

Lifelong Learning Accounts

Summary of H.R. 6036

Lifelong Learning Accounts Act of 2008

What are Lifelong Learning Accounts?

As originally conceived and demonstrated by CAEL, Lifelong Learning Accounts (LiLAs) are employer-matched, portable educational accounts that workers can use to finance their education and training. LiLAs encourage a partnership between workers and employers to invest in education and training to help workers achieve their own career goals and meet the needs of business, industry and the nation.

What is the Lifelong Learning Accounts Act of 2008?

As introduced by Representatives Rahm Emanuel (D-IL) and Jim Ramstad (R-MN), this Act amends the Internal Revenue Code of 1986 to establish Lifelong Learning Accounts, providing an incentive to save for education and training.

The bill provides tax incentives to employees and employers that participate in the accounts. Eligible individuals may contribute up to \$2,500 annually into a Lifelong Learning Account. The account beneficiary would receive a refundable tax credit equal to 50% of the first \$500 contributed into his or her account and 25% of the next \$2,000 for the tax year in which the contribution was made (a total tax credit of \$750 for a \$2,500 contribution). The program targets the tax incentives to lower and middle-income earners. The principal and earnings in the Lifelong Learning Account would earn and grow tax-free. Distributions from the account would be included as gross income to the account holder. In addition, there is a 10% penalty for distributions for unqualified expenses. Any such penalty is waived if the account holder had reached 71 years of age.

Employers have the option to match workers' Lifelong Learning Account contributions. Employer contributions will not be considered as income to the employee. Employers of all sizes would be eligible for a tax credit of 25% of contributions to an employee's account. The total amount of employee and employer contributions cannot exceed \$2500 per year. In addition, small employers with 100 or fewer employees would be eligible for a tax credit of 50% of qualified start up costs to administer the first three years of a LiLA program up to total credit of \$500 per taxable year.

How can workers use their LiLAs?

An individual can use the funds in his or her account at any time, and funds can be used for education or courses of instruction (including training and apprenticeship programs) for the account beneficiary or the account beneficiary's spouse, including tuition, fees, books, equipment, information technology devices, and supplies required for such course or education.

How are LiLAs different from other educational tax benefits such as the Coverdell Education Savings Accounts (ESA), Section 529 college savings accounts, Section 127 employer tuition assistance, the tuition and fees deduction, and the Hope Scholarship and Lifetime Learning Tax Credits?

LiLAs are "gap fillers" and do not substitute for any existing tax-favored education savings programs or student financial assistance programs including Pell Grants, or other federal or state education grants. For example:

LiLAs target adults. The Coverdell ESAs (formally Education IRAs) require contributions to be made before the beneficiary turns 18 years old and expire when the beneficiary turns 30. In contrast, LiLAs benefit individuals from 18-70 years of age.

LiLAs leverage a matching contribution from employers. They are the only educational tax benefit for which employers can provide a match to employee contributions.



"Without highly-skilled, highly-educated workers, it won't matter whether we put up walls or hammer out new trade agreements. And without the skills to compete with emerging competitors from abroad, millions of Americans will be consigned to the bottom rungs of the new economy - without the hope or opportunity for advancement that is the cornerstone of our democracy."

U.S. Representative
Rahm Emanuel (D-IL)





LiLAs promote education and training for all working Americans. In contrast, Individual Development Accounts generally are targeted toward limited to very low income individuals and can be used for home ownership, business development and vehicle purchase.

LiLAs are portable and can even be used during periods of unemployment. Unlike Section 127 employer tuition assistance benefits, LiLAs are owned by the individual worker. If s/he terminates or changes employment, the worker still owns the assets and can continue to contribute to, spend from, and manage the fund, even if s/he is no longer employed.

LiLAs are a better fit for working adults' college enrollment needs. Unlike the Hope Credit or the Coverdell ESA, LiLAs do not require an individual to enroll in college at least half-time to be eligible. As a significant portion of working adult students attends college less-than-half-time, this is an important feature.

LiLAs cover more education and training costs than other education tax benefits. Unlike the tuition and fees deduction, the Hope Credit, and the Lifetime Learning Credit which are limited to tuition and certain related expenses only, LiLAs can cover a wider array of educational expenses. LiLAs also can be used for a broader range of educational courses and programs than Coverdell ESAs, Section 529 college savings accounts, Section 127 employer tuition assistance benefits, or the Hope and Lifetime Learning Credits.

LiLAs provide a tax benefit to workers as they save for postsecondary education, front-loading the benefit. Unlike the tuition and fees deduction, the Hope Scholarship Tax Credit, and Lifetime Learning Tax Credit that provide a tax benefit after a worker has paid for and taken courses, LiLAs provide a credit on the contributions toward future education and training, creating an incentive to build savings for education and reducing the high barrier-to-entry posed by tuition and fees.

How are LiLAs different from other workforce training accounts such as Individual Training Accounts (ITAs) and Career Advancement Accounts (CAAs)?

LiLAs complement and address gaps in the public system's financing for education and training. There are several ways in which LiLAs differ from and complement ITAs and CAAs including:

- » **LiLAs leverage private investment in education and training from workers and their employers.** LiLAs are funded by contributions from individual workers with matches from their employers - all private dollars. ITAs and CAAs, however, are funded entirely with public dollars.
- » **LiLAs are owned by individuals, promoting savings and asset building.** Under the LiLA model, workers contribute to and own their accounts, which promotes a personal investment in education, training, and career advancement. This investment is maximized through leveraged employer dollars. In contrast, ITAs and CAAs are public funds distributed through the public workforce system and are not owned by individuals.
- » **LiLAs are universal.** As designed, LiLAs can be opened by any eligible incumbent worker. Given the limited public funds available for worker education and training, ITAs and CAAs are unlikely to be universal.
- » **LiLAs are meant to provide financing for education and training over one's lifetime.** The LiLA design addresses the reality that workers will need to continually "skill up" and may need to retrain in order to access and keep good jobs. In contrast most state and local policies limit individuals to just one ITA. Also, as proposed, CAAs will be restricted in duration.
- » **The LiLA model includes education and career advising to help individuals make informed choices about their learning plans.** In contrast, current information on CAAs indicates that they do not provide education and training advising.

In summary, LiLAs are similar in concept to 401(k) accounts, but the funds can be used for education and training throughout one's lifetime. The ultimate vision is that LiLAs will become a standard offering in employee compensation packages, putting money for education and training within reach of every American worker.

"These innovative accounts will empower workers to save for the education and training they need to succeed and thrive in our economy," said Rep. Jim Ramstad (R-MN)

For more information visit www.thomas.gov and select 110th Congress and search for bill number H.R. 6036.

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