

**NEW JERSEY MEDICARE
SUPPLEMENT “UNDER 50”
PROGRAM**

Financial Statements

December 31, 2005 and 2004

Report of Independent Auditors

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 the New Jersey Medicare Supplement "Under 50" Program (the "Program") administered by Horizon Blue Cross Blue Shield of New Jersey (the "Contracting Carrier"), as of December 31, 2005 and 2004, and the related special-purpose statements of income, expenses, and changes in program equity, and net cash used in funding operating activities for the years then ended. 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 assets, liabilities and program equity of the Program as of December 31, 2005 and 2004, and the income, expenses, and changes in program equity, and net cash used in funding operating activities for the years then ended, on the basis of accounting described in Note 2.

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

PricewaterhouseCoopers LLP

February 26, 2007

**New Jersey Medicare Supplement "Under 50" Program
Statement of Assets, Liabilities and Program Equity
December 31, 2005 and 2004
(U.S. Dollars)**

<u>ASSETS</u>	<u>2005</u>	<u>2004</u>
Premiums receivable	\$ 48,265	\$ 45,044
Carrier assessments receivable	<u>5,778,814</u>	<u>5,163,721</u>
Total assets	<u>\$ 5,827,079</u>	<u>\$ 5,208,765</u>
 <u>LIABILITIES AND PROGRAM EQUITY</u>		
Unearned and advanced premiums	\$ 272,169	\$ 293,868
Amounts due contracting carrier	5,491,170	4,836,282
Accounts payable and accrued expenses	<u>63,740</u>	<u>78,615</u>
Total liabilities	<u>5,827,079</u>	<u>5,208,765</u>
Program equity	<u>-</u>	<u>-</u>
Total program equity	<u>-</u>	<u>-</u>
Total liabilities and program equity	<u>\$ 5,827,079</u>	<u>\$ 5,208,765</u>

See accompanying notes to the financial statements

**New Jersey Medicare Supplement "Under 50" Program
Statement of Income, Expenses, and Changes in Program Equity
For the Years Ended December 31, 2005 and 2004
(U.S. Dollars)**

	<u>2005</u>	<u>2004</u>
REVENUE:		
Premium revenue	\$ 2,561,504	\$ 2,245,351
	<u>2,561,504</u>	<u>2,245,351</u>
EXPENSES:		
Medical expenses paid	4,982,886	4,428,279
Administrative expenses	414,465	270,716
Other expense	42,300	47,275
	<u>5,439,651</u>	<u>4,746,270</u>
Net investment loss	206,157	219,426
	<u>5,645,808</u>	<u>4,965,696</u>
Net loss of the program before carrier assessments	(3,084,304)	(2,720,345)
Carrier assessments	3,084,304	2,720,345
Net income of the program	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to the financial statements

**New Jersey Medicare Supplement "Under 50" Program
Notes to Financial Statements
December 31, 2005 and 2004**

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 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.

Revenue Recognition

Premiums are billed in advance of the respective coverage periods and are recorded as premiums receivable upon their due date. Unearned premiums are recognized as earned in the period of coverage.

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 accounting principles generally accepted in the United States of America 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, 2005 and 2004**

Net Investment Loss

Amounts relate to investment income earned by the Program on funds held as well as 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 during 2005 and 2004 consisted of range of 4.66% to 5.26% and 4.50% to 5.15% 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. Carrier Assessments Receivable

Carrier assessments have been calculated in accordance with the guidelines of the Program. This amount relates to claims paid and administrative expenses incurred on behalf of the Program in excess of total income for a period. 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 paid by the Program in the preceding calendar year. These amounts will be recovered from the insurers and HMOs by the board of the Program and remitted to the contracting carrier. Until they are recovered and remitted, such amounts due are recorded as carrier assessments receivable.

As of December 31, 2005 and 2004, the carrier assessments receivable are comprised of the following.

	<u>2005</u>	<u>2004</u>
Carrier assessments receivable for the year ended December 31, 1999	\$ 140	\$ 140
Carrier assessments receivable for the year ended December 31, 2000	-	-
Carrier assessments receivable for the year ended December 31, 2001	-	70,630
Carrier assessments receivable for the year ended December 31, 2002	-	906,407
Carrier assessments receivable for the year ended December 31, 2003	-	1,462,849
Carrier assessments receivable for the year ended December 31, 2004	2,723,694	2,723,695
Carrier assessments receivable for the year ended December 31, 2005	3,054,980	-
Total	<u>\$ 5,778,814</u>	<u>\$ 5,163,721</u>

4. Amounts Due Contracting Carrier

The role of the contracting carrier is to process and pay claims and administrative expenses on behalf of the Program. Such amounts paid are reimbursable by the Program to the contracting carrier and are recorded as amounts due contracting carrier.