

**MASSACHUSETTS HOUSING FINANCE AGENCY
OPEB TRUST**

**FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

JUNE 30, 2021



WEALTH ADVISORY | OUTSOURCING
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**MASSACHUSETTS HOUSING FINANCE AGENCY OPEB TRUST
FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2021**

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Independent Auditors' Report

To the Trustees of the
Massachusetts Housing Finance Agency OPEB Trust

Report on the Financial Statements

We have audited the accompanying financial statements of the Massachusetts Housing Finance Agency OPEB Trust (the Trust), as of and for the year ended June 30, 2021, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Trustees of the
Massachusetts Housing Finance Agency OPEB Trust

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (located on pages 3 through 8) and certain other postemployment benefits information (located on pages 19 through 21) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



CliftonLarsonAllen LLP

Boston, Massachusetts
September 14, 2021

Massachusetts Housing Finance Agency OPEB Trust
Annual Financial Report

Prepared by the
Office of the Financial Director
Rachel C. Madden, Financial Director
Stephen E. Vickery, Comptroller

MANAGEMENT’S DISCUSSION AND ANALYSIS

Overview of the Financial Statements

The annual financial report of the Massachusetts Housing Finance Agency OPEB Trust (“Trust”) consists of four sections: (1) management’s discussion and analysis; (2) the financial statements; (3) notes to the financial statements; and (4) required supplementary information (“RSI”).

The financial statements, notes to the financial statements and RSI were prepared in conformity with the accounting principles generally accepted in the United States of America (“GAAP”) using the accounting standards promulgated by the Governmental Accounting Standards Board (“GASB”).

Management’s Discussion and Analysis

The following is an unaudited narrative overview of the results of the Trust’s operations for the fiscal years ended June 30, 2021 (“FY 2021”) and June 30, 2020 (“FY 2020”), with selected comparative information for the fiscal year ended June 30, 2019 (“FY 2019”). Readers are encouraged to consider the information presented in this discussion and analysis in conjunction with the financial statements, notes to the financial statements and the RSI, all of which follow this narrative overview.

This discussion and analysis is designed (1) to assist the reader in focusing on significant financial matters and activities and (2) to identify any significant changes in the Trust’s financial status during FY 2021 and FY 2020, with selected comparative information for FY 2019. The primary accounting policies followed by the Trust are outlined in Note B to the financial statements and are not repeated herein.

The Financial Statements

The two basic financial statements provide different views of the Trust.

- The statements of fiduciary net position provide information about the Trust’s assets, liabilities, deferred outflows and inflows of resources, if any, and the resulting net position restricted for other postemployment benefits at the end of the Trust’s fiscal year. It also provides information about the fair value and composition of fiduciary net position.
- The statements of changes in fiduciary net position include information about the additions to, deductions from, and net increase (or decrease) in fiduciary net position for the year.

The Notes to Financial Statements

- The Notes to Financial Statements provide information that is useful to the reader in understanding the Trust’s financial statements, including a description of the Trust and the OPEB substantive plan it serves as well as its accounting methods and policies.
- The notes include details of the Trust’s investments and cash equivalents and their related risks.
- The notes also provide information on contributions to the Trust and its funded status, as well as information taken from the most recent actuarial valuation, including the methods and assumptions used.

Required Supplementary Information

The RSI is presented in conformity with GAAP using the accounting standards promulgated by GASB. The three schedules provide additional information about the Trust’s funding progress, employer contributions and investment returns.

Background

The Massachusetts Housing Finance Agency OPEB substantive plan (the plan understood by the employer and the plan participants – “substantive plan”) is a single-employer contributory defined benefit healthcare plan, which is open to all regular full-time and certain regular part-time employees of Massachusetts Housing Finance Agency (“MassHousing” or the “Agency”). The substantive plan also provides \$5,000 of life insurance coverage to all eligible retirees and their beneficiaries. Benefit provisions and all other requirements are established by MassHousing and Chapter 32B of the General Laws of the Commonwealth of Massachusetts. Benefits vest after ten years of service either at MassHousing alone or in combination with certain other Massachusetts public employers.

