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STATE HEALTH BENEFITS PROGRAM OF NEW JERSEY

1998 ANNUAL REPORT

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MEMORANDUM FOR THE RECORD

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DEPARTMENT OF
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James A. DiEleuterio, Jr.,
State Treasurer

DIVISION OF PENSIONS
AND BENEFITS
Margaret M. McMahon, *Director*



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
PO Box 295 • Trenton, NJ 08625-0295

May 1999

STATE HEALTH
BENEFITS PROGRAM
OF NEW JERSEY

COMMISSION

JAMES A. DILEUTERIO, JR.
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of Banking and Insurance

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Commissioner,
Department of Personnel

MARGARET M. McMAHON
Secretary

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

Dear Governor Whitman:

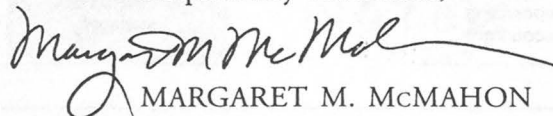
As Secretary to the New Jersey State Health Benefits Commission and Director of the Division of Pensions and Benefits, I am pleased to present the Fiscal Year 1998 Annual Report in accordance with the provisions of N.J.S.A. 52:17.27.

We have had an excellent year which has seen many positive changes. We have been able to successfully contain health care costs as evidenced by very modest health plan rate increases for fiscal year 1998 for both the State and Local Employers. We have launched a new INTERNET tool called the *Unified Provider Directory* (UPD) which has made choosing a provider and a health plan much easier for our members. We have also begun a process where we hope to standardize benefits provided by our Health Maintenance Organizations to eliminate much of the uncertainty for our members when choosing a plan.

As a result of successfully altering our rate structure to be more competitive in the market place we have, for the first time in several years, increased the number of employers choosing to participate with the State Health Benefits Program in fiscal year 1998.

We will continue to pursue new and innovative benefit designs and concepts that will enhance the care to our members while continuing to contain health costs for all concerned.

Respectfully submitted,


MARGARET M. McMAHON
Secretary

NEW JERSEY
State Health Benefits Program

Mission

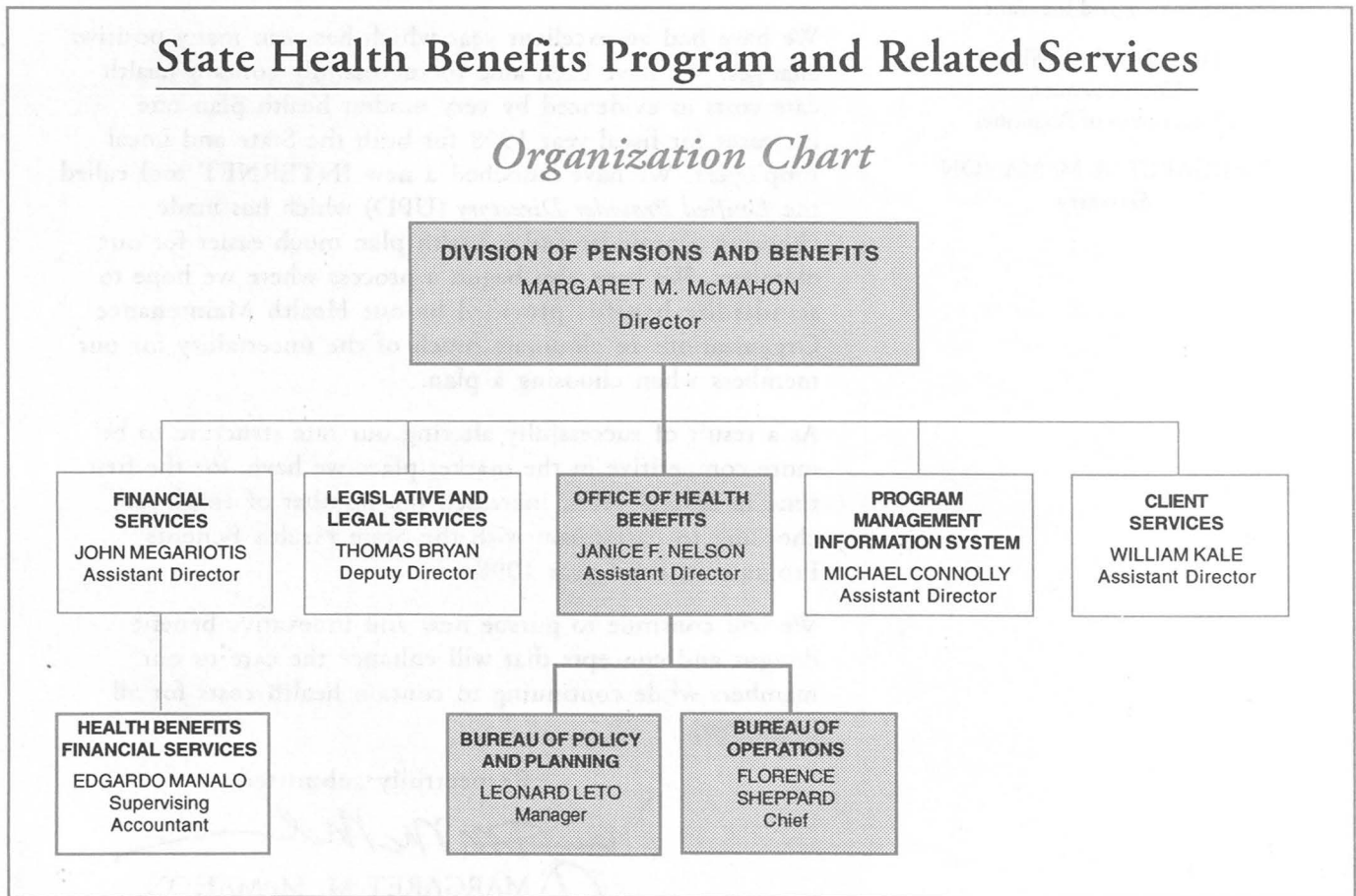
The Division of Pensions and Benefits is committed to a standard of excellence that delivers quality health care in an efficient and cost effective manner.

Vision

To be proactive in establishing the standard for top quality benefits by focusing on innovative approaches and a commitment to member satisfaction.

State Health Benefits Program and Related Services

Organization Chart



Overview

The State Health Benefits Program (SHBP) offers a variety of health plans and delivers excellent value for the more than 700,000 active and retired New Jersey public sector employees and their dependents. The SHBP consists of two distinct groups — the State, and local governmental entities such as boards of education, municipalities, counties, etc.

The responsibility for the operations of the SHBP resides with the Director of the Division of Pensions and Benefits. The Division is part of the State's Department of the Treasury. The policy-making body of the SHBP is the State Health Benefits Commission. The Commission consists of the State Treasurer, the Commissioner the Department of Banking and Insurance, and the Commissioner of the Department of Personnel. The Treasurer serves as the Chair of the Commission. All decisions made by the Commission are a matter of public record.

Office of the State Health Benefits Program

The office of the State Health Benefits Program (SHBP) is composed of two bureaus under the direction of the Assistant Director of the SHBP.

Bureau of Operations

The Bureau of Operations is responsible for all SHBP enrollment activities encompassing 12 medical plans, 13 dental plans, and a prescription drug plan. In addition, the Bureau is responsible for the administration of benefits under the federal COBRA law.

Bureau of Policy and Planning

The Bureau of Policy and Planning analyzes and makes recommendations concerning all current and proposed health benefits programs. The Bureau is also responsible for contract renewals and requests for proposals.



State Health Benefits Program

The State Health Benefits Program (SHBP) was established by Chapter 49, P.L. 1961 to provide traditional indemnity plan benefits for State employees. Chapter 125, P.L. 1964 extended the program to include employees of local government at the option of each public employer.

Chapter 337 of the Public Laws of 1973 (C. 26:2J-3) authorized the establishment of Health Maintenance Organizations (HMOs) to be offered to both State and local employers. The first HMO enrollment took place in 1976. Currently 12 HMOs participate in the State Health Benefit Program. Medicare HMOs were first offered to retirees in February 1997.

In 1989, the State Health Benefits Commission introduced a point-of-service plan known as NJ PLUS.

A Prescription Drug Program was initiated for certain State employees effective December 1, 1974, as a result of union negotiations. The passage of Chapter 41, P.L. 1976 extended this coverage to all eligible State employees. The State Health Benefits Commission offered the program to local employers that participate in the SHBP on July 1, 1993. Employees and their eligible dependents are covered by the plan in the same manner as the medical plans offered by the State Health Benefits Program.

The State Dental Program was established February 1, 1978 for State employees only. Initially only one plan was offered: a traditional indemnity plan known as the New Jersey State Dental Expense Benefits Program. The Program expanded in June 1984 to include Dental Provider Organizations. All eligible State employees may enroll for themselves and their eligible dependents by paying the premium calculated to meet half of the cost of the plan.

