

LINDA LINGLE
GOVERNOR



DARWIN L.D. CHING
DIRECTOR

COLLEEN Y. LaCLAIR
DEPUTY DIRECTOR

**STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

830 PUNCHBOWL STREET, ROOM 321
HONOLULU, HAWAII 96813
www.hawaii.gov/labor
Phone: (808) 586-8842 / Fax: (808) 586-9099
Email: dlir.director@hawaii.gov

February 1, 2008

To: The Honorable Suzanne Chun Oakland, Chair
and Members of the Senate Committee on Human Services and Public Housing

Date: February 2, 2008
Time: 1:15 p.m.
Place: Conference Room 016, State Capitol

From: Darwin L.D. Ching, Director
Department of Labor and Industrial Relations

**Testimony in Support
of
Senate Bill 3091 - Relating to Lifelong Learning Accounts**

I. OVERVIEW OF PROPOSED LEGISLATION

Senate Bill 3019 is an Administration proposal which establishes a Lifelong Learning Accounts ("LiLAs") program and tax credit in the Department of Labor and Industrial Relations' ("Department") to support upgraded training for the incumbent workforce, and encourages participation by employers and employees through tax credit incentives.

II. CURRENT LAW

Currently, the only incumbent worker training program offered by the Department to assist in upgrading employee skills is the employer funded Employment Training Fund ("ETF")

In 1991, the legislature added an additional .05 percent assessment on wages subject to unemployment taxes to fund an employment and training fund. This law was to sunset at the end of 1996. It was assumed that the fund would be allowed to sunset because the training programs had provided employment training to only a small percentage of the workforce. However, instead of allowing the fund to sunset, the legislature made it

permanent and expanded the purposes for which the funds could be used to include grants and subsidies to agencies which provide services for the school-to-work program.

Additionally, because the ETF fund was established on a temporary basis the tax on employers was designed to be phased out incrementally. As such, the tax on employers had been reduced from .05 percent to a .01 percent assessment on wages. Once the program and fund was made permanent, the assessment was never restored to the original funding level. This has caused the ETF to require that employers pay for fifty (50) percent of the training or any excess beyond the tuition cap. Today, less than five (5) percent of Hawaii businesses are utilizing the fund although they entirely fund the program.

III. SENATE BILL

The Department strongly supports S.B. 3019 as it creates employee-centered portable "Lifelong Learning Accounts," enabling employees already in the workforce to set aside pre-tax monies, matched by employers, for job training and educational needs. This will assist the State in establishing a comprehensive workforce development program that addresses all of Hawaii's population while helping to sustain and grow the economy.

Need

1. It is increasingly critical for Hawaii's workforce to be prepared for the high-skill demands of a twenty-first century economy. An unprepared workforce is one of the biggest hurdles to the state's continued economic development and sustainability.
2. It is also estimated that 70 to 80 percent of the workers and managers needed in our economy over the next 10 to 20 years are already on the job. Therefore, it is critical that Hawaii optimize its existing workforce by assisting employers and incumbent workers in upgrading their skills.
3. Over 90% of Hawaii's businesses are small businesses and often face financial hurdles to providing their employees with needed job training or educational programs that improve individual skills of their employees. Additionally, employees find it difficult to fund job training or educational programs on their own.
4. In the states that have implemented LiLAs, the participants had the following characteristics:
 - a. Nearly half of the participants are non-white;
 - b. Nearly half earn less than \$30,000;
 - c. Over half are female;
 - d. Over half are under age 40;

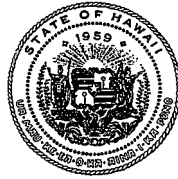
- e. Average monthly savings rate for active participants: \$28.97; and
- f. Courses of study include: nursing, lab technician, management, accounting, computers, HVAC (heating, ventilating, and air conditioning), quality assurance, culinary arts, and English as Second Language.

