

State of Wisconsin Supplemental Health Insurance Conversion Credit Financial Report

Calendar Year 2019



State of Wisconsin Supplemental Health Insurance Conversion Credit Financial Report Calendar Year 2019

**Wisconsin Department of
Employee Trust Funds**

4822 Madison Yards Way
Madison, WI 53705-9100

Toll-free 1-877-533-5020
<http://etf.wi.gov>

ETF Executive Team

Robert J. Conlin, Secretary
John Voelker, Deputy Secretary
Pamela Henning, Assistant, Deputy Secretary

TABLE OF CONTENTS

Audit Opinion	4
Management's Discussion and Analysis	7
Financial Statements	11
Notes to Financial Statements	13
Required Supplementary Information	24
Notes to Required Supplementary Information	26



STATE OF WISCONSIN | Legislative Audit Bureau

22 East Mifflin St., Suite 500 ■ Madison, WI 53703 ■ (608) 266-2818 ■ Hotline: 1-877-FRAUD-17 ■ www.legis.wisconsin.gov/labJoe Chrisman
State Auditor**Independent Auditor's Report on the Financial Statements 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 and
Mr. Robert J. Conlin, Secretary
Department of Employee Trust Funds

Report on the Financial Statements

We have audited the accompanying Statement of Fiduciary Net Position, Statement of Changes in Fiduciary Net Position, and the related notes for the Supplemental Health Insurance Conversion Credit program of the State of Wisconsin, as of and for the year ended December 31, 2019.

Management's Responsibility for the Financial Statements

Management of the Department of Employee Trust Funds (ETF) is responsible for the preparation and fair presentation of these financial statements 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 financial statements 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 the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on these financial statements.

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Supplemental Health Insurance Conversion Credit program as of December 31, 2019, and the respective changes in the financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphases of Matter

As discussed in Note 1 to the financial statements, the financial statements referred to in the first paragraph present only the Supplemental Health Insurance Conversion Credit program and do not purport to, and do not, present fairly the financial position of the State of Wisconsin as of December 31, 2019, the changes in its financial position, or where applicable, its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 2, ETF implemented Governmental Accounting Standards Board (GASB) Statement Number 84, *Fiduciary Activities*. As a result of implementing this statement, ETF reassessed the financial reporting for the Supplemental Health Insurance Conversion Credit program. ETF both separated the financial reporting for the Supplemental Health Insurance Conversion Credit program from the basic Accumulated Sick Leave Conversion Credit program and classified the Supplemental Health Insurance Conversion Credit program as an other postemployment benefits (OPEB) plan. These changes resulted in an adjustment to the beginning net position of the Supplemental Health Insurance Conversion Credit program and additional note disclosures, as required by GASB Statement Number 74, *Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans*.

Our opinion is not modified with respect to these matters.

Other Matter

Required Supplementary Information—Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 7 through 10, and the following information found on pages 24 through 26 be presented to supplement the financial statements: the Supplemental Health Insurance Conversion Credit Schedules of Changes in Net OPEB Liability (Asset) and Related Ratios, the Supplemental Health Insurance Conversion Credit Schedule of Required Employer Contributions, and the Supplemental Health Insurance Conversion Credit Schedule of Investment Returns, which include the related note. Such information, although not a part of the financial statements, is required by the GASB, which considers it to be essential for placing the financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required



supplementary information that included inquiries of management about the methods of preparing the information. We further compared the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to do so.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report, which was dated December 3, 2020, and published as report 20-24, 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 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 ETF'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 when considering ETF's internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU

A handwritten signature in cursive script, appearing to read "Joe Chrisman", is positioned above the printed name.

Joe Chrisman
State Auditor

December 3, 2020

Management's Discussion and Analysis

Management of the Wisconsin Department of Employee Trust Funds (ETF) presents this discussion and analysis of the financial activities for the year ended December 31, 2019, for the Supplemental Health Insurance Conversion Credit (SHICC) program. The SHICC program allows members with more than 15 years of eligible service to convert unused sick leave balances into credits to pay for post-retirement health insurance premiums. This narrative is intended to supplement the financial statements which follow and should be read in conjunction with the note disclosures, which are an integral part of the financial statements.

