Jason E. Mumpower
Comptroller

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State of Tennessee Postemployment Benefits Trust

June 21, 2023, at 9:00 a.m.

Financial and Compliance Audit Report

State of Tennessee Postemployment Benefits Trust

For the Year Ended June 30, 2022

Jason E. Mumpower
Comptroller of the Treasury

Division of State Audit

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TENNESSEE COMPTROLLER OF THE TREASURY

Jason E. Mumpower
Comptroller

June 21, 2023

The Honorable Bill Lee, Governor
Members of the General Assembly
Members of the Board of Trustees of the
Postemployment Benefits Trust

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the State of Tennessee Postemployment Benefits Trust for the year ended June 30, 2022. You will note from the independent auditor's report that an unmodified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit

23/044

Audit Report
State of Tennessee Postemployment Benefits Trust
For the Year Ended June 30, 2022

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STATE OF TENNESSEE
POSTEMPLOYMENT BENEFITS TRUST

AUDIT HIGHLIGHTS

Opinions on the Financial Statements

The opinion on the financial statements is unmodified.

Audit Findings

The audit report contains no findings.

Prior Audit Findings

There were no findings in the prior audit report.

Jason E. Mumpower
Comptroller

Independent Auditor's Report

The Honorable Bill Lee, Governor
Members of the General Assembly
Members of the Board of Trustees of the
Postemployment Benefits Trust

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the State of Tennessee Postemployment Benefits Trust, a component unit of the State of Tennessee, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the trust's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the State of Tennessee Postemployment Benefits Trust as of June 30, 2022, and the changes in fiduciary net position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the trust 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 opinion.

Cordell Hull Building | 425 Rep. John Lewis Way N. | Nashville, Tennessee 37243

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the trust's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

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 and *Government Auditing Standards* 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 financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, 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 financial statements.
- 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 trust'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 financial statements.

- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the trust's ability to continue as a going concern for a reasonable period of time.

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.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the State of Tennessee Postemployment Benefits Trust, a component unit, and do not purport to, and do not, present fairly the financial position of the State of Tennessee, as of June 30, 2022, and the changes in financial position and cash flows thereof 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 10, the schedule of changes in the plan's net OPEB liability and related ratios on page 22, the schedule of contributions on page 23, and the schedule of investment returns on page 24 be presented to supplement the basic financial statements. Such information is the responsibility of management, and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2022, on our consideration of the trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the trust's internal control over financial reporting and compliance.

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
June 5, 2023

STATE OF TENNESSEE POSTEMPLOYMENT BENEFITS TRUST
Management's Discussion and Analysis

Our management's discussion and analysis (MD&A) of the State of Tennessee Postemployment Benefits Trust's (OPEB Trust) financial performance provides an overview of the OPEB Trust's financial activities for the year ended June 30, 2022. Please read it as a narrative introduction to the financial statements and notes that follow and read in conjunction with the independent auditor's report. The MD&A includes a description of the basic financial statements for the plan, condensed financial information along with analyses of balances and financial position, and significant issues affecting financial position.

Background

Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, prescribes uniform financial reporting standards for other postemployment benefits (OPEB) plans of all state and local governments. OPEB refers to postemployment benefits other than pension benefits and includes postemployment healthcare benefits which are covered under the state's OPEB plan.

During fiscal year 2019, the state established the irrevocable OPEB Trust in accordance with Title 8, Chapter 27, Section 802, *Tennessee Code Annotated*. The trust was established for the sole purpose of providing for the advance funding of OPEB benefits accrued by employees of the state or authorized employees of local education agencies, as determined by the trustees of the OPEB Trust. Currently, the OPEB Trust is limited to the accrued OPEB benefits for eligible pre-65 retired employees of the state and certain component unit employers participating in the Employee Group OPEB Plan (EGOP). It is intended that the OPEB Trust will constitute a qualified trust according to the standards set forth in GASB Statement No. 74. The OPEB Trust is a fiduciary component unit of the state.

The General Assembly has adopted a plan requiring participating employers to advance fund OPEB costs according to an actuarially determined contribution rate (ADC) that is obtained on an annual basis. Starting in fiscal year 2017, the General Assembly has appropriated the full annual ADC for the plan.

Financial Highlights

The net position of the OPEB Trust at June 30, 2022, was $444.9 million. The net position is restricted and may only be used to meet the state's ongoing obligations to eligible pre-65 retired employees of the primary government and certain component unit employers.

