INTRODUCTION

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Finding a place in the middle class is harder than ever. Talent—including among youth, people of color, immigrants and refugees, and the currently and formerly incarcerated—remains sidelined.[1] Employment for those with lower levels of education consistently proves more reactive to economic conditions and more fragile in times of downturn.[2]

Economic mobility continues its dramatic, decades-long decline.[3] Ninety million working-age American adults have

[1] U.S. Bureau of Labor Statistics, "Labor Force Statistics from the Current Population Survey," October 1, 2018.

[2] U.S. Bureau of Labor Statistics, "Unemployment Rates for Persons 25 Years and Older by Educational Attainment," accessed March 19, 2021, www.bls.gov/charts/employment-situation/unemployment-rates-for-persons-25-years-and-older-by-educational-attainment.htm.

[3] Raj Chetty, et al., "The Fading American Dream: Trends in Absolute Income Mobility Since 1940," *Science*, April 28, 2017, 398–406.

no credential beyond a high school diploma.[4] There are middle-skill jobs waiting for them: 52% of all jobs require training beyond high school but not a four-year degree, whereas only 43% of workers fall into this category.[5] A generation lost to the Great Recession is stuck in low-paying, entry-level roles with no clear path to career progression because they can't afford the training needed for a better life—and because the resources to help them access such pathways have become scarcer.

Something is amiss in the architecture of workforce funding. For all of the confident predictions we see about the future of work, the humbling reality is that there's real uncertainty in workforce preparation.[6] America faced declining economic mobility and a growing skills mismatch before the pandemic; as the economy transforms, that uncertainty grows. With it comes financial risk: We—students, employers, public workforce developers, our collective society—don't always know which investments will pay off.

Often, those risks—instead of being shared—are shouldered disproportionately. Within our current system, individual actors—often those with the least access to information and the least financial resilience—are asked to take on all of the system's risks.

Students bear nearly all the risk that comes with pursuing postsecondary education and career training. They take out

[4] Lumina Foundation, *Strategic Plan*, September 2020, www.luminafoundation.org/wp-content/uploads/2020/09/lumina-foundation-strategic-plan-2020.pdf.

[5] National Skills Coalition, "Skills Mismatch: Lack of Access to Skills Training Hurts Workers and Businesses," accessed March 19, 2021, www.nationalskillscoalition.org/wp-content/uploads/2020/12/US-Skills-Mismatch-Fact-Sheet-2020.pdf.

[6] Ron Haskins and Jon Baron, *The Obama Administration's Evidence-Based Social Policy Initiatives: An Overview* (Brookings Institution, June 2016), www.brookings.edu/wp-content/uploads/2016/06/04_obama_social_policy_haskins.pdf. The authors noted, "When evaluated in scientifically rigorous studies, government-funded social interventions in areas such as K-12 education, job training, crime prevention, and poverty reduction are frequently found to be ineffective or marginally effective. Interventions found to produce sizeable, sustained effects on important life outcomes do exist, but tend to be the exception."

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loans, often leave their jobs or reduce their hours, and bet it all on earning higher wages in the future. Even if a good job doesn't come through, student debt remains. Despite standard 10-year federal repayment plans, a One Wisconsin Institute study found that, on average, it took twice that to pay off a bachelor's degree.[7] Americans over the age of 60 owe $86 billion in student loan debt.[8]

Governments, similarly, take on nearly all of the risk of their workforce programs. They draw public funds, pick local programs that they hope will be effective, and bet that those programs will lead to better wages for participants, a stronger local economy, and more equitable wealth distribution. Programs are rarely evaluated carefully, so when they succeed, we often don't know.[9] When they fail, we pay for them anyway.

[7] 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.

[8] AnnaMaria Andriotis, "Over 60, and Crushed by Student Loan Debt," *The Wall Street Journal*, February 2, 2019, www.wsj.com/articles/over-60-and-crushed-by-student-loan-debt-11549083631.

