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**STATE HEALTH  
BENEFITS PROGRAM  
OF NEW JERSEY**



**1994**

***ANNUAL REPORT***

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DEPARTMENT OF THE TREASURY      DIVISION OF PENSIONS AND BENEFITS  
Brian W. Clymer, Treasurer      Margaret M. McMahon, Director

**STATE HEALTH BENEFITS PROGRAM  
OF NEW JERSEY**

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

**COMMISSION  
as of June 30, 1994**

**BRIAN W. CLYMER, State Treasurer - Chairperson**  
Drew Karpinski, Commissioner of Insurance  
Linda Anselmini, Commissioner of Personnel

Annual Report in accordance with the provisions of  
N.J.S.A. 17:27

**MARGARET M. McMAHON, Secretary**

Respectfully Submitted,

**MARGARET M. McMAHON**  
Secretary

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

STATE HEALTH BENEFITS PROGRAM  
OF NEW JERSEY

COMMISSION  
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NEW JERSEY DIVISION OF PENSIONS AND BENEFITS  
30 West State Street - Trenton, NJ 08625-0025

# STATE OF NEW JERSEY

DEPARTMENT OF THE TREASURY

Brian W. Clymer, Treasurer

DIVISION OF PENSIONS AND BENEFITS

Margaret M. McMahon, Director

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**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 1994 Annual Report in accordance with the provisions of N.J.S.A. 52:17.27.

Respectfully Submitted,

**MARGARET M. McMAHON**  
Secretary

## SIGNIFICANT LEGISLATION

**CHAPTER 181, LAWS OF 1993** grants eligible employees of counties and other public agencies that adopt its provisions essentially the same ERI benefits that were granted to State employees under the provisions of Chapter 44, Laws of 1993, with the exception that only employees of employers who currently provide employer-paid health benefits to retirees are eligible for employer-paid health benefits under the provisions of the early retirement incentive program. The remaining incentive benefits are essentially the same as those offered in Chapter 44, Laws of 1993.

Eligible county employees must file an application to retire on or after August 1, 1993 and on or before December 1, 1993 and must retire on or after September 1, 1993 but not later than January 1, 1994. The actual retirement date may be extended to no later than January 1, 1995, if mutually agreed upon by the employer and employee.

Eligible employees of a public agency or instrumentality must file an application to retire on or after November 1, 1993 and on or before March 1, 1994 and must retire on or after December 1, 1993 but not later than April 1, 1994. The actual retirement date may be extended to no later than April 1, 1995 if mutually agreed upon by the employer and employee.

This law was approved on July 9, 1993.

**CHAPTER 182, LAWS OF 1993** provides for a further acceleration of the funding of the pension adjustment and post-retirement medical benefits for State employees who retire from the Public Employees' Retirement System by eliminating two additional increases in the acceleration mandated in the original pension revaluation laws. Chapter 182 will increase the rate of acceleration of the funding in fiscal year 1995 and the full liability for these benefits for active employees will be fully recognized in the year 2003.

This law was approved and became effective on July 9, 1993.

**CHAPTER 34, LAWS OF 1994** provides that any employer which pays the premiums for health benefits for retirees under a group health insurance contract according to N.J.S.A. 40A:10-23 and which has adopted one of the early retirement incentive (ERI) programs for policeman and firemen, and other county and municipal employees, authorized by Chapters 99, 138 or 181, Laws of 1993, may elect to pay the premium for a retiree under the early retirement incentive program who retires with 25 or more years of service credit, including any additional service credit provided under the early retirement incentive program, by filing a resolution with the Division of

Pensions and Benefits. Further, this law allows the employer to specify on the resolution the number of years, ranging from zero to fifteen, that the employee must have served at retirement with the employer in order to qualify for this benefit.

This law was approved and became effective on May 26, 1994.

**CHAPTER 40, LAWS OF 1994** allows current or prospective individuals employed as long-term substitute teachers to waive or terminate enrollment in the State Health Benefits Program (SHBP), provided they are covered under another health benefits program. This law will allow a school district to eliminate the payment of a health benefit premium for the employee and thereby allow the substitute teacher to be employed for an extended period of time.

This law was approved and became effective on June 21, 1994.

**CHAPTER 62, LAWS OF 1994**, instituted the following changes:

(1) Continued prefunding of post-retirement medical benefits (PRM) for State employees under the Public Employees' Retirement System, and for teachers under the Teachers' Pension and Annuity Fund at a reduced level through annual contributions at the rate of .5% of payroll, plus the amount sufficient to pay the current premiums;

(2) Changes the funding method for determining the employer contributions to the Teachers' Pension and Annuity Fund (TPAF), the Public Employees' Retirement System (PERS), the Police and Firemen's Retirement System (PFRS), the State Police Retirement System (SPRS) and the Judicial Retirement System (JRS) from the entry age normal method to the projected unit credit method and resets the amortization period for the unfunded accrued liability to an initial period not to exceed 40 years, with a 10-year transition period to a flexible 30-year amortization period;

(3) Changes the employee contribution rates to TPAF and PERS to a flat 5% for **new** employees effective July 1, 1994. For **current** employees whose contribution rate is less than 6%, the new contribution rate will be a flat 4% effective July 1, 1995 and 5% effective July 1, 1996. For **current** employees whose contribution rate is 6% or more, the new contribution rate will be a flat 5% effective July 1, 1995.

