

# **NEBRASKA HEALTH CARE CASH FUND AND RELATED FUNDS**

**Prepared for 108<sup>th</sup> Legislature Interim Studies  
2024**

**Prepared by Mikayla Findlay  
Legislative Fiscal Office  
October 20, 2024**

## **Purpose**

This report provides an overview of the Nebraska Health Care Cash Fund and related funds, the Nebraska Tobacco Settlement Trust Fund and the Nebraska Medicaid Intergovernmental Transfer Trust Fund.

## **The Health Care Cash Fund**

The Nebraska Health Care Cash Fund receives funds from three sources -- the Nebraska Tobacco Settlement Trust Fund, the Nebraska Intergovernmental Transfer Trust Fund and cigarette taxes. These funds will be described later in this report. LB 692 passed in the 2001 Legislative Session provided the current policy framework for the use of the Nebraska Health Care Cash Fund and established the tobacco settlement and intergovernmental transfer funds as the two sources of revenue for the fund.

Section 71-7606 states the purpose of the Nebraska Health Care Cash Fund:

*(1) The purpose of the Nebraska Health Care Funding Act is to provide for the use of dedicated revenue for health-care-related expenditures.*

*(2) Any funds appropriated or distributed under the act shall not be considered ongoing entitlements or obligations on the part of the State of Nebraska and shall not be used to replace existing funding for existing programs.*

*(3) No funds appropriated or distributed under the act shall be used for abortion, abortion counseling, referral for abortion, or research or activity of any kind involving the use of human fetal tissue obtained in connection with the performance of an induced abortion or involving the use of human embryonic stem cells or for the purpose of obtaining other funding for such use.*

*(4) The Department of Health and Human Services shall report annually to the Legislature and the Governor regarding the use of funds appropriated under the act and the outcomes achieved from such use.*

The State Investment Officer decides the amounts transferred from each fund, totaling the amount specified in statute. Every even-numbered year, the State Investment Officer submits a report to the Legislature on the sustainability of the fund.

The Legislature establishes in statute the total amount to be transferred into the Nebraska Health Care Cash Fund annually. The amount is based on existing statutory obligations and new appropriations set by the Legislature. In 2022, the transfer amount was set for \$66.2 million in FY22 with the intention to drop to \$51.0 million annually in subsequent fiscal years which was deemed to be the transfer level to maintain sustainability of the fund. In 2023, the finalized transfer amount was set for \$56.7 million in FY23, \$56.5 million in FY24 and \$55.4 million in FY25 and each year thereafter due to increased obligations. In 2024 the transfer amounts were adjusted down to \$54 million in FY24 and \$54.15 million in FY25 and onward.

Passed in the 2012 Session, LB 969 harmonized provisions of the Tobacco Settlement Fund, Medicaid Intergovernmental Fund and the Health Care Cash Fund. Prior to LB 969, these funds were handled in disparate ways; some operated via transfers into cash funds and others via direct appropriation. The different mechanisms led to misunderstanding when discussing the funds with policymakers. LB 969 eliminated the transfers to separate funds and now all distributions are handled via appropriations from the Health Care Cash Fund.

In 2015, the fund gained a new revenue source. A portion of the cigarette tax earmarked for the Nebraska Public Safety System was partially redirected to the Health Care Cash Fund as those funds were no longer needed for the system.

## **Related Funds**

Although the tobacco settlement and intergovernmental funds are called trust funds in statute, they are not trust funds. Trust funds are assets held in trust and use is governed by the conditions of the trust. Neither the tobacco settlement nor the intergovernmental transfer fund is governed by the conditions of a trust. Use of the funds is strictly governed by the Legislature.

### **Nebraska Tobacco Settlement Trust Fund**

Nebraska, along with 51 other states and territories, entered into a settlement agreement with tobacco manufacturers in 1998. The basis of the settlement was to reimburse states for additional Medicaid costs states incurred in treating smoking-related illnesses and diseases.

The terms and conditions of the settlement are contained in the Master Settlement Agreement. This agreement contains a schedule of payments the participating manufacturers are required to make to each of the states in perpetuity. This means as long as cigarettes are sold in the U.S. by companies that have settled with the States Nebraska can expect payments into the Tobacco Settlement Trust Fund. Payments are adjusted based on an annual inflation and volume adjustment. Payments are deposited in the Nebraska Tobacco Settlement Trust Fund.

The State must meet certain conditions of compliance contained in the Master Settlement Agreement. The Attorney General is responsible for ensuring compliance. The Department of Revenue assists with the compliance activity. Once the state receives the funds, there are no restrictions on the use of the funds. All states are required to enforce provisions of the settlement relating to Non-Participating Manufacturers (NPM). Failure to comply with this provision can result in the loss of up to the entire MSA payment for any given year when a state has been determined to have not met the enforcement requirements.

The revenue from the settlement varies from year to year. In the last five years the settlement payments ranged from \$35.6 million to \$43.7 million. Looking forward, estimated payment projections decline from \$36.1 million in 2025 to \$33.4 million in 2035. The balance in Tobacco Settlement Trust Fund as of June 30, 2024 is \$605.9 million.

