

**STATE OF NEW JERSEY  
SMALL EMPLOYER HEALTH BENEFITS PROGRAM  
Financial Statements  
June 30, 2020  
With Independent Auditor's Report**

**State of New Jersey**  
**Small Employer Health Benefits Program**  
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**June 30, 2020**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors,  
State of New Jersey Small Employer Health Benefits Program:

We have audited the accompanying financial statements of the State of New Jersey Small Employer Health Benefits Program (the "Program"), which comprise the statement of financial position as of June 30, 2020, the related statements of activities and changes in net assets and cash flows for the year then ended and the related notes to 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.

### Auditor's 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, 2020, 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.

*Withum Smith + Brown, PC*

March 30, 2021

**State of New Jersey  
Small Employer Health Benefits Program  
Management’s Discussion and Analysis (Unaudited)  
June 30, 2020**

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The following narrative provides an overview and analysis concerning the New Jersey Small Employer Health Benefits Program’s (“Program”, “SEH” or “SEH Program”) financial performance of its activities for the fiscal year ended June 30, 2020.

**General Information**

In fiscal year 2020, the Program issued the final administrative expenses for fiscal year 2019 which resulted in two carriers owing \$7,692 and the others being refunded \$100,794, which included interest of \$141.

The Program audit for the fiscal year ended June 30, 2019 was completed and an unmodified opinion was issued on January 8, 2020.

**Financial Highlights**

The Program’s assets totaled \$433,191 of which \$118,058 of cash relates to funds held for the Medicare Supplement Under 50 Program. Assets for the SEH Program decreased \$63,305 due mainly to decreases in cash for refunds based on the final administrative assessment for fiscal year 2019.

Total liabilities also decreased due to refunds to the carriers based on the final administrative assessment for fiscal year 2019 offset by an increase in the amount of the administrative assessment for FY2020 vs. FY2019.

Refer to the Statement of Cash Flows for more information.

**Overview of the Financial Statements**

Total assets equal total liabilities, resulting in no balance for net assets – without restrictions because revenues are equal to actual expenditures. The difference in an assessment billed to the carriers and the expenses incurred 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**

	<u>2020</u>	<u>2019</u>
Total assets and liabilities	\$ 433,191	\$ 526,989
Total revenue and expenditures	\$ 263,822	\$ 246,002
Total budgeted expenditures	\$ 269,750	\$ 340,600

Total expenses increased by \$17,820 from 2019 to 2020. Salaries, fringe, and legal increased offset by a decrease in the overhead allocation for the shared DOBI departments in 2020.

Total actual expenditures were favorable to budget by \$5,928 due primarily to less than expected fringe, legal and overhead offset by an increase in salaries.

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Small Employer Health Benefits Program  
Management's Discussion and Analysis (Unaudited)  
June 30, 2020**

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For the fiscal year ended June 30, 2020, salaries and fringe accounted for 87.1% of total expenditures and legal fees accounted for 2.1%, as compared to 86.8% and 1.4%, respectively, for the fiscal year ended June 30, 2019. In fiscal year 2020, Department overhead accounted for 3.8% of total expenditures as compared to 5.3% in fiscal year 2019.

**Contacting the Program Board**

This financial report is designed to provide the Small Employer Health Benefits 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 Small Employer Health Benefits Program at 20 West State Street, 11th floor, PO Box 325, Trenton, New Jersey 08625-0325 or by email to [rosaria.lenox@dobi.nj.gov](mailto:rosaria.lenox@dobi.nj.gov) or [ellen.derosa@dobi.nj.gov](mailto:ellen.derosa@dobi.nj.gov).

