Lifelong Learning Accounts:
A Strategy for Co-Investment in Education and Training

A Policy Brief from the Council for Adult and Experiential Learning

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Executive Summary

Our changing economy is creating a strong demand for workers who are educated, highly skilled and ready to learn. The challenge is to find a way to pay for the additional education and training that is needed. Some believe that employers should pay because they benefit from a skilled workforce, others believe that individual workers should pay, and still others believe that the government has a responsibility to help in this effort to address a looming national skilled worker shortage. A realistic and reasonable solution may be for all to share in the cost.

Lifelong Learning Accounts (LiLAs℠) are a promising new strategy to finance lifelong learning. LiLAs enable workers to upgrade their skills and knowledge to achieve their career goals and earning potential, while meeting the skill needs of employers. LiLAs are particularly appealing because they leverage individual and employer investment in an asset building strategy that benefits not just the workers themselves, but also employers, the economy, and the broader community.

The Problem: A Changing Economy Demands Greater Investment in Workforce Learning and Development

There is widespread agreement among policymakers, researchers and economists that in order for our regions, states and the nation to compete in the new global economy, our workers need to be educated, highly skilled, and ready to learn. Such a workforce will enable greater innovation, higher quality, and the ability to respond quickly to a changing world. The cost of inaction on this is great, particularly as other nations are quickly catching up by educating their workers. There are implications for business and industry in terms of their ability to compete, and there are also implications for the workers themselves. In the Educational Testing Service's report, *America's Perfect Storm: Three Forces Changing our Nation's Future*, the authors examine economic trends and conclude that, "if our society's overall levels of learning and skills are not increased and the existing gaps are not narrowed, there is little chance that economic opportunities will improve among key segments of our population" (Kirsch et al 2007).

Yet we seem to be moving in the opposite direction. The percentage of the workforce with a college degree was on the rise for several decades, but that trend has started to slow in recent years, even as other countries such as Korea and Japan are seeing rising levels of educational achievement (Kelly, 2005). Directing our attention to improvements in the K-12 system will address only part of the problem. Bureau of Labor Statistics data show that about two-thirds of our 2020 workforce is already in the workforce, beyond the reach of our K-12 system (Aspen Institute, 2007).

The cost of education and training, meanwhile, has risen dramatically in recent years. Adjusting for inflation, the College Board reports (2007) that tuition and fees between 1997 and 2007 increased 5.6 percent per year at private four-year colleges and universities (2.9 percent, adjusting for inflation), 7.1 percent per year at public four-year colleges and universities (4.4 percent after adjusting for inflation), and 4.2 percent per year at public two-year colleges (1.5 percent after adjusting for inflation).

Education and Training: the Benefits and the Responsibility

The question of who should pay for worker education and training is not easily answered since there are multiple beneficiaries of that training. Workers with higher skills and a college degree enjoy more labor market security and higher wages, employers gain greater access to the skilled workers that they need to compete in the new global economy, and a nation of educated workers and strong companies is more prosperous and stable.

Despite the absence of a strategy that distributes the financial responsibility among the various beneficiaries, a great deal of worker education and training already takes place. Some employers offer tuition benefit and training programs. Some public resources are available. And some workers pay their own way to make it happen. However, these resources to pay for education and training are limited:

- **The limits of current employer assistance.** According to a study by Eduventures (2006), employers currently spend $20 billion annually on tuition assistance for the workforce, but Eduventures survey results (2006) show that these benefits are far more likely to reach workers earning more than $40,000 per year than they are workers earning less than $30,000 per year. This finding is also confirmed by a National Center for Education Statistics (NCES) study using data from 1995-96. The study found that one half of executives, administrators or managers enrolled in credential-oriented programs received employer tuition assistance, compared with only 10 percent of employees in marketing and sales, and 4 percent of those who were handlers, cleaners, helpers or laborers (Lee and Clery 1999). Access to employer-paid tuition dollars is likely to grow as more employers begin to see employee learning and development as an important investment with real business returns. However, some employers will need help getting started.

- **The limits of public dollars.** During this period of rising federal budget deficits, new funding allocations for educating incumbent workers have been difficult to sell to policymakers. The Workforce Alliance has documented the trend of decreased public investment in workforce development, noting that funding for workforce development programs administered by the U.S. Department of Labor declined 29 percent between 1985 and 2003 (Spence 2003). With high profile researchers and business leaders raising the alarm about the danger of ignoring the growing skill shortages, leaders in government are beginning to recognize workforce development as a public necessity and a skilled workforce as a public good. However, public resources for incumbent workers are still very constrained.

