

# ISSUE BRIEF

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## Education Savings Accounts: Giving Every Child the Chance to Succeed

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Every child should have the chance at a great education and the American dream.<sup>1</sup> In the 21st century, students can learn anywhere—inside or outside the classroom, online, or from a personal tutor. Education savings accounts allow parents to customize their child’s education to fit his or her individual needs. Parents can choose a new school or several learning opportunities simultaneously. Lawmakers should consider the savings account laws enacted in Arizona, Florida, Mississippi, Nevada, North Carolina, and Tennessee as they look for ways to give more children access to a high-quality learning experience.<sup>2</sup>

The accounts have changed the lives of families and students around the country, such as Jeanet Carrasco and her son, Ivan. Jeanet was devastated to learn that Ivan was being bullied at school. Ivan is shy and the bullying did not help his efforts to adjust to elementary school. To make matters worse, Ivan struggled with reading—as demonstrated by his grades. Jeanet tried to schedule a meeting with school staff to create a plan to help Ivan with both issues, but such a meeting never materialized.

“The experience was very frustrating. I wanted to get together with the teachers to talk about what Ivan needed, and we never got that,” Jeanet relayed through a translator.

Jeanet learned from her sister about Arizona’s Empowerment Scholarship Accounts, otherwise known as education savings accounts. With an account, parents remove their son or daughter from a public school, and the state deposits a portion of a child’s funds from the state funding formula into a private, parent-controlled account. Jeanet used an education savings account to enroll Ivan at St. John the Evangelist Catholic School in Tucson. When Ivan entered St. John’s in fourth grade, he could only read at a second-grade level. After two years, he had caught up to his peers. By seventh grade, he was reading at an eighth-grade level.

All parents want to be able to tell a story like this about their child. And research demonstrates participating families report high levels of satisfaction with their education savings accounts.

Education savings accounts are helping to write these stories of achievement and life change for 3,500 children across Arizona. Some 8,000 students are using accounts in Florida, and nearly 500 Mississippi students are using an account. Another 8,500 students have applied for an account in Nevada and 155 students have applied in Tennessee.<sup>3</sup> In 2017, North Carolina became the latest state with an account law.<sup>4</sup>

### A Step-by-Step Guide to Education Savings Accounts

Parents can use education savings accounts to buy educational products and services for their child instead of sending him to a traditional or charter public school full-time. The accounts allow parents to customize their child’s education with the child’s funds from the state formula, and to choose multiple learning options simultaneously.

This paper, in its entirety, can be found at  
<http://report.heritage.org/ib4780>

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Parents and students access the accounts as follows:

- 1. Student Eligibility.** In Florida, Mississippi, and Tennessee, the accounts are available to children with special needs.<sup>5</sup>

Arizona's accounts are available to a range of students that includes children with special needs, adopted children, children of active-duty military families; native American students living on tribal lands in Arizona; and children assigned to failing public schools. In addition, students must have attended a public school for 100 days in the prior school year—a provision included in Mississippi, Nevada, North Carolina, and Tennessee's account laws.<sup>6</sup>

- 2. Applications.** State departments of education or, in Florida, K-12 private school scholarship organizations, make education savings account applications available to eligible families.<sup>7</sup> Parents complete the application online or return the appropriate paperwork to the agency. Application

periods for eligible families differ from state to state.

- 3. Account Awards.** In Arizona and Tennessee, a state agency sends account information, including a debit card and bank account number, to families that complete an application. In Florida and Mississippi, the state agency or scholarship organization that oversees the accounts processes parent and student transactions, and parents do not use a debit card.