On June 26, 2008, MassHousing established the Trust as an irrevocable trust dedicated solely to administering the investments of and providing the benefits under the terms of the substantive plan. Provision is made in the Massachusetts retirement law for the withholding of monthly premiums for continued coverage in a group health and life insurance program at the time of retirement. Continuation of insurance coverage for retirees is an optional benefit provided by governmental employers.

A committee comprised of key staff members of the Agency (the “OPEB Committee”), one member designated by the Agency’s Board and one member designated by the Agency’s Executive Director, administers the Trust.

The Agency has transferred \$37.7 million from its Working Capital Fund to the Trust since the inception of the Trust. On June 8, 2021, the Members of MassHousing voted to transfer another \$1.3 million to the Trust for the fiscal year ending June 30, 2022. MassHousing anticipates funding the OPEB annual required contribution on a quarterly basis. On July 1, 2021, \$325 thousand was contributed to the Trust by MassHousing.

As of June 30, 2021, the substantive plan was partially funded. The Total OPEB liability for benefits was \$51.0 million as of that date and the plan fiduciary net position was \$50.0 million, resulting in a Net OPEB liability of \$1.0 million and a funded ratio of 98.0 percent.

Financial Markets

The Trust relies on its ability to gain orderly access to financial markets to invest its assets. The Trust's assets and the long-term investment yield earned on investments are expected to be used to finance the payment of benefits. While the Trust believes that the financial impact of recent market events have not had a material adverse impact on its assets, no assurance can be given that future events will not have an adverse impact on the Trust's assets or its ability to access financial markets or to obtain financial products.

Summarized Financial Information – Statements of Fiduciary Net Position (in thousands of dollars)

The table below represents summarized comparative statements of fiduciary net position at June 30, which were derived from the respective audited statements of fiduciary net position:

Statements of Plan Net Position

June 30, 2021 and 2020

(in thousands of dollars)

	June 30, 2021	Change from 2020		June 30, 2020	Change from 2019		June 30, 2019
		\$	%		\$	%	
Assets							
Cash and cash equivalents	\$ 100	\$ -	0.0%	\$ 100	\$ (103)	-50.7%	\$ 203
Investments							
Bond mutual funds	15,762	(1,197)	-7.1%	16,959	2,244	15.2%	14,715
Equity mutual funds	34,744	13,576	64.1%	21,168	1,160	5.8%	20,008
Total investments	<u>50,506</u>	<u>12,379</u>	<u>32.5%</u>	<u>38,127</u>	<u>3,404</u>	<u>9.8%</u>	<u>34,723</u>
Total assets	<u>50,606</u>	<u>12,379</u>	<u>32.4%</u>	<u>38,227</u>	<u>3,301</u>	<u>9.5%</u>	<u>34,926</u>
Liabilities							
Accounts payable	<u>658</u>	<u>82</u>	<u>14.2%</u>	<u>576</u>	<u>39</u>	<u>7.3%</u>	<u>537</u>
Net position restricted for other poste employment benefits	<u>\$ 49,948</u>	<u>\$ 12,297</u>	<u>32.7%</u>	<u>\$ 37,651</u>	<u>\$ 3,262</u>	<u>9.5%</u>	<u>\$ 34,389</u>

Discussion of Net Position

Assets

Cash and Cash Equivalents

The ending cash and cash equivalents balance was \$100 thousand in FY2021 and FY 2020. The FY 2021 balances in cash and cash equivalents did not change which was the result of the Trust receiving \$3.3 million from MassHousing and \$1.0 million of net investment income (excluding net appreciation), offset by \$3.1 million net purchases of mutual fund investments and \$1.2 million in payments of expenses and fees. The FY 2020 decrease in cash and cash equivalents was the result of the Trust's \$3.2 million net purchase of mutual fund investments and \$1.1 million for the payment of expenses and fees partially offset by the receipt of \$3.2 million from MassHousing and \$1.0 million of net investment income (excluding net appreciation).

Investments

The Trust's investments are invested in Vanguard Mutual Funds. The FY 2021 increase in investments was the result of the reinvestment of \$1.0 million of dividend income, \$2.1 million net investment in Vanguard Mutual Funds, and a \$9.3 million increase in the fair market value of investments. The FY 2020 increase in investments was the result of the reinvestment of \$1.0 million of dividend income, \$2.2 million net investment in Vanguard Mutual Funds, and a \$198.9 thousand increase in the fair market value of investments.

