



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

Financial Statements and Required Supplementary Information

June 30, 2022

(With Independent Auditors' Report Thereon)

COMMONWEALTH HEALTH INSURANCE CONNECTOR AUTHORITY
(A Component Unit of the Commonwealth of Massachusetts)
Financial Statements and Required Supplementary Information
June 30, 2022

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Independent Auditors' Report

The Board of Directors
Commonwealth Health Insurance Connector Authority:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Commonwealth Health Insurance Connector Authority (the Health Connector), a component unit of the Commonwealth of Massachusetts, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Health Connector's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Health Connector as of June 30, 2022, and the changes in its financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Health Connector and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1(f) to the financial statements, in fiscal 2021, the Health Connector adopted Governmental Accounting Standards Board (GASB) Statement No.87, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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



Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Health Connector's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Health Connector's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis, and the required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board 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 GAAS, 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 October 19, 2022 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 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 Health Connector'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 Health Connector's internal control over financial reporting and compliance.

KPMG LLP

Boston, Massachusetts
October 19, 2022

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

Management's Discussion and Analysis – Unaudited

June 30, 2022

Introduction

The following discussion of the financial performance and activity of the Commonwealth Health Insurance Connector Authority (Health Connector) is intended to provide an overview and analysis of the basic financial statements for the fiscal year ended June 30, 2022. 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 (MGL) 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 small businesses. 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. Qualifying individuals may be eligible for federal Advanced Premium Tax Credits (APTC) to lower their health insurance premiums.
- ConnectorCare is a subsidized health insurance program offering QHPs to individuals at 300% or less of the Federal Poverty Level (FPL). In addition to federal tax credits, ConnectorCare members also receive state subsidies (state premium wrap and cost sharing reductions) to further offset premium and point-of-service costs.
- Health Connector for Business (HCB) 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 2022.
- 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 health care coverage options; access any applicable federal tax credits and other state subsidies; and enroll in a health plan.
- 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.

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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, 2022, the Health Connector employed approximately 76 full-time equivalent personnel in business administration and program functions (i.e., finance, legal, operations, policy, outreach, plan management and information technology or 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.

Current Year Activities

In FY2022, the Health Connector continued to operate ACA-required programs that launched on January 1, 2014. As of June 30, 2022, there were 225,718 individuals enrolled in QHPs and 11,255 members enrolled in small group QHPs. In addition, 107,035 of our QHP members were also enrolled in QDPs or were members with a dental only policy.

A key activity in FY2021 and FY2022, the Customer Experience Project (CXP) culminated in the selection of new vendors to perform enrollment, premium billing, member portal, contact center, walk-in centers, noticing, and mailroom functions for our nongroup population. Softheon, Inc. was selected to perform enrollment, premium billing, noticing, and member portal services and Accenture State Health Care Services, LLC, selected to provide contact center and back-office services, including walk-in centers.

Introduced with the American Rescue Plan (ARP), and extended by the Inflation Reduction Act (IRA) through 2025, is the expansion of premium subsidies through ACA marketplaces like the Health Connector:

- Expansion of APTC generosity for individuals under 400 percent FPL (initially just 2021 and 2022 tax years, though now extended through 2025)
- Enabling individuals over 400 percent FPL to be newly eligible for APTC to make their enrollee contribution towards a benchmark plan not exceed 8.5 percent of household income (initially just 2021 and 2022 tax years, though now extended through 2025)
- Automatically designating anyone in receipt of Unemployment Income for any week of 2021 as being 133 percent FPL for the purposes of APTC and Cost Sharing Reductions (CSR) eligibility (2021 tax year only), effectively allowing for eligibility to enroll in a \$0 health plan option

Significant internal operational, IT and outreach activities were performed by the Health Connector and our vendor partners for successful implementation and maximization of the opportunity to expand coverage and improve affordability for Massachusetts residents.

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To support ARP implementation, the Health Connector applied for and was awarded approximately \$1.1 million via the American Health Benefit Exchange State Planning and Establishment Grants from the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services. The Health Connector primarily utilized these funds for community outreach, events, and media to promote awareness of new ARP benefits available to Massachusetts residents and ensure the new federal benefits to Massachusetts residents were maximized.

