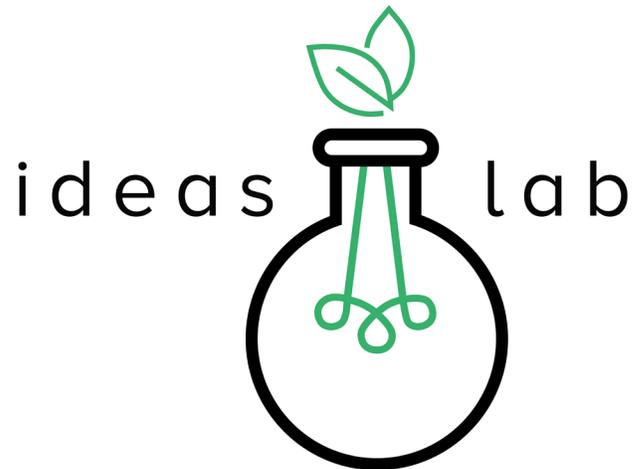


# ROOM TO GROW



## A FEDERAL REFORM TO IMPROVE AMERICAN EDUCATION:

Transforming 529 Accounts Into Lifelong Learning ESAs

*Dan Lips<sup>1</sup>*



## EXECUTIVE SUMMARY

The United States spends more than \$140,000 on the average public school student's K-12 education. That figure may rise to as high as \$200,000 for students who participate in public preschool programs or take advantage of higher-education subsidies. Yet measured outcomes, such as student test scores and college-readiness rates, are disappointing. Too many American students do not reach adulthood prepared to succeed in the workforce.

A better approach would be to give families—and ultimately students themselves—control of their share of public funding for education. Lifelong Learning Education Savings Accounts would allow families to finance their children's learning experiences while giving the flexibility to take account of their distinctive needs and interests. They would also allow people to finance learning throughout their lives.

Over the past decade, school-choice supporters have increasingly looked to state-funded ESAs as a preferred vehicle for giving parents the ability to direct their children's education. Five states, led by Arizona, now allow families to use ESAs to spend on qualified education expenses and let them save remaining funds for future use. States oversee the accounts to prevent fraud and abuse. In 2015, Nevada became the first state to make K-12 ESAs available to all public-school students. (The program will start in January.)

Federal policymakers should implement a series of complementary reforms to give American families access to Lifelong Learning ESAs:

- **First, Congress should convert federal 529 accounts to Lifelong Learning ESAs.** This would be a simple change. These 529 accounts are a popular way to save tax-free for college: Americans currently own more than 12 million 529 college savings plans, including approximately \$224 billion invested in 10.9 million college savings plan accounts.<sup>2</sup> Allowing the funds in these accounts to be used as well for preschool, K-12, and post-college job-training expenses would make them Lifelong Learning ESAs. Families who currently own 529 savings accounts would get the immediate benefit of increased flexibility. Others would open accounts if allowed to spend funds on a wider range of education services. In 2015, the Obama administration's proposal to terminate tax benefits for 529 accounts met strong bipartisan opposition and led Congress to move bipartisan legislation to modestly enhance the accounts. Expanding this popular program is a winner as policy and politics.

- **Second, Congress should make it possible for other students, including those from disadvantaged families, to benefit from Lifelong Learning ESAs.** Non-designated contributions to non-profits that raise funds for students' accounts should be eligible for a tax deduction; clarifying this point would help low-income students benefit from them. In addition, Congress should restructure preschool, K-12, postsecondary and post-college job-training programs and tax benefits so that families and adults have the option of receiving their share of education funding as a deposit into a Lifelong Learning ESA. Families could then make more efficient use of their children's share of federal education funding.

For fifty years, conservatives have struggled to implement reforms to federal education programs that are consistent with conservative goals, including limiting government, restoring federalism, and enabling parental choice in education. Creating Lifelong Learning ESAs and thereby transferring greater control of education spending to individuals is a conservative reform that would improve educational opportunities for millions of Americans and allow more citizens to succeed in adulthood.

## INTRODUCTION:

### *The Case for a New Conservative Approach to Federal Education Reform*

In 1965, President Lyndon Johnson signed into law the Elementary and Secondary Education Act<sup>3</sup> and the Higher Education Act<sup>4</sup>—ushering in the modern era of federal education policy. That year, LBJ also launched the Head Start program<sup>5</sup>, which would become the main federal preschool program.

For the past fifty years, conservatives have struggled with the challenge of reforming federal education programs. Many conservatives have argued that there is no role for the federal government in education, pointing to the absence of any constitutional authority for the federal government in education. But conservatives—and Republican presidents and lawmakers who have championed conservative positions—have been largely unsuccessful in reducing the federal role in education<sup>6</sup>, reforming federal programs to expand choice in education, or devolving authority back to states and local communities.

That's not because federal involvement in K-12 education has been an unqualified success. In fact, the growth of the federal government's role in K-12 education has yielded little progress in student performance. Long-term test scores from the National Assessment of Educational Progress (NAEP) show that K-12 student academic achievement has essentially remained flat since the early 1970s, with very modest progress made by sub-populations of children.<sup>7</sup>

Federal programs to improve early childhood education also have failed to deliver the desired improvement in students' academic performance throughout their lives. The most comprehensive study of Head Start found that children who participated in it were no better off by third grade than their peers who did not.<sup>8</sup> Taxpayers have nonetheless spent more than \$180 billion on the program since 1965.<sup>9</sup>

In the area of higher education, decades of increasing federal subsidies for students to attend college<sup>10</sup> have succeeded in increasing college attendance.<sup>11</sup> But the limited empirical evidence about college students' academic achievement, reviewed later in this report, suggests that many college students learn very little during their years on campus. Meanwhile, growing evidence suggests that increasing federal subsidies has contributed to the rapid increase in the costs of attending college<sup>12</sup>, which burden many students with large student loans that significantly alter their economic future.

## *A New Approach to Conservative Federal Education Reform*

In 2016, the nation will debate once again the federal government's role in education. It is likely that Democratic candidates will call for increasing federal spending on education. For example, former Secretary of State Hillary Clinton has already proposed boosting federal spending on higher-education subsidies<sup>13</sup> and preschool.<sup>14</sup>

Conservatives will have an opportunity to present a more compelling vision for reforming federal programs and improving educational opportunities for students. A new approach to federal reform would be to give parents direct control over education spending throughout their children's lives. This would give American families more power to ensure that their sons and daughters reach their potential and can pursue happiness in adulthood. Conservatives should offer a series of complementary reforms to advance this vision.

