Employer IDA Initiatives

The Promise of Delivering IDAs through Employers

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Executive Summary

Assets matter in helping lift families out of poverty. Research assessing the effects of asset accumulation indicates that assets can have long-term positive economic and social effects on individuals' well-being. Assets provide economic security, mobility, and opportunity.

Individual Development Accounts (IDAs) are matched savings accounts proven to help the working poor save and build assets. They are built upon the theory that given the right savings incentives and institutional mechanisms, lower-income people can and will save to accumulate assets—much in the same way that wealthier people accumulate assets by utilizing financial products and incentives such as savings accounts, Individual Retirement Accounts, and 401(k)s.

To date, at least 20,000 individuals have IDAs or have graduated from IDA programs–striking growth considering only a handful of IDAs existed in the mid-1990s. But for every person saving in an IDA, thousands cannot because availability and access to these accounts are limited. New approaches to delivering IDAs are needed for them to reach scale and become accessible to a greater number of eligible families. Employers offer one such promising approach. By expanding on employers' existing systems, networks, and delivery channels to provide IDAs, millions will be able to build wealth through these proven asset-building tools.

With generous support from the Rockefeller Foundation and with tremendous insight and participation from a host of national and local partners, the Corporation for Enterprise Development (CFED) has launched an initiative to advance employer IDA programs. As part of this effort, in November 2002, CFED convened representatives from national and local IDA organizations, businesses, foundations, academic institutions, most existing employer IDA initiatives, and others to discuss employer IDAs and to identify the next steps in broadening and deepening work in this area. (See page 7 for a full list of meeting participants.) Specifically, the group developed two agendas–focused primarily on practice and policy—for advancing employer IDAs. (See page 4 for the agendas.)

This background paper is one of the first steps in the process. IDA practitioners, employers, and others should use it as a resource to learn more about the concept of employer IDAs. It includes a description of the benefits and challenges in providing employer IDAs, recommendations from existing employer IDA initiatives, and snapshots of potential employer IDA models. It reflects the wisdom and experiences of representatives from existing employer IDA initiatives as well as others who are committed to expanding the number and availability of employer IDAs.

Employer IDA Initiatives

Employer IDA initiatives hold tremendous potential for reaching millions of working poor individuals. The initiative structures are likely to vary as employers' business goals and capabilities are balanced with their employees' needs. In one possible scenario, employers could work with community nonprofits to administer various aspects of their programs. In another scenario, employers could develop solo efforts, in which they perform all IDA-related functions.

The handful of employer IDA initiatives that are currently in operation have about 15 to 50 employees enrolled at each company. The employers are in the manufacturing, service, and not-for-profit hospital industries. The majority of the employer IDA programs were initiated by the employers' IDA partners, which, in most cases, were nonprofit organizations. Nearly all of the employers rely heavily, if not solely, on the nonprofits to administer the IDAs, provide the financial education, and track the accountholders' savings. The requisite financial education is taught in most part by the nonprofit partners; the employers allow the financial education to be provided at the worksite during the employees' normal work hours and without loss of pay. Matching funds for the IDAs are provided by a number of sources including endowments, financial institutions, federal agencies, and in one case, the employer.

Key Findings

Advantages of Employer IDA Initiatives

Employers are attractive delivery channels for a number of reasons including their:

- Access to low-income workers;
- Existing benefits systems;
- Effective outreach and communications venues; and
- Potential ability to provide matching funds.

In addition, based on anecdotal evidence from existing employer IDA initiatives, employers that participate in IDA programs and similar employer-based asset-building efforts could reap significant benefits including:

- Lowered absenteeism and improved employee retention;
- Increased recruitment of lower-income employees;
- Improved workplace productivity;
- Increased participation of lower-wage employees in company retirement plans; and
- Useful asset-building substitute for employers—especially small employers—that do not provide benefit/retirement plans.

Challenges to Employer IDA Initiatives

While the opportunities and benefits are significant for delivering IDAs through employers, there are a number of challenges that need to be addressed in order to advance these initiatives:

- Environmental and institutional factors (e.g. the changing labor market and competing employee benefits);
- Federal tax treatment of employers' contributions to IDAs; and
- IDA program administration costs.

Insights from Existing Employer IDA Initiatives

Based on their experiences, the handful of employers that currently participate in IDA programs offer tremendous insights and recommendations including:

- Secure buy-in from upper-level management;
- Utilize direct deposit to institutionalize and facilitate routine savings by employees and as a cost-savings mechanism for employers;
- Build on existing relationships with financial institutions to hold the IDAs;

- Piggyback on existing programs and initiatives for low-income individuals, such as welfare-to-work and the Earned Income Tax Credit (EITC), to facilitate savings among employees;
- Allow employers to define the eligible asset purchases;
- Explore IDA program structures that are portable and/or linked to other retirement plans; and
- Provide financial education and skills training at the workplace.

Next Steps: Practice and Policy Agendas

Based on input and support from participants at the November 2002 meeting, practice and policy agendas were identified to advance employer IDA initiatives. These agendas were built on participants' experiences and expertise: the challenges they had faced or could foresee in these efforts, the ways they overcame the challenges, and the practice and policy recommendations they would make to increase the number of employer IDA initiatives. Based on those insights, participants agreed to form working groups to do the following:

- Review and thoroughly assess employer IDA models—existing and developing approaches;
- Develop the business case and the sell for employer IDAs;
- Develop a cost-effective IDA product (or products) that would be attractive to employers and beneficial to employees; and
- Identify federal and state policies and regulations that support employer IDA initiatives.

Going forward, CFED will cultivate new partners, such as unions, trade associations, benefits organizations, and others to implement this work.

Practice Agenda

Share knowledge from developing and existing employer IDA initiatives to identify and assess effective employer IDA models.

- Explore and assess the pros and cons of portable employer IDAs compared to those that are tied to particular employers.
- Probe the pros and cons of IDAs that are offered to employees universally versus those that are offered to select employees.
- Explore the most effective roles of the various partners—employers, nonprofits, financial institutions, and others.
- Produce an employer IDA how-to manual for employers and their IDA partners.

Explore and develop cost-effective employer IDA products.

- Develop benefit-cost analyses of employer IDAs, and to the extent possible, assess the returns on investments of employer IDAs.
- Explore and support new products and systems to develop turnkey IDAs by building on current models and exploring complementary systems and programs throughout the public, private, and technology sectors.
- Develop an understanding of employers' motivations for offering IDAs to employees.
- Research similar initiatives and employers from countries with greater social commitments, and, where possible, apply learnings to employer IDA programs.

- Explore how employer IDAs could be developed as a part of compensation benefits packages.
- Explore how to position employer IDAs as competitive products that help meet businesses' needs (recruitment, retention, return on investment, recognition, relationships, and revitalizing communities) and are likely to be utilized by human resource departments.
- Identify opportunities to couple employer IDAs with other initiatives, such as Fannie Mae Employee Assisted Housing programs or Federal Home Loan Bank programs.

Develop the business case to market IDA initiatives to employers.

- Develop an employer typology—consisting of an assessment of employers by size, industry, employee type, tax status, and other variables—to identify employers likely to provide IDAs.
- Develop the IDA "sell."
- Identify incentives for employers to participate in IDA programs using related research, surveys (focus groups, interviews), and insights from current employer IDA initiatives.
- Develop the pitch for generating IDA match contributions from employers.
- Develop materials and resources to help market employer IDA initiatives.
- Determine how to effectively introduce IDAs into the world of competitive benefits.
- Identify and clearly define the benefits to employers.
- Probe how to identify IDA champions within businesses—from CEOs to production line employees.

Policy Agenda

Explore new federal and state policies or modify existing policies to support employer IDAs.

- Review systematically all federal policies and programs—including the Workforce Investment Act, the U.S. Department of Health and Human Service's Assets for Independence Act (AFIA), EITC, and others—to identify opportunities for greater support of employer IDAs.
- Explore and develop materials that explain how employer IDA initiatives could be coupled with programs that target low- and moderate-income employees, (e.g., EITC, Work Opportunity Tax Credit, Welfare-to-Work Tax Credit, and others).
- Promote the modification of federal tax credits, like the Work Opportunity Tax Credit and the Welfare-to-Work Tax Credit, to support employee retention as well as employment.
- Create materials that explain regulatory and legal issues related to employer IDAs (e.g., federal tax treatment of match contributions and the Employee Retirement Income Security Act).
- Explore modifying AFIA through the reauthorization process to relax income requirements; loosen private funding conditions, and to allow a greater percentage of AFIA funds to be used for non-match purposes.
- Obtain a favorable ruling from the IRS on the tax treatment of employer IDAs and, if necessary, seek regulatory or legislative changes to allow favorable tax treatment of employers' contributions to IDAs.
- Explore new policy options, such as refundable tax credits and "pay or play" legislation, which would require employers to invest in training for employees (with IDAs as an eligible training investment) or pay a compensating tax.
- Explore options to expand employer retirement plans to include IDAs.
- Explore developing new state policies or modifying existing policies to support employer IDAs.

Conclusion

The IDA field is at a critical juncture. IDAs are proven tools for helping low-income individuals save and build assets; however, as they are currently administered and delivered, their availability and accessibility is limited. Delivering IDAs through employers and capitalizing on employers' systems, networks, and delivery channels could open the door for hundreds of thousands, if not millions, of IDAs to become available to the working poor. This is a new and evolving approach to IDAs that holds tremendous opportunity. Existing employer IDA programs, national and local nonprofit organizations, federal and state governments, government-sponsored entities, financial institutions, and employers are dedicated to advancing employer IDA initiatives.

To move this work forward, CFED, with partners from the November 2002 meeting and others, will do the following:

- Lead a broad coalition of partners in developing and implementing the practice and policy agendas;
- Serve as a resource for employer IDA initiatives by collecting, developing, and disseminating employer IDA materials and resources;
- Identify and forge new federal and state policies and initiatives (or modify existing ones) to support employer IDAs; and
- Help to facilitate additional research in this area.

As this work progresses, effective, scaleable approaches to employer IDAs will evolve and millions of eligible individuals and families will have access to these proven asset-building tools.

Employer IDA Meeting Participants List

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The Promise of Delivering IDAs through Employers

Individual Development Accounts (IDAs) are designated matched savings accounts that enable working-poor families to save and build wealth. While there has been tremendous growth in the number of IDAs—beginning with a handful of accounts in 1996 and growing to more than 20,000 today—these accounts are still inaccessible to millions of lower-income families. New approaches to delivering IDAs are needed for them to reach scale and become accessible to a greater number of eligible families. By expanding upon existing systems, networks, and delivery channels and creating new ones, millions of the working poor will be able to build wealth through these proven asset-building tools.

With support from the Rockefeller Foundation, the Corporation for Enterprise Development (CFED) is exploring the potential of employer IDA initiatives.[1] This work will involve gathering information about existing efforts to deliver IDAs through employers; identifying the challenges and benefits of such approaches; probing related employment, globalization, and workforce development issues; and identifying the next steps for launching new employer IDA initiatives.

