



U.S. Chamber of Commerce
Foundation



Reimagining Employee Education Benefits:

A Public-Private Approach

U.S. Chamber of Commerce Foundation and Society for Human Resource Management
Employee Education Benefits Workgroup | May 2023





The Lead Organizations and the Project

The U.S. Chamber of Commerce Foundation

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Companies are competing for talent like never before. In 2023, labor markets are increasingly becoming more dynamic, not less. "Skills obsolescence" is a true business risk. Diversity, equity, inclusion, or "DEI," is an imperative. Economic recovery post-COVID-19 will be an ongoing effort.

To connect workers with real pathways to jobs employers are trying to fill, we're transforming employer engagement in business education partnerships, addressing the communication gap so employers are clear about the skills they need, and leveraging the latest technology to better support all stakeholders in the talent marketplace. The U.S. Chamber Foundation's key programs include:

- [Talent Pipeline Management \(TPM\)](#), our strategy to align "classrooms to careers."
- The [T3 Innovation Network](#), which explores the future of the talent marketplace.
- The [Jobs and Employment Data Exchange \(JEDx\)](#), the Chamber Foundation's efforts to utilize the latest tech and data to better match the right people with the right jobs.
- [Talent Finance](#), a public-private approach to investing in talent to address the challenges and requirements of the new economy.

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The Project

The Employee Education Benefits Workgroup (or "the workgroup") was formed in 2022 by the U.S. Chamber Foundation and SHRM. The group includes a wide variety of experts focused on enhancing access to resources for education and skills development in the U.S.

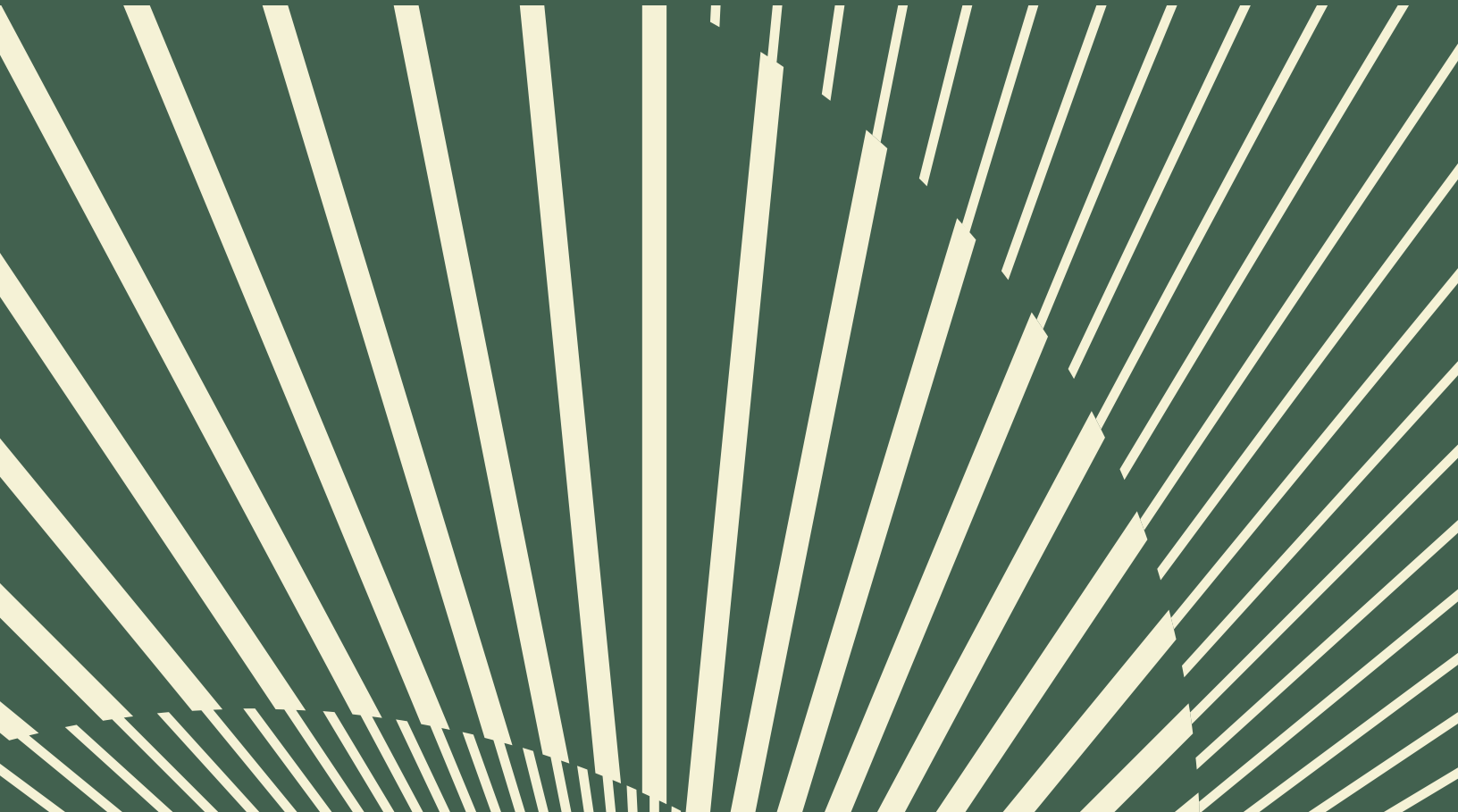
The workgroup was asked to review and analyze Section 127, a tax code-driven employee education benefit that has been in place since 1978. Specifically, the workgroup was assigned to evaluate the program's strengths and weaknesses and to explore new approaches to employee education benefits that will align with current business and workforce needs in the U.S. This paper includes collective views of the workgroup, but each of its individual members may hold a differing view with respect to any specific finding or recommendation.

