

TESTIMONY BY GEORGINA K. KAWAMURA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 1057, H.D. 1

March 3, 2009

RELATING TO THE STATE OF HAWAII COLLEGE SAVINGS PROGRAM.

House Bill No. 1057, H.D. 1, proposes to allow third-party contributions into the State of Hawaii's 529 College Savings Program, called "HI529." The Department of Budget and Finance strongly supports this administration bill.

The HI529 program was established by the legislature in 2002 with the goal to assist and encourage families to set aside funds for future higher education expenses. Originally named "TuitionEDGE," the management of the Program was changed in November 2007 and the program was re-named "HI529 Hawaii's College Savings Program." As of December 31, 2008, the program had approximately 3,760 accounts (88% belonging to Hawai'i residents) and \$36.3 million in program assets.

A 529 college savings program is authorized by Section 529 of the Internal Revenue Code and allows each state to establish and design, within program requirements, their own college savings program. The primary benefit of the HI529 program is that earnings on the contributions grow federal and state tax-deferred, and withdrawals used to pay for a beneficiary's qualified higher education costs are also federal and state tax-free.

The purpose of this bill is to allow third-parties to contribute directly into a HI529 college savings account, thereby allowing grandparents, other family members and friends to contribute into a child or individual's account to be used for future higher education expenses.

Currently, section 256 of the Hawai'i Revised Statutes which authorizes the program, allows only the account owner (usually a parent) to make contributions into their accounts. This bill would allow third-parties to contribute directly into an account, and make it much easier for grandparents, other relatives, friends or employers to send in contributions to benefit a special child or individual, for example sending in a contribution as a gift on a child's birthday or for a special occasion. It would allow even the child himself, when he grows older, to learn valuable financial management skills by contributing into his own account for college.

Allowing third-party contributions would not require any funding from the State in these fiscally challenging times. But it would provide an immediate impact on the HI529 program by making it easier to contribute, thereby increasing satisfaction among participants and also decrease the number of contribution checks needing to be returned by the program.

Higher education costs will only continue to rise, and trying to save for higher education can be a difficult task for Hawai'i families juggling various daily living expenses. This bill will make it a little easier for families to put aside funds periodically for college savings.

Thank you for this opportunity to provide testimony in strong support of this bill.