

TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
SENATE BILL NO. 2545, S.D. 1

February 5, 2014

RELATING TO UNIVERSAL CHILDREN'S SAVINGS ACCOUNTS

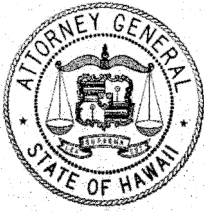
Senate Bill No. 2545 S.D. 1, proposes to establish a universal children's savings account program to enable families to start savings accounts for their children who are born or reside in the state, assist these children in purchasing a future home or starting a business. S.D. 1 amended the initial bill to delete "paying for higher education" from the purpose of these accounts, in recognition that the State already has established a 529 College Savings program under the Department of Budget & Finance which provides a vehicle for families to save for higher education (<http://budget.hawaii.gov/finance/hi529>).

The bill provides a brief outline of the program intent and structure, including that the state would provide a dollar-for-dollar match to deposit into each qualifying account, and mentions that joint state-federal mortgage servicing settlement funds be utilized.

The Department appreciates the intent of the bill to educate children and their families on the importance of saving and developing a savings account. However, there are significant budgetary concerns surrounding the establishment and maintenance of such a program, such as: 1) the potential cost to the state of initiating a universal savings account program has not been estimated; 2) the ability of the state to sustain the future liability of funding the program as a permanent, recurring expense; 3) the Department would not be

able to embark on a program of this magnitude without additional resources in staffing and costs for the initial establishment and ongoing operation of a program; and 4) if a third-party administrator (TPA) is contracted, it may be difficult to attract a TPA for a Hawai'i resident-based program due to the limited group size of potential participants.

Thank you for the opportunity to provide testimony on this bill.



**TESTIMONY OF
THE DEPARTMENT OF THE ATTORNEY GENERAL
TWENTY-SEVENTH LEGISLATURE, 2014**

ON THE FOLLOWING MEASURE:

S.B. NO. 2545, S.D. 1, RELATING TO UNIVERSAL CHILDREN'S SAVINGS ACCOUNTS.

BEFORE THE:

SENATE COMMITTEE ON WAYS AND MEANS

DATE: Wednesday, February 5, 2014 **TIME:** 10:30 a.m.

LOCATION: State Capitol, Room 211

TESTIFIER(S): David M. Louie, Attorney General, or
James C. Paige, Deputy Attorney General

Chair Ige and Members of the Committee:

The Attorney General provides these written comments in order to inform you of five federal court consent judgments that restrict the use of the national mortgage settlement monies received by the State to housing and financial counseling, public education, mediation, dispute resolution, and enforcement of laws and agreements protecting the rights of homeowners and lessees.

The national mortgage settlement with the five major national banks was resolved pursuant to five federal court consent judgments in the spring of 2012. Those judgments provide that the settlement monies received by the State of Hawaii may only be used as follows:

The monies are to be held in trust for the benefit of homeowners and others in the State of Hawaii who are, have been, or may be affected by mortgage loan proceedings. This includes, but is not limited to, those who have been subject to foreclosure, are in foreclosure, are at risk of foreclosure, have delinquent mortgage loan payments, have negative equity in their homes, have lost their homes due to foreclosure, have been unable to refinance their mortgage loans, or are leasing a dwelling affected by foreclosure. The monies shall be used for housing and financial counseling, public education, mediation, dispute resolution, and enforcement of laws and agreements protecting the rights of homeowners and lessees. The monies shall be used only for these purposes. The monies shall be deposited into an administrative trust account to be administered by the Attorney General of the State of Hawaii, who as custodian shall have sole discretion to make determinations as to the amounts and the purposes for which the monies are to be expended.

United States of America, et al., v. Bank of America Corp. et al., Civ. No. 12-0361 (D.D.C.

2012) filed April 4, 2012. (Emphasis added.)

Accordingly, any monies received under the national mortgage settlement may only be used for the purposes approved by the court and any other use would be in violation of the federal court consent judgments. Thus, the monies received from the national mortgage settlement could not be used for the purposes of this bill without violating the federal court consent judgments.

