



Business Leaders United
for Workforce Partnerships

Policies that Work

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Making Pell Grants work better for America's businesses and employees

U.S. employers face unprecedented challenges in recruiting and continually upskilling a nimble workforce that can fuel productivity and profitability within an increasingly competitive global economy. U.S. workers are likewise seeking new options for raising their skills while holding down full-time employment.

Federal policies could be much more responsive to these challenges. While effective in many regards, our nation's career training and postsecondary financial aid system—including the \$30 billion invested annually in Pell Grants—excludes certain industry-recognized training programs that serve employer skill needs while creating advancement opportunities for entry-level employees.

As the federal Higher Education Act, which authorizes the Pell Grant program, is debated by Congress, lawmakers should consider broadening the definition of programs that qualify for Pell aid, including high-quality, short-term, occupationally focused training at our nation's community colleges and other postsecondary institutions. Such changes will better serve businesses who urgently need skilled workers, as well as millions of working Americans who want a chance to go back to school to advance their careers.

Industry's growing demand for postsecondary skills

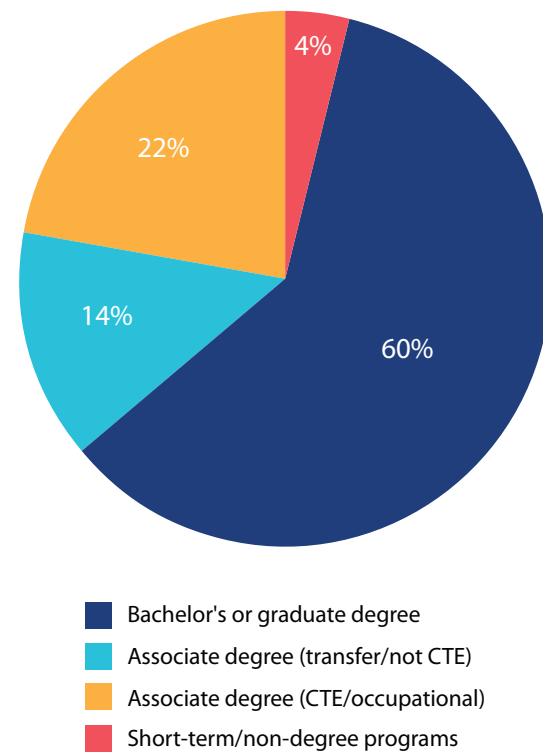
In the innovation economy of the 21st century, it is nearly impossible to land a good first job or advance up the career ladder without some postsecondary education. Advances in technology and global competition have fueled the demand for ever-more-skilled American workers. This is especially true for middle-skill jobs, which require more than a high school diploma but less than a four-year college degree. These middle-skill jobs represent the largest segment of projected job openings in the current and near-future U.S. economy.¹

As employers have come to expect more advanced skills, the nation's higher education system has largely taken up the

challenge. Many universities, community colleges and vocational schools have expanded their options for career-focused postsecondary programs. And increasingly, they have forged partnerships with business and industry to ensure the training they offer meets employers' workforce needs.

With new opportunities abounding, record numbers of Americans are pursuing postsecondary education. Often, they are working part- or full-time while juggling their studies and family duties, and pursuing occupational credentials expressly designed to prepare them for better jobs and higher pay. In a sign of the changing marketplace, associate degrees and certificates now account for nearly half of all undergraduate awards, and occupational certificates have become the fastest growing credential in higher education.²

Middle-skill certifications vs. full-time degrees



Source: Workforce Data Quality Campaign's analysis of Pell Grant expenditures 2013 – 2014.

Certificates: demonstrating key skills

Occupational certificates are just one type of industry-recognized credential valued by many employers. (Others include professional licenses and certifications granted by industry training bodies.) Certificates as discussed in this paper are awards issued by educational institutions for the completion of a defined set of courses and mastery of a specific set of job-related skills. Programs vary widely, lasting anywhere from 40 hours to 4 years, but most can be completed in a year or two while students continue to work and earn a living.