**State of New Jersey  
Small Employer Health Benefits Program  
Statement of Financial Position  
June 30, 2020**

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**Assets**

Cash and cash equivalents	\$ 344,035
Accounts receivable	
Accounts receivable - members (billed)	7,696
Due from IHC Program	<u>79,306</u>
Total accounts receivable	<u>87,002</u>
Property and equipment, net	<u>2,154</u>
	<u>\$ 433,191</u>

**Liabilities and Net Assets**

Liabilities	
Accounts payable - members	\$ 5,928
Accrued expenses	18,182
Interest payable - members	93
Due to MSU50 Program	118,058
Deferred income	<u>290,930</u>
Total liabilities	433,191
Net assets - without restrictions	<u>-</u>
Total liabilities and net assets	<u>\$ 433,191</u>

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

**State of New Jersey  
Small Employer Health Benefits Program  
Statement of Activities and Changes in Net Assets  
Year Ended June 30, 2020**

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**Revenues**

Administrative assessment	\$ 263,822
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**Program expenditures**

Salaries	157,639
Fringe benefits	72,146
Audit fees	16,382
Legal fees	5,519
Professional services	275
Overhead allocation - DOBI	9,975
Other expenditures	809
Depreciation	<u>1,077</u>

Total program expenditures	<u>263,822</u>
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**Change in net assets - without restrictions**

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**Net assets - without restrictions**

Beginning of year	<u>-</u>
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End of year	<u>\$ -</u>
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The Notes to Financial Statements are an integral part of this statement.



**State of New Jersey  
Small Employer Health Benefits Program  
Statement of Cash Flows  
Year Ended June 30, 2020**

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**Operating activities**

Change in net assets	\$ -
Adjustments to reconcile change in net cash used in operating activities	
Depreciation	1,077
Changes in operating assets and liabilities	
Accounts receivable - members (billed)	(7,696)
Due from IHC Program	(4,553)
Accounts payable - members	(87,263)
Accrued expenses	2,826
Interest payable - members	(48)
Due to MSU50 Program	(30,493)
Deferred income	<u>21,180</u>
Net cash used in operating activities	<u>(104,970)</u>
 Net change in cash and cash equivalents	 (104,970)
 <b>Cash and cash equivalents</b>	
Beginning of year	<u>449,005</u>
 End of year	 <u>\$ 344,035</u>

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

**State of New Jersey**  
**Small Employer Health Benefits Program**  
**Notes to Financial Statements**  
**June 30, 2020**

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**1. ORGANIZATION AND PURPOSE**

The State of New Jersey Small Employer Health Benefits Program (the “Program” or “SEH”) was created pursuant to L.1992, c.162 (N.J.S.A. 17B:27A-17 et seq.) and has been amended by subsequent acts of the 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 Small Employer health benefits plans in New Jersey. The purpose of the Program is to assure the availability of standardized health benefits plans to New Jersey small employers, their eligible employees and the dependents of those eligible employees, on a guaranteed issue basis. Small employers are considered any person, firm, corporation, partnership, or political subdivision that is actively engaged in business that employed an average of at least one but not more than fifty eligible employees on business days during the preceding calendar year and who employs and covers at least one eligible employee on the first day of the plan year. 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. Net assets without restrictions are not subject to restrictions. Net assets with restrictions 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, net assets with restrictions are reclassified to net assets without restrictions and reported in the statement of activities as net assets released from restrictions.

**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 \$344,035 at June 30, 2020. The Program’s bank balances were \$145,983 at June 30, 2020, 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.

Cash held by the State of New Jersey, Department of Banking and Insurance (“DOBI”) includes funds used for payment of Program expenses, such as staff salaries, fringe benefits, and other miscellaneous expenditures that were provided through State sources.

Cash and cash equivalents consist of:

Commercial checking	\$ 322
Money market	27,603
Money Market - MSU50 Program	118,058
NJ State - SEH DOBI - Admin	<u>198,052</u>
Total cash and cash equivalents	<u>\$ 344,035</u>

**State of New Jersey  
Small Employer Health Benefits Program  
Notes to Financial Statements  
June 30, 2020**

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**Accounts Receivable – Member Carriers**

The balance represents amounts billed to the carriers as a result of the final reconciliation of the assessment years' financial transactions and completion of the fiscal year audit.

