

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, 2023



Prepared by
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Doug A. Ringler, CPA, CIA
Auditor General

Independent Auditor's Report

Jase Bolger, Chair
and
John Gnodtke, State Personnel Director
Michigan Civil Service Commission
Capitol Commons Center
Lansing, Michigan
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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, 2023 and the related notes. We have also audited the total for all entities of the columns titled September 30, 2023 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, 2023 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, 2023 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, 2023 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.



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Michelle Lange, Director

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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 with 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
Auditor General
September 25, 2024

**State of Michigan Postemployment Life Insurance Benefit
Schedule Of Employer Allocations
As Of And For The Fiscal Year Ended September 30, 2023**

Employer Name	Total Actual Employer Contributions	Proportionate Share
GOVERNMENTAL ACTIVITIES		
State of Michigan	\$ 32,913,251	0.9258250797
State Building Authority	2,740	0.0000770711
BUSINESS TYPE ACTIVITIES		
Information Technology Fund	1,550,864	0.0436246413
State Lottery Fund	156,256	0.0043953687
Liquor Purchase Revolving Fund	82,036	0.0023076202
Office Services Revolving Fund	77,689	0.0021853381
Correctional Industries Revolving Fund	29,371	0.0008261820
Motor Transport Fund	23,870	0.0006714528
Risk Management Fund	6,139	0.0001726821
COMPONENT UNITS		
Michigan Veterans' Facility Authority	249,580	0.0070204966
Michigan State Housing Development Authority	263,774	0.0074197652
Michigan Strategic Fund	25,299	0.0007116354
Michigan Economic Development Corporation	67,522	0.0018993520
Michigan Finance Authority	29,344	0.0008254253
Mackinac Bridge Authority	46,070	0.0012959058
Mackinac Island State Park Commission	5,019	0.0001411686
Michigan Education Trust	13,828	0.0003889623
State Land Bank Authority	7,531	0.0002118529
Total	\$ 35,550,183	1.0000000001

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, 2023
Page 1 of 2

Employer Name	Deferred Outflows of Resources					
	September 30, 2023	Differences			Changes in	
		Total Other Postemployment Benefit Liability	Between Expected and Actual Experience	Changes of Assumptions	Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Outflows of Resources
GOVERNMENTAL ACTIVITIES						
State of Michigan	\$ 894,219,982	\$ -	\$ 63,592,690	\$ 807,272	\$ 64,399,962	
State Building Authority	74,440	-	5,294	19,833	25,127	
BUSINESS TYPE ACTIVITIES						
Information Technology Fund	42,135,417	-	2,996,471	368,295	3,364,766	
State Lottery Fund	4,245,323	-	301,907	282,267	584,174	
Office Services Revolving Fund	2,110,737	-	150,106	101,996	252,102	
Liquor Purchase Revolving Fund	2,228,844	-	158,505	353,985	512,490	
Correctional Industries Revolving Fund	797,978	-	56,748	20,365	77,113	
Motor Transport Fund	648,531	-	46,120	28,578	74,698	
Risk Management Fund	166,787	-	11,861	37,334	49,195	
COMPONENT UNITS						
Michigan Veterans' Facility Authority	6,780,836	-	482,221	5,006,492	5,488,713	
Michigan State Housing Development Authority	7,166,475	-	509,646	1,613,396	2,123,042	
Michigan Economic Development Corporation	1,834,513	-	130,462	284,105	414,567	
Mackinac Bridge Authority	1,251,667	-	89,013	19,067	108,080	
Michigan Finance Authority	797,248	-	56,696	26,220	82,916	
Michigan Strategic Fund	687,342	-	48,881	158,734	207,615	
Michigan Education Trust	375,684	-	26,717	39,653	66,370	
Mackinac Island State Park Commission	136,349	-	9,697	39,865	49,562	
State Land Bank Authority	204,621	-	14,552	45,301	59,853	
TOTAL	\$ 965,862,774	\$ -	\$ 68,687,587	\$ 9,252,758	\$ 77,940,345	