The Traditional Plan, NJ PLUS, and the Prescription Drug Program are self-insured. Administrative services for these plans are provided by Blue Cross and Blue Shield of New Jersey. The dental indemnity plan is also self-funded, with administrative services provided by the Prudential Insurance Company. Currently all HMOs and Dental Provider Organizations participate in the SHBP on an insured basis. The State Health Benefits Commission approved three HMOs, AETNA US Healthcare, CIGNA Healthcare, and Blue Cross Blue Shield of New Jersey's HMO Blue, to be offered as self insured plans in fiscal year 1999.

The Statute governing the SHBP can be found in the New Jersey Statutes Annotated, Title 52, Chapter 14, Article 3D. Rules governing the operation and administration of the program may be found in Title 17, Chapter 9 of the New Jersey Administrative Code.

Medical Plans Offered

Traditional Plan

An indemnity plan offering full choice of physicians.

NJ PLUS

A point-of-service plan that provides the in-network and health promotion features of managed care plans, and out-of-network features similar to the Traditional Plan such as full choice of physicians.

Health Maintenance Organizations (HMOs)

Choices include comprehensive health plans where employees can choose a primary care physician from a closed network of participating providers. Services are provided in individual physician offices or medical groups, or a combination of both. Most cover the entire State and adjacent counties in neighboring states where licensed. For Medicare eligible retirees, Medicare HMOs are offered.

Dental Benefits

Employees have a choice of the traditional indemnity dental plan or choosing from several prepaid dental provider organizations. Dental coverage is optional. State employees who opt for coverage pay 50% of the monthly cost through payroll deductions. Dental coverage is not available to State retirees or to local government employees or retirees.

Prescription Drug Coverage

Prescription drug coverage is provided to eligible State employees and their dependents. The Program is also available to eligible employees of participating local employers and their dependents. Under the Program, employees and eligible dependents pay a copayment of \$1.00 for generic drugs or \$5.00 for brand name drugs per prescription or refill. The State pays the remainder of the cost. Also included in the Prescription Drug Program is a mail order feature that requires no copayment. The program is not available to retirees.

Recent Accomplishments

Containment of Costs (State and Local) — HMOS

State Health Benefits Program (SHBP) participants are currently offered 12 HMO options. In fiscal year 1998 overall, State and local HMO costs rose approximately 2.5%. The State's results are below HMO industry premium increase trends of 3% to 5% for fiscal year 1997.

New Initiatives

The SHBP initiated a new policy to standardize benefits by participating HMOs. The initial action became effective July 1, 1997. Office visit copayments for all plans were set at \$5 per visit. In addition, all plans were required to offer a routine vision examination with a \$5 copayment. Vision hardware reimbursements were no longer to be covered since vision reimbursement is already available to State employees through a centralized program. A much larger initiative to standardize benefits and operating procedures for HMOs is scheduled for fiscal year 1999.

Elimination of an HMO

One of the HMOs offered under the SHBP, QualMed, had a total SHBP enrollment of eight contracts covering approximately 20 lives after several years of being offered. Current total premiums were \$31,000 annually. The State eliminated QualMed due to its inability to attract enrollment and its failure to meet other SHBP standards.

Self Insurance

Our largest HMOs were asked to quote benefits under a self-insured basis. The State is exploring this option to see if savings can be achieved.

Local Employer Groups

Effective July 1, 1997, the Commission established a special rate for education employers (boards of education and county colleges) participating in the Local Employer Group. The lower rate reflects their more favorable claims experience as compared to the balance of the Local Employer Group.

Due to many positive fiscal changes accomplished in fiscal year 1997, the Commission approved a one-year period of reentry for local employers that had previously participated in the SHBP. The open enrollment period for these employers scheduled to end April 30, 1998, was extended for another year.

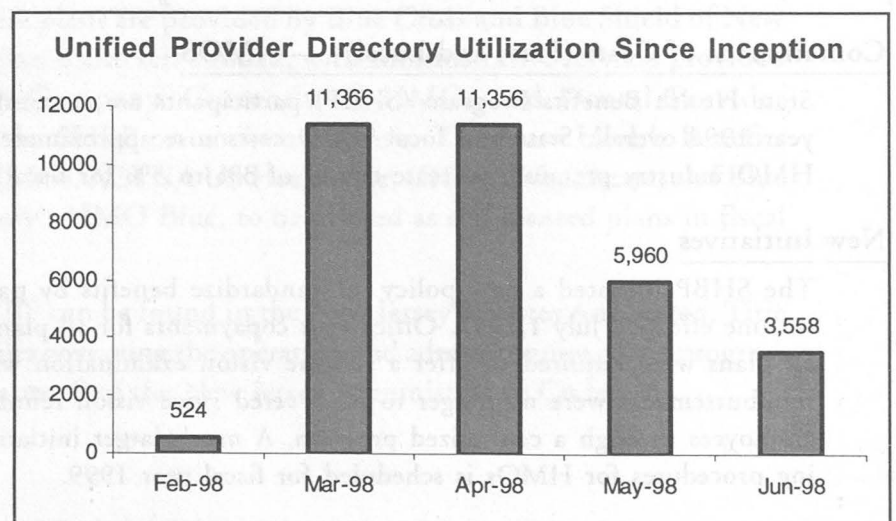
In fiscal year 1998 37 local employers joined the SHBP.

Unified Provider Directory

The State Health Benefits Program (SHBP) has implemented an innovative service for its participating employers and their employees. This service, called the Unified Provider Directory, is now available through the Internet. The Unified Provider Directory contains medical provider information currently only included in the provider directories of each of the SHBP's participating health plans. This consolidated information is in a uniform, easy access format. Members will no longer have to search through numerous provider directories to find the plan affiliations of a preferred health care provider or hospital.

The service, which is updated monthly, displays timely and comprehensive information concerning health care providers and facilities that deliver their services through one or more of the SHBP managed-care plans. The site also includes a list of providers who offer discounted services under the Traditional Plan and NJ PLUS (out-of-network services).

Anyone who has access to the Internet, whether at work, home, or at a public library, can reach the site through the State Health Benefits Program homepage at: www.state.nj.us/treasury/pensions/shbp.htm



Claim Audit Reports

An audit by Buck Consultants, Inc. of the Traditional Plan and NJ PLUS, administered by Blue Cross and Blue Shield of NJ (BCBSNJ), was completed and results were distributed to the Commission in May, 1998. The reports presented the evaluation of the efficiency and accuracy of claims administration and processing of claims paid between July 1, 1996 and March 31, 1997.

The findings for the Traditional Plan were:

A review of 429 sample claims identified a 1.1% **financial** error rate. According to industry and BCBSNJ's internal standards, up to a 1.0% financial error rate is considered to be an acceptable range of error. Thus, the 1.1% error rate is marginally acceptable.

The audit identified a 2.6% **payment incidence** rate. Compared to the BCBSNJ maximum acceptable standard of 3.5% and the industry standard of 3.0% for payment incidence error, the 2.6% error rate falls within an acceptable range.

There were no **procedural** errors identified by the audit.

The audit identified an average Turnaround Time (TAT) of 94.0% - 96.0% of claims processed within 12 days. The audit results exceeded both BCBSNJ and industry standards for TAT.

Despite efforts to audit the performance of the out-of-State component of the Traditional Plan, BCBSNJ was unable to secure the claims file for audit review. This issue will need to be addressed and resolved in the future.

The audit findings for NJ PLUS In-State were:

A review of 409 sample claims identified a financial error rate of 0.7%. According to industry standards and BCBSNJ's internal objectives, up to a 1.0% financial error rate is considered to be an acceptable range of error. Based on this standard, the 0.7% error rate represents \$478,000 mispaid by BCBSNJ on NJ PLUS In-State claims for the time frame audited.

The claim payment **incidence** error rate for the audit sample is 2.7%. Compared to the maximum acceptable industry standard of 3.0%, the error rate falls within acceptable industry standards.

The audit did not identify any **procedural** errors.

The audit identified that only 57.5% of all claims were processed within 12 calendar days. Thus, BCBSNJ failed to meet their internal and industry standard objective for TAT.

The audit findings for NJ PLUS Out-of-State were:

A review of 426 sample claims identified a financial error rate of 1.5%. Based on the 1.0% acceptable standard, the 1.5% error rate falls below an acceptable range error.

The audit identified a payment **incidence** error rate of 1.9. Based on an acceptable industry standard of 3.0%, the error rate falls within the acceptable range.

The audit did not identify any **procedural** errors.

Overall the audit was positive, especially for the Traditional Plan, and indications are that BCBSNJ is meeting or exceeding most industry standards. Weaknesses uncovered by the audit are being addressed.