Liabilities

Accounts Payable

The FY 2021 and FY 2020 accounts payable balances represent the following accrued expenses: healthcare premiums, investment fees, actuary fees and audit expenses for the audit of the Trust's financial statements.

Net Position Restricted for Other Postemployment Benefits

The Trust's net position restricted for other postemployment benefits consisted primarily of Vanguard Mutual Funds in FY 2021. The increase in FY 2021 was primarily the result the Trust receiving a \$3.3 million cash contribution from the Agency and recognizing a \$9.3 million increase in the fair value of investments. The Trust's net position restricted for other postemployment benefits consisted primarily of Vanguard Mutual Funds in FY 2020. The increase in FY 2020 was primarily the result the Trust receiving a \$3.2 million cash contribution from the Agency.

Summarized Financial Information – Statements of Changes in Fiduciary Net Position (in thousands of dollars)

The table below represents summarized comparative statements of changes in fiduciary net position at June 30, which were derived from the respective audited statements of changes in net position:

Statements of Changes in Plan Net Position

For the fiscal years ended June 30, 2021 and 2020

(in thousands of dollars)

	FY 2021	Change from 2020		FY 2020	Change from 2019		FY 2019
		\$	%		\$	%	
Additions							
Contributions							
Employer contributions	\$ 3,597	\$ 176	5.1%	\$ 3,421	\$ (38)	-1.1%	\$ 3,459
Net investment income							
Interest and dividends	1,026	7	0.7%	1,019	66	6.9%	953
Net appreciation in fair value of investments	9,258	9,059	4552.3%	199	(841)	-80.9%	1,040
Total investment income	10,284	9,066	744.3%	1,218	(775)	-38.9%	1,993
Less investment expense	24	1	4.3%	23	-	0.0%	23
Net investment income	10,260	9,065	758.6%	1,195	(775)	-39.3%	1,970
Total additions	13,857	9,241	200.2%	4,616	(813)	-15.0%	5,429
Deductions							
Benefits	1,517	190	14.3%	1,327	(204)	-13.3%	1,531
Administrative expenses	43	16	59.3%	27	(13)	-32.5%	40
Total deductions	1,560	206	15.2%	1,354	(217)	-13.8%	1,571
Net increase	12,297	9,035	277.0%	3,262	(596)	-15.4%	3,858
Net position restricted for other postemployment benefits							
Beginning of fiscal year	37,651	3,262	9.5%	34,389	3,858	12.6%	30,531
End of fiscal year	\$ 49,948	\$ 12,297	32.7%	\$ 37,651	\$ 3,262	9.5%	\$ 34,389

Discussion of Changes in Fiduciary Net Position Restricted for Other Postemployment Benefits

The increases in FY 2021 and FY 2020 were the result of several major items that positively or negatively affected the change in net position restricted for other postemployment benefits as described below:

Employer Contributions

The FY 2021 and FY 2020 increase in Actuarial Determined Contributions was the result of the actuarial accrued liability per the actuarial valuation dated 1/1/19. The Actuarial Determined Contributions for FY 2021 and FY 2020 includes an implicit subsidy of \$297 thousand and \$261 thousand, respectively, resulting from a uniform healthcare insurance premium rate being applied to both active and retired participants.

MassHousing is required to contribute approximately 80% of the basic cost of group health insurance for retirees (and, in some cases, dependents) who retired after January 31, 2010, 85% for those who retired after July 1, 1994 and before February 1, 2010 and 90% for those retirees who retired prior to July 2, 1994; the remaining cost is withheld from the retiree's or beneficiary's monthly pension benefit, which is remitted directly to the group insurance commission and is not reflected in these financial statements. Active and Inactive Plan Members are not required to contribute to the plan.

