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, 2022

Prepared by
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Auditor General

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Independent Auditor's Report

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

Report on the Audit of the Schedules

Opinions

We have audited the schedule of employer allocations of the State of Michigan Postemployment Life Insurance Benefit (Plan) as of and for the fiscal year ended September 30, 2022 and the related notes. We have also audited the total for all entities of the columns titled September 30, 2022 total other postemployment benefit liability, total deferred outflows of resources, total deferred inflows of resources, and total employer other postemployment benefit expense (specified column totals) included in the accompanying schedule of other postemployment benefit amounts by employer as of and for the fiscal year ended September 30, 2022 and the related notes.

In our opinion, the accompanying schedules referred to above present fairly, in all material respects, the employer allocations and the September 30, 2022 total other postemployment benefit liability, total deferred outflows of resources, total deferred inflows of resources, and total employer other postemployment benefit expense for the total of all participating entities of the State of Michigan Postemployment Life Insurance Benefit as of and for the fiscal year ended September 30, 2022 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Schedules section of our report. We are required to be independent of the Plan and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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 and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Schedules

Our objectives are to obtain reasonable assurance about whether the schedule of employer allocations and the specified column totals included in the schedule of other postemployment benefit amounts by employer are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the schedule of employer allocations and the specified column totals included in the schedule of other postemployment benefit amounts by employer.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the schedule of employer allocations and the specified column totals included in the schedule of other postemployment benefit amounts by employer, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the schedule of employer allocations and the specified column totals included in the schedule of other postemployment benefit amounts by employer.
- Obtain an understanding of internal control relevant to the audit 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 Plan's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the schedule of employer allocations and the specified column totals included in the schedule of other postemployment benefit amounts by employer.

We are required to communicate to those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 Plan's participating employers and their auditors and is not intended to be and should not be used by anyone other than these specified parties.

Doug Ringler

Doug Ringler
Auditor General
September 25, 2023

State of Michigan Postemployment Life Insurance Benefit
Schedule Of Employer Allocations
As Of And For The Fiscal Year Ended September 30, 2022

Employer Name		Total Actual Employer Contributions	Proportionate Share
GOVERNMENTAL ACTIVITIES			
State of Michigan	$	33,702,965	0.9269797940
State Building Authority		2,945	0.0000809936
BUSINESS TYPE ACTIVITIES			
Information Technology Fund		1,574,104	0.0432947888
State Lottery Fund		151,659	0.0041712767
Liquor Purchase Revolving Fund		76,231	0.0020966815
Office Services Revolving Fund		79,180	0.0021777889
Correctional Industries Revolving Fund		31,750	0.0008732564
Motor Transport Fund		24,265	0.0006673835
Risk Management Fund		6,434	0.0001769691
COMPONENT UNITS			
Michigan Veterans' Facility Authority		248,662	0.0068393087
Michigan State Housing Development Authority		246,821	0.0067886527
Michigan Strategic Fund		26,491	0.0007286270
Michigan Economic Development Corporation		69,612	0.0019146491
Michigan Finance Authority		42,152	0.0011593748
Mackinac Bridge Authority		46,914	0.0012903375
Mackinac Island State Park Commission		3,834	0.0001054651
Michigan Education Trust		13,576	0.0003733890
State Land Bank Authority		10,226	0.0002812638
Total	$	36,357,821	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, 2022

