

# Wisconsin Department of Employee Trust Funds

## GASB 75 Employer Schedules Supplemental Health Insurance Conversion Credit Program

Calendar Year 2021



# Table of Contents

Audit Opinion .....	1
Schedule of Employer Allocations .....	4
Schedule of Collective OPEB Amounts .....	5
Notes to the Employer Schedules .....	6



STATE OF WISCONSIN

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

Senator Robert Cowles, Co-chairperson  
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 Schedule of Employer Allocations of the Supplemental Health Insurance Conversion Credit program of the State of Wisconsin, administered by the Department of Employee Trust Funds (ETF), as of and for the year ended December 31, 2021, and the related notes. We have also audited the totals for 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, 2021, and the related notes.

In our opinion, the accompanying schedules referred to above present fairly, in all material respects, the employer allocations and the 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, 2021, 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*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibility for the Audit of the Employer Schedules section of our report. 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 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 Responsibility 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 Collective OPEB Amounts 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 specified column totals included in the Schedule of Collective OPEB Amounts, 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 Collective OPEB Amounts.

In addition, we obtained an understanding of internal control relevant to ETF's preparation and fair presentation of the Schedule of Employer Allocations and the specified column totals included in the Schedule of Collective OPEB Amounts 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 made by management, and evaluated the overall presentation of the Schedule of Employer Allocations and the specified column totals included in the Schedule of Collective OPEB Amounts.

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, 2021, in accordance with auditing standards generally accepted in United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*. In our report thereon, dated September 26, 2022, we expressed an unmodified opinion on those financial statements, as detailed in report 22-18.

#### **Restriction on Use**

Our report is intended solely for the information and use of the Legislature, ETF, the ETF Board, the 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 26, 2022, and published in report 22-19, on our consideration of ETF's internal control over financial reporting; on 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 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 in considering ETF's internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU

*Legislative Audit Bureau*

September 26, 2022

**State of Wisconsin  
Supplemental Health Insurance Conversion Credit  
Schedule of Employer Allocations  
As of and for the year ended December 31, 2021**

<b>Employer Name</b>	<b>Employer Number</b>	<b>2021 Employer Contributions</b>	<b>2021 Employer Allocation Percentage</b>
STATE OF WISCONSIN	0001101 - 0001199	\$ 6,567,099	41.941023 %
UNIVERSITY OF WISCONSIN SYSTEM	0001131	7,059,851	45.088002 %
UW HOSPITAL AUTHORITY	0001183	1,976,349	12.622027 %
HOUSING & ECON DEVELOP AUTH	0001153	36,993	0.236257 %
BEYOND VISION	0001172	17,645	0.112691 %
<b>Totals</b>		<u>\$ 15,657,937</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, 2021**

<u>Deferred Outflows of Resources</u>				<u>Deferred Inflows of Resources</u>				
<b>Net OPEB Liability (Asset)</b>	<b>Difference Between Expected and Actual Experience</b>	<b>Changes of Assumptions</b>	<b>Total Deferred Outflows of Resources Excluding Employer Specific Amounts*</b>	<b>Difference Between Expected and Actual Experience</b>	<b>Net Difference Between Projected and Actual Investment Earnings on OPEB Plan Investments</b>	<b>Changes of Assumptions</b>	<b>Total Deferred Inflows of Resources Excluding Employer Specific Amounts*</b>	<b>Plan OPEB Expense (Revenue)</b>
\$ (328,969,285)	\$ 0	\$ 121,199,552	\$ 121,199,552	\$ 142,480,862	\$ 169,277,134	\$ 0	\$ 311,757,996	\$ (60,590,419)

\*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 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.

**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 (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, 2021, based on an actuarial valuation as of December 31, 2021.

Total OPEB Liability - December 31, 2020	\$	924,015,740
Service cost		23,485,958
Interest on Total OPEB Liability		63,660,991
Difference between expected and actual experience of Total OPEB Liability		(36,204,282)
Effect of assumption changes or inputs		120,410,120
Benefit payments		(52,631,984)
Total OPEB Liability - December 31, 2021	\$	<u>1,042,736,543</u>

**Collective Net OPEB Liability (Asset)** - The components of the collective Net OPEB Liability (Asset) as of December 31, 2021 are follows:

Total OPEB Liability	\$	1,042,736,543
Less Fiduciary Net Position		<u>1,371,705,828</u>
Net OPEB Liability (Asset)	\$	<u>(328,969,285)</u>

The Fiduciary Net Position is 131.55% of the Total OPEB Liability.