Net Investment Income

The FY 2021 and FY 2020 increase in interest and dividends was primarily the result of increases in investment balances. The FY 2021 increase in net investment income was primarily the result of the Trust's net increase in the fair value of investments of \$9.3 million as compared to the prior year increase of \$199 thousand. The FY 2020 decrease in net investment income was primarily the result of the Trust's net increase in the fair value of investments of \$199 thousand as compared to the prior year increase of \$1.0 million.

Benefits Expense

The FY 2021 increase in benefits expense was primarily the result of a \$153 thousand, or 14.4% increase in healthcare premiums and a slightly higher calculated implicit subsidy amount. The FY 2020 decrease in benefits expense was primarily related to a lower calculated implicit subsidy. Benefits expense for FY 2021, FY 2020 and FY 2019 includes an implicit subsidy of \$297 thousand, \$261 thousand and \$562 thousand, respectively.

Administrative Expenses

Administrative expenses increased slightly in FY 2021 compared to FY 2020 and decreased slightly in FY 2020 compared to FY 2019. These fluctuations are primarily the result of increased actuary costs in the year of valuation. Actuarial valuations are performed every two years with the cost of the last valuation included in FY 2021. MassHousing does not allocate to the Trust the cost of any of the administrative services it provides to the Trust.

Request for Information

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

MassHousing
Office of the Financial Director
One Beacon Street
Boston, MA 02108-3106

Massachusetts Housing Finance Agency OPEB Trust

Statement of Fiduciary Net Position

June 30, 2021

In thousands of dollars

Assets

Cash and cash equivalents	\$	100
Investments		
Bond mutual funds		15,762
Equity mutual funds		34,744
Total investments		<u>50,506</u>
Total assets		<u>50,606</u>

Liabilities

Accounts payable - administrative expenses		42
Accounts payable - insurance premiums		616
Total Accounts Payable		<u>658</u>

Net position restricted for other poste employment bene fits \$ 49,948

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

Massachusetts Housing Finance Agency OPEB Trust

Statement of Changes in Fiduciary Net Position

For the fiscal year ended June 30, 2021

In thousands of dollars

Additions

Contributions	
Employer contributions	\$ 3,597
Net investment income	
Interest and dividends	1,026
Net appreciation in fair value of investments	9,258
Total investment income	10,284
Less investment expense	24
Net investment income	10,260
Total additions	13,857

Deductions

Benefits	1,517
Administrative expenses	43
Total deductions	1,560

Net increase 12,297

Net position restricted for other postemployment benefits

Beginning of fiscal year	37,651
End of fiscal year	\$ 49,948

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

Massachusetts Housing Finance Agency OPEB Trust
Notes to Financial Statements
June 30, 2021

Note A. Plan Description and Trust

Plan Administration

The Massachusetts Housing Finance Agency OPEB substantive plan (the plan understood by the employer and plan participants – “substantive plan”) is a single-employer contributory defined benefit healthcare plan, which is open to all regular full-time and certain regular part-time employees of the Massachusetts Housing Finance Agency (“MassHousing” or the “Agency”). The substantive plan also provides \$5,000 of life insurance coverage to all eligible retirees and their beneficiaries. Benefit provisions and all other requirements are established by MassHousing and Chapter 32B of the General Laws of the Commonwealth of Massachusetts. Benefits vest after 10 years of service either at MassHousing alone or in combination with certain other public employers. MassHousing is required to contribute approximately 80% of the basic cost of group health insurance for retirees (and, in some cases, dependents) who retired after January 31, 2010, 85% for those who retired after July 1, 1994 and before February 1, 2010 and 90% for those retirees who retired prior to July 2, 1994; the remaining cost is withheld from the retiree’s or beneficiary’s monthly pension benefit, which is remitted directly to the group insurance commission and is not reflected in these financial statements. Active and Inactive Plan Members are not required to contribute to the plan.

On June 26, 2008, MassHousing established the Massachusetts Housing Finance Agency OPEB Trust (Trust), an irrevocable trust dedicated solely to both administering the investments of and providing the benefits under the terms of the substantive plan. Provision is made in the Massachusetts retirement law for withholding monthly premiums for continued coverage in a group health and life insurance program at the time of retirement. Continuation of insurance coverage for retirees is an optional benefit provided by governmental employers. These financial statements reflect the operations of the Trust and do not reflect the financial position of MassHousing’s Retirement System.