(4) Phases in the impact of revisions in the tables of actuarial assumptions under TPAF over five years;

(5) Reverts to the original schedule for recognition and funding of pension adjustment benefits (cost-of-living adjustments - COLA) under TPAF and PERS established by the law which originally provided for the funding of these benefits under the retirement systems;

Pensions and Benefits. Further, this law allows the employer to specify on the resolution the number of years ranging from zero to fifteen that the employee must have served at retirement with the employer in order to qualify for this benefit.

CHAPTER 103 OF LAWS OF 1994  
This law was approved and became effective on May 26, 1994.

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(6) Establishes for TPAF, PERS, PFRS, SPRS and JRS a 4% inflation assumption for the COLA benefits, except that if the actual annual rate of increase in the Consumer Price Index exceeds 4% in two consecutive years, the respective boards of trustees shall review that rate and, if necessary and after consultation with the State Treasurer, the Director of the Division of Investment, the Director of the Division of Pensions and Benefits and the appropriate actuary, revise the rate "to a level which reasonably relates to the change in the Consumer Price Index..."

(7) Establishes a salary increase assumption of 2.8% less than the regular interest rate for valuation years 1992 through 1996 (or in the case of PFRS, valuation years 1991 through 1995), at which time the respective boards of trustees of the retirement systems shall review that assumed percentage rate of salary increase and, if necessary and after consultation with the State Treasurer, the Director of the Division of Pensions and Benefits and the appropriate actuary, revise the 2.8% to a "reasonable level";

(8) Authorizes the members of TPAF, PERS, PFRS, SPRS, JRS and participants in the Alternate Benefit Program to waive the noncontributory insurance benefits in excess of \$50,000.

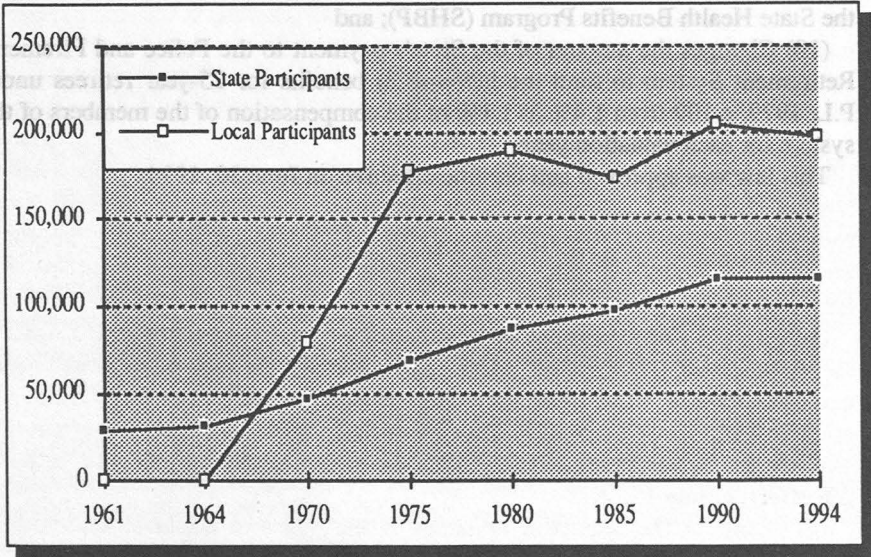
(9) Establishes a moratorium on withdrawals by participating employers from the State Health Benefits Program (SHBP); and

(10) Changes the amount of the State's payment to the Police and Firemen's Retirement System to fund the increase in benefits for 25-year retirees under P.L. 1979, c.109 from 1.4% to 1.1% of the compensation of the members of the system for each valuation year.

This law was approved and became effective on June 30, 1994.

## MEMBERSHIP

- As of June 30, 1994, there were 311,721 covered participants (active and retired) consisting of 115,137 State participants and 196,584 participants of 939 local participating employers.
- Traditional Plan participation totaled 198,771.
- Health Maintenance Organization participation totaled 79,389.
- NJ PLUS participation totaled 33,561.
- The State's contribution was \$456,628,744 while payment made by Local employers totaled \$883,473,733.



## MEMBERSHIP ACTIVITY

During fiscal year 1994, the following transactions were processed by the Division of Pensions and Benefits on behalf of the membership of the State Health Benefits Program of New Jersey.

