

**Contracting Carrier Activity for the
STATE OF NEW JERSEY MEDICARE
SUPPLEMENT UNDER 50 PROGRAM
Financial Statement
December 31, 2018
With Independent Auditor's Report**

**Contracting Carrier Activity for the
State of New Jersey Medicare Supplement Under 50 Program
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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 Insurance Company (the "Contracting Carrier"), for the year ended December 31, 2018, 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 this 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, 2018, 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 statements, the 2018 financial statements have 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.

Withum Smith + Brown, PC

October 1, 2019, 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, 2018**

Revenue	
Premium revenue	<u>\$ 8,163,160</u>
Expenses	
Medical expenses paid	13,166,048
Administrative expenses	<u>1,228,608</u>
Total operating expenses	14,394,656
Interest expense	<u>342,433</u>
Total expenses	<u>14,737,089</u>
Net program loss	<u>\$ (6,573,929)</u>

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, 2018**

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 incurred 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 calculated as an amount which is the proportion that its net earned premium in the calendar year bears to the total net earned premiums for all insurers and HMOs for contracts issued or renewed times the net loss incurred by the contracting carrier.

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 Insurance Company.

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.

**Contracting Carrier Activity for the
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December 31, 2018**

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 2018 consisted of a range from 3.07% to 3.48%.

Administrative Expenses

The administrative expenses are allocated by Horizon Insurance Company on a per member per month basis, adjusted for claims volume.

3. MODIFICATION TO PREVIOUSLY ISSUED FINANCIAL STATEMENTS

The 2018 financial statements previously issued and dated October 1, 2019 indicated that interest expense was \$1,025,035 instead of the actual interest expense of \$342,433. The following changes were made to the financial statements as a result:

	<u>Previously Issued</u>	<u>As Restated</u>
Interest expense	\$ 1,025,035	\$ 342,433
Net program loss	\$ (7,256,531)	\$ (6,573,929)

4. SUBSEQUENT EVENTS

The Program has evaluated subsequent events occurring after December 31, 2018 through the date of October 1, 2019, which is the date the financial statements were 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 statements have occurred.