This background paper is one of the first steps in the process. IDA practitioners, employers, and others should use it as a resource to learn more about the concept of employer IDAs. The paper:

- Outlines the case for asset-based strategies and illustrates how IDAs are one such tool;
- Discusses the importance of IDAs in reaching greater scale and suggests that employer IDA initiatives offer a promising approach for broadening asset ownership;
- Provides background on current employer IDA initiatives and distills early lessons learned;
- Proposes the next practice and policy steps, which were developed with input and guidance from a day-long brainstorming meeting (See page 7 for a list of meeting participants.); and
- Contains a number of detailed appendices, including a list of questions that guided the research inquiries; a short history of employer-based benefits in the United States; a review of the literature on the returns for investments in employee skills; and a discussion of precedents for designing employer IDAs focused on training, educational uses, and others.

Assets Matter

Prior to the 1990s, the theory that assets matter in helping lift families out of poverty was a novel concept; since then, the theory has been tested and proven. Research assessing the effects of asset accumulation indicates that assets can have long-term positive economic and social effects on individuals' well-being. The literature finds that assets:

- Are positively associated with economic household stability;
- Decrease economic strains on households;
- Are associated with educational attainment;
- Decrease the likelihood of intergenerational poverty transmission;
- Increase property values and property maintenance;
- Increase health and satisfaction among adults;
- Decrease residential mobility;
- Increase local civic involvement; and
- Provide financial and psychological benefits that income by itself cannot provide (such as a financial cushion and a more forward-looking perspective).[2]

Despite these benefits, a large asset disparity continues to grow between the wealthiest and the poorest in the United States. The statistics are revealing: A 1998 study found that the top 1% of families owned 38% of the nation's total wealth and the top 20% held 83%, whereas the bottom 40% of families held less than one-half of 1%. The average wealth of the 41 million households in the latter category was only $1,100.[3]

Further, a 2000 assessment of assets found that one-quarter to nearly one-half of all U.S. households or individuals were asset poor, meaning they had insufficient net worth to subsist for three months at the poverty level. In fact, the U.S. asset poverty rate (25.5%) was two times the income poverty rate (12.7%).[4]

IDAs: A Tool for Building Assets

IDAs are asset-building tools that reward the monthly savings of working-poor families. As an incentive to save, accountholders receive matching funds that come from a variety of public and private sources. Accountholders also receive financial literacy education. IDA savings are typically used to acquire high-return assets such as a first home, postsecondary education, or a small business. Other uses include retirement saving, home repair, and vehicle purchase.

IDAs are built upon the theory that given the right savings incentives and institutional mechanisms, lower-income people can and will save to accumulate assets—much in the same way that wealthier people accumulate assets by utilizing financial products and incentives such as savings accounts, Individual Retirement Accounts, and 401(k)s.

While IDAs could be provided in a number of ways, by and large they are administered through partnerships between community organizations and financial institutions. The community organizations usually provide the requisite financial education for IDA holders and perform outreach, program administration, data collection, account monitoring, and financial counseling. The financial institutions typically hold the accounts and sometimes provide matching funds. Other sources of matching funds, include local or national philanthropic organizations and federal, state, and local governments. To date, the source of the matching funds typically determine the allowable IDA uses. For example, under the federal IDA program established through the Assets for Independence Act (AFIA), the U.S. Department of Health and Human Services provides the match funding and sets the qualifications.

Today more than 20,000 people are saving in IDAs and more than 400 community organizations are partnering with at least 225 financial institutions that administer them. An analysis of the American Dream Demonstration (ADD), the first national IDA demonstration that ran from 1997 to 2001 shows that IDAs are effective vehicles for facilitating savings among lower-income people. As of June 2000, when the last ADD data were available, the cumulative personal savings of IDA holders totaled nearly $480,000, based on an average participation period of 13.3 months. Approximately 8% of those deposits, $65,000, were savings above and beyond the amount eligible for matching funds. When matching funds were added, IDA holders had in total almost $2.5 million in savings.

ADD data demonstrated that two features of IDAs are particularly positive factors in savings behaviors among lower-income individuals: direct deposit and financial education. Controlling for other factors, ADD data found that IDA holders who used direct deposit were 22 percentage points more likely to save than those who did not. The same research also found that using direct deposit helped accountholders to continue saving regularly in their IDAs. These findings correspond to other research on the effects of direct deposit. A 2001 study by the U.S. Office of the Comptroller of Currency found that 61% of individuals with bank accounts who used direct deposit saved regularly. The research also found significantly high rates of regular saving activities among the lowest-income individuals who had bank accounts and used direct deposit.

Related IDA research from ADD also found that the amount of financial education IDA holders received was positively related to their monthly deposits. ADD research found that every hour of financial education, up to 12 hours, was positively associated with significant increases in the accountholders' average monthly net deposits.

Need for Mechanisms to Achieve Scale

Even with the proven success of IDAs and the rapid growth in the number of accountholders over the past seven years, the availability of these accounts remains limited. In great part, this limited availability is due to the way they are currently offered through local community organizations. As administered today, these organizations cannot scale up IDAs for a host of reasons, including competing programmatic priorities, limited staff capacity, and inadequate operational and matching funds.

To reach the millions of individuals who could benefit from IDAs, the field should continue to support existing IDA programs, but also should explore and adopt new approaches that allow IDAs to be delivered on a greater scale. Pending federal legislation, the *Savings for Working Families Act*, is one such approach that would support existing systems, while enabling IDAs to be delivered to 66 million individuals through financial institutions. Using fairly strict income criteria, the legislation would make IDAs accessible to 3,300 times the current number of low-income individuals and families.

While financial institutions are a promising delivery channel, research indicates that employers also show great potential.

The Advantages of Delivering IDAs through Employers

Delivering IDAs through employers and piggybacking on their existing systems could allow these asset-building accounts to be accessible to millions of working poor. Employers are attractive delivery channels for a number of reasons, including their:

- Access to low-income employees;
- Existing benefits systems;
- Effective outreach and communications venues; and
- Potential ability to provide matching funds.

Access to Lower-income Employees

Given their direct and routine access to millions of lower-income employees, employers have the potential to be effective IDA delivery channels. ADD research shows that almost 80% of IDA holders were working, with 58% working full time and 20% part time. Just as employers deliver retirement, health, and other benefits to their employees, they could deliver IDAs to their lower-income employees through the workplace.

Research also indicates that IDA holders are motivated towards education and are likely to have some college education: 85% of IDA holders in the demonstration had attained their high school degree or earned their high school equivalency certificate, and 61% had attended some college.

Existing Benefits Systems

Employers have a long history in the United States of providing employees with a host of benefits. The first employer-provided benefits date back to the 1600s when military retirement benefits were offered to settlers of Plymouth Colony. Since then, employee benefits have expanded significantly; a variety of types are offered today including, paid vacation time, flexible spending accounts, health insurance, employee stock ownership plans, and matched retirement plans.[5]

Given their long history of providing employee benefits, employers have developed the tools and systems to administer them in a relatively cost-effective manner. Today, benefits systems have processes for explaining eligibility, collecting enrollment forms or waivers, transmitting payroll deduction requests from employees and providing them to payroll processors, and distributing benefits information throughout the company. Benefits systems also often contain automated computer software systems to perform repetitive administrative tasks, such as recurring direct deposits.

IDAs could piggyback on these existing systems. Human resource staffs would likely have the necessary information (e.g. salary information, Social Security numbers or other forms of identification) to verify incoming employees' qualifications for IDAs. As new employees complete forms to participate in retirement savings plans and other benefits programs, they could also enroll in IDA initiatives and sign up to use direct deposit to make routine deposits from their paychecks into their IDAs. Once employees are enrolled, the benefits system could be used to track the IDA holders' savings and to facilitate match contributions. Employers could establish tracking mechanisms to ensure that employees who are saving in IDAs are also participating in employer-sponsored retirement plans.

The Human Resource Information System is one example of a computerized benefits system that could track employees who are eligible for IDAs, who have enrolled in or waived participation in IDA programs, and who have attended financial education workshops. The objective is to build on existing systems to ease administration and lower the costs of providing IDAs.

Effective IDA Outreach and Communication Venues

Workplace settings are effective venues for communicating information about IDAs, both through informal exchanges among employees as well as more formal channels from employers to employees. Insight from existing IDA programs, in both employer and non-employer IDA settings, suggests that the exchange of information among IDA holders is one of the better ways to communicate about the accounts and to increase program participation. The workplace offers a venue for such exchanges. Employers could also share information about IDAs through new employee orientations, newsletters, meetings, information attached to paychecks, and human resource staffs.

Potential Ability to Provide Matching Funds

Securing matching funds for IDAs is one of the more pressing challenges of existing IDA programs. Currently federal matching funds are available from the U.S. Department of Health and Human Services. Federal and state tax incentives also exist for private matching fund contributions. However, if IDAs become available to hundreds of thousands, if not millions, these sources would not be sufficient.

Indications are that employers would provide matching funds if incentives were created to encourage such contributions and if they felt confident that their contributions, or a good portion of them, would benefit their employees directly. The Internal Revenue Service (IRS) has identified one employer IDA scenario in which employers could receive charitable tax deductions for making match contributions to IDA initiatives. (See discussion on page 19.) In addition, the pending *Savings for Working Families Act*, would provide a dollar for dollar tax credit to financial institutions for IDA match contributions. It also would allow tax credits to be transferred from financial institutions to other tax-paying entities; employers could be one such entity.

Current Employer IDA and Other Asset-building Account Initiatives

A handful of employer IDA initiatives currently exist nationwide, with 15 to 50 employees enrolled at any one company. The employers are in the manufacturing, service, and not-for-profit hospital industries. The majority of the employer IDA programs were initiated by the employers' IDA partners, which, in most cases, were nonprofit organizations. Nearly all of the employers rely heavily, if not solely, on the nonprofits to administer the IDAs, provide the financial education, and track the accountholders' savings. The requisite financial education is taught in most part by the nonprofit partners; the employers allow the financial education to be provided at the worksite during the employees' normal work hours and without loss of pay. Matching sources for the IDAs are provided by a number of sources including endowments, financial institutions, federal agencies (through Temporary Assistance for Needy Families [TANF] dollars), and in one case, the employer.

Below is a summary of three employer IDA initiatives and the Lifetime Learning Accounts (LiLA) demonstration.[6] Two of the four programs described below focus on specific employee populations: working-poor immigrants and welfare-to-work recipients.

IDA Program	IDA Administration	Matching Funds Source	Employer Involvement	Rationale for Employer Involvement
Employer: Mission St. Joseph's Hospital **Nonprofit:** Affordable Housing Coalition **Location:** North Carolina **Participants:** 24 current, 120 estimated by 2003	Nonprofit tracks accountholders' savings, provides financial education, and confers with local financial institution.	Employer provides all funds (matching and operational) through a grant to the nonprofit organization.	Employer provides matching and operational funds and on-the-clock time for financial education.	Helps to identify, recruit, and retain service employees.
Employer: Marriott International **Nonprofit:** Shorebank (community development bank) **Location:** Illinois **Participants:** Approximately 30	Nonproft holds and tracks accounts and provides financial education.	Welfare-to-work funds.	Employer facilitates direct deposit for accountholders and provides on-the-clock time for financial education.	Benefits welfare-to-work employees.

