

**State Employees' and Electing Teachers OPEB System**

**State Employees' OPEB Cost Sharing Plan**

**Schedule of Employer Allocations**

**Schedule of OPEB Amounts by Employer**

**June 30, 2023 Measurement Date**

**For Fiscal 2024 Employer Reporting**



**David A. Bergantino, CPA, CFE, Auditor General**

**Office of the Auditor General**

**General Assembly**

**State of Rhode Island**



# Office of the Auditor General

State of Rhode Island - General Assembly

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July 31, 2024

JOINT COMMITTEE ON LEGISLATIVE SERVICES:

SPEAKER K. Joseph Shekarchi, Chairman

Senator Dominick J. Ruggerio

Senator Jessica de la Cruz

Representative Christopher R. Blazejewski

Representative Michael W. Chippendale

We have completed our audit of the Schedule of Employer Allocations and Schedule of OPEB Amounts by Employer for the **State Employees' OPEB Cost-Sharing Plan** administered by the State Employees' and Electing Teachers OPEB System of the State of Rhode Island for the fiscal year ended June 30, 2023.

**These Schedules will be used by employers participating in the State Employees' OPEB Cost-Sharing Plan to meet their fiscal 2024 financial reporting responsibilities under generally accepted accounting principles – specifically the requirements of Governmental Accounting Standards Board Statement No. 75 – *Accounting and Financial Reporting for OPEB.***

Our report containing similar information for the Board of Education OPEB Cost-Sharing Plan will be issued under separate cover.

Our report is contained herein as outlined in the Table of Contents.

Sincerely,

David A. Bergantino, CPA, CFE  
Auditor General

State Employees' and Electing Teachers OPEB System

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Schedule of Employer Allocations

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June 30, 2023 Measurement Date

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State Employees' and Electing Teachers OPEB System

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June 30, 2023 Measurement Date

**INTRODUCTION**

The **State Employees' OPEB Cost-Sharing Plan** covers state employees and certain employees of quasi-public agencies. As a cost-sharing plan, separate valuations are not made for individual employers participating in the plan.

As a cost-sharing plan – the net OPEB liability is apportioned based on proportionate contributions – see Schedule A.

**The measurement date is June 30, 2023 – the information included herein is intended for use in Fiscal 2024 financial reporting by employers participating in the State Employees' OPEB Cost-Sharing Plan.** These include the State of Rhode Island and certain component units of the State of Rhode Island.

The net OPEB liability and other measures included herein have been developed consistent with the requirements of GASB Statement No. 75 – *Accounting and Financial Reporting for OPEB*. Such amounts are intended for accounting and financial reporting by governments which prepare their financial statements in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board. These amounts may and will likely differ from amounts reported in actuarial valuations used to measure actuarially determined contribution amounts consistent with the plan's adopted funding policies.



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## INDEPENDENT AUDITOR'S REPORT

JOINT COMMITTEE ON LEGISLATIVE SERVICES, GENERAL ASSEMBLY, STATE OF RHODE ISLAND:

TRUSTEES OF THE STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM:

### ***Report on the Audit of the Schedules***

#### ***Opinions***

We have audited the accompanying Schedule of Employer Allocations of the STATE EMPLOYEES' OPEB COST-SHARING PLAN (the Plan) as of and for the year ended June 30, 2023, and the related notes. We have also audited the total for all entities of the columns titled ending net OPEB liability, total deferred outflows of resources, total deferred inflows of resources, and total OPEB expense (specified column totals) included in the accompanying Schedule of OPEB Amounts by Employer of the Plan as of and for the year ended June 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 ending net OPEB liability, total deferred outflows of resources, total deferred inflows of resources, and total OPEB expense for the total of all participating entities for the Plan as of and for the year ended June 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 the schedules in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedules that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibilities for the Audit of the Schedules***

Our objectives are to obtain reasonable assurance about whether the Schedule of Employer Allocations and specified column totals included in the Schedule of OPEB 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 specified column totals included in the Schedule of OPEB Amounts by Employer.

