

2009 HOUSE GOVERNMENT AND VETERANS AFFAIRS

HB 1508

2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1508

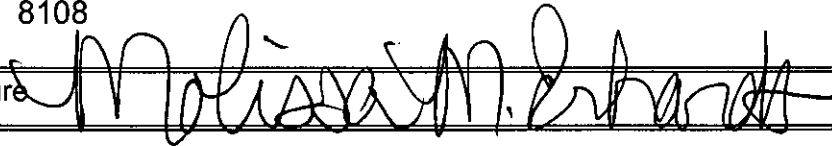
House Government and Veterans Affairs Committee

Check here for Conference Committee

Hearing Date: 1/29/2009

Recorder Job Number: 8108

Committee Clerk Signature



Minutes:

Chairman Grande: Open the hearing on HB 1508. Clerk read the title.

Rep. Scot Kelsh, District 11, Fargo: See Testimony. Attachment #1.

Another handout on the history of where this idea originated, and I will give you some background, this has been talked about on the national level as well as activated in countries like Great Britain in 2005 and they made it retroactive to every child born in 2002 or after. This has also been proposed in the State of MT this year and has risen its way to various other legislative sessions. Although it is somewhat out of the box, I think it is a good tool for an investment in our future and future generations, it will encourage savings. With that, Chairman Grande and members of the committee, I do ask for favorable consideration of this bill.

Vice Chairman Randy Boehning: What is the amount per child that the State is going to invest in this? What is the dollar amount per child?

Rep. Kelsh: The initial deposit is \$500 from the State. Then annually, the parent or responsible person for that child can make up to \$1500 in additional deposits.

Vice Chairman Randy Boehning: So the State is going to put in \$500, and the parent can put in \$1500, so that's \$2,000 max. So then next year, it's another \$500 and another \$1,500?

Rep. Kelsh: Correct.

Vice Chairman Randy Boehning: Then just looking on your FN of \$8.8 million, this is for two years: 2009-2011? So I am assuming that 2011-2013 that would be \$17 million? So every year that this is in place it will double and progress?

Rep. Kelsh: We put a sunset clause on this bill so that the Legislature will relook at this in two years, see what parts of the program are working, what are not, what should be done, and then we have 18 years to perfect this before any withdrawals are made. The fiscal note in the ensuing biennium will be dependent on how fully utilized it is by the responsible people of that child. If they choose to just leave the \$500 in there, there will not be any fiscal note but the initial deposit. If they choose to take full advantage of it, yes, then it would be an additional \$8.8 million.

Vice Chairman Randy Boehning: Have you given the studies any numbers if this program were utilized from the next biennium to when the program ends in 18 years? What the cost would be?

Rep. Kelsh: It is very difficult to guess people's behavior in the ensuing years.

Vice Chairman Randy Boehning: Based on your numbers that you give for this fiscal note?

Rep. Kelsh: This fiscal note is based on the fact that there were 8800 live births to ND residents last year. At \$500 per every child, that would result in the fiscal note we have here. I should point out that the ND Bankers Association has an amendment to this bill, Section 1, and I am friendly to that amendment.

Chairman Grande: I might not be.

Rep. Dahl: You indicated that this would not have State income implications? Then I read Section 4, Subsection 2, would this trigger any Federal income? Or is it exempted? I am not sure what those sections of code are?

Rep. Kelsh: My understanding is that Federal taxing will still apply to these accounts.

Rep. Dahl: With respect to the \$500, is that just \$500 from the State or does it require \$500 from the custodian as well, in terms of the matching funds?

Rep. Kelsh: The \$500 is the initial seed money that comes from the general fund of ND and the parents at any time can add to that up to \$1500 per year.

But the initial is from the State.

Rep. Dahl: So we don't require the custodian to make an investment, we would just make the initial investment?

Rep. Kelsh: We require the custodian to make an investment in, that they are a resident of ND.

Chairman Grande: When the person is putting in the extra \$1,500 is there a pro-rate to how much they need to put in to get that second \$500?

Rep. Kelsh: The bill states that the State would match up to \$500. So if the custodian or parent wishes to put \$300 in per year, the State will match \$300 and can go up to \$500.

Rep. Kasper: Have you looked at the constitutionality of this bill?

Rep. Kelsh: We have met with the Bank of ND and the State Treasurer's Office and they see no problem with the constitutionality of this. This kind of reflects a similar program that is already going at the Bank of ND. The 529 fund which is strictly for education purposes. With this bill we say that this child, with the state matching, they can use it to purchase a new home, roll it over into an IRA, purchase a new vehicle, post-secondary education, and start a new business.

Rep. Kasper: In the 4th year of the program we would have about 34,000 children eligible, if you assume 8800 per year, so we are now in the 4th year of

the program, if everyone makes a deposit we are now up to an \$18 million fiscal

note? So thereafter we are on a scale where we would have a \$100 million fiscal note in 10 years?

Rep. Kelsh: That is only if the parents choose to fully utilize the \$1500 maximum.

Rep. Kasper: That is certainly hypothetical discussion as to whether or not they will, but the potential liability with this plan if you get it down to ten years is going to be over \$100 million a year and maybe larger?

Rep. Kelsh: We will certainly take a look at this in two years. The bill does have a sunset on it and we can see whether this and we will see what type of fiscal note we will be needing. We have a lot of bills floating out there that have greater fiscal notes than that, that will give people money back from the State of ND than what this program will do.

Rep. Nathe: The max for the State is \$500 and the parents is \$1500, if the parents can afford to put in \$1500 why should the State put in \$500?

Rep. Kelsh: We want to set some financial limits on the fiscal impact to the State, but we think that this will encourage people to make that impact into a positive because they know they are getting a match only available to residents of ND. We think it will foster the oil business in ND, we think it will keep people here, among other reasons like people (inaudible) , (Inaudible)

Chairman Grande: Any other questions committee?

Rep. Schneider: In Section 4, on the requirements for withdrawal, to purchase a home or to purchase a car is it your intention to make it a ND home or start a ND business? I understand we have 18 years to perfect this to.

Rep. Kelsh: We are not requiring that they purchase a home in ND but the parents will have had to continue residency in ND to get that State match utilization (Inaudible) (throat clearing).

Rep. Meier: If the family moves do they forfeit the \$500 that was invested?

Rep. Kelsh: The additional \$500 deposit is not forfeited if the parent moves out of state and becomes a non-resident. However, they can continue to make deposits in the account but they will no longer be eligible for the State match.

The initial \$500 stays as long as they are a resident from the time of birth or adoption.

