

State of Michigan Postemployment Life Insurance Benefit

An Other Postemployment Benefit Plan of the State of Michigan

Schedule of Employer Allocations and Schedule of Other Postemployment Benefit Amounts by Employer for Fiscal Year Ended September 30, 2019



Prepared by

The Michigan Civil Service
Commission
Employee Benefits Division
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Office of the Auditor General

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Doug A. Ringler, CPA, CIA
Auditor General

Independent Auditor's Report

Ms. Janet McClelland, Chair
and
Ms. Janine M. Winters, State Personnel Director
Michigan Civil Service Commission
Capitol Commons Center
Lansing, Michigan
and
Mr. Brom Stibitz, Acting Director
Department of Technology, Management, and Budget
Elliott-Larsen Building
Lansing, Michigan

Dear Ms. McClelland, Ms. Winters, and Mr. Stibitz:

Report on the Schedules

We have audited the accompanying schedule of employer allocations of the State of Michigan Postemployment Life Insurance Benefit as of and for the fiscal year ended September 30, 2019 and the related notes. We have also audited the respective totals by employer for the columns titled September 30, 2019 total other postemployment benefit (OPEB) liability, total deferred outflows of resources, total deferred inflows of resources, and total employer OPEB expense (specified column totals) included in the accompanying schedule of OPEB amounts by employer as of and for the fiscal year ended September 30, 2019 and the related notes.

Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of these schedules in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on the schedule of employer allocations and the specified column totals included in the schedule of OPEB amounts by employer based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of employer allocations and the specified column totals included in the schedule of OPEB amounts by employer are free from material misstatement.



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Ms. Janet McClelland, Chair
Ms. Janine M. Winters, State Personnel Director
Mr. Brom Stibitz, Acting Director
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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of employer allocations and the specified column totals included in the schedule of OPEB amounts by employer. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations and the specified column totals included in the schedule of OPEB amounts by employer, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the schedule of employer allocations and the specified column totals included in the schedule of OPEB amounts by employer in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedule of employer allocations and the specified column totals included in the schedule of OPEB amounts by employer.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the schedules referred to in the first paragraph present fairly, in all material respects, the employer allocations and the September 30, 2019 total OPEB liability, total deferred outflows of resources, total deferred inflows of resources, and total employer OPEB expense for all participating entities for the State of Michigan Postemployment Life Insurance Benefit as of and for the fiscal year ended September 30, 2019 in accordance with accounting principles generally accepted in the United States of America.

Restriction on Use

Our report is intended solely for the information and use of the Civil Service Commission, the Department of Technology, Management, and Budget, and the State of Michigan Postemployment Life Insurance Benefit participating employers and their auditors and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in blue ink that reads "Doug Ringler".

Doug Ringler
Auditor General
October 8, 2020

State of Michigan Postemployment Life Insurance Benefit
Schedule Of Employer Allocations
As Of And For The Fiscal Year Ended September 30, 2019

Employer Name	Total Actual Employer Contributions	Proportionate Share
GOVERNMENTAL ACTIVITIES		
State of Michigan	\$ 31,037,236	0.9317560076
State Building Authority	2,227	0.0000668480
BUSINESS TYPE ACTIVITIES		
Information Technology Fund	1,514,769	0.0454742469
State Lottery Fund	141,421	0.0042455362
Liquor Purchase Revolving Fund	67,639	0.0020305573
Office Services Revolving Fund	69,016	0.0020719007
Correctional Industries Revolving Fund	32,128	0.0009645128
Motor Transport Fund	24,248	0.0007279506
Risk Management Fund	3,394	0.0001018968
COMPONENT UNITS		
Michigan State Housing Development Authority	208,706	0.0062654722
Michigan Strategic Fund	31,716	0.0009521236
Michigan Economic Development Corporation	62,236	0.0018683546
Michigan Finance Authority	39,900	0.0011978199
Mackinac Bridge Authority	45,751	0.0013734652
Mackinac Island State Park Commission	7,739	0.0002323200
Michigan Education Trust	13,410	0.0004025764
Land Bank Fast Track Authority	8,941	0.0002684114
Total	\$ 33,310,477	1.0000000002

The accompanying notes are an integral part of this schedule.

