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# State of Wisconsin

## Retiree Health Insurance Plan

### 2020 GASB 75 Employer Schedules

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# STATE OF WISCONSIN | Legislative Audit Bureau

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Joe Chrisman  
State Auditor

## **Independent Auditor's Report on the Employer Schedules and Other Reporting Required by *Government Auditing Standards***

Senator Robert Cowles and  
Representative Samantha Kerkman, Co-Chairpersons  
Joint Legislative Audit Committee

Mr. Joel Brennan, Secretary  
Department of Administration

### **Report on State Retiree Health Insurance Employer Schedules**

We have audited the accompanying Schedule of Employer Allocations of the State Retiree Health Insurance program as of and for the year ended June 30, 2019, and the related notes. We have also audited the totals for all entities, referred to as specified column totals for the columns titled Ending Total OPEB Liability, Total Deferred Outflows of Resources, Total Deferred Inflows of Resources, and Total Employer OPEB Expense included in the Schedule of OPEB Amounts by Participating Employer of the State Retiree Health Insurance program as of and for the year ended June 30, 2019, and the related notes.

#### **Management's Responsibility for the Employer Schedules**

Management of the Department of Administration (DOA) is responsible for the preparation and fair presentation of these schedules in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedules that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on the Schedule of Employer Allocations and an opinion on the specified column totals included in the Schedule of OPEB Amounts by Participating Employer based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, which is issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule of Employer Allocations and the specified column totals included in the Schedule of OPEB Amounts by Participating Employer are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule of Employer Allocations and specified column totals included in the Schedule of OPEB Amounts by Participating Employer. The procedures selected depend

on the auditor's judgment, including the assessment of the risks of material misstatement of the Schedule of Employer Allocations and specified column totals included in the Schedule of OPEB Amounts by Participating Employer, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Schedule of Employer Allocations and specified column totals included in the Schedule of OPEB Amounts by Participating Employer in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Schedule of Employer Allocations and specified column totals included in the Schedule of OPEB Amounts by Participating Employer.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the schedules referred to in the first paragraph present fairly, in all material respects, the employer allocations and the Ending Total OPEB Liability, Total Deferred Outflows of Resources, Total Deferred Inflows of Resources, and Total Employer OPEB Expense for the State Retiree Health Insurance program as of and for the year ended June 30, 2019, in accordance with accounting principles generally accepted in the United States of America.

### **Restriction on Use**

Our report is intended solely for the information and use of the Legislature, DOA, the Department of Employee Trust Funds (ETF), the ETF Board, the Group Insurance Board, and State Retiree Health Insurance program employers and their auditors, and is not intended to be and should not be used by anyone other than these specified parties.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated October 9, 2020, and published as report 20-19, on our consideration of DOA's internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, and contracts; and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be used when considering DOA's internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU



Joe Chrisman

State Auditor

October 9, 2020

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**State of Wisconsin Retiree Health Insurance  
Schedule of Employer Allocations  
As of and for the Year Ended June 30, 2019**

<b>Employer Name</b>	<b>Current Year Employer Active Contributions</b>	<b>Current Year Employer Allocation Percentage</b>	<b>Prior Year Employer Active Contributions</b>	<b>Prior Year Employer Allocation Percentage</b>
State Agencies without UW System	\$ 439,460,360	44.5307%	\$ 444,414,209	44.8073%
University of Wisconsin System	437,853,488	44.3678%	435,919,184	43.9508%
UW Hospital	106,167,709	10.7580%	108,236,286	10.9127%
WHEDA	2,083,049	0.2111%	1,983,522	0.2000%
WEDC	1,306,568	0.1324%	1,281,165	0.1292%
<b>Total</b>	<b>\$ 986,871,174</b>	<b>100.0000%</b>	<b>\$ 991,834,365</b>	<b>100.0000%</b>

The accompanying notes are an integral part of this schedule.

State of Wisconsin  
 Retiree Health Insurance  
 Schedule of OPEB Amounts by Participating Employer  
 As of and for the Year Ended June 30, 2019