The OPEB Trust's net position decreased by $1.8 million (0.40%) from the net position at June 30, 2021. This decrease is primarily the result of a significant loss in investment value as compared to the prior year. The overall decrease is not considered significant due to employers making contributions to the plan in excess of the ADC rate. These two conditions combined to create a slight increase in the investment balance at June 30, 2022.

Contributions for fiscal year 2022 totaled $142.2 million, representing a decrease of 4% over the fiscal year 2021 total contributions of $148.6 million.

Net investment loss for fiscal year 2022 totaled $70.8 million, representing a decrease of $166.4 million over the fiscal year 2021 net investment income of $95.6 million. During fiscal year 2022, the OPEB Trust received a money-weighted return on investments of negative 14.23%, compared to 29.76% for fiscal year 2021.

Total benefits paid for fiscal year 2022 were $68.9 million, representing a decrease of 9% over fiscal year 2021 total benefits paid of $75.9 million.

Overview of This Annual Report

This annual report consists of four parts: management's discussion and analysis (this section), the OPEB Trust financial statements, the related notes to the financial statements, and required supplementary information. The financial statements consist of a statement of fiduciary net position and a statement of changes in fiduciary net position. The financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB Statement No. 74.

The financial statements are prepared using the economic resources measurement focus and full accrual basis of accounting. With this measurement focus, all assets and liabilities associated with the operation of this fiduciary component unit are included in the statement of fiduciary net position. The statement of changes in fiduciary net position recognizes contributions from employers when they are due, and benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Fiduciary funds are used to report resources held for the benefit of parties outside the government. The assets of the OPEB Trust cannot be used to finance state operations. Instead, the trustees of the OPEB Trust are responsible for using the assets for the intended purposes.

Financial Analysis

The following is an analysis of the statement of fiduciary net position of the OPEB Trust for the fiscal year ended June 30, 2022.

State of Tennessee Postemployment Benefits Trust
Summary of Fiduciary Net Position
(Expressed in Thousands)

	2022	2021	Changes	% Changes
Assets:				
Cash and cash equivalents	$ 31,174	$ 34,652	$ (3,478)	(10.04)%
Receivables	951	826	125	15.13%
Investments, at fair value	417,134	416,557	577	0.14%
Total assets	449,259	452,035	(2,776)	(0.61)%
Liabilities				
Accounts payable and accruals	4,368	5,379	(1,011)	(18.80)%
Total liabilities	4,368	5,379	(1,011)	(18.80)%
Net Position				
Restricted for:				
Other postemployment benefits	444,891	446,656	(1,765)	(0.40)%
Total net position	$ 444,891	$ 446,656	$ (1,765)	(0.40)%

The decrease in the OPEB Trust net position of 0.40% was due to a significant decrease in investment income earned during the fiscal year due to unfavorable market conditions. Despite the significant decrease in investment income, investments increased by 0.14% due to the continued policy of prefunding the trust by making contributions in excess of the established ADC rate. The ADC is calculated to exceed expected annual benefit payments.

The following is an analysis of the statement of changes in fiduciary net position of the OPEB Trust for the fiscal year ended June 30, 2022.

State of Tennessee Postemployment Benefits Trust
Summary of Changes in Fiduciary Net Position
(Expressed in Thousands)

	2022	2021	Changes	% Changes
Additions:				
Employer contributions	$ 142,226	$ 148,609	$ (6,383)	(4.30)%
Investment income (loss)	(70,836)	95,567	(166,403)	(174.12)%
Total additions	71,390	244,176	(172,786)	(70.76)%

Deductions:				
Benefit payments	68,887	75,864	(6,977)	(9.20)%
Administrative expenses	4,268	3,805	463	12.17%
Total deductions	73,155	79,669	(6,514)	(8.18)%
Change in fiduciary net position	(1,765)	164,507	(166,272)	(101.07)%
Net position at beginning of year	446,656	282,149	164,507	
Net position at end of year	$ 444,891	$ 446,656	$ (1,765)	(0.40)%

Additions

Additions to the OPEB Trust consist of employer contributions and earnings from investments of plan assets. Retiree contributions to the trust are not considered additions. Instead, they are treated as liabilities when received and reductions of liabilities when spent. The State Treasurer is responsible for the investment of plan assets.

