

# **HAMPSHIRE COUNTY GROUP INSURANCE TRUST**

Financial Statements  
For the Year Ended June 30, 2021

(With Independent Auditors' Report Thereon)

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## INDEPENDENT AUDITORS' REPORT

To the Insurance Advisory Committee  
Hampshire County Group Insurance Trust

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Hampshire County Group Insurance Trust (the Trust) and the aggregate remaining fund information, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the Table of Contents.

### ***Management's Responsibility for the Financial Statements***

The Trust's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

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Merrimack, New Hampshire  
Andover, Massachusetts  
Greenfield, Massachusetts  
Ellsworth, Maine

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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 respective financial position of the Hampshire County Group Insurance Trust, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, certain Pension and OPEB schedules, and the Claims Development Information 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 evidence sufficient to express an opinion or provide any assurance.

A handwritten signature in black ink that reads "Melanson". The signature is written in a cursive, flowing style.

Greenfield, Massachusetts  
March 14, 2022

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Hampshire County Group Insurance Trust (the Trust), we offer readers this narrative overview and analysis of the financial activities of the Trust for the fiscal year ended June 30, 2021.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Hampshire County Group Insurance Trust's basic financial statements. The basic financial statements include: (1) the Statement of Net Position, (2) the Statement of Revenues, Expenses and Changes in Net Position, (3) the Statement of Cash Flows, (4) Statement of Fiduciary Net Position, (5) Statement of Changes in Fiduciary Net Position, and (6) Notes to the Financial Statements. This report also contains required supplementary information in addition to the basic financial statements themselves.

The Statement of Net Position presents information on all assets, liabilities, and deferred outflows/inflows with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position summarizes our operating results and the change in net position for the fiscal year.

The Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position account for resources held in the OPEB Trust Fund that benefit parties outside the Trust.

The Statement of Cash Flows provides information about the cash receipts and cash payments during the accounting period. It also provides information about the investing activities for the same period.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

### **Financial Highlights**

As of the close of the current fiscal year, the total of assets and deferred outflows exceeded liabilities and deferred inflows by \$33,671,577 (i.e., net position), a change of \$4,352,661 in comparison to the prior year.

The following is a summary of net position for the current and prior fiscal years:

<b>NET POSITION</b>		
	<u>2021</u>	<u>2020</u>
<b>Assets</b>		
Current and other assets	\$ 44,180,608	\$ 38,919,221
Deferred outflows of resources	75,076	136,852
<b>Liabilities</b>		
Current liabilities	9,761,740	8,596,478
Noncurrent liabilities	<u>713,486</u>	<u>1,056,695</u>
Total liabilities	10,475,226	9,653,173
Deferred inflows of resources	<u>108,881</u>	<u>83,984</u>
<b>Net Position</b>		
Unrestricted	\$ <u><u>33,671,577</u></u>	\$ <u><u>29,318,916</u></u>

<b>CHANGES IN NET POSITION</b>		
	<u>2021</u>	<u>2020</u>
<b>Revenues</b>		
Operating revenues	\$ 71,670,179	\$ 72,336,321
Nonoperating revenues	<u>2,574,740</u>	<u>496,710</u>
Total revenues	74,244,919	72,833,031
<b>Expenses</b>		
Operating expenses	<u>69,892,258</u>	<u>68,090,209</u>
Change in net position	4,352,661	4,742,822
Net position - beginning of year	<u>29,318,916</u>	<u>24,576,094</u>
Net position - end of year	\$ <u><u>33,671,577</u></u>	\$ <u><u>29,318,916</u></u>

### Requests for Information

This financial report is designed to provide a general overview of the Hampshire County Group Insurance Trust's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Mr. Joseph Shea, Director  
Hampshire County Group Insurance Trust  
98 King Street  
Northampton, MA 01060

**HAMPSHIRE COUNTY GROUP INSURANCE TRUST**

Proprietary Funds  
Statement of Net Position  
June 30, 2021

<b>Assets</b>	
Current:	
Cash and short-term investments	\$ 10,325,439
Investments	29,636,366
Member accounts receivable	<u>4,191,650</u>
Total Current Assets	44,153,455
Noncurrent:	
Net OPEB asset	<u>27,153</u>
Total Assets	44,180,608
<b>Deferred Outflows of Resources</b>	
Related to pensions	75,076
<b>Liabilities</b>	
Current:	
Member deposits	4,444,802
Accrued claims payable (IBNR)	<u>5,316,938</u>
Total Current Liabilities	9,761,740
Noncurrent:	
Compensated absences	49,422
Net pension liability	<u>664,064</u>
Total Noncurrent Liabilities	<u>713,486</u>
Total Liabilities	10,475,226
<b>Deferred Inflows of Resources</b>	
Related to pensions	108,881
<b>Net Position</b>	
Unrestricted	<u>33,671,577</u>
Total Net Position	<u>\$ 33,671,577</u>

The accompanying notes are an integral part of these financial statements.

