COMMONWEALTH HEALTH INSURANCE CONNECTOR AUTHORITY

(A Component Unit of the Commonwealth of Massachusetts)

Financial Statements and Required Supplementary Information

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Auditors' Report

The Board of Directors
Commonwealth Health Insurance Connector Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Commonwealth Health Insurance Connector Authority (the Health Connector), a component unit of the Commonwealth of Massachusetts, which comprise the Statements of Net Position, the Statements of Revenues, Expenses, and Changes in Net Position and the Statements of Cash Flows as of and for the years ended June 30, 2017 and 2016 and the related notes to the financial statements, which collectively comprise the Health Connector's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles (GAAP); 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditors' 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commonwealth Health Insurance Connector Authority as of June 30, 2017 and 2016, and the changes in its financial position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 3–8 and the Schedule of Proportionate Share of Net Pension Liability and Schedule of Funding Progress-OPEB on pages 25–26 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2017 on our consideration of the Health Connector's internal control over financial reporting 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 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 Health Connector's internal control over financial reporting and compliance.

KPMG LLP

Boston, Massachusetts
November 15, 2017

COMMONWEALTH HEALTH INSURANCE CONNECTOR AUTHORITY
(A Component Unit of the Commonwealth of Massachusetts)
Management's Discussion and Analysis - Unaudited
June 30, 2017 and 2016

Introduction

The following discussion of the financial performance and activity of the Commonwealth Health Insurance Connector Authority (the Health Connector) is intended to provide an overview and analysis of the basic financial statements for the fiscal years ended June 30, 2017 (FY2017) and 2016 (FY2016). The management of the Health Connector has prepared this discussion and it should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Background of the Health Connector

The Health Connector is a body politic and a corporate and public instrumentality of the Commonwealth of Massachusetts (the Commonwealth). The Health Connector is established pursuant to Chapter 176Q of the Massachusetts General Laws (MGLs), as added by Section 101 of Chapter 58 of the Acts of 2006, and is an independent public entity not subject to the supervision and control of any other office, department, commission, board, bureau, agency or political subdivision of the Commonwealth.

The Health Connector is governed by an eleven member public private Board, comprised of four ex-officio members – the Secretary of the Executive Office of Health and Human Services (EOHHS), who serves as chair of the Board; the Secretary of Administration and Finance; the Executive Director of the Group Insurance Commission (GIC); and the Commissioner of Insurance, as well as seven members of the public, four appointed by the Governor and three appointed by the Attorney General. Public sector members encompass a range of interests and expertise, including organized labor, employee health benefits, consumers, small business, actuarial science, health economics and health insurance brokerage.

The Health Connector's primary responsibility is to facilitate the availability, choice and adoption of private health insurance plans to eligible individuals and groups. Since January 1, 2014, the Health Connector has operated as a State-Based Marketplace (SBM) that meets the requirements of the Affordable Care Act (ACA). The Health Connector currently offers the following programs:

- Qualified Health Plans (QHPs) and Qualified Dental Plans (QDPs) for eligible individuals. Individuals with income up to 400% FPL may be eligible for federal Advanced Premium Tax Credits (APTC); individuals with income up to 250% of the federal poverty level (FPL) may be eligible for federal cost-sharing reductions.
- ConnectorCare is a subsidized health insurance program offering QHPs to individuals at 300% or less of the FPL. In addition to federal tax credits and cost-sharing reductions, ConnectorCare members also receive state subsidies to further offset premium and point-of-service costs.
- Small Business Health Options Program (SHOP) offers QHPs and QDPs to small businesses. Small businesses may be eligible for ACA small business tax credits up to 50% of the cost of health insurance for businesses with fewer than 25 full time equivalent employees, who earn on average $50,000 a year or less in 2017.
- The Navigator program is required by the ACA and provides grants to community organizations that assist consumers (individuals, families and small businesses), using culturally and linguistically appropriate methods, to learn about their subsidized and unsubsidized health care coverage options; access any applicable federal tax credits and other state and federal subsidies; and enroll in a health plan.

- The Massachusetts-state-based risk adjustment program, the only state-specific program in the nation (federal certification received from CMS in March 2013). This program is administered by Massachusetts through Plan Year 2016 and as of Plan Year 2017 will be administered by the federal government.
- The Wellness Track program, established by Chapter 288 of the Acts of 2010, which allows eligible employers to earn up to a 15% rebate on the premium contribution for promoting a healthy workforce.

In addition, the Health Connector continues to be responsible for, among other things, policy development relative to the Affordability Schedule and Minimum Credible Coverage rules; administration of appeals filed on behalf of individuals in accordance with ConnectorCare program regulations and the Commonwealth's individual mandate; and public education and outreach activities.

Health Connector Operations

As of June 30, 2017, the Health Connector employed approximately 68 full-time equivalent personnel in business administration and program functions (*i.e.,* finance, legal, operations, policy, outreach, plan management and information technology (IT)), as well as support functions, including an appeals unit to manage the appeals process for the individual mandate and ConnectorCare eligibility determinations. Additionally, the Health Connector subcontracts a significant amount of back office operations to public entities and private vendors, primarily IT development and maintenance and customer service and business operations.

The Health Connector has played a critical role in implementing the ACA in Massachusetts. Financing for ACA implementation efforts came, in part from seven grants from the United States Department of Health and Human Services (HHS), including the Exchange Planning Grant and the Level 1, Level 1A, Level 2, Level 1D, Level 1E and Level 1F Exchange Establishment grants totaling $189.3 million. These funds primarily support one-time, ACA transition and implementation activities, as well as Health Connector personnel and other eligible operating costs beginning January 1, 2014 through early Calendar Year (CY) 2015, to coincide with the end of 2015 Open Enrollment, per Centers for Medicare and Medicaid Services (CMS) approval. Primarily due to the availability of federal funds, issuer administrative fees were suspended during CY2014.