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

Actuarial Valuation Date:	December 31, 2021
Measurement Date:	December 31, 2021
Experience Study	January 1, 2018 - December 31, 2020 Published November 18, 2021
Actuarial Cost Method:	Entry Age Normal
Long-Term Expected Rate of Return:	6.80%
Discount Rate:	6.80%
Salary Increases	
Wage Inflation:	3.00%
Seniority/Merit:	0.1% - 5.6%
Mortality:	2020 WRS Experience Mortality Table
Healthcare Cost Trend Rate:	6.0% for the first year grading down to an ultimate health care trend rate of 3.5% over a 12 year period
Health Care Premiums	Actual premium amounts are used for current annuitants. For all non-annuitants (active, preserved, and escrowed members), average premiums are calculated based on non Medicare and Medicare rates for one person and two person coverages.
Participation	100% of active and preserved members will begin using sick leave credits immediately upon reaching eligibility
Usage for Escrowed Benefits:	50% 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:	The assumed annual sick leave accumulation for each individual is at their same rate as in the past (earned less used), but not more than 100% of the gross earned rate based on the person's employer and not less than 25% of their gross earned rate. The assumed annual gross earned rates range from 6.4 to 16.25 days depending on the employer.

\*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 an experience study conducted in 2021 on the WRS and Wisconsin Sick Leave Conversion Credit programs that covered a three-year period from January 1, 2018 to December 31, 2020. Based on these experience studies, actuarial assumptions used to measure the Total OPEB Liability changed from prior year, including the following: discount rate, long-term expected rate of return, price inflation, mortality and separation rates, healthcare trend

rates, sick leave accumulation, usage for escrowed benefits, and modeling survivor benefits. Further, the decrement rates for State and non-State members were studied during the 2018-2020 WRS Experience Study for the first time. State only decrements were used in the valuation of the Total OPEB Liability for SHICC as of December 31, 2021.

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 100% at most (historically 75% was used) of their gross accrual rate but not less than 25% of their gross accrual rate. The assumed annual gross accrual rates used are 6.4 days for Beyond Vision, 12 days for University Hospital and Non-Staff University employees and 16.25 days for all other members.

**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 Wisconsin Retirement System 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, 2021, are summarized in the following table:

**State of Wisconsin  
Supplemental Health Insurance Conversion Credit  
Asset Allocation Targets and Expected Returns  
As of December 31, 2021**

<b>Asset Class</b>	<b>Asset Allocation %</b>	<b>Long-Term Expected Real Rate of Return %</b>
Global Equities	52	4.2
Fixed Income	25	1.8
Inflation Sensitive Assets	19	0.2
Real Estate	7	3.0
Private Equity/Debt	12	7.0
Total Core Fund <sup>1</sup>	115	4.0
Inflation		2.4%
Long-Term Expected Rate of Return		6.8%

<sup>1</sup> The investment policy used for the Core Fund involves reducing equity exposure by leveraging lower-volatility assets, such as fixed income securities. This results in an asset allocation beyond 100%. Currently, an asset allocation target of 15% 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 6.80%, 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:

	<b>Discount Rate</b>		
	<b>1% Decrease 5.80%</b>	<b>Current Rate 6.80%</b>	<b>1% Increase 7.80%</b>
Total OPEB Liability	\$ 1,153,061,852	\$ 1,042,736,543	\$ 947,647,043
Plan Fiduciary Net Position	1,371,705,828	1,371,705,828	1,371,705,828
Net OPEB Liability (Asset)	\$ (218,643,976)	\$ (328,969,285)	\$ (424,058,785)

**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:

	<b>Healthcare Cost Trend Rate</b>		
	<b>1% Decrease</b>	<b>Current Rate</b>	<b>1% Increase</b>
Total OPEB Liability	\$ 974,379,535	\$ 1,042,736,543	\$ 1,107,441,851
Plan Fiduciary Net Position	1,371,705,828	1,371,705,828	1,371,705,828
Net OPEB Liability (Asset)	<u>\$ (397,326,293)</u>	<u>\$ (328,969,285)</u>	<u>\$ (264,263,977)</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 8.9930 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:

	<b>Outflows of Resources</b>	<b>Inflows of Resources</b>	<b>Net Outflows (Inflows) of Resources</b>
Difference between expected and actual experience	\$ 0	\$ 23,966,667	\$ (23,966,667)
Assumption changes	16,139,481	0	16,139,481
Net difference between projected and actual investment earnings	0	57,324,022	(57,324,022)
Total	<u>\$ 16,139,481</u>	<u>\$ 81,290,689</u>	<u>\$ (65,151,208)</u>

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

	<u>Outflows of Resources</u>	<u>Inflows of Resources</u>	<u>Net Outflows (Inflows) of Resources</u>
Difference between expected and actual experience	\$ 0	\$ 142,480,862	\$ (142,480,862)
Assumption changes	121,199,552	0	121,199,552
Net difference between projected and actual investment earnings	0	169,277,134	(169,277,134)
Total	<u>\$ 121,199,552</u>	<u>\$ 311,757,996</u>	<u>\$ (190,558,444)</u>

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

<u>Year Ending December 31</u>	<u>Net Deferred Outflows (Inflows) of Resources</u>
2022	\$ (49,683,536)
2023	(71,369,368)
2024	(48,245,288)
2025	(31,287,686)
2026	(4,989,835)
2027	(321,665)
2028	6,040,992
2029	9,297,942
2030	0
2031	0
Thereafter	0
Total	<u>\$ (190,558,444)</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, 2021 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, 2021 (excluding employer specific OPEB expense for changes in proportion) are as follows:

Service Cost	\$	23,485,958
Interest on the Total OPEB Liability		63,660,991
Projected Earnings on Plan Investments (Gain)		(83,296,433)
OPEB Plan Administrative Expenses		710,273
Recognition of Outflow (Inflow) of Resources due to Liabilities		(7,827,186)
Recognition of Outflow (Inflow) of Resources due to Assets		(57,324,022)
Total OPEB Expense (Revenue)	\$	<u>(60,590,419)</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>.

## Notes to the Financial Statements Template

**Instructions** – The Notes to the Financial Statements template below includes sample language and schedules to be used as a guide by Supplemental Health Insurance Conversion Credit Program (SHICC) employers in the development of their GASB 75 note disclosures. Please be aware of the highlighted and bracketed areas (refer to legend below) of the template where the notes require employer input and/or input from the “GASB 75 Cost Sharing Allocation 2021” workbook provided by the Department of Employee Trust Funds (ETF).

The information provided by ETF is intended to provide participating SHICC employers with guidance in accounting and financial reporting matters. It is not intended to be a substitute for professional advice, whether actuarial, accounting, legal, or otherwise. While efforts are made to verify the information, ETF expects employers work with their auditors to ensure the information is accurate and complete. Employers are solely responsible for accurately presenting their financial statements and related notes within the requirements of GASB.

If you have any questions or would like this document in Word format, please contact ETF at [GASBmail@etf.wi.gov](mailto:GASBmail@etf.wi.gov)

**Note: The GASB 75 employer template example for cost-sharing employers may be found in the [GASB 75 Implementation Guide](#), pages 169-194, [Illustration B4-Note Disclosures, RSI](#), and [Calculation of Certain Recognized Amounts for a Cost-Sharing Employer](#)**

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**[SHICC Employer]**  
**Notes to the Financial Statement**  
**For the Year Ended [June 30, 2022]**  
(Dollar amounts in Thousands)

***Summary of Significant Accounting Policies***

***Other Post-Employment Benefits (OPEB).*** The fiduciary net position of the Supplemental Health Insurance Conversion Credit Program (SHICC) has been determined using the flow of economic resources measurement focus and the accrual basis of accounting. This includes for purposes of measuring the Net OPEB liability, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Other Post-Employment Benefits, OPEB Expense (Revenue), and information about the fiduciary net position of the SHICC and additions to/deductions from SHICCs fiduciary net position have been determined on the same basis as they are reported by the SHICC. Benefits and refunds are recognized when due and payable in accordance with the terms of the program. Investments are reported at fair value.

***General Information about the Other Post-Employment Benefits***

***Plan description.*** The SHICC program is a single-employer defined benefit OPEB plan. 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 program provides a limited match of the members sick leave 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 sick 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. 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. SHICC benefits and other plan provisions are established by Chapter 40 of the Wisconsin Statutes.

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.

