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Workforce Development as a Driver of Economic Mobility

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Evening with the Fed
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The views expressed are those of the presenters and do not necessarily reflect the views of the Federal Reserve Bank of Atlanta or the Federal Reserve System.

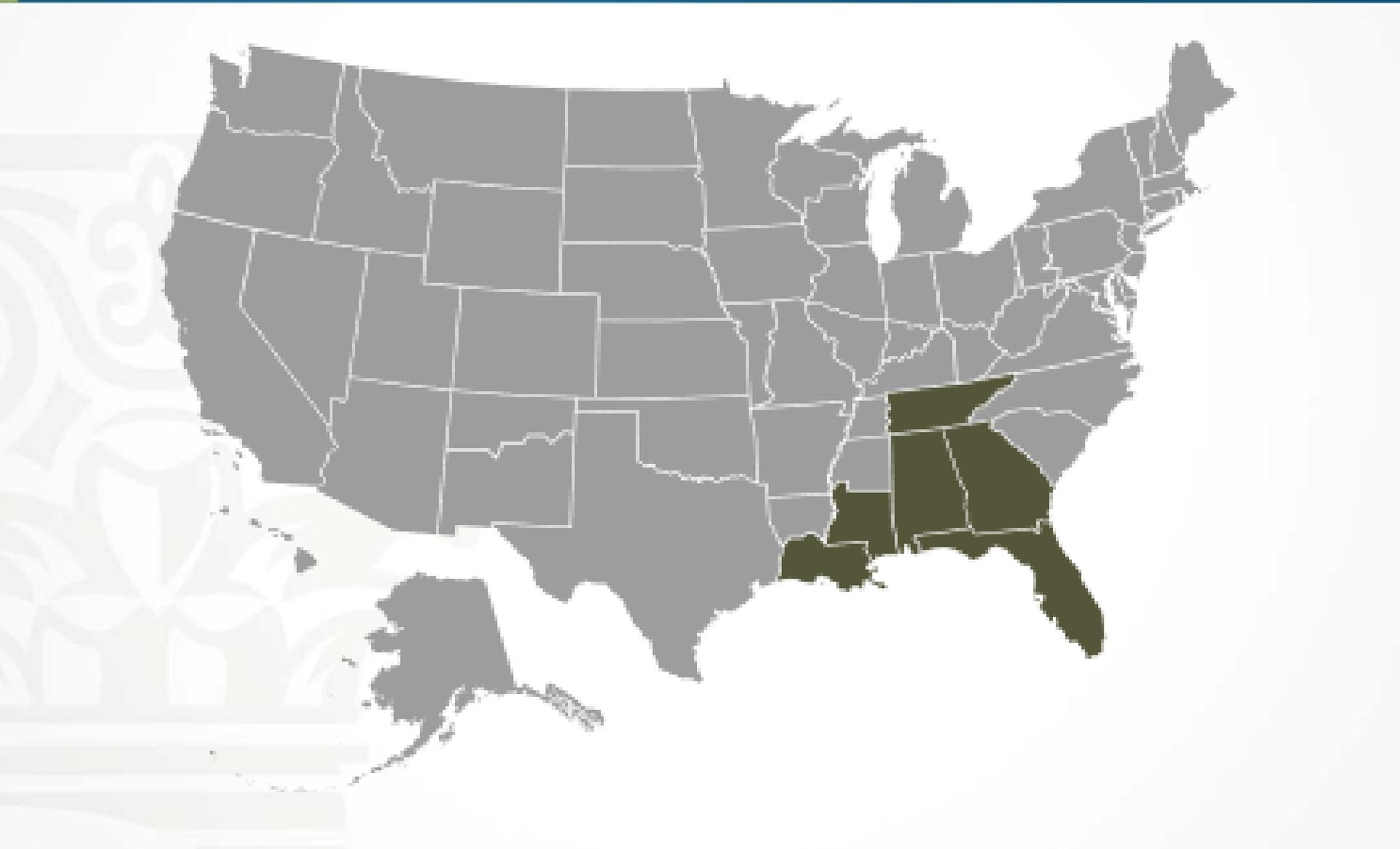
Outline of Talk

1. Importance of economic mobility
2. Introduction to workforce development
3. Financial barriers to career advancement

The Federal Reserve Bank of Atlanta Strategic Priorities

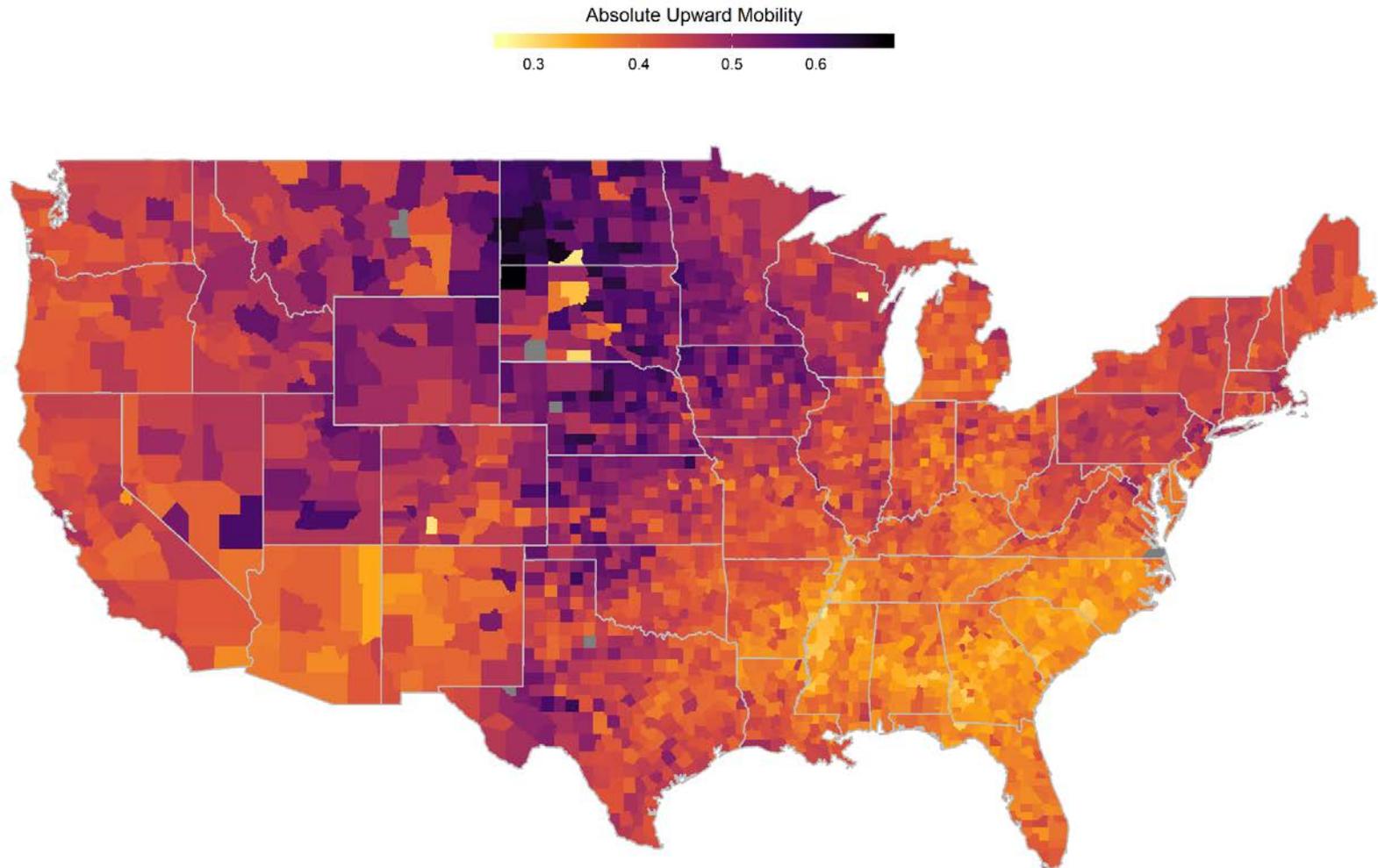
1. Foster payments innovation.
2. Drive organizational agility.
3. Advance economic mobility and resilience by cultivating an environment with fewer barriers and more opportunities for all.

