

TESTIMONY IN SUPPORT OF HB2046
RELATING TO INDIVIDUAL DEVELOPMENT ACCOUNTS

The Legal Aid Society of Hawaii hereby provides testimony in support of HB2046 – Relating to Individual Development Accounts. This bill would expand the efficiency and effectiveness of Individual Development Account programs.

Founded in 1950, the Legal Aid Society of Hawaii is the oldest provider of legal services in the state. We provided civil legal assistance to those in need through nine offices located in Lihue, Waianae, Honolulu, Kahaluu, Kaunakakai, Lanai City, Wailuku, Kona and Hilo. Over the years we have seen the benefit of linking community based economic development and asset building to legal services as critical to assisting our clients out of poverty.

IDAs are vital tools in assisting individuals with improving their financial literacy and encouraging saving toward the goal of homeownership, higher education costs or start-up costs for a small business. For the majority of IDA participants, this is the first time that they have ever saved their money toward a goal. The technical amendments that this bill brings to the current individual development account statute would greatly expand the impact of this program.

While we support this bill, we would ask that amendments be made to allow the expansion of the IDA programs to allow for the purchase of a car for transportation to and from work. The recent TANF strategic plan created by the Department of Human Services highlighted the need for transportation especially on the neighbor islands. We've attached suggested amendments to our testimony.

We support this effort to establish the individual development accounts and while we support this bill, we believe that HB2047 is a better version of the bill.

Thank you for this opportunity to testify.

Sincerely,

M. Nalani Fujimori
Deputy Director

Suggested Amendments

Section 257-1, Hawaii Revised Statutes, is amended by amending the definition of "qualified expenditures" to read as follows:

""Qualified expenditures" means an expense as determined by a fiduciary organization~~[, which]~~
that may include [but not be limited to]:

- (1) Costs associated with first homeownership;
- (2) Post-secondary education;
- (3) Vocational training; ~~and~~
- (4) Small or micro-business capitalization~~[-]; and~~
- (5) One motor vehicle purchase for school or work transportation."



ALU LIKE, Inc.

E alu like mai kākou, e nā 'ōiwi o Hawai'i

Hale O Na Limāhana
Kūlia Like Department

January 24, 2008

House Committee on Human Services and Housing
Thursday, January 24, 2008 at 8:30AM
Conference Room 329
HB 2046 & HB 2047 - SUPPORT

Dear Chair Shimabukuro and Committee Members:

ALU LIKE, Inc. is submitting testimony in support of HB 2046 and HB 2047 which would appropriate funds to the individual development account (IDA) program; require the Department of Human Services to provide technical and administrative assistance to fiduciary organizations; and allow fiduciary organizations to use no more than 25% state funds per year for operating costs.

The Kūlia Like Department of ALU LIKE, Inc. spear-headed asset building in Hawai'i with efforts to develop and sustain the well-being of low-income Native Hawaiians through individual development accounts (IDA), financial literacy training and volunteer tax assistance. Asset building, and HB 2046 & HB 2047 specifically embody our approach to provide economic and social services to generate a hand-up rather than a handout.

In collaboration with the Office of Hawaiian Affairs, Bank of Hawai'i, and American Savings Bank, we have operated the IDA program since the first grant was awarded by the Department of Health and Human Services in 1999. We match the savings of participants at a rate of 3:1 for homeownership, and 2:1 for education and business purposes. ALU LIKE's Multi-Service Program (MSP) provides financial literacy classes, generalized case management and community resources to address barriers that the participant experienced.

Within the first five years, a total of 436 accounts were opened on (five) islands with 191 participants successfully acquiring their asset goals. The IDA program helped 100 participants become new homeowners, 31 open or expand their businesses, and 60 advance their educations. Besides asset ownership, research shows that participation in IDA programs helps people plan for the future, develop a sense of responsibility, and increase their dignity and self-respect.

We are currently in our second IDA grant from the Federal Department of Health and Human Services in addition to the IDA grant from the Native American Housing and Self Determination Act. We have a total of 48 accounts open and 22 closed accounts that have obtained their goal either with a partial or full match. We currently have a wait-list of over 200 interested individuals.

