SOCIAL FINANCE INSTITUTE

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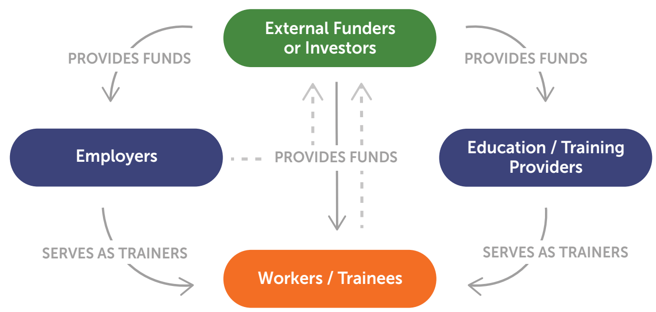
Lessons Learned

Financing Workforce Education and Training Through Outcomes-Based Repayments

This is an actionable companion resource to [Lessons Learned: Financing Workforce Education and Training Through Outcomes-Based Repayments] by Harry J. Holzer and David J. Socolow. It offers a practical framework for training providers, government officials, policymakers, employers, investors, philanthropic funders, and other stakeholders considering when and how to use outcomes-based repayment models to finance workforce skills training programs.

Outcomes-based repayment models can help fill real financing shortfalls in workforce training, especially for short-term and noncredit programs — which are often ineligible for federal student aid — and for nontuition costs that can be barriers to completing training. However, these financing models are not a universal solution. Their effectiveness depends heavily on the basic skills and work readiness of workers and their understanding of the terms of their repayment obligations, as well as training quality, employer demand, participant supports, administrative simplicity, and the issue of who is ultimately responsible for repayment. That means the practical question is not whether outcomes-based repayment approaches are good or bad in the abstract, but where these models can solve unmet workforce problems and what design choices will make these programs fair, understandable, and sustainable.

ISA/OBL Market Participants



Types of Repayment Financing Structures

ISAs *Income-Share Agreements*

ISAs enable workers to cover the costs of training over time by repaying a small percentage of their future income for a set period. The debt amount is not fixed: Payments stop at a date certain after exiting training or after reaching a limit on the total amount paid, and payments occur only if the worker earns above a set income level.

OBLs *Outcomes-Based Loans*

OBLs are loans with key borrower-friendly features: Repayment is required only when the worker earns above a set income level. The loans have fixed total balances owed, but payments are paused or forgiven if earnings stay below the minimum threshold.

Designing an Outcomes-Based Repayment Program

A central lesson of the full paper is that "outcomes-based repayment" is not a one-size-fits-all approach. The 33 programs reviewed by the paper's authors vary across several dimensions that shape whether they are appropriate for a given workforce challenge — and, crucially, what kind of support, oversight, and expectations they require to be effective.

First, the paper distinguishes two types of **repayment financing structures**: income-share agreements (ISAs) and outcomes-based loans (OBLs). These models can have significant variation in repayment terms, participant experience, and the types of costs covered.

The authors also highlight differences in **who provides capital**. The source of capital influences both the return expectations and the degree of flexibility available to protect participants or absorb risk. Some models rely on investors seeking market-level rates of return, while others are backed by impact-first investors, philanthropies, governments, or blended-capital structures that will accept lower or no returns. Students with greater needs for support might be more effectively served by programs supported by funders requiring lower financial returns.

Similarly, the question of **who operates the program** and **who is responsible for repayment** helps shape the incentive structure for the participating stakeholders. Programs may be run by nonprofit intermediaries, for-profit entities, colleges, training providers, or public sector actors. Repayment may come from workers, employers, or both — and that choice should reflect who benefits most directly from successful outcomes.

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Finally, the paper points to important design differences in **what the financing covers** and **what the repayment model is trying to achieve**. Some outcomes-based repayment arrangements cover tuition alone, while others also support living costs or wraparound services like counseling or child care. Some are intended to generate financial return, while others are designed to preserve or recycle capital in service of broader access.

Taken together, these design elements reinforce the paper's broader message: The relevant question is not which single model is best, but which structure best fits a given workforce challenge, participant population, employer context, and funding objective. The authors identify the following best practices:

- **Start with the workforce challenge — not the financing tool**. Use these models where they can potentially improve access, completion, hiring, retention, or alignment with employer demand. Recognize that outcomes-based repayment financing tools may not be well suited to training programs that typically place workers in very low-wage jobs (though they can be used in lower-paying jobs where training generates significant earnings growth for workers). They also might not be well suited for workers with barriers to employment or advancement.

- **Match the repayment structure to the source of value**. Employer repayment is often more promising where firms clearly benefit from successful hiring and retention, in labor markets with strong demand and where employers have difficulty finding/retaining skilled workers. In contrast, worker repayment requires especially strong safeguards and simplicity to prevent predatory lending practices or confusion among workers about their repayment obligations. On average, programs with employer repayment might have higher success rates in terms of loan repayment. Programs serving more highly skilled workers (such as those who already have a college credential) might have higher success rates as well and generate stronger returns.

- **Use public and philanthropic capital to buy flexibility**. Governments and charitable funders can offer grants and guarantees as financial backstops to absorb risk and give other investors incentives to participate in funding the programs. In addition, providing support for nontuition costs can make these models more equitable and more effective.

