[LR213 LR344]

The Committee on Nebraska Retirement Systems met at 10:00 a.m. on Tuesday, December 10, 2013, in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LR213 and LR344. Senators present: Jeremy Nordquist, Chairperson; Rick Kolowski; and Heath Mello. Senators absent: Al Davis, Vice Chairperson; Danielle Conrad; and Russ Karpisek.

SENATOR NORDQUIST: Good morning, everyone. State Senator Jeremy Nordquist, representing District 7 in downtown, south Omaha, and I chair the Retirement Systems Committee. Today we'll be hearing two legislative resolutions, LR213 and LR344. Just to introduce our staff, to my far right is our committee clerk, Laurie Vollertsen; to my left, Kate Allen, our legal counsel. We have Senator Heath Mello from District 5 on the committee; Senator Kolowski is also a member of the committee. And I believe this is all the members of the committee that will be at our hearing this morning. Just a few notes: If you will be testifying, there are sheets to complete in the back, and please turn those in to Laurie. Please silence your cell phones so it doesn't interrupt with the recording. And with that, we will start with LR213. Senator Kolowski. [LR213]

SENATOR KOLOWSKI: (Exhibits 1 and 2) Good morning, Senator Nordquist and members of the Retirement Committee. My name is Rick Kolowski, R-i-c-k K-o-l-o-w-s-k-i, and I represent District 31. I introduced LR213 to examine college savings in Nebraska and ways that we can increase participation in our state's 529 plans, and to go a step further and look at financial literacy in this state as well. The premise is that if students save for college, no matter how small the amount may be, then they are more likely to go to college; and the earlier they start to save, the earlier they get on that track to go to college. I want to take a moment to turn your attention to a handout I have given you and to thank the Department of Revenue for compiling this information. We asked the Department of Revenue to compile information on demographics of people in this state, who are using 529 plans, by looking at the 529 filings on their personal income tax returns. As you can see from this information, Nebraska families with an adjusted gross income below $50,000, who make up nearly half of the state's population, only account for 6.8 percent of those who made 529 filings in 2011. Meanwhile, Nebraskans reporting an income of over $100,000, who make up less than 18 percent of the population, constitute nearly 45 percent of all 529 plan participants. This underscores the important work we need to do to make sure that college savings is an accessible option for all families, especially our lowest income families who need to start saving early to be able to afford college. Today we have invited experts in the field to paint a detailed picture of college savings and financial literacy in Nebraska and the United States. You will hear from State Treasurer Don Stenberg; Voices for Children; First National Bank, who manages our 529 plans; college students; and university professors. They will highlight the barriers that are keeping our families from saving, and some solutions to those barriers. My goal is the you'll leave today with an understanding of where the future of college savings needs to be and with the desire to help make a future...that future a reality. Thank you again for gathering today and for what I foresee to be a very informative hour. I'm anxious to get on to our expert testifiers, so I ask that you hold all questions, hold your questions until my conclusion, please. [LR213]

SENATOR NORDQUIST: Great. Great. [LR213]

SENATOR KOLOWSKI: Thank you very much. [LR213]

SENATOR NORDQUIST: Thank you, Senator Kolowski. Appreciate that, and thank you for all the work you and your staff have put into this legislative resolution. [LR213]

SENATOR KOLOWSKI: Thank you, sir. [LR213]

SENATOR NORDQUIST: So with that, I have a list here. Our first testifier, we have Treasurer Stenberg. Welcome. [LR213]

DON STENBERG: (Exhibit 3) Thank you. Mr. Chairman, members of the committee, for the record, my name is Don Stenberg, S-t-e-n-b-e-r-g, and I'm the Nebraska State Treasurer. As you know, by law the Nebraska State Treasurer is the trustee of the Nebraska Educational Savings Trust, which we refer to as NEST. First National Bank of Omaha is the program manager, and NEST is made up of four separate college savings plans. I want to begin by thanking the Legislature for increasing the state income tax deduction to $10,000 per year for college savings accounts beginning in 2014 for taxes that are due in April of 2015. I think it's important to point out at the beginning that NEST has been recognized as one of the top college savings plans in the United States. The well-respected Web site, SavingforCollege.com, awarded the highest possible rating--five caps--to the NEST Direct and NEST Advisor Plans in 2012, the latest year which results are available. Kiplinger's Personal Finance magazine recognized NEST with the best award for fund selection in 2011 and 2013. They did not make awards in 2012. And more recently, Morningstar, an independent rating firm, awarded a bronze rating to the two NEST Plans, NEST Direct and NEST Advisor, up from neutral last year. Morningstar said, and I'll quote very briefly: All of the bronze-rated plans have well-executed strategies at a fair price. Often what separates a bronze plan from a neutral plan is the state's tax benefits, and they go on to make specific reference to the legislation that was passed last year. Because we have one of the top plans in the country, we currently have more than 208,000 accounts nationwide; more than 59,000 of those are in Nebraska. We currently have $3.2 billion in assets in our Nebraska College Savings Plan. Now each year, by law, we provide a annual report to the members of the Legislature. We did that on October 30, so it's a report of over 200 pages, including the audit reports of the four plans. So that should be in your in-box or your aide's in-box. And the exhibits I have here today, with a couple of exceptions, were all taken from that report but have been reorganized to facilitate my presentation. NEST, of course, was created by the Nebraska Legislature in 2001 to take advantage of Section 529 of the Internal Revenue Code, which provides what earnings on a college savings 529 plan that is sponsored by a state is exempt from federal taxation so long as the money is ultimately used for qualified educational expenses. It's important to understand, and we get a lot of questions on this, that these, the Nebraska plan, money from the Nebraska plan can be used anywhere in the United States. It does not have to be a four-year college. It can be a technical school. It can be a community college. It can be used for postgraduate work. It can be used by an adult to go back to college themselves. We had a good...the stock market did pretty well this year, so if you want to look at exhibit 2, you can see that a number of the plans had very, very fine results, and that depends on the stock market and your investment choice. The first page is the NEST Direct College Savings Plan. You can see that some various age-based options had results, year to date as of the end of September: 16.68 percent, 14-plus percent, almost 10 percent, and so on. The individual options on the second page of that exhibit, depending on what the individual chose as their investment: 19.48 percent, 21 percent, 28 percent, 19 percent, 27 percent. So folks that chose particular options did very, very well this year with the Nebraska College Savings Plan. If you want to look at exhibit 3, it shows the growth that we've had on new accounts, and this would really be for the first nine months of this calendar year, was almost 16,000 new accounts. Since I became State Treasurer and First National became program manager, we have had more than 60,000 new accounts in the system and have grown to $3.2 billion from $2.4 billion just three years ago. The resolution talks about management fees. They are found at exhibit 4 and you can study over those. The fees, of course, depend on the investment choice you make. The basic fees, generally speaking, First National Bank is paid 0.27 percent for a management fee, and the State Treasurer's Office receives three-one hundredths of 1 percent for our management expenses. And of that, over $200,000 we pay to the Investment Council for their investment oversight, and the rest pays for staff and operating expenses in my office. Participation rates statewide were up to 12.17 percent. Participation rate in this case is defined as the ratio of population under 18 is the dividend and the numerator is the population in...that has college savings plans. So statewide it's 12.17 percent. Exhibit 5 will show you county by county what our penetration rates have been, and we use this to help focus on the counties where we think we should be having higher participation rates and target them, although our program to bring people's attention to the plan is statewide in every county. Raising awareness, exhibit 6 will show you the various advertisements. I won't go through all of those. These show up in various places. I would point out that the first two, with the picture of the child and a parent, were done through my office. We used a student group at the University of Nebraska in the Journalism Department to help us put the ads together, and they were then later used in the Husker sports guide. So this was work that was done by students at the University of Nebraska, these first, actually first three items. And the others were done by a professional agency hired by First National Bank of Omaha. One of the ways that we promote interest and knowledge about the Educational Savings Trust are scholarships and drawings, and exhibit 7 lists those for the last two years. And I'd like to highlight just three of those and they're toward the bottom. The 2013 NEST on the Farm Scholarships, this is targeted to young people who live on farms and ranches in Nebraska. And they write an essay on why...how their agricultural background relates to their desire to go to college. Another one is the Personal Finance Challenge Scholarships. We just started that this year. For about a decade, the Nebraska Council on Economic Education has had a personal finance challenge competition statewide, and what we did is NEST offered scholarships of $2,000, $1,000, and $500 to the top three winning teams. Each member of the team would get that scholarship. It very substantially increased participation in that personal finance challenge. I awarded the scholarships. They were all won by small towns, interestingly enough: Johnson-Brock was first, West Point was second, and Burwell out in the Sandhills was the third-place team. And then we also have the now 11th Annual Why I Want to Go to College Essay Contest, and this is 7th and 8th graders statewide. There's three regions, the Congressional...divided by Congressional district, plus one outside of Nebraska, and they're awarded scholarships. And I wanted to share with you just a couple of the letters and that is exhibit 8. This young lady was third place in 2012 competition, and I'm going to read a little bit of this because I think it really speaks to the motivation of some of our young people: Why do I want to go to college? Well, if I'm totally honest about my answer, I would say that I never thought that it was an option. I know there are a lot of people in my family and in my own community who don't think I will do it. The only people who actually graduated from college in my family are my mother and my aunt Tina. Let's face it, I'm a black student in Omaha, Nebraska, where I am told only half of the black students actually graduate from high school and even less actually go to college. I am not sure if it's true, but if it is, it's very sad. I see it as a personal challenge and I want to prove my family and my community wrong. My brother always tells me, I'm going to be just like him. He's a smart kid who struggled in high school, failed classes, messed around, and didn't care much about his grades or school. Well, I have decided I'm not going to be anything like him. I am going to work hard and get scholarships. I believe that if I keep up this attitude, eventually I'll be accepted at Howard on a full-ride scholarship. You know what people say--hard work will eventually pay off. And it goes on from there. I'll let you read the rest of that. And the other one that I'll just mention briefly and read part of is the 10 and 11. This girl is a ten-year-old girl. This is exhibit 9--ten-year-old girl from Indianola, Nebraska, and was the first-place winner in 2013, and I'll just read the first two paragraphs here: My name is Allison Rippe. I am ten years old. I live in southwest Nebraska with my mom, dad, and younger brother, Nathan. We have cows, horses, chickens, dogs, and cats on our farm. I am actively involved in school, sports, church youth groups, and 4-H. I've shown horses, chickens, and breeding heifers for three years, and I also take other projects, like woodworking, forestry, photography, sewing, and baking. Some responsibilities I have on the farm are feeding and watering animals, heat checking during breeding season, helping work cattle, and keeping records. This is a ten-year-old girl, by the way. Doing chores teaches responsibility because if you don't feed an animal or give it the correct amount, it might get sick or even die. It makes me feel good to know that I am responsible for them. It's a lot of hard work, but we have a good time too. And it goes on from there and talks about how she's noticed if you have a good attitude, it rubs off on others. And you can read that at your leisure. And so those are the quality of some of the writings that we're awarding scholarships for. First National also sponsors NEST Fest. There's not an exhibit on that. That's a community activity. It's been in a number of communities around the state, open to all residents. We attempt to get a broad base of people to come to that. There's face...depending on the event, there's face painting, things for families, kind of targeted somewhat at younger children so we can get their parents there and educate them about NEST and provide materials about the College Savings Plan. Since the Senator specifically mentioned financial literacy, I want to spend just a minute on what...an agreement we entered into earlier this year with EverFi, and under that agreement between NEST and EverFi, it's a five-year agreement. An on-line financial literacy program is available to every school district in the state of Nebraska and every student in the state of Nebraska, every high school student, and no charge to the school district or to the students. And currently we have 41 schools that are participating under this, under the Treasurer's sponsorship, under NEST sponsorship, and 988 students. We expect that to increase substantially in the years ahead. We've done a lot. We try and get a lot of free media. Exhibit 10 lists the news articles, TV and radio appearances that we've had. As you see, some months we have...we're in the news somewhere in Nebraska almost every day of the month, so we think we're really getting the word out through the news media. Exhibit 11 lists our news releases. And there is definitely a relationship between college savings and the likelihood of attending college. The College Board reported that students with any amount saved for higher education are six or seven times more likely to attend a four-year institution than those without any savings. So it's important to encourage parents and grandparents, aunts and uncles to get an account started to encourage their child to go to work. Right now we have a contest--and this will be the close of my testimony; I'll take questions--Dear Grandchild, and it's a contest where we invite grandparents to write a letter to their grandchild explaining why they think it's important for them to go to college. They send a copy of that letter to NEST and we'll draw four winners and they'll get a $2,000 scholarship each for the use of their grandchild. It can be divided as many as five different ways if they have several grandchildren. So we're trying to get to the grandparents because we think grandparents, in some cases, have more money to put aside for college than parents do, who are raising a young family. So that's a new contest. We hope to continue that in the future. With that, be happy to take questions. [LR213]

