

A PROMISING MODEL OF FINANCIAL RISK-SHARING

THE AARP FOUNDATION UPSKILLING INITIATIVE

/ **CLAIRE CASEY** AARP FOUNDATION

Investing in training has proven benefits for employers and employees alike: Employers improve retention and productivity while employees gain skills and opportunities for career advancement and wage gains. Unfortunately, small and medium-sized enterprises (SMEs), which account for 46% of U.S. private sector jobs,³⁹ often lack the resources to provide formal training programs like those available at large corporations. Meanwhile, older workers, who constitute 33% of the U.S. workforce today,⁴⁰ tend to be left out of training opportunities which are predominantly directed toward younger workers.

AARP Foundation's Upskilling Initiative sought to address the unmet demand for upskilling — defined as on-the-job training to improve specialized skills — on both sides. The initiative tested SMEs' willingness to commit to guaranteed hourly wage increases for older employees who completed a selected training by redistributing cost, risk, and accountability between employers, workers, and philanthropy. While designed for older workers with low income, the model holds broader promise for the tens of millions of low-wage workers employed at SMEs across the country.

39 U.S. Small Business Administration (SBA). "Frequently Asked Questions About Small Business, 2023." Office of Advocacy (blog). July 25, 2024. <https://advocacy.sba.gov/2023/03/07/frequently-asked-questions-about-small-business-2023/>.

40 AARP Foundation calculations based on U.S. Bureau of Labor Statistics, "Labor Force Statistics from the Current Population Survey," 2023, <https://www.bls.gov/cps/cpsaat03.htm>.

THE HALF-LIFE OF SKILLS IS GROWING SHORTER AS PEOPLE ARE WORKING LONGER: THE DEMAND FOR UPSKILLING

We are in a period of profound change in the nature of work, driven by technological transformation, federal infrastructure investment, and growing longevity. The estimated half-life of a skill — the amount of time before half of the knowledge in a particular area becomes obsolete — has decreased from 10 to 15 years to about 5 years, and 2.5 years for technical skills.^{41,42} At the same time, people are working longer, by choice or out of necessity. Already, one in three U.S. workers is over 50,⁴³ and nearly half of workers expect to work beyond age 65.⁴⁴ A 50-year-old today may need upskilling four to eight more times to remain productively engaged at work for another 20 years. The approach to workforce training in the United States has not adapted to this new reality.

Businesses see local skills gaps as a primary barrier to their ability to remain competitive in the changing economy.⁴⁵ Investing in job-related training is viewed as the most promising strategy to overcoming this obstacle.⁴⁶ Those that invest in upskilling show strong results: 93% of businesses with advanced upskilling programs reported increased productivity and an improvement in employee retention.⁴⁷ However, access to upskilling programs has been uneven across organizations and among different worker groups.

► ...older workers, who constitute 33% of the U.S. workforce today, tend to be left out of training opportunities which are predominantly directed toward younger workers.

Defined as firms with fewer than 500 employees, SMEs, which employ 61.6 million people, or 45.9% of the private sector workforce in the

41 Annette LaPrade et al., “The Enterprise Guide to Closing the Skills Gap: Strategies for Building and Maintaining a Skilled Workforce,” 6, IBM Institute for Business Value, 2019, accessed October 23, 2024, <https://www.ibm.com/downloads/documents/us-en/10a99803f8afda48>.

42 Douglas Thomas and John Seely Brown, *A New Culture of Learning: Cultivating the Imagination for a World of Constant Change* (CreateSpace Independent Publishing Platform, 2011); Sonia Malik, “Skills Transformation for the 2021 Workplace,” IBM Learning Blog, December 7, 2020, accessed October 23, 2024, <https://www.ibm.com/blogs/ibm-training/skills-transformation-2021-workplace/>.

43 AARP Foundation calculations based on U.S. Bureau of Labor Statistics, “Labor Force Statistics from the Current Population Survey,” 2023, <https://www.bls.gov/cps/cpsaat03.htm>.

