Investing in Talent

A Policy Primer and Perspectives on Employer-Provided Educational Assistance

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FOREWORD

By Alex Brill

"A generation ago, the United States had one of the highest levels of both high school and postsecondary attainment in the world. But now the U.S. faces a global skills challenge," an Organisation for Economic Co-operation and Development report declared in 2013.

Our skills deficit is an important public policy matter that needs to be addressed. The United States is not losing skills attainment among workers so much as our trading partners abroad are acquiring human capital in a manner that has challenged the comparative advantage of many U.S. workers. It is time for us to rise to the occasion.

Despite clear evidence that higher levels of education are associated with higher wages and lower unemployment rates, the number of working-age adults with no more than a high school degree has remained stubbornly at roughly 87 million for 20 years. This stagnation is particularly problematic given that the Bureau of Labor Statistics predicts that the number of entry-level jobs requiring some form of post–high school certification or training will grow at nearly twice the pace of all other entry-level jobs through 2024.

In an ever-evolving economy where technology, business practices, and consumer preferences are constantly changing, "getting ahead" for workers often means going back to school to acquire new skills. But one common challenge for workers is not having the time or money to pursue traditional educational pathways. Few have the luxury of going back to school full-time, which would mean sacrificing on-the-job experience and wages. Employer-provided educational assistance offers a valuable solution, and one with important ripple effects. The benefits of higher levels of training and education in our workforce extend to workers, family members, and employers. In fact, our economy as a whole would grow if the average level of education were to increase.

For employees and their families, the benefits are both tangible (e.g., higher wages) and intangible (e.g., personal satisfaction). For employers, upgrading the skill set of existing workers is often more cost effective than trying to recruit new staff. Recruiting and onboarding new employees comes with a cost, and losing workers who quit to attend a technical school, training program, or university can be disruptive to a business. In economic terms, the benefits of a more highly skilled workforce are far reaching — from increased levels of civic engagement and reduced crime, to an increased tax base and improvements in population health.

While the most appropriate level of educational attainment and skill training for any individual worker is a personal matter, making education attainable for those who want it is a matter of public policy. On the federal level, in addition to subsidized student loans and grant opportunities, various tax policies exist to facilitate a spectrum of higher-education opportunities. But the tax advantages are quite modest compared to the manifold benefits. In fact, federal employer-related tax incentives for employee education represent just 3% of total tax incentives targeting education expenses. Encouraging employers to make investments in human capital accumulation — that is, the development of workers' skills — is similar to promoting private investment in research and development (R&D). The tax code includes a credit for qualified R&D spending (Internal Revenue Code Section 41) because the benefits of R&D are readily acknowledged and understood to extend beyond the business funding the investment. In much the same way, tax preferences for employer-provided education can increase educational attainment and yield a spillover benefit to the whole economy.

How can employers support education and skills attainment for their workforce through tax-advantaged strategies, and what new policies can be pursued to allow more workers to undertake postsecondary education or skills training? Investing in Talent tackles this important and sometimes misunderstood public policy issue. After outlining labor market problems related to finding and retaining qualified workers, the paper details three key but complicated statutes in the Internal Revenue Code — sections 117, 127, and 132 — that allow employers to provide tax-free tuition assistance to employees. The paper demystifies these policies and explores potential modifications to strengthen these tools.

Alex Brill is a Research Fellow with the American Enterprise Institute. He served as policy director and chief economist of the House Ways and Means Committee, and served on staff of the President's Council of Economic Advisers under President George W. Bush.

ABOUT THE AUTHORS

Erica Price Burns is senior vice president and co-director of research at Whiteboard Advisors. She advises clients on the intersection of policy and innovation, with a particular focus on education, health, and wellness. She leads a team that produces proprietary research on complex issues and conducts transactional due diligence, policy analysis, and risk assessment. As head of the firm's philanthropy practice, Erica has advised Fortune 500 companies on multimillion-dollar grant programs, and works with company leadership to cultivate high-impact CSR initiatives and partnerships. Prior to joining Whiteboard Advisors, she worked for U.S. Senator Michael Bennet and served in a variety of roles in Democratic politics and on Capitol Hill. Erica graduated from Washington University in St. Louis magna cum laude with a degree in political science and economics.

Liz Simon is the General Counsel & Vice President of External Affairs at General Assembly where she leads GA's legal and public affairs, government relations, and social impact efforts. Liz joined GA from the Obama Administration, where she served as Counselor to the Director of U.S. Citizenship and Immigration Services. In that role, Liz worked on policy issues at the nexus of immigration and entrepreneurship and helped launch the predecessor to the Presidential Innovation Fellows program. Liz also worked in several capacities on Barack Obama's primary and general election campaigns in 2007-2008. Prior to that, Liz was an attorney at Hogan Lovells, a Washington D.C.-based law firm. Liz holds a bachelor's degree in Government from Cornell University and earned a J.D. from the University of Michigan Law School.