### **Nebraska Medicaid Intergovernmental Transfer Trust Fund**

Until 2005, the federal government allowed states to establish disproportionate share pools for publicly owned nursing facilities. This federal policy contained a loophole which allowed states to receive excess federal funds and Nebraska deposited our excess funds in the Nebraska

Medicaid Intergovernmental Trust Fund. Since the loophole was closed in 2005, the only revenue for this fund is investment earnings. LB 331 in the 2017 Session directed the State Investment Officer to direct the transfer funds from the Medicaid Intergovernmental Trust Fund first until the fund was depleted. The fund was cleared out with the exception of a small amount of residual investment income. The balance in the fund as of June 30, 2024 was \$44.

### Combined Balances

The revenues, earnings, transfers and fiscal year-end balances for the combined funds (the Tobacco Settlement Trust Fund and the Medicaid Intergovernmental Trust Fund which are the fund sources of Health Care Cash Fund) are shown in the following table:

Combined Funds	FY	Deposits	Earnings	Transfers	Expenses	Ending Balance	Change
Beginning Balance	FY 1998	27,261,416	134,932	-	-	27,396,348	
50,101	FY 1999	55,185,489	1,261,218	(66,364,205)	-	17,478,850	(9,917,498)
50,000	FY 2000	96,650,344	3,386,244	(3,418,190)	-	114,097,248	96,618,398
41,741,904	FY 2001	67,675,769	4,899,341	(4,118,235)	-	182,554,123	68,456,875
72,393,672	FY 2002	91,547,546	(13,783,454)	(50,000,000)	(41,166)	210,277,049	27,722,926
91,159,960	FY 2003	43,158,793	(1,436,957)	(22,000,000)	(72,923)	229,925,962	19,648,913
111,308,871	FY 2004	87,306,237	34,784,129	(52,652,500)	(183,652)	300,223,617	70,297,655
140,586,792	FY 2005	76,075,681	(1,000,646)	(58,352,500)	(207,899)	341,349,011	41,125,394
164,716,503	FY 2006	56,812,200	34,970,685	(52,000,000)	(225,204)	382,906,693	41,557,682
188,438,435	FY 2007	51,247,733	63,548,406	(52,000,000)	(338,155)	445,345,679	62,438,986
227,122,177	FY 2008	51,175,277	(22,731,127)	(55,250,000)	(307,065)	418,232,761	(27,112,918)
230,897,533	FY 2009	44,992,102	(75,178,454)	(57,400,000)	(358,126)	336,988,287	(81,244,474)
215,339,014	FY 2010	38,997,011	41,714,866	(53,333,277)	(317,358)	365,049,526	28,061,239
246,684,014	FY 2011	36,939,241	66,656,619	(56,095,512)	(348,495)	411,201,431	46,151,905
289,510,658	FY 2012	37,664,587	(17,927,089)	(59,100,000)	(373,009)	371,465,870	(39,735,561)
273,688,613	FY 2013	56,093,823	55,624,368	(56,280,948)	(414,229)	426,758,885	55,293,015
326,105,729	FY 2014	37,449,237	50,889,270	(56,958,081)	(465,597)	457,673,712	30,914,827
357,551,991	FY 2015	37,119,646	26,302,972	(59,498,760)	(377,883)	461,219,689	3,545,977
367,440,490	FY 2016	36,737,587	742,883	(58,232,193)	(364,541)	440,103,696	(21,115,993)
356,859,227	FY 2017	37,741,463	49,052,363	(57,849,846)	(480,003)	468,567,672	28,463,976
385,007,498	FY 2018	41,017,448	36,223,684	(67,661,381)	(326,965)	477,820,459	9,252,787
451,866,358	FY 2019	39,834,822	29,293,542	(70,660,050)	(416,337)	475,872,436	(1,948,023)
475,872,436	FY 2020	38,060,542	(7,114,865)	(56,771,230)	(440,022)	449,606,861	(26,265,575)
449,606,861	FY 2021	42,662,740	116,774,408	(60,959,530)	(405,479)	547,679,000	98,072,139
547,679,000	FY 2022	43,772,689	43,055,997	(49,443,265)	(517,210)	584,547,212	36,868,212
584,547,212	FY 2023	39,956,892	(16,483,432)	(60,826,974)	(486,911)	546,706,787	(37,840,425)
546,706,787	FY 2024	35,634,214	77,044,288	(53,269,985)	(194,592)	605,920,712	59,213,925

## **Sustainability Projections**

The State Investment Officer is required to report to the Legislature on or before October 1 of every even-numbered year on Health Care Cash Fund transfer sustainability. The latest report from 2024 can be found in the appendix of this report or accessed [online](#).

In the past, reports show sustainability of the fund may be at-risk due to high expenditure levels. In 2021 the Legislature permanently moved \$10 million in funding for behavioral health to the General Fund. In 2022 the outlook of the fund went from being at risk to sustainable. According to the 2024 report by the State Investment Officer, as long as the real market value remains stable, the endowment could continue to provide at least the same level of funding.