44 Transamerica Institute, “A Compendium of Findings About the Retirement Outlook of U.S. Workers: 21st Annual Transamerica Retirement Survey of Workers,” 47, November 2021, accessed October 23, 2024, <https://www.transamerica institute.org/docs/library/research/2021-retirement-outlook-compendium-report.pdf>.

45 Attilio Di Battista et al., “Future of Jobs Report 2023,” 42, World Economic Forum, May 2023, accessed August 18, 2024, www.weforum.org/publications/the-future-of-jobs-report-2023.

46 Di Battista et al., “Future of Jobs Report,” 49–50.

47 PwC Research, “Thriving in an Age of Continuous Reinvention,” 34, 23rd Annual Global CEO Survey, accessed September 23, 2024, <https://www.pwc.com/gx/en/ceo-survey/2020/reports/pwc-23rd-global-ceo-survey.pdf>.

U.S.,^{48,49} face greater challenges in upskilling their workforce relative to larger organizations with better resources. They have smaller budgets for workforce development and less administrative capacity to identify relevant training opportunities.⁵⁰ Without addressing these constraints, individual SMEs risk falling behind in an economy that increasingly rewards adaptability and innovation, capabilities that hinge on a skilled workforce with relevant expertise.⁵¹

In the rapidly changing labor market, workers are also seeking upskilling opportunities to remain competitive and to pursue higher pay and career advancement.⁵² In a national survey, 39% of workers who participated in an upskilling program reported some career advancement with their current employer, including a promotion or pay increase.⁵³ However, despite growing demand, access to these opportunities remains more limited for certain groups, particularly low-wage workers. Employers are more likely to provide training to higher-paid employees.⁵⁴ This tendency has an outsized impact on historically marginalized groups, who disproportionately hold low-wage jobs.⁵⁵

Older workers also have less access to job training and to corresponding supportive services and career navigation assistance⁵⁶ due to employer biases about their willingness and ability to remain in the workforce.⁵⁷ Most training programs are geared towards the needs and preferences

48 U.S. Small Business Administration, “U.S. Small Business Administration Small Business Profile 2023,” accessed August 18, 2024, <https://advocacy.sba.gov/wp-content/uploads/2023/11/2023-Small-Business-Economic-Profile-US.pdf>.

49 These figures do not include self-employed individuals, employees of private households, railroad employees, and agricultural production employees. Data on U.S. small business and employment is from the U.S. Census Bureau, “2023 Statistics of U.S. Businesses,” accessed August 18, 2024, <https://www.census.gov/programs-surveys/susb.html>.

50 OECD, “OECD SME and Entrepreneurship Outlook 2023,” 225, <https://doi.org/10.1787/342b8564-en>; Marco Marchese et al., “Enhancing SME Productivity: Policy Highlights on the Role of Managerial Skills, Workforce Skills and Business Linkages,” 12 (OECD SME and Entrepreneurship Papers, No. 16, OECD Publishing, Paris, 2019), <https://doi.org/10.1787/825bd8a8-en>.

51 OECD, “OECD SME and Entrepreneurship Outlook 2023,” 22.

52 “Education Index: Learning Curve,” 2, EdAssist by Bright Horizons, 2023, accessed August 18, 2024, www.brighthorizons.com/-/media/BH-New/Newsroom/Media-Kit/Education-Index-2023.

53 Gallup and Amazon, “The American Upskilling Study: Empowering Workers for the Jobs of Tomorrow,” 14, 2021, accessed September 23, 2024, www.gallup.com/file/analytics/354647/amazon-upskilling-report.pdf

54 Gallup and Amazon, “The American Upskilling Study,” 7–8.

55 Martha Ross and Nicole Bateman, “Meet the Low-Wage Workforce,” 39–42, Brookings Institution, November 2019, accessed October 16, 2024, https://www.brookings.edu/wp-content/uploads/2019/11/201911_Brookings-Metro_low-wage-workforce_Ross-Bateman.pdf.

