

# Lifelong Learning Accounts Demonstration Interim Report One

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## Executive Summary

The Lifelong Learning Accounts (LiLA) Demonstration is a project of the Council for Adult and Experiential Learning (CAEL). Major support for the LiLA project, as well as funding for the evaluation, comes from the Ford Foundation. Public Policy Associates, Incorporated (PPA) a national public policy research, development, and evaluation firm, located in Lansing, Michigan is responsible for conducting the evaluation of the Demonstration. This report presents an initial data point in the overall evaluation of the impact of LiLAs on program participants and summarizes the process lessons that have been learned through the initial phase of implementation.

## Overview

**LiLA Program Objectives and Approach:** The program aims to increase funding for career-related education and training for all levels of incumbent workers, but particularly low-income adults. The program operates through employers, who are recruited to create LiLAs for their employees using the CAEL format and to match employees' contributions to their accounts. The project aims to engage smaller employers, but also includes employers of any size who typically offer limited training benefits for low-income workers.

LiLAs provide an avenue by which workers and employers can jointly contribute to continuing learning activities. The employer-employee partnership required to bring LiLAs to life has the potential to be a win-win situation in the largest sense. The employer's willingness to invest in a fund for their employees' education and training may give workers a proof that the employer genuinely cares about their welfare.

It meant something to me that [my employer] was willing to invest a little money in my education. At first I was leery about the program; it was like, "why would someone want to help me [one of the] 'little people' with my decision to go to school?" I think that to give somebody the opportunity to make it easier to go to school and become educated, and make somebody who has no interest in education, make a better life for themselves, I think it's a great thing.

- Table server in Chicago restaurant

The employer's investment may also bring a positive return in terms of improved worker productivity, increased job satisfaction, and improved retention. If LiLAs have a positive impact on employee retention, lower attrition rates may allow employers to spend less money on recruitment and new-hire training activities, potentially giving employers no less than a 1:1 return on their investments in LiLAs.

I probably would [be taking classes anyway], but it's much easier for me with this program. [My employer] is happy that I'm taking classes because I can use my skills to do my work.

–Administrative assistant, Chicago catering company

The ultimate objective of the Demonstration is to develop a model that would support enactment of federal legislation offering tax breaks for LiLA holders and allowing small businesses to claim tax credits for their contributions.

**Matched Savings:** The LiLA is a savings account maintained by a financial institution that holds each individual's contributions and matching funds. For the purpose of the Demonstration, employee deposits are matched at a 3:1 ratio using employer and Foundation funds. Employee deposits are limited to \$500 per year, resulting in a maximum annual savings of \$2,000 per participant (with the match). Participants make contributions each pay period, and employers make their matching contributions quarterly. Lump-sum deposits are also allowable.

**Career Advising:** The LiLA employee must meet with a program career advisor prior to using funds for education and training activities. The LiLA employee and the advisor create an Individual Learning Plan (ILP), for which they review interests and options and consider potential education and training providers. The program does not restrict participants to a career path within their current industries. This element of the program is considered by many employees to be a critical component because it encourages them to pursue education and training. LiLA employees are encouraged to take ownership of the ILP development process.

**Use of Funds:** Employees are required to begin using their accounts within 14 months of enrollment. Fund use is restricted to purchase of education and training-related tuition, fees, books, supplies, and mandatory equipment. Some training providers accept a CAEL voucher; in other cases, the training participant is reimbursed for expenses. Class enrollment must be consistent with the ILP, and there is a performance requirement for employees: participants who do not achieve either a "C" or higher in graded courses or a "Pass" in pass/fail courses must repay the employer and project matching funds spent on these courses.

**Universal Access:** Although the primary goal of the LiLA program is to provide an incentive for lower-income workers to save for education and training (and ultimately experience wage improvements), the program is open to all employees in an effort to avoid the stigma of a program for low-income individuals only and to increase employer buy-in and commitment. Employers chose the number of employee "slots" that they are willing to support with matching funds and agree to match the dollar amounts deposited by employees.

**Sites and Sectors:** The Demonstration is being operated at three sites, using a sector-focused employer recruiting strategy.

