GENERAL ASSEMBLY

Talent Development for Tomorrow's Economy

As of June 2019

Introduction

The Challenge:
A tightening labor market and persistent skill gaps in high-growth industries have fueled a seemingly paradoxical narrative in the country's education-to-employment pipeline. Because while the jobs are there, the skills aren't.

Employers are struggling to fill roles in not just fast-growing fields like blockchain development and machine learning, but also retail and hospitality. According to the Strada-Gallup poll, more than half of the U.S. workforce now believes they need additional education and training to advance in their career. Even as unemployment rates continue to fall, millions 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.

As compounding forces of automation and artificial intelligence (AI) transform the world of work, our education and workforce development system will face increased pressure to think differently as it responds to new upskilling and reskilling imperatives.

New Models Emerge:
The world of workforce development and training is quickly evolving, as employers and policymakers gain access to new forms of labor market data through firms like LinkedIn, EMSI, and Burning Glass to pinpoint skills gaps and opportunities to upskill. That work is enabled by a multiplicity of new, accelerated training providers, including General Assembly, which are developing a deeper understanding of the support that working and adult learners need, and experimenting with pay-for-performance models that aim to reduce the risk of educational investments.

We're seeing a convergence of old business models (like staffing) and new approaches to upskilling and reskilling that help employers expand and diversify their talent pipeline, and reduce costly frontline turnover. Educational benefits providers such as Bright Horizons and Guild Education are making it possible for employees to work full-time and earn a college degree simultaneously.
And employers are experimenting with modern-day apprenticeship initiatives — like Adobe's Digital Academy and Disney's CODE: Rosie — and opportunities for individuals to earn college credit for on-the-job training.

But new models rarely fit neatly within existing policy frameworks, many of which were designed to stimulate investments in our national talent pipeline at a time when the provider landscape was far less diverse.

The Opportunity:
In the coming years, our education and workforce development systems will continue a slow but fundamental paradigm shift: moving away from historic proxies like degrees and credentials and instead, toward a faster and more fluid system centered on skill development that facilitates economic mobility. Employers will play a growing role as both payers and evaluators of quality and outcomes.

But in the interim, policy changes within existing programs and regulations can create new opportunities for both employers and job seekers to gain valuable skills and close persistent skill gaps across the economy.

Section 1: Investing in Talent

Rethink Employer Incentives

Background: As AI, machine learning, and automation fuel rapid shifts in employer demand, employers can play a powerful role in education, training, and economic mobility. But while overall employer spending on training has increased over the past five years, spending per employee remains just a fraction of cost-to-hire. Large companies actually spent less on training per employee in 2017 than they did two years prior.

In Investing in Talent, General Assembly took a look at the sections of the Internal Revenue Code that facilitate tax-advantaged opportunities for businesses to invest in the education of their employees. Section 127 of the Internal Revenue Code allows employers to provide employees with up to $5,250 in tax-free reimbursement for higher education. But the current cap of $5,250 has not changed since 1986. Indexed to inflation, this benefit would be worth over $11,500 today.

Proposal: Create new tax incentives, and increase the cap on education benefits, to support employer investment in talent.

In February 2019, Senator Mark Warner re-introduced the Investing in American Workers Act, which would provide a policy framework for new incentives to stimulate corporate investments in talent development and retention. The act would create a 20% tax credit for employers who increase spending on training for low- and moderate-income workers. A companion bill in the U.S. House of Representatives was introduced by Rep. Raja Krishnamoorthi in 2018.

By adopting such policies, the federal government could follow the lead of states that have already implemented tax credits for education and training. Virginia's Worker Retraining Tax Credit, for instance, enables employers in the state to claim training costs for employees who attend community colleges, participate in apprenticeship programs, or pursue other eligible education opportunities.

In addition, raising the cap on employer education assistance, and indexing it to inflation, would enable employers to fund a larger portion of their employees' education expenses while retaining the tax benefits. Section 127 of the Internal Revenue Code could also be expanded to cover other education expenditures. While no pending bills call for raising the cap on tuition assistance, legislation recently reintroduced in Congress would, for example, allow employers to cover loan payments, as well as tuition, under Section 127.