56 Barbara A. Butrica and Stipica Mudrazija, “Skills-Based Hiring and Older Workers,” 39, 42, Urban Institute, March 2022, accessed October 14, 2024, <https://www.urban.org/sites/default/files/2022-03/Skills-Based%20Hiring%20and%20Older%20Workers.pdf>.

57 Butrica and Mudrazija, “Skills-Based Hiring,” 15.

of younger workers.⁵⁸ For low-income older workers, targeted training opportunities are particularly scarce.⁵⁹ They are underserved by community colleges and less likely to be offered employer-sponsored training.^{60,61} They are also underrepresented in the nation's primary federally funded workforce development programs.⁶²

WORKFORCE 50+ IS GROWING AND FACING CHALLENGES

Over the past two decades, the number of workers aged 50 and older in the U.S. has grown by 47% to 54.9 million in 2023.⁶³ This growth is compared to a 3% increase in the number of workers under age 50 over the same time period. Today, the share of older workers has reached a historic level, comprising one-third of the U.S. workforce.⁶⁴ This demographic shift has been rapid, and our institutions and approaches to workforce development have failed to keep pace.

The increasing cost of living and other financial challenges are driving people to remain in the workforce longer. According to a 2024 survey by AARP, more than a third of Americans over the age of 50 are worried about covering basic expenses, such as food and housing costs.⁶⁵ Many low-income older workers are left with no choice but to continue working. Few earn enough to save for retirement, and only one in four have access to an employer-sponsored retirement savings account.⁶⁶ Social Security benefits for a low-wage worker (earning an average of \$29,649 in 2023-indexed dollars) who retired at age 62 in 2024 would be just \$12,135 annually — an income well below the federal poverty line.⁶⁷

58 Clearinghouse for Labor Evaluation and Research (CLEAR), “What Do We Know About Interventions That Support and Help Improve Employment for Older Workers?” 1, September 2023, accessed October 17, 2024, https://clear.dol.gov/sites/default/files/Older_Workers_Synthesis_Report_2023_08_0.pdf.

59 Barbara A. Butrica, “Workforce Programs Serving Older Workers and Other Populations with Employment Barriers: Older Workers Implementation and Descriptive Study,” 10, Urban Institute, September 2022, accessed October 14, 2024, <https://www.dol.gov/sites/dolgov/files/OASP/evaluation/pdf/Older-Workers-Lit-Review.pdf>.

60 American Association of Community Colleges, “Fast Facts 2023,” accessed October 14, 2024, https://www.aacc.nche.edu/wp-content/uploads/2023/03/AACC2023_FastFacts.pdf.

61 Butrica and Mudrazija, “Skills-Based Hiring,” 16.

62 AARP Foundation calculations based on U.S. Bureau of Labor Statistics, U.S. Department of Labor’s Workforce Innovation and Opportunity Act (WIOA) performance data, 2022, <https://www.dol.gov/agencies/eta/performance/wioa-performance>. People 55+ were 20% of participants in WIOA-funded programs overall and 16% of WIOA Adult and Dislocated Worker programs, compared to 23% of the workforce overall.

63 AARP Foundation calculations based on and U.S. Bureau of Labor Statistics, “Household Data Annual Averages,” 2003, and “Labor Force Statistics from the Current Population Survey,” 2023, <https://www.bls.gov/cps/cpsaat03.htm>.

64 U.S. Bureau of Labor Statistics, “Household Data Annual Averages” and “Labor Force Statistics.”

65 S. Kathi Brown, “AARP Financial Security Trends Survey, January 2024,” AARP Research, April 24, 2024, <https://states.aarp.org/colorado/new-aarp-survey-findings>.

66 United States Government Accountability Office, “Older Workers: Retirement Account Disparities Have Increased by Income and Persisted by Race Over Time,” 24, GAO-23-105342 Report to Congressional Requesters, July 2023, accessed October 15, 2024, <https://www.gao.gov/assets/gao-23-105342.pdf>.

67 Kyle Burkhalter and Karen Rose, “Replacement Rates for Hypothetical Retired Workers,” 3, Social Security Administration [preprint], Actuarial Note Number 2024.9, May 2024, <https://www.ssa.gov/OACT/NOTES/ran9/an2024-9.pdf>.