## **Programs Funded Through the Health Care Cash Fund**

The programs funded by appropriations from the Health Care Cash Funds are shown in the table below. FY23, FY24, and FY25 are reported as passed in the 2023 Session. FY26 is included for informational purposes as an estimate.

AG	Prog	Description	FY 2023	FY 2024	FY2025	FY 2026 Est.
3	122	Legislative Council	75,000	75,000	75,000	75,000
11	507	Attorney General (Tobacco MSA Enforcement)	595,807	595,807	595,807	595,807
16	102	Revenue Auditor (Tobacco MSA Enforcement)	329,808	329,808	329,808	329,808
16	164	Gamblers Assistance	250,000	250,000		
25	30	Tobacco Prevention and Control	2,570,000	2,570,000	2,570,000	2,570,000
25	30	JUUL Settlement - Youth Tobacco Prevention		1,082,146	1,082,146	
25	33	Smoking Cessation operations	6,000	6,000	6,000	6,000
25	33	EMS Technicians Regulation	13,688	13,688	13,688	13,688
25	33	Parkinson's Disease Registry	26,000	26,000	26,000	26,000
25	33	Public Health Staff	100,000	100,000	100,000	100,000
25	33	Minority Health Satellite Offices	220,000	220,000	220,000	220,000
25	33	Respite Care Regions Staff and Operating	404,643	404,643	404,643	404,643
25	38	Emergency Protective Service Funding	1,500,000	1,500,000	1,500,000	1,500,000
25	38	MH/SA Regions Service Capacity	6,500,000	6,500,000	6,500,000	6,500,000
25	250	MH/SA Service Capacity Juvenile Justice	1,000,000	1,000,000	1,000,000	1,000,000
25	344	Children's Health Insurance Aid	6,835,700	6,835,700	6,835,700	6,835,700
25	347	Respite Care Aid	810,000	810,000	810,000	810,000
25	348	Medicaid Smoking Cessation	450,000	450,000	450,000	450,000
25	424	Developmental Disability Aid	5,000,000	5,000,000	5,000,000	5,000,000
25	502	FQHC Patient Counts	750,000	750,000	750,000	750,000
25	502	Minority Health Aid	2,875,000	2,875,000	2,875,000	2,875,000
25	502	County Public Health Aid	5,605,000	5,605,000	5,605,000	5,605,000
25	514	Poison Control Center	200,000	200,000	200,000	200,000
25	514	NE Cancer Coalition - University		500,000	500,000	500,000
25	514	Pediatric Cancer - UNMC		2,700,000	2,700,000	2,700,000
25	514	Brain Injury Trust	500,000	500,000	500,000	500,000
25	514	Perinatal Quality Improvement	130,000	130,000	130,000	130,000
25	621	Stem Cell Research	450,000	450,000	450,000	450,000
25	623	Biomedical Research	15,000,000	15,000,000	15,000,000	15,000,000
51		Pancreatic Research	15,000,000			
70	353	Nebraska Children's Commission	190,249	200,784	208,894	208,894
		<b>Total</b>	<b>67,386,895</b>	<b>56,679,576</b>	<b>56,437,686</b>	<b>55,355,540</b>

The following excerpts describe the programs receiving Health Care Cash Fund dollars:

**Legislative Council:** This funding is provided for ongoing health-related research and public policy development conducted by the Health and Human Services Committee. Such funds may be used for, but shall not be limited to, hiring temporary legal research assistance, consulting and research contracts. (Agency 3, Program 122) \$75,000

**Attorney General:** The Attorney General is responsible for enforcement of provisions of the Master Settlement Agreement. These funds support compliance activities that the State is obligated to perform under the agreement. (Agency 12, Program 507) \$595,807

**Revenue Auditor:** A Revenue Auditor works with tobacco manufacturers and ensures compliance with the Master Settlement Agreement. (Agency 16, Program 102) \$329,808

**Gamblers' Assistance:** LB 332 (2005) provided \$250,000 of funding beginning in FY06 for the compulsive gambler's assistance program. The intent was to use another funding source to continue this level of support. A constitutional amendment to use lottery funds for this purpose was defeated. The Legislature continued to fund the program with the Health Care Cash Fund. The program was moved to the Department of Revenue in 2013. Due to a new revenue source for this program, casino gambling taxes, funding from the Health Care Cash Fund is scheduled to cease in FY25. (Agency 16, Program 164) \$250,000

**Tobacco Prevention and Control:** The funding is used for a comprehensive statewide tobacco-related public health program which includes, but is not limited to (1) community programs to reduce tobacco use, (2) chronic disease programs, (3) school programs, (4) statewide programs, (5) enforcement, (6) counter marketing, (7) cessation programs, (8) surveillance and evaluation and (9) administration. A one-time increase of \$500,000 was provided in FY 18 (Agency 25, Program 30) \$2,570,000

