

Wisconsin Department of Employee Trust Funds

GASB 75 Employer Schedules Supplemental Health Insurance Conversion Credit Program

Calendar Year 2024



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STATE OF WISCONSIN

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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

Members of the Employee Trust Funds Board and
Mr. A. John Voelker, Secretary
Department of Employee Trust Funds

Report on the Audit of the Supplemental Health Insurance Conversion Credit Employer Schedules

Opinions

We have audited the Supplemental Health Insurance Conversion Credit program Schedule of Employer Allocations and the related notes as of and for the year ended December 31, 2024. We have also audited the columns titled 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 (Revenue) included in the Supplemental Health Insurance Conversion Credit program Schedule of Collective OPEB Amounts and the related notes as of and for the year ended December 31, 2024. The Supplemental Health Insurance Conversion Credit program is administered by the Wisconsin Department of Employee Trust Funds (ETF).

In our opinion, the accompanying employer schedules referred to above present fairly, in all material respects, the employer allocations and the columns titled 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 (Revenue) included in the Schedule of Collective OPEB Amounts of the Supplemental Health Insurance Conversion Credit program as of and for the year ended December 31, 2024, 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 ETF 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 employer 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 employer 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 employer schedules 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 judgment made by a reasonable user based on the employer 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 judgment and maintained professional skepticism throughout the audit. We also identified and assessed the risks of material misstatement of the employer schedules, whether due to fraud or error, and designed and performed audit procedures responsive to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the employer schedules.

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 ETF'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 employer schedules.

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.

Other Matter

We have audited the financial statements of the Supplemental Health Insurance Conversion Credit program as of and for the year ended December 31, 2024, 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 September 9, 2025, we express an unmodified opinion on those financial statements, as detailed in report 25-21. Report 25-21 is available on our website at www.legis.wisconsin.gov/lab.

Restriction on Use

Our report is intended solely for the information and use of the Legislature, ETF, the ETF Board, and Supplemental Health Insurance Conversion Credit 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 September 9, 2025, and published in report 25-22, on our consideration of ETF's internal control over financial reporting; our testing 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 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 in considering ETF's internal control over financial reporting and compliance. Report 25-22 is available on our website at www.legis.wisconsin.gov/lab.

LEGISLATIVE AUDIT BUREAU

A handwritten signature in cursive script that reads "Legislative Audit Bureau".

September 9, 2025

State of Wisconsin
Supplemental Health Insurance Conversion Credit
Schedule of Employer Allocations
As of and for the year ended December 31, 2024

| Employer Name | Employer Number | 2024 Employer Contributions | 2024 Employer Allocation Percentage |
|--------------------------------|------------------------|------------------------------------|--|
| STATE OF WISCONSIN | 0001101 - 0001201 | \$ 5,612,998 | 43.152516 % |
| UNIVERSITY OF WISCONSIN SYSTEM | 0001131 | 5,503,289 | 42.309078 |
| UW HOSPITAL AUTHORITY | 0001183 | 1,843,839 | 14.175365 |
| HOUSING & ECON DEVELOP AUTH | 0001153 | 33,112 | 0.254564 |
| BEYOND VISION | 0001172 | 14,110 | 0.108477 |
| Totals | | <u>\$ 13,007,348</u> | <u>100.000000 %</u> |

The accompanying notes are an integral part of this schedule.

**State of Wisconsin
Supplemental Health Insurance Conversion Credit
Schedule of Collective OPEB Amounts
As of and for the year ended December 31, 2024**

| Deferred Outflows of Resources | | | | | Deferred Inflows of Resources | | | | |
|---------------------------------------|--|---|-----------------------------------|--|--|-----------------------------------|---|--|--|
| Net OPEB Liability (Asset) | Difference Between Expected and Actual Experience | Net Difference Between Projected and Actual Investment Earnings on OPEB Plan Investments | Changes of Assumptions | Total Deferred Outflows of Resources Excluding Employer Specific Amounts* | Difference Between Expected and Actual Experience | Changes of Assumptions | Total Deferred Inflows of Resources Excluding Employer Specific Amounts* | Plan OPEB Expense (Revenue) | |
| \$ 14,953,749 | \$ 91,479,890 | \$ 36,152,907 | \$ 119,201,678 | \$ 246,834,475 | \$ (96,816,308) | \$ 0 | \$ (96,816,308) | \$ 32,884,141 | |

*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.