- Chicago – Restaurant and food services sector
- San Francisco – Health services sector
- Northeast Indiana – Public sector
- Northeast Indiana – Manufacturing sector

The sectors are highly diverse in terms of their typical business size, orientation towards incumbent-worker training, and employee profile. Over the course of the evaluation, this diversity will allow exploration of variations in outcomes and issues by some fundamental business characteristics. CAEL is administering the program at each site and has already learned that sectoral differences in structure, characteristics, and needs require a tailored implementation process. Implementation was staggered across sites, with Chicago operations beginning in 2001, Indiana in 2002, and San Francisco in late 2003.

**Scope:** The project is limited to approximately 75 LiLA account holders in most sectors. The Chicago site is somewhat larger with approximately 125 participants. Currently, LiLA employers include 16 restaurants, 5 public sector organizations, 8 manufacturing firms, and 4 health care organizations.

**Evaluation:** The evaluation is a longitudinal study using matched comparison groups of employers and employees in each sector. Over a period of five years, the evaluation will explore both processes and outcomes, seeking to describe the program as it operates across the sectors, identify opportunities for process improvement, and to evaluate the impact of the model on both employers and employees. Study questions for the process evaluation include explorations of the motivations and expectations of employers and employees, strengths and weaknesses of the program's operations from employer and employee points of view, level and pattern of investment in training, participation patterns over time, interactions with career advisors, education and training selections, and administrative processes (including the account management process). Study questions focused on outcomes and impacts will explore the effects of program participation on skill acquisition, job retention and advancement, earnings, development of new or additional career paths, and perceptions of the importance of training and education, using comparable data for the nonparticipating control groups to estimate program impact.

**Data Collection:** Data collection methods include telephone surveys, focus groups, administrative record reviews, and wage-record data analysis. Employee data for the health services sector is not included in the first interim report because it was implemented at a later date than the other three sectors.

## **Preliminary Findings**

**Baseline Data:** This report presents an initial data point in the overall evaluation of the impact of LiLAs on program participants and summarizes the process lessons that have been learned through the initial phase of implementation.

**Employer Recruitment:** There were some differences among the sectors in terms of employer outreach strategy. Employer outreach began in Chicago, followed by Indiana, and then San Francisco. Over the course of these activities CAEL developed and refined the program materials to describe the benefits of the program to all stakeholders.

Overall, the recruiting experience suggests that the most important variable is the sector being targeted—sectors vary predictably in their receptivity to the concept—but that support from key

opinion leaders or authorities can be an important asset. For example, the Mayor of the City of Fort Wayne, Indiana is an enthusiastic advocate of LiLAs and supported several dozen slots for City employees.

Participating employers have expressed a variety of reasons why they are attracted to the LiLA program, and so far these reasons have varied by sector. Each of the four health care employers have mentioned retention, improving workers' skill sets, and extending a fringe benefit to employees as reasons to participate.

Experience in the restaurant sector suggests that, for large and diverse sectors lacking a strong industry norm of employer-supported training and education, personalized approaches and efforts to identify businesses with a local decision-maker can make a difference. PPA concluded this because after several attempts to connect with Chicago-area employers through a partnership with the state restaurant association—a supporter—and through direct mail, local project leaders at CAEL initiated a more personalized, face-to-face outreach strategy. They also targeted restaurants with a local manager with authority to make a decision about participation, which in total was a more successful approach for this sector. The intensity of this recruiting effort may also have been necessitated by its timing—recruitment of restaurants got underway in late 2001 when the sector was struggling in the aftermath of the 9/11 attacks.

In the public sector, all five participating employers have felt the program could improve worker morale and would be perceived as a valuable benefit; four of these also have mentioned a desire to improve worker skill sets and two have mentioned retention. Restaurants and manufacturers are most diverse in their responses, with restaurants tending to perceive the program as an opportunity to extend a valued benefit to employees (89%), as a way to build skills (68%), as a tool to improve retention and morale (53% each) and, less commonly, as a enticement for new applicants (21%). Manufacturers' responses are similarly diverse, but place more emphasis on skill-building (89%) and recruitment (44%).

The assortment of responses, both within and across sectors, suggests that employer interest in the program is multifaceted and that any marketing message should reflect the array of potential benefits afforded to both employers and employees.