State of Michigan Postemployment Life Insurance Benefit
Schedule Of Other Postemployment Benefit Amounts By Employer
As Of And For The Fiscal Year Ended September 30, 2019
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Deferred Outflows of Resources					
Employer Name	September 30, 2019 Total Other Postemployment Benefit Liability	Differences Between Expected and Actual Experience	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Outflows of Resources
OVERNMENTAL ACTIVITIES					
State of Michigan	\$ 1,141,169,399	\$ 589,784	\$ 67,028,769	\$ 1,119,281	\$ 68,737,834
State Building Authority	81,872	42	4,809	1,458	6,309
BUSINESS TYPE ACTIVITIES					
Information Technology Fund	55,694,644	28,784	3,271,332	1,055,191	4,355,307
State Lottery Fund	5,199,726	2,687	305,416	81,916	390,019
Office Services Revolving Fund	2,537,563	1,311	149,049	61,703	212,063
Liquor Purchase Revolving Fund	2,486,928	1,285	146,074	102,801	250,160
Correctional Industries Revolving Fund	1,181,288	611	69,385	—	69,996
Motor Transport Fund	891,558	461	52,367	45,744	98,572
Risk Management Fund	124,798	64	7,330	11,666	19,060
COMPONENT UNITS					
Michigan State Housing Development Authority	7,673,645	3,966	450,726	—	454,692
Michigan Economic Development Corporation	2,288,270	1,183	134,406	223,638	359,227
Mackinac Bridge Authority	1,682,153	869	98,804	30,737	130,410
Michigan Finance Authority	1,467,032	758	86,169	—	86,927
Michigan Strategic Fund	1,166,115	603	68,494	212,781	281,878
Michigan Education Trust	493,056	255	28,961	66,514	95,730
Mackinac Island State Park Commission	284,534	147	16,713	—	16,860
Land Bank Fast Track Authority	328,737	170	19,309	147,745	167,224
TOTAL	\$ 1,224,751,318	\$ 632,980	\$ 71,938,113	\$ 3,161,175	\$ 75,732,268

Employer-level results may not add to the System-wide results due to rounding.
The accompanying notes are an integral part of this schedule.

State of Michigan Postemployment Life Insurance Benefit
Schedule Of Other Postemployment Benefit Amounts By Employer
As Of And For The Fiscal Year Ended September 30, 2019
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Deferred Inflows of Resources				OPEB Expense		
Differences Between Expected and Actual Experience	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Inflows of Resources	Proportionate Share of Other Postemployment Benefit Expense	Net Amortization of Deferred Amounts from Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Employer Other Postemployment Benefit Expense
\$ 122,324,249 8,776	\$ 77,750,689 5,578	\$ 198,463 24,403	\$ 200,273,401 38,757	\$ 34,196,786 2,453	\$ 192,392 (4,935)	\$ 34,389,178 (2,482)
5,970,021	3,794,614	1,258,546	11,023,181	1,668,970	(1,500)	1,667,470
557,369	354,270	—	911,639	155,817	20,316	176,133
272,007	172,890	335,451	780,348	76,042	(73,181)	2,861
266,579	169,441	379,143	815,163	74,524	(75,517)	(993)
126,625	80,484	74,252	281,361	35,399	(16,947)	18,452
95,568	60,744	9,573	165,885	26,717	9,727	36,444
13,377	8,503	—	21,880	3,740	2,876	6,616
822,554	522,824	329,431	1,674,809	229,952	(76,415)	153,537
245,284	155,905	441,164	842,353	68,571	(65,228)	3,343
180,313	114,609	19,002	313,924	50,408	3,800	54,208
157,254	99,952	55,560	312,766	43,962	(13,410)	30,552
124,998	79,450	15,719	220,167	34,944	51,519	86,463
52,852	33,593	—	86,445	14,775	16,103	30,878
30,500	19,386	20,472	70,358	8,526	(4,867)	3,659
35,238	22,398	—	57,636	9,851	35,268	45,119
<u>\$ 131,283,564</u>	<u>\$ 83,445,330</u>	<u>\$ 3,161,179</u>	<u>\$ 217,890,073</u>	<u>\$ 36,701,437</u>	<u>\$ 1</u>	<u>\$ 36,701,438</u>

Employer-level results may not add to the System-wide results due to rounding.
The accompanying notes are an integral part of this schedule.

