STATE OF NEW JERSEY
INDIVIDUAL HEALTH COVERAGE PROGRAM
Financial Statements
June 30, 2018
With Independent Auditors' Reports

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ADVISORY AUDIT TAX

State of New Jersey
Individual Health Coverage Program
June 30, 2018

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the State of New Jersey Individual Health Coverage Program (the "Program"), which includes the General Fund and the Agency Fund, and comprise the statement of financial position as of June 30, 2018, and the related statements of activities and changes in net assets, cash flows and changes in assets and liabilities-loss assessment (Agency) fund for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2018, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The management's discussion and analysis as listed in the table of contents is the responsibility of management, and is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

WithumSmith+Brown, PC

February 8, 2019

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, 2018.

General Information

The audits for the losses for the calculation periods 1997/1998 and 1999/2000 were completed in fiscal year 2017 and the 2001/2002 loss audit was completed in August of fiscal year 2018. Final reconciliations of those loss periods and the 2000 through 2003 administrative periods were finalized in fiscal year 2018.

The administrative audit for the fiscal year ended June 30, 2017 was completed, and an unqualified opinion was issued on February 5, 2018.

Financial Highlights

The Program's assets totaled $796,018, a decrease of $12,589,677 from the prior fiscal year due mainly to a net decrease in cash of $12,159,766 for the final loss assessment reconciliations for the 1997/1998, 1999/2000 and 2001/2002 calculation periods and the FY2000 through FY2003 final administrative assessment reconciliations. The details are as follows:

1. Reimbursement to eight carriers who incurred losses for the 1999/2000 calculation period of $2,832,970.
2. Reimbursement to three carriers who incurred losses for the 2001/2002 calculation period of $3,360,887.
3. The final loss assessments for the 1997/1998, 1999/2000 and 2001/2002 calculation periods and the FY2000 through FY2003 final administrative assessments netted refunds to member carriers of $5,383,666 which included interest of $180,957.
4. In addition to the loss reimbursement, the carriers were refunded interest of $813,412.
5. Payment of current year operating expenditures of $252,848 offset by interest income of $76,548 on funds held in Treasury and in the bank.
6. $435,573 was received from carriers for the 2018 and 2019 administrative assessment.

Refer to the Statement of Cash Flows for more information.

Total liabilities decreased by $12,589,677 primarily due to refunds to carriers who incurred losses and refunds resulting from the final loss and administrative assessment reconciliations as mentioned above.

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 funds are 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.

There is no balance for Unrestricted Net Assets because 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 carriers.

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

	2018	2017
Total Assets	$ 796,018	$ 13,385,695
Liabilities		
Due to Carriers for Losses	$ --	$ 6,138,544
Other Liabilities	$ 796,018	$ 7,247,151
Total Revenue & Expenditures	$ 260,665	$ 262,348
Total Budgeted Expenditures	$ 327,250	$ 350,570

Total expenditures decreased by $1,683 as compared to fiscal year 2017. This was the result of increases in salaries, legal and the estimate for audit costs and decreases in fringe benefits, overhead allocation and office expense. The fringe benefit rates decreased from 51.95% in 2017 to 50.65% in 2018.

Expenditures were favorable as compared to budget due primarily to less than expected salaries and fringe due to charges for one less staff member, and overhead allocation.

For the fiscal year ended June 30, 2018, salaries and fringe accounted for 83.1% of total expenditures and legal fees accounted for 7.1%, as compared to 81.9% and 6.2%, respectively, for the fiscal year ended June 30, 2017. Overhead Allocation accounted for 0.2% of total expenditures in 2018 as compared to 4.0% in 2017 because expenditures for shared departments were not allocated to the board.

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 loss and 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 Financial Position
June 30, 2018

Assets	General Fund	Loss Assessment Fund (Agency Fund)	Total (Memorandum Only)
Cash and cash equivalents	$ 795,656	$ --	$ 795,656
Accounts receivable			
Accounts receivable - members (billed)	362	--	362
Due from general fund	--	--	--
	$ 796,018	$ --	$ 796,018
Liabilities and Net Assets			
Due to loss assessment fund	$ --	$ --	$ --
Interest payable - members	80,400	--	80,400
Accounts payable - members	268,676	--	268,676
Accounts payable	3,409	--	3,409
Accrued expenses	27,376	--	27,376
Due to SEH program	85,207	--	85,207
Deferred income	330,950	--	330,950
Total liabilities	796,018	--	796,018
Net Assets			
Unrestricted	--	--	--
Temporarily restricted	--	--	--
	--	--	--
	$ 796,018	$ --	$ 796,018

The Notes to Financial Statements are an integral part of this statement.

