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**STATE HEALTH
BENEFITS PROGRAM
OF
NEW JERSEY**



1992

ANNUAL REPORT

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STATE OF NEW JERSEY

DEPARTMENT OF THE TREASURY

Samuel Crane, Treasurer

DIVISION OF PENSIONS AND BENEFITS

Margaret M. McMahon, Director

**STATE HEALTH BENEFITS PROGRAM
OF NEW JERSEY**

COMMISSION

SAMUEL CRANE, State Treasurer - Chairperson

Samuel Fortunato

Anthony J. Cimino

Commissioner of Insurance

Commissioner of Personnel

Chairman, Merit System Board

MARGARET M. McMAHON, *Secretary*

NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

50 West State Street Trenton, New Jersey 08625-0295

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**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 1992 Annual Report in compliance with the provisions of N.J.S.A. 52:17.27.

**Respectfully Submitted,
SAMUEL CRANE
Chairperson**

SIGNIFICANT LEGISLATION

CHAPTER 229, LAWS OF 1991 provides certain early retirement incentive benefits to county, municipal and county college employees who are members of the ABP, PERS or TPAF. The basic requirement is that the member must be at least 50 years old with 25 years of service credit within the retirement system or at least age 60 with 20 years of service credit within the retirement system. Under Chapter 229, the member must file a retirement application on or before March 1, 1992 with an effective date of retirement between December 1, 1991 and April 1, 1992. Eligible employers may adopt these early retirement incentives by resolution but are not required to do so. PERS and TPAF members who are at least age 50 with 25 years or more of service credit will receive an additional five years of service credit added to their actual service credit. Eligible veterans within the PERS and TPAF will receive an additional pension in the amount of 5/60ths of their final year's salary. Eligible ABP retirees will receive an amount equal to 100% of their base annual salary at the time of their retirement. The incentive for eligible retirees age 60 or more with at least 20 years of service credit is employer-paid health coverage into retirement under the conditions currently offered to retirees of that entity. This law was approved and became effective on July 26, 1991.

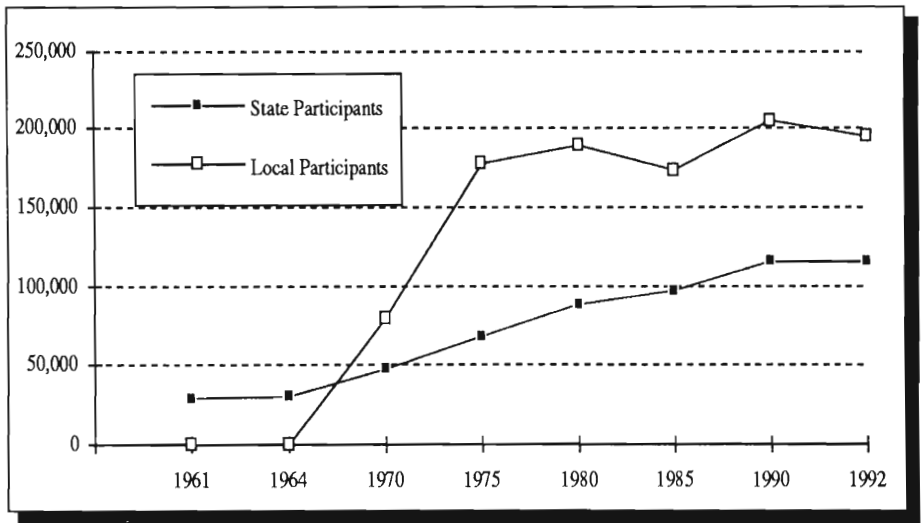
CHAPTER 230, LAWS OF 1991 provides early retirement incentive benefits comparable to those provided to county, municipal and county college employees by Chapter 229, P.L. to certain employees of authorities, boards, commissions, corporations and other agencies and instrumentalities participating in the PERS who file a retirement application on or before March 1, 1992 with an effective date of retirement between December 1, 1991 and April 1, 1992. Eligible employers may adopt these early retirement incentives by resolution but are not required to do so. This law was approved and became effective on July 26, 1991.

CHAPTER 231, LAWS OF 1991 provides early retirement incentive benefits comparable to those provided to State, county, municipal, county college and various authorities, boards, commissions, etc., by Chapters 137, 229 and 230 respectively, available to certain PERS and TPAF members who are employed by school boards, educational services commissions and jointure commissions. Applications for retirement must be filed on or before March 1, 1992 with an effective date of retirement between December 1, 1991 and April 1, 1992. Eligible employers may adopt these early retirement incentives by resolution but are not required to do so. This law was approved and became effective July 26, 1991.

CHAPTER 382, LAWS OF 1991 establishes a Pension and Health Benefit Study Commission. This commission will consist of 10 members (State Treasurer plus three members of the Executive branch, two members appointed by the Senate President, two members appointed by the Speaker of the Assembly and two members appointed by the Governor). The chairman of the commission will be appointed by the Governor and serve at his pleasure. This act will take effect on January 14, 1992.

MEMBERSHIP

- As of June 30, 1992, there were 309,153 covered participants (active and retired) consisting of 114,734 State participants and 194,419 participants of 986 local participating employers.
- Local employer participation decreased - 27 employers adopted the Program for the first time while 44 terminated participation.
- Total participation decreased by 9,913 lives from fiscal year 1991.
- Health Maintenance Organization participation totaled 77,571 representing 1,004 participating employers.
- The Preferred Provider Organization participation totaled as many as 21,218.
- The State's contribution was \$422,663,040.78 while payment made by Local employers totaled \$742,330,312.62.