		Deferred Outflows of Resources			
Employer Name	September 30, 2022 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	$ 919,534,518	$ -	$ 108,049,909	$ 1,429,752	$ 109,479,661
State Building Authority	80,343	-	9,441	26,605	36,046
BUSINESS TYPE ACTIVITIES					
Information Technology Fund	42,947,056	-	5,046,494	237,847	5,284,341
State Lottery Fund	4,137,774	-	486,209	67,729	553,938
Office Services Revolving Fund	2,160,297	-	253,846	131,976	385,822
Liquor Purchase Revolving Fund	2,079,841	-	244,392	190,944	435,336
Correctional Industries Revolving Fund	866,243	-	101,788	27,402	129,190
Motor Transport Fund	662,023	-	77,791	48,874	126,665
Risk Management Fund	175,548	-	20,628	61,146	81,774
COMPONENT UNITS					
Michigan Veterans' Facility Authority	6,784,377	-	797,198	6,428,311	7,225,509
Michigan State Housing Development Authority	6,734,128	-	791,294	1,144,460	1,935,754
Michigan Economic Development Corporation	1,899,271	-	223,174	413,956	637,130
Mackinac Bridge Authority	1,279,974	-	150,403	24,219	174,622
Michigan Finance Authority	1,150,063	-	135,138	42,070	177,208
Michigan Strategic Fund	722,775	-	84,930	302,640	387,570
Michigan Education Trust	370,390	-	43,523	41,602	85,125
Mackinac Island State Park Commission	104,618	-	12,293	-	12,293
State Land Bank Authority	279,005	-	32,784	89,011	121,795
TOTAL	$ 991,968,244	$ -	$ 116,561,235	$ 10,708,544	$ 127,269,779

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, 2022

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
$ 98,884,337	$ 334,908,803	$ 6,068,535	$ 439,861,675	$ (24,819,244)	$ (936,734)	$ (25,755,978)
8,640	29,262	17,352	55,254	(2,169)	(1,543)	(3,712)
4,618,414	15,641,987	2,145,047	22,405,448	(1,159,188)	(522,663)	(1,681,851)
444,965	1,507,042	160,401	2,112,408	(111,683)	2,952	(108,731)
232,313	786,814	75,615	1,094,742	(58,309)	(48,203)	(106,512)
223,661	757,511	252,255	1,233,427	(56,137)	(59,493)	(115,630)
93,153	315,499	116,439	525,091	(23,381)	(39,033)	(62,414)
71,192	241,119	120,461	432,772	(17,869)	(4,224)	(22,093)
18,878	63,937	13,979	96,794	(4,738)	21,228	16,490
729,574	2,470,976	–	3,200,550	(183,118)	1,624,124	1,441,006
724,170	2,452,674	405,735	3,582,579	(181,761)	46,772	(134,989)
204,243	691,744	293,922	1,189,909	(51,263)	(57,323)	(108,586)
137,645	466,186	123,924	727,755	(34,548)	(15,990)	(50,538)
123,675	418,871	119,691	662,237	(31,041)	(22,020)	(53,061)
77,725	263,246	622,156	963,127	(19,508)	1,012	(18,496)
39,831	134,902	35,327	210,060	(9,997)	8,828	(1,169)
11,250	38,104	115,215	164,569	(2,824)	(35,433)	(38,257)
30,003	101,618	22,503	154,124	(7,531)	37,748	30,217
$ 106,673,669	$ 361,290,295	$ 10,708,557	$ 478,672,521	$ (26,774,309)	$ 5	$ (26,774,304)

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 2022 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, 2022 (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, 2021	$	1,391,935,887
Total OPEB Liability as of September 30, 2022	$	991,968,242
Total Covered Employee Payroll	$	3,314,631,735
Total Liability as a Percentage of Covered Employee Payroll		29.93%

Note: Employer-level results may not add to System-wide results due to rounding.

Discount Rate

A discount rate of 4.40% was used to measure the ending total OPEB liability for Postemployment Life Insurance Benefits as of September 30, 2022. 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, 2021, was 2.19%

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 3.40%	**Current Discount Rate** 4.40%	**1% Increase** 5.40%
Total OPEB Liability	$ 1,155,107,691	$ 991,968,242	$ 861,847,958

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, 2022, 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):	4.40% 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 – 1.10%

MMRP – 2.25%

SPRS – 2.50%

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 – 0.4%

MMRP – 0.5%

SPRS – 0.5%

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, 2022.

Expense		Total
Service Cost	$	30,825,647
Interest on the Total OPEB Liability		30,422,819
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		(88,022,776)
Recognition of Outflow (Inflow) of Resources due to Assets		0
Total OPEB Expense	$	(26,774,310)

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
2023	$	(74,229,616)
2024		(64,235,262)
2025		(70,475,393)
2026		(78,013,976)
2027		(64,448,485)
Thereafter		–
Total	$	(351,402,732)