

**STATE OF NEW JERSEY
MEDICARE SUPPLEMENT UNDER 50 PLAN
Financial Statements
June 30, 2022
With Independent Auditor's Report**

**State of New Jersey
Medicare Supplement Under 50 Plan
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June 30, 2022**

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of State of New Jersey Medicare Supplement Under 50 Plan (the "Program"), which includes the General Fund and Agency Fund, comprising the statement of financial position as of June 30, 2022, and the related statements of activities and changes in net assets, cash flows and changes in net assets and liabilities – loss assessment (agency) fund for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the State of New Jersey Medicare Supplement Under 50 Plan as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the State of New Jersey Medicare Supplement Under 50 Plan and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the State of New Jersey Medicare Supplement Under 50 Plan's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 State of New Jersey Medicare Supplement Under 50 Plan's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the State of New Jersey Medicare Supplement Under 50 Plan's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matter

The management's discussion and analysis as listed in the table of contents is the responsibility of management and is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



December 27, 2022

**State of New Jersey
Medicare Supplement Under 50 Plan
Management's Discussion and Analysis (Unaudited)
June 30, 2022**

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, 2022.

General Information

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.

The audit of the contracting carrier's loss for the calendar year ended 2020 was completed in fiscal year 2022, and the final assessment was issued based on the audited loss of \$5,534,242. During fiscal year 2022, the contracting carrier was reimbursed a net amount of \$2,698,266 which included the audited loss amount offset by the carrier's assessment liability.

The Program audit for the fiscal year ended June 30, 2021 was completed and an unmodified opinion was issued on May 10, 2022.

Financial Highlights

The Program's assets totaled \$5,692,633, an increase of \$64,857 from the prior fiscal year, which is mainly the result of the increase in the amount for the reported 2021 loss of \$5,631,820 versus the audited 2020 loss of \$5,534,242 offset by a decrease in cash of \$32,721.

Liabilities increased due to the 2021 versus the 2020 loss, as well as estimated audit fees.

Operating expenditures for the year totaled \$35,805 offset by \$15 of income from late fees and interest income.

Refer to the Statement of Cash Flows for more information.

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 has been used for current expenses and will be used for future expenses until it is depleted.

**State of New Jersey
 Medicare Supplement Under 50 Plan
 Management’s Discussion and Analysis (Unaudited)
 June 30, 2022**

Financial Analysis

	<u>2022</u>	<u>2021</u>
Total assets	\$ 5,692,633	\$ 5,627,776
Liabilities		
Due to carriers for losses	\$ 5,631,820	\$ 5,534,242
Other liabilities	\$ 35,008	\$ 31,939
Total operating income	\$ 15	\$ 6,750
Total operating expenditures	\$ 35,805	\$ 32,302
Total membership	Not available ¹	2,305

The majority of the expenditures relate to estimated audit costs of \$35,000 for the loss audits for the calendar year 2021 and the fiscal year 2022 administrative audit.

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 administrative assessment funds received. If there are any questions about this report or additional information is needed, 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 or by email to rosaria.lenox@dobi.nj.gov or ellen.derosa@dobi.nj.gov.

¹ The total membership at the end of 2022 will be reported by the contracting carrier by April 1, 2023.

**State of New Jersey
Medicare Supplement Under 50 Plan
Statement of Financial Position
June 30, 2022**

	<u>General Fund</u>	<u>Loss Assessment Fund (Agency Fund)</u>	<u>Total (Memorandum Only)</u>
Assets			
Cash and cash equivalents	\$ 10,444	\$ -	\$ 10,444
Accounts receivable			
Accounts receivable - unbilled	5,631,820	-	5,631,820
Due from SEH Program	50,369	-	50,369
Due from General Fund	<u>-</u>	<u>5,631,820</u>	<u>5,631,820</u>
Total accounts receivable	<u>5,682,189</u>	<u>5,631,820</u>	<u>11,314,009</u>
	<u>\$ 5,692,633</u>	<u>\$ 5,631,820</u>	<u>\$ 11,324,453</u>
Liabilities and Net Assets			
Liabilities			
Due to loss assessment fund	\$ 5,631,820	\$ -	\$ 5,631,820
Accounts payable - members	8	-	8
Accrued expenses	35,000	-	35,000
Due to contracting carrier	<u>-</u>	<u>5,631,820</u>	<u>5,631,820</u>
Total liabilities	<u>5,666,828</u>	<u>5,631,820</u>	<u>11,298,648</u>
Net assets			
Without restrictions	25,805	-	25,805
With restrictions	<u>-</u>	<u>-</u>	<u>-</u>
	<u>25,805</u>	<u>-</u>	<u>25,805</u>
Total liabilities and net assets	<u>\$ 5,692,633</u>	<u>\$ 5,631,820</u>	<u>\$ 11,324,453</u>

