

State of Mississippi
State and School Employees' Life and Health
Insurance Plan (OPEB Plan)

Independent Auditor's Report and Financial Statements

June 30, 2020

State of Mississippi
State and School Employees' Life and Health
Insurance Plan (OPEB Plan)

June 30, 2020

Contents

Independent Auditor's Report..... 1

Financial Statements

Statement of Fiduciary Net Position..... 3

Statement of Changes in Fiduciary Net Position..... 4

Notes to Financial Statements 5

Required Supplementary Information

Schedule of Changes in the Employers' Net OPEB Liability 11

Schedule of the Employers' Net OPEB Liability 12

Note to Schedules of Changes in the Employers' Net OPEB Liability and the Employers'
Net OPEB Liability 13

Schedule of Investment Returns 14

Schedule of Employers' Contributions..... 15

Note to Schedule of Employers' Contributions..... 16

Independent Auditor's Report

Members of the State of Mississippi State and School
Employees' Health Insurance Management Board
State of Mississippi, State and School Employees'
Life and Health Insurance Plan
Jackson, Mississippi

We have audited the accompanying financial statements of the State of Mississippi, State and School Employees' Life and Health Insurance Plan (OPEB Plan), an other employee benefit trust fund of the State of Mississippi, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the OPEB Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amount and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, 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 financial statements 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the State of Mississippi, State and School Employees' Life and Health Insurance Plan (OPEB Plan) as of June 30, 2020 and the changes in its fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 1*, the financial statements present only the State of Mississippi, State and School Employees' Life and Health Insurance Plan (OPEB Plan) and do not purport to, and do not, present fairly the financial position of the State of Mississippi as of June 30, 2020, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the other postemployment benefits information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BKD, LLP

Jackson, Mississippi
December 4, 2020

State of Mississippi
State and School Employees' Life and Health
Insurance Plan (OPEB Plan)
Statement of Fiduciary Net Position
June 30, 2020

Assets

Cash and deposits	
Equity in the State's internal investment pool	\$ 1,037,371
Total assets	<u>1,037,371</u>

Liabilities

-

Net Position Restricted for Postemployment Benefits
Other than Pensions

\$ 1,037,371

State of Mississippi
State and School Employees' Life and Health
Insurance Plan (OPEB Plan)
Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2020

Additions	
Employer contributions	
Benefits paid by employers not reimbursed to the employers using OPEB plan assets	\$ 31,035,000
Interest income	<u>19,467</u>
Total additions	<u>31,054,467</u>
Deductions	
Benefit payments	<u>31,035,000</u>
Total deductions	<u>31,035,000</u>
Net Increase in Net Position	19,467
Net Position Restricted for Postemployment Benefits Other than Pensions, Beginning of Year	<u>1,017,904</u>
Net Position Restricted for Postemployment Benefits Other than Pensions, End of Year	<u><u>\$ 1,037,371</u></u>

State of Mississippi
State and School Employees' Life and Health
Insurance Plan (OPEB Plan)
Notes to Financial Statements
June 30, 2020

Note 1: Summary of Significant Accounting Policies

Reporting Entity and Basis of Presentation

On June 28, 2018, the State of Mississippi (the State) and the State and School Employees' Health Insurance Management Board (the Board) established the State and School Employees' Life and Health Insurance Plan (OPEB Plan), an irrevocable trust designed to hold and manage the assets and income of the State and School Employees' Life and Health Insurance Plan's other postemployment benefits (OPEB) for the exclusive benefit of the State to provide OPEB to plan participants. The trust was funded by a \$1,000,000 transfer from the State.

The OPEB Plan financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

The financial statements present only the State of Mississippi OPEB Plan and do not purport to, and do not, present fairly the financial position of the State as of June 30, 2020, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with U.S. GAAP.

Basis of Accounting

The OPEB Plan accounts for and reports its activities by applying the Standards of Governmental Accounting and Financial Reporting, as promulgated by the Governmental Accounting Standards Board (GASB).

The OPEB Plan financial statements have been prepared using the accrual basis of accounting in accordance with GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. That statement, among other things, establishes financial reporting standards for state and local governmental OPEB plans-defined benefit OPEB plans and defined contribution OPEB plans – that are administered through trusts or equivalent arrangements meeting the criteria of paragraph 3 of GASB 74.