The accompanying notes are an integral part of this schedule.

Notes to the Employer Schedules

Plan Description - The Supplemental Health Insurance Conversion Credit program (SHICC) is a single-employer, defined-benefit Other Post Employment Benefit (OPEB) plan. The SHICC program provides a match of sick leave credits for members with 15 or more years of adjusted continuous state service. These credits can be used to pay for post-retirement health insurance. The SHICC program includes the State of Wisconsin (State), the University of Wisconsin, and other component units of the State. The Department of Employee Trust Funds (ETF) and the ETF Board have statutory authority for program administration and oversight under Wis. Stats. § 40.05 (4) and § 40.95.

The SHICC program allows members with 15 or more years of adjusted continuous state 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 equal or 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.

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 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 (Revenue).

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 (Revenue) for the SHICC program. 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, 2024, based on an actuarial valuation as of December 31, 2024.

| | | |
|---|----|----------------------|
| Total OPEB Liability - December 31, 2023 | \$ | 1,172,115,780 |
| Service cost | | 30,963,336 |
| Interest on Total OPEB Liability | | 78,611,778 |
| Difference between expected and actual experience of Total OPEB Liability | | 31,110,357 |
| Effect of assumption changes or inputs | | 52,309,412 |
| Benefit payments | | (63,083,787) |
| Total OPEB Liability - December 31, 2024 | \$ | <u>1,302,026,876</u> |

Collective Net OPEB Liability (Asset) - The components of the collective Net OPEB Liability (Asset) as of December 31, 2024 are as follows:

| | | |
|-----------------------------|----|----------------------|
| Total OPEB Liability | \$ | 1,302,026,876 |
| Less Fiduciary Net Position | | <u>1,287,073,127</u> |
| Net OPEB Liability (Asset) | \$ | <u>14,953,749</u> |

The Fiduciary Net Position is 98.85% of the Total OPEB Liability.

Actuarial Assumptions:

| | |
|---|--|
| Actuarial Valuation Date: | December 31, 2024 |
| Measurement Date: | December 31, 2024 |
| Wisconsin Sick Leave Conversion Credit Programs Experience Study: | January 1, 2021 - December 31, 2023 Published November 18, 2024 |
| Wisconsin Retirement System Experience Study: | January 1, 2021 - December 31, 2023 Published November 19, 2024 |
| Actuarial Cost Method: | Entry Age Normal |
| Long-Term Expected Rate of Return: | 6.80% |
| Discount Rate: | 6.80% |
| Salary Increases including inflation | |
| Inflation: | 3.00% |
| Seniority/Merit: | 0.1% - 5.7% |
| Mortality*: | 2020 WRS Experience Mortality Table |
| Healthcare Cost Trend Rate: | 6.5% for the first year grading down to an ultimate healthcare cost trend rate of 4.5% over a 10 year period |
| Health Care Premiums | Actual premium amounts are used for annuitants currently using sick leave credits. For all non-annuitants (active, deferred, and escrowed members), blended premiums are calculated based on non Medicare and Medicare rates for one person and multiple person coverages |
| Participation | 95% of active and preserved members will begin using sick leave credits immediately upon reaching eligibility |
| Usage for Escrowed Benefits: | 45% of members currently in escrow status will at some point begin using their sick leave balances to pay for health care costs. |
| Sick Leave Accumulation: | For purposes of estimating sick leave balances at retirement, each individual was assumed to continue using sick leave at the same rate as in the past, but not more than 75% of the person's annual gross accrual rate based on the person's employer. The member can accrue at most 100% of their gross accrual rate but not less than 25% of their gross accrual rate. The assumed annual gross accrual rates used are 6.5 days for Beyond Vision, 12 days for University Hospital and Non-Staff University employees and 16.25 days for all other members. |

*Note that mortality assumptions were not applied to members who currently have healthcare coverage for more than one person since the benefit may be transferred to a beneficiary upon death.

