



State Retiree Health Insurance Reporting for the State of Wisconsin

June 30, 2018

Background

The State Retiree Health Insurance program, which is one of the other postemployment benefit (OPEB) programs offered by the State of Wisconsin to eligible retirees, is administered by the Department of Employee Trust Funds. OPEB refers to the benefits, other than pensions, that a state or local government employee may receive after they have left employment, generally upon retirement. The State Retiree Health Insurance program offers retirees who are not yet eligible for Medicare the option to participate in the State's Group Health Insurance program. Premiums are established and collected based on the current needs of the program, and assets are not accumulated to pay future benefits.

The Department of Administration (DOA) is responsible for preparing financial statements of the State of Wisconsin, including calculating the total OPEB liability for the State Retiree Health Insurance Program. To assist state agencies, such as the University of Wisconsin (UW) System, and various authorities, including the UW Hospitals and Clinics Authority, in preparing their own financial statements following generally accepted accounting principles, DOA prepared employer schedules and notes for the program.

Audit Results and Key Findings

We audited the employer schedules and related notes, issued our unmodified auditor's opinions, and reviewed internal controls in accordance with applicable government auditing standards. An unmodified opinion indicates the auditor has concluded that the schedules provide a fair view of the allocations and total amounts related to the benefit program. Our audit report also includes the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters.

We found:

- An OPEB liability exists because the State implicitly subsidizes the premiums paid by participating retirees by offering these individuals access to health insurance coverage at a lower rate that they might otherwise pay based upon their age.
- DOA calculated a [total OPEB liability](#) of \$539.7 million for the State Retiree Health Insurance program as of June 30, 2018. As of June 30, 2017, the total OPEB liability was \$719.3 million.
- The decrease in the total OPEB liability is attributed primarily to a [change in the participation rate assumption](#), which measures how many retirees are expected to continue health insurance coverage after retirement, and when retirees may discontinue coverage.

Recommendation

We [recommend](#) DOA work with the actuary for the program to establish a timeline for conducting future studies to ensure the participation rate assumption used in the calculation of the total OPEB liability is supported by actual experience. In addition, we [recommend](#) DOA implement review procedures to ensure data provided to the actuary and used to calculate the total OPEB liability for the State Retiree Health Insurance program is complete and accurate.