DEPARTMENT OF
CENTRAL MANAGEMENT SERVICES
TEACHER HEALTH INSURANCE
SECURITY FUND
A FIDUCIARY COMPONENT UNIT OF THE STATE OF ILLINOIS

FINANCIAL AUDIT

For the Year Ended June 30, 2021

Performed as Special Assistant Auditors for the Auditor General, State of Illinois

SIKICH.COM

DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
TEACHER HEALTH INSURANCE SECURITY FUND
A Fiduciary Component Unit of the State of Illinois
FINANCIAL AUDIT
For the Year Ended June 30, 2021

TABLE OF CONTENTS

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
FINANCIAL AUDIT
For the Year Ended June 30, 2021

AGENCY OFFICIALS

Director	Ms. Janel Forde
Assistant Director (Acting) (9/7/2021 – Present)	Ms. Raven DeVaughn
Assistant Director (3/28/2022 – Present)	Mr. Mark Mahoney
Assistant Director (Acting) (5/1/2021 – 3/27/2022)	Mr. Mark Mahoney
Assistant Director (12/4/2020 – 4/30/2021)	Vacant
Assistant Director (Acting) (7/1-2020 – 12/3/2020)	Mr. Michael Merchant
Chief of Staff	Mr. Anthony Pascente
Chief Administrative Officer (5/1/2021 – Present)	Ms. Sarah Kerley
Chief Administrative Officer (7/1/2020 – 4/30/2021)	Mr. Mark Mahoney
Chief Operating Officer	Ms. Aysegul Kalaycioglu
Chief Fiscal Officer (1/21/2021 – Present)	Ms. Karen Pape
Chief Fiscal Officer (Acting) (7/1/2020 – 1/20/2021)	Ms. Karen Pape
General Counsel	Mr. Terrence Glavin
Chief Internal Auditor	Mr. Jack Rakers

Agency main offices are located at:

702 Stratton Office Building
401 South Spring Street
Springfield, IL 62706

DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
TEACHER HEALTH INSURANCE SECURITY FUND
A Fiduciary Component Unit of the State of Illinois
FINANCIAL AUDIT
For the Year Ended June 30, 2021

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the Department of Central Management Services, Teacher Health Insurance Security Fund (Fund), a fiduciary component unit of the State of Illinois, was performed by Sikich LLP.

Based on their audit, the auditors expressed an unmodified opinion on the Teacher Health Insurance Security Fund's financial statements.

SUMMARY OF FINDINGS

Number of	**Current Report**	**Prior Report**
Findings	0	1
Repeated Findings	0	0
Prior Recommendations Implemented or Not Repeated	1	0

SCHEDULE OF FINDINGS

Item No.	Pages	Last/First Report	Description	Finding Type
			PRIOR FINDING NOT REPEATED	
A	23	2020/2020	Inadequate Review of External Service Providers	

EXIT CONFERENCE

The Department waived an exit conference in a correspondence from Amy Lange, Audit Liaison, on April 26, 2022.

3201 W. White Oaks Dr., Suite 102
Springfield, IL 62704
217.793.3363

SIKICH.COM

INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the Department of Central Management Services, Teacher Health Insurance Security Fund (Fund), a fiduciary component unit of the State of Illinois, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Fund'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 opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund, as of June 30, 2021, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Changes in Net OPEB Liability and Related Ratios, Schedule of Contributions, Notes to Schedule of Contributions, and Schedule of Investment Returns on pages 17-20 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.

Management has omitted a management's discussion and analysis for the Fund 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 the missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2022, on our consideration of the Department's internal control over financial reporting of the Fund and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the Department's 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 Department's internal control over financial reporting and compliance.

SIGNED ORIGINAL ON FILE

Springfield, Illinois
May 6, 2022

BASIC FINANCIAL STATEMENTS

DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
TEACHER HEALTH INSURANCE SECURITY FUND
A FIDUCIARY COMPONENT UNIT OF THE STATE OF ILLINOIS
STATEMENT OF FIDUCIARY NET POSITION
For the Year Ended June 30, 2021

(amounts expressed in thousands)