SENATOR NORDQUIST: Great. Thank you. Thank you, Mr. Treasurer. I remember, I think it was my first year in the Legislature, I introduced an interim study because we had just received a poor rating from a national organization on our 529 plan, and largely I think it was due to the high fees at the time. And I think at the time Treasurer Osborn said that his hands were tied and that that contract had been entered into like ten years prior. So with the move to the current system, that has been remedied. And how often does the new agreement with First National and the other...and the providers of the plans come up? [LR213]

DON STENBERG: Right. And, of course, that was before my time, but... [LR213]

SENATOR NORDQUIST: Yeah. Yeah. [LR213]

DON STENBERG: ...your recollection I think is correct. And my predecessor, Treasurer Osborn, did an RFP. Union Bank had had the contract for, well, really from the inception in 2001-2002 up until 2010. Treasurer Osborn did an RFP and wound up selecting First National. [LR213]

SENATOR NORDQUIST: Uh-huh. [LR213]

DON STENBERG: It's my understand that, because of the RFP process, the fees were substantially reduced... [LR213]

SENATOR NORDQUIST: Uh-huh. [LR213]

DON STENBERG: ...in that competitive... [LR213]

SENATOR NORDQUIST: Yeah. [LR213]

DON STENBERG: ...situation. I believe it's a seven-year contract. There will be a First

National representative that probably... [LR213]

SENATOR NORDQUIST: Okay. [LR213]

DON STENBERG: ...is more... [LR213]

SENATOR NORDQUIST: Sure. [LR213]

DON STENBERG: ...into the details. But my recollection, it's seven years from the time they started, which was December, late December, of 2010. [LR213]

SENATOR NORDQUIST: Okay. Are the outreach efforts, any staff you spend on outreach efforts, that you have devoted to outreach efforts, is that cash funded or is that... [LR213]

DON STENBERG: No, all the...well, yes. I mean all the funds for promotion, for the staff in my office, for the $200,000-plus we pay to the Nebraska Investment Council for investment oversight, all of that comes from the management fees,... [LR213]

SENATOR NORDQUIST: Okay. [LR213]

DON STENBERG: ...from the 3...or .03 percent for my office and the .27 percent that Omaha National gets for the management of the plan. [LR213]

SENATOR NORDQUIST: Okay. [LR213]

DON STENBERG: And that includes all the recordkeeping and bookkeeping and on over 208,000 accounts. [LR213]

SENATOR NORDQUIST: Uh-huh. Right. Sure. And then the last question I have, as far as Senator Kolowski mentioned the low participation rate by low-income families, those below $50,000 in AGI, is that...do you think that's a matter of outreaching to those families, or is it just a matter of financial literacy in general or a combination? [LR213]

DON STENBERG: Well, I think our outreach tries to reach all. [LR213]

SENATOR NORDQUIST: Okay. Uh-huh. [LR213]

DON STENBERG: The NEST Fest is a community activity open to all. [LR213]

SENATOR NORDQUIST: Uh-huh. [LR213]

DON STENBERG: These scholarship contests are again open to all students where, you know, we count...to some degree, we need the school counselors, the school English teachers and so forth, junior high teachers,... [LR213]

SENATOR NORDQUIST: Uh-huh. [LR213]

DON STENBERG: ...to make their students aware of the contest. We do as much outreach as we can, contacting the schools and so on about these various activities. [LR213]

SENATOR NORDQUIST: Great. [LR213]

DON STENBERG: So I think we're doing what we can with outreach. [LR213]

SENATOR NORDQUIST: Okay. [LR213]

DON STENBERG: And as the one sample showed, some of these scholarships are won by low-income students. [LR213]

SENATOR NORDQUIST: Uh-huh. [LR213]

DON STENBERG: They're based on the quality of the writing, not their...because we don't know... [LR213]

SENATOR NORDQUIST: Sure. Yeah. Sure. Sure. [LR213]

DON STENBERG: ...their financial situation--but it's open to all--and clearly in this one case, that specific case, and I'm sure there's others. [LR213]

SENATOR NORDQUIST: Yeah. [LR213]

DON STENBERG: I think the reality, Senator, I mean...and having been a young father myself at one time, you know, especially if you're a younger family, your income maybe isn't what it will be in the future, so you've got a tight income. [LR213]

SENATOR NORDQUIST: Uh-huh. Yeah. [LR213]

DON STENBERG: Maybe you've already got college debt yourself... [LR213]

SENATOR NORDQUIST: That's right. [LR213]

DON STENBERG: ...or maybe you've got debt on a car, you got a couple of young kids. And by the time you pay the rent, the automobile insurance, the food and the electricity, there's just...there's no money left, not because you're not a good financial steward but just because money only goes so far. [LR213]

SENATOR NORDQUIST: Uh-huh. Absolutely. Yeah. Yeah. [LR213]

DON STENBERG: And so I think that's part of the challenge. And not...I think it's important, though, not every low-income family is low-income throughout their entire lifetime. [LR213]

SENATOR NORDQUIST: That's right. Yeah. [LR213]

DON STENBERG: A of folks getting right out of college are, you know, using used furniture, as we did,... [LR213]

SENATOR NORDQUIST: Sure. Yeah. [LR213]

DON STENBERG: ...for the first few years of their working experience after college. [LR213]

SENATOR NORDQUIST: Uh-huh. [LR213]

DON STENBERG: So I think you got to take into account that some of these folks, that may not be able to put money into a college savings account now, five years from now may be able to. [LR213]

SENATOR NORDQUIST: Will in the future. [LR213]

