

Wisconsin Department of Employee Trust Funds

2017 GASB 75 Employer Schedules
State Retiree Life Insurance



GASB 75 Employer Schedules State Retiree Life Insurance Calendar Year 2017

Wisconsin Department of Employee Trust Funds

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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

Members of the Employee Trust Funds Board
Mr. Robert J. Conlin, Secretary
Department of Employee Trust Funds

Report on State Retiree Life Insurance Employer Schedules

We have audited the accompanying Schedule of Employer Allocations of the State Retiree Life Insurance program as of and for the year ended December 31, 2017, and the related notes. We have also audited the totals for the columns titled Beginning Net OPEB Liability (Asset), Ending Net OPEB Liability (Asset), Total Deferred Outflows of Resources Excluding Employer Specific Amounts, Total Deferred Inflows of Resources Excluding Employer Specific Amounts, and Plan OPEB Expense included in the Schedule of Collective OPEB Amounts of the State Retiree Life Insurance program as of and for the year ended December 31, 2017, and the related notes.

Management's Responsibility for the Employer Schedules

Management of the Department of Employee Trust Funds (ETF) 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 Collective OPEB Amounts 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 Collective OPEB Amounts 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 Collective OPEB Amounts. 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 Collective OPEB Amounts, 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 Collective OPEB Amounts 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 Collective OPEB Amounts.

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 Beginning Net OPEB Liability (Asset), Ending Net OPEB Liability (Asset), Total Deferred Outflows of Resources Excluding Employer Specific Amounts, Total Deferred Inflows of Resources Excluding Employer Specific Amounts, and Plan OPEB Expense for the State Retiree Life Insurance program as of and for the year ended December 31, 2017, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have audited the financial statements of the State Retiree Life Insurance program as of and for the year ended December 31, 2017, 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*. In our report thereon, dated October 2, 2018, we expressed an unmodified opinion on those financial statements.

Restriction on Use


Our report is intended solely for the information and use of the Legislature, ETF, the ETF Board, the Group Insurance Board, and the State Retiree Life Insurance program plan employer and its 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 2, 2018, on our consideration of ETF'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 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 ETF's internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU

A handwritten signature in black ink, appearing to read "Joe Chrisman". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Joe Chrisman
State Auditor

October 2, 2018

**Wisconsin State Retiree Life Insurance
Schedule of Employer Allocations
As of and for the year ended December 31, 2017**

Employer Name	Employer Number	2016	2016	2017	2017
		Employer Contributions	Employer Allocation Percentage	Employer Contributions	Employer Allocation Percentage
STATE OF WISCONSIN	0001101-0001199	602,870.06	45.711394%	628,143.36	47.124209%
UNIVERSITY OF WISCONSIN SYSTEM	0001131	569,144.95	43.154256%	552,145.78	41.422762%
UW HOSPITAL AUTHORITY	0001183	142,259.46	10.786534%	147,803.40	11.088422%
HOUSING & ECON DEVELOP AUTH	0001153	3,337.66	0.253071%	3,458.29	0.259446%
WISCONSIN ECON DEVELOP CORP	0001196	1,249.56	0.094745%	1,401.76	0.105162%
Totals		1,318,861.69	100.0000%	1,332,952.59	100.0000%

The accompanying notes are an integral part of this schedule.

**Wisconsin State Retiree Life Insurance
Schedule of Collective OPEB Amounts
As of and for the year ended December 31, 2017**

		<u>Deferred Outflow of Resources</u>				<u>Deferred Inflow of Resources</u>				
<u>Beginning Net OPEB Liability (Asset)</u>	<u>Ending Net OPEB Liability (Asset)</u>	<u>Difference Between Expected and Actual Experience</u>	<u>Net Difference Between Projected and Actual Investment Earnings on OPEB Plan Investments</u>	<u>Changes of Assumptions</u>	<u>Total Deferred Outflows of Resources Excluding Employer Specific Amounts*</u>	<u>Difference Between Expected and Actual Experience</u>	<u>Changes of Assumptions</u>	<u>Total Deferred Inflows of Resources Excluding Employer Specific Amounts*</u>	<u>Plan OPEB Expense</u>	
\$ 405,134,995	\$ 493,546,512	\$ -	\$ 4,738,035	\$ 42,027,078	\$ 46,765,113	\$ (4,515,656)	\$ -	\$ (4,515,656)	\$ 47,538,544	

*Employer specific amounts that are excluded from this schedule are the changes in proportion and differences between employer contributions and proportionate share of contributions as defined in paragraphs 63-64 of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

Notes to the Employer Schedules

Plan Description – The State Retiree Life Insurance Fund (SRLIF) is a single-employer, defined-benefit Other Post Employment Benefit (OPEB) plan. The plan provides post-employment life insurance benefits for all eligible employees of the State of Wisconsin. Employee Trust Funds and the Group Insurance Board have statutory authority for program administration and oversight under Wis. Stats. § 40.70.

