Background and Introduction

Throughout the United States there is the chronic issue of households and individuals at risk. At-risk residents and their families may have the following characteristics:

- Dropped out of the labor force – no longer looking for work
- Chronic substance abuse
- Mental health issues
- Food insecure
- Deep and chronic poverty
- Weak economies – lack of appropriate work opportunities

This paper provides an overview of labor force participation rates as a way to identify potential concentrations of at-risk residents and communities.

Questions and Additional Information

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Understanding Labor Force Participation

2018 Civilian Labor Force Participation Rates (16 years of age and older). The following data provides an overview of the U.S. Civilian Labor Force Participation Rates for 2018 for those residents 16 years of age and older. For reference the 2018 Labor Force Participation Rate for Indiana is 64.5% or slightly higher when compared to the U.S. rate.

Figure 1 – U.S. 2018 Civilian Labor Force Participation Rates

Category	All	Men	Women	Notes
All	62.9	69.1	57.1	12% Gap between Men and Women
16-19	35.1	34.2	36.0	Lower due to school
20-24	71.1	73.2	69.0	Rising participation post-school
25-34	82.5	89.1	75.9	Peak for Women
35-44	82.9	90.9	75.1	Peak for Men
45-54	80.8	87.0	74.9	Impact of family responsibilities
55-64	65.0	71.2	59.1	Dropping rates with early retirement
65-74	27.0	31.6	23.1	Drops off with retirement
75+	8.7	11.9	6.4	Drops significantly off with aging

Source: U.S. Bureau of Economic Labor Analysis, 10.22.2019.

Next let's take a look at the factors impacting labor force participation rates.

Factors Impacting Labor Force Participation Rates. The following top 10 factors shape a nation's, state's or community's labor force participation rates:

1. The Bureau of Labor Statistics counts all **legal residents 16 and older** as potential members of the labor force.

2. The civilian labor force participation rates exclude those in the **U.S. Military and incarcerated persons**.

   Incarcerated Residents

   If a person is incarcerated, they are not included in the Federal Government's official calculation of available workforce. This makes sense on the surface. However, Incarceration rates in the U.S. are among the highest in the developed world. America's "war on drugs" incarcerated huge numbers of often minority younger men removing them temporarily (during incarceration) and often permanently (unemployable). Communities with high incarceration rates reflect communities with serious economic and social challenges.

3. **Age** is possibly the largest factor shaping participation rates. As the data in Figure 1 illustrates participation rates rise as younger residents finish school and go to work. As we age participation rates drop. However, given overall health improvements and financial needs, aging workers are staying in the labor force and retiring fully later. This trend is likely to continue over the next three decades as Boomers age and transition.

4. **Gender** is also factor. Women historically have had lower participation rates. In 2018 the average participation rate for men was 69.1% compared to women with 57.1% or 17.3% lower than men. Since World War II and particularly with newer generations of women, participation rates are rising. Nevertheless, the role of women as mothers and caregivers in our society lowers their rates of out-of-home work. If caregiver roles were considered "work" the participation rates for women would exceed those of men.

5. **Disabilities** continue to impact the ability of adults to engage in the workplace. Despite material progress in employing persons with disabilities there continues to be significant barriers lowering the rate of employment for this segment of our society.

6. **Mental Health** issues adversely impact labor force participation rates. Persons with severe and untreated mental health issues have problems finding and keeping work. Communities with elevated mental health issues coupled with weaker mental health services tend to have lower participation rates.

7. **Chronic Poverty** can also impact participation rates. Persons in chronic poverty often lack housing, transportation, childcare and other assets to find and keep employment. For example, a working single mother in poverty employed at an hourly part-time job may have to choose between going to work or taking care of a sick child. Reoccurring work absences or tardiness can cause these workers to lose their jobs.

8. **Education and Skills** can also impact participation rates. This is particularly true where there is a mismatch between a workers' skills and the jobs available. As we have moved from a lower skill to a higher skill economy, we have significant numbers of workers (particularly older and white workers) that structurally fall out of the labor force.

9. **Substance Abuse** adversely impacts labor force participation. Persons with chronic and severe substance abuse health issues are less likely to get and keep work. Often these residents fall out of the labor force for extended periods or forever.

Substance Abuse and Mental Health Issues

There is a powerful connection between residents with substance abuse and mental health issues. With the de-institutionalization of persons with severe mental health issues and an overall weak mental health care system in the United States, the number of persons with mental health issues combined with substance abuse has impacted at-risk communities (e.g., experiencing both economic and social distress), reducing labor force rates in these communities.