The State's OPEB trust meets the criteria of paragraph 3 of GASB 74 as a trust administering a defined benefit OPEB plan, the State and School Employees' Life and Health Insurance Plan's OPEB Plan, as described in *Note 2*.

Thus, the financial statements of the trust represent those of the OPEB Plan.

Investments

Equity in the State's internal investment pool is carried at fair value as determined by the State.

Benefit Payments

Benefit payments are recorded when the OPEB benefits come due.

State of Mississippi
State and School Employees' Life and Health
Insurance Plan (OPEB Plan)
Notes to Financial Statements
June 30, 2020

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

Note 2: Description of Plan

Plan Administration

The State administers the OPEB Plan, a cost-sharing multiple-employer defined benefit OPEB plan, for units of state government, political subdivisions, community colleges and school districts. Plan assets may be used to pay the benefits of the employees and retirees of any employer that participates in the OPEB Plan.

The State and School Employees' Life and Health Insurance Plan, which includes OPEB benefits and is amended annually by the Board, is authorized by Section 25-15-3 et seq., Mississippi Code Ann. (1972). The Board administers the OPEB Plan. The OPEB Plan is maintained solely for the benefit of eligible employees, dependents and retirees.

The 14-member board, which administers the OPEB Plan, is comprised of the Chairman of the Workers' Compensation Commission; the State Personnel Director; the Commissioner of Insurance; the Commissioner of Higher Education; the State Superintendent of Public Education; the Executive Director of the Department of Finance and Administration; the Executive Director of the Mississippi Community College Board; the Executive Director of the Public Employees' Retirement System; two appointees of the Governor; the Chairman of the Senate Insurance Committee, or his designee; the Chairman of the House of Representatives' Insurance Committee, or his designee; the Chairman of the Senate Appropriations Committee, or his designee; and the Chairman of the House of Representatives' Appropriations Committee, or his designee. The Board has a fiduciary responsibility to manage the funds of the OPEB Plan. The OPEB Plan maintains a budget approved by the Board.

Benefits Provided and Contributions

Per Section 12-15-15 (10) Mississippi Code Ann. (1972), a retired employee electing to purchase retiree life and health insurance will have the full cost of such insurance premium deducted monthly from his state retirement plan check or direct billed for the cost of the premium if the retirement check is insufficient to pay for the premium. If the Board determines actuarially that the premium paid by the participating retirees adversely affects the overall cost of the OPEB Plan to the State, then the Board may impose a premium surcharge, not to exceed 15%, upon such participating retired employees who are under the age for Medicare eligibility and who are initially employed before January 1, 2006. For participating retired employees who are under the age for

State of Mississippi
State and School Employees' Life and Health
Insurance Plan (OPEB Plan)
Notes to Financial Statements
June 30, 2020

Medicare eligibility and who are initially employed on or after January 1, 2006, the Board may impose a premium surcharge in an amount the Board determines actuarially to cover the full cost of insurance. The Board imposes a surcharge by charging Horizon retirees higher premiums than Legacy retirees.

Employees' premiums are funded primarily by their employers. Retirees must pay their own premiums, as do active employees for spouse and dependent medical coverage. The Board has the sole authority for setting life and health insurance premiums for the OPEB Plan. Because the trust assets represent only 3% of benefits paid during 2020, assets in the trust were not used to make benefit payments. Instead, the implicit rate subsidy OPEB benefits were paid by the participating employers.

Pursuant to the authority granted by Mississippi Statute, the Board has the authority to establish and change premium rates for the participants, employers and other contributing entities. An outside consulting actuary advises the Board regarding changes in premium rates. If premium rates are changed, they generally become effective at the beginning of the next calendar year or next fiscal year.

Plan participants are not subject to supplemental assessment in the event of a premium deficiency. At the time of premium payment, the risk of loss due to incurred benefit costs is transferred from the participant to the OPEB Plan. If the assets of the OPEB Plan were to be exhausted, participants would not be responsible for the OPEB Plan's liabilities.

At June 30, 2020, there were 320 employers participating in the Plan.