Also, during FY2022, the Public Health Emergency (PHE) enacted as a result of the Covid 19 pandemic was extended through at least October 2022. The Health Connector continues to work closely with our state colleagues and vendors to plan for the eventual conclusion of the PHE as we prepare for many of the individuals currently in protected coverage with underlying QHP eligibilities to shift to the Health Connector.

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 Total Assets and Deferred Outflows and Total Liabilities and Deferred Inflows, 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.

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Management's Discussion and Analysis – Unaudited

June 30, 2022

Summarized Financial Information

Summarized financial information as of and for the years ended June 30, 2022 and 2021 is as follows:

Table 1
Net Position
(In thousands)

	<u>2022</u>	<u>2021</u>
Current assets	\$ 120,248	132,070
Capital assets	19,493	9,642
Deferred outflows of resources	<u>4,034</u>	<u>1,452</u>
Total assets and deferred outflows	\$ <u>143,775</u>	<u>143,164</u>
Current liabilities	\$ 68,479	72,550
Long-term liabilities	14,104	8,354
Deferred inflows of resources	<u>4,684</u>	<u>4,028</u>
Total liabilities and deferred inflows	\$ <u>87,267</u>	<u>84,932</u>
Net position:		
Invested in capital assets	\$ 19,493	9,642
Unrestricted	<u>37,015</u>	<u>48,590</u>
Total net position	\$ <u>56,508</u>	<u>58,232</u>

Table 2
Changes in Net Position
(In thousands)

	<u>2022</u>	<u>2021</u>
Operating revenues	\$ 685,391	883,408
Operating expenses	<u>724,208</u>	<u>928,621</u>
Operating loss	(38,817)	(45,213)
Nonoperating revenues	75,623	209,971
Nonoperating expenses	<u>38,530</u>	<u>161,669</u>
Decrease in net position	\$ <u>(1,724)</u>	<u>3,089</u>

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Management's Discussion and Analysis – Unaudited

June 30, 2022

Financial Highlights

For FY2022, the Health Connector had a net operating loss of \$38,816,649 on operating revenues of \$685,391,084 and operating expenses of \$724,207,733.

Operating revenues include \$497,910,547 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 monthly. Additional FY2022 operating revenues include state-funded premium subsidies and cost sharing reduction subsidies, which were \$12,448,985 and \$69,634,552, 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 monthly. The CCTF is a fund that is managed and administered by the Commonwealth.

FY2022 operating revenue also includes \$62,393,541 in premiums billed to HCB employers. Premiums for HCB employers are billed one month in advance of the coverage period. Premium payments collected by the Health Connector from HCB employers are paid to the carriers monthly.

Additional FY2022 operating revenue includes \$41,354,231 of 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. Non-operating revenue includes a CCTF contribution for administrative operations of \$35,000,000, federal grant revenue of \$1,107,393, intergovernmental revenue of \$807,442, investment income of \$173,795 and nonfederal grant revenue of \$4,023.

As a result of the coronavirus (COVID-19) outbreak, on March 10, 2020 the Governor of Massachusetts declared a state of emergency. On behalf of and at the request of the Commonwealth, the Health Connector entered into contracts with vendors to support the Massachusetts Community Tracing Collaborative (CTC). During FY2022, the Health Connector received \$38,530,894 in non-operating revenue and incurred \$38,530,894 in non-operating expenses for the CTC. The funds are reimbursed monthly to the Health Connector by the Commonwealth.

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.

