STATE OF WISCONSIN

Legislative Audit Bureau

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Report 24-1
January 2024

Department of Employee Trust Funds

Calendar Year 2022

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Department of Employee Trust Funds

Calendar Year 2022

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From the Secretary of the Department of Employee Trust Funds

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The financial statements and our opinions on them are included in the Department of Employee Trust Funds' Annual Comprehensive Financial Report for the calendar year ended December 31, 2022.

STATE OF WISCONSIN
Legislative Audit Bureau

Joe Chrisman
State Auditor

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January 9, 2024

Senator Eric Wimberger and
Representative Robert Wittke, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Wimberger and Representative Wittke:

As required by s. 13.94 (1) (dd), Wis. Stats., and as requested by the Department of Employee Trust Funds (ETF), we have completed an audit of ETF's financial statements of 12 separate funds used to account for the financial position and activity of various benefit programs available to state and local government employees. The 2022 ETF Annual Comprehensive Financial Report (ACFR), which can be found on ETF's website, includes the financial statements and our unmodified opinions on them.

ETF chose to separately issue financial statements for certain programs it administered. We audited these financial statements as they were prepared by ETF and provided information about these programs in reports we issued in September 2023 (reports 23-14 through 23-20). We provide this information again in this report to assist users of the financial statements now presented in ETF's 2022 ACFR.

The Wisconsin Retirement System (WRS) is the largest program administered by ETF. The WRS fiduciary net position, which represents the resources available to pay pension benefits, decreased from $141.8 billion as of December 31, 2021, to $118.4 billion as of December 31, 2022, or by 16.5 percent. ETF calculated a net pension liability of $5.3 billion as of December 31, 2022.

ETF also administers other postemployment benefits (OPEB) plans, which are benefits, other than pensions, that a state or local government employee may receive after they have left employment, generally upon retirement. As of December 31, 2022, ETF calculated a net OPEB liability of $659.7 million for the State Retiree Life Insurance program, a net OPEB liability of $381.0 million for the Local Retiree Life Insurance program, and a net OPEB asset of $102.8 million for the Supplemental Health Insurance Conversion Credit program.

A response from the Secretary of ETF follows the appendices.

Respectfully submitted,

Joe Chrisman
State Auditor

JC/ES/ss

Introduction

ETF administers employee benefit programs for participating state and local government employees.

The Department of Employee Trust Funds (ETF) administers employee benefit programs for participating state and local government employees. These programs include the Wisconsin Retirement System (WRS) and health and life insurance programs for active and retired employees of the State and participating local governments. ETF reports the financial activity of programs it administers in financial statements that are included in its Annual Comprehensive Financial Report (ACFR). These financial statements are prepared by ETF using generally accepted accounting principles (GAAP) prescribed by the Governmental Accounting Standards Board (GASB).

ETF administers the eight benefit programs shown in Table 1.

Table 1

Programs Administered by ETF

Program	Description
Retirement	
WRS	The Wisconsin Retirement System (WRS) provides postretirement financial benefits to participating employees as well as disability and death benefits to participants and their beneficiaries. As of December 31, 2022, the WRS had 1,586 participating employers and 677,905 participants, including 260,504 active participants, 232,384 retired participants or their beneficiaries who were receiving WRS benefits, and 185,017 inactive participants.
Milwaukee Retirement Systems	The Milwaukee Retirement Systems invest other retirement systems' funds with the WRS. Currently, funds from two Milwaukee Public Schools supplemental retirement plans are invested in this program.
Disability	
Duty Disability Insurance	This program offers special disability benefits to protective occupation members in the WRS, such as police officers, firefighters, and correctional officers. As of December 31, 2022, the State of Wisconsin and 505 local government employers participated in this program, and benefits were being provided to approximately 1,000 disabled participants or their beneficiaries.
Income Continuation Insurance	This program offers short-term and long-term disability benefits for employees of the State of Wisconsin, including those employed by state agencies and authorities, such as the University of Wisconsin (UW) Hospitals and Clinics Authority, and 290 local government employers, as of December 31, 2022. During 2022, benefits were provided to approximately 2,200 participants.
Health and Life	
Group Health Insurance[1]	This program offers health insurance coverage, including medical, pharmacy, and dental benefits, to active and retired employees of the State of Wisconsin, including those employed by state agencies and authorities, such as the UW Hospitals and Clinics Authority, and 408 local government employers, as of December 31, 2022. Approximately 79,000 active employees and 31,200 retired employees participated in the program as of December 31, 2022.
Group Life Insurance[2]	This program offers group life insurance coverage for active and retired employees of the State of Wisconsin, including those employed by state agencies and authorities, such as UW Hospitals and Clinics Authority, and 732 local government employers.
Other	
Sick Leave Programs[3]	The Accumulated Sick Leave Conversion Credit (basic ASLCC) program provides for the conversion of the value of unused sick leave at the time of retirement into a balance to be used to pay for postemployment state group health insurance premiums for retired employees of the State of Wisconsin, including those employed by state agencies and authorities, such as UW Hospitals and Clinics Authority. The Supplemental Health Insurance Conversion Credit (SHICC) program provides certain eligible employees with additional sick leave hours at termination that increases the balance available to pay for health insurance premiums. As of December 31, 2022, approximately 19,000 retired employees and others were using these balances for the payment of health insurance premiums.
Employee Reimbursement Accounts/ Commuter Benefits	This program offers employees of the State pretax payroll deductions that are credited to an account for the reimbursement of qualifying medical costs, dependent care costs, and transportation expenses, such as bus passes, parking, and other transit costs. In 2022, approximately 20,700 employees had a medical account, 3,500 employees had a dependent care account, and 3,000 employees had a commuter benefits account.

[1] Includes the Health Insurance, State Retiree Health Insurance, and Local Retiree Health Insurance funds.

[2] Includes the State Retiree Life Insurance, Local Retiree Life Insurance, and the Life Insurance funds. The Life Insurance Fund is not presented in the 2022 ETF Annual Comprehensive Financial Report (ACFR).

[3] Includes the Accumulated Sick Leave Conversion Credit (basic ASLCC) program and the Supplemental Health Insurance Conversion Credit (SHICC) program.

ETF Administration

The ETF Board is responsible for the overall direction and oversight of ETF.

The ETF Secretary and the governing boards oversee the administration of the programs reported in ETF's ACFR. The programs are administered by ETF using the services provided by multiple entities, including third-party administrators, actuaries, and the State of Wisconsin Investment Board (SWIB). Under s. 40.03, Wis. Stats., the 13-member ETF Board is responsible for the overall direction and oversight of ETF. Statutes specifically identify that, among other items, the ETF Board is responsible for:

- appointing the Secretary of ETF;
- selecting and retaining an actuary to perform all necessary actuarial services for benefit programs administered by ETF; and
- approving the contribution rates and actuarial assumptions determined by the actuary.

The 2024 ETF Board members are shown in Appendix 1 and include:

- the Governor, or the Governor's designee on the Group Insurance Board;
- the Administrator of the Division of Personnel Management in the Department of Administration (DOA), or designee;
- four members of the Teachers Retirement Board;
- four members of the Wisconsin Retirement Board;
- one member nominated by the Governor and appointed with the advice and consent of the Senate, as a public representative, who is not a member of the WRS but has at least five years of actuarial, insurance, or employee benefits plan experience;
- one annuitant elected by retired WRS participants; and
- one active WRS participant who must be either a technical college or school district educational support personnel employee, elected by participating employees who meet the same employment criteria.

Although the ETF Board is the overall governing body for ETF, the 13-member Teachers Retirement Board and the 9-member Wisconsin Retirement Board each serve in an advisory role on issues related to the

WRS. The members of the Teachers Retirement Board and the Wisconsin Retirement Board represent state and local government employers, employees, annuitants, and the general public.