Current Year Activities

In FY2017, the Health Connector continued to operate ACA-required programs that launched on January 1, 2014, including the offering of QHPs and QDPs to individuals and small businesses, the Navigator program and the Massachusetts-specific risk adjustment program. Many key accomplishments were achieved during FY2017, most significantly another successful 2017 Open Enrollment that provided a stable customer experience for both new and renewing members. As of June 2017, there were over 248,851 individuals enrolled in QHPs and 5,958 small group QHPs. In addition, 72,289 of our QHP members were also enrolled in QDPs.

During FY2017, the Health Connector partnered with a state-based marketplace (SBM) which would allow both SBMs to share costs and operate their Small Business Health Options Programs. The Health Connector, along with the District of Columbia Health Benefit Exchange (DCHBX), completed an initial launch of the new Group Market Exchange (GME) solution on August 15, 2017, with additional functionality and Plan options available in 2018.

The Financial Statements

The Health Connector's financial report includes three financial statements: the Statement of Net Position (similar to a balance sheet); the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the GASB. Under this method of accounting, an economic resources measurement focus and an accrual basis of accounting is used, similar to private industry. Revenue is recorded when earned, and expenses are recorded when incurred.

The Statement of Net Position presents information on the Health Connector's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Health Connector is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position reports the operating revenues and expenses and nonoperating revenues and expenses of the Health Connector for the fiscal year. The difference – increase or decrease in net position – is presented as the change in net position for the fiscal year. The cumulative differences from inception forward are presented as the net position of the Health Connector, reconciling to total net position on the Statement of Net Position.

The Statement of Cash Flows presents information showing how the Health Connector's cash and cash equivalents position changed during the fiscal year. The Statement of Cash Flows classifies cash receipts and cash payments as resulting from operating activities, capital and related financing activities, noncapital financing activities and investing activities. The net result of those activities is reconciled to the cash and short-term investment balances reported at the end of the fiscal year. This statement is prepared using the direct method, which allows the reader to easily understand the amount of cash received and how much cash was disbursed.

(Continued)

Summarized Financial Information

Summarized financial information as of and for the years ended June 30, 2017, 2016, and 2015 is as follows:

Table 1

Net Position

(In thousands)

		2017	2016	2015
Current assets	$	220,950	150,674	165,769
Capital assets		356	480	612
Total assets	$	221,306	151,154	166,381
Current liabilities	$	198,495	127,122	129,670
Long term liabilities		5,224	4,405	3,705
Total liabilities	$	203,719	131,527	133,375
Net position:				
Invested in capital assets	$	356	480	612
Unrestricted		17,231	19,148	32,394
Total net position	$	17,587	19,628	33,006

Table 2

Changes in Net Position

(In thousands)

		2017	2016	2015
Operating revenues	$	626,004	526,845	501,008
Operating expenses		678,331	573,992	576,086
Operating loss		(52,327)	(47,147)	(75,078)
Nonoperating revenue		50,286	33,769	81,010
(Decrease) increase in net position	$	(2,041)	(13,378)	5,932

Financial Highlights

For FY2017, the Health Connector had a net operating loss of $52,326,317 on operating revenues of $626,004,298 and operating expenses of $678,330,615. For FY2016, the Health Connector had a net operating loss of $47,147,031 on operating revenues of $526,845,456 and operating expenses of $573,992,487.

(Continued)

Operating revenues include $399,020,115 in premiums billed to QHP and QDP enrollees. Premiums for QHP and QDP enrollees are billed one month in advance of the coverage period. Premium payments collected by the Health Connector from QHP and QDP enrollees are paid to the carriers on a monthly basis. In FY2017, QHP and QDP premiums increased by $88,995,929 when compared to FY2016 due to a 26% increase in QHP and QDP member months in FY2017. Additional FY2017 operating revenues include state-funded premium subsidies and cost sharing reduction subsidies, which were $126,196,096 and $71,821,753, respectively. Both subsidies, which are part of the Health Connector's ConnectorCare program, supplement federal subsidies to further strengthen affordability of coverage for individuals with income at or below 300% of the FPL. These subsidies, which are funded from the Commonwealth Care Trust Fund (CCTF), are paid to the carriers on a monthly basis. The CCTF is a fund that is managed and administered by the Commonwealth. In FY2017, state funded premium subsidies increased by $14,874,981 when compared to FY2016 due to a 27% increase in Connector Care member months in FY 2017. Cost sharing reduction subsidies for FY2017 decreased by $14,519,050, when compared to FY2016 due to a $17,155,032 increase in the FY2017 cost sharing reduction subsidies caused by a 27% increase in Connector Care member months offset by a $31,674,082 take back from the carriers that was a result of a final settlement of the CY2015 cost sharing reduction program in FY2017 with the carriers.

Additional FY2017 operating revenue includes $26,996,769, which represents administrative fees assessed to the carriers. The administrative fee assessed to the carriers for ConnectorCare QHP enrollees is 3.0% of the sum of enrollee premiums paid, federal APTC and state premium subsidies paid to the carriers. The administrative fee assessed to the carriers for non ConnectorCare QHP enrollees is 2.5% of the sum of enrollee premiums paid and federal APTC. The administrative fee assessed to the carriers for QDP enrollees is 3.0% of the enrollee premiums paid. In FY2017, the administrative fees assessed to the carriers increased by $4,954,104 when compared to FY2016. Nonoperating revenue, which includes federal grant revenue of $9,727,307, a CCTF contribution for administrative operations of $38,159,648, intergovernmental revenue of $2,190,901 and investment income of $207,697 increased by $16,516,737 when compared to FY2016. Most of the change is due to a $14,959,648 increase in the CCTF contribution for administrative operations.

