

## CHAPTER 256 COLLEGE SAVINGS PROGRAM

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### Note

Applies to taxable years beginning after December 31, 1999. L 1999, c 81, §5.

**§256-1 Definitions.** As used in this chapter, unless the context otherwise requires:

“Account” or “college account” means an individual savings account established in accordance with this chapter.

“Account owner” means the individual who enters into a tuition savings agreement pursuant to this chapter and as defined under the proposed income tax regulations, sections 1.529-1 to 1.529-6 or the final regulations relating to section 529 of the Internal Revenue Code of 1986, as amended, whichever is applicable, including any amendments or supplements thereto.

“Designated beneficiary” means a designated beneficiary as defined in section 529 of the Internal Revenue Code of 1986, as amended, or successor legislation.

“Eligible educational institution” means an institution defined in section 529 of the Internal Revenue Code of 1986, as amended, or successor legislation.

“Financial organization” means an organization authorized to do business in the State of Hawaii that is:

- (1) Certified as an insurer by the insurance commissioner;
- (2) Licensed or chartered as a financial institution by the commissioner of financial institutions;
- (3) Chartered by an agency of the federal government;
- (4) Subject to the jurisdiction and regulation of the securities and exchange commission of the federal government; or
- (5) Any other entity otherwise authorized to act in this state as a trustee pursuant to the provisions of the Employee Retirement Income Security Act of 1974, as may be amended from time to time.

“Management contract” means the contract executed by the director of finance and a financial organization selected to act as a depository and manager of the program.

“Member of the family” means a family member as defined in section 529 of the Internal Revenue Code of 1986, as amended, or successor legislation.

“Nonqualified withdrawal” means a withdrawal from an account that is not:

- (1) Used for qualified higher education expenses of the designated beneficiary;
- (2) Made on account of the death or disability of the designated beneficiary; or
- (3) Made on the account of a scholarship (or allowance or payment described in section 135(d)(1)(B) or (C) of the Internal Revenue Code of 1986, as amended) received by the designated beneficiary, to the extent the withdrawal does not exceed the amount of the scholarship, allowance, or payment.

“Program” means the college savings program.

“Program manager” means a financial organization selected by the director of finance to act as a depository and manager of the program.

“Qualified higher education expenses” means any qualified higher education expense defined in section 529 of the Internal Revenue Code of 1986, as amended, or successor legislation.

“Qualified withdrawal” means withdrawal from an account to pay the qualified higher education expenses of the designated beneficiary of the account.

“Tuition savings agreement” means an agreement between the director of finance or a financial organization and the account owner. [L 1999, c 81, pt of §2; am L 2000, c 90, §1]

**[§256-2] College savings program established.** There is established the college savings program. The purpose of this program is to enable families to save for college tuition and other expenses through college accounts. The program shall provide college accounts to:

- (1) Enable residents of this State and other states to benefit from the tax incentive provided for qualified state tuition programs under the Internal Revenue Code of 1986, as amended; and
- (2) Attract students to public and private colleges and universities within the State. [L 1999, c 81, pt of §2]

**§256-3 Functions and powers of the director of finance.** (a) The director of finance shall implement the program under the terms and conditions established by this chapter. The director of finance may make changes to the program as required for participants to obtain or maintain the federal tax benefits or treatment provided by section 529 of the Internal Revenue Code of 1986, as amended, or successor legislation.

(b) The director of finance may enter into tuition savings agreements with account owners pursuant to this chapter.

(c) The director of finance may implement the program through the use of financial organizations as account depositories and managers. Under the program, individuals may establish accounts directly with an account depository.

(d) The director of finance may solicit proposals from financial organizations to act as program managers. Financial organizations submitting proposals shall describe the investment instruments that will be held in accounts. The director of finance shall select as program managers the financial organizations from among the bidding financial organizations that demonstrate the most advantageous combination, both to potential program participants and this State, based on the following factors:

- (1) The financial stability and integrity of the financial organization;
- (2) The safety of the investment instruments being offered;
- (3) The ability of the investment instruments to track the expected increasing costs of higher education;
- (4) The ability of the financial organization to satisfy recordkeeping and reporting requirements;
- (5) The financial organization's plan for promoting the program and the resources it is willing to allocate to promote the program;
- (6) The fees, if any, proposed to be charged to persons for opening accounts;
- (7) The minimum initial deposit and minimum contributions that the financial organization will require;
- (8) The ability of financial organizations to accept electronic withdrawals, including payroll deduction plans; and
- (9) Other benefits to the State or its residents included in the proposal, including fees payable to the State to cover expenses to operate the program.