Premium Holidays for SHBP Local Group in Traditional Plan and NJ PLUS

In December 1996, the State Health Benefits Commission approved two months of Premium Holidays for fiscal year 1998. October and December 1997 were designated as Premium Holidays for eligible local employers and for those retirees who pay for their health care and are enrolled in the Traditional Plan or NJ PLUS.

The first holiday, as an incentive to encourage new employers to join the program, applied to all employers participating in the SHBP as of the date of the holiday. The second Premium Holiday was limited to employers in the SHBP at the time of the Commission action. Any new employer eligible to receive the second Premium Holiday must remain in the SHBP for at least a 12-month period following the holiday, or be responsible for payment of the premiums waived.

Those receiving the holidays saved \$36.5 million in premium in October and \$34.8 million in December 1997. Included in those receiving the premium holidays are retirees who pay for their own health care plus and the Teachers' Pension and Annuity Fund (TPAF) who also pay health care premiums for eligible retirees.

Benefit Changes

Treatment of Lyme Disease

On July 9, 1997, the State Health Benefits Commission approved a policy for treatment of Lyme Disease for the Traditional Plan and NJ PLUS, in- and out-of-network. An individual may be treated either with oral antibiotic therapy or up to 30 days of intravenous or intramuscular antibiotic therapy. All IV therapy for treatment of Lyme Disease must be precertified by the Plan Administrator. When IV therapy is determined to be medically appropriate, the supplies, cost of the drug and skilled nursing care visits are covered services. Requests for more than 30 days of treatment require clinical/laboratory documentation of the need.

Screening of Mammograms

On March 11, 1998 the State Health Benefits Commission approved for all plans, one baseline mammogram, at any age, for women up to age 39, and one per year for women age 40 and over.

Assisted Reproductive Technology Benefits

On March 26, 1998, the State Health Benefits Commission approved a policy for Assisted Reproductive Technology (ART) benefits for the Traditional Plan and NJ PLUS. The SHBP limits the reimbursement of ART procedures (*i.e.*, IVF, ET, ZIFT, GIFT) and related services to three attempts per successful pregnancy. A successful pregnancy is defined as producing a live newborn. If the first three attempts are not successful, there is no further benefit.

1998 Significant Legislation

Chapter 44, Public Laws of 1998

this act abolishes the Department of Commerce and Economic Development and creates the New Jersey Commerce and Economic Growth Commission.

The Commission is established in the Executive Branch of State government and the Chief Executive Officer and Secretary of the Commission is a cabinet level officer. The act allocates the Commission to the Department of the Treasury, but shall be independent of any supervision and control by Treasury.

Section 7 of the bill states that employees of the commission shall be enrolled in the Public Employees' Retirement System and shall be eligible to participate in the State Health Benefits Program. The commission could, however, elect to provide health benefits for its employees through private insurance policies, hospital and medical service corporations, health maintenance organizations, or any other manner available for the provision of health benefits, provided that the types of benefits shall not provide less coverage than those benefits provided to other State employees.

This law was approved on June 30, 1998.

Chapter 330, Public Laws of 1997

provides post-retirement health care benefits in the State Health Benefits Program (SHBP) to a qualified retiree from the Police and Firemen's Retirement System (PFRS) or the Consolidated Police and Firemen' Retirement System (CPFPE), or from the Public Employees' Retirement System (PERS) if the retiree's service was as a law enforcement officer or in a position eligible for participation in the PFRS, and to dependents of a qualified retiree, but no survivors, regardless of whether the retiree's employer participated in the SHBP.

The law defines a qualified retiree as a retiree who:

1. retired on a benefit based on 25 or more years of service credit in PFRS or CPFPE, or in PERS as a law enforcement officer as defined in N.J.S.A. 43:15A-97 or in a position eligible for participation in PFRS under Chapter 204, P.L. 1989 (N.J.S.A. 43:16A-1.2); or
2. retired on a disability retirement under PFRS or CPFPE, or under PERS as a law enforcement officer or in a position eligible for participation in PFRS, based on fewer years of service credit, and
3. was eligible to receive health benefits coverage at the expense of the employer of the person immediately preceding retirement.

It provides that the State shall pay 80 percent of the premium or periodic charges for the category of coverage elected by the qualified retiree under the State managed care plan (NJ PLUS) or a health maintenance organization participating in the program which provides services in the 21 counties in the State, whichever provides the lower charge. The qualified retiree shall pay the difference between the premium or periodic charge for the coverage and the amount paid by the State.

A qualified retiree shall have two opportunities to enroll in this program;

1. at the time of retirement, and

2. when the qualified retiree becomes eligible for Medicare.

A qualified retiree receiving health benefits coverage from any employer after retirement shall be ineligible for the benefits under this act.

Any qualified retiree who retired prior to the effective date of this act, shall be eligible for coverage under this program if the retiree applies for this benefit within one year after the effective date of this act.

The provisions of this law shall not apply to (1) a retired State employee whose premium or periodic charges for benefits under the program are paid by the State pursuant to N.J.S.A. 52:14-17.32 or N.J.S.A. 52:14-17.28b; and (2) a retiree of an employer other than the State which pays the premium or periodic charges for health care benefits for eligible retirees pursuant to N.J.S.A. 52:14-17.38 or N.J.S.A. 40A:10-23 on the effective date of this law.

No provision of this law alters retiree health care benefits provided by an employer by negotiated agreement, ordinance or resolution. Further, the law also provides that an arbitrator in a compulsory interest arbitration proceeding shall not issue any finding, opinion or order reducing, eliminating or otherwise modifying retirees benefits which exist as a result of a negotiated agreement, ordinance or resolution because of the enactment of this or any other legislation providing such benefits for those who do not already receive them.

This law was approved January 9, 1998 and took effect July 1, 1998.

Chapter 335, Public Laws of 1997

provides State-paid health benefits to a retired State employee and any dependents, but not including survivors, if the employee:

1. retired prior to the effective date of this act (January 12, 1998) under the State Police Retirement System with more than 20 but less than 25 years of service credit in the retirement system;
2. was subsequently employed by the state in another position(s) not covered by the State Police Retirement System;
3. has, in the aggregate, at least 30 years of full-time employment with the State; and
4. is covered by the SHBP at the time of terminating full-time employment with the State.

This law was approved on January 12, 1998.

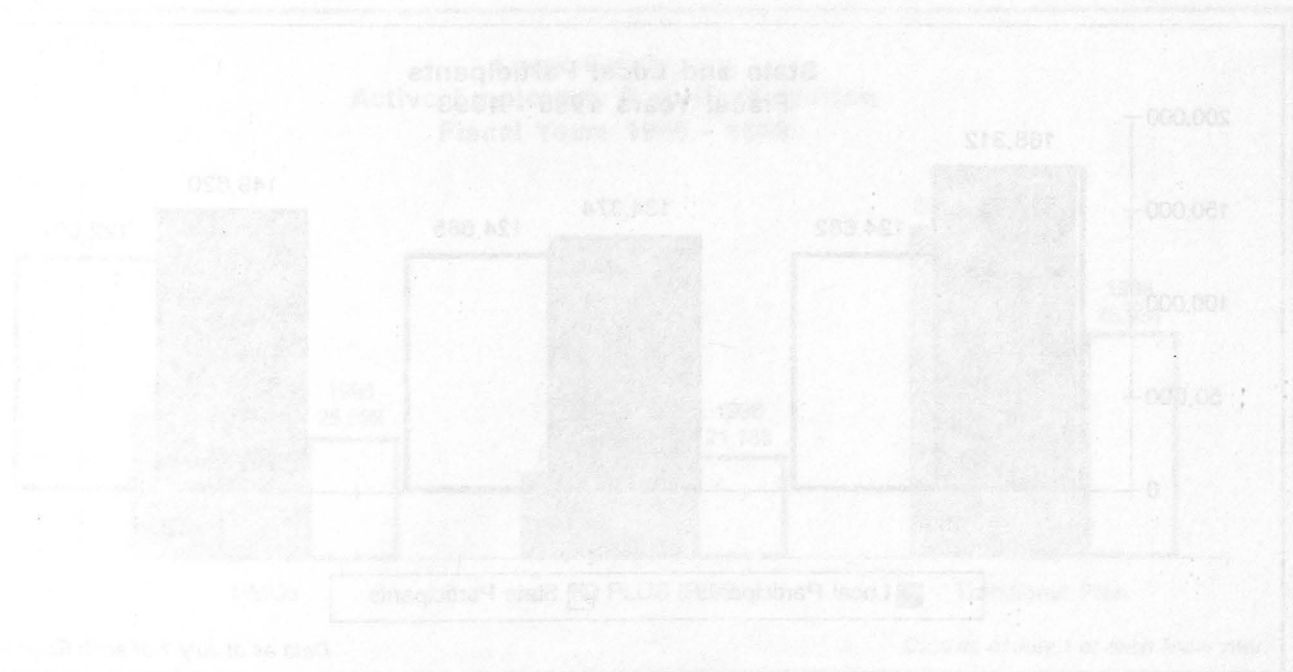
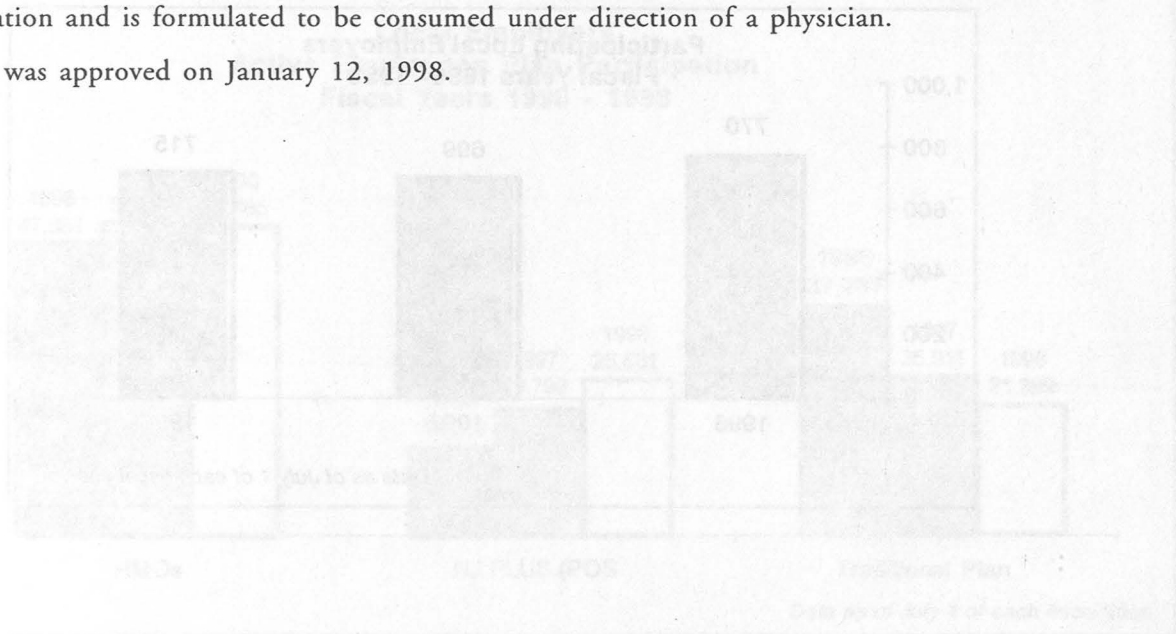
Chapter 338, Public Laws of 1997