Membership of the OPEB Plan consisted of the following at June 30, 2020:

Inactive plan members and surviving spouses currently receiving retiree health benefits	25,224
Inactive plan members receiving life insurance only	7,278
Active plan members	<u>109,032</u>
	<u><u>141,534</u></u>

Note 3: Cash and Cash Equivalents

Cash and cash equivalents include equity in the State's internal investment pool. Custodial credit risk for deposits is the risk that in the event of a bank failure, the Plan's deposits may not be returned or the OPEB Plan may not be able to recover collateral securities in the possession of an outside party. None of the OPEB Plan's cash and cash equivalents is exposed to custodial credit risk.

The OPEB Plan is authorized by the Board and state statute to invest in demand deposits and interest-bearing time deposits such as savings accounts, certificates of deposit, money market

State of Mississippi
State and School Employees' Life and Health
Insurance Plan (OPEB Plan)
Notes to Financial Statements
June 30, 2020

funds, U.S. Treasury bills and notes, and repurchase agreements. Investment policy for the OPEB Plan is governed by State statute [Section 27-105-33, Mississippi Code Ann. (1972)].

Equity in the State's Internal Investment Pool

Equity in the State's internal investment pool is cash equity with the Office of the State Treasurer of the State of Mississippi (the State Treasurer) and consists of pooled demand deposits and investments recorded at fair value. The State Treasurer is authorized to invest all excess treasury funds of the State under Section 27-105-33, Mississippi Code Ann. (1972). Amounts on deposit with the State Treasurer are maintained in a pooled account, which is required by Mississippi statutes to be insured or collateralized. The amount of collateral securities required to be pledged to secure public deposits is established by rules and regulations promulgated by the State Treasurer.

In accordance with the State Treasurer's policies, the market value of collateral securities to be pledged by financial institutions through the State Treasurer's Office must be 105% of the carrying value of the amount on deposit, less any federal insurance coverage.

As of June 30, 2020, 100% of the Fund's investments are invested in the State's internal investment pool.

The annual money-weighted rate of return on investments, net of investment expense, for the year ended June 30, 2020 is 3.34%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for changing amounts actually invested.

Note 4: Net OPEB Liability of the Employers

The components of the net OPEB liability of the participating employers at June 30, 2020, were as follows:

Total OPEB liability	\$ 779,245,000
Plan fiduciary net position	<u>(1,037,000)</u>
Employers' net OPEB liability	<u><u>\$ 778,208,000</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u><u>0.13%</u></u>

State of Mississippi
State and School Employees' Life and Health
Insurance Plan (OPEB Plan)
Notes to Financial Statements
June 30, 2020

Note 5: Actuarial Assumptions and Methods

The total OPEB liability was determined by an actual valuation as of June 30, 2020, using the following actuarial assumptions applied to all periods included in the measurement, unless otherwise specified.

Actuarial valuation date (date that total OPEB liability determined)	June 30, 2020
Measurement date	June 30, 2020
Experience study date	April 2, 2019
Actuarial assumptions	
Actuarial cost method	Entry Age Normal
Inflation rate	2.75%
Salary increases, including wage inflation	3.00% - 18.25%
Long-term expected rate of return	4.50%
Municipal Bond index rate	
Measurement date	2.19%
Prior measurement date	3.50%
Year fiduciary net position is to be depleted	2020
Projected cash flows	NA
Discount rate	
Measurement date	2.19%
Prior measurement date	3.50%
Health care cost trend rates	7.00% decreasing to 4.50% by 2030

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision, as actual results are compared to past expectations and new estimates are made about the future.

Discount Rate

The discount rates of 2.19% and 3.50% used to measure the total OPEB liability at June 30, 2020 and 2019, respectively, were based on an average of the Bond Buyer General Obligation 20-year Municipal Bond Index Rates during the month of June published at the end of each week by the Bond Buyer.

State of Mississippi
State and School Employees' Life and Health
Insurance Plan (OPEB Plan)
Notes to Financial Statements
June 30, 2020

Long-Term Expected Rate of Return

The long-term investment rate of return, net of OPEB Plan investment expense, including inflation, was 4.50%.

Mortality

Mortality rates were based on the PubS H-2010(B) Retiree Table with the following adjustments – For males, 112% of male rates range from ages 18 to 75 scaled down to 105% for ages 80 to 119. For females, 85% of the female rates from ages 18 to 65 scaled up to 102% for ages 75 to 119. Mortality rates will be projected generationally using the MP-2018 projection scale to account for future improvements in life expectancy.

