IT'S INCUMBENT ON U.S.

Leveraging federal policy to maximize investment in incumbent worker training and businesses' pipeline development

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SEPTEMBER 2020

NATIONAL SKILLS COALITION
Every worker. Every industry. **A strong economy.**

The current health pandemic has accelerated the rate at which our economy is changing, bringing into stark relief the skill needs of our nation's businesses and their employees. Prior to COVID-19, nearly two-thirds of small and mid-sized employers (SMEs) said they faced difficulty when recruiting and retaining skilled workers—people trained for jobs in growing industries like healthcare, medical technology, IT and software, and manufacturing—as well as tradespeople like plumbers and technicians.[1] These jobs, which require education and training that falls between a high school diploma and four-year degree, are the backbone of the American economy. Forty-three percent of workers have the training they need to qualify for these positions.[2]

Since the pandemic began, the economic landscape has changed dramatically for businesses and workers. Countless companies have had to quickly upskill their workers, equipping them with the skills they need to pivot to digital or remote services. Businesses in charge of delivering essential pandemic related services or products have had to onboard and train thousands of new workers to meet the needs of the communities they operate in. Pre-existing talent pipeline issues have continued to jeopardize the supply of skilled workers in some industries, even as other businesses have had to temporarily close their doors to protect workers and consumers.

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In this rapidly changing environment, the importance of efficiently and effectively training and onboarding workers with the right skills for the job has become an increasingly critical component to rebuilding our regional economies. Many business leaders stand ready to play a significant role in making sure new and incumbent workers can access the education and training they need to be successful in in-demand industries both in the short and long-term. With more than 40 million Americans having applied for Unemployment Insurance (UI) benefits between March and July of 2020 as a consequence of pandemic-related displacement[3], high-quality education and training that can help get people back to work is on track to be more in demand than ever before.

Unfortunately, our current policies fail to adequately empower businesses to upskill existing workers or workers to access training when they are already employed. The U.S. does not invest adequately in training for workers already on the job, instead limiting eligibility largely to workers already out of work. Existing economic development and workforce development policies are not well aligned to maximize even the small investment the U.S. does make. And our tax policies fail to incentivize or scale the significant investment companies already spend on their workers.

The following recommendations are part of National Skills Coalition call for an inclusive economic recovery to the COVID-19 health crisis and its economic impact. This report focuses on how federal policy can invest in and support businesses investing in incumbent workers. For a deeper analysis into how states can support reskilling and upskilling for incumbent workers see *Funding Resilience*.

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Congress should equip businesses and incumbent workers with the resources they need to succeed in today's changing economy.

This strategy should:

1. **Create a new Federal Incumbent Worker Training Fund,** a new title of formula dollars under the Workforce Innovation and Opportunity Act (WIOA) to provide dedicated resources to states to fund partnerships between employers, education and training providers, and other stakeholders. These resources would be used to upskill and advance current workers who face foundational skills gaps (including digital literacy gaps); changing occupational requirements due to new technologies or processes; or where such training allows workers to advance to higher-paying positions within a firm or industry and creates employment opportunities for new workers to fill in vacated positions. For workers rehired in different industries after the pandemic, these funds can help workers gain skills necessary to advance in their new industry.

2. **Create new "21st Century Extension Partnerships," aligning workforce and economic development strategies.** Congress should authorize the Commerce Department to develop new cross-agency collaboration with the Departments of Labor and Education and fund a new network of new "21st Century Extension Partnerships." These partnerships should provide technical assistance to small and medium-sized employers, coordinate funded training for businesses in the same industry, and efficiently encourage companies to adopt latest industry methods and technologies. This strategy should also support transitioning workers to new and emerging industries in areas where existing industries are declining due to economic impact of our current health crisis.

3. **Leverage changes to the tax code to empower private investment in worker training for both new hires and the upskilling of existing workers.** Current tax credits drive the recruitment of workers but fall short of empowering businesses to create more meaningful pathways for those already on the job. This strategy should encourage businesses to invest in workers who have been unable to access traditional education opportunities or most likely to lose their jobs.

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Current economic and workforce development programs fail to support business engagement in training new or existing workers

Small and mid-sized business leaders often lack the tools necessary to develop a pipeline of skilled workers or upskill incumbent workers. Existing policies, however, fail to address this need.

