

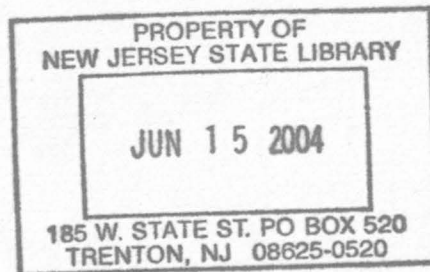
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STATE HEALTH BENEFITS PROGRAM OF NEW JERSEY

1999 ANNUAL REPORT



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STATE HEALTH
DEPARTMENT PROGRAM
OF NEW JERSEY
1997 ANNUAL REPORT



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Roland M. Machold
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

September 1999

STATE HEALTH
BENEFITS PROGRAM
OF NEW JERSEY

COMMISSION

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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 1999 Annual Report in accordance with the provisions of N.J.S.A. 52:17.27.

We have had an excellent year that has seen many positive changes. The State Health Benefits Program (SHBP) has established minimum coverage requirements and operating standards for all participating HMOs. Effective this fiscal year all HMOs must provide prescription drug coverage for retirees. We have been able to successfully contain health care costs as evidenced by very modest health plan rate increases for fiscal year 1999 for both the State and Local Employers.

As a result of successfully altering our rate structure to be more competitive in the market place we have continually increased the number of employers choosing to participate with the State Health Benefits Program in fiscal year 1999.

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,

A handwritten signature in cursive script, reading "Margaret M. McMahon".

MARGARET M. McMAHON
Secretary



NEW JERSEY
State Health Benefits Program

Mission

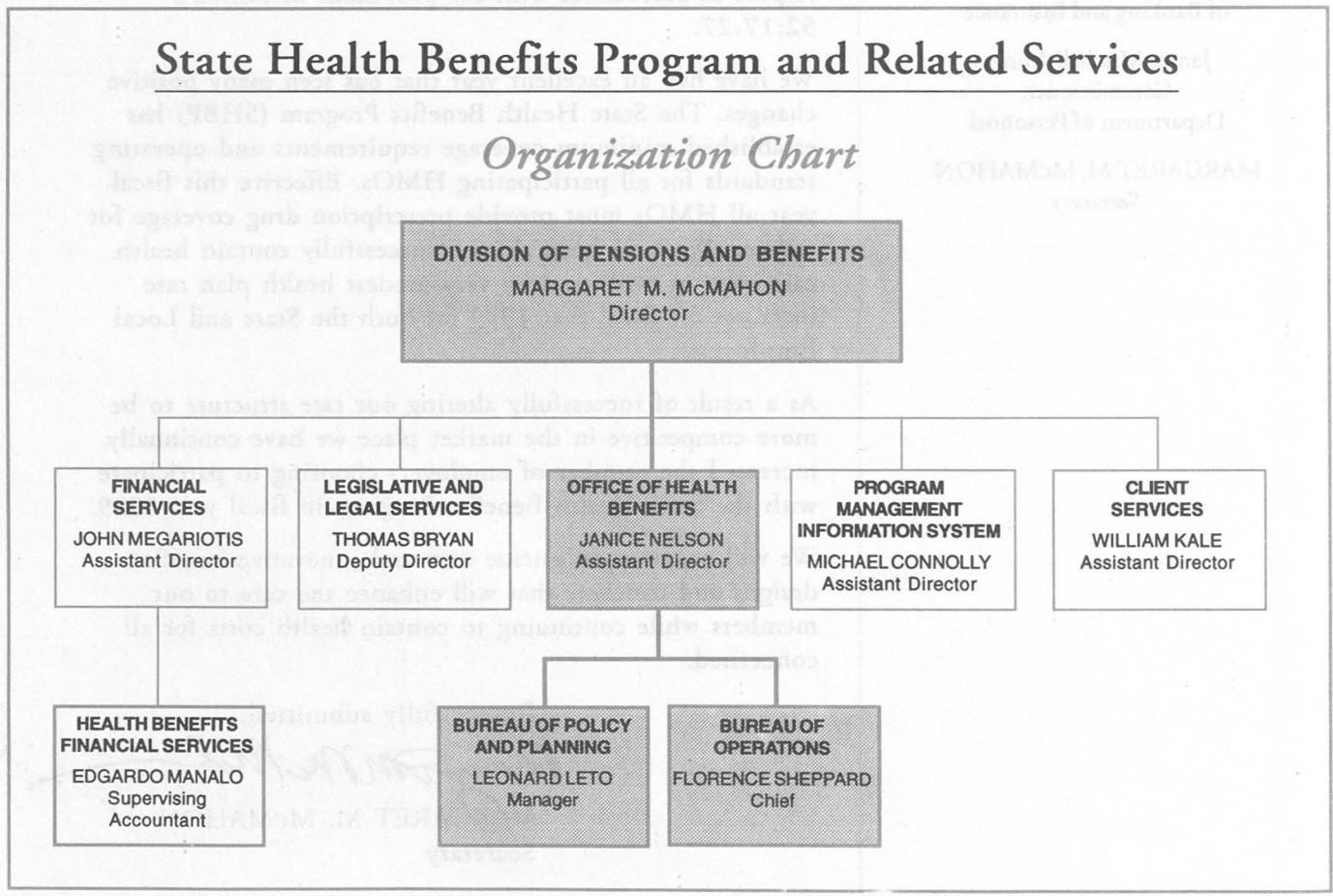
The Division of Pensions and Benefits is committed to a standard of excellence that delivers quality health care in an efficient and cost effective manner.

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, 14 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 10 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 and three HMOs are self-insured. The State Health Benefits Commission approved three HMOs, AETNA US Healthcare, CIGNA Healthcare, and Horizon Blue Cross Blue Shield of New Jersey's HMO Blue, to be offered as self insured plans in fiscal year 1999. The dental indemnity plan is also self-funded, with administrative services provided by the Prudential Insurance Company. Currently 5 HMOs and all Dental Provider Organizations participate in the SHBP on an insured basis.

