

**Contracting Carrier Activity for the  
STATE OF NEW JERSEY MEDICARE  
SUPPLEMENT UNDER 50 PROGRAM  
Financial Statement  
December 31, 2017  
With Independent Auditor's Report**

**Contracting Carrier Activity for the  
State of New Jersey Medicare Supplement Under 50 Program  
Table of Contents  
December 31, 2017**

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<b>Independent Auditor's Report</b>	1-2
<b>Financial Statement</b>	
Statement of Income and Expenses	3
Notes to Financial Statement	4-5

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors,  
State of New Jersey Medicare Supplement Under 50 Program - Contracting Carrier:

We have audited the accompanying special-purpose statement of income and expenses of the State of New Jersey Medicare Supplement Under 50 Program - Contracting Carrier (the "Program") administered by Horizon Blue Cross Blue Shield of New Jersey (the "Contracting Carrier"), for the year ended December 31, 2017, and the related notes to the financial statement.

### Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with 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; this includes determining that this basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement 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 statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, 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 statement 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 statement.

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 special-purpose financial statement referred to above presents fairly, in all material respects, the income and expenses of the Contracting Carrier for the year ended December 31, 2017, on the basis of accounting described in Note 2.

## **Basis of Accounting**

We draw attention to Note 2 to the financial statement, which describes the basis of accounting. The accompanying special-purpose financial statement was prepared for the purpose of complying with the basis of accounting practices specified in Sub Chapter 23A of Chapter 4 of Title 11 of the New Jersey Administrative Code, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Emphasis of a Matter**

As discussed in Note 3 to the financial statement, the 2017 financial statement has been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

## **Restricted Use**

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.

*WithumSmith+Brown, PC*

September 17, 2018, except as to Note 3, which is as of December 21, 2020

**Contracting Carrier Activity for the  
State of New Jersey Medicare Supplement Under 50 Program  
Statement of Income and Expenses  
Year Ended December 31, 2017**

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**Revenue**

Premium revenue \$ 8,149,227

**Expenses**

Medical expenses paid 12,007,986

Administrative expenses 1,253,794

Total operating expenses 13,261,780

Interest expense 799,210

Total expenses 14,060,990

Net program loss \$ (5,911,763)

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

**Contracting Carrier Activity for the  
State of New Jersey Medicare Supplement Under 50 Program  
Notes to Financial Statement  
December 31, 2017**

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**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 statement has 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 statement 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.

**Contracting Carrier Activity for the  
State of New Jersey Medicare Supplement Under 50 Program  
Notes to Financial Statement  
December 31, 2017**

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**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 is based 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 year 2017 consisted of a range from 3.13% to 3.41%.

**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. MODIFICATION TO PREVIOUSLY ISSUED FINANCIAL STATEMENT**

The 2017 financial statement previously issued and dated September 17, 2018 indicated that interest expense was \$1,016,715 instead of the actual interest expense of \$799,210. The following changes were made to the financial statement as a result:

	<u>Previously Issued</u>	<u>As Restated</u>
Interest expense	\$ 1,016,715	\$ 799,210
Net program loss	\$ (6,129,268)	\$ (5,911,763)

**4. SUBSEQUENT EVENTS**

The Program has evaluated subsequent events occurring after December 31, 2017 through the date of September 17, 2018, which is the date the financial statement was available to be issued. Based on this evaluation, the Program has determined that, except as disclosed in Note 3, no subsequent events which would require adjustment to or disclosure in the financial statement have occurred.