

State of Wisconsin Supplemental Health Insurance Conversion Credit Financial Report

Calendar Year 2021



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**Wisconsin Department of
Employee Trust Funds**

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TABLE OF CONTENTS

Audit Opinion	4
Management's Discussion and Analysis	7
Financial Statements	10
Notes to Financial Statements	12
Required Supplementary Information	25
Notes to Required Supplementary Information	27



STATE OF WISCONSIN

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Independent Auditor's Report on the Financial Statements 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 Financial Statements

Opinion

We have audited the 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, administered by the Department of Employee Trust Funds (ETF), as of and for the year ended December 31, 2021.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Supplemental Health Insurance Conversion Credit program, as of December 31, 2021, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 Financial Statements 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 opinion.

Emphasis 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, 2021, or the changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United State of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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 financial statements.

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 financial statements, 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 financial statements.

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 made by management, and evaluated the overall presentation of the financial statements.

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.

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 9, and the following information found on pages 25 through 28 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 notes. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board (GASB) that considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing 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 express an opinion or provide any assurance.



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 22-18, 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 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

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, 2021, for the Supplemental Health Insurance Conversion Credit (SHICC) program. The SHICC program provides additional sick leave credits to eligible employees with at least 15 years of service, which increases their sick leave account balance that can be used 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 \$162.9 million or 13% from \$1.2 billion in 2020 to \$1.4 billion in 2021. 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, 2021. Under the GASB financial reporting method, the SHICC program is 132% funded as of December 31, 2021.

Condensed Financial Information

Summary Schedule of Fiduciary Net Position

AT DECEMBER 31

(In Thousands)

	2021	2020	\$ Change	% Change
Assets				
Prepaid Expenses	\$ 4,348	\$ 4,138	\$ 210	5.1 %
Receivables	2,947	2,271	676	29.7
Investments	1,364,812	1,202,976	161,836	13.5
Total Assets	\$ 1,372,107	\$ 1,209,385	\$ 162,722	13.5 %
Liabilities				
Payables	401	594	(193)	(32.5)%
Total Liabilities	\$ 401	\$ 594	\$ (193)	(32.5)%
Net Position Restricted for Other Post-Employment Benefits	\$ 1,371,706	\$ 1,208,791	\$ 162,915	13.5 %

*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)

	2021	2020	\$ Change	% Change
Additions:				
Employer Contributions	\$ 15,658	\$ 15,080	\$ 578	3.8 %
Investment Income	200,599	159,467	41,132	25.8
Total Additions	\$ 216,257	\$ 174,547	\$ 41,710	23.9 %
Deductions:				
Other Benefit Expenses	\$ 52,632	\$ 49,482	\$ 3,150	6.4 %
Administrative Expenses	710	639	71	11.0
Total Deductions	\$ 53,342	\$ 50,121	\$ 3,221	6.4 %
Net Increase (Decrease) in Net Position	\$ 162,915	\$ 124,426	\$ 38,489	30.9 %
Net Position - Beginning of Year	\$ 1,208,791	\$ 1,084,365	\$ 124,426	11.5 %
Net Position - End of Year	\$ 1,371,706	\$ 1,208,791	\$ 162,915	13.5 %

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



» Analysis of Financial Activities

For 2021, the SHICC Program collected \$15.7 million in contributions compared to \$15.1 million during 2020, an increase of 4%. The increase in contributions resulted from higher earnings reported by employers, to which the contribution rate is applied. Additionally, Contributions Receivable increased \$0.2 million from 2020, an increase of 16%. This increase was caused by higher earnings reported by employers for December 2021 compared to December 2020 due to certain employers changing timing and frequency of their employees payroll. The program incurred expenses of \$53.3 million in 2021 compared to \$50.1 million in 2020, an increase of 6%. This increase was primarily caused by increased health insurance premiums for certain retirees.

The SHICC Program had a net position of \$1.4 billion at December 31, 2021. This is an increase of \$162.9 million from a \$1.2 billion net position in 2020. The increase is primarily due to an increase in investment gains experienced in 2021. Total liabilities decreased \$0.2 million from 2020 to 2021. The 2021 liability represents payables due to other benefit programs.

An actuarial valuation, in accordance with GASB standards, shows a Net OPEB Asset of \$329 million as of December 31, 2021. The program Fiduciary Net Position as a percentage of the Total OPEB Liability is 132%. Additional information on this valuation can be found in Note 4, SHICC Program Overview.

At December 31, 2021, there were approximately 94,800 members participating in the SHICC program. Total participation in the SHICC Program varies from the ASLCC Program participation because of different eligibility requirements. Participation is comprised of approximately 21,700 retirees and beneficiaries, 400 inactive non-retired members, and 72,700 active members. Active members may become eligible for the SHICC benefit upon meeting the eligibility requirements. Total participation decreased 1% from 2020.