**JUUL Settlement – Youth Tobacco Prevention:** This expenditure is designated for tobacco use prevention and control for minors and corresponds to new revenue from vaping companies into the Tobacco Settlement Trust Fund. The funding is intended for FY24 and FY25 only. (Agency 25, Program 30) \$1,082,146

**Respite Care:** Aid to the six regional services area is provided for coordination of respite services and direct funding of services as well. Of the \$1,214,643 in total funds, \$404,643 is provided to the regional service areas for personnel and \$810,000 for aid. (Agency 25, Programs 033 and 347) \$1,214,643

**EMS Technicians:** LB 1033 passed in 2002, authorized emergency medical technicians-intermediate, emergency medical technicians and-paramedics to perform out-of-hospital procedures in a health clinic or hospital when supervised by a registered nurse, physician or physician assistant. An additional part-time investigator is funded from the Health Care Cash Fund to handle additional investigations. (Agency 25, Program 33) \$13,688

**Parkinson's Disease Registry:** The registry is the only statewide Parkinson's registry in the country. Originally funded with general funds, state law was changed in 2001 prohibiting general fund support and authorizing cash funds to pay for the registry. A grant from the Michael J. Fox Foundation and another source covered the cost of operations until it was

exhausted. In 2009, an appropriation from the Health Care Cash Fund was provided to cover what is now part of the operating costs. (Agency 25, Program 33) \$26,000

**Mental Health and Substance Abuse Treatment Service Capacity:** This funding is to increase service capacity by the mental health and substance abuse regions and for juvenile justice. Each year \$1 million is earmarked for juvenile justice and \$6.5 million for the regions as a part of their base budget. (Agency 25, Programs 38 and 250) \$7,500,000

**Emergency Protective Custody:** Funding is provided to the mental health regions for emergency protective custody services. It is part of the base funding for the regions. (Agency 25, Program 38) \$1,500,000

**Public Health:** Funding is distributed on a formula basis to the 18 local public health departments to provide core public health functions include assessment and policy development, prevention of illness and disease, and assurance of services including public health nursing, health education, and environmental health services. The distribution formula is as follows:

- a) \$100,000 for three-county departments with a total population of 30,000 to 50,000
- b) 125,000 to single-county departments or multiple-county departments with three or more counties departments with a total population of more than 50,000 up to 100,000
- c) \$150,000 to departments with a total population of more than 100,000.
- d) Any funding not distributed under the formula shall be equally distributed among all departments receiving funding under the above formula distribution.

Funding cannot be used to replace existing county funding.

There is \$100,000 for staff and operating expenses. The appropriation increased by \$200,000 for state aid from the cigarette tax revenue. (Agency 25, Program 33 and 502) \$5,705,000

**Minority Health:** Minority health funding is for initiatives that target, but is not limited to, infant mortality, cardiovascular disease, obesity, diabetes and asthma. It is distributed in the following manner:

- a) \$1,526,000 is for counties in the first and third congressional districts with a minority population equal to or exceeding 5%
- b) \$1,349,000 is divided equally among federally qualified health centers (FQHCs in the Second Congressional District.
- c) \$220,000 is also provided for minority health satellite offices in the second and third congressional districts.

(Agency 25, Program 33 and 502) \$3,095,000

**Federally Qualified Health Centers:** This funding supports the seven community health centers funded through Federal Program 330, Public Law 104-299, the federal Health Centers Consolidation Act of 1996. Each center receives an amount proportional to the previous fiscal year's number of uninsured clients as reported on the Uniform Data System Report to the

United States Department of Health and Human Services Bureau of Primary Health Care.  
(Agency 258, Program 502) \$750,000

**Children's Health Insurance Program (CHIP):** The state match for CHIP was initially funded with \$25 million from the Health Care Cash Fund. As the initial \$25 million was exhausted, the Legislature in FY04 provided \$1.3 million from the HCCF to bring the total to \$5 million. In subsequent years the appropriation was increased to \$6,835,700 and is part of the base. Increases to the State's share of the program above this amount necessitate increases in the General Fund. (Agency 25, Program 344) \$6,835,700

**Medicaid Smoking Cessation:** LB 959, passed in 2008, appropriated funds to the Medicaid Program for a state plan amendment to include smoking cessation as a Medicaid-covered service. Although the bill saved general fund dollars beginning in 2010, the initial funding needed to provide the services was paid from the Health Care Cash Fund and is now part of the base. (Agency 25, Program 348) \$450,000

**Developmentally Disabled Aid for Services:** LB 692, passed in 2001, added \$3 million in FY02 and \$5 million in FY03 to develop services for persons on the waiting list, who had been waiting the longest for services. The \$5 million is part of the on-going base for the program. (Agency 25, Program 424) \$5,000,000

**Stem Cell Research:** LB 606, passed in 2008, created the Stem Cell Research Act. Grants are awarded to Nebraska institutions or researchers for the purpose of conducting non-embryonic stem cell research. Originally the funding was \$500,000. This was reduced in 2010 to \$450,000. (Agency 25, Program 621) \$450,000