» *Financial Statements*

The following discussion and analysis is intended to serve as an introduction to the financial statements for the SHICC program, which is a defined-benefit Other Post-Employment Benefit (OPEB) program. The financial statements include:

- Statement of Fiduciary Net Position
- Statement of Changes in Fiduciary Net Position
- Notes to Financial Statements

The financial statements and related notes are prepared in accordance with Generally Accepted Accounting Principles (GAAP) established by the Governmental Accounting Standards Board (GASB). The SHICC program is reported as a fiduciary fund. Fiduciary funds are used to account for resources held for the benefit of parties outside the government whose funds are restricted for purposes of the trust.

The Statement of Fiduciary Net Position provides a snapshot of account balances at a point in time. It reports the assets available for future payments to benefit recipients, along with any liabilities that are owed as of the statement date. The full accrual basis of accounting is used.

The difference between assets and liabilities represents the net value of assets held in trust for future benefit payments. This amount is called "Net Position - Restricted for Other Post-Employment Benefits".

The Statement of Changes in Fiduciary Net Position displays the effect of financial transactions that occurred during the calendar year. Additions less deductions equals the net increase (decrease) in net position. This net increase (decrease) reflects the change in the value of net position that occurred during the year.

Notes to the Financial Statements are an integral part of the financial statements and provide additional information that is essential for a comprehensive understanding of the data reported in the financial statements. The notes describe the accounting and administrative policies under which ETF operates, significant account balances and activities, material risks, obligations, contingencies and subsequent events, if any.

The Required Supplementary Information (RSI) following the notes to the financial statements includes:

- Schedule of Changes in Net OPEB Liability (Asset) and Related Ratios
- Schedule of Required Employer Contributions
- Schedule of Investment Returns



- Notes to Schedule of Contributions

» *Financial Highlights*

Overall Net Position of the SHICC program increased by \$141.3 million or 15% from \$943.1 million in 2018 to \$1.1 billion in 2019. The increase was primarily a result of higher returns on investments due to favorable market conditions.

The SHICC funding ratio under the funding methodology used to establish required contributions is 100% as of December 31, 2019. Under the GASB financial reporting method, the SHICC program is 116% funded as of December 31, 2019.

ETF adopted the provisions of GASB Statement No. 84, *"Fiduciary Activities"* as of December 31, 2019. ETF considered the standard and concluded the SHICC program should be reported in accordance with GASB Statement No. 74, *"Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans"*. Previously, the SHICC program was combined with the Accumulated Sick Leave Conversion Credit (ASLCC) program and reported as one fiduciary fund. The beginning net position for the SHICC program was restated for this change in reporting as well as other adjustments related to prior year activity. Note 2 further discloses this change.



Condensed Financial Information

Summary Schedule of Fiduciary Net Position

AT DECEMBER 31

(In Thousands)

	2019	2018*	\$ Change	% Change
Assets				
Prepaid Expenses	\$ 3,957	\$ 4,309	\$ (352)	(8.2)%
Receivables	2,612	3,005	(393)	(13.1)
Investments	1,089,241	945,524	143,717	15.2
Total Assets	\$ 1,095,810	\$ 952,838	\$ 142,972	15.0 %
Liabilities				
Payables	11,445	9,784	1,661	17.0
Total Liabilities	\$ 11,445	\$ 9,784	\$ 1,661	17.0 %
Net Position Restricted for Other Post-Employment Benefits	\$ 1,084,365	\$ 943,054	\$ 141,311	15.0 %

*Amounts for the prior year include restatements of prior year balances.

Summary Schedule of Changes in Fiduciary Net Position

FOR THE YEAR ENDED DECEMBER 31

(In Thousands)

	2019	2018*	\$ Change	% Change
Additions:				
Employer Contributions	\$ 14,369	\$ 18,208	\$ (3,839)	(21.1)%
Investment Income	180,271	(36,549)	216,820	593.2
Total Additions	\$ 194,640	\$ (18,341)	\$ 212,981	1,161.2 %
Deductions:				
Other Benefit Expenses	\$ 52,934	\$ 55,398	\$ (2,464)	(4.4)%
Refunds of Contributions	55	0	55	100.0
Administrative Expenses	340	262	78	29.9
Total Deductions	\$ 53,329	\$ 55,660	\$ (2,331)	(4.2)%
Net Increase (Decrease) in Net Position	\$ 141,311	\$ (74,001)	\$ 215,312	291.0 %
Net Position - Beginning of Year	\$ 943,054	1,017,055	\$ (74,001)	(7.3)%
Net Position - End of Year	\$ 1,084,365	\$ 943,054	\$ 141,311	15.0 %

*Amounts for the prior year include restatements of prior year balances.

