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PAYING IT FORWARD

ADAPTING THE CAREER IMPACT BOND INTO A PUBLIC POLICY TOOL

/ TRACY PALANDJIAN /

We're all wrestling with the complex, painful lessons of the pandemic. Among them: We need better, faster, and more agile mechanisms to train the workforce of the future.

The economic recovery requires new thinking to reinvigorate economic opportunities, close intransigent skills gaps, and strengthen American competitiveness. At the time of printing, BLS' latest monthly data reported 10.1 million open

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jobs nationwide, an all-time high.¹ We need to make smarter investments in people to help open doors and enable those who have been disenfranchised and overlooked get new skills and better jobs. And we need to do so while closing the racial and gender gaps that persist throughout the workforce, rebuilding pathways to economic mobility and ensuring that they're available to everyone.

INVESTING IN PEOPLE

Reshaping the economy is a generational effort—and an urgent task.

We know that jobs—and companies—go where talent is available. And yet we also know that millions of jobs remain unfilled due to the skills gap.²

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¹ "Job Openings and Labor Turnover Survey," U.S. Bureau of Labor Statistics, August 9, 2021, www.bls.gov/jlt.

² "Social Finance: Trainers Make the Grade When Students Get Good Jobs," April 8, 2021, in *Managing the Future of Work*, Harvard Business School, podcast, Libsyn audio, 31:12, www.hbs.edu/managing-the-future-of-work/podcast/Pages/podcast-details.aspx?episode=18645182.

To harness all of this potential, we need to rethink the way we pay for training.

INNOVATING WITH CAREER IMPACT BONDS

Today, students bear nearly all the risk that comes with pursuing career education and training. They take out loans, pause full-time jobs, and bet it all on higher wages in the future. Even if a good job doesn't come through, the burden of student debt remains unabated. Despite standard 10-year federal repayment plans, it typically takes twice that to pay off a bachelor's degree.³ As of 2020, 45 million Americans collectively owed nearly \$1.6 trillion in student loan debt, of which \$86 billion is held by Americans over 60 years of age.⁴

New ways of paying for workforce training can help redistribute that risk and align stakeholders around student success. We can fix part of what's wrong with how we finance education and training while strengthening student supports and protections.

That's the idea behind the Career Impact Bond (CIB). It's a holistic financing model that brings together income share agreements and wraparound support to ensure that people who face barriers to education and employment are able to upskill and find good jobs in our changing economy. In a CIB, there's downside protection for learners. CIBs pay for the cost of the training programs and wraparound services on behalf of the student; students then pay back the costs over time as a percentage of their wages—only if they get and keep jobs at salaries above a certain

³ One Wisconsin Institute, *Survey Results: Impact of Student Loan Debt on Homeownership Trends and Vehicle Purchasing*, June 13, 2013, <https://onewisconsinnow.org/institute/research/impact-of-student-loan-debt-on-national-economy>.

⁴ Zack Friedman, "Student Loan Debt Statistics in 2020: A Record \$1.6 Trillion," *Forbes*, February 3, 2020, www.forbes.com/sites/zackfriedman/2020/02/03/student-loan-debt-statistics.



This is a model that's intended to eliminate barriers to access. Most loans use credit scores as the primary eligibility factor. Career Impact Bonds, by contrast, tie access to potential.

threshold. Repayment is capped at a certain dollar amount and duration, and a Student Bill of Rights ensures that all parties are committed to student protections.

This is a model that's intended to eliminate barriers to access. Most loans use credit scores as the primary eligibility factor. CIBs, by contrast, tie access to potential. This helps more people—especially people with limited financial assets and limited professional experience—get the skills they need to find good jobs and better wages.

And CIBs go beyond covering tuition. They don't just help get people into training; they also help students get through it. When it comes to access, persistence, and completion, financial barriers are just one part of the problem: Students also need food and housing security, child care, and transportation. CIBs start with the problem and then design customized student-centered solutions—such as emergency aid funds, case managers, transportation subsidies, even living expense coverage—to maximize students' ability to succeed.

Training providers, at the same time, have skin in the game. They are not paid based on how many students enroll; they are paid when students attain and maintain employment. Through a deferred fee structure, funding to training providers is tied to student outcomes. If learners get into good jobs, everyone wins.



Career Impact Bonds can adapt to local priorities: supporting people leaving incarceration, or the long-term unemployed, or people living in neighborhoods still dealing with the legacy of redlining. And they can focus on industries of the future—careers that align with economic development goals and employer needs.

PAYING IT FORWARD

The first CIBs have been backed by impact investors. What if—in addition to the private sector—states and local governments invested in Career Impact Bonds?

