

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, 2021



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

Mr. Jase Bolger, Acting Chair
and
Mr. John Gnodtke, State Personnel Director
Michigan Civil Service Commission
Capitol Commons Center
Lansing, Michigan
and
Ms. Michelle Lange, Director
Department of Technology, Management, and Budget
Elliott-Larsen Building
Lansing, Michigan

Dear Mr. Bolger, Mr. Gnodtke, and Ms. Lange:

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, 2021 and the related notes. We have also audited the respective totals by employer for the columns titled September 30, 2021 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, 2021 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.

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



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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, 2021 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, 2021 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 Michigan 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 black ink that reads "Doug Ringler". The signature is written in a cursive, flowing style.

Doug Ringler
Auditor General
January 18, 2023

State of Michigan Postemployment Life Insurance Benefit
Schedule Of Employer Allocations
As Of And For The Fiscal Year Ended September 30, 2021

Employer Name	Total Actual Employer Contributions	Proportionate Share
GOVERNMENTAL ACTIVITIES		
State of Michigan	\$ 35,366,345	0.9276151286
State Building Authority	2,899	0.0000760442
BUSINESS TYPE ACTIVITIES		
Information Technology Fund	1,658,731	0.0435064522
State Lottery Fund	163,053	0.0042766695
Liquor Purchase Revolving Fund	85,383	0.0022395004
Office Services Revolving Fund	80,823	0.0021198894
Correctional Industries Revolving Fund	34,290	0.0008993892
Motor Transport Fund	26,383	0.0006919879
Risk Management Fund	7,204	0.0001889388
COMPONENT UNITS		
Michigan Veterans' Facility Authority	244,170	0.0064042780
Michigan State Housing Development Authority	222,636	0.0058394659
Michigan Strategic Fund	35,099	0.0009206061
Michigan Economic Development Corporation	71,116	0.0018652787
Michigan Finance Authority	45,518	0.0011938922
Mackinac Bridge Authority	52,934	0.0013883949
Mackinac Island State Park Commission	5,574	0.0001462103
Michigan Education Trust	13,489	0.0003537865
State Land Bank Authority	10,450	0.0002740871
Total	\$ 38,126,097	0.9999999999

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, 2021
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Employer Name	Deferred Outflows of Resources				
	September 30, 2021 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
GOVERNMENTAL ACTIVITIES					
State of Michigan	\$ 1,291,180,787	\$ 178,417	\$ 152,532,284	\$ 2,052,232	\$ 154,762,933
State Building Authority	105,849	15	12,504	26,466	38,985
BUSINESS TYPE ACTIVITIES					
Information Technology Fund	60,558,192	8,368	7,153,978	510,295	7,672,641
State Lottery Fund	5,952,850	823	703,234	105,413	809,470
Office Services Revolving Fund	2,950,750	408	348,584	88,949	437,941
Liquor Purchase Revolving Fund	3,117,241	431	368,252	263,426	632,109
Correctional Industries Revolving Fund	1,251,892	173	147,891	34,439	182,503
Motor Transport Fund	963,203	133	113,787	75,214	189,134
Risk Management Fund	262,991	36	31,068	85,230	116,334
COMPONENT UNITS					
Michigan Veterans' Facility Authority	8,914,344	1,232	1,053,087	7,440,563	8,494,882
Michigan State Housing Development Authority	8,128,162	1,123	960,212	45,156	1,006,491
Michigan Economic Development Corporation	2,596,348	359	306,717	474,367	781,443
Mackinac Bridge Authority	1,932,557	267	228,301	36,595	265,163
Michigan Finance Authority	1,661,821	230	196,318	57,920	254,468
Michigan Strategic Fund	1,281,425	177	151,380	453,525	605,082
Michigan Education Trust	492,448	68	58,175	34,686	92,929
Mackinac Island State Park Commission	203,515	28	24,042	-	24,070
State Land Bank Authority	381,512	53	45,069	125,142	170,264
TOTAL	\$ 1,391,935,887	\$ 192,341	\$ 164,434,883	\$ 11,909,618	\$ 176,536,842