» *Analysis of Financial Activities*

During 2019, the SHICC collected \$14.4 million in contributions compared to \$18.2 million during 2018, a decrease of 20.9%. This decrease was primarily due to a reduction in the contribution rate. The fund incurred expenses of \$53.3 million in 2019 compared to \$55.7 million in 2018, a decrease of 4.3%. This decrease was primarily caused by lower health insurance premiums for certain retirees.

The SHICC had a net position of \$1.1 billion at December 31, 2019. This is an increase of \$141.3 million from a \$943.1 million net position in 2018. The increase is primarily due to the investment gains experienced in 2019.

Total Liabilities increased \$1.7 million from 2018 to 2019. The 2019 liability represents payables due to other benefit programs. This balance primarily results from restatements for changes in reporting for the SHICC program. Note 2 further discloses these changes.

An actuarial valuation, in accordance with GASB standards, shows a Net OPEB Asset of \$151.8 million as of December 31, 2019. The fund Fiduciary Net Position as a percentage of the Total OPEB Liability is 116.3%. Additional information on this valuation can be found in Note 4.

There were approximately 98,200 total members participating in the SHICC program in 2019, comprised of approximately 24,600 retirees and beneficiaries, 300 inactive non-retired members, and 73,300 active members. The total number of members is a 2.7% increase in participants from the total members in 2018.

» *Financial Contact*

This financial report is designed to provide a general overview of the program's finances. Questions concerning any of the information provided in this report should be addressed to ETF at P.O. Box 7931, Madison, Wisconsin, 53707-7931.



State of Wisconsin
Supplemental Health Insurance Conversion Credit
Statement of Fiduciary Net Position
December 31, 2019
(In Thousands)

	Other Post-Employment Benefit Trust Fund
Assets:	
Prepaid Expenses	\$ 3,957
Receivables:	
Contributions Receivable	733
Due From Other Benefit Programs	1,879
Total Receivables	<u>2,612</u>
Investments at Fair Value:	
Investment In Core Fund	1,089,241
Total Investments	<u>1,089,241</u>
Total Assets	<u>1,095,810</u>
Liabilities:	
Due To Other Benefit Programs	11,445
Total Liabilities	<u>11,445</u>
Net Position - Restricted for Other Post-Employment Benefits	<u>\$ 1,084,365</u>

The accompanying notes are an integral part of the financial statements.



State of Wisconsin
Supplemental Health Insurance Conversion Credit
Statement of Changes in Fiduciary Net Position
For the Year Ended December 31, 2019

(In Thousands)

	Other Post-Employment Benefit Trust Fund
Additions:	
Contributions:	
Employer Contributions	\$ 14,369
Total Contributions	14,369
Investment Income:	
Other	180,271
Net Investment Income	180,271
Total Additions	194,640
Deductions:	
Benefits and Refunds:	
Other Benefit Expense	52,934
Refunds of Contributions	55
Administrative Expenses	340
Total Deductions	53,329
Net Increase (Decrease)	141,311
Net Position - Beginning of Year	943,054
Net Position - End of Year	\$ 1,084,365

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Supplemental Health Insurance Conversion Credit (SHICC) program is a single-employer, defined-benefit Other Post-Employment Benefit (OPEB) plan. State of Wisconsin employees earn sick leave hours and, depending on usage, will accumulate hours of unused sick leave while they are employed with the state. If eligible, upon retirement, layoff, or death, the unused sick leave credits can be used to pay post-retirement state group health insurance premiums. If employees have at least 15 years of service, they may be eligible for SHICC benefits upon retirement, which are additional hours of sick leave that increase their sick leave account balance. Unused sick leave credits cannot be cashed out. Employer contributions and investment earnings fund the SHICC benefits. The Department of Employee Trust Funds (ETF) and the ETF Board have statutory authority for program administration and oversight under Wis. Stat. § 40.95. The State of Wisconsin Investment Board (SWIB) is responsible for managing the SHICC investments.

» *Presentation Basis*

The financial statements of the SHICC program have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) for government units as prescribed by the Governmental Accounting Standards Boards (GASB).