ABOUT GENERAL ASSEMBLY

General Assembly (GA) is a global educational company on a mission to empower individuals and professional communities to pursue work they love. Focusing on the most relevant and in-demand skills across data, design, business, and technology, GA confronts the skills gap through best-in-class instruction and career-growth opportunities. GA works with students online and in person at more than 20 campuses in six countries. GA also collaborates with employers to help companies source, assess, and transform talent. Additionally, GA's focus on affordable and accessible education — combined with our education-to-employment approach — is helping to foster a diverse talent pipeline.

ABOUT WHITEBOARD ADVISORS

Whiteboard Advisors advises the most transformative businesses and organizations in education, health, and wellness. Our team of policy wonks, geeks, and storytellers brings an unmatched understanding of the political and policy landscape to bear on strategy. With offices in Washington, D.C., and Silicon Valley, we help our clients navigate complex regulatory issues, conduct policy and market research, and implement creative communications strategies.

EXECUTIVE SUMMARY

- Employers are increasingly struggling with twin challenges: finding new workers with the requisite skills to succeed, and retaining their existing workforce to avoid the time- and cost-intensive recruitment and training process.
- The unemployment rate is at a 10-year low, and workers — emboldened by an increasingly tight labor market — are voluntarily leaving their jobs in search of new opportunities. At the same time, persistent skills gaps challenge growth and economic competitiveness for employers in high-growth, high-demand fields like manufacturing and technology.
- Amid complex external and economic pressures, companies must face the reality that the nature of business is changing. The pace of technological change continues to accelerate, and in an era in which the shelf life of skills is less than five years, it is critical for employers to prepare their workers to adapt to the shifting demands of work in the digital age.
- Federal policy, rooted in sections 117, 127, and 132 of the tax code, provides tax-advantaged opportunities for companies to support employees' educational aspirations in ways that help to attract and retain talent.
- However, business leaders are often unclear where federal policy ends — and corporate norms begin — when it comes to the rules that govern the administration of education benefits. Too often, corporate policies are antiquated, reflecting an outdated and limited view of the landscape of educational options.
- The resultant confusion, in some cases, appears to limit innovation — and options — as employees and executives alike clamor for more flexible benefits and experiment with a multiplicity of new education providers.

- This paper explains the landscape of tax policies that support education and training programs, as well as the promising practices used by innovative employers to expand their educational assistance programs to meet both employee needs and strategic business objectives.
- Its goal is to arm innovative employers, policymakers, and journalists with an understanding of the structures and historical trends that have shaped the ecosystem of employer-provided educational assistance, and to spark discussion about what the future may hold for companies, workers, and job-seekers alike.

WHY NOW?

Employers today are grappling with two connected human capital challenges: identifying and cultivating a workforce with the skills to compete, and finding ways to retain those workers to limit the costly cycle of recruiting and retraining their replacements.

At the same time, a confluence of factors — a tightening labor market, pernicious skills gaps in fields from manufacturing to technology, and the short shelf life of skills — have led to a seemingly paradoxical narrative. Six in 10 manufacturing jobs are currently going unfilled due to a lack of qualified candidates. Seven in 10 employers noted shortages of workers with the necessary technology, computer, and technical skills, and employers report that these skills gaps inhibit their ability to meet consumer demand.[1] And yet droves of Americans struggle to find jobs that put them on a path toward social and economic mobility or, at least, a comfortable perch in the middle class.

"One of the most important benefits an employer can offer their workers today is assistance with education and training."

– Jason Tyszko, Executive Director of the Center for Education and Workforce at the U.S. Chamber of Commerce Foundation

The result is a renewed interest in educational assistance programs, as employers look for a competitive advantage to upskill their workers, and recruit and retain talent across the enterprise. A handful of companies are exploring how new models can provide opportunities for individuals, while ensuring that employees have the exact skills they need, when they need them.

"One of the most important benefits an employer can offer their workers today is assistance with education and training," explains Jason Tyszko, executive director of the Center for Education and Workforce at the U.S. Chamber of Commerce Foundation. And with good reason. Continuous learning is fast becoming a strategic imperative as organizations struggle to adapt to technological change, take advantage of new opportunities, and stay competitive. It is also an important benefit for attracting younger workers: Half of millennials expect their employers to provide financial support for further education, according to a recent survey.[2]

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[1] The Manufacturing Institute, Deloitte. (2015). The skills gap in U.S. manufacturing: 2015 and beyond. Retrieved from http://www.themanufacturinginstitute.org/~/media/827DBC76533942679A15E-F7067A704CD.ashx

[2] EdAssist. (2015). New EdAssist Study: Millennials Seek Financial Stability from Employers. Retrieved from http://www.edassist.com/resources/news-releases/2015/04/millennials-study-press

Forrester reports that "as organizations seek to become digital businesses, the readiness of their workforce becomes a priority."[3] As the pace of change accelerates, leaders must stay abreast of trends and develop a digital mindset; digital practitioners must hone and update their skills; and job changers must re-skill to meet demand. "The ability to acquire technical skills quickly to obtain the competencies employers demand is increasingly important in our world of fast-paced technological change," says Josh Copus, vice president of the National Association of Workforce Boards. "But technology skills are not the only competencies employers need: Workers will also need support refining and articulating soft skills such as critical thinking, teamwork, and creativity in order to be successful."