Joint Committee on Legislative Services, General Assembly  
Trustees of the State Employees' and Electing Teachers OPEB System

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 OPEB 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 in the Schedule of Employer Allocations and the specified column totals included in the Schedule of OPEB Amounts by Employer and the related disclosures.
- 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 specified column totals included in the Schedule of OPEB 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.

**Other Matter**

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the State of Rhode Island as of and for the year ended June 30, 2023, and our report thereon, dated February 27, 2024 expressed an unmodified opinion on those financial statements. The STATE EMPLOYEES' OPEB COST-SHARING PLAN is reported as an OPEB trust fund in the Annual Comprehensive Financial Report of the State of Rhode Island.

**Restriction on Use**

Our report is intended solely for the information and use of the Joint Committee on Legislative Services, the State Employees' and Electing Teachers OPEB System's management, the Board of Trustees of the State Employees' and Electing Teachers OPEB System, the State Employees' and Electing Teachers OPEB System employers and their auditors and is not intended to be and should not be used by anyone other than these specified parties.



David A. Bergantino, CPA, CFE  
Auditor General

July 31, 2024

**STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM**  
**STATE EMPLOYEES' OPEB COST SHARING PLAN**  
*Schedule of Employer Allocations – State Employees*

<b>State, proprietary fund, or component unit</b>	<b>Fiscal 2023 employer contribution</b>
---	--

	<b>Amount</b>	<b>%</b>
State of Rhode Island	\$ 33,191,419	90.77132473%
University of Rhode Island	1,708,728	4.67300010%
Rhode Island College	563,612	1.54135645%
Community College of RI	474,020	1.29634178%
Lottery	335,709	0.91809123%
Division of Higher Education Assistance	2,230	0.00609857%
Narragansett Bay Commission	269,985	0.73835036%
RI Commerce Corporation	-	0.00000000%
RI Airport Corporation	20,271	0.05543678%
	<b>\$ 36,565,974</b>	<b>100.00000000%</b>

*See Notes to the Schedules of Employer Allocations and OPEB Amounts by Employer.*

**State Employees' and Electing Teachers OPEB System**  
**Schedule of OPEB Amounts by Employer - State Employees**  
**June 30, 2023 Measurement Date**

<i>Participating Employer</i>	FY 2023 Contributions	Proportionate Share	Net OPEB Liability Beginning of Year	OPEB Expense			Ending Net OPEB Liability
				Proportionate Share of OPEB Plan Expense	Net Amortization of Deferred Amounts from Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Employer OPEB Expense	
State of Rhode Island	\$ 33,191,419	90.77132473%	\$ 247,868,036	\$ (5,468,092)	\$ 931,151	\$ (4,536,941)	\$ 188,956,320
University of Rhode Island	1,708,728	4.67300010%	13,256,313	(281,503)	(603,065)	(884,568)	9,727,663
Rhode Island College	563,612	1.54135645%	4,342,236	(92,852)	(258,817)	(351,669)	3,208,602
Community College of Rhode Island	474,020	1.29634178%	3,706,271	(78,092)	(82,673)	(160,765)	2,698,561
Lottery	335,709	0.91809123%	2,577,595	(55,306)	124,232	68,926	1,911,167
Division of Higher Education Assistance	2,230	0.00609857%	34,711	(367)	(43,831)	(44,198)	12,695
Narragansett Bay Commission	269,985	0.73835036%	2,223,344	(44,478)	(43,455)	(87,933)	1,537,005
Rhode Island Commerce Corporation	-	0.00000000%	17,813	-	(6,925)	(6,925)	-
Rhode Island Airport Corporation	20,271	0.05543678%	161,972	(3,340)	(16,617)	(19,957)	115,401
	<b>\$ 36,565,974</b>	<b>100.00000000%</b>	<b>\$ 274,188,291</b>	<b>\$ (6,024,030)</b>	<b>\$ -</b>	<b>\$ (6,024,030)</b>	<b>\$ 208,167,414</b>

See Notes to the Schedules of Employer  
Allocations and OPEB Amounts by Employer.

