[LB77 LB159 LB405]

The Committee on Revenue met at 1:30 p.m. on Friday, January 30, 2009, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB77, LB159, and LB405. Senators present: Abbie Cornett, Chairperson; Merton "Cap" Dierks, Vice Chairperson; Greg Adams; Mike Friend; Galen Hadley; LeRoy Louden; Dennis Utter; and Tom White. Senators absent: None. []

SENATOR CORNETT: Good afternoon, and welcome to the Revenue Committee. I am Senator Abbie Cornett from Bellevue. To my left is Vice Chair Senator Dierks from Ewing; to his left is Senator Greg Adams from York; and to his left is Senator Hadley from Kearney. The research analyst is Bill Lock, and he will be joining us. Erma James is on the far left and is committee clerk. On my far right is Senator Utter from Hastings; and Senator LeRoy Louden from Ellsworth; Senator Tom White will be joining us from Omaha; to his immediate left is Senator Mike Friend from Omaha. To my right is legal counsel Shannon Anderson; and our pages today are Rebecca Armstrong and Elsie Cook. Before we begin today's hearings, I would advise everyone to please turn off their cell phones or put them on vibrate. Sign-in sheets for testifiers are on the tables by both doors and need to be completed by everyone wishing to testify. If you are testifying on more than one bill, you need to submit a form for each bill. Please print and complete the form prior to coming up to testify. When you come up to testify, please hand your testifier sheet to the committee clerk, on the end. There is also clipboards in the back of the room to sign in if you do not wish to testify but would like to indicate your support or opposition to a bill. These sheets will be included in the official record. We will follow the agenda posted on the door. Introducers or representatives will present the bill, followed by proponents, opponents, and neutral. Only the introducers will have the opportunity for closing remarks. As you begin your testimony, please spell your name for the record. If you have handouts, please bring ten copies. If you do not have ten copies, the pages will make copies and circulate them to the committee. With that we will open the hearing on LB77. Senator Gay, you are recognized. []

SENATOR GAY: Thank you, Senator Cornett, members of the committee. For the record, my name is Tim Gay. I represent the 14th Legislative District, and I'm here today to introduce LB77. LB77, the Long-Term Care Savings Act, is a...we've come before on this and this is coming back again to improve the act which I think is already a good tool that's being used currently. According to the Medicaid Reform Report issued in November by the Department of Health and Human Services, the aged population accounts for eight...only 8.89 percent of all Medicaid-eligible persons. However, that same group accounts for 22.8 percent of all Medicaid expenditures. In fiscal year 2008, over $340 million in Medicaid dollars were spent on services for the elderly. By far, nursing facility expenditures made up the largest portion of these Medicaid dollars spent, with 48 percent of all expenditures for long-term care services going to a nursing facility. That indicates that Medicaid reform efforts and a focus toward home- and community-based care have met with some success. Payments to the institutional facilities have declined, and payments to home- and community-based services has increased. In fact, just last night I spoke, and several of you were there too, with some of our providers who, of course, were discussing rates and rate increases that they're going to need. So this bill, going with that, I think allows somebody to take charge of their own future a little bit when it comes to their long-term care needs that many of us will need, so. I don't foresee any time in the future that that's going to stop; where they won't be needing more provider rates, especially in the medical field, so. But despite this, we can expect overall Medicaid spending for this group to continue to increase. The obvious benefit to the state as a whole would be if more individuals would plan for their future long-term care needs. This includes purchasing long-term care insurance and saving money for long-term care expenses. In 2006, the Legislature established the Long-Term Care Savings Plan Act as an incentive for Nebraskans to prepare for their future needs. Under this act, the participant may set up a long-term care savings account and deduct the contributions from their federal gross adjusted income. Maximum deduction currently is $2,000 for married couples and $1,000 for all others, with a lifetime maximum that you can put into this is $165,000. The principal and the interest on the account, then, can be withdrawn tax-free by qualified individuals who have to pay for their long-term care expenses. Participants who do not fall under the definition of a qualified individual and make a withdrawal from the account are subject to a 10 percent penalty and would lose the tax benefits. So if you're not going to use it for a eligible long-term care expense, you'd get penalized on it; much like the College Savings Plan where, if it's not used for educational expenses, you're going to catch penalty on that. So in 2007, LB304 was before many of you, and we appreciate your help on that; that lowered the age from 62 to age 50. Under this bill, the age would be lowered to age 40, and we'd make some changes on the amount of the deduction you could make. So on the second part of the bill, besides lowering the age to age 40, which we feel is a necessary age to start planning this, and I think where people have assets to start thinking about it a little more, probably, realistically at 40. You know, they're not thinking about a long-term care facility or anything like that, but it could also be used if you become disabled or something like that. So there are other things when we talk about long-term care than just aging. So there could be opportunities where you may need it, and you may need it for a short amount of time as well, not just for nursing home care. So right now, with these improved deduction rates...oh, let me go back one minute, because what we had...oh, what I wanted to get to...when you, right now, have $2,000 it would take 33...right now, as a 40-year-old it would take, even with the improved rates, it would take 33 years to hit that maximum contribution at $5,000. So at $2,000, I mean, obviously that's a...it would be 83 years, I think. So it's a long time at $2,000 a year, putting money aside. So at $5,000, we think we could improve that. So by increasing the deduction and lowering the age, I think this would make this bill much more attractive for people to use. There's a representative behind me from the State Treasurer's office that's going to tell you how the plan is going, I assume he's going to do this; how the plan is going so far and how this would improve their plan. And then we'll have a few others. I've also talked to several individuals who will be testifying on this bill and the bill afterwards to...they're somewhat the same, so not to be repetitive and not take up a lot of your time. But I'd like to say with these two quick improvements, the fiscal note is really pretty attractive for what we could get done. I thought when that came back we're not talking a whole lot of money, but I do think the idea and to help promote the plan longer term would be very beneficial, so. Those numbers on the fiscal note, I think, are very realistic, and I know we're in a...you've got a tough job ahead of you on a lot of other bills that are coming your way, but I think this is a good start to move down that track to make sure we keep getting people to save money. The whole idea being, you know, I'm worried about middle-class Nebraskans who, you know, are just going to kind of give up on trying to save for long-term care expenses, and we certainly don't want to have that because then we'd have a much bigger problem on our hands long term--no pun intended. But long term, you know, if they're not doing anything to help themselves, and we're not encouraging them, then I am concerned 10, 15, 20 years down the road. With that Madame Chair, I would conclude my remarks and open up to any questions. [LB77]

SENATOR CORNETT: Thank you, Senator Gay. Are there any questions from the committee? Seeing none, thank you. [LB77]

SENATOR GAY: Thank you. [LB77]

TRENT FELLERS: Good afternoon, Senator Cornett and members of the Revenue Committee. I'm Trent Fellers. I'm the director of the Long-Term Care Savings Plan in the State Treasurer's office. My last name is spelled F-e-l-l-e-r-s. And I'm here in enthusiastic support of LB77. First off, I want to thank Senator Gay for bringing forth this much-needed legislation and for being a strong advocate for encouraging Nebraskans to prepare for periods of disability which will affect almost 60 percent of Nebraskans who reach age 65. Since the program's creation by LB965, and subsequent changes made two years ago by LB304, the Long-Term Care Savings Plan has had a great start in its first years of operation. We've now established relationships with 19 financial institutions across the state, and we have branches in 38 communities. We've been working with the Minnow Project, a local marketing firm, and developed the good life, longer campaign--a campaign that's included mass mailings to financial institutions to get them involved in the savings plan, and created materials for participating institutions as well as NAIFA, Nebraska Bankers Association, and the AARP. We've also created a Web site called thegoodlifelonger.com. We've had good results, and at the end of 2007 we had 142 accounts--keep in mind that that was the first year that this plan was in operation--and about $194,000 on deposit. This year we're looking at doubling those numbers. But right now, we haven't completed those numbers so I'll have those for you as soon as they're completed. LB77 would give the Long-Term Care Savings Plan the boost it needs to reach a critical mass and become a real force in enticing Nebraskans to prepare for periods of disability and protect the treasury from Medicaid as a payor of last resort. While the aging Nebraska baby boomers...this is a great focus for protecting taxpayer dollars while incentivizing savings and planning for future expenses. Nebraska is also the leader in this field. We are the only state with this type of program, so in many ways we're the pilot program for the rest of the country; so they can model their programs after us. Treasurer Osborn is promoting this program nationally through presentations at the National Association of State Treasurers; the Council of State Governments legislative conference this last December in Omaha; and working through legislators in Illinois, Connecticut, Maryland, Indiana, and most recently California. The Treasurer and I have also been working closely with Minnesota who, earlier this year introduced a bipartisan effort to create a similar long-term care savings plan up there. Finally, I'm going to note this...those pretty similar to the expanded tax deduction for the College Savings Plan to $5,000 per household. With those changes, the College Savings Plan saw an increase of about 40 percent in new account ownership, and a 34 percent increase in contributions. So we're expecting a similar jump, if not more, with the passage of LB77. With that being said, I urge you to pass LB77 and ensure Nebraskans can plan for their long-term care needs. And I'd be happy to answer any questions about the Long-Term Care Plan. [LB77]