Thank you for the opportunity to testify.



200 N Vineyard Boulevard, #A300
Honolulu, HI 96817
Ph: (808) 587-7886
Fax: (808) 587-7899
www.HawaiianCommunity.net

February 4, 2014

Senate Committee on Ways and Means
Wednesday, February 5, 2014 at 10:30am
Conference Room 211

SB2545 – Relating to Universal Children’s Savings Accounts

Aloha Chair Ige and Committee Members:

I am submitting testimony on SB 2545 – Relating to Universal Children’s Savings Accounts in my capacity as Executive Director of Hawaiian Community Assets, Inc (HCA), President of the Hawaii Jump\$tart Coalition for Personal Finance, and member of the Hawaii State Task Force on Asset Building and Financial Education. I offer my **SUPPORT with recommendations** for this legislation, which would establish State-supported savings accounts for our Hawaii children to increase asset wealth during their lifetime and in-turn, strengthen our local economy.

HCA is a 501c3 nonprofit US Department of Housing and Urban Development (HUD) certified financial education and housing counseling agency and Native Community Development Financial Institution. HCA builds the capacity of low- and moderate-income communities to achieve and sustain economic self-sufficiency. Our philosophy of *kahua waiwai*, meaning foundation of wealth, supports permanent housing, place-based financial education, and asset building and financial products to achieve our mission. Since 2009, HCA has delivered free place-based financial education to 1,586 Hawaii children and established age-appropriate match savings accounts, including administrative policies, procedures, and processes, in partnership with banks, credit unions, municipal governments, and community-based organizations. Founded in 2000, HCA has served over 13,000 Hawaii children and adults with free financial education, assisting 1,059 low-income families secure/sustain permanent housing statewide.

Opportunity to Invest in Our Next Generation

Based on HCA’s expertise in the field of child and family financial education, we recognize that Children’s Savings Accounts are proven tools that can ensure our rising generation will be able to overcome the major barriers that stand in their way of building asset wealth through career development, education, land or home ownership, and small business development. According to the national policy/advocacy organization, Corporation for Enterprise Development (CFED), Children’s Savings Accounts provide children and families opportunities for economic mobility,

increase expectations for the future, and allow for the building of meaningful savings while learning about money and finance. Further, the CFED has gathered recent research which states:

- “[C]hildren with savings dedicated for college education are four times more likely to attend college.” (Elliot and Beverly, 2010)
- “Children’s savings accounts are strong predictors of college matriculation. Among youth who expect to attend college, youth with a savings account in their names are about six times more likely to attend college.” (Elliot and Beverly, 2010)
- “Evidence suggests that having school savings might be as closely associated with college outcomes as the amount in it. Children with \$1 to \$499 designated for school are 2.5 times more likely to enroll in and graduate from college than children with no account.” (Elliot, Song and Nam 2013).

On a broader scale, children with savings are more likely to become homeowners, qualify for auto loans, start small businesses, and save for retirement as they grow older, all of which are foundational to the economic recovery and stability of our local communities (Consumer Financial Protection Bureau, 2013).

Recommendation: Amend Language to Create Pilot Savings Program to Promote Cost-Effectiveness and Ensure Sustainability

In 2008-10, HCA served as a member on the Hawaii State Task Force on Asset Building and Financial Education. As a member of the Task Force, we assisted with the development of short, mid, and long-term goals for the Children’s Savings Account Subcommittee.

The primary mid-term goal identified by the Subcommittee was to “Create a pilot savings program through the state that tests incentives. Key decisions would be if this would be done through a 529 or other savings vehicle.”

It was envisioned that through such a pilot savings program that:

- 1) Program rules would be defined with guidance from community-based organizations, education and financial institutions, and government agencies;
- 2) Multiple funding partners (federal, state, private foundations, financial institutions) would be engaged to contribute additional financial support for a Children’s Savings Program and match funds of child participants, and;
- 3) Adequate program infrastructure would be developed to promote cost-effectiveness and ensure sustainability.