Employer	Deferred Outflows of Resources						Deferred Inflows of Resources				OPEB Expense		
	Ending Total OPEB Liability	Difference Between Expected and Actual Experience	Changes of Assumptions	Changes in Proportion	Amounts Paid Subsequent to the Measurement Date*	Total Deferred Outflows of Resources	Difference Between Expected and Actual Experience	Changes of Assumptions	Changes in Proportion	Total Deferred Inflows of Resources	Employer's Proportionate Share	Changes in Proportion	Total Employer OPEB Expense
State Agencies without UW System	\$ 303,909,485	\$ 26,641,469	\$ 22,943,630	\$ 442,336	\$ 25,294,216	\$ 75,321,652	\$ 1,313,804	\$ 115,468,487	\$ 5,505,202	\$ 122,287,493	\$ 17,946,228	\$ (580,428)	\$ 17,365,800
University of Wisconsin System	302,798,250	26,544,058	22,859,730	3,587,848	25,201,728	78,193,364	1,309,001	115,046,280	3,922,896	120,278,177	17,880,615	(120,924)	17,759,691
UW Hospital	73,420,442	6,436,218	5,542,870	6,393,360	6,110,742	24,483,190	317,397	27,895,633	1,173,080	29,386,110	4,335,573	681,864	5,017,437
WHEDA	1,440,536	126,278	108,750	137,458	119,895	492,381	6,227	547,322	-	553,550	85,072	15,076	100,148
WEDC	903,559	79,206	68,210	40,304	75,203	262,923	3,906	343,302	128	347,336	53,364	4,412	57,776
<b>Total</b>	<b>\$ 682,472,272</b>	<b>\$ 59,827,228</b>	<b>\$ 51,523,190</b>	<b>\$ 10,601,306</b>	<b>\$ 56,801,784</b>	<b>\$ 178,753,510</b>	<b>\$ 2,950,336</b>	<b>\$ 259,301,024</b>	<b>\$ 10,601,306</b>	<b>\$ 272,852,666</b>	<b>\$ 40,300,852</b>	<b>\$ -</b>	<b>\$ 40,300,852</b>

\*This is calculated from 6/30/19 to 6/30/20. In accordance with GASB standards, employer's with a reporting date after the measurement date need to report a deferred outflow for the subsequent amount paid. The accompanying notes are an integral part of this schedule.

## Notes to the Employer Schedules

### Plan Description

The State of Wisconsin's Health Insurance Plan, defined as a single employer plan under Governmental Accounting Standards Boards Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, is an employer-sponsored program (not administered as a trust) offering group medical coverage to eligible employees and retirees of State and component unit employers. Created under Chapter 40 of the Wisconsin Statutes, the State Department of Employee Trust Funds and the Group Insurance Board have program administration and oversight responsibilities under Wis. Stat. Sections 15.165(2) and 40.03(6). As of January 2019, the most recent actuarial valuation date, there were 62,047 active and 7,934 retirees and beneficiaries participating in the plan. There were also 1,442 vested terminated members that are entitled to receive benefits but are not currently participating.

Under this plan, retired employees of the State and participating component units pay the same healthcare premium as active employees, creating an implicit rate subsidy. The total amount by which the premiums are higher for active employees when they are pooled with inactive employees than when the active employees are separately rated, is referred to as an implicit rate subsidy in relation to the benefits for the inactive employees. The actuarially-determined implicit rate subsidy for pre-age 65 retirees is treated as an other postemployment benefit (OPEB). At age 65, when eligible, retirees are required to enroll in Medicare.

Retiree health insurance OPEB benefits are paid on a "pay-as-you-go" basis. There is no trust and no assets have accumulated for the plan. In fiscal year 2019 participating employers made actuarially-determined contributions of \$40,902,921 for the implicit rate subsidy. That is, the actuary determined that employer paid health insurance contributions for active employees were \$40.9 million higher than they would have been if they were rated separately from retired participants.

### Measurement Focus and Basis of Accounting

The Plan is accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Premiums paid by retirees and benefit expenses are recognized in the accounting period in which the benefits are provided.

## Actuarial Assumptions

The total OPEB liability was determined using the following actuarial assumptions:

Actuarial Valuation Date	January 1, 2019
Measurement Date of Total OPEB Liability	June 30, 2019
Reporting Date	June 30, 2020
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	N/A
Inflation	3.00%
Salary Increases	Separate merit and longevity increase rates by employer and service, plus 3%
Discount Rate	Discount rate was changed to 3.50% for the June 30, 2019 measurement from 3.87% for the June 30, 2018 measurement
Healthcare Cost Trend Rates	
Medical	4.00% for first year then 5.5% grading down 0.25% per year to 4.50%
Prescription Drug	2.10% for first year then 7.5% grading down 0.25% per year to 4.50%
Dental	0.00% for first year then 3.00% thereafter
Administrative Costs	7.30% for first year then 3.00% thereafter
Mortality Rates	Wisconsin 2017 Mortality Table
Benefit Changes	None
Participation Rates	Active: 80% are assumed to elect coverage at retirement, 20% that defer are assumed to be covered over the next 8 years (2.5% per year), so 100% assumed to be covered after 8 years  Deferred: 12.5% per year over 8 years
Assumed Claims	Per capita claims costs were based on premium equivalent rates for plan year 2019 and actuarial factors applied to weighted average premium rates to estimate costs
Termination Rates	Rates for General, Executive and Elected employees matched the 2015-2017 experience study for the pension valuation
Disability Rates	Rates for General, Executive and Elected employees matched the 2015-2017 experience study for the pension valuation
Normal Retirement Rates	Rates for General, Executive and Elected employees matched the 2015-2017 experience study for the pension valuation
Withdrawal Rates	Rates matched the 2015-2017 experience study for the pension valuation
Lapse Rate	10% per year after the later of assumed commencement or the valuation date
Retiree Contribution Increase Rate	Retiree contributions are expected to increase with average benefit trend
Excise Tax	Excise tax was repealed effective December 2019 and has been removed from the valuation  In the prior year, the excise tax on high cost health plans began in 2022  Gross Average Claims were trended using the Plan Blended Medical and Prescription Drug Trend Rate, offset by the 2018 threshold trended at 2.6% for 2018 and the assumed rate of inflation for subsequent periods  The tax was assumed to be 40% of that difference, beginning in 2022
Benefit End Date	Benefits end when participants turn 65 years old