SENATOR CORNETT: Senator Hadley. [LB77]

SENATOR HADLEY: Senator Cornett, thank you. Can I ask you a question about the fiscal note? [LB77]

TRENT FELLERS: Sure. [LB77]

SENATOR HADLEY: It looks like it's doubling every year. Does that continue on out so that, in a few years, will you be talking $3 million, $4 million, $5 million a year? [LB77]

TRENT FELLERS: I don't think that the actual fiscal note will affect that much. Right now, the plan is fairly small and our advertising budget is fairly small as well, so getting the word out to all Nebraskans, I think, will make those numbers increase, but I don't think to the level of what the fiscal note actually says. There's no fiscal impact on our office as well, because we have a standard appropriation through the appropriations process. But I don't think that the level of...the plan has reached the level that the fiscal note has noted for revenue costing the state. Did that answer your question? [LB77]

SENATOR HADLEY: Well, it just seemed like...you know, I assume the impact on revenue is the lost tax revenue. [LB77]

TRENT FELLERS: Exactly. [LB77]

SENATOR HADLEY: And I had just seen it that through FY2013 it's basically doubled every year, so I just am concerned that we're not signing something that six or eight years down the road, this is a $3 million or $5 million hit because it doesn't take long in doubling... [LB77]

TRENT FELLERS: Sure. [LB77]

SENATOR HADLEY: ...for it to get... [LB77]

TRENT FELLERS: Sure. I think the benefit, though, in getting a person to plan for their long-term care would actually outweigh that, for the future impact that they would have on the state. [LB77]

SENATOR CORNETT: Senator Louden. [LB77]

SENATOR LOUDEN: Yeah, can you explain to me...I guess I'm not quite clear on how this plan works. A single person, say, they put this $2,500 in this plan, now is that a deductible expense off their income tax? Or is it just that 3 percent of that is deductible? [LB77]

TRENT FELLERS: It is $2,500 deductible off of their state income tax form. [LB77]

SENATOR LOUDEN: Where their...and then off of their gross income? [LB77]

TRENT FELLERS: It's off of that adjusted gross income, that's correct. [LB77]

SENATOR LOUDEN: Okay, yeah. It isn't off...now, what about when you buy long-term health insurance? Is that a deductible expense the same way? [LB77]

TRENT FELLERS: That currently is not, but I believe that's the second bill. But the...you can pay for your long-term care insurance out of this account. The goal is to incentivize people to plan ahead and put money aside for paying their long-term care insurance, whether they pay it that year or they pay it ten years down the line; that's their choice. But raising the deduction to $5,000 will allow them to have a pool of money left over for things that their long-term care insurance may not cover, or that 90-day elimination period between when they need long-term care and when their policy kicks in. [LB77]

SENATOR LOUDEN: Now you're telling me that if you set aside this $2,500 a year or something, then you could draw out of that pool to pay your long-term care insurance every year? [LB77]

TRENT FELLERS: That is correct. [LB77]

SENATOR LOUDEN: And you could...then it would, in fact, be a taxable deduction? [LB77]

TRENT FELLERS: If they are using it for their long-term care insurance, that... [LB77]

SENATOR LOUDEN: But they have to be 50 years old or so before they can draw anything out of that fund, is that correct? [LB77]

TRENT FELLERS: Exactly, exactly. For long-term care insurance purposes, yes. [LB77]

SENATOR LOUDEN: Or for anything they draw it out. [LB77]

TRENT FELLERS: And under this bill it would lower that age to 40. [LB77]

SENATOR LOUDEN: Yeah. Okay, thank you. [LB77]

SENATOR CORNETT: Senator Utter. [LB77]

SENATOR UTTER: There's no deductibility on a federal income tax... [LB77]

TRENT FELLERS: No. [LB77]

SENATOR UTTER: ...return; for that purpose. [LB77]

TRENT FELLERS: No, not currently, no. This is just a state tax deduction, and we're the only state with that type of deduction. [LB77]

SENATOR CORNETT: Seeing no further questions, thank you. [LB77]

TRENT FELLERS: Thank you. [LB77]

SENATOR CORNETT: Next proponent. [LB77]

WANDA L. CAFFREY: (Exhibit 1) Good afternoon, Senator Cornett, members of the Revenue Committee. I'm Wanda Caffrey with United Professionals, and today I'm here representing NAIFA-Nebraska as well. NAIFA's the National Association of Insurance and Financial Advisors, and here in Nebraska we have about 1,100 members. I appreciate the opportunity to provide comments today on LB77 regarding incentives for individuals to assume more personal responsibility for their long-term care needs. NAIFA-Nebraska represents insurance professionals involved in the sale and service of insurance and saving products, including long-term care insurance, and the Long-Term Care Savings Plan. NAIFA-Nebraska supported the creation of the Nebraska Long-Term Care Savings Plan in 2006. It is unique in the United States by offering tax incentives and advantages to those purchasing long-term care insurance, and those who choose to self-insure against that risk. We supported the modifications to the plan in 2007, and to make it just a little more user-friendly. And yet just a handful of Nebraskans currently take advantage of this legislation. We believe that the low participation is a result of the $1,000 annual cap on Nebraska income tax deductible contributions allowed, and the proposed limit increase to $2,500 per person offers a greater incentive for individuals to participate. We also believe that the increase offers a greater chance for financial institutions to cover their cost so that they will offer and advertise the Long-Term Care Savings Plan Program. Greater education about the program, coming from their local banks, will also encourage more participation and consequently a greater safety net for aging Nebraskans. We also support lowering the eligible age to 40 for individuals to qualify to make payments for long-term care insurance from their Long-Term Care Savings Plan. Like all insurance products, your money pays the premium but your good health buys the product. Long-term care is not just for the elderly. According to the U.S. Department of Health and Human Services National Clearinghouse for Long-Term Care Information, nearly 40 percent of all patients receiving long-term care are under the age of 65. By lowering the qualifying age to 40, we give Nebraskans another incentive to purchase long-term care insurance while they are healthy enough to qualify. And since premiums are based on age as well as health, their premiums will be lower than if they apply at an older age. Nebraska's General Fund budget currently spends 17 percent of its budget on Medicaid. And the baby boomers have just begun to retire. Nebraska taxpayers simply cannot afford to pay Medicaid expenses for long-term care for the many baby boomer citizens who will be needing services in the future. In the coming decades, the number of elderly with disabilities and the need for long-term care services will skyrocket. It is predicted that in the next 18 years, nearly 77 million Americans will turn 50, and we need to give them additional incentives to plan for their own long-term care needs, and to begin planning sooner as opposed to later. A client of mine recently prepaid long-term care for her elderly father to stay in an assisted living. It was $50,000, and that was a discounted rate, for one year. The rate was discounted because she was able to pay for the entire year, and by next year he may be out of funds, and so at that point he will need to apply for Medicaid assistance. Nebraskans need to be encouraged to pay for their own long-term care needs. At roughly $50,000 a year for a moderate level of long-term care, increasing the long-term care savings plan contribution deduction limit to $2,500 for an individual and lowering the qualifying age to 40 in order to pay long-term care insurance premiums from their long-term care savings plan, would seem a bargain. These changes should help encourage our citizens to plan for their own needs and to protect the Nebraska taxpayer from the overwhelming Medicaid bill down the road. Thank you. [LB77]

SENATOR CORNETT: Are there any questions from the committee? Senator Louden? [LB77]

WANDA L. CAFFREY: Yes. [LB77]

SENATOR LOUDEN: Yes. Well, then the way I understand it, your overall strategy would be for someone to put money into this plan, and then when they reach 40 years old start taking that money out and purchase long-term care insurance? [LB77]