Sensitivity

The following presents the net OPEB liability calculated using (1) health care cost trend rates that are one-percentage-point higher than the assumed health care cost trend rates and (2) health care cost trend rates that are one-percentage-point lower than the assumed health care cost trend rates and using (1) a discount rate that is one-percentage-point higher than the current rate and (2) a discount rate that is one-percentage-point lower than the current rate.

Health Care Cost Trend Rates Sensitivity

	1% Decrease	Current	1% Increase
Net OPEB liability (\$ thousands)	\$ 718,556	\$ 778,208	\$ 845,791

Discount Rate Sensitivity

	1% Decrease	Current	1% Increase
	1.19%	Discount Rate	3.19%
		2.19%	
Net OPEB liability (\$ thousands)	\$ 859,973	\$ 778,208	\$ 708,076

Required Supplementary Information

State of Mississippi
State and School Employees' Life and Health
Insurance Plan (OPEB Plan)
Schedule of Changes in the Employers' Net OPEB Liability
(\$ Thousands)
Years Ended June 30

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB Liability				
Service cost	\$ 20,146	\$ 18,966	\$ 20,467	\$ 21,841
Interest	29,196	29,475	27,337	24,112
Changes of benefit terms	(21,116)	-	-	-
Differences between expected and actual experience	(150,639)	(14,395)	1,867	-
Changes of assumptions	83,134	74,975	(26,281)	(46,961)
Benefit payments	<u>(31,035)</u>	<u>(34,012)</u>	<u>(33,449)</u>	<u>(30,872)</u>
Net Change in Total OPEB Liability	(70,314)	75,009	(10,059)	(31,880)
Total OPEB Liability, Beginning of Year	<u>849,559</u>	<u>774,550</u>	<u>784,609</u>	<u>816,489</u>
Total OPEB Liability, End of Year	<u>\$ 779,245</u>	<u>\$ 849,559</u>	<u>\$ 774,550</u>	<u>\$ 784,609</u>
Plan Fiduciary Net Position				
Employer contributions				
Benefits paid by employers not reimbursed to the employers using OPEB Plan assets	\$ 31,035	\$ 34,012	\$ 34,449	\$ 30,872
Transfer from the State of Mississippi	-	-	-	-
	<u>31,035</u>	<u>34,012</u>	<u>34,449</u>	<u>30,872</u>
Net investment income	19	18	-	-
Benefit payments	<u>(31,035)</u>	<u>(34,012)</u>	<u>(33,449)</u>	<u>(30,872)</u>
Net Change in Plan Fiduciary Net Position	19	18	1,000	-
Plan Fiduciary Net Position, Beginning of Year	<u>1,018</u>	<u>1,000</u>	<u>-</u>	<u>-</u>
Plan Fiduciary Net Position, End of Year	<u>\$ 1,037</u>	<u>\$ 1,018</u>	<u>\$ 1,000</u>	<u>\$ -</u>
Employers' Net OPEB Liability, End of Year	<u>\$ 778,208</u>	<u>\$ 848,541</u>	<u>\$ 773,550</u>	<u>\$ 784,609</u>

State of Mississippi
State and School Employees' Life and Health
Insurance Plan (OPEB Plan)
Schedule of the Employers' Net OPEB Liability
(\$ Thousands)
Years Ended June 30

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB Liability	\$ 779,245	\$ 849,559	\$ 774,550	\$ 784,609
OPEB Plan Fiduciary Net Position	<u>1,037</u>	<u>1,018</u>	<u>1,000</u>	<u>-</u>
Net OPEB Liability	<u>\$ 778,208</u>	<u>\$ 848,541</u>	<u>\$ 773,550</u>	<u>\$ 784,609</u>
OPEB Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.13%	0.12%	0.13%	0.00%
Covered - Employee Payroll	\$ 4,819,356	\$ 4,579,426	\$ 4,552,932	\$ 4,492,725
Net OPEB Liability as a Percentage of Covered Employee Payroll	16.15%	18.53%	16.99%	17.46%

State of Mississippi
State and School Employees' Life and Health
Insurance Plan (OPEB Plan)
Note to Schedules of Changes in the Employers' Net OPEB Liability
and the Employers' Net OPEB Liability
Year Ended June 30, 2020

Note 1: General Information

The schedules are intended to show a 10-year trend. Additional years will be reported as they become available.