» 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, 2021
(In Thousands)

		Other Post-Employment Benefit Trust Fund
Assets:		
Prepaid Expenses	\$	4,348
Receivables:		
Contributions Receivable		1,742
Due From Other Benefit Programs		1,204
Miscellaneous Receivables		1
Total Receivables		2,947
Investments at Fair Value:		
Investment In Core Fund		1,364,812
Total Investments		1,364,812
Total Assets		1,372,107
Liabilities:		
Due To Other Benefit Programs		401
Total Liabilities		401
Net Position - Restricted for Other Post-Employment Benefits	\$	1,371,706

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, 2021

(In Thousands)

		Other Post-Employment Benefit Trust Fund
Additions:		
Contributions:		
Employer Contributions	\$	15,658
Total Contributions		15,658
Investment Income:		
Interest, Dividend, and Other Investment Income		200,599
Net Investment Income		200,599
Total Additions		216,257
Deductions:		
Benefits and Refunds:		
Other Benefit Expense		52,632
Administrative Expenses		710
Total Deductions		53,342
Net Increase (Decrease)		162,915
Net Position - Beginning of Year		1,208,791
Net Position - End of Year	\$	1,371,706

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 Annual Comprehensive Financial Report (ACFR), 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, 2021 were \$710 thousand.



» *Amounts Due To/From Other Benefit Programs*

As of December 31, 2021, the SHICC program had an \$0.4 million balance due to and a \$1.2 million balance due from other benefit programs administered by the ETF. 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

No accounting changes occurred during CY 2021.

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, 2021, 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, 2021, the Core Fund held \$136.3 billion in investment related accounts of which \$6.2 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, 2021
(In Thousands)

Assets:	Core
Cash & Cash Equivalents	\$ 6,244,362
Securities Lending Collateral	360,458
Prepaid Items	19,744
Capital Assets	1,071
Investment Receivables	11,303,533
Investments, at fair value	158,161,557
Total Assets	\$ 176,090,725
Liabilities:	
Securities Lending Collateral Liability	\$ 1,121,458
Obligation Under Reverse Repurchase Agreement	17,012,077
Short Sell Obligations	8,050,666
Collateral Due to Counterparty	125,917
Investment Payables	13,524,447
Total Liabilities	\$ 39,834,565
Net Position Held in Trust for:	
Other Investment Pool Participants	\$ 134,884,454
SHICC	1,371,706
Total	\$ 136,256,160

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, 2021
(In Thousands)

Additions:	Core
Net Increase (Decrease) in Fair Value of Investments	\$ 17,921,101
Interest, Dividend, and Other Investment Income	2,425,212
Securities Lending Income	39,874
Total Additions	<u>\$ 20,386,187</u>
 Deductions:	
Investment Expense	426,820
Securities Lending Fees	2,711
Net Withdrawals by Pool Participants	3,858,729
Total Deductions	<u>\$ 4,288,260</u>
Net Increase (Decrease)	<u>\$ 16,097,927</u>
 Net Investment Position Held in Trust	
Beginning of Year	<u>\$ 120,158,233</u>
End of Year	<u>\$ 136,256,160</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)).

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 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.



» Description of Benefits

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

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, 2021, included:

Employment Status	Count
Retirees and Beneficiaries	21,715
Inactive, Non-retired Members	366
Active Members	72,701
Total	<u>94,782</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 insurance 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 \$15.7 million based upon a percentage of active member earnings for the year ending December 31, 2021.



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

The components of the Net OPEB Liability (Asset) of the participating state employers at December 31, 2021, were as follows (In Millions):

Total OPEB Liability	\$	1,042.74
Plan Fiduciary Net Position*		1,371.71
Participating Employer's Net OPEB Liability (Asset)	\$	<u>(328.97)</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability		131.55 %

*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, 2021
Measurement Date of Net OPEB Liability (Asset):	December 31, 2021
Wisconsin Sick Leave Conversion Credit Programs Experience Study:	January 1, 2018 - December 31, 2020 Published November 18, 2021
WRS Experience Study:	January 1, 2018 - December 31, 2020 Published November 19, 2021
Actuarial Cost Method:	Entry Age Normal
Long-Term Expected Rate of Return:	6.8%
Discount Rate:	6.8%
Salary Increases	
Wage Inflation:	3.0%
Senior/Merit:	.1% - 5.6%
Mortality:	2020 WRS Experience Mortality Table
Health Care 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 family coverages.
Participation	100% of active and preserved members will begin using sick leave credits immediately upon reaching eligibility 50% of members currently in escrow status will at some point begin using their sick leave balances to pay for health care costs.
Usage for Escrowed Benefits:	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.
Sick Leave Accumulation:	

*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.

A discount rate of 6.8% 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. 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.

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.

