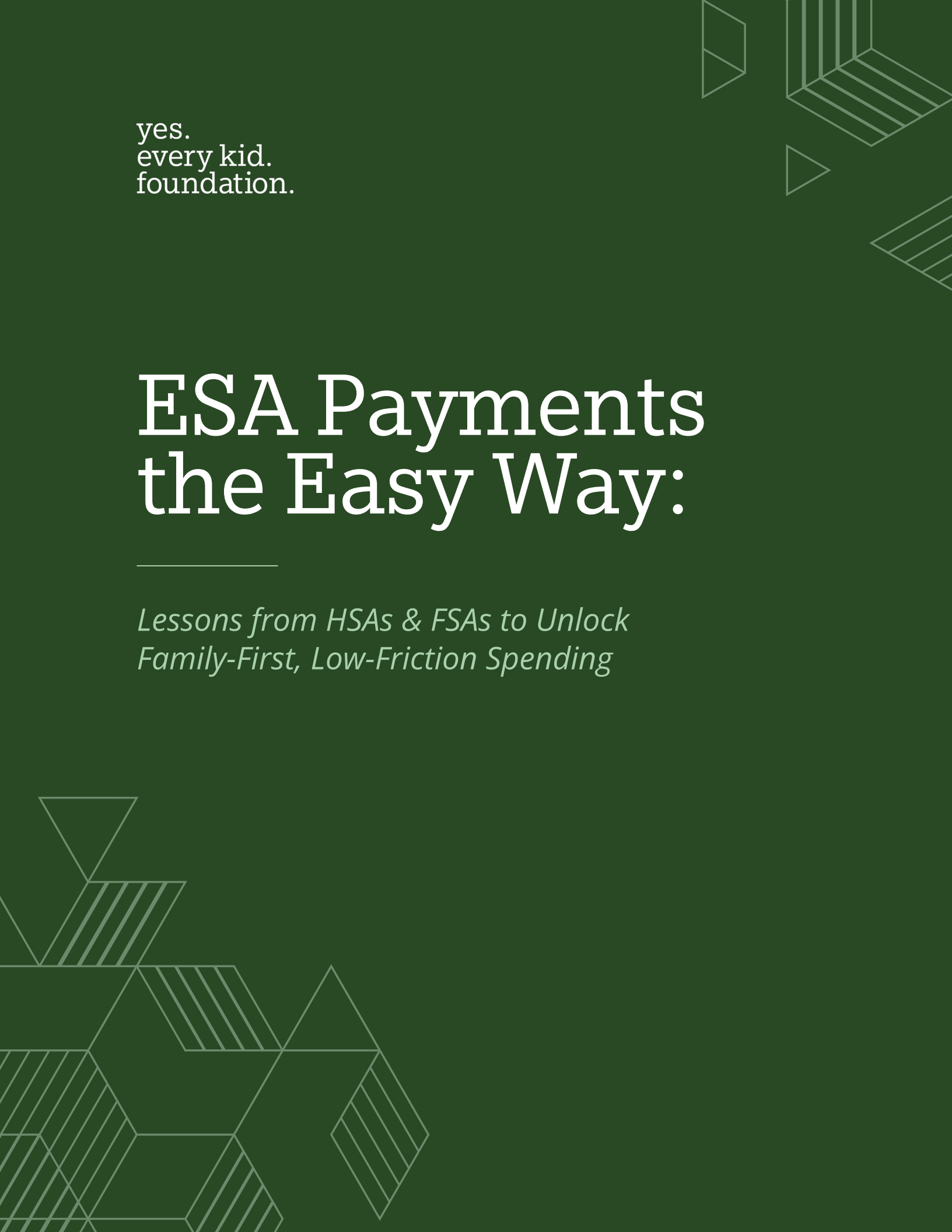


The top right corner features a series of white geometric lines forming a 3D perspective of a corner, with several parallel lines receding into the distance. The bottom left corner contains a complex arrangement of white geometric shapes, including triangles and hexagons, some of which are filled with diagonal hatching.

yes.
every kid.
foundation.

