Contracting Carrier activity for the NEW JERSEY MEDICARE SUPPLEMENT "UNDER 50" PROGRAM

Financial Statements

December 31, 2014, 2013 and 2012

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AUDIT TAX ADVISORY

Contracting Carrier Activity for the
New Jersey Medicare Supplement "Under 50" Program
December 31, 2014, 2013 and 2012

Page(s)

Independent Auditors' Report 1

Financial Statements

Statements of Income and Expenses 2

Notes to Financial Statements 3-4

INDEPENDENT AUDITORS' REPORT

To the Board of Directors,
New Jersey Medicare Supplement "Under 50" Program:

We have audited the accompanying special-purpose statements of income and expense of the New Jersey Medicare Supplement "Under 50" Program (the “Program”) administered by Horizon Blue Cross Blue Shield of New Jersey (the “Contracting Carrier”), for the years ended December 31, 2014, 2013 and 2012. 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 audits.

We conducted our audits 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying special-purpose financial statements were prepared for the purpose of complying with, and on the basis of accounting practices specified in Sub Chapter 23A of Chapter 4 of Title 11 of the New Jersey Administrative Code, as discussed in Note 2, and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the income and expense of the Contracting Carrier for the years ended December 31, 2014, 2013 and 2012, on the basis of accounting described in Note 2.

This report is intended solely for the information and use of the Board of Directors of the Program and the Program's management and is not intended to be and should not be used by anyone other than these specified parties.

October 10, 2016

Contracting Carrier Activity for the New Jersey Medicare Supplement "Under 50" Program Statements of Income and Expenses December 31, 2014, 2013 and 2012

	2014	2013	2012
REVENUE			
Premium revenue	$ 7,031,021	$ 6,562,950	$ 6,051,780
EXPENSES			
Medical expenses paid	11,602,695	11,971,345	10,137,940
Administrative expenses	1,013,847	1,246,450	1,255,814
Total operating expenses	12,616,542	13,217,795	11,393,754
Interest expense	953,055	891,906	865,230
Total expenses	13,569,597	14,109,701	12,258,984
Net program loss	$ (6,538,576)	$ (7,546,751)	$ (6,207,204)

1. Organization

The New Jersey Medicare Supplement "Under 50" Program (the "Program") is a New Jersey program created under Sub Chapter 23A of Chapter 4 of Title 11 of the New Jersey Administrative Code ("regulations") during 1996. The Program began operations on January 1, 1997 and is administered by a Governing Board (the "Board") through a Plan of Operation approved by the Commissioner of the New Jersey Department of Banking and Insurance ("NJDOBI").

The purpose of the Program is to provide individual Medicare supplement insurance policies for New Jersey residents who are under 50 years of age and who are enrolled in Medicare due to disability or due to end stage renal disease. The program is regulated by the NJDOBI, but is not a state agency and receives no state funding.

Funding for the Program currently comes from premiums and carrier assessments. The premiums can be no greater than the lowest rate charged by the contracting carrier for Medicare Supplement Plan C. Each insurer and Health Maintenance Organization ("HMO") providing health benefits plans or health maintenance organization subscriber contracts in New Jersey is liable for an assessment to pay its equitable share of any net loss paid by the Program in the preceding calendar year, unless the insurer or HMO has received an exemption or deferment from the Commissioner.

The assessment for each insurer or HMO is an amount which is the proportion of the net earned premiums of the insurer or HMO for all health benefits plans or subscriber contracts in the calendar year preceding the assessment bears to the total net earned premiums for all insurers and HMOs for contracts issued or renewed in the calendar year preceding the assessment, times net loss incurred by the Program in the preceding calendar year.

Insurance coverage for Program participants is provided by a contracting carrier. All net losses of the contracting carrier are reimbursed by the assessments. The current contracting carrier is Horizon Blue Cross Blue Shield of New Jersey.

2. Summary of Significant Accounting Policies

Basis of Presentation
The special-purpose financial statements have been prepared for the purpose of complying with, and on the basis of accounting practices specified in Sub Chapter 23A of Chapter 4 of Title 11 of the New Jersey Administrative Code, and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America. Claims are accounted for on a cash basis and all other accounts are recorded using the accrual method.

Use of Estimates
The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition
Premiums are recognized as earned in the period of coverage.

Medical Expenses
In accordance with the Program's regulations, medical expenses are recorded on the cash basis of accounting. The basis of accounting used differs from accounting principles generally accepted in the United States of America primarily in that claims are recorded when paid and excludes unpaid claims or incurred but not reported claims.

Interest Expense
Amounts related to interest charged to the Program by the contracting carrier on funds advanced to the Program by the contracting carrier. Interest rates charged and credited to the Program fluctuate on a monthly basis. Interest rates utilized for the years 2014, 2013 and 2012 consisted of a range from 3.41% to 4.09%, 3.23% to 4.07%, and 3.66% to 4.12%, respectively.

Administrative Expenses
The administrative expenses are allocated by Horizon Blue Cross Blue Shield of New Jersey on a per member per month basis, adjusted for claims volume.

3. Subsequent Events

The Program has evaluated subsequent events occurring after December 31, 2014 through the date of October 10, 2016, which is the date the financial statements were available to be issued. Based on this evaluation, the Program has determined that there are no subsequent events which require disclosure in the financial statements.