The assets and operations of the SHICC program are held in trust and accounted for as a fiduciary, Other Post-Employment Benefit (OPEB) Trust Fund. The trust fund is used to account for the accumulation of assets and the payment of health insurance premiums by way of sick leave credits for retired eligible employees.

ETF is not a general-purpose government and does not present government-wide statements. The SHICC program administered by ETF is presented in the State's Comprehensive Annual Financial Report (CAFR), as it is a part of the State of Wisconsin financial reporting entity.

» *Measurement Focus and Basis of Accounting*

The SHICC program financial statements have been prepared in accordance with GAAP. The SHICC program is accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, contributions are recognized in the accounting period in which the underlying earnings on which the contributions are based are paid and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the fund.

» *Administrative Expenses*

ETF administrative costs are financed by a separate appropriation and are allocated to each benefit plan administered by ETF in accordance with Wis. Stat. § 40.04. Administrative expenses allocated to the SHICC program for the year ending December 31, 2019 were \$340 thousand.



» *Amounts Due To/From Other Benefit Programs*

As of December 31, 2019, the SHICC program had an \$11.4 million balance due to and a \$1.9 million balance due from other benefit programs administered by the ETF. These balances primarily result from restatements for accounting changes to the SHICC program. Note 2 further discloses these changes. The balances between benefit programs result from the time lag between when actual receipts and disbursements are made and when those amounts are allocated between benefit programs. All liabilities are expected to be paid within one year of the balance sheet date.

» *Use of Estimates*

The preparation of financial statements in accordance with GAAP requires management to make estimates that affect amounts reported herein. Due to the inherent uncertainty involved, actual results could differ from those estimates.



2 ACCOUNTING CHANGES

ETF adopted GASB Statement No. 84, "Fiduciary Activities" for the year ended December 31, 2019. The statement provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. ETF considered the standard and reassessed the reporting fund type of benefit programs. As a result, ETF concluded the SHICC program is a defined benefit OPEB plan in accordance with GASB Statement No. 74 and the ASLCC program is considered a compensated absence consistent with the provisions of GASB Statement No. 16 "Accounting for Compensated Absences". Previously, the ASLCC and SHICC benefit programs were collectively reported as one fiduciary fund.

In accordance with GASB Statement No. 74, a liability for estimated future benefits for the SHICC program is not recognized at the plan level. Instead, participating employers will recognize their proportionate share of the liability. The beginning net position of the SHICC program was restated for this change in reporting. The cumulative impact for all prior years made to the beginning net position was a net increase of \$991.6 million. The impact on prior year's statement of changes in fiduciary net position was a net increase of \$4.3 million. This change also resulted in additional disclosure requirements for the SHICC program, which are primarily included in Note 4, as well as a calculation of a net OPEB liability.

In addition, the SHICC beginning net position was restated to correct prior years' benefit expense between SHICC and other benefit programs. Based on analysis of historical activity, we identified errors in the method used to assign benefit expense between programs. The cumulative impact of this error is a decrease of \$2.4 million. The impact on prior year's statement of changes in fiduciary net position was a net decrease of \$0.3 million.

A summary of the restatement is shown in the below table.

Restatement of SHICC Net Position (In Thousands)	
SHICC Net Position as of December 31, 2018 *	\$ (46,198)
Change in Reporting	991,630
Adjustment for prior year activity	<u>(2,378)</u>
SHICC Net Position as of December 31, 2018, restated	<u>\$ 943,054</u>

* Note when previously combined with ASLCC in calendar year 2018, the net position was (\$139,623), of which (\$46,198) related to the SHICC program.



3 PROGRAM INVESTMENTS

The assets of the SHICC program are invested in the Core Retirement Investment Trust (Core Fund) which are valued at fair value. Earnings are allocated annually to the SHICC program and other benefit programs based on the average balance invested for each program. The total amount invested by the SHICC program is presented as "Investment in Core Fund" on the SHICC Statement of Fiduciary Net Position. Condensed financial data for the Core Fund for the year ended December 31, 2019, is presented below.

The State of Wisconsin Investment Board (SWIB) manages the Core Fund with oversight by a board of trustees authorized in Wis. Stat. § 25.17. SWIB is not registered with the Securities and Exchange Commission as an investment company.