Forrester reports that "as organizations seek to become digital businesses, the readiness of their workforce becomes a priority."

Fortunately, a panoply of educational alternatives has emerged in recent years that make the promise of learning and earning more viable. Buoyed by advances in online and competency-based learning, accelerated pathways can reduce the time and cost to acquire in-demand skills. Digital credentials, increasingly, translate nontraditional pathways into labor-market currency — and enable employers to evaluate the potential of both current and prospective employees.

But emerging models don't always square with vestigial policies that influence long-held corporate norms. This paper provides a primer on the history and state of play for employer-provided educational assistance programs. It addresses common myths that may limit adoption of new models and employee options. It is not meant to be an exhaustive analysis; rather, it aims to demystify existing policies and regulations — with the goal of stimulating interest among would-be innovators empowered by an understanding of the "rules of the road" and perspectives on the following questions:

- How can employers balance demand for new forms of education with legacy regulations or corporate policies that have calcified around traditional models?
- Can next-generation education and training programs support corporate talent development and retention priorities in ways that support employees' needs and drive real business value?
- What best practices have emerged as trailblazing companies collaborate with nontraditional providers?

[3] Schooley, C. (2016, December 9). Invest In The Next-Generation Technology Skills Required For Digital Business. Forrester. Retrieved from https://www.forrester.com/report/Invest+In+The+NextGeneration+Technology+Skills+Required+For+Digital+Business/-/E-RES135884

- Can innovative education models be incorporated into existing benefit structures in a way that facilitates faster adoption and improved opportunity for workers to upskill, but also squares with existing corporate and government policies?

EDUCATIONAL ASSISTANCE: HISTORY AND CURRENT STATE OF PLAY

Today, employers spend an estimated $70 billion to $170 billion each year on employee training. Of this, tuition assistance is estimated to be between $18-22 billion, which means that up to one in four dollars that companies spend on training goes to tuition reimbursement or similar educational assistance programs.

Employers first began offering tuition assistance after seeing the success of the 1944 G.I. Bill, which allowed more than 2 million veterans to attend college or university and another 6.6 million to attend other training programs. Today, employers spend an estimated $70 to $170 billion each year on employee training.[4] Of this, tuition assistance is estimated to be between $18-22 billion, which means that up to one in four dollars that companies spend on training goes to tuition reimbursement or similar educational assistance programs. [5,6]

According to the Society for Human Resource Management, the number of employees taking advantage of educational assistance programs nearly doubled between 1993 and 2007.[7] But the popularity of educational assistance programs has fluctuated over time: Economic downturns often lead to contractions in education benefits, as employers look for ways to cut costs. During the Great Recession, the share of employers offering tuition reimbursement for undergraduate coursework fell from 71% to 56%.[8]

An improving economy, however, means that more employees are willing to shift jobs — and puts pressure on employers to retain them.

Over 33 million people quit their jobs in 2015 — about one in four American workers.[9] This represents an increase of nearly 10 million people voluntarily leaving their jobs compared to 2011.

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[4] Training Magazine. (2015). 2015 Training Industry Report. Retrieved from https://trainingmag.com/trgmag-article/2015-training-industry-report

[5] Association of Talent Development. (2013, December 12). $164.2 Billion Spent on Training and Development by U.S. Companies. Retrieved from https://www.td.org/Publications/Blogs/ATD-Blog/2013/12

[6] ASTD-Releases-2013-State-of-the-Industry-Report Silber, J. M. (2016). Education and Training. BMO Capital Markets. Retrieved from https://bmo.bluematrix.com/docs/pdf/c914a87e-5eef-4644-8f61-b9e5361bab54.pdf

[7] Society for Human Resource Management. (2010). Who Benefits from Section 127? Retrieved from https://www.shrm.org/about-shrm/press-room/press-releases/Documents/10-0418%20Coalition%20Report%20on%20Public%20Policy%20Issue-E%20P%20E%20A_FNL.pdf

[8] Marcus, J. (2016, June 7). The Real Reason Employers Are Helping Workers Pay for College. CNN Money. Retrieved from http://time.com/money/4353997/employers-helping-workers-pay-college-tuition/

60% of potential employees would pick an employer that offered more options for training and professional development, versus an employer that offered regular pay raises.

