U.S. Municipal Bond Market

# Employee Retirement – An Unexpected But Very Real Obstacle for State & Local Governments

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- State and local governments and related organizations are expecting an increased number of employee retirements.
- This expectation could add context as to why state and local government employment has not only been lagging the broader labor market recovery but falling over the last three months.
- The state and local government job month-over-month change averaged -49k over the last three months, while the non-farm payroll month-over-month average was +442k over the same period.
- The implications from state and local government employees leaving their jobs present a management and financial obstacle. Replacing them could be expensive and in some cases the situation could strain or even stop service delivery. This dynamic could very well more negatively impact areas with larger populations and those with lower incomes.

## Many Americans Return to Work

More Americans returned to work in October as non-farm payrolls rose by +531k in October, according to Bureau of Labor Statistics data released Friday, Nov. 5. The good news got even better as August and September non-farm payroll totals were revised higher by a combined +235k, reinforcing the federal government's trend of underestimating job growth over this summer and even through much of 2021.

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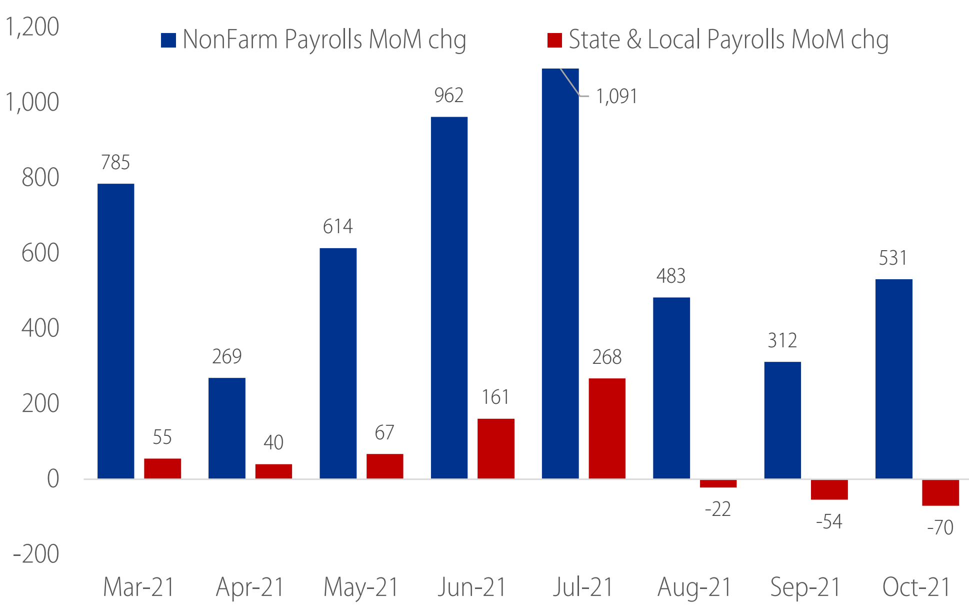
**State and Local government Jobs Fell in August, September, and October 2021**




**Source: Bureau of Labor Statistics and HilltopSecurities.**

Monthly non-farm payroll gains in 2021 through October averaged +582k. The U.S. labor market is still about 4.2 million (2.8%) shy of its pre-COVID-19 mark. If jobs continued to be added at that brisk +582k pace per month, employment could return to Feb. 2020 levels in a little over half of a year. If jobs are added at a bit of a slower pace it will take a little longer. For example, if employers add +350k jobs per month, it could take a year to return to Feb. 2020 levels.

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Job gains are likely to continue to trend positively, even though select issues like rising COVID-19 cases in some areas, a lack of childcare, and job competition is keeping the rate at which people are quitting at or near record levels. These factors are among many that are making it difficult to predict when the U.S. labor market could return to pre-COVID-19 levels.

## State and Local Government Jobs

State and local government employment peaked at 19.972 million before COVID-19. While about 607k positions have come back following employment bottoming out in May 2020, state and local governments are still 928k below where they before the COVID-19 crisis hit. We expected state and local government employment was likely to recover after $650 billion of the $1.9 trillion Rescue Plan Act funds (see page 5 of this report) were directed to public finance entities. Even U.S. Treasury Secretary Janet Yellen expected a similar result. She wrote that the federal government's policy error of not sending relief to state and local governments just after the Great Recession was corrected this time around in May 2021.

