Nebraska Investment Council

1526 K Street, Suite 420
Lincoln, NE 68508
Phone: 402-471-2043

Web: www.nic.nebraska.gov
Email: nic.info@nebraska.gov

To: Brandon Metzler, Clerk of the Legislature

From: Ellen Hung, CFA, State Investment Officer

Date: September 10, 2026

Re: NEB. REV. STAT. §71-7611 SUSTAINABILITY OF HEALTH CARE TRANSFER

Neb. Rev. Stat. §71-7611 creates the Nebraska Health Care Cash Fund. The Nebraska Investment Council manages the Fund investments. The law requires specified annual transfers into the fund from the Nebraska Tobacco Settlement Trust Fund. The law also requires the state investment officer to report to the Legislature on or before October 1 in even-numbered years on the sustainability of the transfers.

The Nebraska Investment Council reviewed and discussed the attached "Health Care Endowment Sustainability" report prepared by investment consultant Aon during the August 27, 2026 board meeting.

Key Findings

The Health Care Endowment has a less than 50/50 chance of meeting its investment goals, which are:

- Provide funds for current spending needs, and
- Increase the size of the portfolio to support future needs.

enc: Nebraska Investment Council – Health Care Sustainability Presentation

cc: Senator Robert Clements, Chair, Appropriations Committee
Governor Jim Pillen
Keisha Patent and Bill Biven, Legislative Fiscal Office
Director Lee Will, DAS Budget Division

Nebraska Investment Council

Health Care Endowment Sustainability

August 2026

Overview of Health Care Endowment

- The Health Care Endowment (Nebraska Tobacco Settlement Trust) had a market value of $699 million as of June 30, 2026
- The investment goals of the Endowment are twofold:
  1) Provide funds for current spending needs
  2) Increase the size of the portfolio to support future needs
- NIC determines asset allocation policy only (i.e., not distribution policy)
- Spending policy is determined by legislation; historically a fixed dollar amount rather than a % of assets
  - Has ranged from ≈$45 million - $60+ million over the past two decades
  - In FY 2027, $161 million will be disbursed from the Health Care Endowment, comprised of:
    - $66 Million in “standard” annual disbursements
    - $95 Million in additional withdrawals

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Overview of Health Care Endowment (Cont'd)

- Tobacco Master Settlement Agreement (MSA) payments received by the State of Nebraska each year are contributed in to the endowment
- Forecasts for Tobacco MSA payments exist through 2036, though it should be noted that there is a great deal of uncertainty in projecting these payments
  - Additional detail on Tobacco MSA payment projections can be found in the Appendix of this document
- NIC determines asset allocation policy; the endowment targets 75% return-seeking assets / 25% risk-reducing assets

	Policy Allocation
U.S. Equity	27.5%
Non-U.S. Equity	13.0%
Global Equity	24.5%
Real Estate	5.0%
Private Equity	5.0%
Fixed Income	25.0%
Total Health Care Endowment	**100.0%**
Projected Returns*	7.2%
Projected Volatility*	11.6%

*Based on Aon CMAs

Overview of Health Care Endowment (Cont'd)