[9] The White House Council of Economic Advisers, *Government Employment and Training Programs: Assessing the Evidence on Their Performance*, June 2019, https://trumpwhitehouse.archives.gov/wp-content/uploads/2019/06/Government-Employment-and-Training-Programs.pdf. The report found, "Among the training programs with available data and rigorous impact studies, the evidence shows that most government training programs are not effective at securing higher paying jobs for participants."

Designing a new system from scratch would naturally involve realigning incentives: making sure that training institutions and student debt providers have a stake in student outcomes, that government workforce programs grow or shrink on the basis of their performance, that employers pay their fair share for skilled workers but only pay when it actually meets their needs.

PAYING FOR RESULTS

That kind of redesign is in progress. A new breed of cross-sectoral partnerships is emerging. These partnerships are characterized by shared and carefully apportioned financial risks and incentives; by carefully defined accountability; and by empowered, interconnected governance.

For several decades, policymakers and scholars have been intrigued by the idea of paying for outcomes achieved rather than paying for services delivered. Their experiments suggest both promise and caution. In "Buying Outcomes: Lessons from the Past," former Speaker of the House Paul Ryan highlights three troubled federal forays into performance-based contracting: the Job Training Partnership Act (1982), the Ticket to Work and Work Incentives Improvement Act (1999), and Physician Pay-for-Performance (2005). These programs teach us about traps to avoid: how to ensure programs don't drift away from serving vulnerable individuals, stay squarely focused on long-term successes, and build evaluation designs that avoid creating perverse incentives. Lessons from these programs have informed a new wave of federal outcomes-based contracts, culminating in the Social Impact Partnerships to Pay for Results Act (2018). They have also informed thoughtful state- and local-level innovations, such as the outcomes rate card that former Connecticut Office of Early Childhood Commissioner David Wilkinson discusses in "A Whole New Menu: Outcomes Rate Cards in Practice" and a results-based financing agreement between San Bernardino County and First Step Staffing profiled in "Money-Back Guarantee: A Staffing Agency for the Social Sector" by First Step CEO Amelia Nickerson and San Bernardino Human Services Assistant Executive Officer CaSonya Thomas.

When it comes to designing the future of innovative finance, it's important to start from the past. In "The Emergence of Income Share Agreements," Dubravka Ritter and Dr. Douglas Webber address the pitfalls encountered by the first income share agreements (ISAs). In the 1960s and 1970s, universities including Duke, Harvard, and Yale attempted to structure income-contingent tuition repayment arrangements, but each ran into trouble. As the government's student loan portfolio ballooned, economic uncertainty has made students more reluctant to take on debt and stakeholders have sought to tie education and training more closely to workforce outcomes, leading to the emergence of a new set of ISAs. This book highlights ISAs that have emerged over the past decade and incorporate the lessons of the past, including those led by Purdue University, General Assembly, and San Diego Workforce Partnership, and emerging concepts from the state of New Jersey and elsewhere. Former U.S. Federal Deposit Insurance Corp. (FDIC) Chair Sheila Bair and Preston Cooper reflect in "Consumer Protections for Income Share

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Agreements" that the rapidly expanding market of ISAs has generated the need for robust consumer education, downside protections for students, and potentially federal legislation to guide market development.

SHARING RISK AND IMPROVING ACCESS

For generations, a degree from an accredited higher education institution represented a ticket to a good job and the middle class. More than a third of students who enroll in four-year programs do not earn their degree within six years, and two-thirds of students who enroll in two-year programs do not earn their degree within three years.[10] Even for those who do complete successfully, the degree is no longer a guarantee. Some degrees don't pay—and some students graduate into a recession and cannot find a good job. At the same time, there have emerged an ever-growing number of innovative pathways to good jobs. The challenge remains that many of these alternative pathways lack sustainable financing mechanisms to enable students to participate without risking hefty debts and, potentially, no job.

