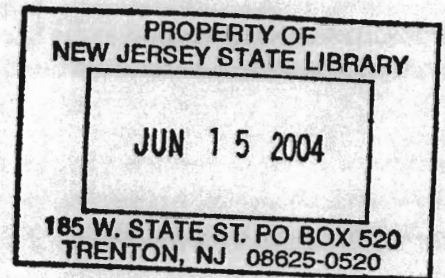




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STATE HEALTH BENEFITS PROGRAM OF NEW JERSEY



1996
ANNUAL REPORT

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STATE OF NEW JERSEY

DEPARTMENT OF THE TREASURY
Brian W. Clymer, Treasurer

DIVISION OF PENSIONS AND BENEFITS
Margaret M. McMahon, Director

TO THE HONORABLE
CHRISTINE TODD WHITMAN
GOVERNOR of the STATE OF NEW JERSEY

Dear Governor Whitman:

The Commission for the State Health Benefits Program is pleased to present the Fiscal Year 1996 Annual Report in accordance with the provisions of N.J.S.A. 52:17.27.

Respectfully submitted,

MARGARET M. McMAHON
Secretary

**STATE HEALTH BENEFITS PROGRAM
OF NEW JERSEY**

**COMMISSION
as of June 30, 1996**

BRIAN W. CLYMER, State Treasurer - Chairperson
Elizabeth Randall, Commissioner, Department of Banking and Insurance
Linda Anselmini, Commissioner, Department of Personnel

MARGARET M. McMAHON, *Secretary*

NEW JERSEY DIVISION OF PENSIONS AND BENEFITS
50 West State Street • Trenton, NJ 08625-0295

SIGNIFICANT LEGISLATION

CHAPTER 259, LAWS OF 1995 authorizes a municipality that participated in the State Health Benefits Program (SHBP) or another group health plan to allow an employee who is eligible for health care coverage as a dependent of the employee's spouse to waive coverage to which the employee is entitled. It would permit a municipality to pay an employee an amount not to exceed 50% of the amount saved by the municipality because of the waiver. Any municipal employee waiving coverage under the SHBP must file a waiver with the Division of Pensions and Benefits. Further, an employee who waives coverage shall be able to immediately resume coverage under the SHBP if the employee ceases to be covered by the spouse for any reason by filing a declaration with the Division of Pensions and Benefits that the waiver is revoked.

This law was approved on November 13, 1995.

CHAPTER 357, LAWS OF 1995 provides post-retirement health benefits to certain employees who retire from the Board of Education Employees' Pension Fund of Essex County. Members who retire with 25 or more years of service credit, or who retire on a disability pension or who elect deferred retirement based on 25 or more years of service and receive a retirement allowance from that fund will be eligible for enrollment in the retired group of the State Health Benefits Program. In addition, qualified members who are already retired may apply for this benefit within one year of enactment of this law. This law provides that the cost shall be paid by the State.

This law was approved on January 5, 1996.

CHAPTER 8, LAWS OF 1996 makes various changes regarding the payment of the premium or periodic charges for the State Health Benefits Program (SHBP).

Previously, the State as an employer bore the complete cost of SHBP benefits for active State employees and their dependents. The purpose of this law is to permit the determination of the obligations of the State concerning the payment of the premium or periodic charges for SHBP coverage through binding collective negotiations agreements. This law will apply to any agreement in force at the time of enactment.

For State employees who have no majority representative for collective negotiations purposes, the State Health

Benefits Commission may, in its sole discretion, modify the respective statutory payment obligations of the State and its employees in a manner consistent with the terms of any collective negotiations agreement binding on the State.

The law also provides that if a husband and wife are both eligible for SHBP coverage as employees:

- (a) each may elect coverage for himself or herself as an employee and for their qualified dependents, including the spouse, under the Traditional Plan or NJ PLUS, but only one may elect coverage for himself or herself and for their qualified dependents, including the spouse, in a participating HMO; and
- (b) each may elect single coverage in any participating HMO, provided that he or she is not covered under a HMO as a dependent of his or her spouse.

The law allows the State to establish a cafeteria plan for its employees pursuant to Section 125 of the Internal Revenue Code to provide for a reduction in an employee's salary in exchange for payment by the employer of **any** required employee contribution for SHBP coverage, medical or dental expenses not covered by SHBP, or dependent care expenses. The amount of any reduction in an employee's salary for the purpose of contributing to the plan will continue to be treated as regular compensation for all other purposes, including the calculation of pension contributions and the amount of any retirement allowance; however, to the extent permitted by the Internal Revenue Code, the amount of any reduction will not be included in the computation of federal taxes withheld from the employee's salary.

The law eliminates the requirement that active employees be enrolled in Part B Medicare and terminates the requirement that the State and local employers reimburse active employees for Medicare Part B premium payments.