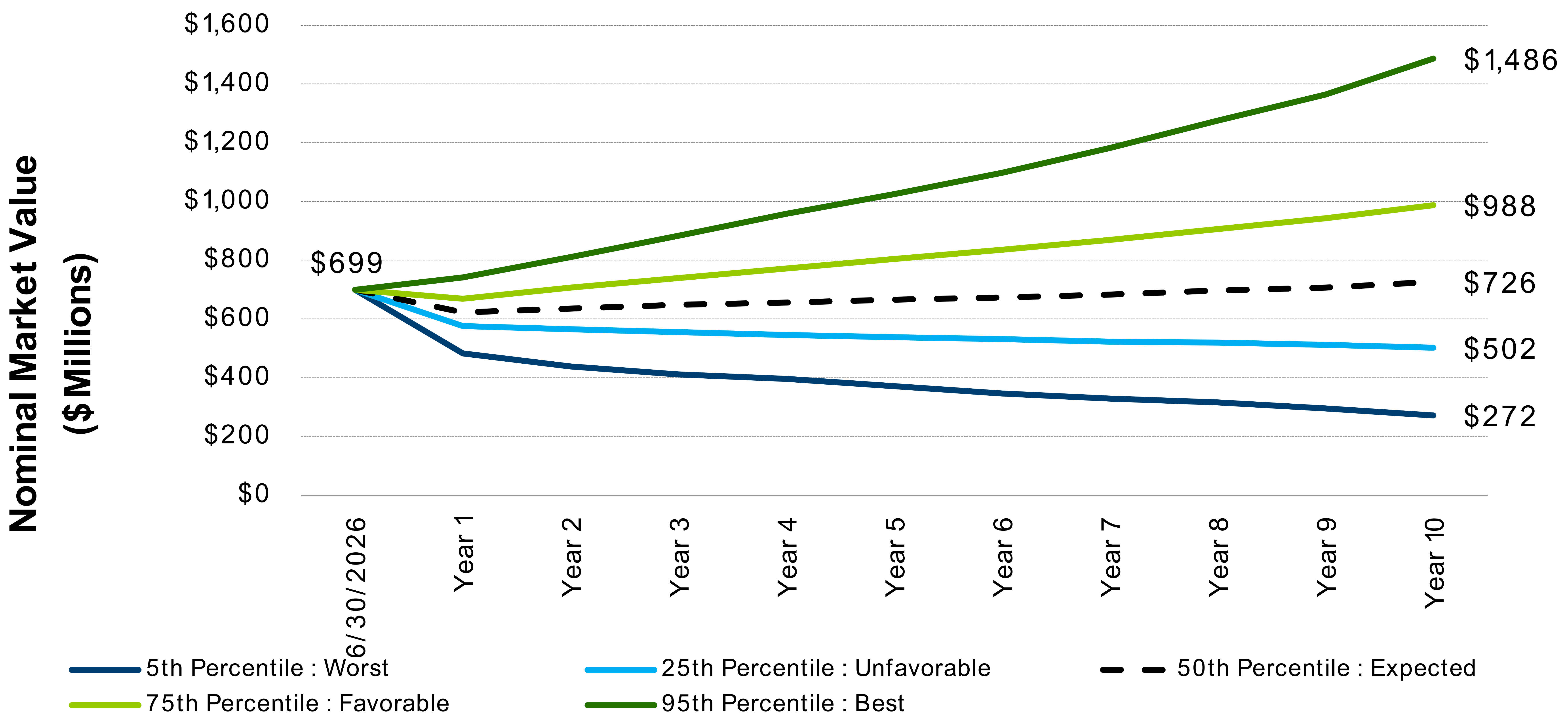
- The following two slides provide our forecasted market values for the Health Care Endowment through 2036
  - I.e., as far out as we have forecasted values for Tobacco MSA payments
- We provide forecasts on both a nominal and real (i.e., net of the impact inflation) basis
- Ideally, real market value would remain stable (or increase) under the median scenario
  - This would imply that the Health Care endowment could continue to provide the same level of funding (at least) to the various programs it supports in the future as it does today
- The forecasts shown on the following slides suggest the Health Care Endowment has a less than 50/50 chance of meeting its investment goals, which are:

  1) Provide funds for current spending needs

  2) Increase the size of the portfolio to support future needs

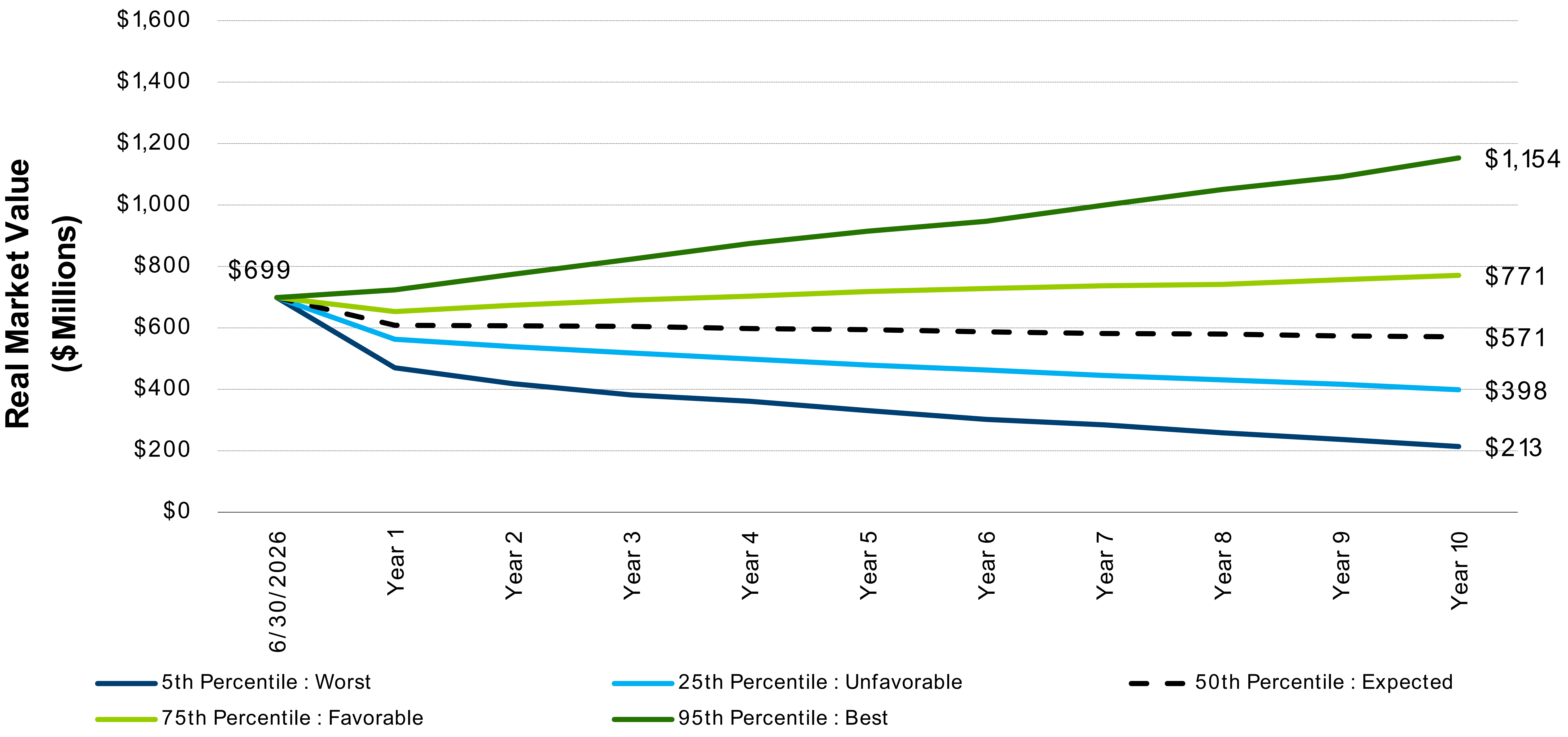
*Based on Aon CMAs

Health Care Endowment – Future Market Value Forecast (Nominal)



- The chart above provides our distribution of nominal forecasted market values for the Health Care Endowment through 2036
  - I.e., as far out as we have forecasted values for Tobacco MSA payments

Health Care Endowment – Future Market Value Forecast (Real)



- The exhibit above recreates the analysis on the previous slide on a “real” (i.e., net of inflation) basis
  - As shown, forecasted median real market values decrease over the next 10 years

Appendices

Appendix I: Health Care Endowment Cash Flow Forecasts

Fiscal Year	Estimated Contribution	Estimated Distribution	Net Distribution
2027	$32,949,173	$161,000,000	-$128,050,827
2028	$32,694,564	$66,000,000	-$33,305,436
2029	$32,446,239	$66,000,000	-$33,553,761
2030	$32,204,231	$66,000,000	-$33,795,769
2031	$31,968,574	$66,000,000	-$34,031,426
2032	$31,739,309	$66,000,000	-$34,260,691
2033	$31,516,475	$66,000,000	-$34,483,525
2034	$31,300,115	$66,000,000	-$34,699,885
2035	$31,090,278	$66,000,000	-$34,909,722
2036	$30,887,011	$66,000,000	-$35,112,989

Appendix II: Additional Detail on Tobacco MSA Payment Projections*

- The table below represents the most recent estimates of Tobacco Master Settlement Agreement (MSA) payments to be received by the State of Nebraska.