**HAMPSHIRE COUNTY GROUP INSURANCE TRUST**

Proprietary Funds

Statement of Revenues, Expenses, and Changes in Fund Net Position  
For the Year Ended June 30, 2021

<b>Operating Revenues</b>	
Premiums	\$ 71,008,859
Stop loss reinsurance	<u>661,320</u>
Total Operating Revenues	71,670,179
<b>Operating Expenses</b>	
Salaries and Benefits	534,208
Insurance claims	64,169,419
Claims administration fees	3,166,454
Stop loss insurance premiums	1,931,022
Other operating expenses	<u>91,155</u>
Total Operating Expenses	<u>69,892,258</u>
Operating Income	1,777,921
<b>Nonoperating Revenues</b>	
Investment income	<u>2,574,740</u>
Total Nonoperating Revenues	<u>2,574,740</u>
Change in Net Position	4,352,661
Net Position, at Beginning of Year	<u>29,318,916</u>
Net Position, at End of Year	<u>\$ 33,671,577</u>

The accompanying notes are an integral part of these financial statements.



HAMPSHIRE COUNTY GROUP INSURANCE TRUST

Proprietary Funds  
Statement of Cash Flows  
For the Year Ended June 30, 2021

<b>Cash Flows From Operating Activities</b>	
Receipts from members and users	\$ 70,488,634
Stop loss reinsurance	661,320
Payments to employees	(342,693)
Payments to vendors	<u>(66,454,300)</u>
Net Cash Provided By Operating Activities	4,352,961
<b>Cash Flows From Investing Activities</b>	
(Purchase) sale of investments, net	(5,644,838)
Investment income	<u>2,574,740</u>
Net Cash (Used For) Investing Activities	<u>(3,070,098)</u>
Net Change in Cash and Short-Term Investments	1,282,863
Cash and Short Term Investments, Beginning of Year	<u>9,042,576</u>
Cash and Short Term Investments, End of Year	\$ <u><u>10,325,439</u></u>
<b>Reconciliation of Operating Income to Net Cash Provided By Operating Activities</b>	
Operating income	\$ 1,777,921
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets, liabilities and deferred outflows/inflows:	
Member accounts receivable	(520,225)
Prepaid expense	2,213,692
Net OPEB asset	(27,153)
Deferred outflows - related to pensions	61,776
Accrued claims payable (IBNR)	1,165,262
Compensated absences	930
Net pension liability	(65,949)
Net OPEB liability	(278,190)
Deferred inflows - related to pensions	<u>24,897</u>
Net Cash Provided By Operating Activities	\$ <u><u>4,352,961</u></u>

The accompanying notes are an integral part of these financial statements.

**HAMPSHIRE COUNTY GROUP INSURANCE TRUST**

Fiduciary Funds  
Statement of Fiduciary Net Position  
June 30, 2021

	OPEB Trust Fund
<b>Assets</b>	
Cash and short-term investments	\$ <u>300,000</u>
Total Assets	300,000
<b>Net Position</b>	
Restricted for OPEB purposes	<u>300,000</u>
Total Net Position	\$ <u><u>300,000</u></u>

The accompanying notes are an integral part of these financial statements.

**HAMPSHIRE COUNTY GROUP INSURANCE TRUST**

Fiduciary Funds

Statement of Changes in Fiduciary Net Position

For the Year Ended June 30, 2021

	OPEB Trust <u>Fund</u>
<b>Additions</b>	
Employer contributions	\$ <u>308,949</u>
Total Additions	308,949
<b>Deductions</b>	
Benefit payments	<u>8,949</u>
Total Deductions	<u>8,949</u>
Change in Net Position	300,000
<b>Net Position Restricted for Other Purposes</b>	
Beginning of year	<u>-</u>
End of year	\$ <u><u>300,000</u></u>

The accompanying notes are an integral part of these financial statements.