At December 31, 2019, the Core Fund held \$107.8 billion in investment related accounts of which \$4.4 billion is classified as cash equivalents and \$0.4 billion relates to securities lending collateral. For additional information regarding the Core Fund investments including financial statements and audit report, please visit the SWIB website at <https://www.swib.state.wi.us/publications>.

Core Retirement Investment Funds
Condensed Statements of Net Position
As of December 31, 2019
(In Thousands)

Assets:	Core
Cash & Cash Equivalents	\$ 4,432,392
Securities Lending Collateral	441,770
Prepaid Items	30,537
Investment Receivables	6,861,026
Investments, at fair value	116,873,889
Total Assets	\$ 128,639,614
Liabilities:	
Securities Lending Collateral Liability	\$ 441,770
Obligation Under Reverse Repurchase Agreement	9,844,991
Short Sell Obligations	4,464,308
Collateral Due to Counterparty	104,694
Investment Payables	6,011,385
Total Liabilities	\$ 20,867,148
Net Position Held in Trust for:	
Other Investment Pool Participants	\$ 106,688,101
SHICC	1,084,365
Total	\$ 107,772,466

Combined totals may vary from financial statements due to rounding and non-investment activity.



Core Retirement Investment Funds
Condensed Statements of Changes in Net Position
For the year ended December 31, 2019
(In Thousands)

Additions:	<u>Core</u>
Net Increase (Decrease) in Fair Value of Investments	\$ 16,322,119
Interest	763,608
Dividends	1,234,035
Securities Lending Income	35,716
Other	250,488
Total Additions	<u>\$ 18,605,966</u>
Deductions:	
Investment Expense	833,117
Securities Lending Rebates and Fees	8,320
Net Withdrawals by Pool Participants	3,478,433
Total Deductions	<u>\$ 4,319,870</u>
Net Increase (Decrease)	<u>\$ 14,286,096</u>
Net Investment Position Held in Trust	
Beginning of Year	<u>\$ 93,486,370</u>
End of Year	<u>\$ 107,772,466</u>

Combined totals may vary from financial statements due to rounding and non-investment activity.

4 SHICC Program Overview

Governance Board

The ETF Board has statutory authority (Wis. Stat. § 40.95) for program administration and oversight of the SHICC program. Membership of the ETF Board is comprised of the following positions as required by section 15.16 of Wisconsin Statutes:

- The Governor or the Governor's designee on the Group Insurance Board;
- The Administrator of the Department of Administration's Division of Personnel Management or the Administrator's designee;
- Four members appointed by the Teachers Retirement Board (an advisory board to the ETF Board);
- Four members appointed by the Wisconsin Retirement Board (an advisory board to the ETF Board);
- A public member who is not a participant in or beneficiary of the WRS, with at least 5 years of experience in actuarial analysis, administration of an employee benefit plan or significant administrative responsibility in a major insurer;
- A WRS annuitant; and
- A participant in the WRS who is a technical college or public school district educational support personnel employee.

Program Description

The SHICC program includes the State of Wisconsin, the University of Wisconsin, and other component units of the State, and is considered a single-employer defined benefit OPEB plan. The SHICC program is reported as an Other Post-Employment Benefit Trust Fund. The SHICC program was established by Wis. Stat. § 40.95 and is defined in the state compensation plan (Wis. Stat. 230.12(9)). Benefit terms may only be modified by legislative action.

The SHICC program allows members with more than 15 years of eligible service to convert unused sick leave balances into credits to pay for post-retirement health insurance premiums. The SHICC benefit provides a limited match of the members credits earned through the Accumulated Sick Leave Conversion Credit (ASLCC) program. ASLCC program credits are computed at the time of retirement, layoff, or death by multiplying the number of hours of unused sick leave by the highest hourly pay rate at which the employee accrued sick leave that is eligible for conversion. Employment category and number of years of service are also factored into the calculation (as noted in the table below). The SHICC program also includes a provision for the restoration of 500 hours of credits upon retirement, layoff or death provided at least 500 hours of accrued sick leave were used for a single injury or illness during the three years immediately preceding the retirement, layoff or death while in state service.

All ASLCC program credits must be used before the SHICC program credits. Unused ASLCC and SHICC credits have no cash value, are carried forward from year to year without interest, and when total health insurance premiums paid on behalf of the retired employee exceed the conversion credits, no further payments are made under the ASLCC and SHICC programs. ASLCC and SHICC credits may be escrowed indefinitely after retirement for participants who provide evidence of comparable health insurance coverage from another source.