(Continued)



**State Employees' and Electing Teachers OPEB System**  
**Schedule of OPEB Amounts by Employer - State Employees**  
**June 30, 2023 Measurement Date**

	Deferred Outflow of Resources				
	Differences Between Expected and Actual Experience	Changes of Assumptions	Net Difference Between Projected and Actual Investment Earnings	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Outflows of Resources
<i>Participating Employer</i>					
State of Rhode Island	\$ 1,929,148	\$ 1,628,557	\$ 31,378,133	\$ 3,701,451	\$ 38,637,289
University of Rhode Island	99,314	83,840	1,615,378	-	1,798,532
Rhode Island College	32,758	27,654	532,821	-	593,233
Community College of Rhode Island	27,551	23,258	448,124	34,400	533,333
Lottery	19,512	16,472	317,369	396,437	749,790
Division of Higher Education Assistance	130	109	2,108	71,462	73,809
Narragansett Bay Commission	15,692	13,247	255,235	143,595	427,769
Rhode Island Commerce Corporation	-	-	-	3,816	3,816
Rhode Island Airport Corporation	1,178	995	19,164	32,831	54,168
	<b>\$ 2,125,283</b>	<b>\$ 1,794,132</b>	<b>\$ 34,568,332</b>	<b>\$ 4,383,992</b>	<b>\$ 42,871,739</b>

See Notes to the Schedules of Employer  
Allocations and OPEB Amounts by Employer.

(Continued)

**State Employees' and Electing Teachers OPEB System**  
**Schedule of OPEB Amounts by Employer - State Employees**  
**June 30, 2023 Measurement Date**

<i>Participating Employer</i>	Deferred Inflow of Resources					Total Deferred (Inflows) and Outflows of Resources
	Differences Between Expected and Actual Experience	Changes of Assumptions	Net Difference Between Projected and Actual Investment Earnings	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Inflows of Resources	
State of Rhode Island	\$ 73,378,179	\$ 28,473,353	\$ 37,210,071	\$ -	\$ 139,061,603	\$ (100,424,314)
University of Rhode Island	3,777,583	1,465,837	1,915,612	2,133,347	9,292,379	(7,493,847)
Rhode Island College	1,246,009	483,496	631,851	955,138	3,316,494	(2,723,261)
Community College of Rhode Island	1,047,943	406,639	531,412	379,193	2,365,187	(1,831,854)
Lottery	742,171	287,989	376,355	130,053	1,536,568	(786,778)
Division of Higher Education Assistance	4,930	1,913	2,500	243,590	252,933	(179,124)
Narragansett Bay Commission	596,871	231,607	302,673	386,286	1,517,437	(1,089,668)
Rhode Island Commerce Corporation	-	-	-	44,558	44,558	(40,742)
Rhode Island Airport Corporation	44,814	17,390	22,725	111,827	196,756	(142,588)
	<b>\$ 80,838,500</b>	<b>\$ 31,368,224</b>	<b>\$ 40,993,199</b>	<b>\$ 4,383,992</b>	<b>\$ 157,583,915</b>	<b>\$ (114,712,176)</b>

See Notes to the Schedules of Employer  
Allocations and OPEB Amounts by Employer.

(Continued)

**State Employees' and Electing Teachers OPEB System**  
**Schedule of OPEB Amounts by Employer - State Employees**  
**June 30, 2023 Measurement Date**