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Statement of Net Position

June 30, 2022

Assets and deferred outflows:	
Current assets:	
Cash and short-term investments (note 2)	\$ 98,093,459
Accounts receivable:	
Qualified Health and Dental plan enrollees, net (note 3)	6,989,259
Carriers (note 5)	1,692,442
Due from Commonwealth (note 4)	12,996,255
Other assets	<u>476,725</u>
Total current assets	<u>120,248,140</u>
Noncurrent assets:	
Capital assets and lease assets, net (notes 9 and 11)	19,492,810
Deferred outflows of resources:	
Deferred outflows related to OPEB	<u>4,033,717</u>
Total deferred outflows of resources	<u>4,033,717</u>
Total assets and deferred outflows	<u>143,774,667</u>
Liabilities and deferred inflows:	
Current liabilities:	
Accounts payable	7,088,731
Unearned revenue (note 6)	50,953,997
Accrued salary and benefits	1,192,269
Accounts payable – enrollee overpayments	4,872,669
Lease liabilities (note 11)	903,395
Other liabilities	<u>3,468,011</u>
Total current liabilities	<u>68,479,072</u>
Long term liabilities:	
OPEB obligation (note 8)	11,408,180
Lease liabilities (note 11)	<u>2,695,985</u>
Total long term liabilities	<u>14,104,165</u>
Deferred inflows of resources:	
Deferred inflows related to OPEB	<u>4,683,499</u>
Total deferred inflows of resources	<u>4,683,499</u>
Total liabilities and deferred inflows	<u>87,266,736</u>
Net position:	
Invested in capital assets	19,492,810
Unrestricted	37,015,121
Commitments and contingencies (note 11 and 12)	
Total net position	<u>\$ 56,507,931</u>

See accompanying notes to financial statements.

COMMONWEALTH HEALTH INSURANCE CONNECTOR AUTHORITY
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Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2022

Operating revenues:	
Qualified health and dental plan enrollee premiums	\$ 497,910,547
Health Connector for Business enrollee premiums	62,393,541
State wrap premium subsidy – ConnectorCare	12,448,985
State cost sharing reduction subsidy – ConnectorCare	69,634,552
State Mandated Benefits	410,788
American Rescue Plan – implementation and outreach	588,970
Commonwealth of Massachusetts	315,087
Carrier Administrative fees	41,354,231
Medical loss ratio rebate	14,259
Wellness track subsidies	235,630
Other revenue	84,494
	<hr/>
Total operating revenues	685,391,084
Operating expenses:	
Carrier payments – qualified health and dental plan enrollee premiums	497,910,547
Carrier payments – Health Connector for Business enrollee premiums	62,393,541
State wrap premium subsidy – ConnectorCare	12,448,985
State cost sharing reduction subsidy – ConnectorCare	69,634,552
State Mandated Benefits	410,788
American Rescue Plan – implementation and outreach	1,696,362
Consulting and professional support	1,249,257
Customer service and premium billing	48,037,516
Navigator program	2,526,626
Salaries, benefits, and payroll taxes	9,408,068
Communications	2,208,075
General and administrative	908,796
IT and communications	7,220,616
Facility and related	331,078
Depreciation expense	4,334,495
Amortization expense	872,889
Interest expense	64,432
Program appeals	300,069
Postemployment expense (notes 7 and 8)	1,961,832
Medical loss ratio rebate	14,259
Wellness track subsidies	274,950
	<hr/>
Total operating expenses	724,207,733
Operating loss	<u>(38,816,649)</u>
Nonoperating revenue:	
CCTF contributions	35,000,000
Federal grant revenue	1,107,393
Intergovernmental revenue (note 7)	807,442
Investment income	173,795
Massachusetts contact tracing collaborative	38,530,894
Nonfederal revenue	4,023
	<hr/>
Total nonoperating revenue	75,623,547
Nonoperating expense:	
Massachusetts contact tracing collaborative	<u>38,530,894</u>
Total nonoperating expense	<u>38,530,894</u>
Decrease in net position	(1,723,996)
Net position – beginning of fiscal year	<u>58,231,927</u>
Net position – end of fiscal year	<u>\$ 56,507,931</u>

See accompanying notes to financial statements.

COMMONWEALTH HEALTH INSURANCE CONNECTOR AUTHORITY
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Notes to Financial Statements

June 30, 2022

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

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 MGL 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. The Connector is exempt from Federal, State, and local income taxes.

(b) Basis of Presentation

The accompanying financial statements of the Health Connector have been prepared in accordance with U.S. GAAP, as prescribed by the Governmental Accounting Standards Board (GASB).

