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# State of Wisconsin

## Retiree Health Insurance Plan

### 2024 GASB 75 Employer Schedules

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STATE OF WISCONSIN

# Legislative Audit Bureau

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

Senator Eric Wimberger and  
Representative Robert Wittke, Co-chairpersons  
Joint Legislative Audit Committee

Ms. Kathy Blumenfeld, Secretary  
Department of Administration

### **Report on the Audit of the State Retiree Health Insurance Employer Schedules**

#### **Opinions**

We have audited the Schedule of Employer Allocations of the State Retiree Health Insurance program of the State of Wisconsin as of and for the year ended June 30, 2023, and the related notes. We have also audited the 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, 2023, and the related notes. The schedules were prepared by the Department of Administration (DOA).

In our opinion, the accompanying schedules referred to above 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, 2023, in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinions**

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Employer Schedules section. We are required to be independent of DOA and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### **Responsibilities of Management for the Employer Schedules**

Management is responsible for the preparation and fair presentation of the schedules in accordance with accounting principles generally accepted in the United States of America, and for 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 Responsibilities for the Audit of the Employer Schedules**

Our objectives are 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, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance. Therefore, reasonable assurance is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the schedules.

In performing an audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we exercised professional judgement and maintained professional skepticism throughout the audit. We also identified and assessed the risks of material misstatement of the Schedule of Employer Allocations and the specified column totals included in the Schedule of OPEB Amounts by Participating Employer, whether due to fraud or error, and designed and performed audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the Schedule of Employer Allocations and the specified column totals included in the Schedule of OPEB Amounts by Participating Employer.

In addition, we obtained an understanding of internal control relevant to the audit in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of DOA's internal control. Accordingly, no such opinion is expressed. We also evaluated the appropriateness of accounting policies used and the reasonableness of significant accounting estimates and related disclosures made by management, and evaluated the overall presentation of the Schedule of Employer Allocations and the specified column totals included in the Schedule of OPEB Amounts by Participating Employer.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## **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 our report dated August 12, 2024, and published in report 24-10, on our consideration of DOA's internal control over financial reporting; our testing of its compliance with certain provisions of laws, regulations, and contracts; and other matters. Report 24-10 is available on our website at [www.legis.wisconsin.gov/lab](http://www.legis.wisconsin.gov/lab). The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of DOA's 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 in considering DOA's internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU

*Legislative Audit Bureau*

August 12, 2024

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**State of Wisconsin Retiree Health Insurance  
Schedule of Employer Allocations  
As of and for the Year Ended June 30, 2023**

<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)	\$ 479,894,140	43.0383%	\$ 471,990,893	43.9492%
University of Wisconsin System	501,895,900	45.0115%	478,523,132	44.5575%
UW Hospital	129,130,514	11.5808%	119,663,816	11.1425%
WHEDA	2,500,522	0.2243%	2,253,895	0.2099%
WEDC	1,619,221	0.1452%	1,513,539	0.1409%
<b>Total</b>	<b>\$ 1,115,040,297</b>	<b>100.0000%</b>	<b>\$ 1,073,945,275</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, 2023**

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)	\$ 345,324,507	\$ 47,904,799	\$ 30,294,322	\$ 2,105,616	\$ 24,345,238	\$ 104,649,975	\$ 11,623,316	\$ 82,259,852	\$ 15,035,756	\$ 108,918,924	\$ 26,377,576	\$ (1,803,910)	\$ 24,573,666
University of Wisconsin System	361,156,639	50,101,096	31,683,231	8,589,722	25,461,397	115,835,445	12,156,211	86,031,229	4,131,440	102,318,880	27,586,911	410,065	27,996,976
UW Hospital	92,920,350	12,890,283	8,151,635	8,891,201	6,550,847	36,483,966	3,127,615	22,134,584	703,848	25,966,048	7,097,711	1,352,269	8,449,980
WHEDA	1,799,338	249,611	157,851	231,975	126,853	766,290	60,564	428,621	51,040	540,225	137,442	26,580	164,022
WEDC	1,165,167	161,636	102,217	156,346	82,144	502,343	39,218	277,555	52,776	369,549	89,001	14,996	103,997
<b>Total</b>	<b>\$ 802,366,001</b>	<b>\$ 111,307,425</b>	<b>\$ 70,389,255</b>	<b>\$ 19,974,860</b>	<b>\$ 56,566,479</b>	<b>\$ 258,238,019</b>	<b>\$ 27,006,926</b>	<b>\$ 191,131,841</b>	<b>\$ 19,974,860</b>	<b>\$ 238,113,627</b>	<b>\$ 61,288,641</b>	<b>\$ -</b>	<b>\$ 61,288,641</b>