Assets	
Cash Equity with State Treasurer	$ 32,421
Cash and Cash Equivalents	7,867
Securities Lending Collateral of State Treasurer	8,982
Receivables	
Employer	9,356
Employee	12,610
Federal Government	97
Interest	6
Other Receivables	4,171
Total Receivables	26,240
Due from Other Funds	279,002
Prepaid Expenses	7,691
Total Assets	362,203
Liabilities	
Accounts Payable and Other	38,005
Intergovernmental Payables	2
Due to other funds	1,866
Obligations under Security Lending of State Treasurer	8,982
Compensated Absences, current	5
Total Current Liabilities	48,860
Long-term Compensated Absences	97
Total liabilities	48,957
Net position restricted for OPEB	$ 313,246

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

DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
TEACHER HEALTH INSURANCE SECURITY FUND
A FIDUCIARY COMPONENT UNIT OF THE STATE OF ILLINOIS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended June 30, 2021

(amounts expressed in thousands)

Additions	
Contributions	
Employer	$ 101,328
State	137,436
Active Plan Member	137,436
Federal Government Medicare Part D	1,648
Consolidated Omnibus Budget Reconciliation Act (COBRA)	96
Total Contributions	377,944
Investment Income	51
Total Additions	377,995
Deductions	
Benefit Payments and Refunds	244,045
General and Administrative Expense	9,526
Total Deductions	253,571
Net Increase in Net Position	124,424
Unrestricted Net Position July 1, 2020	188,822
Net position restricted for OPEB, June 30, 2021	$ 313,246

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

1) Plan Description

Plan administration
The Teacher Health Insurance Security Fund (THISF) (also known as The Teacher Retirement Insurance Program, "TRIP") is a non-appropriated trust fund held outside the State Treasury, with the State Treasurer as custodian. Additions deposited into the Trust are for the sole purpose of providing the health benefits to retirees, as established under the plan, and associated administrative costs. TRIP is a cost-sharing multiple-employer defined benefit post-employment healthcare plan that covers retired employees of participating school districts throughout the State of Illinois, excluding the Chicago Public School System. TRIP health coverage includes provisions for medical, prescription, and behavioral health benefits, but does not provide vision, dental, or life insurance benefits. Annuitants may participate in the State administered Preferred Provider Organization plan or choose from several managed care options. As a result of the Governor's Executive Order 12-01, the responsibilities in relation to TRIP were transferred to the Department of Central Management Services (Department) as of July 1, 2013. The Department administers the plan with the cooperation of the Teachers' Retirement System (TRS).

Plan membership
In order to be eligible, retirees of public schools must have been certified educators or administrators during their time of employment. Eligibility to participate in the plan is currently limited to former full-time employees, or if not a full-time employee, an individual that is in a permanent and continuous basis position in which services are expected to be rendered for at least one school term, and their dependents.

Membership of the plan consisted of the following at June 30, 2021:

Inactive plan members currently receiving benefit payments	65,935
Inactive plan members entitled to but not yet receiving benefit payments	37,596
Active Plan Members	157,123
Total	260,654
Number of participating employers	979
Number of nonemployer contributing entities	1

Benefits provided
The State Employees Group Insurance Act of 1971 (5 ILCS 375/6.5) establishes the eligibility and benefit provisions for the plan.

2) Summary of Significant Accounting Policies

a) Financial Reporting Entity

As defined by Generally Accepted Accounting Principles (GAAP), the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or

2) Summary of Significant Accounting Policies (continued)

a) Financial Reporting Entity (continued)

2) Fiscal dependence on the primary government and the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

Based upon the required criteria, the THISF has no component units. THISF is considered a fiduciary component unit of the State of Illinois due to fiscal dependency on the State. The financial statements of the THISF are included in the financial statements of the State of Illinois as a pension (and other employee benefit) trust fund. The State of Illinois' Annual Comprehensive Financial Report may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois, 62704-1871.

b) Measurement Focus and Basis of Accounting

THISF's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. State contributions are recognized in the period in which the contributions are due to the plan. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

c) Cash and Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments readily convertible to cash with maturities of less than 90 days at the time of purchase. Cash and cash equivalents include cash on hand and cash in banks for locally held funds.

d) Deposits and Investments

Investments are reported at fair value.

The Illinois Public Treasurers' Investment Pool, known as The Illinois Funds, operates as a 2a7-like pool and thus reports all investments at amortized cost rather than market value. The fair value of the pool is the same as the value of the pool shares. The Treasurer's investment policies are governed by state statute. In addition, the Treasurer's Office has adopted its own investment practices which supplement the statutory requirement.