» *Benefits Overview*

The SHICC program provides matching sick leave hours, that are in addition to, but generally not to exceed the unused sick leave balances that are used to calculate benefits provided under the ASLCC program, to participants retiring (or terminating employment) with 15 or more years of eligible service, as follows:

Employment Category	Benefit Eligible Hours*
Protective	Match up to 78 hours (9.75 days) per full year of service through 24 years, plus 104 hours (13 days) per full year of service over 24 years.
Others	Match up to 52 hours (6.5 days) per full year of service through 24 years, plus up to 104 hours (13 days) per full year of service over 24 years.

*The SHICC program also includes a restoration benefit of up to 500 hours when certain criteria are met.

The SHICC program also provides benefits after a member's death. The member's surviving spouse and/or dependents may be eligible to use SHICC credits to pay State of Wisconsin Group Health Insurance premiums under the following conditions:

- Member was covered by the State of Wisconsin Group Health Insurance Program under a family policy on the member's date of death and the member is either employed by the state on the date of death or the member is receiving a retirement disability benefit; or
- Member has preserved SHICC credits as described in the Preserved Balance Eligibility section below and the member dies before becoming a WRS annuitant; or
- Member has escrowed SHICC credits as described in the Escrow Balance Eligibility Section below and the member dies.

» *Eligibility and Membership*

Generally to be eligible to use SHICC credits to pay post-retirement health insurance premiums, members with 15 years of adjusted continuous service (or their insured surviving spouse and/or dependents) must be covered under the State of Wisconsin Group Health Insurance Program. If a member with 20 years of service leaves eligible service prior to retirement, the benefit is vested.

Membership as of December 31, 2019, included:

Employment Status	Count
Retirees and Beneficiaries	24,625
Inactive, Non-retired Members	328
Active Members	73,317
Total	<u>98,270</u>

Retirement Eligibility: At retirement, the member must have State of Wisconsin Group Health Insurance Program coverage and satisfy the following:

- Retire on an immediate annuity; or
- Retire and receive a lump-sum benefit; or
- Qualify for a Wisconsin Retirement System (WRS) disability retirement benefit, long-term disability benefit or a protective occupation duty disability benefit under Wis. Stat. § 40.65; or
- Have 20 years of WRS creditable service and are eligible for an immediate retirement benefit, but have chosen not to apply for retirement or disability benefit immediately (see Escrow Eligibility section below).

Escrow Eligibility: At retirement, eligible members may elect to escrow their SHICC credits (to be used at a later date) if they have comparable health insurance coverage through another source.

Preserved Eligibility: If not eligible for an immediate annuity, SHICC eligible members must satisfy the following to defer vested (preserved) SHICC credits to pay health premiums when becoming a WRS annuitant:

- Terminate with 20 years of WRS creditable service (providing they do not elect a WRS separation benefit) or
- State constitutional officer, a member or an officer of the legislature or the head of a state department or agency who was appointed by the governor with senate confirmation and are not eligible for an immediate annuity when terminating from state employment (providing they do not elect a WRS separation benefit).

Permanent Layoff Eligibility: If not eligible for an immediate annuity and the member is permanently laid off from State employment, the member must have at least 15 years of adjusted continuous service to use SHICC credits to pay health premiums for up to five years after the layoff begins.

» *Contributions*

The ETF Board approves contribution rates annually, based on recommendations from the actuary. Recommended rates are based on an annual valuation, taking into consideration an estimate of the present value of future benefits and the present value of future contributions, in accordance with Wis. Stat. § 40.05 (4)(by). Employer contributions made during a member's working lifetime funds a post-retirement benefit. Employers made contributions totaling \$14.4 million based upon a percentage of active member earnings for the year ending December 31, 2019.



» **SHICC Net OPEB Liability (Asset) of Participating Employers**

Total OPEB Liability	\$ 932,597,864
Plan Fiduciary Net Position*	<u>1,084,365,342</u>
Participating Employer's Net OPEB Liability (Asset)	<u>\$ (151,767,478)</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	116.27 %

*An immaterial difference may exist between the Plan Fiduciary Net Position used in the actuarial valuation and that reported in the Statement of Fiduciary Net Position, due to the timing of the actuarial valuation.

