



The Education 401(k) Act
A NEXT STEP IN SCHOOL CHOICE

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Over the past two decades, the school choice movement has grown with the development of education savings accounts, universal choice programs, and robust homeschool protections transforming how families engage with learning. These victories, many of them spearheaded by the Goldwater Institute, have helped untether education from bureaucratic systems and place it back into the hands of parents. Even as families now enjoy unprecedented freedom over where their children are educated, the financing of that education often remains tightly limited, subject to legislative appropriations or state budget formulas or often constrained by inflexible program designs.

It's time to chart an extra path forward with a new model: The Education 401(k).

This plan would allow employers to invest directly in the educational futures of their workers—and their workers' families—through tax-advantaged accounts modeled after retirement savings tools. It's a reform that builds stronger families, strengthens community ties, and encourages a more dynamic workforce.

INTRODUCTION

The financing tools we have inherited laid the foundation for the growing school choice movement, but we can continue to build. While the 2017 Tax Cuts and Jobs Act expanded 529 plans to include K–12 tuition and certain other uses, they remain largely tied to traditional degree paths and restricted to individual beneficiaries once a child is born. Most education savings accounts, meanwhile, are structured for a single child and funded through the state. None of these models fully capture the modern reality of intergenerational households, lifelong learning, or a fluid, skills-based economy where family members may want or need completely different kinds of education. The Education 401(k) Act reimagines this landscape by involving one of the strongest forces in the world: American capitalism. Like retirement 401(k) plans, the plan enlists

both employers and employees to fund portable, tax-advantaged accounts for education. These funds may be applied to a wide range of qualified expenses: homeschooling materials, special needs assistance, apprenticeships, licensing exams, vocational training, tutoring, private school tuition, and continuing education. Accounts are owned by employees, follow them through job changes and across state lines, and may be used by spouses, children, siblings, parents, or dependent relatives.

No age caps. No time limits. No top-down mandates. Just trust in families to make decisions that reflect their own aspirations.

This proposal isn't a marginal policy tweak. It's a new operating system for education finance that shifts more power to the consumers the same way that HSAs shifted power from insurance companies to patients.



ECONOMIC EFFICIENCY THROUGH PORTABILITY AND CHOICE

Even after their 2017 expansion to include certain K–12 expenses, 529 plans and ESAs often clash with the realities of a skills-based economy. 529 plans remain primarily structured for postsecondary tuition and are difficult to adapt for broader learning pathways—especially since contributions generally begin only after a child is born, limiting early compounding during the very years when young workers often have fewer expenses and greater capacity to save. ESAs often restrict participation to specific programs or grade levels (and/or allow funds to carry over only for a handful of years after a high school) and vary widely by state.

By contrast, the Education 401(k) defines qualified educational expenses broadly, encompassing homeschool curricula, education-based daycares, certification exams, apprenticeships, and mid-career reskilling, or student tuition or loans. It recognizes that most people know where to best spend an education dollar to fit their family's needs and incorporates a family-centered approach by recognizing that education dollars may be best spent on oneself, on one's children, or even across generations to support relatives—from nieces and nephews to grandchildren.

Portability further enhances efficiency. Funds remain with the employee, regardless of job changes or relocation. This feature mirrors the success of 401(k) retirement accounts, whose widespread adoption owes much to their portability and individual ownership. Human capital theory demonstrates that education is an investment yielding long-term economic returns for both the individual and society. By minimizing bureaucratic friction and maximizing consumer control, the Education 401(k) aligns education financing with that reality.

PRIVATE CAPITAL, PUBLIC BENEFIT

The Education 401(k) Act does not simply reallocate government funds; it brings private capital directly into the education arena. Employers may contribute up to \$5,000 annually per employee, with combined contributions (employer and employee) capped at \$10,000. Contributions are exempt from state income taxation, earnings grow tax-deferred, and withdrawals for qualified expenses are tax-free.

