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Education Savings Accounts: A Promising Way Forward on School Choice

Lindsey M. Burke

Across the country, states are enacting and expanding school choice options for families. This year alone, 12 states and the District of Columbia have implemented new school choice options for children or expanded existing options, leading *The Wall Street Journal* to label 2011 “The Year of School Choice.”¹

Among the many school choice advances in 2011 was the enactment of a revolutionary new option in Arizona: Education Savings Accounts (ESA). ESAs redirect a portion of the funding the state would have spent on a child in the public-school system to an education savings account, from which parents can then pay for private-school tuition and a variety of other educational options. Education Savings Accounts are an innovative new approach that many states could take to provide school choice options for families.

Arizona: Epicenter of the ESA Movement. In April 2011, Arizona Governor Jan Brewer signed into law SB 1553, creating Arizona Empowerment Accounts. The first of their kind, Empowerment Accounts allow parents—in this case, parents of special-needs children—to remove their children from the public-school system and receive the money the state would have spent on them in an education savings account. Every quarter, the state deposits up to 90 percent of the base support level of state funding into a parent-controlled ESA.² Parents can then use that money to pay for a variety of educational options including private-school tuition, private tutoring, special education services, homeschooling expenses, textbooks, and virtual education, enabling them to customize an education for their child’s unique needs. Parents may also

roll over funds from year to year, and they can use the money to invest in a 529 plan to pay for college tuition in the future.³

When a family decides to take advantage of Arizona Empowerment Accounts, a parent must sign an agreement stating that the parent will not enroll his or her child in a public school or public charter school and will use the child’s ESA funds to provide social studies, math, reading, and science instruction. Arizona contracts with financial management firms to manage the accounts for a 3 percent fee, and any unused ESA dollars return to the state after college graduation or four years after the child graduates from high school.⁴

In Arizona, the amount of money parents can receive annually in an ESA depends on their child’s disability classification. According to the Arizona Joint Legislative Budget Committee, “pupils qualifying for the highest ‘Group B’ weights in A.R.S. [Arizona Revised Statutes] §15-943 currently can cost the state \$30,000 per year, whereas special education pupils with ‘mild’ disabilities can cost the state \$5,000 annually.”⁵ Nearly 90 percent of private schools in Arizona also offer some form of financial aid, which could further facilitate access to a quality private school when combined with ESA funding.⁶

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While access to the current Arizona education savings account program is limited to children with special needs, there is no cap on the number of children who can participate.⁷ As a result, it is estimated that up to 17,000 children with disabilities will benefit from Arizona Empowerment Accounts.⁸ State Senator Rick Murray (R–Glendale), who sponsored the Arizona Empowerment Account Act, noted that the ESAs now available to Arizona’s special-needs students could “become the template for providing the same option to more than one million students now in public schools.”

Benefits of ESAs. A growing body of literature finds that school choice is associated with parental satisfaction, student safety, academic achievement, and increased graduation rates. Education Savings Accounts can help parents and students attain these benefits in several ways.

Increased school choice options. Education Savings Accounts help maximize school choice options for families by giving them direct control over their child’s share of education funding. Instead of sending taxpayer dollars directly to the school district in which a child is enrolled, state funding

is sent to a state’s treasury department, which then sends dollars into a family’s ESA. Education savings accounts have the potential to produce the same positive effects as other school choice options.

Savings for taxpayers. ESAs can be designed to produce fiscal savings for taxpayers. A bill considered in Florida in early 2011 would have provided funding for ESAs equivalent to 40 percent of the state’s per-pupil expenditures. While the measure did not ultimately become law, according to the Foundation for Florida’s Future, every child who took advantage of the ESA program would have provided a 20 percent savings to the state.⁹

Necessary competitive pressure. School choice options place competitive pressure on public school systems to improve and meet the needs of students. When families have options, public schools must meet the needs of children or risk losing enrollments—and hence dollars—creating a strong incentive for improvement. Education researchers Jay Greene and Marcus Winters found that special-needs “students eligible for vouchers [in Florida] who remained in the public schools made greater academic improvements as their school choices

1. Editorial, “The Year of School Choice,” *The Wall Street Journal*, July 5, 2011, at <http://online.wsj.com/article/SB10001424052702304450604576420330972531442.html> (September 29, 2011).
2. “15-943. Base Level Support,” Arizona State Legislature, 2007, at <http://www.azleg.gov/FormatDocument.asp?inDoc=/ars/15/00943.htm&Title=15&DocType=ARS>.
3. Press release, “Institute for Justice Vows to Defend Arizona’s Landmark Education Savings Accounts for Children with Special Needs,” Institute for Justice, April 13, 2011, at <http://www.ij.org/about/3763> (September 29, 2011).
4. “Arizona—Empowerment Scholarship Accounts,” Friedman Foundation for Educational Choice, at <http://www.edchoice.org/School-Choice/Programs/Empowerment-Scholarship-Accounts.aspx> (September 29, 2011).
5. Steve Schimpp, SB1553 Fiscal Note, Arizona Joint Legislative Budget Committee, February 15, 2011, at <http://www.azleg.gov/legtext/50leg/1r/fiscal/sb1553.doc.pdf> (September 29, 2011).
6. Ross Groen and Vicki Murray, “Survey of Arizona Private Schools: Tuition, Testing and Curricula,” The Goldwater Institute, January 5, 2005, at <http://www.goldwaterinstitute.org/article/1299> (September 29, 2011).
7. Press release, “Institute for Justice Vows to Defend Arizona’s Landmark Education Savings Accounts for Children with Special Needs.”
8. Press release, “Arizona Adopts Education Savings Accounts to Aid Special Needs Students,” The Goldwater Institute, April 12, 2011, at <http://www.goldwaterinstitute.org/article/5909> (September 29, 2011).
9. “Education Savings Accounts at a Glance,” Foundation for Florida’s Future, at <http://www.foundationforfloridasfuture.org/Docs/ESA%20SB1550%20&%20HB1255%20Position%20Paper.pdf> (September 29, 2011). Also, SB 1550 “EDUCATION SAVINGS ACCOUNT AMOUNT.—The total amount of payments to a participating student’s account for a single school year shall be equal to 40 percent of the base student allocation under the Florida Education Finance Program multiplied by the appropriate cost factor for the educational program that would have been provided for the student in the district school to which he or she was assigned, multiplied by the district cost differential plus the per-student share of instructional materials funds and other categorical funds as appropriated in the General Appropriations Act.”