**Employee Recruitment:** In partnership with participating employers, CAEL has used a variety of techniques to recruit employees. In all sectors, employees have been informed of the LiLA program through formal outreach methods (such as printed materials and meetings) and informal methods (such as conversations with human resources representatives or discussions with coworkers). Whether they ultimately joined the LiLA program or not, findings so far indicate that employees are more likely to say they had learned of the program through formal methods than informal methods. Sites making the greatest effort to utilize formal outreach methods seem to have the highest take-up rates.

- Employee enrollment targets have been achieved in all sites and sectors.
- Survey results show that in all sectors, LiLA employees cite financial assistance for education and training as their motivation for participation more than any other reason.

LiLA employees in the public sector have been more likely to mention getting a degree, getting more training, and continuing their educations than LiLA employees in manufacturing or the restaurant industry (health care workers have not yet been interviewed). New skills and increased earning potential are inherent in access to further training and education, yet none of the employees in the public sector and only a few in the restaurant and manufacturing sector mentioned these reasons. Nevertheless, the evaluation will monitor impacts such as these regardless of how the participants articulate their reasons for being in the program.

- Reasons for nonparticipation in the LiLA program vary, but the most frequently mentioned reason is being busy with other things and not having the time to go to school or take classes. An additional factor that became evident from discussions with program staff is that some eligible workers did not become participants because they lacked a Social Security number.

**The Developing Program in Action:** The LiLA program is still extremely new, with the recruitment process and development of an administrative infrastructure only recently completed in San Francisco. The following sections briefly describe the shape of the program in the established sectors.

#### *Participant Characteristics*

- Participants vary in educational background, length of service with the participating employer, role with the employer, and income across the participating sites. Excluding San Francisco, approximately 15% of LiLA participants have a high school diploma or less education. Nearly 50% have some college but less than a four-year degree, approximately 27% have a bachelor's degree, and approximately 8% have a graduate degree. In every sector, members of the nonparticipating control group are [or have been] more likely to report an educational background consisting of a high school diploma or less. In the public and restaurant sectors, LiLA participants tend to have more years of education than their nonparticipating counterparts, while in the manufacturing sector, the LiLA participants are disproportionately drawn from the middle of the education distribution: two-thirds have some postsecondary education or training but relatively few have a bachelor's degree.
- In terms of tenure with the employer, 65% of LiLA participants in Chicago and Indiana have been with their employers for three to ten years. Approximately 18% have more than ten years of service, while 16% have been with their employers for less than three years. Program eligibility criteria included a minimum number of hours worked per week (approximately 30) and tenure with the employer (typically six months).
- Overall, 34% of LiLA participants in Chicago and Indiana have a management position. However, the degree of participation by managers varies substantially across sites. In the Chicago restaurant sector, 56% of the LiLA participants are managers, while only 10% of public-sector participants and 29% of manufacturing participants are managers. To some degree, these differences are likely to be a function of the management-to-staff ratios in these industries; the characteristics of the nonparticipating control group suggest that there are simply more management positions in the Chicago restaurant industry than in the other

sectors. Yet the data also suggest that management/nonmanagement status is an important variable in understanding how the program is intersecting with the workforce in these differing industries.

- Employees' income has been measured on an hourly basis, an annual basis, and a household basis. Depending on the income statistic used and the treatment of tips, between 5% and 22% of LiLA participants have personal or household incomes of less than 200% of the federal poverty guideline. Other workers participating in the program report highly variant incomes, including a handful with six-figure incomes. Approximately 47% of LiLA employees report personal incomes below \$30,000; 80% are below \$40,000.
- Nonparticipants in the comparison group also report highly diverse earnings, although initial statistics suggest that workers at the lowest earning levels may be somewhat disinclined to participate in the LiLA program or may have other barriers to participation. Overall, the income distributions suggest that the LiLA program is meeting expectations of being a universal-access program, serving persons across the income range.