Studies indicate that participation in tuition reimbursement programs can reduce employee churn, and a growing number of savvy employers have turned to educational assistance to combat employee turnover.[10] "Estimates suggest that the cost of replacing a worker is somewhere between 16% and 20% of the employee's annual salary, which means that education, in many cases, costs less than churn — and companies can generate positive return on tuition assistance in a relatively short timeframe," according to Rachel Carlson, CEO and co-founder of Guild Education.

Increased interest in tuition assistance also reflects the increased interest in educational benefits among younger employees. A 2015 survey by EdAssist found that when choosing between similar jobs, 60% of potential employees would pick an employer that offered more options for training and professional development, versus an employer that offered regular pay raises. "We've found that education assistance is valued by the younger folks in the workforce — who are quickly becoming the majority of the workforce," noted Tom Derry, CEO of the Institute of Supply Management. "They appreciate the opportunity, and it enriches their experience as employees."

Most companies are bullish on the value of their programs, with 75% of organizations reporting that their educational assistance programs are successful.[11] The data tend to support that claim: A Lumina Foundation and Accenture analysis of Cigna's education reimbursement program identified $1.29 in savings for every dollar spent on education reimbursement.[12] A similar analysis with Discover Financial found a $1.44 savings for every dollar spent.[13]

"Thanks to work like that done by Lumina Foundation, we now have pretty clear evidence that employers can receive a positive return on the investment they make in the education, training, and development of their employees," notes Jaime Fall, director of UpSkill America at the Aspen Institute. "There is now a pretty good body of work out there

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[9] Bureau of Labor Statistics. (2016, March 17). JOB OPENINGS AND LABOR TURNOVER – JANUARY 2016. Retrieved from https://www.bls.gov/news.release/archives/jolts_03172016.pdf

[10] Flaherty, C. N. (2007). The Effect of Tuition Reimbursement on Turnover: A Case Study Analysis. The National Bureau of Economic Research. Retrieved from http://www.nber.org/papers/w12975

[11] Miller, S. (2015, November 2). Educational Assistance Programs Lead to Career Success. Society for Human Resource Management. Retrieved from https://www.shrm.org/resourcesandtools/hr-topics/benefits/pages/educational-assistance.aspx

[12] Weathers, L.A. (2016, April 25). Investing in Employee Tuition Benefits Yields Significant Financial Payback for Major Corporation, Study Finds. Lumina Foundation. Retrieved from https://www.luminafoundation.org/news-and-views/2016-04-22-cigna-education-reimbursement-program

[13] Discover Financial Services. (2016, November 30). Study Finds Investing in Employee Higher Education Results in Cost Savings for Major Financial Services Company. Retrieved from http://www.businesswire.com/news/home/20161130005496/en/Study-Finds-Investing-Employee-Higher-Education-Results

such that, if companies see their educational assistance program as the cornerstone of the learning culture they want to create, they can gain real benefits from it through increased retention and lower recruitment costs. On the other hand, employers that just see these programs as an expense are really missing out."

A DYNAMIC PROVIDER LANDSCAPE

According to the Society for Human Resource Management, 75% of organizations report that their educational assistance programs are successful.

"As companies become better at connecting their human capital needs with their education benefits, the demand for a multiplicity of educational solutions has grown, upending the existing monopoly that has historically existed between employers and traditional educational providers," says Jamai Blivin, founder and CEO of Innovate+Educate. And as that landscape of education alternatives evolves, it is increasingly important for employers to understand where tax policy begins and ends — and where industry norms, which reflect long-established models, may stymie innovation.

"College is just the ante for access to the $170 billion formal employer-based training system, as well as more than $400 billion worth of informal learning on the job," says Anthony P. Carnevale, director of the Georgetown University Center on Education and the Workforce. "Unfortunately, these two key learning systems are not well aligned. Better alignment will benefit our colleges, our students, and our economy." Pioneering online and competency-based institutions like CSU-Global, Capella, Brandman, or Western Governors University are redesigning programs to meet employer demands. Additionally, companies are increasingly looking beyond degree-granting institutions toward new education models that provide unbundled courses and programs that target discrete skills for development or growth and may provide a better, faster, cheaper path to competencies. Because these course providers, including bootcamps, learning accelerators, or other just-in-time education providers, have not pursued formal accreditation, both employers and employees are often confused about the applicability of federal policies and incentives designed in an era where the range of educational alternatives was far more limited.

"Employers are, increasingly, providing access to short-term credentialing and training opportunities outside of accredited institutions," says Tyszko, of the Center for Education and Workforce at the U.S. Chamber of Commerce Foundation. "There is no doubt that employers will increasingly reinvent how they support the ongoing skill development of their workers to not only benefit from a competitive and productive workforce, but also to support their employees in navigating a dynamic and ever-changing economy."