The Group Insurance Board oversees the Group Health Insurance, Group Life Insurance, Employee Reimbursement Accounts/Commuter Benefits, and Income Continuation Insurance programs.

In addition to the ETF Board, the 11-member Group Insurance Board is responsible for setting policies and overseeing administration of the Group Health Insurance, Group Life Insurance, Employee Reimbursement Accounts/Commuter Benefits (ERA/CB), and the Income Continuation Insurance programs. The 2024 Group Insurance Board members are shown in Appendix 2 and include:

- the Governor, or designee;
- the Administrator of the Division of Personnel Management in DOA, or designee;
- the Attorney General, or designee;
- the Secretary of DOA, or designee;
- the Commissioner of Insurance, or designee;
- a member appointed by the Governor;
- an insured participant in the WRS who is a teacher and is appointed by the Governor;
- an insured participant in the WRS who is not a teacher and is appointed by the Governor;
- an insured participant in the WRS who is a retired employee and is appointed by the Governor;
- an insured participant in the WRS who is an employee of a local unit of government and is appointed by the Governor; and
- the chief executive or member of the governing body of a local unit of government that is a participating employer in the WRS and is appointed by the Governor.

Table 2 shows the programs that ETF administered and the board that had authority over the policies and administration of each program, as of December 31, 2022.

Table 2

ETF Board and Group Insurance Board Authority, by Program
As of December 31, 2022

Program	ETF Board	Group Insurance Board
Wisconsin Retirement System	✓	
Milwaukee Retirement Systems	✓	
Duty Disability Insurance	✓	
Income Continuation Insurance		✓[1]
Group Health Insurance[2]		✓
Group Life Insurance[3]		✓
Sick Leave Programs[4]	✓	
Employee Reimbursement Accounts/Commuter Benefits		✓

[1] At its February 8, 2017 meeting, the Group Insurance Board approved moving the authority of this program to the ETF Board. However, statutes have not been modified to permit this change.

[2] Includes the Health Insurance, State Retiree Health Insurance, and Local Retiree Health Insurance funds.

[3] Includes the State Retiree Life Insurance, Local Retiree Life Insurance, and the Life Insurance funds. The Life Insurance Fund is not presented in the 2022 ETF Annual Comprehensive Financial Report (ACFR).

[4] Includes the Accumulated Sick Leave Conversion Credit (basic ASLCC) program and the Supplemental Health Insurance Conversion Credit (SHICC) program.

Third-party administrators are used to help administer several of the benefit programs.

The Secretary of ETF is charged with implementing the policies approved by each of the boards, and with managing the daily operations of ETF. Each program administered by ETF has its own unique requirements related to eligibility, contributions, benefit payment determination, and reporting. As of July 1, 2023, ETF was authorized 287.2 full-time equivalent positions. In addition, ETF uses third-party administrators to perform administrative functions for certain benefit programs, such as determining participant eligibility, processing participant claims, and making benefit payments to participants. For example, ETF uses a third-party administrator to determine eligibility for and pay benefits to participants in the Income Continuation Insurance program. A third-party administrator may also contract with other parties, referred to as subservice organizations, to perform certain functions of the program.

ETF uses actuaries to perform actuarial calculations for several benefit programs.

ETF also uses actuaries to perform actuarial calculations for several benefit programs it administers. Although the role of the actuary for each program varies based on program requirements, the duties generally include performing calculations to project future benefit payments, determining a liability for costs that have been incurred but not reported, and comparing these liabilities against the projected assets that will be available. In addition, the actuaries may recommend changes to contribution rates intended to increase or decrease contribution revenues that provide future assets to fund projected liabilities.

As of December 31, 2022, third-party administrators were used for four of the eight benefit programs and actuaries were used for six of the eight programs, as shown in Table 3.

Table 3

ETF's Use of Third-Party Administrators and Actuaries, by Program
As of December 31, 2022

Program	Third-Party Administrator	Actuary
Wisconsin Retirement System		✓
Milwaukee Retirement Systems		
Duty Disability Insurance		✓
Income Continuation Insurance	✓	✓
Group Health Insurance[1]	✓	✓
Group Life Insurance[2]	✓	✓
Sick Leave Programs[3]		✓
Employee Reimbursement Accounts/Commuter Benefits	✓	

[1] Includes the Health Insurance, State Retiree Health Insurance, and Local Retiree Health Insurance funds.

[2] Includes the State Retiree Life Insurance, Local Retiree Life Insurance, and the Life Insurance funds. The Life Insurance Fund is not presented in the 2022 ETF Annual Comprehensive Financial Report (ACFR).

[3] Includes the Accumulated Sick Leave Conversion Credit (basic ASLCC) program and the Supplemental Health Insurance Conversion Credit (SHICC) program.

Except for the assets of the Group Life Insurance program, assets were invested in different funds by SWIB.

With the exception of group life insurance assets, which were held by the third-party administrator, the assets of the programs were invested by SWIB in one or more of the following funds: Core Retirement Investment Trust Fund (Core Fund), Variable Retirement Investment Trust Fund (Variable Fund), or the State Investment Fund (SIF), as shown in Table 4.

Table 4

Investments, by Program
As of December 31, 2022

Program	Core Fund[1]	Variable Fund[1]	State Investment Fund	Third-Party Administrator
Wisconsin Retirement System	✓	✓		
Milwaukee Retirement Systems	✓	✓		
Duty Disability Insurance	✓			
Income Continuation Insurance	✓			
Group Health Insurance[2]	✓			
Group Life Insurance[3]				✓
Sick Leave Programs[4]	✓			
Employee Reimbursement Accounts/Commuter Benefits			✓	

[1] Excess cash of the Core Fund and Variable Fund are invested in the State Investment Fund.

[2] Includes the Health Insurance, State Retiree Health Insurance, and Local Retiree Health Insurance funds.

[3] Includes the State Retiree Life Insurance, Local Retiree Life Insurance, and the Life Insurance funds. The Life Insurance Fund is not presented in the 2022 ETF Annual Comprehensive Financial Report (ACFR).

[4] Includes the Accumulated Sick Leave Conversion Credit (basic ASLCC) program and the Supplemental Health Insurance Conversion Credit (SHICC) program.

The Core Fund is a fully diversified fund, or balanced fund, which provides less volatile investment returns and is invested for the long term in several types of investments. The Variable Fund is an equity fund, or stock fund, which provides returns that are typically more volatile than the Core Fund. The SIF invests the excess operating funds of the State, the WRS, and local governments with the objective of providing liquidity, safety of principal, and competitive rates of return. In report 22-8, we evaluated SWIB's investment performance, expenses, staffing, and compensation. In report 23-13, we provided more information about the financial condition of the Core Fund and Variable Fund as of December 31, 2022. In report 23-21, we provided similar information for the SIF as of June 30, 2023.

Investment income or loss of the Core Fund and the Variable Fund is allocated to each benefit program invested in these funds.

For purposes of financial reporting, ETF allocates the fair value of the investment income or loss to each program that participates in the Core Fund. Investment income or loss is allocated from the Core Fund to the Milwaukee Retirement Systems on a monthly basis based upon the Milwaukee Retirement Systems' relative share of the Core Fund and the monthly change in the fair value of the Core Fund. Investment income or loss is allocated to the remaining programs in the Core Fund based on each program's average annual balance to the total average annual balance of all participating programs in the Core Fund. ETF calculates the average annual balance using the beginning-of-year net asset balance and end-of-year net asset balance for each program.

Investment income or loss of the Variable Fund is allocated to the Milwaukee Retirement Systems on a monthly basis based upon the Milwaukee Retirement Systems' relative share of the Variable Fund and the monthly change in the fair value of the Variable Fund. Each program's share of the $17.4 billion net investment loss in the Core Fund and the $1.9 billion net investment loss for the Variable Fund for the year ended December 31, 2022, is shown in Table 5.