ESA Payments the Easy Way:

*Lessons from HSAs & FSAs to Unlock
Family-First, Low-Friction Spending*



Executive Summary

Education savings accounts (ESA) programs face tension between speed and oversight. Families want instant access to education expenses; administrators want assurance that every dollar is spent appropriately. The good news: We don't need to choose.

Healthcare spending accounts like health savings accounts (HSAs) and flexible spending accounts (FSAs) demonstrate this daily. Prescriptions are automatically approved at pharmacies with zero staff intervention. Health cards are automatically declined at liquor stores. Vendors self-attest that 90% of their inventory qualifies as HSA-eligible, subject to audit rights and swift clawbacks.

The system succeeds by embedding controls in the infrastructure rather than relying on people.

ESAs can replicate this model using existing statutory authority:

- **Merchant category code (MCC) whitelisting** limits cards to education merchants (schools, tutors, bookstores).
- **The 90% rule** allows high-compliance vendors to accept cards immediately via annual attestation.
- **Real-time authorization scoring** applies the same fraud detection that protects consumer debit cards.
- **Risk-based post-payment audits** focus staff time where risk is highest.

We propose state ESA administrators implement this system in a phased approach as an experiment in improving the family experience. Phase 1 requires only policy documentation and issuer selection. Phase 2 builds the MCC and attestation infrastructure. Phase 3 launches a pilot program with 40-50 providers under full monitoring. Each phase is modular, reversible, and governed by documented standard operating procedures (SOPs).

The choice is between manual delays and automated controls. There is an easier way to deliver ESAs. This paper lays out a systematic approach to better serve families who use ESAs to curate the right educational pathway for their children.

What ESAs Can Learn from HSAs & FSAs – A Quick Primer

Education savings accounts do not need to reinvent the wheel when it comes to balancing access and oversight. FSAs and HSAs already manage millions of transactions a day with minimal friction, using a blend of merchant coding, automatic approvals, and attestation frameworks. The lesson is clear: Strong rules and smart automation can unlock speed and scale for families without sacrificing program integrity.

Below are four mechanisms worth reviewing. Three of these are immediate solutions that can be piloted now: automatic approvals for defined services, MCC whitelisting, and the 90% rule. The fourth, stock-keeping unit (SKU)-level auto-approval, requires building a cross-state standards body.

1.

 Rx-style automatic approvals for defined service categories:

With FSAs/HSAs, prescriptions are automatically approved at participating pharmacies with zero human intervention. ESAs can mirror this by auto-authorizing tuition and enrollment charges at authorized K-12 private schools and colleges and universities, with documentation handled post transaction.

2.

 MCC-based service acceptance:

Health plans restrict card use to medical MCCs (physicians, hospitals, pharmacies). ESAs can do the same with education-relevant MCCs (elementary/secondary schools, tutoring/education services, bookstores), creating a broad but controlled open-loop acceptance network.

3.

 The 90% rule:

Vendors that attest that 90% or more of their annual gross receipts are eligible items can accept benefit cards without needing SKU-level product reviews. ESAs can replicate this with a yearly eligibility attestation (YEA) for education merchants whose catalogs are overwhelmingly ESA-eligible.

4.

SKU-level auto-approval:

In healthcare, the Inventory Information Approval System allows a point-of-sale kiosk to flag eligible items and approve only those in real time. A similar ESA standard may allow other items to be approved at checkout. While powerful, this requires broad vendor adoptions and a standards consortium.

A Hybrid ESA Model: Marketplace and Trusted Card Option



This option strengthens controls. The trusted access card rides on the same bank-grade, real-time fraud defenses that protect consumer debit cards: Every authorization can be scored in milliseconds using network/issuer machine learning, historical patterns, and behavioral analytics. On the back end, administrators apply risk-based auditing, a tiered sampling by category risk, to continuously verify that fast payments remain compliant. Together, card-based controls and post-payment audits create a tighter oversight loop than marketplace-only designs.



How to operationalize it. Now let's translate the concept into day-to-day operations. The model is intentionally simple: preserve what is preapproved in a curated marketplace lane and add a network-controlled card path for routine spending. Administrators gain the clear ability to fine tune the system with controls on MCC whitelists, provider and vendor attestations, and risk-based audit samplings, so risk is managed in configuration, not in manual review queues.

