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**STATE HEALTH
BENEFITS PROGRAM
OF NEW JERSEY**



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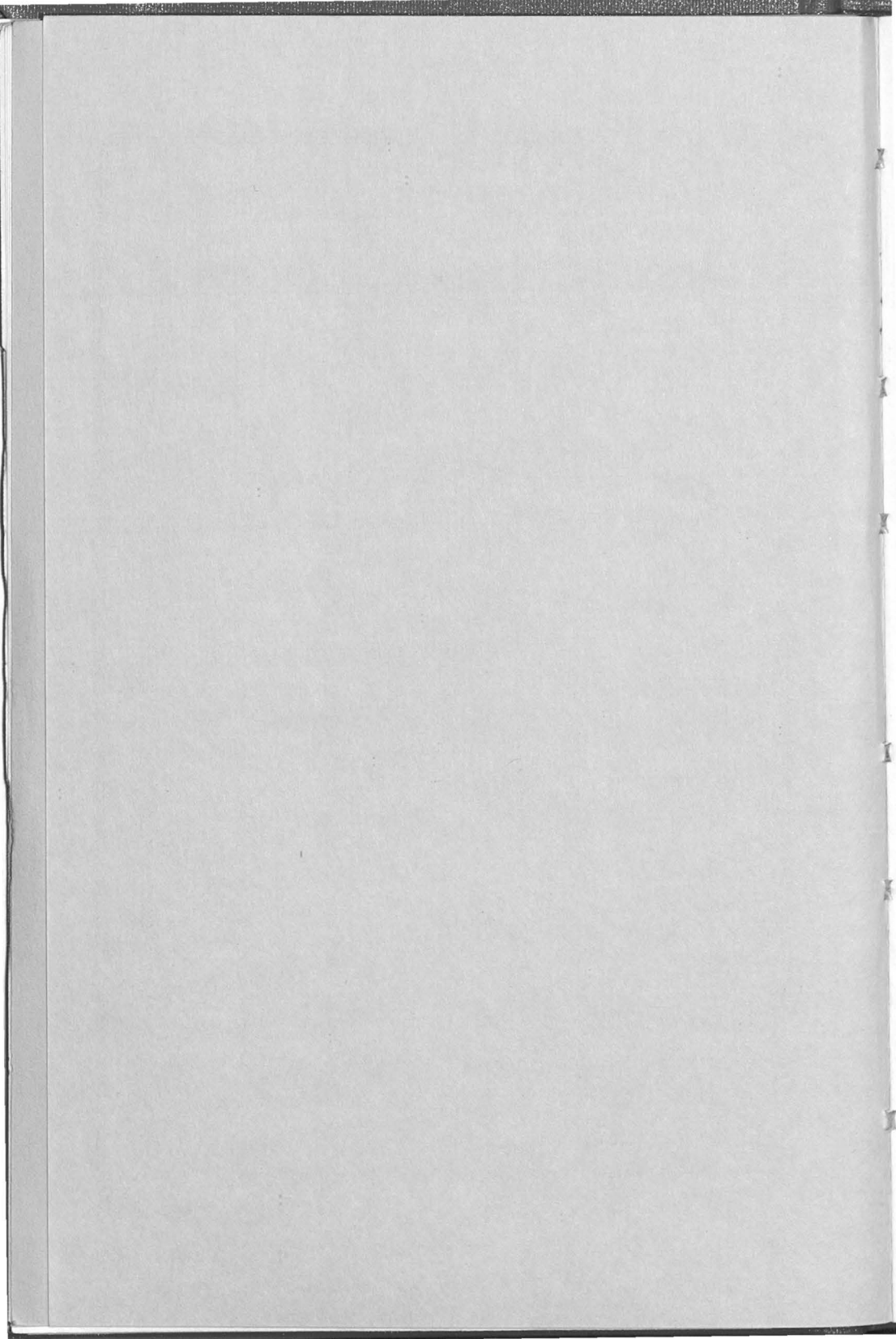
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DEPARTMENT OF THE TREASURY DIVISION OF PENSIONS AND BENEFITS
Brian W. Cullen, Treasurer Margaret M. McMahon, Director