**Property and Equipment**

Property and equipment are carried at cost and is shared equally with the Individual Health Coverage 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:

<u>Asset</u>	<u>Estimated Useful Life</u>	<u>Method</u>
Computers	3 years	Straight-line

**Accounts Payable – Member Carriers**

The balance represents amounts owed to the carriers as a result of the difference between the amounts billed for operating expenditures per the annual budget versus actual expenditures incurred. The amounts due will be refunded to the carriers as set forth in a final assessment reconciliation following completion of the audit of the assessment years' financial transactions.

**Deferred Income**

The balance represents the amounts invoiced to member carriers for an administrative assessment for the fiscal year ending June 30, 2021 based on the budgeted amount for the Program for that fiscal year in accordance with N.J.S.A 17B:27A-32d, and the Plan of Operations set forth at N.J.A.C. 11:21-2.

**Revenues and Operating Expenditures**

Revenues and expenditures are related to the operation of the Program. Operating revenues are based on actual administrative expenditures of the Program and are recorded when earned. Expenditures are recorded when incurred.

There are no net assets without restrictions of the Program because N.J.A.C. 11:21-2.8(a) requires that a final reconciliation of the assessment for administrative expenditures shall be made upon approval of the final audited amount of expenditures. Members are credited for any money previously assessed and paid for that fiscal year.

**Related Party Transactions**

Although the Program and the Individual Health Coverage Program ("IHC Program") are distinct State agencies and have separate Boards and regulations, the Programs share the staff, thus salaries, fringe benefits and other miscellaneous expenditures incurred through the Department of Banking and Insurance are split equally by each program. In 2020, charges to and from the IHC Program amounted to \$229,785 and \$10,492, respectively. As of June 30, 2020, the IHC Program owed the SEH Program \$79,306.

The Program holds certain administrative funds for the Medicare Supplement Under 50 Program ("MSU50"), a related state program. A separate cash and liability account are maintained on the Program's balance sheet; however, the funds are kept in the same money market account. In 2020, charges to and from MSU50 amounted to \$3,477,349 and \$3,507,842, respectively. As of June 30, 2020, the MSU50 fund balance was \$118,058.

**State of New Jersey**  
**Small Employer Health Benefits Program**  
**Notes to Financial Statements**  
**June 30, 2020**

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**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 ("CPFPPF"), 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.

PERS provides retirement, death, and disability benefits. All benefits vest after 10 years of service.

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 7.5% 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.

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 7.50%, 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 2019 for the PERS amounted to approximately \$860.3 million. The State of New Jersey's annual required contribution and actual contributions were \$2,457.8 million and \$3,280.9 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.

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**Small Employer Health Benefits Program**  
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**June 30, 2020**

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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, 2019, because the report for the fiscal year ended June 30, 2020 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, 2020.

**3. LIQUIDITY AND AVAILABILITY**

The Program strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Financial assets in excess of monthly cash requirements are invested in money market funds, depository and Treasury accounts.

The following table reflects the Program's financial assets as of June 30, 2020, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions or internal board designations. Amounts not available to meet general expenditures within one year also may include net assets with restrictions. There were no net assets with restrictions at June 30, 2020.

Cash and cash equivalents	\$ 344,035
Less: Cash held for MSU50 Program	<u>(118,058)</u>
Total financial assets	<u>\$ 225,977</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 225,977</u>

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.

**State of New Jersey  
Small Employer Health Benefits Program  
Notes to Financial Statements  
June 30, 2020**

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**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 assets 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 assets or liabilities.

In accordance with accounting standards, the following table represents 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, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 344,035	\$ -	\$ -

**5. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at June 30, 2020:

Computers	\$ 3,231
Less: Accumulated depreciation	<u>1,077</u>
	<u>\$ 2,154</u>

Depreciation expense amounted to \$1,077 for the year ended June 30, 2020, which was the first year the assets went into service.

**6. SUBSEQUENT EVENTS**

The Program has evaluated subsequent events occurring after the statement of financial position date through the date of March 30, 2021. Based on this evaluation, the Program has determined that no subsequent events have occurred which require disclosure in the financial statements.