# HAMPSHIRE COUNTY GROUP INSURANCE TRUST

## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies

The accounting policies of the Hampshire County Group Insurance Trust (the Trust) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant accounting policies:

#### ***Reporting Entity***

The Hampshire County Group Insurance Trust (the Trust) operates under the provisions of Chapter 32B Chapter 12 of the Massachusetts General Laws. The Trust administers a self-insurance program to offer group health insurance and other employee benefits on behalf of their participating members. Per the trust agreement, the Insurance Advisory Committee (IAC) acts as the Trustees. As Trustees, they appoint the Insurance Director and other administrative staff. All assets of the Trust are restricted for Trust use only. The Trust's administrative office is located at 98 King Street, Northampton, MA. As of June 30, 2021, the Trust was composed of 69 Unit members from the cities and towns within Hampshire, Hampden, Franklin and Worcester County. A participating Unit whose membership in the Trust is terminated shall not be entitled to a distribution of any surplus in the certified uncommitted trust fund balance. In the event that the Trust is terminated by the Trustees, any residual funds shall be divided among their participating members.

The Trust's insurance plans are retrospectively rated policies. In other words, the Trust contributes a level monthly premium which is adjusted (settled) quarterly for actual claims paid. Contributions to the Trust from participating Units are on a monthly basis, based on upon plan specific funding rates for coverage provided on individual and family enrollments for self-insured plans. Rates are calculated by the Insurance Director and approved by the IAC. Rates are to be determined to cover 100% cost of the coverage of the Trust, including incurred claims, and administrative expenses.

All surpluses and deficits of the Trust are shared collectively with the Units. Deficits are offset with funds in the unrestricted reserve account. Surplus is added to the unrestricted reserve account. The Trust manages to maintain an unrestricted reserve fund that approximates three (3) months of expenses (claims, admin fee, reinsurance, etc.).

The Trust provides health insurance plans under a self-funded medical plan for active employees and non-Medicare eligible retirees. The plans are administered through

BCBS-MA. Active plans are the BCBS Network Blue (HMO) and the BCBS Bluecare Elect (PPO). The self-funded senior plan is the BCBS Medex 2 w/PDP plan.

Active members also have access to a Rx plan through CanaRx. Certain brand name medications can be obtained free of charge to subscribers with the Trust picking up 100% of the cost. This program is voluntary and currently only offered to active members.

***Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

The Trust reports in a manner consistent with a special purpose entity, which is similar to a proprietary fund. Proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary fund are charges to members for insurance premiums. Operating expenses for proprietary funds include the cost of health insurance claims and related administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when liabilities are incurred. The Trust reports the OPEB Trust Fund as a fiduciary fund. This fund is used to accumulate resources for retiree post-employment benefits.

***Cash and Investments***

Deposits with financial institutions consist primarily of money market accounts.

For purpose of the statement of cash flows, the Trust considers investments with original maturities of three months or less to be cash equivalents.

Investments consist of certificates of deposit, corporate bonds, corporate equities, equity mutual funds and U.S. Treasury notes. Investments are carried at fair value, except certificates of deposit, which are reported at cost.

***Reinsurance***

The Trust contracts with an insurance carrier for excess liability coverage and an insurance consultant for claims processing to reduce its exposure to large losses. Under

the terms of its insurance coverage, the Trust is liable for up to \$275,000 with a lifetime maximum of \$2 million per covered person.

### ***Compensated Absences***

It is the Trust's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred.

### ***Net Position***

Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows. The entire balance of the Trust's net position is reported as unrestricted.

### ***Use of Estimates***

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and expenses during the fiscal year. Actual results could vary from estimates that were used.

## **2. Deposits and Investments**

State statutes, Massachusetts General Law (MGL) Chapter 44, Section 55 place certain limitations on the nature of deposits and investments available to the Trust. Deposits, including demand deposits, money markets, certificates of deposits in any one financial institution, may not exceed 60% of the capital and surplus of such institution unless collateralized by the institution involved. Investments may be made in unconditionally guaranteed U.S. government obligations having maturities of a year or less from the date of purchase, or through repurchase agreements with maturities of no greater than 90 days in which the underlying securities consists of such obligations. Other allowable investments include certificates of deposits having a maturity date of up to 3 years from the date of purchase, national banks, and Massachusetts Municipal Depository Trust (MMDT). MGL Chapter 44, Section 54, provides additional investment options for certain trust and OPEB funds.

### ***Custodial Credit Risk – Deposits***

Custodial credit risk is the risk that in the event of a bank failure, the Trust's deposits may not be returned. The Trust does not have formal deposit policies addressing custodial credit risk of deposits.

As of June 30, 2021, none of the Trust's bank balance of \$10,698,968 was exposed to custodial credit risk as uninsured and/or uncollateralized. This includes the balance in

the OPEB Trust Fund, as a separate bank account has not been established as of June 30, 2021.