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 allows free choice of medical providers and facilities but requires out-of-pocket payments since reimbursement is subject to reasonable and customary allowances, deductibles and coinsurance. The plan does not provide coverage for wellness services such as routine checkups and screening tests.

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.

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.

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. Effective July 1, 1998, all SHBP participating HMOs provide prescription drug coverage for retirees under a copay arrangement. Members enrolled in the Traditional Plan or NJ PLUS continue to receive reimbursement for prescription drug charges through Horizon Blue Cross and Blue Shield of New Jersey's (Horizon) PAID Direct program, or by submittal of a claim form to Horizon.

Recent Accomplishments

Containment of Costs (State and Local) — HMOS, NJ PLUS

State Health Benefits Program (SHBP) participants are currently offered 10 HMO options. In fiscal year 1999 overall, State and local cost rose approximately 2.1 %. Increases for retiree coverage in HMOs was higher, due to the addition of prescription coverage in all plans.

Effective July 1, 1998, NJ PLUS rates for state employees decreased by 7%. For local employers, NJ PLUS rates dropped by 13% for education employers and 5% for all other local employers. Retiree rates were unchanged.

New Initiatives

The SHBP had established minimum coverage requirements and operating standards for all participating HMOs. Operating Standards include:

- All physician referrals will be valid for a minimum of 90 days from the date of authorization.
- Certain treatments requiring numerous visits (e.g., chemotherapy) shall not require repeated referrals.
- All plans will have two-level grievance procedures; maximum fourteen-day verdict.
- Member packets must include a Schedule of Benefits that will provide a list of covered services, benefit limitations and benefit exclusions, and appropriate definitions.
- The HMO will notify the State and members prior to any proposed changes in the provider network, including facilities that alter member access to providers or services.
- There shall be no pre-existing condition restrictions.
- Network within network referral restrictions will not be permitted.
- Right to change Primary Care Providers must be permitted on at least a monthly basis.
- Scope of services covered under the well-woman OB/GYN provisions must be clearly defined, including the explicit services that must be authorized by the member PCP. It is required that two or more well-woman OB/GYN examinations be available during the Benefit Plan Year, and that well-woman mammograms not require a PCP authorization.
- HMO members must be permitted to self-refer to network mental health and substance abuse practitioners.
- Extension of health benefits must be made at no cost to totally disabled members who do not elect COBRA coverage and to those whose coverage terminates at the end of the COBRA continuation period including cessation of premium payments. The extension is made available to those members who are totally disabled on the date their coverage terminates and need not require hospital confinement, and is only applicable to expenses incurred in the treatment of the disabling condition. The extension period will end on the earliest of:
 - the date the total disability ends;
 - one year from the date the person's coverage under the SHBP ends;
 - the date the person has received the maximum benefits under the HMO's Plan for the disabling condition; or
 - the person becomes covered under any replacement plan established by the employer.

Emergency

1. The following definition for emergency care was adhered to by all plans:

Emergency means a medical condition manifesting itself by acute symptoms of sufficient severity (including severe pain) such that a prudent layperson (including the parent of a minor child or guardian of a disabled individual), who possesses an average knowledge of health and medicine, could reasonably expect the absence of immediate medical attention to result in:

- a) placing the health of the individual (or, with respect to a pregnant woman, the health of the woman or her unborn child) in serious jeopardy;
- b) serious impairment to bodily function; or
- c) serious dysfunction of any bodily organ or part.

There will be a \$35 maximum copayment for emergency room services; waived if admitted.

2. With respect to emergency services furnished in a hospital emergency department, a health plan shall not require prior authorization for the provision of such services if the member arrived at the emergency medical department with symptoms that reasonably suggested an emergency condition based on the judgment of a prudent layperson, regardless of whether the hospital was affiliated with the Health Maintenance Organization. All procedures performed during the evaluation (triage) and treatment of an emergency condition shall be covered by the Health Maintenance Organization.

Minimum Coverage Requirements

Benefit standards include:

- Routine office visit copayments will be \$5.
- All plans will cover chiropractor visits up to a maximum of 20.
- \$100 will be the maximum annual copayment for medical appliances and durable equipment.
- Hair prosthesis furnished in connection with hair loss resulting from the treatment of disease by radiation or chemicals will be covered.
- Routine inoculations for adults (not related to travel or occupation) will be covered.
- The cost of care to organ transplant donors will be covered. (Coordination of benefits will apply).
- Admissions at skilled nursing homes will be covered up to 120 days.
- Hospice services will be covered in full.
- Home health care will be covered up to a minimum 120 days.
- Outpatient therapy will be covered up to 60 consecutive visits per condition.
- Repair and replacement of prosthesis will be covered.
- Surgical leggings will be covered if medically necessary.

Mental Health and Alcohol/Substance Abuse

- *All plans will use standard treatment criteria recently established by the American Society of Addictive Medicine (ASAM).*
- There will be no copayment charged for outpatient drug and alcohol rehabilitation treatment.
- Coverage for outpatient mental health services will be at a minimum 30 visits and a maxi-

mum copayment of \$10.

- Following a detoxification patients are entitled to 28 days of inpatient rehabilitation per occurrence.

Self Insurance

The State Health Benefits Commission approved three HMOs, AETNA US Healthcare, CIGNA Healthcare, and Horizon Blue Cross Blue Shield of New Jersey's HMO Blue, to be offered as self insured plans in fiscal year 1999.