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Special Thanks to Our Experts



As a starting point, we must thank the members of the Employee Education Benefits Workgroup for exceeding expectations for this project. All experts in their respective fields, the team members pushed boundaries and stayed focused on the facts, as well as on the reality of what it takes to drive change.

After reviewing extensive data and gathering input from a wide variety of experts, the workgroup members agree—there is a serious talent challenge in America and, if unaddressed, employers, employees, and other stakeholders will continue to experience challenges such as unfilled jobs, uneven employment and earnings returns, and poor labor market outcomes.

Unfortunately, time is not on our side. As this paper shows, workers continue to face significant headwinds, while many employers struggle with hiring. This adds up to a growing skills gap or labor force “mismatch.” In fact, Korn Ferry, one of the world’s largest talent firms, has estimated that the talent “shortage” in the U.S. could cost employers as much as \$8.5 trillion—and that estimate was calculated before COVID-19.¹

This paper will also show that there are innovative public-private solutions within grasp, but only if we change how we think about employee education benefits. As previous policy debates have shown, when there is a consensus that Americans are facing a critical challenge, big things can happen. In this paper, we looked at several earlier federal efforts that can show a return on investment, today. For example, in the 1970s the U.S. Congress saw how the tax code was being used to pay for education. As a result, Congress passed federal legislation to create a clear incentive for employers to invest in their employee’s education.

This program, often referred to as “Section 127,” has made employer-sponsored education benefits available to millions of Americans.² The same approach has been applied to other workforce needs, such as retirement savings, which the report explores.³ More recently, in 2003, when Congress focused on providing concerned Americans with additional healthcare options, high-deductible plans emerged, and healthcare savings accounts or “HSAs” were born. As of October 2022, Americans have more than \$100 billion in their HSAs.⁴

Imagine what America could look like over the next decade if every American had better access to resources to get reskilled or “upskilled.” Today, more than 130 million Americans are working, but for many, resources are unavailable to support continuing education.⁵

Every year since 2013, the economists from the Board of Governors of the Federal Reserve System have surveyed consumers about their household finances. That survey includes a simple question that has become a reliable measure of individual finances: can you afford a \$400 emergency right now? While the overall ability to handle a \$400 expense has improved since the survey began, this measure of financial fortitude is still only \$400.⁶

In this paper, we look closely at Section 127. As an early employer-provided employee benefit program, it deserves careful consideration and evaluation. This paper also goes further to consider other federal policy efforts that have achieved meaningful change for Americans in other areas—like retirement savings and healthcare. In addition, the workgroup considered state-level innovations that are aiding access to education and skills training.

Importantly, this paper introduces a new public-private solution that may use the state and federal tax codes in innovative ways, creating a significant incentive for workers, employers, and governments alike.

Imagine if 60 million workers in America had an “UpSkill America” or “USA” account with over \$100 billion worth of investment from employers, employees, government, and other investors to use for immediate upskilling and reskilling resulting in over one trillion new skills. We will explore this concept further later in the paper.

We would like to extend our special thanks to Lilyanne McClean, our primary researcher and drafter. Her 30-plus years in public policy, including federal tax policy, remained a consistent benefit to the workgroup. Her experience developing legislation at all levels of government (local, state, federal, and international) was invaluable. But, perhaps most of all, we appreciate her passion for this project.

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Talent Finance Employee Education Benefits Workgroup Members

The Workgroup included, but was not limited to, the members listed below.

Name	Organization	Name	Organization
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Caroline Worsham	Guild Education	Shannon Rowan	Walmart

How We Approached the Work

Over the last 40 years, a wide variety of organizations have studied Section 127 of the Internal Revenue Code: federal government agencies, including independent agencies; trade associations; non-profits; academic institutions; and “think tanks.” This list of organizations includes the sponsors of this paper: the U.S. Chamber Foundation and SHRM.

For this project, these organizations chose to pursue a meta-analysis, guided by a group of experts with deep knowledge of the American workforce and how its trends impact the U.S. economy. The workgroup’s overarching goal: to push boundaries and identify new ways to enhance the U.S. workforce by increasing access to skills-based training in ways that can be supported by employers.

This paper includes the review and consideration of more than 160 white papers, research reports and data sets, some directly related to Section 127 and others dedicated to understanding other successful government policies. The research for this paper was initially divided into three categories: Tier 1, Tier 2, and Tier 3.

Tier 1 includes analysis of Section 127 that the U.S. Chamber Foundation and SHRM conducted previously. It draws on comprehensive reports completed by either organization on employer-provided education benefits, including studies that have examined the role these benefits play in the broader area of Talent Finance. Tier 2 includes third-party analysis of Section 127. The last category of research, or Tier 3, includes analysis of several policies and programs that can drive next steps related to expanding access to skills-based training or “upskilling” in America.

For a summary of the research categories and top-line findings from Tiers 1 through 3, please see Appendix A.



Introduction

In February 2022, more than 70 percent of Americans surveyed by the Pew Research Center indicated that their top priority was the U.S. economy—and that was at least 10 percent higher than concerns related to COVID-19, which was still threatening at the time.⁷ The highest the U.S. economy has climbed to top priority in recent years is 87 percent, and that was in 2008, after a national housing crisis prompted the “Great Recession.”⁸

It’s worth asking again: when Americans identify the economy as a concern, are they answering the question in the context of the economy as a whole—essentially as a disconnected view of how well the country is growing and performing? Or is their sentiment about the economy *personal*? Simply put, do surveys of Americans about the economy tell us how people see *their place in the economy*?

For decades, two organizations in Washington, D.C., the U.S. Chamber Foundation and SHRM, have devoted significant resources to:

1. Analyzing the U.S. economy
2. Evaluating workforce trends
3. Understanding the challenges facing American workers.

Their overall purpose: to drive positive change.