Table 5

Core Fund and Variable Fund Investment Income (Loss) Allocation, at Fair Value
For the Year Ended December 31, 2022
(in millions)

Program	Core Fund	Variable Fund
Wisconsin Retirement System	$(16,804.5)	$(1,898.1)
Sick Leave Programs[1]	(446.0)	–
Duty Disability Insurance	(109.2)	–
Group Health Insurance[2]	(26.7)	–
Milwaukee Retirement Systems	(33.0)	(3.5)
Income Continuation Insurance	(29.5)	–
Total	**$(17,448.9)**	**$(1,901.6)**

[1] Includes the Accumulated Sick Leave Conversion Credit (basic ASLCC) program, which was allocated $(270.8) million in investment income, and the Supplemental Health Insurance Conversion Credit (SHICC) program, which was allocated $(175.2) million.

[2] Includes the Health Insurance, State Retiree Health Insurance, and Local Retiree Health Insurance funds.

The ERA/CB program reported investment income totaling $146,599 from the SIF for the year ended December 31, 2022.

Information Technology Systems

ETF and a vendor hired to develop the Benefits Administration System have been in a contract dispute since March 2018.

In 2010, ETF completed a business risk-assessment process that highlighted the need to replace its legacy systems and began an initiative to modernize the administration of the benefit programs. One component of this modernization project was the development of the Benefits Administration System (BAS), which began in 2014 and was expected to be implemented in three phases over several years. Although the first phase of the project was implemented in November 2015, work on the remaining phases of the project stopped in March 2018 due to a contract dispute. ETF and the vendor were unable to resolve the dispute and, in March 2019, ETF filed a complaint in Dane County Circuit Court for damages suffered as a result of the vendor failing to fulfill the contract. The vendor subsequently filed a counterclaim in June 2019. As reported in Note 11 to the financial statements, on page 105 of ETF's ACFR, a status conference is scheduled to be held on January 10, 2024.

The Insurance Administration System is expected to be implemented in June 2024.

The information systems scheduled to be replaced with BAS continue to age and present risks for ETF to manage. ETF will need to continue to maintain these older systems to ensure effective administration of each benefit program. In July 2021, ETF contracted with Benefitfocus, Inc., to develop a new insurance administration system (IAS). The system is expected to replace enrollment and eligibility processes of the current MyETF Benefits system and other ETF processes related to billing and employer transaction files. IAS will be used for administration of various ETF programs, including health insurance, life insurance, income continuation insurance, and ERA/CB. ETF and Benefitfocus began planning for IAS in September 2021, and the system is expected to be implemented in June 2024.

In April 2023, ETF issued a request for proposal for a strategic partner to assist ETF in obtaining and implementing a pension administration system. In September 2023, ETF indicated its intention to award a five-year contract to Linea Solutions, beginning January 1, 2024. ETF reports annually to the Legislature's Joint Committee on Finance and the Secretary of DOA on the status of its progress in modernizing its business processes and integrating its information technology systems.

Audit Results

As required by Wisconsin Statutes, we have completed an audit of the financial statements and related notes of the 12 funds reported in ETF's ACFR as of and for the year ended December 31, 2022. The financial statements presented in ETF's ACFR include information related to the contributions, benefits, and investment income or loss of each program. The contribution and benefit requirements differ among the programs and are established by statute, administrative code, and board decisions. In addition, various tax laws may affect the administration of a program and the amount of contributions that may be collected or the benefits that may be provided.

We provided unmodified opinions on the financial statements of programs administered by ETF for the year ended December 31, 2022.

To complete our audit of the financial statements, we reviewed ETF's internal controls over financial reporting, tested financial transactions, and reviewed the financial statements, notes, and required supplementary information that were prepared by ETF management. We provided unmodified opinions on the financial statements and related notes as of and for the year ended December 31, 2022.

We also issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which is required by *Government Auditing Standards* and begins on page 37.

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WRS Participating Employers
WRS Funding and Benefits
Investment Income
Contribution Rates
WRS Benefits
Financial Condition of the WRS
WRS Reserves and Accounts
Pension Accounting Standards

Wisconsin Retirement System

The WRS is a cost-sharing, multiple-employer, defined-benefit pension plan.

Created in January 1982, the WRS is a cost-sharing, multiple-employer, defined-benefit pension plan that provides postretirement financial benefits to participating employees, as well as disability and death benefits to participants and their beneficiaries. Further, the WRS is an irrevocable trust and all funds remain in the trust and can only be used to fund pension benefits.

As of December 31, 2022, 677,905 individuals participated in the WRS, including:

- 260,504 (38.4 percent) active participants who were making contributions;
- 232,384 (34.3 percent) retired participants or their beneficiaries who were receiving WRS benefits; and
- 185,017 (27.3 percent) inactive participants, such as former employees, who were not yet receiving benefits and who were not required to make contributions.

The WRS is among the 10 largest public pension plans in the United States. As of December 31, 2022, the WRS had a fiduciary net position of $118.4 billion, which represents resources available to pay pension benefits. ETF is responsible for managing the operations of the WRS that interact with employers and participants, including those operations that involve collecting contributions from and paying retirement benefits to WRS participants. ETF also uses an actuary to perform actuarial calculations such as projecting future benefit payments and establishing contribution rates.

ETF and SWIB work together to manage the WRS.

SWIB is responsible for managing the WRS investments. ETF and SWIB work closely together to ensure the solvency and long-term future of the WRS.

WRS Participating Employers

Under s. 40.21, Wis. Stats., any Wisconsin public employer may participate in the WRS, but certain entities are required to participate, including state agencies and all counties except Milwaukee County, which maintained its own retirement system in 2022. In addition:

- second-, third-, and fourth-class cities must allow police officers and paid firefighters to participate if those employees were allowed to participate in Wisconsin's retirement system before March 31, 1978;

- villages with a population of 5,000 or more must allow police officers to participate, and villages with a population of 5,500 or more must also allow paid firefighters to participate, if those employees were allowed to participate in Wisconsin's retirement system before March 31, 1978; and

- school districts must allow employees in teaching positions to participate.

As of December 31, 2022, 1,586 employers were participating in the WRS.

As shown in Table 6, most of the 1,586 employers that participated in the WRS as of December 31, 2022, were local governments and school districts.

Table 6

Types of Employers Participating in the WRS
As of December 31, 2022

Type	Number
School Districts	421
Towns	306
Villages	298
Special Districts[1]	217
Cities	189
Counties	71
State Agencies, UW System, and Public Authorities	56
Wisconsin Technical College System Districts	16
Cooperative Educational Service Agencies	12
Total Employers	**1,586**

[1] Includes employers such as the Madison Metropolitan Sewerage District, the Oshkosh City Housing Authority, and the South Central Library System.

Under current law, any employee of a participating WRS employer is eligible to participate in the WRS if the expected duration of employment is one year or more and the employee is expected to be employed for at least two-thirds of what is considered full-time. Current statutes require five years of creditable service before such an employee is considered vested.

WRS Funding and Benefits

The WRS is funded through a combination of employer and employee contributions and investment income.

The WRS is funded through annual employer and employee contributions and investment income. The ETF Board has established a WRS funding policy with three primary goals:

- ensure funds are adequate to pay benefits;
- maintain stable and predictable contribution rates for employers and employees; and
- maintain intergenerational equity to ensure the cost of the benefits is paid for by the generation that receives the benefits.

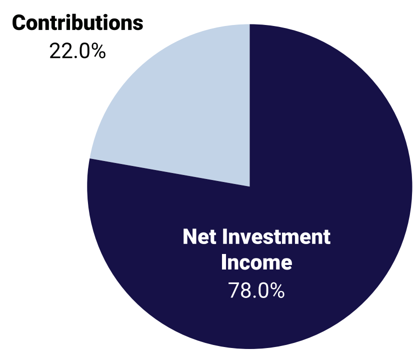
In 2022, net investment losses for the WRS totaled $18.7 billion and contributions from WRS employers and employees totaled $2.3 billion.