### ***Investment Summary***

The following is a summary of the Trusts' investments as of June 30, 2021:

<u>Investment Type</u>	<u>Amount</u>
Certificates of deposit	\$ 16,148,473
Corporate bonds	383,422
Corporate equities	3,902,896
Equity mutual funds	6,318,081
U.S. Treasury notes	<u>2,883,494</u>
Total investments	\$ <u><u>29,636,366</u></u>

### ***Custodial Credit Risk – Investments***

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the Trust will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Trust's investment policy to limit custodial credit risk is to keep a diversified portfolio, with specified ranges of asset allocation between cash equivalents (0% - 25%), fixed income (25% - 75%) and stocks (0% - 25%).

As of June 30, 2021, the Trust did not have investments subject to custodial credit risk exposure as all assets were held in the Trust's name or in certificates of deposit which are covered under FDIC/DIF.

### ***Credit Risk – Investments of Debt Securities***

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts General Law, Chapter 44, Section 55, limits the Trust's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs). The Trust's investment policy requires they invest in a prudent manner, achieving growth and income through quality investments with minimal risk; all bonds should have a rating of BBB- or better.

As of June 30, 2021, the credit quality ratings of the Trust's debt securities consisted of corporate bonds totaling \$383,422, and U.S Treasury notes totaling \$2,883,494, all with ratings of AAA as rated by Moody's Investors Service Inc.

### ***Concentration of Credit Risk – Investments***

The Trust limits investment in any one company to no more than 15% of the total stock portfolio and no one industry can represent more than 30% of total equity holdings.

Investments in any one issuer (other than U.S. Treasury notes and equity mutual funds) that represent 5% or more of total investments are as follows:

<u>Investment Issuer</u>	<u>Amount</u>	<u>% of Total Investments</u>
Easthampton Savings Bank	\$ 8,615,156	29%
Florence Savings Bank	6,423,628	22%
JP Morgan Global Allocated Fund	<u>1,766,168</u>	6%
Total	\$ <u>16,804,952</u>	

### ***Interest Rate Risk – Investments of Debt Securities***

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Trusts' policy limits interest rate risk by requiring fixed income investments (bonds) to have an average maturity of 7 years or less. The Trust currently holds investments with maturities greater than 7 years as they were originally purchased prior to the adoption of the investment policy.

Information about the sensitivity of the fair values of the Trust's investments to market interest rate fluctuations is as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Thereafter</u>
Certificates of deposit	\$ 16,148,473	\$ 16,148,473	\$ -	\$ -	\$ -
Corporate bonds	383,422	124,828	163,484	95,110	-
U.S. Treasury notes	<u>2,883,494</u>	<u>-</u>	<u>1,408,062</u>	<u>1,159,025</u>	<u>316,407</u>
Total	\$ <u>19,415,389</u>	\$ <u>16,273,301</u>	\$ <u>1,571,546</u>	\$ <u>1,254,135</u>	\$ <u>316,407</u>

### ***Foreign Currency Risk – Investments***

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The Trust does not have formal investment policies for foreign currency risk.

### ***Fair Value***

The Trust categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application*.

The hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to



unobservable inputs (level 3 measurements). The hierarchy categorizes the inputs to valuation techniques used for fair value measurement into three levels as follows:

- Level 1 – inputs that reflect quoted prices (unadjusted) in active markets for identical assets or liabilities that the fund has the ability to access at the measurement date.
- Level 2 – inputs other than quoted prices that are observable for an asset or liability either directly or indirectly, including inputs in markets that are not considered to be active. Because they must often be priced on the basis of transactions involving similar but not identical securities or do not trade with sufficient frequency, certain directly held securities are categorized as level 2.
- Level 3 – unobservable inputs based on the best information available, using assumptions in determining the fair value of investments and derivative instruments.

In instances where inputs are used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation.

The Trust has the following fair value measurements as of June 30, 2021:

<u>Description</u>	<u>Amount</u>	<u>Fair Value Measurements Using:</u>		
		<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Investments by fair value level:				
Corporate bonds	\$ 383,422	\$ -	\$ 383,422	\$ -
Corporate equities	3,902,896	3,902,896	-	-
Equity mutual funds	6,318,081	6,318,081	-	-
U.S. Treasury notes	<u>2,883,494</u>	<u>-</u>	<u>2,883,494</u>	<u>-</u>
Total	<u>\$ 13,487,893</u>	<u>\$ 10,220,977</u>	<u>\$ 3,266,916</u>	<u>\$ -</u>

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

Debt securities classified in Level 2 are valued using either a bid evaluation or a matrix pricing technique. Bid evaluations may include market quotations, yields, maturities, call features, and ratings. Matrix pricing is used to value securities based on the securities relationship to benchmark quote prices. Level 2 debt securities have non-proprietary information that was readily available to market participants, from multiple independent sources, which are known to be actively involved in the market.

