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# On-the-Job Training

## Recommendations for Inclusion in a Federal Jobs Bill

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### Introduction

Nearly 27 million U.S. workers were either unemployed or underemployed as of December 2009,<sup>1</sup> and by one estimate employment needs to increase by more than 580,000 jobs every month between now and November 2011 just to return to pre-recession levels.<sup>2</sup> Congress and the Obama administration have been exploring a range of policy proposals to stimulate job growth and put America back to work, and late last year the House of Representatives passed the “Jobs for Main Street Act” (HR 2847), which includes new investments in highways and other infrastructure, funds to states to preserve public safety and education jobs, and extended benefits for unemployed workers. The Senate is expected to consider its own jobs bill in the early 2010, which may include such other policies as investments in energy efficiency and other “green” technologies, and hiring tax credits for businesses.

While investments in job creation are sorely needed, there is a risk that any gains in employment will be short-lived unless workers have the skills they need to take advantage of new job opportunities, and employers can find the skilled workforce they need to grow and compete. Many of the jobs created in sectors such as clean energy, health care, and construction will be “middle-skill” jobs, requiring significant education and training beyond the high school level, though not necessarily a four-year college degree. Workers must be able to quickly acquire the skills to fill these jobs, and to access ongoing education so they can turn those jobs into careers. The need for training is especially acute for workers who would benefit the most from a jobs bill: dislocated workers transitioning to new industries, long-term unemployed individuals updating their skills to catch up with emerging technologies, and low-income and entry-level workers seeking to start their careers in the worst economic climate in seventy years.

There is already evidence that skills shortages are stifling job growth: a recent Business Roundtable report indicates that despite high unemployment rates, more than 60 percent of businesses are experiencing difficulty finding qualified applicants for *current* job openings.<sup>3</sup> Federal investments under the American Recovery and Reinvestment Act and other legislation are projected to create millions of additional jobs, but employers cannot readily expand unless they can find workers with the skills to perform these jobs safely and effectively.

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<sup>1</sup> <http://www.bls.gov/news.release/empsit.nr0.htm>

<sup>2</sup> [http://www.epi.org/analysis\\_and\\_opinion/entry/signs\\_of\\_healing\\_in\\_the\\_labor\\_market\\_though\\_unemployment\\_remains\\_in\\_double/](http://www.epi.org/analysis_and_opinion/entry/signs_of_healing_in_the_labor_market_though_unemployment_remains_in_double/)

<sup>3</sup> [http://www.businessroundtable.org/sites/default/files/BRT\\_Getting\\_Ahead\\_online\\_version.pdf](http://www.businessroundtable.org/sites/default/files/BRT_Getting_Ahead_online_version.pdf)

## One Policy Solution: On-The-Job Training

Federal policy currently supports a promising model that can address the skill needs of workers and businesses while also allowing for rapid employment or reemployment: on-the-job training (OJT) under the Workforce Investment Act (WIA). In an OJT program, employers enter into agreements to hire and train new employees, and receive a temporary federally-funded subsidy to cover a portion of the employee's wage costs during the training period. A recent survey conducted by the Pennsylvania Department of Labor & Industry indicates that employers would expand payroll more rapidly if they were able to utilize a well-designed OJT program.<sup>4</sup> **As part of any jobs bill, federal lawmakers should provide dedicated funding to support OJT and should strengthen current policies to make it easier for a broad range of workers and businesses to use OJT.**

### *On-The-Job Training Under Current Law*

OJT services may be funded using local formula dollars under the WIA Adult and Dislocated Worker funding streams, and must be provided through contracts between local workforce investment boards (WIBs) and employers in the public, private non-profit, or private sector. As part of an OJT agreement, employers must agree to hire or employ eligible individuals, provide them with skills training over a specific period of time, and pay wages at the same rate as similarly situated employees. In exchange, employers are eligible to receive a subsidy of up to 50 percent of the OJT employee's wages to cover the extraordinary costs of training. OJT activities may not lead to the full or partial displacement (including reduced hours or wages) of a currently employed individual, and cannot be provided if any other individual is on layoff from the same or substantially equivalent job. OJT activities may not impair an existing contract for services or a collective bargaining agreement, and any activities that would be inconsistent with the terms of a collective bargaining agreement must be approved in writing by the employer and the labor organization.