The Federal Reserve Bank of Atlanta Sixth District



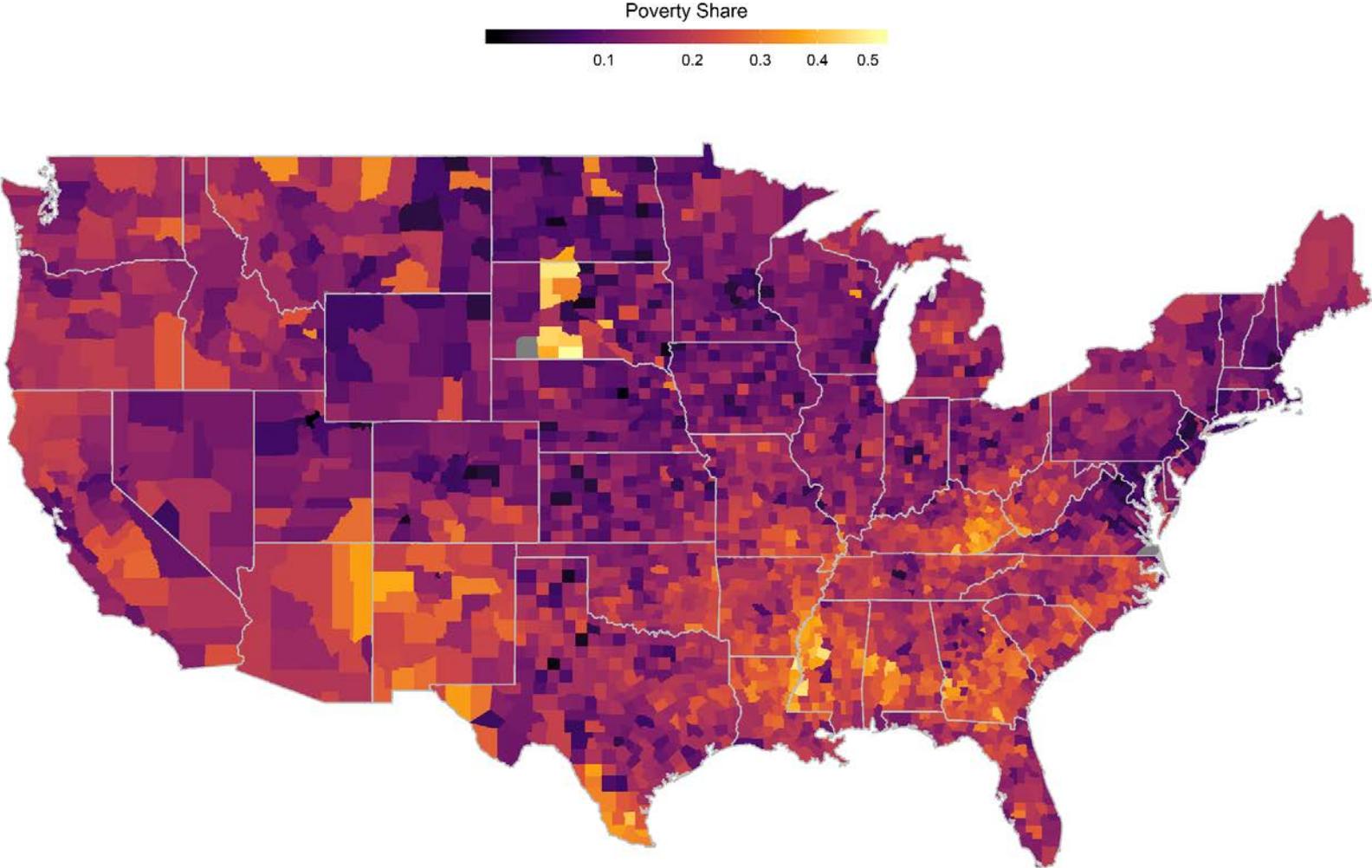
Economic Mobility by U.S. County

Adult outcomes for children of low-income parents



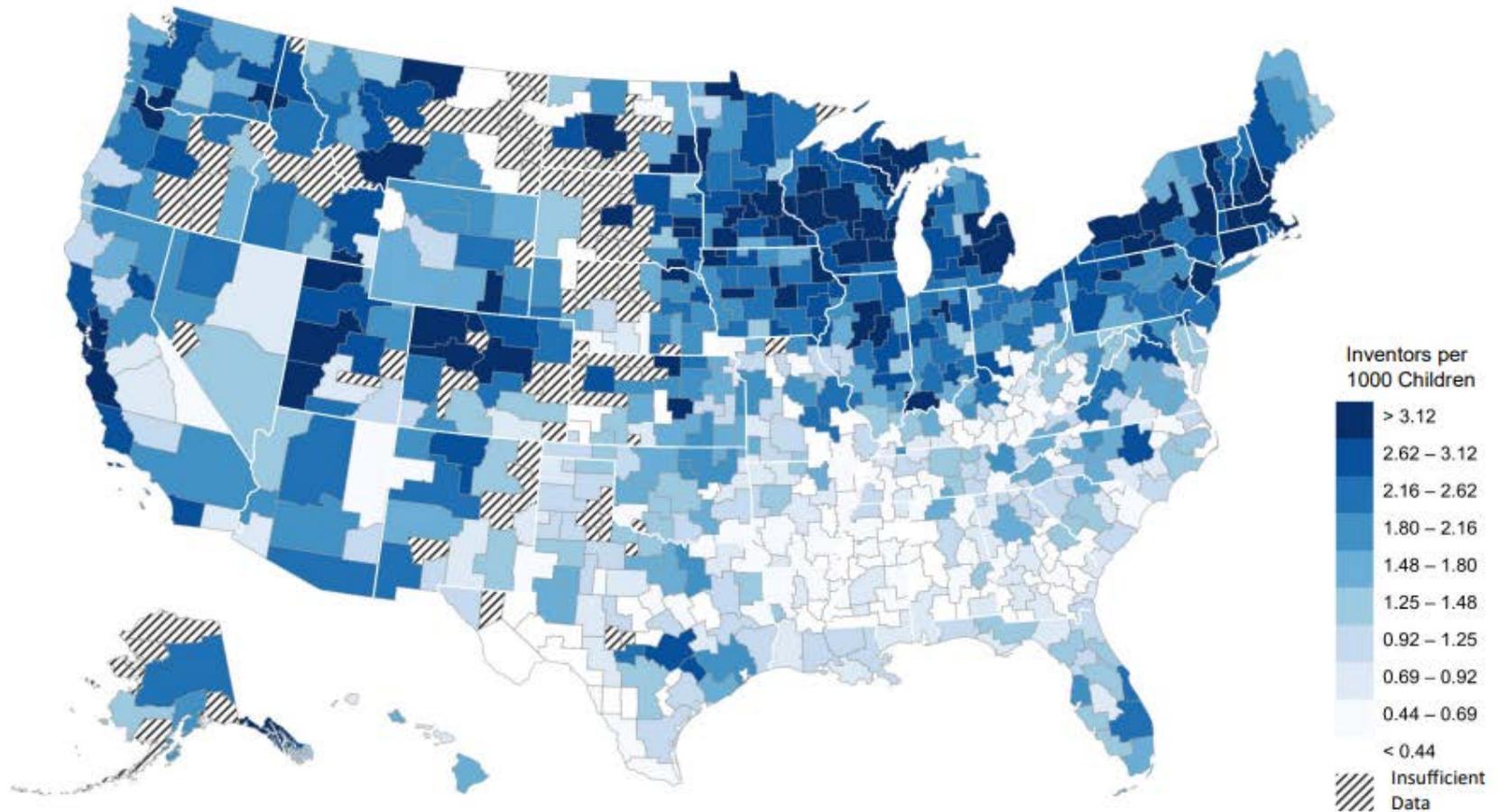
Source: Opportunity Atlas, www.opportunityatlas.org

Poverty Share by U.S. County



Source: ACS 5-Year Estimates (2013-2017)

Patent Rates by Childhood Commuting Zone



Source: Bell, Alex; Raj Chetty; Xavier Jaravel; Neviana Petkova; John Van Reenen. 2018. "Who Becomes an Inventor in America? The Importance of Exposure to Innovation." Equality of Opportunity project. http://www.equality-of-opportunity.org/assets/documents/inventors_paper.pdf.

What Is Workforce Development?

- Programs specifically designed to
 - enhance the job skills of individuals in order to increase their employability
 - identify job opportunities
 - help job seekers obtain employment (GAO 2011)
- By increasing earnings and employment opportunity, **workforce development promotes economic mobility.**

Workforce Development Programs

- Tend to target groups with barriers to employment, including:
 - Low-income adults and youth
 - Persons with a disability
 - Ex-offenders
 - Veterans
 - Persons who are basic-skills deficient
- Tend to focus on short-term credentials (e.g., truckdriver's license) **but also** on advanced credentials (e.g., computer engineer PhD)

Businesses Report Hiring Difficulties

- 67% report hiring difficulties for jobs that do not require a bachelor's degree.
- 70% report hiring difficulties for jobs that do require a bachelor's degree.

Source: 2017 Federal Reserve Banks' Small Business Credit Survey

Reasons for Hiring Difficulties

U.S Small Businesses

Reason	Percent
Lack of job-specific skills, education, or experience	63%
Too few applicants	57%
Lack of soft skills	36%
Competition from other employers	34%
Difficulty passing background check, credit check, or drug test	23%
Lack of basic math, reading, or writing skills	19%

Source: 2017 Federal Reserve Banks' Small Business Credit Survey

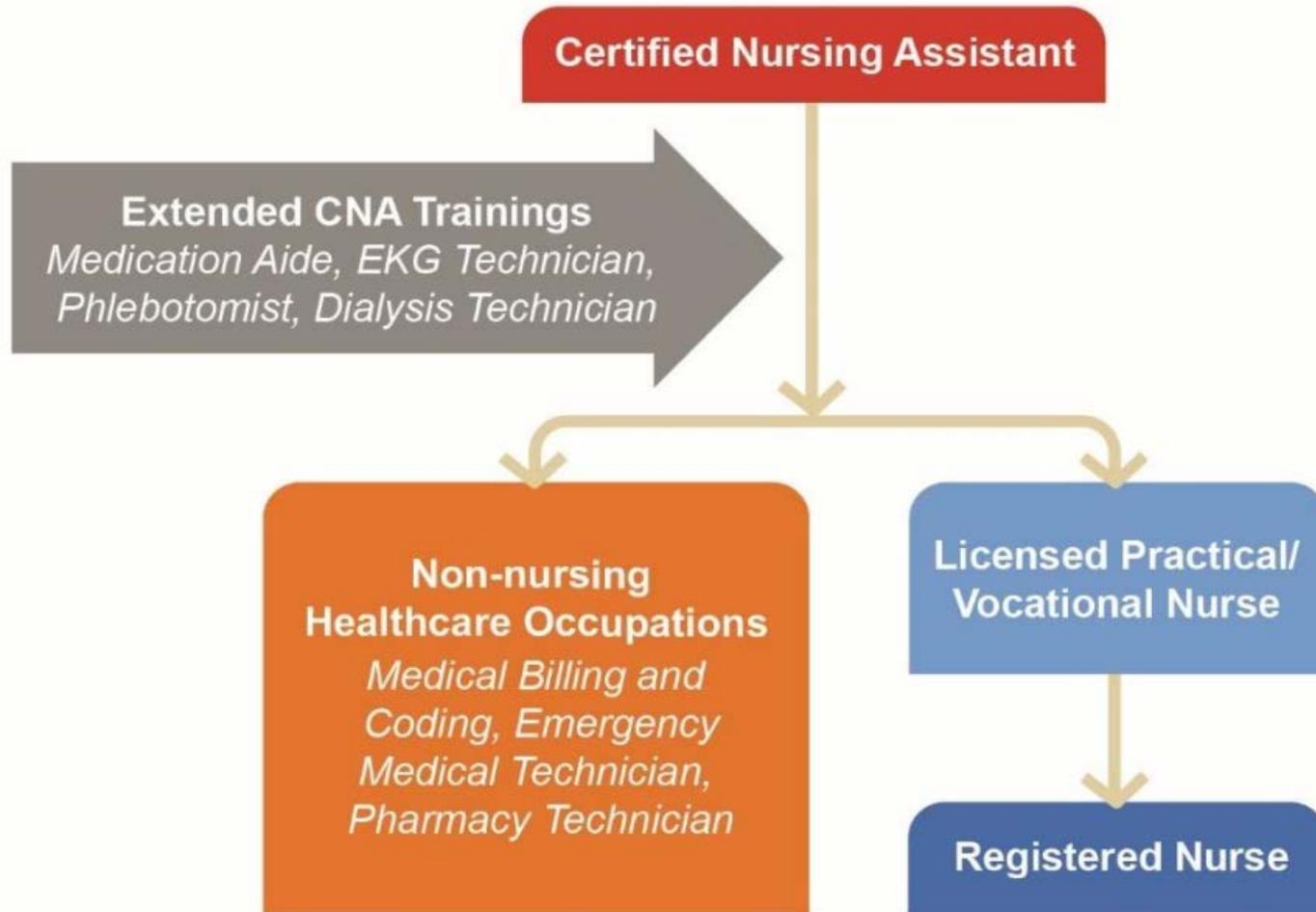
Strategies to Help Businesses and Workers

