

**STATE OF NEW JERSEY  
MEDICARE SUPPLEMENT UNDER 50 PLAN  
Financial Statements  
June 30, 2017  
With Independent Auditors' Report**

**State of New Jersey  
Medicare Supplement Under 50 Plan  
June 30, 2017**

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors,  
State of New Jersey Medicare Supplement Under 50 Plan

We have audited the accompanying financial statements of the State of New Jersey Medicare Supplement Under 50 Plan (the "Program"), which includes the General Fund and the Agency Fund, and comprise the statement of net assets as of June 30, 2017, and the related statements of changes in net assets, 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, 2017, and the changes in its net assets and the changes in its assets and liabilities – loss assessment (Agency) fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As described in Note 2, the State of New Jersey Medicare Supplement Under 50 Plan adopted ASU 2016-14, *Not-for-profit Entities (Topic 958) Presentation of Financial Statements of Not-for-profit Entities*. Our opinion is not modified with respect to this matter.

### **Other Matter**

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.

*Withum Smith + Brown, PC*

September 17, 2018

**State of New Jersey  
Medicare Supplement Under 50 Plan  
Management's Discussion and Analysis - Unaudited  
June 30, 2017**

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The following narrative provides an overview and analysis concerning the New Jersey Medicare Supplement Under 50 Plan's ("Program") financial performance of its activities for the fiscal year ended June 30, 2017.

**General Information**

As of September 30, 2016, the staff of the Individual Health Coverage Program and the Small Employer Health Benefits Program assumed responsibility for the administrative financial operations of the Medicare Supplement Under 50 Plan Program which was previously administered by Pool Administrators, Inc.

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 a disability or to end stage renal disease. The Program contracts with one carrier to offer the policies, and that contracting carrier is reimbursed for its losses through an assessment to member carriers.

Audits of the contracting carrier's losses for the calendar years ended 2012 through 2015 were completed in fiscal year 2017, and final assessments were issued based on the audits of those losses which amounted to \$26,763,585. The contracting carrier was reimbursed for the audited losses for 2012 and 2013 in fiscal year 2017 and reimbursed for 2014 and 2015 in fiscal year 2018.

**Financial Highlights**

The Program's assets totaled \$20,268,749, a decrease of \$6,786,636 from the prior fiscal year which results from billings, collections and reimbursements of the losses for 2012 and 2013 which totaled \$13,753,955, offset by the recording of the 2016 loss of \$7,047,124.

Operating expenditures for the year totaled \$111,070 offset by \$520 for interest income and late penalty fees.

Liabilities decreased by \$6,706,831 for reimbursement to the contracting carrier of the losses for 2012 and 2013 which totaled \$13,753,955, offset by the recording of the 2016 loss of \$7,047,124.

**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 reimburse the contracting carrier for its losses and to pay for current operating expenditures. The Agency Fund is used to record the liability incurred for the loss by the contracting carrier.

The balance for Net Assets Without Restrictions results from cash received in prior years due to overestimates of administrative costs and interest income. This cash will be used for future expenses.

**Financial Analysis**

	<u>2017</u>	<u>2016</u>
Total Assets	\$ 20,268,749	\$ 27,055,385
Liabilities		
Due to Carriers for Losses	\$ 20,056,754	\$ 26,763,585
Accrued Expenses	\$ 30,745	\$ --
Total Operating Expenditures	\$ 111,070	Not available <sup>1</sup>

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<sup>1</sup> The administration of the program was the responsibility of Pool Administrators, Inc. The terms of the engagement with Pool Administrators, Inc. did not require preparation of financial statements.

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The majority of the expenditures relate to audit costs of \$107,514 for the loss audits for the calendar years 2012 through 2016.

**Contacting the Program Board**

This financial report is designed to provide the Medicare Supplement Under 50 Plan 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 assessment funds received. If there are any questions about this report or need additional information, contact the State of New Jersey Medicare Supplement Under 50 Plan Program at 20 West State Street, 11th floor, PO Box 325, Trenton, New Jersey 08625-0325.

