LATE TESTIMONY

SIFMA Securities Industry and Financial Markets Association
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January 28, 2008

Senator Norman Sakamoto, Chair
Senator Jill Tokuda, Vice Chair
Committee on Education
Hawaii State Capitol, Room 225
Honolulu, HI 96813

RE: S.B. 2251 Relating to Taxation

Dear Chairman Sakamoto and Vice Chair Tokuda:

The Securities Industry and Financial Markets Association (SIFMA)[1] is writing to strongly encourage the Senate Committee on Education to amend S.B. 2251. Currently, the bill would permit state residents who contribute to Hawaii's College Savings Program to deduct the amount of that contribution – up to a maximum of $10,000 per married couple filing jointly - from their gross income for state tax purposes. SIFMA applauds the legislature for looking at ways to encourage residents to save for college. We, however, believe that Hawaii residents would substantially benefit from an amendment which enabled them to claim the deduction if they contributed to the Hawaii's College Savings Program <u>or to any other qualified 529 plan</u>.

The cost of a college education is staggering. The College Board reports that the current price tag for **one year** of undergraduate education is $13,589 for public institutions and $32,307 for private institutions. Multiply that number by four years, and parents and students are facing total college costs that currently range between roughly $54,000 and $130,000. Furthermore, college costs are only going up. Over the last five years, after adjusting for inflation, total costs have increased 40% at four-year public colleges and 30% at four-year private colleges and universities. In light of these numbers, a U.S. Commerce Department report that the personal savings rate of Americans in 2006 (the last year for which data is currently available) has dropped to negative 1% is particularly troubling.

We certainly want to encourage people to save for college, and many entities, including Kiplinger's and savingforcollege.com, believe that 529 plans are the best college savings vehicle. It therefore makes sense to create a state deduction for contributions to a qualified 529 plan.

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[1] The Securities Industry and Financial Markets Association brings together the shared interests of more than 650 securities firms, banks and asset managers. SIFMA's mission is to promote policies and practices that work to expand and perfect markets, foster the development of new products and services and create efficiencies for member firms, while preserving and enhancing the public's trust and confidence in the markets and the industry. SIFMA works to represent its members' interests locally and globally. It has offices in New York, Washington D.C., and London and its associated firm, the Asia Securities Industry and Financial Markets Association, is based in Hong Kong.

SIFMA, however, believes that creating a deduction which applies to all qualified 529 plans is a far better option for state residents than limiting that deduction to contributions to the state sponsored plan. This is true for several reasons. First, extending favorable tax treatment to all 529 plans gives Hawaii residents real choice. We want people to pick the 529 plan that is best suited for them. We want them to look at factors such as investment options, risk, manager reputation, expense ratio, and sales load. We do not want preferential tax status to be the sole or primary reason people select a particular 529 plan.

Second, creating a tax deduction for all qualified 529 plans encourages competition among plans. When the tax playing field is level, 529 plans will compete for business based on factors such as plan performance, customer service, and fees. Increased competition among the plans provides a greatly improved product for consumers. It also provides an incentive to ensure that the Hawaii-sponsored 529 plan evolves over time to remain an attractive option for your residents.

Third, many Hawaii residents rely upon investment professionals to help meet their college savings needs. Because these investment professionals are familiar with the family's entire investment portfolio, they are in a unique position to help Hawaii residents select the 529 plan that fits best with their needs and goals. Extending equal tax treatment to all 529 plans allows Hawaii residents to continue working with trusted advisers, and allows those advisers to explore a variety of options before making investment recommendations.

Finally, creating a tax deduction that applies to all qualified 529 plans is consistent with the original objectives of 529 plans. Qualified tuition plans are designed to be a flexible and portable investment option as: (1) they can be used equally at any accredited public or private undergraduate, graduate or professional program in the country; (2) they are open to any investor, regardless of state residency; and (3) they can be opened by any investor (whether a parent, grandparent or non-relative) for the benefit of any future student. Proprietary state tax advantages are inconsistent with plan portability.

An educated population provides tremendous benefits to the state. According to the U.S. Census Bureau, people with bachelor's degrees earn over 70% more on average than those with only a high school diploma, and the earnings gap between a high school and a college graduate is more than $1,000,000 over a lifetime. In addition, a College Board report entitled "Education Pays" concluded that college graduates not only make more but they also have lower levels of unemployment, are less likely to depend on social programs, and have lower smoking and incarceration rates.

Clearly, what is important is that Hawaii residents save for college. It should not matter which 529 plan they choose to save in.

For the reasons stated above, SIFMA urges the Committee to amend S.B. 5521 to apply to all 529 plans. Please feel free to contact me at 212-313-1311 or my lobbyists, Red Morris and John Radcliffe, at 808-531-4551 if you have any questions.

Sincerely,

Kim Chamberlain

Kim Chamberlain
Managing Director & Counsel
State Government Affairs

LATE TESTIMONY

TESTIMONY BY GEORGINA K. KAWAMURA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON EDUCATION
ON
SENATE BILL NO. 2251

January 28, 2008

RELATING TO TAXATION.

Senate Bill No. 2251 proposes a state income tax deduction to individual taxpayers for contributions to accounts in the State of Hawaii's 529 College Savings Program, called "HI 529."

The Department of Budget and Finance supports the intent of this bill, which is consistent with the Administration's Senate Bill No. 3000 that provides individuals an incentive in the form of a State tax deduction for contributions to HI 529. We appreciate the overall goal of helping individuals and families set aside funds for future higher education costs.

Senate Bill 2251 proposes a maximum tax deduction of $5,000 for taxpayers filing individually, and $10,000 for taxpayers filing jointly. We recommend the higher maximum deductions as provided for in Senate Bill No. 3000 of $10,000 for taxpayers filing individually, and $20,000 for taxpayers filing jointly. We believe that the higher maximum deductions will be a greater incentive and better assist individuals and families saving for our children's future college expenses.

Therefore, while we support the intent of Senate Bill No. 2251, we prefer the language as contained in the Administration Senate Bill No. 3000 that provides for a higher maximum deduction. Thank you for this opportunity to provide testimony on this measure.