A committee comprised of key staff members of the Agency (the “OPEB Committee”), one member designated by the Agency’s Board and one member designated by the Agency’s Executive Director, administers the Trust.

Plan Membership

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

Active plan members	312
Retired, Disabled, Survivors and Beneficiaries receiving benefits	183
Inactive plan members entitled to but not yet receiving benefit payments	<u>29</u>
Total	<u><u>524</u></u>

Note B. Summary of Significant Accounting Policies

Basis of Presentation

The Trust’s financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America.

Massachusetts Housing Finance Agency OPEB Trust
Notes to Financial Statements
June 30, 2021

Basis of Accounting

The Trust accounts for and reports its activities by applying Standards of Governmental Accounting and Financial Reporting, as promulgated by the Governmental Accounting Standards Board (“GASB”).

The Trust’s financial statements have been prepared using the accrual basis of accounting in accordance with GASB Statement No. 74, “Financial Reporting for Postemployment Benefit Plans Other than Pension Plans”. This statement establishes standards for the measurement, recognition, and display of the assets, liabilities, deferred outflows and inflows of resources, if any, and, where applicable, net position restricted for other postemployment benefits and changes in net position restricted for other postemployment benefits of the Trust and for related disclosures.

Employer contributions are recognized in the fiscal year to which they apply, as provided through MassHousing’s annual budgeting process approved by MassHousing Members. Benefits, investment income and administrative expenses are all recognized on the accrual basis. Administrative expenses are financed by investment income.

Cash and Cash Equivalents

The Trust held no cash deposits as of June 30, 2021.

The Trust’s cash equivalents were \$100 thousand as of June 30, 2021. Cash equivalents include cash held in money market mutual funds. The Trust’s cash equivalent is the JP Morgan US Government Money Market Fund.

Investments

Investments are reported at fair value. Quoted market prices for long-term investments are used to determine the fair value at the close of each reporting period.

The Securities Investor Protection Corporation (“SIPC”) is a nonprofit corporation established by the federal government that provides limited protection, in certain circumstances, for securities and cash held in a brokerage account. The coverage only applies when a firm shuts down because of financial circumstances and customer assets are missing or at risk because of the firm’s failure. The Vanguard Group (“Vanguard”) is a member of SIPC. SIPC provides brokerage customers up to \$500,000 of coverage for cash and securities held by brokerage firms with cash coverage limited to \$250,000.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America at times requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure 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.

Massachusetts Housing Finance Agency OPEB Trust
Notes to Financial Statements
June 30, 2021

Note C. Investment Policy, Investments and Cash Equivalents

Massachusetts Housing Finance Agency OPEB Trust’s Investment Policy (“Investment Policy”) is designed to ensure the prudent management of funds, and the availability of operating funds when required, while earning a competitive return within the policy framework. The primary objectives of investment activity, in order of priority, are safety, liquidity, and yield.

The Investment Policy regarding the allocation of invested OPEB Trust assets is established and may be amended by the OPEB Committee by a majority of its members. It is the policy of the OPEB Committee to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. Based on these investment objectives, the OPEB Committee conducts an annual review of the asset allocations to obtain a targeted long-term rate of return.

The OPEB Committee voted on December 6, 2016 to accept funding of the annual required contribution on a quarterly basis and has subsequently affirmed such vote periodically.

The following was the Committee’s adopted asset allocation policy as of June 30, 2021:

Asset Class	<u>Target Allocation</u>
Domestic Equity Assets	30%
International Developed Markets Equity (Large) Assets	19%
International Emerging Markets Equity Assets	19%
Investment Grade Bond Assets	8%
High Yield Bond Assets	8%
TIPS Assets	8%
Long Term Government Bonds	8%
Total	<u>100%</u>

Massachusetts Housing Finance Agency OPEB Trust
Notes to Financial Statements
June 30, 2021

As of June 30, 2021, the Trust had the following investments and cash equivalents, at fair value (in thousands of dollars):