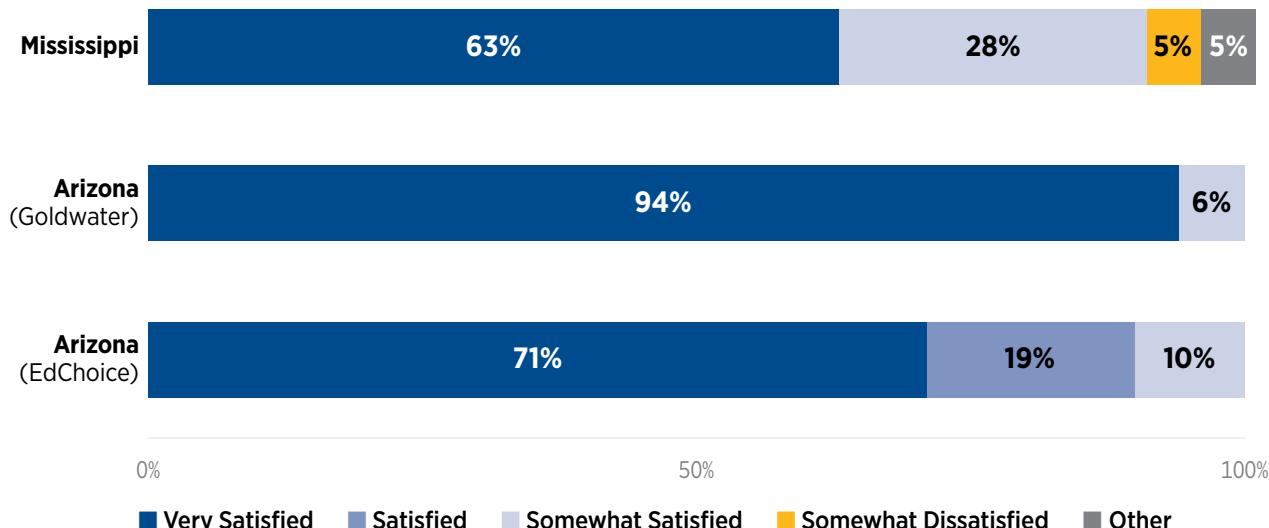
Typically, state agencies or scholarship organizations make quarterly deposits of a child's funds into his account. Generally, at the beginning of the school year, participating families have 25 percent of a child's funds to use immediately.

- 4. Account Usage.** Parents and students use the accounts for eligible expenses. In Arizona and states that follow its model, parents swipe their prepaid Visa card at vendors' card readers (such as an educational therapist or private school), just as they would when paying at the grocery store.