The new training economy will offer a wider array of industry-recognized credentials and fast, low-cost pathways to good jobs—and they will ask every stakeholder to contribute. General Assembly CEO Lisa Lewin and Vice President of Social Impact and External Affairs Tom Ogletree discuss new ways to radically improve accessibility of programs to students without capital or credit. Chancellors Michael Reeser of Texas State Technical College (TSTC) and Glenn DuBois of Virginia Community College System (VCCS) address mechanisms of realigning incentives. In "Going All In: Linking Funding to Outcomes at Texas State Technical College," Chancellor Reeser describes TSTC's transition to a funding formula

[10] National Center for Education Statistics, *The Condition of Education: Undergraduate Retention and Graduation Rates*, April 2020, https://nces.ed.gov/programs/coe/indicator_ctr.asp.

based 100% on student workforce outcomes and how that change revolutionized the institution's culture and offerings. In "FastForward: Tripling Credentials by Sharing Risk and Responsibility," Chancellor DuBois highlights a risk-sharing partnership among students, the Virginia state government, and VCCS to help more students access training for hundreds of in-demand credentials.

GOING BEYOND ACCESS

It is nearly impossible to build and sustain a career without a safe place to live, decent health care, dependable care for children and elders, and social support. Workforce programs have traditionally only funded training costs. This volume presents diverse models for how training providers, employers, and social service agencies can align their incentives and address people's needs. Dr. Zia Khan of the Rockefeller Foundation, in "Save on Retention, Build Equity," proposes retention-based contracts in which employers partner with a social service agency to help employees solve problems outside the workplace. As part of its Career Impact Bond, General Assembly makes a variety of wraparound support services available to students, including an emergency aid fund, to help students manage unexpected crises that could otherwise derail them.

TRACKING AND USING OUTCOMES DATA

To pay for outcomes requires a clear understanding of those outcomes. Many of the case studies in this book detail efforts to unlock administrative data—data that is being collected already, albeit often spread across multiple government sources—for use in measurement and continual improvement. For example, Chancellor Reeser details an agreement to ensure student privacy protections while enabling the integration of educational and workforce data, allowing the state to track student earnings five years

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following the student's departure from school. Former Commissioner Wilkinson illustrates how administrative data from multiple state agencies can be integrated to track program impact on housing, child welfare, and employment. And in "Governing for Results: Case Studies from Massachusetts," Massachusetts Secretary of Education James Peyser and Assistant Secretary Mark Attia highlight the centrality of a novel data-sharing mechanism to track participant earnings that enabled more reliable measurement of program impact for far longer than would be possible using a service provider or self-reported data.

BUILDING ADAPTIVE, COLLABORATIVE PARTNERSHIPS

Building joint, outcomes-focused contracts helps catalyze authentic and sustained collaborations. Through the book, we see examples of partnerships that go beyond transactional—that bring together agencies to identify solutions and react to real-time data. The partnership between San Bernardino County and First Step Staffing depends on frequent meetings, shared dashboards, and continual communication about individual clients. Similarly, Harvard Kennedy School Professor Jeffrey Liebman and U.S. Secretary of Commerce and former Rhode Island Governor Gina Raimondo, in "A Good Job at the End of Training: Rhode Island's Outcomes-Focused Approach to

Workforce Development," discuss how a revamped contract structure at Real Jobs Rhode Island catalyzed renewed interagency collaborations. Massachusetts Secretary of Labor and Workforce Development Rosalin Acosta and Assistant Secretary Mark Attia, in "Governing for Results: Case Studies from Massachusetts," describe the power of collaboration between federal, state, and city governments, and the ability of a robust governance process to enable adaptation to new circumstances.

ENCOURAGING EMPLOYERS TO UNCOVER HIDDEN TALENT BY MITIGATING RISK

Many of the case studies in this volume are focused on demonstration: on allowing nontraditional candidates or programs a chance to demonstrate potential. Resume screens often look for very specific qualifications and prior work experiences—sometimes categorically eliminating certain candidates, such as those who have criminal records. A number of innovators are taking a different approach by searching for hidden talent in people who might otherwise be overlooked.