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, 2021
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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
\$ 135,607,572	\$ 30,615,900	\$ 6,734,149	\$ 172,957,621	\$ 42,139,323	\$ (785,125)	\$ 41,354,198
11,117	2,510	25,717	39,344	3,455	(2,724)	731
6,360,186	1,435,929	2,642,453	10,438,568	1,976,393	(472,154)	1,504,239
625,204	141,151	46,898	813,253	194,279	28,102	222,381
309,906	69,967	162,227	542,100	96,301	(62,020)	34,281
327,391	73,915	183,355	584,661	101,735	(25,412)	76,323
131,481	29,684	125,753	286,918	40,857	(32,797)	8,060
101,161	22,839	116,419	240,419	31,435	1,647	33,082
27,621	6,236	-	33,857	8,583	24,084	32,667
936,238	211,373	-	1,147,611	290,931	1,520,313	1,811,244
853,668	192,731	594,693	1,641,092	265,273	(179,731)	85,542
272,684	61,563	481,096	815,343	84,735	(69,104)	15,631
202,969	45,824	14,372	263,165	63,071	7,409	70,480
174,534	39,404	109,012	322,950	54,236	(13,783)	40,453
134,583	30,385	502,010	666,978	41,821	46,824	88,645
51,720	11,677	47,154	110,551	16,072	4,150	20,222
21,374	4,826	93,340	119,540	6,642	(25,710)	(19,068)
40,069	9,046	30,980	80,095	12,451	36,035	48,486
<u>\$ 146,189,478</u>	<u>\$ 33,004,960</u>	<u>\$ 11,909,628</u>	<u>\$ 191,104,066</u>	<u>\$ 45,427,593</u>	<u>\$ 4</u>	<u>\$ 45,427,597</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 Annual Comprehensive Financial Report (SOMACFR). 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 2021 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, 2021 (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 and 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. 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, 2020	\$	1,406,019,163
Total OPEB Liability As of September 30, 2021	\$	1,391,935,887
Total Covered Employee Payroll	\$	3,227,124,832

Total Liability as a Percentage of Covered Employee Payroll	43.13%
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Note: Employer-level results may not add to System-wide results due to rounding.

Discount Rate

A discount rate of 2.19% was used to measure the ending total OPEB liability for Postemployment Life Insurance Benefits as of September 30, 2021. 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, 2020, was 2.41%

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 1.19%	Current Discount Rate 2.19%	1% Increase 3.19%
Total OPEB Liability	\$ 1,676,172,820	\$ 1,391,935,887	\$ 1,173,052,134

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, 2021, measurement date is based on an actuarial valuation performed as of September 30, 2021.

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, 2021

Actuarial Cost Method: Individual Entry-Age

Wage Inflation Rate: 2.75%

Investment Rate of Return (discount rate): 2.19% 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 following loads were applied to active member liabilities to account for potential postemployment life insurance benefits for the spouses of future retirees:

JRS – 1.20%

MMRP – 2.25%

SPRS – 2.75%

SERS – 1.75%

Spouse Benefits for Current Retirees: Liabilities for current retired members with a postemployment life insurance benefit for a spouse were calculated based on information provided in the data files. In cases where spouse birth date was not available, the spouse was assumed to be three years younger than the male retiree and three years older than the female retiree.

Child Benefits for Current Retirees: Liabilities for current retired members of SERS and SPRS reported with a postemployment life insurance benefit for a child were based upon the average postemployment life insurance benefit liability for the child records reported on the data file for these groups. Liabilities for current retired members of MMRP and JRS with a postemployment life insurance benefit for a child were loaded by 1% to account for the child benefit.

Opt Out Assumption: Postemployment life insurance benefit participation data was supplied for all current retirees and used without adjustment. Active members reported with life insurance benefits were assumed to have this benefit until separation from state employment.

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.

Child Data Loads: The following loads were applied to active member liabilities to account for potential postemployment life insurance benefits for children of future retirees:

JRS – 0.6%

MMRP – 1.0%

SPRS – 1.0%

SERS – 1.0%

JRS Data Loads: JRS active liabilities were loaded by 0.7% to account for two members reported without data. JRS retiree liabilities were loaded by 2.5% to account for six members reported without data.

Face Value of Postemployment Life Insurance Benefits: The face value of postemployment life insurance benefit policies currently in force were reported to the actuary beginning with the September 30, 2021, valuation of the plan.

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, 2021.

Expense	Total
Service Cost	\$ 29,368,415
Interest on the Total OPEB Liability	33,779,532
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	(17,720,354)
Recognition of Outflow (Inflow) of Resources due to Assets	0
Total OPEB Expense	\$ 45,427,593

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
2022	\$ (15,940,815)
2023	(2,147,655)
2024	7,846,699
2025	1,606,568
2026	(5,932,015)
Thereafter	—
Total	\$ (14,567,218)