Benefit Changes

Infertility Policy

The State Health Benefits Commission approved a new infertility policy for Traditional Plan and NJ PLUS. This benefit was previously covered by these plans but now has been specifically defined. The SHBP policy covers consultation, diagnosis, and most non-experimental treatments for infertility, but limits the use of Assisted Reproductive Technology (ART) procedures.

This is a lifetime SHBP benefit, meaning that members who meet their maximum benefit through one carrier will not be able to receive this benefit from another State self-insured carrier.

Precious Additions Program

On August 12, 1998 the State Health Benefits Plans Commission approved an enhanced benefit for NJ PLUS. This is a benefit for expectant mothers that includes welcome letters, topical brochures, surveys, coupons, a SHBP enrollment form for adding new dependents, and a gift. No additional charge is associated with this benefit.

Women's Health and Cancer Rights Act of 1998

On January 13, 1999, the State Health Benefits Commission adopted as policy the Federal Omnibus Appropriations Bill that requires group health plans that cover mastectomies to also cover reconstructive surgery or other related services following a mastectomy. The services to be included are reconstruction of the breast on which surgery was performed, surgery and reconstruction of the other breast to produce a symmetrical appearance, and the providing of prostheses and services in connection with other complications resulting from the mastectomy. These services are already available under all plans in the SHBP.

Chiropractic Benefit

The State Health Benefits Commission adopted and implemented a revised chiropractic review policy. The new controls, in place, will curb overutilization without a diminution of plan benefits.

Prescription Plan, Traditional Plan, and NJ PLUS

Maximum coverage limits on prescription drugs used to treat male impotence was adopted for the Traditional Plan, NJ PLUS, and the State Prescription Drug Program. The limits include the following prescriptions—Viagra (four pills per month); Muse (six units/pellets per month); Edex (four units/kit or

six units per month); and Caveject (six units/kit or six units/vials per month).

Dental Program

Copayments under the Dental Provider Organizations (DPOs) have been revised and updated to reflect present-day costs. These changes helped to retain existing DPOs and dentists. Under the revised schedule of copayments, preventive and basic services continue to be covered in full.

HIPAA Requirements for 1999

The State Health Benefits Commission has filed for exemption from the HIPAA mental health parity requirement with the federal Health Care Financing Administration for calendar year 1999. As a result, the maximum annual and lifetime dollar limits for mental health benefits under the Traditional Plan and NJ PLUS has not changed.

1999 Significant Legislation

Chapter 330, Public Laws of 1997

Chapter 330, P.L. 1997, provides health benefits to local police officers and firefighters who retire after 25 years of service (or on a disability) but whose employer does not provide payment toward retiree health coverage. Under the law, the State will pay 80% of the cost of the least expensive managed care plan offered in the State Health Benefits Program (SHBP) and the retiree will pay the remainder. The law became effective July 1, 1998.

This coverage is available to qualified retirees of the Police and Firemen's Retirement System (PFRS), the Consolidated Police and Firemen's Pension Fund (CPFPPF), and to certain retirees of the Public Employees' Retirement System (PERS) who were law enforcement officers. A qualified retiree is one who:

- retires with 25 or more years of service or on a disability retirement,
- retires from an employer who does not provide any payment toward the cost of health benefits to retirees as of July 1, 1998, and
- has no other employer group coverage as an "employee" as a result of employment while retired.

All medical plans offered in the SHBP are available under Chapter 330.

Chapter 48, Public Law of 1999

This law changes the way local employers participating in the State Health Benefits Program (SHBP) can provide post-retirement health benefit coverage to its retired employees.

It makes the age and service eligibility requirements for employer payment of SHBP health benefits coverage for retired employees the same as the requirements of N.J.S.40A:10-23 currently applicable to local government employers that do not participate in SHBP. The employer may, by filing a resolution with the Division, assume the cost of post retirement medical coverage for employees (and their dependents) who;

1. retired on a disability pension; or
2. retired with 25 or more years of service credit in a State or locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement, such period as established by the employer; or
3. retired and reached the age of 65 with 25 or more years of service credit in a State or locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement, such period as established by the employer; or
4. retired and reached age 62 with at least 15 years of service with the employer.

Further, the law provides that the employer payment obligations for retiree coverage may be determined by means of a collective negotiations agreement. With respect to employees for whom there is no majority representative for collective negotiations purposes, the employer may, in its sole discretion, determine the payment obligations for the employer and the employees, except that if there are collective negotiations agreements binding upon the employer for employees who are within the same community of interest as employees in a collective negotiations unit, the payment obligations shall be determined in a manner consistent with the terms of any collective negotiations agreement applicable to the collective negotiations unit. This provision applies to all local employers except an independent State authority, board, commission, corporation, agency or organization covered by C. 8, P.L. 1996, and school boards.