The SHICC program includes the State of Wisconsin (State), the University of Wisconsin, and other component units of the State. The Wisconsin Department of Employee Trust Funds (ETF) and the ETF Board have statutory authority for program administration and oversight.

***OPEB Plan Fiduciary Net Position.*** ETF issues a standalone Annual Comprehensive Financial Report (ACFR), which can be found at <https://etf.wi.gov/about-etf/reports-and-studies/financial-reports-and-statements>

***Benefits provided.*** The SHICC plan provides eligible members with credits that can be used to pay for post-retirement health insurance.

**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.

Employer Contribution rates as of [December 31, 2021] are:

Wiscraft Inc	0.5%
Other State Employers	0.3%

During the reporting period, the SHICC program recognized [\$xxxx] in contributions from the employer

Insert \$ amount from Schedule of Employer Allocations Workbook, tab "Main" Col. C

**OPEB Liabilities, OPEB Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs**

Insert \$ amount from Schedule of Employer Allocations Workbook, tab "Main" Col. J

At [June 30, 2022], the [SHICC Employer] reported a liability (asset) of [\$xxxx] for its proportionate share of the Net OPEB liability (Asset). The Net OPEB Liability (Asset) was measured as of December 31, 2021, and the Total OPEB Liability used to calculate the Net OPEB Liability (Asset) was determined by an actuarial valuation as of December 31, 2021. The [SHICC Employer]'s proportion of the Net OPEB Liability (Asset) was based on the [SHICC Employer]'s share of contributions to the OPEB plan relative to the contributions of all participating employers. At December 31, 2021, the [SHICC Employer]'s proportion was X%, which was an in/decrease of X% from its proportion measured as of December 31, 2020.

Insert % from Schedule of Employer Allocations Workbook tab "Main" Col. D

Insert % in/decrease by subtracting Col. D from Col. E from the Schedule of Employer Allocations Workbook tab "Main"

For the year ended [June 30, 2022], the [SHICC Employer] recognized OPEB expense (revenue) of [\$xxxx].

Insert amount from Schedule of Employer Allocations Workbook, tab "Main" Col. CW

At [June 30, 2022], the [SHICC Employer] reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

[All items in the chart below come from the Schedule of Employer Allocations Workbook, tab "Main", use the columns indicated below.]

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	Insert from Column K	Insert from Column P
Net differences between projected and actual earnings on OPEB plan investments	Insert net amount of Columns L & Q (if net results in outflow)	Insert net amount of Columns L & Q (if net results in inflow)
Changes in assumptions	Insert from Column M	Insert from Column R
Changes in proportion and differences between employer contributions and proportionate share of contributions	Insert from Column N	Insert from Column S
Employer contributions subsequent to the measurement date	*Insert Employer Data Here	*Insert Employer Data here
Total	\$xxxxx	\$xxxxx
*The Employer Data amounts will need to be filled in independently. ETF will not have this information		

[\$xxxx reported as deferred outflows related to OPEB resulting from the SHICC Employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net OPEB Liability (Asset) in the year ended June 30, 2022]. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in future OPEB expense (revenue) as follows:

[All items in chart below come from Schedule of Employer Allocations Workbook, tab "Main", use columns indicated below ]

Year ended June 30:	Deferred Outflow of Resources	Deferred Inflows of Resources
2022	Insert from Column CC	Insert from Column CL
2023	Insert from Column CD	Insert from Column CM
2024	Insert from Column CE	Insert from Column CN
2025	Insert from Column CF	Insert from Column CO
2026	Insert From Column CG	Insert from Column CP
2027	Insert from Column CH	Insert from Column CQ
2028	Insert from Column CI	Insert from Column CR
2029	Insert from Column CJ	Insert from Column CS