Additional information as of the latest actuarial valuation follows:

Actuarial Valuation Date:	December 31, 2019
Measurement Date of Net OPEB Liability (Asset):	December 31, 2019
Actuarial Cost Method:	Entry Age Normal
Long-Term Expected Rate of Return:	7.00%
Discount Rate:	7.00%
Salary Increases:	
Wage Inflation	3.00%
Senior/Merit	0.1% - 5.6%
Mortality:	Wisconsin 2018 Mortality Table
Healthcare Cost Trend Rate	3.20%

Actuarial assumptions are based upon an experience study conducted in 2018 that covered a three-year period from January 1, 2015 to December 31, 2017. The Total OPEB Liability is based upon an actuarial valuation as of December 31, 2019.

A discount rate of 7.00% was used to measure the Total OPEB Liability for the current and prior year. The projection of cash flows used to determine the single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate.

Each individual sick leave balance at retirement was estimated assuming historical accrual and usage rates but not less than 25% nor more than 75% of the person's annual accrual rate.

Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

» Sensitivity of the SHICC Net OPEB Liability (Asset) to Changes in the Discount Rate

The following presents the plan's Net OPEB Liability (Asset) 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 (In Millions):

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Total OPEB Liability	\$ 1,024.3	\$ 932.6	\$ 853.2
Plan Fiduciary Net Position	\$ 1,084.4	\$ 1,084.4	\$ 1,084.4
Net OPEB Liability (Asset)	\$ (60.1)	\$ (151.8)	\$ (231.2)

» Sensitivity of the SHICC Net OPEB Liability (Asset) to the Healthcare Cost Trend Rate Assumption

The following presents the plan's Net OPEB Liability (Asset), calculated using the assumed healthcare cost trend rate, as well as what the plan's Net OPEB Liability/(Asset) would be if it were calculated using the assumed trend rate that is one percent lower or one percent higher (In Millions):

	1% Decrease (2.20%)	Current Healthcare Cost Trend Rate Assumption (3.20%)	1% Increase (4.20%)
Total OPEB Liability	\$ 868.9	\$ 932.6	\$ 993.1
Plan Fiduciary Net Position	\$ 1,084.4	\$ 1,084.4	\$ 1,084.4
Net OPEB Liability (Asset)	\$ (215.5)	\$ (151.8)	\$ (91.3)

5 CONTINGENCIES, RELATED PARTIES, UNUSUAL EVENTS, & SUBSEQUENT EVENTS

» Loss Contingency

The assets of the SHICC program are invested in the Core Fund which is managed by SWIB. On September 5, 2008, the Internal Revenue Service (IRS) provided SWIB with a "Notice of Transferee Liability". This claim seeks taxes, penalties, and interest relating to the sale of Shockley Communications Corporation (SCC) stock in 2001. In January 2020, SWIB was informed that the Tax Court had ruled in favor of the IRS. SWIB has the option to appeal, as well as the ability to negotiate the final payment amount with the IRS. Since calendar year 2015, SWIB has accrued a loss of \$30 million, which represents the estimated minimum amount of the possible loss to which SWIB believes it may be exposed. Of the total \$30 million accrued loss, \$10 million was



accrued in calendar year 2019 to account for the Tax Court's most recent adverse ruling. No events subsequent to August 26, 2020 have occurred that would require note disclosure.

For additional information regarding the Loss Contingency, please refer to Note 10 in the 2019 Retirement Funds Annual Report located on the SWIB website at <https://www.swib.state.wi.us/publications>.

SWIB is subject to many types of risks in the ordinary course of operations which may result in SWIB to be party to legal actions. As of December 31, 2019, these matters are not anticipated to have a material financial impact on the WRS's financial position. SWIB management is of the opinion that the liability, if any, for this legal action will not have a material effect on the SHICC financial position.

» *Related Party Transactions*

During the calendar year, the Core Fund entered into reverse repurchase agreement transactions with the State Investment Fund (SIF), for which the investment assets are managed by SWIB, as a counterparty. The transactions were governed by a master repurchase agreement, and investment guidelines limit exposure with the SIF to \$3.0 billion. Credit exposure is also managed through the transfer of margin between the Core Fund and SIF. As of December 31, 2019, the Core Fund held \$1.9 billion in a bilateral reverse repurchase agreement with the SIF. The repurchase agreement was an overnight agreement collateralized with U.S. Treasury securities in the amount of 102%. The Core Fund enters into similar reverse repurchase agreement transactions with other counterparties. The Core Fund is also a participant in the SIF, with an investment totaling \$2.7 billion at December 31, 2019. The SIF is a short-term, commingled fund with the investment objective of safety of principle and liquidity while earning a competitive money market rate of return.

