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STATE HEALTH
BENEFITS PROGRAM
OF NEW JERSEY



1991

Annual Report

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STATE OF NEW JERSEY

DEPARTMENT OF THE TREASURY
Douglas C. Berman, *Treasurer*

DIVISION OF PENSIONS
Margaret M. McMahon, *Director*

STATE HEALTH BENEFITS PROGRAM
OF NEW JERSEY

COMMISSION

DOUGLAS C. BERMAN, State Treasurer—Chairperson
Samuel Fortunato Commissioner of Insurance
William G. Scheuer Acting Commissioner of Personnel
Chairman, Merit System Board

MARGARET M. McMAHON, Secretary

NEW JERSEY DIVISION OF PENSIONS
50 West State Street • Trenton, New Jersey 08625-0295

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

Dear Sir:

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

Respectfully submitted,

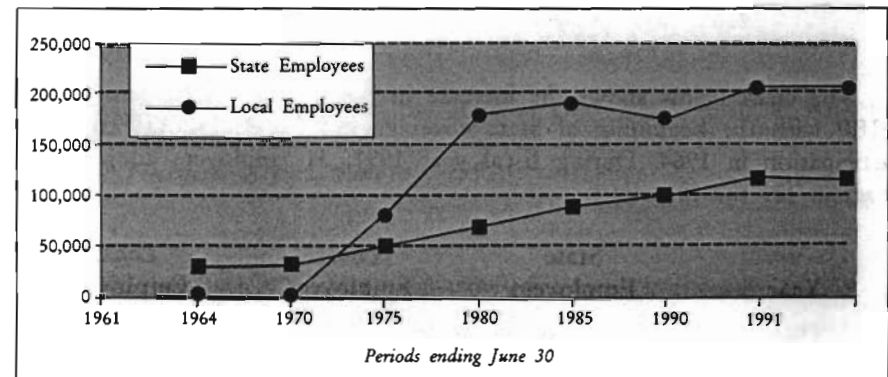
DOUGLAS C. BERMAN
Chairperson

SIGNIFICANT LEGISLATION

There were no significant changes in the legislation governing the State Health Benefits Program during fiscal year 1991.

MEMBERSHIP

- As of June 30, 1991, there were 319,066 covered employees (active and retired) consisting of 114,483 State employees and 204,583 employees of 996 local participating employers.
- Local employer participation increased—31 employers adopted the Program for the first time while 12 terminated participation.
- Total participation decreased by 85 lives from fiscal 1990.
- Health Maintenance Organization participation totaled 78,523 representing 1,006 participating employers.
- The Preferred Provider Organization totaled as many as 18,867 participants.
- The State's contribution was \$334,117,536 while payment made by Local employers and members totaled \$672,390,197.



MEMBERSHIP ACTIVITY

During fiscal year 1991, the following transactions were processed by the Division of Pensions on behalf of the membership of the State Health Benefits Program of New Jersey.

- **ENROLLMENT**—51,151 participants (active and retired) enrolled in the Program.
- **CHANGE**—21,178 changes (active and retired) in coverage were processed.
- **TERMINATION**—51,236 participants (active and retired) terminated coverage.
- **MAJOR MEDICAL CLAIMS**—2,898,458 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 1991, 31 employers adopted the Program for the first time.

Year	State Employees	Local Employees	Local Employers
1961	23,398	—	—
1964	30,806	—	—
1970	46,852	79,394	582
1975	68,315	177,699	932
1980	87,367	188,725	1,003
1985	96,948	173,102	912
1989	112,311	195,064	969
1990	115,100	204,051	987
1991	114,483	204,583	1,006

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

Year	Enrollments	Terminations	Changes	Major Med Claims
1988	61,706	54,279	15,933	1,651,328
1989	79,456	68,740	17,534	1,896,278
1990	100,647	88,871	26,350	2,370,904
1991	51,151	51,236	21,178	2,898,458

REPORT OF SUPPLEMENTARY PROGRAMS

The following information concerning the supplementary programs was prepared by the New Jersey Division of Pensions. These programs are a component of the State of New Jersey's Trust Fund and Agency Fund type which are audited annually by the Office of Legislative Services, Office of the State Auditors.

The State Auditor's report on the State of New Jersey financial statements which included the above fund type was published in the *State Comprehensive Annual Financial Report, June 30, 1991*.