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 including money market like instruments such as the Massachusetts Municipal Depository Trust (MMDT), and repurchase agreements. Investments other than MMDT are recorded at fair value. In accordance with GASB 79, MMDT reports its holdings at amortized cost, as such the Health Connector reports its position in MMDT at amortized cost which approximates the net asset value of \$1.00 (one dollar) per share. MMDT is an external investment pool overseen by the Massachusetts State Treasurer.

At June 30, 2022, investments consist entirely of amounts held in MMDT.

(e) Capital Assets

The Health Connector defines capital assets, including intangible 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, developed, or constructed.

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Notes to Financial Statements

June 30, 2022

(f) Leases

The Health Connector adopted the provisions of GASB Statement No. 87, *Leases*, effective July 1, 2021. The Health Connector recorded a right to-use-asset and corresponding lease liability of approximately \$3.4 million as of July 1, 2021. Accordingly, there was no effect on the previously reported net position of the Health Connector. See note 11 for further information related to the Health Connector's leasing activity.

The Health Connector recognizes a right-to-use asset and a corresponding lease liability for its lessee lease arrangement for office space. The lease asset is amortized into amortization expense on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset. At lease commencement, the lease liability is measured at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The discount rate used in the present value calculation is an estimate of the interest rate that would be charged for borrowing the lease payment amounts during the lease term.

Presentation in Statement of Net Position

Lease assets are reported with capital assets in the statement of net position.

(g) Depreciation

Depreciation is calculated on the straight-line method based on the estimated useful lives of between 3 and 10 years for the applicable assets beginning in the fiscal year of acquisition or as the computer software is substantially complete and operational.

(h) Revenue Recognition

The Health Connector recognizes revenue when earned. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

The Health Connector's major operating revenue sources are QHP and QDP enrollee contributions, HCB enrollee contributions, ConnectorCare state wrap premium and cost sharing reduction subsidies, and administrative fees collected from the carriers. 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.

Federal grant revenue, Massachusetts CTC, intergovernmental revenue and investment income are reported as nonoperating revenues. Also reported in nonoperating revenues are contributions from the 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.

Massachusetts CTC is reported as a nonoperating expense.

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Notes to Financial Statements

June 30, 2022

(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, 2022, the ET liability was \$899,339.

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) *Deferred Outflows of Resources and Deferred Inflows of Resources*

Deferred outflows of resources are defined as a consumption of net assets that is applicable to a future reporting period. Deferred inflows of resources are defined as an acquisition of net assets that is applicable to a future reporting period. Deferred outflows of resources increase net position, similar to assets, whereas deferred inflows of resources decrease net position, similar to liabilities.

(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.

(2) *Cash and Investments*

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 large uninsured deposits with no collateral agreements.

As of June 30, 2022, the Health Connector had bank deposits of \$45,566,565 that exceeded the Federal Deposit Insurance Corporation (FDIC) coverage of \$250,000.

As of June 30, 2022, the Health Connector had bank deposits of \$7,709,873 that are fully collateralized.

Investments

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, 2022, available cash is invested in the MMDT Cash Portfolio option.

MMDT's average maturity is less than a year and not -rated for risk purposes. The Health Connector's position in MMDT as of June 30, 2022 was \$48,066,120 and is classified as part of cash and short-term investments.

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Notes to Financial Statements

June 30, 2022

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

As of June 30, 2022, the unpaid portion of the health insurance premium billed to QHP and QDP enrollees was \$7,330,949. The allowance for uncollectible accounts receivable at June 30, 2022 was \$341,690.