The career pathways framework is increasingly used in workforce development to

- Meet business demand for a skilled workforce.
- Help low-income individuals advance to higher-paying occupations.

The Health Care Services Career Pathway

Example career pathways



Source: Loprest, Pamela and Nathan Sick. 2018. "Career Prospects for Certified Nursing Assistants: Insights for Training Programs and Policymakers from the Health Profession Opportunity Grants (HPOG) Program." Report to the Office of Planning, Research, and Evaluation, Administration for Children and Families, U.S. Department of Health and Human Services.

Career Pathways in Workforce Development

Is it working?

- **Concerns about career advancement**
 - Career pathways are succeeding at the “first step” of employment.
 - Individuals remain stuck in entry-level low-wage jobs with few benefits.
- **Do certified nursing assistants (CNAs) advance to licensed practical nurses (LPN) or registered Nurses (RN)?**
- **In a recent evaluation, **only 3%** of new CNAs advanced to LPN or RN training**
 - Barriers to progress include “additional time and financial investments, needing to combine work and school, and potential child care needs.”

Source: Loprest, Pamela and Nathan Sick. 2018. “Career Prospects for Certified Nursing Assistants: Insights for Training Programs and Policymakers from the Health Profession Opportunity Grants (HPOG) Program.” Report to the Office of Planning, Research, and Evaluation, Administration for Children and Families, U.S. Department of Health and Human Services.

Implications beyond the healthcare sector:

- Gabe, Abel, and Florida (2019) analyze short-term employment transitions after the Great Recession
- **Only 5%** of workers from low-wage occupations move into higher-wage occupations

Barriers to Advancement

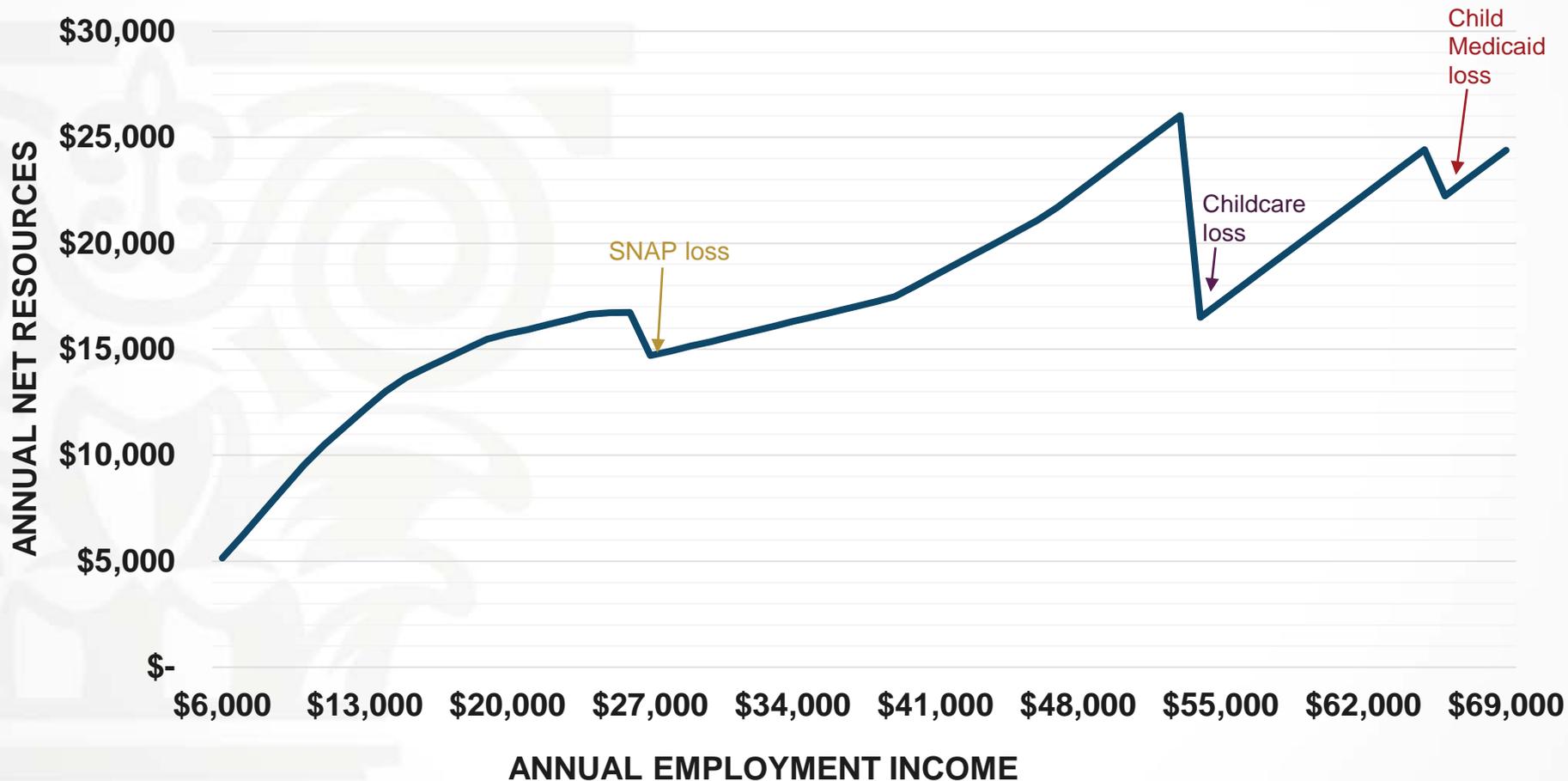
How do we help low-income individuals advance along career pathways to higher-paying jobs?

We consider two barriers:

1. Individuals lack information about the financial gains of different career choices
2. Individuals may lose public benefits when their income increases above an eligibility threshold (benefits cliffs)

Benefits Cliffs: A Basic Introduction

$$\text{Net Financial Resources} = (\text{Income} + \text{Benefits}) - (\text{Taxes} + \text{Expenses})$$



A Specific Case: Meet Leia

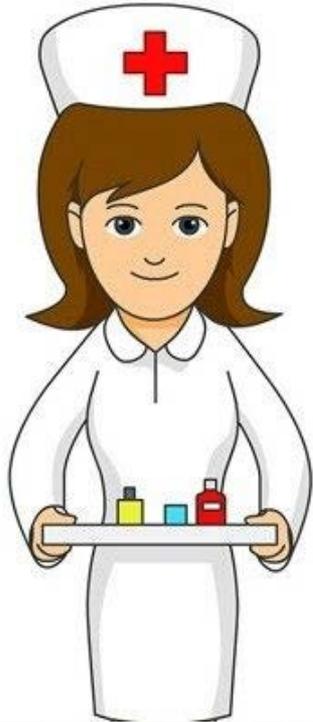


Leia is a 25-year-old single mother of two children, ages 4 and 6, living in Birmingham, Alabama.

She works full-time earning about \$8 an hour

As a low-income working mother, Leia receives public benefits and tax credits that are necessary to support herself and her family: **food stamps, Medicaid for her children, Affordable Care Act subsidies, housing vouchers, childcare subsidies, the Child Tax Credit, and the Earned Income Tax Credit.**

A Specific Case: Meet Leia



Leia has decided to become a Certified Nursing Assistant (CNA).

Her question: should she continue up the pathway to the Licensed Practical Nurse (LPN) or the Registered Nurse (RN)?