First, Congress should transform 529 college savings plans into Lifelong Learning ESAs. This can be done by expanding the allowable uses of the accounts, which currently allow tax-free savings for college expenses, to include a broad range of preschool, K-12, and post-college job-training expenses. This would provide an immediate benefit to the more than ten million families<sup>15</sup> that currently own 529s.

Once this is done, Congress also should act to help other children, including those from lower-income families who struggle to save for their children's education, to benefit. These reforms would include clarifying that non-earmarked donations made to non-profits that raise funds for the Lifelong Learning ESAs are eligible for a charitable deduction. This would encourage philanthropy to assist disadvantaged children.

Since disadvantaged children face the greatest challenges in American education, ensuring that low-income students can also access the benefits of lifelong learning ESAs should be a priority. Towards that end, Congress also should reform other federal education programs—including preschool and child care benefits, K-12 education programs, and postsecondary education subsidies—to allow students to receive a share of education funding as a deposit into a Lifelong Learning ESA.

Policymakers should also revise other federal education benefits to enable greater family control of learning throughout students' lives. For example, military families could be allowed to

transfer unused G.I. Bill benefits into children’s Lifelong Learning ESAs.<sup>16</sup>

Like current efforts to reform federal education programs to allow greater parental choice, some of these policy reforms may face short-term political resistance. But the potential popularity of Lifelong Learning ESAs could make them politically attractive as more families see the benefits of controlling their children’s share of education funding.

529 savings plans, which offer ways to save for or pre-pay college tuition, are already popular. American families own more than 12 million 529 college savings plans that hold an estimated \$247 billion, according to an estimate from the College Savings Plans Network.<sup>17</sup> The Investment Company Institute reported that 10.9 million of these 529 plans are savings accounts that held approximately \$224 billion in assets as of December 2014.<sup>18</sup>

Existing 529 accounts appear to have broad political support, as President Obama learned when he proposed taxing them in his 2015 budget. President Obama quickly withdrew the proposal after facing strong opposition from leaders from both parties on Capitol Hill.<sup>19</sup> Shortly thereafter, 401 members of the House of Representatives voted in favor of H.R. 529, bipartisan legislation that expanded the list of items that college students can purchase with their 529 funds.<sup>20</sup> In April, the Senate Finance Committee passed similar legislation with bipartisan support.<sup>21</sup>

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This paper presents the policy case for Lifelong Learning ESAs. It begins by diagnosing the big problems in American education—including examining what is spent on education throughout students’ lives and what outcomes students achieve throughout their schooling. The paper examines how low-achievement in K-12 and postsecondary education likely contributes to the challenge that many adults face finding good-paying jobs in the workforce. It discusses the evidence showing that improving students’ learning opportunities and boosting adults’ cognitive achievement could lead to increased growth and expanded prosperity for American society.

The paper then explains why Lifelong Learning ESAs are an effective strategy for improving the efficiency of education spending. This proposal is based on key assumptions about big trends that are shaping American education—including increasing choice and personalization, the proliferation of high-quality and low-cost digital learning programs, and the increasing need to learn throughout adulthood to remain competitive in the labor market. Some of these trends have

the potential to dramatically improve the options for how students and adults learn, particularly if families (and ultimately students) obtain greater control of the \$140,000 to \$200,000 that will be spent on their children's educations.

The paper concludes with specific recommendations for Congress to create Lifelong Learning ESAs and give more families the opportunity to control their children's education, improve their learning opportunities throughout their lives, and pursue happiness in adulthood.

## **AVERAGE GOVERNMENT SPENDING ON EDUCATION FROM AGE 4 THROUGH 22: BETWEEN \$140,000 TO \$200,000 PER STUDENT**

According to the U.S. Department of Education, the United States spends \$1.165 trillion on K-12 and postsecondary education, or approximately 7.2 percent of the nation's Gross Domestic Product.<sup>22</sup> This means that roughly one out of every fourteen dollars the nation spends is allocated to K-12 or postsecondary schooling.<sup>23</sup>

On a per student basis, Americans spend more than \$140,000 on a public school student's education from kindergarten through high school. For students who participate in publicly-funded preschool or take advantage of government benefits for college, the total amount of funding spent on their education can approach \$200,000. Some Americans will also be eligible for subsidized job training during adulthood.

- **Government Spending on K-12 Education:** Each individual student's share of the nation's spending on education is considerable. For example, the U.S. Department of Education reports that the average current per pupil expenditure for U.S. public schools will be \$11,440 for the 2014-2015 school year.<sup>24</sup> This means that the average child enrolled in public school from kindergarten through high school can expect to have at least \$140,000 spent on his or her education, based on a conservative estimate.<sup>25</sup>
- **Government Spending on Early Childhood Education:** Many students will have additional public funds spent on their educations before they begin kindergarten, including through federal or state preschool programs. For example, a student enrolled in a state-funded preschool program could receive more than \$4,000 in funding for their early childhood education.<sup>26</sup> A child enrolled for two years in the federal Head Start program, which

serves economically disadvantaged children, could receive as much as \$16,000 in funded preschool benefits.<sup>27</sup>

- **Government Spending on Postsecondary Education:** Among students who graduate from high school and attend postsecondary education, an estimated 82 percent will receive additional government subsidies.<sup>28</sup> On a per-student-bases, federal grant recipients, for example, received approximately \$4,500 as of 2013.<sup>29</sup> State and local grants amounted per recipient amounted to more than \$2,900 that year.<sup>30</sup> This means that a college student who receives federal and state/local grants for four years could receive nearly \$30,000 in grant awards for postsecondary education. When all kinds of financial assistance are considered, the average amount of aid provided to undergraduate students grows to more than \$14,000 per year.<sup>31</sup> This means that the average student's higher education subsidies may exceed \$50,000.<sup>32</sup>
- **Federal Employment and Job Training Programs:** Adults may also receive federal educational assistance for employment and job training throughout their lives. The federal government spends considerable tax dollars on federal employment and job training programs. In 2011, GAO reported that the federal government was operating 47 job-training programs across nine agencies at an annual cost of \$18 billion as of 2009.<sup>33</sup> This estimated amount is likely higher than current spending, since it included funds from the American Recovery and Reinvestment Act, better known as the 2009 stimulus legislation.

