NEBRASKA HEALTH CARE CASH FUND AND RELATED FUNDS

Prepared for 109th Legislature Interim Studies

2026

Prepared by Mikayla Findlay

Legislative Fiscal Office

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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.

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 have declined from $43.8 million in FY22 to $33.0 million in FY26. Settlement payments are expected to continually decline with smoking trends. The balance in Tobacco Settlement Trust Fund as of June 30, 2026 is $678.7 million.

In 2025, the Legislature included two $50 million transfers, one in each fiscal year of the 2025-2027 biennium, from the Tobacco Master Settlement Trust Fund to the Transformational Projects Fund for Project Health in the enacted budget. In 2026, the Legislature included a $45 million transfer in FY27 to the General Fund to aid in addressing the General Fund deficit.

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, 2026 was $47.

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
605,920,712	FY 2025	34,526,097	54,432,729	(46,777,371)	(582,518)	647,519,649	41,598,937
647,519,649	FY 2026	32,996,960	101,032,330	(102,450,466)	(417,629)	678,680,844	31,161,195

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 2026 can be found in the appendix of this report or accessed online.

The 2026 report indicates "less than 50/50 chance of meeting its investment goals", which are to provide funds for current spending needs and increase the size of the portfolio to support future needs. This is a departure from the 2024 report which indicated the endowment had “a very good chance of meeting its investment goals.” In 2022 the State Investment Officer indicated the fund could sustain ongoing appropriations of $51 million.

In 2025 the Legislature increased Health Care Cash Fund appropriations in a variety of areas. Appropriations in FY25 total $56,437,686 whereas FY26 appropriations from the fund total $67,420,630, an increase of nearly $11 million annually. In 2026 the Legislature further increased Health Care Cash Fund appropriations for the biennium, reducing the FY26 appropriation to $64,844,630 and increasing FY27 appropriation to $75,532,502.

Conclusion

In conclusion, increased Health Care Cash Fund appropriations combined with $145 million in transfers from the Tobacco Master Settlement compromise the long-term sustainability of the fund. The FY27 appropriation exceeds what has previously been considered unsustainable by nearly $25 million while settlement payments continue to decline. In order to continue utilizing the fund in perpetuity, the Legislature should prioritize reducing Health Care Cash Fund obligations and limiting additional transfers from the Tobacco Master Settlement Fund. Analysts in the Legislative Fiscal Office will to continue to monitor revenues, expenditures and balances and communicate with the Appropriations Committee and other stakeholders to address the fund’s sustainability.

Programs Funded Through the Health Care Cash Fund

Expenses funded by appropriations from the Health Care Cash Funds are shown in the table below in Agency order with associated Program. Expenses with 2026 modifications are in bold.

Ag	Prog	Description	FY 2025	FY 2026	FY 2027
3	122	Legislative Council	75,000	75,000	75,000
11	507	Attorney General (Tobacco MSA Enforcement)	595,807	845,807	845,807
16	102	Revenue Auditor (Tobacco MSA Enforcement)	329,808	336,404	336,404
16	164	Gamblers Assistance	0	0	0
25	**30**	**Tobacco Prevention and Control**	**2,570,000**	**1,770,000**	**1,770,000**
25	30	JUUL Settlement - Youth Tobacco Prevention	1,082,146	0	0
25	**33**	**Dental Director**	**0**	**0**	**238,562**
25	33	Smoking Cessation operations	6,000	6,000	6,000
25	33	EMS Technicians Regulation	13,688	13,688	13,688
25	33	Parkinson's Disease Registry	26,000	0	0
25	33	Public Health Staff	100,000	100,000	100,000
25	33	Minority Health Satellite Offices	220,000	220,000	220,000
25	33	Respite Care Regions Staff and Operating	404,643	404,643	404,643
25	38	Completely Kids Construction	0	500,000	0
25	38	Emergency Protective Service Funding	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
25	250	MH/SA Service Capacity Juvenile Justice	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
25	**347**	**Respite Care Aid**	**810,000**	**810,000**	**0**
25	**347**	**Child Care Subsidy**	**0**	**0**	**10,708,959**
25	**348**	**Medicaid Smoking Cessation**	**450,000**	**0**	**0**
25	**354**	**Child Welfare Aid**	**0**	**0**	**3,883,432**
25	424	Developmental Disability Aid	5,000,000	16,000,000	16,000,000
25	502	Midtown FQHC	0	0	500,000
25	502	FQHC Patient Counts	750,000	750,000	750,000
25	**502**	**FQHC expanded access**	**0**	**0**	**500,000**
25	502	Minority Health (2nd Congressional District)	1,349,000	1,349,000	1,349,000
25	**502**	**Minority Health Aid (1st and 3rd Congr. Dist.)**	**1,526,000**	**876,000**	**876,000**
25	502	County Public Health Aid	5,605,000	5,605,000	5,605,000
25	514	Poison Control Center	200,000	200,000	200,000
25	**514**	**NE Cancer Coalition (NC2)- University**	**500,000**	**500,000**	**0**
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
25	514	Perinatal Quality Improvement	130,000	130,000	130,000
25	514	Special Olympics	0	300,000	300,000
25	**514**	**Every Woman Matters - Screenings**	**0**	**0**	**218,000**
25	**514**	**Stay in the Game - Colon Cancer**	**0**	**0**	**290,000**
25	**571**	**Area Agencies on Aging**	**0**	**500,000**	**500,000**
25	621	Stem Cell Research	450,000	450,000	450,000
25	**623**	**Biomedical Research**	**15,000,000**	**13,850,000**	**10,000,000**
70	353	Nebraska Children's Commission Ops	208,894	217,388	226,307
		Total	56,437,686	64,844,630	75,532,502
		Ending balance (projected italics)	12,775,373	*8,330,743*	*48,241*