WANDA L. CAFFREY: Absolutely, for those who are healthy enough to qualify for a long-term care insurance product. That would be definitely a goal. The other advantages that for someone who is not healthy enough to qualify, it's a way to encourage them to save for their own needs as well. [LB77]

SENATOR LOUDEN: Well, this $2,500 a year, though, isn't hardly a spit in the can to...as far as health care is concerned. You just mentioned $50,000; I thought that was quite cheap, because I know people that are costing them over $60,000 a year to have a person in a health care facility. And at $2,500 a year they'd have to start when they're six months old. So... [LB77]

WANDA L. CAFFREY: Absolutely [LB77]

SENATOR LOUDEN: ...that's the reason I'm asking. If the strategy then, is to set it up so people can set money aside, then by about the time they're 40 they should still be in well enough health, you would hope, that they could buy long-term care...reasonable premiums, which will run a hundred and some dollars a month or so. [LB77]

WANDA L. CAFFREY: Absolutely. Absolutely. [LB77]

SENATOR LOUDEN: And that's the whole plan or the whole strategy? [LB77]

WANDA L. CAFFREY: Well... [LB77]

SENATOR LOUDEN: That's the only way it will work, isn't it? [LB77]

WANDA L. CAFFREY: I believe you're probably correct, yes. I mean, the most cost-effective way to pay for your long-term care is to purchase a long-term care insurance product. You know, we look at insurance as being pennies on the dollar. When I work with my financial planning clients I tell them, you know, we can build all the assets you want when the market, of course, is cooperating, but if we're not protecting against life's risks, like long-term care, then it can be gone in a moment's notice. So one of the biggest things we need to look at is protecting our retirement income and we do that with long-term care insurance. And giving people incentives so that they will plan for those needs on their own, I think, is very important. Because right now, people look at the premium and they say, oh, I don't need to do that. You know, I'll give away my assets; I qualify for Medicaid. Or my children will take care of me. You know, we're in a society now where our children no longer grow up and move a block away from us. [LB77]

SENATOR LOUDEN: Well, yeah, but of course your premiums can increase. I mean, they're not set in stone when you buy them. They tell you they are, but they will increase. [LB77]

WANDA L. CAFFREY: They can increase. Obviously, you know, you take a look at the company that you're purchasing the product from. And when I place a plan with someone I'm very up front with them about, you know, this particular company has had one increase in the last 15 years; this one's never increased premium for current policy holders. Those are, obviously, things that we can't control. I mean, it's not guaranteed; generally they do remain level throughout their life, but there is definitely a possibility that the premium could increase throughout their lifetime, yes. [LB77]

SENATOR LOUDEN: Okay, thank you. [LB77]

WANDA L. CAFFREY: Thank you. [LB77]

SENATOR CORNETT: Senator Hadley. [LB77]

SENATOR HADLEY: One quick question; I want to be sure that I totally understand this. In the fiscal note, it says that it's for deductions for...to deduct long-term care insurance premium payments. So I cannot put this amount into an account where I just keep it there and not buy...I have to buy an insurance... [LB77]

WANDA L. CAFFREY: No. The contribution to the Long-Term Care Savings Plan can be used to pay for long-term care needs, all right? One of the items that you can pay for out of your Long-Term Care Savings Plan is a long-term care insurance premium. Currently, I believe you have to be--is it 50?--in order to be able to use that feature. And so by lowering the age to age 40, that would certainly encourage people to begin planning sooner. It's not unusual for people 45 to have a stroke, and that makes you unable to qualify for long-term care. [LB77]

SENATOR HADLEY: Could I ask one more question? [LB77]

SENATOR CORNETT: Yes. [LB77]

SENATOR HADLEY: Just...what would happen to this account if, say, I had an account and I was an individual and I pass away. Does the account become a part of my estate, and it's...there's not a tax consequence? [LB77]

WANDA L. CAFFREY: I'm not an accountant and I don't pretend to be one on TV. (Laugh) [LB77]

SENATOR HADLEY: Okay, I just wondered whether there was a tax...okay. [LB77]

WANDA L. CAFFREY: So I honestly don't know the answer to that question. (Laugh) [LB77]

SENATOR HADLEY: Okay. [LB77]

SENATOR CORNETT: Any further questions? Seeing none, thank you. [LB77]

WANDA L. CAFFREY: Thank you. [LB77]

SENATOR CORNETT: Next proponent. [LB77]

ANN HENNING: (Exhibit 2) Good afternoon. My name is Ann Henning, and my last name is spelled H-e-n-n-i-n-g. And I am appearing before you today...I am an attorney. I am also an independent licensed life and health insurance agent here in Nebraska. I'm a taxpayer, and I also have a long-term care insurance policy, so I am a policy holder. I hold professional designations of Certified in Long-Term Care and of Certified Financial Educator. I've give the long-term care insurance seminars for the Nebraska Bar Association. I'm an author in the August 2008 article in the Bar Journal entitled "New "frequent flyer" programs you need to learn about"; that's an article that discussed long-term care. Senators, I thank you very much for this opportunity to speak in support of this LB77. I have provided to you some information about the costs of long-term care in Nebraska, based on a very recent sampling--yesterday--of several different cities here in Nebraska. I would suggest to you that from the state of Nebraska's perspective, any projected loss in tax revenues should be viewed as a nominal cost for access to, in essence, a line of credit that would reduce Medicaid disbursements. In your analysis, I would challenge you to think about how many fewer cases of Medicaid you'll have to pay for if you provide this opportunity. And this is, in my opinion, a very reasonable business decision for you to do this. From a long-term care insurance policy holder perspective, the tax savings only provide a nominal reward for very prudent planning. For those of us, those Nebraskans who have not yet purchased long-term care insurance, the tax savings are just one more reason to carefully consider this option for transferring the risk to insurance companies. I welcome the opportunity to provide more information to you or your staff about this impending tsunami of long-term care costs. Thank you very much. [LB77]

SENATOR CORNETT: Thank you. Questions from the committee? Seeing none, thank you. [LB77]

ANN HENNING: Thank you. [LB77]

SENATOR CORNETT: Next proponent. May I see hands for the remaining proponents?

Please move forward. [LB77]

KORBY GILBERTSON: Good afternoon, Madam Chair, members of the committee. For the record, my name is Korby Gilbertson; it's spelled K-o-r-b-y G-i-l-b-e-r-t-s-o-n, appearing today as a registered lobbyist on behalf of the Nebraska Health Care Association in support of LB77. In order not to be repetitive, I'd like to just state a few statistics that were provided by the Health Care Association today. In 2008, the Medicaid nursing facility costs were, for the state, under...through Medicaid, $346 million. State draw fund portion of that was approximately $145 million. The Healthcare Association has supported this type of legislation in the past and will continue to do so, because we feel that it is a very good way to reduce the reliance on Medicaid and the ever-growing budget in that area. Be happy to take any questions. [LB77]

SENATOR CORNETT: Seeing none, thank you. [LB77]

KORBY GILBERTSON: Thank you. [LB77]

GALEN ULLSTROM: Chairman Cornett, members of the Revenue Committee, my name is Galen Ullstrom; that's G-a-l-e-n U-l-l-s-t-r-o-m. I'm senior vice president for Mutual of Omaha Insurance Company, appearing today in support of LB77. We participated along with Senator Gay and others and the Governor's office in developing the original Long-Term Savings Plan. We supported it then. We think it's an incentive to help make aware and help people purchase long-term care insurance. Long-term care insurance is unique in that, unlike homeowner's insurance, auto insurance, medical insurance, who people believe are necessities, people don't normally think of long-term care coverage. They don't think of it either because they think they're never going to need it, which statistics are now proving that people live longer and they will need it, or they think it's covered by some other program--either Medicare or Medicaid. And frankly, neither one of those programs...while Medicaid covers it, it requires the spend-down; Medicare has very limited benefits. So the purpose of the Long-Term Savings Account act was unique. The second bill up today provides a long-term care tax credit which is more normal; other states have gone that way. It started with the lower amount; I think the increases provided in LB77 will...will one, make more financial institutions aware of it and more likely to take advantage of it as a program. Some were reluctant to open accounts for $1,000. I think if we can increase that, I think more financial institutions statewide will be able to do it. And second of all, by lowering the age from 50 to 40, it will incentivize the lowering of the age where people might take out long-term care. As was previously stated by NAIFA representatives, long-term care insurance is mainly age-rated, and to encourage people at a younger age to take out a policy is much more financially beneficial to them; and also at an age where they can qualify, until getting to a point where they're up in age and have a condition maybe that makes them ineligible for coverage. So we have supported the bill in the past and we support this as an incentive to have people take personal responsibility. [LB77]