Investment Type	Fair Value	Investment Maturities (Years) (in Thousands of Dollars)			
		Less Than 1	1 - 5	6 - 10	More Than 10
<u>Debt Securities:</u>					
Money market mutual funds	\$ 100	\$ 100	\$ -	\$ -	\$ -
Bond mutual funds	15,762	-	3,927	7,793	4,042
Total debt securities	15,862	\$ 100	\$ 3,927	\$ 7,793	\$ 4,042
<u>Other Investments:</u>					
Equity mutual funds	34,744				
Total investments	\$50,606				

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments in bonds are subject to the chance that bond prices will decline because of rising interest rates. Interest rate risk for cash equivalents is minimized by investing in U.S. Government money market funds. Interest rate risk for mutual funds is minimized by the selection of mutual funds that invest primarily in investment grade short-and intermediate-term bonds, whose prices are less sensitive to interest rate changes than are the prices of long-term bonds.

Credit Risk and Custodial Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Custodial credit risk is the risk that, in the event of the failure of the issuer or counterparty to a transaction, the Trust will not be able to recover the value of its investment. Credit risk and custodial risk are minimized by the selection of mutual funds that purchase bonds that are issued by the U.S. Treasury, or are of investment grade quality or, if below investment grade quality, constitute a diverse range of bond investments thereby mitigating any significant credit risk. As of June 30, 2021, the Trust was not exposed to custodial credit risk.

Massachusetts Housing Finance Agency OPEB Trust
Notes to Financial Statements
June 30, 2021

As of June 30, 2021, the credit quality ratings of the Trust's debt securities were as follows (in thousands of dollars):

<u>Investment Type</u>	<u>S&P Ratings</u>		
	<u>Fair Value</u>	<u>AAAm</u>	<u>Unrated</u>
Money market mutual funds	\$ 100	\$ 100	\$ -
Mutual bond funds	15,762	-	15,762
Total investments and cash equivalents	<u>\$ 15,862</u>	<u>\$ 100</u>	<u>\$ 15,762</u>

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single security. The Trust diversifies its investment portfolio to minimize the impact of potential losses from one type of security. As of June 30, 2021, the OPEB Trust was not exposed to concentration of credit risk.

Rate of Return

For the year ended June 30, 2021, the annual money-weighted rate of return on investments, net of expenses was 25.86 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

The long-term expected rate of return on the OPEB plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. The ranges are combined to produce the long-term expected rate of return by weighting expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2021 are summarized in the following table:

<u>Asset Class</u>	<u>20 Year Expected Real Rate of Return (Geometric Average)</u>
International Emerging Markets Equity Assets	5.88%
International Developed Markets Equity (Large) Assets	4.90%
Domestic Equity Assets	4.60%
High Yield Bond Assets	2.06%
Long Term Government Bonds	0.39%
Investment Grade Bond Assets	-0.29%
TIPS Assets	-0.29%

Massachusetts Housing Finance Agency OPEB Trust
Notes to Financial Statements
June 30, 2021

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Foreign currency risk is minimized by the selection of mutual funds that employ an indexing investment approach designed to track the performance of the FTSE Developed All Cap ex US Index and the FTSE Emerging Markets All Cap China A Inclusion Index. The Funds invest by sampling the index, meaning that it holds a broadly diversified collection of securities that, in the aggregate, approximates the index in terms of key characteristics. The Trust is exposed (indirectly) to foreign currency risk. As of June 30, 2021, the Trust had foreign equity mutual funds of \$19.2 million.

Note D. Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into the following three levels:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities at the measurement date.

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are significant unobservable inputs.

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

Bond mutual funds and equity mutual funds of \$50.5 million are valued using quoted market prices (Level 1 inputs).

Note E. Employer Contributions

Contributions from MassHousing for healthcare benefits to retirees are provided through MassHousing's annual budgeting process as approved by MassHousing Members. Employer contributions in FY 2021 were \$3.6 million. The FY 2021 employer contributions included an implicit subsidy of \$297 thousand. The implicit subsidy amount was the result of applying a uniform healthcare premium rate to both active and retired participants.