2) Summary of Significant Accounting Policies (continued)

e) Compensated Absences

The liability for compensated absences reported in the statement of fiduciary net position consists of unpaid, accumulated vacation and sick leave balances for Department employees. The liability has been calculated using the vesting method in which leave amounts, for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination, are included. The liability has been calculated based on the employees' current salary level and includes salary related costs (e.g., Social Security and Medicare tax).

2) Summary of Significant Accounting Policies (continued)

e) Compensated Absences (continued)

Legislation that became effective January 1, 1998, capped the paid sick leave for all State Employees' Retirement System members at December 31, 1997. Employees continue to accrue twelve sick days per year, but will not receive monetary compensation for any additional time earned after December 31, 1997. Sick days earned between 1984 and December 31, 1997, (with a 50% cash value) would only be used after all days with no cash value are depleted. Any sick days earned and unused after December 31, 1997, will be converted to service time for purposes of calculating employee pension benefits.

f) Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and to disclose contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3) Contributions

The State Employees Group Insurance Act of 1971 (5 ILCS 375/6.6) requires that all active contributors of the TRS, who are not employees of a department, make contributions to the plan at a rate of 1.24% of salary and for every employer of a teacher to contribute an amount equal to .92% of each teacher's salary. The Department determines, by rule, the percentage required, which each year shall not exceed 105% of the percentage of salary actually required to be paid in the previous fiscal year. In addition, under the State Pension Funds Continuing Appropriations Act (40 ILCS 15/1.3), there is appropriated, on a continuing annual basis, from the General Revenue Fund, an account of the General Fund, to the State Comptroller for deposit in the THISF, an amount equal to the amount certified by the Board of Trustees of TRS as the estimated total amount of contributions to be paid under 5 ILCS 376/6.6(a) in that fiscal year.

The State Employees Group Insurance Act of 1971 (5 ILCS 375/6.5) requires that the Department's Director determine the rates and premiums of annuitants and dependent beneficiaries and establish the cost-sharing parameters, as well as funding. Member premiums are set by this statute, which provides for a subsidy of either 50% or 75%, depending upon member benefit choices. Dependents are eligible for coverage, at a rate of 100% of the cost of coverage.

For the year ended June 30, 2021, member required contributions ranged from $112.89 to $267.67, per month per retiree, and from $503.96 to $803.00, per month per retiree and spouse (assuming Medicare eligibility). For non-Medicare eligible members, required contributions ranged from $91.95 to $1,013.04, per month per retiree, and from $459.91 to $3,039.12, per month per retiree plus dependents. The State Employees Group Insurance Act of 1971 (5 ILCS 375/6.6) requires active teachers contribute 1.24% of salaries; they contributed $137,436 million, or approximately 36.53% of total premiums. The State Employees Group Insurance Act of 1971 (5 ILCS 375/6.6) also requires participating school districts contribute .92% of salaries; they contributed $101,328 million, or approximately 26.94% of total premiums. In addition, the State Employees Group Insurance Act of 1971 (5 ILCS 375/6.6) requires the State contribute 1.24% of salaries; they contributed $137,436 million, or approximately 36.53% of total premiums. The State contribution amount is annually adjusted to "true-up" the contribution from two years prior using actual rather than estimated covered payroll. The Department records an estimate for projected "true-up" amounts for the two years subsequent to the report date. The fund received $1.648 million in Medicare Part D subsidy payments from the federal government. Retiree contributions are netted with the related liability.

4) Deposits and Investments

a) Deposits

The State Treasurer is the custodian of the State's cash and cash equivalents for funds maintained in the State Treasury. Deposits in the custody of the State Treasurer are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Department does not own individual securities. Detail on the nature of these deposits and investments are available within the State of Illinois' Annual Comprehensive Financial Report.

Cash on deposit with the State Treasurer totaled $32.421 million at June 30, 2021.

b) Investments

Section 2 of the Public Funds Investment Act limits the State's investments outside the State Treasury to securities of the U.S. government or its agencies, short-term obligations of domestic corporations exceeding $500 million in assets that are rated in the three highest categories by at least two nationally recognized statistical ratings organizations not to exceed ten percent of the domestic corporations outstanding obligations, money market mutual funds invested in the U.S. government and/or its agencies, and repurchase agreements securities of the U.S. government or its agencies or money market mutual funds invested in the U.S. government or its agencies. Investments of public funds in a Public Treasurers' Investment Pool created under Section 17 of the State Treasurer Act are also permitted.