(4) Due from Commonwealth

As of June 30, 2022, the amount due from the Commonwealth was \$12,996,255. The FY2022 amount due from the Commonwealth includes \$10,447,398 in state premium and cost sharing reduction subsidies and state mandated benefits paid by the Health Connector to the carriers in June 2022, \$2,916,667 in an unpaid June 2022 CCTF contribution, \$2,154,437 in costs related to the Massachusetts CTC, \$34,495 in costs related to the American Rescue Plan, \$18,178 in salaries and fringe and \$64,789 in wellness subsidies. These amounts are offset by \$17,041 in the premium deferral loan program, \$14,259 in MLR rebates for benefit year 2021 and \$2,608,409 which represents the Health Connector's share of the Health Insurance Exchange Integrated Eligibility System (HIXIES) operations and maintenance costs incurred under the Optum contract, managed by EOHHS.

(5) Accounts Receivable – Carriers

As of June 30, 2022, the amount due from the carriers was \$1,692,442 which represents \$1,678,183 in QHP and QDP subscriber premium overpayments and \$14,259 in MLR rebates for benefit year 2021 due from the carriers.

(6) Unearned Revenue

As of June 30, 2022, the Health Connector had \$50,953,997 which represents unearned revenue for QHP and QDP enrollees whose premiums are billed one month in advance of the coverage month.

(7) Retirement Plan

All eligible employees of the Health Connector are provided with pension benefits through the Massachusetts State Employees' Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Massachusetts State Retirement Board.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, requires participating employers and nonemployers to recognize their proportionate share of the collective pension liability, deferred outflows and deferred inflows of resources, and pension expense. The collective pension amounts of participating entities in SERS have been allocated based on actual employer contribution and nonemployer contributions made by the Commonwealth.

Because contributions to SERS are the legal responsibility of the Commonwealth and not the Health Connector, a "special funding" situation under GASB Statement No. 68 exists which requires the Commonwealth, not the Health Connector, to record the pension liability for the Health Connector employees in its financial statements.

For the year ended June 30, 2022, the Health Connector recognized pension expense of \$807,442 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, 2022. The net pension liability reported

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by the Commonwealth on behalf of the Health Connector was approximately \$13.2 million as of June 30, 2022.

The fiscal 2022 net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2021 rolled forward to June 30, 2021.

(8) Other Post-Employment Benefits (OPEB)

(a) Plan Description

The Health Connector administers a single-employer defined benefit OPEB plan. The plan provides post-employment health care and life insurance benefits (OPEB) for eligible retired employees through the GIC. The GIC administers and manages health coverage options and benefits to participating employees and retirees. As of January 1, 2021, the date used for actuarial census data, the Health Connector had three retirees and 74 active employees who met the eligibility requirements. No assets are accumulated in a trust that meets the criteria of paragraph 4 of Statement No. 75.

(b) Benefits Provided

The Health Connector provides medical, dental, 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.

(c) Contributions

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) Total OPEB Liability

The Health Connectors' total OPEB liability of \$11,408,180 was measured as of June 30, 2021 and was determined by an actuarial valuation as of January 1, 2021 rolled forward to June 30, 2021.

(i) Actuarial Assumptions and Other Inputs

The total OPEB liability as of June 30, 2021, was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement period:

Inflation	2.5 percent
Salary Increases	4.0 percent, average, including inflation
Healthcare cost trend rates	6.5 percent for 2021, decreasing each year to an ultimate rate of 4.5 percent for 2030 and later years
Actuarial cost method	Entry age normal with 30 year open amortization period

Pre-retirement mortality reflects PUB-2010 headcount-weighted general classification mortality, projected generationally with Scale MP-2021.

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(ii) *Discount Rate*

The discount rate used to measure the total OPEB liability as of June 30, 2022 was 2.16%. The discount rate is based on the Bond Buyer General Obligation 20-year Municipal Bond Index, which includes tax-exempt general municipal bonds with an average rating of AA/Aa or higher.

Changes in Total OPEB Liability	
Balance at June 30, 2021	\$ 8,354,162
Changes for the year:	
Service cost	1,058,540
Interest on the total OPEB liability	207,754
Differences between expected and actual experiences	(1,163,555)
Change of assumptions	2,975,555
Benefit payments	<u>(24,276)</u>
Net changes	<u>3,054,018</u>
Balance at June 30, 2022	<u>\$ 11,408,180</u>

Change of assumptions reflect a change in the discount rate from 2.21% to 2.16% in 2022, and the mortality assumption reflects PUB-2010 headcount-weighted general classification mortality, projected generationally with Scale MP-2021.

