

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

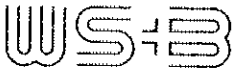
Financial Statements

June 30, 2008

With Independent Auditors' Report

**State of New Jersey
Individual Health Coverage Program
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Independent Auditors' Report

To the Board of Directors,
State of New Jersey Individual Health Coverage Program

We have audited the accompanying statement of net assets of the State of New Jersey Individual Health Coverage Program (the "Program"), as of June 30, 2008, and the related statements of changes in net assets, 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, 2008, and the changes in its net assets and the changes in its assets and liabilities-loss assessment fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation. However, we did not audit the information and express no opinion on it.

WithumSmith+Brown, PC

February 13, 2009

**State of New Jersey
Individual Health Coverage Program
Management's Discussion and Analysis
June 30, 2008**

The following narrative provides an overview and analysis concerning the New Jersey Individual Health Coverage Program's ("Program") financial performance of its activities for the fiscal year ended June 30, 2008.

Financial Highlights

The Program's assets totaled \$31,059,065, a decrease of \$515,846 from the prior fiscal year. The decrease is due primarily to payment of expenses for operations of the Program, the majority being for salaries and fringe and legal fees.

During FY2008, carriers were billed for net paid losses for the calculation periods 2003/2004 and 2005/2006 along with budgeted administrative expenditures for the fiscal years 2008 and 2009.

The Program shares the staff with the New Jersey Small Employer Health Benefits Program, thus half of the salaries and fringe benefits for the Program through the Department of Banking and Insurance are reimbursed to the New Jersey Small Employer Health Benefits Program.

Total liabilities increased \$697,862 due primarily to an increase in the deferred income for the fiscal year 2009 budgeted expenses which were billed and collected in fiscal year 2008.

Overview of the Financial Statements

The Program has a General Fund and an Agency Fund. The General Fund uses the cash received from assessments to pay for operating expenditures. The fund is reported using the accrual basis of accounting. The Agency Fund is used to record the liability due to the carriers who incurred net paid losses.

The Program has no capital assets.

There is no balance for Unrestricted Net Assets for revenues are equal to actual expenditures. The difference in an assessment billed to the carriers and the revenue is recorded as a receivable from or payable to the members. In fiscal year 2008, carriers were billed the budgeted amount for fiscal year 2008 administrative expenditures of \$351,800, which exceeded the actual expenditures of \$347,670.

Restricted Net Assets decreased due to conclusion of litigation related to the 1996 assessment reconciliation netted by payment from a carrier for refund of the reimbursement and credits for their net paid losses.

The Notes to the Financial Statements provide additional background information to assist the reader in understanding the data provided in the financial statements.

Financial Analysis

	<u>2008</u>	<u>2007</u>
Total Assets	\$31,059,065	\$31,574,911
Liabilities:		
Due to Carriers for Losses	\$12,720,552	\$16,207,631
Other Liabilities	\$13,851,184	\$ 9,666,243
 Total Revenues & Expenditures	 \$ 347,670	 \$ 465,085
 Total Budgeted Expenditures	 \$ 351,800	 \$ 655,450

During fiscal year 2008, litigation was settled in favor of the Program which resulted in a decrease in the amount Due to Carriers for Losses of \$6,092,000. This amount is offset in Other Liabilities awaiting settlement of other litigation and reconciliations for the 1993 and 1994 loss years.

**State of New Jersey
Individual Health Coverage Program
Management's Discussion and Analysis
June 30, 2008**

There was also an increase of \$2,604,921 in the amount Due to Carriers for Losses due to a payment made by one carrier that returned the amount such carrier had been paid toward the losses such carrier had reported. Since the loss audits have not been completed the IHC Board issued an order requiring such payment. This amount has been set up in a separate interest bearing account in Treasury, and has been recorded as Restricted Cash.

For the fiscal year ended June 30, 2008, salaries and fringe accounted for 59.6% of total expenditures and legal fees accounted for 27.9%, as compared to 39.7% and 20.1%, respectively, for the fiscal year ended June 30, 2007.

Contacting the Program Board

This financial report is designed to provide the Individual Health Coverage Program Board and the member carriers with a general overview of the Program's finances and to demonstrate the Board's accountability for the administrative assessment funds received. If there are any questions about this report or need additional information, contact the State of New Jersey Individual Health Coverage Program at 20 West State Street, 11th floor, PO Box 325, Trenton, New Jersey 08625-0325.