IDA Program	IDA Administration	Matching Funds Source	Employer Involvement	Rationale for Employer Involvement
Employers: Three small manufacturing firms Nonprofit: Community Development Technologies Center (a regional nonprofit) Location: California Participants: 65 current, 35 more targeted	Nonproft provides basic financial education, English as a second language courses, skills upgrade training, and facilitates banking relationship for employees.	Financial institutions and foundations created IDA matching funds pool.	Employer allows financial education to be provided at the worksite (time covered in part by employer/in part by employees) and facilitates direct deposit for IDAs. (However, many of the employees do not use it.)	Helps with retention of large immigrant employee population.
LiLA demonstration Employers: Small to mid-sized employers Nonprofit: Council for Adult Experiential Learning (CAEL, a national organization that developed and administers LiLAs) Location: Illinois and Indiana	CAEL secures matching funds and seeks out employers to participate in the LiLA demonstration.	Employer and CAEL. (CAEL raises match funds from a variety of private and public sources.)	Employer provides a portion of the matching funds. (CAEL also provides portion of the match.)	Facilitates skills upgrade for employees and helps with employee retention.

Key Lessons from Existing Employer IDA Initiatives

The following are recommendations from existing employer IDA initiatives:

- Secure buy-in from upper-level management because given competing priorities, middle-management may be reluctant to implement and support IDAs;
- Utilize direct deposit to institutionalize and facilitate routine savings by employees and as a cost-savings mechanism for employers;
- Build on existing relationships with financial institutions to hold the IDAs;
- Piggyback on existing programs and initiatives for low-income individuals, such as welfare-to-work, TANF, and the Earned Income Tax Credit (EITC). Such programs could be sources of matching funds (e.g. welfare-to-work and TANF) and could facilitate savings among employees (e.g. EITC). These programs would also help to identify employees who would be eligible for IDAs;
- Allow employers to define the eligible asset purchases;
- Explore IDA program structures that are portable and/or linked to other retirement plans;
- Explore new systems—such as the D2D model, a system currently being developed—to improve administrative and accounting burdens[7]; and
- Provide financial education and skills training in the workplace. This way employees would not have to arrange for transportation to and from classes—a noted barrier to successful completion of financial education courses.

Employer IDA Initiatives: Benefits to Employers and Employees

Based on anecdotal evidence from existing employer IDA initiatives, the LiLA demonstration, and a review of employee benefits program outcomes, a number of direct and secondary benefits could accrue to employers and employees who participate in IDA programs and similar employer based asset-building efforts.

For employers, potential benefits include the following:

- Lowered absenteeism and improved employee retention, especially if employees use their IDAs to purchase homes in the vicinity of the employers;
- Increased recruitment of lower-income employees;
- Enhanced positive public relations;
- Improved skills of employees and potential for developing new management, particularly if the IDAs are used for educational purposes;
- Better employee morale and staff relations;
- Improved workplace productivity (Because requisite financial education results in greater personal financial management. Research shows that 15% of employees spend time on personal money matters on the job, which negatively affects productivity.);
- Increased participation of lower-wage employees in company retirement plans, if the IDA programs are structured so that retirement plan participation is a requirement for IDA participation; and
- Useful asset-building substitute for employers—especially small employers—that do not provide benefit/retirement plans.

For employees, potential benefits include the following:

- New or increased savings. (Research shows institutional savings structures have strong positive effects on saving behaviors.[8] The institutional mechanisms employers have in place—automatic paycheck deductions, routine benefits review, etc.—could encourage savings among lower-income employees;
- Access to asset-building accounts, which could be the employees' only asset-building tool if they are not offered employer-sponsored retirement plans;
- Additional skills and improved career opportunities, particularly if the IDAs are used for educational purposes;
- Access to mainstream financial products and services;
- Psychological benefits, such as improved expectations about the future;
- Greater stake in the employees' communities-at-large; and
- Greater economic stability and security.

Challenges to Employer IDA Initiatives

While the opportunities in and benefits of delivering IDAs through employers could be significant, there are a number of challenges, including environmental and institutional, tax and regulatory, and administrative. These challenges will need to be addressed in order to advance employer IDA initiatives.

Environmental and Institutional Challenges

The first category of issues focuses on environmental and institutional challenges, including the changing labor market, characteristics of firms employing lower-income employees, economic conditions, competing benefits priorities, and the decreased role of unions. Other factors to consider, although not explicitly addressed here, include globalization, deregulation, rapid technological changes, and the increasing workforce volatility and flexibility. All of these factors could play roles in determining whether employers offers IDAs.

Changing Labor Market

The U.S. economic structure has evolved dramatically over the last couple of decades. Competition has increased. Improvements in communication and transportation have fostered greater capital mobility. Routine manufacturing and assembly operations have and continue to move abroad due to competition. Higher value-added production survive and prosper domestically only with innovative products, processes, and marketing.

These changes in the U.S. economic structure have altered labor markets. Unions have declined in size and power. Job tenures have weakened. Companies are more prone to downsize and layoff employees when necessary to control costs. Efforts to keep shareholder values up and to make institutional investors happy have made companies focus even more on the short-term bottom-line. Temporary work and the contingent workforces have grown. Fewer employees are employed within so-called "internal labor markets," which are characterized by strong employer commitments to employment security and well-structured processes for internal career advancement. Increasing medical and health insurance costs are causing some employers to either make employees pay a larger share or cease providing these benefits.

Furthermore, despite all the public statements about "investing in people" and "the new knowledge economy," management still under-invests in workforce development. Smaller firms' tight profit margins and limited human resource staffing inhibit their ability to do so. Larger firms are better positioned, but because they have not developed the necessary tools to adequately measure returns on human resource investments, they lack information to understand the value of such investments. This causes these expenses to be allocated more as expenditures than investments. In addition, the increase in labor market flexibility and workforce turnover and the drop in employee loyalty weakens the case for specific job-based training or education.

Given all these changes, convincing companies to provide more benefits or to raise their human resources budgets without regulation or incentives could be difficult. Costs and competition have decreased the abilities of companies that want to meet the highest standard for good jobs—family wages, decent benefits, opportunities for advancement, and some employment security.

Characteristics of Firms Employing Lower-income Employees

Many firms that typically employ lower-income employees tend to be small with low-profit margins. They are cost takers and face strong competitive pressures. They lack human resource staffs or departments and often provide few or no benefits. A 2000 General Accounting Office report found that 85% of employees who were not participating in employer retirement plans were low income, employed part time or only part of the year, worked for fairly small firms, or were a combination of the three.[9] As a result, additional efforts to reach these the low-skilled, low-wage employees employed by these types of firms would be needed for employer IDAs to be successful.

The Effects of Poor Economic Conditions and Labor Market Conditions

Economic conditions largely affect employers' decisions to offer private benefits. When the economy plummets, unemployment rates rise and the cost of doing business increases; employers seek ways to contain costs, such as ending discretionary benefits and others that have high administrative costs. In addition, many of the benefits—such as recruitment and retention assistance—that could accrue to employers that provide IDAs could be less relevant when there is a surplus of labor and employee retention is not an issue.

Transitory Workplace Characteristics of Lower-income, Lower-Skilled Employees

Lower-income employees (earning less than $8 per hour) are much less likely than other employees to have health insurance, paid leave, access to flexible schedule options, or dependent care benefits.[10] In the lower-income job market, there is considerable job instability, with little opportunity to advance up the career ladder. Due to these circumstances, lower-income employees are more likely to transition from job to job more frequently. As such, in developing employer IDA initiatives, it would be important to strike balances between employees' needs for portable accounts and employers' needs for IDAs that help meet their business goals.

Competition among Employee Benefits

Employee benefits include legally required social insurance contributions like Social Security and privately provided benefits, such as holiday pay, vacation and sick leave, private pensions, and private health and life insurance. These non-wage benefits have grown over time, but their growth has slowed in the last decade.

For example, medical and health insurance costs are skyrocketing and resulting in higher costs for employers and employees.[11] In trying to control costs, employers push these premium increases onto employees through higher deductibles and co-payments, developing the equivalent of defined contribution health plans, promoting medical savings accounts, etc.[12]

Competition among much-needed benefits should be considered. One large nationwide retail employer reported that due to rising health care costs and employees' preferences for health care assistance, it is shifting a portion of its retirement savings match to provide more support for health care costs. In addition, the federal government already provides tax advantages for employers that provide health insurance. It may be more difficult for employers to pay for new benefits like IDAs without direct or tax subsidies.

Another important consideration is that the total compensation package includes wages as well as benefits. Depending on its competitive position and the nature of labor market conditions, decisions to offer IDAs even with tax subsidies, could lead to compensating wage reductions.

Also important, like hiring and training costs, many benefit costs are quasi-fixed; that is, they are associated with each new employee, not with the hours the employee works. In short, they are paid on a per-employee basis, regardless of part-time or full-time status. Given this, benefit changes could have real effects on hiring and overtime decisions, such as the use of part-time or temporary employees.

Declining Unionization

Organized labor has lost a lot of its political power and membership base. At their peak in 1945, unions represented 35.5% of the private workforce. Today, only 9% of employees belong to private sector unions. The decline in these numbers has contributed the the unequal incomes in the United States and has helped to widen the earnings gap between skilled- and less-skilled employees.

Weakened unions also have affected the nonunion private sectors. The threat of unionization encouraged employers to emulate the wages and benefits of unionized companies. Research estimated that the wages of nonunion firms were raised between 10% and 20% by these spillovers. Falling percentages of employees with health and retirement benefits is another symptom. The implications are that employees have much less clout when it comes to encouraging employers to adopt new benefit standards and options.

Tax and Regulatory Challenges

The second category of issues concerns the tax treatment of employer IDAs and the possible implications of the non-discrimination test under the Employee Retirement Income Security Act (ERISA).

Tax Treatment of Employer Provided Match Contributions

When tax-paying entities make contributions, including matching funds and operating support, to non-profits [501(c)(3)s] administering IDAs, the IRS considers these donations to be gifts and therefore tax deductible to the donors, as well as tax exempt to the IDA holders.[13] Given that employers could be significant sources of IDA matching funds, the tax treatment of their match contributions is important.

The IRS has identified one scenario in which employers' contributions could be tax deductible (based on the same rules that enable current contributions to 501(c)(3)s to be tax deductible). An employer could make a contribution to an IDA initiative that is administered by a 501(c)(3) and serves the community-at-large. Employees of the contributing employer could participate in the IDA program, but other individuals from the community must also benefit from the program. As administrator of the IDA initiative, the 501(c)(3) could not provide a quid pro quo to the employer; in other words, the employer could not be guaranteed that its employees would directly benefit from its contribution. Under such an IDA initiative, the employer would be eligible to take a tax deduction for its IDA match and operating contributions. Employees who participate in the IDA initiative would not be taxed on their IDA match funds or the interest that accrues on those funds.

In another scenario, employer-provided match contributions to an IDA initiative administered and operated solely by an employer for its employees, would be treated as additional income compensation and therefore subject to payroll and income taxes. While the employer would be required to pay payroll taxes for match contributions made to its employees' IDAs, it would likely qualify for a standard business expense tax deduction that applies to all ordinary compensation. Unlike the tax treatment of match funds generated through non-employer IDAs, match contributions made by the employer and interest that accrues on those match funds would be treated as taxable income for IDA holders.