Investment Income

From 2013 through 2022, net investment income represented 78.0 percent of total funding for the WRS. Employer and employee contributions represented 22.0 percent of total funding for the WRS, as shown in Figure 1.

Figure 1

WRS Funding Sources
2013 through 2022



Net investment income decreased from $21.1 billion in 2021 to negative $18.7 billion in 2022.

Net investment income, which is the sum of realized and unrealized gains and losses less SWIB's investment expenses and amounts distributed to other benefit programs, decreased by $39.8 billion, from a gain of $21.1 billion in 2021 to a loss of $18.7 billion in 2022. The decrease in net investment income reflects the decrease in investment returns of the Core Fund and the Variable Fund. The one-year investment return, net of all fees and costs, of the Core Fund decreased from 16.9 percent in 2021 to negative 12.9 percent in 2022. The one-year investment return, net of all fees and costs, for the Variable Fund decreased from 20.0 percent in 2021 to negative 17.8 percent in 2022.

The long-term expected rate-of-return assumption for the WRS is 6.8 percent.

As noted, WRS assets are invested by SWIB in the Core Fund and the Variable Fund. SWIB has a fiduciary responsibility to prudently invest the pension assets in a diversified manner to meet WRS funding needs while minimizing the risk of large losses. SWIB's investment strategy is to meet the long-term expected rate-of-return assumption. The ETF Board approves any changes to the long-term expected rate-of-return assumption, which is reviewed with the results of the triennial experience study, at least every three years. In December 2021, the ETF Board approved a decrease in the long-term expected rate-of-return assumption from 7.0 percent to 6.8 percent. As of December 31, 2022, SWIB's 20-year return for the Core Fund, net of external manager fees, was 7.7 percent. As noted in report 23-13, SWIB reported that the ten-year investment return for the Core Fund, as of December 31, 2022, also exceeded the long-term expected rate-of-return assumption, but the one-year and five-year investment returns for the Core Fund did not exceed the long-term expected rate-of-return assumption.

Contribution Rates

Contribution rates, which include both an employer and an employee share, are actuarially determined as a percentage of an employee's earnings and are approved annually by the ETF Board. Contributions to the WRS from employers and employees increased by $6.6 million, or 0.3 percent, to $2.3 billion in 2022. As shown in Table 7, total contribution rates for general employees, which include teachers and most other employees, have increased from 13.6 percent of wages in 2015 to 13.8 percent in 2024.

Table 7

Total Contribution Rates for General Employees in the WRS

Calendar Year	Total Contribution Rate[1]
2015	13.6%
2016	13.2
2017	13.6
2018	13.4
2019	13.1
2020	13.5
2021	13.5
2022	13.0
2023	13.6
2024	13.8

[1] Includes both the employer share and the employee share of contributions, but does not include prior-service cost rates for specific employers.

Contribution rates are set to fund the benefits earned by employees during the year.

The basic objective of the WRS is to invest contributions paid by employers and employees so that the investment income and the contributions will be sufficient to pay projected future pension benefits. Contribution rates are set to fund the benefits earned by employees during the year. In setting these rates, one of the most significant factors considered is investment performance.

In order to maintain steady contribution rates and comply with s. 40.04 (3) (am), Wis. Stats., the consulting actuary for the WRS uses the market recognition account (MRA) to smooth investment income or loss for the Core Fund investment activity over a five-year period. The MRA accumulates the difference between actual investment income or loss and expected investment income calculated at the long-term expected rate-of-return assumption in place during the calendar year. During calendar year 2022, the long-term expected rate-of-return assumption was 6.8 percent. The difference is then distributed into the calculated plan net assets over a five-year period so that the expected investment income is affected by portions of the amounts included in the MRA in the prior four years. Use of the MRA results in less volatility in net assets and, thus, less volatility in the calculation of the contribution rates for employers and employees.

Use of the MRA affects the amount of investment income or loss recognized by the actuary when determining contribution rates.

Investment income or loss used for purposes of determining contribution rates differs from the investment income or loss recognized on the financial statements due to the use of the MRA. For example, the net investment loss of the Core Fund for 2022 for financial reporting was $17.4 billion based upon the fair value of the investments. Through the use of the MRA, the actuary recognized investment income of $7.3 billion, which was the amount used in determining the actuarial value of the WRS assets as of December 31, 2022, and determining contribution rates for 2024.

WRS Benefits

Annuity payments are determined either by a formula based on the participant's service or the value of contributions and investment income.

The WRS is a defined-benefit plan that provides participants with lifelong monthly retirement annuity payments and, depending upon the annuity type selected, may also provide benefits to a beneficiary after the participant's death. Annuity payments are initially determined by either:

- a formula, which is based on the participant's years of service and final average monthly earnings; or
- a money purchase benefit, which is based on the participant's contributions, an employer's matching contributions, and investment income.

The method that yields the largest annuity payment is used to calculate a participant's initial annuity. A defined-benefit plan is in contrast to a defined-contribution plan, such as a 401(k) plan, in which benefits are based on the amounts contributed to a participant's account and investment gains or losses on those funds.

The average annual annuity payment increased from $27,810 in 2021 to $29,889 in 2022, or by 7.5 percent.

WRS benefits provided to retired participants or their beneficiaries as annuity payments increased from $6.4 billion in 2021 to $6.9 billion in 2022, or by 9.4 percent. The number of retired participants increased from 226,605 as of December 31, 2021, to 232,384 as of December 31, 2022, or by 2.6 percent. The average annual annuity payment increased from $27,810 in 2021 to $29,889 in 2022, or by 7.5 percent.

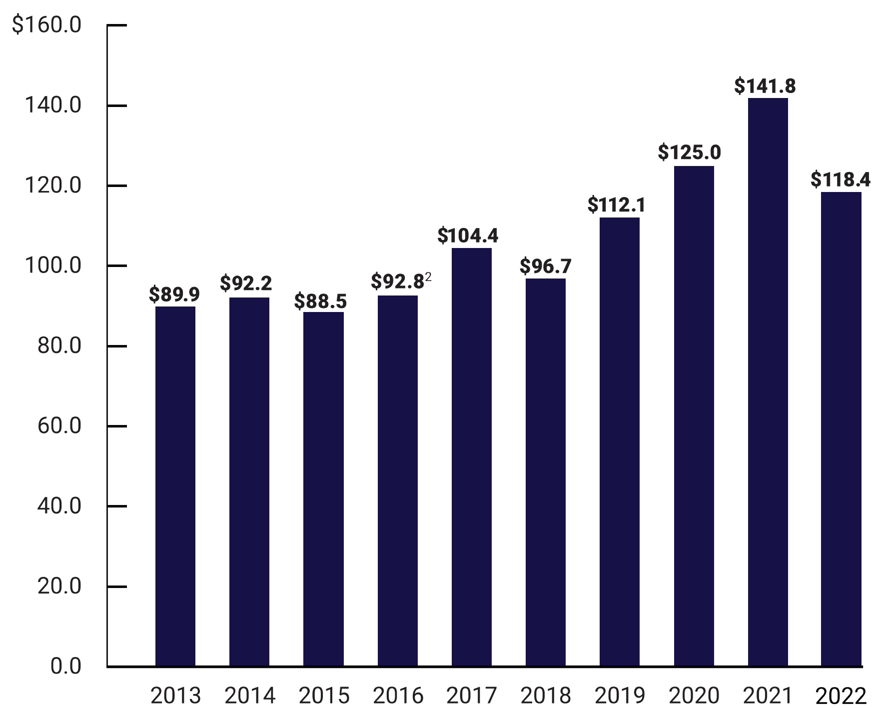
Financial Condition of the WRS

As of December 31, 2022, the fiduciary net position of the WRS was $118.4 billion.