The U.S. drastically underinvests in workforce policy meant to upskill and train workers already on the job, despite this being an effective and efficient way to connect learning to career pathways, particularly for the 36 million American workers with foundational skill needs. Where we *do* invest public dollars, polices often lack alignment between economic and workforce development necessary to bring together programs meant to spur business innovation with those designed to help workers benefit from and contribute to that innovation. And finally, public policy fails to scale up or adequately leverage existing private investments in incumbent workers in a way that could maximize what businesses are already spending on their employees.[10]

Inadequate public investment in incumbent workers stymies business competition in a global economy and stands in the way of workers' access to skills

Our public workforce system, tasked with serving businesses and workers who have not been able to access skills necessary for an in-demand job, is not designed—or adequately funded—to scale current incumbent worker training models.

The White House Council of Economic Advisors recently documented that the United States lags far behind other industrialized nations in its public expenditures on training for people currently in the workforce. This is, in part,

Investing in incumbent workers: A critical layoff aversion strategy for small and mid-sized companies at a time of historic worker displacement and path to better equity in the workforce

At a time with historic unemployment, training for people without a job is a critical tool to restore our economy and workers' economic security. But this strategy should also be combined with strategies that help ***keep*** people in the workforce and provide them with the skills industries need. Training for workers on the job is an imperative form of layoff aversion and a pathway to economic opportunity that can help workers—especially those most at risk for losing their jobs—avoid ever needing to access services designed to help people weather periods of unemployment. Training for existing workers can also help those who are new to an industry gain skills necessary to be successful in maintaining employment.

A comprehensive, federal strategy that supports incumbent workers and the newly hired could efficiently encompass needs of whole industries undergoing occupational transformations—due to the economic impacts of the current health crisis, technological change, or other reasons. Such a holistic strategy would improve on our current ad hoc approach, which burdens individual employers and workers with predicting and paying for costs associated with succeeding in the 21st century workplace.

Investments in incumbent workers help businesses and workers, especially those hardest hit by the impact of our current economic crisis.

1. **Investments in incumbent workers helps small and mid-size companies' ability to weather this economic crisis and be engines of local economies.**

   Public investment in incumbent workers—and public policies that maximize private investment—are especially critical to ***small and mid-sized businesses***. Research globally suggests that small and mid-sized firms, when compared to larger companies, have less staff time and expertise to develop internal training programs, less capital to pay for workers' training, and less exposure to the education and workforce system necessary to navigate public training supports.[4] Most workers are employed by small and mid-sized companies, meaning support for these employers supports the majority of the workforce. Small and mid-size companies bear a disproportionate impact of the current economic crisis, with less access to institutional capital and to public loans through stimulus funds necessary to allay budgetary restraints.

   At the same time, maximizing business' capacity to provide training for incumbent workers leads to greater worker retention and lowered costs associated with filling job openings, along with improved productivity and innovation.[5]

2. **Investments in incumbent workers improves business engagement with our public workforce and postsecondary education system, opening up more opportunities for workers engaged with those systems.**

   Public investments in incumbent workers—and in partnerships between businesses to help facilitate incumbent worker training—are also a critical first step for engaging businesses who may be skeptical of the public workforce system, leading to more opportunities for employment for all workers. Federal policies that support and invest in incumbent worker training may offer businesses a more obvious return on their investment of time and money, building a relationship between firms in a local area, training providers, and the workforce system that can pave the way for a more robust partnership that includes onboarding new workers. For small businesses, especially, where business leaders think of their workers as part of the corporate family, public policies and investments in incumbent workers may be more likely to inspire interest from businesses who have not engaged with the public workforce system before. This strategy was the foundation of how many states expand industry partnerships coming out of the 2008-9 recession and offers an important lesson as we look towards economic recovery to our current crisis.[6]

3. **Investments in incumbent workers opens pathways to good jobs for workers who have not historically had access to those opportunities.**

   Finally, public investments in incumbent workers create pathways for workers with greatest skills needs and who do not have a college degree. Workers without a college degree and those without a high school equivalency have been disproportionately impacted by job loss during this economic crisis, and during past recessions.[7] People of color have also been disproportionately impacted by job loss and are overrepresented in industries like hospitality and service sector jobs that are likely to take longer to recovery from the current crisis.[8] Investments in training that can help workers of color and workers without a college degree in their current jobs are critical. Investments in training for these workers—to ensure they have access to a pathway to good jobs with family sustaining wages—enables policymakers to turn our current crisis in to a vehicle for improving equity.