State of New Jersey
Individual Health Coverage Program
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2018

Revenues		
Administrative assessment	$	260,665
Program expenditures		
Current operations		
Audit fees - program		20,000
Salaries and fringe benefits		216,717
Legal fees		18,576
Overhead allocation - DOBI		639
Other administrative expenses		1,233
Printing expenses		2,125
Professional services		1,375
Total expenditures from current operations		260,665
Changes in net assets - unrestricted		--
Net assets - unrestricted at the beginning of the year		--
Net assets - unrestricted at the end of the year	$	--

The Notes to Financial Statements are an integral part of this statement.

State of New Jersey
Individual Health Coverage Program
Statement of Cash Flows
For the Year Ended June 30, 2018

Cash flows from operating activities	
Change in net assets	$ --
Adjustments to reconcile change in net cash	
used by operating activities:	
Changes in operating assets and liabilities	
Accounts receivable - members (billed)	429,911
Interest payable - members	(1,158,231)
Accounts payable - members	(4,973,579)
Accounts payable	3,409
Accrued expenses	6,984
Due to SEH program	(2,466)
Deferred income	(327,250)
Net paid loss reimbursement due - members	(6,138,544)
Net cash used by operating activities	(12,159,766)
Net decrease in cash and cash equivalents	(12,159,766)
Cash and cash equivalents	
Beginning of year	12,955,422
End of year	$ 795,656

The Notes to Financial Statements are an integral part of this statement.

State of New Jersey
Individual Health Coverage Program
Statement of Changes in Net Assets and Liabilities – Loss Assessment (Agency) Fund
For the Year Ended June 30, 2018

	Beginning Balance	Additions	Deductions	Ending Balance
Due from general fund	$ 6,138,544	$ 85,312	$ 6,223,856	$ --
Net paid loss reimbursement due - members	$ 6,138,544	$ 85,312	$ 6,223,856	$ --

The Notes to Financial Statements are an integral part of this statement.

1. ORGANIZATION AND PURPOSE

The State of New Jersey Individual Health Coverage Program (the “Program” or “IHC”) was created pursuant to N.J.S.A. 17B:27A-2 to 16, and has been amended by subsequent Acts of Legislature. 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, 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. Assessments to carriers subsequent to the 2007/2008 calculation period have been solely to fund administrative expenses. The Program is tax-exempt.

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The Program’s financial statements are prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America. In addition all financial records are kept in accordance with the State of New Jersey’s prescribed policies and procedures. Net assets and revenues are classified based on the existence of or presence of restrictions on their use. Unrestricted net assets are not subject to restrictions. Temporarily restricted net assets are subject to stipulations that will be met either by actions of the Program and/or the passage of time. When a restriction is satisfied or expired, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

General Fund and Loss Assessment (Agency) Fund

The IHC Program is made up of two funds, the General Fund and the Loss Assessment (Agency) Fund. The IHC Program Agency Fund was established to separate operating costs from member company loss reimbursements that are based on a formula driven by the established statutory and regulatory authority. The Agency Fund housed the liability for the net paid loss reimbursement due to member companies with the corresponding debit being Due from the General Fund where all the cash balances and administrative activities are maintained. Going forward, there will no longer be an Agency Fund due to changes in the loss regulations. In addition, the final loss assessment reconciliations have all been issued as of June 30, 2018.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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 $795,656 at June 30, 2018. The Program’s bank balances were $215,587 at June 30, 2018, all of which was insured by the Federal Deposit Insurance Corporation held in the Program’s name by the Program’s financial institutions or agents.

The interest income earned was recorded as a payable to member companies. As of June 30, 2018, the amount of interest income held by the Program is $80,400. 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 and administrative audits and issuance of final reconciliations.

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.

