of Michigan and other public employers closed defined benefit retirement plans to new hires and replaced them with defined contribution plans in 1997. The Dow Jones Industrial Average nearly doubled between 1996 and 1999. The stock market seemed unstoppable, so many public employees embraced the change. Then, the dot-com bubble burst. The NASDAQ Composite peaked on March 10, 2000, and fell 78 percent in the following 30 months. This made defined contribution plans much less attractive to public employees who still enjoyed the security of defined benefit plans.

In 2004, Governmental Accounting Standards Board (GASB) Statement No. 45 reinvigorated interest in replacing defined benefit plans with defined contribution plans. GASB 45 required state and local government employers to measure and disclose their OPEB liabilities. Implementation began for the largest governments in 2006 and for the smallest governments in 2008.

No offense intended

Older workers, those age 55 and over, accounted for more than 20 percent of employed adults in 2011, the year the oldest baby boomers reached normal retirement age (65). That number exceeded 23 percent in 2017 and older workers are projected to account for about 25 percent of the U.S. labor force by 2020. The resulting wave of baby boomer retirements is sometimes, and controversially, called the Silver Tsunami.

Critics of the Silver Tsunami metaphor believe equating our aging population with a natural catastrophe is ageist and promotes negative perceptions of older people. Demographers have likened the baby boom generation to “the pig in the python” (a sharp statistical increase represented as a bulge in an otherwise level pattern), so there is more than one undesirable metaphor in use. In any event, the Silver Tsunami metaphor is used here because it is the most common phrase used to describe this demographic phenomenon and its implications. The word “silver” is used here as a term of endearment, the way one might use it when describing an older person as a silver fox, rather than a pejorative.

Then the Great Recession sparked what *The Nation* called a “War on Public Workers” as economic suffering increased tensions between public employees and taxpayers. One high-profile battle was launched by Wisconsin Gov. Scott Walker in 2011 when he introduced a plan to limit the collective bargaining rights of most Wisconsin public employees. The response included protests at the Wisconsin State Capitol and a 2012 recall election.

The Great Recession created both the economic and political leverage public employers needed to close defined benefit plans and replace them with defined contribution plans. It also radically reduced Michigan’s local government payroll relative to other states.

According to the U.S. Census Bureau’s Annual Survey of Public Employment & Payroll, Michigan ranked 20th in the nation in per capita local government payroll ($137 per capita; only 2 percent greater than the $134 national average) when the Great Recession began in 2007. This includes data for all local governments (i.e., counties, townships, cities, villages, special districts, and school districts). When the Great Recession ended in 2012, Michigan ranked 39th ($128 per capita; 14 percent less than the $150 national average)

By 2016, Michigan had dropped to 42nd (less than $131 per capita; nearly 20 percent less than the $163 national average). Government employment is the only sector that has not recovered from the Great Recession.

The 2010 study by the Center for State and Local Government Excellence and the National Institute on Retirement Security that found local government workers were paid substantially less than their private-sector counterparts analyzed wages between 1983 and 2008—before most of the local government payroll cuts that followed the Great Recession. Public employees already earned less than comparable private-sector workers. Replacing defined benefit plans with defined contribution plans eliminated one of the public sector’s few competitive advantages.

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Supply and demand

Competing for talent was not a challenge during the Great Recession. Public employers shed more jobs than they filled and economic anxiety discouraged the turnover that normally occurs during times of economic stability. Accordingly, the demand for talent was low. In addition, the national unemployment rate peaked at 10 percent in October 2009, the highest unemployment rate since 1983. Thus, the supply of labor was high.

Michigan's full-time equivalent local government employment declined nearly 14 percent between 2009 and 2013. Many of these were entry-level positions, preventing younger workers from entering the local government workforce and creating a kink in the talent pipeline. However, the demand for talent appeared to be increasing. For example, the number of classified advertisements posted on MTA's and other local government association websites saw an increase during that time period, and maintained those increased number in subsequent years. Employers were presumably trying to fill vacant positions, likely resulting from baby boomer retirements, because local government employment was decreasing while advertisements were increasing.

After peaking at 10 percent in October 2009, unemployment has steadily declined and currently hovers around 4 percent. Many economists consider this full employment, a condition in which everyone in the labor market is employed in the most efficient way possible and the remaining unemployment is frictional, structural or voluntary. Long story short: public employers are ill-equipped to compete in today's red-hot labor market. The war "on" public workers has become a war "for" public workers.

The effects on local government

Suffice it to say, public employers are having difficulty attracting and retaining talent. Shortages are especially pronounced in specialized professions requiring certifications, licenses or other training. These include, but are not limited to certified assessors; registered building officials, building inspectors, electrical inspectors, mechanical inspectors, and plumbing inspectors; and certified municipal wastewater treatment plant and water treatment and distribution system operators. While your township may not employ all these public servants directly, your residents rely on the services they provide regardless who employs them.