SENATOR DIERKS: Thanks, Galen. Questions for Mr. Ullstrom? I think you're home free. [LB77]

GALEN ULLSTROM: Thank you. Thanks. [LB77]

JAN McKENZIE: (Exhibit 3) Senator Dierks and members of the Revenue Committee, for the record, my name is Jan McKenzie, spelled J-a-n M-c-K-e-n-z-i-e. I'm the executive director and registered lobbyist for the Nebraska Insurance Federation, here in support of LB77 and for Friday afternoon--to expedite your efforts--also the following bill, LB159, so I will not come back up to speak again. In general, the industry has always supported the long-term care incentives and also the Long-Term Care Savings Program. I want to add just two other additional comments to what you've already heard. The first is that in the beginning, this is many years we've testified, long-term care products were relatively limited in terms of what the market was producing to make available to folks looking for that kind of insurance. In the past five or six years, the market has grown tremendously with a number of types of products available, which have been developed to meet the differing needs of individuals looking to buy insurance. And as you heard before, it is a marketplace, and so as people look for companies to purchase from or certain plans, there are more opportunities now than there used to be. Rather than one-size-fits-all, there are a number of different products that are better designed to meet the needs of those looking for it. The other is a question that's almost asked every year, without fail, and that is, so are these incentives really going to make a difference eventually in our Medicaid cost; or are people really buying them; or why are the numbers doubling every year in the fiscal notes? As you've seen recently, forecasting is a less than accurate science. And one of the things we know to look at are a few states who've been out there ahead of us in terms of putting together credits or incentives. Minnesota is one I cite in your letter that has been distributed. Their increase has been about...they started their program in 1999. And at current rate in 2006, they were dispersing $7.97 million, and there were 58,000 people claiming the credit. They've been increasing about 3,000 or 4,000 claims a year. And that is the best record we have of how much increase would possibly take place, considering also that Minnesota has a significantly higher population than Nebraska, but. With that I'd answer any questions you might have. [LB77]

SENATOR CORNETT: Seeing none, thank you. [LB77]

JAN McKENZIE: Thank you, Senator. [LB77]

SENATOR CORNETT: Are there any further proponents? Are there any opponents? Anyone in a neutral capacity? Senator Gay, you're recognized to close. [LB77]

SENATOR GAY: Thank you, Senator Cornett. I appreciate everyone coming forward and testifying and keeping it fairly short. It will be a good segue into the next bill, too. I hear there's...Senator Louden brought up a good point, a good example, exactly. If you're young and you wanted to get saving, and put the savings aside and then go buy a policy, you can. You can take the savings when you reach a certain age. Most people will, when they're...I'd say 40 is a reasonable time where you start thinking about your future a little bit. You know, it's just like anything--when you're really young, you're not really thinking about this issue. Forty is a good age, I think. The reason why 40 is in there is because it's not just so much long-term care like you're thinking: nursing home, long-term care. There's other things that...a disability or something like that. Long-term care policies also cover that. So it could do...kind of cover two different situations. But...and this is just an example, if you're 40 and you're a couple, let's say you bought a long-term care policy. You're talking, maybe, a pretty good policy--$1,700--and this is all over the board, as Ms. McKenzie said. There's a lot of different policies, they're changing all the time; their price is getting more competitive. But let's say you wanted to go out and buy the policy--you're looking at $1,700. If you wait until your 60s, you're talking $5,000 or more, so it's a whole different sale of what you're doing. So we want to encourage younger people to do that. Senator Hadley talked about what happens...you can designate a beneficiary on this too, so if something happens it would go to your spouse or someone else. Several of you, I know, that were on the committee earlier when it was amended two years ago, I think, you wisely put in there...there's an insurable interest as well. So you could do this. A person could do it for a parent, quite honestly. And that was put in with a committee amendment and then in 2006, or in the original bill. So that was very good. The one thing too, we're talking about the fiscal note. For each policy, the savings that you're not seeing though is $5,000, and the next bill I will bring that up; where the savings is on this. But it would relate to this as well. So just getting started, I think the treasurer's representative talked about it's new--you heard those numbers weren't through the roof or anything, but it's very new. Part of the reason why we need to increase it is banks look at this and they say well, it's not all that much...quite honestly, when you look at it. But if you increase it, banks would be more willing to sign on. They're doing a good job of getting people to sign onto this and start promoting the program, but I do think that...I kind of confused myself; I confused you too. Back when, when I say when you put away just $2,000 it took 83 years to get up to $165,000, so by increasing it to $5,000, at least we're becoming more reasonable. If you wanted, I mean, an amendment would be...Senator Louden, you talked about the large amount just in one year. If you wanted to lift it, let's...in the College Savings Plan you can drop a lot of money in that; you only get a credit for so much, but if somebody could fund this in one fell swoop...let's say you had an inheritance and you wanted to put $50,000 into this: you could do that with an amendment, and we could put more into the fund. That's not the way it's set up now, but maybe down the road; in order for somebody, if you get a windfall or something like that and want to save for your future, maybe there's an option down the road on that. So I guess I think it makes sense. I think by lowering the age, like I say, that's a very important piece of this too, but also the amount you put away. If the fiscal note is correct, if it's correct, and I appreciate what they do but sometimes the fiscal notes are a guideline...but if that is correct, I'd like to see it go up, because it means we're getting more of these policies, which in turn would help on the $5,000 on the Medicaid by so many Nebraskans. I mean, it could be...that would be a good thing, I would say. So with that I appreciate your patience on this bill and would take any questions. [LB77]

SENATOR CORNETT: Seeing none, thank you, Senator Gay. Will you stay for closing? [LB77]

SENATOR GAY: Well, that was...did you want me to stay and introduce... [LB77]

SENATOR CORNETT: Oh, the opening, I'm sorry--you're right. I said the wrong thing; the opening. [LB77]

SENATOR GAY: You want me to roll on the next one? [LB77]

SENATOR CORNETT: Yes, please. [LB159]

SENATOR GAY: Okay. For the record, Tim Gay, District 14, introducing LB159. LB159 is a different take on this. This is basically if, on the prior bill, you're saving in your own pot of money--for somebody that's very conservative, wants to put this in a bank, you'd be saving in a Long-Term Care Savings Act and possibly you could go buy a policy. This is for somebody who wants to go directly and buy a policy; it's a tax credit up to $250 for individuals, $500 for joint. This has a number of years, three years, where you could claim the credit. The reason behind that--and several of us worked on this in the summer--the reason behind the three years...we feel if you buy a policy and you start one, two, three years, that's a good incentive. But we don't want to incent them every single year. So we tried to watch the fiscal note on how it would affect...and it did come down dramatically from...Senator White and others, you would remember it was quite costly. For the fiscal note is a little more reasonable, but I even think that's high and I'll explain why as I go further along. But the idea here would be is if you want to go directly and buy from an insurance provider, if that's the route you want to go, you just get the deduction straight. You'd just show you got the policy and you'd get the deduction, so we'd incent those people to do that. Right now, 29 states plus the District of Columbia provide a credit or a deduction; two states allow the choice between either a credit and a deduction. So what we did, we looked at some of the best provisions of all these states and pulled them together and we put them into this bill. I did want to cover why we'd want to do this. The prior testifier was talking about a tsunami--that's probably a good way to look at this if you look at some of these entitlement programs that are, at some point, going to have to be dealt with. But according to a study conducted by researchers from the Center for Health and Long-Term Care Research and the Center for Health Policy, every long-term care policy purchased saves Medicaid between $3,000 to over $6,000. And that's actually the study we found in 1990 dollars, so today if we had it, it would be more than...there's some other research out there if we want to view and have other questions. LB159...we're looking at Maryland. I'm going to use Maryland as an example, which allows for a credit equal to 100 percent up to a maximum of $500. According to a summary of Maryland's credit, the largest loss of revenue since 2001 when they did this, was a little over $8 million. And their average over the six-year span, roughly it was closer to about $5 million a year. So that's Maryland, and they're talking $5 million to $6 million. And our fiscal note is...well, the fiscal note shows $10 million, so I assume they have that as everybody buying a policy or something. But Maryland had 14,000 returns in that one year. So if each one saved $5,000, that's about a savings of $70 million in Medicaid expenditures in Maryland alone. So the loss of revenue, or the decrease in revenue we're getting to incent these people will ultimately come back. We will not see it right away, obviously, but it would come back. And like I say, if for three years you're buying this policy, we feel that's long enough. If you've made an investment for three years, you're probably going to stick with keeping paying your premiums. I can't see somebody, could, I suppose this is...could happen; you do it for three years and you drop your policy. But I don't think, looking at how these are...how people buy these, that they're going to just say, I'm going to walk away from my long-term care policy. I think once you've done it you're going to stick with it. So it's just a different angle on how we could have two options to...for some of our Nebraskans who want to take care of their future. Like I say, I think they're both good ideas, and I know you have a lot of good ideas come your way, I suppose. But it's just two different ways to look at it. I think they would, in concert, work very well together. The LB77 for those who are a little more conservative and want to just put it in house in a bank and have that. They do have the option, though, like I say, to go buy a long-term care policy, but that would be one where you can just save up some money. You'd probably go through it. And then this option is more for the person, more traditional, to go buy a policy. And really, you're removing your risk to the insurance company. So with that that's the gist of this bill, and I'd take any questions. [LB159]