## THE OUTCOMES OF AMERICAN EDUCATION

For many Americans, the estimated \$140,000 to \$200,000 that is invested in their educations from age four through their early twenties is the largest investment that will be made on their acquisition of knowledge and skills during their lifetime. Whether or not those funds are spent well will have a significant impact on the rest of their lives.

Regrettably, for large numbers of American students, this investment does not yield adequate preparation for adulthood. National outcome measures show that the majority of students do not excel in elementary, secondary, or postsecondary education, and most students do not even achieve grade-level mastery by the end of high school. Even among those students who attend college, many do not really benefit significantly from the extra four to six years of additional

schooling. Adult outcomes—including high levels of unemployment and underemployment—highlight the inability of the American education system to prepare many students to succeed and pursue happiness in adulthood.

- **Elementary School Academic Achievement:** Most American 4<sup>th</sup> grade students do not achieve grade-level results in the core subjects of reading and mathematics, judging by the National Assessment of Educational Progress.<sup>34</sup> On the 2013 NAEP reading assessment, 65 percent of American 4<sup>th</sup> graders did not achieve a “proficient” level on the test<sup>35</sup>, which is defined as a “solid academic performance for each grade level assessed.”<sup>36</sup> Fifty-eight percent of fourth-graders did not achieve grade-level proficiency in mathematics.<sup>37</sup> Only 8 percent, or about one of out every twelve students, are scoring “advanced” on the NAEP reading and mathematics exams.<sup>38</sup>
- **Middle School Academic Achievement:** Roughly two-thirds of students are behind grade level by 8<sup>th</sup> grade in reading and mathematics. Sixty-four percent of teenagers did not achieve grade-level proficiency in either reading or mathematics on the 2013 NAEP test.<sup>39</sup>
- **High School Academic Achievement:** By 12<sup>th</sup> grade, some students will have dropped out of high school or fallen behind their original class. Roughly one in five students entering high school do not graduate in four years.<sup>40</sup> Among those remaining in high school, just 38 percent of 12<sup>th</sup> graders demonstrated grade-level mastery in reading, and only 26 percent did in math (by scoring proficient or higher on the NAEP reading and math exams).<sup>41</sup>
- **High School Students’ College Readiness:** Many students who are on track to complete high school and pursue college are not ready for college-level work. Fifty-seven percent of the graduating class of 2014 took the ACT exam, and 87 percent of test-takers aspired to pursue postsecondary education.<sup>42</sup> Fewer than half of students taking the ACT test achieved scores that demonstrated college and career readiness in reading, mathematics, or science.<sup>43</sup> Only 26 percent met college and career readiness benchmarks in each of the four core subjects tested.<sup>44</sup>
- **Postsecondary Education Outcomes:** There are fewer reliable measures of student outcomes and educational attainment in postsecondary education. But the available measures of student performance suggest that many students are not learning much in higher education.<sup>45</sup> For example, an analysis of a representative sample of students’ test

scores on the College Learning Assessment found that 45 percent did not demonstrate significant improvement in “critical thinking, complex reasoning, and writing skills” after two years of college,<sup>46</sup> and 36 percent showed no gains after four years.<sup>47</sup> Fewer than 40 percent of college freshman graduate in four years, and fewer than two-thirds earn a degree within six years.<sup>48</sup>

## THE CHALLENGE OF FINDING A GOOD-PAYING JOB IN ADULTHOOD IN 2015

The failure of many American students to achieve high levels of learning from kindergarten through high school or postsecondary education affects their ability to pursue happiness for the rest of their lives.

Due to a variety of factors, including slow economic growth, many Americans remain unemployed, underemployed or out of the workforce in 2015. For example, Gallup reports that only 45.5 percent of the adult population is working full-time for an employer and only 67 percent of adults are participating in the workforce, as of June 2015.<sup>49</sup> Gallup also reported that 14.7 percent of adults are underemployed, meaning that they are either unemployed or working part-time but seeking full-time work.<sup>50</sup>

Even among those adults with college degrees, many are struggling to find well-paying jobs. A general assumption has been that earning a college degree is a ticket to finding good jobs.<sup>51</sup> Federal labor statistics reveal that earning postsecondary degrees is linked with higher earnings and reduced unemployment rates, when compared with less-educated workers.<sup>52</sup> However, historical and recent statistics show that even earning a college or university degree is not a guarantee of a high-wage job.

A 2014 report by the Federal Reserve Bank of New York found that from the early 1990s onward, about one in three recent college grads have been working in jobs that do not require a college degree.<sup>53</sup> The percentage has increased in recent years. In 2012, 44 percent of recent college graduates were not working in positions that required a college degree.<sup>54</sup> The report found that 20 percent of recent college graduates were in low-wage jobs that paid below an average of \$25,000 per year.<sup>55</sup> For many college students, an investment in a postsecondary degree has not been providing immediate benefits in the workforce.

At the same time, many companies report that it is tough to find qualified candidates for open positions, even with such a large underemployed population. This too suggests that many adults lack the skills that they need to succeed in the workforce, whether or not they have postsecondary degrees. For example, according to an international survey of employers, 32 percent of U.S. employers reported difficulty filling open positions due to their inability to find qualified candidates.<sup>56</sup> A 2013 Gallup survey found that 53 percent of small businesses reported that it was difficult to find qualified candidates to fill jobs.<sup>57</sup>

For many adults, dynamism in the economy and the changing labor market adds to the challenge of finding jobs that pay well. For example, the U.S. Bureau of Labor Statistics reports that, among adults born in the latter years of the Baby Boom (1957 through 1964), the average worker held approximately a dozen jobs between the ages of 18 and 48, with half of those changes occurring before the age of 24.<sup>58</sup> It is possible that job changes will become a more frequent aspect of American adulthood in the coming decades, particularly as new enterprises, technological innovation, and globalization continue to render some jobs and careers scarce or obsolete. Lifelong learning and acquiring new skills may become the norm for adults who wish to remain competitive in the labor market.