On June 8, 2021, MassHousing members voted to transfer \$1.3 million to the Trust for fiscal year 2022. MassHousing anticipates funding the OPEB annual required contribution on a quarterly basis at the beginning of each quarter. On July 1, 2021, \$325 thousand was contributed to the Trust by MassHousing. Future contributions to be received depend on the funding schedule adopted by Agency Board vote and may be changed or eliminated by future votes of Agency Members.

Massachusetts Housing Finance Agency OPEB Trust
Notes to Financial Statements
June 30, 2021

Note F. Net OPEB Liability

The components of the net OPEB liability as of June 30, 2021, is as follows:

Total OPEB Liability	\$ 50,993
Plan Fiduciary Net Position	<u>49,948</u>
Net OPEB Liability	<u>\$ 1,045</u>

Plan Fiduciary Net Position as a percentage of the total OPEB Liability	98.0%
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Note G. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of January 1, 2021, using the following assumptions, applied to all periods including the measurement period:

Overall payroll increase rate	3.50%
Investment rate of return	7.00%, net of OPEB plan investment expense, including inflation
Healthcare cost trend rate	7.1 % to 9% initial graded down to 5% in 2040

Mortality rates:

Actives – The RPH-2014 Headcount-Weighted White Collar Mortality Tables adjusted to 2006, sex-distinct, for Employees projected using generational mortality and scale MP-2020.

Retirees – The RPH-2014 Headcount-Weighted White Collar Mortality Tables adjusted to 2006, sex-distinct, for Healthy Annuitants projected using generational mortality and scale MP-2020.

Disabled – The RPH-2014 Headcount-Weighted White Collar Mortality Tables adjusted to 2006, sex-distinct, for Healthy Annuitants projected using generational mortality and scale MP-2020. Set forward 2 years.

Update procedures were used to roll forward the total OPEB Liability to June 30, 2021.

Discount rate

The discount rate used to measure the total OPEB liability was 7.00 percent for the January 1, 2021 actuarial valuation. The projection of cash flows used to determine the discount rate assumed that MassHousing contributions will be made at rates equal to the actuarially determined contribution rate. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Massachusetts Housing Finance Agency OPEB Trust
Notes to Financial Statements
June 30, 2021

Sensitivity of the net OPEB liability to changes in the discount rate.

The following presents the Agency's net OPEB liability at June 30, 2021 calculated using the discount rate of 7.00 percent, as well as what the Agency's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00 percent) or 1-percentage-point higher (8.00 percent) than the current rate (in thousands of dollars):

	1% Decrease (6.00%)		Discount Rate (7.00%)		1% Increase (8.00%)
Net OPEB liability \$	8,156	\$	1,045	\$	(4,709)

Sensitivity of the net OPEB liability to changes in healthcare cost trend rates.

The following presents the Agency's net OPEB liability at June 30, 2021 calculated using the healthcare cost trend rates that are 1-percentage-point lower (8 percent initial graded down to 4 percent in 2040) or 1-percentage-point higher (10 percent initial graded down to 6 percent in 2040) than the current healthcare trend rates (in thousands of dollars):

	1% decrease (8% initial graded down to 4% in 2040)		Healthcare Cost Trend Rates (9% initial graded down to 5% in 2040)		1% increase (10% initial graded down to 6% in 2040)
Net OPEB liability \$	(5,294)	\$	1,045	\$	8,905

Massachusetts Housing Finance Agency OPEB Trust
Required Supplementary Information
Schedule 1

Schedule of Changes in the Agency's Net OPEB Liability and Related Ratios ⁽¹⁾
(Dollar amounts in thousands)

