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STATE HEALTH
BENEFITS PROGRAM
OF NEW JERSEY



1987
Annual Report

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**DEPARTMENT OF
THE TREASURY**

**DIVISION OF
PENSIONS**

**STATE HEALTH BENEFITS PROGRAM
OF NEW JERSEY**

20 W. Front 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-Fifth 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 1987, 24 employers adopted the program for the first time while two terminated. In fiscal 1987, there were 58,420 new enrollments; total participation increased by 11,287 lives from fiscal 1986. In addition, there were 17,327 changes in coverage in fiscal 1987.

In the 1986 fiscal year, 1,164,111 major medical claims were processed for an employee population of 278,095. In 1987, with 289,382 employees, 1,380,038 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 1987, 62,118 employees of 670 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.

Effective January 1, 1987, in accordance with federal legislation, the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) was implemented. This law required the availability of continuation of group coverage for periods of time to terminated employees and/or their dependents who qualify under the provisions of the federal legislation.

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 1987, sixteen 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
1986	100,976	177,119	928
1987	104,460	184,922	950

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>1985</u>	<u>1986</u>	<u>1987</u>
Enrollments	49,341	56,248	58,420
Terminations	43,483	48,203	47,133
Changes	16,135	16,530	17,327
Major Medical Claims	981,538	1,164,111	1,380,038

PREMIUMS AND BENEFITS

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
1986	192,114,359	34,543,580	183,529,678 ²
1987	221,120,957	45,783,563	209,528,909 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
1986	110,232,647	102,840,000
1987	132,334,739	122,791,932

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

²Traditional Program only.

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**STATE OF NEW JERSEY
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
June 30, 1987**

	Health Benefits Program Fund	Dental Expense Program Fund	Prescription Drug Program Fund
ASSETS			
Cash	\$ 2,005,471	\$ 378,892	\$ 0
Receivables Other	3,358,196	166,779	4,850
Other Assets Due From Other Funds	169,414,493	9,302,342	4,073,825
Total Assets	\$174,778,160	\$9,848,013	\$4,078,675
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$117,136,331	\$1,814,102	\$1,673,267
Deferred Revenue	7,710,176	0	0
Due to Other Funds	0	0	0
Total Liabilities	\$124,846,507	\$1,814,102	\$1,673,267
FUND BALANCES			
Unreserved Undesignated	\$ 49,931,653	\$8,033,911	\$2,405,408
Total Fund Balances	\$ 49,931,653	\$8,033,911	\$2,405,408
Total Liabilities and Fund Balances	\$174,778,160	\$9,848,013	\$4,078,675

**STATE OF NEW JERSEY
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
EXPENDABLE TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1987**

	<u>Health Benefits Program Fund</u>	<u>Dental Expense Program Fund</u>	<u>Prescription Drug Fund</u>
REVENUES			
Contributions	\$ 244,657,446	\$ 7,962,063	\$ 6,444
Investment Earnings	9,741,700	443,579	166,964
Total Revenues	<u>\$ 254,399,146</u>	<u>\$ 8,405,642</u>	<u>\$ 173,408</u>
OTHER INCREASES			
Transfers from Other Funds	\$ 139,246,844	\$ 8,550,399	\$15,828,430
Other	0	0	0
Total Other Increases	<u>\$ 139,246,844</u>	<u>\$ 8,550,399</u>	<u>\$15,828,430</u>
Total Revenues and Other Increases	<u>\$ 393,645,990</u>	<u>\$16,956,041</u>	<u>\$16,001,838</u>
EXPENDITURES			
Government Direction, Management and Control	\$ 425,876,935	\$16,509,386	\$15,083,919
Total Expenditures	<u>\$ 425,876,935</u>	<u>\$16,509,386</u>	<u>\$15,083,919</u>
Other Decreases	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenditures and Other Decreases	<u>\$ 425,876,935</u>	<u>\$16,509,386</u>	<u>\$15,083,919</u>
Net Increase (Decrease) in Fund Balances for the Year	\$ (32,230,945)	\$ 446,655	\$ 917,919
Fund Balances—July 1, 1986	<u>\$ 82,162,598</u>	<u>\$ 7,587,257</u>	<u>\$ 1,487,489</u>
Fund Balances—June 30, 1987	<u>\$ 49,931,653</u>	<u>\$ 8,033,912</u>	<u>\$ 2,405,408</u>

**STATE OF NEW JERSEY
SELECTED EMPLOYEE BENEFIT FUNDS
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1—Summary of Significant Accounting Policies

(A) Fund Accounting

The Governmental Accounting Standards Board (GASB) in its Statement 1 entitled **Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide** continued in force the National Council on Governmental Accounting's (NCGA) Statement 1. NCGA Statement 1 defines a fund as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. These statements reflect financial reporting practices in accordance with the above.

Basis of Preparation

The financial statements have been prepared from accounts and records maintained by the Division of Pensions. The accompanying statements include the following funds:

Health Benefits Program Fund
Dental Expense Program Fund
Prescription Drug Program Fund

The Health Benefits Program Fund, Dental Expense Program Fund and Prescription Drug Program Fund are classified as expendable trust funds. Trust funds are used to account for transactions related to assets, liabilities, and fund equity held in a trustee capacity by the state.

Description of Funds

The Health Benefits Program Fund was established by N.J.S.A. 52:14-17.25 et seq. This fund provides employer paid basic health services.

The Dental Expense Program Fund was established effective February 1, 1978 as authorized by N.J.S.A. 52:14-17.29. Eligible members contribute premiums calculated to meet half the cost of the plan.

The Prescription Drug Program Fund was established effective December 1, 1974 as authorized by N.J.S.A. 52:14-17.29. This fund provides employer paid coverage for drugs prescribed by a physician.

(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, 1987 and substantially remitted within the three month period subsequent to June 30.

NOTE 2—Cash

Negative book balances of \$3,540,678 million representing a managed overdraft have been reclassified and are included in the accounts payable balance as follows:

<u>Funds</u>	<u>Amount</u>
Health Benefits Program	\$ 401,586
Dental Expense Program Fund	<u>3,139,092</u>
Total	<u><u>\$3,540,678</u></u>

NOTE 3—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, 1987 the book value (\$199,429,578) approximated market value.

Due From General Fund

The Dental Expense Program Fund and Health Benefits Program Fund includes the employers' and employees' share of insurance premiums applicable to Fiscal Year '87, but not received until the succeeding fiscal year (\$9,697,103).

NOTE 4—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 difference between traditional rates and HMO rates established by the Commission.

Employees' contributions receivable includes amounts withheld by employers at June 30, 1987 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 5—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 6—Deferred Revenue

Represents Health Benefits Program Fund. Premiums received in June 1987 but for July 1987 coverage.

NOTE 7—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.

NOTE 8—Fiscal Year Events

The Dental Expense Program Fund and Prescription Drug Program Fund were reclassified as expendable trust funds October 1, 1985, when the State became self-insured for the traditional dental insurance plan. The Prudential Insurance Company of America will approve claims and pay them directly through a State checking account. Reserves will be maintained by the plan to cover the cost of unexpected claims. Coverage through enrollment in a Dental Plan Organization will remain on a premium cost basis.

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State Health Benefits Program
State of New Jersey
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