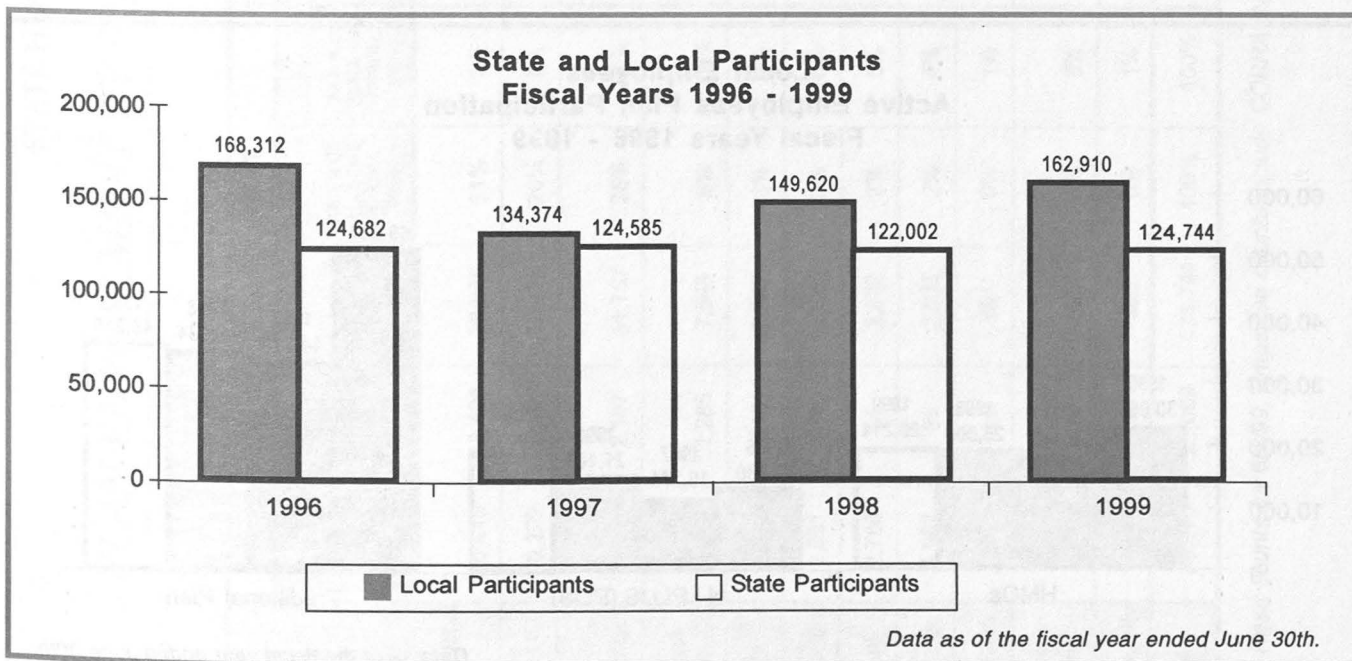
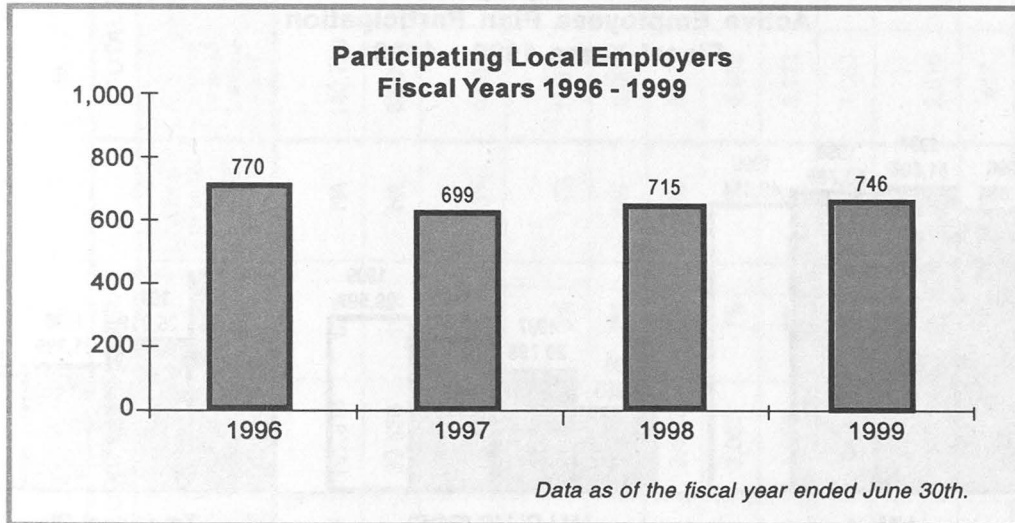
This law includes a grandfather provision which provides that the payment obligations of an employee for SHBP coverage in retirement shall be the payment obligations applicable to the employee on the date the employee retires on a disability pension or the date the employee meets the age and service requirements for employer payment for the coverage, as the case may be.

This law was approved on March 12, 1999.