\*This is calculated from 6/30/23 to 6/30/24. In accordance with GASB standards, employers 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 2023, the most recent actuarial valuation date, there were 61,593 active and 7,802 retirees and beneficiaries participating in the plan. There were also 1,271 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 2023 participating employers made actuarially-determined contributions of \$48,817,475 for the implicit rate subsidy. That is, the actuary determined that employer paid health insurance contributions for active employees were \$48.8 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, 2023
Measurement Date of Total OPEB Liability	June 30, 2023
Reporting Date	June 30, 2024
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	N/A
Inflation	2.40%
Salary Increases	Separate merit and longevity increase rates by employer and service, plus 3%
Discount Rate	Discount rate was changed to 3.65% for the June 30, 2023 measurement from 3.54% for the June 30, 2022 measurement
Healthcare Cost Trend Rates	
Medical	5.32% then 6.75% grading down 0.25% per year to 4.50%
Prescription Drug	6.44% then 8.75% grading down 0.50% per year to 4.50%
Dental	3.00%
Administrative Costs	11.78% then 3.00% every year after
Mortality Rates	Wisconsin 2020 Mortality Table
Benefit Changes	None
Participation Rates	Active: 60% are assumed to elect coverage at retirement, and 2.5% of the 40% that defer are assumed to be covered over the next 5 years (1.0% per year), so 65% assumed to be covered after 5 years  Deferred: 5% per year over 8 years
Assumed Claims	Per capita claims costs were based on premium equivalent rates for plan year 2023 and actuarial factors applied to weighted average premium rates to estimate costs
Termination Rates	Rates for General, University, Protective, Executive and Elected employees matched the 2018-2020 experience study for the pension valuation
Disability Rates	Rates for General, University, Protective, Executive and Elected employees matched the 2018-2020 experience study for the pension valuation
Normal Retirement Rates	Rates for General, University, Protective, Executive and Elected employees matched the 2018-2020 experience study for the pension valuation
Lapse Rate	5% 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
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 2024 are based on the percentage of actual employer contributions during fiscal year 2023 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, 2023 with an actuarial valuation as of January 1, 2023, adjusted for expected changes from the census date to the measurement date.

Total OPEB Liability – June 30, 2022	\$ 717,172,861
Service Cost	54,283,163
Interest	26,452,989
Differences Between Expected and Actual Experience	9,412,972
Change of Assumptions	43,861,491
Benefit Payments	(48,817,475)
Total OPEB Liability – June 30, 2023	<u>\$ 802,366,001</u>

The Total Deferred Inflows and Outflows of Resources are amortized over the average active participants service life of 10 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	\$ 15,316,814	\$ (4,016,186)	\$ 11,300,628
Assumption Changes	9,538,469	(40,286,608)	(30,748,139)
Total	<u>\$ 24,855,283</u>	<u>\$ (44,302,794)</u>	<u>\$ (19,447,511)</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	\$ 111,307,425	\$ (27,006,926)	\$ 84,300,499
Assumption Changes	70,389,255	(191,131,841)	(120,742,586)
Total	<u>\$ 181,696,680</u>	<u>\$ (218,138,767)</u>	<u>\$ (36,442,087)</u>

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

<b>Year Ending June 30</b>	<b>Net Deferred Outflows (Inflows) of Resources</b>
2025	\$ (19,447,514)
2026	(19,447,514)
2027	(19,447,514)
2028	(19,447,514)
2029	13,249,355
2030-2033	28,098,614
<b>Total</b>	<b>\$ (36,442,087)</b>

The total OPEB expense is determined as follows:

Service Cost	\$ 54,283,163
Interest	26,452,989
Recognition of Current Year Deferred Outflows	5,327,449
Recognition of Prior Year Deferred Outflows	19,527,834
Recognition of Prior Year Deferred Inflows	(44,302,794)
<b>Total OPEB Expense</b>	<b>\$ 61,288,641</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 (2.65%) or 1-percentage-point higher (4.65%) than the current rate.

	<b>1% Decrease in Discount Rate (2.65%)</b>	<b>Current Discount Rate (3.65%)</b>	<b>1% Increase in Discount Rate (4.65%)</b>
Total OPEB Liability	\$ 862,535,765	\$ 802,366,001	\$ 746,126,015

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.

	<b>1% Decrease in Trend Rates</b>	<b>Current Trend Rates</b>	<b>1% Increase in Trend Rates</b>
Total OPEB Liability	\$ 717,181,743	\$ 802,366,001	\$ 903,161,266