As of June 30, 2021, the Department had the following investments in the State Treasury Investment Pool (Illinois Funds):

	Fair Value (Thousands)	Weighted Average Maturity (Years)
Illinois Public Treasurers' Investment Pool	$7,867	.201
Total fixed income investments	$7,867	

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Since THISF is funded on a pay-as-you-go basis, the Department does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Since THISF is funded on a pay-as-you-go basis, the Department does not have a formal investment policy that limits investment choices. Investments in the Illinois Public Treasurers' Investment Pool were rated AAAmmf by Fitch Ratings.

Rate of Return. For the year ended June 30, 2021, the annual money-weighted rate of return on investments, net of investment expense, was 0.320%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for changing amounts actually invested.

4) Deposits and Investments (continued)

b) Investments (continued)

The Illinois Public Treasurers' Investment Pool, known as The Illinois Funds, operates as a qualified external investment pool in accordance with the criteria established in GASB Statement No. 79, *Certain External Investment Pools and Pool Participants,* and thus, reports all investments at amortized cost rather than market value. The investment in The Illinois Funds by participants is also reported at amortized cost. The Illinois Funds does not have any limitations or restrictions on participant withdrawals. The Illinois Treasurer's Office issues a separate financial report for The Illinois Funds which may be obtained by contacting the Administrative Office at 1 East Old State Capitol Plaza, Springfield, Illinois 62701.

c) Reconciliation to Statement of Fiduciary Net Position

	Deposits (Thousands)	Investments (Thousands)
Amounts per Note 4(a)(b)	$ 32,421	$ 7,867
Cash Equivalents	7,867	(7,867)
Total per Statement of Fiduciary Net Position	$40,288	$ -

d) Securities Lending Transactions

The State Treasurer lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The State Treasurer has, through a Securities Lending Agreement, authorized Deutsche Bank AG to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement.

During fiscal year 2021, Deutsche Bank AG lent U.S. Agency securities and U.S. Treasury securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%.

The State Treasurer did not impose any restrictions during fiscal year 2021 on the amount of the loans of available, eligible securities. In the event of borrower default, Deutsche Bank AG provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank AG is obligated to indemnify the State Treasurer if Deutsche Bank AG loses any securities, collateral or investments of the State Treasurer in Deutsche Bank AG's custody. There were no losses during fiscal year 2021 resulting from a default of the borrowers or Deutsche Bank AG.

During fiscal year 2021, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank AG and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. The securities lending collateral invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2021 were $5,491,725,001 and $5,417,669,749 respectively.

In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions,* paragraph 9, the Office of the State Treasurer has allocated the assets and obligations at June 30, 2021 arising from securities lending agreements to the various funds of the State. The total allocated to the THISF at June 30, 2021 was $8.982 million.

5) Net OPEB Liability

The components of the net OPEB liability of TRIP at June 30, 2021, were as follows:

Total OPEB liability	$22,368,621,581
Plan fiduciary net position	313,246,000
Net OPEB liability	$22,055,375,581
Plan fiduciary net position as a percentage of the total OPEB liability	1.40%

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

Inflation	2.50%
Salary increases	Depends on service and ranges from 9.50% at 1 year of service to 4.00% at 20 or more years of service. Salary increase includes a 3.25% wage inflation assumption.
Investment rate of return	2.75%, net of OPEB plan investment expense, including inflation, for all plan years.
Healthcare cost trend rates	Trend for fiscal year ending 2022 based on expected increases used to develop average costs. For fiscal years ending on and after 2023, trend starts at 8.00% for non-Medicare costs and post-Medicare costs, and gradually decreases to an ultimate trend of 4.25%.

Mortality rates for retirement and beneficiary annuitants were based on the RP-2014 White Collar Annuitant Mortality Table, adjusted for TRS experience. For disabled annuitants mortality rates were based on the RP- 2014 Disabled Annuitant table. Mortality rates for pre-retirement were based on the RP-2014 White Collar Table. All tables reflect future mortality improvements using Projection Scale MP-2017.

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period July 1, 2014 through June 30, 2017.

Projected benefit payments were discounted to their actuarial present value using a Single Discount Rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bond with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met). Since TRIP is financed on a pay-as-you-go basis, a discount rate consistent with fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity's index's "20-year Municipal GO AA Index" has been selected. The discount rates are 1.92% as of June 30, 2021, and 2.45% as of June 30, 2020. The decrease in the single discount rate from 2.45% to 1.92% caused the total OPEB liability to increase by approximately $1,965 million from 2020 to 2021.