- **The limits of personal resources.** Although many workers are interested in raising their skills, they typically find that money is one of the most significant barriers to pursuing education and training. The Institute for Higher Education (2007) found, for example, that working poor adults who want to enroll in educational programs, even after financial aid, are typically left with a nearly $4,000 gap to fill, but these individuals have an average expected family contribution of only $900. With the rising cost of postsecondary education, this financial barrier for working adults is not likely to disappear on its own.

Solutions for Investing in Worker Education and Training

There have been many policy ideas proposed and implemented in recent years to fill resource "gaps" in our current training system, typically through account-based approaches or through special tax benefits.

- **Coverdell Education Savings Accounts/Existing** – The Coverdell ESA is a custodial savings account with features similar to the Roth IRA, but specifically for education expenditures. Account holders can make annual non-deductible contributions of up to $2,000, until the beneficiary turns 18. Account funds must be used for qualified educational purposes before the beneficiary is 30 years old. These accounts are designed for individuals earning less than $110,000 annually (or $220,000 for a joint return). Qualified withdrawals are not taxed (Internal Revenue Service, http://www.irs.gov/taxtopics/tc310.html).

- **Lifetime Savings Accounts (LSA)/Proposed** These have been proposed by the Bush Administration to provide incentives for personal savings. LSAs would also operate similar to Roth IRAs: non-deductible contributions of up to $5,000 annually, with no income or age limits. Earnings would accumulate tax-free and all distributions would be excluded from gross income (Department of Treasury Press Release, February 2, 2004, http://www.treas.gov/press/releases/js1131.htm).

- **Individual Training Accounts (ITAs)/Existing** Used by the U.S. Department of Labor, ITAs are similar to vouchers. They are provided to individuals who need occupational skills training to become gainfully employed or reemployed. These individuals have access to services such as assessment and advising, and they may use their ITAs to purchase training slots with eligible programs/providers list (U.S. Department of Labor, www.doleta.gov).

- **Career Advancement Accounts (CAAs)/Pilot** As envisioned by the Bush Administration, CAAs are self-managed accounts of up to $3,000, renewable for one year, for a total of $6,000. They are available in a demonstration project to workers entering the workforce or transitioning between jobs, or incumbent workers in need of new skills to remain employed or move up the career ladder. The U.S. Department of Labor is currently piloting CAAs in 8 states (U.S. Department of Labor Press Release, October 26, 2006, http://www.dol.gov/opa/media/press/eta/eta20061877.htm).

- **Hope Credit/Existing** This provides taxpayers with a tax credit equal to 100% of the first $1,100 of tuition and fees and 50% of the second $1,100 (the amounts are indexed for inflation); $1,650 is the maximum credit per student claimed by the taxpayer. The credit is phased out for joint filers between $90,000 and $110,000 of income, and for single filers between $45,000 and $55,000 (indexed for inflation). The credit can be claimed for the first two years of postsecondary education for a student attending half-time or more (Internal Revenue Service, http://www.irs.gov/pub/irs-pdf/p970.pdf).

- **Lifetime Learning Tax Credit/Proposed** This credit is for individuals beyond the first two years of college, those taking classes part-time, or those enrolled in courses to improve or upgrade their job skills. The taxpayer can earn a credit of 20% on the first $10,000 spent on tuition and fees; $2,000 is the maximum credit per return. The credit phased out at the same income levels as the HOPE Scholarship. *In addition, Gene Sperling of the Center for American Progress has proposed Flexible Education Accounts, which would be an expanded variation on the Lifetime Learning Tax Credit* (Internal Revenue Service, http://www.irs.gov/pub/irs-pdf/p970.pdf).

- **Section 127 of the tax code/Existing** The tax code allows workers to exclude up to $5,250 of employer-provided education benefits from their taxable income annually. The benefit must be part of a qualified educational assistance program offered by the employer. The assistance may include payments for tuition, fees and similar expenses, books, supplies, and equipment. Qualified assistance for undergraduate or graduate education and does not have to be work related (although many employers make this a requirement) (Internal Revenue Service, http://www.irs.gov/pub/irs-pdf/p970.pdf).

- **Lifelong Learning Accounts (LiLAs℠)/Pilot** LiLAs are a new account-based strategy designed to leverage investment in learning from multiple sources. With a LiLA, a worker's investment in his or her own education is matched by the employer – the other party that directly benefits from worker education and training. A third party contributor in a larger scale initiative could be a government or other entity, which would also benefit from the cumulative skill-building of LiLA participants. In this way, LiLAs promote joint responsibility for worker education and training among the various beneficiaries[1] (CAEL, www.cael.org/lilas.htm).