The U.S. needs to overhaul our policies that invest public funding and scale private investments to adequately serve incumbent worker need and meet business demand for a workforce with 21st century skills.[9]

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because federal workforce development policies like the Workforce Opportunity and Innovation Act (WIOA) are woefully underfunded relative to the demand for workforce training services. It is further complicated by the fact that publicly funded workforce programs like WIOA prioritize training for people who do not have a job or who have been recently laid off, putting strict monetary or procedural constraints on the use of those funds for the upskilling of people who are already employed.

The forced constraints on who in our country is eligible for—or needs the most—training is a false choice, imposed by decades of underinvestment in a system critical to our country's economic success and that of businesses, workers, and communities. Today, as the U.S. economy reels under the impact of the pandemic, policymakers should act now to remedy this situation by investing in both types of support as part of COVID-19 relief and recovery.

Congress moved in the direction of allowing greater investment in incumbent workers with WIOA in 2014. WIOA allowed greater flexibility to use local adult and dislocated worker funds to support incumbent worker training. Local areas were allowed to use up to 20 percent of their combined funds to support incumbent worker training, and were given the option of reducing matching requirements for common forms of training such as on-the-job training (OJT) or customized training, depending on the size of the firm receiving assistance.[11] However, despite these changes, the number of individuals participating in these forms of training has actually ***declined*** since WIOA was passed: Participation in OJT has gone from 16,385 in PY 2014 to 11,846 in Program Year (PY) 2018; and participation in customized training has gone from 5,667 in PY 2014 to just 2,789 in PY 2018.

States have, to some degree, filled this gap—roughly twenty-eight states have created Incumbent Worker Training (IWT) programs, sometimes resourced through small diversions of employer contributions to state unemployment insurance or worker compensation funds. Yet companies applying for IWT funds in these states often find demand well outstrips the capacity of these programs and there is little done to monitor the extent to which IWT resources are being invested in the upskilling of lower-skilled workers, including those most vulnerable to job loss.[12]

Neither patchwork state programs or the tepid update to incumbent worker investments in WIOA, however, adequately matches the unprecedented demand of businesses in our current economic climate or the needs of workers today.

Lack of alignment between economic and workforce development systems across all industries creates inefficiencies for businesses, workers, and communities

According to the World Economic Forum, strategies that help firms within the same industry work collectively to adopt new technology and address workforce needs could save the U.S. government 30 percent of the costs associated with changing workplace over the next thirty years.

The federal government has long recognized the economic value of bringing together small and mid-sized employers, investing in programs like the Manufacturing Extension Partnership (MEP) and Trade Adjustment Assistance for Firms and Trade Adjustment Assistance for Communities to help companies adopt new and efficient technology and improve competitiveness. These programs, however, have been small, limited largely to manufacturers, and as currently structured, none has a workforce focus:

- In the 1980s, Congress created the Manufacturing Extension Partnership (MEP) to help smaller U.S. manufacturers adopt the latest production technologies so they could stay competitive within a rapidly automating sector. Today, MEP centers around the country continue to provide technical assistance to small manufacturers

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on new industrial techniques and technologies as well as the training needed to update their workforces. The program has had significant positive impacts on the U.S. economy—a 2019 study conducted by the W.E. Upjohn Institute for Employment Research estimated that the services and activities of MEP centers added 237,000 jobs and $24.9 billion to our Gross Domestic Product (GDP), demonstrating the effectiveness of this model in the manufacturing industry.[13]

- Trade Adjustment Assistance for Firms, established in the 1960's, provides financial assistance to manufacturers across a number of industries—including HVAC, food processing, and electronics—who are affected by import competition.[14] On average, firms participating in TAAF see increases in sales, employment, and productivity.[15]
- The Trade Adjustment Assistance for Communities program, passed as part of the American Recovery and Reinvestment Act of 2009, included a program housed within the Department of Commerce's Economic Development Administration which provided funds to economic development commissions in a local area to help revitalize communities in which flagship employers made significant lay-offs. The program was targeted at communities that could show significant eligibility of workers under TAA for Workers or of firms under TAAF. It was phased out due to defunding by 2011.[16]

Separately from how our country invests in ***economic*** development, the workforce system has a long history of supporting local, industry-driven, robust industry or sector partnerships.[17] These partnerships have been shown to reduce turnover costs and lower recruitment costs for participating businesses. For workers who have participated in training through a member of an industry or sector partnership, studies have shown significant impacts through higher wages and longer-term employment retention than workers who did not participate in sectoral programs.