OJT provides significant advantages for both businesses and workers. Employers are able to minimize the upfront costs of training and supervision for new employees, ensure that training is aligned with actual skill requirements of the job, and realize immediate gains in productivity as workers learn on the job. Employees participating in OJT benefit because they are receiving a paycheck while acquiring the skills to perform effectively on the job and advance their careers beyond the lifespan of the training program. And evidence indicates that OJT can have a lasting impact: in Program Year (PY) 2007, more than 86 percent of individuals participating in WIA Adult and Dislocated Worker-funded OJT programs were still on the job twelve months after exiting the program.<sup>5</sup>

Despite the clear benefits of OJT, this type of training has been largely underutilized compared to other training models: in PY 2008, only 10.5 percent of adults and 8 percent of dislocated workers receiving training services under WIA participated in OJT programs.<sup>6</sup> This is due in part to a lack

<sup>4</sup> [http://www.nationalskillscoalition.org/federal-policies/misc-documents/pa\\_on-the-jobtrainingsurvey.pdf](http://www.nationalskillscoalition.org/federal-policies/misc-documents/pa_on-the-jobtrainingsurvey.pdf)

<sup>5</sup> [http://www.doleta.gov/performance/results/pdf/PY2007\\_WIASRD\\_Data\\_Book.pdf](http://www.doleta.gov/performance/results/pdf/PY2007_WIASRD_Data_Book.pdf) (see p. 92 for Adult retention rates, p. 176 for DW retention rates)

<sup>6</sup> [http://www.doleta.gov/performance/results/Pdf/PY2008\\_Adult\\_Summary\\_Report.pdf](http://www.doleta.gov/performance/results/Pdf/PY2008_Adult_Summary_Report.pdf)

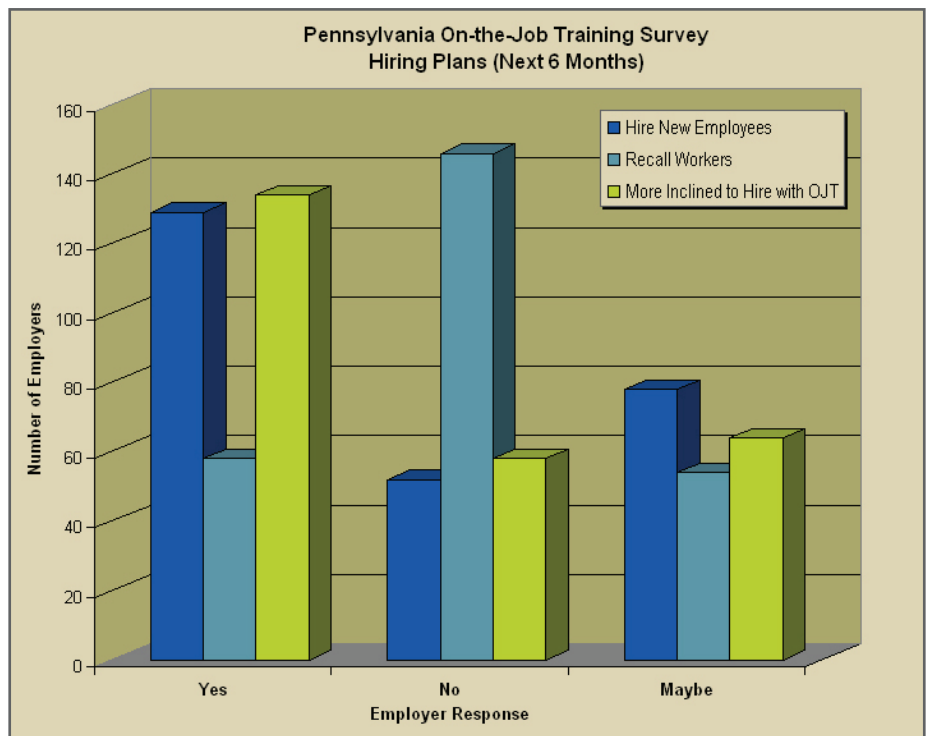


of overall resources—WIA funding declined by approximately 30 percent in inflation-adjusted terms between 2001-2008—and also due to federal and local restrictions on the types of workers that may be served, the allowable duration of training programs, and employer reimbursement rates.