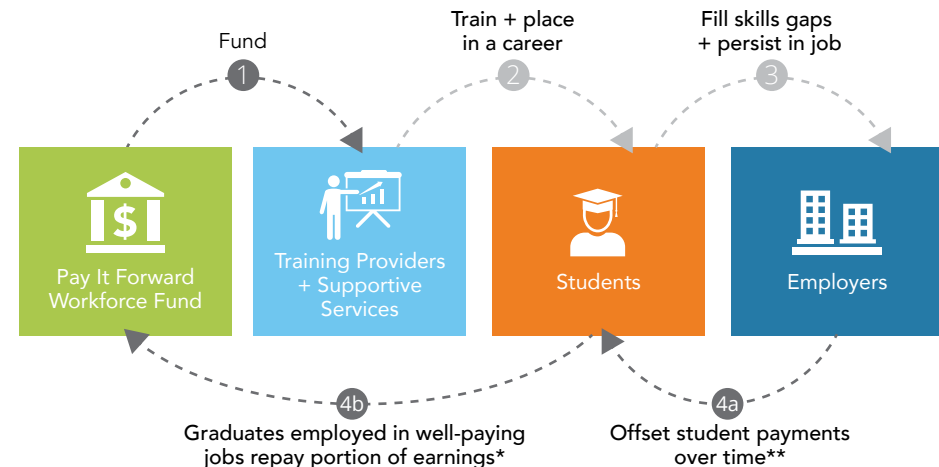
Governments’ economic and workforce development mandates are broad and complex. They need to encourage job growth while helping constituents build the skills needed for those jobs—often in the context of tight budgets.

Career Impact Bonds, designed and funded by the public sector and philanthropic partners, can bolster these twin mandates. CIBs can adapt to local priorities: supporting people leaving incarceration, or the long-term unemployed, or neighborhoods that have a legacy of redlining. And they can focus on industries of the future—careers that align with economic development goals and employer needs. Meanwhile, CIBs create both funding sustainability and accountability for outcomes, aligning workforce funds with long-term student outcomes. If students are successful at getting into well-paying jobs, then their repayments will support future students.

We call these Pay It Forward Funds: publicly backed Career Impact Bonds and other income-based financing models that recycle funds based on the employment outcomes of students.

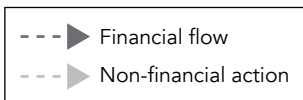
In the fall of 2020, New Jersey became the first state to announce the development of a Pay It Forward Fund.⁵ At the time of publication of this book, Ohio and several other states, supported by local philanthropies and United Ways, have similar efforts underway.⁶ Most blend public, philanthropic, and corporate funding to invest in resilient, high-demand fields, such as clean energy, information technology, advanced manufacturing, and health care. These are jobs of the future—jobs that offer a pathway to the middle class and that will continue to drive our evolving economy.

FIGURE 1
Pay It Forward Fund Overview



*Graduates earning over a particular income threshold repay a fixed percent of their income over a fixed duration or until they reach a payment cap. To align incentives around job placement, a portion of training providers’ costs could be deferred and be part of the students’ repayments.

**Where appropriate, employers may choose to repay the Pay It Forward Workforce Fund directly for placement and retention outcomes.



⁵ Tom Bergeron, “Murphy to Propose Pay It Forward Fund during Budget Address,” *ROI-NJ*, February 23, 2021, www.roi-nj.com/2021/02/23/finance/murphy-to-propose-pay-it-forward-fund-during-budget-address.

⁶ Steve Lohr, “Job Training That’s Free Until You’re Hired is a Blueprint for Biden,” *The New York Times*, April 7, 2021, www.nytimes.com/2021/04/07/business/job-training-work.html.



All Pay It Forward Funds focus on getting more people into well-paying jobs while aligning incentives and fairly sharing the costs and risks of training.

This model creates a sustainable, outcomes-focused approach to workforce training that benefits all stakeholders. State and philanthropic funders can achieve policy goals, ensure accountability for results, and maximize the financial sustainability of their funds. Students can access new, promising training programs without taking on undue risk: If they don't get a job that pays at least the minimum income threshold, they do not have a repayment obligation. Training providers' incentives are aligned with those of learners: They get flexible, multiyear growth capital to scale up training but recover all their costs only when learners graduate and earn good wages. Employers, for their part, can access reliable pipelines of skilled, diverse workers, filling talent gaps while improving retention.

The model offers flexibility for partners to adapt specific terms to meet their objectives and constraints. For example, some companies contribute to tuition repayment on behalf of their employees, strengthening retention. Each Pay It Forward Fund has its own eligibility criteria, and repayment terms vary across programs and industries. All Pay It Forward Funds focus on getting more people into well-paying jobs while aligning incentives and fairly sharing the costs and risks of training.

Importantly, the CIB can contribute to a more equitable recovery. Nationwide, accelerating changes in the nature

of work have put disproportionate strains on people of color, people in low-wage jobs, and those with lower educational attainment. If we don't act, people bearing the brunt of the pain throughout the pandemic will continue to be the first to suffer and last to recover.

NEW TOOLS FOR A MORE RESILIENT AND EQUITABLE WORKFORCE

As we look toward economic recovery, the urgency to reinvigorate and reimagine our workforce system has never been greater.

Through Pay It Forward Funds, New Jersey, Ohio, and other states will invest in tens of thousands of low-income individuals—helping them access effective training programs and wraparound supports, succeed, and secure well-paying jobs in high-demand, growing industries. This is part of how we renew our social contract to restore economic mobility, build economic resilience, and shape a more equitable nation.



Tracy Palandjian is CEO and co-founder of Social Finance, an impact investing and advisory nonprofit that builds innovative partnerships and investments to measurably improve lives. For more than a decade, she has led the development of innovative financing tools such as the Social Impact Bond and the Career Impact Bond. Prior to Social Finance, Palandjian worked at McKinsey & Company, Wellington Management Company, and The Parthenon Group.