Importantly, after reviewing data spanning over 40 years and paying extra attention to workforce data that has become available in recent years, including post-COVID-19, both organizations began this project sharing the following points of view:

- The U.S. economy has changed, and, as a result, there has been a sizable shift in workforce needs.
- These changes have impacted employers, workers, and governments.
- Low unemployment rates are making it challenging for all parties to digest the magnitude of the workforce challenge in the U.S.
- Employer-sponsored benefits enabled by Section 127 have benefited millions of Americans since inception, however it does not incentivize enough businesses and workers.
- There are valuable “lessons learned” to glean from other policy areas, including incentives to encourage savings for healthcare and retirement.
- Long-held views separating the financing of college education and skills-based training are hurting the U.S. workforce. It’s time to abandon outdated views and embrace the data showing a strong need for financing skills development in the U.S.
- It is important for Congress, federal and state governments, the private sector, non-profits, and employers of all sizes to make skills development—and how it is paid for—a top priority.
- Recent research, including the Talent Finance White Paper, published by the U.S. Chamber Foundation, and 2022 Talent Trends, published by SHRM, reveals a need for a new approach to address the growing needs of U.S. workers and to drive the American economy.

These views led to the creation of the Employee Education Benefits Workgroup, and its work led to this paper—*Reimagining Employee Education Benefits: A Public-Private Approach*. The paper’s aim is to take the best from both organizations, from other research, and from other successful policy efforts to find a new workforce solution that aligns with current needs in the U.S.

This paper reflects more than six months of analysis, as well as years of research completed and/or supported by the U.S. Chamber Foundation, SHRM, and other data-centric organizations.

Specifically, the findings in this report reflect the review and analysis of more than 160 resources, including: 1) Congressional reports, 2) white papers, 3) academic works, 4) published reports, 5) unpublished data sets, 6) third-party analysis of employer-sponsored education benefit programs, 7) analysis of Section 127 of the Internal Revenue Code, 8) economic data, and 9) select news reports focused on the U.S. economy and workforce development trends.

Both organizations have established guiding principles that have shaped their work for years. These principles represent policy imperatives established to ensure the best outcomes for the greatest number of people.

Talent Finance Guiding Principles

- 1 Public and Private
- 2 Shared Value and Risk
- 3 Expands Choice
- 4 Affordable and Fair
- 5 Data-Driven and Outcomes-Based
- 6 Transparent and Accountable
- 7 Empowers Workers
- 8 Accessible
- 9 Equity-Based

Getting to Know Section 127

Throughout this paper, we refer to “Section 127,” shorthand for Section 127 of the Internal Revenue Code, as amended (“IRC”). In 1978, Congress passed the Revenue Act of 1978 (Public Law 95-600), which included a provision to allow employers to pay for certain education costs without requiring employees to treat it as taxable income.⁹

Section 127 provides an exclusion of up to \$5,250 per calendar year from an employee’s gross income for amounts received by the employee, provided that certain requirements are met. An educational assistance program is an employee benefit in which an employer pays for an employee’s educational expenses, provides tuition reductions or scholarship grants to an employee’s spouse or dependent children, or more recently, allows for student loan repayment assistance (loan repayment expires in 2026 without additional legislative action). To qualify under Section 127, a written plan document is necessary and certain requirements must be satisfied. If those requirements are met, the amount paid, reimbursed, or credited toward tuition by the employer is a deductible business expense for the employer and not counted toward the employee’s income, making it a win-win program for both parties.

The benefit to employers is straightforward: a tax deduction for amounts spent on education for their employees. An employee benefits from potentially having access to additional education funding, which is excludible from income and, thus, does not increase his or her income tax liability. Initially, Congress capped the benefit at \$5,000 per year per employee, without indexing the amount for inflation. Since then, Congress has amended the law, increasing the total annual benefit to \$5,250 per employee.¹⁰

Some would say that the adoption of Section 127 is the perfect example of a “win-win” federal policy. Congress used the reach of the IRC to create an incentive for employers to increase the financial resources available to employees seeking to advance their education. As the workgroup examined, however, the success of federal policies and the programs that develop around them greatly depends on the details.

It is important to observe that when Congress established the tax benefits in Section 127, it also included a five-year “sunset” provision in the legislation. Put differently, Congress created Section 127 as a *temporary* tax benefit. On the one hand, this is not unusual. Congress has often (and continues to) set important policies on the back of temporary tax incentives. One need look no further than the recently passed *Inflation Reduction Act of 2022* (Pub. L. No. 117-169). Subtitle D alone, the widely recognized “Energy Security” subtitle, includes 25 tax incentives—and all of them are temporary.¹¹ But, on the other hand, it signaled that proponents of Section 127 would have to demonstrate the effectiveness of the provision or be prepared for the tax benefits to disappear.

According to a 1989 study from the Government Accounting Office (GAO) entitled “*Insufficient Information to Assess Effect of Tax-Free Education Assistance*,” questions regarding the cost and utility of Section 127 almost immediately followed its enactment. In short, the GAO report largely concluded that it was too early to determine if Section 127 was increasing the number of people with access to resources to fund their education. It recommended that Congress put in place more program measurements:

“Matter for Congressional Consideration: Congress can decide to not reinstate the expired Section 127 or to reinstate it permanently or temporarily. If the decision is to reinstate it, Congress may want to revise the reporting requirements to better assess the provisions effects. This could be done by requiring information on the salary level of participants and the average benefit at each salary level. To help make further assessment of the section, Congress could also specify that the data be reported for a sufficient length of time to adequately measure its effects.”¹²

The workgroup also took note of a finding in the GAP report that the “tax-free reimbursement benefit” was also intended to clarify what can be counted as “qualified business expenses” under Section 162 of the IRC.

Through its review of Section 127, the workgroup made note of the following: 1) Section 127's inception, 2) its strength as a matter of public policy, 3) its weaknesses, 4) its structure compared to other federal incentives, and 5) its standing among federal lawmakers.