### ***The Pennsylvania Survey***

Seeking to gauge employers' interests in OJT, the Pennsylvania Department of Labor & Industry conducted a survey in December 2009-January 2010, targeting businesses participating in the state's Industry Partnership program. More than 250 companies responded to the survey, varying widely in size from small businesses employing 0-9 employees (16 percent of respondents) to large businesses employing more than 250 employees (26 percent of respondents). A broad range of industries were represented in the survey, including manufacturing (approximately 42 percent), construction (11 percent), and business and financial services (about 8 percent). Employers were asked a series of questions regarding their near-term hiring expectations and the impact on their hiring patterns of a wage subsidy to cover the expense of providing on-the-job training to new hires.

Nearly half of all respondents indicated they definitely would be hiring new employees within the next six months, while another 30 percent indicated that they were considering new hires. In addition, more than 40 percent replied that they were either definitely or potentially planning to recall workers that were laid off during the economic downturn. Given that Pennsylvania's unemployment rate has nearly doubled since the start of the recent recession in December 2007, the fact that a significant majority of employers are contemplating adding employees represents



encouraging news about the impact of federal efforts such as the Recovery Act, and the prospects for positive job growth in 2010. At the same time, the survey makes clear that policies like OJT can accelerate that growth, putting more people back to work more quickly.

**Respondents were asked whether they would be more inclined to hire or recall workers if they received a 50-75 percent wage subsidy to provide up to eight weeks of OJT. Nearly 80 percent of respondents replied “yes” or “maybe,” clearly demonstrating that businesses would utilize**

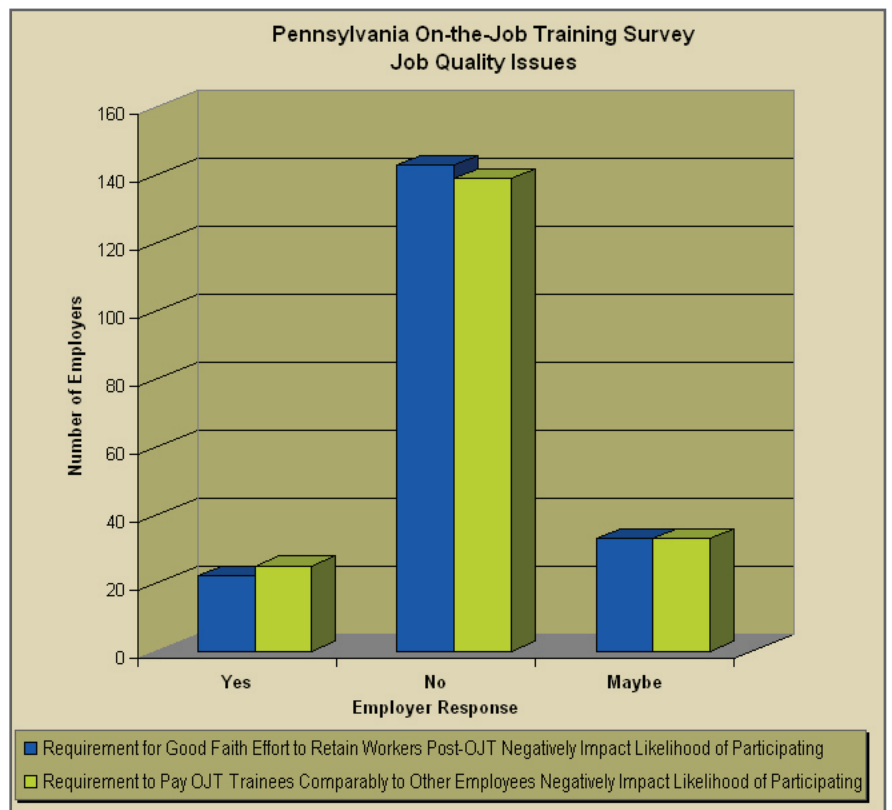


**an OJT program if it were widely available.** These survey findings suggest that a formal OJT program may enable business to create jobs earlier in the business cycle, thereby increasing productivity sooner and jumpstarting more hiring. By offsetting for employers some of the expense and risk of training a new hire, OJT can be an effective tool to incentivize hiring that would not otherwise occur—or that would occur much less rapidly—in the absence of such a program.