Nebraska MSA Payment Projections

3% Infl. Adj.
4% Vol. Adj.

Fiscal Year	Total Est. Annual MSA Payments
2027	32,949,173
2028	32,694,564
2029	32,446,239
2030	32,204,231
2031	31,968,574
2032	31,739,309
2033	31,516,475
2034	31,300,115
2035	31,090,278
2036	30,887,011

*Source: Nebraska Department of Administrative Services -- State Budget Division

Appendix II: Additional Detail on Tobacco MSA Payment Projections* (Cont'd)

- It should be noted that there is a great deal of uncertainty in projecting Tobacco Master Settlement Agreement payments. The NPM adjustment, disputed amounts, and credits allowed to participating manufacturers are very difficult to estimate as little of any certainty is known in advance about the factors that led to these adjustments.

- One cautionary note—if at any point Nebraska is found to have not diligently enforced the NPM escrow provisions of the MSA, it could result in a complete loss of the MSA payment for Nebraska (though that is a worst-case scenario).

*Source: Nebraska Department of Administrative Services -- State Budget Division

Appendix II: Additional Detail on Tobacco MSA Payment Projections* (Cont'd)

NOTES:

A. While the Master Settlement Agreement provides that the payments will continue in perpetuity, only the next 10 years through 2036 are shown in this analysis.

B. The payment projections make certain assumptions about cigarette consumption and the rate of inflation. If the rate of increase in the CPI-U is higher than the assumption, the actual payments could be higher. Likewise, if cigarette consumption varies from the assumption, the payments could be higher or lower. And, if more consumption shifts from Participating Manufacturers to Non-Participating Manufacturers, the payments could be lower.

C. The projections ignore the possibility of default by any Participating Manufacturer. If experience is any indication of the future, some of the Participating Manufacturers, especially the smaller ones, are likely to fail to pay, go out of business, and/or file bankruptcy. The projections also ignore back payments and interest, but such amounts tend to be quite marginal relative to the total. Finally, the projections do not include any assumptions regarding future distributions from the dispute account.