requires hospital, medical and health service corporations, individual, small employer and large group insurers, health maintenance organizations and the New Jersey State Health Benefits Program (SHBP) to provide coverage for the therapeutic treatment of inherited metabolic diseases, including the purchase of medical foods and low protein modified food products, when diagnosed and determined to be medically necessary by the covered person's physician.

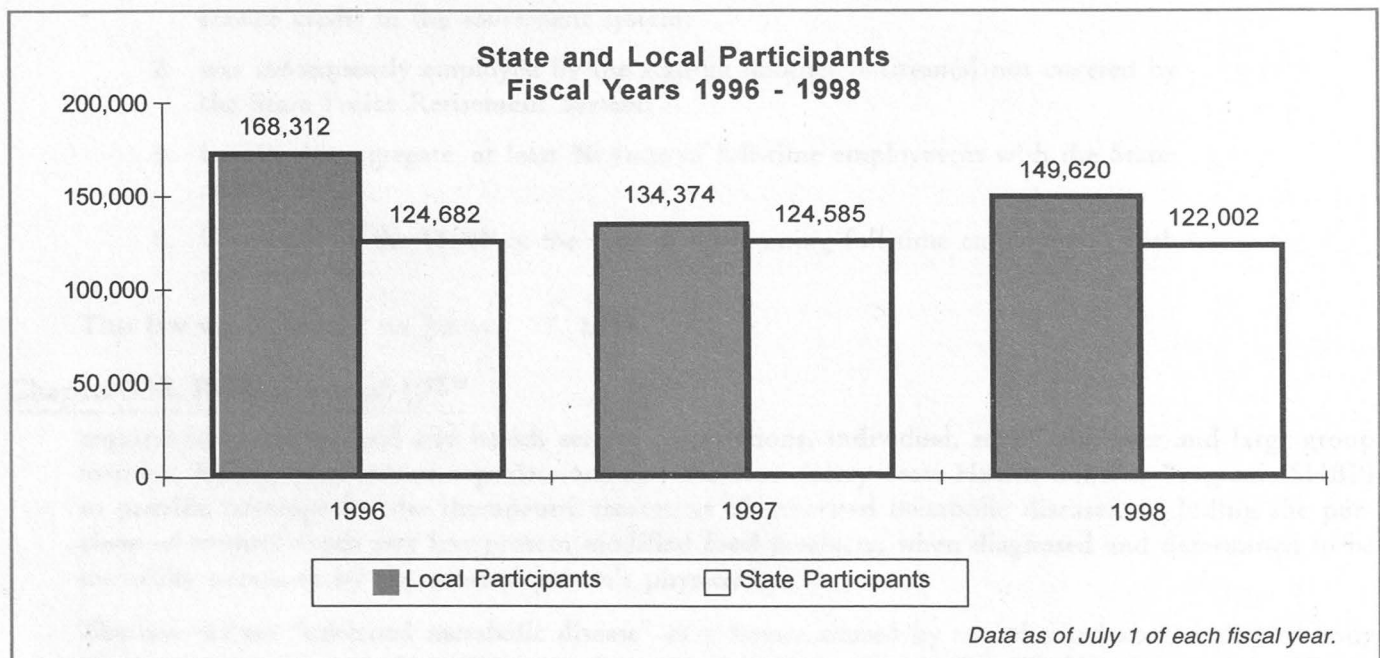
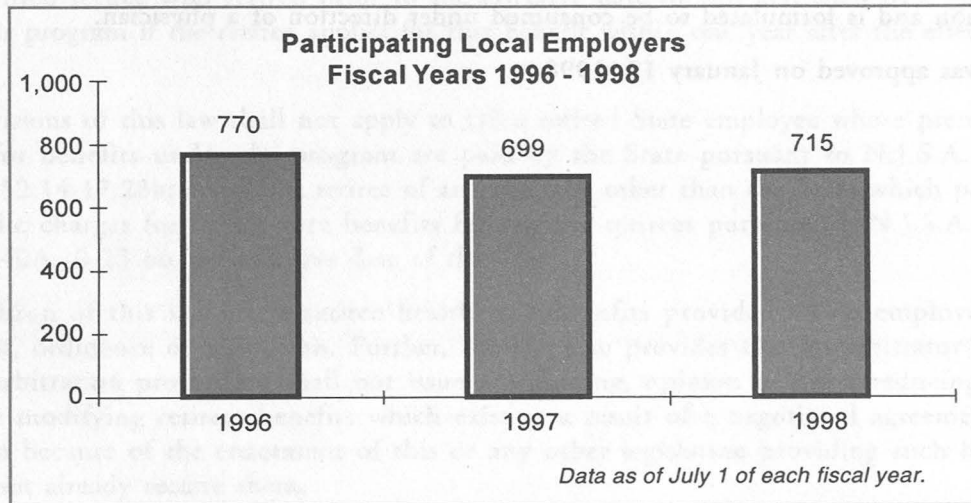
The law defines "inherited metabolic disease" as a disease caused by an inherited abnormality of body chemistry for which testing is mandated pursuant to P.L. 1977, c.321 (C26:2-110 et seq.), such as

phenylketonuria (PKU). "Low protein modified food product" is a food product that is specially formulated to have less than one gram of protein per serving and is intended to be used under the direction of a physician for the dietary treatment of an inherited metabolic disease, but does not include a natural food that is naturally low in protein; and "medical food" is a food that is intended for the dietary treatment of a disease or condition for which nutritional requirements are established by medical evaluation and is formulated to be consumed under direction of a physician.

