

***State of New Jersey  
Individual Health  
Coverage Program***

Financial Statements for the  
Year Ended June 30, 1996

# STATE OF NEW JERSEY INDIVIDUAL HEALTH COVERAGE PROGRAM

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
New Jersey Individual Health Coverage Program  
Trenton, New Jersey

We have audited the accompanying balance sheet of the State of New Jersey Individual Health Coverage Program (the "Program"), as of June 30, 1996, and the related statements of revenues, expenditures and changes in fund balance, and changes in assets and liabilities- loss assessment fund for the year then ended. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Program, as of June 30, 1996, and the change in its fund balance and its changes in assets and liabilities- loss assessment fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

February 23, 2007

**STATE OF NEW JERSEY  
INDIVIDUAL HEALTH COVERAGE PROGRAM**

**BALANCE SHEET  
YEAR ENDED JUNE 30, 1996**

	General Fund	Loss Assessment Fund (Agency Fund)	Total (Memorandum Only)
<b>ASSETS</b>			
<b>CASH AND CASH EQUIVALENTS:</b>			
Commercial checking	\$ 6,890	\$ -	\$ 6,890
NJ State—IHC DOBI—Administrative	2,262	-	2,262
Demand Deposit	4,003,764	-	4,003,764
Restricted Cash	<u>466,161</u>	<u>-</u>	<u>466,161</u>
Total cash and cash equivalents	<u>4,479,077</u>	<u>-</u>	<u>4,479,077</u>
<b>ACCOUNTS RECEIVABLE:</b>			
Accounts receivable—members	78,843,741	-	78,843,741
Due from general fund	<u>-</u>	<u>81,529,168</u>	<u>81,529,168</u>
Total accounts receivable	<u>78,843,741</u>	<u>81,529,168</u>	<u>160,372,909</u>
<b>TOTAL</b>	<u><b>\$83,322,818</b></u>	<u><b>\$ 81,529,168</b></u>	<u><b>\$ 164,851,986</b></u>
<b>LIABILITIES AND FUND BALANCE:</b>			
Accrued expenses	\$ 609,493	\$ -	\$ 609,493
Due to SEH program	67,994	-	67,994
Deferred income	650,002	-	650,002
Due to loss assessment fund	81,529,168	-	81,529,168
Net paid loss reimbursement due	<u>-</u>	<u>81,529,168</u>	<u>81,529,168</u>
Total liabilities	82,856,657	81,529,168	164,385,824
<b>FUND BALANCE:</b>			
Restricted	466,161	-	466,161
Unrestricted	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balance	<u>466,161</u>	<u>-</u>	<u>466,161</u>
<b>TOTAL</b>	<u><b>\$83,322,818</b></u>	<u><b>\$ 81,529,168</b></u>	<u><b>\$ 164,851,985</b></u>

See notes to financial statements.

**STATE OF NEW JERSEY  
INDIVIDUAL HEALTH COVERAGE PROGRAM**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN UNRESTRICTED  
FUND BALANCE FOR THE YEAR ENDED JUNE 30, 1996**

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REVENUES—	
1996 administrative assessment	\$ 549,614
Other miscellaneous income	3,037
Late fees—1994	<u>1,499</u>
Total revenues	<u>554,150</u>
EXPENDITURES:	
Current operations:	
Accounting and bookkeeping	\$ 6,484
Audit fees—loss reimbursements	157,664
Audit fees—program	37,500
Bank fees	76
Copy service	1,368
Dues and subscriptions	167
Salaries	110,687
Fringe benefits	23,412
Legal fees	91,856
Meetings and conferences	566
Travel-tolls-parking	1,533
Overhead allocation—DOBI	5,866
Telecommunications—fax	1,825
Telecommunications—telephone	986
Office supplies expense	829
Marketing expense	92,010
Marketing expense—public notices	369
Postage and delivery	2,655
Printing expense	11,786
Professional services	<u>6,511</u>
Total expenditures from current operations	<u>554,150</u>
NET CHANGE IN UNRESTRICTED FUND BALANCE	-
Unrestricted Fund Balance—Beginning of year	<u>-</u>
Unrestricted Fund Balance—End of year	<u>\$ -</u>

See notes to financial statements.

## NEW JERSEY INDIVIDUAL HEALTH COVERAGE PROGRAM

### STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES - LOSS ASSESSMENT FUND YEAR ENDED JUNE 30, 1996

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	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>
Due from General Fund	<u>\$ 50,796,900</u>	<u>\$ 76,918,028</u>	<u>\$ 46,185,760</u>	<u>\$ 81,529,168</u>
Net Paid Loss Reimbursement Due	<u>\$ 50,796,900</u>	<u>\$ 76,918,028</u>	<u>\$ 46,185,760</u>	<u>\$ 81,529,168</u>

See notes to financial statements.