Employers are further incentivized through tax credits or property tax offsets, especially in states where low taxes already drive the economy. In states with income taxes, contributions qualify for a dollar-for-dollar credit (up to 50% of liability). In states without income taxes, employers may offset contributions against property taxes, with state funds backfilling lost local revenue. While these incentives represent a meaningful fiscal commitment, they do not assume that more spending is inherently better—rather, they channel existing resources into educational investments that yield measurable returns for families, communities, and the workforce.

For example, a small business in Arizona contributing \$5,000 per employee could claim a \$2,450 credit annually, while in high-tax states such as Minnesota or Illinois, the incentive would be even larger.

Private dollars already pour into American education—quietly, unevenly, and without much structure. Families pay for after-school programs, school lunches, field trips, athletic fees, and private tuition; employers spend on training and certification. The Education 401(k) does not invent a new burden but elevates this familiar reality, giving households and businesses a vehicle to amplify what government already spends money to do but often fails to deliver well. By aligning voluntary contributions with public commitments, it transforms scattered spending into a coherent, flexible force, easing fiscal strain while binding education more closely to the demands of the modern economy.



EDUCATIONAL FREEDOM THAT BRINGS FAMILIES TOGETHER

The Education 401(k) enshrines the principle of educational freedom by empowering families—not bureaucracies—to make decisions. Unlike ESAs, which are typically limited to a single child, these accounts may be used by an employee’s spouse, children, siblings, parents, or dependents. This reflects the reality that 20% of American families now live in multigenerational households, a number that has roughly doubled since the 1970s.

A single account could fund a child’s homeschooling, a spouse’s trade certification, a parent’s return to college, a grandchild’s cost at an early education center, a nephew’s college textbooks, or a niece’s student loans. This flexibility not only fosters intergenerational equity but also mirrors the success of health savings accounts (HSAs), which reduced healthcare costs and expanded patient autonomy by giving consumers more control. Nonqualified withdrawals are disciplined through a 10% penalty plus state income tax, with exemptions for hardship, death, or disability—ensuring fiscal responsibility and purpose without eroding flexibility.

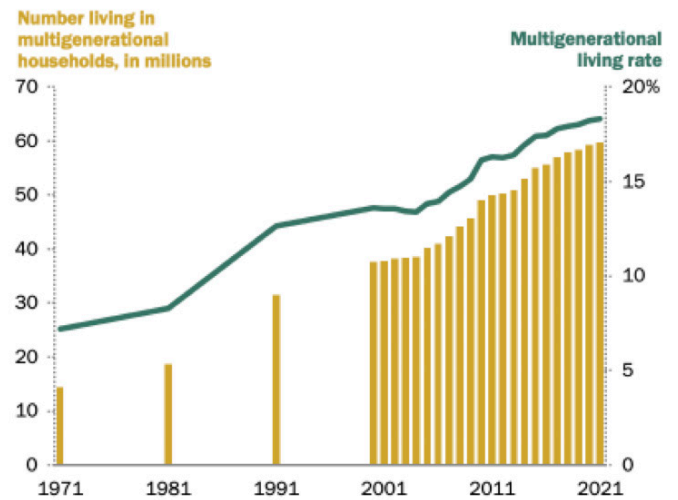
This model empowers families to pursue education aligned with their values, needs, and circumstances, strengthening both household resilience and workforce adaptability.

BUILDING FOR THE FUTURE THROUGH EARLY SAVING

Roughly 70 million Americans are active participants in 401(k) programs. Education costs should be understood in the same framework as retirement savings, something expected to endure throughout the life of a young worker. What distinguishes the Education 401(k) is not only its breadth but its orientation toward future-planning—the capacity to save early, compound gains, and meet educational needs before they arrive. ESAs and 529s delay saving until after a child’s birth, shutting off the earliest years when compounding is most powerful. The Education 401(k) removes that barrier, letting workers start from the outset of their careers. Young workers can start by contributing a

U.S. population in multigenerational households quadrupled since 1971

Number and % of people who live in multigenerational households in U.S.



Note: Multigenerational households include at least two generations of adults mainly ages 25 and older or grandparents and grandchildren younger than age 25.