In addition to IDAs, we promote asset building by providing a wide range of social services such as information and referral, assistance and advocacy, financial literacy classes, and emergency fund monies. Importantly, we have coordinated a Volunteer Income Tax Assistance (VITA) site since 2006.

We believe the asset building initiatives in HB2046 & HB2037 empowers individuals. The demand for our asset building programs and services is at an all-time high and expected to increase. Based

on our experience with asset building, we feel that passage of HB 2016 and HB 2047 will address important needs of low-income individuals in the present that will have long ranging implications for future generations.

Mahalo for allowing me to share our mana`o with you.

`O wau no me ka ha`a ha`a,

Jamie H. Omori

Jamie H. Omori
Director, Kulia Like Department

HACBED

Hawai'i Alliance for Community-Based Economic Development
677 Ala Moana Blvd., Suite 702 Honolulu, HI 96813
Ph. 808.550.2661 Fax 808.534.1199
Email info@hacbed.org www.hacbed.org

Board Members

President

Jason Okuhama (at large)
Hawai'i Lending Specialists

Vice President

Akoni Akana (Maui)
Friends of Moku'ula

Treasurer

Kipukai Kualii (Kaua'i)
Na Mahi'ai O Anahola –
Anahola Kaua'i Agribusiness
Microenterprise Project

Stacy Crivello (Moloka'i)
Ke Aupuni Lokahi

Puni Kekauoha &
Adrienne Dillard (O'ahu)
Papakolea CDC

Keikialoha Kekipi &
Susie Osborne (Hawai'i)
Ho'oulu Lahui/ Kua O Ka La
Public Charter School

Kukui & Gary Maunakea-Forth
(O'ahu)
WCRC/Mala Ai 'Opio

Wayne Tanna (at large)
Asset Building Coalition &
Chaminade University

Rian Dubach (at large)
American Savings Bank

Tommy Otake (at large)

HACBED Staff

Robert Agres, Jr
Executive Director

Brent Dillabaugh
Deputy Director

Justin Fanslau
Associate Director

Larissa Meinecke
Public Policy Associate

Tony Hall
Administrative Manager

January 24, 2008

House Committee on Human Services and Housing
Thursday, January 24, 2008 at 8:30AM
Conference Room 329

HB 2046 – SUPPORT WITH AMENDMENTS

Dear Chair Shimabukuro and Committee Members:

The Hawai'i Alliance for Community Based Economic Development (HACBED) is submitting testimony in support of HB 2046 which would appropriate funds to the individual development account (IDA) program; require the Department of Human Services to provide technical and administrative assistance to fiduciary organizations; and allow fiduciary organizations to use no more than 25% state funds per year for operating costs.

Hawai'i needs a comprehensive public policy to help people build assets. This should include a package of programs, tax incentives, regulatory changes, and other mechanisms to help people earn more, save more, protect hard earned assets, start businesses and become homeowners. We support HB 2046 in that it is part of a package that we believe does just that. The Ho'owaiwai Asset Policy agenda addresses these needs by putting together a comprehensive package of bills and policies that encourages and widens opportunities for asset building.

Assets are essential for three reasons:

1. To have **financial security** against difficult times
2. To create **economic opportunities** for oneself
3. To **leave a legacy** for future generations to have a better life

Individual development accounts (IDAs) are matched savings accounts that enable low-income families to save, build their assets, and enter the financial mainstream. IDAs reward working families who are building toward an asset, such as buying a home, paying for college tuition, or starting a small business. This makes for a better life for Hawai'i families and communities while giving families a sense of empowerment when they achieve their savings goal.

Chair Shimabukuro and Committee Members
January 24, 2008
Page 2

This bill will provide organizations running IDA programs access to sufficient operational funds that are needed to provide financial education and planning, resources for case management, and funds for technical assistance and support.

In Hawai'i, most IDA programs are small programs with approximately \$20,000 for both operating and matching funds. Most IDA programs have long waiting lists of eligible low-income individuals but not the matching funds to support them. The investment in this bill will allow more families in Hawai'i to achieve their asset goals.

An investment of \$1 to \$2 million with an operating cost rate of 25% for fiduciary organizations will give hundreds of families the opportunity to participate in the IDA program and the chance to save, build wealth, and contribute to the state's economy.