# STATE OF NEW JERSEY INDIVIDUAL HEALTH COVERAGE PROGRAM

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 1996

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### 1. ORGANIZATION AND PURPOSE

The New Jersey Individual Health Coverage Program ("Program") was created pursuant to the N.J.S.A. 17B:27A-2 to 16, amended by L. 1993, c.164, L. 1994, c.102, L. 1995, c.291, L. 1997, c.146 and L. 2001, c.368. It has as its members all insurance companies, health service corporations, hospital service corporations, medical service corporations, and health maintenance organizations that issue or have in force health benefits plans in New Jersey. The purpose of the Program is to assure the availability of standardized individual health benefits plans in New Jersey on an open enrollment, community-rated basis, and to reimburse certain losses of member companies for the calendar year ended December 31, 1992 pursuant to N.J.S.A. 17B:27A-13, for each calendar year ended December 31, 1993 through December 31, 1996, and for each two-year calculation period thereafter pursuant to N.J.S.A. 17B:27A-12, as amended. The Program is tax-exempt.

### 2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The Program's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB"). The Program follows the pronouncements of all applicable Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins on Accounting Procedures issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements. In addition all financial records are kept in accordance with the State of New Jersey's prescribed policies and procedures.

**Cash and Cash Equivalents**—Cash and cash equivalents include cash held in banks, and cash held by the State of New Jersey. The Program's total book (cash) balances were \$4,479,077 at June 30, 1996. The Program's total bank (cash) balances were \$4,010,654 at June 30, 1996, of which \$6,890 was insured by the Federal Deposit Insurance Corporation held in the Program's name by the Program's financial institutions or agents.

As of June 30, 1996, the Board has \$4,003,764 in demand deposits invested in the Evergreen Treasury money market funds, which have no maturity date. The funds are invested in these funds because of the very low risk of loss with a high level of interest income, and the funds are readily available for reimbursement of losses and/or payment of Program expenses. These funds are recorded at fair value, and interest income is recorded when earned. Interest income is recorded as a reduction to receivables in accordance with N.J.A.C. 11:20-2.7(c)2.

Cash held by the State of New Jersey include funds used for payment of Program expenses, such as staff salaries, fringe, and other miscellaneous expenses that are provided through State sources. The State of New Jersey also holds restricted cash funds that are related to litigation over disputed assessment amounts. As of June 30, 1996, the restricted cash balance is \$466,161.

Investments at June 30, 1996 consist primarily of U.S. Treasury Securities and other obligations of the U.S. government which are guaranteed by the U.S. government and therefore are not considered to have credit risk.

**Accounts Receivable**—Accounts Receivable consists of amounts resulting from invoicing to member carriers of a loss assessment to reimburse those carriers offering individual health coverage in the State of New Jersey who incur reimbursable losses. Assessments to carriers also include an administrative assessment which is the budgeted amount for Program expenses. No allowance for doubtful accounts is recorded in accordance with N.J.S.A. 17B:27A-12. The total amount of these losses would be collected from the member carriers.

**Net Paid Loss Reimbursements Due**—Net Paid Loss Reimbursements Due represents amounts due to carriers who have incurred reimbursable losses as a result of offering individual health coverage in the State, in accordance with N.J.A.C. 11:20-8.5. The liability is recorded in the year the paid losses are reported by the members. As of June 30, 1996, \$81.5 million is due to four carriers for the losses incurred for the 1992-1995 calculation periods.

**Revenues and Operating Expenditures**—Revenues and expenditures are related to the operation of the Program. Operating revenues are based on an administrative assessment to the member carriers pursuant to N.J.A.C. 11:20-2.12 of a budgeted amount approved by the Board. Non-operating revenue consists mainly of late fees, copies, and purchase of buyer's guides. Operating revenues are recorded when earned; non-operating revenues are recorded when collected. Expenditures are recorded when incurred.

There is no balance for the unrestricted fund balance of the Program for pursuant to N.J.A.C. 11:20-2.12(a) a final reconciliation of the assessment for administrative expenses shall be made upon approval of the final audited statement of the Program's financial statements. The member's share shall be calculated based on the audited amount of the expenses and credited for any money advanced against the previous assessment.

**Related Party Transactions**—Although the Program and the Small Employer Health Benefits Program ("SEH") are distinct state agencies and have separate Boards and regulations, the Programs share the staff, thus salaries, fringe and other miscellaneous expenses incurred through the Department of Banking and Insurance are recorded equally by each program. In 1996 charges to and from the SEH Program amounted to \$1,754 and \$133,999, respectively.