D. The annual estimates in both scenarios are based on the following assumptions:

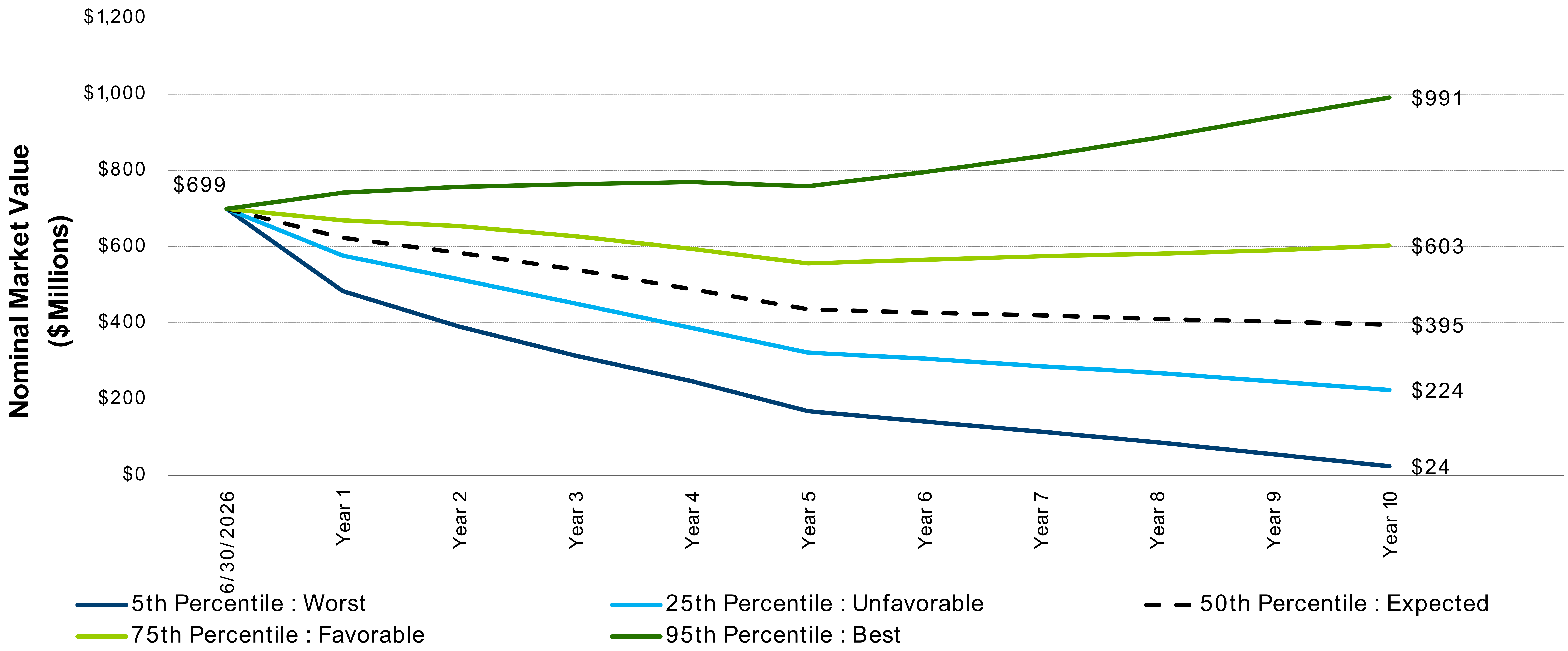
1. Annual Inflation Adjustment of 3.0% (the minimum adjustment pursuant to the MSA)
    a) For example, actual CPI-U growth for calendar year 2025 was 2.677%. The ten-year average CPI-U increase through 2024 was 3.02%. An increase less than 3% results in application of the 3% minimum.
2. Annual Volume Adjustment of 4.0% (Source: NAAG)
    a) The actual volume adjustment to be applied for any one year is not typically known until March or April of that year. The volume adjustment over the last fifteen years has averaged 5.95%.

