



Lifelong Learning Accounts

Summary of S.26: Lifelong Learning Accounts Act of 2007

What are LiLAs?

As developed by CAEL, Lifelong Learning Accounts (LiLAs) are employer-matched, portable educational accounts that workers can use to finance their education and training. LiLAs encourage a partnership between workers and employers to invest in education and training to meet the needs of business and industry and to help workers achieve their own career goals.

What is the Lifelong Learning Accounts Act of 2007?

As introduced by Senators Maria Cantwell (D-WA) and Olympia Snowe (R-ME), this Act amends the Internal Revenue Code of 1986 to establish a LiLA demonstration program for up to 200,000 workers in up to 10 states. The Department of Treasury will select participating states in a competitive process.

What tax advantages for contributions to LiLAs are included in the legislation - for both employees and employers?

In the demonstration, any employed person in an eligible state may contribute up to \$5,250 annually into a LiLA owned by the individual (adjusted annually for inflation). The LiLA owner would receive a non-refundable tax credit equal to the amount contributed into his or her LiLA up to \$500 against his or her tax liability for the tax year in which the contribution was made. The program targets tax incentives to lower and middle-income earners. All distributions for eligible expenses are excluded from the taxpayer's gross income. Employer contributions to workers' LiLAs also are excluded in the workers' gross income. Employers have the option to match workers' LiLA contributions and would receive a tax credit for each dollar matched up to \$500 annually.

How can workers use their LiLAs?

An individual can use the funds in his or her account at any time, and funds can be used to pay for all expenses and courses of instruction described in Section 127(c)(1) of the tax code, which includes tuition, fees, books, and supplies. The funds also can be used for additional expenses that the Secretary of the Treasury prescribes after consultation with the Secretary of Labor, including tools, equipment, information technology devices, and training and apprenticeship programs.

How are LiLAs different from other educational tax benefits such as the Coverdell Education Savings Accounts (ESA), Section 127 employer tuition assistance, the tuition and fees deduction, and the Hope Scholarship and Lifetime Learning Tax Credits?

LiLAs are "gap fillers" and do not substitute for any existing student financial assistance programs including Pell Grants, other federal or state grants, or education tax benefits. For example:

- **LiLAs have no age restrictions.** The Coverdell ESAs (formally Education IRAs) require contributions to be made before the beneficiary turns 18 years old and expire when the beneficiary turns 30.
- **LiLAs leverage a matching contribution from employers.** They are the only educational tax benefit in which employers can directly match employee contributions.
- **LiLAs are portable and can be used even during periods of unemployment.** Unlike Section 127 employer tuition assistance benefits, LiLAs are owned by the individual worker. If s/he terminates or changes employment, the worker still owns the assets and can continue to contribute to, spend from, and manage the fund, even if s/he is unemployed.

"To make sure our country remains a leader in the global economy and stays at the forefront cutting-edge innovation, we need to give Americans more training opportunities for high-skill positions. Lifelong Learning Accounts help workers and employers boost the education of the American workforce, and keep our country competitive." Senator Maria Cantwell, Democrat, Washington State

"The Lifelong Learning Accounts program will give millions of Americans an opportunity to develop the skills necessary to compete in an increasingly knowledge based economy. Creating savings accounts to finance education and training for career development will enable millions of hard working men and women to advance their careers and earnings." Senator Olympia Snowe, Republican, Maine

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- **LiLAs are a better fit for working adults' college enrollment needs.** Unlike the Hope Credit or the Coverdell ESA, LiLAs do not require an individual to enroll in college at least half-time to be eligible. As a significant portion of working adult students attends college less-than-half-time, this is an important feature.
- **LiLAs cover more education and training costs than other education tax benefits.** Unlike the tuition and fees deduction, the Hope Credit, and the Lifetime Learning Credit which are limited to tuition and fees only, LiLAs can cover a broader array of educational expenses. LiLAs also can be used for more educational courses and programs than Coverdell ESAs, Section 127 employer tuition assistance benefits, or the Hope and Lifetime Learning Credits.
- **LiLAs provide a tax benefit to workers as they save for postsecondary education, front-loading the benefit.** Unlike the tuition and fees deduction, the Hope Scholarship Tax Credit, and Lifetime Learning Tax Credit that provide a tax benefit after a worker has paid for and taken courses, LiLAs provide a credit on the contributions toward future education and training, providing an incentive to build savings for education and reducing the high barrier-to-entry posed by tuition and fees.

How are LiLAs different from other workforce training accounts such as Individual Training Accounts (ITAs) and Career Advancement Accounts (CAAs)?

LiLAs complement and address gaps in the public system's financing for education and training. There are several ways in which LiLAs differ from and complement ITAs and CAAs including:

- **LiLAs leverage private investment in education and training from workers and their employers.** LiLAs are funded by contributions from individual workers with matches from their employers – all private dollars. ITAs and CAAs, however, are funded entirely with public dollars.
- **LiLAs are owned by individuals, promoting savings and asset building.** Under the LiLA model, workers contribute to and own their accounts, which promotes a personal investment in education, training, and career advancement. This investment is maximized through leveraged employer dollars. In contrast, ITAs and CAAs are public funds distributed through the public workforce system and are not owned by individuals.
- **LiLAs are universal.** As designed, LiLAs can be opened by any eligible incumbent worker. Given the limited public funds available for worker education and training, ITAs and CAAs cannot be universal.
- **LiLAs are meant to provide financing for education and training over one's lifetime.** The LiLA design addresses the reality that workers will need to continually “skill up” and may need to retrain in order to access and keep good jobs. In contrast most state and local policies limit individuals to just one ITA. Also, as proposed, CAAs can be used once, with the possibility for a second year renewal.
- **The LiLA model includes education and career advising to help individuals make informed choices about their learning plans.** In contrast, current information on CAAs indicates that they do not provide education and training advising.

In summary, LiLAs are similar in concept to 401(k) accounts, but the funds can be used for education and training throughout one's lifetime. The ultimate vision is that LiLAs will become a standard offering in employee compensation packages, **putting money for education and training within reach of every American worker.**



For more information visit www.thomas.gov and search 110th congress, bill number S.26

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