DON STENBERG: And that's why we try and get to everybody,... [LR213]

SENATOR NORDQUIST: Uh-huh. [LR213]

DON STENBERG: ...so that they're aware of it, so that if at some point in the future they have the ability to make a contribution, hopefully they'll start a college savings account. And of course, these scholarship contests hopefully will encourage parents and grandparents to add on to those scholarship accounts. [LR213]

SENATOR NORDQUIST: Uh-huh. Sure. Great. Thank you. Any questions? Senator Mello. [LR213]

SENATOR MELLO: Thank you, Chairman Nordquist. And thank you, Treasurer Stenberg. Kind of a couple questions that dovetail a little bit off what Senator Nordquist just asked, and I know part of, I think, what Senator Kolowski was looking for were policy options that the Legislature could consider moving forward. I was asking the legal counsel. It was my recollection there was a bill introduced two years ago that would allow state taxpayers to divert their income tax return to the 529 program if they wanted to divert that to... [LR213]

DON STENBERG: Uh-huh. [LR213]

SENATOR MELLO: ...a 529 account. Outside of that one specific policy, and I believe that bill did not pass,... [LR213]

KATE ALLEN: Right. [LR213]

DON STENBERG: Correct. [LR213]

SENATOR MELLO: Have you focused or targeted any specific outreach policywise toward some of the more vulnerable population that Senator Nordquist mentioned? I'm thinking, more than anything else, families that are currently in the child welfare system. It's an issue that the Legislature has gone through the last couple of years where children are coming into the system, age out of a system, and are left to fend for themselves, essentially, when they turn 18. And so if you could share, I guess, any feedback or just your general thoughts if that's an option that would require us legislatively to do something to require more targeted outreach to those populations or is that something you could do administratively. [LR213]

DON STENBERG: Well, we're...I guess we're trying to do what we can. I kind of outlined some of those, the NEST Fest activities, the scholarship activities that are available to, depending on the contest, any student of a certain age, age group; a Draw Your Dreams contest, again available to various age group students. So I guess our effort hasn't been so much to target a particular area as it is to try and reach everyone with the existence of the program and the importance of saving for college. And you know, some, as I mentioned earlier, some folks at a particular point in their life just don't have any money to put aside for that purpose but hopefully in the future, you know, their economic situation will improve and they'll be able to do it. [LR213]

SENATOR MELLO: Do you think...and I would agree with the kind of...I would agree partially with that general premise, but do you think if it's somewhere along the lines that the Legislature should consider some kind of maybe mandatory participation, families? I mean the reality is other states and city governments are creating, I think they're called, baby bonds and baby savings bonds were every child that's born gets a certain dollar amount set up into an account so that they can utilize that moving forward for college or healthcare, whatever that child needs as they grow older. I'm not saying that the state appropriates money into the account mandatory but mandatorily requiring families, moving forward, to establish an account. [LR213]

DON STENBERG: I don't...I wouldn't support making it mandatory, Senator. You know, some folks aren't going to want to go to college and, you know, Bill Gates didn't finish college and did pretty well. So I don't think it makes sense to mandate something like that. In terms of...I guess if you're looking for additional support for economically disadvantaged persons to go to college, in addition to Pell Grants and other things of that sort, it would probably make more sense to focus on scholarship programs based on financial need and financially supporting it in that. [LR213]

SENATOR MELLO: So like targeting maybe to free and reduced lunch students and families... [LR213]

DON STENBERG Well, I don't... [LR213]

SENATOR MELLO ...at an earlier age or...? [LR213]

DON STENBERG: Again, I think you probably want to wait. I think you'd want to focus on folks when they are the age they wanted to start college and help them with their college education if you want to do something more, their income, to advocate that. But I think the nature of the College Savings Program does mean that you have to be well enough off economically to have some ability to put aside some money for college, and for some folks that's just not possible at a particular point in their life. If what you want to do is help more economically disadvantaged people go to college, you might want to look at some kind of financial aid, a need-based type scholarship program through the Nebraska colleges and university. That would be my... [LR213]

SENATOR MELLO: Your general...okay. [LR213]

DON STENBERG: ...general thought on how to approach that. [LR213]

SENATOR MELLO: How do you think the relationship to the tax changes we made this year...I mean I know it's a little too early since it just took effect. But is that something that is going to need to be continually, I guess, reevaluated on annual basis or a biennial basis of whether or not that $10,000 tax...income tax deduction threshold is adequate to encourage middle-class families to be able to save more money? [LR213]

DON STENBERG: Yeah, I think that was a big plus. It moved us up in the ratings with Morningstar. And I think for the time being we're pretty competitive now... [LR213]

SENATOR MELLO: Okay. [LR213]

DON STENBERG: ...at that amount. And another thing, not everybody...well, a lot of people can't put in $10,000 a year, but sometimes you will have a year when you sell your house, buy a different one, maybe have a little bit of stock and it goes up and you sell and you've got a capital gain, so you may only be able to take advantage of that as a taxpayer once or twice in your lifetime. But it is there and it's an encouragement. The other thing is that, and I don't disagree with the statistics about...that the senator presented here, but the other thing is, is the more people you have in the program, the more you spread the management cost, because management costs don't go up very much when you add another person. There's a certain amount you need at a certain level. And so your middle-income folks, who may not be able to take a $10,000 deduction, benefit indirectly by having more people in the program and spreading the administrative costs of that, of that program. And as I see the College Savings Plan, it's one of the few things out there for the middle-class families... [LR213]

SENATOR MELLO: Uh-huh. [LR213]

DON STENBERG: ...to help get their kids to college. You know, the very wealthy, they don't need any program. They write a check and that's that. And not everyone, but for those who are in poor financial situations, you've got Pell Grants and need-based financial aid of various kinds. Can talk about whether what we've got is adequate or not, but there's some there. There's really nothing there for the middle-class family. They don't qualify for financial aid. They make too much money for that. But there's no way they can afford $12,000, $15,000, $17,000 a year for college tuition, room and board and so on. So I really see this program as being especially helpful to middle-class taxpayers and middle-class Nebraskans. [LR213]

SENATOR MELLO: My last question is kind of an open-ended one to some extent, and it's maybe just sharing your office's experience. How has higher education been to work with in regards to promoting this program to existing maybe nontraditional students who have children or those who are currently in school and may find a way to be able to take advantage of it at some other point in time, alumni? Is the higher education system in the state being proactive in trying to encourage participation in the savings program or...? [LR213]

DON STENBERG: You know, I don't know the answer to that, Senator. We haven't had a lot of direct contact with the higher institutions or the...you know, when a college savings account is being used, basically, the payment is made to the university or whatever, to the college. So I don't know what they might be doing to promote that. We haven't done a lot with the university. Perhaps Deborah Goodkin, who will testify, with First National, might have a little more information on that. They may be doing something; they may not. I'm not aware of it. [LR213]

SENATOR MELLO: Okay. Thank you. [LR213]

SENATOR NORDQUIST: Thank you. Rick. [LR213]

SENATOR KOLOWSKI: Thank you, Mr. Chairman. Treasurer Stenberg, thank you for your testimony this morning. Appreciate it very much. [LR213]

DON STENBERG: You bet. [LR213]

SENATOR KOLOWSKI: And I just wanted to back up one of your statements. As a high school principal for many years, I saw the difficulty of the middle-class kids trying to find the scholarship assistance at colleges, universities, community colleges, whatever else. That's a reality check. And the more people could do to start early on some of that savings, it really...it is a reality. And I think that's one of those issues in our state, and I think we need to keep coming back to on what kind of assistance might we have for the full range of students that... [LR213]

DON STENBERG: Uh-huh. [LR213]

SENATOR KOLOWSKI: ...would help get them through the difficult years of paying for those colleges. I also saw the adjustment by the parents of thinking about their student in high school and where they might go to school. A lot of parents sort have settled into the local area for their undergraduate work because it was less expensive, and then thinking in terms of graduate work at a specialty university that would have an excellent program if their child was capable of moving on to that area, and keeping that expenditure for that later time rather than up-front for the four years of undergrad, including an expansion of our community college system. So that's really had a tremendous effect as they've adjusted to the college credit, transferring and all the things that have happened there. Lastly, I think the...one of the great points of wisdom you had was the grandparents and how we need to tap into more of the grandparents--... [LR213]

DON STENBERG: Uh-huh. [LR213]

SENATOR KOLOWSKI: ...where the money is in our country. (Laugh) And I think that's an issue that the more we could push that and do something with that aspect, I think we'd be in much better shape as well. So thank you again for coming, sir. [LR213]

DON STENBERG: Yeah. Thank you, Senator. Yeah, we're going to do more and more to target grandparents. We've gotten some. This contest kind of helps highlight that. But we do think in a number of cases grandparents may be in a better position to help with a college savings plan than young parents are. And just to follow up on what you said, I think with the costs of college getting more and more, I think we're going to see more and more students live at home, go to a community college their first couple of years at least, just from a financial standpoint. Then they don't have housing expense. You're feeding them but that doesn't cost what it would at a college or university. And frankly, I think universities are going to have to become more competitive with a lot more on-line programs that can be done at less expense. That's all kind of out of my bailiwick, but that's the way I see things developing. I think colleges are going to recognize that people just can't afford it. They're going to have to find ways to provide higher education at a lower expense, and I think we're starting to see a little bit of that. [LR213]

SENATOR KOLOWSKI: Yes, we are. Thank you. [LR213]

SENATOR NORDQUIST: I don't think there's a better Christmas present for your grandkid than a 529 contribution. So thank you,... [LR213]

DON STENBERG: You bet. [LR213]

SENATOR NORDQUIST: ...Mr. Treasurer. [LR213]

DON STENBERG: Thank you very much. [LR213]

SENATOR NORDQUIST: Next up we have Aubrey Mancuso from Voices for Children. Welcome. [LR213]

AUBREY MANCUSO: (Exhibit 4) Good morning, Senator Nordquist, members of the committee. My name is Aubrey Mancuso, A-u-b-r-e-y M-a-n-c-u-s-o, and I work with Voices for Children in Nebraska. I want to first thank Senator Kolowski for bring attention to this issue. I think it's something that nationally a lot of states and cities are really starting to pay attention to, and there's a couple of things that have been happening in Nebraska and around the country that are really starting to have states taking a look at savings for education. One is that the cost of higher education is increasing much faster than family incomes. The average tuition and fees at a public four-year institution in Nebraska increased by 16 percent just over the last five years, and over that same time period median income in the state only increased 2.2 percent, and that's not adjusted for inflation. It actually decreased if you adjust it for inflation.

