

Date of Hearing: April 23, 2024

ASSEMBLY COMMITTEE ON HIGHER EDUCATION
Mike Fong, Chair
AJR 13 (Santiago) – As Introduced March 21, 2024

SUBJECT: Tuition assistance programs

SUMMARY: Requests the Congress of the United States to pass, and the President of the United States to sign, the Upskilling and Retraining Assistance Act and the Upward Mobility Enhancement Act. Specifically, **this bill:**

1) Declares that:

- a) Tuition assistance programs foster employee retention and the professional growth of a business's team;
- b) Prospective students report barriers to enrolling in postsecondary education that are related to cost;
- c) When discussing barriers to enrollment, 55% of prospective students cite the cost of the program, 45% of prospective students mention inflation, and 38% of prospective students note the need to work and the opportunity cost of enrolling;
- d) Student loan debt in the United States has grown enormously in recent years and is now one of the largest forms of consumer borrowing in the country;
- e) As of March 2023, about 44,000,000 United States borrowers collectively owed more than \$1,600,000,000,000 in federal student loans;
- f) Tuition assistance programs eliminate financial barriers for working students who pursue a higher education;
- g) Continuous learning is a benefit that helps employers retain their employees;
- h) Unfortunately, employees must pay federal income taxes on education assistance benefits received from their employer that exceed \$5,250 a year;
- i) The amount of \$5,250 falls below the costs of most degree programs when taking a full course load;
- j) The \$5,250 limit is not indexed to inflation or tuition costs and has not been adjusted since 1986 when it was raised from \$5,000 to \$5,250 as specified; and,
- k) The devaluation of the exemption limit, as specified, since 1986 has depressed corporate-covered education benefit programs, reducing the versatility and readiness of the American workforce.

2) Resolves that the Assembly and the Senate of the State of California, jointly:

- a) Requests that the Congress of the United States pass the Upskilling and Retraining Assistance Act and the Upward Mobility Enhancement Act; and,
- b) Requests that the President of the United States, Joseph Biden, sign those acts into law;
- c) Directs the Chief Clerk of the Assembly to transmit copies of this resolution to the President and the Vice President of the United States, to the Speaker of the House of Representatives, to the Majority Leader of the Senate, to each Senator and Representative from California in the Congress of the United States, and to the author for appropriate distribution.

EXISTING LAW:*Federal law*

- 1) Specifies that the gross income of an employee does not include amounts paid or expenses incurred by the employer for educational assistance to the employee if the assistance is furnished pursuant to a program, as specified, and that the maximum exclusion is \$5,250 dollars. (26 United States Code Section 127)

State law

- 2) Gross income of an employee does not include any amounts, not exceeding an aggregate amount of five thousand two hundred fifty dollars (\$5,250) per calendar year, that is paid or incurred by the employer for educational assistance to the employee pursuant to an educational assistance program. (Revenue & Tax Code Section 17151)

FISCAL EFFECT: Unknown

COMMENTS: *Purpose.* According to the author, “Continuous learning is a benefit that helps employers retain their employees and helps employees advance in their careers. Although employers can deduct education expenses from their income with no limit, employees-learners face significant tax liability for tuition assistance received in excess of \$5,250. The Upskilling and Retraining Assistance Act and the Upward Mobility Enhancement Act will remedy this issue by enabling employers to further invest in their workforce and empower employees to pursue additional education or training.”

Graduates are in demand: Workers with postsecondary education held 28% of jobs in 1973 and 59% of jobs in 2010. By 2031, 72% of all jobs in the U.S. will require postsecondary education and/or training, according the Center on Education and the Workforce (CEW) at Georgetown University. CEW projects that the U.S. will have 171 million jobs in 2031, an increase of 16 million net new jobs from 2021. During that period, there will be 18.5 million job openings per year on average and 12.5 million of these openings will require at least some college education. .

Part of the increase in demand for postsecondary education is due to what is known as degree inflation – the rising demand for a postsecondary education for jobs that previously did not require one. This has led to a number of employers dismissing candidates who may have the skills to do the job, but not the formal education. In turn, employers compete over a smaller

group of candidates, pushing wages higher, and signaling to the market the importance of a college degree.

Benefits of a postsecondary education: There is strong evidence that college graduates financially outperform peers with less education. According to the Pew Research Center, in 2021, full-time workers ages 22 to 27 who held a bachelor's degree, but no further education, made a median annual wage of \$52,000, compared with \$30,000 for full-time workers of the same age with a high school diploma and no degree, according to data from the Bureau of Labor Statistics. This gap has widened over time. In 1990 Young bachelor's degree holders earned a median annual wage of \$48,481, compared with \$35,257 for full-time workers ages 22 to 27 with a high school diploma.

Rising cost of education: College costs have been on a mostly upward trend for the last two decades. In addition to rising tuition prices, paying for housing, food, transportation, books and other school-related fees usually adds thousands of dollars to college expenses.

To cut costs and limit student debt, many families consider in-state colleges. But data from the past 20 years shows that the average cost of tuition and fees at both private and public research-oriented schools that offer bachelors, masters, and doctoral degrees has risen significantly. Below is a breakdown of the tuition changes, as reported by *U.S. News* for their college rankings, over the last two decades:

Not adjusted for inflation, tuition and fees at private research-oriented universities have increased by about 132%, out-of-state tuition and fees at public research-oriented universities have risen about 127%, and in-state tuition and fees at public research soared by about 158%.

Adjusted for inflation, tuition and fees at private research-oriented universities have increased about 40%, out-of-state tuition and fees at public research-oriented universities have risen about 38%, and in-state tuition and fees at public research-oriented universities have grown about 56%.

As such, even though college graduates generally have higher earning potential than counterparts, they are often also saddled with larger amounts of debt. This is especially problematic as employers continue to demand higher levels of education for entry-level jobs.

Upskilling and Retraining Assistance Act and the Upward Mobility Enhancement Act. Both of the federal policies referenced in this AJR seek changes to broaden the use of the educational program assistance noted in Existing Law, and would more than double the tax exclusion from \$5,250 to \$12,000 and expand the tax exclusion to cover the expenses from more types of education and training programs. The Upskilling and Retraining Act would adjust these provisions for two years to address the current workforce shortage, and the Upward Mobility and Retraining Act would permanently modernize this education tax assistance program to meet the long-term needs of workers and employers.

REGISTERED SUPPORT / OPPOSITION:

Support

None on file

Opposition

None on file.

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