- **Keep the participant experience simple**. The full paper repeatedly points to the risks of complexity, confusion, and weak compliance when terms are hard to understand and workers' post-training earnings are difficult to verify.

- **Treat repayment outcomes as feedback**. Weak repayment by program graduates may indicate not just a servicing problem but also a deeper issue with training quality, job matching, supports, or unrealistic earnings assumptions. This indicator can serve as an early warning signal to spur course corrections to continuously improve the program.

Takeaways for Key Stakeholders

FEDERAL AND STATE GOVERNMENTS

- **Establish guardrails early.** The full paper underscores the need for clear disclosure, consumer protection, and oversight standards so that workers understand obligations and are not exposed to opaque or punitive repayment terms.
- **Target pilots where labor demand is strongest**. Rather than promoting broad, undifferentiated models, governments can target industry sectors to focus on fields with strong employer demand and advancement pathways.
- **Blend these models with public funding, not in place of it**. Outcomes-based repayment can complement Workforce Pell grants and other public investments, covering living expenses, wraparound supports, and/or training costs for programs with a remaining funding gap.
- **Require common metrics from the start**. Track completion, placement, earnings, retention, repayment, participant understanding, and subgroup outcomes from day one.
- **Rigorously evaluate a range of programs for different categories of workers and employers**. Evaluations should indicate which approach works best for different types of workers and various employer needs.

PHILANTHROPIC FUNDERS

- **Use capital to make models fairer and more testable**. Grants, guarantees, and other blended-finance structures can support innovation without pushing too much risk onto workers.
- **Support trainee success**. Wraparound supports covering living expenses, coaching, child care, transportation, and other services can all improve completion and labor market outcomes, even if they increase program costs.
- **Support experimentation where market-rate returns are not the goal**. Philanthropy is especially well positioned to back pilots designed to expand access, improve equity, and recycle capital over time rather than maximize capital recovery.
- **Insist on learning, not just launch**. New pilots should fund rigorous data collection and evaluation to test specific hypotheses about who benefits, under what conditions, and at what cost.

INVESTORS

- **Prioritize models with stronger recovery logic**. Employer-repaid models and simpler payment amounts may offer more promising risk-return profiles than relying on worker self-reporting and variable monthly payments.
- **Be explicit about return expectations**. Different models suit different investment objectives. Distinguish clearly among market-rate return, below-market impact return, capital preservation, and capital recycling.
- **Reduce avoidable friction**. Investors can improve performance by supporting simpler terms, better verification systems, and stronger alignment between repayment design and the source of economic value.

PROGRAM OPERATORS AND TRAINING PROVIDERS

- **Design for participant comprehension**. If participants cannot easily explain when repayment starts, how much is owed, and how long repayment lasts, the model is too complicated.
- **Build support services into program design**. Financing tuition alone is often not enough; completion and success may depend just as much on wraparound supports.
- **Use these models selectively**. Providers should select models that are more likely to fit programs that lead to measurable earnings gains and credible hiring pathways, rather than programs that result in persistently low wages.
- **Treat repayment data as a management tool**. Based on placement and repayment results, operators should adjust recruitment, supports, employer partnerships, and program terms.

EMPLOYERS AND INDUSTRY PARTNERS

- **Use these structures to solve hiring and retention problems**. Employer repayment makes the most sense where employers gain real value from improved recruitment or retention.

- **Work through partnerships where possible**. Sector-based or pooled approaches can reduce the burden on individual firms and spread risk across multiple employers.

- **Consider making repayments on behalf of workers hired from ISA or OBL programs**. Tie employer repayment agreements to the benefit realized by their business through increased retention of skilled workers that reduces the costs of turnover and hiring. Employers are often better positioned than workers to confirm payroll and retention milestones, which can improve reliability.

Conclusion

The central lesson from the paper is that outcomes-based repayment models are most effective when they are treated as targeted tools, not universal solutions. In practice, this means that stakeholders should distinguish among financing structures, sources of capital, operator models, repayment responsibility, and intended returns before deciding whether and how to proceed.

Those considering implementation — federal and state governments, philanthropic funders, investors, program operators, and employers — should focus on programs that target significant employer demand, offer strong job placement and earnings outcomes (or growth) for trainees, and include participant protections built in from the start. Employer repayment approaches, industry-wide sector partnerships, and wraparound supports may offer especially practical starting points, while pay-it-forward approaches that recycle capital may be particularly suited for expanding access and supporting experimentation. Rigorous evaluation of a variety of approaches for different worker and employer populations is critical to establish what works best and for whom.

Scaling the approaches that seem most successful for workers and employers will require some standardization of language and metrics, once we know more about the cost-effectiveness of different approaches for various categories of workers and employers.

READ THE FULL PAPER

Lessons Learned: Financing Workforce Education and Training Through Outcomes-Based Repayments

socialfinance.org/insight/lessons-learned-financing-work-force-education-and-training-through-outcomes-based-repayments/

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ABOUT THE INSTITUTE

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The Social Finance Institute, launched in 2023 by the national nonprofit Social Finance, advances the understanding and use of outcomes-driven financing and impact-first investing to measurably drive economic mobility. We develop and share actionable research and tools that show how capital can be put to work toward lasting social change.

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