Key features of LiLAs include:

- **Universality.** All individuals are eligible for accounts.

- **Broad Use of Funds.** Because individual learning needs vary, LiLAs can be used for a wide range of uses, including tuition and fees, assessments, supplies, materials, and books.

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[1] *A variation on the LiLA concept is the Personal Competitiveness Accounts recently proposed by the New Commission on the Skills of the American Workforce (2007). Similar to LiLAs in terms of leveraging contributions from various sources for lifelong education and training, these proposed accounts would be created by the government for every child at birth, with an initial deposit of $500.*

- **Portability.** Even though employers can contribute to LiLAs, the LiLA account is owned by the individual, regardless of the person's current employer or employment status.
- **Voluntary Participation.** Individuals and employers have the option of participating. The design encourages and facilitates widespread participation.
- **Matched Funding.** LiLA accounts are funded through individual contributions, employer matches, and potential matches from third party sources. The third party funds can be in the form of foundation or public sector funding allocations, or federal or state tax credits.
- **Informed Choice.** Individual participants choose the training and education they need to meet their career goals based on a learning plan developed with educational and career advisors.

Current Experience With LiLAs

From a variety of demonstration sites for LiLAs, the Council for Adult and Experiential Learning (CAEL) has learned that LiLAs are easy to use and administer, that workers do save and do use their LiLA savings for education and training, and that employers and workers alike find them valuable. These findings have been important because they support CAEL's larger vision of a system in which any individual worker would have access to a LiLA. This is a vision that is within reach as state and federal policy leaders see great potential in LiLAs for filling the current resource gap for worker education and training. Many of these leaders—including governors and federal and state legislators – are already working to advance LiLAs as an important economic development strategy for regions, states and the nation. (See box on page 8 for more information on current LiLA policy activities.)

A Comparison of the Various Policy Options

When considering the various policies and policy proposals to support the education and training of working adults, it is important to keep in mind what an ideal policy should achieve. The policy should be equitable, leveraging funds from a variety of beneficiaries. The policy should appeal to a broad range of potential users, at various points in their careers, and regardless of how much time they can spend on educational pursuits. And the policy should have the flexibility to provide for a wide range of educational needs, including advising help for the individual in making informed choices about their educational and career plans. Below, we weigh the various policy approaches to worker education and training against such criteria:

- **Worker education and training benefits not only the worker, but also employers and communities. All should, therefore, share some responsibility for worker education and training. Does the policy solution provide a way to distribute the responsibility for investing in talent development among workers, employers, and government?** Some of the existing strategies rely solely on the employer (Section 127) or on the public sector (e.g., ITAs and CAAs). The existing tax credit and savings programs establish some shared responsibility between the individual and the public sector, but there are currently no avenues for co-investment with employers.

  LiLAs are specifically designed to provide a mechanism for the worker, the employer and the public sector to co-invest in worker education and training. The worker's investment leverages investment from the employer and the government.

- **A worker's employment status can be very fluid. Workers move in and out of employment, and they may need to change employers for a variety of reasons – the Bureau of Labor Statistics reports that the average person in the U.S. holds more than 10 jobs from age 18 to age 40. Furthermore, the need for education and training may arise repeatedly throughout any one individual's career. Do the various policy options allow for this uncertainty, particularly the need for portability and repeated use of an educational benefit?** Tuition dollars offered through the Section 127 benefit generally disappear if the individual loses employment status or changes employers. ITAs and CAAs are public funds distributed through the public workforce system and are not owned by individuals. The Hope Scholarship is only designed for the first two years of postsecondary study, and the Lifetime Learning Tax Credit is capped at $2,000 per tax return, no matter how many students may be in the family or the amount of their combined educational expenses.

  LiLAs and the Coverdell Educational Savings Accounts are both portable. They are owned by the individuals, promoting savings and asset building.

- **The struggle to pay for education and training is experienced by many different kinds of workers. Is the policy solution available to a broad range of workers, including the economically disadvantaged, incumbent workers, young people, and adults of all ages?** Given the limited public funds available for worker education and training, many existing strategies – particularly the publicly funded ITAs and CAAs – are not likely to meet the large-scale needs of many incumbent workers with lower and middle income wage jobs who are "at risk" in our knowledge-driven economy. Further, Coverdell Education Savings Accounts require contributions be made before beneficiaries turn 18 years old, and those accounts also expire when beneficiaries turn 30.