For FY2016, the Health Connector had a net operating loss of $47,147,031 on operating revenues of $526,845,456 and operating expenses of $573,992,487.

Operating revenues for FY2016 include $310,024,186 in premiums billed to QHP and QDP enrollees. In FY2016, QHP and QDP premiums increased by $122,160,578 compared to FY2015 due to an over 40% increase in QHP and QDP enrollees in FY2016. Additional FY2016 operating revenues included state-funded premium and cost sharing reduction subsidies, which were $111,321,115 and $86,340,803 respectively. FY2016 state-funded premium and cost sharing reduction subsidies increased by $77,025,461 and $55,604,557, respectively, when compared to FY2015. The increase in state funded subsidies was primarily attributable to an over 50% increase in Connector Care enrollees in FY2016. Additional FY2016 operating revenue includes $22,042,665, which represents administrative fees assessed to the carriers in FY2016.

Contacting the Health Connector's Management

This financial report is designed to provide citizens, taxpayers and creditors with a general view of the Health Connector's finances and to show the Health Connector's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Kari Miller, Chief Financial Officer, Commonwealth Health Insurance Connector Authority at 100 City Hall Plaza, 6th Floor, Boston, MA 02108.

COMMONWEALTH HEALTH INSURANCE CONNECTOR AUTHORITY
(A Component Unit of the Commonwealth of Massachusetts)

Statements of Net Position

June 30, 2017 and 2016

	2017	2016
Assets:		
Current assets:		
Cash and short-term investments (note 2)	$ 50,960,711	39,452,373
Restricted asset – short-term investments (note 3)	—	19,161
Accounts receivable – qualified health and dental plan enrollees, net (note 4)	5,800,056	7,009,691
Accounts receivable – ACA risk adjustment (note 5)	135,272,853	85,727,653
Accounts receivable – federal grants	2,394,405	9,554,983
Due from Commonwealth (note 6)	20,810,310	6,669,132
Accounts receivable – carriers (note7)	4,505,083	1,237,303
Other assets	1,206,731	1,004,066
Total current assets	220,950,149	150,674,362
Noncurrent assets (note 11):		
Capital assets – computers and equipment	102,484	102,484
Less accumulated depreciation	(68,472)	(53,832)
Total computers and equipment	34,012	48,652
Capital assets – furniture and fixtures	267,669	267,669
Less accumulated depreciation	(261,175)	(241,770)
Total furniture and fixtures	6,494	25,899
Captial assets – computer software	813,738	813,738
Less accumulated depreciation	(498,319)	(408,199)
Total computer software	315,419	405,539
Total noncurrent assets	355,925	480,090
Total assets	221,306,074	151,154,452
Liabilities:		
Current liabilities:		
Accounts payable	8,251,647	870,672
Unearned revenue (note 12)	36,740,140	29,875,783
Accrued salary and benefits (note 1(i))	643,097	571,254
Liabilities to be paid from restricted assets (note 3)	—	19,161
Accounts payable – ACA risk adjustment (notes 5 and 13)	135,272,853	85,727,653
Accounts payable – MCO's	—	41,751
Accounts payable – enrollee overpayments	12,174,112	7,649,858
Other liabilities	5,413,640	2,365,421
Total current liabilities	198,495,489	127,121,553
Long term liabilities:		
OPEB obligation (note9)	5,223,713	4,405,263
Total long term liabilities	5,223,713	4,405,263
Total liabilities	203,719,202	131,526,816
Net position:		
Invested in capital assets	355,925	480,090
Unrestricted	17,230,947	19,147,546
Commitments and contingencies (note 10, 14 and 15)		
Total net position	$ 17,586,872	19,627,636

See accompanying notes to financial statements.

COMMONWEALTH HEALTH INSURANCE CONNECTOR AUTHORITY
(A Component Unit of the Commonwealth of Massachusetts)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2017 and 2016

	2017	2016
Operating revenues:		
Qualified health and dental plan enrollee premiums	$ 399,020,115	310,024,186
State wrap premium subsidy – ConnectorCare	126,196,096	111,321,115
State cost sharing reduction subsidy – ConnectorCare	71,821,753	86,340,803
State Mandated Benefits	586,879	457,215
Carrier Administrative fees	26,996,769	22,042,665
Risk adjustment data validation user fee	699,281	—
Commonwealth Care capitation	—	(3,493,704)
Commonwealth Care enrollee contributions	—	(66,698)
Other revenue	683,405	219,874
Total operating revenues	626,004,298	526,845,456
Operating expenses:		
Carrier payments – qualified health and dental plan enrollee premiums	399,020,115	310,024,186
State wrap premium subsidy – ConnectorCare	126,196,096	111,321,115
State cost sharing reduction subsidy – ConnectorCare	71,821,753	86,340,803
State Mandated Benefits	586,879	457,215
Commonwealth Care capitation	—	(3,560,402)
Consulting and professional support	12,988,505	14,028,692
Customer service and premium billing	44,914,239	39,518,565
Navigator program	1,564,480	1,455,392
Salaries, benefits, and payroll taxes	8,396,335	8,027,350
Communications	2,065,991	1,052,952
General and administrative	364,300	323,548
IT and communications	6,785,005	2,462,306
Facility and related	844,833	723,746
Depreciation expense	124,165	131,527
Program appeals	246,501	254,110
Pension expense (note 8)	2,190,901	1,328,818
Other expense	220,517	102,564
Total operating expenses	678,330,615	573,992,487
Operating loss	(52,326,317)	(47,147,031)
Nonoperating revenue:		
Federal grant revenue	9,727,307	9,137,066
CCTF contributions (note 1(h))	38,159,648	23,200,000
Intergovernmental revenue (note 8)	2,190,901	1,328,818
Investment income	207,697	102,932
Total nonoperating revenue	50,285,553	33,768,816
(Decrease) in net position	(2,040,764)	(13,378,215)
Net position – beginning of fiscal year	19,627,636	33,005,851
Net position – end of fiscal year	$ 17,586,872	19,627,636