**Biomedical Research:** The University of Nebraska, Creighton Medical Center and Boys Town Research Hospital are eligible for this funding. Twenty-four percent of the appropriated funds are distributed annually to the University of Nebraska and sixteen percent to Creighton and Boys Town combined. When the original legislation was passed creating the Health Care Cash Fund, only the University of Nebraska Medical Center and the University of Nebraska at Lincoln were conducting biomedical research. More recently the University of Nebraska at Omaha is also conducting qualifying research. Sixty percent is distributed to the eligible institutions based on the percentage of all funds expended by such institutions from the National Institutes of Health of the United States Department of Health and Human Services in the prior year as contained in a certified report of such excluding any such funds expended for research involving the use of human fetal tissue obtained in connection with the performance of an induced abortion or involving the use of human embryonic stem cells. At least \$700,000 of such appropriated funds shall be used annually for research to improve racial and ethnic minority health. In 2015, the amount increased by \$1 million from the cigarette tax. (Agency 25, Program 623) \$15,000,000

**Poison Control Center:** The funding from the Health Care Cash Fund provides \$200,000 for the Poison Control Center at the University of Nebraska Medical Center. Until 2003, Children's Hospital covered the costs of operating the center. After they decided they could no longer support it, the operations were moved to UNMC. Initially, funding was provided from federal bioterrorism grants, Creighton Medical Center, and UNMC. When the bioterrorism funding decreased and Creighton withdrew support, attempts were made to secure funding from other



hospitals and insurance companies but they declined to contribute. UNMC requested state funding so the poison control center could continue to operate. The services are provided to individuals, medical professionals, and hospitals free of charge. The Poison Control Center saves health care dollars through avoidance of emergency room visits by getting the appropriate treatment to patients who are poisoned. (Agency 51, Program 781) \$200,000

**Foster Care Review Office:** Funding from the Health Care Cash Fund was provided to continue staffing the Nebraska Children's Commission (Agency 70, Program 353) \$190,249

**Brain Injury Trust Fund:** \$500,000 in funding was provided beginning in FY 21 and annually thereafter to be used to pay for contracts with entities that specialize in the area of brain injury for assistance to individuals with a brain injury (Agency 25, Program 514) \$500,000

**Pancreatic Cancer Research:** A one-time transfer of up to \$15 million to the University of Nebraska Medical Center for pancreatic cancer research occurred in FY23. The transfer is contingent on private match of up to \$15 million. (Agency 50) \$15,000,000

**Perinatal Quality Improvement Program** An additional \$130,000 in state funding to supplement the \$70,000 in general funds was provided for increased funding for the Nebraska Perinatal Quality Improvement Collaborative. The program works to improve the delivery of and access to evidence-based health care for all Nebraska mothers and babies to improve birth outcomes, prevent maternal and infant deaths, reduce the impact of premature births, and ensure healthy moms and babies across the state. (Agency 25, Program 514) \$130,000

**Nebraska Cancer Coalition (NC2) – University:** This expenditure was created in 2023 for the University of Nebraska Medical Center to contract with a statewide coalition based in Nebraska that provides cancer screening, prevention, support, and education for all ninety-three counties in the state. The funding is ongoing beginning in FY23. (Agency 25, Program 514) \$500,000

**Pediatric Cancer Research – UNMC:** This expenditure was created in 2023 for pediatric cancer research at the University of Nebraska Medical Center and is restricted for such use. The funding is ongoing beginning in FY23. (Agency 25, Program 514) \$2,700,000

## **Expired Time-Limited Programs**

**211 Information:** Time-limited funding of \$300,000 for two years is provided for the statewide 211 System for FY 2020 and FY 2021 only. (Agency 14, Program 64) \$300,000

**Olmstead Plan:** LB 570 established a process for the state to come into compliance with the U. S. Supreme Court Olmstead decision. The unused balance in the appropriation to the Legislative Council was lapsed in FY 19 to cover the costs in FY 20 and FY 21. The A-Bill stated legislative intent to fund one additional year with \$36,459 from the HCCF in FY 2022. (Agency 25, Program 33). \$43,570

**Autism Treatment:** One million dollars a year for five years was to be used for intensive behavioral services under Medicaid for children with autism. The transfer of up to \$1 million a year for five years was contingent upon the receipt of no less than one dollar of private funds for every two dollars from the Health Care Cash Fund. The organization that had intended to contribute private matching dollars informed the state that no matching funds will be donated. No funding for this purpose was used and was lapsed. (Agency 25, Program 348)

**Medical Cannabidiol Pilot Study:** LB 390 passed in the 2016 Session requires the University of Nebraska Medical Center to study the efficacy of cannabidiol to treat patients with intractable seizures and treatment resistant seizures. The funding of \$250,000 a year was for four years, FY 16 to FY 19. (Agency 51, Program 751)

**Public Health Workforce Training:** This was one-time funding of \$50,000 in FY 17 was provided to the College of Public Health at the University of Nebraska Medical Center for workforce training. It was added from the cigarette tax revenue. (Agency 51, Program 751)

**Aged and Disabled Resource Centers (ADRCs):** Two-years of funding was provided for the ADRCs in FY 18 and FY 19. (Agency 25, Program 33 and 571)

**Nursing Facility Inspector:** Two-years of funding was provided in FY 18 and FY 19 for an additional nursing home inspector due to the requirements in LB 439. (Agency 25, Program 33)

**General Fund Transfers:** In FY 18 and FY 19, \$10 million was transferred each year from the Health Care Cash Fund to the State General Fund to assist with balancing the budget.