**Actuarial assumptions.** The Total OPEB Liability (Asset) in the December 31, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	December 31, 2021
Measurement Date:	December 31, 2021
Experience Study	January 1, 2018 - December 31, 2020 Published November 18, 2021
Actuarial Cost Method:	Entry Age Normal
Long-Term Expected Rate of Return:	6.80%
Discount Rate:	6.80%
Salary Increases including inflation Inflation: Seniority/Merit:	3.00% 0.1% - 5.6%
Mortality:	2020 WRS Experience Mortality Table
Healthcare Cost Trend Rate:	6.0% for the first year grading down to an ultimate health care trend rate of 3.5% over a 12 year period
Health Care Premiums	Actual premium amounts are used for current annuitants. For all non-annuitants (active, preserved, and escrowed members), average premiums are calculated based on non Medicare and Medicare rates for one person and two person coverages.
Participation	100% of active and preserved members will begin using sick leave credits immediately upon reaching eligibility
Usage for Escrowed Benefits:	50% 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:	The assumed annual sick leave accumulation for each individual is at their same rate as in the past (earned less used), but not more than 100% of the gross earned rate based on the person's employer and not less than 25% of their gross earned rate. The assumed annual gross earned rates range from 6.4 to 16.25 days depending on the employer.
*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 2021 on the WRS and Wisconsin Sick Leave Conversion Credit programs that covered a three-year period from January 1, 2018 to December 31, 2020. Based on these experience studies, actuarial assumptions used to measure the Total OPEB Liability changed from prior year, including the following: discount rate, long-term expected rate of return, price inflation, mortality and separation rates, healthcare trend rates, sick leave accumulation, usage for escrowed benefits, and modeling survivor benefits. Further, the decrement rates for State and non-State members were studied during the 2018-2020 WRS Experience Study for the first time. State only decrements were used in the valuation of the total OPEB liability for SHICC as of December 31, 2021.

**Long-term expected Return on Plan Assets.** The assets of the SHICC 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 Wisconsin Retirement System 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, 2021, are summarized in the following table:

**Wisconsin Supplemental Health Insurance Conversion Credit  
Asset Allocation Targets and Expected Returns  
As of December 31, 2021**

<b>Asset Class</b>	<b>Asset Allocation %</b>	<b>Long-Term Expected Real Rate of Return %</b>
Global Equities	52.0	4.2
Fixed Income	25.0	1.8
Inflation Sensitive Assets	19.0	0.2
Real Estate	7.0	3.0
Private Equity/Debt	12.0	7.0
Total Core Fund <sup>1</sup>	115.0	4.0
Inflation		2.4%
Long-Term Expected Rate of Return		6.8%

<sup>1</sup> The investment policy used for the Core Fund involves reducing equity exposure by leveraging lower-volatility assets, such as fixed income securities. This results in an asset allocation beyond 100%. Currently, an asset allocation target of 15% policy leverage is used, subject to an allowable range of up to 20%.

The long-term expected rate of return is 6.80%. 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.

**Single Discount rate.** A single discount rate of 6.80% was used to measure the Total OPEB Liability for the current year, as opposed to a discount rate of 7.0% for the prior year. This single discount rate was based on the expected rate of return on OPEB plan investments of 6.80%. 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 of the [OPEB Employer]'s proportionate share of the Net OPEB Liability (Asset) to changes in the discount rate.** The following presents the [OPEB Employer]'s proportionate share of the Net OPEB Liability (Asset) calculated using the discount rate of 6.80%, as well as what the [OPEB Employer]'s proportionate share

of the Net OPEB Liability (Asset) would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current discount rate:

	1% Decrease 5.80%	Current Rate 6.80%	1% Increase 7.80%
[SHICC Employer]'s proportionate share of the Net OPEB Liability (Asset)	Insert from Column CX	Insert from Column CY	Insert from Column CZ

**Sensitivity of the [OPEB Employer]'s proportionate share of the Net OPEB Liability (Asset) to changes in the healthcare cost trend rate.** The following presents the [OPEB Employer]'s proportionate share of the collective Net OPEB Liability (Asset), calculated using the assumed healthcare cost trend rate as well as what the [OPEB Employer]'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 than the current healthcare cost trend rate:

	1% Decrease	Current Rate	1% Increase
[SHICC Employer]'s proportionate share of the Net OPEB Liability (Asset)	Insert from Column DA	Insert from Column CY	Insert from Column DB

**Schedules of Required Supplementary Information**

**SCHEDULE OF [SHICC EMPLOYER]'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY (ASSET)**  
 Supplemental Health Insurance Conversion Credit Program  
 Last 10 Fiscal Years\*

[Employers will also need to include prior years amounts]

Information below comes from the Cost Sharing Allocation Workbook and the SHICC Financial Report

	202X
1) [SHICC Employer]'s proportion of the Net OPEB Liability (Asset)	Insert xx.xx% from Col. D of Main tab
2) [SHICC Employer]'s proportionate share of the Net OPEB Liability (Asset)	Insert \$xx.xx from Col. J of Main tab
3) [SHICC Employer]'s covered-employee payroll	Insert \$xx.xx from Covered Payroll tab
4) [SHICC Employer]'s collective Net OPEB Liability (Asset) as a percentage of the employer's covered-employee payroll	Insert xx.xx% Item 2/Item 3
Plan Fiduciary Net Position as a percentage of the Total OPEB liability (Asset)	131.55%
*The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year. The tables will be built prospectively as the information becomes available.	