- **ENROLLMENT** - 72,156 participants (active and retired) enrolled in the Program.
- **CHANGE** - 6,976 changes (active and retired) in coverage were processed.
- **TERMINATION** - 69,455 participants (active and retired) terminated coverage.
- **MAJOR MEDICAL CLAIMS** - 3,381,786 major medical claims were processed for participants (active and retired).

## 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 1994, 27 employers adopted the Program.

Year	State Participants	Local Participants	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
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

## COMBINING BALANCE SHEET

### State of New Jersey All Trust and Agency Funds June 30, 1994

	<u>Health Benefits Program Fund</u>	<u>Dental Expense Program Fund</u>	<u>Prescription Drug Program Fund</u>
<b>ASSETS</b>			
Cash and Cash Equivalents \$	2,123,030	103,951	0
Investments	40,455,235	0	0
Receivables			
Other	38,519,620	1,263,996	274,096
Other Assets			
Due from other Funds	443,490,511	17,376,070	22,882,489
<b>Total Assets</b>	<u>524,588,396</u>	<u>18,744,017</u>	<u>23,156,585</u>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	282,702,821	3,911,415	6,521,365
Deferred Revenue	17,787,798	387,695	0
Due to Other Funds	727,429	0	0
Other	0	0	0
<b>Total Liabilities</b>	<u>301,218,048</u>	<u>4,299,110</u>	<u>6,521,365</u>
<b>FUND BALANCES</b>			
Reserved for:			
Pension Benefits	0	0	0
Unreserved:			
Undesignated	223,370,348	14,444,907	16,635,220
<b>Total Fund Balances</b>	<u>223,370,348</u>	<u>14,444,907</u>	<u>16,635,220</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 524,588,396</u>	<u>18,744,017</u>	<u>23,156,585</u>

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

**State of New Jersey  
All Trust and Agency Funds  
June 30, 1994**

	<u>Health Benefits Program Fund</u>	<u>Dental Expense Program Fund</u>	<u>Prescription Drug Program Fund</u>
<b>REVENUES</b>			
Contributions	\$ 984,277,655	17,764,441	5,835,652
Investment Earnings	15,968,881	477,423	666,867
Other	0	0	0
<b>Total Revenues</b>	<u>1,000,246,536</u>	<u>18,241,864</u>	<u>6,502,519</u>
<b>OTHER INCREASES</b>			
Transfers from other funds	423,497,622	17,718,217	61,841,387
Other	0	0	0
<b>Total Other Increases</b>	<u>423,497,622</u>	<u>17,718,217</u>	<u>61,841,387</u>
<b>Total Revenues &amp; Other Increases</b>	<u>1,423,744,158</u>	<u>35,960,081</u>	<u>68,343,906</u>
<b>EXPENDITURES</b>			
Government direction, management and control	<u>1,323,045,072</u>	<u>33,854,758</u>	<u>59,361,402</u>
<b>Total Expenditures</b>	<u>1,323,045,072</u>	<u>33,854,758</u>	<u>59,361,402</u>
Other Decreases	0	0	0
<b>Total Other Decreases</b>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Expenditures and Other Decreases</b>	<u>1,323,045,072</u>	<u>33,854,758</u>	<u>59,361,402</u>
Net Increase (Decrease) in Fund Balances for the Year	100,699,086	2,105,323	8,982,504
<b>Fund Balances - July 1, 1993</b>	<u>122,671,262</u>	<u>12,339,584</u>	<u>7,652,716</u>
<b>Fund Balances - June 30, 1994</b>	\$ <u>223,370,348</u>	<u>14,444,907</u>	<u>16,635,220</u>

COMBINING STATEMENT OF REVENUES & EXPENDITURES  
STATE OF NEW JERSEY  
SELECTED EMPLOYEE BENEFIT FUNDS  
NOTES TO 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 and Benefits. 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 the 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 the 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, 1994 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, 1994 are as follows:

	<b>Book Value</b>	<b>Market Value</b>
U.S. Treasury Notes	\$ 40,455,234	\$ 39,558,150
State of New Jersey		
Cash Management Fund	\$433,494,052	\$433,494,052

**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 (\$368).

**Cash Management Fund:** Most funds of the State of New Jersey Cash Management Fund wherein contributed by other units of government are combined into a large scale investment program. At June 30, 1994 the book value (\$471,096,105) 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 the employees' share of insurance premiums applicable to Fiscal Year '94, but not received until the succeeding fiscal year (\$12,032,576).

#### **NOTE 4 - RECEIVABLE - OTHER**

This is comprised of employee and employer contributions 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 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, 1994 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 Health Maintenance, Traditional and NJ PLUS organization 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, 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 1994 but for the July 1994 coverage.

**NOTE 7 - DUE TO OTHER FUNDS**

Funds owed to the State General Fund are:

Health Benefits	\$107,409
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**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 the 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 retirees.

The benefits are funded by the State on a "pay as you go" basis. For FY 1994, the State contributed \$10,650,667 for 2,395 eligible retired members.