Overall, the U.S. Chamber Foundation, SHRM and the workgroup members view the adoption of Section 127 in 1978 as a policy accomplishment. Since its adoption, Americans have used Section 127 to advance their education, and employers have created and maintained internal programs to utilize this tax benefit. It's also important to note that the number of people benefiting from Section 127 is predicted to dramatically increase because the CARES Act (Pub. L. No. 116-136, § 2206) made it possible for employers to help employees pay down student loan debt through the program.¹³

Nonetheless, the workgroup also concluded that Section 127, as it stands today, will not be able to reach enough workers or support the increasing demand for skills training across all business sectors. Simply put, this federal tax incentive alone cannot carry the full weight of the workforce challenge. Here are the key findings from the research and the workgroup's review of Section 127:

- To benefit from Section 127, a person must be an employee of a business. However, Section 127 is not applicable for many contract and gig workers.
- Congress established Section 127 as an option, not a requirement (unlike Social Security), whereby an employer can create a written education benefit plan meeting certain requirements.
- Section 127 is administered by employers, but uptake by workers can be limited by factors, including: 1) awareness of the offering, 2) worker eligibility, and 3) how programs are designed, including whether employees are required by their employer to pay up front and be reimbursed later. Companies, including McDonald's, Amazon, and UPS, for instance, have acknowledged the cash flow challenge for their employees and have adopted internal policies to create access to "upfront" funds.
- While Section 127 was also adopted during a stressful economic period in 1978, a moment of rising inflation, the comparison to today's economy ends there. Virtually every aspect of work has changed, across all business sectors, including the amount of time workers spend with each employer and the increasing need for skills training, versus a traditional college degree.
- Section 127 has played an important role, both directly and indirectly. Regarding the former, it has served as an incentive for many companies with large employee bases to establish programs around the incentive, creating opportunities for millions of Americans. Indirectly, it has helped to keep the employer's role in educating the workforce top of mind.
- Many have perceived that Section 127 helps workers complete more traditional college degrees. However, in a skills-based talent marketplace, it may be insufficient given the needs of working learners and broader efforts to increase hiring and career advancements based on skills.
- As a tax incentive, Section 127 currently does not address what is becoming a better-understood concern with employer education benefit policies: cash flow challenges can impede American workers from seeking to get upskilled and advance in their careers.
- A new public-private approach to financing skills training in America—one that expands choice, is fair and affordable, and focuses on more equitable access and outcomes—must support the current demands in the private sector and be "scalable" to avoid further disruption across the U.S. workforce.

What We Have Learned from HSAs

From the onset, the workgroup members identified Health Savings Accounts or “HSAs” as a policy analog that could inform the way in which we finance and manage skills development for employee training going forward.

The history of today’s HSAs began in the 1980s and 1990s, when Congress was debating the Medical Savings Account or “MSA.” MSAs were tax-advantaged personal savings accounts designed to stem the strain of unexpected medical expenses that were not reimbursable.

What we currently refer to as HSAs was first authorized by Congress in the Medicare Prescription Drug Improvement and Modernization Act of 2003 (P.L. 108-173). They are tax-advantaged accounts available to certain individuals seeking to save money to pay for unreimbursed medical expenses (e.g., deductibles, co-payments, coinsurance, and services not covered by insurance). Importantly, eligibility to contribute to an HSA requires enrollment in a high-deductible health plan (HDHP).¹⁵

In August 2022, the Congressional Research Service updated a report on HSAs and described some of their advantages as follows:

- HSAs have several tax advantages: individual contributions are tax deductible unless made through a cafeteria plan; employer contributions and individual contributions made through a cafeteria plan are excluded from taxable income and from Social Security, Medicare, and unemployment insurance taxes; account earnings are tax exempt; and withdrawals are not taxed if used for qualified medical expenses.
- Individuals may establish and contribute to an HSA for each month that they are covered under an HSA-qualified HDHP, do not have disqualifying coverage, and cannot be claimed as a dependent on another person’s tax return. The account is tied to the individual, and account holders retain access to their accounts (and can keep using HSA funds) if they change employers, insurers, or subsequently become ineligible to contribute to the HSA.¹⁶

HSAs have earned a special standing as an account that integrates multiple benefits. However, HSAs are not without their critics. Opponents are quick to point out that HSAs are only available to a relatively small number of Americans because eligibility is tied to having a high deductible health plan.

While there is clearly a lag in available federal reporting on the utilization of HSAs, the same CRS report noted above concluded that, based on tax returns filed in 2017, approximately 9 million people indicated they use an HSA. Americans for Prosperity, an advocacy organization based in Washington, D.C., concluded in October 2022 that, according to IRS data, “about one in ten Americans has an HSA, or about 33 million people.”¹⁷

Here is a summary of key findings from the research and the workgroup, regarding HSAs and how they can inform the next steps to enhancing employer-sponsored education benefits:

- Congress demonstrated through a “triple tax advantage” the extent to which it will act to advance a critical public policy. The “triple tax advantage” refers to the following: 1) tax-free contribution into an account; 2) tax-free growth of the account; and 3) tax-free withdrawal from the account to pay for qualified expenses. An additional advantage for employers paying into accounts is the deductibility of the contributions on their tax returns.
- As discussed from the beginning of the workgroup meetings and in accordance with Talent Finance’s guiding principles, it’s critical for the employee’s needs to drive the next phase of employer-provided education benefits. HSAs provide a useful example where American workers are empowered with a flexible and easy to use account to manage their healthcare needs.
- Closely related to the preceding point, the workgroup has remained focused on the value of “portability,” given the fact that the U.S. workforce is more dynamic now than ever before in American history—which means that workers will likely move from one position to another as they build their careers.