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. The amount was increased by $250,000 in 2025 to support enforcement activities. (Agency 12, Program 507) $845,807

Revenue Auditor: A Revenue Auditor works with tobacco manufacturers and ensures compliance with the Master Settlement Agreement. This program increased by a nominal amount in FY26 as an administrative increase (Agency 16, Program 102) $336,404

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. An increase of $500,000 was provided in FY18. Funding was reduced in alignment with expenditure trends beginning in FY26. (Agency 25, Program 30) $1,770,000

JUUL Settlement – Youth Tobacco Prevention: This expenditure was 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 was intended for FY24 and FY25 only. (Agency 25, Program 30)

Dental Director: Beginning in FY27, the fund is used to compensate the Dental Director position, previously funded with General Funds. (Agency 25, Program 33) $238,562

Medicaid Smoking Cessation: LB 959, passed in 2008, appropriated funds for a Medicaid 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 became part of the base. $456,000 for Program 348 was reduced to $0 beginning in FY26. (Agency 25, Program 33) $6,000

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 was 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. From FY09 through FY25 $26,000 was appropriated from the Health Care Cash Fund to support operational expenses. The Legislature terminated the funding in FY26, effectually ending the registry. (Agency 25, Program 33)

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 was provided for aid through FY26. (Agency 25, Programs 033 and 347) $404,643

Completely Kids Construction: This expenditure was designated for the construction of a facility to enhance behavioral health services at the facility in Omaha. This is one-time funding of $500,000 in FY26 only. (Agency 25, Program 38)

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

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

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

Child Care Subsidy: Beginning in FY27, this appropriation is used to supplement General Fund and Federal Fund appropriations for the Child Care Subsidy pursuant to the passage of LB 304, passed in 2026, which permanently extended the eligibility threshold for subsidy at 185% Federal Poverty Level and 200% Federal Poverty Level for transitional subsidy. (Agency 25, Program 347) $10,708,959

Child Welfare Aid: Beginning in FY27, this appropriation is used to cover the anticipated monthly expenditures of high acuity youth on Letters of Agreement, offsetting a reduction in General Funds. (Agency 25, Program 354) $3,883,432

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. In 2025 the Legislature increased this amount by $11 million annually for a total of $16 million to support ending the waitlist, an initiative announced March 2024 and implemented into FY26. (Agency 25, Program 424) $16,000,000

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. Of the $750,000 appropriation, 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. An additional $500,000 to Midtown Health, the FQHC in Norfolk, was added in FY27 as was an additional $500,000 was added for expanded access at all FQHCs. (Agency 25, Program 502) $1,750,000

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) $876,000 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) $2,445,000

County Public Health Departments: 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

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

Nebraska Cancer Coalition (NC2) – University: This expenditure for the University of Nebraska Medical Center to contract with a statewide coalition that provides cancer screening, prevention, support, and education for all ninety-three counties in the state. NC2 received $500,000 annually from FY23 to FY26. (Agency 25, Program 514)