**Pensions**—The staff of the Program Board is covered under the State Health Benefits Plan, which includes health, dental, and prescription coverage.

The State offers seven defined benefit pension funds: Public Employees' Retirement System ("PERS"), Teachers' Pension and Annuity Fund ("TPAF"), Police and Firemen's Retirement System ("PFRS"), State Police Retirement System ("SPRS"), Judicial Retirement System ("JRS"), Consolidated Police and Firemen's Pension Fund ("CPFPPF"), and the Prison Officers' Pension Fund ("POPF"). The staff of the Individual Health Coverage Program Board are members of the Public Employees' Retirement System.

The PERS was established in 1955 by New Jersey Statute and can be found in the New Jersey Statutes Annotated, Title 43, Chapter 15A. Changes in the law can only be made by an act of the State Legislature. Rules governing the operation and administration of the system may be found in Title 17, Chapters 1 and 2 of the New Jersey Administrative Code. The system was established to provide retirement, death and disability benefits, including post-retirement health care, to all full-time employees of the State and any county, municipality, school district, or public agency provided the employee is not



a member of any other state-administered retirement system. Membership is mandatory for such employees. As of June 30, 1996, there were 246,212 active members and 87,634 retirees.

Vesting occurs after 8 to 10 years of service for pension benefits and 25 years for post-retirement health care coverage. Members are always fully vested for their own contributions and, after three years of service credit, become vested for 2% of the related interest earned on the contributions.

The PERS is a defined benefit plan administered by the New Jersey Division of Pensions and Benefits. Administrative expenses are paid by the System and are included in the normal cost of future employer contributions. Contributions include funding for basic retirement allowances, cost-of-living adjustments, noncontributory death benefits, and cost of medical premiums after retirement for qualified retirees.

Contributions during the fiscal year 1996 for the plan amounted to approximately \$528 million; 8.77% increase in employee contributions for 1995, and 39.66% increase in employer contributions. Employee and employer contributions represented 2.13% and 4.86% of covered payroll, respectively.

The full normal rate for employee contributions is 5% of base salary. In accordance with the provisions of N.J.S.A. 43:15A, the contribution policy requires State-related employers and the State of New Jersey to make a normal contribution and an accrued liability contribution, if applicable, determined by a qualified actuary. The actuary uses the projected unit credit method of funding. The State of New Jersey contribution for the years ended June 30, 1996 and 1995 was based on the 1994 and revised 1993 actuarial valuations. The State-related employer contributions were accrued on June 30, 1996 and 1995 based on the 1995 and 1994 actuarial valuations, respectively. The actuarial assumptions are: Investment rate of return 8.75%, projected salary increases ranging from 6.9% at age 25 to 4.65% at age 69, cost-of-living adjustments ("COLA") of 2.4% and a medical trend assumption of 5%. As of March 31, 1995 and 1994, normal costs were determined to be \$204,754,000 and \$173,129,000, respectively. The accrued liability funding costs for active COLA benefits were \$12,377,000 and \$8,047,000 at March 31, 1995 and 1994, respectively.

Assets are stated at market value which recognizes 20% of the realized and unrealized appreciation or depreciation in value each year. Liabilities are determined as of March 31 and projected forward to June 30, allowing for increases in benefits and variations in the population during the three-month period. The System's unfunded accrued liabilities were determined to be \$450,820,468 and \$88,093,116 as of March 31, 1995 and 1994, respectively.

Employees who are members of PERS and retire at the age of 60 are entitled to a retirement benefit determined to be 1/60<sup>th</sup> of the final average salary for each year of service credit. Final average salary equals the average salary for the final three years of service prior to retirement (or the highest three years compensation if other than the final three).

### 3. METHODOLOGY

In 1998 one carrier challenged the loss assessment methodology. In May 2004, in In re New Jersey Individual Health Coverage Program's Readoption of the N.J.A.C. 11:20-1 et seq., the Supreme Court invalidated the method used in calculating the loss assessment for the calculation periods 1997 through 1998 and forward. In 2004 another carrier filed a challenge asserting that the Supreme Court decision should also apply to assessments for the 1993 through 1996 calculation periods. The Board's proposed new methodology for the years beginning with the 1997 through 1998 calculation periods was published in the February 21, 2006 New Jersey Register as a proposal. The adoption date was December 18, 2006.

### 4. LITIGATION

The Program is party to a number of legal actions. Such legal actions involve challenges to audit methodologies, loss assessment methodologies, and reduction of net paid losses for a member insurance carrier by the Program. In the opinion of management, the ultimate resolution of these matters will not have an effect on the Program's financial statements because any losses incurred will be reallocated to the member insurance carriers. The total potential amount in controversy is approximately \$12.3 million.

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