



ARTHUR ANDERSEN

NEW JERSEY MEDICARE SUPPLEMENT "UNDER 50" PROGRAM

FINANCIAL STATEMENTS
AS OF DECEMBER 31, 1998
TOGETHER WITH AUDITORS' REPORT



REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying special-purpose statement of assets, liabilities and program equity of New Jersey Medicare Supplement "Under 50" Program (the "Program") as of December 31, 1998, and the related special-purpose statements of income, expenses and changes in program equity and net cash used in funding operating activities for the period from inception (January 1, 1997) through December 31, 1998. 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 generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements referred to above 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 audit provides a reasonable basis for our opinion.

The accompanying 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 generally accepted accounting principles.

In our opinion, the accompanying special-purpose financial statements referred to above present fairly, in all material respects the financial position of New Jersey Medicare Supplement "Under 50" Program as of and for the two years ended December 31, 1998, and the results of its income, expenses, and changes in program equity and net cash used in funding operating activities on the basis of accounting described in Note 2.

This report was prepared solely for the information and use of the board of directors of New Jersey Medicare Supplement "Under 50" Program for complying with Sub Chapter 23 of Chapter 4 of Title 11 of the New Jersey Administrative Code and should not be used for any other purpose.

Arthur Andersen LLP

Roseland, New Jersey
July 23, 1999

NEW JERSEY MEDICARE SUPPLEMENT "UNDER 50" PROGRAM

**STATEMENT OF ASSETS, LIABILITIES AND PROGRAM EQUITY
DECEMBER 31, 1998**

ASSETS:

Premiums Receivable	\$ 9,586
Carrier Assessments Receivable	736,391
Total assets	<u>\$ 745,977</u>

LIABILITIES:

Unearned Premium	\$ 39,432
Advance Premiums	47,551
Advance from Contracting Carrier	593,434
Other Liabilities	65,560
Total liabilities	<u>745,977</u>

PROGRAM EQUITY

Total liabilities and program equity	<u>\$ 745,977</u>
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The accompanying notes to financial statements are an integral part of this statement.

NEW JERSEY MEDICARE SUPPLEMENT "UNDER 50" PROGRAM

**STATEMENT OF INCOME, EXPENSES, AND CHANGES IN PROGRAM EQUITY
FROM INCEPTION (JANUARY 1, 1997) THROUGH DECEMBER 31, 1998**

INCOME:		
Premium		\$ 764,230
Other Income		9,800
Total income		<u>774,030</u>
EXPENSES:		
Medical expenses paid		1,285,248
Administrative		50,714
Program Implementation		108,685
Other expenses		65,774
Total expenses		<u>1,510,421</u>
NET LOSS OF THE PROGRAM BEFORE CARRIER ASSESSMENTS		(736,391)
CARRIER ASSESSMENTS		<u>736,391</u>
Net income/(loss) of the program		<u>-</u>
PROGRAM EQUITY, Inception		<u>-</u>
PROGRAM EQUITY, December 31, 1998		<u>\$ -</u>

The accompanying notes to financial statements are an integral part of this statement.

NEW JERSEY MEDICARE SUPPLEMENT "UNDER 50" PROGRAM

**STATEMENT OF NET CASH USED IN FUNDING OPERATING ACTIVITIES
FROM INCEPTION (JANUARY 1, 1997) THROUGH DECEMBER 31, 1998**

CASH FROM OPERATING ACTIVITIES:	
Net Income/(Loss) of the program	\$ -
Net cash used in operating activities -	
Increase in carrier assessments receivable	(736,391)
Increase in accounts receivable	(9,586)
Increase in unearned premium	39,432
Increase in advance premiums	47,551
Increase in amounts due contracting carrier	593,434
Increase in other liabilities	65,560
Net cash used in operating activities	<u>-</u>
Net increase (decrease) in cash	<u>-</u>
CASH AND CASH EQUIVALENTS, inception	<u>-</u>
CASH AND CASH EQUIVALENTS, end of period	<u>\$ -</u>

The accompanying notes to financial statements are an integral part of this statement.

NEW JERSEY MEDICARE SUPPLEMENT "UNDER 50" PROGRAM

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 1998

1. ORGANIZATION

The New Jersey Medicare Supplement "Under 50" Program (the "Program") is a New Jersey program created under Subchapter 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 policies. Each insurer and HMO providing health benefits plans or health maintenance organization subscriber contracts in New Jersey are liable for an assessment to pay its equitable share of any net loss paid by the Program in the previous calendar year, unless the insurer or HMO has received an exemption or deferment from the Commissioner.

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 Healthcare Services, Inc.

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 generally accepted accounting principles. Claims are accounted for on a cash basis and all other accounts are recorded using the accrual method. In addition, the Statements of Income, Expenses, and Changes in Program Equity and Net Cash Used in Funding Operating Activities are for a period covering two years.

Revenue Recognition

Insurance premium deposits are earned over the period covered by the policy. Any amounts received in advance of the related policy period are treated as advance premiums and recognized over the policy period beginning with the effective date.

Claim Liability and Medical Expenses

In accordance with the Program's regulations, the Program accounts for its claims liability and medical expenses on the cash basis of accounting. The basis of accounting used differs from generally accepted accounting principles primarily in that claims are recorded as paid and there is no recording of reserves for reported but unpaid claims or incurred but not reported claims ("IBNR").

NEW JERSEY MEDICARE SUPPLEMENT "UNDER 50" PROGRAM

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1998

Program Implementation Costs

Prior to its inception, the Program had \$108,685 of start-up costs incurred during 1996. These costs were expensed upon actual initiation of the Program. As described in the Temporary Plan of Operation, these costs are reimbursable through the carrier assessments and are included in the calculation.

Use of Estimates

The preparation of financial statements 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.

3. AMOUNTS DUE CONTRACTING CARRIER

The role of the contracting carrier is to process and pay claims and administrative expense on behalf of the Program. Such amounts paid are reimbursable by the Program to the contracting carrier. These amounts are reflected as "advance from contracting carrier" and can be broken out as follow:

Medical expenses	\$ 1,285,248
Administrative expenses	50,714
Program implementation costs	108,685
Other expenses paid	214
Total cash paid on behalf of the program	1,444,861
Premium earned	764,230
Unearned premium	39,432
Advance premiums	47,551
Other income	9,800
Less: Premiums receivable	(9,586)
Total cash received on behalf of program	851,427
Advance from contracting carrier	\$ 593,434

4. CARRIER ASSESSMENTS

Carrier Assessments have been calculated in accordance with the guidelines of the Program and recorded as a carrier assessment receivable within the Statement of Assets and Liabilities, and Program Equity as of December 31, 1998. This amount relates to claims paid and administrative expenses incurred on behalf of the program in excess of the premiums earned for the period ended December 31, 1998. Each insurer and Health Maintenance Organization providing health benefits plans or health maintenance organization subscriber contracts in New Jersey shall be liable for an assessment to pay its equitable share of any net loss reported by the Program in the previous year. These amounts will be recovered from the carriers by the board of the Program.