	FY 2021 ⁽²⁾	FY 2020	FY 2019	FY 2018	FY 2017
Total OPEB Liability					
Service Cost	\$ 767	\$ 1,137	\$ 1,294	\$ 1,430	\$ 1,379
Interest	3,046	4,232	3,925	3,670	3,402
Differences between expected and actual experience	(10,923)	(534)	(326)	-	-
Changes of assumptions	(745)	(1,044)	929	-	-
Benefit payments	(1,517)	(1,327)	(1,531)	(1,175)	(1,264)
Net change in total OPEB liability	<u>(9,372)</u>	<u>2,464</u>	<u>4,291</u>	<u>3,925</u>	<u>3,517</u>
Total OPEB liability - beginning	<u>60,365</u>	<u>57,901</u>	<u>53,610</u>	<u>49,685</u>	<u>46,168</u>
Total OPEB liability - ending (a)	<u>\$ 50,993</u>	<u>\$ 60,365</u>	<u>\$ 57,901</u>	<u>\$ 53,610</u>	<u>\$ 49,685</u>
Plan fiduciary net position					
Contributions - employer	\$ 3,597	\$ 3,421	\$ 3,459	\$ 3,115	\$ 3,054
Net Investment Income	10,260	1,195	1,970	1,614	2,734
Benefit payments	(1,517)	(1,327)	(1,531)	(1,175)	(1,395)
Administrative expenses	(43)	(27)	(40)	(31)	(28)
Net change in plan fiduciary net position	<u>12,297</u>	<u>3,262</u>	<u>3,858</u>	<u>3,523</u>	<u>4,365</u>
Plan fiduciary net position - beginning	<u>37,651</u>	<u>34,389</u>	<u>30,531</u>	<u>27,008</u>	<u>22,643</u>
Plan fiduciary net position - ending (b)	<u>\$ 49,948</u>	<u>\$ 37,651</u>	<u>\$ 34,389</u>	<u>\$ 30,531</u>	<u>\$ 27,008</u>
Net OPEB Liability - ending (a)-(b)	<u>\$ 1,045</u>	<u>\$ 22,714</u>	<u>\$ 23,512</u>	<u>\$ 23,079</u>	<u>\$ 22,677</u>
Plan fiduciary net position as a percentage of total OPEB liability	98.0%	62.4%	59.4%	57.0%	54.4%

⁽¹⁾ Data is being accumulated annually to present 10 years of the reported information.

⁽²⁾ In FY 2021, the Agency identified an error in the FY 2019 and FY 2020 actuarial calculation of the Net OPEB Liability, which resulted in changes in the Schedule of Changes in the Agency's Net OPEB Liability and related ratios. Due to the overall immaterial impact to the Agency's financial statements, the cumulative effect is reflected in the FY 2021 reporting period.

See accompanying independent auditors' report

**Massachusetts Housing Finance Agency OPEB Trust
Required Supplementary Information
Schedule 2**

**Schedule of Agency Contributions ⁽¹⁾
(Dollar amounts in thousands)**

	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017
Actuarial Determined Contribution	\$ 3,597	\$ 3,421	\$ 3,459	\$ 3,115	\$ 3,054
Contributions in relation to the Actuarially Determined Contribution	3,597	3,421	3,459	3,115	3,054
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -

Notes to Schedule

Actuarially determined contributions consist of:

	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017
Cash Contribution	\$ 3,300	\$ 3,160	\$ 2,897	\$ 2,901	\$ 2,597
Implicit Subsidy	297	261	562	214	457
Actuarial Determined Contribution	\$ 3,597	\$ 3,421	\$ 3,459	\$ 3,115	\$ 3,054

Methods and assumption used to determine contribution rates:

Actuarial cost method	Projected Unit Credit Level Dollar cost method
Amortization method	Level percentage of pay, closed basis
Remaining amortization period	16 years
Asset valuation method	Market value
Overall payroll increase rate	3.5 percent
Healthcare cost trend rates	7% to 9% initial graded down to 5% in 2046
Investment rate of return	7.25 percent, net of OPEB plan investment expense
Retirement Age	Based on Tier classification, gender and hire dates.
Mortality	RP2014 Mortality Table at 2006 White Collar, projected with MP-2016

⁽¹⁾ Data is being accumulated annually to present 10 years of the reported information.

See accompanying independent auditors' report

**Massachusetts Housing Finance Agency OPEB Trust
Required Supplementary Information
Schedule 3**

Schedule of Investment Returns ⁽¹⁾

	<u>FY 2021</u>	<u>FY 2020</u>	<u>FY 2019</u>	<u>FY 2018</u>	<u>FY 2017</u>
Annual money-weighted rate of return, net of investment expense	25.86%	3.28%	6.09%	7.52%	9.78%

⁽¹⁾ Data is being accumulated annually to present 10 years of the reported information.

See accompanying independent auditors' report

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