(iii) *Sensitivity of the Total OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates*

The following table presents the total OPEB liability of the Health Connector, as well as what the Health Connector's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.16%) or 1-percentage-point higher (3.16%) than the current discount rate:

	<u>1% Decrease (1.16%)</u>	<u>Discount rate (2.16%)</u>	<u>1% Increase (3.16%)</u>
Total OPEB liability	\$ 14,286,593	11,408,180	9,204,205

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The following table presents the total OPEB liability of the Health Connector, as well as what the Health Connector's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	(5.5% decreasing to 3.5%) 1% Decrease	Current healthcare cost trend rate - 6.5% decreasing to 4.5%	(7.5% increasing to 5.5%) 1% Increase
Total OPEB liability	\$ 8,531,020	11,408,180	15,543,546

(e) OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2022, the Health Connector recognized OPEB expense of \$1,154,390. The following table illustrates the Deferred Outflows and Deferred Inflows as of June 30, 2022 under GASB 75.

	Deferred outflows	Deferred inflows
Difference between actual and expected experience	\$ —	2,138,178
Assumption changes	4,007,981	2,545,321
Benefit payments made in fiscal year ending June 30, 2022 after measurement date	25,736	—
Total deferred outflows and inflows	\$ <u>4,033,717</u>	<u>4,683,499</u>

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Deferred outflows of resources for benefit payments made in fiscal year 2022 after the measurement date will be recognized as a reduction in the total OPEB liability in fiscal year 2022. Other amounts recognized in the deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the OPEB expense as follows:

Year end June 30:		
2023	\$	(111,904)
2024		(111,904)
2025		(111,904)
2026		(111,904)
2027		(111,904)
Total thereafter		<u>(115,998)</u>
	\$	<u><u>(675,518)</u></u>

(9) Capital Assets

Capital assets as of June 30, 2022 are as follows:

	Ending balance June 30, 2021	Additions	Deductions	Ending balance June 30, 2022
Capital assets not being depreciated:				
Computer software	\$ —	—	—	—
Total capital assets not being depreciated	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Other capital assets:				
Computers and equipment	102,484	533,573	—	636,057
Furniture and fixtures	267,669	—	—	267,669
Computer software	13,825,929	10,229,478	(2,304,129)	21,751,278
Total other capital assets	<u>14,196,082</u>	<u>10,763,051</u>	<u>(2,304,129)</u>	<u>22,655,004</u>
Total capital assets	<u>14,196,082</u>	<u>10,763,051</u>	<u>(2,304,129)</u>	<u>22,655,004</u>
Less accumulated depreciation:				
Computers and equipment	(102,484)	(71,467)	—	(173,951)
Furniture and fixtures	(267,669)	—	—	(267,669)
Computer software	(4,184,243)	(4,263,028)	2,304,129	(6,143,142)
Total accumulated depreciation	<u>(4,554,396)</u>	<u>(4,334,495)</u>	<u>2,304,129</u>	<u>(6,584,762)</u>
Total capital assets, net excluding lease assets	\$ <u><u>9,641,686</u></u>	<u><u>6,428,556</u></u>	<u><u>—</u></u>	<u>16,070,242</u>
Lease assets, net (Note 11)				<u>3,422,568</u>
Total capital assets, net as reported in the statement of net position				\$ <u><u>19,492,810</u></u>

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During fiscal year 2022, in accordance with GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, the Health Connector capitalized \$10,229,478 in internally generated software costs related to the implementation of the new contact center vendor.