However, merely offering the employer an OJT subsidy is not sufficient to ensure that workers benefit over the long term. Any OJT subsidies should:

- be targeted towards quality jobs that will continue to exist after completion of an OJT program;
- support jobs that offer wages and benefits at the same rate received by other employees performing the same or substantially similar work; and
- lead to meaningful training and career development opportunities for targeted workers.

The Pennsylvania survey offers some promising results in this area, as well: nearly 75 percent of respondents indicated that they would not be less likely to participate in a program that required a good faith effort to retain workers hired under an OJT subsidy for at least twelve weeks following the OJT period, and more than 70 percent stated that they would not be less likely to participate if required to pay these workers at the same rate as similarly-situated employees. When coupled with recent DOL data on employee retention under OJT, these results suggest that a well-designed OJT program with meaningful worker protections would likely enjoy support from a broad range of employers, and could lead to lasting job and career opportunities for targeted workers.



## **Policy Recommendations**

Congress should provide dedicated funding to support expanded OJT activities as part of any jobs bill, and should:

- **Create Local Flexibility in Setting Employer Reimbursement Rates.** Many small- and medium-sized businesses lack the resources and infrastructure to support internal training programs; as a result, many states have requested waivers to allow for reimbursement rates for such businesses above the current 50 percent cap. Pennsylvania, Louisiana, and Maryland requested waivers in 2009 that would allow them to provide up to 90 percent reimbursement for employers with fewer than 50 employees, and up to 75 percent for employers with between 50 and 100 employees. At least a dozen other states requested similar waivers (see Appendix A for complete list). Congress should provide local WIBs with the flexibility to set higher reimbursement rates according to company size or other local factors.
- **Eliminate “Sequence of Service” Requirements.** Under WIA, workers must establish that they are unable to obtain employment through a sequence of “core” and “intensive” services before accessing training services. This can lead to substantial delays before workers can be placed in OJT, limiting program effectiveness for employers ready to hire. Congress should suspend this “sequence of service” requirement for OJT participants.
- **Prioritize Quality Jobs.** While OJT contains a number of worker protections, more can be done to ensure the broadest possible range of workers benefit from OJT expansion. Congress should require local WIBs to prioritize OJT contracts with employers who agree to retain participants for a significant time period beyond completion of the program; pay wages above the local industry average, and provide health and other benefits; and offer OJT opportunities to low-income, minority, and other disadvantaged populations.
- **Ease Self-Sufficiency Requirements for Employed Workers.** WIA limits OJT contracts for skill upgrade training for incumbent workers to those who are not earning a self-sufficiency wage. Although intended to ensure scarce training resources are directed toward low-skilled, low-income workers, this provision potentially limits the use of WIA dollars in conjunction with layoff aversion initiatives where job training could allow impacted workers to upgrade skills to retain family-supporting employment. Congress should relax the self-sufficiency requirement for employed workers if OJT is offered as part of a layoff aversion strategy, and clarify that restrictions on the use of WIA funds for the training of incumbent workers do not apply in such circumstances.
- **Remove Local Time Limits on OJT Programs.** While WIA contains no specific time limit on OJT, at least some local WIBs restrict OJT contracts to short-term training of six months or less. This limits the use of OJT funds to support the development of longer-term career ladder models that combine work experience and periodic training to advance workers to higher skill positions. Congress should encourage local areas to remove any restrictions that would limit the ability of employers and training providers to offer longer-term training through multiple occupational levels.





