STATE HEALTH BENEFITS PROGRAM: THE BASICS

In 1961, the New Jersey Legislature passed the State Employees Health Benefits Act to provide health insurance coverage for full-time State employees and appointed or elected officers. In 1964, the program was expanded to allow other public employers (counties, municipalities, school districts and authorities) to participate. The act was renamed the New Jersey State Health Benefits Program Act in 1972.

Administered by the Division of Pensions and Benefits in the Department of the Treasury, the State Health Benefits Program (SHBP) is a multiple option program offering health benefits coverage through the indemnity Traditional Plan or one of the managed care options, which include NJ PLUS and several health maintenance organizations (HMOs). SHBP also offers dental coverage and prescription drug benefits. In fiscal year 2005, 968 public employers participated in SHBP and the program covered more than 800,000 employees, retirees and dependents, almost 10 percent of the population of New Jersey.

SHBP is an employer health benefits program, not a health benefits program for the public. As is the case with health insurance programs of private sector employers with a large number of employees, the SHBP health plans are self-insured. Under the self-insured plans, the State and participating public employers other than the State pay the actual expenses of those plans plus administrative fees, and they assume the ultimate financial risk. Consistent with the historical background of initially covering only State employees, SHBP maintains two separate risk pools for purposes of calculating expenses: one for State employees and one for employees of employers other than the State. "Premium" rates are established annually by the State Health Benefits Commission in order to fund the program's projected expenditures through appropriation for the State's expenses as an employer and through assessment of the participating employers other than the State. For an administrative charge, the respective insurance carrier (currently Horizon Blue Cross Blue Shield of New Jersey) or HMO pays claims against the self-insured plans which are then directly reimbursed from the premiums paid by the State and the other participating employers.

SHBP OPTIONS

TheTraditional Plan, a fee-for-service or indemnity plan, administered by Horizon Blue Cross Blue Shield of New Jersey, reimburses an enrollee for the cost of hospitalization, doctor bills, surgery and other medical services and supplies in the amounts of reasonable and customary allowances. It does not cover preventive or well care and there

are no restrictions in choosing a physician. Currently, the enrollee is required to satisfy each year a $250 deductible for the employee plus a $250 deductible for all other family members in the aggregate as well as coinsurance of 20 percent of the next $2,000 of eligible charges for each family member. Current law provides that a State employee enrolled in SHBP after July 1, 2003 and all law enforcement officers employed by the State for whom there is a majority representative for collective negotiation purposes may not be eligible for coverage under the Traditional Plan pursuant to a binding collective negotiations agreement or pursuant to the application by the State Health Benefits Commission of the terms of any collective negotiations agreement binding on the State to State employees for whom there is no majority representative for collective negotiations purposes.

NJ PLUS, a point-of-service plan (POS) administered by Horizon Blue Cross Blue Shield of New Jersey, provides coverage which includes well care and preventive services and requires that the enrollee choose a Personal Care Physician (PCP) within a network of participating doctors. PCP and in-network specialist services are covered at 100 percent after a $10 copayment. Most in-network hospital admissions are covered at 100 percent. Unauthorized out-of-network services are reimbursed at 70 percent after satisfaction of an annual $100 deductible.

The SHBP's participating HMOs for 2006 are Aetna Health, CIGNA HealthCare, Health Net, Oxford Health Plan, and AmeriHealth. An HMO provides complete coverage, including well and preventive care for medical services provided by affiliated physicians and hospitals. Employees who enroll in an HMO pay a minimum copayment of $10 for a routine office visit and must use the doctors and hospitals that are part of the particular HMO for all services except emergencies. If an employee uses a doctor or hospital outside the HMO without a referral or under emergency conditions, the HMO does not pay for the services.

EMPLOYEE PREMIUM SHARING

Current law provides that State employees and the employees of an independent State authority, board, commission, corporation, agency or organization may be required to contribute toward the cost of SHBP health benefits coverage according to the terms of a binding collective negotiations agreement. The amount of an employee's premium sharing depends upon union affiliation and plan option. In 2006, for example, some union-affiliated State employees, required by contract to contribute toward the cost of their SHBP benefits, pay 25% of coverage cost if electing the Traditional Plan or pay 5% of coverage cost if electing an HMO. The State pays the remaining cost. The State pays the entire cost of coverage for the employees electing NJ PLUS. Non-aligned State employees (those whose positions are not eligible for union representation) contribute in the same manner, consistent with the terms of one of the

union contracts binding on the State, as designated by the State Health Benefits Commission pursuant to the law.

Under current law, public employers other than the State participating in SHBP pay the cost of an employee's coverage and have the option of assuming the cost of dependent coverage. Most of these public employers, however, have agreed to assume the cost of SHBP coverage for their employees' dependents. Counties, municipalities, school districts and independent authorities that choose not to participate in SHBP may contract independently with one or more health insurance providers, self-insure or participate in a joint health insurance fund. These employers, pursuant to relevant union contracts, may or may not offer more than one plan option, and may or may not require employee premium sharing.

