



Horizons

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

WINTER 2014

Message from the Nebraska State Treasurer

Thank you from the Nebraska Educational Savings Trust (NEST) for believing in us and for trusting us with your resources. Looking back over 2014 and looking forward to 2015, the common theme is gratitude for you and your families. Pause for a moment to soak in our sincere appreciation.

Thank you for establishing a NEST college savings account and for maintaining that account with regular contributions and payroll deductions and for participating in our automatic investment plan (AIP).

Thank you for trusting NEST with your savings. Your trust is well earned, according to Morningstar. The NEST Direct and NEST Advisor Plans were among the largest 21 college savings plans in the country to be rated by Morningstar and, for the second consecutive year, received Bronze ratings.

Thank you for encouraging your children to enter our contests that provided a total of more than \$100,000 last year in NEST scholarships for reading, writing, painting, and drawing. And thank you to the 400-plus grandparents who

penned touching letters to their grandchildren about the value of education in our Dear Grandchild drawing.

Thank you for increasing your contributions as part of our bonus incentives, and thank you to young parents especially for establishing accounts for children under age 8 in our Kick Start bonus program.

Thank you for attending our big events, including our outdoor NESTFest celebrations and Fantastic Future Me exhibits in children's museums and libraries across Nebraska, our home state.

Thank you for listening to our message about encouraging your child to dream big and to start saving for those dreams when your child is young. And for remembering that NEST plans can be set up by grandparents, aunts, uncles, family friends, and even savers themselves who are looking forward to finishing college or going on for advanced degrees.

Thanks to every single one of you, all 220,000 proud NEST account owners in every corner of the United States. Thank you.

A New Year to Save

Resolve to save for college in the new year. Here are our Top 5 Ways to save more in 2015!

- 1. Tax Refund**—Put your tax refund to good use. Contribute it to your NEST account.
- 2. AIP**—Check out our new auto-annual increase function to make your life easier.
- 3. Gifts**—Ask friends and family to contribute to your account for your child's birthday, holiday, and special occasions. Sign up for Ugift[®] if you haven't already. It's now better and easier than ever.
- 4. Rewards**—Sign up for Upromise[®] and be rewarded for everyday purchases. Get rewards for shopping online, filling your gas tank, dining out, and more.
- 5. Scholarships and Bonuses**—Did you know that NEST awards more than \$100,000 annually into NEST 529 accounts? From writing to drawing to increasing your AIP, NEST wants to help you save. Check our website often for the most recent offerings at NEST529.com/scholarships or NEST529Advisor.com/scholarships.

Fund Change

Effective February 6, 2015, the PIMCO Total Return Bond Fund (PTTRX) will be replaced in age-based and static portfolios and as an individual investment option with the MetWest Total Return Bond Plan Fund (MWTSX).

This change will not be counted toward the investment option change limit. For more information, please read the enclosed Plan Supplement dated December 31, 2014.

Market Commentary



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The U.S. economy continues to be resilient relative to the global economy with third quarter gross domestic product (GDP) growth of 3.9%.¹

Consumers, business investment, and government spending are contributing to the economic activity. Gains in private employment and the decline in the unemployment rate to

5.8% are supportive of continued consumption growth.² U.S. manufacturing and non-manufacturing indexes are close to their highest levels since the recession.

The stock market underwent a modest correction in September and October on global economic concerns. The subsequent market rebound was even sharper with the S&P 500 closing at record highs in October and November. At the micro level, corporate financial strength and earnings growth continue to be supportive of equities. Year to date, the S&P 500 return is +14.0%, whereas U.S. small-cap and mid-cap returns are more modest at +8.9% and +2.8%, respectively.³ International and emerging market equity returns have lagged U.S. large cap returns. In fixed income, yields continue to be

low with the 10-year Treasury yield decreasing in October and November. Bond market returns are positive, with the Barclay's index up +3.5% in 2014.⁴

U.S. leading economic indicators (LEI) point to continued growth in our economy, with 9 of 10 indicators improving.⁵ The strength of the U.S. dollar and decline in oil prices may weigh on exports and oil & gas exploration and production. Consumers, however, should benefit from lower retail gas prices. Higher consumer confidence is also a positive as we enter the holiday shopping season. In terms of valuation, the estimated price-to-earnings ratio is 17.2x for the S&P 500.⁶ This above-average valuation level seems reasonable but may limit future stock market returns. On a relative basis, equities remain more economical than fixed income and continue to be appropriate for long-term investors.