SENATOR CORNETT: Senator Louden. [LB159]

SENATOR LOUDEN: Yeah, thank you, Senator Gay; thank you, Senator Cornett. What I was looking here, there's a...this would...you'd just be able to take this credit for three years, right? [LB159]

SENATOR GAY: Yeah. [LB159]

SENATOR LOUDEN: And you would only be able to take 25 percent of your premiums, which on a single person at the present time is probably $100 a month or so if you're 40, 50 years old or someplace in there. In other words, you're looking at, what, $750 over a period of three years is all the deduction you would be allowed over the period of three years, and then you'd be on your own again. Is that correct? [LB159]

SENATOR GAY: Yeah, it's an incentive to get them to look at that, but yeah, you're looking at a single buying it at a younger age. And really, quite honestly, some of these changes were made to try to find a balance between...I think the fiscal note last time was a hundred and some million. It was a lot when the fiscal office came back, so we've implemented three different things: the three-year time limit; the 25 percent up to...but it depends on when you buy it, because your credit would be...you know if you're in your 50s or 60s, you'd probably receive the whole credit. We're trying to get younger people to buy...it is ideal, in an ideal world, but they have families and they have other expenses that they have to cover. [LB159]

SENATOR LOUDEN: This, then, is geared more for older people to buy, right? Because their credit would be bigger and they'd be closer to their drop-off age. If you'd put three years on top of 65, why, you might come up with your money a little quicker. [LB159]

SENATOR GAY: Yeah, but there...we did cap it at $250 for an individual though, so if...let's say a widow who wanted to buy this and she's 60-65. I mean, yeah, you'd be paying more premium but it'd still be capped at $250. You know, as a couple, if you buy a joint policy you can go to $500, so. [LB159]

SENATOR LOUDEN: You just doubled it for a couple, I mean, it's the same numbers. [LB159]

SENATOR GAY: It's the same, like I say...yeah. The benefit that the younger person's going to get...you may not get as much tax benefit, but you're getting an overall savings in the premium of your policy because your policy's going to be much cheaper. If I were to buy a policy now, you know, at 44, it'd be pretty decent. If I wait until 64, it's a whole different story. So ideally, yeah, it's great to buy your... [LB159]

SENATOR LOUDEN: Yeah, but of course those insurance companies got that all calculated out. If they just keep your money longer, they keep your money shorter, they figure it all the same. [LB159]

SENATOR GAY: Well, yeah, and that's...you know, there's changes. There's a lot of changes being made in the policies. There's some where you can...you know, return of the premium, and...there's, just like any, they're making the policies...you've got to be aware of what you're doing, but they're making the policies a little more consumer-friendly, I would say, than the old way of doing it, so. And they're regulated of course, of what you've got to pay and how...you can't just say, well, I'm going to take Senator Louden's policy and go up; it has to be as a group. There's a lot of...they're regulated very highly. And, you know, I wouldn't say it's a new product, but I think it's a product that more and more people are interested in. This would help get them more interested in that, in policies, so. [LB159]

SENATOR LOUDEN: Okay, thank you. [LB159]

SENATOR CORNETT: Senator Hadley. [LB159]

SENATOR HADLEY: Senator Cornett. Senator Gay, you may not be able to answer this, but maybe someone later can answer it. If this is kind of such a good deal, how come we haven't had a federal amendment to our IRS code that would, you know, make this a nationwide type of situation when you're dealing with the long-term care? [LB159]

SENATOR GAY: Well, I'm no expert. I think there has been bills introduced, it's just revenue. You're talking a revenue loss and...but, that's why I want to do it for Nebraska. I think we're watching the federal, you know...it would just be us taking the initiative. Well, not us, because many other states are doing this, like I just said. So we aren't; many others are. But they just...I think it has been introduced, I don't know, probably several times and just not getting anywhere. One thing I would...I did want to bring up though, if I could: if you feel...we did this...if you feel that there's possibly an amendment to limit it to a certain income to help with the fiscal note, I'd be more than happy to talk to you on that. Because you don't want a very wealthy person, maybe, who could afford this anyway...you know, I'd rather not, but if you're already very wealthy, maybe you don't need the credit as much as a middle-income person. So it's an option we wanted to bring to the committee's attention. [LB159]

SENATOR CORNETT: Senator Utter. [LB159]

SENATOR UTTER: Senator Gay, I promised you I was going to ask this question, so I don't want to disappoint you. And I recognize the long-term positive aspects of...potential aspects of both of these programs that we've discussed today. I just want you to give me some idea of where we get this money, because when we do something that costs the state $10 million in revenue, we either have to cut expenses somewhere or we have to tax some. So give me some help about where we go from here to make up for the fiscal... [LB159]

SENATOR GAY: Well, like I say, I don't think it's $10 million, first of all. I don't think it's anywhere close to that. But this was the fiscal note that we have to go off of, and fiscal notes are, you know, they vary sometimes. And where do you go from there? It's long-term savings. Quite honestly, are you going to see it right away? Maybe not. You probably won't at this point. Although I shouldn't say that; if somebody were enticed to get a premium and go buy a policy and then three years later they need it, it's $5,000 every year that you're saving longer term. When exactly that happens, I don't know. This is preventing something in the future that I think we're going to have to deal with that, really, we're controlling in different ways. Home-based services...trying to keep people at home is a key, and the department has done a lot on that. And we're trying to do that; that will be a necessity anyway because there won't be enough beds around for people. So we will have home health care, which a policy covers. So that would be savings. Where it comes from? That's a decision you guys are going to have to make. (Laugh) Like I say, I know that's got to be a tough job, I understand. But there's a certain point we need to look into the future a little. And if you want, I'll go over that fiscal note again, and maybe that amendment could help reduce that some. I think we need to get started and at least get something on the books and start in that direction. And hopefully you'll consider one or both of these. [LB159]

SENATOR CORNETT: Seeing no further questions, thank you, Senator Gay. [LB159]

SENATOR GAY: Thank you. [LB159]

SENATOR CORNETT: Could I see a show of hands for the number of proponents? Go ahead, first proponent. [LB159]

WANDA CAFFREY: (Exhibit 4) Good afternoon. Again, I'm Wanda Caffrey, and that is C-a-f-f-r-e-y. And once again, I'm here representing NAIFA-Nebraska. And NAIFA-Nebraska does support the creation of income tax credit for long-term care premiums. We, again, must use every tool possible in order to encourage our fellow Nebraskans to plan for their own long-term care needs. Medicare is government-provided universal health insurance. According to the 2008 annual Medicare report, in 2008 the Medicare trust began paying out more in health care expenses than they received in revenue. And by 2019, the Hospital Insurance Trust will be completely exhausted. Every year, a couple of months before your birthday, taxpayers receive their Social Security statement. First thing they do, they open it up: they want to see how much they're going to get in retirement. Clearly, on the front page of that statement it clearly states: in 2017, we will begin paying more out in benefit than we collect in taxes. Without changes, by 2041, Social Security trust will be exhausted. This is our federal government telling the U.S. citizens, don't depend on us; we may not be able to be there for you. We need to encourage Nebraskans to not depend on the Nebraskan taxpayer for their long-term care needs via Medicaid. We need to encourage our citizens to plan for their own long-term care needs, and the creation of an income tax credit for long-term care premiums can provide a very needed incentive. Thank you. [LB159]