Actuarial assumptions are based upon experience studies conducted in 2024 on the Wisconsin Retirement System (WRS) and Wisconsin Sick Leave Conversion Credit programs that covered a three-year period from January 1, 2021 to December 31, 2023.

Long-term Expected Rate of Return - The long-term expected rate of return is 6.8%. The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The assets of the SHICC program are commingled with assets from other benefit programs and invested in the Core Retirement Investment Trust (Core Fund). Earnings are allocated between the benefit programs based on the average balance invested for each program. The State of Wisconsin Investment Board (SWIB) manages the Core Fund with oversight by the SWIB Board of Trustees, as authorized in Wis. Stat. § 25.17. The long-term expected rate of return is reviewed every three years in conjunction with the WRS experience study. Best estimates of geometric real rates of return of each major asset class included in the OPEB plan's target allocation as of December 31, 2024, are summarized in the following table:

**State of Wisconsin
Supplemental Health Insurance Conversion Credit
Asset Allocation Targets and Expected Returns¹
As of December 31, 2024**

| Asset Class | Asset Allocation % | Long-Term Expected Real Rate of Return %² |
|----------------------------|---------------------------|---|
| Public Equity | 38% | 4.3% |
| Public Fixed Income | 27 | 3.4 |
| Private Equity/Debt | 20 | 6.7 |
| Inflation Sensitive Assets | 19 | 2.1 |
| Real Estate | 8 | 3.8 |
| Leverage ³ | (12) | 1.1 |
| Total Core Fund | 100% | 4.8% |

Long-Term Expected Rate of Return 6.8%

¹Asset allocations are managed within established ranges; target percentages may differ from actual monthly allocations.

²New England Pension Consultants Long Term U.S. CPI (Inflation) Forecast: 2.6%.

³The investment policy used for the Core Fund involves reducing equity exposure by leveraging lower-volatility assets, such as fixed income securities. Currently, an asset allocation target of 12% policy leverage is used, subject to an allowable range of up to 20%.

Discount Rate - A single discount rate of 6.8% was used to measure the Total OPEB Liability for the current year. This single discount rate was based on the expected rate of return on OPEB plan investments of 6.8%. The projection of cash flows used to determine this single discount rate

assumed that employer contributions will be made at rates equal to the actuarially determined contribution 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 and projections were excluded from this report.

Sensitivity to Changes in Discount Rate - The following presents the collective Net OPEB Liability (Asset), calculated using a single discount rate of 6.8%, 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:

| | Discount Rate | | |
|-----------------------------|------------------------------|-------------------------------|------------------------------|
| | 1% Decrease 5.80% | Current Rate 6.80% | 1% Increase 7.80% |
| Total OPEB Liability | \$ 1,436,327,099 | \$ 1,302,026,876 | \$ 1,185,610,340 |
| Plan Fiduciary Net Position | 1,287,073,127 | 1,287,073,127 | 1,287,073,127 |
| Net OPEB Liability (Asset) | <u>\$ 149,253,972</u> | <u>\$ 14,953,749</u> | <u>\$ (101,462,787)</u> |

Sensitivity to Changes in Healthcare Cost Trend Rate - The following presents the collective 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 an assumed healthcare cost trend rate that is one percentage point lower or one percentage point higher:

| | Healthcare Cost Trend Rate | | |
|-----------------------------|-----------------------------------|----------------------|----------------------|
| | 1% Decrease | Current Rate | 1% Increase |
| Total OPEB Liability | \$ 1,228,221,063 | \$ 1,302,026,876 | \$ 1,370,362,942 |
| Plan Fiduciary Net Position | 1,287,073,127 | 1,287,073,127 | 1,287,073,127 |
| Net OPEB Liability (Asset) | <u>\$ (58,852,064)</u> | <u>\$ 14,953,749</u> | <u>\$ 83,289,815</u> |

