



Department of Employee Trust Funds Calendar Year 2019

We provided unmodified opinions on the financial statements for the separate funds presented in ETF's 2019 Comprehensive Annual Financial Report (CAFR), which can be found on its website. These financial statements account for the financial position and activity of the eight benefit programs available to state and local public employees. These programs include the Wisconsin Retirement System (WRS), health insurance, and life insurance programs for active and retired employees of the State and participating local governments. We conducted this financial audit by auditing ETF's financial statements in accordance with applicable government auditing standards, issuing our auditor's opinions, reviewing internal controls, and issuing our auditor's report on internal control and compliance.

ETF changed its financial reporting for calendar year 2019. We recommend that ETF improve aspects of its financial reporting, continue to analyze the risk of depleting the reserve for dividend adjustments in the WRS and develop a written plan to address it, and continue its efforts or take additional steps to implement recommendations we made related to the administration and oversight of group insurance programs. We also include an issue for legislative consideration related to creating a statutory requirement related to stress testing for the WRS.

ETF Changed Its Financial Reporting for Calendar Year 2019

In July 2020, ETF determined that it would separately report the financial information for its sick leave programs. The timing of ETF's decision to alter its financial reporting for calendar year 2019 resulted in ETF separately issuing other reports that included financial statements for certain programs it administers. We audited these financial statements as they were prepared by ETF, and we provided unmodified opinions on the financial statements and the employer schedules that were included in ETF's reports in September 2020 and December 2020. We also provided information about these programs in the following reports we issued in 2020:

- Wisconsin Retirement System (report 20-14);
- Wisconsin Retirement System Reporting for Participating Employers (report 20-15);
- Retiree Life Insurance Programs (report 20-16);
- State Retiree Life Insurance Reporting for the State of Wisconsin (report 20-17);
- Local Retiree Life Insurance Reporting for Participating Employers (report 20-18);
- Supplemental Health Insurance Conversion Credit Program (report 20-24); and
- Supplemental Health Insurance Conversion Credit Program Reporting for Participating Employers (report 20-25).

We have provided the program information again in this report to assist the users of the financial statements that are now presented in ETF's CAFR.

ETF Should Improve Aspects of Its Financial Reporting

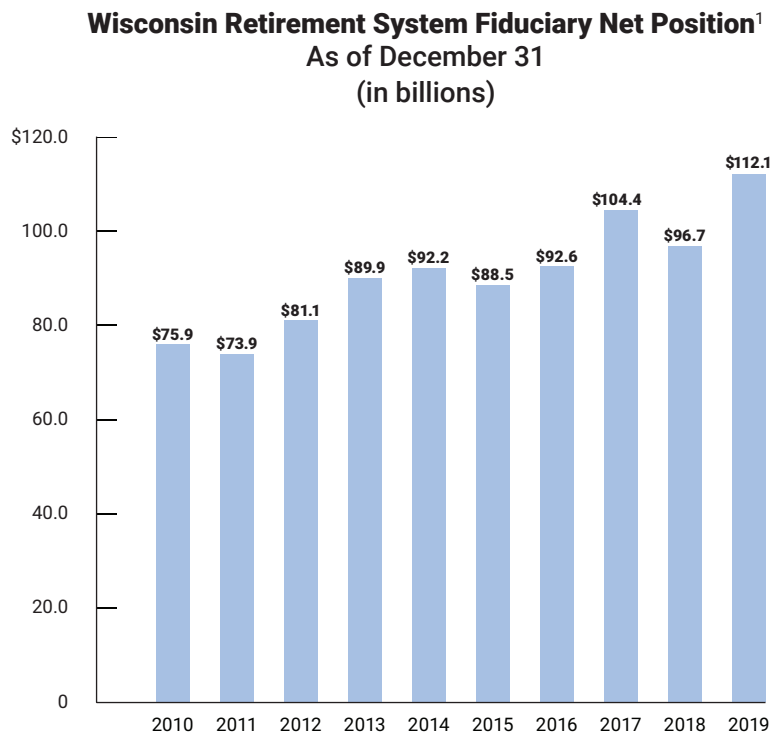
We found ETF did not have a reasonable basis for estimating the probability of employees becoming eligible to receive future benefits. As a result, ETF prepared an adjustment to correct a \$425.4 million error we identified in its calculation of the compensated absence liability estimate. We considered this to be a material weakness in internal control over financial reporting, which we included both in this report and in our audit of the State's fiscal year 2019-20 CAFR (report 20-30).