(10) Changes in Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2022 are summarized below:

	Ending balance June 30, 2021	Additions	Deductions	Ending balance June 30, 2022	Amounts due within one year
Long-term obligations:					
OPEB Obligation	\$ 8,354,162	4,241,849	(1,187,831)	11,408,180	—
Total long-term liabilities	8,354,162	4,241,849	(1,187,831)	11,408,180	—
Total long-term liabilities excluding lease liabilities	8,354,162	4,241,849	(1,187,831)	11,408,180	—
Lease liabilities	\$ 3,374,670	920,786	696,076	3,599,380	903,395
Total long-term liabilities as reported in the statement of net position				\$ 15,007,560	903,395

(11) Leases

The Health Connector is a lessee for various noncancellable leases of office building space. The lease term expiration dates range from June 2023 to November 2026. Monthly payments are based on the fixed price per square footage of leased space. The monthly payments range from \$4,910 to \$36,890. The Health Connector used an estimated incremental borrowing rate of 1.5%.

Intangible right-to-use lease assets

A summary of lease asset activity during the year ended June 30, 2022 is as follows:

	Ending balance June 30, 2021	Additions	Remeasurements	Deductions	Ending balance June 30, 2022
Lease assets:					
Office building space	\$ 3,374,670	920,786	—	—	4,295,456
Total lease assets	3,374,670	920,786	—	—	4,295,456
Less accumulated amortization:					
Office building space	—	(872,888)	—	—	(872,888)
Total accumulated amortization	—	(872,888)	—	—	(872,888)
Total lease assets, net	\$ 3,374,670	47,898	—	—	3,422,568

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Lease liabilities

A summary of changes in the related lease liabilities during the year ended June 30, 2022 is as follows:

	Ending balance June 30, 2021	Additions	Remeasurements	Deductions	Ending balance June 30, 2022	Amounts due within one year
Lease liabilities	\$ 3,374,670	920,786	—	(696,076)	3,599,380	903,395

Future annual lease payments are as follows:

Fiscal year	Principal	Interest	Total
2023	\$ 903,395	53,991	957,386
2024	832,175	40,440	872,615
2025	863,885	27,957	891,842
2026	685,968	14,999	700,967
2027	313,957	4,709	318,666
	\$ 3,599,380	142,096	3,741,476

Variable lease payments

Variable lease payments, other than those payments that depend on an index or rate or are fixed in substance, are excluded from the measurement of the lease liability. Such amounts are recognized as lease expense in the period in which the obligation for those payments is incurred.

Certain office space leases require the Health Connector to make variable lease payments that relate to the property taxes levied on the lessor and insurance payments made by the lessor; these amounts are generally determined annually. The amounts recognized as outflows (expense) for variable lease payments not included in the measurement of the lease liabilities were \$331,078 during the year ended June 30, 2022.

(12) Commitments and Contingencies

The Health Connector is involved in legal actions arising in the normal course of activities. Although the ultimate outcome of such matters is not determinable at this time, management, after taking into consideration advice of legal counsel, believes that the resolutions of pending matters will not have a materially adverse effect, individually or in the aggregate, upon the Health Connector's financial statement.

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Schedule of Proportionate Share of Net Pension Liability

Required Supplementary Information

June 30, 2022

(Unaudited)

	2022	2021	2020	2019	2018	2017	2016
	(measurement date	(measurement date	(measurement date	(measurement date	(measurement date	(measurement date	(measurement date
	June 30, 2021)	June 30, 2020)	June 30, 2019)	June 30, 2018)	June 30, 2017)	June 30, 2016)	June 30, 2016)
Health Connector's proportion of the net pension liability	0.12668 %	0.12602 %	0.11856 %	0.11708 %	0.11645 %	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	<u>13,220,672</u>	<u>21,622,082</u>	<u>17,350,105</u>	<u>15,489,168</u>	<u>14,934,603</u>	<u>15,775,710</u>	<u>11,882,332</u>
Total net pension liability	\$ <u>13,220,672</u>	<u>21,622,082</u>	<u>17,350,105</u>	<u>15,489,168</u>	<u>14,934,603</u>	<u>15,775,710</u>	<u>11,882,332</u>
Health Connector's covered-employee payroll	\$ 8,081,107	7,709,718	7,722,172	7,064,044	6,649,289	6,286,232	5,860,359
Health Connector's proportionate share of the net pension liability as a percentage of its covered-employee payroll	— %	— %	— %	— %	— %	— %	— %
Plan fiduciary net position as a percentage of the total pension liability	77.54 %	62.48 %	66.28 %	67.91 %	67.21 %	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.