STATE HEALTH BENEFITS PROGRAM OF NEW JERSEY

To The Honorable
Christine Todd Whitman
Governor of the State of New Jersey

Dear Governor V
**COMMISSION
as of June 30, 1993**

The
SAMUEL CRANE, State Treasurer - Chairperson
Samuel Fortunato Commissioner of Insurance
Anthony J. Cimino Commissioner of Personnel
Chairman, Merit System Board

MARGARET M. McMAHON, *Secretary*

Respectfully Submitted
MARGARET M. McMAHON
Secretary

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

STATE HEALTH BENEFITS PROGRAM
OF NEW JERSEY

COMMISSION
as of June 30, 1993

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NEW JERSEY DIVISION OF PENSIONS AND BENEFITS
50 West State Street, Trenton, New Jersey 08625-0205

CHAPTER 18A
STATE OF NEW JERSEY

DEPARTMENT OF THE TREASURY

DIVISION OF PENSIONS AND BENEFITS

Brian W. Clymer, Treasurer

Margaret M. McMahon, Director

**To The Honorable
Christine Todd Whitman
Governor of the State of New Jersey**

Dear Governor Whitman:

The Commission of the State Health Benefits Program is pleased to present the Fiscal Year 1993 Annual Report in compliance with the provisions of N.J.S.A. 52:17.27.

Respectfully Submitted,
MARGARET M. McMAHON
Secretary

SIGNIFICANT LEGISLATION

CHAPTER 8, LAWS OF 1993 contains provisions that affect various State-administered retirement systems. The provisions of Chapter 8 adjusts the revaluation of certain items associated with the TPAF and alters the funding process of and the eligibility for enrollment in the State Health Benefits Program for certain active and retired employees of boards of education within New Jersey.

The pension adjustment and health care benefits for qualified retirees will be funded as employer obligations in the same manner that the law provides for the funding of the employer obligations for the basic retirement benefits payable within the TPAF. However, health care benefits for qualified retirees and their dependents shall be funded and paid through a separate fund or trust in order to comply with federal law.

Additionally, Chapter 8 mandates that the terms of the trustees appointed by the Governor who are currently serving on the PERS, TPAF, SPRS, PFRS and Consolidated Police and Firemen's Pension Commission shall terminate on July 31, 1993. However, such trustees shall continue to serve until their successors have been appointed and qualified.

Chapter 8 also implements a surcharge upon insurance companies, hospital service corporations, medical service corporations, health service corporations or health maintenance organizations that provide hospital or medical expense benefits that enter into a contract with or provide policies to a local board of education. The surcharge will be a percentage of the claims paid by the provider attributable to the coverage of the employees of the board and their dependents for the period from July 1st through the following June 30th.

After July 1, 1993, a former employee of a local board of education who is retired from employment with the board, is receiving a retirement benefit from a State or locally administered retirement system, is eligible for the Federal Medicare Program and is participating in the health benefits plan of the board may enroll in the State Health Benefits program upon enrollment in the Medicare program. Any local board of education may elect to participate in the State Health Benefits Program upon the termination of any contract providing health benefits that was in effect on January 14, 1993. If the board does not elect to participate in the State Health Benefits Program at that time, they will not be permitted to again elect such participation generally for a period of five years.

This law was approved and became effective on January 4, 1993.

CHAPTER 28, LAWS OF 1993 permits an employee of a State or County College who has earned service credit within a private, defined contribution plan, such as TIAA-CREF, as a result of employment with an auxiliary organization at a State or County College to utilize such service credit accrued in that private plan plus any additional service credit accrued by them in a State-administered retirement system in order to establish the minimum requirement of 25 years of service necessary for free health benefits after retirement. Such retiring employees must be enrolled in the health benefits program at the time of his or her retirement.

Additionally, Chapter 28 permits employees of an auxiliary organization at a State or County College who have participated in such private defined contribution plan and who became employees at a State or County College without a break in service to participate in the ABP if such employee enrolls in the ABP within 10 days of the effective date of this law or within 30 days from the commencement of such employment, whichever is later.

An "auxiliary organization" is defined as "an organization...that performs selected functions or operations of a college while maintaining an identity distinct from that of the college."

This law was approved and became effective on January 27, 1993.