*Source: Nebraska Department of Administrative Services -- State Budget Division

Appendix III: Alternative Cash Flow Scenario
Overview

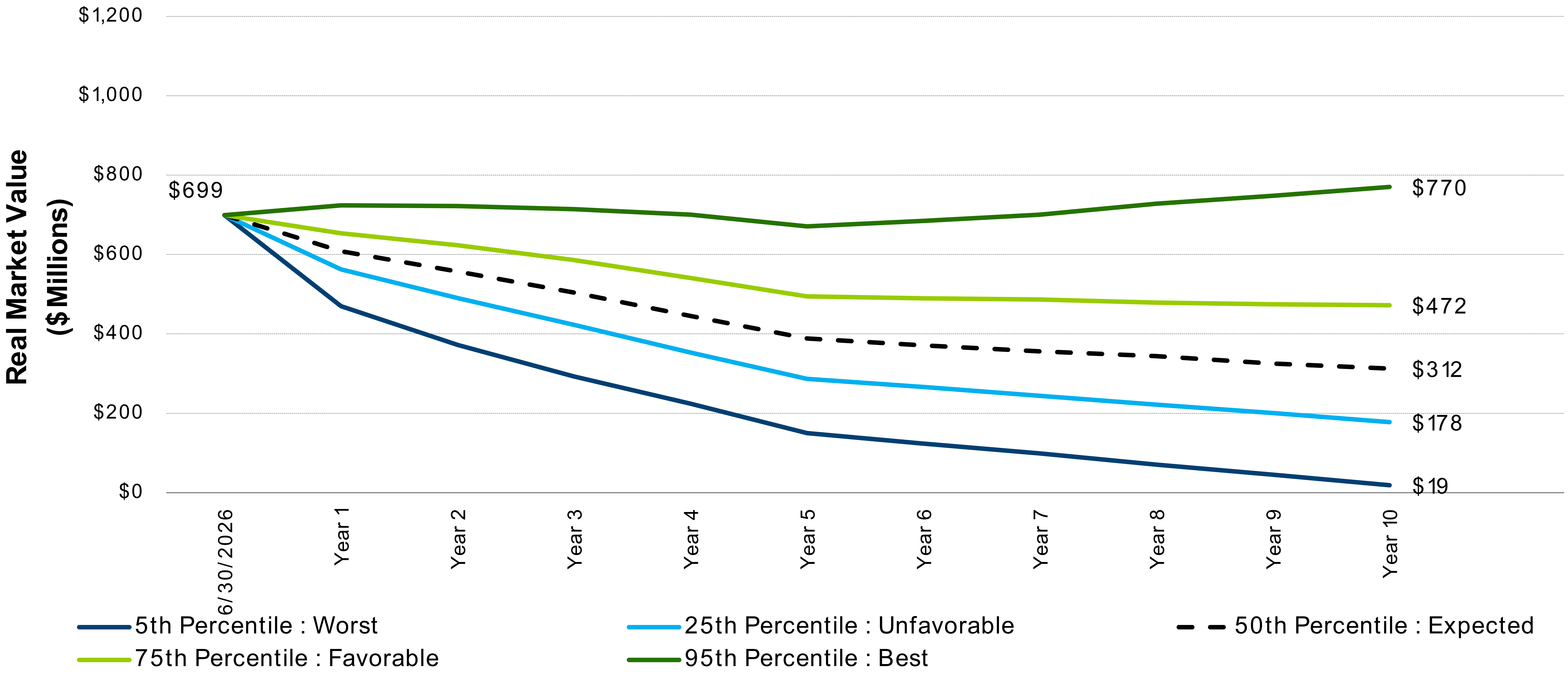
- While not currently in statute, we understand that it is possible that an additional $50 million per annum will be drawn from the Health Care Endowment in fiscal years 2028, 2029, 2030, and 2031
- The slides that follow adjust our future market value forecasts to illustrate the impact of those potential withdrawals

Appendix III: Alternative Cash Flow Scenario
Health Care Endowment – Future Market Value Forecast (Nominal)



- The chart above provides our distribution of nominal forecasted market values for the Health Care Endowment through 2036
  - I.e., as far out as we have forecasted values for Tobacco MSA payments

Appendix III: Alternative Cash Flow Scenario
Health Care Endowment – Future Market Value Forecast (Real)



- The exhibit above recreates the analysis on the previous slide on a “real” (i.e., net of inflation) basis
  - As shown, forecasted median real market values decrease materially over the next 10 years

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Appendix III: Alternative Cash Flow Scenario
Health Care Endowment Cash Flow Forecasts

Fiscal Year	Estimated Contribution	Estimated Distribution	Net Distribution
2027	$32,949,173	$161,000,000	-$128,050,827
2028	$32,694,564	$116,000,000	-$83,305,436
2029	$32,446,239	$116,000,000	-$83,553,761
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2035	$31,090,278	$66,000,000	-$34,909,722
2036	$30,887,011	$66,000,000	-$35,112,989

Legal Disclosures and Disclaimers

Aon Investments USA Inc. is a federally registered investment advisor with the U.S. Securities and Exchange Commission. Aon Investments is also registered with the Commodity Futures Trading Commission as a commodity pool operator and a commodity trading advisor and is a member of the National Futures Association. The Aon Investments ADV Form Part 2A disclosure statement is available upon written request to:

Aon Investments USA Inc.
200 E. Randolph Street
Suite 700
Chicago, IL 60601
ATTN: Aon Investments Compliance Officer