

STATE HEALTH
BENEFITS PROGRAM
OF NEW JERSEY



1988
Annual Report

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**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-Sixth 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 1988, 13 employers adopted the program for the first time while 8 terminated. In fiscal 1988, there were 61,706 new enrollments; total participation increased by 7,277 lives from fiscal 1987. In addition, there were 15,933 changes in coverage in fiscal 1988.

In the 1987 fiscal year, 1,380,038 major medical claims were processed for an employee population of 289,382. In 1988, with 296,659 employees, 1,651,328 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 1988, 72,760 employees of 695 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 22, Laws of 1987, mandates that the State of New Jersey is to provide free health benefits coverage to certain employees and their dependents, but not their survivors, of Rutgers University. To be eligible for such benefits, the employee must have been employed by Rutgers University prior to January 3, 1955; remained in continuous service with the University until his or her retirement, which must have been effective on or after January 27, 1987; and was covered by the State Health Benefits Program at the time of retirement. Such employees will be eligible for such benefits even though they may never had enrolled in a State-administered retirement system but did not accrue at least 25 years of service therein. This law was approved and became effective on January 27, 1987.

Chapter 384, Laws of 1987, provides that qualified retirees and their dependents, but not their survivors, under the TPAF are eligible to participate in the State Health Benefits Program regardless of whether or not their employers participated in the program. A "qualified retiree" is defined as a retiree who retired on a benefit based upon 25 or more years of service credit or on disability retirement. The program shall reimburse retirees for the premium charges under Part B of the federal Medicare program. Qualified retirees who retired before the effective date of this law will be eligible for the coverage if they apply to the program within one year after the effective date of this law. The cost of the premiums for the coverage and for reimbursement of Medicare premiums will be paid by the TPAF. Under this law, free health care

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coverage will be available to all retirees who meet the eligibility requirements, regardless of when they retired. This law was approved on January 8, 1988, to become effective on June 1, 1988.

Chapter 386, Laws of 1987, provides that the continuation of health insurance for retired employees of local boards of education under contracts between those boards and private carriers shall be mandatory. The retirees will have to pay the entire cost of such coverage. Retirees who elect the State-paid coverage under the State Health Benefits Program would not be eligible for employe-paid coverage under private contracts.

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 1988, thirteen 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

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>1987</u>	<u>1988</u>
Enrollments	58,420	61,706
Terminations	47,133	54,279
Changes	17,327	15,933
Major Medical Claims	1,380,038	1,651,328

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

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

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, 1988

	<u>Health Benefits Program Fund</u>	<u>Dental Expense Program Fund</u>	<u>Prescription Drug Program Fund</u>
ASSETS			
Cash and Cash Equivalents	\$ 12,985,241	\$ 551,160	\$ 0
Receivables Other	3,433,113	13,491	8,983
Other Assets Due From Other Funds	120,072,478	9,822,486	3,391,151
Total Assets	<u><u>\$136,490,832</u></u>	<u><u>\$10,387,137</u></u>	<u><u>\$3,400,134</u></u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable and Accrued Expenses	\$147,679,834	\$ 2,457,815	\$1,697,034
Deferred Revenue	7,926,299	0	0
Due to Other Funds	0	0	0
Total Liabilities	<u><u>\$155,606,133</u></u>	<u><u>\$ 2,457,815</u></u>	<u><u>\$1,697,034</u></u>
FUND BALANCES			
Pension Benefits	\$(19,115,301)		
Other	0	\$ 7,929,322	\$1,703,100
Total Fund Balances	<u><u>\$(19,115,301)</u></u>	<u><u>\$ 7,929,322</u></u>	<u><u>\$1,703,100</u></u>
Total Liabilities and Fund Balances	<u><u>\$136,490,832</u></u>	<u><u>\$10,387,137</u></u>	<u><u>\$3,400,134</u></u>

STATE OF NEW JERSEY
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
EXPENDABLE TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1988

	<u>Health Benefits Program Fund</u>	<u>Dental Expense Program Fund</u>	<u>Prescription Drug Fund</u>
REVENUES			
Contributions	\$ 271,260,385	\$ 9,380,190	\$ 104,740
Investment Earnings	9,061,428	549,173	163,888
Other	0	467,667	0
Total Revenues	<u>\$ 280,321,813</u>	<u>\$ 10,397,030</u>	<u>\$ 268,628</u>
OTHER INCREASES			
Transfers from Other Funds	\$ 174,111,067	\$ 9,109,274	\$ 18,429,877
Other	0	0	0
Total Other Increases	<u>\$ 174,111,067</u>	<u>\$ 9,109,274</u>	<u>\$ 18,429,877</u>
Total Revenues and Other Increases	<u>\$ 454,432,880</u>	<u>\$ 19,506,304</u>	<u>\$ 18,698,505</u>
EXPENDITURES			
Government Direction, Management and Control	\$ 523,479,834	\$ 19,610,893	\$ 19,400,813
Total Expenditures	<u>\$ 523,479,834</u>	<u>\$ 19,610,893</u>	<u>\$ 19,400,813</u>
Other Decreases	0	0	0
Total Expenditures and Other Decreases	<u>\$ 523,479,834</u>	<u>\$ 19,610,893</u>	<u>\$ 19,400,813</u>
Net Increase (Decrease) in Fund Balances for the Year	\$ (69,046,954)	\$ (104,589)	\$ (702,308)
Fund Balances—July 1, 1987	<u>\$ 49,931,653</u>	<u>\$ 8,033,911</u>	<u>\$ 2,405,408</u>
Fund Balances—June 30, 1988	<u>\$ (19,115,301)</u>	<u>\$ 7,929,322</u>	<u>\$ 1,703,100</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, 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, 1988 the book value (\$111,391,623) 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 '88, but not received until the succeeding fiscal year (\$21,851,492).

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, 1988 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 1988 but for July 1988 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 30% rate increase was implemented effective 5/1/88. There is also a proposed rate increase effective 5/1/89 which should 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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