The decrease in total additions, when compared to fiscal year 2021, is the result of a significant decrease in investment income due to unfavorable market conditions when compared to the prior year.

The decrease in employer contributions is in accordance with the established policy to prefund the OPEB liability. During fiscal year 2022, employers made contributions above the ADC rate calculated to exceed expected benefit payments.

Deductions

Deductions from the OPEB Trust consist of the employer portions of benefits paid for retiree healthcare claims and amounts paid for administrative expenses. The claims payments made from retiree contributions are not considered benefit payments. Administrative expenses are made up of internal and external charges incurred in the payment of retiree claims.

The decrease in benefits payments is not considered significant and is primarily due to the decrease in members during fiscal year 2022. By June 30, 2022, the membership in the EGOP had reduced by 453. This represents a decrease of 4.56%.

Facts, Decisions, or Conditions With Expected Future Impact

The State of Tennessee's fiscal year 2022–2023 budget included a $138.2 million appropriation for the purpose of funding current and future OPEB obligations of the EGOP. This represents the full ADC of $115.7 million calculated for this period as well as additional funding of $22.5 million. In addition, a nonrecurring deposit of $300 million was made to the trust to address the unfunded OPEB liability.

Requests for Information

This financial report is designed to provide a general overview of the OPEB Trust's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Department of Finance and Administration, Division of Accounts, 312 Rosa L. Parks Avenue, Suite 2100, Nashville, TN 37243.

STATE OF TENNESSEE POSTEMPLOYMENT BENEFITS TRUST
Statement of Fiduciary Net Position
June 30, 2022

(Expressed in Thousands)

Assets	
Cash and cash equivalents (Note 2)	$ 31,174
Receivables:	
Accounts	2
Interest and dividends	14
Other	935
Investments, at fair value:	
Mutual funds (Note 1)	417,134
Total assets	449,259
Liabilities	
Accounts payable and accruals	4,368
Total liabilities	4,368
Net position	
Restricted for:	
Other postemployment benefits	444,891
Total net position	$ 444,891

The notes to the financial statements are an integral part of this statement.

STATE OF TENNESSEE POSTEMPLOYMENT BENEFITS TRUST
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2022

(Expressed in Thousands)

Additions	
Contributions:	
Employer contributions	$ 142,226
Total contributions	$ 142,226
Investment income:	
Net decrease in fair value of investments	(81,836)
Interest and dividends	11,000
Net investment loss	(70,836)
Total additions	71,390
Deductions	
Benefit payments	68,887
Administrative expenses	4,268
Total deductions	73,155
Decrease in fiduciary net position	(1,765)
Net position - beginning of the year	446,656
Net position - end of the year	$ 444,891

The notes to the financial statements are an integral part of this statement.

STATE OF TENNESSEE POSTEMPLOYMENT BENEFITS TRUST
Notes to the Financial Statements
June 30, 2022

Note 1. Summary of Significant Accounting Policies

Financial Reporting Entity

The State of Tennessee Postemployment Benefits Trust (OPEB Trust) was established for the purpose of pre-funding OPEB accrued by employees of the state and certain component units that participate in the closed Employee Group OPEB Plan (EGOP). The EGOP is a single-employer defined benefit other postemployment benefit plan that provides for the postemployment healthcare costs of eligible employees of the state, the University of Tennessee, the State University and Community College System, the Tennessee Housing Development Agency, and the Tennessee Student Assistance Corporation. The irrevocable OPEB Trust was created during fiscal year 2019 in accordance with Title 8, Chapter 27, Sections 801-806, *Tennessee Code Annotated.*

In accordance with Section 8-27-802, *Tennessee Code Annotated*, the OPEB Trust may invest in any security or investment in which the Tennessee Consolidated Retirement System (TCRS) is permitted to invest. Section 8-27-803, *Tennessee Code Annotated*, states all assets of the OPEB Trust shall be preserved, invested, and expended solely for the purpose of making payments for postemployment benefits of eligible plan members and for the costs of administering the trust. Although assets of the OPEB Trust may be commingled for investment purposes with other funds held by the State Treasurer, the balance of the OPEB Trust will be accounted for separately and will only be used in accordance with the trust documents.

The OPEB Trust is a fiduciary component unit of the State of Tennessee. Because of the state's fiduciary responsibility, the OPEB Trust has been included as an other employee benefit trust fund in the *Tennessee Annual Comprehensive Financial Report*.