SENATOR CORNETT: Questions from the committee? Seeing none, thank you. [LB159]

WANDA CAFFREY: Thank you. [LB159]

ANN HENNING: (Exhibit 5) Thank you for allowing me this opportunity. My name is Ann Henning, and my last name is spelled H-e-n-n-i-n-g. And rather than repeat the information that I gave you about my personal information, I want to get to my remarks, if that's acceptable. Again, thank you very much for the opportunity to speak in support of this bill. Again, I reference, for your information, that those costs and how much a long-term care insurance policy is on the attachment that I have to my material. I think that's useful for you to understand what policies actually cost, and what is the cost of care within Nebraska. I think the state of Nebraska's steps to reward taxpayers in this form as well as the previous bill, is far less draconian than the adoption of a filiation law. In other states, filiation laws allow the state to demand reimbursement from family members for Medicaid spending. We don't have quite as onerous system as that here in Nebraska. Just as the horns sound a warning for the tornados, any prudent person would plan for the worst. We cannot afford to ignore the darkening skies of the long-term care expenses and hope that this storm never hits. We must educate Nebraskans to prepare for long-term care costs. This is an excellent way to provide practical tools for Nebraskans to mitigate the likely damage of the long-term care storm. Again, I thank you very much for the opportunity to speak on this issue, and would welcome the opportunity to assist you or your staff members on this topic. Thank you. [LB159]

SENATOR CORNETT: Senator Hadley. [LB159]

ANN HENNING: Yes, sir. [LB159]

SENATOR HADLEY: Just one quick question, Ms. Henning. Sometimes I worry, on these kinds of projects, that the people that are going to take advantage of are the people that would have bought anyway. And we're giving a credit to the people who were going to purchase long-care insurance anyway. I guess what I want to be sure is, that if we were to pass something like this, that this would actually encourage people. Is it enough of an encouragement to get people to actually, you know...the person says, yes or no, I'm going to sign up or not; and this tilts the scale. [LB159]

ANN HENNING: Well, I think the two measures definitely help with the tilting of that scale. There are several reasons why someone purchases long-term care insurance. And a number of times it has nothing to do with finances. It has more to do with, what will the policy provide for you? Will it give you options? There are wonderful policies now that provide for coverage in home care, assisted living, or nursing home care. And should you become ill, Senator Hadley, you would have a choice of being in your home and receiving care there, or going into a nursing home if that's what you chose. Furthermore, your children--if you had appropriate coverage--wouldn't have to, you know, all get together, let's help dad. You know, how am I going to change my work schedule so we can care for dad? And furthermore, you love your children, but they're the same kids who promised to feed and to care for that dog, and they didn't do such a great job for the dog, so you're wondering...are they going to care for you? And maybe you don't want them to care for you in that function. Your energy really needs to be focused on you. We see that the cost of caregiving is tremendous on families;

financially, emotionally, and otherwise. It's not uncommon for the caregiver to sustain massive health problems, even die, before the original person who's ill. I hope that provides some information for you, Senator. Again, I thank you very much for the opportunity to speak. [LB159]

SENATOR CORNETT: Seeing no further questions, thank you. Next proponent. [LB159]

KORBY GILBERTSON: Madame Chair, members of the committee. For the record, my name is Korby Gilbertson; it's spelled K-o-r-b-y G-i-l-b-e-r-t-s-o-n. I'm appearing today as a registered lobbyist on behalf of the Nebraska Health Care Association in support of LB159. The Nebraska Health Care Association represents approximately 400 nursing homes and assisted living facilities in Nebraska. As providers of long-term care, the members of the Nebraska Health Care Association strongly support any efforts to encourage Nebraskans to plan for their long-term care and hopefully reduce our dependency on Medicaid. I'd be happy to take any questions. [LB159]

SENATOR CORNETT: Seeing none, thank you. [LB159]

KORBY GILBERTSON: Thank you. [LB159]

GALEN ULLSTROM: Chairman Cornett, members of the Revenue Committee. Again, my name is Galen Ullstrom; that's G-a-l-e-n U-l-l-s-t-r-o-m. I'm senior vice president of Mutual of Omaha appearing in support of LB159. This bill, in various forms, has been in front of this committee, I think, probably for at least the last ten years that I know of. It has always, unfortunately, failed to advance because of the fiscal note. It's hard to argue with the fiscal note except over the years it is not, as Senator Gay mentioned, it has not taken into account any savings down the line of Medicaid. It has initial expenses and expenditures, but the long-term savings are difficult to reflect. But as Senator Gay mentioned, we have also similar statistics that say that an amount equal to about maybe, per long-term care policy, or each individual long-term care policy, can save Medicaid $5,000 over the time. So there are some savings, but again, it's hard to quantify. Again, this is an incentive similar to the previous bill, and I think anything that brings the attention of long-term care--the ability to take care of your needs on the private side--is beneficial to the long-term stability for the State Medicaid program, so. We, again, are on record of supporting this. We also support the federal level as Senator Hadley mentioned. There have been bills introduced over the last X years, but because of their fiscal impact they've also not advanced. But that would be an ideal cure, also. Thank you, Senator. [LB159]

SENATOR CORNETT: Seeing no questions, thank you. [LB159]

GALEN ULLSTROM: Thank you, Senator. [LB159]

SENATOR CORNETT: Are there any further proponents? Is there anyone to testify as an opponent? Anyone in the capacity of neutral? Senator Gay, you're recognized to close. Senator Gay waives closing. That closes the hearing on LB159. [LB159]

SENATOR DIERKS: Senator Cornett is going to introduce LB405. Whenever you're ready, Senator Cornett. [LB405]

SENATOR CORNETT: (Exhibit 6) Thank you. Good afternoon, Vice Chairman Dierks, members of the Revenue Committee. I am Abbie Cornett, representative of the 45th Legislative District. In the 2006 Legislative Session, LB100 was introduced to allow Nebraska taxpayers to take a federal tax deduction and a state tax credit for planned gifts to Nebraska-based nonprofit endowments. As originally introduced, the bill was given a fiscal note of $7,975,000. The Revenue Committee amended LB1010 by cutting the credit percentage in half, from 30 percent for individual contribution to 15 percent; and from 20 percent for corporations to 10 percent. The amendment also cut the maximum credit that could be received from 10,000 to 5,000. The ensuing fiscal note predicted that the revenue loss from the amended bill would reduce to $3,749,000. Though LB1010 generated $3,356,000 in contributions to permanent Nebraska endowments, only $102,470 in total credits were approved for the 2006 tax year. It is the intent of LB405 to enhance the incentives needed to stimulate the contributions of irrevocable planned gifts to permanent endowments of Nebraska nonprofits. The cap of $3.5 million will be placed on total credits to provide a predictable total possible cost to the state. The bill has the following provisions: maximum annual credits of $10,000 per taxpayer with a five-year carryforward; a 25 percent credit for outright gifts by C Corporations; a 50 percent credit for the present value of irrevocable planned gifts from individual and S Corporations; a 25 percent credit for outright gifts by individuals and S Corporations, within a maximum annual credit of $10,000; and a $3.5 million cap in total credits available each year; and a mechanism for the Department of Revenue to administer a reservation system for that cap. The bill would be effective for the 2009 tax year and would sunset January 1, 2016. In reviewing the bill for hearing, I found a technical error and we've worked with bill drafters to get an amendment available for committee. The pages just handed around that amendment. Thank you for your time and consideration to LB405, and there will be testifiers following me that can also answer questions. [LB405]

SENATOR DIERKS: Thank you. Are there questions for Senator Cornett from the committee? I think not. Can I see a show of hands, please, of those people intending to testify in favor of the bill? Hold them up for a minute. The thing we're going to ask is you try not to repeat what has already been said. It helps us quite a little. So the first proponent, please. [LB405]