1. This *Issue Brief* is a condensed version of Jonathan Butcher, "A Primer on Education Savings Accounts: Giving Every Child the Chance to Succeed," Heritage Foundation Backgrounder No. 3245, September 15, 2017, <http://www.heritage.org/education/report/primer-education-savings-accounts-giving-every-child-the-chance-to-succeed>.
2. Arizona Revised Statutes, Title 15, Chapter 19, Article 1, 15-2401-15-2404, <http://www.azleg.gov/arsDetail/?title=15> (accessed August 18, 2017); Nevada Legislature, 2015 Session, S.B. 302, <http://www.leg.state.nv.us/Session/78th2015/Reports/history.cfm?ID=705> (accessed August 28, 2017); Mississippi Legislature, 2015 Regular Session, S.B. 2695, <http://billstatus.ls.state.ms.us/2015/pdf/history/SB/SB2695.xml> (accessed August 18, 2017); Florida Senate, 2014 Session, S.B. 850, <https://www.flsenate.gov/Session/Bill/2014/0850> (accessed August 18, 2017); and Tennessee General Assembly, 2015 Session, S.B. 27, <http://wapp.capitol.tn.gov/apps/BillInfo/Default.aspx?BillNumber=SB0027> (accessed August 18, 2017).
3. State of Nevada, Office of the State Treasurer Dan Schwartz, January 20, 2017, [http://www.nevadatreasurer.gov/PublicInfo/PR/2017/ESA/2017-01-20\\_Nevada\\_ESA\\_Demographic\\_Data/](http://www.nevadatreasurer.gov/PublicInfo/PR/2017/ESA/2017-01-20_Nevada_ESA_Demographic_Data/) (accessed August 18, 2017); news release, "MDE Announces Lottery for Special Needs Scholarship Program Applications," Mississippi Department of Education, July 11, 2016, <http://www.mde.k12.ms.us/TD/news/2016/07/11/mde-announces-lottery-for-special-needs-scholarship-program-applications> (accessed August 18, 2017); Step Up for Students, "Gardiner Scholarship Fact Sheet," Office of Policy and Public Affairs, March 2017, <https://www.stepupforstudents.org/wp-content/uploads/Gardiner-Fact-Sheet-SPRING-2017-FINAL-1.25.17-1.pdf> (accessed August 18, 2017); Tennessee Department of Education, "Individualized Education Account (IEA) Program," April 27, 2017, <http://mailchi.mp/tn/iea-program-update-april-27-2017?e=2d57d27728> (accessed August 18, 2017); and Arizona Department of Education, "Empowerment Scholarship Accounts: Annual Program Growth Report," <https://cms.azed.gov/home/GetDocumentFile?id=589cc8b31130c00d4c087c29> (accessed August 18, 2017).
4. General Assembly of North Carolina, Session 2017, Senate Bill 257, p. 133, <http://www.ncleg.net/Sessions/2017/Bills/Senate/PDF/S257v8.pdf> (accessed October 23, 2017).
5. For a full description of eligibility in each state, see Arizona Revised Statutes, Title 15, Chapter 19, Article 1, 15-2401-15-2404; Nevada Legislature, 2015 Session, S.B. 302; Mississippi Legislature, 2015 Regular Session, S.B. 2695; Florida Senate, 2014 Session, S.B. 850; and Tennessee General Assembly, 2015 Session, S.B. 27.
6. In Arizona, children of military members killed in action are exempt from this requirement, along with incoming kindergarten students. See Arizona Revised Statutes, Title 15, Chapter 19, Article 1, 15-2401. Note: While Nevada lawmakers enacted education savings accounts in 2015, state legislators have not funded the accounts, leaving that state's accounts inoperative as of this writing.
7. For example, Arizona's Empowerment Scholarship Account application is available at Arizona Department of Education, "Empowerment Scholarship Account Program," <http://www.azed.gov/esa/eligibility-requirements/> (accessed August 18, 2017).

CHART 1

## How Satisfied Are ESA Program Participants?



### SOURCES:

- Jonathan Butcher, "Dollars, Flexibility, and an Effective Education," *Goldwater Institute Policy Report*, October 3, 2013, <http://goldwaterinstitute.org/en/work/topics/education/education-savings-accounts/dollars-flexibility-and-effective-education-parent/> (accessed August 15, 2017).
- Brett Kittredge, "The Special Needs ESA," Empower Mississippi, December 2016, <http://empowerms.org/wp-content/uploads/2016/12/ESA-Report-final.pdf> (accessed August 15, 2017).

- Jonathan Butcher and Jason Bedrick, M.P.P., "Schooling Satisfaction: Arizona Parents' Opinions on Using Education Savings Accounts," EdChoice, October 2013, <http://www.edchoice.org/wp-content/uploads/2013/10/SCHOOLING-SATISFACTION-Arizona-Parents-Opinions-on-Using-Education-Savings-Accounts-NEW.pdf> (accessed August 15, 2017).

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Each state law lists the allowable uses of the accounts. State laws vary, but the list of lawful learning expenses generally includes private school tuition, textbooks, educational therapy, personal tutors, and college expenses.<sup>8</sup>

- 5. Expense Reports.** At the end of each fiscal quarter, parents complete an expense report. Families submit receipts for each purchase to the agency

overseeing the accounts. The agency cross-references the items on the report with the bank's records. Once all transactions have been accounted for, the agency makes the next quarter's deposit.