The Health Care Services Career Pathway

A typical career guide shows a clear financial benefit to career advancement:

Example Career Pathway for Certified Nursing Assistant



The Health Care Services Career Pathway

A typical career guide shows a clear financial benefit to career advancement:

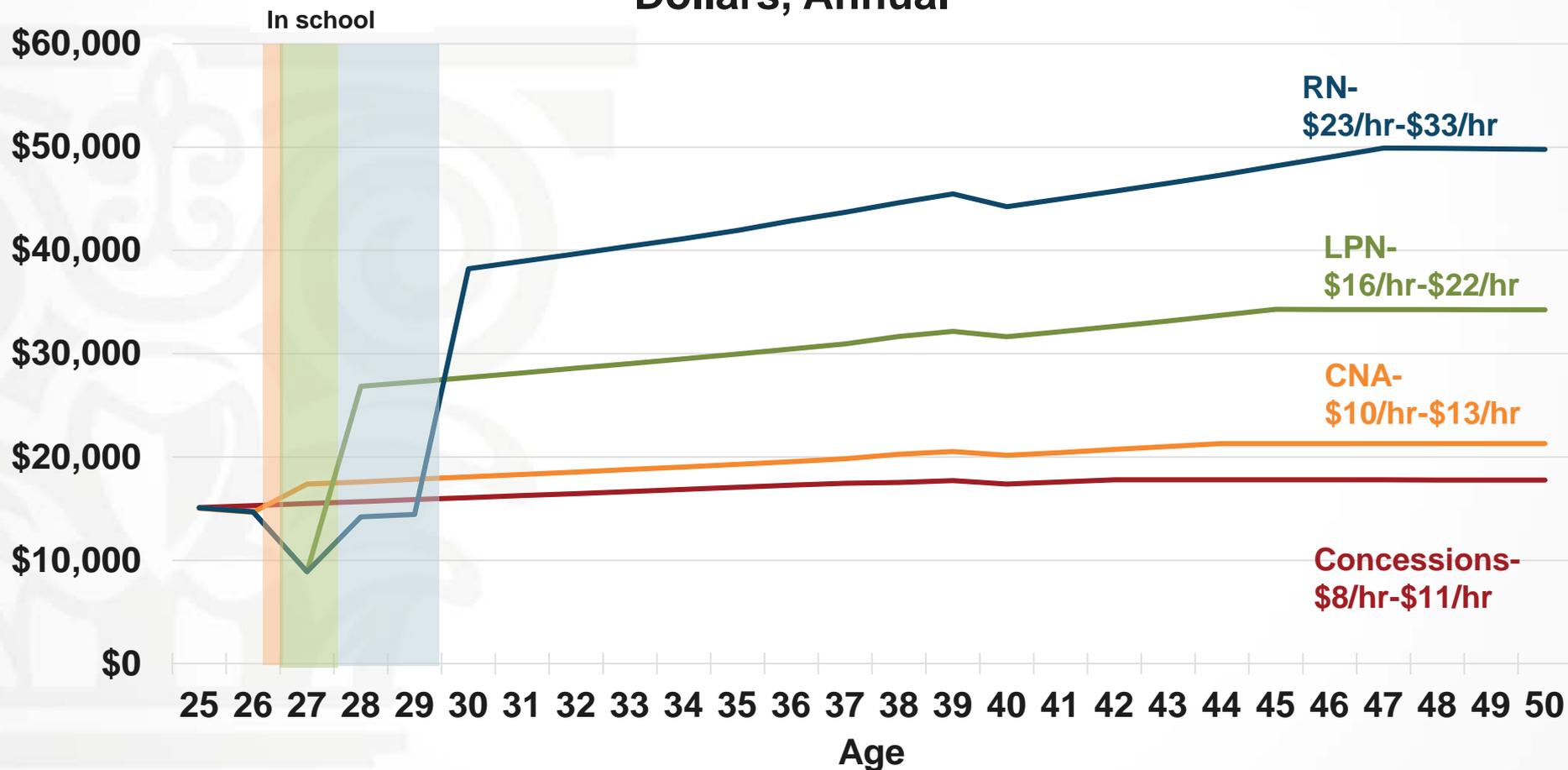
Example Career Pathway for Certified Nursing Assistant



But what information is missing?

Income from Employment

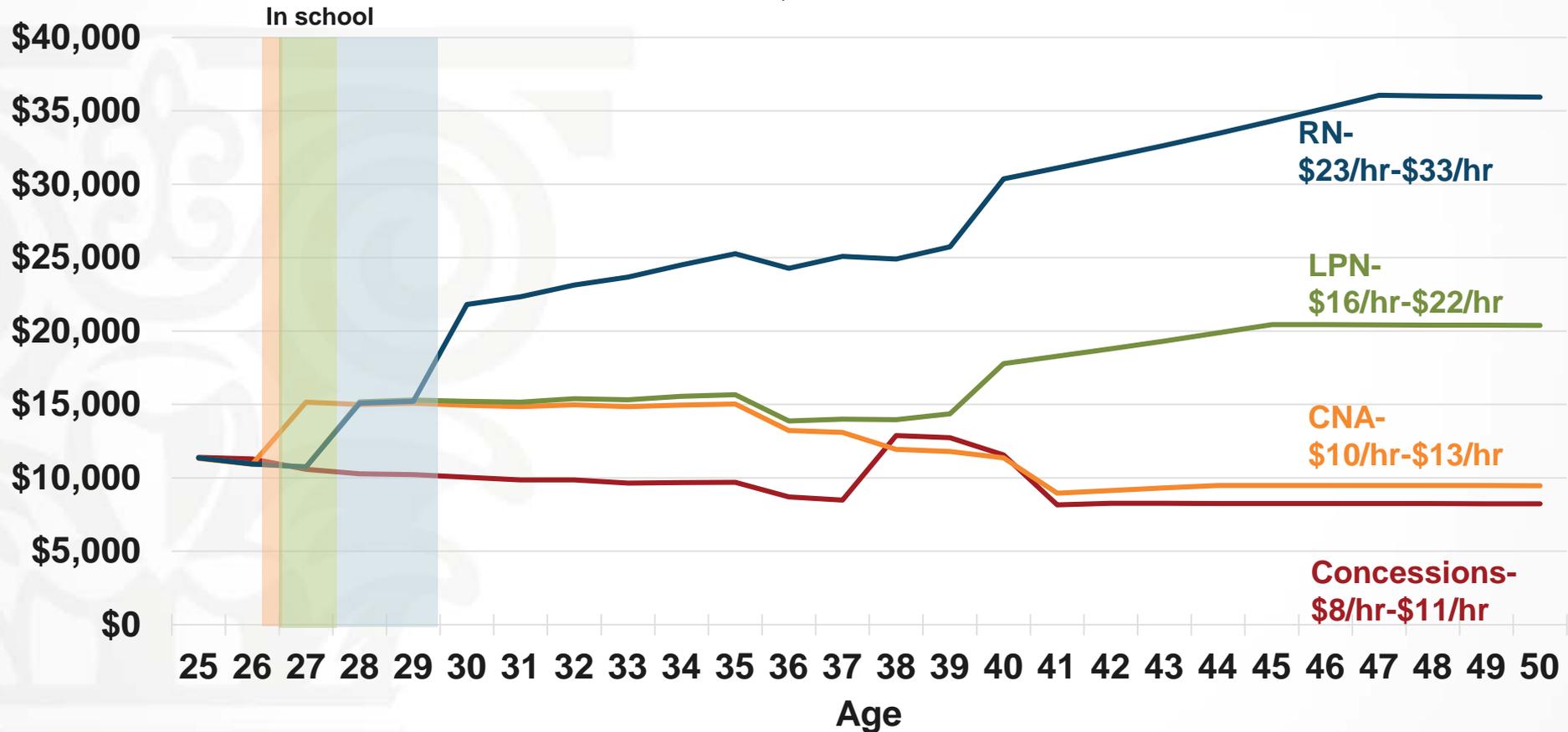
Income After Taxes, Age 25-50 Dollars, Annual



Source: The Fiscal Analyzer (see <https://kotlikoff.net/wp-content/uploads/2019/03/Online-appendix-6-5-19-.pdf>)

Net Financial Resources

Net Financial Resources, Age 25-50
Dollars, Annual

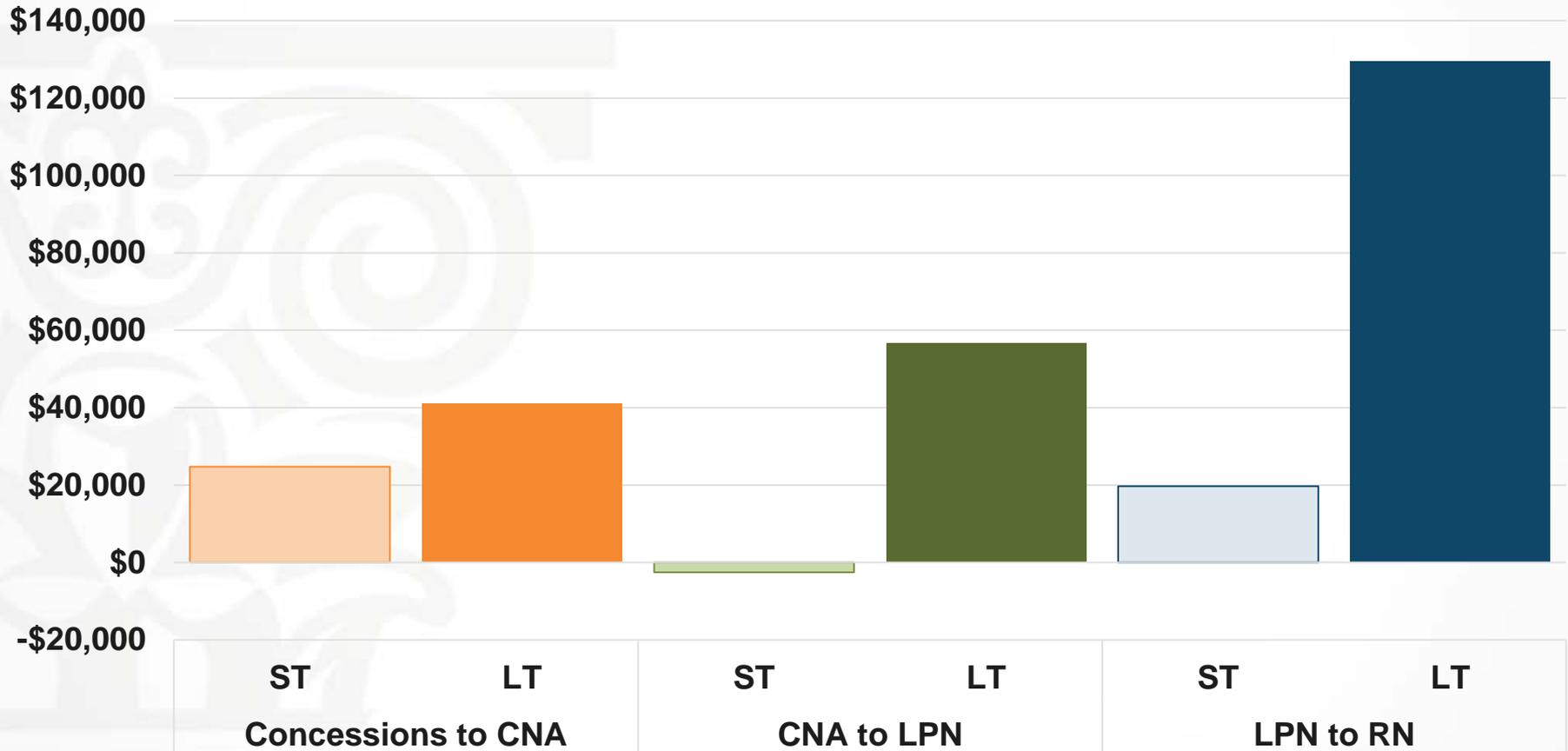


Note: Net financial resources = (Income + Benefits) – (Taxes + Expenses)