Measurement Focus and Basis of Accounting

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements have been prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Under the accrual method, additions are recorded when earned and deductions are recorded at the time the liability is incurred regardless of the timing of the related cash flows.

Employer contributions are recognized in the period of time for which they are due, in accordance with legal provisions. Benefits represent the portion of EGOP claims that are funded by employer contributions and are recognized when due and payable in accordance with the terms of each plan.

Inactive EGOP member contributions are recognized as a liability when received and as a reduction of liabilities when paid out. Member contributions are considered to be the first funds spent on eligible claims.

Cash and Cash Equivalents

Cash and cash equivalents includes cash and short-term investments with a maturity date within three months of the acquisition date. Cash management pools are included as cash. Cash received that cannot be immediately invested in securities, or that is needed for operations, is invested in either the State Pooled Investment Fund (SPIF) sponsored by the State of Tennessee and administered by the State Treasurer or a short-term, open-end mutual fund under the contractual arrangement for master custody services and has been invested in State Street Government Money Market Fund. The SPIF investments are valued at amortized cost. Investments not in SPIF are stated at fair value.

Methods Used to Value Investments

Investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price. Investment income consists of realized and unrealized appreciation (depreciation) in the fair value of investments, and interest and dividend income. Interest income is recognized when earned. Securities and securities transactions are recorded in the financial statements on a trade-date basis.

The fair value of assets held at June 30, 2022, represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Assets held are categorized for fair value measurement within the fair value hierarchy established by Generally Accepted Accounting Principles (GAAP). The hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

- Level 1: Unadjusted quoted prices for identical assets or liabilities in active markets that can be accessed at the measurement date.
- Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; assets or liabilities that have a bid-ask spread price in an inactive dealer market, brokered market, and principal-to-principal market; and Level 1 assets or liabilities that are adjusted.
- Level 3: Valuations derived from valuation techniques in which significant inputs are unobservable.

Investments where fair value is measured using the Net Asset Value (NAV) per share have no readily determinable fair value and have been determined to be calculated consistent with FASB principles for investment companies.

Where inputs used in the measurement of fair value fall into different levels of the hierarchy, fair value of the instrument in its entirety is categorized based on the lowest level input that is significant to the valuation. This assessment requires professional judgment and as such management developed a fair value committee that worked in conjunction with our custodian and investment professionals to make these valuations. All assets held were valued individually and aggregated into classes to be represented in the table below.

Short-term securities generally include investments in money market-type securities reported at cost plus accrued interest.

Equity and equity derivative securities classified in Level 1 are valued using last reported sales prices quoted in active markets that can be accessed at the measurement date.

Investments Measured at Fair Value
For Fiscal Year Ended June 30, 2022
(Expressed in Thousands)

	GAAP Hierarchy
Investments at fair value level	**Level 1**
Mutual funds	$ 417,134
Total investments at fair value	417,134
Other assets	
Cash and cash equivalents	31,174
Accounts receivables	2
Interest and dividends receivables	14
Other receivables	935
Total assets	$ 449,259

Note 2. Deposits and Investments

In accordance with state statute, the Board of Trustees must cause the amount on deposit in the OPEB Trust to be invested in any instrument or investment vehicle that the board deems reasonable and appropriate to achieve the objectives of the trust. The statutes also require the board to establish an investment policy for the trust fund. The board has authorized assets of the trust fund to be invested in instruments, obligations, securities, or other properties that constitute a legal investment for assets of the Tennessee Consolidated Retirement System (TCRS). State statute authorizes the TCRS to invest in bonds, debentures, preferred stock and common stock, real estate, and in other good and solvent securities subject to the approval of the Board of Trustees. In addition, the assets of the OPEB Trust may be pooled for investment purposes with the assets of the TCRS or any other assets under the custody of the State Treasurer. The authority for investing the assets of the OPEB Trust is vested in its Board of Trustees, and the responsibility for implementing the investment policy established by the board is delegated to the State Treasurer.

