

STATE HEALTH
BENEFITS PROGRAM
OF NEW JERSEY



1990
Annual Report

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STATE OF NEW JERSEY
DEPARTMENT OF THE TREASURY
Douglas C. Berman, *Treasurer*

DIVISION OF PENSIONS
Margaret M. McMahon, *Director*

STATE HEALTH BENEFITS PROGRAM
OF NEW JERSEY

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MARGARET M. MCMAHON, SECRETARY

NEW JERSEY DIVISION OF PENSIONS
50 West State Street
Trenton, New Jersey

To His Excellency
Jim Florio
Governor of the State of New Jersey

Dear Sir:

The Commission of the State Health Benefits Program
is pleased to present the Twenty-Eighth Annual Report
in compliance with the provisions of N.J.S.A.
52:14-17.27.

Respectfully submitted,

DOUGLAS C. BERMAN,
Chairperson

SIGNIFICANT LEGISLATION

There were two significant changes made to the State Health Benefits Program (SHBP) as of January 1, 1990. The first of these changes was the introduction of a second State health plan—the Preferred Provider Organization (PPO). Administrative services for the processing and payment of claims is provided by the Prudential Insurance Company of America, Inc.

The second change was the consolidation of the medical/surgical and major medical segments of the Traditional Plan under one administrator—the Prudential Insurance Company of America, Inc. The consolidation was designed to reduce administrative cost and claim processing time.

CHAPTER 127, P.L. 1989 permits school employees who have been employed under a permanent appointment for at least three years to continue SHBP coverage when they are on an approved leave of absence, with or without pay, up to a maximum of two years. The employer may pay the premiums for such coverage.

CHAPTER 261, LAWS OF 1989 made many public and private employees in New Jersey become eligible for a family leave from their employment without loss of employment status and with continuation of certain employment benefits. Administration and enforcement of the act is vested in the Division of Civil Rights in the Department of Law and Public Safety. The basic benefit provided by the Family Leave Act is that a covered employee is entitled to a family leave of 12 weeks in any 24 month period upon advance notice to the employer unless the employer denies the leave as authorized by law. Family leave is defined as a leave from employment to provide care made necessary by reason of birth or adoption of a child or the serious illness of a child, parent or spouse.

CHAPTER 271, P.L. 1989 provides that the State shall pay the health premiums of the surviving spouses and dependent children of PFRS and SPRS members who died while on active duty.

PARTICIPATION

Local employer participation increased—30 employers adopted the Program for the first time while seven terminated participation.

There were 100,647 new employee enrollments. Total participation increased by 11,776 lives from fiscal 1989. In addition, there were 26,350 changes in coverage in fiscal 1990.

In fiscal 1989, 1,896,278 major medical claims were processed for an employee population of 307,375. In 1990, with 319,151 employees, 2,370,904 major medical claims were processed. Much of the 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 rise in medical care prices.

In fiscal year 1990, 79,273 employees and 987 employers were covered by Health Maintenance Organizations (HMOs) and the number of such organizations under contract to the State Health Benefits Commission is likely to increase as additional organizations are established. The PPO covered as many as 14,301 employees during that same period.

COVERAGE

The chart below shows the increase in the population covered by the SHBP with the beginning of State coverage in 1961 and local employer participation in 1964. During fiscal year 1990, 30 employers adopted the program for the first time.

Year	State Employees	Local Employees	Local Employers
1961	23,398	—	—
1964	30,806	—	—
1970	46,852	79,394	582
1975	68,315	177,699	932
1980	87,367	188,725	1,003
1985	96,948	173,102	912
1989	112,311	195,064	969
1990	115,100	204,051	987

The chart below shows the volume of activity including new enrollments, terminations and changes in coverage and major medical claims.

Year	Enrollments	Terminations	Changes	Major Med Claims
1988	61,706	54,279	15,933	1,651,328
1989	79,456	68,740	17,534	1,896,278
1990	100,647	88,871	26,350	2,370,904

COMBINING BALANCE SHEET

State of New Jersey

All Trust and Agency Funds

June 30, 1990

	Health Benefits Program Fund	Dental Expense Program Fund	Presc. Drug Program Fund
ASSETS			
Cash and Cash Equivalents	\$ 21,270	\$ 73,667	0
Investments	29,860,117	0	0
Receivables			
Other	6,487,179	21,759	\$ 32,412
Other Assets			
Due From Other Funds	125,764,619	9,530,519	3,111,567
TOTAL ASSETS	<u>\$162,133,185</u>	<u>\$9,625,945</u>	<u>\$3,143,978</u>
LIABILITIES			
Accounts Payable and accrued expenses	\$184,226,469	\$3,081,205	\$3,442,920
Deferred Revenue	764,051	0	1,887
Due to Other Funds	44,108	0	0
TOTAL LIABILITIES	<u>\$185,034,628</u>	<u>\$3,081,205</u>	<u>\$3,444,808</u>
FUND BALANCES			
Pension Benefits			
Other	(\$22,901,443)	\$6,544,740	\$ (300,829)
TOTAL FUND BALANCES	<u>(\$22,901,443)</u>	<u>\$6,544,740</u>	<u>\$ (300,829)</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$162,133,185</u>	<u>\$9,625,945</u>	<u>\$3,143,978</u>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES &
CHANGES IN FUND BALANCES**