**State of New Jersey
Individual Health Coverage Program
Statement of Net Assets
June 30, 2008**

Assets	General Fund	Loss Assessment Fund (Agency Fund)	Total (Memorandum Only)
Cash and cash equivalents	\$ 26,503,265	\$ --	\$ 26,503,265
Restricted cash - treasury	<u>4,487,329</u>	<u>--</u>	<u>4,487,329</u>
Total cash and cash equivalents	30,990,594	--	30,990,594
Accounts receivable			
Accounts receivable - members (billed)	68,071	--	68,071
Accounts receivable - members (unbilled)	400	--	400
Due from general fund	<u>--</u>	<u>12,720,552</u>	<u>12,720,552</u>
Total accounts receivable	68,471	12,720,552	12,789,023
	<u>\$ 31,059,065</u>	<u>\$ 12,720,552</u>	<u>\$ 43,779,617</u>
Liabilities and net assets			
Due to loss assessment fund	\$ 12,720,552	\$ --	\$ 12,720,552
Interest payable - members	3,959,417	--	3,959,417
Accounts payable - members	7,956,604	--	7,956,604
Accrued expenses	1,415,320	--	1,415,320
Due to SEH program	11,243	--	11,243
Deferred income	508,600	--	508,600
Net paid loss reimbursement due - members	<u>--</u>	<u>12,720,552</u>	<u>12,720,552</u>
Total liabilities	26,571,736	12,720,552	39,292,288
Net assets			
Restricted	4,487,329	--	4,487,329
Unrestricted	<u>--</u>	<u>--</u>	<u>--</u>
	<u>4,487,329</u>	<u>--</u>	<u>4,487,329</u>
	<u>\$ 31,059,065</u>	<u>\$ 12,720,552</u>	<u>\$ 43,779,617</u>

The Notes to the Financial Statements are an integral part of these statements.

**State of New Jersey
Individual Health Coverage Program
Statement of Changes in Nets Assets
For the Year Ended June 30, 2008**

Revenues		
Administrative assessment		\$ 347,670
Expenditures		
Current operations		
Audit fees - program		30,000
Salaries and fringe benefits		207,136
Legal fees		96,917
Other administrative expenses		8,980
Printing expenses		1,549
Professional services		<u>3,088</u>
Total expenditures from current operations		<u>347,670</u>
Changes in net assets- unrestricted		--
Net assets- unrestricted at the beginning of the year		<u>--</u>
Net assets- unrestricted at the end of the year		<u>\$ --</u>

The Notes to Financial Statements are an integral part of these statements.

State of New Jersey Individual Health Coverage Program
Statement of Changes in Assets and Liabilities -
Loss Assessment Fund
For the Year Ended June 30, 2008

	Beginning Balance	Additions	Deductions	Ending Balance
Due from general fund	\$ <u>16,207,631</u>	\$ <u>2,604,921</u>	\$ <u>6,092,000</u>	\$ <u>12,720,552</u>
Net paid loss reimbursement due - members	\$ <u>16,207,631</u>	\$ <u>2,604,921</u>	\$ <u>6,092,000</u>	\$ <u>12,720,552</u>

The Notes to Financial Statements are an integral part of these statements.

**State of New Jersey
Individual Health Coverage Program
Notes to Financial Statements
June 30, 2008**

1. Organization and Purpose

The State of New Jersey Individual Health Coverage Program ("Program") was created pursuant to 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, L. 2001, c.368 and L. 2008, c.38. 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 and basic and essential plans in New Jersey on an open enrollment, community-rated or modified 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 through 2007/2008 pursuant to N.J.S.A. 17B:27A-12, as amended. The Program is tax-exempt.

In 1998 one carrier challenged the 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 1997/1998 calculation period and forward. In 2004 another carrier filed a challenge asserting that the Supreme Court decision should also apply to loss assessments for the 1993 through 1996 calculation periods. The Program Board's new methodology for the years beginning with the 1997/1998 calculation period was published in the February 21, 2006 New Jersey Register as a proposal. The proposal was adopted on December 18, 2006. Based on the new methodology, reconciliations for assessment periods 1997/1998, 1999/2000 and assessments for 2001/2002 were completed in fiscal year 2007 and assessments for 2003/2004 and 2005/2006 periods were completed in fiscal year 2008.

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 cash and cash equivalents were \$30,990,594 at June 30, 2008. The Program's bank balances were \$26,496,165 at June 30, 2008, of which \$11,613 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, 2008, the Program had \$22,420,657 in demand deposits invested in the Evergreen Treasury money market funds, which have no maturity date. The monies were invested in these funds because of the very low risk of loss with a higher level of interest income, and the funds are readily available for reimbursement of losses and/or payment of Program expenses. The Evergreen Treasury money market funds at June 30, 2008 consisted 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. These funds were recorded at fair value, and interest income was recorded when earned as a payable to member companies. As of June 30, 2008, the amount of interest income held by the Program is \$3,959,417. The amount of interest earned shall be distributed to member carriers in accordance with N.J.A.C. 11:20-2.7(c)2 upon completion of the loss audits, issuance of final assessments, and settlement of outstanding litigation.

**State of New Jersey
Individual Health Coverage Program
Notes to Financial Statements
June 30, 2008**

Cash held by the State of New Jersey Department of Banking and Insurance (DOBI) include funds used for payment of Program expenses, such as staff salaries, fringe benefits, 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, 2008, the restricted cash balance was \$4,487,329.