**State of Michigan Postemployment Life Insurance Benefit
Notes to the Schedule of Employer Allocations and
Schedule of Other Postemployment Benefit Amounts by Employer**

Note 1: Plan Description

Organization

The State of Michigan provides postemployment life insurance benefits (the Plan) to eligible individuals upon retirement from State employment. Members of the State Employees' Retirement System (SERS), the State Police Retirement System (SPRS), the Judges' Retirement System (JRS) and certain members of the Michigan Military Retirement Provisions (MMRP) may receive a life insurance benefit if they meet the eligibility requirements. The Plan is a single-employer, state-wide, defined benefit other postemployment benefits (OPEB) plan. The State contracts with Minnesota Life Insurance Company to administer the payout of life insurance benefits. The Plan is managed by the Michigan Civil Service Commission under Article XI, Section 5 of the Michigan Constitution of 1963 and Michigan Civil Service Commission Rule 5-11.

Activity of the Plan is accounted for in the State Sponsored Group Insurance Fund (Fund), an internal service fund in the State of Michigan Comprehensive Annual Financial Report (SOMCAFR). The Fund was administratively established to account for employee insurance benefit programs, which are largely self-funded. Five group insurance programs are offered to State employees: health, dental, vision, long-term disability, and life.

The Plan is not a trust and has no assets.

Plan Membership

The State's group policy with Minnesota Life Insurance Company includes any active employee in the category of classified State service with an appointment of at least 720 hours duration, but excluding employees with non-career appointments and those working less than 40% of full time; any active official or active unclassified employee of the State who has been approved for coverage by the Michigan Civil Service Commission; any retired employee or official who was insured under this policy or the prior policies it replaced prior to entry into a State Retirement System; and Wayne County employees who a) were State Judicial Council employees on October 1, 1996 and whose employment was transferred to the Recorder's Court on October 1, 1996 and b) whose employer subsequently became the Wayne County Clerk's Office.

Eligible retirees are provided with life insurance coverage equal to 25% of the active life insurance coverage (which amount is rounded to the next higher \$100 provided the retiree retired after July 1, 1974), \$1,000 for spouse and \$1,000 for each dependent under age 23. The active life insurance amount is either a) two times the employee's basic annual salary, the result rounded to the next higher \$1,000 if not already a multiple thereof, with a minimum of \$10,000 and a maximum of \$200,000; or b) one times the employee's basic annual salary, the result rounded to the next higher \$1,000 if not already a multiple thereof, with a minimum of \$10,000 and a maximum of \$50,000.

The State contributes 100% of the premiums for employee and retiree life insurance coverage. The premium rate for fiscal year 2019 was \$.28 for each \$1,000.00 of coverage of active payroll per pay period. The employee contributes 100% of the premiums for dependent life coverage, and an employee must have been enrolled in dependent life insurance to maintain eligibility for dependent coverage as a retiree. The State is liable for benefit payments that exceed premiums paid.

More specific information concerning eligibility requirements, benefit level, and funding policies is included in employee collective bargaining agreements, benefit plan booklets, and rules and regulations issued by the Michigan Civil Service Commission.

Note 2: Summary of Significant Accounting Policies

Governmental Accounting Standards Board (GASB) Statement 75

Employers participating in the Plan are required to report information about OPEB in their financial statements for fiscal periods beginning after June 15, 2017, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

The requirements of GASB 75 incorporate provisions intended to reflect the effects of transactions and events in the measurement of employer liabilities and recognition of expense and deferred outflows of resources and deferred inflows of resources related to OPEB for the Postemployment Life Insurance Benefit.

