

# TEXAS

## BUSINESS — ◆ — REVIEW

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### Personnel Predicament

### The Coming Human Resource Crisis in Texas Government

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Approximately 5.6 million baby boomers live in Texas, comprising 26.9 percent of the state's population. As this group matures, so does the Texas workforce. This aging trend will significantly affect the state's general workforce and have an even more pronounced impact on the public sector workforce in Texas.

Much attention has been directed to the budget shortfall crises facing state and local governments. Receiving much less notice is a shortfall of another kind: the coming crisis in human resources. As more and more Texans near retirement age, employers will need to replace larger numbers of workers.<sup>2</sup>

In addition to its effect on employers, the crisis strongly and differentially affects the state's 1.2 million public sector employees. These are the people who teach the state's children, guard the state's 150,000 inmates, and administer programs for those in need. What are the dimensions of this situation and how will the public sector address the issue?

#### The "Older Worker" Gap

With the aging of the population, employers must be prepared to replace a growing number of retiring workers. As shown in figure 1, the proportion of workers age 45 and over is substantially greater in the state and local sectors than in the private sector. Almost half of the workers in the government sectors were 45 years of age or older in 2002.

In the private sector, however, only 30.6 percent of the workforce was older than 45 years of age. As figure 1 also shows, the private sector employs a greater number of younger workers. In this sector, 41.5 percent of the workers were 35 years of age or younger in 2002; the comparable rates in the state and local sectors were 29.5 percent and 26.0 percent, respectively.

The percentage of workers 45 and older has increased in each sector over time (figure 2). Between 1994 and 2002, the percentage of workers 45 and older in the state sector showed significant

**Figure 1**  
**Older and Younger Workers In  
Government and the Private  
Sector, 2002**



Source: National Bureau of Economic Research, Current Population Survey, Merged Outgoing Rotation Groups CD-ROM, Cambridge, MA., 2003.

growth, increasing by 42.7 percent. This change increased the “older worker” gap between the state and the private sector from a 6.3 percentage point difference in 1994 to a 15.3 percentage point difference in 2002. Figure 3 illustrates the age distribution in each sector in 2002. Workers under 25 (age 18-24 years of age) constitute around one in seven private sector workers. In the state and local sectors, workers under 25 years of age make up only one in twenty-four

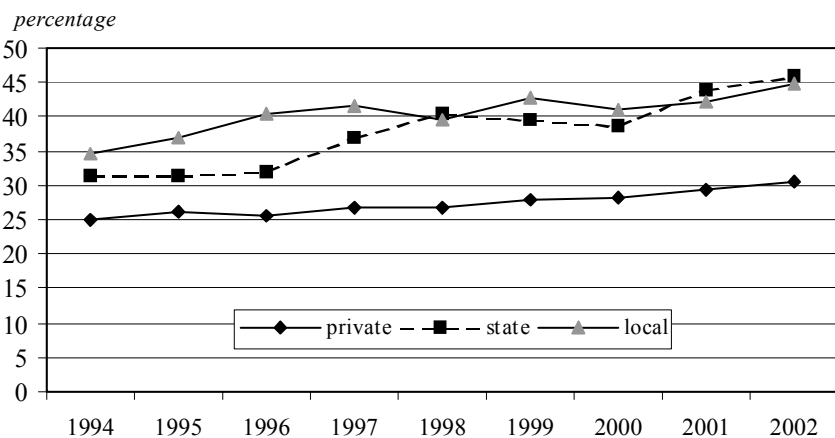
and one in nineteen, respectively. Proportions in the age groups 25-44 are approximately equal among sectors, but in the older age groups, the proportion of workers in each group is considerably higher in the government sectors.