Spark Investments in Lifelong Learning

Background: The era of "one-and-done" learning is over. As the shelf life of skills continues to shrink, workers will need to not only learn new skills, but also relearn skills throughout their careers to remain relevant — and employed.

Proposal: Pass legislation to help spur individuals' investments in lifelong learning.

In addition to supporting employer-based education and training, policymakers should take steps to ensure that workers are resourced to embrace a more continuous approach to learning. In November 2018, Senators Mark Warner and Chris Coons introduced the Lifelong Learning and Training Account Act, which would enable individuals (as well as employers and governments) to make a pre-tax contribution to an account that they could then use to fund education or training at any stage of their career.

Treat Human Capital as an Asset

Background: Current accounting treatment creates another barrier to calculating the value of human capital investments. According to current U.S. tax law, corporate financial reporting treats education-related costs the same as office supply purchases. This leads employers to underinvest in training because it is considered a cost rather than a business asset. Nevertheless, there is a growing body of evidence that points to the positive return on investment of education and training.

Proposal: Update corporate accounting procedures to treat education and training as a capital cost.

At present, nothing in the federal tax code requires employers to report their investments in human capital. Treating education and training as a capital cost has the potential to dramatically change the perception of upskilling from the corporate perspective. It also enables employers to make human capital investments that better balance short-term profitability with the long-term sustainability of the enterprise. Proponents of this shift note that a similar tax incentive model already exists to encourage investment in research and development.

Section 2: New Pathways to Opportunity

Ensure Accountability by Linking Federal Funding to Outcomes

Background: As part of its recently negotiated rulemaking process, the U.S. Department of Education considered policy shifts that would expand access to federal student aid for non-accredited education providers. The goal of such changes was to ensure that more students have access to training programs that are lower cost, more flexible, and better connected to measurable job outcomes. It's an approach that was also embraced by the Obama administration, which launched an experimental program to test the same idea in 2015.

Relatedly, federal policymakers from both sides of the aisle have recently called for an expansion of Pell Grants to fund short-term job training programs at accredited institutions, which — because they are shorter than 15 weeks — do not currently qualify for federal aid. Since many non-accredited education providers also offer short-form training, the measurement of outcomes in this recent proposal could provide a roadmap for efforts to expand federal funding to these providers.

Proposal: Ensure that student outcomes are an integral part of quality assurance for any policies that expand federal aid to non-accredited providers.

While the motivation for expanding federal aid to non-accredited providers is an important one, policymakers must exercise caution before opening up funding for new and existing short-term programs that may not have the resources to ensure quality and consistency at scale. Without the appropriate guardrails, such a policy risks repeating the challenges faced after the passage of the first GI Bill® in 1944. At the time, a lack of appropriate safeguards resulted in the eventual shutdown of more than 300 colleges and training programs and led to the creation of a federally-supported accreditation system when the GI Bill® was reauthorized in 1952.

Any policy shifts to expand student aid must begin with a focus on quality. There is also widespread agreement that evaluating the quality of non-accredited providers has to be based on student outcomes. In 2016, General Assembly worked with two Big Four accounting firms to develop a framework for tracking and reporting outcomes that could serve as a model for policymakers and other providers.

As legislators consider policy changes to scale non-accredited programs, it will also be critical to consider how policies can reward and incentivize efforts to provide access for students who face financial or other barriers to social and economic mobility. This could include encouraging investment in mentoring, coaching, and other wraparound services, considering alternative financing mechanisms, or promoting initiatives to recruit applicants from historically underrepresented populations.

Expand Portable Benefits

Background: From Bank of America to Verizon to Procter & Gamble, as much as 50 percent of the total workforce is outsourced. The gig economy now touches not just janitorial services and warehouse work, but also higher-skilled positions, including recruiters, medical transcriptionists, and computer programmers. Many General Assembly graduates start their own consultancies or choose to freelance when they start their careers as tech, data, and design professionals. This increasingly flexible relationship between individuals and their jobs has led to calls for a "new social contract" that enables contingent workers to access benefits historically linked with employment.

Proposal: Pass legislation to create a portable benefits program.