PETER MARK GRAFF: (Exhibit 7) Vice Chairman Dierks and members of the Revenue

Committee, my name is Mark Graff, spelled G-r-a-f-f. I'm a resident of McCook and Chairman of the McCook National Bank, and also chairman and CEO of MNB Financial Group, Inc. of McCook. I'm past president of the McCook Community Foundation, immediate past chairman of the Nebraska Community Foundation, and also a past board member of the Nebraska Bankers Association. I appreciate the opportunity to testify in support of LB405, because I know firsthand the necessity and benefits of the Nebraska Charitable Tax Credit from my experience working with the McCook Community Foundation. Over the last two years, the McCook Community Foundation has received two major gifts and several smaller gifts that were direct results of conversations initiated from discussions of Nebraska's Charitable Tax Credit. Specifically, I would like to touch on two major gifts in the McCook area from donors that are entering the latter stages of their lives. Although the talks initially focused on the most effective means of addressing potential tax issues, the conversation clearly tended toward the benefits of endowment funds for future generations in the McCook area when the Charitable Tax Credit discussion was introduced. I'm happy to report that these conversations have resulted in two major charitable gift annuities with the McCook Community Foundation, which, through the innovative work of the Nebraska Community Foundation folks have immediately provided the McCook area with a sizable endowment fund to benefit the residents of our area for years to come. Already, southwest Nebraska is realizing the fruits of these gifts. These donors have asked us to consider using the distributions from these two endowments to help two groups in the McCook area: the youth and our senior citizens. The grants from these endowments, then, have strategically targeted these individual groups. One through a gift for nontraditional scholarships for staff at our local nursing home, and the other accomplished by working with our local school systems to fund a youth endowment fund that we manage by a core group of our young people, with their grants focused on serving the youth of the McCook area. This will, in turn, not only interweave them into our community, but will also teach them important lessons on philanthropy and community service. I believe that LB405 is greatly needed in our area, as my work as a banker in rural Nebraska has given me many opportunities to see the massive transfer of wealth that is occurring in our state. In 2001, the Nebraska Community Foundation completed an analysis of both the magnitude and the peak of the transfer of wealth for Nebraska and each of its 93 counties. Based on those findings, NCF estimated that $94 billion will be transferred in the next 50 years in rural Nebraska, and $258 billion statewide. More important still is the timing, with 86 of the 93 counties experience their peak transfer on or before 2039. Twenty-six very rural counties will peak on or before 2014. I am providing you with copies of the 2008 annual report of the Nebraska Community Foundation which illustrates the immediate need for us in rural Nebraska to start conversations with individuals to try and retain the wealth that was created in rural Nebraska. The graph on the back page of the report clearly shows that we must act now to mobilize efforts to touch these individuals despite the current downturn in the national economy. It was the transfer of wealth study discussed in the report and the urgency to encourage Nebraskans now to give charitably to their hometowns, that drove the effort to get the Nebraska Charitable Tax Credit passed originally. I believe we need all the enhancements contained in LB405 to have a meaningful impact on the nonprofit endowments in our state. For example, in our particular situation, I believe the increase in maximum annual credits allowed will help grow those smaller endowment gifts I referred to earlier. The increased percentages will also help to start those much needed conversations with potential donors. I would like to add I've also been authorized by the board of the Nebraska Bankers Association to offer their support for this bill. Please advance LB405 to the floor for debate, and support transforming the Nebraska Charitable Tax Credit into truly effective legislation. Thank you. [LB405]

SENATOR DIERKS: Thank you, Mark. Are there questions for Mr. Graff? No questions, thank you very much. Next proponent, please. Go ahead, sir. [LB405]

JEFFERY PEETZ: (Exhibit 8) Senator Dierks, members of the committee, my name is Jeffery Peetz, P-e-e-t-z. I'm an estate planning attorney who has worked with individuals and communities across the state of Nebraska for the past 25 years. I'm here to urge the advancement and passage of LB405 to transform Nebraska's charitable tax credit into a truly effective legislation. I do so for the reason that the tax credit as it currently exists, in its current form, is only a small step in preventing a migration of wealth out of Nebraska, to the detriment of its future citizens. As we know, the current law has restrictions on gift techniques, and the new law proposed removes some of those restrictions and I think will have a meaningful impact on our citizens and our communities. It's important for the reasons of the previous proponent that we have a certain time frame that we have to act, and I think that window of opportunity is closing, as I see it in my profession and in my practice. As an attorney who has estate planning clients throughout eastern Nebraska, as a member of the Planned Giving Council of Nebraska, and the current chair of the Lincoln Community Foundation, I have come to understand the powerful impact endowment giving has in our state. Despite having some 6,000 charities in Nebraska, they have very few endowments. Given the enhancements of LB405, I believe that many of these charities will establish endowments as will many communities. The practical and the necessary modifications in LB405 provide an incentive to endow a future for all Nebraskans. I think there's five key reasons why it's essential. One, endowments are important because they deliver a predictable source of funds from important charitable works in the state, especially in a situation where we weather adversities that impact our economy. This year, the Lincoln Community Foundation...it's going to have a 4 percent payout on our endowment funds. We think that those payouts are going to be important for the community of Lincoln. I know that Nebraska Community Foundation is similar, as is the Omaha Community Foundation. For Nebraska charities to be successful, they're forced to meet high standards of government accountability and fiscal responsibility, because experience shows that endowment givers do not simply give unless there's this accountability established. Nebraska financial institutions, the Nebraska Community Foundation, the Omaha Community Foundation, and the Lincoln Community Foundation, along with many smaller foundations are well positioned to safely and profitably manage endowments and provide long-term benefits for the communities they serve. It's my understanding that people are employed in the charitable sector here in this state; there's more people employed in the charitable sector than in all of government combined, so expanding Nebraska endowments you're also adding to the employment stability statewide. A significant amount of wealth will be transferring the current generation to the next, and without this additional push for endowments, I can tell you from my experience as an attorney, that there will be a great flow of money leaving this state, and this money will be lost forever. I'd like to briefly give you an example of a situation that came up this year in my practice. Newman Grove, Nebraska, a community of 770 people--in their endowment with the Nebraska Community Foundation they only had $5,000. I challenged the local board to come up with a two-to-one match program from the community if I could raise $50,000 from key contributors and people outside the community who previously had contacts in the community. We raised this $50,000, the local board accepted the challenge, and now they're well on their way to making this goal of $150,000. With the passage of this bill, it would help the local people in that community to empower themselves and that community for the future. However, the synergies involved in endowed giving were more than that. The local senior citizens center was going to close the center because they no longer had enough people for the lunch program, and they lost their federal subsidy. So what happened is, we were able to convince the senior citizens center to deed it to the local community club, and another donor in the community who came forward and put in almost $100,000 in a donor-advised fund, and the money from this donor-advised fund is used to pay the administrative costs for operating the community center. So now you have a small community in Nebraska of approximately 770 people who have taken it upon themselves, with the power of endowment, to create a community center and to have it funded for the long term. This is the power of endowments. What I would say to you also is that in my experience as the Lincoln Community Foundation, this past year we've totally restructured the Lincoln Community Foundation with the emphasis now on endowed giving and long-term giving for the benefit of the community of Lincoln. This is a issue not just for Lincoln; it's not just an issue for Omaha; and it's not just an issue for greater Nebraska. You have vehicles out there that will keep these types of charitable gifts safe and that will empower the people in Nebraska to invest in themselves. With that I would ask that you approve and you support this legislation. [LB405]

SENATOR DIERKS: Thank you, Jeffery. Are there questions for Mr. Peetz? Senator Hadley. [LB405]

SENATOR HADLEY: Mr. Peetz, just a quick question. If I read it right, it's 50 percent of the present value of the planned gift for a maximum of $10,000 a year. So if I follow this through...if I give a $20,000 present value gift, I'm going to get a $10,000 tax credit. [LB405]

JEFFERY PEETZ: Correct. [LB405]

SENATOR HADLEY: Is the entire $20,000 then also deductible as an itemized deduction on my federal tax return, which means I get a 30 percent...if I'm in the 30 percent tax bracket, I get 30 percent there; and if I'm in the 6 percent bracket for Nebraska, so I'm totally getting 86 percent of my gift...I could get 86 percent of my gift as a tax...the government would pick up 86 percent of my gift. [LB405]

JEFFERY PEETZ: I believe that's correct if your numbers are right. [LB405]

SENATOR HADLEY: I just want to be sure that it is. There's the tax credit part of it, but it is also, I think, deductible as an itemized deduction for charitable contributions. [LB405]

JEFFERY PEETZ: If you itemize, of course... [LB405]

SENATOR HADLEY: If you itemize. [LB405]

JEFFERY PEETZ: ...and of course a lot of those people that make those gifts are limited... [LB405]

SENATOR HADLEY: Right, that's right. [LB405]

JEFFERY PEETZ: ...in their itemization. But...and I think that you have to...you're correct; that could be the case, but I think the key is the power of the endowment. [LB405]