If state officials find a discrepancy between a parent's report and the bank's register, the agency can withhold the next quarter's disbursement. State officials can close an account in the event of fraud.<sup>9</sup>

8. Each state has a different list of allowable expenses. For example, Mississippi and Tennessee allow account holders to use funds for transportation costs, while Arizona and Florida do not. This list most closely resembles Arizona's law in Title 15, Chapter 19, 15-2402, <http://www.azleg.gov/viewdocument/?docName=http://www.azleg.gov/ars/15/02402.htm> (accessed August 18, 2017).
9. For more on these procedures, see Arizona Department of Education, "Empowerment Scholarship Account Parent Handbook," <http://www.azed.gov/esa/parent-handbook/> (accessed August 18, 2017), and Step Up for Students, "Gardiner Scholarship Parent Handbook," <https://www.stepupforstudents.org/wp-content/uploads/Gardiner-Parent-Handbook.pdf> (accessed August 18, 2017). Arizona's auditor general is the only state agency that has conducted a review of account administration. The auditor reported in 2016 that the state recovered 1.2 percent of total account awards due to misuse between August 2015 and January 2016. See Arizona Auditor General, Performance Audit Division, "Arizona Department of Education: Department Oversees Empowerment Scholarship Accounts Program Spending, But Should Strengthen Its Oversight and Continue to Improve Other Aspects of Program Administration," June 2016, pp. 1 and 7, [https://www.azauditor.gov/sites/default/files/16-107\\_Report.pdf](https://www.azauditor.gov/sites/default/files/16-107_Report.pdf) (accessed August 18, 2017).

## Policy Recommendations

Lawmakers should consider the following key provisions in an account law:

**Eligibility.** Just as every child can attend a local public school, so should every child be eligible for an education savings account.

**Allowable Expenses.** A variety of learning options, such as private-school tuition, online classes, personal tutors, and college expenses, to name a few eligible uses in states with account laws, should be allowable uses for account holders.

Because every child is unique, lawmakers should include the widest range of possible account uses because different students can benefit from different instructional practices.

**Achievement.** Standardized tests are a limited measure of a child's achievement. Therefore, lawmakers should not require account holders to complete a single uniform state test in order to remain eligible for an account.

State policymakers should equip parents to be responsible for their child's academic accountability. For example, lawmakers could require families to choose a nationally referenced standardized test, college entrance exam, or Advanced Placement test in math and reading each year. For students attending a private school, account holders should be allowed to satisfy this requirement by taking the annual assessment of the school's choice or by choosing a different test outside school.

**Fraud Prevention.** To prevent misuse of the accounts, lawmakers should create a 1-800 number for individuals and businesses to report suspected fraud, along with an online fraud-reporting form. State auditors or inspectors general should conduct annual reports on how parents and students are using the accounts, including incidents of misspending.

**Homeschooling.** Families should be allowed to homeschool without using an education savings account, just as they can use an account to buy educational materials and instruct a child in their home. Arizona pioneered a provision that protects homeschooling families that do not want to use an education savings account from being affected by changes to laws governing the accounts.<sup>10</sup>

## Conclusion

For Ivan, the experience of overcoming the odds with the help of an education savings account and the team at St. John the Evangelist in Tucson is not the end of his family's success story. In 2014, Arizona lawmakers expanded student eligibility for the accounts to include siblings of current account holders, and Ivan's mom, Jeanet, applied for an account for Ivan's brother, Zaith.<sup>11</sup> After one year at St. John's, Zaith's reading scores doubled. "I'm very proud and excited to see how my children are being appreciated and treated at St. John's and awarded for their academic standing," Jeanet says. "And I feel that this is a very safe place for them to be."

Some families are satisfied with a student's assigned school, and any parent who does not wish to use an account is not required to do so. However, the accounts can help parents access an educational environment as unique as their child. Every child should have the opportunity to enjoy such an environment and the rewarding experiences it brings.

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10. Fiftieth Arizona Legislature, 2nd Regular Session, H.B. 2622, [http://www.azleg.gov/DocumentsForBill.asp?Bill\\_Number=2622&Session\\_Id=107&image.x=0&image.y=0](http://www.azleg.gov/DocumentsForBill.asp?Bill_Number=2622&Session_Id=107&image.x=0&image.y=0) (accessed October 23, 2017).

11. Fifty-first Arizona Legislature, 2nd Regular Session, H.B. 2139, <https://apps.azleg.gov/BillStatus/BillOverview/32996> (accessed October 31, 2017).