Unfortunately, even as more people expect and need to work longer, they continue to face significant barriers to staying in or reentering the labor market, including:

- **Misperception of lower return on investment for older workers:** Even though older workers stay in jobs longer than younger workers, employers view them as having shorter tenures and therefore consider investing in training for older workers as having a lower return.^{68,69} They also view older workers as having less ability to learn new skills.⁷⁰ Partly due to these misperceptions, older workers have limited access to training opportunities, including upskilling, which are crucial for enhancing skills or transitioning to new career paths.
- **Pervasive ageism and age-related bias:** According to AARP's 2023 survey on age discrimination among workers over age 50, 64% of respondents think older workers face age discrimination in the workplace; among them, 90% believe it is a common occurrence.⁷¹ This discrimination can manifest in various ways, including being passed over for promotions and excluded from training opportunities. Fear of age discrimination also prevents older adults from pursuing better jobs: 58% of low-income older workers responding to an AARP survey felt stuck in their present roles, unable to change jobs because of their age.⁷²
- **Caregiving responsibilities:** Many older workers provide care for elderly family members. According to research by AARP and the National Alliance for Caregiving, 54% of caregivers are age 50 or older, and more than two-thirds (67%) of those between the ages of 50 and 64 also work.⁷³ Caregiving adds to their stress and financial strain while also limiting the time they can dedicate to career development.

CLOSING THE GAP

A common limitation of existing upskilling programs is the underrepresentation of low-wage older workers. While designing a model for these workers, we looked first at the effective features of analogous programs, as well as additional limitations.

68 U.S. Bureau of Labor Statistics, "Employee Tenure Summary: Employee Tenure in 2024," September 26, 2024, accessed October 23, 2024, <https://www.bls.gov/news.release/tenure.nr0.htm>.

69 Butrica and Mudrazija, "Skills-Based Hiring," 15–16.

70 Butrica and Mudrazija, "Skills-Based Hiring," 15.

71 Lona Choi-Allum, "Age Discrimination Among Workers Age 50-Plus," AARP Research, July 26, 2022, <https://doi.org/10.26419/res.00545.001>.

72 AARP, "The Economic Impact of Age Discrimination: How Discriminating Against Older Workers Could Cost the U.S. Economy \$850 Billion," 2020, <https://doi.org/10.26419/int.00042.003>.

73 National Alliance for Caregiving and AARP, "Caregiving in the U.S.: 2020 Report," 11, 63, <https://www.caregiving.org/wp-content/uploads/2021/01/full-report-caregiving-in-the-united-states-01-21.pdf>.

Large employer-sponsored programs have an upskilling model that works for employers and employees alike. Employers invest in workforce development and select the training that is most relevant to their business needs. Their investment leads to increased innovation, productivity,⁷⁴ and profitability.⁷⁵ Employees are incentivized to participate as a pathway to career advancement and higher wages.⁷⁶ These programs lead to greater job satisfaction and reduced turnover.⁷⁷

Government-supported training programs, such as customized training programs, replicate key parts of this model while removing a financial barrier for employers by sharing the cost of training. They also allow employers to identify training that is specific to business needs.⁷⁸ Participating employees gain job security because employers commit to retaining workers who complete training, but evidence of measurable wage growth is limited.⁷⁹

► Employers are more likely to provide training to higher-paid employees. This tendency has an outsized impact on historically marginalized groups, who disproportionately hold low-wage jobs.

AARP FOUNDATION UPSKILLING PILOT

In 2021, AARP Foundation launched the Upskilling Initiative, a three-year pilot program, in response to the pressing need to improve the economic opportunity of older workers with low incomes and to support small businesses. The pilot sought to replicate the proven risk and incentive structure of successful employer-sponsored upskilling programs. It removed the financial barrier to participation for SMEs, an approach similar to customized training programs, but it also sought to ensure measurable wage growth for low-wage older workers.