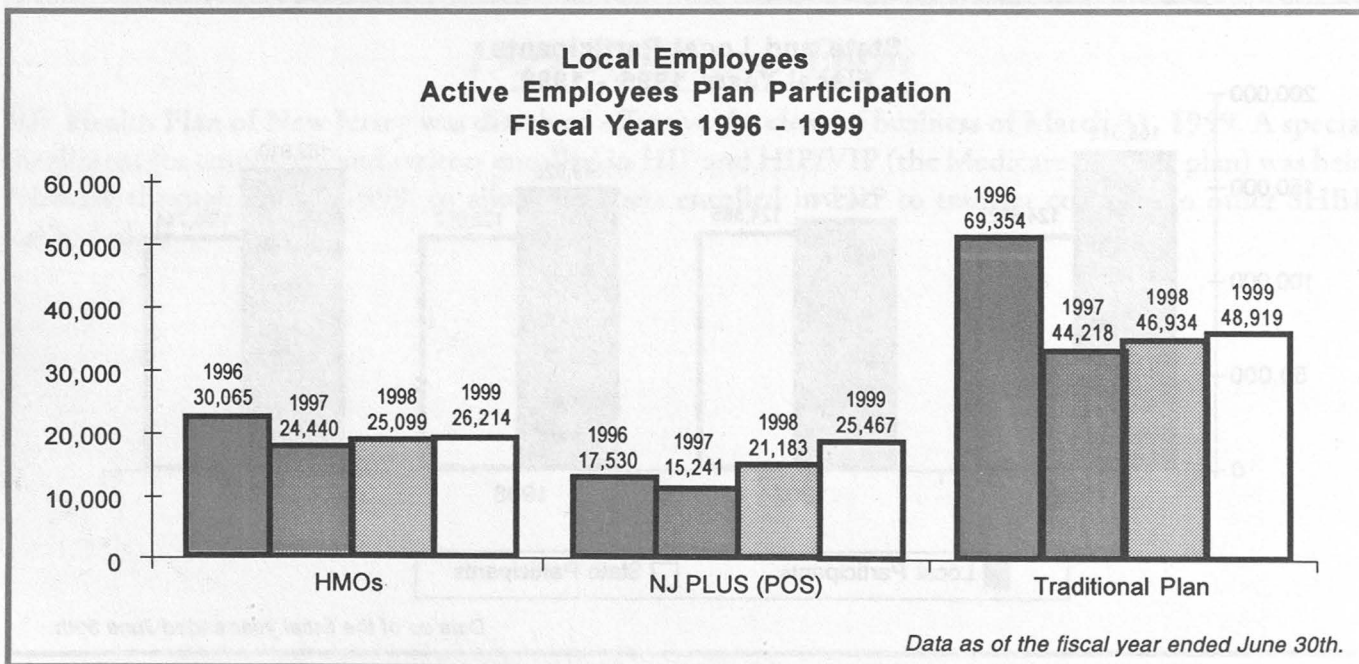
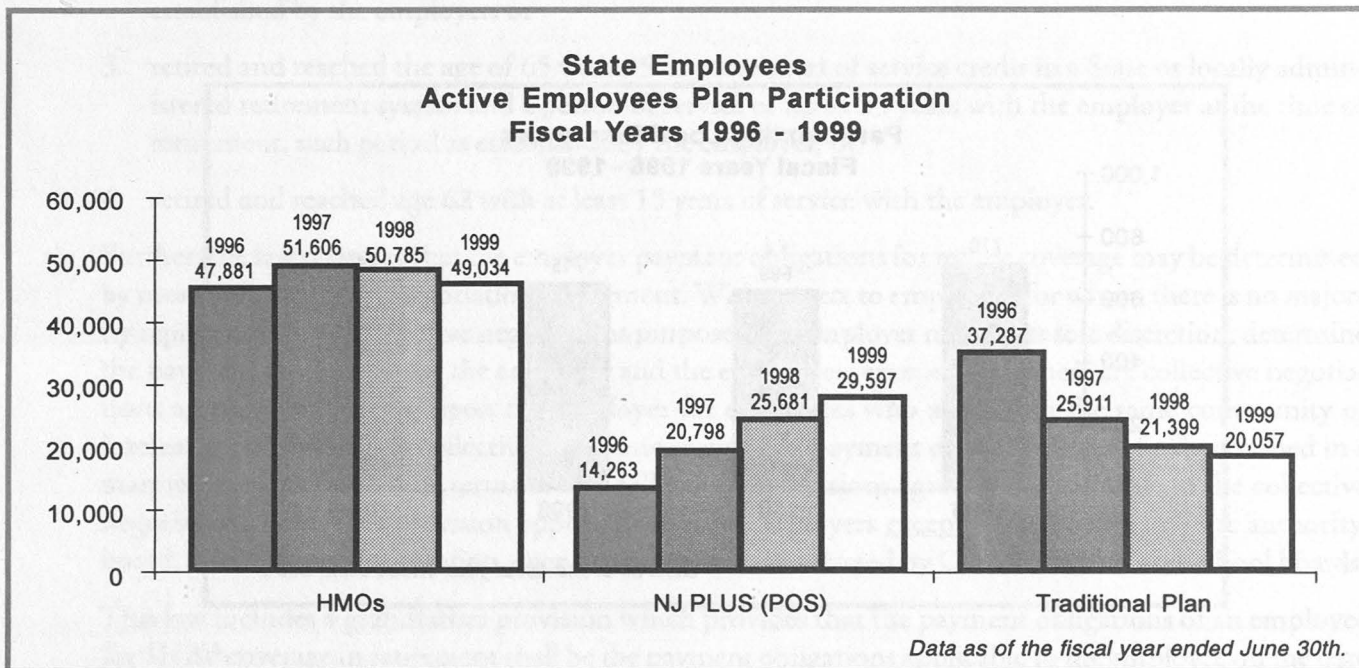
1999 Significant Event

HIP Health Plan of New Jersey was dissolved effective the close of business of March 31, 1999. A special enrollment for employees and retirees enrolled in HIP and HIP/VIP (the Medicare+Choice plan) was held February through March 1999, to allow members enrolled in HIP to transfer coverage to other SHBP medical plans.

MEMBERSHIP



MEMBERSHIP



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 RETIREEES	AS A % OF ALL STATE ENROLLMENT	AS A % OF STATE HMO ENROLLMENT	EMPLOYEES	RETIREES	EMPLOYEES AND RETIREEES	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	20,419	18,526	38,945	31%	NA	49,778	52,036	101,814	62%	NA	140,759	49%	NA
NJPLUS	30,222	2,263	32,485	26%	NA	26,009	4,527	30,536	19%	NA	63,021	22%	NA
US Healthcare	29,570	2,187	31,757	25%	60%	14,264	1,945	16,254	10%	53%	48,011	17%	57%
Horizon HMO	6,263	1,285	7,548	6%	14%	3,221	1,048	4,269	3%	14%	11,817	4%	14%
CIGNA	3,142	215	3,357	3%	6%	2,408	242	2,650	2%	9%	6,007	2%	7%
Physicians	2,801	236	3,037	2%	6%	2,566	324	2,890	2%	9%	5,927	2%	7%
Oxford	2,788	94	2,882	2%	5%	1,884	173	2,057	1%	7%	4,939	2%	6%
Prucare	1,982	56	2,038	2%	4%	981	104	1,085	1%	4%	3,123	1%	4%
NYLCare	505	16	521	0%	1%	510	32	542	0%	2%	1,063	0%	1%
Amerihealth	1,634	172	1,806	1%	3%	615	194	809	0%	3%	2,615	1%	3%
University	349	19	368	0%	1%	40	9	49	0%	0%	417	0%	0%
Totals	99,675	25,069	124,744	100%	100%	102,276	60,634	162,910	100%	100%	287,699	100%	100%

Note: Head counts for 6/1/99. Employee counts include COBRA members. HIP was eliminated from the SHBP in April 1999.