Although we support HB 2046, we **prefer the language in HB 2047.**

We would also like to suggest the following **amendment** to this bill to allow the expansion of IDA programs to allow for the purchase of a car for transportation to and from work.

Section 257-1, Hawaii Revised Statutes, is amended by amending the definition of "qualified expenditures" to read as follows:

""Qualified expenditures" means an expense as determined by a fiduciary organization[; ~~which~~] that may include [~~but not be limited to~~]:

- (1) Costs associated with first homeownership;
- (2) Post-secondary education;
- (3) Vocational training; [~~and~~]
- (4) Small or micro-business capitalization[~~;~~]; and
- (5) One motor vehicle purchase for school or work transportation."

Thank you for the opportunity to submit testimony.

Sincerely,

Justin Fanslau
Associate Director

Larissa Meinecke
Public Policy Associate

January 24, 2008

House Committee on Human Services and Housing
Thursday, January 24, 2008 at 8:30AM
Conference Room 329
HB 2046 & HB 2047 - SUPPORT

Dear Chair Shimabukuro and Committee Members:

I am submitting testimony in support of HB 2046 and HB 2047 which would appropriate funds to the Individual Development Account (IDA) program; require the Department of Human Services to provide technical and administrative assistance to fiduciary organizations; and allow fiduciary organizations to use no more than 25% of state funds per year for operating costs.

IDAs are matched savings account programs that enable low-income families to save toward the purchase of an asset. Participants enroll in financial literacy, receive tailored case management, and have their savings “matched” toward the purchase of an asset. The most commonly approved assets include purchase of first home, college tuition and fees, and small business startup.

I support HB 2046 and HB 2047 because they will (a) expand opportunities for Hawai‘i’s low- and moderate-income persons to save and build wealth, and (b) build the capacity of fiduciary organizations to adequately provide IDAs.

IDAs are effective at helping low- and moderate-income persons save toward their financial goals and build wealth. As a Ph.D. candidate in social welfare at the University of Hawai‘i at Mānoa conducting research on ALU LIKE, Inc.’s IDA program for my dissertation, I have studied closely the social research demonstrating the benefits of IDA participation. The most important finding is that persons with low- and moderate-incomes *can* and *do* save when given the opportunities like those provided by IDAs¹. Other key findings from IDA research include the following:

- the average participant accumulated \$1,609 in the program which equates to \$576 per year;²
- IDA participants had higher home ownership rates after program participation compared to an experimental control group;³
- participants reported greater responsibility, orientation towards the future, and control over their lives.⁴

¹ Schreiner, M., & Sherraden, M. (2006). *Can the poor save? Saving and asset accumulation in Individual Development Accounts*. Piscataway, N.J.: Transaction Publishers.

² Ibid.

³ Mills, G., Gale, W., Patterson, R., & Apostolov, E. (2006). *What do individual development accounts do? Evidence from a controlled experiment*. Cambridge, MA: Abt Associates.

⁴ Sherraden, M., Moore-McBride, A., Johnson, E., Hanson, S., Ssewamala, F., & Shanks, T. (2005). *Saving in low income households: Evidence from interviews with participants in the American Dream Demonstration*. St. Louis, MO: Center for Social Development.

Despite the observed benefits to program participants, the administration of IDAs is costly. Providing effective and culturally appropriate financial literacy courses is expensive for non-profit organizations. Moreover, it takes considerable time for case managers to develop relationships and to help their clients form the best plans to reach their short to long-term financial goals. Current funding provisions are simply not adequate to support these necessary services. House Bills 2046 and 2047 would address this deficiency by providing IDA organizations access to sufficient operational funds to provide financial education and planning, resources for case management, and funds for technical assistance and support.

An investment of \$1 to \$2 million with an operating cost rate of 25% for fiduciary organizations will give hundreds of families the opportunity to participate in IDA programs and provide a mechanism to save and build wealth for families. Additionally, funding for IDA programs is often multiplied throughout our economy to benefit small businesses, real estate and home sales, and higher education markets.

Although I support both HB 2046 and HB 2047, I prefer the language set forth in HB 2047.

Thank you for the opportunity to submit testimony.

Sincerely,

David W. Rothwell
Ph.D. Candidate
University of Hawai'i at Mānoa