The law clarifies the premiums to be paid by the State and employees for health benefits in retirement for State employees with 25 or more years of service credit in a State-administered retirement system. It provides that:

- (1) for each State employee who accrues 25 years of service credit in a State-administered retirement system or retires on disability before July 1, 1997, the State will pay the full cost of the premium or periodic charges for the health benefits provided to a retired

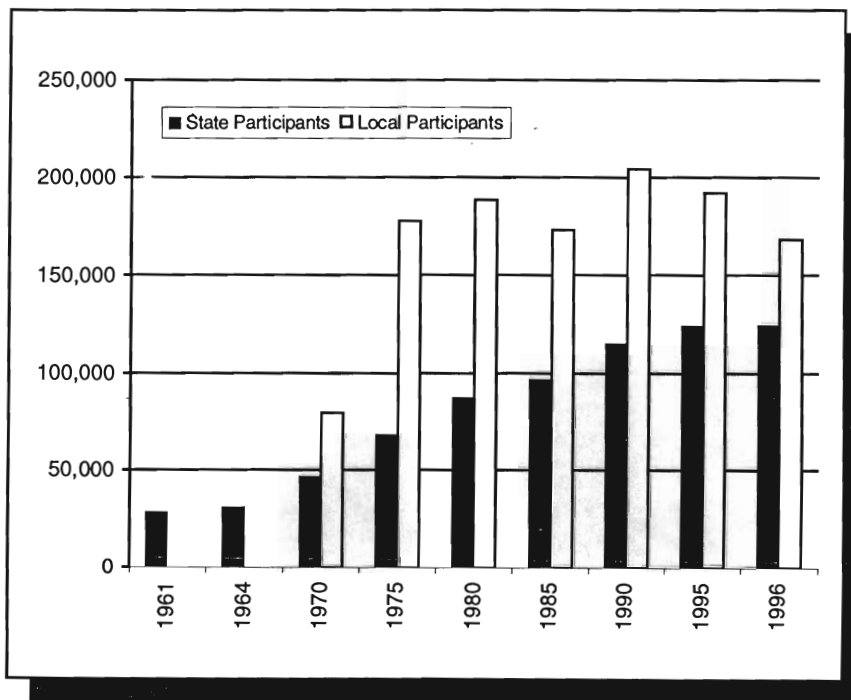
State employee and dependents covered under the State Health Benefits Program, but not including survivors, and will also reimburse the retired employee for premium charges under Part B Medicare covering the retired employee and the employee's spouse; and

- (2) for each State employee who accrues 25 years of service credit in a State-administered retirement system or retires on disability on or after July 1, 1997, the State will pay the premium or periodic charges for the health benefits provided to a retired State employee and dependents covered under the State Health Benefits Program, but not including survivors, and will **reimburse the retired employee for premium charges** under Part B Medicare covering the retired employee

and the employee's spouse: (a) in accordance with provisions, if any, concerning health benefits coverage in retirement which are in the collective negotiations agreement applicable to the employee at the time of the employee's accrual of 25 years of service credit in the retirement system, or (b) if the employee has no majority representative for collective negotiations purposes, in a manner consistent with the terms, if any, concerning health benefits coverage in retirement which are in any collective negotiations agreement deemed applicable by the State Health Benefits Commission to that employee at the time of the employee's accrual of 25 years of service credit in the retirement system.

MEMBERSHIP

- As of June 30, 1996, the active membership of the system totaled 292,995 (active and retired) consisting of 124,683 State participants and 168,312 participants of 770 local participating employers.
- Traditional Plan participation totaled 174,356.
- Health Maintenance Organization participation totaled 83,499.
- NJ PLUS participation totaled 35,139.
- The State's contribution was \$485,628,568 while payment made by Local employers totaled \$805,354,375.



MEMBERSHIP ACTIVITY

During fiscal year 1996, the following transactions were processed on behalf of the membership of the State Health Benefit Program of New Jersey.

- ENROLLMENT - 70,332 participants (active and retired) enrolled in the program.
- CHANGE - 4,228 changes (active and retired) were processed.
- TERMINATION - 93,841 participants (active and retired) terminated coverage.
- MAJOR MEDICAL CLAIMS - 2,696,819 major medical claims were processed by Prudential for participants (active and retired).
- HOSPITAL AND MAJOR MEDICAL CLAIMS - 1,556,415 claims were processed by Blue Cross for participants (active and retired) from 1/1/96 to 6/30/96.

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 1996, one employer adopted the program.