The Net Position Restricted for Pensions (fiduciary net position) of the WRS represents the value of the plan's assets that are available to meet benefit obligations as they become due. As of December 31, 2022, the WRS had a fiduciary net position of $118.4 billion, which was a 16.5 percent decrease from the prior year. This decrease is primarily attributed to a decrease in the value of investments as of December 31, 2022. From December 31, 2013, through December 31, 2022, the fiduciary net position of the WRS increased by $28.5 billion, or by 31.7 percent, as shown in Figure 2.

Figure 2

WRS Fiduciary Net Position[1]
As of December 31
(in billions)



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

[2] Due to changes in reporting during calendar year 2017, the fiduciary net position for calendar year 2016 was restated from $92.6 billion to $92.8 billion.

WRS Reserves and Accounts

The fiduciary net position of the WRS primarily consists of three statutorily required reserves: the employer accumulation reserve (employer reserve), the employee accumulation reserve (the employee reserve), and the annuity reserve. The employer reserve consists of all employer-required contributions, amounts to amortize the employer's share of the unfunded accrued liabilities, and investment earnings. Unlike the employee reserve, the employer reserve is pooled into one account. Contribution rates are set to fund the benefits earned by employees during the year based, in part, on the balances of the employee and the employer reserves.

The employee reserve consists of employee-required contributions, contributions paid by the employer on behalf of the employee, any voluntary additional contributions, and investment earnings. A separate account is maintained in this reserve for each WRS participant. If a participant leaves service with a WRS employer before being eligible to receive a retirement annuity, the participant may receive the balance of the contributions and earnings included in the account.

The annuity reserve was $76.5 billion as of December 31, 2022, and represented the largest share of the WRS fiduciary net position.

The annuity reserve consists of the amounts transferred from the employer and employee accumulation reserves, as well as investment earnings, and is used to provide annuity payments to retired participants. Annually, the actuary determines the amount to transfer to the annuity reserve based upon the participants and their beneficiaries that began to receive annuities in the past year. The total amount transferred into the annuity reserve will increase and decrease each year depending upon the number of participants that began receiving annuities during the year. The annuity reserve is separated into amounts for Core Fund and Variable Fund annuities. All retired participants receive a Core Fund annuity payment. However, those retired participants who had elected participation in the Variable Fund and who do not elect to terminate their Variable Fund participation also receive a separate Variable Fund annuity. As shown in Table 8, the $76.5 billion annuity reserve represented the largest share (64.6 percent) of the WRS fiduciary net position as of December 31, 2022.

Table 8

WRS Reserve and Account Balances
As of December 31, 2022
(in millions)

Reserve/Account	Balance	Percentage of Total
Annuity Reserve	$ 76,509.8	64.6%
Employer Accumulation Reserve	26,031.9	22.0
Employee Accumulation Reserve	22,575.7	19.1
Market Recognition Account[1]	(6,791.4)	(5.7)
Other[2]	42.2	<1.0
Total WRS Fiduciary Net Position	**$118,368.2**	

[1] The balance in this account will fluctuate based on investment performance. A negative balance represents investment losses that will be allocated in future years.

[2] Includes accounts that hold undistributed amounts for investments that have not yet been allocated and other administrative accounts.

The annuity reserve includes the dividend reserve, which are assets that are accumulated to fund the liability for the dividend adjustments that have been provided to participants in prior years. The dividend reserve increases when there are positive dividend adjustments and decreases when there are negative dividend adjustments. A dividend reserve of zero would reflect that all retired participants are receiving their original annuity amount. Since 2012, and at least annually thereafter, the WRS actuary has provided information on this component of the overall annuity reserve. The WRS funding policy indicates that the ETF Board and ETF will review dividend reserve levels and consult with the WRS actuary during its annual retired lives valuation discussion and as part of biennial stress testing.

Pension Accounting Standards

Accounting standards for public pension plans establish accounting and financial reporting requirements for measuring the pension liability, as well as requirements for both the notes and required supplementary information to the WRS financial statements, and the GAAP-based financial statements of the employers that participate in the plan. The accounting standards require ETF to calculate the total pension liability and the net pension liability or asset for the WRS. Each of the participating employers in the WRS reports its proportionate share of this net pension liability or asset in its own financial statements if prepared under GAAP.

Calculating the Total Pension Liability

The total pension liability is the sum of the amounts needed to pay for the pension benefits earned by each participant.

The total pension liability for the WRS is the sum of the amounts needed to pay for the pension benefits earned by each participant based on service provided as of the date the actuarial valuation is performed. A total pension liability exists because the employers participating in the WRS have committed to provide benefits to their employees in the future when those employees retire. That commitment is part of employee compensation and constitutes a liability.

The calculation of the total pension liability is complex and includes various actuarial assumptions and calculations, such as:

- a projection of future benefit payments for current and former participants and their beneficiaries based upon the current terms of the WRS;
- a discount of those payments to their present value, or the amount of funds currently needed to provide the projected payments in the future; and
- an allocation of the present value of benefit payments over past, present, and future periods of employee service.

The total pension liability for the WRS was $123.7 billion as of December 31, 2022.

To determine the total pension liability for the WRS as of December 31, 2022, ETF's actuary performed an actuarial valuation as of December 31, 2021, and adjusted for changes in assumptions, interest earned, contributions paid, benefits paid, and dividend adjustments during 2022. The total pension liability for the WRS was $123.7 billion as of December 31, 2022.

The discount rate can have a significant effect on the amount of the total pension liability.

The discount rate is a critical factor in calculating a pension plan liability, and it can have a significant effect on the amount of the total pension liability. The discount rate, or interest rate, is used to calculate the present value of projected benefit payments and is specifically defined under the accounting standards. ETF used the long-term expected rate-of-return assumption as of December 31, 2022, for the WRS, which is 6.8 percent, as the discount rate because current and projected future plan assets are expected to cover the projected benefit payments for the WRS. Increasing or decreasing the discount rate can have a significant effect on the total pension liability. For instance, a one percentage point decrease in the discount rate (5.8 percent) would increase the total pension liability to $136.0 billion. A one percentage point increase in the discount rate (7.8 percent) would decrease the total pension liability to $115.2 billion.

Calculating a Net Pension Liability or Asset

To determine the net pension liability or asset, accounting standards require the total pension liability to be subtracted from the pension plan's fiduciary net position. When the total pension liability is greater than the fiduciary net position, the pension plan will disclose a net pension liability in its notes. When the fiduciary net position is greater than the total pension liability, the pension plan will disclose a net pension asset in its notes.

ETF reported a net pension liability of $5.3 billion for the WRS as of December 31, 2022.

As of December 31, 2022, the WRS had a fiduciary net position of $118.4 billion and a total pension liability of $123.7 billion, which resulted in a net pension liability of $5.3 billion. A net pension liability indicates that, as of December 31, 2022, the assets of the WRS were not sufficient to cover the projected liability for benefit payments to employees under the financial reporting standards. This represents a decrease from the net pension asset of $8.1 billion, reported as of December 31, 2021. A decrease in the value of the investments of the Core Fund and the Variable Fund from December 31, 2021, to December 31, 2022, was the primary cause of a 16.5 percent decrease in the fiduciary net position and resulted in the reporting of a net pension liability as of December 31, 2022. In report 23-13, we reported on the investment activity of the Core Fund and Variable Fund.

As shown in Table 9, the WRS has reported a net pension liability in two of the past five years. The fluctuation between a net pension liability and a net pension asset is largely associated with the change in fair value of the investments as of the end of each calendar year. Under the accounting standards, pension plan assets are valued at fair value as of the reporting period end date, which is December 31 for the WRS. The use of the fair value of the plan assets in the calculation will cause a large degree of volatility in the reported net pension liability or asset, depending upon investment performance and fluctuations in the investment market.