A POLICY PRIMER

Educational benefits are unique in that they provide a double benefit: They are both deductible for the employer, and tax free to the employee. Employers are incentivized to provide education benefits through three sections of the Internal Revenue Code (IRC): Section 127, which allows for educational assistance programs; Section 132, which provides for fringe benefits; and Section 117, which allows employers to provide scholarships. Of the three, only Section 117 requires that employers partner with an approved, degree-granting educational institution.

"There tends to be confusion about inclusion of nontraditional providers in educational assistance programs," notes Charlie Schilling, general manager, Enterprise at General Assembly. "Employers believe they are limited to only degree-granting or accredited institutions, when, in reality, there is substantially more flexibility in the tax code." Understanding where the tax code ends, and where corporate policies begin, may help employers take advantage of the programs that best meet their needs.

IRC SECTION	DEGREE-SEEKING	INSTITUTIONAL REQUIREMENTS	JOB RELEVANCE	BENEFIT CAP
127	Not required	None	Not required	$5,250 per employee/year
132	Not required	None	Required	None
117	Required	"Eligible educational institutions"	Prohibited	None (amounts beyond total tuition and fees are taxable)

Section 127

Initially added as a five-year provision to the tax code in 1978, Section 127 allows employers to provide up to $5,250 per year, per employee in tax-exempt tuition benefits to cover the cost of tuition, fees, and books. Benefits under IRC Section 127 benefit both the employer and employee: they are generally excluded from the employee's income for purposes of federal income tax, and employers may be able to claim a business deduction on the benefits.

While Section 127 benefits have been limited to accredited institutions at various points in history, today, educational assistance programs under Section 127 can cover a broader array of opportunities, including graduate education and non-degree-seeking educational experiences.

Throughout the 1980s and '90s, the tax treatment of employer-provided education benefits under Section 127 remained a moving target. The provision was extended nine times before being made permanent in 2013.[14] Yet while the provision was made permanent four years ago, the amount — $5,250 — has not changed since 1986. Indexed to inflation, this benefit would be worth over $11,500 today. This cap has also not kept up with the rising cost of college: In 1986, $5,250 would cover total tuition, room, and board at most four-year institutions; today, the benefit would cover only about 50% of the average yearly in-state tuition and fees at a public four-year institution.

Employers offering assistance under Section 127 must codify their plan in a formal written document and submit it to the IRS, indicating that the plan does not discriminate in favor of highly compensated employees, and that eligible employees receive information about the program. Employers must not give employees a choice between benefits under the program and taxable compensation (e.g., higher salary/cash).

Section 117

Like Section 127, Section 117 requires a formal written plan each year, and requires that employers provide reasonable notice to employees. Unlike Section 127, however, Section 117 requires that employees be enrolled in degree-granting institutions in order to receive scholarships. Additionally, the scholarships cannot fund education that materially benefits the employer. So, for example, an employer cannot give a

[14] The Coalition to Preserve Employer Provided Education Assistance. In Congress. Retrieved from http://www.cpepea.com/congress

scholarship under Section 117 to an employee in order for that employee to seek advanced training that will improve the employee's ability to do his or her job.

This provision makes the use of Section 117 hard for most employers, as nearly any further education could potentially help an employee improve his or her performance. In fact, the IRS found that its own scholarship program actually fell short of meeting the requirements of this section.[15]

Section 132

Section 132 has fewer administrative requirements, but is the strictest about job relevance, requiring that every course be evaluated individually to determine whether it is eligible to be tax exempt. Coursework under Section 132 must be either legally required in order for the employee to keep his or her present salary, status, or job, or must help an employee maintain skills required for his or her current employment. This section is not intended to support coursework that prepares an individual for a new job. Unlike Section 127, benefits provided under Section 132 do not have an annual limit.

Other sections of the Internal Revenue Code provide opportunities for individuals to claim tax benefits for educational expenses. If tuition exceeds the amount covered by an employer's tuition assistance program, individuals paying the remainder out of pocket may be able to take advantage of tax credits or deductions.

Because of these requirements, educational assistance programs can become challenging for companies to administer without the help of outside expertise, depending on how many eligible employees decide to take advantage of the plan.

THE WHO, WHAT, WHERE, AND HOW OF TUITION ASSISTANCE

As forward-thinking employers consider strategies to reinvent their tuition assistance programs, it is important they understand the tax policy landscape as well as how their corporate policies may either facilitate or limit the use of these benefits. This involves answering three main questions: Who can take advantage of the program? Where can they use their benefits? And how will payments be structured?