Rep. Meier: What happens if that individual moves back into the State with a child that is not 18 yet, can they continue to make contributions and State will match it then?

Rep. Kelsh: My understanding is that once the custodial child becomes a resident again they can pick up where they left off with the matches from the State. They can get it retroactively for the times they were not a resident, but once they do become a resident again, and that child is still under 18, and they make deposits into that account, the State will certainly match it.

Chairman Grande: We need a retro date of March 1 so that I at least get in on this once? Do your children qualify for this?

Rep. Kelsh: My children do not qualify for this, they have to be they have to be born January 1, 2010.

Chairman Grande: These are all new babies that we are talking about.

Rep. Dahl: Hypothetically, maybe not practically, somebody who would move into the State and their child is born in February of next year and they move out in March to MN and we have given them \$500, then what?

Rep. Kelsh: They would get the \$500 but they cannot touch it until they are 18. Meanwhile, for that 18 years that money stays in ND, regardless of whether or not (inaudible, coughing).

Rep. Kasper: Wouldn't it make sense that you at least amend the bill to say that if they are born in 2010 they must at least be a resident on December 31, 2010 and every subsequent year thereafter so that in Rep. Dahl's circumstance, some of us here and gone, why would we want to give them any money they have already left the State?

Rep. Kelsh: That is a good question. I certainly would be open to something like that but I don't know what effect it would have on the fiscal note.

Rep. Kasper: None. For practical purposes it would have an effect on the fiscal note.

Rep. Kelsh: You are saying that they should be a resident for that entire year?

Rep. Kasper: No. What I am saying is, anyone born after January 1, 2010 in the State of ND who is a resident on December 31, 2010 would be eligible for the year 2010? If they move out in 2011 they got the money but if they left before the end of 2010 they did not.

Rep. Kelsh: But they have to remain a resident for that whole year?

Rep. Kasper: Yes.

Chairman Grande: If they leave we take their \$500 back to the general fund?

Rep. Kasper: We never give it to them.

Rep. Nathe: This seems to me that this bill is catering to the people that are already saving and investing. They already have the funds to do it. I understand the people who may not have the funds to do it (inaudible). If someone is going to kick in \$500 in to match the State or \$1500, this seems like a good indicator that they already have a good investment so why should the State through in another \$500?

Rep. Kelsh: A very good point but we do have a negative savings rate nationally. But North Dakota is a little better above the negative. But we still have a problem with saving. Again, this is only available for ND residents. They have to (inaudible).....

Rep. Nathe: Would you be open to maybe making some parameters on anybody over a certain income could not take part in the program could not take part in the program and give it to the lower income people and the people who cannot afford it?

Rep. Kelsh: In the MT situation that is what they are doing. It is only available to the low income. We thought that in order to be more fair, we would make it available to everyone.

Rep. Froseth: Would the return on investment be similar to that of the interest rates payments in today's market as it fluctuates? Or is it just 1.5 percent interest subject to today's interest at 2.25 percent plus (inaudible).

Rep. Kelsh: Good question. There is a provision in the bill that allows the responsible person to directly dictate how that account is managed. (Inaudible). As long as they are living in ND.

Rep. Lisa Wolf, District 3, Minot, ND: I am here to support this bill as a co-sponsor. Follow-up to Rep. Froseth's question: I could open an account at my local Credit Union in Minot. Right now my savings accounts and my children's accounts are making over 3% interest because that is what my credit union is offering us. I could go with the Bank of ND or another financial institution or open at my own local Credit Union (inaudible)..... A couple of other things that I wanted to point out: The Bank of ND currently has the 529 plan and there are

some significant differences with this compared to that plan. One of them being it is open to everyone. We don't require them to be a lower income for the match, like the 529 plan does. All the families will qualify. It also does not require this account to be open at the Bank of ND. It will allow the people in the State to choose. If they don't choose then the State Treasurer's Office will make that choice for them. I look at this as another phase I teach in my curriculum at the high school. Part of my curriculum is financial diversity. We talk about saving and the importance of saving. The neat thing about this account is, these children will get bank statements. I know how excited my 12 year old gets every quarter when his bank statement comes and he looks at the bottom and goes "look at all that interest, that's free money". That's pretty exciting for a 12 year old. He takes every allowance, every birthday money, every Christmas money that he gets and he puts it into his savings account. That's why I'm hoping this will encourage these children in our State to save. They will have this account and they can watch it grow and they can add contributions to this account and have those dollars matched. I know my son would be absolutely thrilled if the \$100 he got for his birthday he took into that bank and knew that the State of ND was going to pop another \$100 in their to match it. That would be fantastic. That's what I am hoping this bill will do. It gives them an incentive to save and it's a visual they can see that money growing. Also, looking at young families

with children who don't have a whole lot of money and our State taking and putting an investment in their children, that initial \$500, even if they would only put in their own \$500 each year. That's \$1000 that's (inaudible, coughing).

I ask for your favorable consideration for a Do Pass on this bill.

Chairman Grande: Committee unless you have a lot of questions of Rep. Wolf we can drill her in Committee.

Rep. Kasper: In your teaching of kids about finances, do you teach them about personal responsibility? Taking care of themselves, doing the best they can with what they have, and achieving their potential on their own as opposed to depending on the State for their means?

Rep. Wolf: Yes. I stress that very strongly. We talk about being responsible for your own actions, being responsible for yourself, you are in charge no matter what your circumstances are, you don't place the blame on "well, I didn't come from a very good background so therefore I can't become what I want to be or I can't be successful". I stress that very strongly when I teach. They are responsible for themselves no matter where they've come from. They are the only people as they become adults that are going to take care of themselves. They cannot rely on anyone but themselves including spouses, families, siblings, anybody, they have to be responsible.

Rep. Kasper: Including the State?

Rep. Wolf: Yes.

Chairman Grande: Any other questions? Anyone else wishing to speak in favor of 1508? Opposition? Neutral?