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. Pediatric Cancer received $2,700,000 annually from FY23 to FY26. (Agency 25, Program 514)

Brain Injury Trust Fund: $500,000 in funding was provided beginning in FY21 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

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

Special Olympics: This expenditure was created in 2025 to support the Special Olympics. The funding is ongoing beginning in FY25. (Agency 25, Program 514) $300,000

Every Woman Matters: Beginning in FY27, this appropriation is used to cover the state portion of Every Woman Matters a public health program that offers breast and cervical cancer screening. The funds offset a reduction in General Funds. (Agency 25, Program 514) $218,000

Stay in the Game: Beginning in FY27, this appropriation is used to cover the state portion of Stay in the Game a public health program that offers colon cancer screening. The funds offset a reduction in General Funds. (Agency 25, Program 514) $290,000

Area Agencies on Aging: Beginning in FY26, this appropriation is for the eight regional Area Agencies on Aging that provide services for aging and disabled Nebraskans. The funds were appropriated in lieu of Medicaid Managed Care Excess Profit Funds. (Agency 25, Program 571) $500,000

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. At least $700,000 of such appropriated funds shall be used annually for research to improve racial and ethnic minority health. Historically expenditures were $10 million from FY02 through FY05, $12 million in FY06 and FY07, $14 million from FY08 through FY16, $15 million from FY17 through FY25, $13,850,000 in FY26 and $10 million in FY27. Beginning in FY26 funds are earmarked for distribution to University of Nebraska and other post-secondary educational institutions having colleges of medicine in Nebraska. In FY26 $10,160,000 was earmarked for the University of Nebraska and $3,690,000 for other institutions. In FY27 $6,000,000 is earmarked for the University of Nebraska and $4,000,000 for other institutions. (Agency 25, Program 623) $10,000,000

Children's Commission: Funding from the Health Care Cash Fund was provided to continue staffing the Nebraska Children's Commission through the Foster Care Review Office. This program increased by a nominal amount in FY26 and FY27 as an administrative increase (Agency 70, Program 353) $226,307

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



Investment advice and consulting services provided by Aon Investments USA, Inc.

To protect the confidential and proprietary information included in this material, it may not be disclosed or provided to any third parties without the approval of Aon.

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

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)

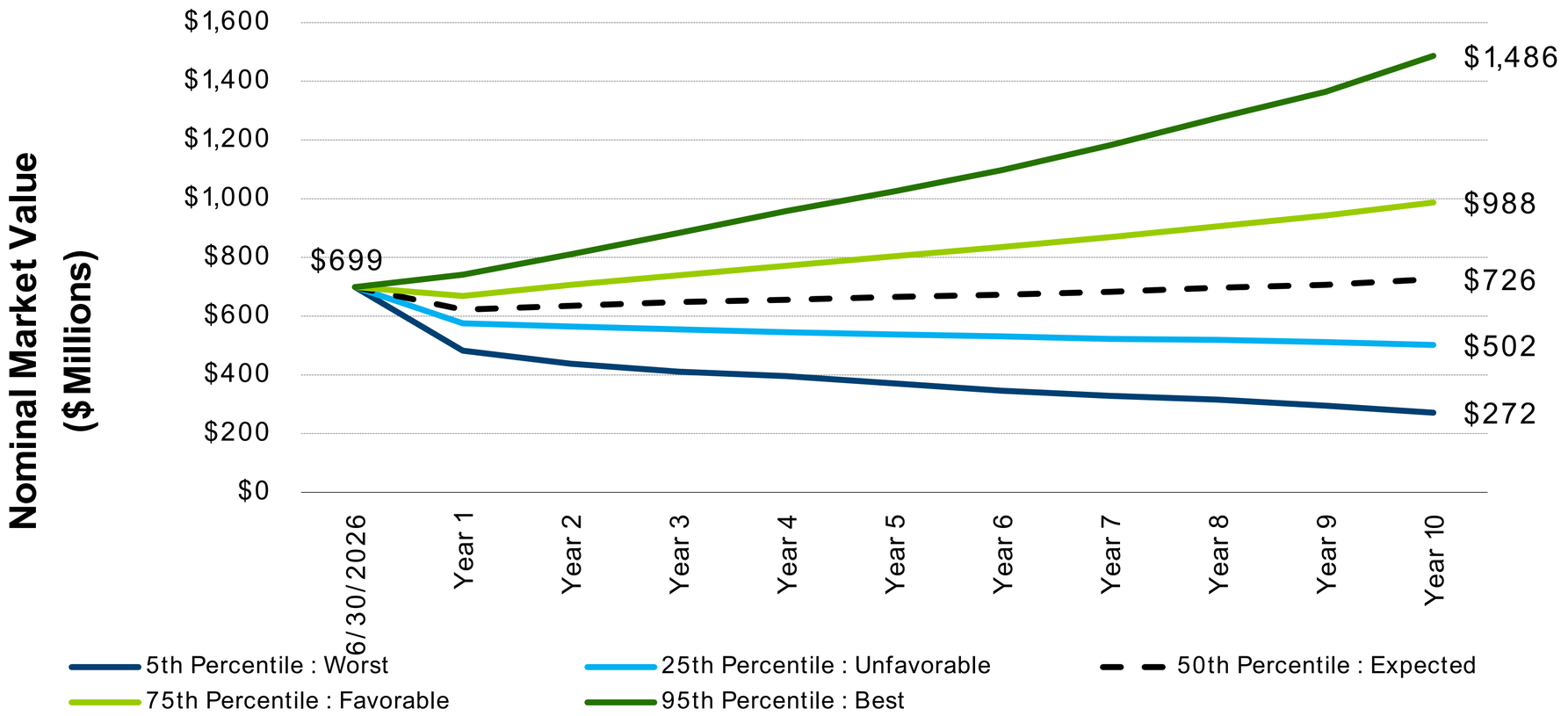
- The following two slides provide our forecasted market values for the Health Care Endowment through 2036
  - I.e., as far out as we have forecasted values for Tobacco MSA payments
- We provide forecasts on both a nominal and real (i.e., net of the impact inflation) basis
- Ideally, real market value 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