» Long-Term Expected Return on Plan Assets

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 long-term expected rate of return is reviewed every three years in conjunction with the Wisconsin Retirement System experience study. For each major asset class that is included in the OPEB plan's target asset allocation as of December 31, 2021, these best estimates of geometric real rates of return are shown below:

Core Asset Allocation Targets and Expected Returns

Asset Class	Target Allocation		Long-Term Expected Real Rate of Return %	
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 ¹	115	%	4.0	%
Inflation			2.4%	
Long-Term Expected Rate of Return			6.8%	

¹ 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%.



» *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):

	Discount Rate		
	1% Decrease 5.80%	Current Rate 6.80%	1% Increase 7.80%
Total OPEB Liability	\$ 1,153.1	\$ 1,042.7	\$ 947.6
Plan Fiduciary Net Position	1,371.7	1,371.7	1,371.7
Net OPEB Liability (Asset)	\$ (218.6)	\$ (329.0)	\$ (424.1)

» *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):

	Healthcare Cost Trend Rate		
	1% Decrease	Current Rate	1% Increase
Total OPEB Liability	\$ 974.4	\$ 1,042.7	\$ 1,107.4
Plan Fiduciary Net Position	1,371.7	1,371.7	1,371.7
Net OPEB Liability (Asset)	\$ (397.3)	\$ (329.0)	\$ (264.3)

5 RELATED PARTY DISCLOSURE

» *Related Party Transactions*

The assets of the SHICC program are invested in the Core Fund, which is managed by SWIB. During 2021, the Core Fund entered into reverse repurchase agreements 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 credit exposure is also managed through the transfer of margin between the Core Fund and SIF. As of December 31, 2021, the Core Fund held \$3.1 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 agreements with other counterparties. The Core and Variable Funds are also participants in the SIF, with investments totaling \$3.7 billion and \$499 million, respectively, at December 31, 2021. The SIF is a short-term, commingled fund with the investment objective of safety of principal 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	2021	2020	2019	2018	2017
Total OPEB Liability					
Service Cost	\$ 23.5	\$ 24.1	\$ 25.5	\$ 23.4	\$ 23.1
Interest on the Total OPEB Liability	63.7	64.4	65.5	66.0	65.9
Difference between Expected and Actual Experience	(36.2)	(47.6)	(55.3)	(41.6)	(31.6)
Assumption Changes	120.4	0.0	0.0	25.2	0.0
Benefit Payments	(52.6)	(49.5)	(53.0)	(55.4)	(56.4)
Net Change in Total OPEB Liability	118.7	(8.6)	(17.2)	17.6	0.9
Total OPEB Liability - Beginning	924.0	932.6	949.8	932.2	931.3
Total OPEB Liability - Ending (a)	<u>\$ 1,042.7</u>	<u>\$ 924.0</u>	<u>\$ 932.6</u>	<u>\$ 949.8</u>	<u>\$ 932.2</u>
Plan Fiduciary Net Position					
Employer Contributions	\$ 15.7	\$ 15.1	\$ 14.4	\$ 18.2	\$ 17.9
Net Investment Income	200.6	159.5	180.3	(36.5)	141.8
Benefit Payments	(52.6)	(49.5)	(53.0)	(55.4)	(56.4)
OPEB Plan Administrative Expense	(0.7)	(0.6)	(0.3)	(0.3)	(0.3)
Net Change in Plan Fiduciary Net Position	162.9	124.4	141.3	(74.0)	102.9
Plan Fiduciary Net Position - Beginning	1,208.8	1,084.4	943.1	1,017.1	914.1
Plan Fiduciary Net Position - Ending (b)	<u>\$ 1,371.7</u>	<u>\$ 1,208.8</u>	<u>\$ 1,084.4</u>	<u>\$ 943.1</u>	<u>\$ 1,017.1</u>
Net OPEB Liability(Asset) - Ending (a) - (b)	\$ (329.0)	\$ (284.8)	\$ (151.8)	\$ 6.8	\$ (84.8)
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	131.55%	130.82%	116.27%	99.29%	109.10%
Covered Employee Payroll	\$ 5,215.5	\$ 5,018.5	\$ 4,796.1	\$ 4,562.6	\$ 4,454.5
Net OPEB Liability(Asset) as a Percentage of Covered Employee Payroll	(6.31)%	(5.67)%	(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%
2020	15.1	15.1	0.0	5,018.5	0.30%
2021	15.7	15.7	0.0	5,215.5	0.30%

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

	2021	2020	2019	2018	2017
Core Trust Fund	17.03%	15.06%	19.49%	(3.56)%	15.85%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Changes in Benefit Terms and Assumptions related to SHICC OPEB Liabilities (Assets)

Benefit Terms: There were no recent changes in benefit terms.

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	Frozen Entry Age	Frozen Entry Age	Frozen Entry Age	Frozen Entry Age
Amortization Method:	Level Percent of Payroll, (Closed)	Level Percent of Payroll, (Closed)	Level Percent of Payroll, (Closed)	Level Percent of Payroll, (Closed)	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)	Five Year Smoothed Market (Closed)	Five Year Smoothed Market (Closed)	Five Year Smoothed Market (Closed)	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.