Source: Pew Research Center analysis of Current Population Survey Annual Social and Economic Supplement (ASEC) data files for 1971, 1981, 1991, and 2000-2021 (IPUMS).

Financial Issues Top the List of Reasons U.S. Adults Live in Multigenerational Homes

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modest sum, yet across decades that investment accumulates, swelling into resources that can underwrite a child’s tutoring, a sibling’s apprenticeship, or a parent’s mid-career reskilling, if not personal education expenses as they move down a career path.

The effect is to treat education not as a bill that arrives unexpectedly, but as a form of family wealth—built steadily, growing with time, and available when most needed. In this way, the Education 401(k) recasts education finance as an act of preparation rather than reaction, placing it on equal footing with retirement as a cornerstone of lifelong security and the American Dream.

AMERICAN BUSINESSES WANT AN EDUCATED AMERICA

For decades, the degree was treated as a guarantee of competence, a proxy for talent, and a hedge against risk. But employers now voice what recent graduates already sense: the diploma alone is no longer enough. Surveys of business leaders reveal that nearly two-thirds doubt higher education's ability to deliver work-ready skills, while half admit new hires require almost a year of additional training before they become fully effective. At the very moment when American industry faces critical shortages in fields like teaching, nursing, and engineering, the economy is saddled with a workforce both underprepared and overcredentialed—expensively schooled, yet often lacking the durable skills and adaptability that companies typically prize.

The flexibility offered by the Education 401(k) answers this dilemma by connecting what employers want with what workers and families actually need: a mechanism to fund lifelong, flexible, and portable learning. It harnesses private capital and market forces to underwrite the kind of applied learning and continuous training that surveys show executives believe matters, without limitations or the centrally-planned choosing of winners and losers that lag behind developing trends.

For business leaders struggling to fill jobs in a fast-moving economy, this model is not charity but long-term self-preservation. By empowering families to save early and employers to invest directly, the Education 401(k) expands the pipeline of skilled workers while reducing the lag between graduation and productivity. It transforms education finance from a narrow, one-time transaction into a living system of talent development—sustaining the workforce American enterprise requires to remain competitive on the world stage.



SUPERCHARGING SCHOOL CHOICE

The Education 401(k) Act represents a paradigm shift in education finance. By combining the proven incentives of retirement accounts with the urgent need for flexible, portable learning finance, working as a compliment to 529s and ESAs in creating a system that is consumer-driven, fiscally sustainable, and adaptable to modern life.

- Economic efficiency is achieved through portability and broad eligibility.
- Fiscal sustainability is strengthened through employer incentives and private-sector investment.
- Educational freedom is guaranteed by empowering families to make decisions across generations without limitations on who in their extended family has access or how they choose to be educated.

If Americans are trusted to save for retirement, they should be trusted to save for learning. The Education 401(k) extends that trust, providing states with a tested, market-based framework to expand opportunity, relieve public budgets, and prepare citizens for a future where education never ends.

EXISTING EDUCATION SAVINGS OPTIONS VS. 401(K)

FEATURE	ESA (STATE)	STATE 529 PLAN	COVERDELL ESA	EDUCATION 401(K) PROPOSAL
FUNDING SOURCE	State appropriations	Individual/family contributions	Individual/family contributions	Employer contributions (with optional employee contributions)
TAX BENEFITS	Varies by state	Federal tax-free growth & withdrawals	Federal tax-free growth & withdrawals	Pre-tax contributions, tax-free growth & withdrawals
EDUCATION LEVEL	Usually K–12 only	K–12 tuition & college/trade school	K–12 & college	Any age, any accredited, nontraditional
PORTABILITY	Limited	Fully portable	Fully portable	Fully portable across jobs & states
FAMILY ACCESS	Child-specific	Beneficiary can be changed	Beneficiary can be changed	Any family member can use at any time



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1. Pew Research Center, "The Demographics of multigenerational households," March 24, 2022.
2. The Asset Management Industry, 401(k) Resource Center, accessed on September 29, 2025.
3. Hult International Business School, "Survey: Traditional Degrees Hinder Graduates At Work," October 9 to 28, 2024, accessed on September 29, 2025.