We found that late planning for implementation of GASB Statement Number 84 contributed to the error. Although the GASB statement was issued in January 2017, ETF's final determination on the application of the statement to the sick leave programs was not made until July 2020.

We recommend ETF improve its calculation of the estimate by revising its policies; ensure that it completes its planning, review, and assessment process before the close of the financial reporting period affected by a change in financial reporting; and work with the Department of Administration on areas that affect the State's CAFR.

WRS Fiduciary Net Position Increased

The WRS is one of the 10 largest public pension plans in the United States. The WRS fiduciary net position, which represents the resources available to pay pension benefits, increased from \$96.7 billion as of December 31, 2018, to \$112.1 billion as of December 31, 2019, or by 15.9 percent.



¹ Shown as Net Position Restricted for Pensions on the financial statements.

ETF calculated a net pension asset of \$3.2 billion as of December 31, 2019. We collected information from other plans that were part of the WRS peer group, and we found that the WRS had the highest funded ratio (103.0 percent) among these plans.

In report 20-14, we reviewed a statutory limitation for Core Fund annuities and recommended that ETF continue to analyze the risk of depleting the reserve for dividend adjustments and develop a written plan to address it. As recommended, ETF plans to report to the Joint Legislative Audit Committee by February 26, 2021, on the status of its efforts to implement this recommendation.

The Legislature Could Consider Requiring WRS Stress Testing

The WRS funding policy established by the ETF Board requires ETF to engage the WRS actuary to undertake stress testing or review the results of stress testing performed by the State of Wisconsin Investment Board (SWIB) to understand the potential effects of major risks that may affect the WRS. In report 20-23, we found that the results of the stress testing ETF and SWIB perform are not easily accessible. Therefore, as we identified in report 20-23, the Legislature could consider creating a statutory requirement for SWIB related to stress testing for the WRS. In recognition of ETF's responsibility to ensure the solvency and long-term future of the WRS, the Legislature could consider statutorily requiring ETF to work with SWIB on its efforts to perform stress testing. As of October 2020, the National Conference of State Legislatures indicated that ten states have statutorily required their large public pension plans to conduct stress testing.

ETF Administers Five OPEB Plans for Retired Individuals

OPEB refers to the benefits, other than pensions, that a state or local government employee may receive after they have left employment, generally upon retirement. An OPEB plan can include medical, prescription drug, dental, vision, and other health-related benefits. The five OPEB plans administered by ETF are the State Retiree Life Insurance Program, the Local Retiree Life Insurance Program, the Supplemental Health Insurance Conversion Credit program, the State Retiree Health Insurance program, and the Local Retiree Health Insurance program. As of December 31, 2019, ETF calculated a net OPEB liability of \$683.1 million for the State Retiree Life Insurance Program, a net OPEB liability of \$425.8 million for the Local Retiree Life Insurance program, and a net OPEB asset of \$151.8 million for the Supplemental Health Insurance Conversion Credit Program. The State Retiree Health Insurance program and the Local Retiree Health Insurance program do not accumulate assets dedicated to providing benefits to plan members. The OPEB liabilities for these programs are not calculated by ETF for purposes of financial reporting.

ETF Fully Implemented 24 of 30 Recommendations We Made in Report 19-2

We followed up on the status of ETF's efforts to implement 30 recommendations we made in our audit of the administration and oversight of group insurance programs (report 19-2). As of November 2020, we determined that ETF had fully implemented 24 of the 30 recommendations, partially implemented 5 recommendations, and had not implemented one recommendation that it will not be able to implement until 2021.

We recommend that ETF report to the Joint Legislative Audit Committee by June 30, 2021, on the status of its efforts to implement our recommendations, and we will continue to monitor ETF's progress in our future audit work.