Cash and cash equivalents consist of:	
Commercial Checking	$ 1,210
Money Market	214,377
NJ State - IHC DOBI - Admin	55,205
Cash Held in Treasury	524,864
Total Cash and Cash Equivalents	$ 795,656

Property and Equipment

Property and equipment are carried at cost and is shared equally with the Small Employer Health Benefits Program. In accordance with the State of New Jersey Circular #11-19-OMB, effective April 6, 2011, the Program follows the practice of capitalizing, at cost, all expenditures for property and equipment in excess of $1,000. The Program provides for depreciation as follows:

Asset	Estimated Useful Life	Method
Computers	3 years	Straight-line

Accounts Payable – Members

The balance represents amounts to be refunded to the members as a result of differences in the assessment to all member carriers of reported losses versus audited losses, budgeted administrative expenses assessed versus audited administrative expenses, and appeals of assessments billed resulting from Market Share Report revisions. The amounts will be refunded to the carriers following the final reconciliation of the reimbursable losses and the Program expenses for those calculation periods.

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.

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.

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.

There is no balance for the unrestricted net assets 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 2018, charges to and from the SEH Program amounted to $639 and $216,717, respectively. As of June 30, 2018 the Program owed the SEH Program $85,207.

Pensions

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

The State offers eight 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"), the Prison Officers' Pension Fund ("POPF"), and the Central Pension Fund ("CPF"). The staff of the Small Employer Health Benefits 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 10 years of service for pension benefits and 25 years for post-retirement health care coverage.

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 5.5% of base salary. The rate for members who are eligible for the Prosecutors Part of the PERS (Chapter 366, P.L. 2001) is 10% of base salary. Effective October 2011, pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate will be increased from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over 7 years beginning in the first year. The phase-in of the additional incremental member contribution rate will take place in July of each subsequent fiscal year. The rate for members who are eligible for the Prosecutors Part of PERS will be increased from 8.5% of base salary to 10%.

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 7.65%, salary range of 1.65% to 4.15% for 2012 through 2026 and 2.65% to 5.15% thereafter, based on age, cost-of-living adjustments of -0-% of the average consumer price index for the calendar year. The asset valuation method is the five year average of market value.

Contributions during the fiscal year 2017 for the PERS amounted to approximately $507.2 million. The State of New Jersey's annual required contribution and actual contributions were $2,208 million and $1,861.6 million, respectively.

The State Health Benefit Plan ("SHBP") had an actuarial accrued liability of $25.9 billion as of July 1, 2015. The actuarial value of assets of $-0-, at July 1 2015, was less than SHBP liabilities, resulting in a funded ratio of -0-%, or $25.9 billion in funding deficit. Covered payroll for employees under the SHBP amounted to $7.7 billion, which translates into a funding deficit of 338.6% 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 30 years of service credit or they may elect deferred retirement after achieving 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, 2017, because the report for the fiscal year ended June 30, 2018 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, 2018.

3. LIQUIDITY AND AVAILABILITY

The Program strives to maintain liquid financial assets sufficient to cover general expenditures. Financial assets in excess of monthly cash requirements are invested in money market funds and Treasury accounts.

The following table reflects the Program's financial assets as of June 30, 2018. There were no net assets with restrictions at June 30, 2018.

Cash and cash equivalents	$ 795,656
Accounts receivable	362
Total financial assets	$ 796,018
Financial assets available to meet cash needs for general expenditures within one year	$ 796,018

In addition to financial assets available to meet general expenditures over the next 12 months, the program operates with no profit or loss and collects sufficient revenue to cover general expenditures.

4. FAIR VALUE MEASUREMENTS

The Program has adopted the accounting pronouncement for Fair Value Measurements. The pronouncement defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosure about fair value measurements. Fair value is defined under the pronouncement as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participations on the measurement date. Valuation techniques used to measure fair value under the pronouncement must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the third unobservable, that may be used to measure fair value are as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.
Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liabilities.
Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liabilities.

In accordance with accounting standards, the following tables represent the Program's fair value hierarchy for its financial assets (cash and cash equivalents) measured at fair value on a recurring basis as of June 30, 2018:

	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 795,656	$ --	$ --

5. SUBSEQUENT EVENTS

The Program has evaluated subsequent events through February 8, 2019, which is the date the financial statements were available to be issued. Based on this evaluation, the Program has determined that no additional subsequent events have occurred which require disclosure in the financial statements.