



**Analysis and Response:  
Department of Labor Apprenticeship Pay for Success Feasibility  
Report to Congress**

**Summary**

A key policy position of Apprenticeships for America is its proposal for a Pay for Apprenticeship funding model. Such a model offers sustained, formula-based funding to bring apprenticeships to scale in the United States. In October, the Department of Labor submitted its response to a Congressional request for an analysis of a “Pay for Success” (PFS) apprenticeship funding model.

Definitions of PFS are contextual and evolving. Using a definition described in its response, the Department rejected the idea of a Pay for Success model as overly cumbersome. However, its response suggests some possibilities for testing a “Pay for Performance” approach. Specifically, the Department sees promise in testing a pay for performance funding model through state pilots and/or through funding vehicles targeting particular industries or occupations. Regardless of definition, the Department also names some of the limitations it faces in implementing these models at scale.

AFA finds promise in the feasibility-testing ideas named in the Department’s response and urges action by Congress and the Trump-Vance Administration to advance these ideas in the coming year.

**Background**

AFA has identified the absence of a sustained and reliable source of funding as a key impediment to the growth of apprenticeship in the United States. With

*AFA’s Pay for Apprenticeship Proposal*

1. Pay apprenticeship intermediaries or employer sponsors \$3,000 for each registered apprentice they hire or place in job. Pay an additional \$1,000 upon the completion of the apprenticeship. For apprenticeship programs operating for more than a year, the amount per apprentice per year of continuing employment would be \$2,000 plus \$1,000 for completion.
2. Intermediaries eligible for the apprenticeship incentives would include group sponsors, staffing companies, business services companies, other nonprofits and for-profit organizations, schools, community colleges, workforce boards, and other state and local agencies.
3. Intermediaries and sponsors would document the employment and completion of the apprenticeship through the existing public RAPIDS data system.
4. To assure quality, only apprenticeships operating through the registered apprenticeship system would qualify.
5. A third party with expertise in efficient payment processing would be selected by complete bid to administer the program.

funds overwhelmingly disbursed through short-term competitive grants, the current funding system rewards those good at completing grant applications, not necessarily those who can deliver the best results. It also limits sustained investments as grant recipients can only plan to the end of their current grant. Finally, increases in federal funding in the last decade notwithstanding, support for apprenticeship remains modest (about \$50 per apprentice).

Evidence from other countries suggests that a robust formula funding mechanism tied to outcomes has the effect of catalyzing an ecosystem of apprenticeship intermediaries that advance apprenticeship at scale.

In the last appropriation cycle, advocates from AFA and the America Forward coalition encouraged Congress to request a feasibility study from the Department of Labor for the idea of a pay for success model. AFA and the Coalition offered suggestions and guidance to the Department. The Department issued its response in October.

**A Problematic Definition for Pay for Success**

"Pay for Success" is a funding model that links financial returns or government payments to successful social outcomes. Definitions of PFS vary based on its applications across sectors. Broadly, it refers to a results-based financing structure where private investors fund initiatives aiming to address social issues (e.g., reducing homelessness or improving education outcomes), and government or other entities repay the investors only if specified goals are achieved. In one definition, PFS is seen as a performance-based *contracting tool*, where payments to service providers hinge on meeting predetermined benchmarks. Another definition focuses on *public-private collaboration*, with private sector investors taking on financial risks that governments traditionally hold. In yet another view, PFS emphasizes the *social impact bond* (SIB) model, which involves direct investments by private or nonprofit entities in social programs, with repayment contingent on third party-verified success metrics. While these definitions differ, they all emphasize accountability and incentivize efficient use of funds for impactful social outcomes.

For the purposes of its response, the Department leaned heavily on the social impact bond model for its interpretation of the Pay for Success idea. However, AFA’s proposed Pay for Apprenticeship has no relationship to this treatment. AFA’s proposal never envisaged attracting private investors or using random assignment or other evaluations for computation of payment amounts. Accordingly, the Department’s programmatic objections are largely unrelated AFA’s proposal.

However, the Department has identified more operational and structural challenges that bear a response.