Basis of Presentation - The Schedule of Employer Allocations and Schedule of Collective OPEB Amounts (collectively, “the Schedules”) present amounts that are elements of the financial statements of the plan or of its participating employers. Accordingly, they do not purport to be a complete presentation of the financial position or changes in financial position of the plan or its participating employers. The accompanying Schedules were prepared in accordance with accounting principles generally accepted in the United States of America. Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Other Postemployment Benefits Other than Pensions*, requires participating employers in the plan to recognize their proportionate share of the collective Net OPEB Liability (Asset), collective Deferred Outflows of Resources, collective Deferred Inflows of Resources, and collective Plan OPEB Expense.

Schedule of Employer Allocations – The employer allocation percentage is based on the employer’s contribution for the most recent calendar year compared to the total contributions for all employers for the period. The employer allocation percentage is rounded to six decimal places.

Schedule of Collective OPEB Amounts – This schedule presents the Net OPEB Liability (Asset), Deferred Outflows of Resources, Deferred Inflows of Resources, and Plan OPEB Expense for the SRLIF. The employer specific amounts that are not included in the Total Deferred Outflows and Total Deferred Inflows are the changes in proportion and differences between employer contributions and proportionate share of contributions, as defined in paragraphs 63-64 of GASB Statement No. 75. Employers need to calculate these amounts each year.

Total OPEB Liability - The Total OPEB Liability is measured as of December 31, 2017, based on a January 1, 2017 actuarial valuation rolled forward to December 31, 2017 using standard roll-forward techniques as shown in the following table:

Total OPEB Liability – December 31, 2016	\$ 762,569,573
Service cost	26,145,800
Interest on Total OPEB Liability	30,730,654
Effect of economic/demographic gains or losses	(5,265,765)
Effect of assumption changes or inputs	49,008,320
Benefit payments	(17,669,778)
Total OPEB Liability – December 31, 2017	<u>\$ 845,518,804</u>

Collective Net OPEB Liability (Asset) - The components of the collective Net OPEB Liability (Asset) as of December 31, 2017 are as follows:

Total OPEB Liability	\$ 845,518,804
Less Fiduciary Net Position	<u>351,972,292</u>
Net OPEB Liability (Asset)	<u>\$ 493,546,512</u>

The Fiduciary Net Position is 42% of the Total OPEB Liability.

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

Actuarial Valuation Date:	January 1, 2017
Measurement Date:	December 31, 2017
Actuarial Cost Method:	Entry Age Normal
20 Year Tax-Exempt Municipal Bond Yield	3.44%
Long-Term Expected Rate of Return:	5.00%
Discount Rate:	3.60%
Salary Increases	
Inflation:	3.20%
Seniority/Merit:	0.2% - 5.6%
Mortality:	Wisconsin 2012 Mortality Table

Long-term Expected Rate of Return - The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. Investments for the SRLIF are held with Securian, the insurance carrier. Interest is calculated and credited to the SRLIF based on the rate of return for a segment of the insurance carriers' general fund, specifically 10-year A- Bonds (as a proxy, and not tied to any specific investments). The overall aggregate interest rate is calculated using a tiered approach based on the year the funds were originally invested and the rate of return for that year. Investment interest is

credited based on the aggregate rate of return and assets are not adjusted to fair market value. Furthermore, the insurance carrier guarantees the principal amounts of the reserves, including all interest previously credited thereto.

**State OPEB Life Insurance
Asset Allocation Targets and Expected Returns
As of December 31, 2017**

<u>Asset Class</u>	<u>Index</u>	<u>Target Allocation</u>	<u>Long-Term Expected Geometric Real Rate of Return</u>
US Government Bonds	Barclays Government	1%	1.13%
US Credit Bonds	Barclays Credit	65%	2.61%
US Long Credit Bonds	Barclays Long Credit	3%	3.08%
US Mortgages	Barclays MBS	31%	2.19%
Inflation			2.30%
Long-Term Expected Rate of Return			5.00%

Discount Rate – A discount rate of 3.60% was used to measure the Total OPEB Liability for the current year, as opposed to a discount rate of 3.94% for the prior year. The projection of cash flows used to determine the single discount rate assumed that employer contributions will be made according to the current employer contribution schedule and that contributions are made by plan members retiring prior to age 65.