See accompanying notes to financial statements.

COMMONWEALTH HEALTH INSURANCE CONNECTOR AUTHORITY
(A Component Unit of the Commonwealth of Massachusetts)

Statements of Cash Flows

Years ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Cash paid to employees	$ (4,208,855)	(4,131,809)
Cash paid to vendors	(65,377,664)	(74,314,945)
Cash refunds paid due to enrollee overpayments	(2,999,109)	(4,387,010)
Cash received from Commonwealth	193,022,508	207,302,648
Cash paid to MMCO's (capitation net of stop loss premiums)	669,827	(9,561,704)
Cash paid to MMCO's (stop loss settlements)	(12,796)	(5,443,483)
Cash received from Commonwealth Care enrollees	—	569
Cash paid to carriers	(601,086,809)	(506,883,751)
Cash received from qualified health and dental plan enrollees	409,944,015	317,979,391
Cash paid to carriers (ACA Risk Adjustment)	(85,727,653)	(60,126,427)
Cash received from carriers (ACA Risk Adjustment)	85,727,653	60,126,427
Interest received	31,005	12,067
Operating revenue:		
Administrative fees	26,997,379	26,324,272
RADV user fee	695,031	—
Other	156,052	165,581
Net cash used for operating activities	(42,169,416)	(52,938,174)
Cash flows from capital and related financing activities:		
Cash received from federal grants	16,887,885	17,185,611
Cash received from Commonwealth (CCTF contributions)	36,563,011	23,833,332
Cash received from Commonwealth (cost allocations)	—	5,590,569
Net cash provided by capital and related financing activities	53,450,896	46,609,512
Cash flow from investing activities:		
Investment earnings	207,697	102,932
Net cash provided by investing activities	207,697	102,932
Net increase (decrease) in cash and short-term investments	11,489,177	(6,225,730)
Cash and short-term investments at the beginning of the fiscal year	39,471,534	45,697,264
Cash and short-term investments at the end of the fiscal year	$ 50,960,711	39,471,534
Reconciliation of operating loss to cash used for operating activities:		
Operating loss	$ (52,326,317)	(47,147,031)
Adjustments to reconcile operating income to cash used for operating activities:		
(Increase) in nonfederal accounts receivable	(65,744,523)	(5,099,944)
(Increase) decrease in other assets	(202,665)	330,420
Depreciation	124,165	131,527
Pension expense	2,190,901	1,328,818
CCTF contributions	1,596,637	(633,332)
Increase (decrease) in accounts payable, and accrued liabilities	72,192,386	(1,848,632)
Net cash used for operating activities	$ (42,169,416)	(52,938,174)

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The Commonwealth Health Insurance Connector Authority (the Health Connector) is an independent body politic and corporate and public health instrumentality of the Commonwealth of Massachusetts established pursuant to Chapter 176Q of the MGLs as added by Section 101 of Chapter 58 of the Acts of 2006.

Due to its relationship with the Commonwealth, the Health Connector is considered a discretely presented component unit and is presented as such in the Commonwealth's financial statements. The Health Connector has no relationship with other entities that could be considered component units.

(b) Basis of Presentation

Since January 1, 2014, the Health Connector has been operating as a SBM and is responsible for implementing the provisions of the ACA within the Commonwealth of Massachusetts.

The accompanying financial statements of the Health Connector have been prepared in accordance with U.S. GAAP, as prescribed by the GASB. The Health Connector has prepared a "Statement of Net Position," a "Statement of Revenues, Expenses and Changes in Net Position" and a "Statement of Cash Flows," along with the required supplementary information titled "Management's Discussion and Analysis" which precedes the financial statements.

The Health Connector utilizes the full accrual basis of accounting, which focuses on changes in total economic resources, in the preparation of financial statements. Under the full accrual basis of accounting, long term assets and liabilities are reflected in the financial statements.

(c) Cash and Cash Equivalents

The Health Connector considers all highly liquid investments with an original maturity of 30 days or less when purchased to be cash equivalents.

(d) Investments

The Health Connector is authorized to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, bonds or notes of public agencies or municipalities, bank time deposits, guaranteed investment contracts, money market accounts, and repurchase agreements. These investments are recorded at fair value. Investments consist entirely of amounts held in the Massachusetts Municipal Depository Trust (MMDT), an external investment pool overseen by the Massachusetts State Treasurer. For purposes of risk categorization, MMDT shares are not categorized. For credit quality, the MMDT is unrated.

MMDT is recorded at its Net Asset Value (NAV) which is valued at $1.00 per share as of June 30, 2017 and 2016.

(e) Capital Assets

The Health Connector defines capital assets as classes of assets with an initial aggregate cost of more than $49,999 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

(f) Depreciation

Depreciation is calculated on the straight-line method based on the estimated useful lives of between three and 10 years for the applicable assets beginning in the fiscal year of acquisition.