<u>Year</u>	<u>State Participants</u>	<u>Local Participants</u>	<u>Local Employers</u>
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
1990	115,100	204,051	987
1991	114,483	204,583	1,006
1992	114,734	194,419	986
1993	113,503	195,517	948
1994	115,137	196,584	939
1995	124,352	192,150	897
1996	124,683	168,312	770

STATE OF NEW JERSEY
STATE HEALTH BENEFITS PROGRAM
COMBINING BALANCE SHEET
All Trust and Agency Funds
June 30, 1996

	Health Benefits Program Fund	Dental Expense Program Fund	Prescription Drug Program Fund
ASSETS			
Cash and Cash Equivalents	\$ 0	2,659,222	0
Investments	39,670,863	0	0
Receivables			
Other	40,838,936	0	609,283
Other Assets			
Due from other Funds	420,201,664	14,657,488	21,220,910
Total Assets	\$ 500,711,463	17,316,710	21,830,193
LIABILITIES			
Accounts payable and accrued expenses	\$ 266,766,592	4,367,389	7,236,863
Deferred Revenue	16,967,414	401,752	0
Due to Other Funds	1,665,042	0	0
Other	0	0	0
Total Liabilities	285,399,048	4,769,141	7,236,863
FUND BALANCES			
Reserved for:			
Pension Benefits	0	0	0
Unreserved:			
Undesignated	215,312,415	12,547,569	14,593,330
Total Fund Balances	215,312,415	12,547,569	14,593,330
Total Liabilities and Fund Balances	\$ 500,711,463	17,316,710	21,830,193

STATE HEALTH BENEFITS PROGRAM
COMBINING STATEMENT OF REVENUES, EXPENDITURES
& CHANGES IN FUND BALANCES

All Trust and Agency Funds

June 30, 1996

	Health Benefits Program Fund	Dental Expense Program Fund	Prescription Drug Program Fund
REVENUES			
Contributions	\$ 805,354,375	17,900,477	13,326,756
Investment Earnings	21,942,289	799,755	1,333,283
Other	13,967,751	0	0
Total Revenues	841,264,415	18,700,232	14,660,039
OTHER INCREASES			
Transfers from other funds	485,628,568	17,946,796	62,895,743
Other	0	0	0
Total Other Increases	485,628,568	17,946,796	62,895,743
Total Revenues and Other Increases	1,326,892,983	36,647,028	77,555,782
EXPENDITURES			
Government direction, management and control	1,251,210,304	39,748,463	85,129,041
Total Expenditures	1,251,210,304	39,748,463	85,129,041
Other Decreases	0	0	0
Total Other Decreases	0	0	0
Total Expenditures and Other Decreases	\$ 1,251,210,304	39,748,463	85,129,041
Net Increase (Decrease) in Fund Balances for the Year	75,682,679	(3,101,435)	(7,573,259)
Fund Balances - July 1, 1995	139,629,736	15,649,004	22,166,589
Reserve Distribution			
Fund Balances - June 30, 1996	\$ 215,312,415	12,547,569	14,593,330

**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 Accountings'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 and Benefits. 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 ef-

fective 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, 1996 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 and the claims paid are then multiplied in order to arrive at the payable amount for the various funds.

NOTE 2 - INVESTMENTS

Investment securities in the Health Benefits Program Fund as of June 30, 1996 are as follows:

	<u>Book Value</u>	<u>Market Value</u>
U.S. Treasury Notes	\$ 39,670,863	\$ 39,869,450
State of New Jersey Cash Management Fund	\$ 382,638,908	\$ 382,638,908

NOTE 3 - DUE FROM OTHER FUNDS

This is mainly comprised of Due from Cash Management Fund and Due from the General Fund. Any difference is due from the various pension funds (\$3,767).

Cash Management Fund

Most funds of the State participate in the Sate 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, 1996 the book value (\$415,387,518) 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 '96, but not received until the succeeding fiscal year (\$39,337,128).

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 HMOs 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, 1996 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 for Traditional, HMOs and NJ PLUS programs 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, 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

Represents Health Benefits Program Fund premiums received in June 1996 but for July 1996 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, 1996 (\$313, 393).

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.

NOTE 9 - POST-RETIREMENT MEDICAL BENEFITS

Chapter 136, P.L. 1977 provides for the State to pay health benefits coverage of retired State employees regardless of retirement date whose pensions are based upon 25 years or more of credited service (except those who elect a deferred retirement) or a disability retirement regardless of years of service. Excluded from these benefits are retirees from the Public Employees' Retirement System and the Teachers' Pension and Annuity Fund which finance the cost of providing the same health benefits coverage to the retirees.

These benefits are funded by the State on a "pay as you go" basis. For FY '96 the State contributed \$11,829,413 for 2,864 eligible retired members.

Judicial Retirement System	\$ 372,500	120
State Police Retirement System	4,672,330	980
Other	6,784,583	1,764
	<hr/>	<hr/>
Total	\$ 11,829,413	2,864

The State is also responsible for the cost attributable to Chapter 126, P.L. 1992 which provides free health benefits to members of PERS, TPAF and ABP who retired from a board of education or county college with 25 years of service. In fiscal year 1996, the State paid \$11,446,932 toward Chapter 126 benefits for 3,391 retired members.