## INCREASING KNOWLEDGE AND IMPROVING ECONOMIC GROWTH AND OPPORTUNITY

The broader challenges facing the U.S. economy are also linked to the performance of the nation's education system. Empirical evidence shows that increasing educational attainment and cognitive ability can improve opportunities both for individuals themselves and society as a whole. For example, higher levels of educational attainment are linked with greater earning power and lower rates of unemployment<sup>59</sup>, as discussed above, though we should be cautious about assuming a direct correlation between simply earning a degree and succeeding in the workforce.

Evidence also suggests that increasing educational achievement and cognitive ability levels would increase our country's economic growth and prosperity over the long term.<sup>60</sup> In their recent book, *The Knowledge Capital of Nations: Education and the Economies of Growth*, Eric A. Hanushek and Ludger Woessmann present an analysis that shows that a nation's prosperity and economic growth are related to its citizens' performance on international tests measuring cognitive learning and achievement. "Even with very conservative assumptions," Hanushek and Woessmann write,

“improvements in school outcomes lead to added GDP growth that could dramatically change the future prosperity of a country.”<sup>61</sup> Similarly, a 2009 study by McKinsey and Company concluded that the nation’s inability to close the achievement gap between low-income or minority students and their peers has the economic effect of a permanent national recession. The report stated that if the achievement gap between economically-disadvantaged students and their peers had been erased through low-income students’ gains, the GDP in 2008 would have been 3 to 5 percent higher.<sup>62</sup>

## KEY TRENDS SHAPING THE FUTURE OF AMERICAN EDUCATION

Any strategy to improve the learning opportunities available to Americans should recognize the changing landscape of American education. The reform proposals outlined below are premised in part on the following key trends that appear to be shaping the future of American education:

- **Choice in education is becoming more widespread.** States and school districts across the country are increasingly allowing parents to exercise choice in education. Their choices include private schools, charter schools, and home-schooling, all of which would become more accessible with ESAs.
- **Personalized and customized learning, inside and outside of the classroom, is replacing standardized education.** The traditional schooling model, in which classrooms group students by age and cover roughly the same material at the same time, is gradually losing ground to more personalized approaches. Blended-learning programs, for example, combine adaptive computer-based learning with teachers who provide one-on-one or small-group instruction.<sup>63</sup> A majority of the states offer full-time online schools, and eleven states allow students to choose at least one online course to supplement their education.<sup>64</sup>
- **Mastery and competency rather than seat-time increasingly will measure student progress.** As schooling becomes more personalized and customized, the traditional ways of measuring student progress, based on “seat time” and passing through the agrarian school calendar, likely will shift to competency and mastery-based progression. For example, New Hampshire has pioneered the elimination of seat-time requirements, allowing students to earn high school credits based on subject mastery.<sup>65</sup> *Education Week* reported in 2012 that thirty-six states allow school districts to award credits based on subject-matter proficiency.<sup>66</sup> The shift to mastery and competency is also happening outside of the traditional school

setting. Independent services, such as Open Badges, allow learners to “get recognition for skills [they] learn anywhere” by giving them an electronic transcript that vouches for their skills to schools or future employers.<sup>67</sup> There likely will be many more opportunities for students to demonstrate their achievement and knowledge through mastery-based assessments, similar to the millions of Advanced Placement tests that high school students take each year to demonstrate mastery of college-level coursework.<sup>68</sup>

- **Independent online or digital learning programs and services increasingly will allow students of all ages to learn from anyone, anywhere, and at any time, often at their own pace and at a low cost.** In his book, *One World Schoolhouse*, Salman Khan, the creator of Khan Academy, described how his free video tutorials aim to provide a free, world-class education for any student in any location.<sup>69</sup> Khan Academy reports that more than 10 million people use its tutorials each month, which range in subjects from kindergarten through college-level coursework and have been translated into 40 languages.<sup>70</sup> Khan Academy is perhaps the best-known example of the many digital instructional models that have grown in popularity over the past decade. Many higher education service providers, including elite colleges such as the Massachusetts Institute of Technology, offer higher-education coursework online for free or at a low cost.<sup>71</sup> The trend of educators and teachers harnessing the power of technology to create innovative ways for students to learn, often at a low cost or for free, will continue.
- **Alternatives to expensive colleges and universities are becoming increasingly available.** Many analysts have warned that the trend of rising tuitions is unsustainable; some researchers have predicted that the so-called “higher-education bubble” will pop.<sup>72</sup> The average annual costs of attending an out-of-state public or private university now exceed \$32,000 and \$42,000 respectively,<sup>73</sup> and statistics, including those cited above, suggest that many students learn relatively little while in college.<sup>74</sup> These trends may lead more families to question the value of a costly postsecondary education. Many elite colleges and universities offer instruction online for free in the form of Massive Open Online Courses (“MOOCs”), and some even award students who pass the courses a certificate of completion to memorialize the achievement.<sup>75</sup> Other private-sector providers, such as Coursera and edX, also provide high-quality, low-cost learning options for motivated students who wish to take classes online.<sup>76</sup> Higher learning may become increasingly affordable and accessible, though it may not resemble traditional notions of college.

- **Students increasingly will recognize the need to continue learning and acquiring new skills after they earn their degrees to remain competitive in the workforce.** Adults who graduated from college a decade or more ago likely recognize that, in many ways, the economy that they were preparing for no longer exists. Our workforce is increasingly dynamic, and some professions have been rendered scarce or obsolete, while other careers have been created or become increasingly in demand.

These changes will force adults to adapt to remain competitive. Kevin Carey discusses this trend in his 2015 book, *The End of College*: “The more complicated the world becomes, the more that intelligent machines usurp traditional human roles, the more people need to learn throughout their lives.”<sup>77</sup> The increasing availability of low-cost digital instruction will also allow motivated learners around the world to compete with American workers and thus add to the importance of our continuing to acquire new skills.