Marilyn Foss, ND Bankers Association: As Rep. Kelsh indicated we had our offering an amendment to this bill. The amendment is limited to the definition of "account provider" and we changed the language of Section 1, subparagraph 1, so that it would read "account provider named by the Bank of ND or any other federally insured bank or credit union in ND." The reason we are offering this amendment is because as we read the paragraph as originally proposed, it essentially looked to us like it was talking about putting the money in (inaudible) or banks or credits unions by its use of language such as savings sum and its reference to customer's personal information. There is a support law for customer's personal information. But it appeared to us that it set up a duplicative system of regulation and supervision for these banks and credit unions. Which in ND all banks are federally insured, all credit unions in ND are insured federally through the NCUA, and all banks and credit unions in ND are supervised and regulated as to safety (inaudible) at their compliance. This includes Chapter 6.08 which addresses the disclosure of customer information by the State Department of Financial Institutions, Federal Department of Insurance Corporations, and The National Credit Union Administration. Also, for federally chartered institutions if

you are a national bank the Office of the Comptroller and the Currency. If you are a State chartered bank the FDIC or the Federal Reserve. So, it appeared to us that this was inadvertently suggesting the development of a duplicate system of supervision. With respect to Chairman Grande's comment, the intention of the bill is that the funds can also be invested through a brokerage firm or something of that nature, then our language would simply be appropriate to insert after Bank of ND, federally insured financial institution, or any other entity, to make it clear that we are not duplicating the supervision and evaluation of more banks. I would also note that with our amendment, for all of the funds that with any proposed rate of interest that our deposited in a bank or credit union would be safe because they would be covered by federal insurance. That concludes my testimony and I would be happy to answer any questions.

Rep. Winrich: Seems to me that since these accounts are sort of locked in for 18 years, there more like a CD, than an ordinary savings account, is it likely that banks might give them a very preferred rate of interest?

Marilyn Foss: Yes. I think that banks and credit unions would look at these accounts as desirable things to have and for that reason would try to make them an attractive alternative to perhaps having them in an invest brokerage account or another kind of account that might have a return that is more volatile. But it is not clear to me and I haven't studied the entire bill and how it works. It is not

very clear to me that once an account is established if it could never be transferred for example.

Rep. Kasper: I am glad you mentioned a potential 2nd amendment where we would put a comma and then continue with the rest of Subsection one, account provider. Contrary to the current circumstances where the stock market is in the tank, there are a lot of well run mutual funds around the US that make excellent investment vehicles for things like this and I certainly would not want to preclude the parents from having the ability to use mutual funds or any other type of financial institutions that they choose.

Marilyn Foss: I understood that the intention was to have the money in the Bank of ND or bank or credit union in ND with Rep. Grande's comment, if the intention is to expand it beyond that or amendment can achieve our concern and not preclude that other opportunity. We were not trying to shut it out of other investment opportunities, our banks compete with those investment opportunities all the time.

Rep. Kasper: The way I read the bill is current. It does not shut anything out. It says the Bank of ND or any other entity that has been approved by the State Treasurer's Office. It appears to me that would be all inclusive as long as the State Treasurer made an approval.

Marilyn Foss: From our perspective for the State Treasurer to make that determination responsibly as indicated by the bill, the State Treasurer would have to set up a system to evaluate this efficiency of governmental or regulatory oversight, whether each individual institution has suitable internal controls to ensure the safety and soundness of the (can't understand) and evaluate the compliance of these entities with requirements for confidentiality and personal information and with respect to those specific items. ND banks and credit unions already have those State and Federal oversight on all of those points.

Rep. Kasper: I see on Lines 9 and 10 where that would be problematic. It is capable of rising to the same level of protection to customers personal information of the Bank of ND, we have federal privacy laws, you and I know that probably better than anybody. Any approved bank or savings loan or credit union or mutual fund must abide by the federal privacy laws so I think we are okay.

Marilyn Foss: I don't disagree with that. Bank of ND is subject only to the same State laws that banks and credit unions already are. I don't think that the JOVA covers the Bank of ND because it is the State (inaudible).

Rep. Kasper: But the State of ND privacy law would cover the Bank of ND?

Marilyn Foss: The general privacy requirements would and then also specifically Chapter 608.1 because it covers banks and I think that the Bank of ND is included in that definition and also credit unions.

Chairman Grande: Anyone else who wishes to speak neutral to this?

Lawrence Hopkins, Deputy State Treasurer: I did not plan to speak this morning I am neutral to this bill. I believe in doing anything we can do support ND and help our kids I think that is phenomenal. But as I listen this morning, we talked about some of the issues, the administrative costs are not in this \$8.8 million cost that is being distributed. I heard the number 8800 kids, but I am going to use the number 9000 kids born in the next year just to use round numbers.

Out of 250 working days, we would be opening up 36 new accounts every single day of those 250 working days. I am going to need additional staff. If this grows exponentially and does go, I heard the term "we have 18 years to perfect this", if this goes into effect, I have to do this in this biennium. Just wanted to make sure there was another request for a fiscal note on this bill. I think that you really need to look at that impact. When you open this up to mutual funds for example, how do I make that mutual fund company report back to me that there was a contribution? There is over a 100 banks in ND, if any bank is eligible for this I am going to be dealing with every one of them. There are over 300 branches that would be in contact with us. If we don't limit the number of banks that do this it

could be huge issue for our office. I just wanted to make you aware that there would be administrative costs. I also have another concern, for these kids that don't open their account, it says I have to open it after twelve months and put \$500 in it. Currently ND has State laws requiring that any money in an account that is not active those banks would have to turn that money over as unclaimed property. The only thing this would have would be an initial \$500 contribution. It is going to create administrative costs for the Bank of ND and all these other banks that are going to have to report back to me that they were contributions, administrative costs to the land department, and there is just a lot that we will really need to speak about on this bill.

Chairman Grande: Could you put a Fiscal Note together and have it for us today? Because we have to have our appropriation bills out in a timely fashion and we only have until next Thursday and we only have a half a day tomorrow to work.

Lawrence Hopkins: I can put something together at least for what we do in my office and what we would need for this biennium.

Chairman Grande: Then we can look at it next Thursday.

Rep. Meier: How many additional FTE's are you thinking that you may need if we accept this?

Lawrence Hopkins: When I initially looked at this bill I thought maybe a half to start, but when you look at the exponential factor of this and people do take advantage of this and sure should, I would imagine at least 50% of the people would. The numbers will just multiply. It would probably be 36 accounts a day for the first year, looking down the road in five years from now, we will over a 100 accounts a day we are dealing with. There was another question on using this in a credit union for example, what if you move to Bismarck and you want to leave that in the credit union in Minot. It does not say anywhere in this bill that you need to be born in ND and it should really say that. It just says that you have to be born after 2010.

Rep. Meier: So just a guess, how many FTE's additional?

Lawrence Hopkins: One for sure.

Vice Chairman Randy Boehning: That would be 34 accounts per business day, not including a holiday, so you would have a pretty heavy workload.

Lawrence Hopkins: I assumed 250 work days in year.