What We have Learned from Traditional and Roth IRAs and the Earned Income Tax Credit

From the onset, the Employee Education Benefits Workgroup was focused on a variety of policies, particularly federal policies that have effectively addressed a critical need. In the last section, we considered HSAs. Here we consider two other policies that are viewed as successful: individual retirement savings accounts, specifically, Roth IRAs and the Earned Income Tax Credit or “EITC.”

Fixing the Retirement Savings Problem

According to the U.S. Census Bureau, more than 65 percent of working age Americans (age 15 to 64) report having some type of retirement account beyond Social Security (i.e., a 401(k), an IRA, a Roth IRA, a defined benefit plan, including a cash-balance plan, or a defined contribution plan). (18). Retirement savings offer an important case study of how the design of a program can incentivize or disincentivize personal finance decisions.

It is important to consider that while each type of retirement account has different tax implications, providing options matters and can allow individuals and organizations to select the program and a set of incentives that are the best fit for them.

It’s critically important to acknowledge that employers are having a significant impact on increased retirement savings rates by 1) making them available to employees, 2) teaching millions of Americans about retirement savings, and 3) helping to familiarize their employees with the tax advantages of certain types of retirement savings.

As mentioned above, options matter in terms of meeting the workers where they are and ensuring greater uptake based on preference. Experience with retirement savings has taught us that providing options within a plan can result in greater employee uptake and participation.

- Employers can provide various “traditional” retirement plans to their employees, including the common plans, traditional 401(k) and 403(b) defined contribution plans. There are some advantages to the traditional retirement plans, including: 1) employer contributions (matching contributions) are tax-deductible by the employer and not treated as income to the employee; and 2) employee contributions are generally made with pre-tax dollars. The contributions to the accounts (which can be invested to grow over time) are tax-deferred and aren’t taxed as ordinary income until they are withdrawn, and early withdrawals can incur a penalty.
- In addition to the traditional retirement plans, employers can offer Roth 401(k) and 403(b) defined contribution plans. There are some advantages to the Roth retirement plans, including: 1) employer contributions (matching contributions) are placed in a traditional 401(k) and are tax-deductible by the employer and not treated as income to the employee until they are withdrawn from the account; and 2) employee contributions are generally made with after-tax dollars. The employee contributions to the accounts (which can be invested) grow tax-free and aren’t taxed upon withdrawal.
- Traditional and Roth IRAs were also established to allow individuals who aren’t covered by an employer-provided plan to save for retirement with pre-tax or after-tax dollars. As noted above, the difference between traditional and Roth IRAs centers around when the taxes are paid. If funded with pre-tax dollars, the income tax is deferred until withdrawn from the account. If funded with after-tax dollars, there is no income tax due upon withdrawal from the account. IRAs are portable and have been used by many to “roll over” their retirement accounts when an employee leaves an employer. An employee can “roll over” their 401(k) account into an IRA—traditional or Roth.

Having dedicated a significant amount of time to understanding the implications associated with driving public policy through the tax code and taking an honest inventory of how using the IRC has affected outcomes for Americans in all income categories, the workgroup pressed on the need to achieve equity. It grappled with this primary question: can we learn from these efforts to reach a majority of workers who need access to resources for upskilling?

It's an important question. Several reports published by SHRM and research completed by The Aspen Institute show that higher-income wage earners have benefited most from Section 127. Why? The reports suggest that there is a higher level of awareness among higher-income earners. But data contained in The Aspen Institute report signals what could be the greatest impediment to utilizing not only Section 127 but any other education benefit programs that utilize a reimbursement structure: lack of cash flow.

These concerns spanned multiple workgroup meetings and spurred additional evaluation of the federal Earned Income Tax Credit (EITC) and how it could potentially inform the workgroup's policy recommendations.

Fixing the Cash Flow Challenge for Working Americans: the EITC

The EITC was established in 1975 in large part to offset the adverse cash flow effect of mandatory payroll deductions on lower-income, working individuals and families. Unlike many tax credits that can only be applied to lower federal tax liabilities, the EITC is refundable, which can result in individuals and families receiving cash refunds from the U.S. Treasury, if the amounts of their EITC exceeds their tax liability.²⁰ For example, if a family qualifies for a \$1,000 EITC and has a tax liability of \$700, the family will get a \$300 refund.

Over the years, the EITC has distinguished itself in several ways. First, it was established as an anti-poverty program and has managed to maintain its positioning among both Democrats and Republicans over time. An early report by Robert Greenstein and Isaac Shapiro (1998) emphasized that every Congress and Administration since 1975 has been committed to the EITC, and that sentiment remains today, some say in large part because of its significant positive impact on the lives of children.²¹

According to the Greenstein-Shapiro study, the program lifted 4.6 million people from poverty between 1976 and 1996. In 2019, CRS evaluated the reach of the EITC by reviewing tax returns. It found more than 26.5 million taxpayers received a total of \$64.9 billion that year from the U.S. Treasury, making it "the largest needs-tested anti-poverty program in the U.S."

The CRS report also emphasized that 97 percent of the EITC funds distributed in 2019 went to families with children.²²

The following points summarize key research and workgroup findings related to the Roth IRA and the EITC:

- Depending on their design, tax credits and benefits can influence how key stakeholders—workers and employers—participate in and contribute to plans designed to save or dedicate funds.
- Retirement accounts and the EITC show there are different ways to provide incentivizing benefits without competing with private sector participation and leadership.
- The IRS provides guidance to employers, encouraging them to tell workers earning below a certain amount annually that they may be eligible to receive the EITC, but the IRS does not mandate doing so. It does require employers to notify any employee who worked for the organization and received income without withholding tax, unless the employee has claimed an exemption from withholding on Form W-4. (23) Also, most tax preparation software programs can walk a taxpayer through the EITC with a series of interview questions, greatly simplifying the process.
- Questions remain about the extent to which the public or private sector assumes responsibility for promoting a federal benefit and creating "awareness" of it.