(g) Revenue Recognition

The Health Connector's major revenue sources are QHP and QDP enrollee contributions, ConnectorCare state wrap premium and cost sharing reduction subsidies, and administrative fees collected from the carriers. The Health Connector recognizes revenue when earned. Interest income and investment income is recognized when earned.

(h) Operating and Nonoperating Revenues and Expenses

Operating revenues include premiums billed to QHP and QDP enrollees, state-funded premium wrap and cost sharing reduction subsidies. The state wrap and cost sharing reduction subsidies, which are part of the Health Connector's ConnectorCare program, supplement federal subsidies to further strengthen affordability of coverage for individuals with income at or below 300% of the FPL. Additional revenue is generated through administrative fees assessed to the carriers.

Federal grant revenue, intergovernmental revenue and investment income are reported as nonoperating revenues. Also reported in nonoperating revenues are contributions from the Commonwealth Care Trust Fund (CCTF) to support the Health Connector's operations.

Operating expenses include QHP and QDP enrollee premiums billed and collected by the Health Connector and paid to the carriers. Operating expenses also include state-funded premium and cost sharing reduction subsidies received from the CCTF and paid to the carriers. In addition, the Health Connector includes as operating expenses payments for customer service and business operations, the Navigator program, the Appeals program, outreach, personnel and other administrative items.

(i) Compensated Absences and Other Employee Benefits

Employees earn the right to be compensated during absences for vacation, personal and sick time (earned time or ET). Upon retirement, termination or death, certain employees are compensated for ET (subject to certain limitations) at their then current rate of pay. Accumulated ET is recorded as an expense and liability as benefits accrue. As of June 30, 2017 and 2016, the ET liability was $504,773 and $463,202, respectively.

The employees of the Health Connector participate in the Commonwealth's GIC for all healthcare benefits except for dental and vision benefits, which are purchased directly through Delta Dental and Vision Service Plan.

(j) Restricted Assets

The Health Connector's restricted assets as of June 30, 2016 represents Commonwealth Care Stop Loss premiums paid by the MCOs and held by the Health Connector for payment of claims in excess of stop loss limits. The remaining outstanding MCO stop loss pool settlement which is represented by the balance shown as of June 30, 2016 was completed during FY2017.

(k) Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of 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.

(l) Retirement Plan

For purposes of measuring the net pension liability and pension expense, information about the fiduciary net position of the Massachusetts State Employees Retirement System (SERS) and additions to/deductions from SERS's fiduciary net position have been determined on the same basis as they are reported by SERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investment of assets in the SERS is with the Pension Reserves Investment Trust (PRIT) Fund, which is managed by the Pension Reserves Investment Management (PRIM) Board. The PRIM Board seeks to maximize the total return on investments within acceptable levels of risk for public pension funds. Investments are reported at fair value as described in the Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Massachusetts.

(2) Cash and Investments

The Health Connector has implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*.

(a) Deposits with Financial Institutions

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the depositor will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are uninsured or uncollateralized.

As of June 30, 2017, the Health Connector had bank deposits of $42,422,360 that exceeded the Federal Deposit Insurance Corporation (FDIC) coverage of $250,000. As of June 30, 2016, the Health Connector had bank deposits of $34,443,466 that exceeded the Federal Deposit Insurance Corporation (FDIC) coverage of $250,000.

(b) Investments

In fiscal year 2016, the Health Connector implemented GASB Statement No. 72, *Fair Value Measurement and Application,* the impact of which was not material to the financial statements. The Health Connector's investment policy is to ensure that cash is invested in a stable investment option with consistent and competitive yields. As of June 30, 2017 and 2016, available cash is invested in the MMDT Cash Portfolio option.

For purposes of risk categorization, MMDT shares are not categorized. The fair value of the Health Connector's position in MMDT as of June 30, 2017 and 2016 was $9,197,254 and $7,545,978, respectively, and is the same as the value of MMDT shares. The unrestricted portion of the MMDT investment account funds operating accounts with other financial institutions and is classified as part of cash and short-term investments.

(3) Restricted Assets

As of June 30, 2017 and 2016, the Health Connector recorded restricted assets of $0 and $19,161, respectively, which represent Stop Loss premiums paid by the managed care organizations (MCOs) and held by the Health Connector. Based on the contractual arrangement between the Health Connector and the MCOs, such funds are paid to the MCOs based on individual claims submitted that exceed contractual stop loss limits. If funds are remaining at the end of the risk settlement period, funds will be paid to all the participating MCOs on a pro-rata basis. If premiums paid by the MCOs are insufficient to cover the cost of individual claims submitted, an invoice will be sent to all the participating MCOs on a pro-rata basis to fund the deficit. The remaining outstanding MCO stop loss pool settlement which is represented by the balance shown as of June 30, 2016 was completed during FY2017.

(4) Accounts Receivable – Qualified Health and Dental Plan Enrollees

As of June 30, 2017 and 2016, the unpaid portion of the health insurance premium billed to QHP and QDP enrollees was $11,447,055 and $14,122,910, respectively. The allowance for uncollectible accounts receivable at June 30, 2017 and 2016 was $5,646,999 and $7,113,219, respectively.