Tax Treatment of Employer Contributions to Nonprofits Serving Employees of the Employers and Communities-at-large.

	Match Funds	Administration Funds
Employer	Gift: Deduction	Gift: Deduction
Employee	Gift: Non-taxable	—

Tax Treatment of Sole Employer IDA

	Match Funds	Administration Funds
Employer	Taxable: (Income/payroll)	Business expense: Business deduction.
Employee	Gift: (Income/payroll)	—

ERISA: Impact of Balance Requirement between Highly-compensated and Non-highly Compensated Employees

Under ERISA, a potential issue involves the non-discrimination test to ensure that highly-compensated employees do not unfairly benefit from employers' retirement plans. This test requires employers to maintain balances between the retirement participation of highly- and non-highly compensated employees. If plans are out of balance, they must be corrected or they could lose their tax-favored statuses.[14]

It has been suggested that employer IDAs could draw lower-income employees away from 401(k) participation, and as a result, skew the balance between the highly-compensated and non-highly compensated employees. This would likely be a very real issue for large employers of low-wage employees. These employers spend considerable time and money to increase participation rates among non-highly compensated employees and would likely be very concerned about anything that would undermine these efforts. The rate, which is very transparent, is an important benefits statistic to senior management.

One possible solution would be for employers to require lower-wage employees to participate in retirement plans in order for them to participate in IDA programs. It is also possible that IDA participation would, over time, entice greater numbers of non-highly compensated employees to join 401(k) plans, based on they theory that IDA programs encourage savings habits and promote a greater focus on personal money management.

Administrative Challenges

The third category of issues pertains to IDA administration, including concerns about offering the accounts to a limited pool of employees and about administration costs.

Issues Associated with Offering Benefits to a Limited Pool of Employees

Some employers would be concerned about providing benefits that are available to only a segment of their employees, as those who do not qualify could be offended. In at least one case, a union representative expressed strong reservations to IDAs if the accounts could not be made available to all local union members. It has also been suggested that IDA holders could feel stigmatized by participating in a program that is only available to lower-income employees.

Containing the Costs of Administering Employer IDA programs

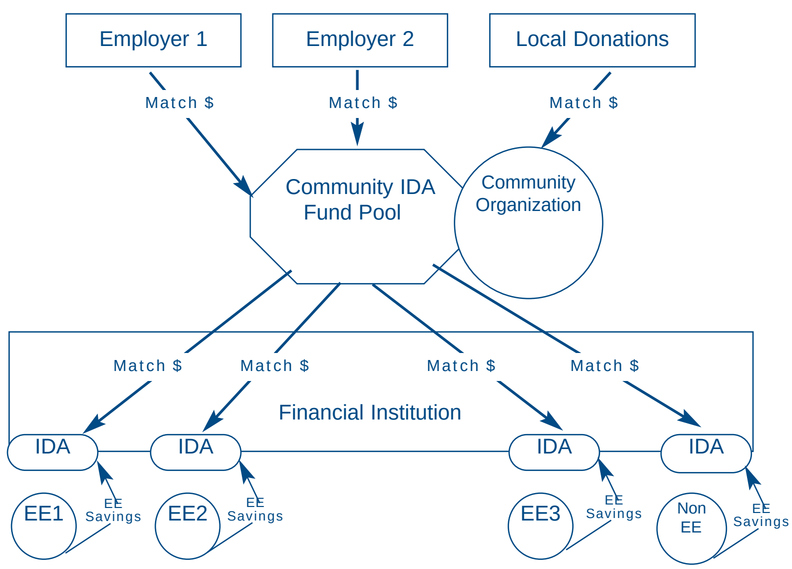
The cost of administering existing IDA programs—including outreach and enrollment, account management, financial education, and asset purchase verification—is estimated to be $43.06 per IDA per month, according to ADD research.[15] Economies of scale effects would likely result in even greater reductions in cost as new players, such as employers, enter the field. Nevertheless, the costs are still significant. To make IDAs widely available through new delivery channels, these costs would have to decrease.

As mentioned, building on existing benefits systems—from intaking employee benefits, to tracking benefits activity, to facilitating savings through payroll deductions and direct deposit—could help to significantly reduce the costs of administering IDAs. In part, some of these costs could be controlled by defining the appropriate and most effective roles for the various partners, (e.g. employers, financial institutions, and others) in employer IDA initiatives.

Given the many factors that would likely affect employers' decisions to provide IDAs, as well as the need to balance those considerations with employer IDA program structures that best serve employees, employer IDA models are likely to vary. As demonstrations are carried out and assessed and regulatory and tax treatment issues clarified and possibly changed, a number of models are likely to develop. The the following are snapshots and illustrations of three employer IDA models, based on what is currently known.

Employer-Community IDA Fund Pool

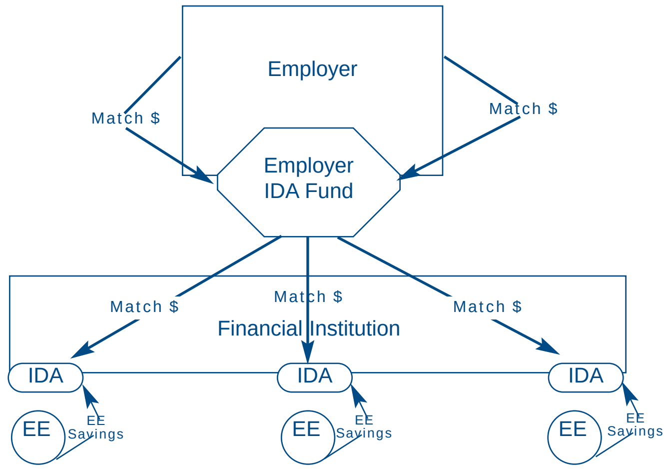
Under this scenario, multiple employers (or one employer) could contribute matching funds to an IDA Fund Pool, which could also contain matching funds from other sources. Some portion of the employer's contribution would benefit its employees. The employer could take charitable a tax deduction for its contribution, as long as its donations was made to a 501(c)(3) and the IDA program served the community-at-large.



The employer's role could vary under this model. In some instances, the extent of the employer's participation could be disseminating IDA information to employees and allowing them to take financial education training while on the clock. The employer could be interested in this model because of the potential tax deduction for IDA contributions. However, since there is no guarantee that its contributions would directly benefit its employees, its interest in this structure could be dampened.

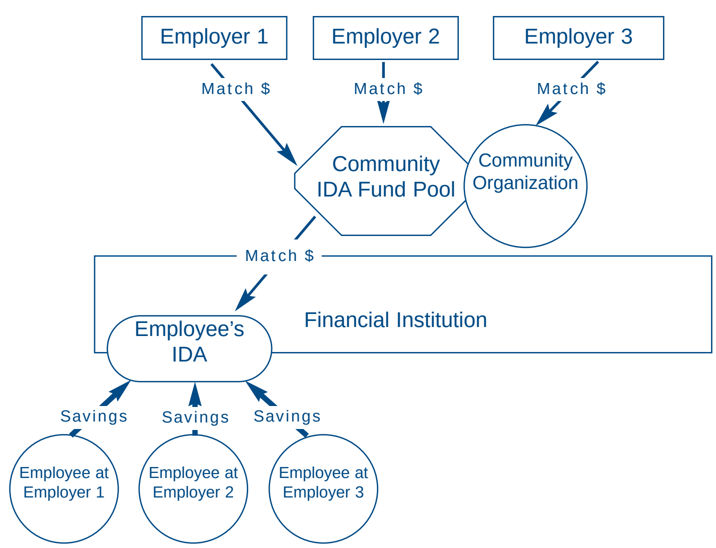
Single Employer IDA Initiative

Under this scenario, the employer would develop an IDA program and provide matching funds to its employees' accounts. Utilizing its employee benefits systems, the employer could enroll eligible employees, monitor their savings activities, and provide matching contributions. For example, the employer could partner with its local employee credit union, which could hold the accounts and provide the financial education. The employer would not be eligible for a charitable tax deduction and match contributions would be subject to payroll and withholding taxes.



Portable IDA Initiative

Under this scenario, the IDAs (established through employers or others) would be tied to the employee rather than the employer. As a result, when an employee moves from job to job, the IDA always would remain accessible to the individual. In addition, every employer, as well as other sources, would be able to contribute matching funds to the employee's IDA. A union is one type of organization that could initiate this IDA model for its members. Regardless of where the member is employed, the IDA would remain accessible to the individual. This model would build sustainability into the IDA by constructing it as long-term portable savings vehicle for the employees.



Next Steps: Practice and Policy Agendas

Participants at the November 2002 employer IDA meeting produced the following practice and policy agendas to advance employer IDA initiatives. Work on these agendas will begin in 2003.

Practice Agenda

Share knowledge from developing and existing employer IDA initiatives to identify and assess effective employer IDA models.

- Explore and assess the pros and cons of portable employer IDAs compared to those that are tied to particular employers.
- Probe the pros and cons of IDAs that are offered to employees universally versus those that are offered to select employees.
- Explore the most effective roles of the various partners—employers, nonprofits, financial institutions, and others.
- Produce an employer IDA how-to manual for employers and their IDA partners.

Explore and develop cost-effective employer IDA products.

- Develop benefit-cost analyses of employer IDAs, and to the extent possible, assess the returns on investments of employer IDAs.
- Explore and support new products and systems to develop turnkey IDAs by building on current models and exploring complementary systems and programs throughout the public, private, and technology sectors.
- Develop an understanding of employers' motivations for offering IDAs to employees.
- Research similar initiatives and employers from countries with greater social commitments, and, where possible, apply learnings to employer IDA programs.
- Explore how employer IDAs could be developed as a part of compensation benefits packages.
- Explore how to position employer IDAs as competitive products that help meet businesses' needs (recruitment, retention, return on investment, recognition, relationships, and revitalizing communities) and are likely to be utilized by human resource departments.
- Identify opportunities to couple employer IDAs with other initiatives, such as Fannie Mae Employee Assisted Housing programs or Federal Home Loan Bank programs.

Develop the business case to market IDA initiatives to employers.

- Develop an employer typology—consisting of an assessment of employers by size, industry, employee type, tax status, and other variables—to identify employers likely to provide IDAs.
- Develop the IDA "sell."
- Identify incentives for employers to participate in IDA programs using related research, surveys (focus groups, interviews), and insights from current employer IDA initiatives.
- Develop the pitch for generating IDA match contributions from employers.
- Develop materials and resources to help market employer IDA initiatives.
- Determine how to effectively introduce IDAs into the world of competitive benefits.
- Identify and clearly define the benefits to employers.
- Identify IDA champions within businesses—from CEOs to production line employees.

Policy Agenda

Explore new federal and state policies or modify existing policies to support employer IDAs.