### Knowledge Workers

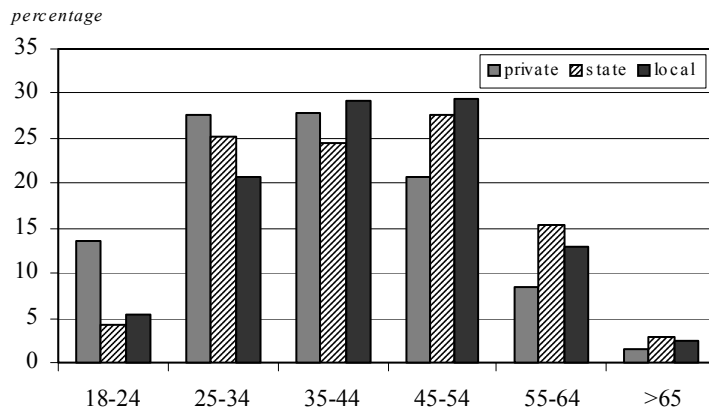
State and local government workforces are not only older, but also show higher levels of educational attainment than do

Between 1994 and 2002, the percentage of workers 45 and older in the state sector showed significant growth, increasing by 42.7 percent.

**Figure 2**  
**Older Full-time Workers (45+) in Government and the Private Sector, 1994-2002**



**Figure 3**  
**Age Distribution of Government and Private Sector Workers, 2002**



Source: National Bureau of Economic Research, Current Population Survey, Merged Outgoing Rotation Groups CD-ROM, Cambridge, MA., 2003.

Compared to the only 20 percent of private sector knowledge workers, approximately 40 percent of state knowledge workers will be eligible to retire in the next ten years; in the local government sector, 30 percent.

private sector workforces. Almost 50 percent of private sector workers have no more than a high school diploma. (See figure 4. For data on the educational attainment for all Texans, 25 years of age and older, see page 6.) Only 25 percent of the workers in the public sector fall into this category. In fact, more than half of the public sector workers have at least a bachelor's degree.

In the past, workers have been classified as "blue-collar" or "white-collar," based on the nature of the work performed. More recently, the term "knowledge worker" has been added to the list. Knowledge workers require specialized education, training, or skills. Examples include educators, health care workers, legal professionals, engineers, and managers. In Texas, 48 percent of the workforce fall into the knowledge worker category. The percentages, however, vary among sectors: 31 percent of the private sector fits this classification, and 58 percent and 51.5 percent, respectively, of state and local workers qualify for this designation.

As is the case with the Texas government workforce in general, public sector knowledge workers are heavily concen-

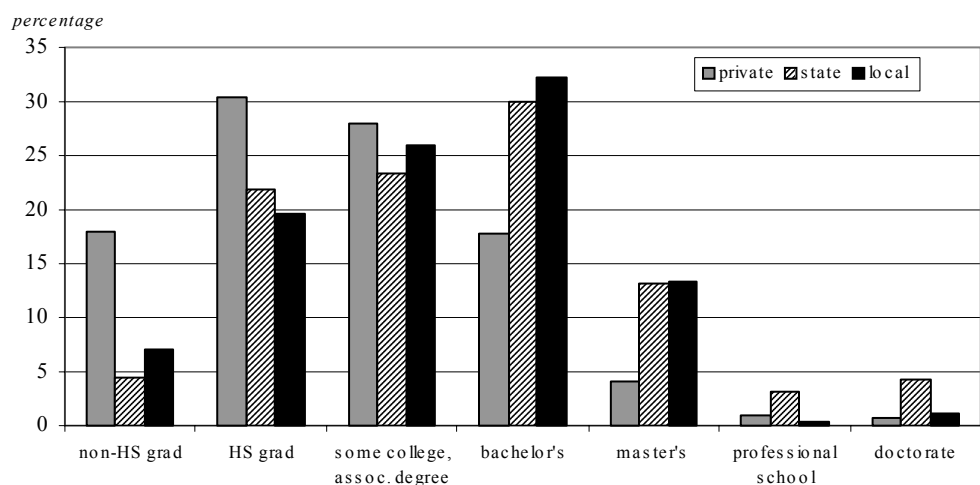
trated in the 45-and-older age group (see figure 5). In contrast, only 32.6 percent of private sector knowledge workers are older than 45 years of age. Given the expected retirement boom, the public sector faces a greater shortage of these workers. Compared to the only 20 percent of private sector knowledge workers, approximately 40 percent of state knowledge workers will be eligible to retire in the next ten years; in the local government sector, 30 percent.