increased.”¹⁰ In March 2011, education researcher Greg Forster released an evaluation of the evidence behind school choice and noted that 18 of the 19 empirical studies on the competitive effect of school choice on public schools found that voucher programs improved the performance of public-school students.¹¹

Customization. One of the greatest benefits of Education Savings Accounts is the ability to customize a child’s education. Unlike a voucher, which enables parents to send their child to a private school of choice, the dollars in an ESA can be directed to multiple education providers simultaneously. A family could, for example, use part of the funding to pay for private-school tuition, some of the dollars for tutoring, and a portion of the money to defray the cost of textbooks. A family could use part of the money in an ESA to pay for virtual classes for their child and choose to roll over the remaining dollars to the next academic year. Policy analyst Dan Lips, who outlined the concept of ESAs in 2005, noted that the accounts “would give families greater flexibility to use education dollars to best suit their children’s needs, spurring innovation among education service providers, including virtual and online learning programs.”¹²

More than 1.5 million children took courses online in 2010, contributing to the school choice groundswell.¹³ Virtual education is growing in popularity among families who want access to the best teachers and coursework available, regardless of zip code, and who want the educational flexibility and customization online learning provides. As Terry Moe and John Chubb write in their acclaimed book

Liberating Learning:

[Technology] replaces the dead hand of monopoly with the dynamism of diversity and competition. It replaces the sameness of the traditional classroom model with a vast range of innovative learning alternatives. It replaces the “one-size-fits-all” approach to students with powerful new ways of customizing schooling to the needs and interests of each individual.¹⁴

Education savings accounts can facilitate the growth of online learning and create a dynamic education system that is prepared to adapt to new modes of delivering instruction in the future.

How State and Federal Policymakers Can Help. To ensure that every child has access to a school that meets his or her needs, states should:

- Reform funding so dollars are distributed by a simple, per-pupil formula;
- Transition from funding schools to funding students through Education Savings Accounts, empowering parents with control over their child’s share of education funding. ESA dollars should be universal and available for any education-related purpose, including: private-school tuition, private tutoring, online learning courses, or education-related services. Parents should also be allowed to roll over unused ESA dollars from year to year, or to save ESA funding for college tuition; and
- Support alternatives to the traditional public-school model, such as statewide online learning programs and virtual charter schools.

10. Jay P. Greene and Marcus A. Winters, “The Effect of Special Education Vouchers on Public School Achievement: Evidence From Florida’s McKay Scholarship Program,” Manhattan Institute for Policy Research *Civic Report* No. 52, April 2008, at http://www.manhattan-institute.org/html/cr_52.htm (September 29, 2011).

11. Greg Forster, “A Win-Win Solution: The Empirical Evidence on School Vouchers,” The Foundation for Educational Choice, March 2011, at <http://www.edchoice.org/CMSModules/EdChoice/FileLibrary/656/A-Win-Win-Solution---The-Empirical-Evidence-on-School-Vouchers.pdf> (September 29, 2011).

12. Dan Lips, “Education in the Digital Age: Policy Reforms to Improve Learning Options in Oklahoma,” Oklahoma Council of Public Affairs, July 2011, at http://s3.amazonaws.com/assets.ocpa.com/articles/pdfs/1488/original/Education_In_Digital_Age_FINAL.pdf (September 29, 2011).

13. John Watson, Amy Murin, Lauren Vashaw *et al.*, “Keeping Pace with K-12 Online Learning: 2010,” Evergreen Education Group, 2010, at http://www.kpk12.com/cms/wp-content/uploads/KeepingPaceK12_2010.pdf (September 29, 2011).

14. Terry M. Moe and John E. Chubb, *Liberating Learning: Technology, Politics, and the Future of American Education* (John Wiley & Sons, Inc., 2009).

For their part, federal policymakers should give states greater control of federal education dollars. Federal policymakers should allow states to opt out of the many programs under No Child Left Behind and direct federal education dollars to areas of need, including ESAs.

ESAs: A Tool for Achieving Education Excellence. Today, a child entering kindergarten can expect to have more than \$120,000 spent on his or her education by the time the child graduates high school. And approximately 90 percent of that money is derived from state and local sources. Education Savings Accounts operate on the philosophy that parents are best equipped to make the important decisions about their child's education. Instead

of automatically allocating a share of a child's education funding to the public-school system, ESAs ensure dollars will be spent under the direction of parents, at any school of their choice.

More than 200,000 children across the country now benefit from private-school choice options such as tuition tax credit programs, vouchers, online learning, and now, Education Savings Accounts. But millions more are assigned to public schools that fail to meet their needs. ESAs provide a promising path forward and are broadening the school choice landscape in vital ways.

—*Lindsey M. Burke is Senior Education Policy Analyst in Domestic Policy Studies at The Heritage Foundation.*