Chairman Grande: Anyone else wish to speak to this bill? Closed the hearing on HB 1508.

2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. Committee Work One HB 1508

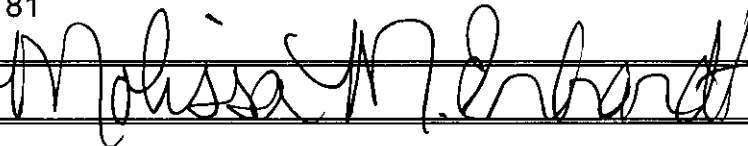
House Government and Veterans Affairs Committee

Check here for Conference Committee

Hearing Date: 01/29/2009

Recorder Job Number: 8181

Committee Clerk Signature



Minutes:

COMMITTEE WORK ONE:

Chairman Grande: We have HB 1508 in front of us.

Rep. Wolf: I move to accept the amendments from Ms. Foss.

Chairman Grande: Do you plan to keep in the words "any other entity?"

Rep. Wolf: No. It would be any other federally insured. What the amendment does is change Page 1, Line 5 to "a comp provider means the Bank of ND or any other federally insured bank or credit union in ND." And the rest of that section is gone. So it limits it to the Bank of ND or any other federally insured bank or credit union in ND.

Chairman Grande: So you do not want to include brokerages or any other?

Rep. Wolf: That was not the intent.

Chairman Grande: We have the amendments in front of us, do I have a second.

Rep. Winrich: 2nd.

Chairman Grande: All in favor? I. (consent).

Rep. Kasper: In funds like this where you have long term money, it is not in my opinion, in the best interest of the people to put their dollars away and put them only in fixed accounts. A savings account is a fixed account. It obviously has a guaranteed principle with a modest interest rate. But it does not give an opportunity for higher earnings than what a CD or savings account does. Mutual funds, although there is risk, long term and by mutual fund language, you generally talk about a ten year period of time being long term, you will generally do a substantial amount better in the return than you would in the bank. So I would not support limiting it to banks only. When the parents make the choice give them more than a banks choice and a credit union.

Chairman Grande: Actually, over time even the stock market will smooth out back and forth over a ten year period always have a return closer to about eight. Never a guarantee but a closer return.

Rep. Wolf: When Rep. Kelsh and I met with the Bank of ND we talked about the 529 plan, mutual funds, and all kinds of different things. We talked about the differences, like this one being a bank, and being this is lock option the bank will know that that money is there for the 18 year duration. The bank on its own could do something as far as giving a higher rate of interest and things like that versus just plain old passport savings. It would be something that the parent

could discuss with the bank when they set up the account. We wanted to make it as less complicated as possible. Being that there is already enough banks and credit unions in addition to the Bank of ND in our State. I know that you can higher rates of returns and if a parent wants to do something like that and put the \$500 a year in and let the State match it and take the other \$1000 and put it in a mutual fund.

Chairman Grande: There is supposedly a fiscal note on this bill.

Rep. Wolf: No there isn't.

Chairman Grande: Just hear me out please. There was a notice that came down that a fiscal note has been drawn up on this bill. So he is calling and I want to wait to see why I received a notice for a fiscal note. But it shouldn't matter because we have an appropriation and it has to go down anyway.

Rep. Dahl: The Treasurers Department were they going to put something together?

Chairman Grande: They did not mention it. Lawrence said that that could be where this fiscal note is coming from. Whose fiscal note is it?

Jason Nisbet: It's from the Treasurer's Office.

Chairman Grande: Ok, as a committee we know what he is looking for, he is looking for money for FTE's. You can kind of guess as to the dollar amount there.

We won't have it in front of us but we already know this is being re-referred to

appropriations due to the fact that it has an \$8.8 million appropriation on it.

Whether the fiscal note is in front of us or not we just know that there is another expense that is being listed. Everyone okay with that and understand it? We have the amendments on the table, any other discussion? Clerk is going to call the roll on these amendments. Roll called by the clerk. Vote: 7 yes, 6 N, 0 Absent.

Chairman Grande: Those amendments stand. We have the amended bill in front of us.

Rep. Kasper: Just looking for the Constitutional part that is here and I cannot find it. This bill has a Constitutional problem as I mentioned earlier. The

constitution in the State of ND says that the State cannot gift or give dollars from the State back to people. This bill take money out of the Treasury and give it to the people. I did not talk to the Attorney General, did you call the Attorney General and ask questions of him?

Chairman Grande: Not yet, no. I was with the Commissioner the whole time.

Rep. Kasper: I believe it is unconstitutional and if the committee wants to wait for the Attorney General's opinion and we don't have a lot of time but that is one of the reasons I oppose the bill. The other reason is if you look at the cost over the long term, when we are getting up to the tenth year, I estimated wrong, I said about \$100 million, it is about \$45 million, that is per year. By the time we are at

the 20th year we are almost at \$100 million and so we are perpetuating a continued expense for a small group of people and I don't think that is good public policy. I talked about the relationship of personal responsibility and for this legislative body to single out the "lucky sperm kids" who are born after this date who get the money, I think it is an inappropriate way to delegate dollars.

Chairman Grande I move to do a Do Not Pass As Amended for discussion.

Chairman Grande: We have a Do Not Pass motion in front of us. Do we have a second?

Rep. Nathe: 2nd.

Rep. Wolf: If it is unconstitutional how did we give property tax back during last session?

Rep. Kasper: We didn't. We gave it in a discombobulated way that skirted the constitutional rights. It still may have been unconstitutional, but being that everyone got the money no one complained.

Chairman Grande: Because it was the way it was sent and done. That is why the conference committees went on and on and on, is because they were working through that process. Any other discussion to the bill? Call the roll?

Roll called on Do Not Pass as amended. Yes: 10, No: 3, Absent: 0. Carrier:

Rep. Dahl.

FISCAL NOTE
Requested by Legislative Council
01/29/2009

Bill/Resolution No.: HB 1508

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2007-2009 Biennium		2009-2011 Biennium		2011-2013 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures			\$190,000			
Appropriations			\$8,820,000			

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

2007-2009 Biennium			2009-2011 Biennium			2011-2013 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

HB1508 provides that the State Treasurer will establish a ND family financial security program to provide each child born after January 1, 2010 \$500 to open a restricted savings account. Each account would be eligible for an annual \$500 contribution in the form of matching funds in future years.