MEMBERSHIP ACTIVITY

During fiscal year 1992, 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** - 45,798 participants (active and retired) enrolled in the Program.
- **CHANGE** - 26,050 changes (active and retired) in coverage were processed.
- **TERMINATION** - 55,847 participants (active and retired) terminated coverage.
- **MAJOR MEDICAL CLAIMS** - 2,938,506 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 1992, 27 employers adopted the Program for the first time.

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

1851-1852

REPORT OF SUPPLEMENTARY PROGRAMS

The following information concerning the supplementary programs was prepared by the New Jersey Division of Pensions and Benefits. 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, 1992*.

COMBINING BALANCE SHEET

State of New Jersey

All Trust and Agency Funds

June 30, 1992

	Health Benefits Program Fund	Dental Expense Program Fund	Presc. Drug Program Fund
<u>ASSETS</u>			
Cash and Cash Equivalents	\$23,484,921	\$54,269	\$0
Investments	40,149,005	0	0
Receivables			
Other	15,500,055	977,393	128,754
Other Assets			
Due from other funds	<u>174,895,198</u>	<u>12,176,281</u>	<u>2,168,898</u>
Total Assets	<u><u>254,029,179</u></u>	<u><u>13,207,943</u></u>	<u><u>2,297,652</u></u>
<u>LIABILITIES</u>			
Accounts payable and accrued expenses	225,132,190	3,264,156	3,216,762
Deferred revenue	11,781,289	30,577	0
Due to other funds	1,055,814	0	0
Other	<u>0</u>	<u>0</u>	<u>0</u>
Total Liabilities	<u><u>237,969,293</u></u>	<u><u>3,294,733</u></u>	<u><u>3,216,762</u></u>
<u>FUND BALANCES</u>			
Reserved For:			
Pension Benefits	0	0	0
Unreserved:			
Undesignated	<u>16,059,886</u>	<u>9,913,210</u>	<u>(919,110)</u>
Total Fund Balances	<u><u>16,059,886</u></u>	<u><u>9,913,210</u></u>	<u><u>(919,110)</u></u>
Total Liabilities and Fund Balances	<u><u>\$254,029,179</u></u>	<u><u>\$13,207,943</u></u>	<u><u>\$2,297,652</u></u>

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

State of New Jersey
All Trust and Agency Fund
June 30, 1992

	Health Benefits Program Fund	Dental Expense Program Fund	Presc. Drug Program Fund
<u>REVENUES</u>			
Contributions	\$820,712,597	\$15,299,556	\$881,354
Investment earnings	9,426,762	507,011	215,105
Other	<u>0</u>	<u>0</u>	<u>0</u>
Total Revenues	<u>830,139,359</u>	<u>15,806,567</u>	<u>1,096,459</u>
<u>OTHER INCREASES</u>			
Transfers from other funds	401,905,179	14,815,708	46,856,610
Other	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Increases	<u>401,905,179</u>	<u>14,815,708</u>	<u>46,856,610</u>
Total Revenues & Other Increases	<u>1,232,044,538</u>	<u>30,622,275</u>	<u>47,953,069</u>
<u>EXPENDITURES</u>			
Government direction, management and control	<u>1,168,051,341</u>	<u>28,520,583</u>	<u>49,090,760</u>
Total Expenditures	<u>1,168,051,341</u>	<u>28,520,583</u>	<u>49,090,760</u>
Other Decreases	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Decreases	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenditures and Other Decreases	<u>1,168,051,341</u>	<u>28,520,583</u>	<u>49,090,760</u>
Net Increase (Decrease) in Fund Balances for the Year	63,993,197	2,101,692	(1,137,691)
Fund Balances - July 1, 1991	<u>(47,933,311)</u>	<u>7,811,518</u>	<u>218,581</u>
Fund Balances - June 30, 1992	<u>\$16,059,886</u>	<u>\$9,913,210</u>	<u>(\$919,110)</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 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 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, 1992 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, 1992 are as follows:

	Book Value	Market Value
U.S. Treasury Notes	\$40,149,005	\$41,379,500
State of New Jersey Cash Management Fund	\$149,622,435	\$149,622,435

NOTE 3 - DUE FROM OTHER FUNDS

This includes "Due from Cash Management Fund" and "Due from the General Fund".

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, 1992 the book value (\$274,379,900) 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 '92, but not received until the succeeding fiscal year (\$27,281,623).

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 make contributions to the extent that the HMO premium exceeds the cost of coverage in the traditional plan.

Employees' contributions receivable includes amounts withheld by employers at June 30, 1992 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 Preferred Provider 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

Deferred revenue represents Health Benefits Program Fund premiums received in June 1992 but for July 1992 coverage.

NOTE 7 - DUE TO OTHER FUNDS

Included in the funds owed is the Health Benefits Fund in the amount of \$1,055,814.

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.

The Health Benefits Program rates were increased on July 1, 1992. The 17% rate increase effective July 1, 1992 is expected to increase the reserve. Rates are also expected to be increased effective July 1, 1993 and in subsequent years to provide for a continuing positive fund balance.

The Prescription Drug Program rates were increased on July 1, 1992 by 30%. This was later reduced to 25% effective November 1, 1992 to account for increases in copayments. These rate increases are expected to offset the deficit. Rates are also expected to be increased in subsequent years to provide for a positive fund balance.

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. Chapter 6, P.L. 1990 and Chapter 387, P.L. 1987 provided for the pre-funding of retired health benefits for PERS and TPAF retirees. These benefits are, therefore, excluded from the appropriation.

The benefits for retired coverage other than PERS and TPAF are funded by the State on a "pay as you go" basis. For FY 1992, the State contributed \$6,887,357 for 1,946 eligible retired members.

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