State budgets have also remained tight, so the public portion of the funds that is able to be covered has been limited as well. Over that same five-year time period, per-student state spending on higher education decreased by 17 percent, and this has sort of created a couple challenges. One is that our economy needs educated workers. Some current projections indicate that by 2020 a full 71 percent of all jobs in Nebraska will require some form of higher education, whether that's an associate's degree or a training program. If our current trends continue, only 47 percent of the population would have some form of higher education by that time, and that would leave a significant gap between our work force needs and what's available. In some of my...you should be receiving a copy of the testimony that has some of this research outlined in more detail. So what has happened really is that there's been a cost shift in higher education, not only from the state to the individual family but, because family budgets are tight, from the family to the individual student. And one of the things that that's resulted in is really an increasing amount of debt. In 2012, 63 percent of students in Nebraska graduated with some form of debt, and the average debt burden was about $24,000. And that's a challenge not only for the individual student but as these students graduate and start out as young workers. That's typically a period in life where they're often significant drivers of the economy because it's before they have children, before they're maybe saving for retirement, and they tend to have more disposable income to spend. And that's not necessarily happening if they have a huge debt burden. It's also a time when a lot of people are able to make those financial investments that lead to longer term financial security, like buying a home, and student debt can be a significant barrier to that. A recent survey from the National Association of Realtors found that 49 percent of people describe student debt as a huge obstacle in buying a home. So I think what's happening is college is becoming more expensive so it's harder for people to get through the door, and those that are getting through the door are increasingly paying for it with loans, which has longer term consequences. So a lot of the research and promising practice in this area has centered on educational savings. And one thing that's become clear on this is that interventions that start at the high school level are starting too late, not only from a savings perspective, but they're finding that there are a variety of things that happen long before the high school level that can increase or decrease college aspirations. And savings is actually one of those things that has been found to increase college aspirations, even a small amount. And so research has shown that not only does a savings account have that small amount to put towards education but it impacts individual aspirations, which has been mentioned before. There's also been research finding that once a student is in college, it helps them to complete college if they helped...if their family helped invest in them and their education through some form of savings. And I'll give you just a couple of examples of things that other states are doing to address sort of the gap that Senator Kolowski mentioned in his data for lower-income families. The K.I.D.S. Program in Kansas, they provide matching deposits of up to $600 per child each year for households below 200 percent of the federal poverty level that are enrolled in a 529 plan. And this actually has just happened, but for at least the next three years the state of Nevada will seed a $50 college savings account for every child entering public kindergarten in Nevada. So those are just a couple things that are happening. And I think, you know, when we look at the state does have an incentive in place for families to save for college, but it's not necessarily accessible to all families. And so those are some things that states have done to sort of adjust things and make incentives that are available for those whom a higher tax deduction may not benefit. So the two recommendations that we have as a first step: ensuring that 529 plans don't count as a resource when determining eligibility for public benefit programs. Under current law a 529 plan could be a barrier to public assistance in the Aid to Dependent Children Program and the Child Care Assistance Program. And really, when families have temporary hardship, you know, we should encourage them to leave some of those longer term resources alone. And then the second thing is to look at our current incentive in the form of a tax deduction and consider providing additional savings incentives or restructuring our current incentive to work better for lower- and middle-income families. And that's all I have today, so I'd be happy to take any questions. [LR213]

SENATOR NORDQUIST: Great. Thank you. Thank you. Any questions from the committee? That was great info. Thank you, Aubrey. [LR213]

AUBREY MANCUSO: All right. Thank you. [LR213]

SENATOR NORDQUIST: Next up we have Deborah Goodkin. Welcome. [LR213]

DEBORAH GOODKIN: Thank you. I am Deborah Goodkin, spelled G-o-o-d-k-i-n, on behalf of First National Bank of Omaha, program manager for the Nebraska College Savings Program, or NEST. I have prepared talks and then I have some notes that were not prepared, but I can answer some of the previous questions as well. So I've been asked to talk about college savings plans. I've been in the college savings business for 15 or 16 years, and am very proud to be program manager for the Nebraska College Savings Plan. Treasurer Stenberg did a great job of discussing our plans, and I'm proud to work with the Treasurer's Office in both spreading the word about the importance of saving for college and helping Nebraskans meet their savings goals through NEST. And more than 15 years ago, when college savings plans were first established, they were specifically to ensure youth could afford to go to college and into the work force and contribute to the state's economy. The very first incentives were to give federal tax advantages for qualified higher education expenses--you know, the earnings are not taxed--as well as estate planning benefits, mostly for the wealthy. States followed suit and provided state tax benefits, as did Nebraska. And as Treasurer Stenberg said, thank you very much for the increase. I think it's going to do wonders for the state. Times have changed since the late 1990s when the first college savings plans were initiated. There has been a financial crisis and many families are struggling still financially. The price of college has increased, and as a result, students and parents are finding it difficult to pay for college the old-fashioned way, which is out of your savings and out of your pocketbook. Loans have increased, and the gap in pay between high school and college graduates is increasing. It's very important for families to understand, however, that there are many different ways to pay for college and they need hope in their lives to help them dream about their child's future. Young children, just as they did when I was a little girl, dress up and pretend that they're firemen, doctors, and teachers, and almost every family you ask says that they want their child to go to college. Yet, according to a study by Sallie Mae, "How America Pays for College 2013," only 38 percent of those that believe they will have money to pay for college have a savings plan. Shane Lopez, who is the Gallup senior scientist, and I were recently on a TD Ameritrade webinar discussing hope, the importance of dreaming for the future, and going to college. His research reveals the benefits in encouraging children to dream and indicates that dreaming and knowing that a parent wants their child to go to college has an impact on the here and now in the form of better grades and, in the future, by attending college. In other words, thinking about the future affects how you behave today. Mentioned many times before, a study out of Washington University in St. Louis to address merely by having a savings account a family sees hope for their child, encourages them to study more and to go to school more. In another study they indicate that across all socioeconomic sectors, including low-income, as we discussed here, children are six or seven times more likely to go to college if there's a savings account in their name. It could be a college savings account or it could be the child opening up an account. I don't know if it's because the expectations are clearly defined in everyday life of the child or because the household has hope. Regardless of the driver, it's powerful to have funding. While there's plenty of talk about increased costs and of the amount of loans, I'm confident that our young children will be able to afford and attend college just as previous generations have done due to the availability of more affordable college savings options, access to financial literacy programs at early ages and in high school, and more discussions in the press and the media about the importance for savings. Financial planning, discussions about choices of saving or spending, and the costs of college is now discussed around the dinner table rather than just a hushed topic I know when I was growing up. Last year, we personally taught 1,200 4th grade students the importance about developing a savings plan and we constantly message to adults the importance of planning for and starting to save early. Most of those 1,200 students were targeted to be in low- and moderate-income areas of Omaha and Lincoln, and it was intentionally done that way. The awareness starts discussions about the future, which is really the important discussion to have. College savings plays an extremely important role in helping families pay for college, and it raises expectations. By encouraging young families to set aside funds, there may be future discussions...fewer discussions about picking a college based on low cost or how to pay back loans. Stress is often reduced within a family because they have a plan and they're doing something about savings. Nebraska's College Savings Plan team is constantly thinking about the college saver and how to make it easier for families to save to ensure their experience, where their operations team is excellent, and how to provide a choice of high quality investment options. We put our money where our mouth is, as the Treasurer mentioned. We give out about approximately $100,000 a year into college savings accounts. We recently had an event at the Boys and Girls Club of the Midlands. Every year for the past three years we have given away scholarships to the four kids on a team as part of the stock market challenge. They teach children the importance of finance. There's a gentleman called Jorge who, when I gave him his check last year, he said, now I can go to culinary school. And we recently saw him again at this year's stock market challenge and Jorge is in culinary school. So we're very proud of the scholarships and the money that we give out. We market Nebraska's plans by sending messages of hope, dreaming, and the need to save for those dreams, and through these efforts we support the children of Nebraska and their educational promotion...future. I'm sorry. Thank you for the time and I'm happy to answer any questions. [LR213]