  LiLAs' universality means that they are available to all workers. They can be opened by any eligible worker, regardless of age or income. Public investments can be targeted to lower and middle income workers.

- **Workers generally cannot take time off of work to go to school. Most are likely to take one or two courses at a time. Does the policy solution benefit individuals who are attending school less than half time?** Some federal educational assistance (e.g., the Hope credit) is not available to an individual who may only have time for one or two classes per term.

  LiLAs are available even to workers attending school *less than half time.*

- **Many workers know they need more education and training, but do not know how to explore their options or how to get started. Advising can help to guide individuals to educational options that best fit their needs and aspirations. Does the policy solution provide for career and educational advising as well as assistance in developing learning plans?** For the most part, existing programs do not provide for advising assistance. Some advice and guidance is provided through the publicly-funded ITAs, but current information on the state demonstrations of CAAs indicates that advising is not a program component.

  The LiLA model includes education and career advising to help individuals make informed choices about their learning plans.

What Policy Leaders Can Do

Compared with other policy options, LiLAs stand out because of their unique combination of features and benefits. As a result, many policy leaders are interested in finding ways to establish LiLAs for workers in their states or nationally. For state leaders, it may be useful to explore the answers to several key questions:

- How do workers in my state currently pay for their ongoing education and training?
- Does the state have a history of supporting worker education and training?
- What is the potential level of interest in LiLAs from current state leadership?
- Does the state have assets and resources to support it?
- How might a change in the political landscape affect commitment to a new initiative such as LiLAs?
- Who might become a champion of LiLAs to help move the concept forward?
- Who else needs to be involved?

Conclusion

LiLAs provide a promising strategy to respond to the great and growing need for a competitive workforce by leveraging resources from individuals, employers and government. They are not a replacement of current employer-based education and training benefits, nor can they be a substitute for targeted aid to disadvantaged populations. Instead, they help to fill an important gap in the current landscape of funding for worker education. LiLAs can help the working poor, individuals in dead-end jobs, workers and employers in highly competitive industries, and workers in professions that are becoming obsolete. They provide a way for individuals, employers, and the government to co-invest in education, making it an affordable prospect for all. As one LiLA account holder has said, "People should never stop learning. The LiLA program helps you financially and it won't break the bank."

Ideally, LiLAs would become a standard offering in employee compensation packages, putting money for education and training within reach of every American worker. To make this happen, CAEL is working with leaders at the federal and state levels to advance LiLAs on a larger scale.

- U.S. Senators Maria Cantwell (D-WA) and Olympia Snowe (R-ME) introduced federal legislation to establish a multi-state federal demonstration of LiLAs. U.S. Congressman Tom Allen (D-ME) introduced similar legislation in the House.
- Maine Governor John Baldacci has endorsed LiLAs through a state-based program.
- Illinois Governor Rod Blagojevich signed 2006 legislation establishing a state-based LiLA demonstration for the healthcare sector.
- Governor Laura Lingle of Hawaii introduced 2007 LiLA legislation as a part of an Innovation package that would provide a refundable tax credit to workers for LiLA contributions as well as an employer tax credit. State Representative Cindy Evans also introduced LiLA legislation.
- In Missouri and Kansas, state policy leaders included LiLAs as a key component of their winning USDOL WIRED grant proposal for the Kansas City region. Both states are working together to implement a LiLA pilot program in Kansas City this year.

In other states – including California, Michigan, New York, and Pennsylvania – leaders interested in workforce and economic development are also pursuing LiLA initiatives.

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LiLAs are mentioned or featured in the following publications:

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Bridging the Skills Gap by the American Society for Training and Development, 2006.

Innovations in Workforce Development Financing: Financial Innovation #2 (Part 2 of 3) by John Colborn of the Ford Foundation, 2005.

Innovate America by the Council on Competitiveness, 2004.

Report to the Community: Promising Approaches in Workforce Development for Low Income and Low Wage Individuals by the Low Income Investment Fund, 2004.

Links to newspaper articles and additional information about LiLAs can be found at www.cael.org/lilas.htm.

CAEL

What is CAEL?

CAEL is a national, non-profit organization which creates and manages effective learning strategies for working adults through partnerships with employers, higher education, government, and labor. CAEL is recognized for its experience in designing and implementing programs that address skill shortages, help workers improve their employability, and remove barriers to lifelong learning. CAEL is also committed to examining new strategies and public policies that make learning opportunities more accessible to adults, particularly low wage workers.

For more information, visit www.cael.org. For more information on LiLAs, see www.cael.org/lilas.htm, or contact Amy Sherman at CAEL, asherman@cael.org, 312-499-2635.

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