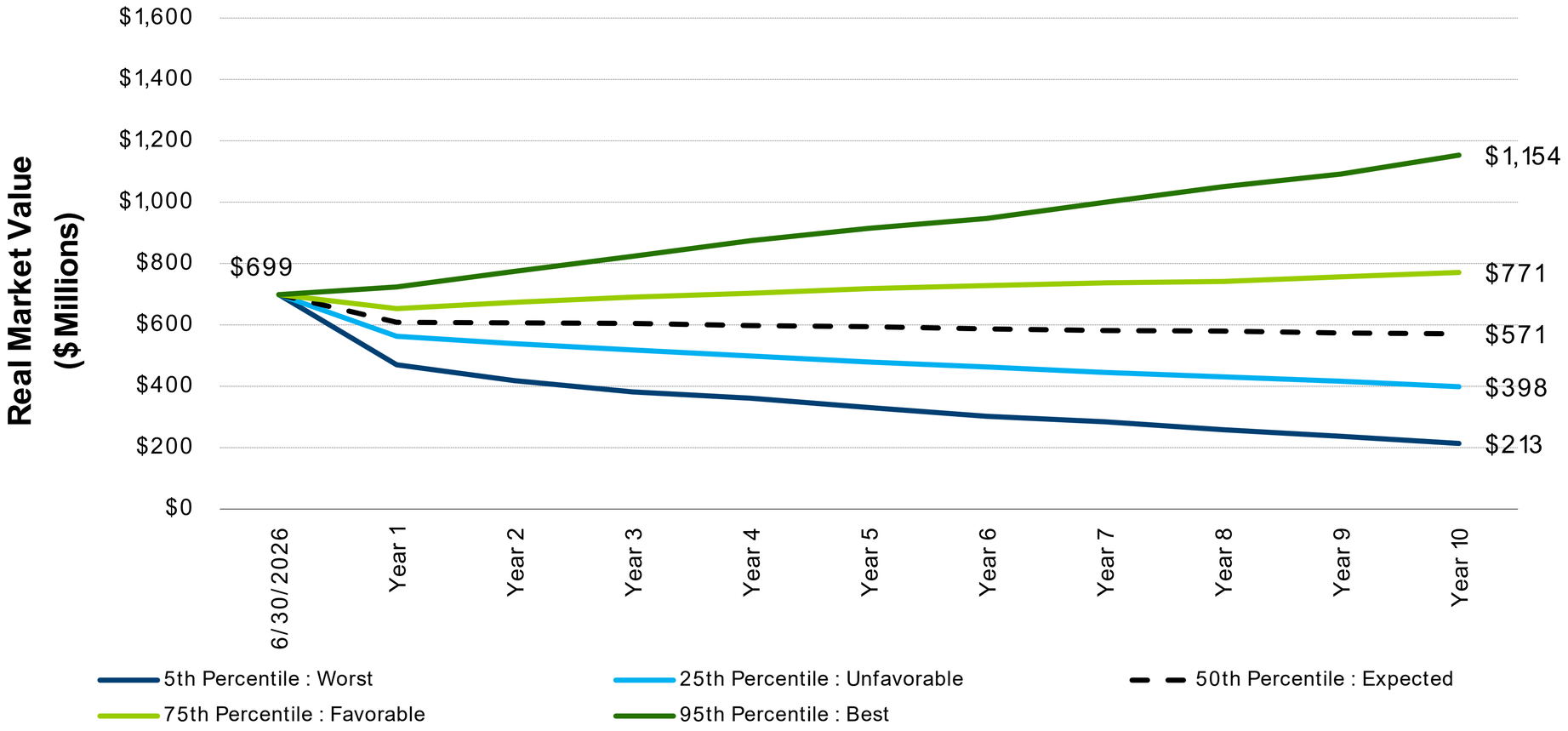
*Based on Aon CMAs

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

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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:

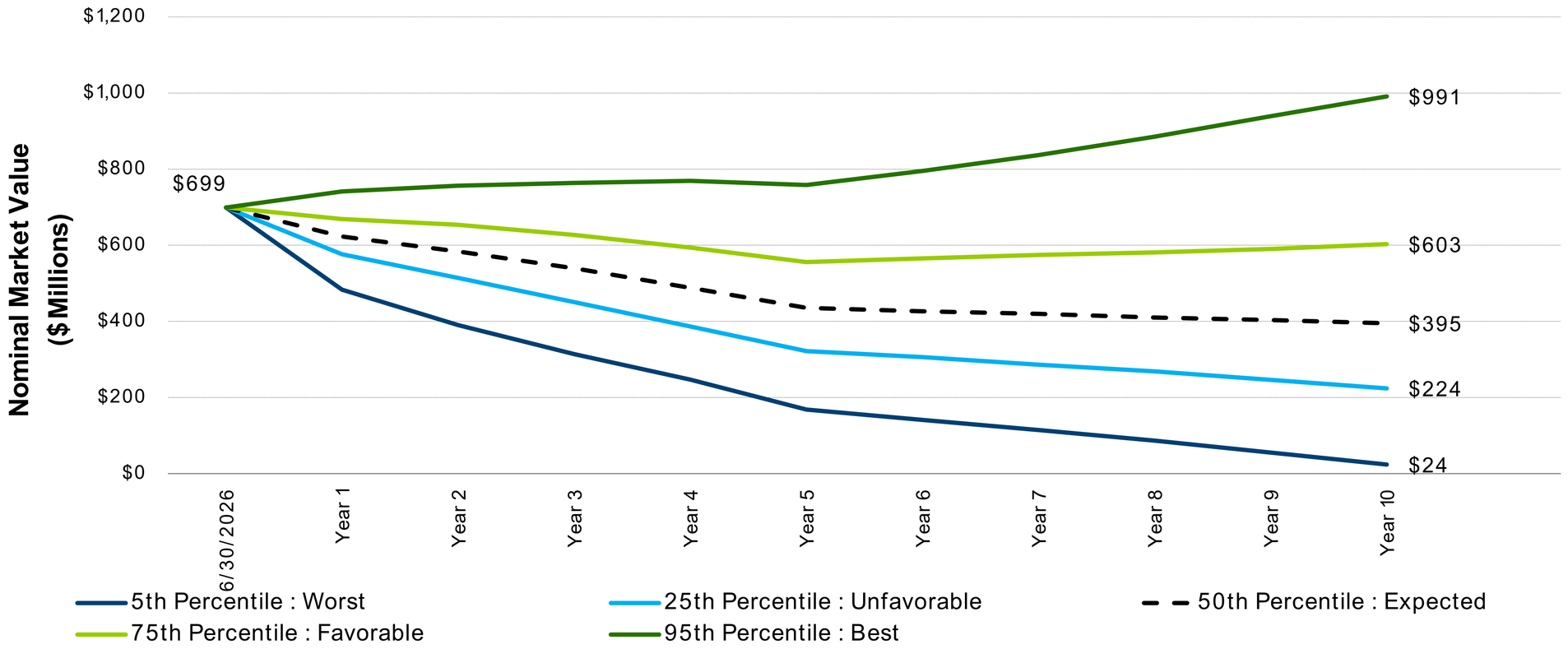
1. Annual Inflation Adjustment of 3.0% (the minimum adjustment pursuant to the MSA)
    a) For example, actual CPI-U growth for calendar year 2025 was 2.677%. The ten-year average CPI-U increase through 2024 was 3.02%. An increase less than 3% results in application of the 3% minimum.
2. Annual Volume 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