5) Net OPEB Liability (continued)

The actuarial valuation was based on the Entry Age Normal cost method. Under this method, the normal cost and actuarial accrued liability are directly proportional to the employee's salary. The normal cost rate equals the present value of future benefits at entry age divided by the present value of future salary at entry age. The normal cost at the member's attained age equals the normal cost rate at entry age multiplied by the salary at attained age. The actuarial accrued liability equals the present value of benefits at attained age less present value of future salaries at attained age multiplied by normal cost rate at entry age.

During plan year ending June 30, 2021, the trust earned $51,000 in interest, and the market value of assets at June 30, 2021, was a $313.2 million. The long-term expected rate of return assumption was set to 2.75 percent.

Sensitivity of Net OPEB Liability to Changes in the Single Discount Rate

The following presents the plan's net OPEB liability, calculated using a Single Discount Rate of 1.92%, as well as what the plan's net OPEB liability would be if it were calculated using a Single Discount rate that is one percentage point higher (2.92%) or lower (.92%) than the current rate:

Sensitivity of Net OPEB Liability as of June 30, 2021, to the Single Discount Rate Assumption			
	1% Decrease (.92%)	**Current Single Discount Rate Assumption (1.92%)**	**1% Increase (2.92%)**
Net OPEB liability	$26,495,000,855	$22,055,375,581	$18,536,368,588

Sensitivity of Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the plan's net OPEB liability, calculated using the healthcare cost trend rates as well as what the plan's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point higher or lower, than the current healthcare cost trend rates. The key trend rates are 8.00% in 2023 decreasing to an ultimate trend rate of 4.25% in 2038.

Sensitivity of Net OPEB Liability as of June 30, 2021, to the Healthcare Cost Trend Rate Assumption			
	1% Decrease (a)	**Healthcare Cost Trend Rates Assumption**	**1% Increase (b)**
Net OPEB liability	$17,656,439,068	$22,055,375,581	$28,031,007,550
(a) One percentage point decrease in healthcare trend rates are 7.00% in 2023 decreasing to an ultimate trend rate of 3.25% in 2038.			
(b) One percentage point increase in healthcare trend rates are 9.00% in 2023 decreasing to an ultimate trend rate of 5.25% in 2038.			

6) Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2021, were as follows:

	Balance July 1, 2020	**Additions**	**Deletions**	**Balance June 30, 2021**	**Amounts Due Within One Year**
Compensated Absences	$95	$101	$94	$102	$5
Total	$95	$101	$94	$102	$5

7) Pension Plan

The vested full-time employees paid from the THISF may participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for fiscal year 2021 are included in the State of Illinois' Annual Comprehensive Financial Report for the year ended June 30, 2021. The SERS issues a separate Annual Comprehensive Financial Report that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255.

A summary of SERS benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the SERS' Annual Comprehensive Financial Report. Also included is a discussion of employer and employee obligations to contribute and the authority under which those obligations are established.

The Department pays employer retirement contributions based upon an actuarially determined percentage of their payrolls. For fiscal year 2021, the employer contribution rate was 54.831%. Effective for pay periods beginning after December 31, 1991, the State opted to pay the employee portion of retirement for most State agencies (including the Department) with employees covered by the State Employees' and Teachers' Retirement Systems. However, effective with the fiscal year 2004 budget, the State opted to stop paying the portion or a part of the portion of retirement for many State agencies (including the Department) for certain classes of employees covered by the State Employees' and Teachers' Retirement Systems. The pickup, when applicable, is subject to sufficient annual appropriations and those employees covered may vary across employee groups and State agencies.

8) Post-employment Benefits

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employees Retirement System do not contribute towards health, dental, and vision benefits.

8) Post-employment Benefits (continued)

For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes $5,000.

The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expense by the State in the Illinois Annual Comprehensive Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Central Management Services. A copy of the financial statements of the Department may be obtained by writing to the Department of Central Management Services, 401 South Spring, Springfield, Illinois, 62706.

9) Commitments and Contingencies

The Department is a party to numerous legal proceedings, many of which normally occur in the course of operations. These proceedings are not, in the opinion of the Department's legal counsel, likely to have a material adverse impact on the Department's financial position. In the event a material action is settled against the Department, such amounts would be paid from future appropriations or by another state agency. Accordingly, no amounts have been provided in the accompanying financial statements related to outstanding litigation.