Source: The Fiscal Analyzer (see <https://kotlikoff.net/wp-content/uploads/2019/03/Online-appendix-6-5-19-.pdf>)

Summarizing the Incentives for Career Advancement

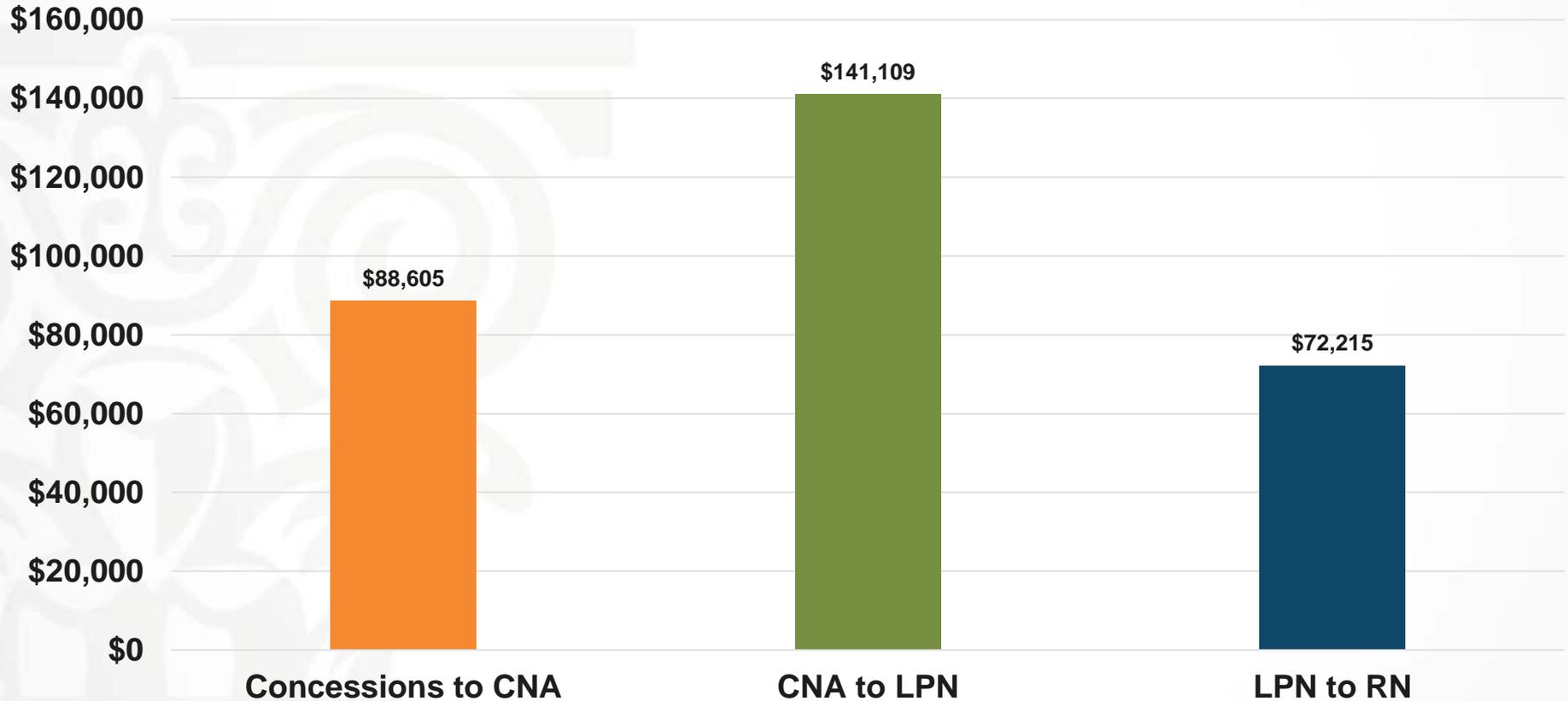
Net Benefit of Skill Acquisition to Leia: Short Term versus Long Term
Net present value



Note: “Net benefit to skill acquisition” is the difference in net with each career transition. ST= ages 25–33 and LT=

Source: The Fiscal Analyzer (see <https://kotlikoff.net/wp-content/uploads/2019/03/Online-appendix-6-5-19-.pdf>)

Net Public Savings from Skill Acquisition Net present value



Note: Net public savings = Difference in Net taxes (lifetime taxes received minus lifetime benefits paid) with each career

Source: The Fiscal Analyzer (see <https://kotlikoff.net/wp-content/uploads/2019/03/Online-appendix-6-5-19-.pdf>)

Discussion Questions

How do we support transitions into entry-level employment and beyond?

- Document clear career pathways to support decision-making.
- Replicate programs with demonstrated success in moving students quickly up a career pathway.
- Make supportive services available to increase short-term incentives.
- Reinforce the importance of business leadership.

How do we incorporate more complex financial information into an already complex career counseling process?

- Understand that financial incentives for career advancement can vary by individual.
- Know that the lowest wealth quintile faces higher marginal tax rates (44%) than does the highest wealth quintile (35%) (Altig and Kotlikoff 2019).
- Students need to consider both short- and long-term employment outcomes.

Thank you!

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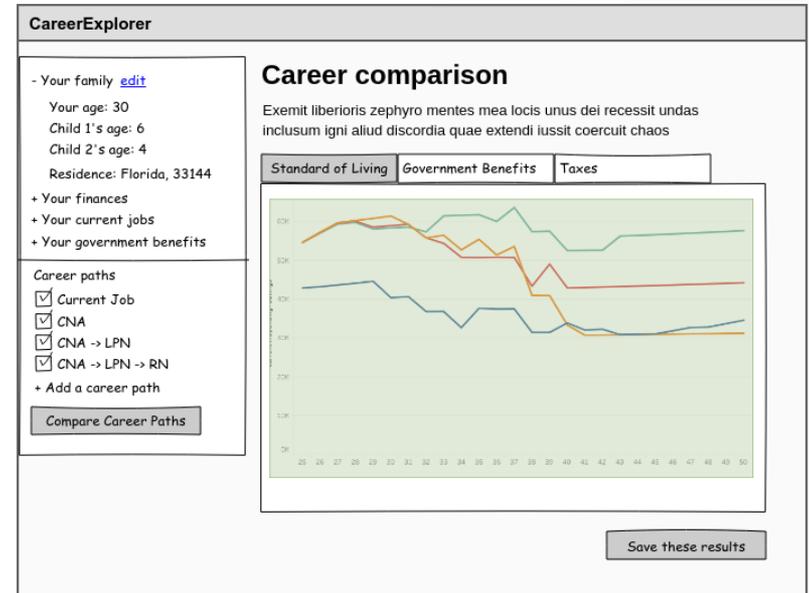
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Applications to Policy and Practice

Application 1: Career Pathway Explorer

Develop a data tool that allows counselors to **tailor career pathways to a client's situation:**

- Create career pathways (occupations, education, timing).
- Calculate net financial resources, based on current benefits receipt.
- Identify potential benefits eligibility.