Reviewing these trends reveals several common themes that policymakers should recognize. First, technology is improving the efficiency of how and what students can learn and creating opportunities for students to learn much more at a lower cost. Second, many American families (and ultimately students themselves) have greater flexibility to control how students learn, from the growing choice options in K-12 schooling to the increasing number of low-cost online educational service providers. Third, the tradition of focusing spending on education during the period of life between ages 4 and 22 will likely transition into spending on lifelong learning opportunities, as many adults—either out of necessity or a desire to improve their skills—continue to seek education and training programs to remain competitive in the workforce.

## **LIFELONG LEARNING EDUCATION SAVINGS ACCOUNTS:**

### *A Vehicle to Fund the Future of American Education and Personal Learning*

Given these trends, policymakers and those concerned with improving education should consider a basic question: How can the \$140,000 to \$200,000 in taxpayer-funded, government programs for preschool, K-12, and postsecondary education programs and subsidies be used more efficiently to benefit students’ learning opportunities?

One answer that is gaining traction across the country is the idea of giving families direct control of their children’s share of education funding in an education savings account (ESA).

Over the past decade, advocates of choice in education have developed a new approach to policy reform that gives families control of their children's education by allowing direct contributions to ESAs.<sup>78</sup> ESAs are state-funded accounts that parents can use on approved educational services. States manage the accounts and oversee how funds are spent to prevent waste or abuse.

Education Savings Accounts are an improvement on and refinement of the original concept of school vouchers. Vouchers and scholarships allow students' families to decide where their children go to school. ESAs allow families to decide not only where they will attend school, but also how their children will learn, from whom, and in what manner.

As of 2015, five states have enacted state-funded K-12 ESAs. Arizona was the first state to enact an ESA program in 2011, followed by Florida in 2014. In 2015, Mississippi, Tennessee, and Nevada enacted state-funded K-12 ESA programs. Nevada went furthest in creating a nearly universal ESA program, which is available to all students who have enrolled in public school for a period of time. This program will start in January 2016. A survey of Arizona parents found that those participating in the state's ESA program were very satisfied with their experience.<sup>79</sup>

To give families and students more control over their share of education funding, policymakers should reform federal policies to facilitate this trend and give families greater control of their children's education funding through Lifelong Learning ESAs.

## **FEDERAL REFORMS TO CREATE LIFELONG LEARNING ESAS**

The following are reforms that Congress and the White House should enact to enable families and students to control their shares of public funding for education:

- 1. Expand the Allowable Uses of 529 College Savings Plans to Include Pre-K, K-12, and Post-College Job Training Expenses to Create Lifelong Learning ESAs.**

Under federal law, families are eligible to save tax-free for their children's postsecondary education expenses using so-called Qualified Tuition Plans. According to the Internal Revenue Service, "states may establish and maintain programs that allow you to either prepare or contribute to an account for paying a student's qualified education expenses at a postsecondary institution."<sup>80</sup> These plans are often referred to as 529 plans.<sup>81</sup> This federal option offers families two ways of

saving for higher education expenses for their children. Families can contribute to a 529 college savings plan to prepay tuition at a participating college or university, or they can contribute to a general 529 savings account that can be used for qualified higher education expenses at any postsecondary institution. American families currently own approximately 12 million 529 savings plans, including 1.2 million pre-paid tuition plans and 10.9 million general savings accounts.<sup>82</sup>

Federal policymakers should expand the allowable uses of 529 savings accounts to transform them into Lifelong Learning ESAs, rather than limiting them to vehicles for higher education savings. Some have proposed expanding the accounts' allowable uses to include K-12 expenses,<sup>83</sup> and legislation to this effect has been introduced in the House of Representatives.<sup>84</sup> This would be a step forward; however, it does not go far enough to give families (and ultimately students) the flexibility that they will need to learn throughout their lives.

Lifelong Learning ESAs would allow parents and students to use their 529 savings to cover preschool and K-12 education expenses like school tuition, tutoring, and online classes, as well as post-college expenses such as job-training programs, including educational and professional programs that are not currently eligible for federal aid.<sup>85</sup>

This would give families and beneficiaries greater flexibility to purchase needed services when they most need them, improving their chances of success in elementary and secondary school and improving their skills after college. Since states oversee the management and expenditures of their 529 plans, states are in the position to determine whether to participate in the Lifelong Learning ESA program and would continue to manage and oversee how funds are spent and what investment options are available to families.

While many families already own 529 savings accounts, it is likely that many more would open and use them if the allowable uses for the accounts were expanded. More than thirty states and Washington, D.C., provide tax advantages for people to contribute to 529 college savings plans.<sup>86</sup> Families who have children in private school or home school in those places would find it advantageous to make contributions. Nationally, the Department of Education reports that 5.1 million children are enrolled in private schools<sup>87</sup> and 1.8 million are homeschooled<sup>88</sup>.

It is not just the parents of school-age children who would likely choose to save more for education if policymakers expanded the allowable uses of 529 savings accounts. Families are already allowed to open 529s for education even before a child is born, allowing them to plan

ahead for a child's future.<sup>89</sup> Grandparents can also make contributions to their grandchildren's 529 accounts.<sup>90</sup> Even non-relatives can make contributions into specific children's accounts.<sup>91</sup> And if adults have leftover funds saved in their own 529 accounts after college, they can transfer unused benefits to their children. In these ways, 529 accounts allow for intergenerational savings accounts for families to invest in their children's and grandchildren's futures.

Since contributing to a 529 savings account requires after-tax income that can be devoted to savings, middle- and upper-income families are more likely to be able to use them.<sup>92</sup> Therefore, federal policymakers should also reform other laws and federal education programs to address equity concerns and ensure that disadvantaged children and their families also benefit from the opportunity to control a Lifelong Learning ESA.

For starters, Congress and the IRS should clarify that individuals can make tax-deductible charitable contributions into the 529 savings accounts of disadvantaged children even if the contribution is not earmarked for a specific child.<sup>93</sup> This would enable non-profit organizations to pool tax-deductible donations and make contributions to disadvantaged children's Lifelong Learning ESAs. Congress should also reform other federal education programs to allow families to receive their shares of funding directly into an ESA, as discussed below.