SENATOR NORDQUIST: Uh-huh. Thank you, Deborah. Are there questions from the committee? Senator Mello. [LR213]

SENATOR MELLO: Thank you, Chairman Nordquist. And thank you, Ms. Goodkin--Goodkin?--... [LR213]

DEBORAH GOODKIN: Yes. [LR213]

SENATOR MELLO: ...for your testimony. As a question I asked Treasurer Stenberg, and maybe you can shed a little light on, is the relationship that your program and your...and kind of what First National does in relationship to directly with both the K-12 school districts as well as higher education in regards to helping with the promotion of the program. You just heard from a previous testifier that other states are looking at whether it's mandatory, mandatory account creation for students beginning kindergarten or matching accounts for children under the age of ten. Can you just shed a little light in regards to how has your relationship been with the school districts and with higher ed, and is this something that we should be considering moving forward to try to reach out? And I don't want to put you in the hot seat because...but whether or not... [LR213]

DEBORAH GOODKIN: You see me squirming. [LR213]

SENATOR MELLO: ...whether or not this is a policy the state should consider of legislatively looking to direct children at a much earlier age to get enrolled in the program and requiring families to do that in certain instances? [LR213]

DEBORAH GOODKIN: I think there are two separate questions. One is how are we doing with the higher education... [LR213]

SENATOR MELLO: Uh-huh. [LR213]

DEBORAH GOODKIN: ...in the K to 12, and the other is about what else could the state do. I think it starts very young. I think the...I've talked to a lot of people in the 529 business that have these programs in their states, and I think everyone believes, as well as some researchers, that you need to start early on with the expectation that the child is going to go to college; that that helps them create incentives for the child to do well in the elementary school ages and in the middle school. So by the time they get to high school, you have the kids who want to move on, as well as the kids who really have no desire and no encouragement at home. So we have tried to work with K to 12, mostly in the younger, very young ages, preschool as well as elementary school. So the bank has a lot of efforts of going into the schools in a limited sense in Omaha and Lincoln, and we do discuss then with the PTOs and we're constantly at PTO meetings. [LR213]

SENATOR MELLO: Uh-huh. [LR213]

DEBORAH GOODKIN: We also teamed up with the Children's Museum in Omaha, too, on a "Fantastic Future Me" in which the child can dream about the future. And then they get an e-mail going home about the importance of savings, and we give cash incentives for people to do that. And that exhibit has gone to Kearney and North Platte and Lincoln and Omaha, and it will go into Norfolk as well. So we are constantly trying to find other partners to help us spread the message to their constituents. As I mentioned before, we work with the Boys and Girls Clubs. I think this year will be a different year. We're going to try to work with alumni associations to send the message down to their constituents and also have more notice of the scholarships that we do have. But we, you know, this state doesn't have a lot of money to give out. There have been some successes and some not-so-great successes of giving money to every newborn. I sort of like the idea of working with foundations to give money to maybe when you enter kindergarten because there are...or pre-K, because there's a support backup for that family. Just giving money doesn't necessarily provide the support. So you need some support to encourage these families to talk about budgeting and planning for their kids. It's a very difficult process for all of us in the industry to find a way for low-income, a lot of misconceptions out there about if they save money then they're not going to get financial aid. So it's really very difficult. It would be really good, in my mind, if the state encouraged the young kids to have financial literacy programs across the entire state. [LR213]

SENATOR MELLO: Uh-huh. [LR213]

DEBORAH GOODKIN: We've had difficulty getting into school districts. You can't do it on the state level. Some superintendents want you; don't want you. Some principals want you; don't want you. Banks try to come in. There's "Teach Children to Save Day" in which we all try to get into the schools. But it should be more...I think it should be a more focused effort coming down as curriculum in the younger ages. Of course, as the kids learn about savings, we gave out 1,200 savings banks that said "Save Spend Share" on them in different slots. And we taught them and other banks teach that, but it would, from my estimation, it would be good if it was part of the curriculum. [LR213]

SENATOR MELLO: Thank you for your feedback. And a quick follow-up: Have you worked with any schools, and whether it's anywhere in the state, that give...that sends out NEST material to, like, all their entire student body? I mean the Legislature does have the ability, there's always the dynamic of, regards to local control, in regards to what the state shifts a lot of the authority, the decision-making authority, to local... [LR213]

DEBORAH GOODKIN: Right. [LR213]

SENATOR MELLO: ...school districts. But we've experimented in the past of requiring, for an example, all higher education institutions have to mail a voter registration card... [LR213]

DEBORAH GOODKIN: Uh-huh. [LR213]

SENATOR MELLO: ...to all incoming students who register at universities and colleges. Would that be something, you think, that in regards to promoting the program at that, primarily, that early age, that we would require school districts to send material about the program to all students and families who enroll in their schools? [LR213]

DEBORAH GOODKIN: From my perspective, I think there are two times where the state could help us. One is we're launching a newborn campaign and other states have given us or found a way to send materials home. When the child is registered, the birth is registered, they've worked with the bureau of records and that is definitely one way. And the other way is at kindergarten registration. I think those are two key points in a child's life where knowing about savings would really be a good idea. [LR213]

SENATOR MELLO: Okay. Great. Thank you so much. [LR213]

DEBORAH GOODKIN: Thank you. [LR213]

SENATOR NORDQUIST: Thank you. Senator Kolowski. [LR213]

SENATOR KOLOWSKI: Deborah, thank you very much for your testimony today. We appreciate your being here and for what you said. I also greatly appreciate your mention of Dr. Shane Lopez, and I've known Shane and worked with him for over a decade in other circles. And when he talks about hope and engagement and well-being, ties all three of those together, and I think part of our language in our discussions with the Education Committee is to talk not only about the whole child but the whole family. The connections that you describe so well as far as getting the attitudes and the directions of the family into the right...in the right way I think is really important. I couldn't agree more with your comments on financial literacy. I think one of the most dangerous things in anyone's family could be their credit card. And when you see what happens across the board with misuse of funds and difficulties many families get into, it's just because it's a lack of understanding of that whole financial picture. And I hope that we'll be able to turn some corners on that. So I really appreciate your being here today and thank you for... [LR213]

DEBORAH GOODKIN: Thank you. [LR213]

SENATOR KOLOWSKI: ...your multiple comments on the directions we're heading. And I hope we'll be able to continue our partnership in the future. Thank you so much. [LR213]

DEBORAH GOODKIN: Thank you. [LR213]

SENATOR NORDQUIST: All right. Thank you. Next up we have Rich. Is Rich here? Come on up. Welcome. And did you get a testifier sheet? [LR213]

RICH MAZIKANI: Yes. [LR213]

SENATOR NORDQUIST: Okay, you did. Great. He put it back. Okay, great. We'll make sure we get it to the clerk when you're done. All right, thank you. Go ahead. [LR213]

RICH MAZIKANI: My name is Rich Mazikani. I'm 20 years old and I'm a junior, majoring in advertising and public relations at UNL. And kind of about...I'll just speak about my college savings plans that I had in the past and where I am now and where I'm going in the future. I didn't start saving up until I got my first job at Dailyman (phonetic) Property Management. That was two summers ago, 2011, and I started saving roughly $200 a month. And so I would accumulate about $600 every summer. The reason why I was able to pay for school and still am paying for school, for the most part, is because of my situation where I was a former ward of the state, and that way I was able to receive several benefits and get into several programs that other kids my age, who couldn't pay for financial...who couldn't pay for school, weren't able to get into. The program that had the largest savings impact was an Opportunity Passport Program. That's over in Omaha. They have a two-to-one matching program where you save $1,000 every six months and they match that with $2,000, and they make sure that you...they open up a savings account for you at Wells Fargo, which you can't, you know, withdraw any money out of until you have, you know, got up to your $1,000 mark, and then they match the $2,000 for, you know, any educational purposes that may be needed. Other than that, other help was programs, such as the FAFSA, FAFSA and education and training voucher. That way that's how I was able to, like I said, pay through school. Otherwise, I would have definitely accumulated a large amount of debt through student loans or may not even have gone to college. And I would say it definitely helps, whether it's programs like the ones I've been in that kind of are very adamant about getting to the youth about different programs you can be eligible for and how do, you know, just go ahead and set up a savings plan for yourself. And another thing is I've noticed that I definitely put more effort into my school work, knowing that without the programs that I have here listed, I wouldn't, you know, be in the situation I'm in. And I feel like definitely having more savings programs would help, especially for younger children. I can speak from a personal point of view. I know that if my little brothers definitely would start learning about savings programs right now in grade school that it would have a mass, you know, impact by the time they get to high school. And definitely, that's all I have for you this morning. [LR213]

SENATOR NORDQUIST: All right. Thank you, Rich. Any questions from the committee? Seeing none, thank you for joining us today. [LR213]

RICH MAZIKANI: Thank you. [LR213]

SENATOR NORDQUIST: And next on my list I have Dean Obenauer. Great. Welcome, Dean. [LR213]