Implementation of such a pilot savings program would serve as a pragmatic approach to realizing the intent of SB 2545 by testing program delivery, identifying best practices in program administration, and gathering input from community members and industry experts in both the public and private arenas.

HUD-Certified Financial Education and Housing Counseling Agencies: Expertise, Oversight, and Experience

To maintain the integrity of the pilot savings program, an organization should be contracted that is able to demonstrate expertise in age-appropriate financial product development and

administration, commitment to Federal oversight for delivery of its services and products in order to protect the personal and sensitive information of clients, and experience in facilitating public-private partnerships for integration of government-certified financial education and products within existing service delivery systems to assist children and their families identify savings goals and increase savings over time.

HUD-certified financial education and housing counseling agencies are uniquely positioned to meet these requirements. Specifically, HUD-certified financial education and housing counseling agencies are required to comply with CFR 24 regulations, the Graham-Leach-Bliley Act, and the Dodd-Frank Financial Reform Bill through implementation of Annual Financial Education and Housing Counseling, Data Security, and Quality Control Plans; certify all staff delivering or administering financial services and products; and submit quarterly and annual client management reports to maintain certification with the US Department of Housing and Urban Development. HUD-certified financial education and housing counseling agencies are required to undergo quality reviews of operations and client management systems every 2 years by the Federal government to ensure compliance.

Your support of SB 2545, with the stated recommendations, would be a first step in putting our State at the forefront of children's savings in the United States. The legislation would provide our children with savings accounts that will grow larger as they grow taller, thus laying the foundation for a "savings culture" that lifts the prospect of a stronger, healthier local economy. Overall, SB 2545 is Hawaii's opportunity to become a leader in addressing current and future economic recessions by investing in our most precious resource, our children.

Mahalo for your time, leadership, and consideration in supporting SB 2545 – Relating to Universal Children's Savings Accounts with stated recommendations.

Sincerely

A handwritten signature in black ink, appearing to read "Jeff Gilbreath". The signature is written in a cursive, slightly slanted style.

Jeff Gilbreath
Executive Director

RELATING TO UNIVERSAL CHILDREN'S SAVINGS ACCOUNTS.

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

SECTION 1. The legislature finds that universal children's savings accounts would help families to start saving at birth for their child's future. A savings account would provide a significant foundation for every child in Hawaii, particularly those with no other assets. It would also provide a vehicle for savings and a tool for children and parents to learn the value of saving and investment. The legislature also finds that thirty-four per cent of Hawaii's middle class families, those earning \$44,801 to \$68,800, are asset poor. A household is asset poor if it lacks the resources to subsist at the poverty level for three months if it loses its source of income.

According to a study conducted by the Center for Social Development at Washington University in St. Louis, students with savings are significantly more likely to pursue a higher education. In addition, the national policy organization Corporation for Enterprise Development has found that children's savings accounts increase expectations for the future, provide children and families opportunities for economic mobility, and allow for the building of meaningful savings while learning about money and finance. Educating and encouraging families to create savings accounts for children contribute to the economic viability of Hawaii's citizens.

The purpose of this Act is to establish a universal children's savings account program for children who were born in Hawaii or reside in

Hawaii to assist them with [perpetuation of culture, career development, post-secondary education,]

purchasing a home or starting a business.

SECTION 2. The Hawaii Revised Statutes is amended by adding a new chapter to be appropriately designated and to read as follows:

"CHAPTER

UNIVERSAL CHILDREN'S SAVINGS ACCOUNT PROGRAM

§ -1 Universal children's savings account program. There is established the universal children's savings account program within the department of budget and finance. The purpose of the program is to enable families to establish a savings account for their children, and to assist children with purchasing a home or starting a business. The program shall:

- (1) Encourage children who were born in Hawaii or reside in Hawaii to save money; and
- (2) Promote and educate eligible children and their families on the importance of developing a savings account.