For example, a survey conducted by Empco, Inc., a Michigan-based company specializing in testing services for public safety, estimated Michigan municipal police departments planned to hire at least 915 officers in 2017. This excludes large law enforcement agencies like the City of Detroit and the Michigan State Police that run their own academies. However, only 767 candidates graduated from Michigan police academies in 2015 and a similar number graduated in 2016.

A survey of assessing and equalization professionals conducted by the Michigan Municipal Services Authority (MMSA) in 2017 revealed 92 percent of respondents believe there is a shortage of qualified assessing and equalization staff in Michigan. Sixty-three percent of respondents believe uncompetitive compensation is the primary reason. The shortage seems to be especially challenging in Michigan's rural counties.

Looking at solutions

The demographic facts are clear: baby boomers will not work forever and must eventually be replaced by younger workers.

Law enforcement among the areas facing shortages

According to the U.S. Census Bureau's Annual Survey of Public Employment & Payroll (ASPEP), the number of full-time police officers in Michigan peaked in 2002, well before the Great Recession began in 2007. That number decreased nearly 15 percent in the pre-recession period between 2002 and 2007. It decreased more than 8 percent during the Great Recession, between 2007 and 2012, and has continued to decrease since then. In total, the number of full-time police officers in Michigan decreased more than 23 percent between its 2002 peak and 2016, the most recent year for which data is available.

This trend is supported by data from the Michigan Commission on Law Enforcement Standards (MCOLES). Michigan police officers are licensed through MCOLES, so the commission is well-positioned to collect good data. Its "Monthly Snapshot of Law Enforcement Officer Positions" includes data from 2001 to the present and tracks both law enforcement positions and officers. Unlike the Census Bureau, the commission does not track full-time and part-time positions separately.

More recently, a shortage of qualified candidates has hindered the ability of law enforcement agencies to replenish their ranks as older officers retire. Candidates without prior law enforcement training and experience must successfully complete an MCOLES law enforcement basic training academy, usually at their own expense. Employers will have to sponsor candidates if they want to attract talented individuals into these demanding and important public service careers.

However, some employers seem resistant. A lot has been said and written about Generation X and millennials—much of it is negative. Older people have likely found it difficult to relate to younger people since the dawn of human existence. The fact remains: there are two factors employers must face to attract and retain younger workers—opportunity and compensation.

Opportunity

Many members of Generation X entered the workforce before the Great Recession and had the opportunity to gain experience and ascend into leadership positions relatively quickly. The high demand for and low supply of talented workers in this generation gives them a significant advantage in a competitive “seller’s” labor market. In addition, defined benefit plans no longer encourage longevity, so employers should expect these workers to leave if they are not competitively compensated. What was considered “job hopping” before the Great Recession is now normal and longevity is the exception rather than the rule.

On the other hand, few millennials had similar opportunities to gain experience. The oldest millennials entered the workforce while unemployment was rising after the dot-com bubble burst. Unemployment hovered around 6 percent in 2003, then declined briefly between 2004 and 2006. However, it began to rise again during the Great Recession and prevented many millennials from entering the workforce in the same way prior generations did.

The only solution is to provide younger workers with the opportunities they need to get their proverbial feet in the door. This is especially important for public employers because they employ workers in specialized professions requiring certifications, licenses, trainings or registration that often require experience candidates cannot get anywhere else. On-the-job training must become the new norm. This idea is not new. For example, the number of active apprentices reported by the U.S. Department of Labor increased by more than 26 percent between 2011 and 2016. The number of Registered Apprenticeship programs increased by more than 10 percent between 2014 and 2016. In March 2017, the Great Lakes Water Authority (GLWA) announced the launch of a three-year apprenticeship program to hire and train electrical instrumentation control technicians.

While smaller employers may not be able to launch their own apprenticeship programs, they can work with larger employers or other regional partners to meet their needs. Townships can find a variety of ways to provide on-the-job training, mentorship and other forms of knowledge transfer, including paid or unpaid internships, which can offer a glimpse into the hard work—and intangible rewards—that a career a local government can offer. Check out the August issue of *Township Focus* for an article illustrating the benefits of township internships.

Grow your talent

Public employers traditionally competed for talent by offering lower wages and more generous health care and retirement benefits than their private-sector competition. The “post and pray” recruiting strategy worked in those days. Then, many public employers altered their compensation plans and began competing for talent more directly with private employers than they did before the Great Recession. Unfortunately, few public employers adopted new strategies to compete for talent during today’s red-hot labor market.

The Michigan Municipal Services Authority is a public body created in 2012 through an interlocal agreement between the cities of Grand Rapids and Livonia. The authority is a “virtual” municipality authorized to exercise the common powers, privileges, and authority of the founding cities but without geographic boundaries. Its purpose is to deliver value-based solutions that save staff time and taxpayer money.

The authority is developing the capacity to provide public employers with a one-stop talent management shop, including everything you need to attract, develop and retain employees. This will include strategic human resource planning services to help organizations anticipate their human capital needs and the services necessary to meet those needs. Many of the services will be familiar. Others are more innovative.