Solution / Proposal

1. LiLAs are employee-owned, portable individual accounts used to finance education and training that are similar to a 401(k)'s, but are utilized instead for skill building and career advancement. The intent is to allow workers the ability to upgrade their skills and knowledge to meet the labor needs of Hawaii's employers.
2. The LiLA model has been piloted by the Council for Adult & Experiential Learning ("CAEL") – the organization that designed the model – over the last 5 years. Preliminary data shows positive outcomes for workers and employers. Lower and moderate income workers and those with lower educational levels are able to participate. Both LiLA employees and employers are satisfied with the program and would continue to participate beyond the pilot program if it were offered.
3. Many other states are adopting LiLA programs or considering them. Two states already have adopted LiLA legislation: Maine is in the early stages of implementing a LiLA program that covers much of the state and Illinois, which has passed legislation for a statewide LiLA demonstration program in healthcare. Missouri and Kansas in the Kansas City region will be starting a LiLA demonstration program this year as part of their WIRED grant (Workforce Innovations for Regional Economic Development) from the US Department of Labor. Stakeholders in other states are exploring LiLA programs and policy, including Pennsylvania, Michigan, New York, and Massachusetts.
4. LiLAs will be universal, portable, self-managed educational advancement accounts for adult workers funded by the individual employee, employers, and public sources. This will allow the employee to continue utilizing their account should they change employers or during periods of unemployment.
5. The program is open to all industries and employers, but the program will put an additional emphasis on the healthcare, hospitality, and technology industries. These industries have typically been cited as having significant labor needs (healthcare and hospitality) and or have been routinely acknowledged as critical to the growth and sustainability of Hawaii's economy (Technology).
6. Essentially, an employer and employee choose to establish an account in which the employee would provide money through payroll deductions into their LiLA account and the employer would match, dollar for dollar, the employee contribution, up to \$500 dollars per year. There is no exclusion if the employee wishes to provide more

- funding to their account or if the employer voluntarily matches any amounts contributed by the employee over the initial \$500 contributed per year. However, for the purposes of this law, the employer will only be obligated to match \$500 per year that is contributed to the account.
7. In order to provide incentive to employers and employees to participate, the bill also offers both employers and employees tax credits of up to \$500 per year to offset contributions to these personal training accounts. While the tax credit for employees and employers are limited to \$500 per individual, again, there is no exclusion if the employee wishes to provide more funding to their account or if the employer voluntarily matches any amounts contributed by the employee over the initial \$500 contributed per year. However, the tax credit for employee and employer per account is capped at \$500.
 8. Unlike current job training and education programs funded through the state and federal government, employees would be able to seek job training courses of their choice from public, private, and non-profit educational or job training institutions of their choice. Also, unlike current student aid programs working adults can access, LiLAs can cover a wide range of educational expenses, which the Department will specify in regulations.
 9. From an operational standpoint, the LiLAs would be run through the Department, which provides oversight over workforce development, and down to the counties through their respective One Stop Centers. The state and counties already have the structure necessary to implement the LiLA program by utilizing the organizational structure and relationship established by the WIA.
 10. The Department and counties would provide outreach and informational briefings to employers and employees. Additionally, staff will assist in establishing the accounts, providing fiduciary responsibility that the funds are being spent on job training and educational programs. Additionally, the Department would assist employees with skills assessment, individual counseling, and career planning. These services will help to ensure that workers are making informed choices about the use of their LiLA funds.

The LiLA design encourages continuous and revolving saving for and spending on education and training; therefore, encourages employees to commit to lifelong learning and education. Additionally, this program will give individual employees a long-term stable financial environment to seek job training and skill building guidance, as well as the actual job training and skill building assistance. This proposal has promise in providing a secondary effect in producing social attitudinal shift of our society in committing to lifelong learning. LiLAs would be held and operated by individuals on a lifelong basis, and only the individual LiLA holder would have the authority to use the account for spending on learning or job training.



STATE OF HAWAII
WORKFORCE DEVELOPMENT COUNCIL
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
830 PUNCHBOWL STREET, ROOM 417
HONOLULU, HAWAII 96813
www.hawaii.gov/labor/wdc
Phone: (808) 586-8670 / Fax: (808) 586-8674
Email: dlir.workforce.council@hawaii.gov

February 2, 2008

To: Senator Suzanne Chun Oakland, Chair
Senator Les Ihara, Vice Chair
and Members of the Committee on Human Services and Public Housing

From: Gregg Yamanaka, Chair
Workforce Development Council

Subject: **SB3091 Relating to Lifelong Learning Accounts**
Establishes a LiLA Program in DLIR
Hearing Saturday, February 2, 2008; 1:15 pm; Conference Room 016

The Workforce Development Council (“WDC”) supports SB3091 which establishes a lifelong learning program in the Department of Labor and Industrial Relations (“DLIR”) to support upgraded training for the incumbent workforce in the healthcare, hospitality, and technology industries.

The proposed Lifelong Learning Account (“LiLA”) Program will support incumbent worker training through establishment and administration of a state-supported voluntary program to facilitate employer matching of employee training expenditures. Incumbent worker training (training to raise the skill level of individuals already in the workforce) is one of WDC’s priorities. The critical features of the proposal that prompts WDC support includes:

- state-support in establishing and administering the program,
- the provision of state tax credits for both employers and employees, and
- a provision to encourage participation by lower-income and lower-skilled workers.