PROGRAM DESIGN

The pilot was designed as an employer-sponsored upskilling program, with a focus on low-income older employees, defined as those earning

74 Benoit Dostie, “Who Benefits From Firm-Sponsored Training?” IZA World of Labor, 2020, <https://wol.iza.org/articles/who-benefits-from-firm-sponsored-training/long>.

75 Joydeep Chatterjee, “Strategy, Human Capital Investments, Business-Domain Capabilities, and Performance: A Study in the Global Software Services Industry,” *Strategic Management Journal* 38, no. 3 (March 2017): 588–608.

76 Gallup and Amazon, “The American Upskilling Study,” 23.

77 Vasilios D. Kosteas, “Job Satisfaction and Employer-Sponsored Training,” *British Journal of Industrial Relations* 61, no. 4 (December 2023): 771–95, <https://onlinelibrary.wiley.com/doi/epdf/10.1111/bjir.12741>.

78 Steve Duscha and Wanda Lee Graves, “The Employer as the Client: State-Financed Customized Training,” 4, U.S. Department of Labor, 2006, <https://www.dol.gov/agencies/eta/research/publications/employer-client-state-financed-customized-training>.

79 Kenneth Fortson et al., “Providing Public Workforce Services to Job Seekers: 30-Month Impact Findings on the WIA Adult and Dislocated Worker Programs,” 67, 70, 137, Mathematica Policy Research, May 30, 2017, <https://www.mathematica.org/publications/providing-public-workforce-services-to-job-seekers-30-month-impact-findings-on-the-wia-adult>.

\$16 or less per hour. AARP Foundation provided reimbursement of up to \$2,500 per employee in training funds in exchange for a guaranteed hourly wage increase of between \$1.50 and \$2.50. SMEs paid training costs up front and were reimbursed once employees completed training. Participant businesses selected the most relevant training for their operations, ensuring that the skills acquired would directly support their business objectives.

▶ The estimated half-life of a skill — the amount of time before half of the knowledge in a particular area becomes obsolete — has decreased from 10 to 15 years to about 5 years, and 2.5 years for technical skills.

To reach participant SMEs, AARP Foundation partnered with industry associations. The associations solicited applications from their member businesses, managed and tracked the application process, verified the eligibility of applicant businesses and the qualifications of training providers identified by businesses, and monitored training outcomes. They played a vital role in facilitating communication, ensuring compliance, and providing support to participating businesses throughout the process. AARP Foundation provided a portion of the administrative costs, as well as marketing and outreach support.

RESULTS

The pilot tested two assumptions: (1) whether SMEs would be willing to pay the up-front cost of upskilling their low-income older workers if they were reimbursed for all or a significant portion of the training costs and (2) whether the perceived benefits of upskilling to SMEs would outweigh the cost of providing wage increases for employees who completed the training. Both assumptions were validated.

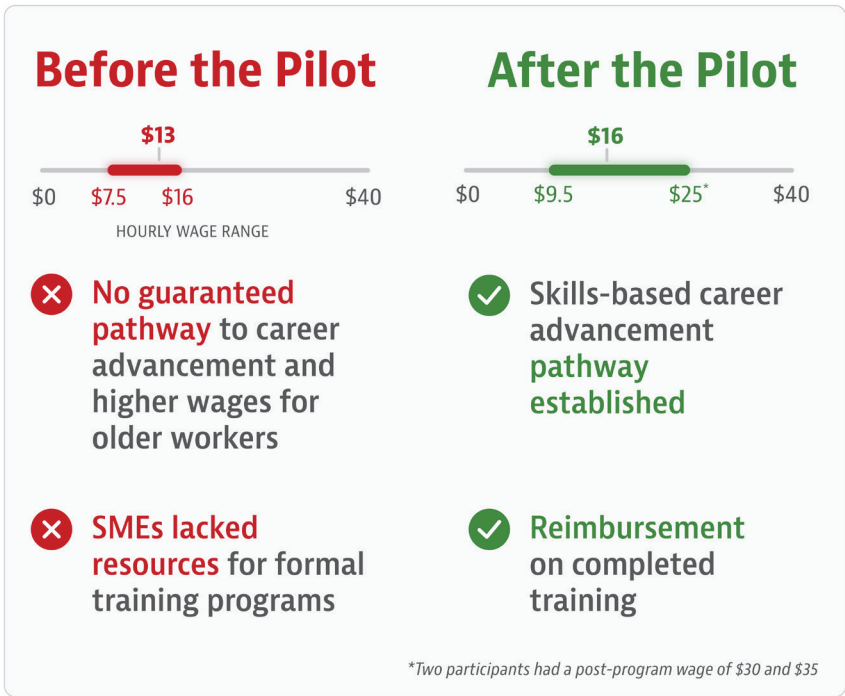
We found that the financial incentive of reimbursement for training was sufficient for 72 SMEs to offer upskilling to low-wage older workers and to pay up front for training. Participating SMEs came from 30 sectors, including health/wellness, food service, logistics, construction, and nonprofits. Associations did not report the number of SMEs who were offered the chance to participate and declined.