Based on these assumptions, the plan’s fiduciary net position was projected to be insufficient to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the Total OPEB Liability was applied to benefit payments, to the extent that the plan’s fiduciary net position is projected to be sufficient to make projected benefit payments, and the municipal bond rate applied to benefit payment to the extent that the plan’s fiduciary net position is projected to be insufficient. The plan’s fiduciary net position was projected to be available to make projected future benefit payments of current plan members through December 31, 2034. Therefore, the long-term expected rate of return on plan investments was applied through 2034 and the municipal bond index rate was applied for all remaining periods of projected benefit payments to determine the Total OPEB Liability.

Sensitivity to Changes in Discount Rate - The following presents the collective Net OPEB Liability (Asset), calculated using a single discount rate of 3.60%, and shows what the plan's Net OPEB Liability (Asset) would be if it were calculated using a single discount rate that is one percentage point lower or one percentage point higher:

	1% Decrease 2.60%	Current Single Discount Rate Assumption 3.60%	1% Increase 4.60%
Total OPEB Liability	\$1,023,926,792	\$ 845,518,804	\$ 707,043,801
Plan Fiduciary Net Position	351,972,292	351,972,292	351,972,292
Net OPEB Liability (Asset)	<u>\$ 671,954,500</u>	<u>\$ 493,546,512</u>	<u>\$ 355,071,509</u>

Collective Deferred Inflows of Resources and Deferred Outflows of Resources - The collective Deferred Inflows and Outflows of Resources due to liabilities are amortized over the Average Expected Service Lives of all members of 7.02 years. The collective Deferred Inflows and Outflows of Resources due to the net difference between projected and actual earnings on OPEB plan investments is amortized over 5 years.

Collective Deferred Inflows and Outflows of Resources to be recognized in the Current OPEB Expense are as follows:

	Outflows of Resources	Inflows of Resources	Net Outflows (Inflows) of Resources
Difference between expected and actual experience	\$ 0	\$ (750,109)	\$ (750,109)
Assumption changes	6,981,242	0	6,981,242
Difference between projected and actual investment earnings	1,184,509	0	1,184,509
Total	<u>\$ 8,165,751</u>	<u>\$ (750,109)</u>	<u>\$ 7,415,642</u>

Collective Deferred Inflows and Outflows of Resources to be recognized in the Future OPEB Expense are as follows:

	Outflows of Resources	Inflows of Resources	Net Outflows (Inflows) of Resources
Difference between expected and actual experience	\$ 0	\$ (4,515,656)	\$ (4,515,656)
Assumption changes	42,027,078	0	42,027,078
Difference between projected and actual investment earnings	4,738,035	0	4,738,035
Total	\$ 46,765,113	\$ (4,515,656)	\$ 42,249,457

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

Year Ending December 31	Net Deferred Outflows (Inflows) of Resources
2018	\$ 7,415,642
2019	7,415,642
2020	7,415,642
2021	7,415,641
2022	6,231,133
Thereafter	6,355,757
Total	\$ 42,249,457

Employers may also need to recognize a Deferred Outflow of Resources or Deferred Inflow of Resources related to any subsequent contributions made after December 31, 2017 and prior to the employer's fiscal year end, and for changes in proportion.

Collective OPEB Expense – The components of allocable OPEB expense for the year ended December 31, 2017 (excluding employer specific OPEB expense for changes in proportion) are as follows:

Service Cost	\$	26,145,800
Interest on the Total OPEB Liability		30,730,654
Administrative expenses		698,562
Expected investment return net of investment expenses		(17,452,114)
Recognition of outflow (inflow) of resources due to economic gains or losses		(750,109)
Recognition of outflow (inflow) of resources due to assumption changes or inputs		6,981,242
Recognition of investment gains or losses		1,184,509
Total OPEB expense	\$	<u>47,538,544</u>

Additional Financial Information for the State Retiree Life Insurance Plan - For additional information regarding the State Retiree Life Plan financial statements and audit report, please visit the Department of Employee Trust Fund's website at <http://etf.wi.gov/publications/cafr.htm>.