CHAPTER 44, LAWS OF 1993 provides comparable early retirement incentive benefits (ERI) to the 1991 benefits granted for members of the Alternate Benefit Program (ABP), Public Employees' Retirement System (PERS) and Teachers' Pension and Annuity Fund (TPAF) who are least 50 years of age with 25 years of credited service (i.e., 5 additional years of service credit for PERS and TPAF eligible members or a full year's base salary for ABP participants) or who are at least 60 years of age with 20 but less than 25 years of service credit (i.e., paid health benefits coverage in retirement). Eligible members must file a retirement application before June 1, 1993 with an effective retirement date between April 1, 1993 and July 1, 1993.

Eligible veterans within the PERS and TPAF can receive an additional pension above their usual special veterans' pension that will be equal to 5/60ths of highest 12 months of base salary paid during the last 3 years of membership.

An additional ERI benefit offered by Chapter 44 is the payment of \$500 per month for a maximum of 24 months to those eligible members who are at least 60 years of age with 10 but less than 20 years of credited service within the retirement system.

Chapter 44 permits the employment of such eligible member applying for these ERI benefits to be extended for a maximum of one year.

Eligible members may carry their outstanding loan payments into retirement by having the equivalent monthly amounts that were previously deducted from his or her paychecks immediately preceding retirement made against his or her monthly retirement allowances.

An eligible member participating in this ERI program may purchase a portion (rather than all) of the service credit that he or she is eligible to purchase.

This law was approved on February 10, 1993.

CHAPTER 138, LAWS OF 1993 offers comparable ERI benefits permitted to those offered to State employees under the provisions of Chapter 44, Laws of 1993, to eligible employees of certain counties and county colleges and certain municipalities if the governing body of the participating employer adopts a resolution. The deadline for receiving such resolution within the Division of Pensions and Benefits is on or before July 1, 1993, regarding counties and county colleges and September 1, 1993, regarding municipalities.

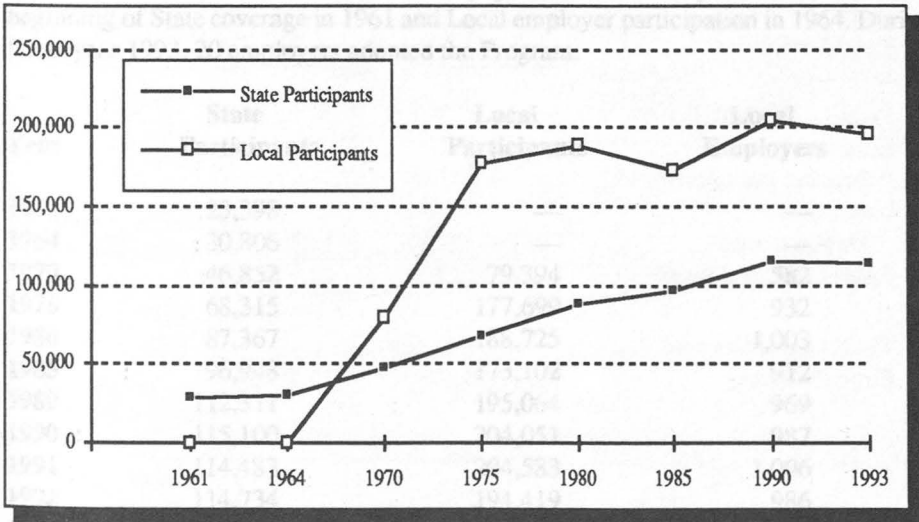
The ERI benefits are almost identical to those offered within Chapter 44, except that the free health benefits coverage for the members who are at least 60 years of age with 20 but less than 25 years of service credit would only be available if the employer currently offers such free medical coverage to retirants with 25 or more years of service. The eligible county or county college employees must file a retirement application between August 1, 1993 and December 1, 1993, with an effective retirement date between September 1, 1993 and January 1, 1994. Eligible municipal employees must file a retirement application between November 1, 1993 and March 1, 1994 with an effective retirement date between December 1, 1993 and April 1, 1994.

This law was approved on June 14, 1993.

MEMBERSHIP

- As of June 30, 1993, there were 309,020 covered participants (active and retired) consisting of 113,503 State participants and 195,517 participants of 948 local participating employers.
- Traditional Plan participation totaled 205,093.
- Health Maintenance Organization participation totaled 77,413.
- NJ PLUS (PPO) participation totaled 26,514.
- The State's contribution was \$488,830,660 while payment made by Local employers totaled \$830,673,233.