## **2. Restructure Federal Preschool and Child Care Benefits to Allow Contributions into Lifelong Learning ESAs.**

According to the Government Accountability Office, the federal government operates twelve programs with the direct purpose of supporting early learning and child care, which cost more than \$14 billion annually.<sup>94</sup> Other estimates of the number of programs and the funding levels for federal preschool and child care programs are higher.<sup>95</sup> The federal Head Start program, described above, is the largest federal preschool program, costing more than \$8 billion annually and serving approximately 1 million children at an approximate cost of \$8,000 per child.<sup>96</sup> A congressionally-mandated national evaluation of the program, which the Department of Health and Human Services repeatedly delayed releasing<sup>97</sup>, found that students who attend Head Start were no better off by third grade than their peers when measuring cognitive learning.<sup>98</sup>

Congress should consolidate current Head Start, preschool, and early childhood education funding streams, and allow that funding to be used as a direct subsidy or deposit into an eligible child's Lifelong Learning ESA. The expansion of this benefit would provide additional value to

parents, as they could use deposited funds to enroll their children in high-quality preschool or child care centers of their choosing. They could also make choices to economize, saving funds to benefit their children's education in elementary or secondary school. To ensure that families use the funds for their intended purposes, federal and state policymakers could create rules for how families may use deposited funds, including requirements that a child is enrolled in a preschool program or otherwise is receiving an early childhood education.

Any restructuring of federal preschool and child care benefits to enable families instead to receive funds as a deposit in a Lifelong Learning ESA should be done in a manner that does not create perverse incentives for participating families. For example, benefits targeted to children eligible for Head Start, which is determined by family income, should be phased out gradually to avoid creating disincentives for families to work and increase their earnings.

### **3. Reform federal K-12 education formulas and grant programs to allow states the option of directing funds into children's Lifelong Learning ESAs.**

Since the 1980s, conservatives have sought to reform federal K-12 education programs, such as the Elementary and Secondary Education Act (ESEA) and the Individuals with Disabilities Education Act (IDEA), to restore greater state control of education through block grants or by making funding portable to allow dollars to follow children to a school of their parents' choice. Federal policymakers could combine these ideas in a way that restores greater federalism in education by shifting decisions to the states, while also supporting parental choice.

Congress could reform federal education spending programs, like ESEA and IDEA, to give governors and state lawmakers the option of using federal funds to contribute to eligible students' lifelong learning ESAs. For example, Title I funds, which are intended to support disadvantaged students' educations, could be used to make deposits into ESAs for low-income children, if families choose that option. Federal and state policymakers could create requirements for how funds are used to ensure that participating disadvantaged children are benefitting academically from the contributions. Similarly, IDEA funding, which is provided to states and localities to support special education students, could be used to make deposits into special education students' ESAs with certain requirements for how funds are used.

These federal reforms, if enacted, would achieve two goals of conservatives for reforming

federal education programs: restoring greater state control and enabling greater parental choice in education.

#### **4. Restructure Benefits for Higher Education and Job Training to Allow Contributions into Lifelong Learning ESAs.**

Congress could also let students take existing benefits for higher education—including grants, loans, tax credits, and direct funding of institutions—in the form of direct deposits into Lifelong Learning ESAs. This option would provide them with more flexibility over how funds are used to pursue postsecondary education or job training.

Similarly, Congress could reform the federal government’s many job training programs to allow for funds to be deposited into Lifelong Learning ESAs for education and job-training purchases. In addition, military service members, who have earned Post-9/11 GI Bill benefits for education, could be given the option of transferring unused benefits into immediate family members’ or dependents’ Lifelong Learning ESAs.

## **CONCLUSION**

The \$140,000 to \$200,000 that the public spends on the average student’s education is not being spent in a way that ensures that all children receive a high-quality education and reach their potential. Giving families direct control of their child’s share of education funding in an ESA holds the promise of dramatically improving the efficiency of how education dollars are spent to improve learning.

Federal policymakers could expedite the transition to family control of education spending and personalized lifelong learning by transforming 529 accounts into Lifelong Learning ESAs. This would be an important step to giving families and ultimately students the opportunity to direct how they learn throughout their lives.

For conservatives who have struggled to achieve conservative reforms in the federal education debate, Lifelong Learning ESAs would offer a new approach to improving education and would appeal to millions of American families, starting with those who currently own the nation’s nearly 11 million 529 savings accounts.