REQUIRED SUPPLEMENTARY INFORMATION

DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
TEACHER HEALTH INSURANCE SECURITY FUND
A FIDUCIARY COMPONENT UNIT OF THE STATE OF ILLINOIS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS

(Unaudited)

Fiscal Year Ending June 30,	**2021**	**2020**	**2019**	**2018**	**2017**
Total OPEB Liability					
Service Cost	$ 1,109,767,854	$ 1,207,781,377	$ 1,203,231,213	$ 1,282,452,212	$ 1,684,864,123
Interest on the Total OPEB Liability	491,582,744	730,741,073	895,428,024	921,017,244	820,960,601
Changes of Benefit Terms	-	-	-	-	-
Difference between Expected and Actual Experience	(490,742,013)	(361,511,693)	(431,808,998)	(94,796,551)	(16,955,687)
Changes of Assumptions	(5,422,677,158)	(2,160,325,236)	11,932,136	(1,410,427,032)	(3,564,237,510)
Benefit Payments	(244,045,000)	(237,466,000)	(260,652,000)	(275,400,000)	(296,480,000)
Net Change in Total OPEB Liability	(4,556,113,573)	(820,780,479)	1,418,130,375	422,845,873	(1,371,848,473)
Total OPEB Liability - Beginning	26,924,735,154	27,745,515,633	26,327,385,258	25,904,539,385	27,276,387,858
Total OPEB Liability - Ending (a)	$ 22,368,621,581	$ 26,924,735,154	$ 27,745,515,633	$ 26,327,385,258	$ 25,904,539,385
Plan Fiduciary Net Position					
Employer Contributions	$ 238,764,000	$ 232,712,000	$ 226,089,000	$ 208,564,000	$ 210,466,000
Active Member Contributions	137,436,000	133,896,000	130,068,000	119,906,000	111,734,000
Net Investment Income	51,000	193,000	397,000	743,000	357,000
Benefit Payments	(244,045,000)	(237,466,000)	(260,652,000)	(275,400,000)	(296,480,000)
Operating Expenses	(9,526,000)	(9,472,000)	(10,430,000)	(14,226,000)	(13,790,000)
Other	1,744,000	895,000	1,079,000	1,614,000	2,099,000
Net Change in Plan Fiduciary Net Position	124,424,000	120,758,000	86,551,000	41,201,000	14,386,000
Plan Fiduciary Net Position - Beginning	188,822,000	68,064,000	(18,487,000)	(59,688,000)	(59,415,000)
Plan Fiduciary Net Position - Ending (b)	313,246,000	188,822,000	68,064,000	(18,487,000)	(45,029,000)
Net OPEB Liability - Ending (a) - (b)	$ 22,055,375,581	$ 26,735,913,154	$ 27,677,451,633	$ 26,345,872,258	$ 25,949,568,385
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	1.40%	0.70%	0.25%	-0.07%	-0.17%
Covered-Employee Payroll	$ 10,497,876,022	$ 10,184,005,548	$ 9,879,265,292	$ 9,600,528,968	$ 9,444,442,000
Net OPEB Liability as a Percentage of Covered-Employee Payroll	210.09%	262.53%	280.16%	274.42%	274.76%

Note: Information is not available prior to 2017. Additional years will be added to future reports as schedules are intended to show 10 years of historical data.

Plan Fiduciary Net Position was restated from $(45,029,000) as of June 30, 2017 to $(59,688,000) as of July 1, 2017

DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
TEACHER HEALTH INSURANCE SECURITY FUND
A FIDUCIARY COMPONENT UNIT OF THE STATE OF ILLINOIS

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
(Unaudited)

Year Ended June 30	Actuarially Determined Contribution*	Statutorily Required Contributions	Contribution (Excess) Deficiency	Covered Payroll	Actual Contribution as a % of Covered Payroll
2021	N/A	$ 238,764,000	N/A	$ 10,497,876,022	2.27%
2020	N/A	$ 232,712,000	N/A	$ 10,184,005,548	2.29%
2019	N/A	$ 226,089,000	N/A	$ 9,879,265,292	2.29%
2018	N/A	$ 208,564,000	N/A	$ 9,600,528,968	2.17%
2017	N/A	$ 210,466,000	N/A	$ 9,444,442,000	2.23%
2016	N/A	$ 194,405,000	N/A	$ 9,147,159,000	2.13%
2015	N/A	N/A	N/A	N/A	N/A
2014	$ 1,445,469,000	$ 167,720,000	$ 1,277,749,000	$ 9,340,200,000	1.80%
2013	$ 1,513,939,000	$ 160,706,000	$ 1,353,233,000	$ 9,110,415,000	1.76%
2012	N/A	N/A	N/A	N/A	N/A

See accompanying notes to schedule

* Prior to 2016, amounts disclosed as "Actuarially Determined Contribution" are the actuarially determined "Annual Required Contribution" which was calculated biennially under GASB Statement No. 43. For years listed as N/A information to complete the schedule was not available.