Challenge	<i>AFA’s response</i>
The Department noted that the nature of its annual appropriation makes the long-term investment requirements required by PFS models hard to achieve.	<i>AFA appreciates the challenges of the current appropriation structure and recognizes that a full-blown pay for apprenticeship model would require a different approach. With Congressional engagement, this would seem to be surmountable.</i>

<p>The Department worried that that small investments would be unlikely to create the “flywheel” effect leading to higher levels of scale sought by such a funding model.</p>	<p><i>AFA agrees. Indeed, this is the problem of the federal current funding model for apprenticeship.</i></p>
<p>Decentralized administration and varying approaches by states makes a single model hard to design and creates complexity for intermediaries.</p>	<p><i>AFA agrees. A common complaint from those organizations working to scale apprenticeship is the varying funding mechanisms and strategies among state and federal agencies. They seem almost purposefully designed to frustrate scale-building efforts.</i></p>
<p>The Department raises a series of operational challenges for how it would administer such an effort.</p>	<p><i>AFA agrees and is sympathetic to these challenges. That’s why AFA has suggested that a third-party administrator would be critical to launch such an effort at scale.</i></p>
<p>The Department notes that it needs traditional grant making programs to advance aims for particular industries, populations, and places.</p>	<p><i>AFA agrees. There will always be a need for such targeted grant making. AFA just believes that such grant making does little to promote scale.</i></p>

**Closer to Mark: Pay for Performance**

The Department defines Pay for Performance (PFP) as a policy in which achieving specific milestones (apprentice enrollment, credential attainment, etc.) triggers payments to the organizations generating these milestones. This is much closer to the AFA Pay for Apprenticeship Proposal.

There is an important difference, however. While in the longer term, the Department sees the possibility of a third-party administrator that might scale the approach, its initial approach is very much rooted in the language and practice of government contracting. AFA believes strongly that such thinking undermines the spirit of a pay for apprenticeship approach and continues to place the Department in the position of picking a few winners at the expense of a scaled, market-based approach.

AFA’s proposal reduces the operational burdens of the current contracting approach on DOL and the organizations stimulating apprenticeships. It would eliminate the time and cost burdens for writing and gaining approval for the RFP, for providing time for organizations to write proposals, for convening committees to judge proposals, and for requiring contract officers to monitor the progress of grantees. It would reduce the uncertainty organizations stimulating apprenticeships now face. It would fund organizations only for the apprenticeships they stimulate and not for proposed targets that are unmet. Equally important, the current one-off grant process is ill-suited for scaling the system.

As the Department notes, however, achieving scale requires ongoing funding for new apprenticeships, along the lines of the Pell grant program which provides grants to each student enrolling in a recognized college or university. Until this obstacle is addressed through

Congressional action, any pay for apprenticeship efforts may serve important demonstration purposes but are unlikely to address the scale challenge.

AFA is gratified that the Department expresses an openness to this PFP approach, even though some of the same operational and structural challenges (DoL capacity, the nature of DoL appropriations, the need for significant new resources) remain.

### **Recommendations for Moving Forward**

The Department concludes with two ideas for how to test the Pay for Performance approach. The Department suggests one avenue for testing the pilot would be to run funding through the Department's existing State Apprenticeship Expansion Formula grant program. This would allow the Department to test different implementation approaches among the states and build on nascent work in California and in other states.

*AFA is supportive of this idea, particularly if it is used to leverage existing or new state investments in formula funding. AFA's research suggests 15 states have at least some version of a formula funding program. These states would offer ready opportunities to test a Pay for Performance approach.*

A second possibility would be to run a pilot targeting one or more industries or occupation.

*AFA also encourages Congress and the Trump-Vance Administration to consider pay for apprenticeship in pilots linked to industries, particularly those identified as targets for development support, such as early education, semiconductor fabrication, manufacturing, artificial intelligence or others. Such an approach could also be incorporated into industry development legislation in the coming Congress.*

Knowing that these pilots can take some time to launch, AFA also encourages the Department and Congress to make provision for simultaneous study and planning for a scaled pay for apprenticeship approach.