Application 2: A Guide for Job Seekers

Goal: Inform job seekers about career pathways

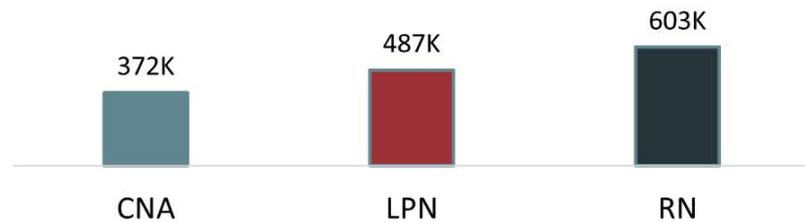
Healthcare Services Career Pathway



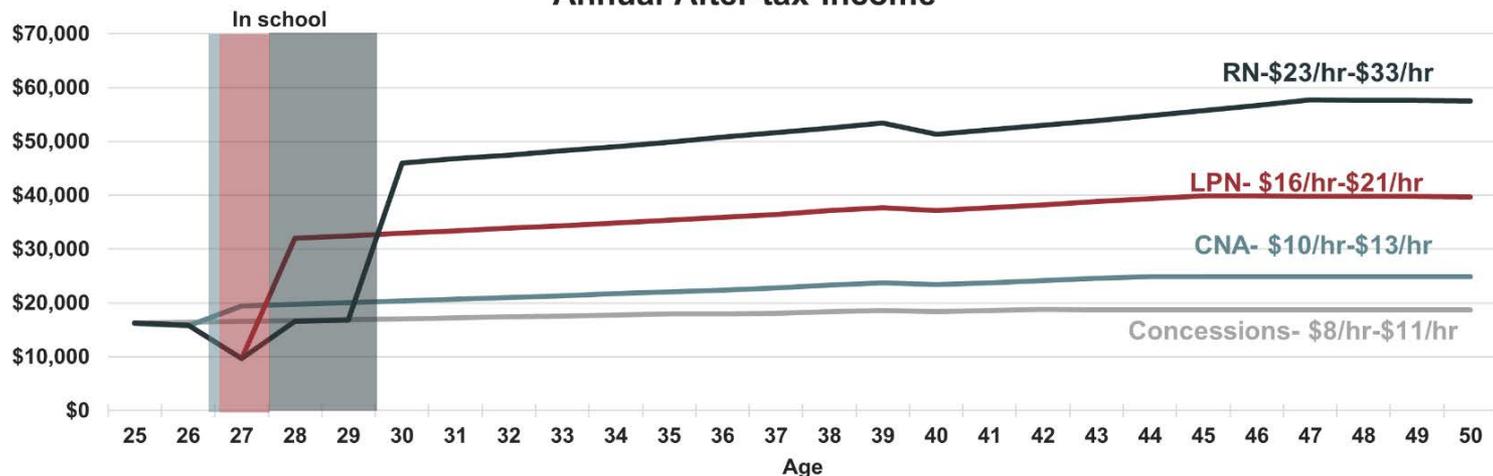
Median Wages



Lifetime After-tax Income



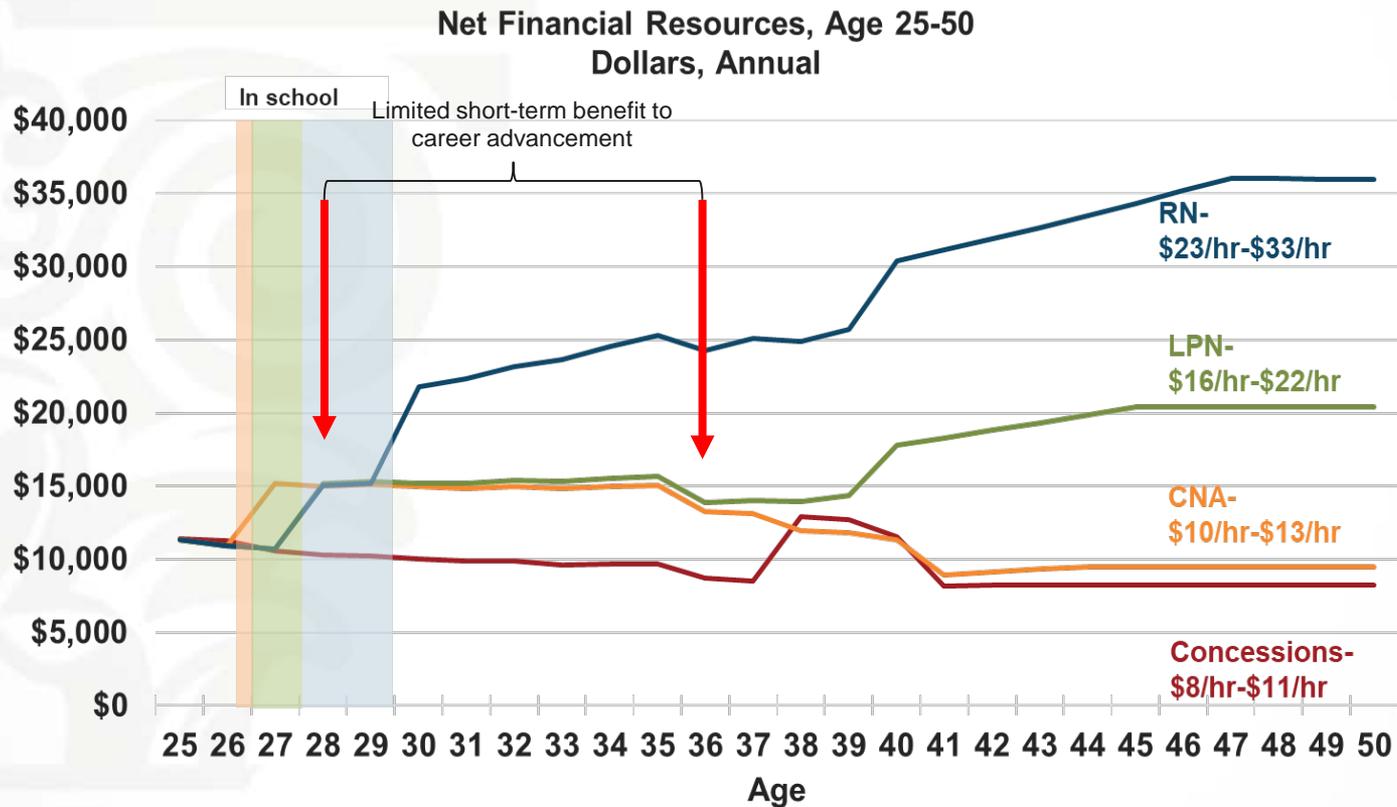
Annual After-tax Income



Application 3: A Guide for Public Policy

Goal: Inform philanthropic organizations and policymakers about benefits cliffs as a barrier to economic mobility.

Benefits cliffs reduce the gains to career advancement.



Application 3: A Guide for Public Policy

Example handouts

Benefits Cliffs as a Barrier to Career Advancement and Economic Mobility

Leia's Dilemma

Leia is a 25-year-old single mother of two children, ages four and six, and lives in Birmingham, AL

She works full-time in a low-wage job as a movie theater concessions worker.

As a low-income working mother, Leia receives public benefits and tax credits that are necessary to support herself and her family: food stamps, Medicaid for her children, Affordable Care Act subsidies, housing vouchers, childcare subsidies, the Child Tax Credit, and the Earned Income Tax Credit.¹



Leia has decided to become a certified nursing assistant (CNA), an entry-level job in the health care field. She wants to return to school eventually, earn a more advanced credential, and get a higher-paying job.

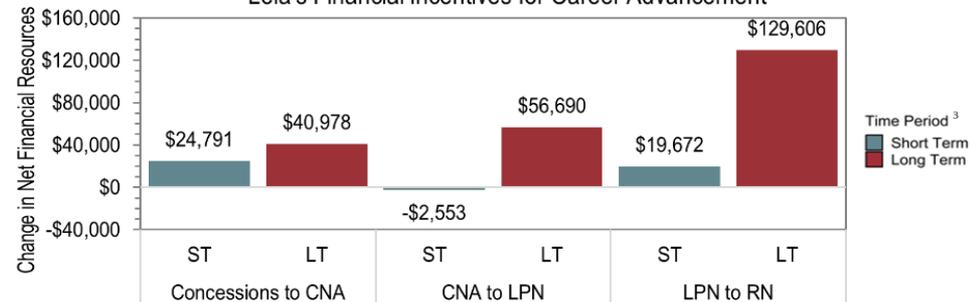
Does she have a financial incentive to continue up the health care services career pathway to become a licensed practical nurse (LPN) or a registered nurse (RN)?



Leia looks at her projected net financial resources and sees a discouraging picture.² A benefits cliff, or a loss in public benefits due to income exceeding eligibility thresholds, reduces her financial incentive for career advancement.

Over her lifetime, the gains to career advancement are large and significant. She would earn **\$41,000** more as a CNA and **\$57,000** more if she then advances to an LPN compared to the concessions job. In addition, the long-term incentive to become an RN is significant—she would earn about **\$130,000** more as an RN. Workforce development policies that support this career advancement have the potential to provide significant value to Leia. As the next page shows, the taxpayer benefits as well.

Leia's Financial Incentives for Career Advancement



1. We assume Leia receives all listed public benefits and tax credits. In practice, due to waiting lists, difficulties in applying and determining eligibility, and other reasons, few Americans qualify for and receive all these benefits.

2. Net financial resources are calculated as the sum of income and public benefits minus basic living expenses and taxes. Basic living expenses include estimates of food, housing, childcare, and health insurance based on location, household size, age of family members, and type of health insurance.

3. Short-term includes ages 25 to 33, while her children are in daycare. Long-term includes ages 25 to the end of life.

Application 3: A Guide for Public Policy

Example handouts

Career-Advancing Policies Can be a Good Investment for the Taxpayer

A Policy View of Leia

Helping Leia ascend up the health care services career pathway affects government finances in two ways.

First, higher earnings allow her to support her family with less taxpayer-funded benefits.

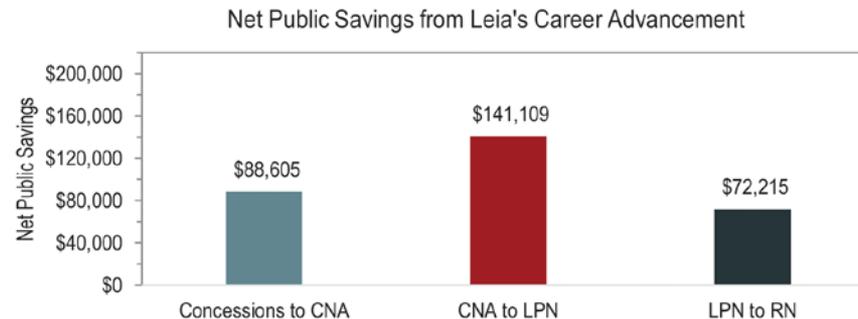
Second, having higher earnings means Leia pays more taxes to the government.

Combining both, how much does the taxpayer save when she advances to higher-paying occupations?

The net public savings to the taxpayer (tax revenue minus public benefits expenditures) from career advancement are significant.