Table 9

WRS Net Pension Asset (Liability)
As of December 31
(in billions)

	2018	2019	2020	2021	2022
Fiduciary Net Position	$ 96.7	$112.1	$125.0	$141.8	$118.4
Total Pension Liability	(100.3)	(108.9)	(118.7)	(133.8)	(123.7)
Net Pension Asset (Liability)	**$ (3.6)**	**$ 3.2**	**$ 6.2**	**$ 8.1**	**$ (5.3)**

Employer Reporting

Employers participating in the WRS have made a commitment to provide pension benefits and have an obligation to make contributions to fund those benefits.

As noted, the WRS is a cost-sharing, multiple-employer, defined-benefit pension plan with 1,586 participating employers. In this type of pension plan, the contributions are combined and the benefits are paid out of a common pool of assets. By participating in the WRS, employers have made a commitment to provide pension benefits to employees, and they are obligated to make contributions into the future to ensure that sufficient resources are available to make the benefit payments. Therefore, because the employers participating in the WRS have ultimate responsibility for the resulting pension obligations, each participating employer is required to report its proportionate share of the net pension liability or asset in its GAAP-based financial statements.

Each employer participating in the WRS must report its proportionate share of the net pension liability in its GAAP-based financial statements.

To assist employers participating in the WRS in determining the employer's proportionate share of these amounts, ETF has prepared a Schedule of Employer Allocations and a Schedule of Collective Pension Amounts as of and for the year ended December 31, 2022. We audited these schedules and provided unmodified opinions on them as detailed in report 23-15. Because the WRS has calculated a net pension liability for the year ended December 31, 2022, each employer participating in the WRS must report its proportionate share of the net pension liability in its GAAP-based financial statements.

The proportionate share of the net pension liability for State of Wisconsin agencies as of December 31, 2022, was $1.5 billion, or 28.7 percent of the net pension liability. Of this amount, $709.7 million related to UW System. The net pension liability for the state agencies was included in the State's GAAP-based financial statements, which was published in the State of Wisconsin's ACFR as of and for the year ended June 30, 2023.

Comparison to Other Pension Plans

Differences in the structure of pension plans and timing of pension plan reporting will affect the comparability across pension plans.

Comparability of the pension liability across public pension plans has increased with the use of accounting standards for pension plans that prescribe how the liability is calculated. However, because pension plans have different plan structures, planned asset allocations, and investment strategies, the comparability of pension plans is affected. In addition, because pension plans have varying fiscal-year ends, changes in the condition of investment markets at different points in time during a year will also affect comparability.

We collected information from other cost-sharing, multiple-employer, defined-benefit plans that were part of the WRS peer group defined by a study performed by a private firm in 2020. At 95.7 percent, the WRS had the second highest-funded ratio in comparison to these plans, as shown in Table 10.

Table 10

Comparison of Selected Pension Plans Based on Financial Reporting Methodology [1, 2]
(in billions)

Pension Plan	Total Pension Liability	Fiduciary Net Position	Net Pension Asset	Net Pension Liability	Funded Ratio
New York State and Local Retirement System[3]	$266.1	$273.7	$7.6	n/a	102.9%
Wisconsin Retirement System[4]	123.7	118.4	n/a	$5.3	95.7
Iowa Public Employees' Retirement System	44.0	40.2	n/a	3.8	91.4
Illinois Municipal Retirement Fund[4]	0.1	0.1	n/a	0.0	88.1
Oregon Public Employees Retirement System	99.1	83.8	n/a	15.3	84.5
Virginia Retirement System—Teachers Retirement System	54.7	45.2	n/a	9.5	82.6
Indiana Public Retirement System—Public Employees' Retirement Fund	18.0	14.9	n/a	3.2	82.5
California State Teachers' Retirement System	369.5	300.1	n/a	69.5	81.2
State Teachers Retirement System of Ohio	105.3	83.0	n/a	22.2	78.9
Washington State Department of Retirement Systems	11.9	9.1	n/a	2.8	76.6

[1] Based on information from other cost-sharing, multiple-employer, defined-benefit pension plans that were part of the WRS peer group defined by a study performed by a private firm in 2020.

[2] Unless otherwise noted, for the plan year ended June 30, 2022.

[3] For the plan year ended March 31, 2022.

[4] For the plan year ended December 31, 2022.

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Other Postemployment Benefits (OPEB) Plans

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, whether provided separately or through a pension plan, as well as death benefits, life insurance, and long-term care coverage, when provided separately from a pension plan.

OPEB accounting standards establish financial reporting requirements for measuring the OPEB liability for these plans, as well as requirements for both the notes and required supplementary information to the OPEB plan financial statements, and the GAAP-based financial statements for the employers that participate in OPEB plans.

Trusted and Non-Trusted OPEB Plans

One of the primary factors that determines how an OPEB plan is reported is the determination of whether a plan is administered through a trust. To be considered a trusted plan, all of the following requirements must be met:

- contributions from employers and employees and earnings on those contributions must be considered irrevocable;
- plan assets must be dedicated to providing benefits to plan members according to the benefit terms; and

- plan assets must be legally protected from creditors of the employer, employees, and ETF.

If any of these requirements are not met, the OPEB plan is considered a non-trusted plan and the employers participating in the plan are solely responsible for determining the effect of participation in these programs in their GAAP-based financial statements, including the calculation of the OPEB liability.

ETF administers five OPEB plans for retired individuals.

ETF administers five separate OPEB plans for retired individuals: the State Retiree Life Insurance program, the Local Retiree Life Insurance program, and the SHICC program, all of which are considered trusted OPEB plans; and the State Retiree Health Insurance program and the Local Retiree Health Insurance program, both of which are considered non-trusted OPEB plans. The assets accumulated for the State Retiree Life Insurance program, the Local Retiree Life Insurance program, and the SHICC program, represented by the fiduciary net position, are reported by ETF in the Statement of Fiduciary Net Position for each program. The State Retiree Health Insurance program and the Local Retiree Health Insurance program are considered non-trusted OPEB plans because the programs do not accumulate assets dedicated to providing benefits to plan members. The OPEB liability for the State Retiree Health Insurance program was reported in the State of Wisconsin’s ACFR for the year ended June 30, 2023. In report 23-12, we provided information on the calculation of the OPEB liability for the State Retiree Health Insurance program.

Retiree Life Insurance

Administered under the provisions of s. 40.70, Wis. Stats., the State Retiree Life Insurance program and the Local Retiree Life Insurance program provide postemployment life insurance coverage to all eligible employees of participating employers. The State of Wisconsin, including state agencies, such as UW System, and state authorities, such as the UW Hospitals and Clinics Authority, participates in the State Retiree Life Insurance program. There were 732 local government employers participating in the Local Retiree Life Insurance program as of December 31, 2022.

The third-party administrator for the State Retiree Life Insurance program and the Local Retiree Life Insurance program is responsible for the premium collection, benefit payment, and investment of assets accumulated for the payment of benefits. Employers pay stated contribution amounts to the program that are based upon the active employee premium amounts.

Calculating the Total OPEB Liability

The total OPEB liability is the sum of amounts needed to pay for the OPEB benefits earned by each participant as of the date of the actuarial valuation.

The total OPEB liability is the sum of amounts needed to pay for the OPEB benefits earned by each participant as of the date of the actuarial valuation. A liability exists because the employers participating in the OPEB plan have committed to providing the benefit at some point in the future. The calculation of the total OPEB liability is complex and includes various actuarial assumptions and calculations, such as:

- a projection of future benefit payments for active and retired participants and their beneficiaries based upon the current terms of the plan;

- a discount of those payments to their present value, which is the amount of funds needed currently to provide the projected payments in the future; and

- an allocation of the present value of benefit payments over past, present, and future periods of employee service.

As of December 31, 2022, the total OPEB liability was $963.0 million for the State Retiree Life Insurance program and $622.6 million for the Local Retiree Life Insurance program.