### Employee Pay

According to the Bureau of Labor Statistics, the average pay of a U.S. public sector employee was one percent greater than that of a worker in the private sector. This, however, varies depending on which government sector is compared. Federal and state workers earned 35 percent and 5 percent more, respectively, than private sector workers, but local government workers earned 7 percent less than those in the private sector.

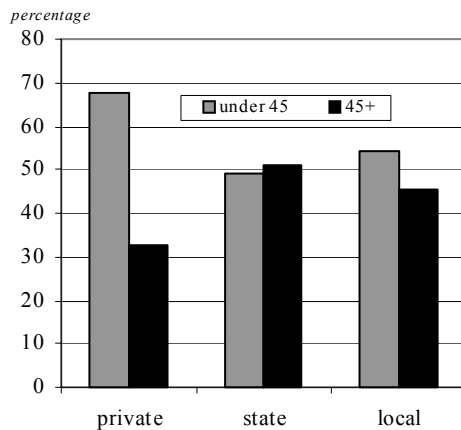
Although data shows pay parity between the private and public sectors in the United States, this is not the case

**Figure 4**  
**Educational Attainment by Sector**



Source: National Bureau of Economic Research, Current Population Survey, Merged Outgoing Rotation Groups CD-ROM, Cambridge, MA., 2003.

**Figure 5**  
**Knowledge Workers by Age**  
**Group by Sector**



**Source:** National Bureau of Economic Research, Current Population Survey, Merged Outgoing Rotation Groups CD-ROM, Cambridge, MA., 2003.

Among the ten largest states, Texas showed the greatest pay differential between private sector and state government workers and the second greatest differential between private sector and local government workers.

in Texas. State and local government workers in Texas consistently earned approximately 13 percent and 18 percent less, respectively, than workers in the private sector. This may have contributed to the high turnover rate reported by the State Auditor's office. After hovering around 18 percent annually from 1998 to 2001, the state government turnover rate declined to 14.8 percent in 2002.<sup>3</sup>

In a 2001 comparison of annual pay in each sector, Texas ranked near the bottom of the ten largest states. Only in Florida and Georgia did state workers earn less, and only in Georgia were local government workers paid less. In contrast, private sector workers in Texas ranked sixth on the pay scale. In fact, among the ten largest states, Texas showed the greatest differential between private sector and state government workers and the second greatest differential between private sector and local government workers. This disparity may have contributed to the differential between the Texas state government workforce turnover (17.6 percent) and that for other state governments (12 percent) reported in 2001.

As noted, public sector workers in Texas are older and more highly educated than those in the private sector,

but earn comparatively low salaries. Recent legislation offers these employees additional incentives to retire. Given this and the projected changes in this workforce, the public sector must develop and implement strategies to navigate and surmount the coming crisis in human resources.

### What Can Be Done?

Without decisive action, the public sector faces a crisis in human resources. How will the state and local governments address this looming human resources problem and circumvent the difficulties associated with a scarcity of workers? Public sector entities could continue to keep pay low, discouraging applicants and encouraging new employees to leave quickly. In such a scenario, critical government services--e.g., education, criminal justice administration, programs for those in need--could not be effectively provided to the public. Alternatively, the state could outsource activities to the private sector, or even to overseas workers. However, given the differential in pay between private and public sector workers, outsourcing could involve greater costs.

The most obvious solution, of course, would be an increase in public sector pay scales. In order to attract the quantity and quality of workers needed for the future, higher pay will be necessary. Even under the most optimistic projections, the growth in the labor force during this decade will be less than the growth during the 1990s, meaning greater competition for those available workers and increased wages.