## Pennsylvania's Industry Partnership Program

The Pennsylvania Department of Labor & Industry (DLI) is uniquely situated to collect real-time information across a diverse set of industries about employers' plans for near-term hiring, assess their interest in obtaining on-the-job training (OJT) subsidies, and gauge their interest in the OJT program based on employment duration and wage requirements. By utilizing the State's existing Industry Partnership infrastructure, DLI was able to reach very rapidly—from inception to analysis, the survey took approximately one month—nearly 2500 employers across the state.

Industry Partnerships are the cornerstone of Pennsylvania's new, industry-led, demand-driven workforce development strategy. This new strategy is focused on creating a skilled workforce through industry-specific training and education programs developed in cooperation with business and industry leaders—with funding made possible through the support of the Pennsylvania General Assembly. Industry Partnerships bring together multiple employers in the same industry group or cluster to identify and address common workforce needs. These partnerships provide companies with a more cost-effective way to provide training to their employees—training they may not otherwise be able to afford on their own.

The Pennsylvania Industry Partnership program supports nearly 80 sector-based partnerships. These Industry Partnerships leverage partner resources to address both short- and long-term human capital needs of a particular sector, including by analyzing current labor markets and identifying barriers to employment within the industry; developing cross-firm skill standards, curricula, and training programs; and developing occupational career ladders to ensure workers of all skill levels can advance within the industry. Since the program's inception in 2005, more than 6000 Pennsylvania employers have participated in the program, and more than 70,000 workers have received training services. The partnerships have collectively leveraged nearly \$40 million in cash and in-kind contributions from employers.

In addition to providing critical skills development support within firms and across industries, the Industry Partnership network also provides a vital communication link between workforce and economic development agencies and employers across Pennsylvania. Pennsylvania's Industry Partnerships work closely with local WIBs and would allow the state to quickly implement an on-the-job training program by tapping into existing deep relationship with employers—not just firm by firm, but across an entire industry. Because Industry Partnerships are employer-led, they can help ensure that limited public funds are used strategically and effectively to train for skills that employers need and that are part of a pathway to long-term self-sufficiency.

The Strengthening Employment Clusters to Organize Regional Success (SECTORS) Act of 2009 (S 777/HR 1855) would provide federal support for programs like Pennsylvania's Industry Partnerships. Introduced by Senators Sherrod Brown (D-OH) and Olympia Snowe (R-ME) in the Senate and Representatives Dave Loebsack (D-IA) and Todd Platts (R-PA) in the House, the SECTORS Act would establish a grant program at the Department of Labor to support the development and implementation of sector partnerships. Eligible partnerships would be comprised of key stakeholders connected to a local or regional industry, and would be required to pursue a range of strategic objectives, including identifying training needs of multiple businesses; helping postsecondary educational institutions and training institutions align curricula and programs to industry demands; developing and strengthening career ladders within and across companies; and improving job quality through improving wages, benefits, and working conditions. To ensure that states and local communities have the necessary resources to establish these unique partnerships, Congress should act quickly to reauthorize WIA, and ensure that SECTORS is included as part of the new law.