Inequitable impact of current private sector workforce investments

Given significant racial disparities in educational attainment in our country, caused by the impact of intentional historical and current policies and practices, private investment's focus on workers with a four year degree means that BIPOC workers are currently less likely to benefit from private sector training expenditures. For example, only 27 percent of U.S. born black and 28 percent U.S. born Latino workers have an AA degree or higher, compared to 45 percent of white, U.S. born workers.

Without targeted incentives that empower private investment in workers with most need for skills training, status quo private investments serves to perpetuate — rather than address — historic inequities that would broaden the pipeline of skilled workers.

Source: PolicyLink / PERE National Equity Atlas, www.nationalequityatlas.org

By blending the workforce success of industry or sector partnerships with economic development successes of the MEP and TAA for Firms and Communities model, public policy could efficiently and effectively address business—especially small and mid-size firms'—demand for skilled workers.

Given rapidly changing technology and industry shifts due to the economic impact of COVID-19, there is a much broader set of industries beyond manufacturing in which small businesses are needing to adopt new technology—healthcare, retail, hospitality, transportation, construction, and more. Many of these smaller firms could benefit from industry-specific technical assistance on new workplace technologies and what skills are required for their workforces to adopt these new tools. As currently structured, however, neither the MEP program or other economic development programs, like those funded under Trade Adjustment Assistance for Communities, adequately connects workforce and economic development groups at a scale or consistency necessary to serve business demand and worker need.

Imprecise tax policies fail to maximize private investment in skills

Businesses invest significant funding in their existing workforce, but as our economy shifts to pandemic recovery, resource-strapped small and mid-sized businesses may not be able to hire and train new employees at the rate needed without additional supports or incentives. Unfortunately, the U.S. underutilizes our tax code as a vehicle to empower businesses to invest in incumbent workers.

The private sector spends more than $650 billion annually on education for its employees to keep them up-to-date with the latest industry trends. Yet 85 percent of this private investment is dedicated to higher-skilled employees who already hold a bachelor's degree or have at least attended college. That leaves out two-thirds of the U.S. workforce that may never pursue a degree program, but who nevertheless warrant some company investment in their reskilling if they're going to be part of the firm's future success.

State policymakers can take action to incentivize greater private investment in frontline workers, as detailed in National Skills Coalition's *Funding Resilience*. This report focuses on actions that can be taken at the federal level.

Federal policy provisions like the Work Opportunity Tax Credit (WOTC) and Section 127 of the U.S. tax code, two of the only provisions that address either workers with greatest skill needs or upskilling opportunities for workers, are not adequately tailored to incentivize investments in workers with greatest skill needs.

- As currently structured, WOTC provides credits of up to $9,600—totaling nearly $1 billion claimed by employers each year—to companies simply for hiring workers from targeted populations; including veterans, the long-term

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unemployed, and Supplemental Nutrition Assistance Program (SNAP), and Temporary Assistance for Needy Families (TANF) recipients.[18] While WOTC is a heavily used tax credit, it is most often claimed by companies for workers who enter jobs without a pathway to increased skills or higher wages.[19] A third of WOTC credits in 2014 were claimed for hires in retail, 20 percent for administrative support jobs, and 16 percent for food preparation jobs. Almost half of all the credits claimed under WOTC were for workers hired into jobs that paid between $7.25 and $8.25 an hour.[20]

- Section 127—a provision of our tax code that allows individuals to exclude the employer-paid costs of education programs from their income—is most often claimed by workers who already have a four-year degree. Instead of encouraging workers with greatest skill needs to access in-demand credentials that could help them progress in their career, this provision is most often seen as a retention benefit for companies to entice already highly paid workers to stay with a firm. These benefits also operate as a reimbursement, making them more likely be used by workers who can afford to pay up-front tuition costs, which can be prohibitive for workers without significant savings. Finally, many foundational skills programs—such as integrated education and training programs and those that would enable workers to gain the digital skills necessary to succeed in the workplace—are *excluded* from coverage. This means the more than 36 million workers in the U.S. with literacy and numeracy skills need and the 48 million with digital skills needs are unable to access critical training given the current structure of Section 127.