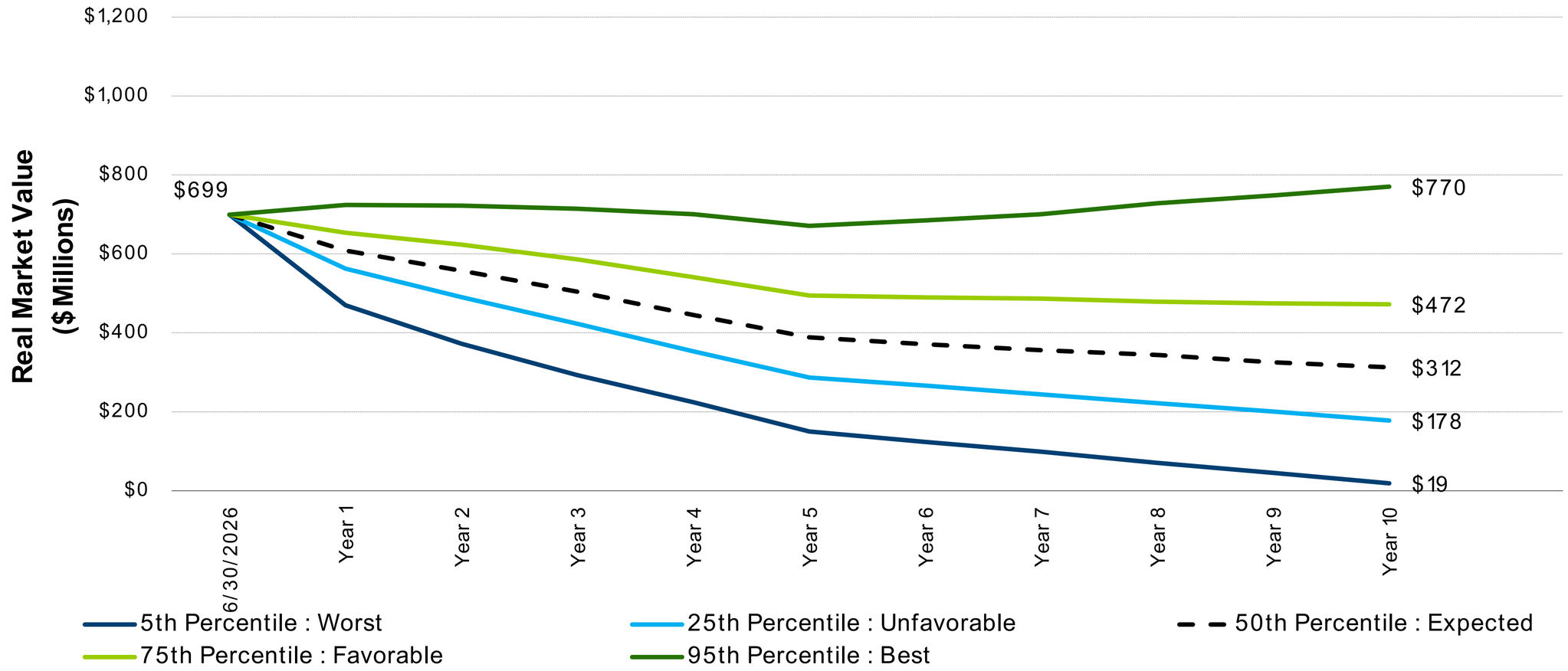
- While not currently in statute, we understand that it is possible that an additional $50 million per annum will be drawn from the Health Care Endowment in fiscal years 2028, 2029, 2030, and 2031
- The slides that follow adjust our future market value forecasts to illustrate the impact of those potential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

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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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

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

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