B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Section 8 of the bill provides \$8,820,000 to cover the cost of the \$500 contributions to open the accounts. Sections 1-7 of this bill create several administrative duties as well as the physical transfer of funds to open accounts and meet match requirements. An additional FTE at a biennial cost of \$140,000 would be required to administer the duties created by this bill. Physical cost for another computer, software, telephone, desk, chair, and supplies along with additional operating cost for printing materials, postage costs, and long distance charges are estimated at \$50,000.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

One additional FTE at a biennial cost of \$140,000 would be required to administer the duties created by this bill. Physical cost for another computer, software, telephone, desk, chair, and supplies along with additional operating cost for printing materials, postage costs, and long distance charges are estimated at \$50,000.

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

HB1508 appropriates \$8,820,000, or so much of sum as may be necessary, to cover the cost of the \$500 contributions to open the accounts.

Name:	Lawrence Hopkins	Agency:	Treasurer's Office
Phone Number:	328-2643	Date Prepared:	01/28/2009

VR
1/30/09

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1508

Page 1, line 5, replace "entity that has" with "federally insured bank or credit union in the state."

Page 1, remove lines 6 through 10

Renumber accordingly

Date: 1/29/09
 Roll Call Vote #: _____

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES
 BILL/RESOLUTION NO. 1508

House Government and Veterans Affairs Committee

Check here for Conference Committee

Legislative Council Amendment Number 1508

Action Taken Amendment

Motion Made By Rep. Wolf Seconded By Rep. Winrich

Representatives	Yes	No	Representatives	Yes	No
Chairman Grande		✓	Rep. Amerman	✓	
Vice Chairman Boehning		✓	Rep. Conklin	✓	
Rep. Dahl	✓	✓	Rep. Schneider	✓	
Rep. Froseth	✓		Rep. Winrich	✓	
Rep. Karls		✓	Rep. Wolf	✓	
Rep. Kasper	✓	✓			
Rep. Meier	✓	✓			
Rep. Nathe		✓			

Total (Yes) 7 No 6

Absent 0

Floor Assignment _____

If the vote is on an amendment, briefly indicate intent:

#2

Date: 1/29/09
Roll Call Vote #: _____

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1508

House Government and Veterans Affairs Committee

Check here for Conference Committee

Legislative Council Amendment Number 1508

Action Taken Do Not Pass DNP as Amended

Motion Made By Rep. Kasper Seconded By Rep. Nathe

Representatives	Yes	No	Representatives	Yes	No
Chairman Grande	✓		Rep. Amerman	✓	
Vice Chairman Boehning	✓		Rep. Conklin	✓	
Rep. Dahl	✓		Rep. Schneider		✓
Rep. Froseth	✓		Rep. Winrich		✓
Rep. Karls	✓		Rep. Wolf		✓
Rep. Kasper	✓				
Rep. Meier	✓				
Rep. Nathe	✓				

Total (Yes) 10 No 3

Absent 0

Floor Assignment Rep. Dahl

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1508: Government and Veterans Affairs Committee (Rep. Grande, Chairman)
recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends
DO NOT PASS (10 YEAS, 3 NAYS, 0 ABSENT AND NOT VOTING). HB 1508 was
placed on the Sixth order on the calendar.

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Renumber accordingly

2009 TESTIMONY

HB 1508

Attachment
#1

HB 1508

NORTH DAKOTA FAMILY FINANCIAL SECURITY PROGRAM

Chairman Grande and members of the House Government and Veterans Affairs Committee, I am Scot Kelsh, Representative, District 11, Fargo.

House Bill 1508 comes before you today for three primary reasons:

1. North Dakota has an aging population with stagnation in population growth. Passage of this bill will provide an incentive to keep and attract the demographic of families with young children in North Dakota.
2. This bill will encourage financial literacy among young people. At a time when our country has a negative savings rate for the first time in our history, encouraging saving and money management is imperative to our national economic security.
3. Beginning in 18 years, our state will begin to realize a financial benefit, as young people begin to withdraw the nest egg created by these accounts. Self funding education, or a down payment on a first home, or starting a new business will have a positive impact on our state budget and among the young people participating in this savings plan.

While we as a legislative body are working to prioritize our budget requests, I think this is a modest investment in a plan that will have significant payoff.

Section 1 of the bill defines the terms used in the bill. The account provider can be any bank or credit union in North Dakota.

Section 2 outlines the child account requirements, namely that the account is opened with an account provider, that the account is held by the responsible person as custodian for the benefit and in the name of the designated child, that only one account per eligible child may be established, that the child is entitled to investments under the account, and that instructions must be given to the account provider with respect to the management of the account only by the responsible person(s).

Section 2 also limits the aggregate amount that may be deposited annually into the account, in this case \$2000, with COLA adjustments made by the state treasurer. This section also states that no withdrawals made be made before the child turns age 18, except upon the unfortunate

death of the child. Finally this section states that the account may not be used for collateral, nor used to satisfy bankruptcy obligations.

Section 3 outlines the opening and transfer guidelines for the accounts, including issuance of the certificate, notification to the state treasurer by the account provider, time frame for opening an account, and parameters for adopting of rules by the state treasurer.

Section 4 outlines contributions and withdrawals, including the initial \$500 deposit, allowance by a 501(c)(3) into an account, the \$500 limit on the amount of state match, and guidelines for rules for claiming and payment of the state match.

This section also spells out the guidelines for withdrawal of funds upon age 18 by eligible child:

Section 5 limits the annual administration fees to 1-1/2% of the account's value.

Section 6 outlines tax implications for the account. No amount in the account may be included in the gross income of any eligible child. No state income tax deduction or loss is allowed for contributions or withdrawals. Finally for gift purposes, any contribution to a child account must be treated as a completed gift, not a future interest in property.

Section 7 is the other provisions, including withdrawal of funds upon death of the child, financial aid implications, confidentiality requirements, and issuance of annual statements.

Thank you Chair Grand and members of the House GVA Committee. I ask for your favorable consideration of House Bill 1508.



Growing Knowledge from

November
2008

Lessons learned from the
Saving for Education, Entrepreneurship and Downpayment Initiative

Promoting the Vision: A Savings Account for Every Child in America

By Reid Cramer, New America Foundation

Introduction/Background

***Growing Knowledge from SEED** is intended to distill lessons and policy implications from the Saving for Education, Entrepreneurship and Downpayment (SEED) Initiative. This edition reviews recent federal proposals to enact universal matched savings accounts for children and presents insights from the SEED Initiative that have informed these proposals. This policy groundwork has resulted in several opportunities and challenges for achieving future legislative victories at the federal level.*

In recent years, the role that savings and assets play in shaping people's lives has increasingly captured the attention of researchers, policy analysts and elected officials. Their interest in savings and building wealth has grown along with an increased awareness of specific policy tools and interventions, such as matched savings accounts available for lower-income workers. The launch of the SEED Initiative in October 2003 was an important marker in this process because it introduced the concept of children's savings into the broader discussion of family savings, financial education, college and retirement savings, entrepreneurship and other forms of asset building. SEED's launch also coincided with the actions of a small but influential set of policymakers who were interested in spotlighting the larger issues of savings and social insurance. The unfolding of these events has been constructive in advancing children's savings accounts (CSAs), even in the absence of a large-scale policy breakthrough. A review of these developments will be helpful in considering the progress to date in enacting children's savings accounts and the opportunities for future policy gains that lay ahead.