The OPEB Trust does not maintain its own bank accounts but utilizes the SPIF for its operating cash needs. The SPIF is authorized by state statute to invest funds in accordance with policy guidelines approved by the Funding Board of the State of Tennessee. The current resolution of that board gives the Treasurer authority to invest in U.S. Direct Obligations, U.S. Agency Securities, U.S. Instrumentality Securities, repurchase or reverse repurchase agreements, collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, and securities lending agreements. Investments in derivative-type securities and investments of high risk are prohibited. The investment policy and required risk disclosures relative to the SPIF are presented in the State Pooled Investment Fund Report. The SPIF annual report can be found at treasury.tn.gov/Investments/Investment-Management/Investments-at-a-Glance.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, OPEB Trust deposits may not be returned to the OPEB Trust. The OPEB Trust does not have an explicit policy with regard to custodial credit risk for deposits. At June 30, 2022, the OPEB Trust had uninsured and uncollateralized cash deposits of $20,494,706 held by the master custodian, State Street Bank, in State Street's name. These deposits were used for investments pending settlement.

Note 3. OPEB Plan

Plan description – Employees of the state and of certain component units, who were hired prior to July 1, 2015, and choose coverage, are provided with pre-65 retiree health insurance benefits through the closed Employee Group OPEB Plan (EGOP) administered by the State of Tennessee through cooperation of the appointed trustees, the Department of Finance and Administration, and the State Treasurer. This plan is considered to be a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions. This plan is closed to the employees of all participating employers that were hired on or after July 1, 2015. The component units participating in the plan are the Tennessee Student Assistance Corporation, the Tennessee Housing Development Agency, the University of Tennessee, and the institutions that make up the State University and Community College System. The OPEB Trust was established in January of 2019 and currently serves the purpose of pre-funding the accrued OPEB liabilities of the EGOP.

Management of the EGOP is vested in the insurance committee established in Section 8-27-201, *Tennessee Code Annotated*. The trustees of the OPEB Trust were established in Section 8-27-201, *Tennessee Code Annotated,* to be the four trustees designated in Section 8-27-205(f), *Tennessee Code Annotated*. These designated individuals include the Commissioner of Finance and Administration; the Chair of the Finance, Ways and Means Committee of the Senate; the Chair of the Finance, Ways and Means Committee of the House of Representatives; and the chair of the consolidated retirement board. The trustees are responsible for the establishment of any trust for the purpose of pre-funding OPEB as well as for the adoption of an investment policy authorizing how assets in the OPEB Trust may be invested. The investment of OPEB Trust assets is administered by the State Treasurer.

Plan membership – At June 30, 2021, the EGOP membership consisted of the following:

Inactive employees currently receiving benefit payments	6,697
Inactive employees entitled to but not yet receiving benefit payments	139
Active employees eligible for benefit payments	39,152
	45,988

Benefits provided – The EGOP is offered to provide health insurance coverage to eligible retired and disabled participants and is the only postemployment benefit provided to eligible pre-65 participants. Benefits are established and amended by the insurance committee. All retirees and disabled employees of the primary government and certain component units, who are eligible and choose coverage, and who have not yet reached the age of 65, are enrolled in this plan. All members have the option of choosing between the premier preferred provider organization (PPO) plan, standard PPO plan, or the wellness health savings consumer-driven health plan (CDHP) for healthcare benefits. Retired plan members receive the same plan benefits as active employees, at a blended premium rate that considers the cost of active and retired employees. This creates an implicit subsidy for the retirees. The retirees' cost is then directly subsidized, by the employers, based on years of service. Therefore, retirees with 30 years of service are subsidized 80%; 20 but less than 30 years, 70%; and less than 20 years, 60%.

Contributions – Annually, the insurance committee establishes the required payments to the plan by plan members through the premiums established that are calculated to approximate claims cost for the year. Pre-age-65 retired members of the EGOP pay a premium based on a blended rate that considers the cost of active and retired employees as well as their individual years of service. These payments are made to the OPEB Trust; however, they are not considered to be contribution additions. Employers currently make contributions to the OPEB Trust based on an actuarially determined contribution (ADC) rate calculated in a manner to meet the funding goals of the state. During the fiscal year ended June 30, 2022, plan employers contributed $142.2 million to the OPEB Trust. The state General Assembly has the authority to change the contribution requirements of the employers participating in the EGOP.