(5) Accounts Receivable – ACA Risk Adjustment

As of June 30, 2017 and 2016, the Risk Adjustment Settlement amount due from the carriers for the 2016 and 2015 calendar years were $135,272,853 and $85,727,653, respectively. Risk Adjustment which is mandated by the ACA redistributes funds from plans with lower-risk enrollees to plans with higher-risk enrollees. The program was designed to protect against adverse selection in the individual and small group markets inside and outside of the exchanges by spreading financial risk across the markets. Through an actuarial process, the average health risk of the average consumer in the merged market is calculated. Plans with lower risk membership (less costly members) make payments to plans with higher risk membership. Payments among the plans net to zero. In Massachusetts, the risk adjustment process includes 16 issuers and over 750,000 people who represent the state's merged market. The Commonwealth created a methodology in conjunction with the carriers, which was approved by the federal Center for Medicare and Medicaid Services in March 2013. In June 2017, the Health Connector applied the approved methodology and reviewed each carrier's 2016 membership and determined how those members fared compared to the overall average. Claims data is provided by the carriers and is analyzed by an independent technical consultant contracted by the Commonwealth. Payments are then made by carriers

whose membership has a lower-than-average risk, and payments are made to carriers whose membership has a higher-than-average risk.

(6) Due from Commonwealth

As of June 30, 2017 and 2016, the amount due from the Commonwealth was $20,810,310 and $6,669,132, respectively. The FY2017 amount due from the Commonwealth includes $19,233,078 in state premium and cost sharing reduction subsidies paid by the Health Connector to the carriers in June 2017, and an unpaid June 2017 CCTF contribution of $3,179,971 offset by $2,374,375 which represents the Health Connector's share of the Health Insurance Exchange Integrated Eligibility System (HIX-IES) operations and maintenance costs incurred under the Optum contract, managed by MassIT.

(7) Accounts Receivable – Carriers

As of June 30, 2017 and 2016, the amount due from the carriers was $4,505,083 and $1,237,303 respectively. The FY2017 amount of $4,505,083 represents QHP and QDP subscriber premium payments previously paid to the carriers and owed to the Health Connector.

(8) Retirement Plan

In FY2016, the Health Connector adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Under this statement, the relationship among the Commonwealth, the Health Connector and SERS qualified as a 100% special funding situation. Accordingly, the accompanying statements do not record as a liability, a net pension liability (NPL) related to its employees. Rather the NPL related to the Health Connector's employees is recorded as an obligation of the Commonwealth. As such, the impact of adopting this Statement was to recognize the amount the Commonwealth contributed on behalf of the Health Connector's employees as pension expense and intergovernmental revenue in the accompanying statement of revenues, expenses and changes in net position for the years ended June 30, 2017 and June 30, 2016.

(a) Plan Description

All eligible employees of the Health Connector are provided with pension benefits through the Massachusetts SERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Massachusetts State Retirement Board. SERS does not issue a stand-alone publicly available financial report, but its activities are included as a pension trust fund in the Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Massachusetts.

(b) Benefits Provided

SERS provides retirement, disability, survivor and death benefits to members and their beneficiaries. The MGLs establishes the benefit and contribution requirements for SERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years of consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at the age of 65; for certain hazardous duty and public safety positions, normal retirement is at the age of 55. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60. The retirement systems' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the SERS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

(c) Contributions

SERS funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. Member contributions for SERS vary depending on the most recent date of membership from 5% regular compensation for hires prior to 1975 to 11% of regular compensation for hire dates after July 1, 2001. For members hired after 1979, an additional contribution of 2% of regular compensation in excess of $30,000 is also required.

The Commonwealth is legally responsible to make employer contributions for the Health Connector's employees participating in SERS. As such, the Commonwealth has a 100% special funding situation for the Health Connector. Accordingly, the Health Connector recognized $2,190,901 and $1,328,818 as pension expense and intergovernmental revenue of the same amount in the statement of revenues, expenses and changes in net position for the year ended June 30, 2017 and 2016, respectively.

(i) Pension Liabilities and Pension Expense

At June 30, 2017, the Health Connector was allocated a liability of $15,775,710 for its proportionate share of the net pension liability of SERS but was not required to record this liability as the Commonwealth is legally responsible for paying the liability.

Net pension liability allocated to the Health Connector	$	15,775,710
Net pension liability to be paid by the Commonwealth		(15,775,710)
Net pension liability of the Health Connector	$	—

The net pension liability was measured as of June 30, 2016 (the Measurement Date), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2015 and rolled forward to the Measurement Date. The Health Connector's proportion of the net pension liability was based on actual nonemployer contributions. At June 30, 2016, the Health Connector's proportion was 0.11441% which was an increase of 9.6% from its proportion of 0.10439% measured as of June 30, 2015.

(Continued)

(d) Actuarial Assumptions

The total pension liability in the January 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

- Salary increases: 4.0% to 9.0% depending on the group and length of service
- Investment rate of return: 7.5% net of pension plan investment expense, including inflation; 3.5% interest rate credited to the annuity savings fund
- Cost of living increase: 3.0% per year

Mortality rates were based on the following:

- Pre-retirement – reflects RP 2000 Employees Table projected 20 years with Scale BB (gender district)
- Post-retirement – reflects RP 2000 Healthy Annuitant and table projected generationally with Scale BB (gender district)
- Disability – the mortality rate is assumed to be in accordance with the RP-2000 Healthy Annuitant Table projected generationally with Scale BB

The long-term expected rate of return on pension 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 pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real estate rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric rates of return for each major asset class included in the Pension Reserve Investment Trust (PRIT) Fund's target allocation as of June 30, 2016 are summarized in the following table:

Asset class	Target allocation	Long term expected real rate of return
Core fixed income	13 %	1.6 %
Value added fixed income	10	4.8
Global equity	40	6.9
Real estate	10	4.6
Private equity	10	8.7
Hedge funds	9	4.0
Portfolio Completion Strategies	4	3.6
Timber/natural resources	4	5.4
Total	100 %	

(Continued)

(e) Discount Rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(i) Sensitivity of the Health Connector's proportionate share of the net pension liability to changes in the discount rate

The following presents the Health Connector's proportionate share of the net pension liability calculated using the discount rate of 7.5% as well as what the Health Connector's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

		1% decrease	Discount rate	1% increase
Health Connector's proportionate share of the net pension liability	$	20,558,194	15,775,710	11,722,370

(ii) Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the Commonwealth's financial report.