<i>Participating Employer</i>	Collective Deferred Outflows (Inflows) for Plan as a Whole Future Years Ending June 30					
	2024	2025	2026	2027	2028	Thereafter
State of Rhode Island	\$ (28,520,843)	\$ (27,165,348)	\$ (13,816,219)	\$ (19,005,289)	\$ (6,658,669)	\$ (5,257,946)
University of Rhode Island	(2,119,284)	(1,970,038)	(1,160,715)	(1,305,162)	(545,414)	(393,234)
Rhode Island College	(758,931)	(707,209)	(447,923)	(497,259)	(190,271)	(121,668)
Community College of Rhode Island	(503,289)	(461,579)	(266,769)	(340,370)	(145,571)	(114,276)
Lottery	(173,655)	(167,280)	(96,366)	(203,367)	(78,138)	(67,972)
Division of Higher Education Assistance	(45,810)	(77,434)	(43,357)	(5,026)	(3,114)	(4,383)
Narragansett Bay Commission	(283,023)	(270,112)	(163,220)	(190,984)	(91,904)	(90,425)
Rhode Island Commerce Corporation	(6,925)	(7,152)	(7,195)	(7,159)	(7,679)	(4,632)
Rhode Island Airport Corporation	(34,604)	(34,222)	(24,040)	(23,485)	(18,588)	(7,649)
	<b>\$ (32,446,364)</b>	<b>\$ (30,860,374)</b>	<b>\$ (16,025,804)</b>	<b>\$ (21,578,101)</b>	<b>\$ (7,739,348)</b>	<b>\$ (6,062,185)</b>

See Notes to the Schedules of Employer  
Allocations and OPEB Amounts by Employer.

(Continued)

**State Employees' and Electing Teachers OPEB System  
Schedule of OPEB Amounts by Employer - State Employees  
June 30, 2023 Measurement Date**

**Discount Rate Sensitivity**

**Healthcare Cost Trend Rate Sensitivity**

*Participating Employer*

	Ending Net OPEB Liability		
	1% Lower 4.00%	5.00%	1% Higher 6.00%
State of Rhode Island	\$ 259,615,010	\$ 188,956,320	\$ 130,371,393
University of Rhode Island	13,365,245	9,727,663	6,711,652
Rhode Island College	4,408,433	3,208,602	2,213,791
Community College of Rhode Island	3,707,666	2,698,561	1,861,886
Lottery	2,625,832	1,911,167	1,318,619
Division of Higher Education Assistance	17,443	12,695	8,759
Narragansett Bay Commission	2,111,755	1,537,005	1,060,464
Rhode Island Commerce Corporation	-	-	-
Rhode Island Airport Corporation	158,555	115,401	79,622
<b>\$</b>	<b>286,009,939</b>	<b>208,167,414</b>	<b>143,626,186</b>

	Ending Net OPEB Liability		
	1% Lower	Baseline	1% Higher
\$	110,645,989	\$ 188,956,320	\$ 287,657,755
	5,696,168	9,727,663	14,808,914
	1,878,841	3,208,602	4,884,617
	1,580,180	2,698,561	4,108,156
	1,119,110	1,911,167	2,909,466
	7,434	12,695	19,327
	900,014	1,537,005	2,339,860
	-	-	-
	67,575	115,401	175,681
<b>\$</b>	<b>121,895,311</b>	<b>208,167,414</b>	<b>316,903,776</b>

See Notes to the Schedules of Employer Allocations and OPEB Amounts by Employer.

# State Employees' OPEB Cost-Sharing Plan

## NOTES TO THE SCHEDULES OF EMPLOYER ALLOCATIONS AND OPEB AMOUNTS BY EMPLOYER

*June 30, 2023 Measurement Date*

### 1. Plan Description and Governance

The State Employees' and Electing Teachers OPEB System of Rhode Island (the System) acts as a common investment and administrative agent for OPEB benefits to be provided through various defined benefit OPEB plans. The System is administered by the trustees of the System which was authorized, created and established as an independent OPEB board to hold and administer, in trust, the funds of the OPEB System.

Each plan's assets are accounted for separately and may be used only for the payment of benefits to the members of that plan, in accordance with the terms of that plan.

The State Employees' Plan (the Plan) was established and placed under the management of the System for the purpose of providing OPEB benefits for employees of the State of Rhode Island under the provisions of Chapter 36-12.1 of the Rhode Island General Laws.

The Plan covers most State employees other than certain personnel at the State colleges and university (principally faculty and administrative personnel). Membership in the plan is mandatory for all covered State employees.