(e) The director of finance may enter into a management contract of up to ten years with a financial organization. The management contract shall include, at a minimum, terms requiring the financial organization to:

- (1) Take any action required to keep the program in compliance with requirements of section 256-4 and to manage the program to qualify it as a qualified state tuition plan under section 529 of the Internal Revenue Code of 1986, as amended, or successor legislation;
- (2) Keep adequate records of each account, keep each account segregated from each other account, and provide the director of finance with the information necessary to prepare the statements required by section 256-4;
- (3) Compile information contained in statements required to be prepared under section 256-4 and provide the compilations to the director of finance;
- (4) If there is more than one program manager, provide the director of finance with the information necessary to determine compliance with section 256-4;
- (5) Provide the director of finance or designee access to the books and records of the program manager to the extent needed to determine compliance with the contract;
- (6) Hold all accounts for the benefit of the account owner;
- (7) Be audited at least annually by a firm of independent certified public accountants selected by the program manager, and provide the results of the audit to the director of finance;
- (8) Provide the director of finance with copies of all regulatory filings and reports related to the program made by it during the term of the management contract or while it is holding any accounts, other than confidential filings or reports that will not become part of the program. The program manager shall make available for review by the director of finance, the results of any periodic examination of the manager by any state or federal banking, insurance, or securities commission, except to the extent that the report or reports may not be disclosed under applicable law or the rules of the commission; and
- (9) Undertake to provide the information required by rule 15c2-12(b)(5) under the Securities Exchange Act of 1934 pursuant to a continuing disclosure certificate for the benefit of the account owners.

(f) The director of finance may select more than one financial organization and investment instrument for the program.

(g) The director of finance may require an audit to be conducted of the operations and financial position of the program manager at any time if the director of finance has any reason to be concerned about the financial position, the recordkeeping practices, or the status of accounts of the program manager.

(h) During the term of any contract with a program manager, the director of finance shall conduct an examination of the manager and its handling of accounts. The examination shall be conducted at least biennially if the manager is not otherwise subject to periodic examination by the commissioner of financial institutions, the Federal Deposit Insurance Corporation, or other similar entity.

(i) The director of finance may establish a nominal fee for an application for a college account.

(j) The director of finance may enter into contracts for the services of consultants for rendering professional and technical assistance and advice and any other contracts that are necessary and proper for the implementation of the program.

(k) The director of finance may adopt rules to implement the program pursuant to chapter 91. [L 1999, c 81, pt of §2; am L 2000, c 90, §2]

**§256-4 Program requirements; college account.** (a) A college account may be opened by any person who desires to save money for the payment of the qualified higher education expenses on behalf of a designated beneficiary. The person shall be considered the account owner as defined in section 256-1. An application for an account shall be in the form prescribed by the program and shall contain the following:

- (1) The name, address, and social security number or employer identification number of the account owner;
- (2) The designation of a beneficiary;
- (3) The name, address, and social security number of the designated beneficiary;
- (4) A certification relating to no excess contributions; and
- (5) Other information as the program may require.

(b) Only the account owner may make contributions to the account after the account is opened.

(c) Contributions to accounts may be made only in cash.

(d) An account owner may withdraw all or part of the balance from an account on sixty days notice or a shorter period as may be authorized under rules governing the program. The rules shall include provisions to generally enable the determination of whether a withdrawal is a nonqualified withdrawal or a qualified withdrawal. The rules may require one or more of the following:

- (1) An account owner seeking to make a qualified withdrawal shall provide certifications of qualified higher education expenses and other information required to comply with section 529 of the Internal Revenue Code of 1986, as amended, or successor legislation;
- (2) Withdrawals not meeting the requirements of this section shall be treated as nonqualified withdrawals by the program manager, and if the withdrawals are subsequently deemed qualified withdrawals within a reasonable time period as specified by the director of finance, the account owner shall seek any refund of penalties directly from the program.

(e) An account owner may change the designated beneficiary of an account to an individual who is a member of the family of the prior designated beneficiary. An account owner may transfer all or a portion of an account to another college account, the designated beneficiary of which is a member of the same family, as defined in section 529 of the Internal Revenue Code of 1986, as amended, or successor legislation, as the beneficiary of the initial account. Changes in designated beneficiaries and transfers under this section shall not be permitted if they constitute excess contributions.

(f) In the case of any nonqualified withdrawal from an account, an amount equal to ten per cent (or that rate imposed under final regulations adopted by the Internal Revenue Service) of the portion of the withdrawal constituting income as determined in accordance with the principles of section 529 of the Internal Revenue Code of 1986, as amended, or successor legislation, shall be collected as a penalty and paid to the college savings program trust fund, as provided under section 529 of the Internal Revenue Code of 1986, as amended, successor legislation, or any guidance issued by the Internal Revenue Service.

(g) The percentage of the penalty described in subsection (f) may be increased if the director of finance determines that the amount of the penalty must be increased to constitute a greater than de minimis penalty for purposes of qualifying the program as a qualified state tuition program under section 529 of the Internal Revenue Code of 1986, as amended, or successor legislation.