**State of New Jersey**  
**Medicare Supplement Under 50 Plan**  
**Statement of Net Assets**  
**June 30, 2017**

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<b>Assets</b>	<b>General Fund</b>	<b>Loss Assessment Fund (Agency Fund)</b>	<b>Total (Memorandum Only)</b>
Cash and cash equivalents	\$ 340	\$ --	\$ 340
Accounts receivable			
Accounts receivable - billed	(8)	--	(8)
Accounts receivable - unbilled	20,056,754	--	20,056,754
Due from SEH Program	211,663	--	211,663
Due from General Fund	<u>  --</u>	<u>20,056,754</u>	<u>20,056,754</u>
	<u>\$ 20,268,749</u>	<u>\$ 20,056,754</u>	<u>\$ 40,325,503</u>
 <b>Liabilities and Net Assets</b>			
Due to loss assessment fund	\$ 20,056,754	\$ --	\$ 20,056,754
Accrued expenses	30,745	--	30,745
Due to Contracting Carrier	<u>  --</u>	<u>20,056,754</u>	<u>20,056,754</u>
Total liabilities	20,087,499	20,056,754	40,144,253
 <b>Net Assets</b>			
Without restrictions	181,250	--	181,250
With restrictions	<u>  --</u>	<u>  --</u>	<u>  --</u>
	<u>181,250</u>	<u>  --</u>	<u>181,250</u>
	<u>\$ 20,268,749</u>	<u>\$ 20,056,754</u>	<u>\$ 40,325,503</u>

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

**State of New Jersey  
Medicare Supplement Under 50 Plan  
Statement of Changes in Net Assets  
For the Year Ended June 30, 2017**

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Revenues	
Interest earned	\$ 188
Late fees	<u>332</u>
	520
Program expenditures	
Current operations	
Audit fees	107,514
Administrator fees	2,625
Bank fees	289
Miscellaneous expenses	<u>642</u>
Total expenditures from current operations	<u>111,070</u>
Change in net assets - without restrictions	(110,550)
Net assets - without restrictions at the beginning of the year	<u>291,800</u>
Net assets - without restrictions at the end of the year	<u>\$ 181,250</u>

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



**State of New Jersey**  
**Medicare Supplement Under 50 Plan**  
**Statement of Changes in Net Assets and Liabilities – Loss Assessment (Agency) Fund**  
**For the Year Ended June 30, 2017**

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	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>
Due from general fund	<u>\$ 26,763,585</u>	<u>\$ 7,047,124</u>	<u>\$ 13,753,955</u>	<u>\$ 20,056,754</u>
Net paid loss reimbursement due - contracting carrier	<u>\$ 26,763,585</u>	<u>\$ 7,047,124</u>	<u>\$ 13,753,955</u>	<u>\$ 20,056,754</u>

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

**State of New Jersey**  
**Medicare Supplement Under 50 Plan**  
**Notes to Financial Statements**  
**June 30, 2017**

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**1. ORGANIZATION AND PURPOSE**

The State of New Jersey Medicare Supplement Under 50 Plan (the "Program" or "MSU50") was created pursuant to N.J.S.A. 17B:26A-12 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 establish a mechanism to provide Plan C standardized Medicare supplement plans to persons under 50 years of age residing in the state who are entitled to Medicare due to disability or end stage renal disease. The Program has one contracting carrier and provides that the contracting carrier is reimbursed for any losses incurred. 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.

**General Fund and Loss Assessment (Agency) Fund**

The MSU50 Program is made up of two funds, the General Fund and the Loss Assessment (Agency) Fund. The cash balances and the administrative activities are recorded in the General Fund. The liability for the net paid loss reimbursement due to the contracting carrier is recorded in the Agency Fund.