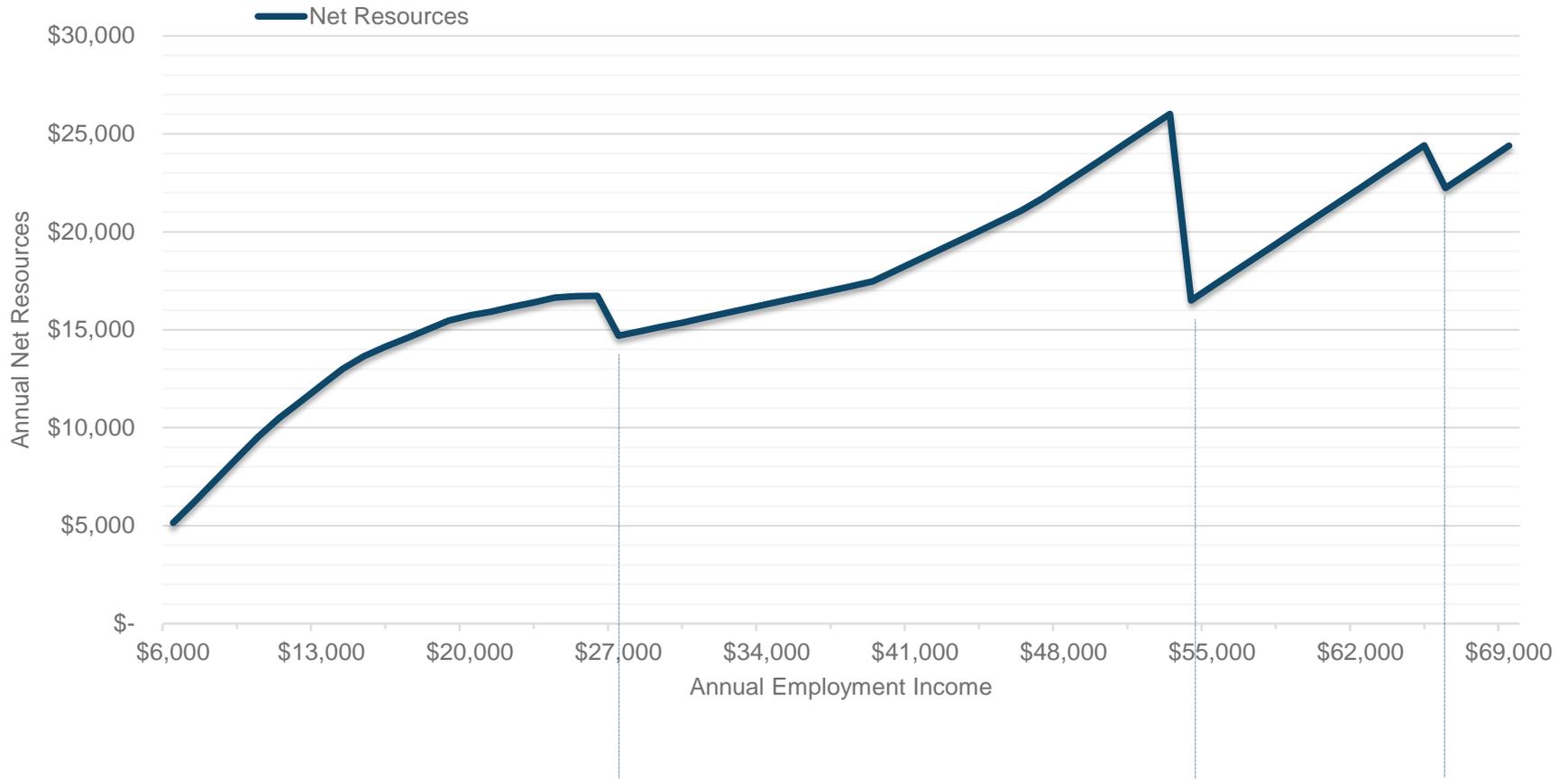
The chart below shows the incremental gain to the taxpayer for each occupational transition. At every stage, the taxpayer gains. In total, when Leia advances from a concession worker to an RN, the savings to the taxpayer is approximately \$302,000.⁴

In summary, policies that support the advancement of low-wage workers like Leia can be a net gain for the worker and for the taxpayer.



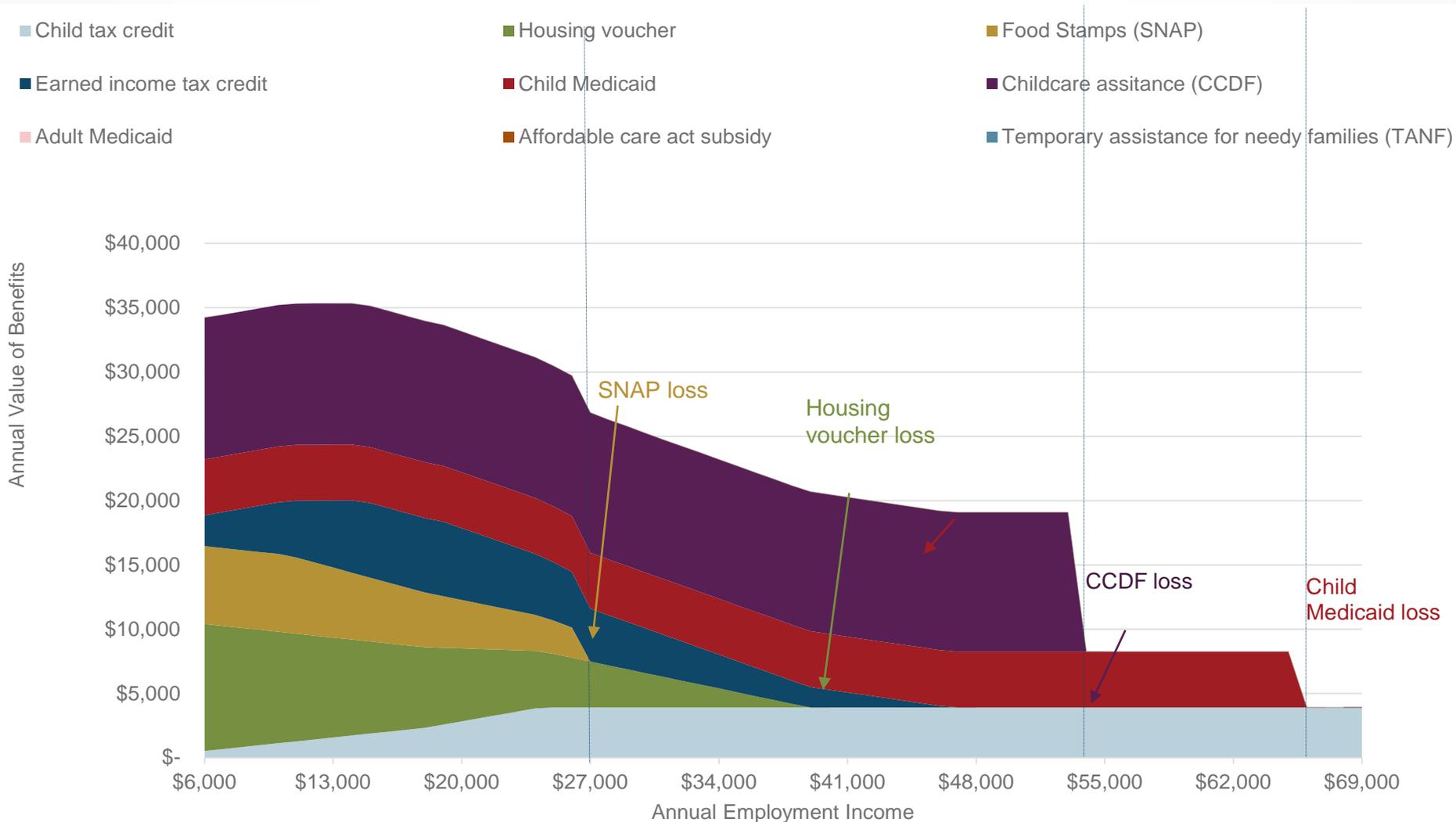
4. These net public savings calculations are specific to the assumptions of Leia's situation.

Explaining the Cliffs



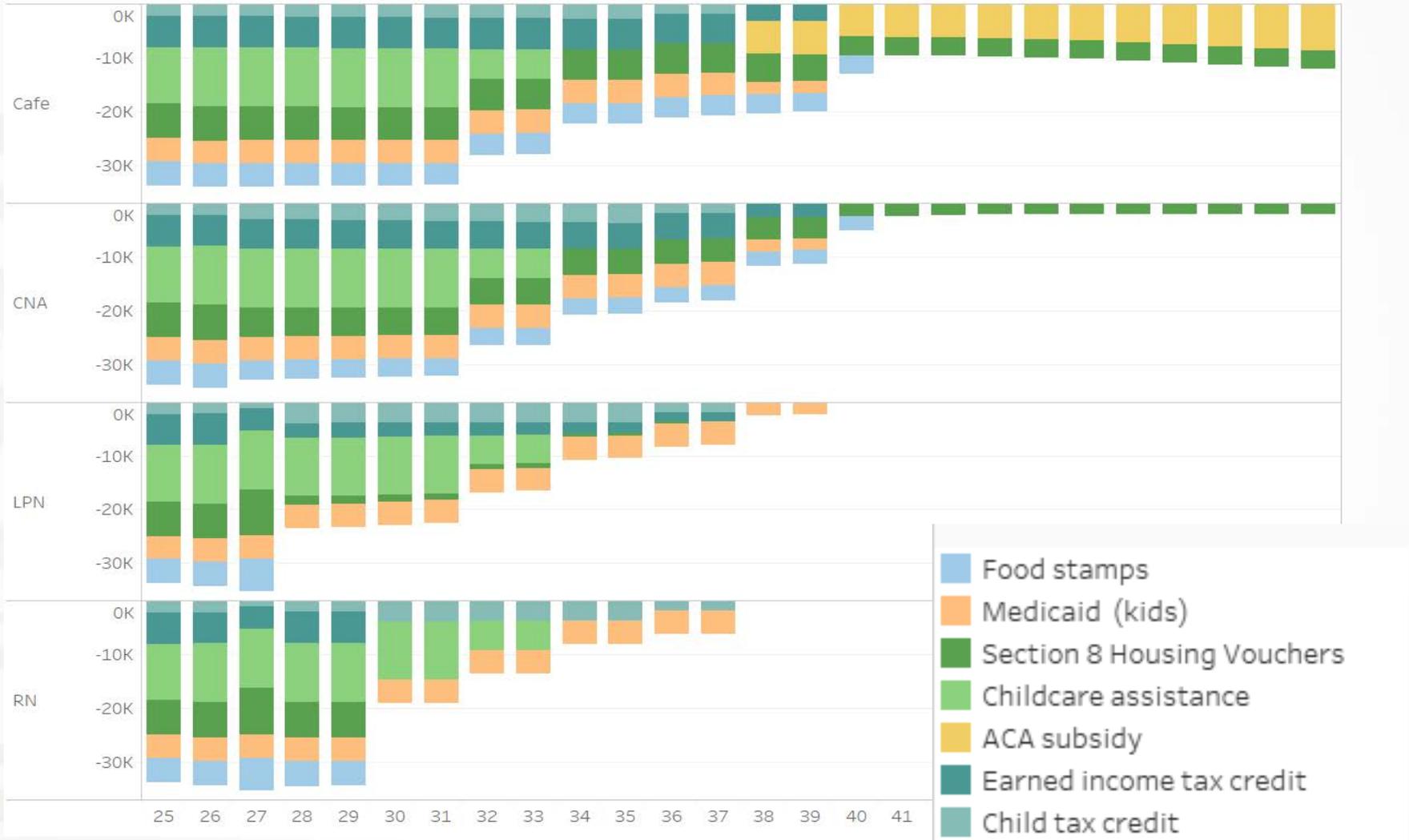
Source: The Fiscal Analyzer (see <https://kotlikoff.net/wp-content/uploads/2019/03/Online-appendix-6-5-19-.pdf>)