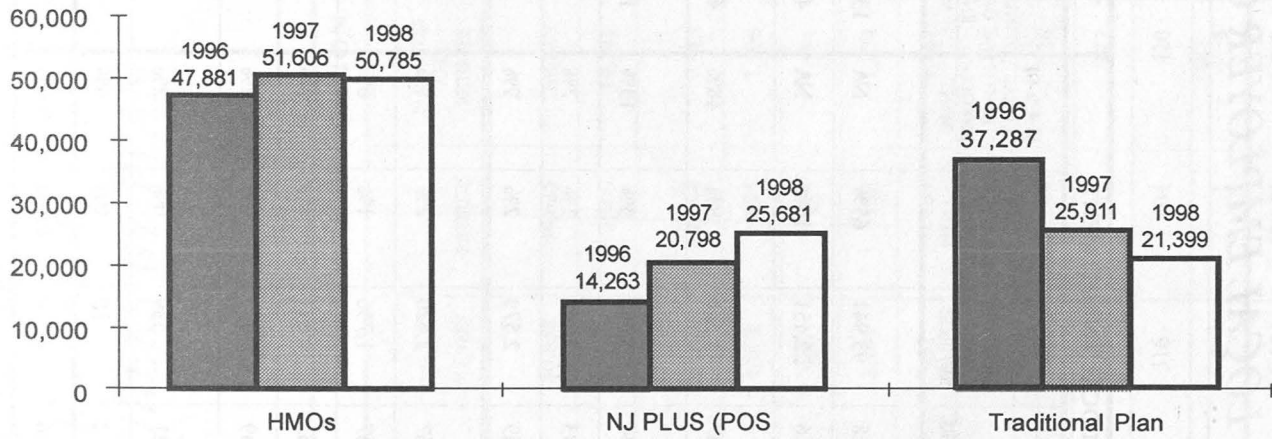
This law was approved on January 12, 1998.



MEMBERSHIP

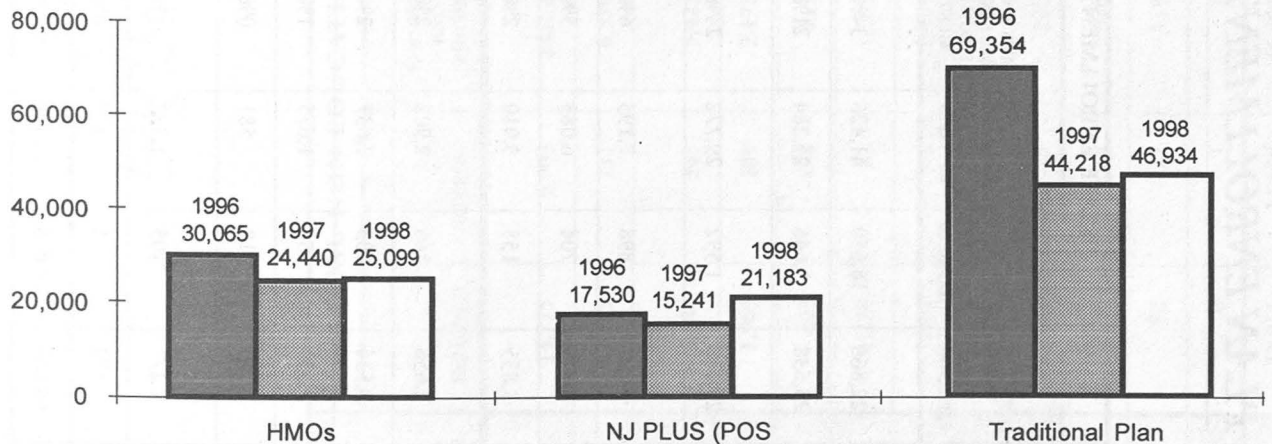


**Local Employers
Active Employees Plan Participation
Fiscal Years 1996 - 1998**



Data as of July 1 of each fiscal year.

**Local Employers
Active Employees Plan Participation
Fiscal Years 1996 - 1998**



Data as of July 1 of each fiscal year.

STATE HEALTH BENEFITS PROGRAM

PLAN ENROLLMENT BY STATE AND LOCAL EMPLOYER GROUPS

PLAN NAME	STATE ENROLLMENT					LOCAL ENROLLMENT					TOTAL STATE & LOCAL		
	EMPLOYEES	RETIREES	EMPLOYEES AND RETIREES	AS A % OF ALL STATE ENROLLMENT	AS A % OF STATE HMO ENROLLMENT	EMPLOYEES	RETIREES	EMPLOYEES AND RETIREES	AS A % OF ALL LOCAL ENROLLMENT	AS A % OF LOCAL HMO ENROLLMENT	NUMBER OF SHBP ENROLLMENT	AS A % OF ALL SHBP ENROLLMENT	AS A % OF HMO ENROLLMENT
Traditional Plan	22,866	18,650	41,426	34%	NA	45,413	48,528	93,941	65%	NA	135,367	51%	NA
NJ PLUS	23,638	1,646	25,284	21%	NA	19,235	3,216	22,451	16%	NA	47,735	18%	NA
US Healthcare	28,180	1,592	29,772	24%	54%	11,949	1,387	13,336	9%	48%	43,108	16%	52%
HMO Blue	6,297	898	7,195	6%	13%	3,048	634	3,682	3%	13%	10,877	4%	13%
HIP	5,379	704	6,083	5%	11%	1,529	533	2,062	1%	7%	8,145	3%	10%
CIGNA	2,855	155	3,010	2%	5%	2,330	249	2,579	2%	9%	5,589	2%	7%
First Option	2,656	246	2,902	2%	5%	2,353	267	2,620	2%	9%	5,522	2%	7%
Oxford	2,534	103	2,637	2%	5%	1,589	167	1,756	1%	6%	4,393	2%	5%
Prudential	1,639	36	1,675	1%	3%	748	63	811	1%	3%	2,486	1%	3%
NYL Care	563	18	581	0%	1%	494	39	533	0%	2%	1,114	0%	1%
Ameri-health	1,277	105	1,382	1%	2%	408	131	539	0%	2%	1,921	1%	2%
University	172	5	177	0%	0%	8	2	10	0%	0%	187	0%	0%
Totals	98,056	24,068	122,124	100%	100%	89,104	55,216	144,320	100%	100%	266,444	100%	100%

Note: Headcounts for 6/1/98

STATE HEALTH BENEFITS PROGRAM
LOCAL EMPLOYER GROUPS
EMPLOYEES AND RETIREES BY PLAN

PLAN NAME	LOCAL NON-EDUCATIONAL EMPLOYERS					LOCAL EDUCATION EMPLOYERS				
	EMPLOYEES	RETIREEES	EMPLOYEES AND RETIREES	% OF ENROLLMENT IN EACH PLAN	% OF ENROLLMENT IN HMO PLANS	EMPLOYEES	RETIREEES	EMPLOYEES AND RETIREES	% OF ENROLLMENT IN EACH PLAN	% OF ENROLLMENT IN HMO PLANS
Traditional Plan	14,775	9,903	24,678	54%	NA	30,638	38,625	69,263	70%	NA
NJ PLUS	7,599	711	8,310	18%	NA	11,636	2,505	14,141	14%	NA
US Healthcare	5,080	343	5,423	12%	43%	6,869	1,044	7,913	8%	51%
HMO Blue	1,969	209	2,178	5%	17%	1,079	425	1,504	2%	10%
HIP	603	108	711	2%	6%	926	425	1,351	1%	9%
CIGNA	1,224	81	1,305	3%	10%	1,106	168	1,274	1%	8%
First Option	1,361	98	1,459	3%	12%	992	169	1,161	1%	8%
Oxford	602	50	652	1%	5%	987	117	1,104	1%	7%
Prudential	266	19	285	1%	2%	482	44	526	1%	3%
NYLCare	338	18	356	1%	3%	156	21	177	0%	1%
Amerihealth	92	27	119	0%	1%	316	104	420	0%	3%
University	6	1	7	0%	0%	2	1	3	0%	0%
TOTALS	33,915	11,568	45,483	100%	100%	55,189	43,648	98,837	100%	100%