### *Career Advising*

- The CAEL career advisors provide local program support and have strong backgrounds in adult education. Advisors' and participants' estimates of time spent together converge at between 1 and 2 hours, on average, with about half of the sessions conducted in person and half by telephone. Assessment tools are not typically used, due in part to a belief that they are not normed for the population being served. Depending on the participant, consideration may be given to whether a GED should be completed before pursuit of additional training. Advisors report that LiLA participants vary in readiness to discuss career goals; three hours of counseling or more may be necessary for some participants.
- Participants in Chicago and Indiana rated advisors' availability at approximately a 9 on a 10-point scale, with 10 indicating the advisor was fully accessible. Across sectors, 82% of participants have described the advisor as "very helpful," 15.5% have described the advisor as "somewhat helpful," and the remainder have said the advisor was "not too helpful" (0.7%) or that they "didn't know." Participants also have rated the advisor's knowledgeability: approximately 73% (across sectors) have found the advisor "very knowledgeable," and 24% have found the advisor "somewhat knowledgeable." A sector-by-sector comparison shows that Chicago restaurant employees have rated the advisor's knowledge more highly than his or her helpfulness, while the reverse is true in the public and manufacturing sectors.
- Discussions with LiLA employees underscore the critical role played by the career advisors in this program. Focus group participants unanimously agreed that the diligent attention of the career advisors is important to their progress in the program, and several felt that it is of paramount importance.
- An analysis of Individual Learning Plans (ILPs) completed to date has found that 71% are three-year plans, defined as "long-term" for the LiLA program. This is particularly likely to be the case among public-sector employees—84% of this group's ILPs are of the three-year

variety. Thirty-six percent of LiLA participants were already enrolled in training at the time their ILPs were created. Manufacturing employees were more likely than participants from the other sectors to be enrolled in training at the time their ILP was created (46%). Since the majority of all LiLA employees were not participating in an education or training program prior to their enrollment in the program, the LiLA process may have been instrumental in rekindling an interest in learning.

- CAEL has worked with representatives of the restaurant industry and with specific manufacturing employers to develop career-ladder information. In general, employers seem to have opted to leave the discussion about training options to the career advisor and the participant, although there have been some instances where employers have communicated with participants about training options. Over half of the education and training fields identified in the ILPs are outside of the industry where the participant is currently employed. While this may not be a great surprise in the restaurant industry, it is somewhat surprising that one-third to one-half of the workers in both the manufacturing and public sectors opt for education and training outside of their current industry. The observation that 36% of the workers are seeking additional skills related to a secondary occupation or post-retirement career helps to explain this phenomenon.

#### *Education and Training*

- Procedurally, advisors often suggest education or training providers. However, CAEL retains the final gatekeeping function for approval, checking to see that classes are consistent with the ILP and verifying that selected institutions are accredited. Employees are beginning to use their savings for training: as of June 2004, 99 employees had withdrawn approximately \$29,000 from their LiLA accounts.
- A small portion of enrollees made lump-sum contributions to their accounts in order to net the employer and outside matching funds and begin training almost immediately after signing up for the program. This rapid build-up and expenditure of funds may not be the norm for a larger-scale program, but it does help to underscore one of the core LiLA premises: LiLAs are spending accounts, intended to build individuals' capabilities through learning, as opposed to building fund balances for some undetermined future use.
- It is too early in the Demonstration to draw definitive conclusions about participants' use of funds. The evaluation will track participant use of funds over the course of the Demonstration and will examine the effect of additional education and training on LiLA participants following completion of their classes.

#### *Account Management*

- The primary vehicle for the holding and management of LiLAs is ShoreBank, a financial institution located in Illinois that describes itself as "the country's first and leading community development bank" with a mission of investment "in people and their communities to create economic equity and a healthy environment."

- ShoreBank has experience managing Individual Development Accounts (IDAs) and hoped to tailor that process to support the LiLA program. In practice, CAEL and Shorebank learned that they needed to make adaptations to reporting by allowing CAEL to simultaneously view employee, employer, and matching accounts, and in facilitating online transfers and payments by CAEL. These adjustments have been made, thus a model for account management is developing.
- The division of labor between ShoreBank and CAEL in account management has evolved over the course of the Demonstration. Under the current arrangement, CAEL does all of the bank withdrawals and payments for LiLA accounts and is the custodian on all the accounts, while ShoreBank's function is solely as a repository for the funds. Employers also play a role as the collection point for participant contributions and their own matching funds. Some employers have payroll systems that allow for automated direct deposits, while in the restaurant industry, it has been necessary to adapt the procedures to accommodate cash contributions from tipped employees.
- LiLA accounts do not earn interest, which has allowed ShoreBank to manage the accounts without a fee. Bank officials have expressed that a minimum fee may be required to make financial institution involvement feasible if the program is taken to scale.
- During interviews, most employers said that the account process was somewhat complex but was working satisfactorily. While CAEL's flexibility in adapting the process to cover a range of employer circumstances has been valued and has supported employer participation, the general view is that the current approach will need to be adapted to produce greater efficiency in a program of greater scale.