- Review systematically all federal policies and programs—including the Workforce Investment Act, AFIA, the EITC, and others—to identify opportunities for greater support of employer IDAs.
- Explore and develop materials that explain how employer IDA initiatives could be coupled with programs that target low- and moderate-income employees, (e.g., EITC, Work Opportunity Tax Credit, Welfare-to-Work Tax Credit, and others).
- Promote the modification of federal tax credits, like the Work Opportunity Tax Credit and the Welfare-to-Work Tax Credit, to support employee retention as well as employment.
- Create materials for employers that explain regulatory and legal issues related to employer IDAs (e.g., federal tax treatment of match contributions and Employee Retirement Income Security Act).
- Explore modifying AFIA through the reauthorization process to relax income requirements; loosen private funding conditions, and to allow a greater percentage of AFIA funds to be used for non-match purposes.
- Obtain a favorable ruling from the IRS on the tax treatment of employer IDAs and, if necessary, seek regulatory or legislative changes to allow favorable tax treatment of employers' contributions to IDAs.
- Explore new policy options to facilitate employer IDA initiatives, such as refundable tax credits and "pay or play" legislation, which would require employers to invest in training for employees (with IDAs as an eligible training investment) or pay a compensating tax.
- Explore options to expand employer retirement plans to include IDAs.
- Explore developing new state policy or modifying existing policy to support employer IDAs.

Conclusion

As IDAs are currently structured, they remain inaccessible and unavailable to the millions of lower-income individuals and families who could benefit from them. Today, there is real momentum behind increasing the availability of IDAs by delivering them through employers. Nonprofits, policymakers, government-sponsored entities, and employers have expressed solid interest in advancing employer IDA initiatives.

Building on employers' benefits systems, utilizing their access to millions of low-income employees, and mobilizing employers as sources of matching funds offers real promise. Large scale employer IDAs are likely to become available after different models are tried and assessed, systems developed or modified, the business case developed, and tax and regulatory issues addressed.

By implementing the practice and policy agendas developed, challenges will be addressed, useful models identified, federal and state policies supporting employer IDAs promoted, and learnings communicated—key tasks in developing simple, inclusive, enduring, and efficient employer delivery systems.

To move this work forward, CFED, with partners from the November 2002 meeting and others, will do the following:

- Lead a broad coalition of partners in developing and implementing the practice and policy agendas;
- Serve as a resource for employer IDA initiatives by collecting, developing, and disseminating employer IDA materials and resources;
- Identify and forge new federal and state policies and initiatives (or modify existing ones) to support employer IDAs; and
- Help to facilitate additional research in this area.

As this work progresses, effective, scaleable approaches to employer IDAs will evolve and millions of eligible individuals and families will have access to these proven asset-building tools.

Appendix One: Guiding Questions for Employer IDA Research

Background

IDAs are designated matched savings accounts that enable working-poor families to save and build wealth. IDAs are typically used for first-time home purchases, postsecondary education expenses, or small business start-up or expansion expenses. IDAs are growing rapidly across the United States, with more than 20,000 accounts opened by low-income working families in more than 400 innovative community partnerships.

Employer IDA initiatives offer huge potential for delivering the IDA opportunity to millions of individuals and their families. If this potential is to be realized, the pros and cons and opportunities and challenges of employer IDA initiatives must be further clarified.

Goals

- Bring together what has been learned about the potential of and barriers to employer IDA initiatives.
- Seek to develop policy and practice agendas for confronting the barriers and realizing the promise of employer IDA initiatives.
- Begin identifying the roles for various parties in carrying out the development of these agendas.

Tasks

- Research existing employer IDA initiatives; the barriers they face; the lessons they have generated; related employment, globalization, and workforce development issues; and any suggested policy or practice development strategies.
- Draft a background paper that summarizes the chief findings of the above research with respect to the state of practice and policy, key barriers and issues, and possible development strategies.
- Hold a one-day meeting, which brings together key actors in the field (sponsors of employer IDA programs, employee benefit experts, and workforce development experts) to discuss the paper and to help devise policy and practice agendas.

Key Questions

Backdrop Issues

- How successful have efforts been in using employers to provide health, pension, and other benefits to lower-income employees? What have been the main challenges?
- What sorts of trends are shaping employers' interests in workplace training and education? Why do some employers get involved and some do not? What would help company human resource investments to become larger commitments of employers?
- How has recent changes in the labor market affected employer benefit structures and human resources strategies. (e.g. increased international competition and deregulation, the entrance of more women into the workforce, increased minority demographics, more volatile employment, the rise of contingent employees and contracting out, the erosion of internal career ladders, the decline of unions, the emergence of high performance workplaces, changing social compacts, etc.)

- Do the difficulties in implementing the Workforce Investment Act (WIA) training vouchers have any lessons that could be applied to employer IDA initiatives?
- What are the key characteristics of employers that invest more deeply in their workforces? In their lower-income employees?

Current Practice

- What examples of employer IDA initiatives currently exist?
- Why were they created? How do they work? Do they require partners beyond the employers and training/educational institutions? What difficulties have they faced? How successful are they? Is there an emerging model(s)? What are the major lessons?
- What sorts of initiatives should be tested if additional pilots are done?

Obstacles

- What are the major hurdles: current federal contribution limits to pension plans; the tax status of IDA matching funds from employers; the non-discrimination test, Section 29 of ERISA; the concern about how the (potential) movement from one benefit savings plan to another (from 402(k)s to IDAs) could affect employers' compliance with ERISA rules; or administrative costs and headaches?
- Do intense competitive pressures encourage or discourage human resource investments?
- Are the challenges of measuring the return on human resource investments still hindering companies from making larger investments in their workforces?
- To what degree, do companies support general human resource investments versus job-specific training? If they do, why do they?
- Other obstacles?

Emerging Models

- Is there an effective employer IDA structure? For employees? For employers?
- Should there be base requirements for how employer IDA initiatives are structured?
- Should only certain uses be allowable for employer IDAs?
- Should IDAs be portable?
- Are there other promising models or partnership structures that have not been piloted and are worth further development?
- Are there any potential fatal flaws?
- What are the main pros and cons of this idea?
- Are there better ways to move forward the agenda of helping low-wage employees upgrade their skill set and achieve career mobility?
- Is the original concept still sound? Should it be dropped? How might it be reshaped?

Public Policy

- What reforms would be needed to encourage more experimentation with employer IDA initiatives?
- How might they reach scale?
- Are any regulatory reforms required?

Appendix Two: Employer-based Benefits in the United States

If employer IDA initiatives were created by public policy, they would constitute a new type of employee benefit. The following provides some background on the U.S. employer-based benefit system.

What is a benefit?

According to the Employee Benefit Research Institute (EBRI):

> *Employee benefits are intended to promote economic security by insuring against uncertain events and to raise living standards by providing targeted services. Employee benefit programs also add economic stability to secure the income and welfare of American families, which helps the economy as a whole.*
>
> *The U.S. employee benefit system is a partnership among businesses, individuals, and the government. Most employment-based benefits, such as pensions and health insurance, are provided voluntarily by businesses. The government supports these employment-based benefits by granting them favorable tax treatment. Other benefits, including Social Security, unemployment insurance, workers' compensation, and family and medical leave, are mandatory. The government also supports individual financial security programs through Individual Retirement Accounts, favorable taxation of life insurance contracts, and tax-free death benefits.*[16]

When looking at employer-based benefits, an important series of questions are: When did employer-based benefits start in the United States? Why did employers provide benefits? What does economics say about employers' deferred compensation decision? What does the American system look like today and where is it heading? What is the benefit situation for low-income, low-skilled employees? How are market changes affecting their benefit circumstances?

Brief History of Employer-based Benefits

By some definitions, employee benefit programs date back to the Colonial era, with Plymouth Colony's military retirement program. Profit-sharing first emerged in 1797; private employer pension plans in 1875; group health, life, and accident insurance in 1875; and formalized prepaid group hospitalization plans in 1929. The U.S. government stepped into the act with Social Security in 1935, disability protection in 1956, and Medicare for the elderly in 1965. Later, voluntary employer-based benefits became even more prevalent via a variety of federal tax preferences.[17]

Private employers were strongly motivated to offer benefits in order to defeat union-organizing drives and to attract and retain good employees. Many, though not all of these plans, disappeared with the onset of the Great Depression. But their earlier existence helped to define a business best practice.

World War II provided a new impetus for firm-based benefits. The War Labor Board was charged with suppressing wage inflation during this time of shortages. Unionization had accelerated due to the New Deal and this gave organized labor a strong position to argue that even when wages were capped, employers could still improve benefit options. "Finally, the postwar tax system cemented this arrangement. Employers were allowed to pay their share of benefits in pretax dollars, as were employees. As a result, a dollar of compensation costs that took the form of benefits was worth more than a dollar in wages, and this tilted the compensation structure toward firm-based benefits."[18]

The American Employer-based Benefit System Today

For the 2003 fiscal year, tax-favored employment-based retirement benefits will account for the largest tax expenditure presented in the budget ($112.59 billion, or 39% of the total amount), followed by health insurance ($99.26 billion, or 34%).[19]

According to EBRI:

- In 2000, employers spent $5.7 trillion on total compensation. Wages and salaries accounted for the lion's share, $4.8 trillion (or 84%), while benefits made up the remainder, $874.4 billion (15%).[20]
- Retirement benefits remain the largest single sector of benefit expenditures by employers, although health benefits have been catching up. In 1960, retirement benefits accounted for the majority of total benefit spending (59.9%), followed by other benefits (25.7%) and health benefits (14.3%). By 2000, retirement benefits were still the largest component of all benefit spending, but had declined to 48% of the total; spending on health benefits had increased to 42.1% of total benefit spending, while "other benefits" declined the most, to 9.9% by 2000.[21]
- In recent polls, employees continue to rank health insurance as the most important benefit. Retirement benefits came second.[22]
- Past research suggests that low-income employees prefer wages over benefits and health insurance over all other benefit options.

The U.S. system is rather complicated. There are two extremely helpful ways to look at it: types of benefits by tax treatment and types of benefits by function.[23]

Benefits by tax treatment. Mandatory, tax-financed programs, such as Social Security, Medicare, unemployment insurance, etc. Voluntary, but fully taxable benefits, such as vacations. Voluntary, tax-exempt benefits, such as employee health insurance, flexible spending accounts, etc. Deferred benefits, such as Keogh plans, defined benefit retirement plans, defined contribution plans, 401(k) plans, etc. Other tax-preferred plans, such as life or disability insurance.

Benefits by function. Retirement income, such as Social Security, supplemental security income, defined benefit and contribution plans, stock bonus plans, Employee Stock Ownership Plans, 401(k), etc. There are health and dental care options, and a variety of other benefits, including vacation, severance pay, child care, life insurance, and many more.

The U.S. system has changed over time, although the general tax treatment of employee benefit programs have remained fairly constant. Defined benefit plans are less common than in the past. Social Security and Medicare especially face some serious financing challenges, giving rise to a lively reform debate. A need for benefit portability gave rise 401(k) plans. The growth of two-earner families provided an impetus for family leave and child care assistance. Greater variety in the workforce spurred a growth in more flexible plans, meeting the needs of employees at different ages and within varied family circumstances.

Despite this creativity, firm-based benefits pose two major problems. The first is prevalent. Nothing obligates businesses to provide benefits, such as health insurance or pensions. This typically causes the profile of benefits to follow the profile of wages, rather than a floor set by government provision or regulation. Less-skilled, less-remunerated employees, thereby, lack access to benefits in many firms.