(9) Other Post-Employment Benefits (OPEB)

(a) Plan Description

The Health Connector provides post-employment health care and life insurance benefits (OPEB) for retired employees through the GIC. The GIC administers and manages health coverage options and benefits to participating employees and retirees. As of January 1, 2014, the date used for actuarial census data, the Health Connector had two retirees and 47 active employees who met the eligibility requirements. The plan does not issue a separate financial report.

(b) Benefits Provided

The Health Connector provides medical, prescription drug, mental health/substance abuse and life insurance to retirees and their covered dependents. All active employees who retire from the Health Connector and meet the eligibility criteria will receive these benefits. The Health Connector also offers dental benefits to retirees; however these benefits are completely paid by the retirees, and therefore there is no OPEB liability for these dental benefits.

(c) Funding Policy

Employees who retire after July 1, 1994 but on or before October 1, 2009 contribute 15% of the cost of the health plan, as determined by the GIC. Employees who retire after October 1, 2009 contribute 20% of the cost of the plan as determined by the GIC. In both cases, the Health Connector contributes the remainder of the health plan costs on a pay-as-you-go basis.

(d) Annual OPEB Costs and Net OPEB Obligation

The Health Connector's FY2017 annual OPEB expense is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize the unfunded actuarial liability over a period of 30 years. The following table shows the components of the Health Connector's annual OPEB cost for the year-ending June 30, 2017 and June 30, 2016, respectively, the amount actually contributed to the plan, and the change in the Health Connector's net OPEB obligation based on an actuarial valuation as of January 1, 2014 for June 30, 2016 and updated through an actuarial roll forward to January 1, 2017 for June 30, 2017(in thousands).

		2017	2016
Annual required contribution (ARC)	$	780	672
Adjustment to ARC including interest on net OPEB obligation		45	37
Annual OPEB cost (AOC)		825	709
Contributions made		(6)	(9)
Increase in net OPEB obligation		819	700
Net OPEB obligation – beginning of year		4,405	3,705
Net OPEB obligation – end of year	$	5,224	4,405

The Health Connector's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows for 2017 and the preceding year (in thousands):

		Annual OPEB cost	Percentage of OPEB cost contributed		Net OPEB obligation
Fiscal year ended:					
June 30, 2017	$	825	0.7 %	$	5,224
June 30, 2016		709	1.4		4,405
June 30, 2015		651	1.6		3,705

The Health Connector's net OPEB obligation as of June 30, 2017 and 2016 is recorded in long term liabilities.

(Continued)

(e) Funded Status and Funding Progress

The funded status of the plan as of June 30, 2017, based on an actuarial valuation as of January 1, 2014 updated through an actuarial roll forward to January 1, 2016, was as follows (in thousands):

Actuarially accrued liability (AAL)	$	5,263
Actuarial value of plan assets		—
Unfunded actuarial accrued liability (UAAL)	$	5,263
Funded ratio (actuarial value of plan assets/AAL)		— %
Covered payroll (active plan members)	$	4,459
UAAL as a percentage of covered payroll		118%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the Health Connector are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(f) Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Health Connector and plan members. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2014 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Health Connector has not advance funded its obligation. The actuarial assumptions included a rate of 4.5% investment rate of return and an annual healthcare cost trend rate of 6.5% which decreases to a 5.0% long-term trend rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a closed period of 30 years. This has been calculated assuming the amortization payment increases at a rate of 4.5%.

(10) Operating Lease

The Health Connector has an operating lease for office space on three floors at 100 City Hall Plaza. The lease terminates on August 30, 2021. Future minimum operating lease payments at June 30, 2017 are as follows:

Fiscal year:		
2018	$	685,133
2019		704,253
2020		723,373
2021		742,493
2022		124,280
	$	2,979,532

During FY2017, the amount of operating lease payments was $657,717. During FY2016, the amount of operating lease payments was $601,190.

(11) Capital Assets

Capital assets as of June 30, 2017 and 2016 are as follows:

		Beginning balance June 30, 2016	Increases/ decreases	Ending balance June 30, 2017
Capital assets:				
Computers and equipment	$	102,484	—	102,484
Furniture and fixtures		267,669	—	267,669
Computer software		813,738	—	813,738
Total capital assets		1,183,891	—	1,183,891
Less accumulated depreciation:				
Computers and equipment		(53,832)	(14,640)	(68,472)
Furniture and fixtures		(241,770)	(19,405)	(261,175)
Computer software		(408,199)	(90,120)	(498,319)
Total accumulated depreciation		(703,801)	(124,165)	(827,966)
Total capital assets, net	$	480,090	(124,165)	355,925

	Beginning balance June 30, 2015	Increases/ decreases	Ending balance June 30, 2016
Capital assets:			
Computers and equipment	$ 102,484	—	102,484
Furniture and fixtures	267,669	—	267,669
Computer software	813,738	—	813,738
Total capital assets	1,183,891	—	1,183,891
Less accumulated depreciation:			
Computers and equipment	(39,191)	(14,641)	(53,832)
Furniture and fixtures	(215,003)	(26,767)	(241,770)
Computer software	(318,080)	(90,119)	(408,199)
Total accumulated depreciation	(572,274)	(131,527)	(703,801)
Total capital assets, net	$ 611,617	(131,527)	480,090

(12) Unearned Revenue

As of June 30, 2017 and 2016, the Health Connector had $36,740,140 and $29,875,783 respectively in unearned revenue for QHP and QDP enrollees whose premiums are billed one month in advance of the coverage month.