COVERAGE



MEMBERSHIP ACTIVITY

During fiscal year 1993, 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** - 51,604 participants (active and retired) enrolled in the Program.
- **CHANGE** - 25,753 changes (active and retired) in coverage were processed.
- **TERMINATION** - 53,853 participants (active and retired) terminated coverage.
- **MAJOR MEDICAL CLAIMS** - 3,145,969 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 1993, 20 employers adopted the Program.

Year	State Participants	Local Participants	Local Employers
1961	23,398	—	—
1964	30,806	—	—
1970	46,852	79,394	582
1975	68,315	177,699	932
1980	87,367	188,725	1,003
1985	96,948	173,102	912
1989	112,311	195,064	969
1990	115,100	204,051	987
1991	114,483	204,583	1,006
1992	114,734	194,419	986
1993	113,503	195,517	948

COMBINING BALANCE SHEET

State of New Jersey

All Trust and Agency Funds

June 30, 1993

	Health Benefits Program Fund	Dental Expense Program Fund	Presc. Drug Program Fund
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 892,781	388,350	0
Investments	40,540,735	0	0
Receivables			
Other	34,913,300	849,467	57,261
Other Assets			
Due from other funds	<u>313,806,663</u>	<u>14,330,492</u>	<u>11,260,325</u>
Total Assets	<u><u>390,153,479</u></u>	<u><u>15,568,309</u></u>	<u><u>11,317,586</u></u>

LIABILITIES

Accounts payable and accrued expenses	265,036,849	3,211,655	3,650,671
Deferred revenue	1,727,361	17,069	0
Due to other funds	718,007	0	14,199
Other	<u>0</u>	<u>0</u>	<u>0</u>
Total Liabilities	<u><u>267,482,217</u></u>	<u><u>3,228,724</u></u>	<u><u>3,664,870</u></u>

FUND BALANCES

Reserved For:			
Pension Benefits	0	0	0
Unreserved:			
Undesignated	<u>122,671,262</u>	<u>12,339,585</u>	<u>7,652,716</u>
Total Fund Balances	<u><u>122,671,262</u></u>	<u><u>12,339,585</u></u>	<u><u>7,652,716</u></u>
Total Liabilities and Fund Balances	<u><u>\$390,153,479</u></u>	<u><u>15,568,309</u></u>	<u><u>11,317,586</u></u>

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

**State of New Jersey
All Trust and Agency Fund**

June 30, 1993

	Health Benefits Program Fund	Dental Expense Program Fund	Presc. Drug Program Fund
REVENUES			
Contributions	\$922,514,461	17,166,253	864,011
Investment earnings	12,655,313	424,624	272,301
Other	<u>0</u>	<u>0</u>	<u>0</u>
Total Revenues	935,169,774	17,590,877	1,136,312
OTHER INCREASES			
Transfers from other funds	459,040,983	16,600,745	58,271,933
Other	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Increases	459,040,983	16,600,745	58,271,933
Total Revenues & Other Increases	<u>1,394,210,757</u>	<u>34,191,622</u>	<u>59,408,245</u>
EXPENDITURES			
Government direction, management and control	<u>1,287,599,381</u>	<u>31,765,249</u>	<u>50,836,419</u>
Total Expenditures	<u>1,287,599,381</u>	<u>31,765,249</u>	<u>50,836,419</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>1,287,599,381</u>	<u>31,765,249</u>	<u>50,836,419</u>
Net Increase (Decrease) in Fund Balances for the Year	106,611,376	2,426,373	8,571,826
Fund Balances - July 1, 1992	<u>16,059,886</u>	<u>9,913,211</u>	<u>(919,110)</u>
Fund Balances - June 30, 1993	<u>\$ 122,671,262</u>	<u>12,339,584</u>	<u>7,652,716</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, 1993 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, 1993 are as follows:

	Book Value	Market Value
U.S. Treasury Notes	\$ 40,540,735	\$ 41,641,350
State of New Jersey		
Cash Management Fund	\$287,121,369	\$287,121,369

NOTE 3 - DUE FROM OTHER FUNDS

This is mainly comprised of Due from Cash Management Fund and Due from the General Fund. Any difference is DUE from the various Pension Funds.

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, 1993 the book value (\$311,043,474) 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 '93, but not received until the succeeding fiscal year (\$28,352,335).

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, 1993 which were substantially remitted within the three month period subsequent to June 30.