**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 \$340 at June 30, 2017. The Small Employer Health Benefits Program ("SEH Program") holds the Program's bank balance at June 30, 2017 of \$211,663, all of which was insured by the Federal Deposit Insurance Corporation held in the Small Employer Health Benefits Program's name by the Program's financial institutions or agents.

The interest income earned was recorded as revenue. As of June 30, 2017, the amount of interest income earned by the Program is \$188. The amount of interest earned shall be held by the Program for future expenses. Cash held by the State of New Jersey Department of Banking and Insurance ("DOBI") include assessment funds collected for late fees. These will be used for payment of future Program expenses.

Cash and cash equivalents consist of:

Cash Held by State of New Jersey DOBI \$ 340

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**Due to Contracting Carrier**

Due to Contracting Carrier represents amounts due to the contracting carrier who incurred losses as a result of offering the Medicare Supplement Under 50 Plan C coverage in the State in accordance with N.J.A.C. 11:4-23A. The liability is recorded in the year the losses are reported.

As of June 30, 2017, the amount due to the contracting carrier for the losses incurred is as follows for each calendar year:

2014	\$ 6,538,576
2015	6,471,054
2016	<u>7,047,124</u>
Total	<u>\$ 20,056,754</u>

Pursuant to N.J.A.C. 11:4-23A.9(b), audits are performed of the contracting carrier's losses, for each calendar year 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 recorded when earned. Expenditures are recorded when incurred.

The net assets without restrictions fund balance of the Program results from an accumulation of assessment funds from previous years when the Program was administered by a third party administrator. These funds will be used to pay for future expenditures of the Program such as audit fees. Once the funds are exhausted, the assessment will include a loss assessment along with an assessment for budgeted administrative expenses.

**Related Party Transactions**

Although the Program and Small Employer Health Benefits Program ("SEH Program") are distinct state programs and have separate Boards of Directors and regulations, the programs share the staff. In 2017, charges to and from the SEH Program amounted to \$6,913,549 and \$7,125,212, respectively. As of June 30, 2017 the SEH Program owed the Program \$211,663.

**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 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

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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 7.50%, 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 2016 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.

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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, and the information contained in the note is not reflected in the financial statements for the Program for the fiscal year ended June 30, 2017.

**Recently Issued Pronouncements**

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-profit Entities*. ASU 2016-14 requires a change to two areas of not-for-profit accounting and significant new financial statement presentation and disclosure requirements. Under ASU 2016-14, underwater funds will be accounted for within net assets with donor restrictions and not within net assets without donor restrictions as is the current practice. In addition ASU 2016-14 eliminates the accounting policy election to release donor imposed restrictions over the useful life of donated property and equipment when the donor does not explicitly specify the period of time the property must be used. Instead, entities will be required to relieve the donor's restrictions at the time the asset is placed in service. In addition to the above disclosures, ASU 2016-14 changes the presentation and disclosure requirements of not-for-profit entities in the following areas: expense disclosures, display of net asset classes, cash flow presentation, quantitative and qualitative liquidity disclosures and presentation of investment returns. The Program has elected to early adopt this provision.

**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 held by the SEH Program and by the Department of Banking and Insurance accounts.

The following table reflects the Program's financial assets as of June 30, 2017. There were no net assets with restrictions at June 30, 2017.

Cash and cash equivalents	\$ 340
Cash held by the SEH Program	<u>211,663</u>
Total	<u>\$ 212,003</u>
 Financial assets available to meet cash needs for general expenditures within one year	 <u>\$ 212,003</u>

**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

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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, 2017:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Cash and cash equivalents	\$ 340	\$ --	\$ --
Cash held by the SEH Program	<u>211,663</u>	<u>--</u>	<u>--</u>
Total	<u>\$ 212,003</u>	<u>\$ --</u>	<u>\$ --</u>

**5. SUBSEQUENT EVENTS**

The Program has evaluated subsequent events through September 17, 2018, 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.