Note: Headcounts for 6/1/98

STATE HEALTH BENEFITS PROGRAM PARTICIPATION BY DENTAL PLAN

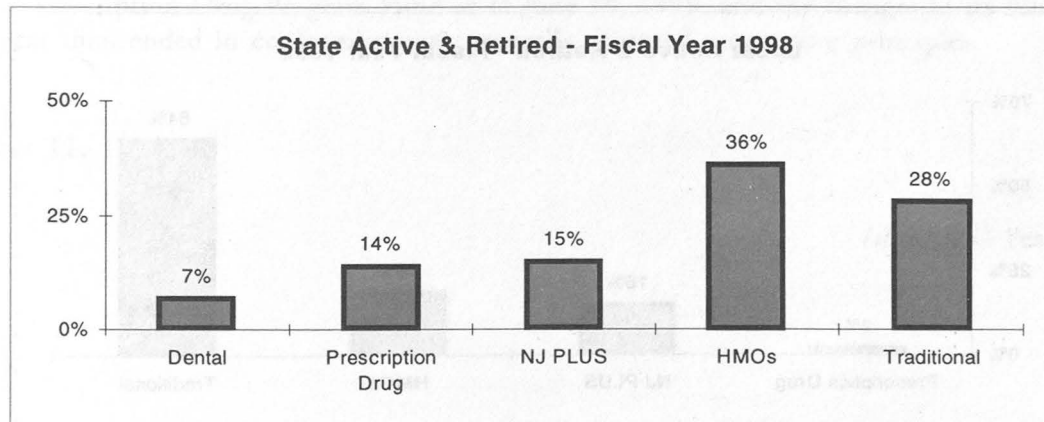
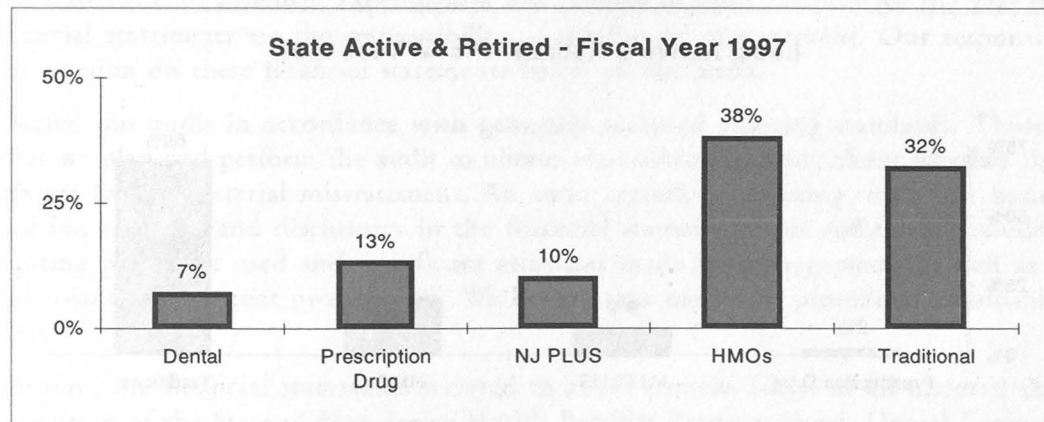
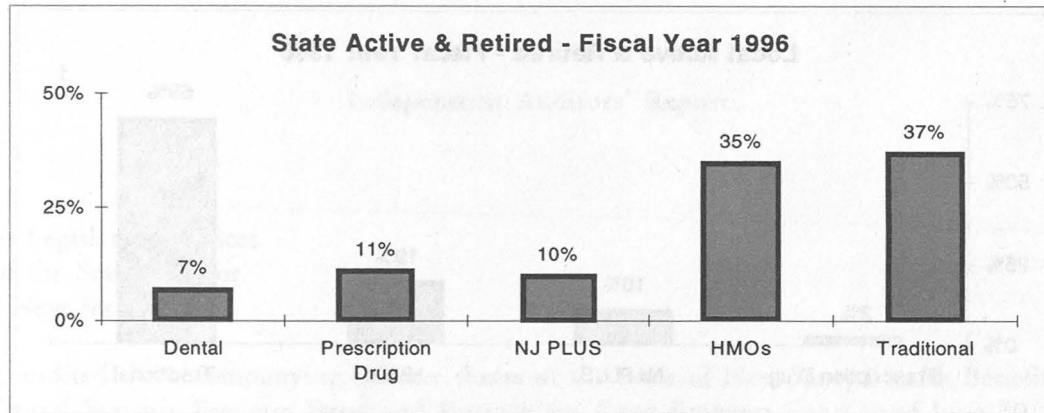
As of January 1998

Plan Name	State Employee Contracts	As a % of All Employees	As a % of All Dental Contracts
Dental Expense Plan	46,672	47%	56%
Unity Dental	8,602	9%	10%
International HealthCare	5,651	6%	7%
Atlantic Southern	6,188	6%	7%
OraCare Dental	4,787	5%	6%
Flagship Health (DELTA)	1,972	2%	2%
Dental Group of NJ	1,000	1%	1%
Community Dental	1,259	1%	1%
Managed Dental Choice (BCBSNJ)	2,070	2%	3%
Prudential DMO	4,472	5%	6%
Group Dental Health	500	0%	1%
Statewide DPO	225	0%	0%
John D. Kernan	146	0%	0%
Sub-totals	83,544	84%	100%
Employees that did not elect coverage	15,829	16%	NA
Totals	99,373	100%	100%

PERCENTAGE OF HEALTH CARE DOLLARS EXPENDED BY SHBP

— State Active & Retired —

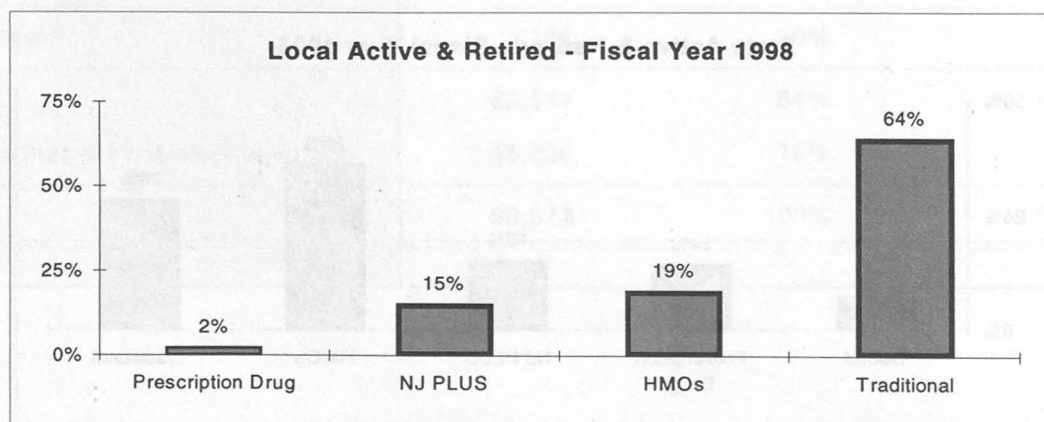
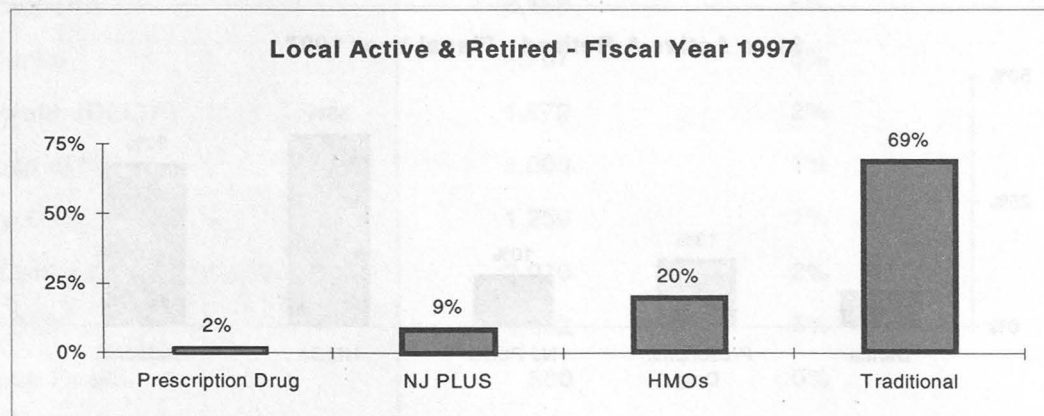
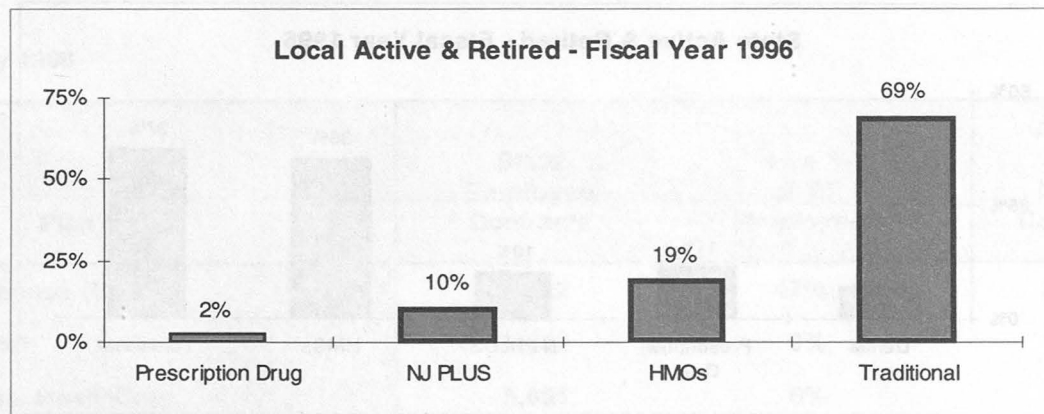
Fiscal Years 1996 through 1998



PERCENTAGE OF HEALTH CARE DOLLARS EXPENDED BY SHBP

— Local Active & Retired —

Fiscal Years 1996 through 1998



KPMG PEAT MARWICK
Princeton Pike Corporate Center
P.O. Box 7348
Princeton, NJ 08543-07348

Independent Auditors' Report

Office of Legislative Services
Office of the State Auditor
State of New Jersey:

We have audited the accompanying balance sheets of the State of New Jersey Health Benefits Program Fund, Dental Expense Program Fund and Prescription Drug Program Fund as of June 30, 1998, and the related statements of revenues, expenditures and changes in fund balances for the year then ended. These financial statements are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of New Jersey Health Benefits Program Fund, Dental Expense Program Fund and Prescription Drug Program Fund as of June 30, 1998, and the changes in its fund balances for the year then ended in conformity with generally accepted accounting principles.