REQUIRED SUPPLEMENTARY INFORMATION

Generally accepted accounting principles require that schedules of changes in net OPEB liabilities and related ratios and the schedules of investment returns be presented to supplement the basic financial statements. This supplemental information is required by the GASB who considers it to be an essential part of financial reporting.

State of Wisconsin
Supplemental Health Insurance Conversion Credit
Schedules of Changes in Net OPEB Liability (Asset) and Related Ratios
(In Millions)

Calendar Year Ended, December 31	2019	2018	2017
Total OPEB Liability			
Service Cost	\$ 25.5	\$ 23.4	\$ 23.1
Interest on the Total OPEB Liability	65.5	66.0	65.9
Difference between Expected and Actual Experience	(55.3)	(41.6)	(31.6)
Assumption Changes	0.0	25.2	0.0
Benefit Payments	(53.0)	(55.4)	(56.4)
Net Change in Total OPEB Liability	(17.2)	17.6	0.9
Total OPEB Liability - Beginning	949.8	932.2	931.3
Total OPEB Liability - Ending (a)	<u>\$ 932.6</u>	<u>\$ 949.8</u>	<u>\$ 932.2</u>
Plan Fiduciary Net Position			
Employer Contributions	14.4	18.2	17.9
Net Investment Income	180.3	(36.5)	141.8
Benefit Payments	(53.0)	(55.4)	(56.4)
OPEB Plan Administrative Expense	(0.3)	(0.3)	(0.3)
Net Change in Plan Fiduciary Net Position	141.3	(74.0)	102.9
Plan Fiduciary Net Position - Beginning	943.1	1,017.1	914.1
Plan Fiduciary Net Position - Ending (b)	<u>\$ 1,084.4</u>	<u>\$ 943.1</u>	<u>\$ 1,017.1</u>
Net OPEB Liability(Asset) - Ending (a) - (b)	\$ (151.8)	\$ 6.8	\$ (84.8)
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	116.27%	99.29%	109.10%
Covered Employee Payroll	\$ 4,796.1	\$ 4,562.6	\$ 4,454.5
Net OPEB Liability(Asset) as a Percentage of Covered Employee Payroll	(3.16)%	0.15%	(1.90)%

Immaterial differences may exist between the amounts in this schedule and those reported in the Statement of Changes in Fiduciary Net Position.

Values may not add due to rounding.



**State of Wisconsin
Supplemental Health Insurance Conversion Credit
Schedule of Required Employer Contributions**
(In Millions)

Calendar Year Ending December 31,	Actuarially Determined Contributions	Actual Contributions	Contribution Deficiency (Excess)	Covered Payroll	Actual Contributions as a % of Covered Payroll
2017	17.9	17.9	0.0	4,454.5	0.40%
2018	18.2	18.2	0.0	4,562.6	0.40%
2019	14.4	14.4	0.0	4,796.1	0.30%

**State of Wisconsin
Supplemental Health Insurance Conversion Credit
Schedule of Investment Returns
Annual Money-Weighted Rate of Return, Net of Investment Expenses**

	2019	2018	2017
Core Trust Fund	19.49%	(3.56)%	15.85%



NOTES TO SCHEDULE OF CONTRIBUTIONS

Methods and Assumptions Used to Determine Contribution Amounts for the Fiscal Year Ending December 31, 2019:

Valuation Date	December 31, 2017
Actuarial Cost Method:	Frozen Initial Liability
Amortization Method:	Level Percentage of Payroll, Closed
Remaining Amortization	8 years
Asset Valuation Method:	Five Year Smoothed Value
Wage Inflation	3.20%
Salary Increases	3.2% to 8.8% including inflation
Investment Rate of Return	7.20%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2012-2014.
Mortality	Fully generational mortality utilizing the WRS 2012 Mortality Table adjusted for future mortality improvements using the MP-2015 fully generational improvement scale (multiplied by 50%)
Health Care Trend Rates	3.20% per year
Other Information:	
Notes	There were no benefit changes during the year.