The role that savings and assets play in shaping people's lives has increasingly captured the attention of researchers, policy analysts and elected officials.

Executive Influence and Policy Response

The Bush Administration initially articulated a compelling vision of an "ownership society" that the country should strive to achieve. The president's call for all Americans to have the opportunity to save and build wealth, highlighted during his second inaugural address, was a rhetorical rephrasing of a core objective of the asset-building field. His approach emphasized the ability for more people to assume personal responsibility and exert greater control over their economic futures. But it also had crossover appeal – even political opponents of the president appreciated the underlying message that expanding opportunities for people to accumulate productive assets has broad social and economic benefits.

Unfortunately, the Administration never promoted specific proposals that were capable of matching the president's vision for saving and wealth building. Instead, the president promoted a series of proposals, such as an Individual Development Account (IDA) tax credit, health savings accounts and Social Security reform. The latter two proved more regressive than existing policy in terms of their distribution of benefits. The policy debates over Social Security in Congress, which took shape in 2004 and 2005, eventually divided along party lines. Republicans supported the president's proposal to create individual accounts that would be carved out of the existing system, and Democrats argued for the status quo. The partisan positions around Social Security hardened quickly, but the debate motivated some policymakers to search for innovative asset-building policy proposals that could attract bipartisan support.

Children's Accounts Change the Debate

Lawmakers from both sides of the aisle found common ground in the concept of providing a savings account to

every newborn child in the nation. This led to the 2004 drafting and introduction of the America Saving for Personal Investment, Retirement, and Education (ASPIRE) Act, which called for a system that would provide universal accounts at birth.¹

The ASPIRE Act was bold and progressive. It called for every child to be given a \$500 account at birth. Moreover, children in lower-income families would be given an additional \$500 and the opportunity to have their annual deposits up to \$500 matched by the government. The legislation was also bipartisan, attracting the original support of policymakers on opposite sides of the divisive Social Security debate. Initially the sponsors of the bill sought to distinguish it from the debate over Social Security. Over time, however, the sponsors recognized that it had the potential to be included in a legislative package that would have implemented changes to the financing and structure of the Social Security program. When the window closed on Social Security reform in 2006, however, the near-term prospects for ASPIRE ended as well.

Still, the legislative proposal for universal savings had a promising debut. One reason for this success was the ongoing implementation of the SEED Initiative, which has raised awareness of the concept and potential of children's accounts. To take advantage of the momentum built by ASPIRE and the SEED Initiative, advocates began crafting new legislation. By the end of 2006, policymakers interested in children's savings or savings systems had produced several new proposals. These included the Young Savers Accounts, 401 Kids Accounts, Baby Bonds, Foster Youth IDAs and Portable Lifelong Universal Savings Accounts (see Table 1). The introduction of these proposals reflected the growing perception that children's accounts are a promising policy intervention that is likely to attract the ongoing interest of policymakers in 2009 and beyond.

Table I: Recent Federal Proposals on Children's Accounts

Name	Description	Sponsors
<p>ASPIRE Act (America Saving for Personal Investment, Retirement, and Education Act) (S. 3557)</p>	<p>Every newborn child would have a KIDS Account opened automatically when they apply for a Social Security number. Each account would be endowed with a one-time \$500 contribution, and children in households earning below national median income would be eligible for a supplemental contribution of up to \$500. Additional savings incentives include tax-free earnings, matched savings for eligible families and financial education. Funds could be used for college, homeownership or retirement.</p>	<p>Senator Charles Schumer (D-NY) and Representatives Patrick Kennedy (D-RI), Phil English (R-PA), Jim Cooper (D-TN), Rahm Emanuel (D-IL), and Thomas Petri (R-WI)</p>
<p>Young Savers Accounts (S. 1967)</p>	<p>"Young Savers Accounts" would make Roth IRAs accessible to children. Parents would be allowed to make deposits to Roth IRAs held by their children using their current IRA contribution limits.</p>	<p>Senators Max Baucus (D-MT), Hillary Clinton (D-NY) and Gordon Smith (R-OR)</p>
<p>401 Kids Accounts (H.R. 87)</p>	<p>This proposal would convert Coverdell Education Savings Accounts into "401 Kids Savings Accounts" which would have expanded uses. This proposal would make it possible for a restricted, tax-advantaged savings account to be opened in a child's name as early as birth, with up to \$2,000 of after-tax contributions permitted a year. The funds could be used for the K-12 and postsecondary education expenses currently allowed under Coverdell Education Savings Account rules. The accounts could also be used for a first home purchase or rolled over into a Roth IRA for retirement.</p>	<p>Current sponsor is Judy Biggert (R-IL). Original sponsor was Representative Clay Shaw Jr. (R-FL)</p>
<p>Baby Bonds</p>	<p>This proposal would provide each child with a \$500 bond at birth and at age 10. Funds could be used for college or vocational training, buying a first home and retirement savings. Families earning below \$75,000 annually could direct their existing child tax credits into the accounts tax-free.</p>	<p>Senator Hillary Clinton (D-NY)</p>

<p>PLUS Accounts (Portable Lifelong Universal Savings Accounts)</p>	<p>Every newborn would have a PLUS Account opened automatically by the federal government endowed with a one-time \$1,000 contribution. Individual PLUS accounts would be established for all working U.S. citizens age 65 or younger with a mandatory 1% of each worker's paycheck withheld pre-tax and automatically deposited into their account (workers could voluntarily contribute up to 10%). Employers would also be required to contribute at least 1% (and up to 10%) of earnings. No withdrawals from PLUS accounts could be made until accountholder reaches 65, although there would be a loan program for preretirement uses.</p>	<p>Senator Jeff Sessions (R-AL)</p>
<p>FIRST (Focusing Investments and Resources for a Safe Transition Act) (S. 2341)</p>	<p>This proposal aimed to provide Individual Development Accounts to youths "aging out" of foster care. The accounts will contain a federal deposit on behalf of foster youth matched by public and private community partners. After transitioning from foster care and completing money management training, youth would be able to withdraw these savings to pay for necessities such as educational opportunities, vocational training and housing – elements critical for achieving self-sufficiency.</p>	<p>Senator Hillary Clinton (D-NY)</p>