### 3. Member Accounts Receivables

This balance represents monthly premiums billed to member units in June, not paid until July.

### 4. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net position by the Trust that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. Deferred outflows of resources related to pensions in accordance with GASB Statement No. 68 *Accounting and Financial Reporting for Pensions* is more formally discussed in the corresponding pension note.

### 5. Member Deposits

The Trust collects an initial deposit from each member when they join the Trust. These deposits would be used to fund residual claims in the event the member withdraws from the Trust.

### 6. Accrued Claims Payable (IBNR)

The Trust reports a liability for the estimate of claims incurred but unpaid at year end, based on historical costs and claims paid subsequent to year end. Changes in the aggregate liability for claims for the year ended June 30, 2021 are as follows:

Claims liability, July 1, 2020	\$ 4,151,676
Claims incurred/recognized	64,169,419
Claims paid in period	<u>(63,004,157)</u>
Claims liability, June 30, 2021	<u>\$ 5,316,938</u>
This liability is comprised of:	
Estimated incurred but not reported claims liability	\$ 4,343,918
Amount due for settlement of the quarter ending June 30, 2021	<u>973,020</u>
	<u>\$ 5,316,938</u>

### 7. Hampshire County Retirement System

The Trust follows the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, with respect to the employees' retirement funds.

***Plan Description***

All employees of the Trust are members of the Hampshire County Retirement System (the System), a cost sharing, multiple-employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System’s annual financial reports publicly available from the System located at 99 Industrial Avenue, Northampton, MA 01060.

***Participants’ Contributions***

Participants contribute a set percentage of their gross regular compensation annually. Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The employee’s individual contribution percentage is determined by their date of entry into the system. In addition, all employees hired on or after January 1, 1979 contribute an additional 2% on all gross regular compensation over the rate of \$30,000 per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 – December 31, 1983	7%
January 1, 1984 – June 30, 1996	8%
Beginning July 1, 1996	9%

For those members entering a Massachusetts System on or after April 2, 2012 in Group 1, the contribution rate will be reduced to 6% when at least 30 years of creditable service has been attained.

***Participant Retirement Benefits***

A retirement allowance consists of two parts: an annuity and a pension. A member’s accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest 3-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest 5-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100%, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the

member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the Massachusetts State Police. The other three classes are as follows:

- Group 1 – General employees, including clerical, administrative, technical, and all other employees not otherwise classified.
- Group 2 – Certain specified hazardous duty positions.
- Group 4 – Police officers, firefighters, and other specified hazardous positions.

A retirement allowance may be received at any age, upon attaining 20 years of service. The plan also provides for retirement at age 55 if the participant was a member prior to January 1, 1978, with no minimum vesting requirements. If the participant was a member on or after January 1, 1978 and a member of Groups 1 or 2, then a retirement allowance may be received if the participant (1) has at least 10 years of creditable service, (2) is age 55, (3) voluntarily left Trust employment on or after that date, and (4) left accumulated annuity deductions in the fund. Members of Group 4 have no minimum vesting requirements, however, must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A participant who became a member on or after April 2, 2012 is eligible for a retirement allowance upon 10 years creditable service and reaching ages 60 or 55 for Groups 1 and 2, respectively. Participants in Group 4 must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

#### *Methods of Payment*

A member may elect to receive his or her retirement allowance in one of three forms of payment as follows:

- Option A – Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.
- Option B – A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

- Option C – A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member’s designated beneficiary (who may be the spouse, or former spouse who has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or “pops up” to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable “pops up” to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

#### *Participant Refunds*

Employees who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total deductions. Members voluntarily withdrawing with at least 10 years of service or involuntarily withdrawing, receive 100% of the regular interest that has accrued on those accumulated total deductions. Members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3%.

#### *Employer Contributions*

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

The Trust’s contribution to the System for the year ended June 30, 2021 was \$97,107, which was equal to its annual required contribution.