ETF's actuaries performed actuarial valuations as of January 1, 2022, and adjusted for changes such as interest earned, contributions paid, and benefits paid during 2022 to determine the total OPEB liability for the State Retiree Life Insurance program and for the Local Retiree Life Insurance program as of December 31, 2022. Based on these valuations, the total OPEB liability for the State Retiree Life Insurance program was $963.0 million as of December 31, 2022, and the total OPEB liability for the Local Retiree Life Insurance program was $622.6 million as of December 31, 2022.

The discount rate is a critical factor in calculating the total OPEB liability, and it can have a significant effect on the amount of the total OPEB liability. The discount rate, or interest rate, used to calculate the present value of projected benefit payments is specifically defined under the accounting standards. Because the assets accumulated for the State Retiree Life Insurance program and the Local Retiree Life Insurance program are projected to be insufficient to make all projected future benefit payments of current active and retired eligible employees, ETF was required to use a blended discount rate in calculating the total OPEB liability for each program. The long-term expected rate-of-return of 4.25 percent was blended with the municipal bond rate of 3.72 percent as of December 31, 2022, using the Bond Buyer GO 20-Bond Municipal Bond Index. The blended discount rate for the State Retiree Life Insurance program was 3.75 percent, and the blended discount rate for the Local Retiree Life Insurance program was 3.76 percent. As a result, the OPEB liability calculated for each program is larger than if the long-term expected rate-of-return of 4.25 percent was used.

The discount rate can have a significant effect on the total OPEB liability for the retiree life insurance programs.

Increasing or decreasing the discount rate can have a significant effect on the total OPEB liability. For instance, a one percentage point decrease in the discount rate would increase the total OPEB liability for the State Retiree Life Insurance program to $1.2 billion and the Local Retiree Life Insurance program to $761.1 million. A one percentage point increase in the discount rate would decrease the total OPEB liability for the State Retiree Life Insurance program to $807.1 million and the Local Retiree Life Insurance program to $516.5 million.

Calculating the Net OPEB Liability

To determine the net OPEB liability or asset, the accounting standards require the total OPEB liability be subtracted from the OPEB plan's fiduciary net position. When the total OPEB liability is greater than the fiduciary net position, the OPEB plan will disclose a net OPEB liability in its notes. When the fiduciary net position is greater than the total OPEB liability, the OPEB plan will disclose a net OPEB asset in its notes.

As of December 31, 2022, the net OPEB liability was $659.7 million for the State Retiree Life Insurance program and $381.0 million for the Local Retiree Life Insurance program.

As of December 31, 2022, the State Retiree Life Insurance program and the Local Retiree Life Insurance program each reported a net OPEB liability. The State Retiree Life Insurance program had a fiduciary net position of $303.2 million and a total OPEB liability of $963.0 million, which resulted in a net OPEB liability of $659.7 million as of December 31, 2022. The Local Retiree Life Insurance program had a fiduciary net position of $241.6 million and a total OPEB liability of $622.6 million, which resulted in a net OPEB liability of $381.0 million as of December 31, 2022. As shown in Table 11, this represents a decrease from the net OPEB liability reported as of December 31, 2021, for both programs. This decrease can be primarily attributed to an increase of 1.60 percent in the blended discount rate for the State Retiree Life Insurance program and 1.59 percent for the Local Retiree Life Insurance program.

Table 11

Net OPEB Asset (Liability) for the State Retiree Life Insurance Program and the Local Retiree Life Insurance Program
As of December 31
(in millions)

	State Retiree Life Insurance		Local Retiree Life Insurance	
	2021	2022	2021	2022
Fiduciary Net Position	$ 319.6	$ 303.2	$ 248.2	$ 241.6
Total OPEB Liability	(1,267.4)	(963.0)	(839.2)	(622.6)
Net OPEB Asset (Liability)	**$ (947.8)**	**$(659.7)**	**$(591.0)**	**$(381.0)**

A net OPEB liability for the retiree life insurance programs indicates that, at that point in time, the projected liability for benefit payments to employees exceeded the assets of the programs.

A net OPEB liability indicates that, at that point in time, the projected liability for benefit payments to employees exceeded the assets of the program. Based upon the calculation of the total OPEB liability and the fiduciary net position, the State Retiree Life Insurance program had a funded ratio of 31.5 percent and the Local Retiree Life Insurance program had a funded ratio of 38.8 percent as of December 31, 2022. Because GASB did not create the financial reporting methodology to be used for funding purposes, the existence of a net OPEB liability for the State Retiree Life Insurance program and the Local Retiree Life Insurance program should not be used to support a change in contribution rates for the programs.

The Group Insurance Board has an approved funding policy for both the State Retiree Life Insurance program and the Local Retiree Life Insurance program and uses this policy, in addition to future liability calculations provided by the third-party administrator, in establishing contribution rates. In August 2019, the Group Insurance Board approved contribution rate increases of 5.0 percent annually for nine years, effective April 1, 2020. The Group Insurance Board reviews this increase annually to determine if it remains appropriate.

Supplemental Health Insurance Conversion Credit Program

The SHICC program, established in 1995, is administered under the provisions of ss. 40.95, and 230.12 (9), Wis. Stats. The SHICC program provides certain eligible employees additional sick leave hours at the time of termination that increases the balance available to pay for health insurance premiums. The State of Wisconsin, UW System, and certain state authorities, including the UW Hospitals and Clinics

Authority, participate in the SHICC program. The SHICC program is funded through annual participating employer contributions and investment earnings. Employer contribution rates are paid as a percentage of payroll determined by the consulting actuary and approved by the ETF Board. For calendar year 2022, the contribution rate for most participating employers was 0.1 percent. Contribution rates decreased from calendar year 2021 to calendar year 2022.

Calculating the Total OPEB Liability

As of December 31, 2022, the SHICC program total OPEB liability was $1.0 billion.

The total OPEB liability is the sum of amounts needed to pay for the OPEB benefits earned by each participant as of the date of the actuarial valuation. A liability exists because the employers participating in the OPEB plan have committed to providing the benefit at some point in the future. ETF's actuary performed an actuarial valuation as of December 31, 2022, to determine the total OPEB liability for the SHICC program as of December 31, 2022. Based on this valuation, the total OPEB liability for the SHICC program was $1.0 billion as of December 31, 2022.

The discount rate is a critical factor in calculating the total OPEB liability, and it can have a significant effect on the amount of the total OPEB liability. Because the assets accumulated for the SHICC program are projected to be sufficient to make all projected future benefit payments of current active and retired eligible employees, ETF used the SHICC long-term expected rate-of-return assumption, which is 6.8 percent, as the discount rate for the program.

Increasing or decreasing the discount rate can have a significant effect on the total OPEB liability. For instance, a one percentage point decrease in the discount rate (5.8 percent) would increase the total OPEB liability to $1.2 billion and a one percentage point increase in the discount rate (7.8 percent) would decrease the total OPEB liability to $949.4 million.

The healthcare cost trend rate, which measures the rate of change in per capita health costs over time, is also significant in the calculation of the total OPEB liability. A one percentage point increase in the healthcare cost trend rate increases the total OPEB liability to $1.1 billion, and a one percentage point decrease in the healthcare cost trend rate decreases the total OPEB liability to $976.4 million.

Calculating the Net OPEB Liability or Asset

To determine the net OPEB liability or asset, the accounting standards require the total OPEB liability be subtracted from the OPEB plan's fiduciary net position. When the total OPEB liability is greater than the fiduciary net position, the OPEB plan will disclose a net OPEB liability in its notes. When the fiduciary net position is greater than the total OPEB liability, the OPEB plan will disclose a net OPEB asset in its notes.

As of December 31, 2022, the net OPEB asset was $102.8 million for the SHICC program.