## Appendix A: State On-the-Job Training Waiver Requests

Selected 2009 Workforce Investment Act Waiver Requests	Sliding scale for OJT Reimbursements	Sliding Scale for Customized Training Employer Match Requirements	Use of Statewide Rapid Response Funds for Incumbent Worker Training	Links
Alabama			Up to 50% for statewide activities, including IW training	<a href="http://www.owd.alabama.gov/2009%20WIA%20and%20Wagner-Peyser%20State%20Plan%20-%20Revised%20Per%20DOL%20request.pdf">http://www.owd.alabama.gov/2009%20WIA%20and%20Wagner-Peyser%20State%20Plan%20-%20Revised%20Per%20DOL%20request.pdf</a>
Alaska	Up to 90%			<a href="http://www.labor.state.ak.us/bp/forms/WIA-strategic-plan2009.pdf">http://www.labor.state.ak.us/bp/forms/WIA-strategic-plan2009.pdf</a>
Arizona		Up to 90%		<a href="http://www.azworkforceconnection.com/newsite/gcwp/documents/2007stateplan.pdf">http://www.azworkforceconnection.com/newsite/gcwp/documents/2007stateplan.pdf</a>
California		Up to 90%		<a href="http://www.cwib.ca.gov/library/doc_files/WIA_WPA%20State%20Plan%202009%20Final.pdf">http://www.cwib.ca.gov/library/doc_files/WIA_WPA%20State%20Plan%202009%20Final.pdf</a>
Florida	Up to 90%	Up to 90%	Up to 20% for incumbent worker training	<a href="http://www.workforceflorida.com/news/reports/WIA2009/WIAPlan2009_Final.pdf">http://www.workforceflorida.com/news/reports/WIA2009/WIAPlan2009_Final.pdf</a>
Georgia			Up to 20% for incumbent worker training	<a href="http://www.dol.state.ga.us/pdf/wia/state_unified_plan.pdf">http://www.dol.state.ga.us/pdf/wia/state_unified_plan.pdf</a>
Hawaii		Sliding scale, no limit specified		<a href="http://hawaii.gov/labor/wdc/pdf/State%20Plan%20Mod_061909_FINAL.pdf">http://hawaii.gov/labor/wdc/pdf/State%20Plan%20Mod_061909_FINAL.pdf</a>
Illinois	Up to 100%			<a href="http://www.commerce.state.il.us/NR/ronlyres/3F02020F-3D8D-4AB0-BD9C-23E17962F17C/0/Final_Illinois_WIA_and_WP_State_Plan.pdf">http://www.commerce.state.il.us/NR/ronlyres/3F02020F-3D8D-4AB0-BD9C-23E17962F17C/0/Final_Illinois_WIA_and_WP_State_Plan.pdf</a>
Indiana			Up to 50% for statewide activities, would not apply to ARRA funds	<a href="http://www.in.gov/dwd/files/2005-2010_State_Plan_Modification_Year5_2009-June.pdf">http://www.in.gov/dwd/files/2005-2010_State_Plan_Modification_Year5_2009-June.pdf</a>
Kansas	Up to 75%		Up to 25% for statewide employment and training activities	<a href="http://kansasworksstateboard.org/SiteCollectionDocuments/State%20WIAWP%20Plan%202009%20Mod%2005%2019%2009.pdf">http://kansasworksstateboard.org/SiteCollectionDocuments/State%20WIAWP%20Plan%202009%20Mod%2005%2019%2009.pdf</a>
Kentucky	Up to 90%	Up to 90%	Up to 20% for incumbent worker training	<a href="http://www.kwib.ky.gov/2009StatePlanModification.pdf">http://www.kwib.ky.gov/2009StatePlanModification.pdf</a>
Louisiana	Up to 90%	Up to 90%	Up to 25% for incumbent worker training	<a href="http://www.laworks.net/Downloads/PR/StatePlan20092010.pdf">http://www.laworks.net/Downloads/PR/StatePlan20092010.pdf</a>
Massachusetts			Up to 10% for incumbent worker training	<a href="http://www.mass.gov/Elwd/docs/arra/ma_state_plan_modification_fy10_063009.doc">http://www.mass.gov/Elwd/docs/arra/ma_state_plan_modification_fy10_063009.doc</a>
Maryland	Up to 90%	Up to 90%	Up to 50% for statewide activities.	<a href="http://dldr.maryland.gov/wdplan/wiaworkforceplan.pdf">http://dldr.maryland.gov/wdplan/wiaworkforceplan.pdf</a>