(h) The percentage of the penalty described in subsection (f) may be decreased by rule if it is determined the penalty is greater than the amount required to constitute a greater than de minimis penalty for purposes of qualifying the program as a qualified state tuition program under section 529 of the Internal Revenue Code of 1986, as amended, or successor legislation.

(i) The program shall provide separate accounting for each designated beneficiary.

(j) No account owner or designated beneficiary of any account shall be permitted to direct the investment of any contributions to an account or the earnings on it.

(k) Neither an account owner nor a designated beneficiary shall use an interest in an account as security for a loan. Any pledge of an interest in an account shall be of no force and effect.

(l) Contributions on behalf of a designated beneficiary in excess of those necessary to provide for the qualified higher education expenses of the designated beneficiary shall not be allowed. The prohibition on excess contributions shall conform to section 529 of the Internal Revenue Code of 1986, as amended, or successor legislation.

(m) If there is any distribution from an account to any individual or for the benefit of any individual during a calendar year, the distribution shall be reported to the Internal Revenue Service and the account owner, the designated beneficiary, or the distributee, to the extent required by federal law or regulation.

Statements shall be provided to each account owner at least once each year within sixty days after the end of the twelve-month period to which they relate. The statement shall identify the contributions made during a preceding twelve-month period, the total contributions made to the account through the end of the period, the value of the account at the end of the period, distributions made during the period, and any other information that the director of finance requires to be reported to the account owner.

Statements and information relating to accounts shall be prepared and filed to the extent required by federal and state tax law.

(n) A local government or organization described in section 501(c)(3) of the Internal Revenue Code of 1986, as amended, or successor legislation, may open and become the account owner of an account to fund scholarships for persons whose identity shall be determined upon disbursement. Any account opened pursuant to this subsection is not required to comply with the condition set forth in subsection (a) that a beneficiary be designated when an account is opened, and each individual who receives an interest in the account as a scholarship shall be treated as a designated beneficiary.

(o) An annual fee may be imposed upon the account owner for the maintenance of the account.

(p) A minimum length of time as determined by the director of finance may be required of the account before distributions for qualified higher education can be made.

(q) The program shall disclose in writing the following information to each account owner and prospective account owner of a college account:

- (1) The terms and conditions for purchasing a college account;
- (2) Any restrictions on the substitution of beneficiaries;
- (3) The person or entity entitled to terminate the tuition savings agreement;
- (4) The period of time during which a beneficiary may receive benefits under the tuition savings agreement;
- (5) The terms and conditions under which money may be wholly or partially withdrawn from the program, including any reasonable charges and fees that may be imposed for withdrawal; and
- (6) The probable tax consequences associated with contributions to and distributions from accounts. [L 1999, c 81, pt of §2; am L 2000, c 90, §3]

**§256-5 Program limitations; college account.** (a) Nothing in this chapter shall be construed to:

- (1) Give any designated beneficiary any rights or legal interest with respect to an account;
- (2) Guarantee that a designated beneficiary:
  - (A) Will be admitted to an institution of higher education; or
  - (B) Upon admission to an institution of higher education, will be permitted to continue to attend or will receive a degree from the institution;
- (3) Create state residency for an individual merely because the individual is a designated beneficiary; or
- (4) Guarantee that amounts saved pursuant to the program will be sufficient to cover the qualified higher education expenses of a designated beneficiary.

(b) Nothing in this chapter shall create or be construed to create any obligation of the director of finance, the State, or any agency or instrumentality of the State to guarantee for the benefit of any account owner or designated beneficiary with respect to:

- (1) The rate of interest or other return on any account;
- (2) The payment of interest or other return on any account; or
- (3) The repayment of the principal of any account.

The director of finance shall provide by rule that every tuition savings agreement, contract, application, deposit slip, or other similar document that may be used in connection with a contribution to an account clearly indicate that the account is not insured by the State and neither the principal deposited nor the investment return is guaranteed by the State. [L 1999, c 81, pt of §2; am L 2000, c 90, §4]

**§256-6 College savings program trust fund.** (a) There is established the college savings program 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 the college savings program pursuant to tuition savings agreements, administrative charges, fees, and all other amounts received by the program from other sources, and 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 tuition savings agreements, operating expenses, and administrative costs of the college savings 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. [L 1999, c 81, pt of §2; am L 2000, c 90, §5]

**[§256-7] Tax reporting.** The director of finance or the program manager of the college savings program, or a designee, shall file a report annually, with the director of taxation, setting forth the names and identification numbers of account owners, designated beneficiaries, and distributees of college accounts, the amounts contributed to the accounts, the amounts distributed from the accounts, and the nature of the distributions as qualified withdrawals or as withdrawals other than qualified withdrawals, and any other information that the director of taxation may require regarding the taxation under this chapter of amounts contributed to or withdrawn from the accounts. [L 1999, c 81, pt of §2]

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