Secondly, employer-based benefits work best if there is not a lot of internal mobility and employee turnover. Employees may leave a company with good benefits and join one with none. Benefit losses also occur due to vesting differences in firm-to-firm retirement plans. In addition, many defined benefit plans are back weighted; they are generous to long-serving employees and miserly to others. Portable options such as 401(k) plans try to deal with these problems in retirement benefits, but the plans are only useful if employees contribute and if employers provide matching funds. Defined benefit plans, thus, tend to provide a better deal for those at the lower end of the earnings distribution, while higher-income employees benefit from these new arrangements.[24]

Since 1979, the proportion of all U.S. employees whose employers provided pensions and health benefits has declined. For retirement benefits, the percentage has dropped from 48% to 45% between 1979 and 1993. Among employees without a high school degree, the proportion has shrunk from 41% to 25%. Regarding health benefits, the fall in employer coverage was from 71% to 64% and for those not completing high school, 63% to 45%. Defined contribution plans also outnumber defined benefit plans, thereby imposing more risk on the employee and not the firm. In 1977, 13% of plans were defined contribution, while 42% were in 1997.[25]

Low-Income, Low-Skilled Employees and Benefits

Employees who earn less than $8 per hour are much less likely than other employees to have benefits such as job-related health insurance, paid leave, access to flexible schedule options, or dependent care benefits.[26] The following is a breakdown of health insurance coverage in 1997:

All persons. Private insurance (70.1%), employer based (61.4%), government insurance (24.8%), Medicare (13.2%), Medicaid (10.8%), military (3.2%), and no insurance (16.1%).

Low-income persons. Private insurance (23.2%), employment based (15.5%), government insurance (52.2%), Medicare (13%), Medicaid (43.3%), military (1.5%), and no insurance (31.6%).

Persons not covered by health insurance. Comparing all persons without health coverage to all poor without coverage: Total (16.1% vs. 31.6%), white (15% vs. 33%), Black (21.5 vs. 27.4%), Hispanic (34.2% vs. 35.8%), and no high school diploma (26.1% vs. 35.8%).

Hours of training per employee also track other inequities.[27] The top quartile of earners receive 22.8 hours of formal training, while the bottom quartile gets 4.1 hours of formal training.[28] Blacks and Hispanics also receive lower amounts of formal training.[29] Opportunities for informal training (as opposed to formal education and training, which is planned in advance with a specified curriculum) are also unequally available for employees with the least amount of formal education.[30]

Typically these lower-income employees require educational interventions in the following areas:

- Basic skills, which are often necessary prerequisites for more advanced, job-specific training;
- English as a second language, for those individuals who are not native English speakers;
- Computer skills, since computer usage is becoming an increasingly important predictor of wage levels; and
- Problem-solving and interpersonal skills.[31]

Family-friendly policies, such as medical leave, paid vacation time, and flexible work hours paint a similar picture. Lower-paid employees fare the worst regarding their access to these potential benefits.[32]

These problems have another troubling dimension—working moms and minorities have the most rigid schedules, and are paid less for the sacrifice. Research show that:

> *Despite all of the recent attention given to the needs of working mothers for flexible work schedules, mothers are no more likely than other workers to be able to determine the times they arrive at and leave work, or to decide when to take an occasional day off. Single mothers, who must handle all the responsibility for work and family on their own, have particularly rigid schedules. There is also a pronounced racial difference in work schedule flexibility: Black workers are much less likely than white workers to be able to exercise any discretion over their work schedules. In contrast, men, and to some extent women with supervisory or policymaking authority, enjoy much greater flexibility than other workers.*
>
> *Furthermore, contrary to the expectations of many economists, workers who do enjoy flexible hours earn more, not less, than those with rigid work schedules. Some of this differential is accounted for by organizational power, and some by occupation and industry. The evidence also suggests that unions successfully negotiate greater compensation for workers in rigid jobs. Because women are no more likely to enjoy flexible schedules than men, the freedom to adjust one's work schedule does little to explain the gender pay gap. Again, this is contrary to the expectations of many economists, who presume that men are paid more, in part, for their willingness to accept rigid schedules.*[33]

Another study for the Harvard Center for Society and Health found:

> *Employees' marked disparities in working conditions disadvantage families across the income scale from middle-class to poor. In our studies, families in the bottom quartile of income were significantly more likely to lack paid sick leave, paid vacation leave, and flexibility than were families in the upper three quintiles of income. But even people who earn just above the median income were less likely than those in the top quartile of income to have either paid sick leave, paid vacation leave, and flexibility than were families in the upper three quartiles of income . . . At the same time, they were more likely than those in the top quartile to work evenings and nights… As demonstrated earlier, paid leave and flexibility at work can make a critical difference in the feasibility of a worker meeting family members' needs while succeeding, or at least, surviving, on a job.*[34]

Firm Behavior and Structure

First, past research demonstrates that poor benefits, limited training, and low wages are all found together. Research in the 1970s and 80s established that the labor market is, in fact, divided into two largely separate sectors, often referred to as the primary and secondary labor markets. In the primary market, most jobs have opportunities for advancement, there is substantial job mobility, and employees typically have employment-related fringe benefits. In the secondary labor market, in contrast, there is considerable job instability and little opportunity to advance up the career ladder, few fringe benefits, and more gender and racial discrimination than in the primary market.

Employees in the secondary market who are prime breadwinners for their households have constrained career prospects. Many work full time but earn low hourly wages and lack skills. Others are paid better but work too few hours because decent full-time employment is not available. Some employees are exposed to chronic bouts of unemployment and frequent layoffs or seasonal work. Others are new entrants to the workforce, who are leaving welfare.

Returns to Employers

Partially due to a surge in demand for evaluation, more research has been done on the returns on investments for private establishments on employee education and training. Moreover firms, private consultants, and researchers have crafted accounting methods to better capture the returns on investments for education and training. Findings from the more salient studies are predictable and telling.

One of the first specific studies on human capital investments and firm productivity was done by the National Center on the Educational Quality of the Workforce at the University of Pennsylvania and the U.S. Census Bureau.[35] Key results of the study include:

- A 10% increase in the education (about one year of schooling) of all employees in an establishment increases productivity for all industries by 8.6%. This number jumps to 11% for non-manufacturing firms.
- A 10% increase in investment for on-the-job training in manufacturing establishments boosts productivity by 2%.

The report emphasizes the increased productivity from investments in both human capital (education and training) and physical capital (equipment). It also stresses the positive returns to the individual (the employee) and the establishment (the employer).

Other relevant findings from related research include:

- Time spent on training has a larger effect on productivity than on wage growth, suggesting that many of the positive results on training are specific to the firm.[36]
- Firms are only taking a portion of the true social benefits of training into account because they are more focused on the possibility of employee turnover. Consequently, policy initiatives should encourage employees to invest in their own training, such as allowing employees to participate in employer-provided training, but on employees' personal time.[37]
- Employer-provided training is more effective than school-provided training.
- Slower productivity rates are partially due to weak firm training policies and bad decisions about training by employees.[38]
- Education and training are linked to significant increases in productivity when their impact is analyzed in a production function.
- Training and educationally related programs are associated with higher productivity and quality.[39]
- Businesses operating below labor productivity levels in 1983 were able to increase labor productivity to the levels of comparable businesses in three years by implementing new employee training programs. Moreover, it is noted that other policy elements of job design, performance appraisal, and employee involvement did not have a significant relationship with productivity.[40]
- Providing a state training grant spurred an increase in training hours for small manufacturing firms between 1987 to 1988. Researchers also noted a significant drop in the rate at which manufacturing materials in these firms had to be scrapped.[41]

- Both firms and employees receive healthy returns on investments on training and investment. In turn, the national economy experiences the positive effects of the improvement in human capital investments. It was found that "although American organizations spend around $30 billion annually on formal training, only 11% of the American workforce received this to prepare them for work and only 10% to upgrade their skills." Also, less than 1% of U.S. firms provide training.[42]

Returns to Employees

Although the focus is primarily on the returns on investments for firms, the returns on investments for employees should be highlighted as well. Employees significantly gain from higher education and training—mostly in the form of higher wages, better employment opportunities, and increased benefits. For example, in 1993 a male with over four years of college earned 89% more money than a male with a high school degree.[43] In general, employees also gain from better employment prospects and more stable jobs when provided with training and education. The 1995 Workforce Economics report also notes that health benefits and retirement coverage significantly dropped for those with high school degrees, while health benefits fell some for all employees and retirement coverage increased for male college graduates.[44]

Implications for Businesses

Evidence from this research on return on investment suggests that investments in human capital actually pay off, and as a result, businesses should invest more in their employees. This broad finding leads to five central implications for businesses. First, firms need to invest more resources in their employees and recognize the value of human capital in overall productivity. Second, as employees become more aware of the skill sets needed in today's knowledge-based economy, they will demand more education and training from their employers. Third, firms will need to start answering the harder questions about which types of training will be most effective for employees, what types of skills will increase their productivity in the long-term, and who the best training providers are for the firms. Fourth, firms will start requiring quality labor market information systems to help link employees with specialized skills to the best-suited jobs, and to locate the most appropriate trainers for their business needs. Finally, firms will need to start focusing on K-12 education. Here, firms play the key role of bridging the disconnect between the skill sets needed in the labor market and courses being taught in public schools.[45]

In tight labor markets, training is even more important, since the most qualified employees already have good jobs and employers must reach deeper in the available labor pool. Having an improved "stock" and "flow" of good employees would help to deal with this challenge.

Appendix Four: Training Program Precedents

Precedents

Employer IDA initiatives involve two critical elements. They are "individually controlled" but managed through a workplace, similar to other employee benefits. Given these facts, it is believed that employee training experiences that were individually controlled or employer-driven would be instructive in designing employer IDA initiative.

Individual-based Models

Although employer IDA initiatives are a novel notion, there are some relevant precedents. Economist Pat Choate gained a great deal of attention and critical discussion in the 1980s with his Individual Training Account proposal. Vouchers, which in many respects bear some resemblance to IDAs, have also been tried in several large-scale experiments in education, training, and housing. Most recently, the Workforce Investment Act (WIA) created vouchers that individuals could use to pay for training services. These varied individual-based models range from government-delivered training (e.g., a non-voucher approach) to the structured vouchers, to individually owned accounts.

Voucher Experiments

Under a voucher system, individuals qualify for training support because they lack marketable skills or because their skills are obsolete in today's economy. These individuals would be given vouchers to finance training at community colleges, vocational schools, or businesses through on-the-job training. Although these same institutions already provide training under various government-sponsored programs, voucher proponents argue that training applicants could decide more effectively than counselors and administrators which training program is potentially most beneficial. Furthermore, proponents claim the voucher system would yield substantial savings.[46]

Beginning with a study by the National Commission for Employment Policy in 1983, researchers looked at the use of vouchers as a substitute for the direct provision of services by agencies. Their review of five job training programs yielded mixed results, generally not supporting advocates' claims of improved services and reduced administrative costs. They examined one large-scale effort, the GI Bill, and a series of small experiments aimed at low-income persons.