Lessons and Key Observations

Behavioral Outcomes in CSAs Are Real

Preliminary qualitative and quantitative research assessing the SEED experience confirms the promise of children's savings accounts. For example, interviews with youth accountholders reveal that just having an account improves self-esteem and encourages planning for the future.² Furthermore, research demonstrates that "institutional" features that are a part of the program design of CSAs, such as direct deposit, deposit matches and financial education, play a positive role in promoting savings. In addition, increased financial knowledge gained through education classes is helpful and contributes to the development of increased fiscal prudence, future orientation and a sense of security among program participants.³

SEED programs operate at 12 demonstration sites across the continental United States and in Puerto Rico. The 1,253 participants from 1,073 households have accumulated close

to \$2 million in savings (See Table 2). Each accountholder receives an initial deposit (\$500 at most sites), a 1:1 match on deposits (typically up to a \$1,000 cap) and benchmark incentive payments. The length of participation time varies greatly by site, as does the ages of the accountholders, but the average account holds approximately \$1,300 in combined accountholder and match deposits.

Account Management, As We Know It, Is Not Easy

The SEED experience also reveals a challenge for future policy proposals to identify or develop more effective account vehicles for children's accounts and proffer best practices in managing them. Most SEED sites had difficulty meeting the needs of their clients with existing financial products. Although some negotiated directly with financial institutions to develop appropriate products, others used the existing infrastructure of state-run 529 College Savings Plans. Recent research confirms the importance of institutional supports delivered through products such as 529s or 401(k)s.⁴ These savings plans have specific

features that make them more efficient and easily scalable, such as centralized accounting, limited investment options, automatic deposits and streamlined consumer education. However, although 529s permit a tax-advantaged account for children's savings, the qualified uses are restricted to postsecondary education and training. In practice, most SEED participants viewed college education as the primary purpose of their accounts, but the accounts were originally conceived as having much broader and longer-term uses to encompass all forms of asset building, including home purchase, retirement and business startup.

The lack of a comprehensive account vehicle for CSAs was the impetus for the Young Savers Account (YSA) proposal, which was introduced in the Senate in August 2007. Using Roth IRA rules, qualified uses for savings accumulated in YSAs would include homeownership as well as retirement. However, this general approach of providing tax-free earnings on deposits in specific accounts has limits as well. Relative to a direct match of deposits, access to a tax-advantaged account is less effective for households with lower incomes and lower tax liabilities. Monitoring the data and outcomes of SEED participants is expected to shed light on the effectiveness of various matched account structures, which in turn should assist policymakers in crafting appropriate savings incentives for households of all income levels.

A Public/Private System for Delivery of Children's Accounts Will Work Best

An important inference from SEED research on account management is that an accessible children's savings system cannot be delivered through private financial institutions alone. Many accounts that are called "private" are defined by public policies. IRAs and 401(k)s, for example, are government regulated and sometimes publicly subsidized. Any large-scale effort to create children's accounts, therefore, will require the public sector to design the institutional framework that provides broad access, low costs, legal protection and a uniform set of rules to ensure every child gets into the system and is treated fairly. This new framework will require many different roles, some of which can be done by private and nonprofit organizations.

The arrival of a new Administration and a new Congress in 2009 will bring with it a new set of federal decisionmakers and will create opportunities to revisit a broad range of social policy issues.

Policy Recommendations

The arrival of a new Administration and a new Congress in 2009 will bring with it a new set of federal decisionmakers and will create opportunities to revisit a broad range of social policy issues. If economic conditions remain poor, much of the initial focus will likely be on ameliorating immediate economic hardships. Yet when policymakers turn their attention to addressing long-term sources of economic insecurity, they will need to consider ways to encourage more Americans to save for their future and build up their asset base. This should, along with the growing awareness of the potential role for children savings accounts, create an opening for policy gains.

The factors that will make children's savings accounts a promising policy issue in 2009 include:

- **Tax Reform on the Horizon.** The expiration of a number of tax provisions implemented in 2001 and 2003, including ones linked to the tax treatment of savings, capital gains, dividends and estates, may trigger a larger tax reform effort that could encompass a revision of current tax-based savings incentives and include the consideration of ways to effectively encourage long-term savings through children's accounts.
- **Improved Communications of Value of Accounts.** Advocates should continue to make the case for children's accounts in meaningful ways that draw upon the experience from SEED and create a framework of what a national policy might achieve. They should emphasize the very nature of savings to address the growing concern of economic insecurity and how the steep decline in our personal savings rate undercuts long-

Policymakers and advocates will be wise to frame the approach of endowing newborns with an account as representing a collective social investment in every child and offering that child a stake in the broader society.

term economic growth. They should frame savings as a buffer to smooth consumption during income declines as well as help people make productive investments. Moreover, children's accounts attract deposits, which in turn can facilitate future planning and promote financial education. Account ownership makes financial education real, an experience that appears to hold true for adults and youths. These experiences may provide the common ground that can serve as a basis for future policymaking.

- **Lessons from Abroad.** In 2005, the United Kingdom enacted its own version of children's accounts, known as the Child Trust Fund. Each of the 700,000 children born there each year receives a savings account, and the effort is already producing tangible results that may inform the design of a U.S. policy.⁵ The Child Trust Fund was designed to ensure children have savings when they enter adulthood, promote the savings habit, teach children the benefits of saving and advance understanding of personal finance. This has led to an emphasis on using the accounts as a means to deliver financial education in primary and secondary schools, a link that should also be instructive for U.S. policymakers. In addition, recent policy reforms ensure that savings seamlessly roll over into other savings products once accountholders reach age 18. Although political and social conditions are distinct, the U.K. experience represents a promising policy framework for U.S. policymakers in that it is universal in scope, seen as part of a lifelong savings platform, and emphasizes links to financial education and asset building.

