Buckeye Policy Brief

Giving Families Certainty

Enhancing Education with Education Savings Accounts

By Greg R. Lawson

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Introduction

The Buckeye Institute's recent policy memo, *Policy Solutions for the Pandemic: Enhancing Education with Education Savings Accounts*,[1] urged the U.S. Department of Education to create education savings accounts (ESA) for every K-12 student in America. ESAs would provide flexible funding vehicles for families to purchase necessary educational equipment, tutoring, online learning, and other services as families and students navigate the disruption of the COVID-19 crisis and the uncertainty surrounding how public schools will operate this fall.[2]

The Buckeye Institute initially recommended that the U.S. Department of Education make a $500 ESA available for each of the roughly 56 million students that attend K-12 schools in America.[3] To pay for the new ESAs, the federal government first should reduce spending on nonessential services and then contribute—and allow states and organizations to contribute—additional resources so that the program is flexible enough to meet the various needs of those struggling through the pandemic. Flexibility will be especially critical given the potential for rolling school shutdowns to manage localized spikes in COVID-19 cases.

The federal ESA should serve as a financial "hub" from which various state, federal, and private funding and programmatic "spokes" extend to meet the specific needs of students. Such spokes could include programs such as the Education Freedom Scholarships championed by the U.S. Department of Education, state-based tax credit scholarships, tax-advantaged savings vehicles like 529s and Coverdell ESAs, and state vouchers.

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[1] Greg R. Lawson, ***Policy Solutions for the Pandemic: Enhancing Education with Education Savings Accounts***, The Buckeye Institute, April 13, 2020.

[2] Chris Frye, **2-Day Week and Virtual Learning Could be New Normal in Ohio Starting this August**, Cleveland19.com, May 5, 2020.

[3] **Fast Facts**, National Center for Education Statistics (Last visited April 23, 2020).

The Need for a Federal Education Savings Account

Due to revenue shortfalls, Ohio is already reducing state funding for K-12 public schools, leading many districts to worry about how they will operate in the fall.[4] In addition to tighter budgets, schools face the unprecedented uncertainty of rolling school district shutdowns even as they look to reopen and return to "normal."[5]

But normalcy could be elusive for the near term. Medical experts have warned about the possibility of a second wave of the pandemic in the fall, reminiscent of the Spanish flu of 1918, which could cause even greater upheaval to school operations.[6] And no matter how well schools do returning to "normal," there likely will be serious challenges for students and their families trying to overcome distraction and lost instructional time, and adjust to new modes of learning in and away from schools.[7]

Given increasingly strained state resources, a federally funded ESA can help alleviate some of these problems by giving families additional financial support to secure the necessary educational resources for their students. Like state-based ESAs, a federal ESA offers a flexible funding vehicle for families to purchase educational equipment, tutoring, online learning, and other services.[8] And because some parents may use ESA funds to send their children to private or charter schools, they could reduce the strain on public schools struggling to comply with social distancing guidelines this fall.

Leveraging a Federal ESA to Maximize Educational Opportunity

A federal ESA should not replace other resources available to families, but should supplement a wide range of educational savings and financing programs such as those outlined below.

Education Freedom Scholarships and State Tax Credits

The U.S. Department of Education is currently pursuing Education Freedom Scholarships that, if adopted, would establish a federal tax credit of up to $5 billion annually for businesses and individuals that voluntarily donate to non-profit scholarship-granting organizations.[9] Once authorized by state law, these scholarship organizations could then distribute funds to eligible students and into the ESA.

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[4] Robert Higgs and Peter Krouse, **Coronavirus Economic Fallout 'Terrifies' School Leaders, Experts, Stirring Fears of Deep Budget Cuts, Merged Districts**, Cleveland.com, May 8, 2020.
[5] John P. Bailey and Frederick M. Hess, ***A Blueprint for Back to School,*** American Enterprise Institute, May 4, 2020.
[6] Len Strazewski, **Harvard Epidemiologist: Beware COVID-19's Second Wave this Fall**, AMA-ASSN.org, May 8, 2020.
[7] The Editorial Board, **50 Million Kids Can't Attend School. What Happens to Them**?, *The New York Times*, April 16, 2020.
[8] **Fast Facts**, EdChoice.org (Last visited April 23, 2020).
[9] **How Education Freedom Scholarships Can Expand Private and Home Education Options**, U.S. Department of Education, September 26, 2019.

According to EdChoice.org, 18 states already have at least one form of tax credit scholarship program.[10] Since 2001, for example, Florida has offered income tax credits to corporations that contribute to non-profit scholarship-granting organizations.[11] The program expanded in 2009 to include other types of tax credits, and Florida recently created the Hope Scholarship to allow new motor vehicle buyers to earmark the vehicle's sales tax for the scholarship.[12]

Coverdell Education Savings Accounts and 529s

Since the late 1990s, Coverdell Savings Accounts[13] and 529 plans[14] have provided tax-advantaged ways for families to pay for various education expenses. The new ESA program should allow families already participating in such tax-advantaged education plans to roll their contributions into the new ESA with no tax penalties.