The Schedule of Employer Allocations recognizes the employers' proportionate share of the total OPEB liability determined in conformity with GASB 75. The Schedule of OPEB Amounts by Employer recognizes the OPEB expense, the ending total OPEB liability, deferred inflows of resources and deferred outflows of resources related to the OPEB Plan. These schedules were prepared by the Employee Benefits Division within the Civil Service Commission with assistance from its third-party actuaries and provide employers with the required information for financial reporting related to the Plan as of and for the fiscal year ended September 30, 2019 (the measurement period).

Basis of Accounting and Presentation

The Plan's financial transactions are prepared using the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States (GAAP). Employer contributions are recognized as revenue when due and payable. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

The Schedule of Employer Allocations, Schedule of OPEB Amounts by Employer were prepared in conformity with GAAP. The preparation of these schedules required management to make estimates and assumptions that affect certain amounts and disclosures. Actual results could differ from those estimates.

The schedules present elements of the financial statements of the Plan and its participating employers and are not a complete financial presentation of the Plan or its participating employers.

Proportionate Share Allocation Methodology

The primary government and certain component units participate in the Plan, which is classified for financial reporting purposes as a single-employer defined benefit OPEB plan. However, GASB 75 requires that, in stand-alone financial statements, each government should account for and report its participation in the single-employer plan as if it was a cost-sharing employer plan. Therefore, these allocations are to identify the primary government activities, business-type activities, and component units' proportionate shares of the collective total OPEB liability.

In determining the proportionate share allocation, GASB 75 requires that the proportion for each employer be consistent with the determination of the Plan's contributions. The Plan has determined that utilizing the employer OPEB actual contributions based on reportable compensation during the Plan's fiscal year is an

appropriate allocation methodology plan. Each employer's proportionate share allocation is determined by dividing each employer's actual contributions to the plan during the measurement period by the percent of OPEB actual contributions received from all applicable employers during the measurement period.

The Schedule of Employer Allocations has been rounded and presents the first ten decimal places.

Note 3: Total OPEB Liability for Postemployment Life Insurance Benefits

The Plan's total liability is measured as the total liability, less the amount of the plan's net position. In actuarial terms, this is the accrued liability less the market value of assets. The Postemployment Life Insurance Plan has no assets.

Total OPEB Liability As of September 30, 2018	\$	1,249,369,830
Total OPEB Liability As of September 30, 2019	\$	1,224,751,319
Total Covered Payroll	\$	3,151,523,232

Total Liability as a Percentage of Covered Payroll	38.86%
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Note: Employer-level results may not add to System-wide results due to rounding.

Discount Rate

A discount rate of 2.75% was used to measure the ending total OPEB liability for Postemployment Life Insurance Benefits as of September 30, 2019. This discount rate was based on the tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date since the plan has no assets. The discount rate used to measure the total OPEB liability as of September 30, 2018 was 3.83%

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

As required by GASB Statement No. 75, the following presents the Plan's total OPEB liability for Postemployment Life Insurance Benefits, as well as what the Plan's total OPEB liability for Postemployment Life Insurance Benefits would be if it were calculated using a discount rate that is one percent lower or one percent higher.

	1% Decrease 1.75%	Current Discount Rate 2.75%	1% Increase 3.75%
Total OPEB Liability	\$ 1,460,369,571	\$ 1,224,751,319	\$ 1,041,449,112

Timing of the OPEB Valuations

Actuarial valuations to determine the total OPEB liability for Postemployment Life Insurance Benefits is required to be performed every two years. The OPEB valuation for Postemployment Life Insurance Benefits is performed every two years. If the actuarial valuations are not calculated as of the Plan's fiscal year end, the total OPEB liability for Postemployment Life Insurance Benefits is required to be rolled forward from the actuarial valuation date to the Plan's fiscal year end.

The total OPEB liability for Postemployment Life Insurance Benefits as of September 30, 2019 measurement date is based on an actuarial valuation performed as of September 30, 2019.

Actuarial Valuations and Assumptions

Actuarial valuations for the Plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date: September 30, 2019

Actuarial Cost Method: Individual Entry-Age

Wage Inflation Rate: 2.75%

Investment Rate of Return (discount rate): 2.75% per year

Post-Retirement Mortality Tables: The post-retirement mortality tables used in this valuation were 110% of the Healthy Life and Disabled Life Mortality Tables.