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## ENDNOTES

- <sup>1</sup> Dan Lips is a research fellow with the Goldwater Institute. In 2005, he wrote a paper for the Institute proposing publicly funded education savings accounts (ESAs) as a new vehicle to expand choice in education.
- <sup>2</sup> Investment Company Institute, “529 Plan Program Statistics December 2014,” June 4, 2015.
- <sup>3</sup> LBJ Presidential Library, “Johnson’s Remarks on Signing of the Elementary and Secondary Education Act,” April 11, 1965, Johnson City, Texas.
- <sup>4</sup> LBJ Presidential Library, “Signing of the Higher Education Act of 1965,” November 8, 1965.
- <sup>5</sup> Lyndon B. Johnson, “Remarks on Project Head Start,” May 18, 1965.
- <sup>6</sup> Federal spending on education has increased steadily since the 1960s. For example, since 2000, total on-budget spending on education has increased from \$85.9 billion to \$179 billion as of 2014. For more information, see: National Center for Education Statistics, Digest of Education Statistics, Table 401.10 at: [http://nces.ed.gov/programs/digest/d14/tables/dt14\\_401.10.asp?current=yes](http://nces.ed.gov/programs/digest/d14/tables/dt14_401.10.asp?current=yes) (August 18, 2015).
- <sup>7</sup> National Assessment of Educational Progress, 2012 Long-Term Trend Assessment, “Summary of Major Findings,” at: [http://www.nationsreportcard.gov/ltt\\_2012/summary.asp](http://www.nationsreportcard.gov/ltt_2012/summary.asp) (July 13, 2015).
- <sup>8</sup> U.S. Department of Health and Human Services, “Third-Grade Follow-up to the Head Start Impact Study: Final Report,” October 2012, at: [http://www.acf.hhs.gov/sites/default/files/opre/head\\_start\\_report.pdf](http://www.acf.hhs.gov/sites/default/files/opre/head_start_report.pdf) (July 13, 2015).
- <sup>9</sup> Lindsey Burke and David B. Mulhausen, “Head Start Impact Evaluation Report Finally Released,” Heritage Foundation, January 10, 2013.
- <sup>10</sup> Federal on-budget funds for postsecondary education have grown from \$1 billion in 1965 to \$62 billion in 2013 while funds for off-budget support has increased from less than \$1 billion in 1970 to more than \$106 billion in 2013. For historical spending data on federal on-budget and off-budget support for higher education, see: National Center for Education Statistics, Digest of Education Statistics, Table 401.10, at: [https://nces.ed.gov/programs/digest/d13/tables/dt13\\_401.10.asp?current=yes](https://nces.ed.gov/programs/digest/d13/tables/dt13_401.10.asp?current=yes) (July 13, 2015).
- <sup>11</sup> The percentage of adults ages 18 to 24 attending degree granting institutions has increased from 26 percent in 1968 to 40 percent as of 2013. Digest of Education Statistics, Table 302.60, at: [https://nces.ed.gov/programs/digest/d14/tables/dt14\\_302.60.asp?current=yes](https://nces.ed.gov/programs/digest/d14/tables/dt14_302.60.asp?current=yes) (July 13, 2015).
- <sup>12</sup> David O. Lucca, et al, “Credit Supply and the Rise of College Tuition: Evidence from the Expansion of Federal Student Aid Programs,” Federal Reserve Bank of New York Staff Report, July 2015, at: [http://www.newyorkfed.org/research/staff\\_reports/sr733.pdf](http://www.newyorkfed.org/research/staff_reports/sr733.pdf) (July 13, 2015).
- <sup>13</sup> Patrick Healy, “Hillary Clinton to Offer Plan on Paying College Tuition Without Needing Loans,” *New York Times*, August 10, 2015.
- <sup>14</sup> Evan Halper, “Hillary Clinton calls for preschool for all children,” *Los Angeles Times*, June 15, 2015.
- <sup>15</sup> Investment Company Institute, “529 Plan Program Statistics December 2014,” June 4, 2015.
- <sup>16</sup> For background on the current rules for the transfer of earned G.I. bill benefits, see: Cassandra Dortch, “The Post-9/11 Veterans Educational Assistance Act of 2008 (Post-9/11 GI Bill): Primer and Issues,” Congressional Research Service, July 28, 2014.
- <sup>17</sup> Tanner Howard, “Obama’s 529 plan would change how families save for college,” USNews.com, January 27, 2015.
- <sup>18</sup> Investment Company Institute, “529 Plan Program Statistics December 2014,” June 4, 2015.
- <sup>19</sup> Jonathan Weisman, “Obama Relents on Proposal to End ‘529’ College Savings Plans,” *New York Times*, January 27, 2015.
- <sup>20</sup> Library of Congress, “Summary of H.R. 529.”
- <sup>21</sup> “Senate Finance Passes 529 Reform Bill,” *Think Advisor*, April 30, 2015. For more information about the proposal and changes

made by the bill, S. 335, see: Joint Committee on Taxation, “Description of the Chairman’s Mark of S. 335, A Bill to Amend the Internal Revenue Code of 1986 to Improve 529 Plans, As modified.”

<sup>22</sup> U.S. Department of Education, National Center for Education Statistics, Digest of Education Statistics, Table 106.10, at: [https://nces.ed.gov/programs/digest/d13/tables/dt13\\_106.10.asp?current=yes](https://nces.ed.gov/programs/digest/d13/tables/dt13_106.10.asp?current=yes) (July 2, 2015).

<sup>23</sup> Author calculations. This is based on Table 106.10 cited in the preceding footnote.

<sup>24</sup> Digest of Education Statistics, Table 236.15, at: [https://nces.ed.gov/programs/digest/d14/tables/dt14\\_236.15.asp?current=yes](https://nces.ed.gov/programs/digest/d14/tables/dt14_236.15.asp?current=yes) (July 2, 2015).

<sup>25</sup> Author calculations. This is a conservative estimate. According to the Digest of Education Statistics, the annual average current per-pupil expenditure is \$11,440. Therefore, the typical student can expect to have \$137,280 spent on his or her education over twelve years. The average student will benefit from some per-pupil expenditure for kindergarten, which will depend on whether it is full- or half-day. Given inflation and spending on public education, which has historically increased, it is likely that many students’ share of school spending will far exceed \$140,000. For example, the Digest of Education Statistics predicts that annual per-pupil spending will be \$12,720 by 2023 (Table 236.15).

<sup>26</sup> According to the National Institute for Early Education Research, forty states and the District of Columbia offer state-funded preschool programs, which served more than 1.3 million children in 2014. The average state spending per child enrolled in state-funded preschool was \$4,100 in 2014. The National Institute for Early Education Research, “The State of Preschool 2014,” Executive Summary, at: [http://nieer.org/sites/nieer/files/yearbook2014\\_executivesummary\\_1.pdf](http://nieer.org/sites/nieer/files/yearbook2014_executivesummary_1.pdf) (July 2, 2015).

<sup>27</sup> According to the Department of Health and Human Services, Head Start received \$8.6 billion in federal funding in 2013 and had a funded-enrollment of 927,000, though HHS also reports that the program served more than a million students. It is reasonable to assume that the average per-student expenditure is roughly \$8,000 per year. Department of Health and Human Services, “Head Start Program Facts: Fiscal Year 2014,” at: <http://eclkc.ohs.acf.hhs.gov/hslc/data/factsheets/docs/hs-program-fact-sheet-2014.pdf> (July 2, 2015). Pregnant women comprise roughly 1 percent of the funded enrollment.

<sup>28</sup> According to the U.S. Department of Education, more than 82 percent (2,077,00) of the 2,511,000 undergraduate students attending colleges and universities receive some form of financial aid, including 45.5 percent receiving federal grants and 49.4 percent borrowing aid through subsidized student loans Digest of Education Statistics, Table 331.20, at: [https://nces.ed.gov/programs/digest/d14/tables/dt14\\_331.20.asp?current=yes](https://nces.ed.gov/programs/digest/d14/tables/dt14_331.20.asp?current=yes) (July 2, 2015).

<sup>29</sup> Ibid.

<sup>30</sup> Ibid.