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

PLAN NAME	LOCAL NONEDUCATIONAL 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	16,229	11,488	27,717	52%	NA	33,549	40,548	74,097	67%	NA
NJ PLUS	10,497	1,272	11,769	22%	NA	15,512	3,255	18,767	17%	NA
US Healthcare	5,962	531	6,493	12%	48%	8,302	1,414	9,761	9%	57%
Horizon HMO	1,948	373	2,321	4%	17%	1,273	675	1,948	2%	11%
Physicians	1,321	94	1,415	3%	11%	1,087	148	1,235	1%	7%
CIGNA	1,291	113	1,404	3%	10%	1,275	211	1,486	1%	9%
Oxford	706	63	769	1%	6%	1,178	110	1,288	1%	7%
Prudential	381	39	420	1%	3%	600	65	665	1%	4%
NYLCare	358	13	371	1%	3%	152	19	171	0%	1%
Amerihealth	149	53	202	0%	2%	466	141	607	1%	4%
University	14	2	16	0%	0%	26	7	33	0%	0%
TOTALS	38,856	14,041	52,897	100%	100%	63,420	46,593	110,013	100%	100%

Note: Head counts for 6/1/99. Employee counts include COBRA members. HIP was eliminated from the SHBP in April 1999.

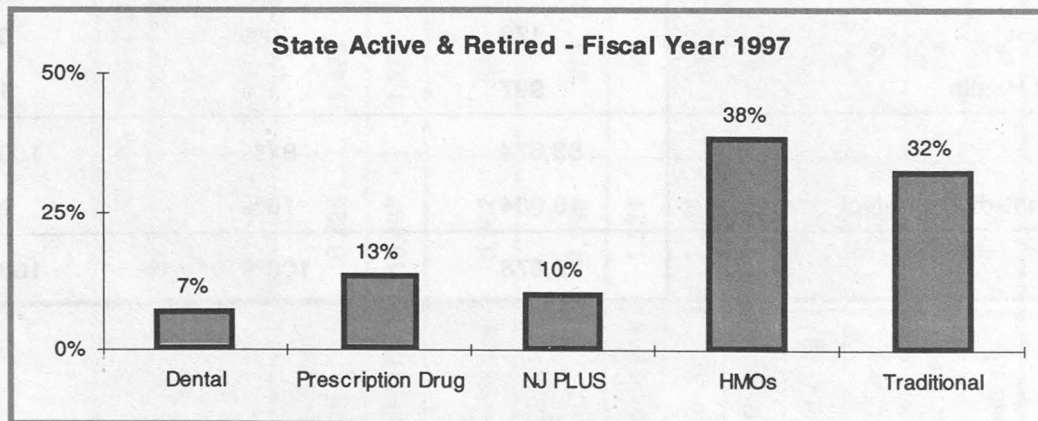
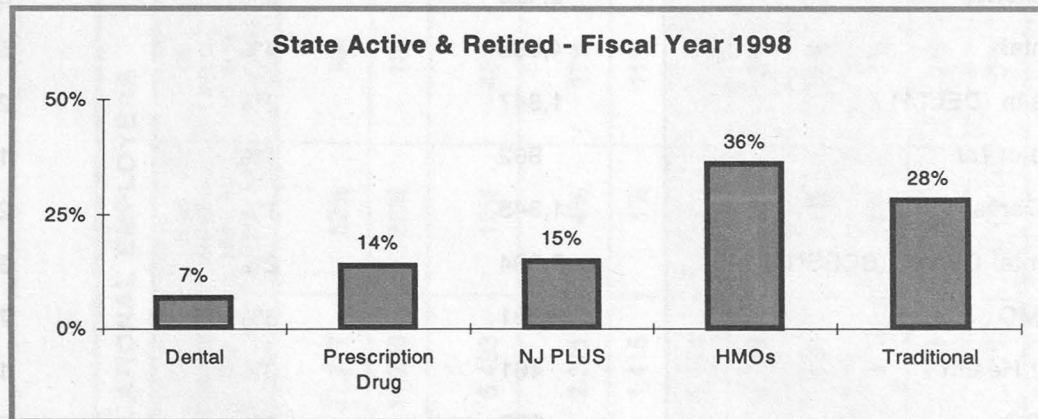
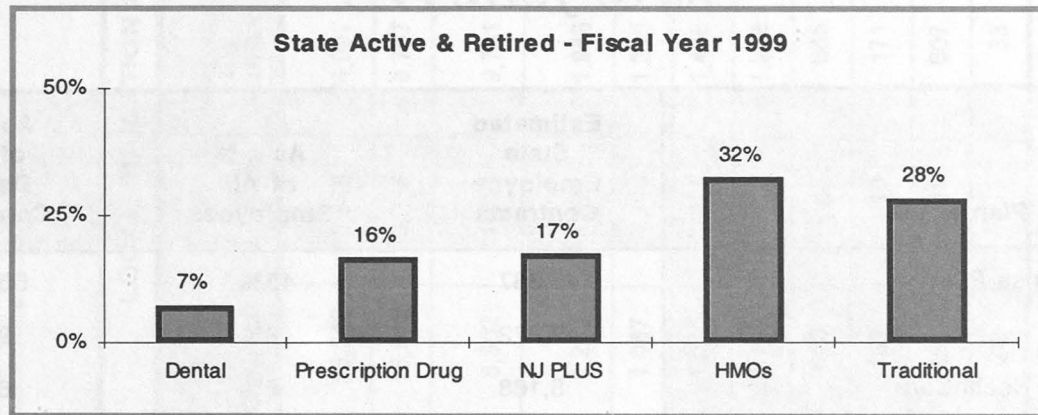
STATE HEALTH BENEFITS PROGRAM
STATE HEALTH BENEFITS PROGRAM
PARTICIPATION BY DENTAL PLAN
AS OF JUNE 1999