This hybrid approach unlocks speed and scale without sacrificing oversight and shrinks manual queues, all under continuous, data-informed supervision, just like FSAs and HSAs.

Implementation Guide

Start simple, scale deliberately. This guide outlines a phased rollout agencies can adopt without a new statute. Configure network controls, enable immediate, low-risk categories, and layer risk-based auditing and refund-to-card rules on the back end. Each phase should be modular to allow for refinement and governed by documented SOPs and provider/vendor attestations. Administrators can pilot the program with a small cohort, tune the controls, and expand it as the YEAs grow. Throughout, apply bank-style, real-time monitoring at authorization and publicize clear metrics (authorization/decline rates, exception volume, audit findings) to demonstrate transparency and program integrity.

1

Phase 1: Policy & Configuration

- Authority check: Verify that current statutes or regulations grant administrators the authority to establish payment methods and approve providers, as most ESA frameworks do.
- SOP documentation: Clarify MCC-limited card acceptance, automatic authorization for defined service categories, 90% rule attestation option, and post-payment documentation requirements for exceptions.
- Issue provider and vendor terms: Incorporate attestation language, audit rights of agency, clawbacks, data-sharing, and prompt refund obligations. Most ESA frameworks already have this.
- Select an issuing partner: Use an issuer/processor that supports MCC whitelists, merchant whitelists/blacklists, velocity controls, and real-time authorization.

2

Phase 2: Networks & Data

- Define the ESA MCC set (see Appendix A): Include elementary/secondary schools, tutoring/education services, correspondence/virtual schools, trade/vocational schools, books/stationary, testing labs, music/arts instruction, educational camps.
- Launch the 90% rule attestation portal: Vendors submit catalog attestation and merchants are whitelisted for trusted access card authorizations.

3

Phase 3: Limited Pilot

- Pilot cohorts: 10-20 schools (tuition), 10-20 tutoring providers, 10-12 vendors, and up to 10 therapy providers.
- Controls include MCC whitelist, merchant whitelist and blacklist (if appropriate), and risk-based post-payment audits, with immediate facilitation of recapture if inappropriate spending occurs.
- Launch an extensive parent education campaign to highlight authorized spending and showcase the consequences associated with misspending.

Trusted Merchant Attestation (the 90% Path)

Many education merchants are overwhelmingly ESA-eligible (bookstores, curriculum providers, virtual instruction, educational subscriptions). The 90% path offers a lightweight, defensible way to let these vendors accept the trusted access card immediately while administrators maintain strong audit rights and simple pause/suspend levers.

How to operationalize it. The attestation process must be simple for vendors, easy for administrators and defensible for policymakers.

- One-page annual attestation: Provider affirms greater than or equal to 90% of prior-year gross receipts are ESA-eligible under state rules; links a public catalog/website; uploads three representative invoices; acknowledges refund-to-card, documentation availability upon request, and audit right; then e-signs.
- Operate under guardrails: The card works only at whitelisted MCC service providers and whitelisted 90% path vendors, receipts/invoices must be available on request, and all refunds flow back to the trusted access card.
- Annual re-attestation: Merchants are eligible for renewal if they have a clean history. If a merchant has been flagged or subject to variances, they face a targeted review and trusted merchant application may be declined.

This pathway mirrors long-standing HSA and FSA 90% rules: Merchants self-attest to having a high eligibility mix, and the administrator enforces where the card works with clear, immediate powers to limit, pause, claw back, or terminate status if the mix drifts or documentation fails. **It's fast for families, light for staff, and firm on integrity.**

Merchant Category Code (MCC) Whitelisting for Services

Make routine, high-value services work out of the box, with no complex provider onboarding required. If a business is categorized under an allowed MCC, the card works. Administrators manage the list of allowed MCCs and fund availability. Providers have a simple path to request additional MCCs or ask for individual approval when an acquirer has misclassified them.

How it works for providers:

- If their business is already coded by their acquirer with an allowed MCC, they can accept cards immediately.
- If their MCC is not allowed, the card will be declined.

How it works for administrators:

- Turn on MCCs that align with statute. For the pilot, add a small set first, then expand.
- Define always blocked criteria: e.g., gift cards, ATM withdrawals/cash back, cryptocurrencies.