Long-term expected rate of return – The long-term expected rate of return of 6 percent on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Section 8-27-802, *Tennessee Code Annotated*, establishes the responsibility of the trustees to adopt written investment policies authorizing how assets in the OPEB Trust may be invested and reinvested by the State Treasurer. The Treasurer may invest trust assets in any security or investment in which the Tennessee Consolidated Retirement System (TCRS) is permitted to invest, provided that investments by the OPEB Trust will be governed by the investment policies and guidelines adopted by the trustees. Any changes to the investment policy will be the responsibility of the established trustees. The OPEB Trust investment policy target asset allocation and allocation range for each major asset class are summarized in the following table:

	Allocation Range		
Asset Class	Minimum	Maximum	Target Allocation
Equities	25%	80%	53%
Fixed income and short-term securities	20%	50%	25%
Real estate	0%	20%	10%
Private equity and strategic lending	0%	20%	7%
Cash and cash equivalents	0%	25%	5%
			100%

The best estimates of geometric real rates of return for each major asset class included in the target asset allocation as of June 30, 2022, are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
U.S. equity	4.10%
Developed market international equity	4.81%
Emerging market international equity	5.33%
Private equity and strategic lending	3.71%
U.S. fixed income	0.32%
Real estate	2.91%
Cash (government)	(0.22%)

Rate of return – For the year ended June 30, 2022, the annual money-weighted rate of return on investments was negative 14.23%. The money-weighted rate of return expresses investment performance, net of OPEB plan investment expense, adjusted for the changing amounts actually invested.

Net OPEB liability – The components of the net OPEB liability for the EGOP at June 30, 2022, were as follows (expressed in thousands):

	June 30, 2022
Total OPEB liability	$ 1,172,154
Less plan fiduciary net position	(444,891)
Net OPEB liability	$ 727,263
Plan fiduciary net position as a percentage of the total OPEB liability	37.95%

Actuarial assumptions – The total OPEB liability was determined by an actuarial valuation with a valuation date of June 30, 2021, using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified. Standard actuarial techniques were used to roll that liability to the end of the reporting period:

Inflation	2.25%
Investment rate of return	6%
Salary increases	Graded salary ranges from 3.44% to 8.72% based on age, including inflation averaging 4%
Healthcare cost trend rates	7.36% for 2022, decreasing annually to an ultimate rate of 4.5% for 2029 and later years.
Retiree's share of benefit-related costs	Members are required to make monthly contributions in order to maintain their coverage. For the purpose of this valuation, a weighted average has been used with weights derived from the current distribution of members among plans offered.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2021, valuations were the same as those employed in the July 1, 2021, Pension Actuarial Valuation of the Tennessee Consolidated Retirement System (TCRS) for Group 1 employees. These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2016, through June 30, 2020. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. For pre-retirement non-disabled general employees, the mortality rates employed in this valuation are taken from the PUB-2010 Headcount-Weighted Employee mortality table projected generationally with MP-2020 from 2010. Post-retirement tables are Headcount-Weighted Below Median Healthy Annuitant and adjusted with a 6% load for males and a 14% load for females, projected generationally from 2010 with MP-2020. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender-distinct table published in the IRS Ruling 96-7 for disabled lives with a 10% load, projected generationally from 2018 with MP-2020.

Discount rate – The discount rate used to measure the total OPEB liability was 6%. This was the same rate used at the prior measurement date. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and the employer contributions will be made at rates equal to the ADC rates. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on these assumptions, the OPEB Trust's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on OPEB Trust investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of net OPEB liability to changes in the discount rate – The following presents the net OPEB liability of the OPEB Trust, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (5%) or 1 percentage point higher (7%) than the current discount rate (expressed in thousands):

	1% Decrease (5%)	Current Discount Rate (6%)	1% Increase (7%)
Net OPEB liability	$807,897	$727,263	$652,427

Sensitivity of net OPEB liability to changes in the healthcare cost trend rate – The following presents the net OPEB liability of the OPEB Trust, as well as what the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower (6.36% decreasing to 3.5%) or 1 percentage point higher (8.36% decreasing to 5.5%) than the current rate (expressed in thousands):

	1% Decrease (6.36% decreasing to 3.5%)	Healthcare Cost Trend Rates (7.36% decreasing to 4.5%)	1% Increase (8.36% decreasing to 5.5%)
Net OPEB liability	$619,793	$727,263	$851,182

Note 4. Subsequent Event

Subsequent to June 30, 2022, the 112th General Assembly appropriated a one-time additional contribution of $300 million from the State of Tennessee's general fund to the OPEB Trust to address the unfunded liability in the state's Closed Employee Group OPEB Plan.