Both on-the-job training and the wage subsidy vouchers appeared to "stigmatize" the recipient, making it less likely for employer to hire these potential employees, since they were so clearly identified as disadvantaged. In the other small-scale pilots vouchered individuals sought only to locate, finance, and take advantage of appropriate training. Here, too, outcomes were uneven. Some benefited from these opportunities and ended up in well-paying jobs, while others ended up with unrealistic career aspirations and subsequent labor market difficulties. As a whole, the researchers concluded that vouchers were not a suitable instrument for placing disadvantaged individuals into appropriate training slots, whether in schools or in employment settings, unless additional case management, counseling, and job development services were provided.

Individual Training Accounts

Pat Choate's Individual Training Account (ITA) proposal was introduced in bi-partisan Congressional legislation in 1984. The ITA concept combines elements of the Individual Retirement Account (IRA) with the voucher-based system of the GI Bill. Targeted at the employee displaced by rapid economic or technological change, the ITA is a mechanism by which employees and their employers voluntarily set aside a portion of their income for future retraining or relocation needs. In effect, the ITA acts as insurance against future job loss.

Under ITA legislation, employees and employers make annual contributions to a saving account based on a set percentage of wages or salary. Upon reaching a pre-determined ceiling, individual contributions cease although interest continues to accrue. The federal government, under the auspices of the unemployment insurance system, manages a separate fund.

In the event of the actual or anticipated involuntary unemployment, employees tap the ITA to meet retraining or relocation expenses. Federal agencies issue vouchers to cover the costs of relocation or tuition at government certified training programs, as with the GI Bill. Both employer and employee receive their pro rata contributions plus interest in the event of voluntary termination. Similarly, upon retirement, the unused portion of the ITA reverts back to the employee and associated firm.

Each contributor to an ITA receives a tax deduction on his or her annual returns, like an IRA. While ITA funds used for approved retraining or relocation activities are tax exempt, refunded ITA monies become taxable upon retirement or in the event of voluntary unemployment.

An ITA appeared to offer a variety of potential advantages over government training programs:

- Portability;
- Employee choice;
- Long-term flexibility;
- Provider competition;
- Low administrative costs; and
- Institutionalization of retraining.

This legislation, despite its merits, did not pass. In addition, it generated a number of telling criticisms. Participation might be low, because an employee's firm was not interested in participating. Tax deductions created inequities in its financing. Higher income employees would be most likely to use ITAs. ITAs could not be used to upgrade incumbent employees' skills or train labor force entrants; they, instead, required displacement to occur before monies were available. The absence of income stipends meant that many employees who sought to be retrained would be pressured by their other budgetary needs, since they were unemployed. The ITA could even cause large companies to reduce some of their training activities.

Critics proposed making up for these shortcomings by:

- Replacing the tax deduction mechanism by a refundable tax credit;
- Coordinating the ITA with income maintenance and other educational finance programs to allow for longer-term training options for employees who needed them;
- Providing additional one-time incentives for firms establishing ITAs with their employees and for firms supplying initial upgrade training for employees; and
- Investing in a broader mosaic of services (e.g., counseling, job development, child care support, higher quality labor market information, improved employer-based curricula and instruction).

Roger Vaughan's GI Bill for the American Employee

A more far-reaching and less well known proposal that dealt well with the sorts of critiques leveled at Choate's ITA was Roger Vaughan's GI Bill for the American Worker. Never introduced as national legislation, Vaughan still developed an extremely specific proposal.[47]

The starting point of Vaughan's alternative was as follows. Many Americans cannot finance their own education and training. This is partly due to poor information: employees are reluctant to invest family savings in a training course when the demand for the job is uncertain. This is particularly true for the unemployed, including the dislocated employees, and the poor, unemployed or not, who also lack the money to invest. A state strategy for investment in human capital must, at a minimum, address this dual problem of lack of money and lack of information. This is also all the more important if certain educators and labor market experts are right in their belief that those who now starting a career will have to learn new skills and new occupations much more frequently than their parents. They will need better basic skills just to get into the workforce and will need to invest time and money to acquire new skills to stay employed.

Economist Roger Vaughan advocated a universal national program to provide all employees—employed and unemployed—with access to education and training vouchers. These would replace all other federal employment and training programs, from WIA to vocational education to welfare-to-work. To increase funding stability and to finance the system, all employees and employers would pay into trust funds—analogous to but independent of unemployment insurance funds. Under such an arrangement, a portion of the resources in this range of training and education programs would be pooled and issued to eligible individuals as vouchers, rather than to institutions and to allow individuals to make their own informed decisions. Report cards on educational and training vendors' performance would be made available. Since individuals select where their vouchers are redeemed, education and training institutions would have to become much more responsive to the changing demands of both employers and employees. Since almost everyone would move through the system, participants also would not be so stigmatized by their involvement either.

Vaughan also developed a smaller, more state-based option. States could establish a trust fund, which would make low interest loans to students and those enrolled in training programs. Such an incremental effort possesses some of the advantages of a full-blown voucher program, without requiring such radical restructuring. The sale of revenue bonds backed by the repayments of participants would finance the fund. In the early years, direct state appropriations would have to cover costs before recipients begin repayments. Borrowers would repay through a percent of the gross income earned after graduation.

To encourage participation by the poor, the trust fund should make grants (financed directly by state appropriations) equal to at least one-third of the education and training costs of those with income below a set level.

Such a program would greatly aid those who now fall through the cracks of state educational and training efforts and would be a special boon to the working poor, while still encouraging more institutional responsiveness.[48]

Job Training Partnership Act

Under the Job Training Partnership Act (JTPA), vouchers or voucher-like approaches were tried in nine sites. Vouchers were used for at least some economically disadvantaged clients and dislocated employees in all sites. One site used a "pure" voucher approach (e.g., no other support services), while the other eight had "constrained choice" vouchers, featuring:

- Assessment/counseling to identify appropriate training or education;
- Job training limited to high-demand occupations;
- Screening of vendors for quality and cost of training, as well as satisfactory job placement experience;
- Joint decision-making between participant and counselor on selection of training and vendor; and
- Issuance of time-limited training authorization.

Other program elements included:

- Caps on amount of training expenditures;
- Time limits on voucher authorization and training services;
- Payment to vendor contingent on completion of training (not job placement)
- Screening of vendors; and
- A directory of approved training shops.

A limited evaluation was conducted, finding that:

- Workforce development agencies believed that vouchers had little or no effect on program costs or outcomes;
- But that "customers" (e.g., trainees) and "vendors" (e.g., trainers) expressed high levels of satisfaction with the programs.

Effective voucher systems also appeared to require high quality participant assessment and joint decision-making between participants and agency counselors on the selection of a training program, along with good, accessible information about courses, costs, and performance of training vendors.

New Jersey Workforce Development Partnership

The New Jersey state legislature established this program in 1992. Its Individual Training Grant (ITG) program awards individual grants to long-term unemployed to help them gain new skills and jobs.[49] During the 1994-96 period, the state awarded 9,910 Individual Training Grants totaling $27.9 million. The ITG initiative helped its clients recover lost wages and remain employed. Participants did as well or as better as those unemployed persons not enrolled in the program who sought work. A substantial majority of ITG recipients were satisfied with the program and valued the training. Those recipients whose educational background was lower did much better than a similar sample of the non-training comparison group.

Workforce Investment Act

The Workforce Investment Act (WIA) of 1998 requires that workforce investment areas establish Individual Training Accounts (ITAs), which provide vouchers that customers could use to pay for training. These ITAs are intended to transform the service delivery of employment programs by putting power in the hands of potential trainees. But the legislation also gives states and localities a great deal of freedom in setting the value of ITAs and deciding how much guidance and direction to give to customers as they decide on a training course.

A six-site experiment and evaluation has been established. It will include process, impact (e.g., training chosen, employment and earnings, and customer satisfaction), and return-on-investment analysis. Three options will be tested: (1) structured customer choice; (2) guided customer choice; and (3) maximum customer choice. Sites will also vary the amount of the vouchers, the information and guidance provided, etc.

Initial assessment results finds that more work is needed on developing better "consumer reports" on area training vendors; that WIA has shown a sharp drop-off in training participants due to the strong economy and WIA's "work-first" mentality, and that community colleges were largely not interested in being vendors because of the small number of vouchers and the heavy performance reporting required.

Employer- and Sector-based Models

Interestingly, the employment and training field has reacted against the uneven experience of governmental service delivery by moving in two different directions—individual empowerment through customer control (e.g., vouchers, etc.) and more employer-based initiatives. Now, let's look at these latter approaches—customized training, joint employer-union training funds, and sector initiatives. They could be viewed on a spectrum, regarding the degree to which they serve primarily employers' workforce needs, to addressing employees' (and especially, the economically disadvantaged) career development.

Customized Training

State governments have been heavily involved in the business of subsidized, tailored training for specific firms since the early 1950s.[50] Today, 45 states run such programs. They are employer-based programs, not employee-based ones, like the federal government's. Their goals are to attract, retain, and modernize firms through customized training. They have few requirements, other than firm satisfaction, and they serve both incumbent employees and new hires. About $593 million was spent in 1998-99. (The top ten states spent about 60% of this total.)

Some programs allow businesses to pick their trainers (like a voucher approach). Others are more directive and actually have their own trainers or designate institutions, such as community colleges to do the job.

Little evaluations have been done on these programs. The assessments that have been conducted have demonstrated strong business satisfaction, greater employee stability, higher employee earnings, and a decent return on state investment.

However, the trainees are not drawn from a disadvantaged pool. So, in many respects, they are not a comparable training sample, compared to CETA or JTPA. Moreover, there is a concern that many of these programs substitute public dollars for private ones. Small firms could be aided better if they were part of a consortia of same sector businesses.

Joint Employer-Union Education and Training Funds

Joint Employer-Union Education and Training Funds are essentially labor-management partnerships, using the apprenticeship model.[51] Apprenticeship training provides learners with ways to combine learning and earning. They are primarily financed, sponsored, and administered by the private sector. Common in countries such as Germany, American apprenticeship programs tend to exist in large numbers in only a few trades, primarily construction and manufacturing.[52]

Employers and unions are heavily involved in their management and design. Trainees are virtually assured that their training will be relevant to their jobs and that a good job is waiting for them when they complete their classroom and on-the-job education. (90% of training happens at the worksite, using current technologies.) Apprenticeships also allow for employees to earn while they learn and pursue a progressive career and pay track. Past research has shown that employees that complete apprenticeship programs:

- Generally pleased with the training received;
- Have a high tendency to continue working at the crafts for which they are trained;
- Commonly have opportunities to move into supervisory positions; and
- In some trades, have opportunities to start their own businesses.

Apprenticeship programs may be sponsored solely by a single business or a group of employers, or jointly between them and a union. Approximately 37,000 apprenticeship programs operate in the U.S. The majority of these are unilaterally run employer programs. But the largest numbers of apprenticeships are trained in joint employer-union efforts. Such apprenticeships also lead to a recognized "credential," which allows a "journeyman" to work in lots of workplaces within an industry or occupation.

Public funds have rarely been tapped to finance this training (primarily for the classroom instruction portions). Consequently, an industry must "tax" itself to finance apprenticeships. Where unions have been strongly involved, this has been done through collective bargaining agreements. Under this "trust fund" concept, a few cents for every hour worked under the contract could be placed into a special fund dedicated to training.