#### ***Summary of Significant Accounting Policies***

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the System and additions to/deductions from System’s fiduciary net position have been determined on the same basis as they are reported by System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

#### ***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At June 30, 2021, the Trust reported a liability of \$664,064 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2020. The Trust’s proportion of the net pension liability was based on a projection of the Trust’s long-term share of contributions to the pension plan relative to the projected contributions of all

participating employers, actuarially determined. At June 30, 2021, the Trust's proportion was 0.372%, which was an increase of 0.006% from its proportion measured as of December 31, 2019.

For the year ended June 30, 2021, the Trust recognized pension expense of \$74,482. In addition, the Trust reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual experience	\$ -	\$ (18,684)
Net difference between projected and actual pension investment earnings	-	(74,922)
Changes of assumptions	55,998	(15,275)
Changes in proportion and differences between contributions and proportionate share of contributions	<u>19,078</u>	<u>-</u>
	<u>\$ 75,076</u>	<u>\$ (108,881)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	
2022	\$ (12,103)
2023	3,206
2024	(22,266)
2025	(4,839)
2026	6,261
Thereafter	<u>(4,064)</u>
Total	<u>\$ (33,805)</u>

### ***Actuarial Assumptions***

The total pension liability in the January 1, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.20%
Salary increases	4.25% - 4.75%
Investment rate of return	7.15%
Remaining amortization period	13 years

RP-2014 Blue Collar Mortality Table with full generational mortality improvement using Scale MP-2018. For disabled members, RP-2014 Blue Collar Mortality Table set forward one year with full generational mortality improvement using Scale MP-2018.

***Target Allocations***

The long-term expected rate of return on pension plan investments was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range (expected returns, net of pension plan investment expense and inflation) is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Cash	2.0%	-0.30%
Domestic equity	25.0%	4.30%
Non-US developed equity	13.5%	4.40%
Emerging equity	7.0%	6.30%
Private equity	11.0%	7.90%
Core bonds	15.0%	0.30%
Value-added fixed income	13.5%	2.70%
Real estate	<u>13.0%</u>	4.20%
Total	<u><u>100.0%</u></u>	

***Discount Rate***

The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer 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 to current active and inactive plan members. 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.

***Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate***

The following presents the Trust’s proportionate share of the net pension liability calculated using the discount rate of 7.15%, as well as what the Trust’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current rate:

1% Decrease	Current Discount Rate	1% Increase
<u>(6.15%)</u>	<u>(7.15%)</u>	<u>(8.15%)</u>
\$911,915	\$664,064	\$454,748

***Pension Plan Fiduciary Net Position***

Detailed information about the pension plan’s fiduciary net position is available in the separately issued System financial report.

**8. Other Post-Employment Benefits**

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*, replaces the requirements of *Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This applies if a trust fund has been established to fund future OPEB costs. In fiscal year 2021, the Council established a single employer defined benefit OPEB Trust Fund to provide funding for future employee health care costs. The OPEB Trust Fund does not issue a stand-alone financial report.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of *Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement identifies the methods and assumptions that are required to be used to project benefit payments, discounted projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

All the following OPEB disclosures are based on a measurement date of June 30, 2021.



**General Information about the OPEB Plan**

*Plan Description*

The Council provides post-employment healthcare benefits for retired employees through the Council’s plan. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws.

*Benefits Provided*

The Council provides medical and prescription drug insurance to retirees and their covered dependents. All active employees who retire from the Council and meet the eligibility criteria will receive these benefits.

*Plan Membership*

At June 30, 2021, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	2
Active employees	<u>4</u>
Total	<u><u>6</u></u>

**Assumptions and Other Inputs**

The net OPEB asset was determined by a valuation using the *alternative method* (allowed under GASB standards for organizations with less than 100 participants) as of June 30, 2021, using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount rate	2.5%
Salary increases	2.5%
Healthcare cost trend rates	4.0%

Mortality rates were based on the Life Expectancy Table from the National Center for Health Statistics updated in 2015.

**Contributions**

The Trust’s policy is to contribute the amounts provided annually by the budget.

**Discount Rate**

The discount rate used to measure the net OPEB asset was 2.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate.

Based on those assumptions, the OPEB plan fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

**Net OPEB Asset**

The components of the net OPEB asset, measured as of June 30, 2021, were as follows:

Total OPEB liability	\$ 272,847
Plan fiduciary net position	<u>(300,000)</u>
Net OPEB (asset)	<u>\$ (27,153)</u>
Plan fiduciary net position as a percentage of the total OPEB liability	109.95%

The fiduciary net position has been determined on the same basis used by the OPEB Plan. For this purpose, the Plan recognizes benefit payments when due and payable.