Coverdell Savings Accounts can help families cover a broad spectrum of education expenses, including tuition at eligible primary schools, equipment and supplies for distance learning, tutoring fees, and educational support services for students with special needs. Families may set aside $2,000 per year and distributions to beneficiaries are tax-free. Similarly, state-made 529 plans originally offered tax-deferred savings accounts to help families save for college. Annual plan contribution limits still vary by state, but Congress made their distributions tax-free in the early 2000s, and the Tax Cuts and Jobs Act of 2017 expanded the program to include paying for K-12 tuition.

Current contributions to both types of plans could increase the aggregate amount in the new federal ESA substantially by leveraging dollars in these existing plan accounts and expanding the types of educational services that their funds may buy.

Other State Matching Programs

States with voucher and ESA programs already should let eligible recipients combine their amounts in those programs. And state ESA programs should allow the new federal ESA dollars to flow into the existing state accounts. In states without ESAs, the federal money should go into a new account in which those eligible for vouchers could combine their resources. Allowing such combinations would increase the value of the new ESA and expand the available spending options for parents.

Currently, only five states have ESA programs.[15] Families may spend state ESA funds broadly, including for tuition, tutors, long-distance learning equipment, and curriculum supplements. Consequently, shifting state ESAs into a federal ESA program should be rather straight-forward

[10] **What is a Tax-Credit Scholarship?**, EdChoice.org (Last visited April 23, 2020).
[11] **Florida Tax Credit Scholarship FAQ**, FLDOE.org (Last visited April 23, 2020).
[12] **Florida- Hope Scholarship**, EdChoice.org (Last visited April 23, 2020).
[13] **Topic No. 310 Coverdell Education Savings Accounts**, IRS.gov (Last visited April 23, 2020).
[14] **529 Savings Plans for K-12 Students – What Happens Now?**, EdChoice.org (Last visited April 23, 2020).
[15] **Fast Facts**, EdChoice.org (Last visited April 23, 2020).

administratively. State voucher programs are more common.[16] Seventeen states (and Puerto Rico) have at least one such program, with some states, like Ohio, boasting multiple vouchers with varying eligibility criteria.[17] Unlike ESAs, most state voucher programs exclusively help pay tuition at non-public schools. Thus, states would have to amend their voucher-related laws in order to combine their vouchers with the federal ESA.

Program Integrity

A federal ESA will need guardrails to ensure that it pays only for authorized educational expenses. States should take the lead on establishing those guardrails and determining which expenses, vendors, and types of services are appropriate.

States already employ various administrative mechanisms to ensure program integrity and accountability.[18] In Florida and Mississippi, for example, the state ESA reimburses parents for justified education expenses. Alternatively, Arizona, Nevada, and Tennessee deposit funds directly into ESA accounts that are subject to random state audits. Both models have proven workable, but the deposit/audit model avoids adding administrative burdens to families during a stressful and disruptive crisis. Alternatively, states could employ experienced, private firms to manage their state-based programs using managed debit cards, approved vendor lists, electronic receipt management, and fraud alert dashboards. Arizona, North Carolina, and Tennessee have hired such firms successfully.

To further ease program accountability and compliance, the U.S. Department of Education could bulk-purchase some equipment and work with certain equipment and service providers to offer an online marketplace of pre-approved, cost-effective vendors. Purchases made in that online marketplace would be presumed valid.

Conclusion

The COVID-19 crisis has created historic disruption for American education and it is unclear how and when that disruption will end. Future crises may hit again without warning, and federal and state policymakers can and should be better prepared when they do. A new federal ESA program can provide a federal "hub" for a variety of state and private "spokes" to help keep the wheels of education turning even during stressful, disruptive times. States should maintain, expand, and amend as necessary current tax-advantaged programs to tie-in to a federal ESA. And states should carefully craft guidelines and guardrails to ensure that ESA funds are spent appropriately and without onerous bureaucratic burdens.

[16] *Ibid.*

[17] **Scholarships**, Education.Ohio.gov (Last visited April 23, 2020).

[18] ***Education Savings Accounts: Key Provisions and State Variations***, Education Commission of the States, August 2016.

About the Author

Greg R. Lawson is the research fellow at The Buckeye Institute.

In this role, Lawson works with all members of the Buckeye research team with a particular focus on occupational licensing, local government, and education issues. He is also Buckeye's primary liaison to the Statehouse where he educates policymakers in both the legislative and executive branches on free-market solutions to Ohio's challenges.

Prior to his position at Buckeye, Lawson served in the Ohio General Assembly as a Legislative Service Commission fellow. He then went on to several government affairs roles focusing on numerous public policy topics, including Medicaid, school choice, transportation funding, and Ohio's Building Code. He also has a background in PAC fundraising, grassroots organizing, and communications and served for five years on the boards of two Columbus-based charter schools.

THE BUCKEYE INSTITUTE
88 East Broad Street, Suite 1300
Columbus, Ohio 43215
(614) 224-4422
BuckeyeInstitute.org

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