#### *Savings Patterns*

- The LiLA program requires participants to invest a minimum of \$10 per month, or \$120 annually. The majority of LiLA employees opened their accounts with the minimum deposit: 50% of restaurant employees and 56% of manufacturing employees made deposits at the \$10 level. Employees in the public and health care sectors began at a somewhat higher contribution level, with 49% and 30%, respectively, making deposits at the \$11–\$99 threshold. As mentioned above, a small portion of the participants made lump-sum deposits for quick access to the matches. Information to date indicates that most of those enrolled have continued to save regularly.

#### *Attrition*

- As of June 2004, 82 of the 359 LiLA employees had left the program. The rate of departure is highest in the restaurant sector—which is known for having rapid employee turnover—and relatively low in the public and health care sectors. The reasons for leaving the program vary, including resignations, terminations, business closures, and buy-outs that led employers to discontinue the program.
- Comparing demographics among participants and those leaving the program, LiLA departures are distributed across education levels but are clustered at the lower end of the

income-level continuum in a pattern similar to LiLA employees as a whole. Overall, those who have left the program are more likely to report that they had not had a session with an advisor, but among those who had, the level of satisfaction with the advisor does not appear to be a contributing factor.

**Satisfaction with Policies and Procedures:** Early feedback from both employers and employees helped LiLA project managers learn effective ways to simplify and streamline the information-sharing and enrollment processes associated with site start-up. These functions have been combined into a single activity so that employees have been able to register for the program immediately following information sessions. Additional learning occurred at start-up in the public sector, where particular attention had to be focused on the development of highly detailed operating policies and procedures. Other major issues faced have been fund management, the consequences of leaving the program or poor participant performance, and the tax consequences for workers of matching funds. These realities have led to processes that are more efficient, support better understanding among stakeholders, and will be valuable in the event that the program is replicated at other sites.

## Implications

- LiLAs allow smaller companies and establishments to offer an inexpensive benefit. Especially under the terms of the project, with a 3:1 match, LiLAs are an attractive vehicle for workers and employers who might otherwise not consider career-related education and training. Employers see several potential benefits in the LiLA program, with the sources of interest varying somewhat by sector; employees tend to describe the financial match as a key motivator, but they too articulate a variety of reasons that they find the program attractive.
- To a limited degree, certain program design elements may have constrained employer participation and individual enrollments. They include account-processing issues for companies without automatic payroll deduction, and for some employers, difficulty in understanding how the LiLA works. These issues have been addressed by CAEL through their efforts at continuous program operation improvements.
- Information to date indicates that most of those enrolled have continued to save regularly. Judgment about the effectiveness of LiLAs over the long term will relate to the impact of LiLA participation on individuals' career paths, wages, and the value they place on continuing education.
- The Demonstration is intended to serve as a pilot of LiLAs on a limited scale. If taken to a broader scale, the issue of limited financial returns to the financial institutions holding LiLA accounts will have to be addressed. If accounts are to exist in substantially larger numbers and to persist for long periods, a more viable system must be developed. In anticipation of taking LiLAs to a broader scale, CAEL is working with consultants from D2D Fund on how to address the issue of financial returns to institutions holding LiLA accounts.
- CAEL is working with leaders in several states to explore how to develop state-based systems for LiLAs. If states were to implement their own versions of a LiLA pilot limited to

certain sectors, they would want to heed some of the early lessons learned here about differences in employer take-up per sector. Also, given the value of the career advising mentioned earlier, states may wish to consider options for providing advising services such as those available through the public workforce system. In addition, there would be other implementation costs to consider. These issues are ones with which CAEL is grappling as it continues to refine its thinking and understanding of the LiLA model.