**Changes in the Net OPEB Asset**

The following summarizes the changes in the net OPEB asset for the past year:

	<u>Increase (Decrease)</u>		
	Total OPEB Liability <u>(a)</u>	Plan Fiduciary Net Position <u>(b)</u>	Net OPEB (asset) <u>(a) - (b)</u>
Balances, beginning of year	\$ 278,190	\$ -	\$ 278,190
Changes for the year:			
Service cost	13,954	-	13,954
Interest	6,955	-	6,955
Contributions - employer	-	308,949	(308,949)
Differences between expected and actual experience	(17,303)	-	(17,303)
Benefit payments	<u>(8,949)</u>	<u>(8,949)</u>	<u>-</u>
Net Changes	<u>(5,343)</u>	<u>300,000</u>	<u>(305,343)</u>
Balances, end of year	<u>\$ 272,847</u>	<u>\$ 300,000</u>	<u>\$ (27,153)</u>

**Sensitivity of the Net OPEB Asset to Changes in the Discount Rate**

The following presents the net OPEB asset, as well as what the net OPEB asset would be if it was calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current discount rate:

1% Decrease <u>(1.5%)</u>	Current Discount Rate <u>(2.5%)</u>	1% Increase <u>(3.5%)</u>
\$ (793)	\$ (27,153)	\$ (49,580)

***Sensitivity of the Net OPEB Asset to Changes in the Healthcare Cost Trend Rates***

The following presents the net OPEB asset, as well as what the net OPEB asset would be if it was calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

	Current Healthcare Cost Trend Rates	
1% Decrease (3%)	1% Increase (5%)	
\$ (52,922)	\$ (27,153)	\$ 2,125

***OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB***

For the year ended June 30, 2021, the Trust recognized an OPEB expense of \$3,606. At June 30, 2021, in accordance with the alternative method measurement option, the Trust reported no deferred outflows or inflows of resources related to OPEB.

**9. Commitments and Contingencies**

***COVID-19***

The COVID-19 outbreak in the United States (and across the globe) has resulted in economic uncertainties. There is considerable uncertainty around the duration and scope of the economic disruption. The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on individuals served by the Trust, employees, and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact our financial condition or results of operations is uncertain.

**10. New Pronouncements**

The Governmental Accounting Standards Board (GASB) has issued Statement No. 87, *Leases*, effective for the Trust beginning with its fiscal year ending June 30, 2022. This statement establishes new reporting and disclosure requirements, including the recording of various operating leases in the financial statements. Management has not evaluated the effect this standard will have on the financial statements.

**HAMPSHIRE COUNTY GROUP INSURANCE TRUST**

Required Supplementary Information  
Schedule of Proportionate Share of the Net Pension Liability

(Unaudited)

(Amounts expressed in thousands)

**Hampshire County Retirement System**

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2021	December 31, 2020	0.372%	\$664	\$336	197.62%	69.20%
June 30, 2020	December 31, 2019	0.365%	\$730	\$321	227.41%	64.30%
June 30, 2019	December 31, 2018	0.357%	\$769	\$314	244.90%	58.91%
June 30, 2018	December 31, 2017	0.347%	\$646	\$260	248.46%	63.12%
June 30, 2017	December 31, 2016	0.342%	\$751	\$281	267.26%	55.61%
June 30, 2016	December 31, 2015	0.291%	\$599	\$257	233.07%	55.29%
June 30, 2015	December 31, 2014	0.354%	\$644	\$216	298.15%	58.07%

*Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.*

See notes to the Trust's financial statements for summary of significant valuation methods and assumptions.

See Independent Auditors' Report.

**HAMPSHIRE COUNTY GROUP INSURANCE TRUST**

Required Supplementary Information  
Schedule of Pension Contributions

(Unaudited)

(Amounts expressed in thousands)

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**Hampshire County Retirement System**

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<u>Fiscal Year</u>	<u>Actuarially Determined Contribution</u>	<u>Contributions in Relation to the Actuarially Determined Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2021	\$97	\$97	\$ -	\$343	28.28%
June 30, 2020	\$88	\$88	\$ -	\$322	27.33%
June 30, 2019	\$81	\$81	\$ -	\$314	25.80%
June 30, 2018	\$74	\$74	\$ -	\$302	24.50%
June 30, 2017	\$74	\$74	\$ -	\$287	25.76%
June 30, 2016	\$54	\$54	\$ -	\$285	18.81%
June 30, 2015	\$59	\$59	\$ -	\$250	23.70%

*Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.*

See notes to the Trust's financial statements for summary of significant valuation methods and assumptions.

See Independent Auditors' Report.