Maine			Up to 20% for incumbent worker training	<a href="http://www.maine.gov/labor/mjc/documents/strategicplan07.pdf">http://www.maine.gov/labor/mjc/documents/strategicplan07.pdf</a>
Michigan			Up to 20% for incumbent worker training	<a href="http://www.michigan.gov/documents/mdcd/BWP_WIA-WP_State_Plan_Modification_7-9-09_285459_7.doc">http://www.michigan.gov/documents/mdcd/BWP_WIA-WP_State_Plan_Modification_7-9-09_285459_7.doc</a>
Minnesota	Up to 90%	Sliding scale, no limit specified	Up to 25%, ARRA funds only	<a href="http://www.deed.state.mn.us/wia/2007/waiver09.pdf">http://www.deed.state.mn.us/wia/2007/waiver09.pdf</a>
Missouri	Up to 90%			<a href="https://worksmart.ded.mo.gov/includes/secure_file.cfm?ID=6&amp;menuID=5201">https://worksmart.ded.mo.gov/includes/secure_file.cfm?ID=6&amp;menuID=5201</a>
Mississippi	Up to 75%			<a href="http://www.mdes.ms.gov/wps/PA_1_0_CH/docs/JobSeeker/DraftStatePlan2009.pdf">http://www.mdes.ms.gov/wps/PA_1_0_CH/docs/JobSeeker/DraftStatePlan2009.pdf</a>
North Carolina			Up to 40% for statewide activities.	<a href="http://www.nccommerce.com/NR/ronlyres/BB20F947-5BDD-46AC-9B5D-9AD7F1938FE6/0/MasterQuestionandAnswers_61109.pdf">http://www.nccommerce.com/NR/ronlyres/BB20F947-5BDD-46AC-9B5D-9AD7F1938FE6/0/MasterQuestionandAnswers_61109.pdf</a>
New Jersey		Up to 90%		<a href="http://www.njsetc.net/publications/NJStatePlanPY2009.pdf">http://www.njsetc.net/publications/NJStatePlanPY2009.pdf</a>
New York			Up to 25% for statewide activities	<a href="http://www.labor.state.ny.us/workforcenypartners/ta/ta07-4att.pdf">http://www.labor.state.ny.us/workforcenypartners/ta/ta07-4att.pdf</a>
Oklahoma	Up to 90%	Up to 90%	Up to 50% for incumbent worker programs	<a href="http://staging.okcommerce.gov/test1/dmdocuments/State_Plan_Modification_2905092863.doc">http://staging.okcommerce.gov/test1/dmdocuments/State_Plan_Modification_2905092863.doc</a>
Oregon			Up to 20% for incumbent worker training	<a href="http://www.worksourceoregon.org/index.php/documents-aampamp-publications-mainmenu-50/doc_view/933-two-year-state-plan-modification-6-29-09?mol=component&amp;format=raw">http://www.worksourceoregon.org/index.php/documents-aampamp-publications-mainmenu-50/doc_view/933-two-year-state-plan-modification-6-29-09?mol=component&amp;format=raw</a>
Pennsylvania	Up to 90%	Up to 90%	Up to 50% for statewide activities	<a href="http://www.portal.state.pa.us/portal/server.pt?open=18&amp;objID=490413&amp;mode=2">http://www.portal.state.pa.us/portal/server.pt?open=18&amp;objID=490413&amp;mode=2</a>
Rhode Island		Up to 90%		<a href="http://www.dlt.ri.gov/wio/pdfs/WaiverRequests_09.pdf">http://www.dlt.ri.gov/wio/pdfs/WaiverRequests_09.pdf</a>
South Carolina	Up to 75%	Up to 75%	Yes, but no limit specified. Applies only to regular WIA funds.	<a href="http://www.workforcesouthcarolina.com/media/4254/sc_wia_wp_state_plan_mod_09_final_ver_june_30.pdf">http://www.workforcesouthcarolina.com/media/4254/sc_wia_wp_state_plan_mod_09_final_ver_june_30.pdf</a>
Texas		Up to 90%	Up to 25%	<a href="http://www.twc.state.tx.us/boards/wia/state_plan/09stateplan2.pdf">http://www.twc.state.tx.us/boards/wia/state_plan/09stateplan2.pdf</a>
Wisconsin	Up to 90%	Up to 90%		<a href="http://dwd.wisconsin.gov/dwdwia/PDF/wia_state_plan_mod_py09-2010.pdf">http://dwd.wisconsin.gov/dwdwia/PDF/wia_state_plan_mod_py09-2010.pdf</a>
West Virginia	Up to 90%	Up to 90%		<a href="http://www.workforcewv.org/Logos/PLAN_MOD_6-30-09_Final_Version.pdf">http://www.workforcewv.org/Logos/PLAN_MOD_6-30-09_Final_Version.pdf</a>