



Observations:

*“Do State and Local Governments
Offer Competitive Compensation?”
- Byron Lutz, David Ratner, Louise Sheiner*

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Why This Matters:

- Authors: *“Competitive state and local government worker compensation.. directly influences the recruitment and retention of skilled personnel necessary for effective governance and policy execution. On the other hand, state and local employees may be overpaid relative to their private sector counterparts.. If so, public sector efficiency gains could be achieved...”*
- Representative issues from a practitioner context:
 - Law enforcement recruitment challenges. 2024 International Association of Chiefs of Police survey of 1,118 U.S. agencies: More than 70% reported that recruitment is more difficult now than five years ago. On average, agencies reported operating at approx. 91% of authorized staffing, a nearly 10% deficit
 - Vacancy rates in other service areas
 - Baby boomer (“ask not” generation) retirement wave
 - Skills gaps and “brain drain”
 - Collective bargaining funding and political pressures; near-term pressures to “make up for” pandemic-era inflation spike and low wage gains following Great Recession



Philadelphia Inquirer, Kaiden J. Yu
/ Staff Photographer, July 2025

Key Findings of the Paper:

- Comparisons are complicated by differences in compensation structure (notably greater pension and retiree healthcare benefits in the public sector) – more on this to follow
- State and local government (S&L) total compensation has lost ground to the private sector since the Great Recession (2011) as relative wages declined and reductions to public sector benefits roughly paralleled private sector change (approx. 15 percent relative decline)
 - Authors use of accrual approach to tracking benefits more clearly identifies this trend (instead of ECI cash basis) as public sector funding for retiree benefits grew across this period to address legacy underfunding even as the underlying benefits were sometimes adjusted downward
- As a result, as of 2023, the authors find public sector compensation combined wages + benefits to be less competitive than the private sector
 - Approx. 7 percent lower overall
 - Roughly 16 percent lower for college-educated workers, driving the trends
- In addition, the authors find a parallel trend of erosion in relative public sector job stability (even as S&L jobs remain more stable than private sector jobs overall)

Technical Considerations – Retiree Benefits:

- As the authors highlight, pension and retiree healthcare measurement is complex and not always incorporated fully or clearly in prior analyses:
 - The authors develop an accrual-based measurement approach, providing key insights for evaluating employee perspectives
 - The approach includes discount rate variability based on interest rate environment; here, alternative assumptions could be used (and are used in other, related analyses). The authors identify this as an area for future work with sensitivity analysis
 - Data limitations are acknowledged to be considerable
 - Averages may not always be representative:
 - While Defined Benefit (DB) pensions are prevalent across the public sector, they are no longer universal and different DB plans can also vary meaningfully; public safety occupations, for example, often have more generous plan designs
 - As the authors note, prevalences and structure for retiree healthcare varies across public employers to a far greater degree
 - For employers, of course, cash-basis costs also matter

Technical Considerations - Other:

- The authors also detail multiple other limitations of existing federal data sources for this type of analysis
- Controls used (e.g. educational attainment; broad occupational categories; gender/age/race/marital status)
 - What other factors might add most to the story?
- Timing impacts: Is the public sector catching up post-recession and pandemic? Greater prevalence of public sector unionization may delay responsiveness to economic changes like the recent inflation spike due to multi-year agreements and public sector revenue lag after downturns
- Relative job stability: found to narrow post-Great Recession, but is that artifact of unusually low private unemployment during that period? Is this a long-term trend or cyclical? Is any S&L erosion generalized or specific?
 - How should this and other non-financial job attributes be viewed as part of competitiveness?
- Other issues for future analysis:
 - Social Security impacts – some public sector employee groups, particularly in policing, have opted out
 - Hours and paid leave – generally more favorable in the public sector
 - Overtime opportunity – more prevalent in the public sector due to unionization, job types?
 - Health benefit value – comparison based on employer cost; not always a complete measure
 - Step and longevity payments in public sector wage structures

Conceptual Challenges:

- As the authors note, there are major differences in the structure of public vs. private sector compensation (for example, as calculated by the authors, benefits represent 32 percent of public sector compensation vs. 16 percent in the private sector)
- Paper provides an updated and methodically improved perspective on the relative dollar value of wages and benefits, but other attributes - in addition to job stability addressed in the paper: steps/longevity, paid leave and work demands, civil service and unions – also vary
- For many occupations, adds up to “mobility” vs. “gold watch” approaches
- Not clear which strategy is the best fit for public service
 - Authors note a likely focus by newer hires on wages rather than retiree benefits that may be harder to understand and more distant for an early-career worker
 - Federal BLS Job Openings and Labor Turnover Survey (JOLTS) consistently shows lower turnover in the public sector relative to private employment
 - Arguments might be made both for the benefits of continuity in the public sector and for bringing in new and different perspectives, in different ways for different occupations
 - Difficulty of evaluating any worker quality differences

Conceptual Challenges:

- Occupation differences are critical for evaluating public sector competitiveness, and further analysis along these lines to build on this Paper would be of great value for practitioners. Authors' findings on differences by educational attainment indicate the importance of such factors
 - Public safety: current police hiring challenges are widely attributed, at least in part, to non-compensation factors; public safety unions often cite occupational hazards as justifying higher compensation levels; employers often invest significantly in paid Academy training upfront; competition within these occupations is largely public-public (although, of course, workers could always choose other occupations)
 - Police/fire wage gains and benefit structures are often more generous than for non-safety workers with the same employer (may be key to findings for non-college-educated workers, and may be less true of non-safety labor, trades, and clerical workers)
 - Comparisons to the private sector are relevant, but only part of the labor market story
 - Skilled trades, IT, engineering: longstanding “hard-to-fill” positions in the public sector; trend of privatization by default
 - Building/code inspection: example of a public sector job where successful recruitment anecdotally benefits from mid-career of workers in higher paid but more volatile and physically demanding construction trades for greater job stability and different physical requirements at later career stages
 - Law, finance: public service careers vs. “in-and-out” approaches; potential differences in expected hours; de facto “optics” ceilings on public sector pay
 - Teachers: current model is also heavily public sector and career-focused (“gold watch”) after relatively high turnover in early years as some leave the profession for likely non-compensation reasons

Thoughts on Application and Next Steps:

For Practitioners:

- Bargaining/arbitration/S&L human resources: improved understanding of dynamics and potentially better tools for incorporating complex benefits into total compensation strategies and trade-offs (although, again, the S&L sector cannot ignore benefit cash-basis costs). Methodologies can inform case-specific analysis
- Broader compensation philosophy development: are the S&L approaches being used optimal? What are the best models for which public sector occupations? If benefit costs are continuing to outpace wage growth, is there a long-term benefit to “rebalancing the portfolios” of public sector compensation? In turn, if this means more mobility and fewer gold watches, is that good, bad, or “it depends”?
- To the extent public sector relative compensation has eroded, how much of this gap, if any, has been addressed since the Paper’s 2023 data was compiled?

For Researchers:

- Incorporation of additional compensation elements and attributes
- Review/refinement of retiree benefit methodologies
- Analysis for specific occupations
- Alignment with recruitment and retention data to assess “competitiveness” on a market basis relative to compensation analysis