[15] Fenton, E. D. (2004, September 1). Employer-Provided Education Benefits. Journal of Accountancy. Retrieved from http://www.journalofaccountancy.com/issues/2004/sep/employerprovidededucation-benefits.html

WHO AND WHAT: ELIGIBILITY AND ALLOWABLE COURSEWORK

The regulations of IRC Section 127 prohibit a tuition assistance program from favoring highly compensated employees, shareholders, and owners. However, this does not mean these plans are required to be open to every employee. Employers may set guidelines for participation: Programs may only be open to individuals who have been employed for a certain length of time, for example. While employers may also limit benefits to only full-time workers, most do not: 71% of employers offer their programs to both full-time and part-time workers.[16]

Companies can also limit the skill or topic areas for courses or programs covered by their education benefits. Building relevant skills is important to companies, and 87% require that courses be job related to be eligible for reimbursement.[17] For programs operating under IRC Section 132, job relevance is a legal requirement; for programs operating under other tax provisions, it is often just an internal policy.

WHERE: THE ACCREDITATION MYTH

Section 127, which governs most educational assistance programs, does not require that educational programs be either degree-granting or accredited.

Section 127, which governs most educational assistance programs, does not require that educational programs be either degree-granting or accredited. This means employers must develop their own internal policies to determine what programs are eligible for reimbursement.

Due in part to shifts in permissibility of certain expenditures over the past three decades in the Internal Revenue Code, or perhaps intended as a proxy for quality, four out of five employers now require that courses taken through the tuition assistance programs be regionally accredited.[18] Fewer than half of employers, however, require the course of study to be degree-seeking, providing flexibility for employees to identify the courses that are best suited to meeting their goals, regardless of whether they ladder up to a credential.

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[16] EdAssist. (2012). EdAssist's Annual Review of Employer Tuition Assistance Programs. Retrieved from http://www.edassist.com/~/media/bh/edassist/resources-media/research-reports-webinars/tuition-assistance-benchmark-report/424%20edassist%20%202012%20tuition%20assistance%20benchmarking%20report.ashx

[17] Kowske, B. and Lamoureux, K. (2012). Tuition Assistance Programs: Best Practices for Maximizing a Key Talent Investment. EdAssist. Retrieved from http://www.edassist.com/~/media/bh/edassist/resources-media/research-reports-webinars/maximize-tuition-assistance-programs/bersin%202012%20%20tuitionassistance%20study%20sponsored%20by%20edassist.ashx

[18] Ibid., 25.

Extending tuition assistance benefits to non-accredited providers offers both opportunity and risk for employers. While accreditation does indicate a baseline level of quality, it risks excluding many high-quality providers. While IRC sections 127 and 132, as noted above, allow for non-accredited educational programs to be covered, the majority of employer policies have not changed to allow for coverage of new types of high-quality, non-accredited providers.

"The evolution of the beliefs and value structure around education has gone from a focus on four-year degrees to a greater appreciation of community colleges, and now HR professionals and hiring managers are beginning to understand the value of including non-degree certificates and credentials in their educational assistance programs," notes Mary V.L. Wright, senior director at Jobs for the Future. "Educational assistance programs that support a variety of options provide more flexibility for employees to upskill in particular areas. Employers can play an important role in helping their employees identify the educational option that is both high quality and provides real value to the student."

HOW MUCH: LEVEL OF SUPPORT

The average tuition assistance amount offered by employers is about $4,500, according to the Society for Human Resource Management.

As noted earlier, IRC Section 127 only covers educational assistance programs up to a yearly maximum of $5,250 per employee, per year. Potentially as a result, the average tuition assistance amount offered by employers is about $4,500, according to the Society for Human Resource Management.[19] Some employers, however, are now choosing to raise their program limits. After seeing 129% ROI on education benefits, Cigna increased its yearly ceiling from $5,250 per year for undergraduate courses to $10,000 per year.[20]

INNOVATION IN EDUCATIONAL ASSISTANCE PROGRAMS

"Innovative companies are introducing promising new practices to improve their educational assistance programs," says Haley Glover, strategy director at Lumina Foundation. "Students can't always wait six months to be reimbursed, so companies are moving toward pre-pay or direct negotiation payment models. Companies are also looking for strategic alignment with their business needs, financing educational

[19] Society for Human Resource Management. (2014). Employee Benefits Survey. Retrieved from https://www.shrm.org/Research/SurveyFindings/Articles/Pages/2014-Employee-Benefits.aspx

[20] Marcus, J. (2016, June 7). The Real Reason Employers Are Helping Workers Pay for College. *CNN Money.*

programs that provide advancement opportunities within their own company, but also help employees move along a skills pathway. Finally, it's important for both the employer and employee to pick the right program at the right time: Time management can be a challenge for working learners, and middle management should be coached to make education a company priority."

Tuition refund programs that require employees to pay for courses and then seek reimbursement at the end of a term may put these benefits out of reach for many. The average yearly in-state tuition at a public university is $9,410, but 62% of Americans have less than $1,000 in their savings account.[21] This may be one reason why participation in education benefit programs hovers around 5%.[22] To remove this barrier, companies like Cigna, Amazon, Chipotle, and others are exploring options with higher-education institutions to pay tuition directly to the school upon successful completion by an employee.