As of December 31, 2022, the SHICC program reported a net OPEB asset. A net OPEB asset indicates that, at that point in time, the assets of the program exceeded the projected liability for benefit payments. The SHICC program had a fiduciary net position of $1.1 billion and a total OPEB liability of $1.0 billion, which resulted in a net OPEB asset of $102.8 million. As shown in Table 12, this represents a decrease from the net OPEB asset reported as of December 31, 2021.

Table 12

Net OPEB Asset (Liability) for the SHICC Program
As of December 31
(in millions)

	2021	2022
Fiduciary Net Position	$1,371.7	$1,148.8
Total OPEB Liability	(1,042.7)	(1,046.0)
Net OPEB Asset (Liability)	**$ 329.0**	**$ 102.8**

Employer Reporting

Employers have made a commitment to provide postemployment benefits to employees and have an obligation to make contributions to fund these benefits.

For the State Retiree Life Insurance program, the Local Retiree Life Insurance program, and the SHICC program, contributions from employers are combined, by program, and the benefits are paid out of the common pool of assets established for each program. By participating in these programs, each employer has made a commitment to provide postemployment benefits to employees and is obligated to make contributions into the future to ensure that sufficient resources are available to make the benefit payments. Therefore, because each employer has responsibility for the resulting OPEB obligations, each employer will be required to report its share of the net OPEB liability or asset for each program on its GAAP-based financial statements.

Each participating employer must report its share of the net OPEB liability or asset in its GAAP-based financial statements.

Employers participating in the State Retiree Life Insurance program and the SHICC program include state agencies, such as UW System, and the various authorities that participate in the program, such as the UW Hospitals and Clinics Authority. To assist the State of Wisconsin and those agencies and authorities that are part of the State's financial reporting entity but that prepare separately issued financial statements, ETF prepared a Schedule of Employer Allocations and a Schedule of Collective OPEB Amounts as of and for the year ended December 31, 2022, for the State Retiree Life Insurance program and for the SHICC program. We audited these schedules and provided unmodified opinions on them as detailed in reports 23-17 and 23-20.

The net OPEB liability for the State Retiree Life Insurance programs and the net OPEB asset for the SHICC program were included in the State's GAAP-based financial statements, which was published in the State of Wisconsin's ACFR for the year ended June 30, 2023.

To assist local employers participating in the Local Retiree Life Insurance program in determining the employer's proportionate share of the net OPEB liability, ETF also prepared a Schedule of Employer Allocations and a Schedule of Collective OPEB Amounts as of and for the year ended December 31, 2022, for the Local Retiree Life Insurance program. We audited these schedules and provided unmodified opinions on them as detailed in report 23-18. Each local government that participates in the Local Retiree Life Insurance program must report its proportionate share of the net OPEB liability in its GAAP-based financial statements.

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Auditor’s Report

STATE OF WISCONSIN
Legislative Audit Bureau

Joe Chrisman
State Auditor

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Senator Eric Wimberger and
Representative Robert Wittke, Co-chairpersons
Joint Legislative Audit Committee

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

We have audited the financial statements and the related notes of the following fiduciary funds administered by the State of Wisconsin Department of Employee Trust Funds (ETF) as of and for the year ended December 31, 2022: Wisconsin Retirement System, Supplemental Health Insurance Conversion Credit, Employee Reimbursement Accounts/Commuter Benefits, State Retiree Life Insurance, Local Retiree Life Insurance, Milwaukee Retirement Systems, and Local Retiree Health Insurance. We have also audited the financial statements and related notes of the following proprietary funds administered by ETF as of and for the year ended December 31, 2022: Duty Disability Insurance, Health Insurance, Income Continuation Insurance, State Retiree Health Insurance, and Accumulated Sick Leave Conversion Credit. We have issued our report thereon dated January 5, 2024. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* which is issued by the Comptroller General of the United States. The financial statements and related auditor's opinions have been included in ETF's 2022 Annual Comprehensive Financial Report (ACFR).

Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered ETF's internal control as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ETF's internal control. Accordingly, we do not express an opinion on the effectiveness of ETF's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent misstatements or to detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of ETF's financial statements will not be prevented or that a material misstatement will not be detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements referred to in the first paragraph are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be used when considering ETF's internal control and compliance. The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of ETF's internal control or on compliance. Accordingly, this report is not suitable for any other purpose.

LEGISLATIVE AUDIT BUREAU

Legislative Audit Bureau

January 5, 2024

Appendices

Appendix 1

Employee Trust Funds Board Membership

2024

Name	Affiliation	Board Member Since
William Ford, Chair	Elected by retired Wisconsin Retirement System (WRS) participants, and is a WRS annuitant	2011
Steven Wilding, Vice Chair	Appointed by the Wisconsin Retirement Board	2019
Chris Heller, Secretary	Appointed by the Teachers Retirement Board	2019
Jennifer Flogel	Administrator, Division of Personnel Management, Department of Administration	2022
Wayne Koessl	Appointed by the Wisconsin Retirement Board	1996
Katy Lounsbury	Designee of the Governor	2020
Angela Miller	Appointed by the Wisconsin Retirement Board	2022
Amy Mizialko	Appointed by the Teachers Retirement Board	2021
David Schalow	Appointed by the Teachers Retirement Board	2021
Michele Stanton	Appointee of the Governor, with advice and consent of Senate, representing the public	2023
Vacant	Appointed by the Teachers Retirement Board	
Vacant	Appointed by the Wisconsin Retirement Board	
Vacant	Elected by participating employees of either technical college or school district educational support personnel, and is an active WRS participant	

Appendix 2

Group Insurance Board Membership

2024

Name	Affiliation	Board Member Since
Herschel Day, Chair	Appointee of the Governor, insured participant in the Wisconsin Retirement System (WRS) who is a teacher	2013
Nancy Thompson, Secretary	Appointee of the Governor, chief executive or member of the governing body of a local unit of government that participates in the WRS	2012
Dan Fields	Appointee of the Governor, insured participant in the WRS who is a retiree	2019
Jennifer Flogel	Administrator, Division of Personnel Management, Department of Administration	2022
Erin Hillson	Appointee of the Governor, insured participant in the WRS who is an employee of a local unit of government	2022
Nathan Houdek	Commissioner of Insurance	2023
Walter Jackson	Appointee of the Governor, insured participant in the WRS who is not a teacher	2019
Katy Lounsbury	Designee of the Governor	2019
Brian Pahnke	Designee of the Secretary, Department of Administration	2019
Nathan Ugoretz	Appointee of the Governor	2022
Bob Wimmer	Designee of the Attorney General	2018

Response

STATE OF WISCONSIN
Department of Employee Trust Funds
A. John Voelker
SECRETARY

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of Employee Trust Funds
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January 5, 2024

JOE CHRISMAN, STATE AUDITOR
LEGISLATIVE AUDIT BUREAU
22 E MIFFLIN ST SUITE 500
MADISON WI 53703

Dear Mr. Chrisman,

Thank you for the opportunity to review the audit report of the Department of Employee Trust Funds (ETF) Annual Comprehensive Financial Report (ACFR) for the year ended December 31, 2022. The Wisconsin Retirement System (WRS), the largest program administered by ETF, continues to be in a strong financial position despite the volatility of the economic markets in 2022. The WRS is recognized as a successful governmental defined benefit plan. The continued due diligence of the governing boards and staff administering the program, oversight by policymakers, and sound funding principles are fundamental to the WRS' ability to pay promised benefits to members or their beneficiaries.

We are pleased the audit did not identify deficiencies in internal control or any findings. This demonstrates ETF's continued commitment to fiscal stewardship and strong internal controls to ensure the integrity of the various benefit programs available to state and local government employees.

Thank you for the Legislative Audit Bureau's time. We appreciate the efforts of your staff in conducting the financial audit of ETF's ACFR.

Sincerely,

A. John Voelker
Secretary