Note: Information is required to be presented for 10 years. However, until a full 10-year trend is completed, the Health Connector will present information for only those years for which information is available.

See accompanying independent auditors' report.

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Schedule of Changes in Total OPEB Liability and Related Ratios

June 30, 2022

(Unaudited)

	2022	2021	2020	2019	2018
	(measurement date	(measurement date	(measurement date	(measurement date	(measurement date
	June 30, 2021)	June 30, 2020)	June 30, 2019)	June 30, 2018)	June 30, 2017)
Total OPEB liability:					
Service cost	\$ 1,058,540	782,874	696,984	711,299	1,215,462
Interest on the total OPEB liability	207,754	234,229	265,814	225,939	258,534
Differences between expected and actual experiences	(1,163,555)	(11,687)	(1,328,924)	(51,916)	—
Change of assumptions	2,975,555	1,470,290	101,969	(306,354)	(3,725,195)
Benefit payments	<u>(24,276)</u>	<u>(23,523)</u>	<u>(10,829)</u>	<u>(3,664)</u>	<u>(6,057)</u>
Net change in total liability	3,054,018	2,452,183	(274,986)	575,304	(2,257,256)
Total OPEB liability – beginning	<u>8,354,162</u>	<u>5,901,979</u>	<u>6,176,965</u>	<u>5,601,661</u>	<u>7,858,917</u>
Total OPEB liability – ending	\$ <u>11,408,180</u>	<u>8,354,162</u>	<u>5,901,979</u>	<u>6,176,965</u>	<u>5,601,661</u>
Fiduciary net position as a percentage of OPEB liability	\$ —	—	—	—	—
Covered-employee payroll	8,081,107	7,709,718	7,722,172	7,064,044	6,649,289
Net OPEB liability as a percentage of covered-employee payroll	141 %	108 %	76 %	87 %	84 %

Notes to schedule:

2021:

Changes of Assumptions:

The discount rate was changed from 2.21% as of the June 30, 2020 measurement date to 2.16% as of the June 30, 2021 measurement date.

The mortality assumption was updated from the PUB-2010 Headcount-weighted General Classification Employee and Healthy Annuitant tables projected generationally with Scale MP-2020, to PUB-2010 Headcount-weighted General Classification mortality, projected generationally with Scale MP-2021

2020:

Changes of Assumptions:

The discount rate was changed from 3.51% as of the June 30, 2019 measurement date to 2.21% as of the June 30, 2020 measurement date.

The mortality assumption was updated from the PUB-2010 Headcount-weighted General Classification Employee and Healthy Annuitant tables projected generationally with Scale MP-2019, to PUB-2010 Headcount-weighted General Classification mortality, projected generationally with Scale MP-2020

2019:

Changes of Assumptions:

The discount rate was changed from 3.87% as of the June 30, 2018 measurement date to 3.51% as of the June 30, 2019 measurement date.

The mortality assumption was updated from the PUB-2010 Headcount-weighted General Classification Employee and Healthy Annuitant tables projected generationally with Scale MP-2018, to PUB-2010 Headcount-weighted General Classification mortality, projected generationally with Scale MP-2019

2018:

Changes of Assumptions:

The discount rate was changed from 3.58% as of the June 30, 2017 measurement date to 3.87% as of the Jun 30, 2018 measurement date.

The mortality assumption was updated from the RP-2014 Blue Collar Employees and Healthy Annuitant tables projected generationally, with scale MP-2016, set forward 1 year for females, to PUB-2010 Headcount-weighted General Classification Employee and Healthy Annuitant tables projected generationally with Scale MP-2018 for all participants.

2017:

Changes of Assumptions:

The discount rate was changed from 2.85% as of the June 30, 2016 measurement date to 3.58% as of the June 30, 2017 measurement date.

Note: Information is required to be presented for 10 years. However, until a full 10-year trend is completed, the Health Connector will present information for only those years for which information is available.

See accompanying independent auditors' report.