



# Horizons

The newsletter for Nebraska's 529 Direct and Advisor College Savings Plan account owners.

FALL 2013

## Message from the Nebraska State Treasurer

As the end of the year draws near, it's a good time to consider making an additional contribution to the NEST account you own as a unique holiday gift to a child or grandchild. A contribution to a child's NEST account is a thoughtful way to celebrate the holidays or a special occasion. It's also a way for you to offer encouragement and show your confidence in a child's future. As we say at NEST, we encourage children to dream about their futures and parents and grandparents to save for those dreams.

This is also the time of year when you begin to think about how best to maximize your savings through your account with NEST. If you are a Nebraska taxpayer, contributions made before Dec. 31, 2013, entitle you to savings on your Nebraska state income tax next April. An account owner—either single or a married couple—who contributes to a NEST plan and files Nebraska state

income tax can deduct up to \$5,000 of contributions per year. This equates to \$2,500 per year if married filing separately. To qualify, contributions must be completed online or postmarked by Dec. 31.

Grandparents, too, can take advantage of the Nebraska income tax deduction by opening and contributing to their own NEST accounts for their grandchildren. Heed a word of caution, though: grandparents cannot claim a deduction by making contributions to an account owned by the child's parents. The account must be owned by the grandparents in order for them to claim a deduction.

NEST account owners should also consider taking advantage of the annual federal gift tax exclusion—up to \$14,000 per beneficiary—by contributing to a NEST account before year-end.

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## Starting a family gifting tradition is the **BEST. GIFT. EVER.**

Many NEST account owners are starting a feel-good family gifting tradition. They are opening NEST accounts and contributing in a meaningful way—both on an ongoing basis and for special occasions. This doesn't necessarily mean in place of the beloved doll, truck, or gaming system. But it means keeping these moments in mind as a time to also make a contribution to a NEST account. Think birthdays, preschool graduation, beginning of kindergarten, and, of course, throughout the holiday season. Every family has different ways to celebrate, and when family and friends do the same, these gifts add up. Grandparents, aunts, uncles, and important family friends can give the gift that truly will last a lifetime—a NEST 529 College Savings account.

They can open their own accounts, or they can easily contribute to your already-established account.

To help encourage the tradition of giving, NEST is offering a Dear Grandchild Drawing in November. Simply write a letter to the children in your life telling them what dreams you have for them and why you think it's important that they go to college. Then, send it to us with your information. All letters will be entered into a drawing and four winners will each receive a \$2,000 contribution into a NEST account. Start your family's gifting tradition today—don't forget to invite family and friends to join in. Go to [NEST529Direct.com](http://NEST529Direct.com) to see all the great options for giving the gift of higher education, the **BEST. GIFT. EVER.**

## Market Commentary



**Kurt Spieler, CFA**  
Vice President,  
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The stock market has continued its strong advance with the S&P 500 Index up 19.6% through July.<sup>1</sup> With earnings per share growth of 6.2% expected for the next year, the majority of returns have been from an increase in market valuation.<sup>2</sup> On a historical basis, equity valuations are close to average with the S&P

500 trading on an estimated price-to-earnings (P/E) ratio of 15.3x.<sup>3</sup> Based on this valuation, we expect more modest stock market returns going forward. International markets continue to lag the U.S. stock market due to concerns on the global economy and the recent strength of the U.S. dollar.

Economists are becoming more confident on the sustainability of the U.S. expansion with the 2nd quarter GDP growth report +1.7%.<sup>4</sup> The U.S. economy is being driven by consumption and investments, including housing, with government spending relatively flat as compared to 2012. In this slow growth environment, companies continue to exceed sales and earnings expectations. For the 2nd quarter, 54% of

companies have exceeded revenue expectations and 73% surpassed their earnings estimate.<sup>5</sup>

On fixed income, the debate on when the Federal Reserve will end quantitative easing continues. The fixed income market has turned negative in anticipation of “tapering” of the Federal Reserve Treasury and mortgage-backed security buying later this year. Bond returns are slightly down (-1.1%) in 2013.<sup>6</sup> If the returns stay negative in the fixed income market, 2013 will represent the first down year in bonds since 1994.<sup>7</sup> Due to their low volatility and almost zero correlation with equities, the fixed income market continues to offer investors portfolio stability if the U.S. economy falls into a recession and/or the stock market undergoes a correction.