DEAN OBENAUER: Good morning, Chairman and committee members. My name is Dean Obenauer, that's O-b-e-n-a-u-e-r, and I'm the assistant director of financial aid at Creighton University in Omaha. Enrollment this fall was around 8,000 students, between undergraduate, graduate, and professional programs. My role on campus is primarily financial literacy, counseling and education. And my goal is to help students build money management skills and behaviors to manage their money now so that they're better prepared to handle their money once they graduate. The financial crisis of several years ago was a real wake-up call to many Americans as to how we handle our money. Between the mortgage crisis; unemployment; rising prices; buy now, pay later spending habits, many people had to step back and reevaluate how they spend their money and, more importantly, how they save their money. During that time, the White House established the President's Advisory Council on Financial Literacy. The council cited financial illiteracy as one of the root causes of the economic crisis and that we as a nation need to do more to provide financial education. And Creighton University decided to do more by offering financial literacy services to our students, and I'll talk more about that in a moment. I realize that today's hearing is about how to educate and encourage families to save early for college costs. No one denies that it's critical that families start planning for college when their children are very young. At the point I see families, they have either saved or they have not saved, and the conversation goes very differently for each group. For those families who have saved, the conversation generally centers around how to take care of the balance due after their scholarships or financial aid have been applied to the bill. This involves using part of the 529 savings plan, withdrawal of other savings or investments, getting set up on a monthly payment plan to the business office, or a combination of all of the above. For the families who have not saved, for whatever reason, we talk about monthly payment options, additional private student loan options, or federal parent loans. I ask parents if they are prepared to make large monthly payments to the business office or, if they or their student take out additional student loans not only for this year but for the next four years, are they prepared to make monthly student loan payments for the next ten years or longer? In some cases, families will say: This is absolutely where our child needs to be; we will find a way. Other families will say: With the difference we need to come up with, we're not sure our child can attend Creighton; we have to think about this. So saving for college is ongoing. There are ways to save for college while enrolled in college. Since most of my time is spent conducting group seminars and one-on-one counseling sessions with students, I promote saving by starting with a sound financial plan, saving through responsible spending, saving through responsible borrowing, and being accountable. A sound financial plan starts with creating a budget. I refer to it as a spending plan, because some students hear the word "budget" and they think that's a dirty word. We all know that living within our means is essential, and living with less than our means results in more options to save. And the easiest way to save is to spend less. It's important to understand the difference between wants and needs. I tell students to ask themselves every time they make a purchase: Do I really need that right now? I talk about responsible credit card use and stress that plastic is not money. That $1,000 credit is not $1,000 in additional income. It's a $1,000 loan with expensive finance fees if not paid in full by the due date. While it's good to have a credit card for emergencies, emergencies don't happen at the mall. When it comes to student loans, I cannot stress enough that students borrow only what they need. I've had students tell me that they didn't really need to borrow as much as they did, but it was available, and they didn't live as frugally as they could have. So how do students know how much they need? It starts with creating and sticking to that budget. If you follow Dave Ramsey, he states that personal finance is 20 percent knowledge, 80 percent behavior. And what that means is that it is not rocket science. It's more about connecting the dots, taking time to do the math, and making responsible choices. To make financial literacy sound a little more positive, I refer to it on campus as financial fitness. When I conducted a survey last year for our undergraduate students, one of the questions I asked was: How would you describe your financial health? And the choices were: I'm in good shape; I'm a little flabby; I'm seriously out of shape. Forty-six percent of our undergraduates responded, I'm a little flabby. Nine percent responded, I am seriously out of shape. And that told me that students know they need to tone up to get ready for that financial marathon. So financial education is so important. A good understanding of basic money management is essential and will help set that stage to make saving a priority now and in the future. Thank you very much for this opportunity to talk about the importance of financial planning. [LR213]

SENATOR NORDQUIST: Great. Thank you, Dean. Thank you for your work. Any questions? Seeing none, thank you. [LR213]

DEAN OBENAUER: Thank you. [LR213]

SENATOR NORDQUIST: Yes. That's all I have on my list. Are there any other testifiers that would like to testify on this LR? Seeing none, Senator Kolowski, would you like to...just a few closing comments? [LR213]

SENATOR KOLOWSKI: Thank you again, Senator Nordquist and members of the Retirement Committee. My name is Rick Kolowski, R-i-c-k K-o-l-o-w-s-k-i, and I represent District 31. Thank you again to the committee and to the testifiers for a great hour of discussion. As you have heard, we have a great team of Nebraskans promoting college savings and financial literacy, and we have several solid recommendations for how we can support and improve the work they are doing in the state. One barrier to college savings that I plan to address this session is the removal of 529 savings plan, student scholarships, and work-study income from asset limit tests for the following public programs: the Aid to Dependent Children, Child Care Subsidy Program, and the Low-Income Home Emergency Assistance Program. This would help low-income families from having to choose between long-term and immediate well-being when considering college savings. I've included a copy of that legislation in your packet. This is just one immediate step we can take to help Nebraska's youth and their families. I look forward to working with you in the future to take even bigger steps to help support college saving and financial literacy in Nebraska. Thank you. [LR213]

SENATOR NORDQUIST: Great. Thank you, Senator Kolowski. Thank you for your work on this. [LR213]

SENATOR KOLOWSKI: Thank you very much. [LR213]

SENATOR NORDQUIST: That will conclude the hearing on LR213. All right. It will just be a minute and we'll be setting up some equipment for our next hearing. [LR213]

BREAK

SENATOR NORDQUIST: (Exhibit 5) Good morning again, members of the committee. I am State Senator Jeremy Nordquist. I represent District 7 in downtown and south Omaha, and will do a brief opening on LR344. I introduced this interim study to examine the availability and adequacy of retirement savings among Nebraska's private sector work force. A generation ago workers could count on being able to participate in a pension plan provided by their employer. In the mid-1970s, according to the U.S. Department of Labor, almost three-quarters of Americans, American workers, had plans that guaranteed a certain percentage of their income, providing a secure savings plan to rely on for the future of their families. These types of plans, known as defined benefit plans, have been on the decline in recent decades since then. And in fact, a large number of workers in the private sector do not have access to employer-sponsored plans at all, including 401(k) plans. According to the National Institute on Retirement Security, 84 percent of Americans are concerned that the current economic conditions are impacting their ability to achieve a secure retirement. We certainly, as a state government, have interest in supporting citizens saving for retirement, because as workers grow older there will be a growing reliance on tax-supported public safety net programs. Today we'll hear from several testifiers who will present both national and Nebraska-specific data about the availability and adequacy of retirement savings. In addition, we'll hear about various state-sponsored options that have been introduced in a number of states addressing this growing issue. So the purpose of this LR is really to begin a discussion on this important topic. Our first presenter, remotely, will be Teresa Ghilarducci, who's a professor, the chair of the Department of Economics at the New School. So is she on the phone? [LR344]

CHUCK HUBKA: She's not yet called. [LR344]

SENATOR NORDQUIST: Oh, not, okay. I thought you guys did have her on. Well, we will go with Mark Intermill then from Nebraska AARP, and hopefully Professor will join us. [LR344]

SENATOR MELLO: Thank you, Senator Nordquist. Are there any questions from the committee? Seeing none, first testifier. [LR344]

MARK INTERMILL: (Exhibit 7) Good morning, Senators. My name is Mark Intermill, M-a-r-k I-n-t-e-r-m-i-l-l, and I am here representing AARP. AARP appreciates the committee's consideration of retirement security for Nebraska workers, and your introduction of this resolution encourages AARP Nebraska to gather information about Nebraskans' opinions and experiences with retirement security. We conducted a telephone survey of Nebraskans over the age of 18 between November 23, December 3, and we included a series of questions about savings for retirement. What we found was that a majority of those who were interviewed don't feel very secure about their retirement prospects. Nearly two-thirds, or 62 percent, are somewhat or very anxious about having enough money to live comfortably in retirement. On the other hand, 36 percent were not very or not at all anxious about having enough money to live comfortably in retirement, and we're still trying to sort out some of the "crosstabs" on that to figure out who is comfortable and who is not. We were interested in the proportion of respondents who have a defined benefit pension plan, and we found that 36 percent indicated that their employers offered a traditional pension plan. In a separate question on another issue, we found that 59 percent of respondents worked for an employer who had at least 50 workers. That's less than what census data indicates for Nebraska. What the census found was that 64 percent worked for an employer with at least 100 employees. The AARP survey found that 36 percent of respondents work for employers who offered a defined benefit plan. You also might note that it was 36 percent who were comfortable with their retirement. We're trying to figure out if it's the same numbers--those who have a defined benefit plan as those who are comfortable. Based on the finding of our survey, a larger proportion of workers do have access to a defined contribution savings plan than a defined benefit plan. We found that 62 percent indicated that they had access and 6 percent weren't sure about whether they had access or not. More than three-fourths of those who have access to a defined contribution plan contribute to it, so there were...this is consistent with other national data that we've seen. There's an Aon Hewitt study that found that 78 percent of workers contributed to a plan nationwide, and that's up from 68 percent in 2010 in terms of national participation. For those who don't have access to a defined contribution plan, roughly the same percentage said that they would be very or somewhat likely to take advantage of a defined contribution plan if they had access to one, so 54 percent being very likely, 23 percent being somewhat likely, so similar to the proportions that are currently participating. That's what we found in those who aren't...don't have access but who indicated they would participate. So I think if a plan was available that provided simple, low-cost retirement savings options for workers in businesses that don't offer those opportunities currently, it looks like there would be some interest in that type of a plan. We also asked, in addition to asking employees if they had access to a defined benefit plan, we also asked those who were retired, because this was any age group over the age of 18, if they had a...were receiving benefits from a traditional pension plan. And we found the percentage that were receiving...of retirees that were receiving pension benefits was about eight points higher than employees who had coverage, which indicates, I think, the trend that Senator Nordquist referred to, that we're moving away from the defined benefit plans and towards the defined contribution. We also wanted to...kind of the last question on the survey that I'll address is we wanted to see if there was support for a program that we at AARP refer to as a State K program. That describes a state-sponsored retirement savings option for workers who don't currently have access to such a savings plan that could be administered by the state, either directly or under contract, with the intent of providing workers with understandable options for investment and minimal management fees. We did find support for such a plan and 27 percent strongly support, 32 percent somewhat support. In terms of the opposition: 8 percent, somewhat; 13 percent, strongly opposed. So by a ratio of about three-to-one, there was support for that type of a State K type of a plan. This is an issue that's critical to AARP. We see the effects of either having retirement security or not every day. And this survey indicates that there are challenges that need to be met in order to provide Nebraskans with a better opportunity to have enough money to live comfortably in retirement. The move away from defined benefit pensions makes it essential to provide and promote opportunities for workers to save for retirement, so we encourage the committee to look at means for Nebraskans to be able to achieve a secure retirement through savings plans. And with that, I'd be happy to try to answer questions. [LR344]