## **Conclusion**

In conclusion, the current level of appropriation is within the allowable expenditure level needed to maintain the sustainability of the endowment as long as the market value remains stable. The latest report by the State Investment Officer states the forecasts analyzed imply the endowment has “a very good chance of meeting its investment goals” of providing funds for current and future spending needs. The Legislative Fiscal Office will continue to monitor revenues, expenditures, and fund balances and proactively communicate with the Legislature’s Appropriations Committee and other stakeholders to address sustainability of the Health Care Cash Fund and ensure the fund source remains viable into the future.

To: Brandon Metzler, Clerk of the Legislature  
From: Ellen Hung, CFA, State Investment Officer  
Date: September 13, 2024



**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 September 11, 2024 board meeting.

### **Key Findings**

The Health Care Endowment has a very good chance of meeting its investment goals to:

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

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

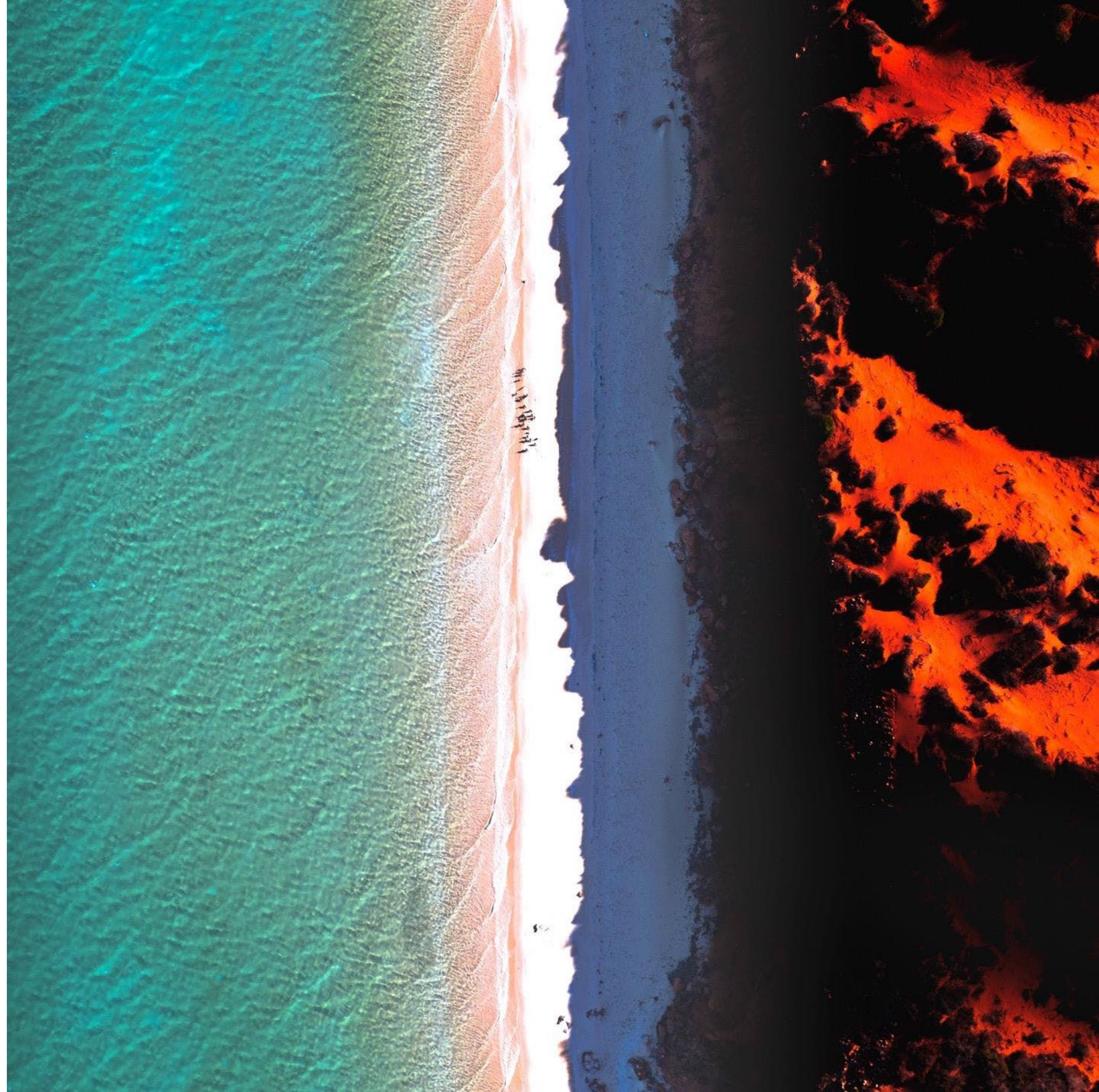


# Nebraska Investment Council

Health Care Endowment Sustainability

September 2024

Investment advice and consulting services provided by Aon Investments USA, Inc.  
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# Overview of Health Care Endowment