1 Measured by the S&P 500 Index, July 31 year-to-date returns

2 Bloomberg, S&P 500 estimated earnings per share growth

3 Bloomberg, S&P 500 P/E valuation

4 Bloomberg, Bureau of Economic Analysis

5 FactSet, S&P 500 sales & earnings 2nd quarter results as of Aug. 1, 74% of companies reported

6 Measured by the Barclays Capital Intermediate Government/Credit Index, July 31 year-to-date returns

7 Zephyr StyleADVISOR, Calendar returns of the Barclays Capital Intermediate Government/Credit Index

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## Vanguard Equity Income Fund—who should invest?

Investors in the NEST Direct College Savings Plan who are looking for a combination of current dividend income and the potential for capital appreciation may wish to consider Vanguard® Equity Income Fund Individual Investment Option as the stock portion of a diversified portfolio. The fund, which is offered by The Vanguard Group, Inc. (Vanguard), invests primarily in mid- and large-cap companies whose stocks pay an above-average level of dividend income.

### What are the benefits?

Since the fund typically invests in companies that are dedicated to consistently paying dividends, it may have a higher yield than other stock mutual funds, while still allowing for long-term capital growth.

### What are the risks?

The fund's emphasis on slower-growing, higher-yielding companies can also mean that its total return may not be as strong in a significant bull market that favors growth-oriented companies. The fund is also subject to stock market risk (the risk of overall stock declines), investment-style risk (the risk

that mid- and large-cap stocks will underperform the overall stock market), and manager risk (the risk that poor security selection or focus in a certain market sector will cause the fund to underperform similar funds).

### Who advises the fund?

Vanguard and Wellington Management Company, LLP—two of the nation's most respected investment managers—each manage a portion of the fund's assets. Both advisors perform extensive research to identify undervalued dividend-paying companies with the potential for share-price appreciation.

### How does the fund stack up against other similar funds?

The fund's low costs can help investors keep more of their returns.

### Notes:

*Past performance is no guarantee of future results. Diversification does not ensure a profit or protect against a loss. All investments are subject to risk, including the possible loss of the money you invest. Prices of mid-cap stocks often fluctuate more than those of large-company stocks.*

## Scholarship Corner

### They'll Always Dream Big. Be Ready.

We're excited to announce NEST as the Official Sponsor of Big Dreams and introduce our Big Dreams national campaign and video contest.

Kids don't need any help dreaming big; they've already got that market cornered. NEST celebrates the powerful imagination and joy of childhood—and all the hope that's wrapped up in young ambitions. Those big dreams evolve into grown-up realities. By saving for college with NEST, you are doing your part to help make big dreams come true for the child in your life. Children keep growing. We can't stop that. But by saving for the future, we can make sure they are ready to take their dreams out into the world.

See below for details on our Big Dreams Video Contest (open through Oct. 31) with more than \$18,000 in scholarships that will go to winners, including a \$10,000 grand prize!

### NEST Big Dreams Video Contest

Make us laugh! Make us cry!

Go to [NESTBigDreams.com](http://NESTBigDreams.com) to submit a video of your child (8 and under) talking about their Big Dreams. Then, ask your family and friends to vote for your video. Videos are being accepted and voted on through Oct. 31. Taking the time to make a short video—it can be as simple as a smartphone video—could win a \$10,000 grand prize scholarship. In addition to the grand prize, there will be a \$5,000 second place prize and a \$2,500 third place prize. And the first 25 people to submit a video will receive \$25 into a NEST account.

Go to [NESTBigDreams.com](http://NESTBigDreams.com) today to get all the details, enter your video and vote for your favorites.



### Fantastic Future Me

The Fantastic Future Me Tour to Nebraska children's museums is now at its third stop at KidZone-Kearney Area Children's Museum in Kearney. The first 50 new accounts at each of the five children's museums where the exhibit is stopping will each receive a \$25 bonus. Also, one winner from each location will be drawn from all new accounts to win a \$1,000 scholarship. The exhibit will be in Kearney until Nov. 17. Following Kearney, it will be in North Platte and Norfolk.