(13) Accounts Payable – ACA Risk Adjustment

As of June 30, 2017 and 2016, the ACA Risk Adjustment settlement amount due to the carriers for the 2016 and 2015 calendar years were $135,272,853 and $85,727,653, respectively. The ACA Risk Adjustment Program which is intended to protect against adverse selection in the individual and small group markets inside and outside the exchanges, redistributes funds from plans with lower risk enrollees to plans with higher risk enrollees. Refer to note 5 for additional explanation of the Massachusetts ACA Risk Adjustment program.

(14) Commitments and Contingencies

In February 2015, the Heath Connector received a grand jury subpoena from the U.S. Attorney's Office of the District of Massachusetts seeking documents regarding the development of an electronic health insurance exchange and integrated eligibility system by the Commonwealth and the private vendors involved in that project. It has been publicly reported that other state entities involved in the project have received a similar subpoena. At this time, the Health Connector has responded to the subpoena by providing documents and information. The Health Connector is unable to predict the outcome or time frame of this subpoena or any related investigation.

Other than the foregoing, the Health Connector is not currently involved in any pending legal actions arising in the normal course of activities.

The Health Connector receives financial assistance from the Federal government principally in the form of grants primarily for one-time, ACA transition activities. As a grant recipient, the Health Connector is responsible for compliance with terms and conditions of grant agreements and applicable Federal regulations, including the expenditure of resources for eligible purposes. All Federal grants received by the Health Connector are subject to audit under the requirements of the Federal Single Audit Act. During FY2017 and FY2016, the Health Connector incurred expenditures related to the implementation of the ACA. The spending was primarily for period costs, contractual services and internal costs related to the implementation. Additional costs are expected to be incurred in FY2018.

(15) HIX-IES Project

As of May 1, 2014, the Commonwealth's IT department, Mass IT has contracted with Optum to develop a HIX-IES. That contract is still active, and development work on the HIX-IES is ongoing. As a user of the HIX-IES, the Health Connector is obligated to provide a portion of the development costs of the HIX-IES, along with the state's Medicaid agency, which is the other user of the system. The Health Connector's share of the costs have been developed per the project's approved cost allocation methodology. The Health Connector's share of the costs are funded by Exchange Establishment grants or the Early Innovator grant (administered by the University of Massachusetts Medical School). HIX-IES operations and maintenance costs allocated to the Exchange are funded by the Health Connector with nonfederal funds and paid to Mass IT in the form of a chargeback under an Interagency Service Agreement (ISA).

As of FY2017 and FY2016, the Health Connector has included $2,374,375 and $9,168,586, respectively, in Due from Commonwealth in the accompanying financial statements for the estimated share of the costs due to Mass IT.

(16) Group Market Exchange (GME)

In March 2017, the Health Connector entered into a partnership with the District of Columbia Health Benefits Exchange (DCHBX) to develop a new Group Market Exchange to offer coverage to small businesses. The expected implementation cost of approximately $5.6 million is expected to be funded by a Federal Establishment Grant awarded to the Health Connector for $9.7 million. Through June 30, 2017, the Health Connector incurred $3,394,897 in GME implementation costs and has requested federal reimbursements of $1,404,516 as of June 30, 2017. The GME program began operations on August 15, 2017.

COMMONWEALTH HEALTH INSURANCE CONNECTOR AUTHORITY

(a Component Unit of the Commonwealth of Massachusetts)

Schedule of Proportionate Share of the Net Pension Liability

Required Supplementary Information

June 30, 2017

(Unaudited)

		2017	2016
Health Connector's proportion of the net pension liability		0.11441%	0.10439%
Health Connector's share of the net pension liability	$	—	—
State's proportionate share of the net pension liability associated with the Health Connector		15,775,710	11,882,332
Total net pension liability	$	15,775,710	11,882,332
Health Connector's covered-employee payroll	$	6,286,232	5,860,359
Health Connector's proportionate share of the net pension liability as a percentage of its covered-employee payroll		250.96%	202.80%
Plan fiduciary net position as a percentage of the total pension liability		63.50%	67.90%

The Health Connector is not required to make contributions to the State Employees Retirement System. Accordingly, the RSI related to statutorily or contractually contributions is not presented.

Data for the past eight years is not currently available.

See accompanying independent auditors' report.

COMMONWEALTH HEALTH INSURANCE CONNECTOR AUTHORITY

(A Component Unit of the Commonwealth of Massachusetts

Schedule of Funding Progress

Required Supplementary Information

June 30, 2017

(Dollars in thousands)

(Unaudited)

Other postemployment benefits

Actuarial valuation	Assets (a)	Actuarial accrued liability (AAL) – (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll (b-a)/(c))
January 1, 2014	$ —	3,239	3,239	—	4,459	73%
January 1, 2011	—	2,130	2,130	—	4,258	50%
January 1, 2009	—	2,319	2,319	—	4,809	48%
January 1, 2008	—	1,869	1,869	—	4,030	46%
January 1, 2007	—	813	813	—	2,183	37%

See accompanying independent auditors' report.