SHBP COVERAGE IN RETIREMENT

The State is responsible for payment of the full or partial cost of post-retirement medical benefits under SHBP for certain retirees and their dependents, but not their survivors. State employees who do not choose deferred retirement and employees of boards of education and of county colleges, even if their employer does not participate in SHBP, are eligible for fully or partially State-paid SHBP coverage if they retire with an allowance based upon 25 or more years of service or retire on a disability pension. These retirees and their spouses are required to enroll in Medicare Part A (hospital) and Medicare Part B (medical) when they are eligible therefor. The Traditional Plan, NJ PLUS and the participating HMOs automatically coordinate benefits with Medicare, which becomes the primary insurer for retirees after age 65. Retirees covered by SHBP do not participate in Medicare Part D.

State employees who accrued 25 years of service on or before July 1, 1997, and all eligible school board and county college employees receive fully paid SHBP coverage in the Traditional Plan as well as in all the SHBP managed care plans and full reimbursement of the prevailing cost of Medicare Part B. State employees who attain 25 years of service credit or retire on disability after July 1, 1997, may be required to share in paying the cost of SHBP coverage and Medicare Part B according to the terms specified in the union contract applicable to them at the time they attain 25 years of service credit, or retire for disability.

For certain police officers and firefighters and their dependents, but not survivors, who retire with 25 or more years of service credit, or on disability, and who do not receive any employer payment toward post-retirement health benefits, regardless of whether their former employers make any payment toward such benefits for other retirees, the State pays 80 percent of the least expensive cost of coverage among the SHBP plans. The retiree pays the remainder of the cost of whatever plan is chosen and pays for Medicare Part B.

State-paid SHBP coverage in retirement ceases upon the death of a retiree. Surviving spouses, however, as well as

employees covered by the SHBP at the time of retirement with fewer than 25 years of service, may choose to continue SHBP coverage for themselves and their dependents at their own expense.

Under current law, participating public employers other than the State may choose to offer SHBP benefits in retirement to employees not electing deferred retirement, and their dependents as well as survivors. The local public employer may choose to cover employees who (1) retire on a disability pension; or (2) retire with 25 or more years of service credit in a retirement system which includes a period of service of up to 25 years with and determined by that employer; or (3) retire at age 65 or older with 25 or more years of service credit which includes a period of service of up to 25 years with and determined by that employer; or (4) retire at age 62 years or older with at least 15 years of service with that employer. The employer payment obligations for such benefits may be determined by a binding collective negotiations agreement with respect to aligned employees and in the sole discretion of the employer with respect to non-aligned employees. Employers other than the State may also choose to reimburse retirees for the cost of Medicare Part B. SHBP coverage for its retirees ceases if an employer withdraws from SHBP.

PRESCRIPTION DRUG BENEFITS

The Employee Prescription Drug Plan is administered by Horizon Blue Cross Blue Shield through Caremark, which is a pharmacy benefits management company. After a copayment of $10 for name brand drugs or $3 for generic drugs, the State Prescription Drug Program for active State employees covers the cost of a 30-day supply at a retail pharmacy. A 90-day supply for any drug obtained through mail order requires a copayment of $15 for name brand drugs or $5 for generic drugs. Three copayments may be paid for a 90-day supply at a retail pharmacy. SHBP participating employers other than the State may offer prescription drug benefits at an additional cost in the SHBP plan options or through a free-standing prescription card. HMOs provide prescription drug coverage to their enrollees.

Caremark also administers the separate SHBP Retiree Prescription Drug Plan for retirees under the Traditional Plan and NJ PLUS. It requires a certain copayment for up to a 30-day supply at a retail pharmacy or up to a 90-day supply through mail order (a 90-day supply at a retail pharmacy requires three copayments). The amount of a copayment varies depending upon which of three prescription drug categories applies and the method of purchase. Generic drugs (FDA approved equivalents to brand name drugs) have a copayment of $8 for either up to a 30-day supply at a retail pharmacy or up to a 90-day supply via mail order. Preferred brand drugs (more cost effective alternatives within a therapeutic class of brand name drugs with comparable therapeutic efficacy - includes over 80 percent of all brand name drugs) copayments are $16 for retail pharmacy and $25 for mail order.

All other brand name drugs are in the third category that requires a copayment of $33 at a retail pharmacy and $41 through mail order. Out-of-pocket prescription drug copayments per person are capped at a maximum of $1,000 annually.

DENTAL PROGRAM

The Employee Dental Plans is an optional benefit for State employees and their dependents and also for employees and dependents of local governments and school districts that adopt the program. The employer and the employee share the premium cost of a chosen dental plan.

An employee may chose the Dental Expense Plan or a Dental Plan Organization (DPO). The Dental Expense Plan, currently administered by Aetna Dental, is a self-funded, traditional indemnity plan allowing choice of any dentist and reimbursing certain percentages of the reasonable and customary allowance for various covered services after satisfaction of an annual deductible ($50 per person, $50 each for three family members), which applies to non-preventive services only. The program offers several DPOs which have dental service providers who have agreed to accept discounted allowances for services. A DPO may be a Dental Center, a group of dentists who are located at a central office, or an Individual Practice Association (IPA), a network of participating dentists working in their own offices. Preventive and diagnostic services are covered in full; other eligible services require a copayment.

Detailed and specific information on SHBP and its plans is available from the Division of Pensions and Benefits web site(htlp://www.state.nj.us/treasury/pensions/shbp).