Misuse & Abuse Controls

Cards let families pay quickly, and they allow administrators to apply simple, transparent rules that stop misuse before it happens. The card works only in the right places, within spending limits, and with refunds flowing back to the student account, not as cash to families.



The Three Guardrails

1

Before purchase:

- Allow the card only at education-related merchants and specific approved vendors.
- Block cash-like items everywhere: e.g., gift cards, ATM withdrawals, crypto.
- Set spending limits to a real-time fund availability balance.

2

During purchase:

- If a purchase is outside the allowed categories or over the spending limit, the card is declined.
- If a pattern looks unusual (many rapid swipes, a big jump from prior spending), the system pauses the payment and asks for a receipt of quick review, consistent with bank-style fraud prevention mechanisms.

3

After purchase:

- Providers, vendors, and parents are held accountable to send receipts upon audit selection.
- Administrators sample spending based on risk. If something doesn't match the rules, the agency can claw back the funds, or pause or suspend the account.
- Refund integrity: All refunds are issued to the card, never to a parent's personal account or in the form of cash.

Why This Works Without Major Statutory Changes

Typical ESA statutes give administrators discretion over payment methods, provider approvals and documentation standards. The hybrid model fits under this umbrella. MCC controls and provider attestations are operational choices, not statutory inventions.

How Can YESF Help You Pilot This?

We know your team is fully booked running the day-to-day. Our implementation team can help you stand up a contained, low-risk pilot that layers a card path onto your existing marketplace, without a new statute and with clear integrity guardrails.



You keep control.
We handle the lift.

Appendix A

MCC to Whitelist (*Illustrative*)

- 8211 – Elementary & Secondary Schools
- 8220 – Colleges/Universities
- 8241 – Correspondence/Distance Learning
- 8249 – Trade/Vocational Schools
- 8299 – Schools & Educational Services (tutoring/test prep)
- 5942 – Bookstores
- 5943 – Stationery/Office/School Supplies
- 5732 – Electronics/Computer Stores
- 5970 – Art Supply & Craft Shops
- 7922/7929 – Theatrical Instruction

***Note: Final MCCs should align to each state's eligible-expense definitions.*

Appendix B

Sample 90% (YEA) Attestation Terms

Merchant/Vendor attests that:

- No less than 90% of prior-year gross receipts derive from goods/services eligible under Rule/Statute XX.XXX.XX
- Catalog of eligible items/services is available upon request.
- Catalog of ineligible items/services is available upon request.
- Merchant/vendor will maintain line-item receipts, provide purchasers with line-item receipts, comply with audit requests, and promptly refund any ineligible charges.
- Merchant/vendor will notify the administrator within 10 business days if ownership, MCC, or catalog materially changes.
- Administrator may conduct random and/or risk-based audits, impose temporary limits, suspend or terminate acceptance under the 90% rule, claw back funds, and refer suspected fraud to authorities.

Resources

- SIGIS: 90% Registration (FAQ) – Self-attestation path; merchant-level registration: <https://sigis.org/resources/faq/programs/90-registration>
- Visa Merchant Data Standards Manual: <https://usa.visa.com/dam/VCOM/download/merchants/visa-merchant-data-standards-manual.pdf>
- Mastercard Quick Reference Booklet: <https://www.mastercard.com/content/dam/mccom/shared/business/support/rules-pdfs/mastercard-quick-reference-booklet-merchant.pdf>

About the Author



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Heidie Nessel is Vice President of Implementation at **yes. every kid. foundation.**, where she leads national efforts to implement education freedom policies and build effective customer support operations. With over a decade of experience, Nessel has designed and launched education initiatives in states such as Florida, West Virginia, Georgia, Louisiana, Illinois, and Alabama, and has advised on projects in Utah, Wyoming, Arkansas, and North Carolina.

She previously managed the rollout of West Virginia's Hope Scholarship Program and contributed to major scholarship programs at Step Up For Students and Arete Scholars. Nessel holds bachelor's and master's degrees from Florida State University, with additional studies at Cornell and the University of Notre Dame, and resides in Metro Atlanta with her family.