COMBINING BALANCE SHEET
 State of New Jersey
 All Trust and Agency Funds
 June 30, 1991

	Health Benefits Program Fund	Dental Expense Program Fund	Presc. Drug Program Fund
ASSETS			
Cash and Cash Equivalents	\$ 26,437,802	\$ 19,121	\$ 0
Investments	34,932,474	0	0
Receivables			
Other	8,762,060	34,460	48,455
Other Assets			
Due From Other Funds	87,667,665	10,924,656	2,955,416
TOTAL ASSETS	<u>157,800,001</u>	<u>10,978,237</u>	<u>3,003,871</u>
LIABILITIES			
Accounts Payable and accrued expenses	204,799,177	3,166,356	2,785,290
Other	0	0	0
Deferred Revenue	934,135	363	0
Due to Other Funds	0	0	0
TOTAL LIABILITIES	<u>205,733,312</u>	<u>3,166,719</u>	<u>2,785,290</u>
FUND BALANCES			
Reserved For:			
Pension Benefits	0	0	0
Other	0	0	0
Unreserved:			
Undesignated	(47,933,311)	7,811,518	218,581
TOTAL FUND BALANCES	<u>(47,933,311)</u>	<u>7,811,518</u>	<u>218,581</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$157,800,001</u>	<u>\$10,978,237</u>	<u>\$3,003,871</u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES &
 CHANGES IN FUND BALANCES
 State of New Jersey
 All Trust and Agency Funds
 June 30, 1991

	Health Benefits Program Fund	Dental Expense Program Fund	Presc. Drug Program Fund
REVENUES			
Contributions	\$ 672,390,197	\$14,333,281	\$ 475,434
Investment Earnings	10,750,472	606,002	322,401
Other	0	0	0
TOTAL REVENUES	<u>683,140,669</u>	<u>14,939,283</u>	<u>797,835</u>
OTHER INCREASES			
Transfers from Other Funds	334,117,536	14,019,098	39,369,093
Other	0	0	0
TOTAL OTHER INCREASES	<u>334,117,536</u>	<u>14,019,098</u>	<u>39,369,093</u>
TOTAL REVENUES & OTHER INCREASES	<u>1,017,258,205</u>	<u>28,958,381</u>	<u>40,166,928</u>
EXPENDITURES			
Government Direction, Management and Control	1,042,290,073	27,691,603	39,647,518
TOTAL EXPENDITURES	<u>1,042,290,073</u>	<u>27,691,603</u>	<u>39,647,518</u>
Other Decreases	0	0	0
TOTAL OTHER DECREASES	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL EXPENDITURES AND OTHER DECREASES	<u>1,042,290,073</u>	<u>27,691,603</u>	<u>39,647,518</u>
NET INCREASE (DECREASE) IN FUND BALANCES FOR THE YEAR	(25,031,868)	1,266,778	519,410
Fund Balances—July 1, 1990	(22,901,443)	6,544,740	(300,829)
Fund Balances—June 30, 1991	<u>\$ (47,933,311)</u>	<u>\$ 7,811,518</u>	<u>\$ 218,581</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 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 of New Jersey.

Description of Funds

The Health Benefits Program Fund was established by N.J.S.A. 52:14-17.25 et seq. This fund provides employer-paid basic health services.

The Dental Expense Program Fund was established effective February 1, 1978 as authorized by N.J.S.A. 52:14-17.29. Eligible members contribute premiums calculated to meet one-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 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, 1991 and substantially remitted within the 3-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 the 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, 1991 are as follows:

	Book Value	Market Value
US Treasury Notes	\$34,932,474	\$35,630,498
State of NJ Cash Management Fund	\$59,484,116	\$59,484,116

NOTE 3—Due From Other Funds

This is comprised of "Due from Cash Management" 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, 1991, the book value (\$71,035,246) approximated market value.

Due from General Fund—The Dental Expense Program Fund, Health Benefits Program Fund and Prescription Drug Program Fund include the employers' and employees' share of insurance premiums applicable to fiscal year 1991 but not received until the succeeding fiscal year (\$29,994,151).

The Health Benefits Program Fund made estimated payments to the General Fund that exceeded the actual administrative expenses at June 30, 1991 (\$518,340).

NOTE 4—Receivable—Other

This is comprised of employee and employer contributions receivable and receivable from insurance carriers.

Members of the Dental Expense Program Fund contribute a premium established by the State Health Benefits Commission. Costs of this plan are shared equally by employers and employees.

For the Health Benefits Program Fund, those covered by 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, 1991 which were substantially remitted within the 3-month period subsequent to June 30. Employers' contributions receivable includes premiums due from local employers at June 30 for HMOs, Traditional and PPO 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 Funds. The accounts payable represents claims that were incurred as of June 30 and paid during the succeeding fiscal year.

NOTE 6—Deferred Revenue

Deferred revenue represents Health Benefits Program Fund premiums received in June 1991 but for July 1991 coverage.

NOTE 7—Fund Balance

The fund balance of the Health Benefits Program Fund, Dental Expense Program Fund and the Prescription Drug Program Fund 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 Health Benefits Program rates were increased on July 1, 1991. The 27 percent rate increase effective July 1, 1991 is expected to partially offset the deficit. Rates are also expected to be increased effective July 1, 1992 plus subsequent years to provide for a positive fund balance in the future.

NOTE 8—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 fiscal year 1991, the State contributed \$4,944,778.18 for 1,648 eligible retired members.