Looking at State-Level Innovations

While much of this paper has been dedicated to review and analysis of federal policies, it's important to emphasize that the workgroup also committed to reviewing several state-level activities designed to help workers advance their education.

Several members of this workgroup were involved with the publication of “Workforce Realigned: How New Partnerships are Advancing Economic Mobility,” a book published in 2021 that outlines many successful state-level innovations.²⁴ For this paper, the workgroup focused primarily on two popular education benefits: 529 plans and Income Share Agreements (ISAs).²⁴

The 529 Plan

A 529 plan is a tax-advantaged savings plan designed to encourage saving for future education costs. Legally known as “qualified tuition plans,” 529 plans are sponsored by states, state agencies, or educational institutions and are authorized by Section 529 of the IRC.

There are two types of 529 plans: [prepaid tuition plans](#) and education savings plans. All fifty states and the District of Columbia sponsor at least one type of 529 plan. In addition, a group of private colleges and universities sponsor a prepaid tuition plan.

Prepaid Tuition Plans. Prepaid tuition plans let a saver or account holder purchase units or credits at participating colleges and universities (usually public and in-state) for future tuition and mandatory fees at current prices for the beneficiary. Prepaid tuition plans usually cannot be used to pay for future room and board at colleges and universities and do not allow you to prepay for tuition for elementary and secondary schools.

Most prepaid tuition plans are sponsored by state governments and have residency requirements for the saver and/or beneficiary. Prepaid plans are not guaranteed by the federal government. Some state governments guarantee the money paid into the prepaid tuition plans that they sponsor, but some do not. If the prepaid tuition payments are not guaranteed, people may lose some or all the money in the plan if the plan's sponsor has a financial shortfall. In addition, if a beneficiary doesn't attend a “participating” college or university, the prepaid tuition plan may pay less than if the beneficiary attended a participating college or university.

Education Savings Plans. Education savings plans let a saver open an investment account to save for the beneficiary's future [qualified higher education expenses](#)—tuition, mandatory fees and room and board. Withdrawals from education savings plan accounts can generally be used at any college or university, including sometimes at non-U.S. colleges and universities. Education savings plans can also be used to pay up to \$10,000 per year per beneficiary for tuition at any public, private or religious elementary or secondary school.

A saver may typically choose among a range of investment portfolio options, which often include various mutual fund and exchange-traded fund (ETF) portfolios and a principal-protected bank product. These portfolios also may include static fund portfolios and age-based portfolios (sometimes called target-date portfolios). Typically, age-based portfolios automatically shift toward more conservative investments as the beneficiary gets closer to college age.

It is worth noting that education savings plans are sponsored by state governments, but only a few have residency requirements for the saver and/or beneficiary. State governments do not guarantee investments in education savings plans. Education savings plan investments in mutual funds and ETFs are not federally guaranteed, but investments in some principal-protected bank products may be insured by the FDIC. As with most investments, investments in education savings plans may not make any money and could lose some or all the money invested.

Income Share Agreements or “ISAs”

ISAs have also received significant attention in recent years, as reports of increasing student loan debt have become more commonplace. Today, the Federal Reserve Board estimates that student loan debt exceeds \$2 trillion—and counting. While some critics argue ISAs are student loan equivalents, there are some distinguishing characteristics. According to an article included in “*Workforce Realigned* [...],” “an ISA is a contract that obligates students to pay a certain percentage of their future incomes, up to a set number of payments, over a set period of time, in exchange for funding of educational expenses in the present.”²⁵

From the onset, ISAs providers consider a student’s major and earnings potential, as part of the student’s eligibility assessment, including determining the amount of money that a student will repay. Second, most ISAs today don’t charge interest, a feature popular with many ISA supporters. While the specifics of each ISA offered and the fact-based assessments associated with them are beyond the scope of this paper, it is important to note that the workgroup acknowledged many of the state-level efforts that are having a positive impact on upskilling or labor market rationalization.

Here is a summary of key findings from the research and the workgroup, related to 529 plans and ISAs:

- 529 plans allow third parties to invest in and ultimately advance a “beneficiary’s” education. As an investment account, there is an incentive for the private sector to participate in and communicate the benefits associated with this account, as well as the policies behind it.
- Critics of 529 plans have emphasized that these plans are largely designed to benefit higher-income Americans.
- ISAs have become popular, and supporters argue they represent a more “outcomes-based” approach to funding traditional higher education. They also argue it forces accountability for success beyond the student alone, an important distinction made when comparing ISAs to traditional student loans. But critics argue that ISAs can pose even more concerns than student loans, because a student may end up paying more than if he or she had utilized a traditional student loan. As a practical matter, ISAs are a “contract,” and they are currently being treated by the federal Consumer Financial Protection Bureau (CFPB) as loans.





Imagining an Upskilled America

In January 2023, the Employee Education Benefits Workgroup held its final meeting, to evaluate key findings, identify major takeaways, and decide on next steps. During the final research review, the workgroup noted that, while Section 127 has been evaluated for years, the most recent data have a more urgent tone: without immediate action, the skills gap could continue to widen, and the U.S. may fail to catch up with and close the gaps in all industry sectors.

According to the Bureau of Labor Statistics (part of the U.S. Department of Labor or “DoL”), there were approximately 5 million job openings on the last business day of December in 2014. According to the DoL’s February 2023 release, the number of job openings in the U.S. exceeded 11 million on the last business day of December 2022. While the workgroup acknowledged the impact of COVID-19, particularly in certain fields like nursing, the overall trend is consistent: the number of job openings in America has been growing, year over year, and in less than ten years, these numbers have more than doubled.