- The Health Care Endowment (Nebraska Tobacco Settlement Trust) had a market value of \$615.7 million as of June 30, 2024
- 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:

2007	\$52.0 million	2016	\$60.4 million
2008	\$55.0 million	2017	\$60.4 million
2009	\$56.4 million	2018	\$61.2 million
2010	\$53.6 million	2019	\$61.6 million
2011	\$56.1 million	2020	\$62.0 million
2012	\$59.1 million	2021	\$61.0 million
2013	\$56.3 million	2022	\$49.4 million
2014	\$56.1 million	2023	\$45.8 million
2015	\$60.3 million	2024	\$53.3 million

# 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 2035, 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

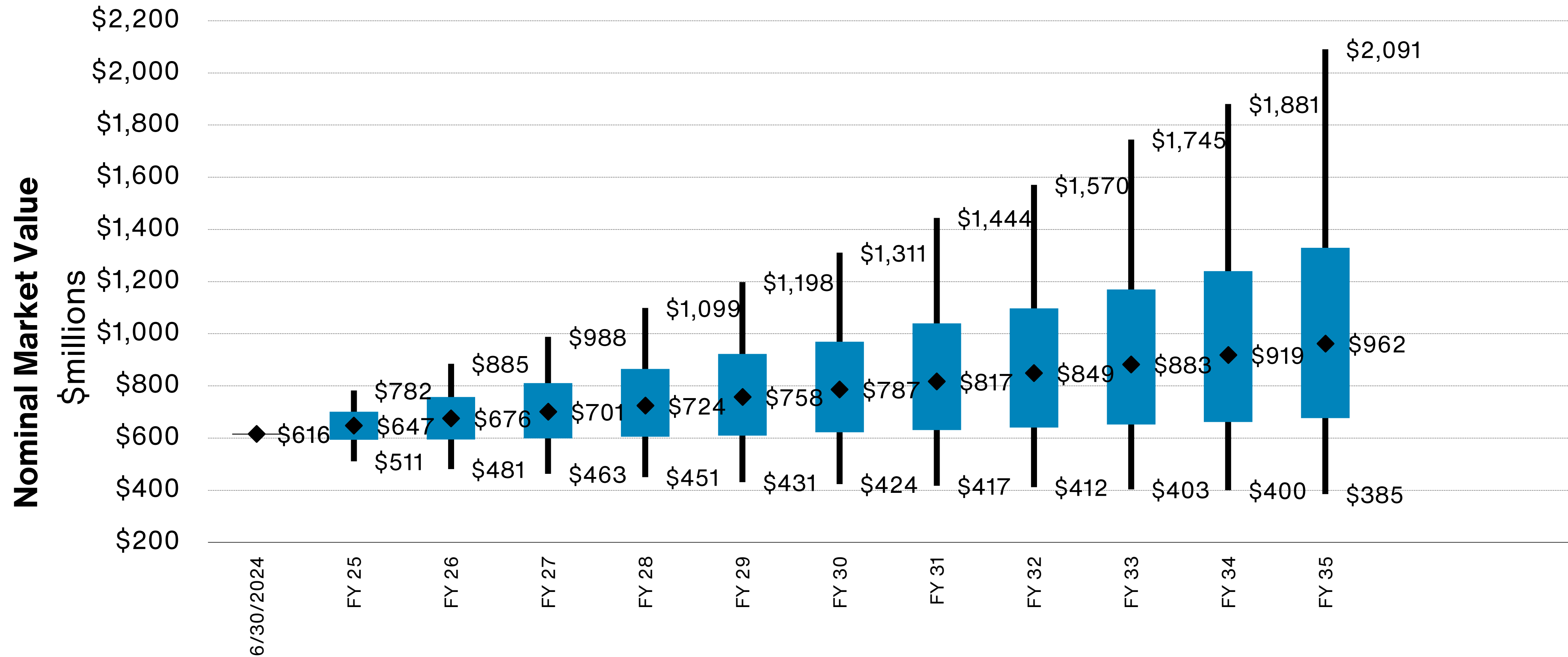
	Policy Allocation
U.S. Equity	27.5%
Non-U.S. Equity	13.0%
Global Equity	24.5%
Real Estate	5.0%
Private Equity	5.0%
Fixed Income	25.0%
<b>Total Health Care Endowment</b>	<b>100.0%</b>
Projected Returns*	6.8%
Projected Volatility*	12.9%

\*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 2035
  - 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 very good 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