## Discount Rate

The discount rate is equal to the yield or index rate of 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher in accordance with paragraph 155 of GASB 75 pertaining to nontrusted OPEB plans. The information was obtained by the actuary through a copyrighted Bond Buyer subscription.

## Schedule of Employer Allocations

The allocation of the employers' proportionate shares of the OPEB amounts for fiscal year 2020 are based on the percentage of actual employer contributions during fiscal year 2019 to correspond with the measurement date.

## Schedule of OPEB Amounts by Participating Employer

The amount assigned to each employer in the Schedule of OPEB Amounts by Participating Employer is each employer's proportionate share of the Total OPEB Liability, Deferred Outflows of Resources, Deferred Inflows of Resources and OPEB Expense determined in accordance with GASB 75.

The Total OPEB Liability was measured as of June 30, 2019 with an actuarial valuation as of January 1, 2019, adjusted for expected changes from the census date to the measurement date.

Total OPEB Liability – June 30, 2018	\$ 539,703,462
Service Cost	40,276,562
Interest	21,653,755
Differences Between Expected and Actual Experience	65,065,902
Change of Assumptions	56,675,512
Benefit Payments	(40,902,921)
Total OPEB Liability – June 30, 2019	<u>\$ 682,472,272</u>

The Total Deferred Inflows and Outflows of Resources are amortized over the average active participants service life of 11 years. Total Deferred Inflows and Outflows of Resources to be recognized in the current OPEB expense are as follows:

	<b>Outflows of Resources</b>	<b>Inflows of Resources</b>	<b>Net Outflows (Inflows) of Resources</b>
Difference Between Expected and Actual Experience	\$ 5,999,633	\$ (368,792)	\$ 5,630,841
Assumption Changes	5,152,322	(32,412,628)	(27,260,306)
Total	<u>\$ 11,151,955</u>	<u>\$ (32,781,420)</u>	<u>\$ (21,629,465)</u>

Total Deferred Inflows and Outflows of Resources to be recognized in the future OPEB expense are as follows:

	<b>Outflows of Resources</b>	<b>Inflows of Resources</b>	<b>Net Outflows (Inflows) of Resources</b>
Difference Between Expected and Actual Experience	\$ 59,827,228	\$ (2,950,336)	\$ 56,876,892
Assumption Changes	51,523,190	(259,301,024)	(207,777,834)
Total	<u>\$ 111,350,418</u>	<u>\$ (262,251,360)</u>	<u>\$ (150,900,942)</u>

Deferred Outflows and Inflows of Resources will be recognized in future OPEB expense as follows:

Year Ending June 30	Net Deferred Outflows (Inflows) of Resources
2021	\$ (21,629,468)
2022	(21,629,468)
2023	(21,629,468)
2024	(21,629,468)
2025	(21,629,468)
2026-2030	(42,753,602)
<b>Total</b>	<b>\$ (150,900,942)</b>

The total OPEB expense is determined as follows:

Service Cost	\$ 40,276,562
Interest	21,653,755
Recognition of Current Year Deferred Outflows	11,067,404
Recognition of Prior Year Deferred Outflows	84,551
Recognition of Prior Year Deferred Inflows	(32,781,420)
<b>Total OPEB Expense</b>	<b>\$ 40,300,852</b>

### Sensitivity to Changes

Paragraph 167 of GASB Statement No. 75 requires showing the total OPEB liability calculated if the discount rate and healthcare cost trend rates were 1-percentage-point lower or 1-percentage-point higher than the current rates.

The following presents the total OPEB liability as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.50%) or 1-percentage-point higher (4.50%) than the current rate.

	1% Decrease in Discount Rate (2.50%)	Current Discount Rate (3.50%)	1% Increase in Discount Rate (4.50%)
Total OPEB Liability	\$ 728,298,564	\$ 682,472,272	\$ 638,962,383

The table below shows the total OPEB liability calculated if the healthcare cost trend rates were 1-percentage-point lower or 1-percentage-point higher than the current healthcare trend rates. The various healthcare trend rates can be found in the Actuarial Assumptions section of this report.

	1% Decrease in Trend Rates	Current Trend Rates	1% Increase in Trend Rates
Total OPEB Liability	\$ 609,833,186	\$ 682,472,272	\$ 768,558,442