SENATOR HADLEY: The endowment. [LB405]

SENATOR DIERKS: Other questions? [LB405]

JEFFERY PEETZ: Thank you. [LB405]

SENATOR DIERKS: Thank you. Next proponent, please. Whenever you're ready, Maxine. [LB405]

MAXINE MOUL: (Exhibit 9) Thank you. Vice Chairman Dierks and members of the Revenue Committee, I am Maxine Moul, M-o-u-l, a resident of Lincoln and coordinator of Endow Nebraska. The co-chairs are Barb Bartle, who is president of the Foundation for Lincoln Public Schools, and Michael Geis, who's president of the Geis Group in Omaha. Our coalition of Nebraska nonprofits, professional advisors, organizations, associations, and donors is supporting LB405. Endow Nebraska itself does not have an endowment and will not directly benefit from this legislation. But the sustainability of our member nonprofits will certainly be enhanced. We have members in every legislative district and in 86 counties. We are pleased that Senator Cornett has introduced LB405 and that 29 other state senators have cosponsored this bill. With a $3.5 million cap on the total number of credits issued in each tax year and at the benefit rates in LB405, full utilization of the tax credits will generate at least $14 million in new endowment contributions each year. And with a sunset of January 1, 2016, we could realize as much as $84 million in new endowment donations in Nebraska. We know that this tax incentive encourages Nebraskans to make their charitable gifts here, and that Nebraska nonprofits will see the benefits from the provision in LB405 that will extend the benefits to cash gifts. Bill Asbury, who's executive vice president of the Hastings College Foundation wrote, in a letter of support to your committee, that "allowing credit for outright gifts should increase the number of filings received and credits allowed from past years. The Hastings College Foundation depends on cash contributions and earnings from our endowment to support the ongoing operations of the college." The Revenue Committee's work last year has been incorporated into LB405, including lowering the cap from $5 million, as proposed last year, to $3.5 million. Endow Nebraska pledges to promote the new provisions of the Nebraska charitable tax credit law as a powerful way to improve the sustainability of our nonprofits and quality of life for all of our citizens. We will also aid the Department of Revenue in communicating the reservation process for the credits. I urge the committee to vote this bill to the floor of the Legislature for full debate. Thank you. [LB405]

SENATOR DIERKS: Thanks, Maxine. Questions for Ms. Moul? Senator Hadley. [LB405]

SENATOR HADLEY: Just a quick one, Maxine. Thank you, and I think it's a very good program. A question about...if I read it right, once we've reached the $3.5 million cap, that last day we would prorate any...do you think that would impact, you know, patterns of giving? It would certainly seem to encourage people to... [LB405]

MAXINE MOUL: It definitely will encourage people; and it will encourage people to, maybe, plan ahead a little bit more. We have seen this reservation process work in the state of Iowa for their charitable tax credit, and oftentimes they are out of their maximum credits by July or August. So it really encourages pre-planning. If a donor comes in and the credits have already been extended for the year, they make sure that they're in line the first of the next year. [LB405]

SENATOR DIERKS: Any other questions? I guess not. Thanks, Maxine. [LB405]

MAXINE MOUL: Thank you. [LB405]

SENATOR DIERKS: Next proponent, please. [LB405]

MICHAEL NOLAN: Senator Dierks, members of the committee, my name is Michael Nolan, the last name is spelled N-o-l-a-n, testifying as a proponent on behalf of the League of Nebraska Municipalities. I don't have anything else to offer, but I want to be on record, for the League, that we are in support of the bill. [LB405]

SENATOR DIERKS: Thanks, Mike. Questions for Mike? Guess not. Next proponent. Whenever you're ready, Ron. [LB405]

RON SEDLACEK: Good afternoon, Vice Chairman Dierks and members of the Revenue Committee. For the record, my name is Ron Sedlacek, spelled S-e-d-l-a-c-e-k. I'm here today on behalf of the Nebraska Chamber of Commerce in support of the legislation before you, as we have supported the original bill and subsequent legislation that would provide for effective incentives to endowment giving. And with that I will not be repetitive but we'd just urge you all to support the legislation. [LB405]

SENATOR DIERKS: Thanks, Ron. Questions for Ron? Nope, thanks, Ron. [LB405]

RON SEDLACEK: Thank you. [LB405]

SENATOR DIERKS: Next proponent, please. Whenever you're ready, Tip. [LB405]

THOMAS O'NEILL: Senator Dierks, members of the committee, I'm Tip O'Neill, that's O-'-N-e-i-l-l. I represent the Association of Independent Colleges and Universities of Nebraska, a consortium of 14 privately controlled, nonprofit institutions. We support LB405. We believe that enhanced philanthropy in Nebraska is important. Again, we don't receive direct state support for our operations, so the charitable giving process of the operation is very important, and we think this is a wonderful opportunity for us to enhance planned giving for our institutions. I've also been authorized by Jim Cavanaugh from Creighton University to offer Creighton's support for this proposal. Be happy to answer any questions you might have. [LB405]

SENATOR DIERKS: Questions for Tip? I believe not. Thanks, Tip. Other proponents? Anyone else in support of the bill? [LB405]

RICK CARTER: Vice Chairman Dierks, members of the committee, thank you very much for the opportunity. My name is Rick Carter, C-a-r-t-e-r. I'm the executive director of the Human Services Federation here in Lincoln and Lancaster County. The Human Services Federation is an association of 125 nonprofit agencies here in our community. We support LB405, and one of the reasons that we support it is that our nonprofit agencies and organizations in our state are the vehicles through which we truly take responsibility for the well-being of our communities. Nonprofit organizations steward our environment; they advocate for civil rights and equity; celebrate creativity and diversity; and provide for the opportunity for exploration and learning; serve community members in need; and give people the skills to better their lives. Nonprofits embody our most cherished values, inspiring us to care about every aspect of the human experience. But nonprofits are also more than that. They're significant employers in our communities; they help to drive the economic engine of our community and our state; and they provide us support and guidance when we are in times of need, celebration, and in all their forms, they contribute to the quality of life in our community. It's truly my opinion that nonprofits are where real community change can and does occur. LB405 provides a powerful tool in assisting nonprofits to not only diversify funding in tough economic times, but also to reach higher levels of sustainability. In closing, I would just like to say, in the back, not that I didn't hang on every word of every previous testifier here, but I was flipping through the annual report from the Gates Foundation in which Bill Gates submitted his first annual letter. And the thought that occurred to me was that, you know, we don't all have the opportunity, and I'll never have the opportunity to give in the kind of capacity that Bill Gates is able to give. But I think what LB405 does, and what the Endow Nebraska Initiative will do, is to continue and further support the idea that every one of us in the state is a philanthropist, and we all have one more incentive to give back to our communities. So I appreciate your support of the bill and I encourage its passage. Thank you very much. [LB405]

SENATOR DIERKS: Thank you much, Rick. Questions for Mr. Carter? Guess not, thank you. Anyone else in support of LB405? [LB405]

GARY NELSON: Hi, I'm Gary Nelson, N-e-l-s-o-n, and I wanted to speak in behalf or in support of LB405. We at Nebraska Children's Home are the only adoption agency in the country that does not charge a fee for its unplanned pregnancy and adoption services. We have done so in the state of Nebraska for over 115 years, and this bill is another avenue to allow us to continue to place children in safe and loving homes across the state of Nebraska. We have operated for 115 years with the generosity and faithful support of our families; donors who give through our Little Red Stocking campaign in December; wills, trusts, and other estate planning vehicles. 60-65 percent of our budget, yearly, comes from our endowment; and we have ten offices across the state of Nebraska and over 20,000 children have been placed in loving homes over the 115 year history of the Nebraska Children's Home. Like long-term care incentives you talked about earlier, and like the College Savings Plan that was mentioned earlier also, this gives, again, another opportunity for the people of Nebraska to help those people who are in need and to support themselves. Thank you very much. [LB405]

SENATOR DIERKS: Thank you, Mr. Nelson. Questions? No questions, thank you. Anyone else in support? Anyone else in support of LB405? Is there anyone in opposition to LB405? Opposition? Anyone want to testify in a neutral position? Anyone neutral? Senator Cornett waives closing. That ends the hearing on LB405 and the hearings for the day. Thank you very much. [LB405]

Disposition of Bills:

LB77 - Indefinitely postponed.
LB159 - Placed on General File.
LB405 - Placed on General File with amendments.

Chairperson

Committee Clerk