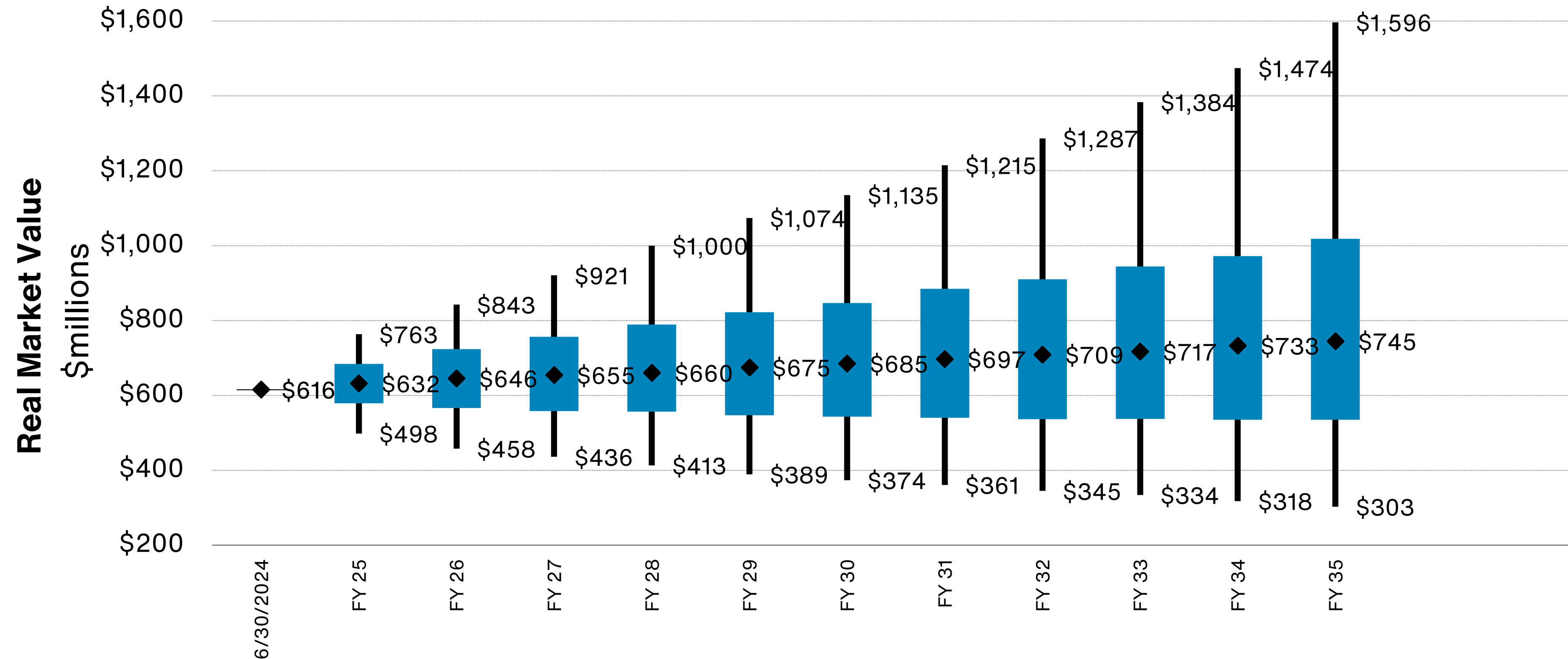
# Health Care Endowment – Future Market Value Forecast (Nominal)



- The chart above provides our distribution of nominal forecasted market values for the Health Care Endowment through 2035
  - 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 increase over the next 11 years

# Appendices



# Appendix I: Health Care Endowment Cash Flow Forecasts

<b>Fiscal Year</b>	<b>Estimated Contribution</b>	<b>Estimated Distribution</b>	<b>Net Distribution</b>
2025	\$36,103,447	\$54,000,000	-\$17,896,553
2026	\$35,802,745	\$54,150,000	-\$18,347,255
2027	\$35,508,521	\$54,150,000	-\$18,641,479
2028	\$35,220,796	\$54,150,000	-\$18,929,204
2029	\$34,939,592	\$54,150,000	-\$19,210,408
2030	\$34,664,936	\$54,150,000	-\$19,485,064
2031	\$34,396,855	\$54,150,000	-\$19,753,145
2032	\$34,135,383	\$54,150,000	-\$20,014,617
2033	\$33,880,552	\$54,150,000	-\$20,269,448
2034	\$33,632,400	\$54,150,000	-\$20,517,600
2035	\$33,390,966	\$54,150,000	-\$20,759,034

# 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.

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Fiscal Year	Total Est. Annual MSA Payments
2025	36,103,447
2026	35,802,745
2027	35,508,521
2028	35,220,796
2029	34,939,592
2030	34,664,936
2031	34,396,855
2032	34,135,383
2033	33,880,552
2034	33,632,400
2035	33,390,966

# 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).

# 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 11 years through 2035 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 2023 was 3.352%. The ten-year average CPI-U increase through 2022 was 2.62%. 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 5.546%.

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