Explaining the Cliffs



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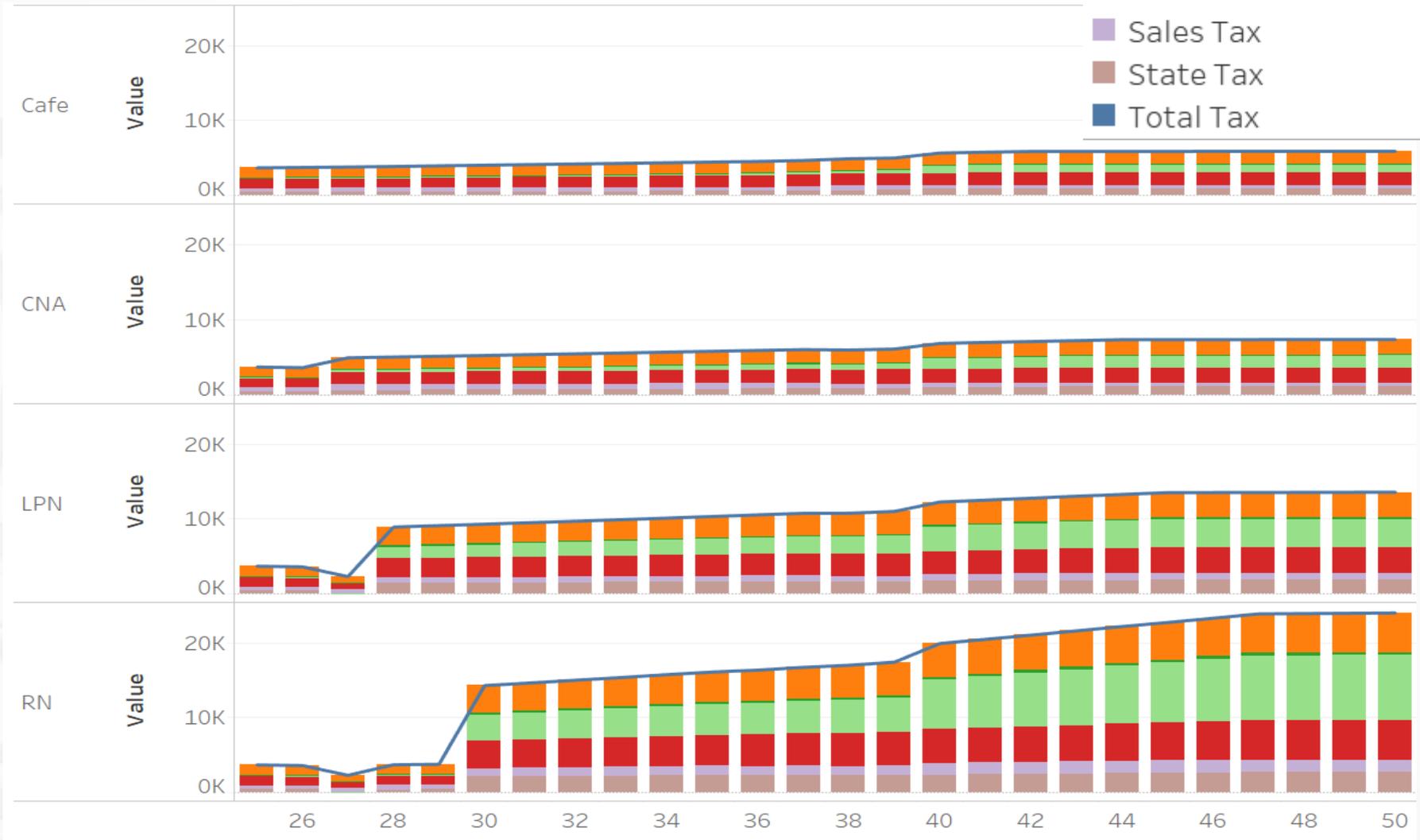
Value of Government Benefits by Year and Career Path



Source: The Fiscal Analyzer (see <https://kotlikoff.net/wp-content/uploads/2019/03/Online-appendix-6-5-19-.pdf>)

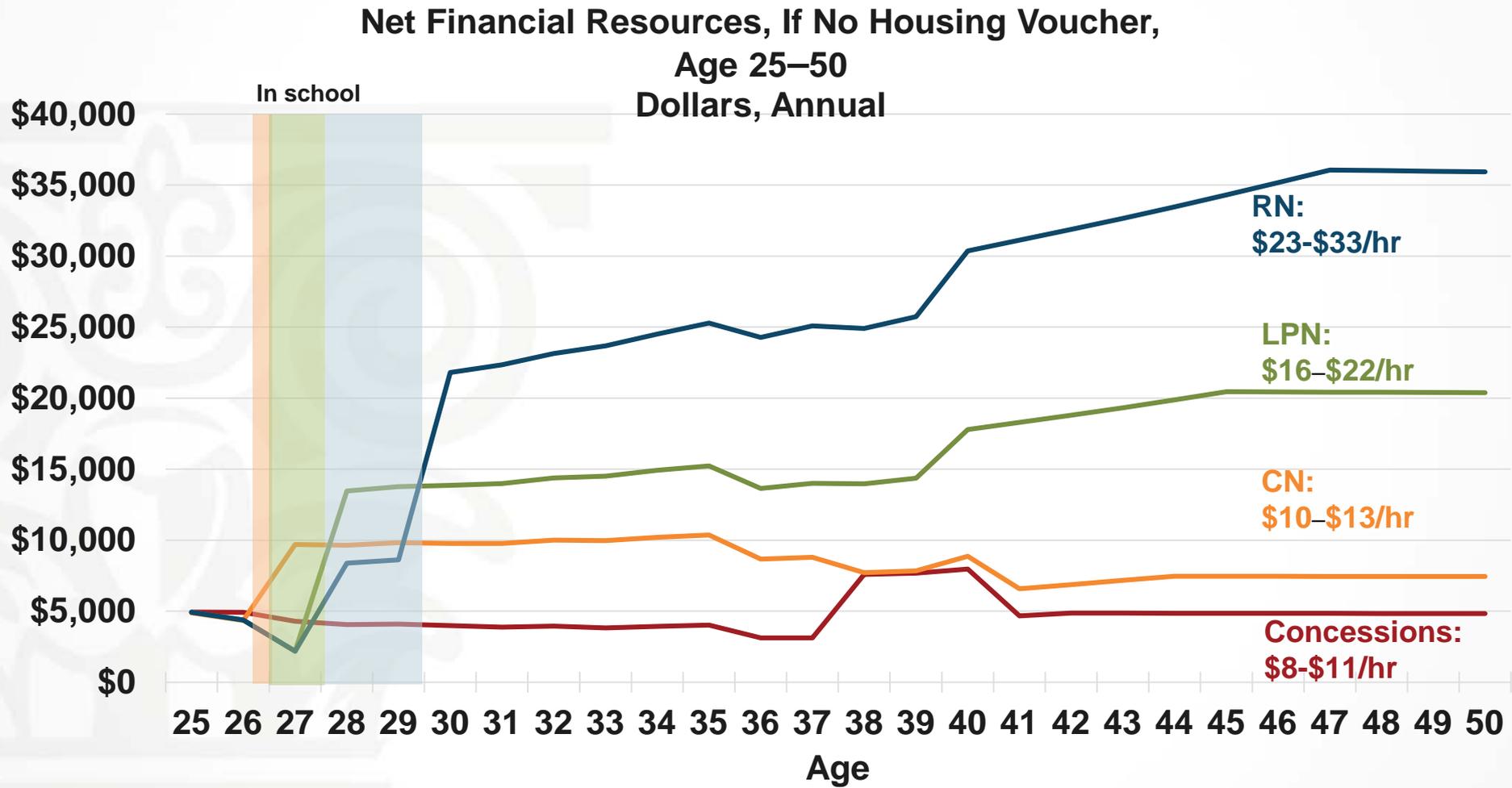
Taxes by Year and Career Path

- Employer Paid Tax
- Federal Excise Tax
- Other Federal Tax
- FICA Tax
- Sales Tax
- State Tax
- Total Tax



Source: The Fiscal Analyzer (see <https://kotlikoff.net/wp-content/uploads/2019/03/Online-appendix-6-5-19-.pdf>)

Net Financial Resources—No Voucher



Source: The Fiscal Analyzer (see <https://kotlikoff.net/wp-content/uploads/2019/03/Online-appendix-6-5-19-.pdf>)