



Formula 401(k) for Education?

IBM plans to launch employee-funded, company-matched learning accounts and is pushing the government to provide a tax break for contributions.

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Corporations have long enjoyed tax credits for reimbursing employees' tuition expenses for education related to their current job. But now, with the skills needed in the workplace changing seemingly by the month, whether that's sufficient is debatable.

And so, for the first time, a corporation is planning to provide a 401(k)-type program whereby employees could contribute to an interest-bearing education account. The account, which would be supplemented by company-paid matches, would be used for any professional skill development *not* related to the employees' existing job. And it's not just any corporation, but the one whose human-capital strategies arguably draw more attention than any other: IBM.

The rules: at the outset, the program will be just for U.S.-based employees, who must have five years of service to participate. They will be able to contribute up to \$1,000 a year from their pay, and IBM will match 50 cents on the dollar. (The company will continue spending \$600 million a year on tuition reimbursement for current-job enhancement.) Employees will decide what courses to take, though IBM has not yet defined what constitutes "professional skills." It has some time to figure that out, as the program doesn't launch until next July.

That will also buy time to overcome the big catch: getting the government to pony up a tax break for plan contributions, à la a 401(k). That ball is rolling, with legislation proposed by Rep. Rahm Emanuel (D-Ill.) and IBM mounting a lobbying effort.

"Now more than ever, workers must continually update their skills and seek any opportunity that allows them to develop abilities that will be valued by a wide range of employers," the congressman wrote to his colleagues in proposing the legislation. "Workers that invest and innovate in their own human capital will do well in a global economy. Unfortunately, many workers today don't have the resources to seek out new skills or opportunities."

The outlook for getting a bill introduced and perhaps passed in 2008 calls for at least modest optimism. "A lot of the Presidential candidates are promoting access and favorable financing for education, so this is clearly in the air," says Randy Harrison, managing director of Capital H Group, a Chicago-based human-resources consultancy.

IBM is thought to be the first company to offer an employee-funded education program with a company match, and because of its high profile, other companies will be watching closely for the outcome, adds Harrison.

IBM says its motives are corporate citizenship and providing another channel for workers' improvement. "For our employees to get an expanded skill-set to be effective in a global economy, we have to do more than the job-related spending," says Stanley Litow, vice president of corporate citizenship and corporate affairs. "People also need training for the jobs that may exist in the future."

Litow acknowledges that some employees might train themselves right out of the company, but says the assumption is that far more will prepare for new career paths within IBM. However, he says, the company will gladly support employees in any professional skill development direction they choose to take, including educating themselves for different careers.

Virtually everyone would agree the program is a positive development. But just how positive?

One interested observer likens it to such benefits as corporate concierges and pet insurance. "The average college course costs \$1,000, and most training courses are even more, so people might be able to take one a year," says Faith Ivery, president of Educational Advisory Services in Scottsdale, Ariz., which consults with companies on employee education. "It's a nice little perk, and there's nothing wrong with it, but if IBM thinks this is actually going to create a new set of skills for someone to move into a new job or develop intensified skills to take on new authority, they're wrong."

Emanuel apparently agrees. His legislative proposal calls for allowing employees to contribute up to \$2,500 annually. And the more money that's in the pot, the more people will be motivated to get educated. "People will reach a point where they decide they have to take some classes, so the money won't go to waste," says Dallas Salisbury, CEO of the Washington-based Employee Benefit Research Institute.

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