Changes to benefit terms:

2020 – The schedule of monthly retiree contributions was increased as of January 1, 2021. The deductibles and coinsurance maximums were increased for the Select coverage, and the coinsurance maximums were increased for the Base coverage beginning January 1, 2021.

Changes in actuarial assumptions and methods:

2020 – The discount rate was changed from 3.50% for the prior measurement date to 2.19% for the current measurement date.

2019 – The discount rate was changed from 3.89% for the prior measurement date to 3.50% for the current measurement date. In addition, the following changes were made in the actuarial assumptions due to the PERS experience study for the four-year period ended June 30, 2018.

The expectation of retired life mortality was changed to the PubS.H-2010(B) Retiree Table with the following adjustments:

For males, 112% of male rates from ages 18 to 75 scaled down to 105% for ages 80 to 119.

For females, 85% of the female rates from ages 18 to 65 scaled up to 102% for ages 75 to 119.

Projection scale MP-2018 will be used to project future improvements in life expectancy generationally.

The expectation of disabled mortality was changed to the PubT.H-2010 Disabled Retiree Table for disabled retirees with the following adjustments:

For males, 137% of male rates at all ages.

For females, 115% of female rates at all ages.

Projection scale MP-2018 will be used to project future improvements in life expectancy generationally.

The price inflation assumption was reduced from 3.00% to 2.75%. The wage inflation assumption was reduced from 3.25% to 3.00%. Withdrawal rates, pre-retirement mortality rates, and service retirement rates were also adjusted more closely to reflect actual experience.

State of Mississippi
State and School Employees' Life and Health
Insurance Plan (OPEB Plan)
Schedule of Investment Returns
Years Ended June 30

	2020	2019	2018	2017
Annual money-weighted rate of return, net of investment expense	3.34%	1.79%	0.00%	0.00%

State of Mississippi
State and School Employees' Life and Health Insurance Plan (OPEB Plan)
Schedule of Employers' Contributions
(\$ Thousands)
Years Ended June 30

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Actuarially Determined Employer Contribution	\$ 49,780	\$ 46,417	\$ 47,070	\$ 43,673	\$ 47,297	\$ 48,308	\$ 43,939	\$ 44,906	\$ 46,131	\$ 51,735
Contributions in Relation to the Actuarially Determined Contribution	31,035	34,012	34,449	30,872	32,270	32,245	30,503	29,490	20,570	18,365
Annual Contribution Deficiency	\$ 18,745	\$ 12,405	\$ 12,621	\$ 12,801	\$ 15,027	\$ 16,063	\$ 13,436	\$ 15,416	\$ 25,561	\$ 33,370
Covered Payroll	\$ 4,819,356	\$ 4,579,426	\$ 4,522,932	\$ 4,492,725	\$ 4,552,979	\$ 4,617,302	\$ 4,406,047	\$ 4,425,943	\$ 4,312,956	\$ 4,238,716
Actual Contributions as a Percentage of Covered Payroll	0.64%	0.74%	0.76%	0.69%	0.71%	0.70%	0.69%	0.67%	0.48%	0.43%

State of Mississippi
State and School Employees' Life and Health
Insurance Plan (OPEB Plan)

Note to Schedule of Employers' Contributions
Year Ended June 30, 2020

Note 1: Methods and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates, as a percentage of payroll, used to determine the actuarially determined contribution amounts in the schedules of employers' contributions are calculated as of the most recent valuation date. The following actuarial methods and assumptions (from the June 30, 2019 actuarial valuation) were used to determine contribution rates reported in that schedule for the year ended June 30, 2020:

Actuarial cost method	Entry age
Amortization method	Level dollar
Amortization period	30 years, open
Asset valuation method	Market value of assets
Price inflation	2.75%
Salary increases, including wage inflation	3.00% to 18.25%
Initial health care cost trend rates	
Medicare Supplement Claims – Pre-Medicare	7.00%
Ultimate health care cost trend rates	
Medicare Supplement Claims – Pre-Medicare	4.75%
Year of ultimate trend rates	
Medicare Supplement Claims – Pre-Medicare	2028
Long-term investment rate of return, net of pension plan investment expense, including price inflation	3.50%