Moving Forward

There are numerous more lessons to be drawn from the SEED experience as well as opportunities for legislators to compromise on the divisive issues that have stymied policy breakthroughs. Still, there is much value in being able to articulate a strong rationale for a universal accounts-at-birth approach. Policymakers and advocates will be wise to frame the approach of endowing newborns with an account as representing a collective social investment in every child and offering that child a stake in the broader society. This investment can be used to help children learn, plan for their futures and ultimately make productive investments that will benefit them and society as a whole. Accountholders grow up knowing they will have a modest pool of resources at their disposal to deploy strategically and help them succeed. Beyond individual benefits, these investments could have significant multiplier effects, especially when linked to increasing social engagement, increasing broad financial understanding and expanding economic opportunity.

About the Author

Reid Cramer is research director of the Asset Building Program at the New America Foundation, a nonpartisan public policy institute based in Washington, DC.

¹ The ASPIRE Act was originally introduced in July 2004. Original sponsors in the Senate included Rick Santorum (R-PA), John Corzine (D-NJ), Charles Schumer (D-NY) and Jim DeMint (R-SC) and in the House of Representatives Harold Ford (D-TN), Patrick Kennedy (D-RI), Phil English (R-PA) and Thomas Petri (R-WI).

² Scanlon, E., & Adams, D. (2005). *In depth interviews with SEED youth. Profiles of participants in a pilot study* (CSD Working Paper 05-11). St. Louis: Center for Social Development, Washington University in St. Louis.

³ Rist, C., & Harger, S. (November 2006). Learning to save: Lessons on financial education. *Growing Knowledge from SEED*. Washington, DC: CFED.

⁴ Beverly, S., Sherraden, M., Zhan, M., Williams Shanks, T.R., Nam, Y., & Cramer, R. (2006). *Determinants of asset building: A report in the series Poor Finances, Assets and Low-Income Households*. St. Louis and Washington, DC: Center for Social Development, Washington University in St. Louis; New America Foundation; Urban Institute.

⁵ Cramer, R. (2007). *Asset based welfare policy in the UK: Findings from the Child Trust Fund and Saving Gateway Initiatives*. Washington, DC: New America Foundation.

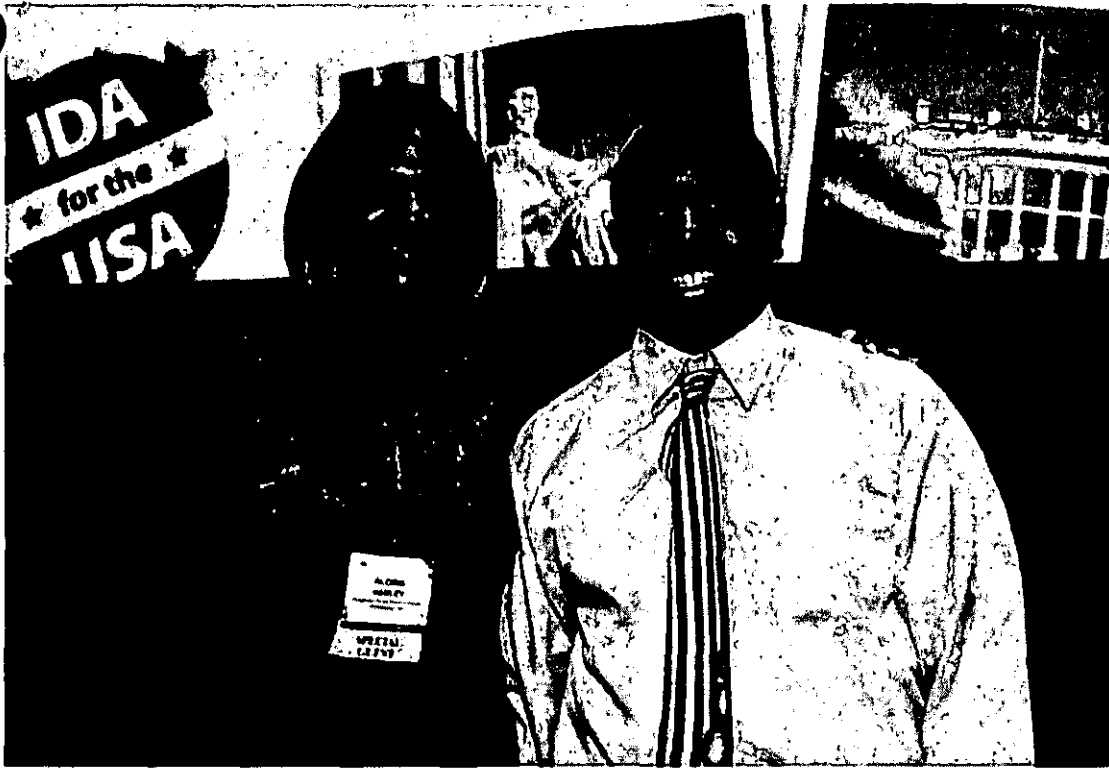
Table 2. SEED Savings Outcomes

Total SEED Accumulation through June 30, 2007 (N=1,253)

In SEED, savings and accumulation in accounts come from a variety of sources, including SEED initial deposits, participant contributions, benchmark incentives, and investment gains. Unmatched withdrawals, service fees, and investment losses decrease accumulation in SEED accounts. As of June 30, 2007, SEED participants have accumulated more than \$1.6 million through a combination of SEED initial deposits, benchmark incentive deposits, participant savings and SEED matches. This represents accounts open, on average, from 2.3 years to 4.6 years at various sites. The overall mean savings time for all sites combined is three years. On average, each child has about \$1,318 "seeded" as an investment for the future.

Participant Closing Balance	\$393,863.46	
Participant Matched Withdrawals	\$41,883.96	
Total Net Deposits		\$435,747.42
SEED Initial Deposits		\$578,689.10
Total Participant Balances		\$1,014,436.52
Match Allocated and Accrued	\$596,999.76	
Match Used	\$39,964.22	
Total Match Dollars		\$636,963.98
Total SEED Accumulation for all Programs		\$1,651,400.50
SEED Benchmark Incentives Distributed		\$132,494.00
Total Net Deposits less Benchmark Incentives Distributed		\$303,253.42
Average SEED Initial Deposit		\$461.84
Average Net Deposits		\$347.76
Average SEED Match		\$508.35
Average Total SEED Accumulation		\$1,317.96

Source: SEED Account Monitoring Research: Participants and Savings Outcomes at June 30, 2007. St. Louis: Center for Social Development, George Warren Brown School of Social Work, Washington University in St. Louis.



SEED accountholder Michael Harley (with his mother, Gloria) issued a challenge to attendees of CFED's 2008 Assets Learning Conference to make children's savings accounts universal to secure the future of all children. "Kids want to save. The kids in my area all want to go to college. I can't think of a kid who wouldn't," he said.



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Marilyn Foss