As noted within the first few pages of this paper, the U.S. Chamber Foundation and SHRM are two established business organizations that have devoted significant time and resources to evaluating the U.S. workforce, its needs, and how the skills gap or labor force mismatches are affecting the economy. Undoubtedly, the COVID-19 pandemic has made things worse, but all research reviewed for this paper suggests that America was facing a skills gap or labor force mismatch for many years before the pandemic.

The Employee Education Benefits Workgroup was formed by the U.S. Chamber Foundation and SHRM to take a complete look at the research conducted on Section 127 since 1978 and to evaluate a number of federal policies that have effectively addressed important challenges. If left unchecked, those problems could have had a significant negative impact on U.S. workers and the economy. The decision to pursue a meta-analysis was driven, at least in part, by growing signs that the lack of access to resources—and the portability of those resources—to upskill Americans has already reached critical proportions.

The following bullets summarize the primary findings from the research, as well as the workgroup’s debates about how best to address the skills gap challenge in America by creating for workers a personal skills-building account—referred to later in this paper as Up Skill America accounts, or “USA accounts.”

- Based on data reviewed for this paper, there is a skills gap or labor force mismatch in America that, if unaddressed, will have a significant negative impact on the U.S. economy, as well as on employers and employees alike.
- Currently, the federal tax code does not offer a targeted incentive for employers to invest in worker training. Arguably, it contains an implicit tax incentive through the expensing process, which allows an employer to deduct the full amount of qualified training costs in the year they were incurred or paid.²⁶
- Section 127 of the Internal Revenue Code is an important foundational program that enables employer-provided employee education benefits. Research has shown that its overall usage may be hampered by certain reporting requirements and/or lack of awareness on the part of workers.²⁷ Recent data suggest that lack of cash flow may be the larger impediment for many workers.²⁸ A new policy or program that increases a worker’s access to funds for education and training will likely increase the usage of Section 127, since many employers have had reimbursement-based education benefits programs for decades.
- The federal government has an important role to play in addressing the current skills gap. Several successful federal policies have demonstrated government incentives have the power to reach large numbers of people and to mobilize action from the private, academic, and non-profit sectors. When employers use the federal tax code to narrow the skills gap, they must take extra steps to ensure high awareness and access for workers across income levels.

- The needs of American workers must drive new policies. The research reviewed for this paper explores the extent to which the American workforce has changed. In a dynamic economy, many workers will be changing job roles and will work for several employers over the course of their lifetime. Certain job categories have been eliminated or have changed substantially. Therefore, new education benefits must be available over time and “portable” to accompany the American worker throughout the duration of his or her career.
- The private sector, including employers of all sizes, has a critical role to play in the upskilling of America.
- New public-private policies must meet workers where they are, which includes considering new technologies that will help ensure widespread adoption across all income levels. Consider the usefulness of having USA accounts available on cell phones.
- It is also clear that establishing a new policy is part of the solution, but the federal government and the private sector must play an important role when it comes to telling U.S. workers about education benefits (creating awareness) and driving worker engagement.
- A new approach to funding or financing skills development should not upend any current programs that are working. In fact, an optimal program will be designed to combine programs so workers across America can take advantage of incentives at the federal, state, and local levels.
- The need to create cash flow, achieve portability, and prioritize “ease of use” cannot be overstated. As noted repeatedly by several members of the workgroup, many leading companies have acknowledged the challenges related to cash flow and have designed their employee education benefits programs to remove cash flow barriers.



Imagine America with a New Skills Savings or “USA” Account

During its final working session, the workgroup debated final recommendations and reiterated the need to create a new solution that is: accessible, portable, worker-centric, and complementary to existing successful employee education benefits.

One way to achieve these objectives is to pursue the creation of a dedicated, personal skills-training account, aptly named in this paper the “UpSkill America” or “USA” account.

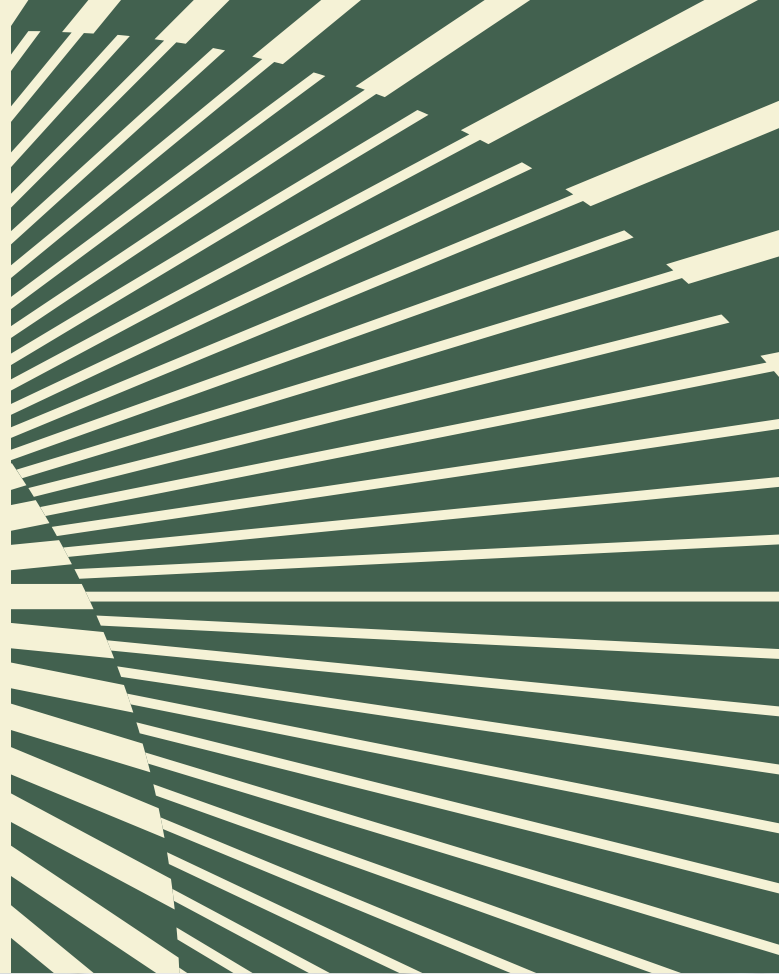
- Much like some of the other accounts of programs analyzed in this paper, the new USA account could be designated as a tax-free account in the Internal Revenue Code.
 - Like HSAs, USA accounts could be designed as permanent individual accounts, available to workers throughout their careers—and portable, regardless of their employer. They could also be supported to unlock a triple tax benefit: 1) tax-free contributions to an account; 2) tax-free growth of the account; 3) tax-free withdrawal from the account to pay for qualified expenses.
 - USA accounts could be funded by a variety of resources including workers, employers, and non-profits. For example, employers could make tax deductible contributions to an employee’s USA account as a direct employee benefit. In fact, employers could support USA accounts in addition to offering Section 127 benefits, essentially using the tax code to create the cash flow needed if they have a reimbursement-based education benefits program.
 - Non-profits can also play a key role by creating programs that allow for grant contributions to an individual’s USA account, potentially as a complement to services they already provide.
 - Workers would be able to directly contribute to their USA accounts, as they do with HSAs. But if a worker lacks sufficient cash flow, a new approach to funding skills development could allow for tax credits or refunds to be directed to a USA account (the EITC provides a useful example).
- Importantly, once the USA account is established as a “tax-free” account, it creates an opportunity to make better use of existing benefits. For example, at the federal level, the policy can be extended to help support any American who benefits from the EITC. Simply put, tax filers qualify for the EITC they can also qualify for a USA account.
 - State governments can also participate. An integrated policy could allow individuals to also transfer a portion of their state income taxes into a USA account, sharing responsibilities and benefits across government entities that have a vested interest in cultivating a dynamic workforce.