Certain employees and retirees of the Rhode Island Airport Corporation (hired before July 1, 1993), the Rhode Island Commerce Corporation (no active contributing employees as of June 30, 2023), the Narragansett Bay Water Quality District Commission (members of a collective bargaining unit), and the Division of Higher Education Assistance are also covered and have the same benefits as State employees.

Employees of the Rhode Island Lottery are State employees but require separate reporting as the financial activities of the Lottery are reported in a proprietary fund in accordance with generally accepted accounting principles.

### 2. Basis of Presentation

The Schedule of Employer Allocations and Schedule of OPEB Amounts by Employer (collectively, "the Schedules") present amounts that are elements of the financial statements of the Plan or of its participating employers. Accordingly, they do not purport to be a complete presentation of the financial position or changes in financial position of the Plan or its participating employers. The accompanying Schedules were prepared in accordance with accounting principles generally accepted in the United States of America. Such preparation requires management of the System to make several estimates and assumptions relating to the reported amounts. Due to the inherent nature of these estimates, actual results could differ from those estimates.

### 3. Schedule of Employer Allocations

The Schedule of Employer Allocations reflects employer contributions recognized for the fiscal year ended June 30, 2023 consistent with contributions reflected within the Plan's financial statements. These employer contribution amounts are the basis for allocating the OPEB amounts to each employer.

The percentages included in the Schedule of Employer Allocations have been rounded to 8 decimal places.

### 4. Schedule of OPEB Amounts by Employer

The Schedule of OPEB Amounts by Employer was prepared by the Plan's actuary using amounts from (1) the Plan's fiscal 2023 financial statements, (2) Required Supplementary Information Schedules prepared in accordance with the requirements of GASB Statement No. 74, and (3) certain data from the actuarial valuation of the Plan performed at June 30, 2022 rolled-forward to June 30, 2023.

## State Employees' OPEB Cost-Sharing Plan

### NOTES TO THE SCHEDULES OF EMPLOYER ALLOCATIONS AND OPEB AMOUNTS BY EMPLOYER

*June 30, 2023 Measurement Date*

#### 4. Schedule of OPEB Amounts by Employer (continued)

These schedules utilize the proportionate employer contribution schedules detailed in the Schedule of Employer Allocations to apportion each employer's amounts for the cost-sharing plan. The allocation of OPEB expense also includes any changes in proportion between years which are reflected as deferred outflows/inflows and recognized over the remaining service lives of the members.

The Schedule of OPEB Amounts by Employer includes the sensitivity of the net OPEB liability to changes in the discount rate as well as the sensitivity of the net OPEB liability to changes in the healthcare cost trend rate. The following presents the net OPEB liability of the employers calculated using the discount rate of 5.0 percent, as well as what the employers' net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate. Additionally, the following presents the net OPEB liability of the employers calculated using the baseline healthcare trend rate, as well as what the employers' net OPEB liability would be if it were calculated using a healthcare trend rate that is 1-percentage-point lower or 1-percentage-point higher than the baseline rate.

#### Net OPEB Liability – Sensitivity Analyses

##### Discount Rate Sensitivity

	1.00% Lower 4.00%	Current Discount Rate 5.00%	1.00% Higher 6.00%
State Employees' Plan	\$ 286,009,939	\$ 208,167,414	\$ 143,626,186

##### Healthcare Cost Trend Rate Sensitivity

	1.00% Lower	Baseline	1.00% Higher
State Employees' Plan	\$ 121,895,311	\$ 208,167,414	\$ 316,903,776

#### 5. Relationship to the Plan Financial Statements

The components associated with OPEB expense and deferred outflows and inflows of resources have been determined based on the net increase in fiduciary net position as reflected for the State Employees Plan in the State's financial statements and consistent with the requirements of GASB Statements No. 74 and 75.