With more than one million sub-baccalaureate certificates earned yearly, they now account for 25 percent of all postsecondary awards and 4 in 10 community college awards.^{11 12}

Middle-skill credentials are valued by businesses and employees

From the perspective of employers, career-focused middle-skill credentials—including industry-recognized certificates, certifications and licenses—are an unquestionable win-win for businesses and employees. Because such credentials reflect demonstrated ability and specific workplace skills, they can help companies assess a worker's qualifications and quickly identify the most promising job candidates. Businesses can use them when making decisions about promotions or wage increases for incumbent staff, too.³

At the same time, middle-skill credentials offer an invaluable boost for employees. Because such training programs are often shorter and more affordable than other postsecondary studies, working students are more likely to complete them. Increasingly, good credential programs are often “stackable,” allowing students to advance along a career pathway as they acquire new, in-demand skills. And importantly, they can deliver quick earnings gains. Early research demonstrates a solid financial return on investment from occupation-focused credentials earned in two years or less—in some cases more favorable than for students with two- and four-year degrees.^{4 5}

Mismatched goals and policies

Despite the popularity of certificate programs and their demonstrated value in the labor market, many programs offering certain kinds of short-term occupational credentials today do not qualify for federal financial aid. In fact, current public policy creates a barrier for this type of career-focused education—which makes no sense for employers seeking skilled workers or for the workers who have most to gain.⁶

This challenge is most acute in the federal Pell Grant program. Pell Grants comprise the nation's largest grant program supporting postsecondary education and training for low-income students. This year, the grants—up to \$5,775 each, annually—will defray undergraduate tuition, living expenses, and other costs for more than 8 million individuals, most of them from low-income families, at a cost of more than \$30 billion.⁷

Current law mandates that in order to be eligible for Pell aid, a program must offer a minimum length of instructional hours or quarters—a measure of “seat time,” as education experts call it. The problem: While many career-training pro-

grams meet this requirement, a large number of otherwise high-quality certificate programs don't meet the threshold.⁸

The impact of these restrictions is clear. Without access to financial aid, low-income employees may have no choice but to forgo continued career training, or pay out of pocket and incur more debt. The current policy frustrates employers, too, by closing off one key source of skill-building for incumbent workers. Moreover, the limitation can penalize educational institutions: recent evidence suggests that some students are enrolling in long-term training programs that do qualify for financial aid but are leaving as soon as they have the necessary skills to get hired.^{9 10} Even though the employment needs of the student are being met, those individuals may be counted as failures for the educational institution.

Recommendations

In the coming months, Congress intends to renew the Higher Education Act and its signature Pell Grant program. As lawmakers consider how to modernize the law and make best use of our nation's investments in higher education, they should be guided by the evolving needs of employers who understand labor-market demand. The following policy changes would make it easier for more U.S. workers to access high-quality postsecondary training programs that businesses value, while allowing more U.S. businesses—particularly small and medium-sized employers, who often rely on community colleges for workforce training—to provide new options for hires, as well as the upskilling and advancement for their current employees.

- ▶ **Make short-term occupational certificate programs eligible for Pell Grants.** Congress could start by making short-term, career-oriented postsecondary programs with a track record of success eligible for Pell Grants, as has already been done on a small-scale, experimental basis by the U.S. Department of Education. Congress should also consider whether a federal time requirement is necessary at all and, if so, whether it can be shortened to help additional employees access this key source of financial aid.
- ▶ **Consider making more demand-driven noncredit programs eligible for Pell.** More than 5 million community college students are enrolled in programs that are not of-

Investing in skills: the employer “ROI”

Facing a critical need for skilled workers, countless employers have decided to invest in job training—either on their own, or in partnership with vocational and educational institutions in their communities. The return-on-investment is increasingly well documented and includes:

- Lower employee turnover
- Higher worker productivity
- Enhanced employee engagement and loyalty, and
- A highly effective way to build an innovative workforce with the specific industry skills that business needs¹³

Businesses are doing their part. Government policies could be more effective partners in these upskilling efforts, particularly for lower-skilled employees.

ferred for college credit. Because they are more nimble and flexible than regulated, for-credit programs, non-credit programs are able to adjust quickly to changing industry conditions. Congress could make it easier for high-quality, noncredit programs with proven records of industry success to qualify for Pell Grants.

- ▶ **Use sector/industry partnerships to help ensure programs are demand-driven.** The most effective training programs have strong connections to employers and local labor markets. One proven model—known as sector partnerships—brings together multiple employers from an industry to collaborate with education, labor, and community organizations, together ensuring that local training aligns with the skills needed for that industry to grow and compete. Congress should encourage such partnerships, and leverage them to inform the development of short-term and noncredit certificate programs that produce skilled workers to fuel today's dynamic economy.

Endnotes

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How Top Companies Make the ROI Case for Employee Training. SkilledUp, January 2014. <http://www.skilledup.com/insights/how-top-companies-make-the-roi-case-for-employee-training>



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Business Leaders United for Workforce Partnerships (BLU) is the national voice of small and medium sized employers who are concerned about filling skilled positions at their companies and want to develop public-private partnerships in their communities to better meet their skilled workforce needs.