September 11, 1998

/s/ KPMG Peat Marwick

STATE OF NEW JERSEY
HEALTH BENEFITS PROGRAM FUND,
DENTAL EXPENSE PROGRAM FUND AND
PRESCRIPTION DRUG PROGRAM FUND

Balance Sheets

June 30, 1998

	HEALTH BENEFITS PROGRAM FUND	DENTAL EXPENSE PROGRAM FUND	PRESCRIPTION DRUG PROGRAM FUND
Assets			
Cash and cash equivalents	\$ —	1,113,511	25,874
Investments, at fair value:			
U.S. Treasury notes	20,064,000	—	—
Cash Management Fund	292,292,146	7,817,809	5,871,048
Total investments	312,356,146	7,817,809	5,871,048
Receivables:			
Other	31,904,055	1,388,961	906,496
Due from other funds	17,335,164	2,958,992	3,296,636
Total receivables	49,239,219	4,347,953	4,203,132
Total assets	\$ 361,595,365	13,279,273	10,100,054
Liabilities			
Accounts payable and accrued expenses	183,475,529	4,676,242	8,842,785
Deferred revenue	13,783,117	627,865	—
Due to other funds	—	—	4,321,711
Total liabilities	197,258,646	5,304,107	13,164,496
Fund balances			
Fund balances (deficit):			
Reserved (Note 4)	164,336,719	7,975,166	(3,064,442)
Total liabilities and fund balances	\$ 361,595,365	13,279,273	10,100,054

See accompanying notes to financial statements.

**STATE OF NEW JERSEY
HEALTH BENEFITS PROGRAM FUND,
DENTAL EXPENSE PROGRAM FUND AND
PRESCRIPTION DRUG PROGRAM FUND**

Statements of Revenues, Expenditures, and Changes in Fund Balances

Year ended June 30, 1998

	HEALTH BENEFITS PROGRAM FUND	DENTAL EXPENSE PROGRAM FUND	PRESCRIPTION DRUG PROGRAM FUND
Revenues:			
Contributions:			
Members	\$ 55,919,925	21,649,017	465,223
Employers	859,635,940	21,123,000	88,865,049
Total contributions	915,555,865	42,772,017	89,330,272
Investment income:			
Net appreciation in fair value of investments	167,671	979	735
Interest	24,255,533	529,363	387,514
Total investment income	24,423,204	530,342	388,249
Total revenues	939,979,069	43,302,359	89,718,521
Expenditures:			
Benefit payments	1,024,107,098	43,864,356	100,666,872
Administrative expense	86,856,786	1,497,507	815,783
Total expenditures	1,110,963,884	45,361,863	101,482,655
Net decrease	(170,984,815)	(2,059,504)	(11,764,134)
Fund balances (deficit):			
Beginning of year	335,321,534	10,034,670	8,699,692
End of year	\$ 164,336,719	7,975,166	(3,064,442)

See accompanying notes to financial statements.

STATE OF NEW JERSEY
HEALTH BENEFITS PROGRAM FUND,
DENTAL EXPENSE PROGRAM FUND AND
PRESCRIPTION DRUG PROGRAM FUND

Notes to Financial Statements

June 30, 1998

(1) Description of the Funds

The State of New Jersey sponsors and administers the following expendable trust funds which have been included in the accompanying financial statements of the State of New Jersey Division of Pensions and Benefits:

State Health Benefits Program Fund (SHBP)
Dental Expense Program Fund (DEPF)
Prescription Drug Program Fund (PDPF)

The financial statements of these trust funds (the Funds) have been prepared in conformity with generally accepted accounting principles as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Division's accounting policies are described below:

Reporting entity:

The Funds are administered by the Division of Pensions and Benefits (the Division). Operating controls over the Funds are with the individual funds governing Boards and/or the State of New Jersey. The financial statements of the Funds are included in the financial statements of the State of New Jersey.

Fund accounting:

The accounts of the Division are maintained in accordance with the principles of fund accounting to ensure observance of limitations and restrictions on the resources available. The principles of fund accounting require that the resources be classified for accounting and reporting purposes into funds in accordance with activities or objectives specified for the resources. Each fund is a separate accounting entity with a self-balancing set of accounts. All funds are classified as fiduciary.

Fiduciary fund type:

Trust and agency funds - The trust and agency funds are used to account for assets held by the Division on behalf of outside parties, including plan participants and the State of New Jersey.

Description of the Fund - SHBP

The Health Benefits Program Fund is an expendable trust fund which was established in 1961 by N.J.S.A. 52:14-17.25 et seq. The Fund is included along with other state-administered funds, systems and trusts in the general purpose financial statements of the State of New Jersey.

The State Health Benefits Program was established by Chapter 49, P.L. 1961 to provide traditional indemnity plan benefits to State employees. The program was later extended under Chapter 125, P.L. 1964 to include public and school district employees of participating counties, municipalities, school districts, and public agencies. Chapter 337, P.L. 1973 authorized the es-

STATE OF NEW JERSEY
HEALTH BENEFITS PROGRAM FUND,
DENTAL EXPENSE PROGRAM FUND AND
PRESCRIPTION DRUG PROGRAM FUND

Notes to Financial Statements, Continued

(1) Description of the Funds, Continued

establishment of Health Maintenance Organizations (HMOs) to be offered to both State and local employers. The first HMO enrollment took place in 1976. In 1989, the State Health Benefits Commission introduced a point-of-service plan known as NJ PLUS, which is a combination of a traditional or indemnity plan and an HMO. Medicare HMOs were first offered to retirees in February, 1997.

The traditional indemnity plan and NJ PLUS are self-insured plans. Administrative services for these plans are provided by a third-party insurance company. Currently, all HMOs participate in the program on an insured basis.

Description of the Fund - PDPF

The Prescription Drug Program Fund was established effective December 1, 1974 as authorized by N.J.S.A. 52:14-17:29. This program initially covered only certain state groups as a result of union negotiations; however, under Chapter 41, P.L. 1976, coverage was extended to all eligible State employees, including those not in the collective bargaining units. The State Health Benefits Commission offered the program to local employers that participated in the SHBP on July 1, 1993.

Description of the Fund - DEPF

The Dental Expense Program Fund was established on February 1, 1978 by N.J.S.A. 52:14-17:29 for State employees only. The program, which initially offered one traditional indemnity plan, was expanded in June of 1984 to include dental provider organizations.

Vesting and Benefit Provisions - SHBP

The Program provides medical coverage to qualified active and retired participants. Under Chapter 136, P.L. 1977, the State of New Jersey pays for the health insurance coverage of all enrolled retired State employees (regardless of age) whose pensions are based upon 25 years or more of credited service or a disability retirement regardless of years of service. The State of New Jersey also provides free coverage to members of the Public Employees' Retirement System and the Alternate Benefits Program who retire from a board of education or county college with 25 years of service or on a disability retirement. Partially funded benefits are also provided to local police officers and firefighters who retire with 25 years of service (or on disability) from an employer who does not provide coverage. Retirees who are not eligible for employer paid health coverage at retirement can continue in the program by paying the cost of the insurance for themselves and their covered dependents.

Vesting and Benefit Provisions - PDPF

The Program provides coverage to employees and their eligible dependents for drugs which under federal or State law may be dispensed only upon a prescription written by a physician. State and local employees are eligible for coverage after 60 days of employment.

STATE OF NEW JERSEY
HEALTH BENEFITS PROGRAM FUND,
DENTAL EXPENSE PROGRAM FUND AND
PRESCRIPTION DRUG PROGRAM FUND

Notes to Financial Statements, Continued

(1) Description of the Funds, Continued

Vesting and Benefit Provisions - DEPF

The Program provides coverage to employees and their eligible dependents for dental services performed by a qualified physician. State and local employees are eligible for coverage after 60 days of employment.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases, *i.e.*, revenues and other financing additions, and decreases, *i.e.*, expenditures and other deductions, in net assets.

The accrual basis of accounting is used for measuring financial position and operating results of trust funds. Under this method, revenues are recorded in the accounting period in which they are earned and expenses are recorded at the time the liabilities are incurred.

Fixed Assets

Fixed assets utilized by the Division include equipment which is owned by the State of New Jersey and is included in the general fixed asset account group of the State of New Jersey.

Investment Valuation

Investments, including short-term investments (State of New Jersey Cash Management Funds) are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair values.

The State of New Jersey Division of Investment, under the jurisdiction of the State Investment Council, has the investment responsibility for all funds administered by the State of New Jersey Division of Pensions and Benefits. All investments must conform to standards set by state law.