With the anticipated continuation of budget constraints, other non-monetary policies should also be considered. Examples include improving recruitment, establishing new reward and incentive structures, and making work more versatile and challenging. Furthermore, given the significant changes projected for the Texas labor force, with minorities accounting for most of the growth, outreach programs will be

critical, especially to reach Hispanic workers. (At present, Hispanics account for 22 percent of the state's workforce and 27.5 percent of the overall workforce. By 2040, however, this group will comprise a majority of the workforce.<sup>4</sup>)

Comprehensive and innovative recruitment strategies will be necessary to attract employees to state service and retain them. Such strategies might include scholarships for college students in exchange for a commitment of a certain number of years service; college loan forgiveness for graduates entering government service; and home purchase assistance. The state has offered retention bonuses in critical areas, such as information technology, but it may be necessary to offer such benefits to workers with other critical skills. Although more than 23 percent of the current Texas labor force holds at least a bachelor's degree, this percentage is expected to decrease, making retention bonuses all the more essential.<sup>5</sup>

As a short-term fix, more than 10 percent of recent state retirees have returned to work. With the anticipated increase in retirements, perhaps the temporary nature of this remedy should be reconsidered. By offering arrangements such as flexible scheduling, job sharing, part-time or temporary assignments, the public sector might induce retirees to continue working. Similar policies that provide workplace flexibility could also be used to attract new employees.

Given continued growth in the Texas economy and the resulting increased demand for workers, positive action by the state's leadership is needed. Comprehensive and innovative recruitment and retention strategies must be developed and implemented in order to circumvent the pending crisis in public sector staffing.

## Notes

1. The public sector workforce includes both state and local government workers. Local governments include independent school districts. Of the 1.2 million full-time equivalent employees working in the public sector in 2001, 268,637 were in state government; 940,911, in local government.

2. According to the state Employment Retirement System (ERS), approximately 12,000 of the 150,000 employees covered by ERS are eligible to retire by August 31, 2003, under the provisions of House Bill 3208, which offers eligible employees a 25 percent payment retirement incentive. Almost 40 percent (4,500) of the eligible employees have submitted a letter of intent to retire.

3. Texas State Auditor's Office, *SAO Reports: An Annual Report on Full-time Classified State Employee Turnover for Fiscal Year 2002*, December 2002.

4. Steve Murdock, et al., *A Summary of the Texas Challenge in the Twenty-First Century: Implications of Population Change for the Future of Texas*, Department of Rural Sociology, Texas A&M University System, December 2002.

5. *Ibid*, 49. ♦

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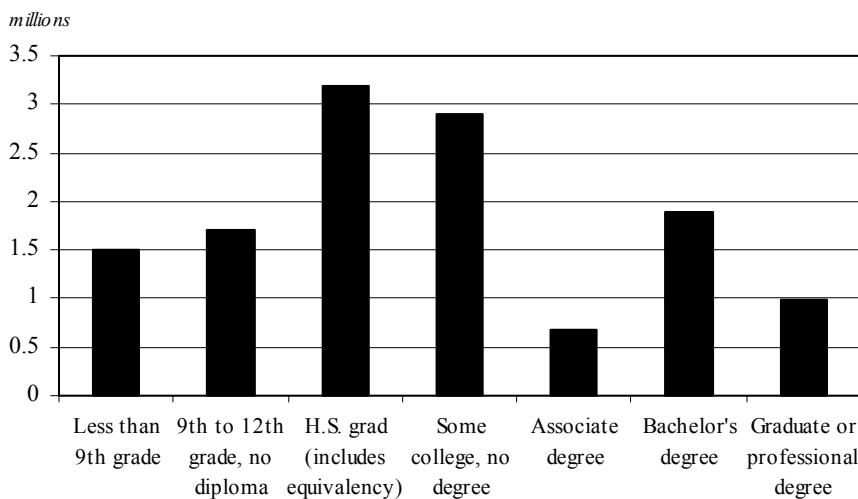
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**Educational Attainment of Texans 25 Years and Older, 2000**



**Source:** U.S. Department of Commerce, Bureau of the Census, 2000 Census of Population, Washington, D.C.

**Errata**

Please note corrections in the source notes for two figures that appeared in the June 2003 **Texas Business Review**. The correct source for figure 1 is: Bureau of Business Research, McCombs School of Business, The University of Texas at Austin, <http://www.utexas.edu/depts/bbr/austindex/snapshot/employment/clusters39802.xls>. The correct source for figure 2 is: U.S. Patent and Trademark Office, Washington, D.C. <http://www.uspto.gov/>. ♦