#### 6. Summary of Significant Accounting Policies

**Basis of Accounting** – The underlying information to prepare the allocation schedules is based on the State's financial statements as of and for the year ended June 30, 2023. The financial statements of the State are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when incurred. Employer Plan member contributions are recognized in the period in which the wages, subject to required contributions, are earned for the performance of duties for covered employment. Employer contributions to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions.

## State Employees' OPEB Cost-Sharing Plan

### NOTES TO THE SCHEDULES OF EMPLOYER ALLOCATIONS AND OPEB AMOUNTS BY EMPLOYER

June 30, 2023 Measurement Date

#### 7. Net OPEB Liability

The components of the net OPEB liability of the employers participating in the State Employees' OPEB Plan at June 30, 2023 were as follows:

	<u>State Employees Plan</u>	
Total OPEB Liability	\$	596,330,822
Plan Fiduciary Net Position		388,163,408
Employers' Net OPEB Liability	\$	<u>208,167,414</u>
Plan Fiduciary Net Position as a percentage of Total OPEB Liability		65.09%

#### 8. Actuarial methods and assumptions

The total OPEB liability was determined by actuarial valuations performed as of June 30, 2022 and rolled-forward to June 30, 2023 using the following actuarial assumptions, applied to all periods included in the measurement.

Actuarial Cost Method - Entry Age Normal - the Individual Entry Age Actuarial Cost methodology is used.

Amortization Method - Level Percent of Payroll – Closed

State Employees - Equivalent Single Remaining Amortization Period - 14 years at June 30, 2022

Investment Rate of Return - 5.00%

Projected Salary Increases – state employees – 3.25% to 6.25%

Mortality – state employees:

Male Employees: PUB-10 Median Table for General Healthy Retiree Males, loaded by 115%, projected with Scale Ultimate MP16.

Female Employees: PUB-10 Median Table for General Healthy Retiree Females, loaded by 111%, projected with Scale Ultimate MP16.

Inflation - 2.50%

Rates of separation from service range from 16.8% in the first year of employment to 0.8% after 25 years.

State employee rates of retirement are based on pension eligibility.

The healthcare trend rates used in the valuation ranged from 6.00% to 7.25% in fiscal 2023 and then decreasing annually to 3.5% in fiscal year 2033 and later.

## State Employees' OPEB Cost-Sharing Plan

### NOTES TO THE SCHEDULES OF EMPLOYER ALLOCATIONS AND OPEB AMOUNTS BY EMPLOYER

*June 30, 2023 Measurement Date*

#### **8. Actuarial methods and assumptions (continued)**

The long-term expected rate of return best-estimate on OPEB plan investments was determined by the actuary using a building-block method. The actuary started by calculating best-estimate future expected real rates of return (expected returns net of OPEB plan investment expense and inflation) for each major asset class, based on a collective summary of capital market expectations from 42 nationally recognized investment consulting firms. These return assumptions are then weighted by the target asset allocation percentage, factoring in correlation effects, to develop the overall long-term expected rate of return best-estimate on an arithmetic basis.

#### **9. Discount rate**

The discount rate used to measure the total OPEB liability of the State Employees' OPEB Plan was 5.0 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from the employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, and the projection of cash flows as of each fiscal year ending, the OPEB Plan's fiduciary net position and future contributions were projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on OPEB Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

#### **10. Deferred Outflows and Inflows of Resources**

Consistent with the requirements of GASB Statement No. 75, differences between expected and actual experience and changes in assumptions are recognized in OPEB expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with OPEB benefits through the OPEB plan (active employees and inactive employees) determined as of the beginning of the measurement period.

Differences between projected and actual earnings on OPEB plan investments are to be recognized in OPEB expense using a systematic and rational method over a closed five-year period. Projected earnings of the Plan reflect the Plan's investment return assumption or discount rate of 5.0%.

Changes in proportion between the June 30, 2022 and June 30, 2023 measurement dates are also recognized in OPEB expense using the expected remaining service lives of plan members.

The average of the expected remaining service lives for purposes of recognizing the applicable deferred inflows/outflows of resources established in fiscal 2023 is 7.2129 years.