**SCHEDULE OF [SHICC EMPLOYER]'S CONTRIBUTIONS**  
 Supplemental Health Insurance Conversion Credit Program  
 Last 10 Fiscal Years\*

[Employers will also need to include prior years amounts]

Information below comes from the Cost Sharing Allocation Workbook and the ETF ACFR

1) Contractually required contributions	Insert \$xx.xx from Col. A of Main tab
2) Contributions in relation to the contractually required contributions	Insert \$xx.xx from Col. F of Main tab
3) Contribution deficiency (excess)	Item 1 less Item 2
4) [SHICC Employer]'s covered-employee payroll	See Covered Payroll from Contributions Paid and Employer UAAL section of ETF ACFR
5) Contributions as a percentage of covered-employee payroll	Item 1/Item 4
*The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year. The tables will be built prospectively as the information becomes available.	

**Notes to Required Supplementary Information  
for the Year Ended June 30, 2022**

*Changes of benefit terms.* There were no recent changes in benefit terms.

*Changes of assumptions.* Based upon experience studies conducted in 2021 on the WRS and Wisconsin Sick Leave Conversion Credit programs that covered a three-year period from January 1, 2018 through December 31, 2020, the ETF Board adopted assumption changes that were used to measure the December 31, 2021 total OPEB liability (asset), including the following:

- Lowering the long-term expected rate of return from 7.00% to 6.8%
- Lowering the discount rate from 7.0% to 6.8%
- Lowering the price inflation rate from 2.5% to 2.4%
- Mortality assumptions were changed to reflect updated trends by transitioning from the Wisconsin 2018 Mortality Table to the 2020 WRS Experience Mortality Table
- The healthcare cost trend rate was changed from an increase of 3.0% in each future year to 6.0% for the 1st year and declining each future year to an ultimate trend rate of 3.5% over a 12 year period
- Health care premium assumptions were changed to reflect 1-person and 2-person coverage for non Medicare and Medicare along with an election percentage assumption of 50%. Previously, the the average non Medicare and Medicare premiums were based on active annuitant data with a 10% increase applied to the average premium
- The escrowed benefit usage assumes 50% of escrowed members will will at some point begin using their sick leave balance to pay for health care costs. The present value of future benefits is now calculated by drawing down each member's account balance using the same average premiums applicable to active members and a 50% factor applied to the present value to account for the 50% escrowed benefit usage assumption. Previously, the present value of future benefits was calculated by taking the balance on deposit for escrowed annuitants multiplied by the ratio of the present value of future benefits for active status annuitants to the balance on deposit for active status annuitants multiplied by 50%
- The sick leave accumulation assumes each individual is at their same rate as in the past (earned less used), but not more than 100% of the gross earned rate based on the person's employer and not less than 25% of their gross earned rate. The assumed annual gross earned rates range from 6.4 to 16.25 days depending on the employer. Previously, each individual was assumed to continue using sick leave at the same rate as in the past but not less than 25% nor more than 75% of the person's annual accrual rate (usually 16.25 days)

Based upon a three year experience study conducted in 2018 that covered a three-year period from January 1, 2015 through December 31, 2017, the ETF Board adopted assumption changes that were used to measure the December 31, 2018 total OPEB liability (asset), including the following:

- Lowering the long-term expected rate of return from 7.2% to 7.0%
- Lowering the discount rate from 7.2% to 7.0%
- Lowering the wage inflation rate from 3.2% to 3.0%
- Lowering the price inflation rate from 2.7% to 2.5%
- Mortality assumptions were changed to reflect updated trends by transitioning from the Wisconsin 2012 Mortality Table to the Wisconsin 2018 Mortality Table
- The healthcare cost trend rate was changed form an increase of 3.2% in each future year to 3.0%

Significant methods and assumptions used in calculating SHICC Actuarially Determined Contributions:

	2021	2020	2019	2018	2017
Valuation Date:	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015
Actuarial Cost Method:	Frozen Entry Age				
Amortization Method:	Level Percent of Payroll, (Closed)				
Remaining Amortization Period:	6 years	7 years	8 years	9 years	10 years
Asset Valuation Method:	Five Year Smoothed Market (Closed)				
Salary Increases					
Inflation:	3.0%	3.0%	3.2%	2.0%	2.0%
Seniority/Merit:	0.1%-5.6%	0.1%-5.6%	0.1%-5.6%	0.1%-5.6%	0.1%-5.6%
Investment Rate of Return:	7.0%	7.0%	7.2%	7.2%	7.2%
Retirement Age:	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2018 valuation pursuant to an experience study of the period 2015-2017.	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2018 valuation pursuant to an experience study of the period 2015-2017.	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.	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.	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 2018 Mortality Table adjusted for future mortality improvements using the MP-2018 fully generational improvement scale (multiplied by 60%)	Fully generational mortality utilizing the WRS 2018 Mortality Table adjusted for future mortality improvements using the MP-2018 fully generational improvement scale (multiplied by 60%)	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%)	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%)	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:	3.0%	3.0%	3.2%	3.2%	3.2%
Other Information					
Notes:	There were no benefit changes during the year.	There were no benefit changes during the year.	There were no benefit changes during the year.	There were no benefit changes during the year.	There were no benefit changes during the year.

---- End of Model Notes ----

**Model Journal Entries for SHICC**

Employers will need to take their allocation percentage and multiply it by the numbers below in order to calculate the values for the journal entries below:

<u>Journal Entry #</u>		<u>Debit</u>	<u>Credit</u>
<b>1</b>	OPEB Expense (Revenue)		18,913,983
	Deferred Outflows of Resources - Assumption Changes		
	Deferred Inflows of Resources - Expected vs. Actual Investment Income	15,467,671	
	Deferred Inflows of Resources - Expected vs. Actual Experience	3,446,312	
	To record amortization of Calendar Year 2017 Deferred Inflows and Outflows of Resources		
<b>2</b>	OPEB Expense (Revenue)	19,896,508	
	Deferred Inflows of Resources - Expected vs. Actual Experience	4,539,487	
	Deferred Outflow of Resources - Assumption Changes		2,750,165
	<i>Deferred Outflows of Resources - Expected vs. Actual Investment Income</i>		21,685,831
	To record amortization of Calendar Year 2018 Deferred Inflows and Outflows of Resources		
<b>3</b>	OPEB Expense (Revenue)		29,546,234
	Deferred Outflows of Resources - Assumption Changes		
	Deferred Inflows of Resources - Expected vs. Actual Investment Income	23,124,080	
	Deferred Inflows of Resources - Expected vs. Actual Experience	6,422,154	
	To record amortization of Calendar Year 2019 Deferred Inflows and Outflows of Resources		
<b>4</b>	OPEB Expense (Revenue)		22,490,485
	Deferred Outflow of Resources - Assumption Changes		
	Deferred Inflows of Resources - Expected vs. Actual Investment Income	16,957,600	
	Deferred Inflows of Resources - Expected vs. Actual Experience	5,532,885	
	To record amortization of Calendar Year 2020 Deferred Inflows and Outflows of Resources		
<b>5</b>	OPEB Expense (Revenue)		9,536,226
	Deferred Outflow of Resources - Assumption Changes	107,020,804	
	Deferred Inflows of Resources - Expected vs. Actual Investment Income		93,842,006
	Deferred Inflows of Resources - Expected vs. Actual Experience		32,178,453
	Employer Contributions		15,657,937
	Net OPEB Asset (Liability)	44,193,818	
	To record the changes in Net OPEB Asset for Calendar Year 2021		
<b>6</b>	OPEB Expense (Revenue)	—	—
	Deferred Outflows /(Inflows) of Resources - Change in Proportional Share & Difference in Actual Contributions [1]	—	—

To record the changes in OPEB Expense (Revenue) for Calendar Year 2021

NOTES:

[1] - The employers net amortization of deferred amounts from changes in proportional share & difference in actual contributions can be found at the bottom of the "Schedule of OPEB Amounts by Employer" report.

WRS Employers who have made subsequent contributions after the measurement date will also need to record the additional contributions.

Reconciliation of Net OPEB Liability	
Beginning NOA/(NOL)	284,775,467
Changes related to OPEB expenses (revenues) & deferred in/outflow of resources	44,193,818
Ending NOA/(NOL)	328,969,285