Employers' contributions receivable includes premiums due from local employers at June 30 for Health Maintenance, Traditional and NJ PLUS organization programs which were substantially collected during the succeeding three months. Receivable from insurance carriers are advance deposits with insurance carriers.

NOTE 5 - ACCOUNTS PAYABLE

The Health Benefits Program Fund, Dental Expense Program Fund, Prescription Drug Program Fund are self-insured programs administered through insurance carriers. Claims paid by the insurance carriers are reimbursed from the Fund. The accounts payable represents claims that were incurred as of June 30 and paid during the succeeding fiscal year.

NOTE 6 - DEFERRED REVENUE

Represents Health Benefits Program Fund premiums received in June 1993 but for the July 1993 coverage.

NOTE 7 - DUE TO OTHER FUNDS

Funds owed to the State General Fund are:

Health Benefits	\$ 718,007
Prescription Drug Program	14,199

NOTE 8 - FUND BALANCE

The fund balance of the Health Benefits Program Fund, Dental Expense Program Fund and Prescription Drug Program Fund are available to pay claims of future periods. These reserves are maintained by the Fund to stabilize rates and assure the ability to meet the unexpected increases in claims.

NOTE 9 - POST-RETIREMENT MEDICAL BENEFITS

Chapter 136, P.L. 1977 provides for the State to pay health benefits coverage of retired State employees regardless of retirement date whose pensions are based upon 25 years or more of credited service (except those who elect a deferred retirement) or a disability retirement regardless of years of service. Excluded from these benefits are retirees from the Public Employees' Retirement System and the Teachers' Pension and Annuity Fund which finance the cost of providing the same health benefits coverage to retirees.

The benefits are funded by the State on a "pay as you go" basis. For FY 1993, the State contributed 8,680,365 for 2,078 eligible retired members.

market value.

Due from General Fund: The Dental Expense Program Fund, Health Benefits Program Fund and Prescription Drug Program Fund. The State General Fund owes to the State General Fund and Prescription Drug Program Fund the following amounts as of June 30, 1993: \$1,252,825 (1992) and \$1,252,825 (1991).

NOTE 7 - DUE TO OTHER FUNDS

The fund balance of the Health Benefits Program Fund and Prescription Drug Program Fund is available to pay claims of injured persons. These reserves are maintained by the Fund to stabilize rates and assure the ability to meet the unexpected increases in claims. For the Health Benefits Program Fund, the Prescription Drug Program Fund, the Dental Expense Program Fund and Prescription Drug Program Fund, the following amounts are available to pay claims of injured persons as of June 30, 1993:

The fund balance of the Health Benefits Program Fund and Prescription Drug Program Fund is available to pay claims of injured persons. These reserves are maintained by the Fund to stabilize rates and assure the ability to meet the unexpected increases in claims. For the Health Benefits Program Fund, the Prescription Drug Program Fund, the Dental Expense Program Fund and Prescription Drug Program Fund, the following amounts are available to pay claims of injured persons as of June 30, 1993:

NOTE 8 - FUND BALANCE

The fund balance of the Health Benefits Program Fund and Prescription Drug Program Fund is available to pay claims of injured persons. These reserves are maintained by the Fund to stabilize rates and assure the ability to meet the unexpected increases in claims. For the Health Benefits Program Fund, the Prescription Drug Program Fund, the Dental Expense Program Fund and Prescription Drug Program Fund, the following amounts are available to pay claims of injured persons as of June 30, 1993:

NOTE 9 - POST-RETIREMENT MEDICAL BENEFITS

Chapter 150, 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 defined retirement) or a disability retirement regardless of years of service. Excluded from these benefits are retirees from the Public Employees' Retirement System and the Teachers' Pension and Annuity Fund which finance the cost of providing the same health benefits coverage to retirees. The benefits are funded by the State on a "pay as you go" basis. For FY 1993, the State computed \$8,680,365 for 2,078 eligible retired members.

NOTE 10 - ACCOUNTS PAYABLE

The Health Benefits Program Fund, Dental Expense Program Fund, Prescription Drug Program Fund and Prescription Drug Program Fund are administered through insurance carriers. Claims paid by the insurance carriers are reimbursed to the Fund. The accounts payable represent claims that should be paid but are not yet paid as of June 30, 1993.

NOTE 11 - DEFERRED REVENUE

Revenues from the Health Benefits Program Fund programs received in June 1993 but for the July 1993 coverage.