<sup>31</sup> The amount of financial aid provided to college students when others sources, including federal loans, is included. The College Board reports: “In 2013-14, undergraduate students received an average of \$14,180 per FTE student in financial aid, including \$8,080 in grants from all sources, \$4,840 in federal loans, \$1,195 in education tax credits and deductions, and \$65 in [federal work study].” College Board, “Trends in Student Aid: 2014,” at: <http://trends.collegeboard.org/sites/default/files/2014-trends-student-aid-final-web.pdf> (July 2, 2015).

<sup>32</sup> Author calculations.

<sup>33</sup> “Multiple Employment and Job Training Programs,” United States Government Accountability Office, January 2011, at:

<sup>34</sup> The NAEP exam is also referred to as the Nation’s Report Card. The NAEP is the most widely-used national measure of student academic achievement. It is comprised of a national sample of student test scores. The most reliable outcome measure of elementary education is the 4<sup>th</sup> Grade National Assessment of Educational Progress (NAEP), which is comprised of a national sample of student test scores from across the nation. More than 700,000 students across the nation took the recent 4<sup>th</sup> and 8<sup>th</sup> grade test discussed in this report. See: National Assessment of Educational Progress, The Nation’s Report Card – 2013 Mathematics and Reading, at: <http://nces.ed.gov/nationsreportcard/subject/publications/main2013/pdf/2014451.pdf> (July 2, 2015).

<sup>35</sup> National Assessment of Educational Progress, The Nation’s Report Card – 2013 Mathematics and Reading, at: <http://nces.ed.gov/nationsreportcard/subject/publications/main2013/pdf/2014451.pdf> (July 2, 2015).

<sup>36</sup> National Assessment of Educational Progress, “How Results are Reported,” at: <https://nces.ed.gov/nationsreportcard/about/nathowreport.aspx> (July 13, 2015).

<sup>37</sup> National Assessment of Educational Progress, The Nation's Report Card – 2013 Mathematics and Reading, at: <http://nces.ed.gov/nationsreportcard/subject/publications/main2013/pdf/2014451.pdf> (July 2, 2015).

<sup>38</sup> Ibid.

<sup>39</sup> Ibid.

<sup>40</sup> 81 percent of high school students graduated on time as of 2012-2013, which was an improvement over past years. National Center for Education Statistics, Common Core of Data, at: [http://nces.ed.gov/ccd/tables/ACGR\\_2010-11\\_to\\_2012-13.asp](http://nces.ed.gov/ccd/tables/ACGR_2010-11_to_2012-13.asp) (July 13, 2015).

<sup>41</sup> [http://www.nationsreportcard.gov/reading\\_math\\_g12\\_2013/#/what-knowledge](http://www.nationsreportcard.gov/reading_math_g12_2013/#/what-knowledge)

<sup>42</sup> ACT, The Condition of College and Career Readiness 2014, at: <http://www.act.org/research/policymakers/cccr14/findings.html> (July 13, 2015).

<sup>43</sup> Ibid.

<sup>44</sup> Ibid.

<sup>45</sup> For overviews of the evidence about higher education outcomes, see: Richard Arum and Josipa Roka, Academically Adrift: Limited Learning on College Campuses (The University of Chicago Press: 2011); Kevin Carey, The End of College (Riverhead Books: 2015).

<sup>46</sup> Richard Arum and Josipa Roka, Academically Adrift: Limited Learning on College Campuses (The University of Chicago Press: 2011). Page 36.

<sup>47</sup> Richard Arum and Jospia Roksa, "Your So-Called Education," *New York Times*, May 14, 2011.

<sup>48</sup> Kevin Carey, The End of College, Page 8.

<sup>49</sup> Frank Newport and Ben Ryan, "U.S. Payroll to Population Rate Rises to 45.5% in June," Gallup.com, July 1, 2015.

<sup>50</sup> Ibid.

<sup>51</sup> For example, see these poll results: Gallup, "Most Americans See College as Essential to Getting a Good Job," August 18, 2011; Lucia Anderson Weathers, Gallup-Lumina Foundation Poll Finds Overwhelming Majority of Americans Support Increasing Attainment, April 16, 2015.

<sup>52</sup> Bureau of Labor Statistics, Earnings and Unemployment Rates by Educational Attainment, at: [http://www.bls.gov/emp/ep\\_chart\\_001.htm](http://www.bls.gov/emp/ep_chart_001.htm) (July 6, 2015).

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<sup>57</sup> Dennis Jacob, "U.S. Small Businesses Struggle to Find Qualified Employees," Gallup, February 13, 2013.

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<sup>64</sup> John Watson, et al, “Keeping Pace with K-12 Digital Learning,” Evergreen Education Group, at: [http://www.kpk12.com/wp-content/uploads/EEG\\_KP2014-fnl-lr.pdf](http://www.kpk12.com/wp-content/uploads/EEG_KP2014-fnl-lr.pdf) (July 10, 2015).

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<sup>66</sup> Sean Cavanagh, “States Loosening ‘Seat Time’ Requirements,” *Education Week*, March 7, 2012.

<sup>67</sup> Mozilla, OpenBadges.org, at: <http://openbadges.org/earn/> (July 13, 2015).

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<sup>70</sup> See: Khan Academy, at: <https://www.khanacademy.org/about> (July 13, 2015).

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<sup>72</sup> See: Dan Lips, “Popping the Higher Education Bubble,” *National Review Online*, March 15, 2010; Glenn Reynolds, The Higher Education Bubble (Encounter, 2012).

<sup>73</sup> The College Board, Trends in Higher Education, “Average Public Undergraduate Charges by Sector, 2014-15,” at: <http://trends.collegeboard.org/college-pricing/figures-tables/average-published-undergraduate-charges-sector-2014-15> (July 13, 2015).

<sup>74</sup> See, Academically Adrift and The End of College.

<sup>75</sup> See, Kevin Carey, The End of College.

<sup>76</sup> Ibid.

<sup>77</sup> Kevin Carey, The End of College, p. 255.

<sup>78</sup> For background on the concept of ESAs as a concept to enable choice in education, see: Dan Lips, “Education Savings Accounts: A Vehicle for School Choice,” Goldwater Institute, November 15, 2005; Dr. Matthew Ladner and Nick Dranias, “Education Savings Accounts: Giving Parents Control of Their Children’s Education,” Goldwater Institute, January 27, 2011.

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