**HAMPSHIRE COUNTY GROUP INSURANCE TRUST**

Required Supplementary Information  
Other Post-Employment Benefits (OPEB)  
Schedule of Changes in Net OPEB Liability (Asset)

(Unaudited)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Total OPEB Liability</b>				
Service cost	\$ 13,954	\$ 13,407	\$ 10,776	\$ 10,776
Interest	6,955	6,627	7,952	8,788
Differences between expected and actual experience	(17,303)	1,394	(9,802)	(38,518)
Benefit payments, including refunds of member contributions	<u>(8,949)</u>	<u>(8,304)</u>	<u>(8,926)</u>	<u>(8,926)</u>
Net change in total OPEB liability	(5,343)	13,124	-	(27,880)
Total OPEB liability - beginning	<u>278,190</u>	<u>265,066</u>	<u>265,066</u>	<u>292,946</u>
Total OPEB liability - ending (a)	272,847	278,190	265,066	265,066
<b>Plan Fiduciary Net Position</b>				
Contributions - employer	308,949	-	-	-
Benefit payments, including refunds of member contributions	<u>(8,949)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in plan fiduciary net position	300,000	-	-	-
Plan fiduciary net position - beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Plan fiduciary net position - ending (b)	<u>300,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net OPEB liability (asset) - ending (a-b)	\$ <u>(27,153)</u>	\$ <u>278,190</u>	\$ <u>265,066</u>	\$ <u>265,066</u>

*Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.*

See notes to the Trust's financial statements for summary of significant valuation methods and assumptions.

See Independent Auditors' Report.

**HAMPSHIRE COUNTY GROUP INSURANCE TRUST**

Required Supplementary Information  
Other Post-Employment Benefits (OPEB)  
Schedules of Net OPEB Liability (Asset), Contributions, and Investment Returns

(Unaudited)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Schedule of Net OPEB Liability (Asset)</b>				
Total OPEB liability	\$ 272,847	\$ 278,190	\$ 265,066	\$ 265,066
Plan fiduciary net position	<u>300,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net OPEB liability (asset)	\$ <u>(27,153)</u>	\$ <u>278,190</u>	\$ <u>265,066</u>	\$ <u>265,066</u>
Plan fiduciary net position as a percentage of the total OPEB liability (asset)	109.95%	0.00%	0.00%	0.00%
Covered employee payroll	\$ 324,000	\$ 335,000	\$ 325,000	\$ 315,000
Net OPEB liability (asset) as a percentage of covered employee payroll	-8%	83%	82%	84%
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Schedule of Contributions</b>				
Actuarially determined contribution	\$ N/A	\$ N/A	\$ N/A	\$ N/A
Contributions in relation to the actuarially determined contribution	<u>8,949</u>	<u>8,304</u>	<u>8,926</u>	<u>8,926</u>
Contribution deficiency (excess)	\$ <u>N/A</u>	\$ <u>N/A</u>	\$ <u>N/A</u>	\$ <u>N/A</u>

See Independent Auditors' Report.

**HAMPSHIRE COUNTY GROUP INSURANCE TRUST**

Required Supplementary Information  
Claims Development Information

(Unaudited)

As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the tables show data for successive policy years.

	<u>06/30/21</u>	<u>06/30/20</u>	<u>06/30/19</u>	<u>06/30/18</u>	<u>06/30/17</u>
1. Net earned required contribution and investment revenues	\$ 74,244,919	\$ 72,833,031	\$ 71,767,215	\$ 68,734,240	\$ 61,925,569
2. Net assets provided for (used by) current year operations	4,352,661	4,742,822	2,834,238	3,483,740	(998,470)
3. Estimated incurred claims and expense, end of policy year	59,361,239	57,203,284	58,963,867	57,490,038	54,697,416
4. Paid (cumulative) as of:					
End of policy year	55,017,321	53,051,608	54,674,390	53,160,918	50,460,995
One year later		56,303,880	58,068,227	56,561,254	53,524,381
Two years later			58,068,227	56,561,254	53,441,593
Three years later				56,561,254	53,441,593
Four years later					53,441,593
5. Reestimated incurred claims and expense 4/1/2021					
End of policy year	59,361,239	57,203,284	58,963,867	57,490,038	54,697,416
One year later		56,288,670	57,678,841	56,565,721	53,549,941
Two years later			58,068,227	56,561,254	53,441,593
Three years later					53,441,593
6. Increase (decrease) in estimated incurred claims and expense from end of policy year	-	(914,614)	(895,640)	(928,784)	(1,255,823)

See Independent Auditors' Report.