§ -2 Rules. The department of budget and finance, in consultation with members of the Hawaii state asset building and financial education task force, shall adopt rules, pursuant to chapter 91, necessary to effectuate this chapter, including but not limited to rules establishing:

- (1) Eligibility requirements for participation in the program;
- (2) The minimum amount of state matching funds to deposit into each qualifying account when establishing each

individual account in the universal children's savings account trust fund;

(3) Appropriate uses for the funds provided through the program;

and

(4) Procedures and criteria for accessing funds from an established savings account, including the ability to access funds upon the recipient reaching eighteen years of age.

§ -3 Universal children's savings account trust fund. (a) There is established the universal children's savings account trust fund. The director of finance shall have custody of the fund. All payments from the fund shall be made in accordance with this chapter.

(b) The fund shall consist of a trust account and an operating account. The trust account shall include amounts received by:

(1) The universal children's savings account program pursuant to savings agreements, administrative charges, fees, and all other amounts received by the program from other sources;

(2) State moneys received from the joint state-federal mortgage servicing settlement [to contract a US Department of Housing and Urban Development certified financial education and housing counseling agency to implement a statewide pilot savings program based on the recommendations of the Hawaii State Task Force on

Asset Building and Financial Education. The project will define program rules, identify funding partners to leverage State funding, and establish the program infrastructure to promote cost-effectiveness and ensure program sustainability]~~provided that for every \$1 deposited from the settlement, the State shall provide a dollar-for-dollar match; and~~

(3) Interest and investment income earned by the fund.

The director of finance, from time to time, shall make transfers from the trust account to the operating account for the immediate payment of obligations under savings agreements, operating expenses, and administrative costs of the universal children's savings account program.

(c) The director of finance, as trustee, shall invest the assets of the fund in securities that constitute legal investments under state laws relating to the investment of trust fund assets by trust companies, including those authorized by article 8 of chapter 412. Trust fund assets shall be kept separate and shall not be commingled with other assets, except as provided in this chapter. The director of finance may enter into contracts to provide for investment advice and management, custodial services, and other professional services for the administration and investment of the program.

(d) The director of finance shall provide for the administration of the fund, including maintaining participant records and accounts, and

providing annual audited reports. The director of finance may enter into contracts for administrative services, including reports.

(e) All administrative fees, costs, and expenses, including investment fees and expenses, shall be paid from the operating account of the fund and, notwithstanding any other law to the contrary, may be made without appropriation or allotment."

SECTION 3. There is appropriated out of funds received by the State pursuant to the joint state-federal mortgage servicing settlement the sum of \$ or so much thereof as may be necessary for fiscal year 2014-2015 to be deposited into the universal children's savings account trust fund [for implementation of the statewide pilot savings program].

The sum appropriated shall be expended by the department of budget and finance for the purposes of this Act.

SECTION 4. This Act shall take effect on July 1, 2014.

Report Title:

Universal Children's Savings Account; Appropriation

Description:

Creates a Universal Children's Savings Account Program under the Department of Budget and Finance to enable families to establish savings accounts for their children and assist children with purchasing a home or starting a business. Establishes and appropriates funds into the Universal Children's Savings Account Trust Fund. (SD1)

The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.



1654 South King Street
Honolulu, Hawaii 96826-2097
Telephone: (808) 941.0556
Fax: (808) 945.0019
Web site: www.hcul.org
Email: info@hcul.org



Testimony to the Senate Committee on Ways & Means
February 5, 2014

In Support of SB 2545, Relating to Universal Children's Savings Accounts

To: The Honorable David Ige, Chair
The Honorable Michelle Kidani, Vice-Chair
Members of the Committee on Ways & Means

My name is Stefanie Sakamoto, and I am testifying on behalf of the Hawaii Credit Union League, the local trade association for 75 Hawaii credit unions, representing approximately 804,000 credit union members across the state.

We are in strong support of SB 2545, Relating to Universal Children's Savings Accounts. Hawaii's credit unions have long been advocates of financial literacy and wellness, sponsoring many "Kids Savings" programs and starting many educational credit unions within Hawaii's public schools. Teaching children about the importance of saving money from a young age has proven extremely successful in promoting financial security and health in their later years. This universal savings account program would start every child out with a savings account administered by the State. This would enable all children to get a healthy financial start.

Thank you for the opportunity to testify.