"Providing education benefits that employees can actually take advantage of requires being thoughtful about financing," notes Burck Smith, CEO of Straighterline. "We know that the average student cannot afford large out-of-pocket tuition costs. Financial arrangements with institutions that allow companies to pay tuition directly are one way to solve this challenge. Employers can also partner with nontraditional providers that offer courses at a substantially lower cost, allowing tuition dollars to stretch farther for both employers and employees."

"Supporting our employees' educational aspirations is an important part of our company culture."

- Katie Burke, Chief People Officer at HubSpot

"We've worked hard to reduce barriers for individuals to take advantage of Amazon Career Choice," notes Juan Garcia, director of associate development at Amazon. "We pre-pay tuition for employees, because we know it's often hard for individuals — particularly our frontline employees — to cover the cost up front. We have dedicated academic advisors to help adult learners navigate their way through their chosen curriculum. And we provide some courses on site, recognizing that, for many of our employees, it can be a logistical challenge to make it to a community college. We don't want this to be a hidden benefit: We put our classrooms at the front of our distribution centers, build them 'fishbowl' style so everyone can see their peers taking advantage of the program, and work to make the program as accessible as possible."

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[21] Fottrell, Q. (2015, December 23). Most Americans have less than $1,000 in savings. MarketWatch. Retrieved from http://www.marketwatch.com/story/most-americans-have-less-than-1000-in-savings-2015-10-06

[22] EdAssist. (2012). EdAssist's Annual Review of Employer Tuition Assistance Programs.

Additionally, employers increasingly use educational assistance programs to highlight the importance of education and learning in corporate culture. "Supporting our employees' educational aspirations is an important part of our company culture," says Katie Burke, chief people officer at HubSpot. "We help our employees take advantage of a range of educational opportunities, from individual courses at General Assembly, to degree-seeking coursework at Boston University." Amazon's Garcia agrees: "One of our leadership principles at Amazon is to learn and be curious. Everyone at every level should have the ability to learn and grow, including those frontline employees in our fulfillment centers. Our Career Choice program allows them to pursue the next step in their personal and professional journey — whether that's with Amazon or not."

Chipotle also highlights the role of its education benefits in expanding an employee's options. Chipotle executive Gretchen Selfridge recently told Fortune magazine, that when employees and their families "realize there is tuition reimbursement, it shows we aren't trying to retain them in the fast-food industry forever." [23]

AREAS FOR FURTHER EXPLORATION

This primer provides only an initial overview of employee assistance programs. How should the factors that led to an emergence of new education models (e.g., widening skill gaps, prohibitive costs of four-year degrees, technology-driven business disruption, etc.) inform a new era of public policy designed to incentivize investments in human capital? The shifting priorities of individuals, early success of innovative programs, and rapidly evolving marketplace of providers present a number of critical issues worthy of further exploration:

- **What, if any, modifications to Section 127 are needed to allow companies to best support the educational attainment of their workers?**
    - The current cap of $5,250 has not changed since 1986, and no longer covers an entire year of in-state tuition at four-year public institutions. Raising this cap would allow employers to fund a larger portion of their employees' education expenses while retaining the tax benefits.

[23] Kell, J. (2016, August 8). Chipotle Expands College Tuition Benefits for Employees. FORTUNE. Retrieved from http://fortune.com/2016/08/08/chipotle-college-reimbursement/

[24] Employer Participation in Student Loan Assistance Act, H.R. 795, 115th Cong. (2017).

    - This section could also be expanded to cover other education expenditures. Legislation introduced in Congress would allow employers to cover loan payments, as well as tuition, under Section 127.[24] Some companies, like PricewaterhouseCoopers, already do this; creating a tax incentive may encourage others to follow suit.[25] "One of the more popular benefits is tuition assistance, but many leading employers aren't stopping there," notes Jason Tyszko. "Some firms are now paying down previous education debt as a way to attract and retain top talent."

- **How can tax and infrastructure policy create opportunities for hyper growth?**

    - Today, a blend of state and federal policies offer powerful incentives to employers that are creating new jobs and hiring workers from historically underrepresented groups.

    - The Work Opportunity Tax Credit (WOTC), for example, provides meaningful tax incentives to employers that hire from specific target populations, including youth during summer months, veterans, long-term unemployment recipients, and food stamp (SNAP) recipients.

        - The credits, which can reach 40% of an individual's first year of wages, are nontrivial for employers, equating to $2,400 to $9,800 per employee hired per year.

        - While research suggests that WOTC may not drive hiring, it may provide a helpful paradigm to structure incentives for employers to invest in not just the hiring, but also the training and onboarding of new talent.