Cash and cash equivalents consist of	
Commercial Checking	\$ 11,613
NJ State - IHC DOBI - Loss	14
NJ State - IHC DOBI - Admin	7,086
Cash Held In Treasury	4,063,895
Demand Deposits	22,420,657
Restricted Cash	4,487,329
Total Cash and Cash Equivalents	<u>\$ 30,990,594</u>

Accounts Receivable

Billed

Accounts receivable consists of amounts receivable from member carriers that were billed a loss assessment to fund reimbursement to those carriers offering individual health coverage in the State of New Jersey that incurred reimbursable losses. Member carriers are also billed an administrative assessment to fund the budgeted amount for Program expenses. No allowance for doubtful accounts was recorded, since any uncollectible amounts, should they occur, would be reallocated to other member carriers in accordance with N.J.S.A. 17B:27A-11 and 12.

Unbilled

Accounts Receivable Unbilled consists of amounts to be invoiced to member carriers for loss assessments, adjustments to loss assessments due to audit adjustments, appeals, or settlement of litigation, and amounts awaiting final assessment reconciliations for administrative expenses which were originally billed based on the budget for that fiscal year.

Deferred Income

Deferred Income consists of administrative assessments where funds have been billed and collected for the following year. Administrative assessments are billed to member carriers based on the budget and in two year increments. The amounts are recorded as revenue in the subsequent year.

Net Paid Loss Reimbursements Due to Members

Net paid loss reimbursements due to members represents amounts due to member 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, 2008, approximately \$12.7 million was due to fifteen carriers for the losses incurred for the 1992-2006 calculation periods.

Pursuant to N.J.A.C. 11:20-8.8, audits are performed for carriers with reported net paid reimbursable losses, for each calculation period. Due to the timing of the audits, any adjustments are recorded in the year the audit is completed. No provision has been made in the accompanying financial statements to reflect the possible results of on-going loss audits.

Revenues and Operating Expenditures

Revenues and expenditures are related to the operation of the Program. 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 IHC Program Board. Revenues are recorded when earned. Expenditures are recorded when incurred.

State of New Jersey
Individual Health Coverage Program
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There is no balance for the unrestricted fund balance of the Program 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 Small Employer Health Benefits Program ("SEH Program") are distinct state agencies and have separate Boards of Directors and regulations, the programs share the staff, thus salaries, fringe benefits and other miscellaneous expenses incurred through the Department of Banking and Insurance are recorded equally by each program. In 2008 charges to and from the SEH Program amounted to \$2,741 and \$207,135, respectively. As of June 30, 2008 the Program owed the SEH Program \$11,243.

Pensions

The staff of the Program 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 ("CPFPF"), and the Prison Officers' Pension Fund ("POPF"). The staff of the Individual Health Coverage Program are members of the PERS.

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.

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 in 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 PERS to the State of New Jersey, Department of Treasury. Contributions include funding for basic retirement allowances, cost-of-living adjustments, noncontributory death benefits, and cost of medical premiums after retirement for qualified retirees.

The full normal employee contribution rate is 5% of base salary. The rate for members who are eligible for the Prosecutors Part of the PERS (Chapter 366, P.L. 2001) remains unchanged at 7.5% of base salary.

Employers are required to contribute at an actuarially determined rate. The annual employer contributions include funding for basic retirement allowances, cost-of-living adjustments, and noncontributory death benefits.

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 contribute at an actuarially determined rate. The actuarial cost method is projected unit credit. The actuarial assumptions were: investment rate of return 8.25%, salary range 5.45%, cost-of-living adjustments of 1.80%. The asset valuation method is the five year average of market value.

**State of New Jersey
Individual Health Coverage Program
Notes to Financial Statements
June 30, 2008**

Contributions during the fiscal year 2007 for the PERS amounted to approximately \$1.3 billion. The State of New Jersey's annual required contribution and actual contributions were \$379,946,338 and \$215,629,964, respectively.

The PERS had an actuarial accrued liability of \$14,797,684,446 as of June 30, 2006. The actuarial value of assets of \$10,668,645,162, at June 30, 2006, was less than PERS liabilities, resulting in a funding ratio of 72.1%, or \$4,129,039,284 in funding deficit. Covered payroll for employees under the PERS amounted to \$4,253,564,219, which translates into a funding deficit of 97.1% of covered payroll.

Retirement benefits for age and service are available at age 60. Employees who retire at the age of 60 are entitled to a retirement benefit determined to be 1/55th 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 years). Members may seek early retirement after achieving 25 years of service credit or they may elect deferred retirement after achieving eight to ten years of service credit, in which case, benefits would begin the first day of the month after the member attains normal retirement age.

Financial statements for the State of New Jersey Public Employees' Retirement System are available by contacting the Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295.

The information contained herein for the pension footnote is taken from the PERS report for the fiscal year ended June 30, 2007, because the report for the fiscal year ended June 30, 2008 is not available at the time of issuance of this audit report and the information contained in the note is not reflected in the financial statements for the Program for the fiscal year ended June 30, 2008.

3. Litigation

The Program is party to a number of legal actions. Such legal actions involve challenges to loss assessment calculations, reimbursable losses and application of new methodology for prior years. 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.