At the federal level, a bipartisan group of both House and Senate policymakers has called for legislation in which state governments, employers, and other stakeholders would fund experimental portable benefits programs. Introduced by Sen. Mark Warner in 2017, the Portable Benefits for Independent Workers Pilot Program Act would provide grants to state and local governments, as well as nonprofits, to develop and implement portable benefit programs.

Legislation introduced in Washington state would, similarly, require certain employers to contribute to nonprofit "benefit providers." These providers would manage benefits, including health insurance, paid time off, or retirement contributions, for both employees and independent workers.

Section 3: Streamlining Policy

Create Common-Sense Consumer Protections for ISAs

Background: Colleges and universities like Purdue University, along with nontraditional providers like General Assembly, are taking a new approach to financing education that de-risks the investment for students, and aligns interests between institutions and outcomes. An ISA (Income Share Agreement) is a contract in which a person agrees to pay a fixed percentage of their income for a defined length of time in exchange for upfront funding or services. In higher education, this contract is typically between a student and an institution. ISAs differ from loans in a number of ways, including how repayment amounts are calculated. With a loan, the individual makes payments based on an interest rate until their principal balance is reduced to zero. With an ISA, the individual pays a percent of income for a set period of time, regardless of the total amount paid, and there is no outstanding "balance." Research suggests that ISAs can help foster college-going aspirations, especially for loan-averse students who may forego college entirely due to the financial burdens of repaying student debt.

Proposal: Pass bipartisan legislation to create a regulatory framework for ISAs.

Despite their potential, ISAs currently lack the federal oversight and consumer protections provided by federal loans. Bipartisan legislation proposed in both the House and the Senate is taking a first step toward setting standards for tax treatment of ISAs, disclosure to consumers, and protection for ISA providers from certain consumer protection lawsuits.

This federal legislation can, in turn, serve as a guide for states looking to regulate ISAs. In the first three months of 2019, at least six states have introduced legislation to create pilot ISA programs. Sometimes referred to as "pay it forward" or "pay-as-you-earn" proposals, these programs create an alternative financing option for students based on their future income. The bills, along with the pending federal legislation, can and should serve as frameworks for non-publicly funded ISA programs.

Facilitate Reciprocity Where It Makes Sense

Background: Although accredited higher education institutions are often exempt from state licensure, non-accredited providers must comply with a patchwork of state-based rules and requirements. These policies and regulations play a critical role in protecting consumers and weeding out unscrupulous providers. But most focus on inputs (e.g., applicants' financial solvency) and transparency (e.g., refund policies) rather than outcomes.

Beyond licensure, states also have separate policies to approve access to federal programs, such as the GI Bill®, which slows adoption and limits access to new models and approaches, particularly in high-demand technology fields.

Proposal: Extend existing reciprocity policies to include non-accredited providers.

Creating frameworks for reciprocity among neighboring states may make sense when providers can demonstrate target quality levels or outcomes. The federal government could also lead in key areas, like the GI Bill®, where the Veterans Benefits Administration might pursue alternatives to the current state-by-state patchwork of approvals by state approving agencies.

This policy would build on the State Authorization Reciprocity Agreement (SARA), an initiative launched in 2013 and designed to help state policymakers agree on national standards for distance education. Currently, SARA covers only accredited distance education providers. However, extending it to include non-accredited providers could help streamline the process of reciprocity. For more information, see Beyond Bootcamps for General Assembly's insights on the benefits and risks of creating greater consistency among state policies and regulations.

Promote Data Transparency for Students and Graduates

Background: Federal data on the costs and outcomes of higher education has been limited since the 2008 reauthorization of the Higher Education Act, which banned the creation of a federal student data system. The College Transparency Act, first introduced in 2017 with bipartisan support, aims to address this issue by overturning the ban. The Act would provide prospective college students with more actionable information about the experience and career outcomes of other students at a given institution. Central to this bill would be a secure, streamlined reporting system that allows the federal government to track the earnings data of college graduates.

Proposal: Enable non-Title IV eligible providers to opt into federal student data reporting systems.

Allowing providers that are not eligible for federal student aid to voluntarily participate in a student data reporting system would ensure that such providers have the ability to access federal earnings data for their graduates. This increased transparency would enable more effective evaluations of new providers, and allow consumers to make apples-to-apples comparisons among different educational opportunities.