SENATOR NORDQUIST: All right. Thanks, Mark. Thanks for presenting this early. It reinforces a lot of the national numbers that we've seen on the concern that Nebraskans have for their retirement security. So thank you for AARP conducting this survey. Any questions from the committee? Seeing none, thank you. [LR344]

MARK INTERMILL: All right. Thank you. [LR344]

SENATOR NORDQUIST: Next up, Sarah. I'm not going to try to pronounce your last name. (Laugh) [LR344]

SARAH MYSIEWICZ: That's okay. I get that a lot. It's Mahshayvich (phonetically). [LR344]

SENATOR NORDQUIST: Mahshayvich (phonetically). [LR344]

CHUCK HUBKA: She's calling in right now. [LR344]

SENATOR NORDQUIST: Okay. Well, we'll go ahead with Sarah here and then can we put here on the speaker phone? That would be great. Welcome. [LR344]

SARAH MYSIEWICZ: Hi. Thank you very much for having me today. Again, it's Sarah, S-a-r-a-h, Mysiewicz, M-y-s-i-e-w-i-c-z. (Phone ringing) [LR344]

SENATOR NORDQUIST: Hello, Professor. [LR344]

TERESA GHILARDUCCI: Hello. This is Teresa Ghilarducci. [LR344]

SENATOR NORDQUIST: Thank you for joining us. We just have a testifier up right now and she'll be done in a few minutes and then we'll turn it over to you. [LR344]

TERESA GHILARDUCCI: Cool. May I hear her testimony? [LR344]

SENATOR NORDQUIST: Yeah, I think you'll be able to, yep. Yep. [LR344]

TERESA GHILARDUCCI: Thanks. [LR344]

SENATOR NORDQUIST: Thank you. Go ahead. [LR344]

SARAH MYSIEWICZ: (Exhibit 8) Sure. Thank you very much for having me today. I would like to discuss the current status of retirement security in the United States briefly. I know you've heard a lot of statistics, but as the daughter of a teacher, I know the more times you hear it the more it sticks. So we'll go through a few of those. I will also explain the options that other state legislatures have explored and touch on some common opposition concerns. And just so you know, I'm actually a senior legislative representative from AARP's national office and I cover pensions and budgets and taxes for all 50 states. Our nation and its working families face an unprecedented crisis--a vast retirement savings deficit, estimated to be as much as $6.6 trillion. And that works out to be about $57,000 per household. To give you an idea of how dire the situation is, there are some startling statistics out there. Currently, one in ten Nebraskans age 65 or older lives in poverty, and that's actually a little better than the national average which is one in six. Half of those 65 and older had an annual income of less than $18,500. And for nearly 20 percent of Nebraskan seniors, Social Security makes up 90 percent or more of their family income. And over 50 percent of Nebraskan seniors rely on Social Security for 50 percent or more of their family income. It's clear that workers are not prepared for retirement, and as baby boomers continue to retire we'll see this crisis grow unless we act now. Social Security provides an essential baseline for income for retirees; however, Social Security alone will not provide enough to pay the bills during our retirement years. The average monthly Social Security benefit is only about $1,200. As things stand today, Social Security will likely be the main source of retirement income for most future middle-class retirees. As this committee knows, Social Security was never supposed to be the sole source of income for retirees. It was intended to be one leg of a three-legged approach to retirement savings. Employer-sponsored retirement plans and individual savings were envisioned as the other critical components. Retirement shows that our nation's current plan for retirement security is inadequate. Boston College's National Retirement Risk Index estimates that 53 percent of households are at risk of having an insecure retirement. That means that they run the risk of not being able to afford everyday items like food, medicine, or utilities. Following the Great Recession, retirement savings rates remain inadequate. According to the National Institute on Retirement Security, the typical working-age household has only $3,000 in retirement assets, while near retirement households have only $12,000. That's less than we previously estimated. What is even more alarming is that these are the people who are ahead of the game because they are actually planning ahead and saving. Three out of five families headed by a person 65 or older has no money in a retirement savings account, three out of five people. Lest you think this isn't a problem locally, in Nebraska 458,000 workers, or roughly 43 percent, do not even have access to retirement plans let alone savings. Planning for retirement is an even greater burden for economically disadvantaged groups, people of color, young people, and part-time employees because they have the lowest access rates to employer-sponsored savings plans. If nothing is done now, the state budget will be saddled with a growing burden in the future, as older adults are forced to rely more and more on public safety net programs. There are some simple steps that we can take to avert this crisis, however. For instance, we know that when offered the opportunity to save for retirement at work, seven out of ten people choose to participate. The current political climate in Washington makes a federal solution to the problem seem a long way off. Thus, AARP has begun to take a state-centered approach to filling the retirement savings gap. We have worked with nearly a dozen state legislatures in consideration of a wide array of approaches to this crisis, including Auto IRA, Secure Choice, and other savings models. I have attached to this testimony a synopsis of recently enacted and considered legislation, as well as a comparison chart of the main components of these plans. It's Appendices A and B, if you'd like to see, and they cover some very basic questions that I think the committee would be wise to look at as you're studying this as you go forward, such as are employer contributions required, are employee contributions required, is there a liability to the state, those kinds of essential questions that the committee should look at. I would be happy to speak with you about any of the specifics that any of the states have looked at, specifically California, Oregon, Washington, any of those states you may have heard of. So you may have some concerns about taking on retirement security. It's a big question and it will require a big solution. And common questions that we've encountered include: Won't this cost the state a lot of money? The answer to that is that most plans that have been considered by states are self-sustaining. They're paid for through participant fees. Furthermore, AARP believes that Nebraska can't afford not to take action. If older adults do not have enough money for a secure retirement, they will more heavily rely on Medicaid, which, as you know, the state spent nearly $373 million for Medicaid services to Nebraskans over the age of 65 last year alone. These are dollars that Nebraska can spend on other essential services, like education and public safety. By helping people plan for self-sufficiency in retirement, the state will ultimately save money. Another question that we hear is: Won't the state incur new, unfunded liabilities by creating a state-run retirement savings plan? And emphatically, the answer to this question is no. We're looking, and most states have looked at, to find contribution plans which don't create liabilities to the state. These trusts are run separately from the pension funds. They are completely separate entities. Start-up costs can even be borne by the participants of the plan. So the final question we hear often is, why don't people just invest on their own? Can't they just go out and get an IRA or is this really a product that we need? And with a majority of workers relying on Social Security for their retirement income, like I said earlier, we really know that there's a segment of the population that is underserved right now; that the system we have is not working for a large percentage of the people in our state. These folks are not courted by the industry, potentially due to small bank accounts, small balances, or even just a lack of access. Many are under banked. We need to remove the barriers to retirement planning and make it easy and cost-effective for every Nebraskan to save for retirement. So rebuilding the promise of financial security in retirement must include modern, expanded options. We need to explore new models for private sector retirement plans that will allow workers to set aside wages through an easily accessible, safe, and cost-efficient retirement savings vehicle. AARP believes that we all have a right to live with self-reliance and dignity in retirement. And if you have any questions about how that might be possible, feel free. [LR344]

SENATOR NORDQUIST: All right. Thank you for sharing, Sarah. Thank you for coming in to present today. Are there questions from the committee? Seeing none, thank you very much. [LR344]

SARAH MYSIEWICZ: Thank you. [LR344]

SENATOR NORDQUIST: Really appreciate it. All right, Professor. [LR344]

TERESA GHILARDUCCI: Yes, hi. [LR344]

SENATOR NORDQUIST: All right, we're ready. We have your PowerPoint up and just tell us when you need to advance a slide. But go right ahead. [LR344]