General Assembly's Career Impact Bond intentionally shifts away from credit scores and other traditional means of assessing creditworthiness in an effort to unlock potential for those who otherwise wouldn't have access. Likewise, in "Derisking New Hire Training: A New Talent Model," Dr. Jeff Frey and Nicole Durham detail how Talent Path takes a similar approach, targeting groups traditionally underrepresented in the technical fields and paying them to go through intensive training. Employers, meanwhile, engage the trainees as consultants, with Talent Path remaining their employer of record. In this way, employers who might not consider a mission-related justification for revamping their hiring processes can tap into new sources of talent. As Tyrone Hampton Jr. and Ashley Putnam describe in "Rewiring Workforce Partnerships: Training Model Innovation in Philadelphia," Philadelphia Works has put in place another model focused on job retention, in which Comcast pays for a new source of talent only if placements stay employed for more than six months. This model opens doors for more employer-workforce partnerships to expand hiring and share financial risk between the private and public sector.

LOOKING FORWARD

As you read about the innovations in this book, we imagine that you will often ask, "So, did they work?"

The truth is, despite the long history of performance-based contracts detailed by former Speaker Ryan, these are still early days in the new wave of sophisticated, outcomes-based funding models. Many of the programs profiled here are in their nascent years.

Early data points suggest good reason for optimism. In the Massachusetts Pathways project, for example, results from fall 2020 suggest that the participants who were unemployed when they first enrolled earned $7,100 more in the second year after enrollment in the English for Advancement program, as compared with a control group. The FastForward initiative in Virginia has already yielded more than 19,000 credentials, and a recent survey of graduates found that wages increased by an average of $8,000. And since Texas State Technical College pivoted to outcomes-based funding, average first-year graduate earnings have climbed from $18,000 to $26,000. Throughout these cases, you will read participant testimonials about the ways in which the programs have helped people overcome challenging circumstances and move toward economic independence.

These are specific, targeted examples. But really, this is a book

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suggesting systemic reforms. In even the earliest examples we see progress: higher rates of engagement between service providers and beneficiaries, greater cross-agency collaboration, and savvier integration of data to understand impact and refine program design. We see partnerships that build flexibility and adaptiveness, enabling survival and innovation in the face of the unprecedented challenges presented by COVID-19, and giving partners the tools to embrace and act on feedback. Of course, flexibility comes with its own risks, too. In the absence of a compliance mindset, many of the collaborations we highlight have developed a more explicit focus on avoiding perverse incentives and ensuring consumer protections such as devising a student bill of rights, creating claw-back provisions, creating evaluation mechanisms resistant to gaming or fraud, and reducing the financial risk taken on by job seekers.

We have curated the cases in this book because they represent models. Though collectively they serve a tiny fraction of the Americans who could benefit, each is ripe for replication and scale.

We have also highlighted some ideas that challenge funders and policymakers to go further. Sir Ronald Cohen, in "Outcomes Funds for Economic Mobility," suggests the creation of economic mobility outcomes funds, vehicles to dramatically scale outcomes funding approaches and overcome state-federal "wrong pockets problems." Dr. Mark Rembert and Aiden Calvelli of the Center on Rural Innovation, in "Could Outcomes Funding Work in Rural America?," address ways to overcome longstanding barriers and bring outcomes-based funding to underserved communities in rural America. In "A Grand Challenge to Reinvent Workforce Development," Dr. Angela Jackson, managing partner at New Profit, introduces the Future of Work Grand Challenge, an effort to immediately place 25,000 workers displaced by automation and COVID-19 and ultimately reshape workforce development for 12 million Americans through innovation in workforce development.

Continued innovation around funding and outcomes will be needed to adapt to the pressure of technology change and address disparities in the labor market. Innovation requires cross-sector collaborations and data sharing; alignment surrounding goals and responsibilities; contracts that protect the interests of all parties; and an ongoing focus on results for workers, for employers, and for the economy.

We invite you to reflect upon how the cases presented in this book might relate to the needs of your communities and your organizations; to connect with us for support, resources, and ideas; and to act.