For example, one approach to help fill the opportunity gap is to pair an experienced part-time worker with an early or mid-career full-time candidate. The experienced worker will provide on-the-job development and oversight to help ensure the candidate’s success. The hours and services provided by the experienced worker will depend on the candidate’s needs. Hopefully, the candidate will steadily become less dependent on the experienced part-time worker and eventually become independent. Otherwise, another candidate may be provided until a match is made. This approach allows even small employers to “grow your own” talent.

The authority is working with a variety of individuals and organizations to provide cost-effective talent solutions. Interested townships should contact the authority’s CEO to discuss their needs.

Compensation
Local government workers were paid substantially less than their private-sector counterparts before the Great Recession and have not fared well since. In the big picture, a major cause of the pay disparity is the fact that many government careers require more education on average than other industries, particularly when looking at state government or large local government positions.

While state government and large local employers may employ more individuals with college or advanced degrees than smaller local employers do, *all* public employers—large and small—employ individuals in professions requiring certifications, licenses or registration. There are nearly 600 law enforcement agencies and more than 1,000 fire departments in the state, and every local unit needs an assessor. These are just a few examples of the specialized professions in local government that require experience and training candidates cannot get anywhere else.

Maintenance of the status quo is unsustainable. It is unreasonable to expect potential employees to invest their time and money in education if their investment does not provide a reasonable return. Public employers have three options: Go back to competing for talent by offering pre-recession compensation plans; assess and adjust their compensation plans to compete with the private sector; or do nothing and risk the consequences.

Private employers have a competitive advantage because they can offer a variety of both traditional and non-traditional benefits public employers cannot provide for legal or political reasons. About a dozen Michigan public employers have recently begun assessing and adjusting their compensation plans by conducting classification and compensation analyses. The employers range in size from Barry County (population less than 60,000) to Oakland County (population more than 1.2 million). Small employers may not be able to commission their own analyses, but they can work with other regional employers and workforce development resources to assess their competitiveness in their local labor market. MTA's online salary survey also allows township board members and managers/superintendents to compare your township to other townships—and create reports to share the information. (Access via the members-only section of www.michigantownships.org.)

Becoming competitive may increase costs. However, the cost of remaining uncompetitive may be even greater. The consequences will include vacancies that strain an already stressed township workforce and lowering standards, or "settling" for candidates willing to accept the compensation uncompetitive public employers are offering. The cost of these consequences may be direct, like overtime, or indirect, like the cost of bad decisions. An ounce of prevention may be worth a pound of cure, but, unfortunately, cure is often more politically convenient than prevention.

For example, the U.S. 7th Fleet had seven major non-combat accidents in 2017, killing 17 sailors and costing taxpayers hundreds of millions of dollars in damage. According to the U.S. Government Accountability Office, the Navy reduced crew sizes to decrease personnel costs in the early 2000s. This led to sailor overwork and sleep deprivation. A 2014 Navy study found sailors were on duty 108 hours a week and slept less than allotted. Exhausted crews can make bad decisions. These and other factors contributed to the accidental deaths and destruction in 2017. Perhaps in part because of this, the Navy has difficulty filling authorized positions. Approximately 14,000 (10 percent) are currently vacant, and the vicious cycle of overwork continues.

Your township may not employ 20,000 sailors and span more than 124 million square kilometers (thank goodness!). But, Michigan's public employees make life and death decisions each day. Like the Navy, your township may be expected to do too much with too little if your costs are increasing faster than your tax revenue.

The Great Recession cut property taxes by reducing taxable value. Statewide property values declined by more than 31 percent between 2007 and 2013. Values remain less than 2008 levels in more than 1,200 cities and townships. Some communities have an even smaller tax base than they did before Michigan's one-state recession began in 2001.

There are only three ways to increase tax revenue: increase the tax base, increase the tax rate, or both. The only way to increase the tax base is by adding new development to the tax rolls (easier said than done!). Few local governments can increase their tax rate without voter approval. As a result, many communities have voted to give back the property tax cuts created by the Great Recession by approving tax rate increases. This requires local officials to have honest conversations with constituents about the realities of hiring and retaining the public servants they rely on to provide public services. You get what you pay for.

An aging workforce

As "Politico" recently put it, "America's government is getting old." Aging in the American workforce affects all industries, but it does not affect them all equally. Two factors create unique challenges for government that other industries do not face: the government workforce is the oldest of any major industry, and job cuts during the Great Recession shrank the government workforce and created a kink in the talent pipeline that public employers are now struggling to deal with. Younger workers either cannot or do not want to join the government workforce.

While many public employers altered their compensation plans during the Great Recession to reflect private-sector trends, few also adopted private-sector strategies to compete for talent during today's red-hot labor market. Public employers must adapt to attract and retain younger workers to replace retiring baby boomers, or risk paying the high cost of poor planning.

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Contact Bruner at rbruner@michiganmsa.org or visit www.michiganmsa.org. Learn more from Bruner at his educational session, "Bridging the Talent Gap," at MTA's Annual Educational Conference & Expo this April.