TERESA GHILARDUCCI: (Exhibit 6) Oh great. And I'm sorry I couldn't be with you. I really would have liked to come. It's at the end of the semester. But I wanted to share with you Nebraska-relevant data and numbers that may help you really focus the very good description you just heard about the national retirement crisis. Much of it applies to Nebraska. But my testimony will show why Nebraska needs a creative, innovative way for Nebraska private sector workers to save for retirement. Before I start, I want to emphatically say, as an economist, that behavioral economics has made great headway in helping us understand why people might not save, because they don't think about the future or they are overconfident, all the reasons we've heard that blame human nature or blame the victim. We believe, by looking at all kinds of people and all the ways that they saved, that that's not the main problem. The main problem is that many workers don't have access to effective and safe institutions that will help them save. So the biggest problem in Nebraska is not that people want to go to the mall and use their credit cards or short term and don't save in individual retirement accounts that are available at banks. The reason they don't save for retirement and they are heading for poverty or near poverty when they retire is because they don't have access to a retirement plan where they work and they're not able to divert their earnings into the retirement plan and consistently, you know, for every paycheck. So the first slide is titled that Nebraska workers' access to retirement accounts is eroding. Advance to the second slide, if you will. [LR344]

SENATOR NORDQUIST: Okay. [LR344]

TERESA GHILARDUCCI: So here we have used national data for every state, and Nebraska is no different than 49 percent of...49 out of the 50 states. In 2001, most men and women had some access to a retirement plan at work. And let me be clear here. When I say an employer-based retirement plan, I'm talking about 401(k)s and traditional pension plans. So two-thirds were saving in some way for retirement, but steadily, for 11 years, just like in the rest of the United States, Nebraska workers had less access. A little more than half of men and women had access, but it's a strong (inaudible) decline. It has nothing to do with the recession. It's a phenomena that's happening in middle-income...in middle-size firms and large firms. They're just avoiding having a 401(k) plan or a defined benefit plan at all. Please advance to the third slide. This slide actually was shocking to us. It wasn't just middle-income workers or low-income workers that lost access to a form of savings at work. It was also high-income workers. So 71 percent of high-income workers have access to a retirement plan, not all workers, but 81 percent did so just 11 years ago. And again you see that less than half 11 years ago of low-income workers were saving for retirement who had the ability to save for retirement, and in 2012 only 39 percent have it. So it's hitting everybody at all levels. And you can go to the next slide. This drives home the point that it's not just small firms or medium-size firms that are avoiding providing retirement savings for their workers. It's also large firms are just not bothering to do so. So--and again, this is Nebraska-focused data--only 77 percent of very large firms in Nebraska offer a 401(k) plan or a defined benefit plan at work. In 2001, it was almost all large firms, 88 percent of firms. So, yes, it's a small-firm problem. People who work with small firms are less likely to have access to retirement. But it's happened at all levels of firms and all income of workers. So take my concluding slide is that 43 percent of all working-age adults in Nebraska are not covered by any kind of plan at all, and this is about a million workers. And it's even worse if we look at participation. I didn't run those numbers for you; I could. But note that if people have a traditional pension plan at work, they have to participate. You're in a traditional plan, you just basically are thrown into the plan. But people who are offered 401(k) plans are offered it on a voluntary basis. So if we actually took these...the numbers of people who have a plan at work that don't even participate, it's about half of the people in Nebraska are not participating in a retirement plan. And then I only refer you to the previous testifier to imagine the consequences of only relying on Social Security. So I'm just coming in behind your previous testimony of testifiers to say that in Nebraska you need some way for everybody to save for their retirement. So I'm done. [LR344]

SENATOR NORDQUIST: Great. Thank you. So kind of to hit the nail on the head, why specifically are we seeing more employers not offer? Is it just... [LR344]

TERESA GHILARDUCCI: Yes. [LR344]

SENATOR NORDQUIST: ...it's just the recordkeeping burden or...of maintaining the plan? [LR344]

TERESA GHILARDUCCI: Yeah. No, we...I didn't send you my peer-reviewed journal article with all the regressions in it, but we here on our team in New York have really pounded away at that issue, and we have a couple of answers. There is some issue among small- and medium-size employers that setting up a 401(k) plan is expensive. They're also a little suspicious of the vendors. The vendors come in and say, hey, we got this fleet of fancy vehicles for your workers to save, and all you have to do is just bring us in as the vendor and have your employees pick and choose among all these asset classes. Some employers, they don't like the expense of it and they also don't like offering their employees things they don't themselves understand. But we're also seeing that a big reason for the decline in retirement sponsorship is actually a decline in what we call bargaining power of workers. Workers have lost unions, and the persistent high levels of unemployment mean that workers really don't have much, you know, oomph or power or ability to ask their employers to provide a whole host of employee benefits, including retirement income. And we also see employers, you know, try to do the right thing. They're not getting pushed from employees to provide employee benefits, including retirement accounts. And they're also worried about competitors that don't provide anything but wages. So even if the employers wanted to provide some retirement account, they feel like they are at a competitive disadvantage if they do. There's a number of reasons, but a lot of it has to do with more competition, employers that don't provide anything kind of win out, and workers don't have bargaining power. If there was a plan where...and a change in norm where all the employers did the same thing, then employers who wanted to do the right thing would not be at a disadvantage. [LR344]

SENATOR NORDQUIST: Great. What...are most of the employers that are offering plans at work, what percent of those have you seen nationally are making a contribution? [LR344]

TERESA GHILARDUCCI: Yeah. [LR344]

SENATOR NORDQUIST: I mean do some of them just set up an account and don't make any matching contribution? [LR344]

TERESA GHILARDUCCI: Yeah, it's like you're reading our mind. So we did look at whether or not employers who set up a voluntary plan are actually making the voluntary match. And it turns out at any one point in time most employers do make the voluntary match; however, they often stop the match for whatever their (inaudible) reason is or in the big recession. So in the big recession of 2008-2009, one-fifth of employers stopped matching altogether, and that actually matters. When employers don't put in money, then workers don't bother. So there's a huge hole in the voluntary, individual directed system we have and the Nebraska employers have embraced, and the holes mean that people don't save consistently for retirement. There's also a problem with these 401(k)s being very costly, especially for lower-income people with small accounts. But the main problem is they just don't participate at all. [LR344]

SENATOR NORDQUIST: Okay. Any other questions from the committee? Seeing none, I thank you for joining us. We really appreciate it. [LR344]

TERESA GHILARDUCCI: Hope I can come there in person some time. [LR344]

SENATOR NORDQUIST: We'd love that. Thank you. Next, Jeff States, come on up. Thanks, Jeff. Welcome. [LR344]

JEFF STATES: Mr. Chairman, members of the committee, my name is Jeff States, J-e-f-f S-t-a-t-e-s, and I'm the Nebraska State Investment Officer. I am really...or I am here to primarily just comment on the...I guess the administrative aspects of implementation of this. I heard our representatives talk about a state-sponsored savings option and how you might accomplish that, but also heard the conversation that it needs to be done at minimal management fees. And I guess I would only comment that it's no easier for the state than it is for the private sector, to some extent, to provide a product that's going to be inexpensive. I think you had the discussion about the College Savings Plan in your last program. It's a good example of a state-sponsored program. We have program management fees associated with that, as well as then the embedded. If you provide mutual fund options through a program like we do there, so you have a well-diversified portfolio, the same management costs. And so administratively that's the most efficient way for the Investment Council, if it was a duty that we became involved in, in trying to provide options, because we're not separately staffed administratively to try and run the money internally, and I don't think internally we would necessarily be much more cost-effective. And I guess I would comment that whether it's a college savings model or something else, there are administrative and recordkeeping type systems. And so I would only ask the committee, and I know you would, to be well-aware of the administrative issues that we would have with respect to being able to set something up and making it achieve multiple roles, and that, I guess as a Retirement Board member, I certainly wouldn't discount the fact that it's an important public issue that people save. [LR344]

SENATOR NORDQUIST: Uh-huh. Yeah. [LR344]

JEFF STATES: Maybe I should stop there, I think. [LR344]

SENATOR NORDQUIST: All right. Are there any questions from the committee? So any...legal counsel wanted me to ask about any IRS challenges about...with the Investment Council handling, if they were to. [LR344]

JEFF STATES: Well, as I said, I don't know. And I will be honest that, although I'm aware that California and a few states have done some things, I'm not sure how they structurally have addressed the issue of moving from managing basically public money or publicly derived money, whether we would have issues, at least as the Investment Council, with offering a service to the private sector and whether there would tax issues or not. I mean I can tell you...I mean it's probably obvious to you, we can't offer tax advantages to people that aren't already available under the Internal Revenue Code, whether it's a 401(k) type vehicle or something else. So in that vein, I'm not sure how we provide a product necessarily that is incenting a way to reduce the cost of what's currently available, at least to do it at a minimum cost. [LR344]

SENATOR NORDQUIST: Uh-huh. Okay. Okay. Thank you. [LR344]

JEFF STATES: Sure. [LR344]

SENATOR NORDQUIST: Any other questions? Seeing none, thank you. [LR344]

JEFF STATES: Uh-huh. [LR344]

SENATOR NORDQUIST: Any other testifiers wishing to testify on this legislative resolution? If not, that will conclude our hearing on LR344. Thank you. [LR344]