- 1 Bloomberg, Bureau of Economic Analysis
- 2 Bloomberg, Bureau of Labor Statistics
- 3 Measured by S&P 500, S&P 400, S&P 600, November 30th year-to-date returns
- 4 Measured by the Barclays Capital Intermediate Government/Credit Index, November 30th year-to-date returns
- 5 Bloomberg, Conference Board
- 6 Bloomberg, S&P 500 Index P/E Valuation as of November 30th

Year-end Tax Considerations

Tips for Completing Nebraska Schedule I Tax Form

- Remember to report your 2014 NEST contributions on your 2014 Nebraska state income tax return. To be eligible, contributions must be completed online or mailed by Dec. 31.

The image shows the top portion of the Nebraska Schedule I tax form for 2014. It includes the Nebraska Department of Revenue logo, the title 'Nebraska Schedule I — Nebraska Adjustments to Income', and the year '2014'. Below the title, it says '(Nebraska Schedule II reverse side.)' and 'Attach this page to Form 1040N.' The form is divided into sections for 'Name on Form 1040N' and 'Social Security Number'. The main title of the form is 'Nebraska Schedule I — Nebraska Adjustments to Income for Nebraska Residents, Partial-Year Residents, and Nonresidents'. Below this, it says 'Part B — Adjustments Decreasing Federal AGI'. At the bottom, there are two rows of data: '60 Nebraska College Savings Program contribution (see instructions) 60 00' and '61 Nebraska Long-Term Care Savings Plan contribution 61 00'.

- Account owners are eligible to receive a tax deduction of up to \$10,000 (\$5,000 if married, filing separately) for contributions they make to their own NEST accounts. Contributions in excess of \$10,000 cannot be carried over to a future year.⁷
- Only account owners can take the tax deduction.
- Both the contribution and earnings portion of funds from a non-Nebraska 529 plan that were deposited into a NEST Plan are eligible to receive the tax deduction.

- Contributions made to another state's 529 college savings plan are not deductible from the Nebraska state income tax. Do not include those contributions on your Nebraska tax form.

Getting a Tax Refund?

It's easy to put your tax refund to work in your NEST 529 account. If the refund check is made payable to you, you can endorse the check over to the "NEST Direct Plan" or the "NEST Advisor Plan" and include a contribution coupon or write your NEST account number on the check. If the refund is received electronically, you can send a personal check or log on to your account and send an Electronic Funds Transfer directly from your bank account.

Account Owners from Other States

Does your or your beneficiary's home state provide tax deductions or other benefits for 529 college savings contributions? If so, review your statement to see if you should make additional contributions to maximize your benefit. Taxpayers may wish to seek tax advice from an independent tax advisor or their financial advisor based on their own particular circumstances.

⁷ Nebraska state tax deductions are subject to recapture if you cancel the Participation Agreement, a non-qualified withdrawal is taken, or if assets are rolled out of a NEST Plan.

Scholarship Corner

Congratulations to our 2014 Draw Your Dreams Scholarship winners. Twelve young artists from Nebraska each received \$1,000 in a NEST account. Here are the winning drawings.



Alexandra, fourth grade, Papillion



Ava, first grade, Litchfield



Benjamin, eighth grade, St. Helena



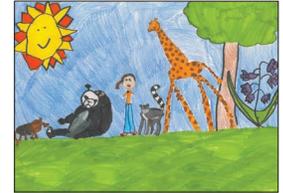
Braeden, second grade, Papillion



Burke, fourth grade, Papillion



Connor, eighth grade, Omaha



Karsyn, second grade, Omaha



Kennady, fifth grade, Dodge



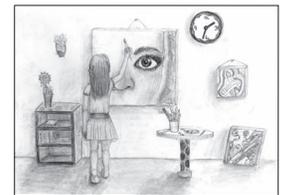
Kolton, fifth grade, Blair



Marissa, eighth grade, Omaha



Morgan, kindergarten, Lincoln



Mya, seventh grade, Lincoln

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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 or 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.

This material is provided for general and educational purposes only, and is not intended to provide legal, tax, or investment advice, or for use to avoid penalties that may be imposed under U.S. federal tax laws. This material is not an offer to sell or a solicitation of an offer to buy any securities. Any offer to sell units within the Plan may only be made by the Program Disclosure Statement and Participation Agreement relating to the Plan.

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

First National Capital Markets Principal Distributor, Member FINRA, Member SIPC

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Nebraska State Treasurer, Trustee

Investments Are Not FDIC Insured* | No Bank, State or Federal Guarantee | May Lose Value

*Except the Bank Savings Individual Investment Option

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Program Manager