10. **Legal Status** can be an issue. Undocumented persons are unlikely to be counted in the labor force. However, undocumented persons tend to be employed. These workers are often subject to adverse labor practices because of their undocumented status.

Race is not really an issue overall in the United States with respect to participation rates. However, in communities with high poverty, crime and substance abuse, race can be a factor. The following are the 2018 civilian labor force participation rates by race for residents 16 and older in the United States:

White and Non-Hispanic	62.1%
Black	62.3%
Asian	63.5%
Hispanic	66.3%
All Others	64.5%

How the Labor Force Participation Rate is Calculated. The U.S. Bureau of Labor Statistics calculated the labor force participation rate as follows:

1. All Legal Residents 16 years of age and older – total pool of potential workers
2. Those in the military or incarcerated are excluded – civilian labor force.
3. Any person working or looking for work are considered in the labor force.
4. Persons looking for work, but not working, are included in the unemployment rate.
5. Persons who are not working or looking for work lower the labor force participation rate.

Alternative Labor Force Participation Rate

Labor force participation rates are not always available from the U.S. Bureau of Labor Statistics for unique geographies. An alternative approach employs the following quick math based on universal statistics for almost every possible geography:

1. Total resident population 20 to 64 years of age
2. Total resident employment
3. Dividing the value in Line 2 by Line 1 gives an approximate labor force participation rate.

Why is this Important? America is aging and that is lowering our participation rate. We have sizeable populations of persons who are sidelined because of disability, home duties, substance abuse, and poverty who are no longer in the labor force. By understanding your community's labor force participation rate and the factors shaping it, you can better identify and target critical community development priorities and solutions.

One More Consideration

In our chartbooks we provide **economic drivers** for your communities based on both "household earnings" and "employment" generated by both traditional and non-traditional economic sectors. Based on household earnings, **Hardship Related Transfer Payments** often are among the top five economic drivers for communities in Indiana. Like Labor Force Participation Rates, Hardship Related Transfer Payments provide insight on your community's "at-risk residents and communities."

Based on 2017 household earnings the top five economic drivers in Indiana are:

1.	Retirees*	$84 billion
2.	Manufacturing	$44 billion
3.	Health Care	$28 billion
4.	Government	$26 billion
5.	Hardship Related Transfer Payments	$17 billion

*Retiree earnings include dividends, interest and rent income plus Age Related Transfer Payments including Medicare and Social Security.
Source: U.S. Bureau of Economic Analysis provided by Headwaters Economics (www.headwaterseconomics.org), 10.22.2019.

Hardship Related Transfer Payments include:

Medicaid	$11.501 billion
Welfare	$5.001 billion
Unemployment	$0.266 billion

Hardship Related Transfer Payments have changed significantly over the decades:

1970	$1.143* billion	0.9% of all Indiana Personal Income
2000	$8.290 billion	3.3%
2017	$16.768 billion	5.4%

*Financial values are provided in 2018 dollars and are inflation adjusted. In other words, a dollar in 2017 would have the same purchasing power as a dollar in 1970.

The rise in Hardship Related Transfer Payments is another leading indicator of rising household and community distress.

Helpful Tips

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- **Data sources:** U.S. Bureau of Labor Statistics (BLS) produces a national monthly data series based on data collected via the Current Population Survey. For smaller geographies, the best option is probably the American Community Survey, which is the data included in the Populations at Risk report from Headwaters Economics (www.headwaters.org).

- **Formula:** In very broad terms, the labor force participation rate is the proportion of the labor force (employed and unemployed looking for work) to the total population of working age. Looking at the data from both the BLS/CPS survey and the ACS survey, there seems to be a distinction made as to whether the reference population is all 16+ people or noninstitutionalized of the same age. Also note that Headwaters further included an upper age limit of 64, which is different from the other survey sources.

- **Factors:** The BLS/CPS survey includes questions about why respondents are not in the labor force; current results are available online (https://www.bls.gov/web/empsit/cpseea38.htm and break down some of the reasons given. The Congressional Budget Office also published a report in 2018 about factors affecting labor force participation (https://www.cbo.gov/publication/53452).

For those wanting to learn more there is a helpful paper from the Kansas City Federal Reserve Bank, "The Uneven Recovery of Prime-Age Labor Force participation."