Plan Name	Estimated State Employee Contracts	As a % of All Employees	As a % of All Dental Contracts
Dental Expense Plan	45,887	45%	55%
Unity Dental	7,572	8%	9%
International HealthCare	5,168	5%	6%
Atlantic Southern	6,423	6%	8%
OraCare Dental	4,388	4%	5%
Flagship Health (DELTA)	1,847	2%	2%
Dental Group of NJ	862	1%	1%
Community Dental	1,345	1%	2%
Managed Dental Choice (BCBSNJ)	2,284	2%	3%
Prudential DMO	5,981	6%	7%
Group Dental Health	461	0%	1%
Statewide DPO	287	0%	0%
John D. Kernan	172	0%	0%
Cigna Dental Health	997	1%	1%
Subtotals	83,674	81%	100%
Employees that did not elect coverage	16,004	19%	NA
Totals	99,678	100%	100%

PERCENTAGE OF HEALTH CARE DOLLARS EXPENDED BY SHBP

— State Active & Retired —

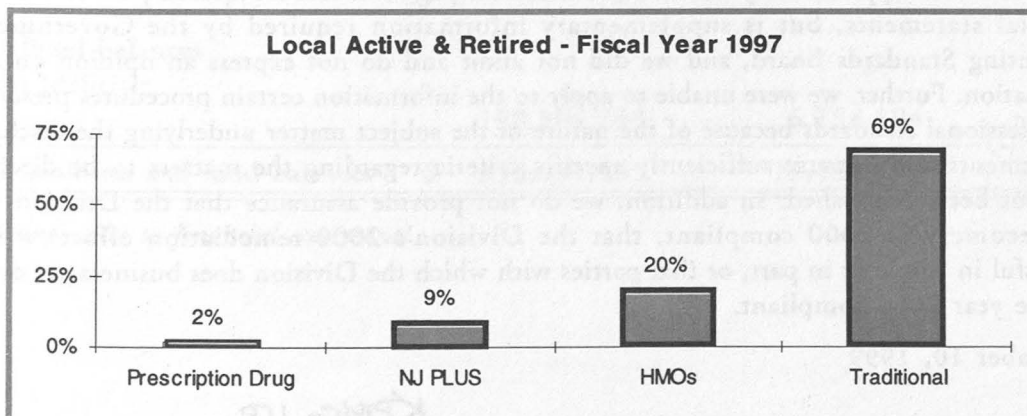
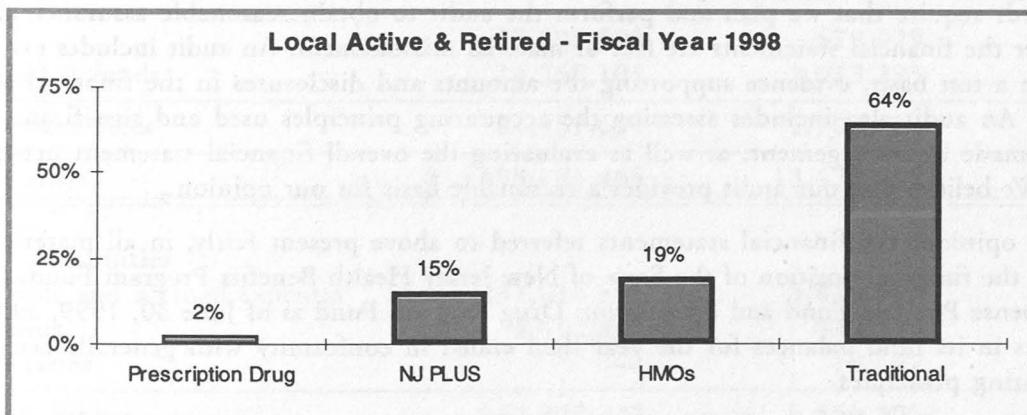
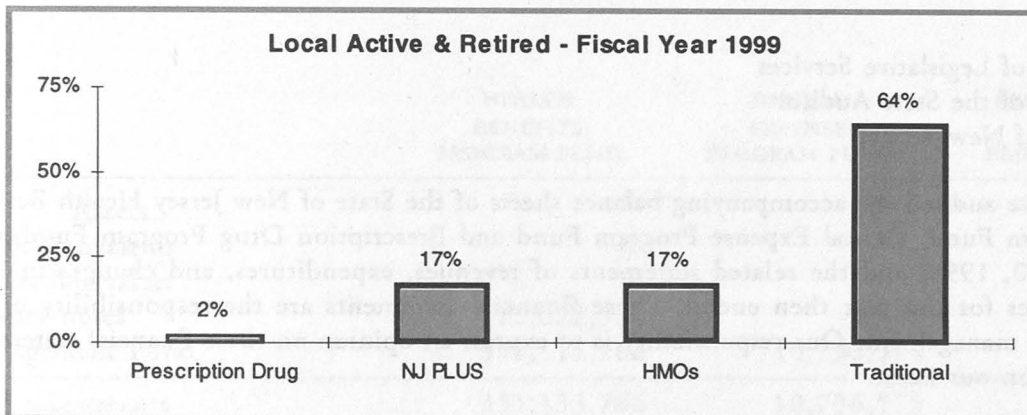
Fiscal Years 1997 through 1999



PERCENTAGE OF HEALTH CARE DOLLARS EXPENDED BY SHBP

— Local Active & Retired —

Fiscal Years 1997 through 1999



KPMG LLP
Princeton Pike Corporate Center
P.O. Box 7348
Princeton, NJ 08543-7348

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, 1999, 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, 1999, and the changes in its fund balances for the year then ended in conformity with generally accepted accounting principles.