State of New Jersey

All Trust and Agency Funds

June 30, 1990

	Health Benefits Program Fund	Dental Expense Program Fund	Presc. Drug Program Fund
REVENUES			
Contributions	\$431,533,624	\$11,985,106	\$ 406,703
Investment Earnings	11,382,707	635,855	349,680
Other	0	0	147
TOTAL REVENUES	<u>\$442,916,331</u>	<u>\$12,620,960</u>	<u>\$ 756,531</u>
OTHER INCREASES			
Transfers from Other Funds	\$273,201,079	\$11,822,737	\$31,939,611
Other	0	0	0
TOTAL OTHER INCREASES	<u>\$273,201,079</u>	<u>\$11,822,737</u>	<u>\$31,939,611</u>
TOTAL REVENUES & OTHER INCREASES	\$716,117,410	\$24,443,697	\$32,696,142
EXPENDITURES			
Government Direction, Management and Control	\$719,637,087	\$24,745,456	\$32,459,677
TOTAL EXPENDITURES	<u>\$719,637,087</u>	<u>\$24,745,456</u>	<u>\$32,459,677</u>
Other Decreases	0	0	0
TOTAL EXPENDITURES AND OTHER DECREASES	\$719,637,087	\$24,745,456	\$32,459,677
NET INCREASE (DECREASE) IN FUND BALANCES FOR THE YEAR	<u>(\$ 3,519,677)</u>	<u>(\$ 301,759)</u>	<u>\$ 236,456</u>
Fund Balances—July 1, 1989	<u>(\$ 19,381,766)</u>	<u>\$ 6,846,498</u>	<u>(\$ 537,295)</u>
Fund Balances—June 30, 1990	<u>(\$ 22,901,443)</u>	<u>\$ 6,544,740</u>	<u>(\$ 300,829)</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 AIPA 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 change 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 Health Benefits Program Fund, Dental Expense Program Fund and the 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 of New Jersey.

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 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, 1990 and substantially remitted within the three month period subsequent to June 30.

(C) Actuarial Assumptions

Actuarial assumptions regarding Accounts Payable for the Health Benefits Program Fund, Dental Expense Program Fund and Prescription Drug Program Fund entail that an average factor is developed for claims incurred but not paid in a fiscal year. The factors at the payable amount for the various funds.

NOTE 2—Investments

Investment securities in the Health Benefits Program Fund as of June 30, 1990 are as follows:

	<u>Book Value</u>	<u>Market Value</u>
US Treasury Notes	\$29,860,117	\$29,933,700
State of NJ Cash Management Fund	\$99,576,535	\$99,576,535

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, 1990 the book value (\$110,716,810) approximated market value.

Due from General Fund—The Dental Expense Program Fund, Health Benefits Program Fund and Prescription Drug Program Fund include the employers' and employees' share of insurance premiums applicable to Fiscal Year '90, but not received until the succeeding fiscal year (\$27,689,895).

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 State Health Benefits Commission. 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 the traditional rates and HMO rates established by the Commission. Employees' contributions receivable include amounts withheld by employers at June 30, 1990 which were substantially remitted within the three month period subsequent to June 30. Employers' contributions receivable include premiums due from local employers at June 30 for both traditional and the PPO programs which were substantially remitted within the 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 and 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

Deferred revenue represents Health Benefits Program Fund premiums received in June 1990 but for July 1990 coverage.

NOTE 7—Due to Other Funds

The Health Benefits Program Fund represents the balance of administrative expenses owed to the State General Fund at June 30 (\$44,108).

NOTE 8—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 SHBP rates were increased on July 1, 1990 instead of the normal May 1, 1990 which created a deficit for the fiscal year. The 25% rate increase effective July 1, 1990 is expected to offset the deficit. Rates are also expected to be increased effective July 1, 1991 to provide for a positive fund balance in the future.

The Prescription Drug Program Fund incurred a small surplus from operations during the fiscal year but was not enough to create a positive fund balance. The 19% increase implemented on September 1990 is expected to provide for a positive fund balance in the future.

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