Participating SMEs were willing to guarantee wage increases to employees who completed training. All 308 participants who completed the training program reported a wage gain, and 233 participants, or three-quarters, reported a wage gain that was higher than the minimum required, indicating that SMEs perceived clear benefits from the upskilling. The average wage gain reported by participating employees was \$3.00 per hour, twice the minimum wage increase that

was required. Collectively, those wage increases translated to \$1.58 million worth of increased earnings per year.

/ **FIGURE 1** /

AARP FOUNDATION UPSKILLING INITIATIVE RESULT HIGHLIGHTS



THE PROMISE OF THE MODEL

Three key elements contributed to the success of the pilot:

- 1. Linking funding to wage gains:** Requiring employers to commit to wage gains allowed philanthropic funding for upskilling to translate directly into tangible financial benefits for workers.
- 2. Shifting risk from employee or funder to business:** As in large corporate upskilling programs, the business — the entity best positioned to determine what skills are valuable and needed — held the risk for the up-front cost and selection of the upskilling training.
- 3. Aligning incentives:** The pilot aligned the incentives of the funder, the employer, and the employee. By conditioning reimbursement from the funder on the successful completion of the training, employers had an incentive to support and encourage their employee's completion. Likewise, the formalization of employers' commitments to wage increases guaranteed that the benefits of training were clear and substantial, motivating workers to participate and succeed.

CONCLUSION AND RECOMMENDATIONS

The AARP Foundation Upskilling Initiative's early success demonstrates that with appropriate risk and accountability sharing, a philanthropic investment in upskilling can deliver value to resource-constrained businesses and economic opportunity to workers.

The pilot also revealed opportunities for improvement and further research that will need to be addressed going forward:

- **Supporting SMEs in identifying skill gaps and workforce training needs:** Unlike larger corporations, SMEs often lack the resources and capacity to conduct thorough skills assessments and identify relevant upskilling programs. Providing SMEs with access to standardized assessment tools, quality training options, and expert consultancy could streamline the process and ensure that training investments align with both business objectives and employee development goals. Such support is instrumental to sustain and increase SMEs' successful participation in upskilling efforts without imposing excessive administrative burdens on them.
- **Reducing barriers to participation:** Some SMEs indicated that having to cover the full up-front cost of the selected training created too high a financial barrier to participation. A worthwhile step would be to test the impact of different levels of up-front cost

sharing to maintain the risk and incentive structure of the model while increasing accessibility for cash-flow-sensitive⁸⁰ businesses.

- **Additional research is needed to understand the long-term impact of upskilling:** Future studies should explore the relationship between upskilling older workers in low-income fields and SME staff retention and productivity, as well as workers' financial security and access to opportunities to move into higher-paying or higher-skilled jobs. Defining the long-term benefits would reinforce the case for investing in upskilling opportunities for older workers.

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⁸⁰ This term refers to businesses that depend on day-to-day cash flow from their sales or services to remain open and/or continue to grow.