Alternatively, a state, through a direct appropriation, temporary tax, and public-private initiative, could create a skills development fund that can grant an amount to individuals seeking to establish a skills training fund.

As the final working session ended, the members of the workgroup agreed: the combination of research and discussion had revealed a potential new approach to funding skills development in America that was consistent with the goals and objectives established by the workgroup. USA accounts can be designed to accompany a worker throughout their careers, would be available regardless the length of employment, could receive contributions from a variety of sources, would be tax-advantaged accounts, and would complement—but not disrupt—current employee education benefits that are working well, including existing state-level programs.

To further the development of USA accounts, the organizations and the workgroup members agreed to the following next steps:

- Initiate a stakeholder outreach plan, with an acute focus on employers and employees, to test the value proposition and gather input to shape the development of USA accounts and inform the policy discussion.
- Move quickly to create an experienced product design team that will prioritize: 1) keeping the product worker-centric; 2) effectively utilizing technology; and 3) increasing focus on small to midsize businesses.
- Investigate whether a state-level pilot could be expeditious and helpful to demonstrate how a USA account can accelerate access to resources and ultimately help close the skills gaps currently hurting employers and employees alike.
- Given that the workgroup includes several organizations that have been innovating and driving change in employer-supported education benefits, consider how these organizations can play a key role in educating other companies and driving leadership among employers of all sizes.



Appendix A

Research Categories

Tier One: Applicable research and analysis previously collected or published by the U.S. Chamber Foundation and/or SHRM, including reports on Section 127, employer-sponsored benefits, and various aspects of Talent Finance.

Tier Two: White papers, articles, academic works, interviews, and/or third-party studies/data on Section 127 or other established employee education benefits, including reports produced by the Congressional Research Service and other government entities.

Tier Three: Research and analysis on other federal, state, or local statutes/programs with process or policy applications relevant to this group's efforts to explore the utility of Section 127, given the current U.S. economy, workforce trends, and employee priorities.

Research Findings

- Across all research, there is a consistent point of view that employer-sponsored education benefits have historically been underutilized, but there is a lot of potential for increased uptake by workers, including frontline workers who stand to benefit the most from upskilling and reskilling.
- Recent reports regarding current business sector needs and other U.S. labor market trends (i.e., shortened tenure per employer) suggest employer-sponsored education benefits that require long tenures are not aligned with current workforce needs. Some are specific in arguing for the need for increased portability and long-term availability.
- Multiple reports in each research category, particularly more recent reports, emphasize the important transformation that has been taking place across the U.S. economy since the 1970s and 1980s, making many existing federal benefits obsolete.
- A GAO report published in 1989 reveals that Section 127 was passed in 1978 in part to correct what was perceived as an increasing tax evasion problem stemming from another provision in the IRC. It also concluded that there was not enough evidence to establish the effectiveness of Section 127.
- All three research tiers include data supporting the need for employer-sponsored education benefits that can be combined with other education, training, and skills-development benefits.
- Several reports in each category acknowledge—and in some cases emphasize—incentivizing behavior that can be impacted by how programs are designed, including the federal role. Approaches that leverage private sector participation and leadership stand to optimize efforts like increasing investment in upskilling and reskilling.
- However, much of the research also suggests that by utilizing the tax code, federal policies have favored high-income earners. In some studies, researchers note that high-income earners are more familiar with the tax code and have resources to understand it. So for them, utilizing tax incentives tends to be easier than it is for others.
- Recent reports emphasize that current policies disproportionately advantage high-income earners because they have the personal cash flow capacity needed to take advantage of any federal tax incentive or other program that requires employees or workers to pay first and get credit later.
- Several studies in all tiers acknowledge that many federal policies still currently advantage four-year degrees.
- Several reports across all tiers (as well as our group discussions) emphasize the need to prioritize outcomes when adopting new public-private policies.
- With technological advances, several recent reports acknowledge that an upskill solution should align with the way workers live today—i.e. they should have the same ease of use.

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