

STATE HEALTH
BENEFITS PROGRAM
OF NEW JERSEY



1989
Annual Report

**DEPARTMENT OF
THE TREASURY**

**DIVISION OF
PENSIONS**

**STATE HEALTH BENEFITS PROGRAM
OF NEW JERSEY**

50 West State Street
Trenton, New Jersey 08625

COMMISSION

FEATHER O'CONNOR, State Treasurer, Chairman
KENNETH D. MERIN, Commissioner, Department of Insurance

EUGENE McCaffrey, SR.,
President, Civil Service Commission

DOUGLAS R. FORRESTER, Secretary

To His Excellency

Thomas H. Kean

Governor of the State of New Jersey

Dear Sir:

The Commission of the State Health Benefits Program is pleased to present the Twenty-Seventh Annual Report in compliance with the provisions of N.J.S.A. 52:14-17.17.

Respectfully submitted,

FEATHER O'CONNOR,
Chairman

Annual Report

Local employer participation in the State Health Benefits Program increased. In fiscal 1989, 20 employers adopted the program for the first time while 7 terminated. In fiscal 1989, there were 79,456 new enrollments; total participation increased by 10,716 lives from fiscal 1988. In addition, there were 17,534 changes in coverage in fiscal 1989.

In the 1988 fiscal year, 1,651,328 major medical claims were processed for an employee population of 296,659. In 1989, with 307,375 employees, 1,896,278 major medical claims were processed. Much of this increase reflects the increase in medical care costs wherein the current \$100.00 deductible is very quickly absorbed, while concurrent processing considers claims for which participants may not have filed in the past.

There is the continued rise in charges and benefits reflecting the rise in medical care prices.

In fiscal 1989, 79,086 employees of 969 employers were covered by Health Maintenance Organizations and the number of such organizations under contract to the State Health Benefits Commission is likely to increase as additional organizations are established.

Chapter 6, Laws of 1989 redefines the qualifications of the carriers or providers of the health benefits with whom the State Health Benefits Commission can contract in order to provide such health benefits to the participants within the State Health Benefits Program. It eliminates the previous requirements that carriers who contract for such services must be authorized under specific New Jersey statutes be located in New Jersey and have annual premium income for comparable medical coverage policies of at least \$5 million.

Chapter 6 mandates that the carrier that is awarded such contracts must provide coverage that is at least equal to the coverage that was provided to participants within the State Health Benefits Program on October 1, 1988. This law was approved and became effective on January 23, 1989.

Chapter 48, Laws of 1989 establishes the same major medical benefits limit for retired employees in the State Health Benefits Program as is provided to active employees. Previously, a retired person's State Health Benefits Program major medical coverage was limited to the amount of the unused balance of that retiree's lifetime maximum that remained at the time of retirement or \$100,000, whichever was less, with a minimum benefit of \$5,000. These latter limitations were removed by the provisions of Chapter 48. This law was approved and became effective March 14, 1989.

Chapter 103, Laws of 1989 provides special disability retirement allowance under the Police and Firemen's Retirement System for members

receiving a heart transplant. The member must be under 55 years of age and have five or more years of creditable service. There is no requirement for a medical examination or that the member be totally and permanently disabled.

The fact of the heart transplant is sufficient evidence of disability under this law. The amount of the retirement allowance for special disability retirement is 50 percent of final compensation. The life insurance benefit is the same as for Ordinary Disability.

This law also provides that the employer of any member retiring on special disability retirement shall pay the premium or periodic charges for continuation of all coverages provided to the member and the member's dependents under the State Health Benefits Program which are in effect at the time of retirement in conjunction with all the laws governing the Program and with the regulations and practices of the State Health Benefits Commission in administering the Program. This provision is applicable to an employer even if the employer has not agreed to pay for health care benefits for retirees under the Program.

This law was approved and became effective June 29, 1989.

COVERAGE

The chart below denotes the increase in the population covered by the program with the beginning of State coverage in 1961 and local employer participation in 1964. During fiscal 1989, twenty employers adopted the program for the first time.

<u>YEAR</u>	<u>STATE EMPLOYEES</u>	<u>LOCAL EMPLOYEES</u>	<u>LOCAL EMPLOYERS</u>
1961	28,398	—	—
1964	30,806	—	—
1970	46,852	79,394	582
1975	68,315	177,699	932
1979	82,002	201,899	1,003
1980	87,367	188,725	982
1981	89,137	187,741	964
1982	89,815	176,844	921
1985	96,948	173,102	912
1988	109,621	187,038	955
1989	112,311	195,064	969

The volume of activity in the Health Benefits Bureau of the Division of Pensions, which administers the State Health Benefits Program, is reflected in the next chart which indicates the number of new enrollments, terminations, changes in coverage and major medical claims processed in the last several years.

<u>ACTIVITY</u>	<u>1988</u>	<u>1989</u>
Enrollments	61,706	79,456
Terminations	54,279	68,740
Changes	15,933	17,534
Major Medical Claims	1,651,328	1,896,278

PREMIUMS AND BENEFITS (CASH BASIS)

The first chart indicates the experience of the program and the payment of premiums and benefits by the carriers of the basic benefits portion of the plan as underwritten by the New Jersey Blue Cross and Blue Shield Plans and Health Maintenance Organizations.