### NEST on the Farm

The NEST on the Farm essay contest was open to children of farm families across Nebraska, ages 7-13, and awards were presented at Husker Harvest Days on Sept. 11. The winners of the \$3,500 scholarships were Landri L. of Litchfield, Allison R. of Indianola, and Leigh J. of Bancroft. Three runners-up, Madyson S. of Wayne, Sophia H. of Belden, and Abby H. of Cairo, each received \$1,000.

*NEST on the Farm award presentation with Nebraska State Treasurer, left to right: Madyson, Abby, Landri, Leigh, and Allison. Sophia was not able to attend.*



For more details about the winners and all of our current promotions, go to the website.

## Voice of the Customer

Commonly asked questions from our customers.

**Q:** How long does it take for you to send my qualified withdrawal to my child's college?

**A:** We process your qualified withdrawal request on the day it is received and checks are sent within two business days. Remember to request your qualified withdrawal at least two weeks in advance of any due date to ensure the funds are delivered with time to spare.

**Q:** I've heard that the NEST 529 Plan is a good way to help with estate planning—what does that mean?

**A:** Good question. Contributions to your NEST 529 account are removed from your taxable estate, yet remain under your full control as the account owner. Annually, you can contribute up to \$14,000 per beneficiary from your federal taxable estate, without incurring a gift tax. It may make sense to

transfer large gifts at the beginning of a calendar year to take advantage of compounding interest.

See the NEST Program Disclosure Statement for more information and consult a tax professional for advice. Restrictions may apply.

**Q:** My wife and I started a 529 account for our granddaughter a couple of years ago. How do I know if I am saving enough?

**A:** The NEST website has great tools to help you define your savings goals. On NEST529Direct.com, click Planning to Save and on NEST529Advisor.com, click Planning Tools. These sections help you gain insight into college costs, how to reduce college expenses, determine how much you can afford, and calculate how much you should save. If you are working with a financial professional, have discussions regarding integrating college savings into your financial plan. Remember to re-evaluate how much to save as circumstances change.

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### Contact Us

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*The NEST Direct and NEST Advisor Plans are sponsored by the State of Nebraska and administered by the Nebraska State Treasurer. The NEST Direct and NEST Advisor Plans offer a series of investment portfolios within the Nebraska Educational Savings Plan Trust, which offers other investment portfolios not affiliated with the NEST Direct or NEST Advisor Plans. The NEST Direct and NEST Advisor Plans are intended to operate as qualified tuition programs to be used only to save for qualified higher education expenses, pursuant to Section 529 of the U.S. Internal Revenue Code.*

*An investor should consider the Plans' investment objectives, risks, charges, and expenses before investing. The Program Disclosure Statements, at [www.NEST529Direct.com](http://www.NEST529Direct.com) or [www.NEST529Advisor.com](http://www.NEST529Advisor.com), which contain more information, should be read carefully before investing.*

*Investors should consider before investing whether their or their beneficiary's home state offers any state tax or other benefits that are only available for investments in such state's qualified tuition program and should consult their tax advisor, attorney and/or other advisor regarding their specific legal, investment, or tax situation.*

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Participation in the Plans does not guarantee that contributions and the investment return on contributions, if any, will be adequate to cover tuition and other higher education expenses, or that a beneficiary will be admitted to or permitted to continue to attend an eligible educational institution.

Except for the Bank Savings Individual Investment Option, investments in the NEST Direct and NEST Advisor Plans are not guaranteed or insured by the FDIC or any other government agency and are not deposits or other obligations of any depository institution. Investments are not guaranteed or insured by the State of Nebraska, the Nebraska State Treasurer, the Nebraska Investment Council or First National Bank of Omaha or its authorized agents or their affiliates, and are subject to investment risks, including loss of the principal amount invested. FDIC insurance is provided for the Bank Savings Individual Investment Option up to the maximum amount set by federal law, currently \$250,000.

**Nebraska Educational Savings Plan Trust** Issuer

**Nebraska State Treasurer** Trustee

**Nebraska Investment Council** Investment Oversight

**First National Bank of Omaha** Program Manager

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