- **Where might government programs be modified to better leverage existing initiatives?**

    - The Department of Labor's Trade Adjustment Assistance Community College and Career Training (TAACCCT) grant

[25] Bates, S. (2016, April 12). Student Loan Aid Helps Employers Attract Millennials. Society for Human Resource Management. Retrieved from https://www.shrm.org/ResourcesAndTools/hr-topics/talent-acquisition/Pages/Student-Loan-Aid-Attract-Millennials.aspx

[26] U.S. Department of Labor Employment & Training Administration. (2016). The Broad Reach of TAACCCT Funding. Retrieved from https://www.doleta.gov/taaccct/pdf/TAACCCT_Fact_Sheet_Broad_Reach_of_Funding_10.21.2016.pdf

program provided $1.9 billion over four years to help community colleges address labor demands and support training for a diverse set of workers. The intent of the grants was to connect workers with the training necessary to obtain a job in growing industries in their communities. Over 700 colleges across the country participated in the program.[26]

- Within this program, the Department of Labor could explore providing funding (in the form of tax incentives, matching funds, or grants) for employers to upskill their employees — or to re-skill unemployed workers, rather than giving these same funds to institutions for this purpose. Rather than institutions relying on proxies of employer demand to guess which skills are needed in the workforce, employers could create or identify training programs that truly meet their needs, thereby overcoming the alignment issues that have historically existed between education providers and employers, and creating a faster path from learning to employment.

- **What is the role of states in supporting educational assistance programs?**
  - In addition to federal tax incentives, states can provide their own incentives for educational assistance programs by excluding employer-provided educational assistance from income for purposes of state tax. The majority of states already do this, but a small number of others, including Pennsylvania and New Jersey, do not.[27]
  - States may also want to explore repurposing existing job creation incentives to cover education programs, particularly those tied to in-demand skills.
- **Where can existing regulations be modified to allow for flexibility in funding for nontraditional providers?**
  - Students enrolled in professional or graduate programs have the opportunity to apply for in-school deferment of loans used to pay for their undergraduate education, postponing repayment until graduation. This deferment is currently limited to institutions

[27] The Pew Charitable Trusts. (2017). How Governments Support Higher Education Through The Tax Code. Retrieved from http://www.pewtrusts.org/~/media/assets/2017/02/how-governments-support-higher-education-through-tax-code.pdf

participating in the Federal Student Aid program, but could be expanded to include non-accredited programs as well.

- Currently, individuals can access funds for education from a 401(k) account either through a loan (which must be paid back), or a hardship withdrawal (which incurs a 10% penalty).[28] IRA funds can be withdrawn as part of a hardship withdrawal without penalty.[29] However, like in-school deferment, in the case of hardship withdrawals, the educational institution must participate in the Federal Student Aid program. Allowing a penalty-free, one-time withdrawal for education expenses, with a broader set of allowable providers, creates more opportunities for employees looking to upskill.

- The expansion of individual education tax deductions could provide another avenue. Personal federal tax incentives for education cost the federal government $35 billion in forgone revenue in fiscal year 2014 — more than was spent on Pell Grants that year. While a few of these tax provisions (like the federal Lifetime Learning Credit) are open to non-accredited institutions, the majority require that an institution participate in the Federal Student Aid program. States also provide education-related tax breaks — in some cases, spending as much on these as on financial assistance.[30] Both states and the federal government should explore whether these should be extended to additional high-quality providers.

- **What is the role for employer-funded, self-directed education savings accounts?**

    - Like flex spending or health savings accounts in the healthcare context, the tax code could be modified to allow for education savings accounts that employers and employees could fund pre tax.

[28] Internal Revenue Service. (2017). Retirement Topics - Exceptions to Tax on Early Distributions. Retrieved from https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-tax-on-early-distributions

[29] Internal Revenue Service. Education Exception to Additional Tax on Early IRA Distributions. Retrieved from https://www.irs.gov/publications/p970/ch09.html

[30] Internal Revenue Service. Education Exception to Additional Tax on Early IRA Distributions. Retrieved from https://www.irs.gov/publications/p970/ch09.html

- **What additional, non-regulatory or tax-based changes are needed to ensure educational benefits are accessible to all employees who qualify?**
    - Companies like Amazon and Chipotle are working to incorporate their education programs into the lives of their employees, taking into considerations the realities many of their frontline workers face in finding time for coursework. Additional supports — coaching, child care, for example, or transportation — could allow greater access to these benefits as well.
- **What research is needed to put alternative approaches to the test?**
    - Tax incentives and employer investments in education and training account for hundreds of millions of dollars in spending each year. In order to demonstrate the efficacy (or lack thereof) in new program rules, or changes to the tax code, new metrics will need to be developed and implemented.

[31] The Pew Charitable Trusts. (2017). How Governments Support Higher Education Through The Tax Code.