IBNR: A liability equal to 25% of expected first year cash flow was held for postemployment life insurance benefits claims incurred but not reported (IBNR).

Spouse Benefits for Future Retirees: The liabilities for active members were loaded by 1.5% to account for potential postemployment life insurance benefits payable to spouses of future retirees.

Spouse Benefits for Current Retirees: Data regarding postemployment life insurance benefits coverage for spouses of current retirees was not available. Liabilities for retired members were loaded by 2% to account for postemployment life insurance benefits payable to the spouses of current retirees.

Opt Out Factors: Based on an analysis of current active member data, a 5% opt out assumption was used for MSERS, MSPRS, and Special Duty Officer retirees and surviving spouses. Current retiree Plan member data was supplied for MJRS and MLRS retirees and used in the valuation without adjustment.

Active Member Election: The active life insurance option each member elected was provided to the actuary. It was assumed active members would continue their current option up to and after retirement. In circumstances where it was unclear what option was currently being elected, it was assumed the active member elected the two times salary option.

Compensation: For some MSERS retirees, Final Average Compensation (FAC) was not reported. The FAC for these members was assumed to be \$54,575 (the average of all MSERS retiree records reported with FAC).

For purposes of valuing the postemployment life insurance benefit policies for retirees, base wage at retirement was not available and was approximated by applying a factor to the reported FAC at retirement. The factor used to convert an FAC to a base wage is based on the length of the FAC period for each group. The factor used for each affected plan follows:

MSERS: Conservation: 0.986618 (2 year FAC)
 Corrections and All Others: 0.973475 (3 year FAC)
SPRS: Non-Hybrid: 0.986618 (2 year FAC)
 Hybrid: 0.947886 (5 year FAC)

For MSERS Defined Contributions (DC) plan retirees, compensation at retirement and other information was not provided to the actuary. The postemployment life insurance benefit policies for this group were assumed to have the same average value as the policies for retirees in the MSERS Defined Benefits (DB) plan.

Other: The face values of the Plan policies currently in force were requested by the actuary but were not available for use in this valuation. The actuary estimated the value of the postemployment life insurance benefit policies for retirees as follows:

Individuals retired after July 1974: 50% x compensation at retirement (compensation reported for the 2019 retirement system valuations)

Spousal benefits: \$1,000

Individuals retired on or before July 1974: A minimum benefit of \$1,000 and a maximum benefit of \$5,000 for an average of \$3,000

Spousal benefits: \$1,000

Data for current MSERS, MSPRS, and Special Duty Officer retiree members of the Plan was not available for use in this valuation. All current retiree members of the retirement plans deemed eligible for postemployment life insurance benefits and reported in connection with the 2019 retirement valuations were included in this valuation of the Plan.

For MJRS and MLRS retirees, face values of the Plan policies were provided for use in the valuation. For current MSPRS DROP members, active life insurance amounts were provided and used to calculate the projected face value of the Plan policies.

Note 4: OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Postemployment Life Insurance Benefits

The following table provides details of the Plan expense for the fiscal year ended September 30, 2019.

Expense	Total
Service Cost	\$ 27,091,378
Interest on the Total OPEB Liability	47,731,769
Current-Period Benefit Changes	0
Employee Contributions (shown as negative for addition here)	0
Projected Earnings on Plan Investments (shown as negative for addition here)	0
OPEB Plan Administrative Expense	0
Other Changes in Net Position	0
Recognition of Outflow (Inflow) of Resources due to Liabilities	(38,121,708)
Recognition of Outflow (Inflow) of Resources due to Assets	0
Total OPEB Expense	\$ 36,701,439

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to Postemployment Life Insurance Benefit will be recognized in future years' OPEB expenses as follows:

Fiscal Year Ending September 30	Net Deferred (Inflows) and Outflows of Resources
2020	\$ (38,121,708)
2021	(38,121,708)
2022	(36,342,169)
2023	(22,549,009)
2024	(7,023,207)
Thereafter	—
Total	\$ (142,157,801)