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# A BILL FOR AN ACT

RELATING TO THE STATE OF HAWAII COLLEGE SAVINGS PROGRAM.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1           SECTION 1. In 2002, the State of Hawaii established a  
2 college savings program called "TuitionEDGE" pursuant to  
3 chapter 256, Hawaii Revised Statutes, and section 529 of the  
4 Internal Revenue Code of 1986, as amended. In November 2007,  
5 the program contracted with a new program manager and changed  
6 its name to "HI529 - Hawaii's College Savings Program." The  
7 program was established and exists to assist and encourage  
8 families to set aside funds for future higher education  
9 expenses.

10           As of September 30, 2008, there were approximately 3,700  
11 accounts in the program, and \$39,400,000 in program assets. The  
12 asset size of Hawaii's program is relatively small and the  
13 participation rate is low compared to other states' college  
14 savings programs. The State would like to see the program grow  
15 and assist more families with saving for college. In these  
16 challenging economic times, it is even more important to find  
17 ways to help families reach their educational goals. This bill  
18 will allow third-parties, such as grandparents and other

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1 relatives and friends, to contribute directly to a college  
2 savings account for a designated beneficiary. This will enable  
3 relatives or friends to easily make contributions into HI529  
4 accounts set up for a special child or individual whom they want  
5 to help in achieving their college dreams.

6 SECTION 2. Section 256-4, Hawaii Revised Statutes, is  
7 amended by amending subsection (b) to read as follows:

8 " (b) [~~Only the account owner may make contributions to the~~  
9 ~~account~~] Any person or entity, regardless of whether the person  
10 or entity is the account owner, may make contributions to the  
11 account after the account is opened."

12 SECTION 3. Statutory material to be repealed is bracketed  
13 and stricken. New statutory material is underscored.

14 SECTION 4. This Act, upon its approval, shall apply to  
15 taxable years beginning after December 31, 2008.

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INTRODUCED BY: \_\_\_\_\_

  
BY REQUEST

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**Report Title:**

College Savings Program

**Description:**

Supports investment in a child's future by allowing family members and friends to contribute to State established HI529 college savings accounts that currently only account owners can contribute to.

JUSTIFICATION SHEET

DEPARTMENT: Budget and Finance

TITLE: A BILL FOR AN ACT RELATING TO THE STATE OF HAWAII COLLEGE SAVINGS PROGRAM.

PURPOSE: To allow third-party contributions to accounts established under the State of Hawaii's section 529 College Savings Program.

MEANS: Amend section 256-4(b), Hawaii Revised Statutes (HRS).

JUSTIFICATION: In 2002, the State of Hawaii established a college savings program initially called "TuitionEDGE" pursuant to chapter 256, HRS, and section 529 of the Internal Revenue Code of 1986, as amended. In November 2007, the program was revamped under a new program manager and re-branded as "HI529 Hawaii's College Savings Program." The program was established and exists to assist and encourage families to set aside funds for future higher education expenses.

In general, an account owner establishes an account for a designated beneficiary, contributes after-tax dollars into the account, and invests the contributions in various investment options offered under the program. These investment options are provided by a program manager that charges account owners a program management fee. The earnings on the contributions grow tax-deferred, and distributions to pay for a beneficiary's qualified higher education expenses are not subject to federal or state income tax (this tax-free treatment was made permanent by the Pension Protection Act of 2006). Currently, the maximum amount that account owners can contribute to an account in the State of Hawaii's 529 program, is \$305,000. As of September 30, 2008, there

were approximately 3,700 accounts in the program, and \$39,400,000 in program assets.

The asset size of our program is relatively small and our participation rate is low compared to other states' college savings programs. If Hawaii's program could see increases in participation and a related increase in asset size, the State may be able to obtain a lower program management fee in the future, which would benefit all participants. A vast majority of states allow third-party contributions into established accounts, and also offer some kind of in-state tax deduction or credit for contributions as an incentive for their residents to participate in their college savings programs. With the current dismal state revenue projections, offering a state tax deduction for program contributions will be deferred to a future legislative session. However, we feel that by allowing for third-party contributions, we can make an immediate impact on the program asset size and provide another way to help families save for college.

This bill proposes to amend section 256, HRS, by allowing for third-party contributions into established college savings program accounts.

Impact on the public: This proposal will have a positive impact on the public by providing another way to help families save for college via their HI529 college savings accounts. It will allow third-parties, such as grandparents, other family members and friends to contribute to the account of a designated beneficiary.

Currently, the statute only allows the account owner to make contributions into an account. This bill will allow others such as grandparents, to easily make contributions into a college savings account set up for a child or individual. This will

also hopefully encourage further participation in the program, and may allow the State to secure a lower program management fee in the future as the program assets grow, which will benefit all participants.

Impact on the department and other agencies:  
An increase in the size of Hawaii's program will provide the Department of Budget and Finance with more leverage to negotiate lower future program management fees with program managers and investment product providers.

GENERAL FUNDS: None.

OTHER FUNDS: None.

PPBS PROGRAM  
DESIGNATION: BUF-115.

OTHER AFFECTED  
AGENCIES: Department of Taxation.

EFFECTIVE DATE: Upon approval.