The year 2000 supplementary information listed on page 9 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the nature of the subject matter underlying the disclosure requirements and because sufficiently specific criteria regarding the matters to be disclosed have not been established. In addition, we do not provide assurance that the Division is or will become year 2000 compliant, that the Division's 2000 remediation efforts will be successful in whole or in part, or that parties with which the Division does business are or will become year 2000 compliant.

September 10, 1999

KPMG LLP

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

Balance Sheets

June 30, 1999

	HEALTH BENEFITS PROGRAM FUND	DENTAL EXPENSE PROGRAM FUND	PRESCRIPTION DRUG PROGRAM FUND
Assets			
Cash and cash equivalents	\$ —	—	27,133
Investments, at fair value:			
U.S. Treasury notes	15,022,500	—	—
Cash Management Fund	316,111,266	10,736,575	—
Total investments	331,133,766	10,736,575	—
Receivables:			
Other	37,590,598	679,029	2,484
Due from other funds	24,367,101	2,023,295	14,316,602
Total receivables	61,957,699	2,702,324	14,319,086
Total assets	\$ 393,091,465	13,438,899	14,346,219
Liabilities			
Accounts payable and accrued expenses	237,614,891	5,810,883	6,569,000
Deferred revenue	4,612,331	829,250	3,190,809
Due to other funds	—	10,172	6,792,989
Total liabilities	242,227,222	6,650,305	16,552,798
Fund balances			
Fund balances (deficit):			
Reserved	150,864,243	6,788,594	(2,206,579)
Total liabilities and fund balances	\$ 393,091,465	13,438,899	14,346,219

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, 1999

	HEALTH BENEFITS PROGRAM FUND	DENTAL EXPENSE PROGRAM FUND	PRESCRIPTION DRUG PROGRAM FUND
Revenues and additions:			
Contributions:			
Members	\$ 68,339,822	23,277,703	1,080,079
Employers	1,098,199,179	22,739,192	119,416,551
Total contributions	1,166,539,001	46,016,895	120,496,630
Investment income:			
Net appreciation (depreciation) in fair value of investments	(325,344)	(7,099)	—
Interest	17,467,278	498,205	448,780
Total investment income	17,141,934	491,106	448,780
Total revenues and additions	1,183,680,935	46,508,001	120,945,410
Expenditures and deductions:			
Benefits	1,129,431,689	45,724,872	119,387,169
Administrative expense	67,721,722	1,969,701	700,378
Total expenditures and deductions	1,197,153,411	47,694,573	120,087,547
Net increase (decrease)	(13,472,476)	(1,186,572)	857,863
Fund balances (deficit):			
Beginning of year	164,336,719	7,975,166	(3,064,442)
End of year	\$ 150,864,243	6,788,594	(2,206,579)

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, 1999

(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 statement of the State of New Jersey; however, the accompanying financial statements are intended solely to present certain funds administered by the Division and not the State of New Jersey as a whole.

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

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

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 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, three HMOs participating in the program (Horizon HMO, Aetna/US Healthcare and Cigna) are self-insured plans. The remaining five HMOs are 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.

Benefit Provisions - PDPF

The Program provides coverage to employees and their eligible dependents for drugs which under

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

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.

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 modified accrual basis of accounting is used for measuring financial position and changes in financial position for expendable trust funds. Under this method, revenues are recognized when measurable and available and expenditures are recognized when incurred and measurable.

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. 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 08625-0290.

The purchase, sale, receipt of income, and other transactions affecting investments are governed by

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

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, 1999, 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, 1999:

	STATE	LOCAL	TOTAL
Health Benefits Program Fund*	124,744	162,910	287,654
Prescription Drug Program Fund	99,717	16,444	116,161
Dental Expense Program Fund	83,674	—	83,674

*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

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 \$2,206,579 as of June 30, 1999. In order to compensate for the FY 1999 deficit, rates for FY 2000 were increased by 9% for the State group and 13.9% for the local group. The State Health Benefits Commission will further review these changes when it considers the rates to be charged in FY 2001.

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

June 30, 1999

Required Supplemental Information

Year 2000 Issue (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. Systems that do not properly recognize such information could generate erroneous data or cause a system to fail. New Jersey Division of Pensions and Benefits has completed an inventory of computer systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary to conducting the Division's operations. Based on this inventory, the Division is in the testing and validation stage for the computer systems; contracts totaling \$5,079,000 have been let as of June 30, 1999. Testing and validation of the systems are expected to be completed by October 1999; additional expenditures of \$50,000 are anticipated beyond June 30, 1999.

A Contingency Plan is currently being developed in the event of a system failure as a result of the year 2000 issue. The Contingency Plan reflects a general optimism and belief that all major organizations will have similarly planned, tested and implemented all necessary changes to their automated systems to render them compliant for processing of transactions in the year 2000. This optimism is based upon confirmations received from the Funds' primary processing vendors, including the Funds' banking services providers, that their systems are expected to be able to process transactions in the year 2000.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management can assure that the New Jersey Division of Pensions and Benefits has or will be completing testing of its proprietary computer systems and system interfaces with primary processing vendors by October 1999, and the successful remediation of year 2000 issues within these systems and interfaces. However, management cannot assure that the parties with whom the New Jersey Division of Pensions and Benefits does business, with the exception of system interfaces, will be year 2000 ready.

*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
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
7 days a week, 24 hours a day

STATE HEALTH BENEFITS PROGRAM OF NEW JERSEY

1999 ANNUAL REPORT

**STATE OF NEW JERSEY
DEPARTMENT OF THE TREASURY
DIVISION OF PENSIONS AND BENEFITS**

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