FISCAL YEAR	CHARGES AND PREMIUMS PAID— TRADITIONAL	CHARGES AND PREMIUMS PAID— HMO	BENEFITS PAID— TRADITIONAL AND HMO
1965	\$ 5,719,381	\$ —	\$ 5,039,438
1970	26,318,479	—	23,940,485
1975	74,288,875	—	68,345,765
1980	127,360,368	7,057,932	122,569,973 ¹
1985	183,930,805	27,559,073	175,009,535 ²
1988	209,929,096	57,054,288	199,358,658 ²
1989	232,226,788	88,057,077	217,629,116 ²

The chart below is a similar statement as it pertains to the major medical coverage underwritten by the Prudential Insurance Company of America.

FISCAL YEAR	CHARGES AND PREMIUMS PAID	BENEFITS PAID
1965	\$ 559,244	\$ 536,508
1970	2,513,349	2,312,267
1975	12,206,343	11,718,089
1980	42,532,896	35,889,839
1985	95,308,733	86,120,000
1988	108,270,699	97,803,819
1989	101,714,088	94,755,402

¹Traditional Program only for period 4/1/79-3/31/80.

²Traditional Program only.

STATE OF NEW JERSEY
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
June 30, 1989

	<u>Health Benefits Program Fund</u>	<u>Dental Expense Program Fund</u>	<u>Prescription Drug Program Fund</u>
ASSETS			
Cash and Cash Equivalents	\$ 24,955	\$ 219,148	\$ 0
Receivables			
Other	3,519,484	133,355	25,102
Other Assets			
Due From Other Funds	142,372,098	9,276,230	3,534,832
Total Assets	<u>\$145,916,537</u>	<u>\$9,628,733</u>	<u>\$3,559,934</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable and Accrued Expenses	\$164,222,178	\$2,782,235	\$4,097,229
Deferred Revenue	1,076,125	0	0
Due to Other Funds	0	0	0
Total Liabilities	<u>\$165,298,303</u>	<u>\$2,782,235</u>	<u>\$4,097,229</u>
FUND BALANCES			
Pension Benefits	\$(19,381,766)		
Other	0	\$6,846,498	\$ (537,295)
Total Fund Balances	<u>\$(19,381,766)</u>	<u>\$6,846,498</u>	<u>\$ (537,295)</u>
Total Liabilities and Fund Balances	<u>\$145,916,537</u>	<u>\$9,628,733</u>	<u>\$3,559,934</u>

(B) Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

The expendable trust funds and agency funds are accounted for using the modified accrual basis of accounting. Under this basis, revenues are recognized in the accounting period in which they become susceptible to accrual—that is, when they become both measurable and available to finance expenditures of the fiscal period. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Those revenues which are considered to be susceptible to accrual include amounts that were earned as of June 30, 1988 and substantially remitted within the three month period subsequent to June 30.

NOTE 2—Due From Other Funds

This is comprised of Due from Cash Management Fund and Due from the General Fund.

Cash Management Fund

Most funds of the State participate in the State of New Jersey Cash Management Fund wherein amounts also contributed by other units of government are combined into a large scale investment program. At June 30, 1989 the book value (\$245,856,224) approximated market value.

Due From General Fund

The Dental Expense Program Fund, Health Benefits Program Fund and Prescription Drug Program Fund includes the employers' and employees' share of insurance premiums applicable to Fiscal Year '89, but not received until the succeeding fiscal year (\$16,915,343).

NOTE 3—Receivable—Other

This is comprised of employee and employer Contributions Receivable and receivable from insurance carriers.

Members of the Dental Expense Program Fund contribute a premium established by the Board of Trustees. Costs of this plan are shared equally by employers and employees.

For the Health Benefits Program Fund, those covered by HMO's contribute a premium based on the difference between traditional rates and HMO rates established by the Commission.

Employees' contributions receivable includes amounts withheld by employers at June 30, 1989 which were substantially remitted within the three month period subsequent to June 30.

Employers' contributions receivable includes premiums due from local employers at June 30 which were substantially collected during the succeeding three months. Receivable from insurance carriers are advance deposits with insurance carriers.

NOTE 4—Accounts Payable

The Health Benefits Program Fund, Dental Expense Program Fund, Prescription Drug Program Fund are self-insured programs administered through insurance carriers. Claims paid by the insurance carriers are reimbursed from the Fund. The accounts payable represents claims that were incurred as of June 30 and paid during the succeeding fiscal year.

NOTE 5—Deferred Revenue

Represents Health Benefits Program Fund. Premiums received in June 1989 but for July 1989 coverage.

NOTE 6—Fund Balance

The fund balance of the Health Benefits Program Fund, Dental Expense Program Fund and Prescription Drug Program Fund are available to pay claims of future periods. These reserves are maintained by the Fund to stabilize rates and assure the ability to meet unexpected increases in claims.

The Health Benefits Program Fund incurred a deficit due to a large increase in claims payments. To offset this deficit, a 25% rate increase was implemented effective 5/1/89. There is also a proposed rate increase effective 7/1/90 which should provide for a positive fund balance in the future.

The Prescription Drug Program incurred a deficit due to a large increase in claim payments. A 40% rate increase was implemented effective 9/1/89 which included provision to offset the deficit incurred from prior years and should also provide for a positive fund balance in the future.

NOTE 7—Fiscal Year Events

Post retirement medical premiums that had been previously funded through the Health Benefits Program Fund are now funded through the Teachers' Pension and Annuity Fund for eligible TPAF retirees.

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State Health Benefits Program

State of New Jersey

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