For 2016 through 2021, contributions for TRIP are defined by State statute and Actuarially Determined Contributions are not developed. Benefits are financed on a pay-as-you-go basis, based on contribution rates defined by statute. For fiscal year end June 30, 2021, contributions rates are 1.24% of pay of active members, 0.92% of pay for school districts, and 1.24% of pay of the State. Retired members contribute a percentage of premium rates. The goal of the policy is to finance current year cost plus a margin for incurred but not paid plan costs.

Notes to Schedule of Contributions

Valuation Date	June 30, 2020
Measurement Date	June 30, 2021
Sponsor's Fiscal Year End	June 30, 2022

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age Normal, used to measure the Total OPEB Liability
Contribution Policy	Benefits are financed on a pay-as-you go basis. Contribution rates are defined by statute. For fiscal year end June 30, 2021, contribution rates are 1.24% of pay for active members, 0.92% of pay for school districts and 1.24% of pay for the State. Retired members contribute a percentage of premium rates. The goal of the policy is to finance current year costs plus a margin for incurred but not paid plan costs.
Asset Valuation Method	Market value
Investment Rate of Return	2.75%, net of OPEB plan investment expense, including inflation for all plan years.
Inflation	2.50%
Salary Increases	Depends on service and ranges from 9.50% at 1 year of service to 4.00% at 20 or more years of service. Salary increase includes a 3.25% wage inflation assumption.
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the June 30, 2018, actuarial valuation.
Mortality	Retirement and Beneficiary Annuitants: RP-2014 White Collar Annuitant Mortality Table, adjusted for TRS experience. Disabled Annuitants: RP-2014 Disabled Annuitant Table. Pre-Retirement: RP-2014 White Collar Table. All tables reflect future mortality improvements using Projection Scale MP-2017.
Healthcare Cost Trend Rates	Trend used fiscal year end 2022 based on premium increases. For fiscal years on and after 2023, trend starts at 8.00% for non-Medicare costs and post-Medicare costs, and gradually decreases to an ultimate trend of 4.25%.
Aging Factors	Based on the 2013 SOA Study "Health Care Costs – From Birth to Death"
Expenses	Health administrative expenses are included in the development of the per capita claims costs. Operating expenses are included as a component of the Annual OPEB Expense.

DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
TEACHER HEALTH INSURANCE SECURITY FUND
A FIDUCIARY COMPONENT UNIT OF THE STATE OF ILLINOIS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF INVESTMENT RETURNS

(Unaudited)

	2021	**2020**	**2019**	**2018**	**2017**	**2016**
Annual money-weighted rate of return, net of OPEB plan investment expense, including inflation	0.320%	1.732%	2.038%	1.301%	0.678%	0.382%

Note: Information is not available prior to 2016. Additional years will be added to future reports as schedules are intended to show 10 years of historical data.

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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*

Honorable Frank J. Mautino
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the 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, the financial statements of the Department of Central Management Services (Department), Teacher Health Insurance Security Fund (Fund), a fiduciary component unit of the State of Illinois, as of and for the year ended June 30, 2021, and the related notes to the financial statements, and we have issued our report thereon dated May 6, 2022.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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.*

Internal Control Over Financial Reporting

Management of the Department is responsible for establishing and maintaining effective internal control over financial reporting of the Fund (internal control).

In planning and performing our audit of the financial statements, we considered the Department's 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 Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department'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 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.

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.

SIGNED ORIGINAL ON FILE

Springfield, Illinois
May 6, 2022

PRIOR YEAR FINDINGS NOT REPEATED

A. **FINDING** (Inadequate review of external service providers)

During the previous audit, the Department of Central Management Services (Department) did not conduct adequate independent internal control reviews over its external service providers' System and Organization Control (SOC) reports.

During the current engagement audit, our testing indicated the Department made significant improvements over the review of SOC reports. (Finding Code No. 2020-001)