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, 2023
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Differences Between Expected and Actual Experience	Deferred Inflows of Resources			OPEB Expense			
	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	
\$ 71,797,865 5,977	\$ 286,623,406 23,860	\$ 5,805,122 13,366	\$ 364,226,393 43,203	\$ (21,764,724) (1,812)	\$ (1,192,143) (2,483)	\$ (22,956,867) (4,295)	
3,383,097 340,861 169,473 178,956 64,071 52,071 13,392	13,505,622 1,360,749 676,552 714,409 255,775 207,873 53,460	1,349,936 125,669 — 132,713 123,565 89,897 15,910	18,238,655 1,827,279 846,025 1,026,078 443,411 349,841 82,762	(1,025,548) (103,328) (51,374) (54,249) (19,422) (15,785) (4,059)	(482,445) 51,769 (35,494) 786 (49,075) (4,801) 19,984	(1,507,993) (51,559) (86,868) (53,463) (68,497) (20,586) 15,925	
544,440 575,404 147,295 100,498 64,012 55,187 30,164 10,948 16,429	2,173,454 2,297,063 588,015 401,196 255,541 220,313 120,418 43,704 65,587	— 220,585 138,292 95,558 455,754 491,255 23,500 80,115 91,527	2,717,894 3,093,052 873,602 597,252 775,307 766,755 174,082 134,767 173,543	(165,041) (174,427) (44,651) (30,465) (19,404) (16,729) (9,144) (3,319) (4,980)	1,665,222 193,732 (46,329) (15,734) (96,705) (9,821) 11,043 (27,002) 19,489	1,500,181 19,305 (90,980) (46,199) (116,109) (26,550) 1,899 (30,321) 14,509	
\$ 77,550,140	\$ 309,586,997	\$ 9,252,764	\$ 396,389,901	\$ (23,508,461)	\$ (7)	\$ (23,508,468)	

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 2023 was \$.32 (\$.28 prior to January 1, 2023) 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, 2023 (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, 2022	\$ 991,968,242
Total OPEB Liability as of September 30, 2023	\$ 965,862,777
Total Covered Employee Payroll	\$ 3,537,744,022
Total Liability as a Percentage of Covered Employee Payroll	27.30%

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

Discount Rate

A discount rate of 4.63% was used to measure the ending total OPEB liability for Postemployment Life Insurance Benefits as of September 30, 2023. 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, 2022, was 4.40%.

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 3.63%	Current Discount Rate 4.63%	1% Increase 5.63%
Total OPEB Liability	\$ 1,116,509,568	\$ 965,862,777	\$ 844,670,228

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, 2023, measurement date is based on an actuarial valuation performed as of September 30, 2023.

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, 2023

Actuarial Cost Method: Individual Entry-Age

Wage Inflation Rate: 2.75%

Investment Rate of Return (discount rate): 4.63% 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 – 1.00%

MMRP – 1.50%

SPRS – 2.25%

SERS – 1.00%

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 the retired member with postemployment life insurance was matched to the 2023 pension data and a spouse reported on the file, the spouse postemployment life insurance was valued. In cases where no spouse was reported, no postemployment life insurance was valued.

Child Benefits for Current Retirees: In cases where a retiree was reported with a dependent child under age 23, an average postemployment life insurance liability per child was calculated. The average liability was multiplied by the number of records with a dependent child to determine total liability.

Child Benefits for Future Retirees: Based on the average age of employees with dependent children, no loads were applied to active member liabilities to account for potential postemployment life insurance benefits for children of future retirees.

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.

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, 2023.

Expense	Total
Service Cost	\$ 15,892,283
Interest on the Total OPEB Liability	43,214,129
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	(82,614,874)
Recognition of Outflow (Inflow) of Resources due to Assets	0
Total OPEB Expense	\$ (23,508,462)

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
2024	\$ (72,620,520)
2025	(78,860,651)
2026	(86,399,234)
2027	(72,833,743)
2028	(7,735,404)
Thereafter	—
Total	\$ (318,449,552)