STATE OF TENNESSEE POSTEMPLOYMENT BENEFITS TRUST
Required Supplementary Information
Schedule of Changes in the Plan's Net OPEB Liability and Related Ratios

(Expressed in Thousands)

	2019	2020	2021	2022
Total OPEB liability				
Service cost	$ 65,979	$ 40,419	$ 40,282	$ 38,849
Interest	50,851	72,620	70,591	69,384
Differences between expected and actual experience	-	(37,425)	(25,926)	(32,751)
Changes of assumptions	(199,731)	(31,242)	(29,109)	16,235
Benefit payments, including refunds of employee contributions	(92,951)	(80,140)	(75,864)	(73,155)
Net changes in total OPEB liability	(175,852)	(35,768)	(20,026)	18,562
Total OPEB liability - beginning	1,385,238	1,209,386	1,173,618	1,153,592
Toal OPEB liability - ending (a)	1,209,386	1,173,618	1,153,592	1,172,154
Plan fiduciary net position				
Contributions - employer	301,486	153,022	148,609	142,226
Net investment income (loss)	5,167	(4,435)	91,762	(70,836)
Benefit payments, including refunds of employee contributions	(92,951)	(80,140)	(75,864)	(73,155)
Net change in plan fiducuary net position	213,702	68,447	164,507	(1,765)
Plan fiduciary net position - beginning	-	213,702	282,149	446,656
Plan fiduciary net position - ending (b)	213,702	282,149	446,656	444,891
Net OPEB liability - ending (a)-(b)	$ 995,684	$ 891,469	$ 706,936	$ 727,263
Plan fiduciary net position as a percentage of total OPEB liability	17.67%	24.04%	38.72%	37.95%

This schedule is intended to display 10 years of information. Additional years will be displayed as they become available.

For 2019, the amount noted for change in assumptions is primarily due to the change in discount rate used to roll the total liability forward from the June 30, 2018, actuarial date to June 30, 2019.

STATE OF TENNESSEE POSTEMPLOYMENT BENEFITS TRUST
Required Supplementary Information
Schedule of Contributions

(Expressed in Thousands)

	2019	2020	2021	2022
Actuarially determined contribution	$ 135,810	$ 145,397	$ 137,075	$ 126,303
Contributions in relation of the actuarially determined contribution	301,486	153,022	148,609	142,226
Contributions deficiency (excess)	$ (165,676)	$ (7,625)	$ (11,534)	$ (15,923)

This schedule is intended to display 10 years of information. Additional years will be displayed as they become available.

Notes to the Schedule of Contributions

Valuation date: Actuarially determined contribution rates are calculated based on valuations as of June 30, two years prior to the fiscal year in which the ADC is calculated.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	15 years
Asset valuation	Market value on measurement date
Inflation	2.25%
Salary increases	Graded salary ranges from 3.44% to 8.72% based on age, including inflation averaging 4%
Investment rate of return	6%
Retirement age	Pattern of retirement determined by experience study
Mortality	For pre-retirement non-disabled general employees, the mortality rates employed in this valuation are taken from the PUB-2010 Headcount-Weighted Employee mortality table projected generationally with MP-2020 from 2010. Post-retirement tables are Headcount-Weighted Below Median Healthy Annuitant and adjusted with a 6% load for males and a 14% load for females, projected generationally from 2010 with MP-2020. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender distinct table published in the IRS Ruling 96-7 for disabled lives with a 10% load, projected generationally from 2018 with MP-2020.

STATE OF TENNESSEE POSTEMPLOYMENT BENEFITS TRUST
Required Supplementary Information
Schedule of Investment Returns

	2019	2020	2021	2022
Annual money - weighted rate of return, net of investment expense	6.00%	(0.95%)	29.76%	(14.23%)

This schedule is intended to display 10 years of information. Additional years will be displayed as they become available.

TENNESSEE COMPTROLLER OF THE TREASURY

JASON E. MUMPOWER
Comptroller

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Honorable Bill Lee, Governor
Members of the General Assembly
Members of the Board of Trustees of the
Postemployment Benefits Trust

We have audited the financial statements of the State of Tennessee Postemployment Benefits Trust, a component unit of the State of Tennessee, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the trust's basic financial statements, and have issued our report thereon dated June 5, 2022. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the trust's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the trust's internal control. Accordingly, we do not express an opinion on the effectiveness of the trust's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in

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internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the trust's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
June 5, 2023