Collective Deferred Outflows of Resources and Deferred Inflows of Resources - The collective Deferred Outflows and Inflows of Resources due to liabilities are amortized over the average of the expected remaining service life of all members. The average of the expected remaining service lives for purposes of recognizing the applicable Deferred Outflows and Inflows of Resources established in the current measurement period is 8.8828 years. The collective Deferred Outflows and Inflows of Resources due to the net difference between projected and actual earnings on OPEB plan investments are amortized over 5 years.

Collective Deferred Outflows and Inflows of Resources to be recognized in the Current OPEB

Expense (Revenue) are as follows:

| | Outflows of Resources | Inflows of Resources | Net Outflows (Inflows) of Resources |
|---|----------------------------------|---------------------------------|--|
| Difference between expected and actual experience | \$ 12,926,555 | \$ (28,528,084) | \$ (15,601,529) |
| Assumption changes | 22,028,324 | 0 | 22,028,324 |
| Net difference between projected and actual investment earnings | 0 | (1,388,580) | (1,388,580) |
| Total | <u>\$ 34,954,879</u> | <u>\$ (29,916,664)</u> | <u>\$ 5,038,215</u> |

Collective Deferred Outflows and Inflows of Resources to be recognized in the Future OPEB Expense

(Revenue) are as follows:

| | Outflows of Resources | Inflows of Resources | Net Outflows (Inflows) of Resources |
|---|----------------------------------|---------------------------------|--|
| Difference between expected and actual experience | \$ 91,479,890 | \$ (96,816,308) | \$ (5,336,418) |
| Assumption changes | 119,201,678 | 0 | 119,201,678 |
| Net difference between projected and actual investment earnings | 36,152,907 | 0 | 36,152,907 |
| Total | <u>\$ 246,834,475</u> | <u>\$ (96,816,308)</u> | <u>\$ 150,018,167</u> |

Deferred Outflows and Inflows of Resources will be recognized in Future OPEB Expense (Revenue) are as follows:

| Year Ending December 31 | Net Deferred Outflows (Inflows) of Resources |
|------------------------------------|---|
| 2025 | \$ 21,995,817 |
| 2026 | 48,293,670 |
| 2027 | (401,783) |
| 2028 | 16,183,433 |
| 2029 | 23,551,923 |
| 2030 | 15,387,036 |
| 2031 | 16,717,558 |
| 2032 | 8,290,513 |
| 2033 | 0 |
| 2034 | 0 |
| Thereafter | 0 |
| Total | <u>\$ 150,018,167</u> |

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, 2024 and prior to the employer's fiscal year end, and for changes in proportion.

Collective OPEB Expense (Revenue) - The components of allocable OPEB expense (revenue) for the year ended December 31, 2024 (excluding employer specific OPEB expense for changes in proportion) are as follows:

| | | |
|---|----|-------------------|
| Service Cost | \$ | 30,963,336 |
| Interest on the Total OPEB Liability | | 78,611,778 |
| Projected Earnings on Plan Investments (Gain) | | (82,250,344) |
| OPEB Plan Administrative Expenses | | 521,156 |
| Recognition of Outflow (Inflow) of Resources due to Liabilities | | 6,426,795 |
| Recognition of Outflow (Inflow) of Resources due to Assets | | (1,388,580) |
| Total OPEB Expense (Revenue) | \$ | <u>32,884,141</u> |

Additional Financial Information for the SHICC program - For additional information regarding the Supplemental Health Insurance Conversion Credit program financial statements and audit report, please visit the Department of Employee Trust Fund's website: <https://etf.wi.gov/about-etf/reports-and-studies/financial-reports-and-statements>.