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The result of the proposed program will be larger numbers of better-prepared workers available to support and maintain Hawaii's economy. It will also mean greater opportunity, higher pay, and an improved standard of living for Hawaii's people. The proposal is wholly consistent with the state's workforce development plan.

Thank you for this opportunity to comment.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Gregg Yamamoto". The signature is written in a cursive, flowing style.

The Hawaii Workforce Development Council is a private-sector led body responsible for advising the governor on workforce development to support economic development and employment opportunities for all. It is the State's advisory commission on employment and human resources as defined by the Hawaii Revised Statutes. The council is also the State Workforce Investment Board for purposes of the Workforce Investment Act ("WIA") of 1998. It assists the Governor in developing and updating comprehensive five-year strategic workforce investment plans and oversees workforce (public) investment activities in the state.

L E G I S L A T I V E

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TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Lifelong learning account tax credit

BILL NUMBER: SB 3091; HB 3169 (Identical)

HSP 2/a

INTRODUCED BY: SB by Hanabusa by request; SB by Say by request

BRIEF SUMMARY: Adds a new section to HRS chapter 235 to allow taxpayers to claim a lifelong learning account tax credit. The credit shall be 100% of the payments made by a taxpayer into a lifelong learning account established for the benefit of the taxpayer during a taxable year. The credit shall be a deduction against a taxpayer's net income tax liability for the taxable year the taxpayer makes payments into the lifelong learning account. The moneys in the lifelong learning account are to be used to pay educational expenses as delineated by the department of labor and industrial relations.

A taxpayer who is not claimed or not eligible to be claimed as a dependent by a taxpayer for Hawaii individual income tax purposes may also claim the credit. The credit shall not exceed \$1,000 in the aggregate for a husband and wife filing a joint return, provided that a husband and wife filing separately shall be entitled to only the amount of credit which they would have been entitled to if they filed jointly. The credit shall not exceed \$500 in the aggregate for all other taxpayers.

Defines "lifelong learning account" and "net income tax liability" for purposes of this section.

Credits in excess of a taxpayer's income tax liability may be refunded to the taxpayer provided that such amount is over \$1. Claims for the credit, including any amended claims, must be filed on or before the end of the twelfth month following the close of the taxable year.

Adds a new section to HRS chapter 235 to allow employers to claim a non-refundable tax credit for payments made by the employer during the taxable year as matching payments to lifelong learning accounts for individual employees. The tax credit shall be equal to 100% of the amount contributed by the employer into the taxpayer's lifelong learning account made by the taxpayer; not to exceed \$500 per employee.

Credits in excess of a taxpayer's income tax liability may be applied to subsequent income tax liability. Claims for the credit, including any amended claims, must be filed on or before the end of the twelfth month following the close of the taxable year. The director of taxation shall prepare the necessary forms to claim the credit.

Defines "lifelong learning account" for purposes of this section.

Further adds a new section to HRS chapter 394 to require the department of labor and industrial relations to establish a lifelong learning accounts program.

EFFECTIVE DATE: July 1, 2008 applicable to tax years beginning after December 31, 2007



HAWAII GOVERNMENT EMPLOYEES ASSOCIATION

AFSCME LOCAL 152, AFL-CIO

888 MILILANI STREET, SUITE 601 • HONOLULU, HAWAII 96813-2991



Randy Perreira *Executive Director*
Tel: 808 543-0011 Fax: 808 528-0922

Nora A. Nomura *Deputy Executive Director*
Tel: 808 543-0003 Fax: 808 528-0922

Derek M. Mizuno *Deputy Executive Director*
Tel: 808 543-0055 Fax: 808 523-6879

The Twenty-Fourth Legislature, State of Hawaii
Hawaii State Senate
Committee on Human Services and Public Housing

Testimony by
Hawaii Government Employees Association
February 2, 2008

S.B. 3091 – RELATING TO LIFELONG
LEARNING ACCOUNTS

The Hawaii Government Employees Association supports the purpose and intent of S.B. 3091. We agree that if we are to maintain a vibrant economy, we must develop a skilled and productive workforce requiring the continuous upgrading of skills by employees already in the workforce, as well as better training among new employees. Today, learning does not stop with end of traditional, formal education.

Development of employer-matched educational training accounts can be used to finance workers' education and training to upgrade their knowledge and skills. Under the provisions of S.B. 3091, lifelong learning accounts will allow an individual worker to contribute money and have that contribution matched by their employer. This concept is similar to a 401(k) account, but for the purpose of education and training.

We believe that lifelong learning accounts will benefit not only our members but our community as a whole. Thank you for the opportunity to testify in support of S.B. 3091.

Respectfully submitted,

for
Nora A. Nomura
Deputy Executive Director