The State of New Jersey, Department of the Treasury, Division of Investment, issues publicly available financial reports that include the financial statements of the State of New Jersey Cash Management Fund, Common Pension Fund A, Common Pension Fund B and Common Pension Fund D. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 290, Trenton, New Jersey 08625.

STATE OF NEW JERSEY
HEALTH BENEFITS PROGRAM FUND,
DENTAL EXPENSE PROGRAM FUND AND
PRESCRIPTION DRUG PROGRAM FUND

Notes to Financial Statements, Continued

(2) Summary of Significant Accounting Policies, Continued

The purchase, sale, receipt of income, and other transactions affecting investments are governed by custodial agreements between the Funds, through the State Treasurer, and custodian banks as agents for the Funds. State laws and policies set forth the requirements of such agreements and other particulars as to the size of the custodial institutions, amount of the portfolio to be covered by the agreements, and other pertinent matters.

GASB Statement No. 3 requires disclosure of the level of custodial risk assumed by the Funds. Category 1 includes investments that are insured or registered or for which the securities are held by the Funds or its agent in the Funds' name. As of June 30, 1998, all investments held by the Funds are classified as Category 1.

Federal securities are maintained at Federal Reserve Banks in Philadelphia and New York through the custodian banks in trust for the Funds. A significant portion of corporate equity and debt securities are maintained by the Depository Trust Company (DTC) through the custodian banks in trust for the Funds. The custodian banks as agents for the Funds maintain internal accounting records identifying the securities maintained by the Federal Reserve Banks and the DTC as securities owned by or pledged to the Funds.

Securities not maintained by the Federal Reserve Banks or DTC are in the name of a designated nominee representing the securities of the Funds, which establishes the Funds' unconditional right to the securities.

Membership

Membership in the Funds consisted of the following as of June 30, 1998:

	STATE	LOCAL	TOTAL
Health Benefits Program Fund*	121,984	144,325	266,309
Prescription Drug Program Fund	98,281	11,466	109,747
Dental Expense Program Fund	85,453	—	85,453

**active and retired participants*

Administrative expenses

Administrative expenses are paid by the Funds to the State of New Jersey, Department of the Treasury and are included in the accompanying Statements of Revenues, Expenditures and Changes in Fund Balances.

Income tax status

Based on a 1986 declaration of the Attorney General of the State of New Jersey, the Funds are qualified plans as described in Section 401(a) of the Internal Revenue Code.

STATE OF NEW JERSEY
HEALTH BENEFITS PROGRAM FUND,
DENTAL EXPENSE PROGRAM FUND AND
PRESCRIPTION DRUG PROGRAM FUND

Notes to Financial Statements, Continued

(3) Contributions, Continued

Contribution requirements - SHBP

Contributions to pay for the health premiums of participating employees in the State Health Benefits Program (SHBP) are collected from the State of New Jersey, participating local employers, active members, retired members, and the Public Employees' Retirement System (PERS) and the Teachers' Pension and Annuity Fund (TPAF). The State of New Jersey provides contributions for State employees through State appropriations. These appropriations are generally distributed to the SHBP on a monthly basis. Local employer payments, active and retired member contributions, and payments from the PERS and TPAF are generally received on a monthly basis. Certain State employees share in the cost of their premiums, as provided by Chapter 8, P.L. 1996.

Under the provisions of Chapter 8, P.L. 1996, the SHBP implemented premium sharing for employees covered under the State component of the program. Chapter 8 authorizes the State to negotiate premium sharing in the collective bargaining agreements governing employment of State employees. Premium sharing also applies to Retired group coverage for employees who attain 25 years of creditable pension service after July 1, 1997 or who retire on a disability retirement after that same date. Those employees not represented by any bargaining unit premium share in accordance with rules established by the State Health Benefits Commission. Local group employees are not affected by the premium sharing provisions of Chapter 8, P.L. 1996.

Contribution requirements - PDPF

Contributions to pay for the premiums of participating employees in the Prescription Drug Plan are collected from the State of New Jersey, participating local employers, and former active and retired members who have elected to participate under the rules of COBRA. The State of New Jersey provides contributions for State employees through State appropriations. These appropriations are distributed to the Prescription Drug Plan on a monthly basis. Local employer payments as well as COBRA contributions are also received on a monthly basis.

Contribution requirements - DEPF

Contributions to pay for the premiums of participating employees in the State Employee Dental Program are collected from the State of New Jersey, active employees, and former and retired members who have elected to participate under the rules of COBRA. The cost of the premiums is shared equally by the State of New Jersey and active State employees. Former and retired employees who have chosen to participate under the rules of COBRA pay the full cost of the premium. The State of New Jersey provides contributions through State appropriations. These appropriations are distributed to the SHBP on a biweekly and monthly basis. The active member share of the cost of premiums is paid to the State on a biweekly and monthly basis. Members participating under COBRA remit their payments on a monthly basis.

STATE OF NEW JERSEY
HEALTH BENEFITS PROGRAM FUND,
DENTAL EXPENSE PROGRAM FUND AND
PRESCRIPTION DRUG PROGRAM FUND

Notes to Financial Statements, Continued

(4) Reserves

The fund balance of the SHBP, PDPF, and DEPF are available to pay claims of future periods. These reserves are maintained by the Funds to stabilize rates and assure the ability to meet unexpected increases in claims.

The PDPF has a fund deficit of \$3,064,442 as of June 30, 1998. In order to compensate for the FY 1998 deficit, rates for FY 1999 were increased by 21.4% for the State group and 13.6% for the local group. The State Health Benefits Commission will further review these changes when it considers the rates to be charged in FY 2000.

(5) Year 2000 (Unaudited)

The Funds are aware of the issues associated with the programming code in existing computer systems as the millennium (year 2000) approaches. The "year 2000" problem is pervasive and complex as virtually every computer operation will be affected in some way by the rollover of the two-digit year value to 00. The issue is whether computer systems will properly recognize date-sensitive information when the year changes to 2000. Computer systems that do not properly recognize such information could generate erroneous data or cause a system to fail.

The Funds have utilized both internal and external resources to identify, correct or reprogram, and test the computer systems for the year 2000 compliance. It is anticipated that all reprogramming efforts will be complete by March 31, 1999, allowing adequate time for testing. To date, confirmations have been received from the Funds' primary processing vendors that plans are being developed to address processing of transactions in the year 2000. However, there can be no assurance that the computer systems of other entities on which the Funds' computer systems rely also will be timely converted or that any such failure to convert by another entity would not have an adverse effect on the Funds' systems.

*For more information on the health plans available
through the SHBP, refer to the*

**New Jersey State Health Benefits Program
Medical Plans Information Handbook**

You may write to us at

**Division of Pensions and Benefits
PO Box 295
Trenton NJ 08625-0295**

or E-mail us at

SHBP_NJ@tre.state.nj.us

or call Client Services at

**609-292-7524
between 9:00 AM and 4:00 PM
Monday through Friday**

You may also visit our WEB site at

<http://www.state.nj.us/treasury/pensions/shbp.htm>



Contacting the Division of Pensions and Benefits

The Division of Pensions and
Benefits **INTERNET HOME**

PAGE address (URL) is <http://www.state.nj.us/treasury/pensions>

You can send **E-mail** to the Division of
Pensions and Benefits through our

HOME PAGE or directly to NJ-pensions@tre.state.nj.us

You can **CONTACT CLIENT SERVICES** of
the Division of Pensions and Benefits at

(609) 292-7524
on Monday through Friday
from 9:00 am until 4:00 pm

The telephone number for individuals
who are hearing impaired and use a

TELECOMMUNICATION DEVICE FOR THE DEAF (TDD) is (609) 292-7718

You can hear personalized information about
loans, withdrawals, retirement benefits, purchase costs,
and your account within the retirement system. This system
is available 24 hours a day, seven days a week. You will
need your social security number and a touch phone.

AUTOMATED INFORMATION SYSTEM (609) 777-1777

You can **WRITE** to the Division of
Pensions and Benefits at

Division of Pensions and Benefits
P.O. Box 295
Trenton, NJ 08625-0295

You can **VISIT** the Division of Pensions
and Benefits, without appointment,
on the third floor at

50 West State Street
in downtown Trenton, New Jersey
on Monday through Friday
from 8:40 am until 4:00 pm.

We are on the corner of West State and
Barracks Streets, a block east of the
State House. **DIRECTIONS** to our location
can be downloaded from our Internet
web site or obtained by calling our

Benefit Information Library
at (609) 984-7109
seven days a week, 24 hours a day

STATE HEALTH BENEFITS PROGRAM
OF NEW JERSEY

1998 ANNUAL REPORT

STATE OF NEW JERSEY
DEPARTMENT OF THE TREASURY
DIVISION OF PENSIONS AND BENEFITS
PO BOX 295
TRENTON, NJ 08625-0295
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