Providing college credit for learning in apprenticeships has been an important method of promoting them. Another interesting approach for apprenticeship promotion is the "scholarship loan agreement." Under a contract, the trainee agrees to stay in the trade with the training sponsor for a period, such as ten years. If the trainee leaves earlier, the apprentice must pay for the earlier training. It would then be converted into a loan that must be paid loan back on a pro-rata basis.

In the past, apprenticeships, like other U.S. institutions, were often racially discriminatory. But they have improved dramatically in many places in terms of their recruitment of minorities (and women).

Low-Income Targeted Sector-based Initiatives

Sector initiatives that have focused on common workforce development, research and development, and marketing issues have existed for some time in the field of economic development. But now these approaches are starting to focus on expanding employment opportunities for low-income, low-skilled employees.[53] specifically, they can be distinguished from conventional sector programs by four common elements:

- They are targeted to a specific industry and seek to craft tailored solutions to sector challenges.
- Although led by a strategic partner with deep knowledge of the industry, they may also involve a variety of other players, such as community-based nonprofits, organized labor, community colleges, etc.
- Their training strategies target low-income persons, including the unemployed and the working poor.
- They encourage systemic change in a “win-win” fashion to benefit both employers and the economically disadvantaged.

During the past decade, about 200 of there efforts have sprung up, run primarily by nonprofit organizations and targeting a variety of industries, including: health care, information technology, construction, hospitality, telecommunications, manufacturing, printing, and temporary staffing. In doing so, these initiatives seek to improve wages and benefits for lower-income employees, enhance employee recruitment, employee training, the hiring and retention of employees, and career advancement.

Sector programs have even created their own “trade” group—the National Network of Sector Partners (NNSP). Based at the National Economic Development and Law Center, NNSP serves as a catalyst and a clearinghouse for these efforts. NNSP’s mission “is to encourage the use and effectiveness of sector initiatives as valuable tools for enhancing employment and economic development opportunities for low-income individuals, families, and communities.”

NNSP has also established three national policy priorities:

- Increase funding for the Temporary Assistance for Needy Families block grant, establish stronger job quality standards for welfare-to-work efforts, define education and training as an allowable work activity, and expand support for job retention and advancement.
- Continue and expand WIA funding for sector projects and sustain overall WIA spending; and
- Educate policymakers about the H-1B Training Fund which seeks to provide a long term solution to domestic skill shortages in certain high tech occupations by enhancing American workforce skills, rather than importing more foreign employees and provide technical assistance to sector efforts in this particular field.

If an employer-based IDA would be structured to work for all employees, it should probably include tax incentives for both employers and employees. (The ones for the employees should be refundable tax credits.) Improved training and education scorecards on vendors are a “must.” Finally, American mechanisms for career counseling and job search services need a major upgrading as well.

Endnotes

1 While a great portion of this paper pertains to the delivery of IDAs through employers, it include a discussion of LiLAs. Given the similarities between the two types of accounts—both are targeted matched savings accounts—any insight that can be gleaned from one is likely to be relevant and applicable to the other.

2 Editor: Boshara, Ray (2001) *Building Assets, A Report on the Asset-Development and IDA Field*.

3 Anderson, J.M. (1999) *The Wealth of U.S. Families: Analysis of Recent Census Data*.

4 Haveman and Wolf. (2000).

5 Employee Benefit Research Institute. (1997) *Fundamentals of Employee Benefits Program*. (page 3).

6 LiLAs are matched savings accounts, which can be used for education, learning, and skills upgrade.

7 D2D's model would provide record keeping, reporting, and custody arrangements and would be functional with an employer's existing system. Another component of the D2D model is the payment systems function, which would be handled through the payroll system of an employer or through ACH instructions from an IDA investor's bank account outside of the workplace.

8 Beverly, S. G., & Sherraden, M. (1999) *Institutional Determinants of Saving: Implications for Low-income Households and Public Policy*.

9 Editor: Boshara, Ray (2001) *Building Assets, A Report on the Asset-Development and IDA Field*. (page 2.017).

10 Editors: Kaye, Keleen and Nightingale, Demetra Smith. (2000) "Introduction and Overview," *The Low Wage Labor Market: Challenges and Opportunities for Economic Self-Sufficiency*. (page 8).

11 Health insurance premiums this year are expected to increase an average of 13% to 15%, the steepest increase in a decade. Next year's increase will be at least as high and may be higher. Aging baby boomers, increasing drug costs, the decline of managed care, state and federal mandates, and other factors are behind these trends.

12 For more details, see "Curbing Health Care Costs Key To Michigan's Growth" in Detroit News (June 9, 2002); Larry Lipham, "Rising Premiums Presage Health Insurance Crisis" in The Charlotte Observer (May 19, 2002); and Ronald Pollack, Families USA, Testimony before U.S. House of Representatives on July 9, 2002 on "Expanding Access To Quality Care: Solutions for the Uninsured."

13 Where the IDA is available for a low-income person and is used for first-time homeownership, business capitalization, and post-secondary education.

14 The non-discrimination test and other ERISA tests compare the amounts contributed by and on behalf of highly compensated employees to those of non-highly compensated employees. As of 2001, a highly compensated employee is any employee, who during the current or preceding year was 5% owner or earned more than $85,000 during the previous year.

15 IDA program costs in ADD decreased over time. Average program expenses per participant per month through June 1999 were $117.58 (including matches as an expense), and over the next 12 months, costs decreased to an average of $43.06. ADD cost data were measured with error and were probably overstated due to start-up costs, the provision of technical assistance to other IDA programs, and data collection costs.

16 EBRI. *Fundamentals of Employee Benefit Programs*, (page 3).

17 EBRI. (page 3).

18 Osterman, Paul (1999) *Securing Prosperity: The American Labor Market, How It Has Changed and What To Do About It*. (page 129).

19 EBRI. (May 2002) "Tax Expenditures and Employee Benefits: An Update from the FY 2003 Budget" *Facts from EBRI*.

20 EBRI. (April 2002) "Employer Spending on Benefits 2000." *Facts from EBRI* .

21 Ibid.

22 EBRI. *EBRI General Benefits Research: 2002 Findings*. (page 2).

23 EBRI. (pages 6-7).

24 Osterman, *Securing Prosperity*. (pages 129-132).

25 Mishel, Larry; Bernstein, Jared; and Schmitt, John. (2001) *The State of Working America*. (pages 137-143).

26 Editors: Kaye, Keleen and Nightingale, Demetra Smith. (2000) "Introduction and Overview," *The Low Wage Labor Market: Challenges and Opportunities for Economic Self-Sufficiency*. (page 8).

27 According to Laura Bassi in *Workplace Education for Low-Wage Employees*: "The best available evidence on the impact of workplace education and training indicates that those employees who receive it earn significantly higher wages than comparable employees who do not receive education at work. For example, the wage rate benefit of 40 hours of workplace education is estimated to be 8%, which is as large as the return from an entire year of schooling." (page 10).

28 Ibid. (Appendix, Table 4.5).

29 Ibid. (Figure 4.5).

30 Ahlstrand, Amanda; Bassi, Laurie; and McMurrer, Daniel. (2002, unpublished) *Workplace Education for Low-Wage Employees. An American Society for Training and Development for the W. E. Upjohn Institute for Employment Research*. (page 10.)

31 Ibid. (pages 10-11).

32 Editors: Kaye, Keleen and Nightingale, Demetra Smith. (2000) "Introduction and Overview," *The Low Wage Labor Market: Challenges and Opportunities for Economic Self-Sufficiency*. (page 8).

33 McCrate, Elaine. (2002) "Working Mothers in a Double Bind," *Economic Policy Briefing Paper*. (page 1).

34 Heyman, Jody. (2000) *The Widening Gap: Why America's Working Families Are in Jeopardy and What Can Be Done About It*. (page 114).

35 (1995) "The 8.6% Payoff: Education, Training Boost Productivity" *Workforce Economics*. Vol. 1 Issue 1.

36 EDC Teaching Firm Project. Bob Glover, (page 3).

37 Ibid. (page. 3).

38 Lynch, Lisa. (1992) "Private Sector Training and the Earnings of Young Employees." *American Economic Review* Vol. 82. page 299-312.

39 Kochan, Thomas and Osterman, Paul. (1991) "Human Resource Development and Utilization: Is There Too Little in the U.S.?" Unpublished Manuscript in EDC Teaching Firm Project by Bob Glover. (page 3).

40 Bartel, Ann. (1994) "Productivity Gains from the Implementation of Employee Training Programs" *Industrial and Labor Relations Review*. In EDC Teaching Firm Project by Bob Glover. Vol. 4 No. 2.. (pages 411-25)

41 Holzer, Harry et al. "Are Training Subsidies for Firms Effective? The Michigan Experience." *Industrial and Labor Relations Review*. In EDC Training Programs by Bob Glover. Vol. 46 No. 4. (pages 25-36) 1993.

42 Bergman, Terri. "Training: the Case for Increased Investment." *Employment Relations Today* Vol. 21 No. 4 (pages 381-392).

43 (1995) "The 8.6% Payoff Education, Training Boost Productivity." *Workforce Economics* (page 4).

44 Ibid.

45 Ibid. (pages 4-5).

46 The literature on vouchers is vast. The best place to begin is: Steuerle, Ooms, Peterson, and Reischauer (editors), Vouchers and the Provision of Public Services (Brookings Institution, 2000). Also, helpful is Donahue and Nye (editors), Market-based Governance (Brookings Institution, 2002). Two interesting how-to discussions can be found in: Osborne and Plastrik, Banishing Bureaucracy: The Five Strategies for Reinventing Government and Osborne and Plastrik, The Reinventor's Field Book: Tools for Transforming Government.

47 For details, Roger J. Vaughan, "The Job Development Administration: A National Employment, Education, and Training Policy" in Projected Changes in the Economy, Policy, Labor Market, and Workforce and Implications for Economic Development Policy, Hearings before the Subcommittee on Economic Development of the Committee on Public Works and Transportation, House of Representatives, Ninety-Seventh Congress, First Session, November 18-19, 1981, pages 33-77.

48 See Vaughan and Sekera. *Investing In People*.

49 The Workforce Development Partnership also runs the Customized Training program, which awards grants to firms and consortia to train current employees. 226 Customized Training grants totaling $48.7 million have been given out. The CT program was found to aid firms to provide more training to employees that had few previous opportunities to increase their skills. Firms were happy with the program and believed that it increased their employee productivity and company productivity. Trainees in the CT program were also satisfied with the training given to them.

50 See Steve Duscha and Wanda Lee Graves, State Financed and Customize Training Programs. Submitted to U.S. Department of Labor, Office of Policy and Research, May 18, 1999.

51 Most of this discussion has been drawn from an unpublished overview paper by Roger Glover, *Registered Apprenticeship in America: Past, Present and Future*.

52 Sixty to 70% of school leavers in Germany, Austria, and Switzerland enter apprenticeships as teenagers.

53 For background, see www.nedlc.org/nnsp/; The Annie Casey Foundation's Job Initiative, Stronger Links: New Ways To Connect Low-Skilled Employees To Better Jobs (www.aecf.org); and National Governors Association Center for Best Practices, Using Regional Skill Partnerships to Address Skill Shortages and Promote Job Retention and Career Advancement for Low-Income Employee, Issue Brief, August 13, 2001.