

WRITTEN ONLY

TESTIMONY BY GEORGINA K. KAWAMURA  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
STATE OF HAWAII  
TO THE HOUSE COMMITTEE ON HUMAN SERVICES  
ON  
HOUSE BILL NO. 884

February 5, 2009

RELATING TO CHILD DEVELOPMENT ACCOUNT

House Bill No. 884 creates a new State program to encourage personal savings by establishing a child development account for every child who is born after July 1, 2009 and is a resident of Hawaii. The State is required to deposit an unspecified amount when the account is opened at the child's birth. Subsequently, any person may make contributions to the account, subject to an annual maximum contribution. All earnings and gains in the account are exempt from the Hawaii income tax. Money for the program is derived from general funds available whenever the general fund balance exceeds 5% of general fund revenues for two fiscal years. This measure is contingent on the enactment of a constitutional amendment to change the disposition of excess revenues, as proposed in House Bill No. 885.

The Department of Budget and Finance opposes House Bill No. 884 because it should not be the responsibility of State government to give each child a tax-free savings account for life. There are existing programs that provide generous tax advantages for saving for a child's educational expenses, such as the Hawaii 529 Program and the Coverdell Education Savings Account.

# HACBED

Community Voice, Collective Action

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House Committee on Human Services

Thursday, February 5, 2009 at 8:15 am

Conference Room 329

HB884 – Relating To Child Development Account

*Support the Intent*

Dear Chair Mizuno, Vice Chair Brower, and Committee Members:

The Hawai`i Alliance for Community Based Economic Development (HACBED) is submitting testimony supporting the intent of HB 884 which would establish a universal child development account.

HACBED is providing staff support to the Legislature's Asset Building Task Force which was created last session with the passage of SCR 92/SR52. The goal of the Task Force is to provide policy recommendations by 2010 regarding the elimination of asset limits, establishing statewide financial education, and creating child development accounts (CDAs, also known as child savings accounts). To this end, a subcommittee specifically looking at CDAs has been formed. The group includes members from the local banking community, foundations, health and human service providers, Native Hawaiian organizations, community organizations, academics, and others.

The Task Force and Subcommittee strongly supports the establishment of universal CDAs in Hawai`i. The universal CDA uniquely accomplishes a number of important public policy goals:

1. They help establish a *savings culture* throughout Hawai`i—one that supports and acts on values such as thrift, patience, discipline, self-sufficiency, opportunity, and hard work. They do this by ensuring that every child has some kind of asset-building vehicle.
2. They can create a realistic opportunity for all people to *build the financial assets necessary* to achieve stability and security, to pursue their human potential, and to leave a legacy. They do this in conjunction with a proper set of incentives and financial education that can lead to meaningful asset accumulation.
3. They represent a steady investment in the human capital of the state Hawai`i as part of a *long-term, sustainable economic development* strategy for the state.

The Task Force members have learned from national experts working on CDA policy that a smartly designed policy must have a number of defining characteristics including:

- **Universality** – ensuring that the accounts are accessible and attractive enough such that all eligible children get them. This might include initial deposits, outreach and assistance, streamlined signup procedures, clear eligibility standards, etc.
- **Sufficiency** – ensuring a reasonable opportunity that the accounts will grow to a meaningful amount over time, especially for lower-income children for whom a CDA may be their only asset-building vehicle. This might include setting an appropriate target, having adequate investment options, a matched savings component, integrated financial education, systems for electronic deposits, etc.
- **Adequate Options** – ensuring that account holders have a reasonable array of savings/investment options including low/no risk options to protect invested amounts.
- **Integrated Financial Education** – ensuring that an adequate system of financial education is integrated with the existence of the CDA so that parents and children are aware of and utilize the benefits generated by the CDA.

These are the main objectives of the policy design being tackled by the Task Force Subcommittee. In addition, the Subcommittee is looking into whether an expansion of the 529 College Savings plan might be a good first step toward a full CDA. Maine—which is referenced in HB 884—is one of a number of states that have taken this route.

It is the hope of the Asset Building Task Force that Hawai‘i be the first to establish the kind of CDA that is contemplated in HB 884. We applaud the Legislature for pursuing this policy and encourage continued work on designing a strong policy.

Again, the Task Force will have a recommended policy on CDAs by the time of the 2010 session, however, if the legislature continues to pursue HB 884 in this session, we recommend that you keep in mind a number of important policy design issues that should be articulated in the bill including survivorship, eligibility determination, unauthorized withdrawals, CDA disregards for public benefit purposes, protection against creditors, and stability of funding to ensure equity over time. If the Legislature wishes to pursue CDA legislation prior to the Task Force coming out with its recommendations next session, we strongly urge that you consult CFED’s *State-Level Children’s Savings Policy: A Guide to Crafting Children’s Savings Account Legislation* among other resources. CFED is an organization with comprehensive expertise in this field and is one of a handful of national partners working closely with HACBED and the Legislative Asset Building Task Force.

Thank you for your consideration.

Sincerely,

Brent Dillabaugh  
Policy Coordinator  
HACBED

Andrew Aoki  
Director  
KANU Hawai‘i

TO: Representative John Mizuno, Chair and  
Members of the Committee on Human Services

Hearing date: February 5, 2009  
8:15 AM

FROM: Marilyn Lee

Testimony in favor of HB884

The financial crisis which has affected our state and nation has myriad causes. However, in the United States, the habit of saving for the future has decreased rapidly over the years. Many Americans cannot continue to maintain their standard of living if job loss or illness strikes. Many have no savings.

The purpose of this bill is to encourage savings by starting each child out at birth with a savings account, using monies that are surplus in the State budget.

Although at this time we have no surplus, times will get better. An undetermined amount of the State surplus each two years can be used to begin an account for each child born in the State over the two years of the budget. The amount of money may be small but the message is mighty. Doing this, we will be following the steps of the State of Maine and the United Kingdom.

A constitutional amendment will be needed to achieve this goal. Passage of the bill will be a symbolic gesture which encourages each person to become a lifelong saver.

I urge the Committee's support.