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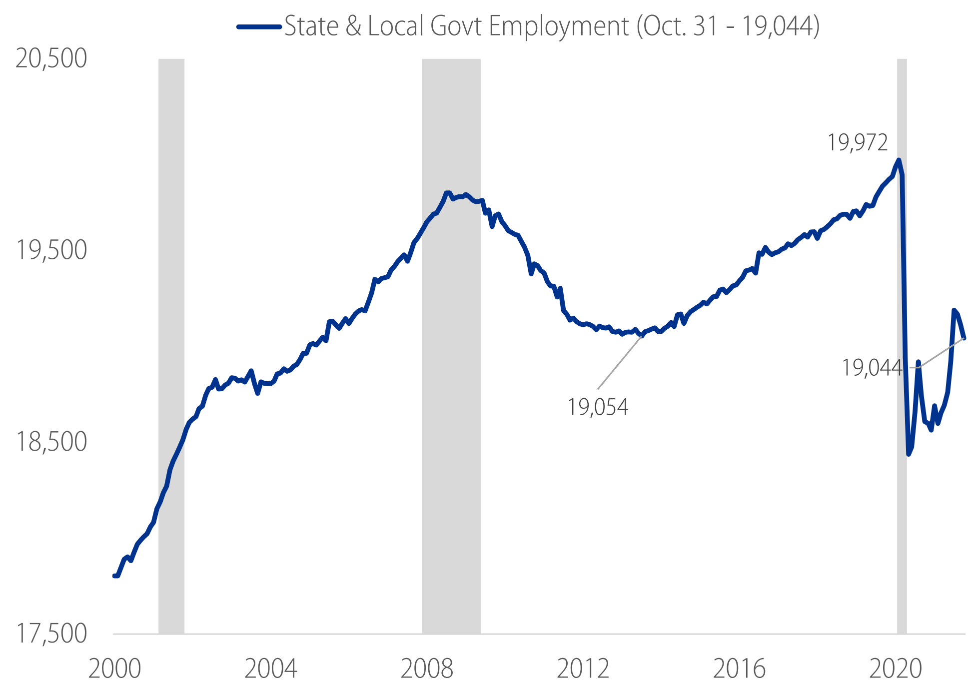
### State and Local Government Jobs Still 928k Below Pre-COVID Level Despite Rescue Plan Act *(in thousands)*

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State and local governments added jobs from March to July of this year, however this upward trend surprisingly stopped in August and state and local governments have continued shedding jobs over the last three months. There could be some upward revisions. We have been watching closely how the state and local government job recovery lagged private employers. This was covered by Pew in their Sept. 14, 2021 report, State and Local Government Job Growth Lags as Economy Recovers.

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Now, we are trying to unravel why state and local government employment is not only lagging but potentially declining during one of the most worker-friendly labor markets in recent history. The recent softness could be a reaction to the COVID-19 Delta strain spiking in July and August. State and local government jobs and especially those related to education are those that could present safety issues because of person-to-person contact. It is conceivable that some workers are leaving government and/or education jobs for higher pay, better benefits, and/or safer or improved working conditions in private sector positions. It is also possible that the retirement wave expected over a decade ago is finally here.

## A Retirement Tornado

Back in 2005, Katherine Barrett and Richard Greene expected that by 2010 one in five state employees could retire. This did not come to pass mostly because of the severe impact from the Financial Crisis and Great Recession that cut savings, reduced retirement savings accounts, and saw property values plummet in many cases. Therefore, workers stayed in their jobs if they had them.

This time it is very different. Survey results from the MissionSquare Research Institute recently reported that 38% of governments surveyed say workers are accelerating retirement plans (see page 13). This is in contrast, as Barrett and Green point out, to the survey results in 2009 that reported, "44% of governments indicated their retirement-eligible employees were postponing retirement." This 38% of governments who have workers are accelerating their retirement plans would be on top of those who intuitively are already at retirement age and are probably more likely to make that decision.

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Police officers are retiring at an accelerated pace as well. A June 2021 special report from the Police Executive Research Forum that included a Survey on Police Workforce Trends found there is a 45% increase in retirement rates for police officers.

We still need to wait and see what the data looks like in the coming months before we make a final determination of state and local employment's future path. What these numbers and the context may be showing us is the state and local government employment situation is more complex than initially expected. Worse yet, it could offer unforeseen challenges to state and local government managers who may have not had a chance to prepare.

It appears the implications from state and local government workers' present and potentially future choices could present an unforeseen obstacle. Some government workers may be making choices that could take them into the private sector. Retirement is likely to be considered sooner by an increasing number of state and

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local employees. After these employees leave the management situation could be more expensive at best. In some cases, the situation could strain or even stop service delivery. This dynamic could very well more negatively impact areas with larger populations and those that have lower incomes.

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