Policy change to maximize public and private investment in incumbent workers: Helping businesses maintain competitiveness during an economic downturn and ensuring more workers can stay connected to and succeed in jobs

Congress has the chance to reverse course and implement key policy changes that would support businesses and workers now and as our nation adjusts to the new realities of the post-pandemic world. Ideally, these policy changes should connect small and mid-sized businesses—particularly those in COVID-19 impacted industries—to public resources and to other companies in the same industry to scale solutions. And Congress must leverage private and public investments to maximize upskilling opportunities for both new and incumbent workers.

Without these strategies, businesses will continue to lack the support needed to build critical skilled worker pipelines, and workers will struggle to get the skills they need to secure jobs that pay family-sustaining wages as our nation moves towards an economic recovery.

To maximize public and private investments in incumbent workers, help businesses maintain competitiveness and ensure more workers stay connected to jobs and career advancement, **Congress should:**

Create a new Federal Incumbent Worker Training Fund

The current economic downturn presents an opportunity to reevaluate our nation's incumbent worker training infrastructure. Millions of workers have been displaced from their jobs due to the pandemic and will need training to succeed in new industries. Others have been able to stay in their jobs but have had to quickly reskill to provide essential services. And those who are currently displaced but planning to return to their pre-pandemic occupations may need new skills to reenter their industries. Without a nimble and accessible incumbent worker training infrastructure, businesses and workers will be without the resources they need to shift to and sustain a long-term economic recovery.

75% of voters support nimble, short-term education options that help people quickly retrain

Congress should establish a new title in WIOA to finance training opportunities for incumbent workers, beyond the tightly limited current Incumbent Worker Training (IWT) services. This new title should provide more robust, flexible funding to allow businesses, community colleges, and nonprofit organizations to draw down public funding to support investments in reskilling and upskilling workers in order to respond to the COVID-19 crisis, it's economic impacts, and to prepare for general workforce needs as our country recovers.

Align workforce and economic development in communities and industries across the country through new 21st Century Extension Partnerships

Our country has long recognized the value of national industrial policy via small and targeted programs, but has failed to scale these successful initiatives across industries or support necessary alignment between economic and workforce development entities. Given the unprecedented workplace shift caused both by the impact of the health crisis and its economic impact and the rapid advancement of technology in the workplace, widespread federal support for locally-driven, business-led solutions is critical today.

88% of voters support partnerships between skills training programs and local businesses to help train people for the jobs for which businesses are hiring

Congress should scale TAAF and MEP-like programs to additional industries by authorizing a new series of industry-specific resource programs through the Department of Commerce; the federal agency that has been historically responsible for overseeing these types of programs. These partnerships would serve as "resource-hubs" for small and mid-sized businesses, connecting them with industry experts and stakeholders who can advise them on strate-

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gies to recruit skilled workers, support and upskill incumbent workers and further adapt to economic shifts caused by the current health crisis and technological change. This approach would allow SMEs impacted by this pandemic to collaborate with their peers and access robust resources designed to maintain and revitalize their industries both now and in the future.

These investments should be targeted at communities across the country that are impacted by industry decline due to the current crisis, so the partnerships can help align *economic* development resources and expertise to spur new industry growth with *workforce* development expertise necessary to prepare workers for those jobs.

Leverage changes to the tax code to empower private investment in worker training

To truly support workers who will fill jobs at the backbone of a 21st century economy—tax policies should aim to increase business investment in worker upskilling for workers without a four-year degree. Congress should expand the Work Opportunity Tax Credit (WOTC) to encourage employer investment in work-based learning for new and incumbent workers. Businesses who enroll workers in high-quality work-based learning programs should be eligible for a $9,600 tax credit, the highest currently authorized level under WOTC. By restructuring a current credit that focuses on hiring, to include incentives for both hiring *and training* workers, Congress can address shortcomings in the effectiveness of our current tax policy.

82% of voters support offering tax incentives for businesses for training to avoid laying workers off

Endnotes

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9 For an analysis of digital literacy gaps, see Amanda Bergson-Shilcock, National Skills Coalition https://www.nationalskillscoalition.org/news/blog/nearly-1-in-3-workers

10 Amanda Bergson-Shilcock, *Funding Resilience*

11 It is worth noting that despite Congressional intent to make incumbent worker training more accessible, the final rules implementing WIOA established a requirement that incumbent workers must have worked for the employer for at least six months, thus limiting the utility of the program as a means to upskill newer hires.

12 Amanda Bergson-Shilcock, *Funding Resilience*

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