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

**State of New Jersey
Medicare Supplement Under 50 Plan
Statement of Activities and Changes in Net Assets
Year Ended June 30, 2022**

Revenues	
Interest earned	\$ 3
Late fees	<u>12</u>
	<u>15</u>
Program expenditures	
Current operations	
Audit fees	35,505
Office expenses	<u>300</u>
Total expenditures from current operations	<u>35,805</u>
Changes in net assets - without restrictions	(35,790)
Net assets - without restrictions	
Beginning of year	<u>61,595</u>
End of year	<u>\$ 25,805</u>

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

**State of New Jersey
Medicare Supplement Under 50 Plan
Statement of Cash Flows
Year Ended June 30, 2022**

Operating activities

Change in net assets	\$ (35,790)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Changes in operating assets and liabilities	
Accounts receivable - unbilled	(97,578)
Due from SEH Program	32,149
Accounts payable - members	(571)
Accrued expenses	3,640
Due to contracting carrier	<u>97,578</u>
Net cash used in operating activities	<u>(572)</u>

Net change in cash and cash equivalents (572)

Cash and cash equivalents

Beginning of year	<u>11,016</u>
End of year	<u>\$ 10,444</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
Year Ended June 30, 2022

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Due from general fund	<u>\$ 5,534,242</u>	<u>\$ 5,631,820</u>	<u>\$ 5,534,242</u>	<u>\$ 5,631,820</u>
Net paid loss reimbursement due - contracting carrier	<u>\$ 5,534,242</u>	<u>\$ 5,631,820</u>	<u>\$ 5,534,242</u>	<u>\$ 5,631,820</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, 2022

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. Although standardized Medicare Supplement Plan C is still available under specific circumstances, beginning January 1, 2020, the Program also provides a mechanism to provide Plan D 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 on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America. In addition, all financial records are kept in accordance with the State of New Jersey’s prescribed policies and procedures. Net assets and revenues are classified based on the existence of or presence of restrictions on their use. Net assets without restrictions are not subject to restrictions. Net assets with restrictions are subject to stipulations that will be met either by actions of the Program and/or the passage of time. When a restriction is satisfied or expired, net assets with restrictions are reclassified to net assets without restrictions and reported in the statement of activities as net assets released from restrictions.

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 \$10,444 at June 30, 2022. The Small Employer Health Benefits Program (“SEH Program”) holds the Program’s bank balance at June 30, 2022 of \$50,369, 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. For the year ended June 30, 2022, the amount of interest income earned by the Program is \$3. The amount of interest earned shall be held by the Program for future expenses.

State of New Jersey
Medicare Supplement Under 50 Plan
Notes to Financial Statements
June 30, 2022

Cash and cash equivalents consist of the following at June 30, 2022:

Cash held by State of New Jersey DOBI	\$ <u>10,444</u>
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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 and Plan D 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, 2022, the amount due to the contracting carrier for the losses incurred for the calendar year 2021 was \$5,631,820.

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 administrative expenditures of the Program such as audit fees. Once the funds are exhausted, future assessments 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 2022, charges to and from the SEH Program amounted to \$32,153 and \$4, respectively. As of June 30, 2022, the SEH Program owed the Program \$50,369.

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 ("CPFPP"), 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 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.

State of New Jersey
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PERS provides retirement, death, and disability benefits. All benefits vest after 10 years of service.

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 7.5% 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.

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 7.30%, salary range of 1.65% to 4.15% for 2016 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 smoothing difference between market value and expected actuarial value.

Contributions during the fiscal year 2021 for the PERS amounted to approximately \$1,270.7 million. The State of New Jersey's annual required contribution and actual contributions were \$2,860.9 million and \$4,787.0 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 beginning at age 60. Employees in tiers 1 and 2 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; employees in tier 3 who retire at the age of 62 are entitled to a retirement benefit determined to be 1/55th of the final average salary for each year of service credit; employees in tier 4 who retire at the age of 62 are entitled to a retirement benefit determined to be 1/60th of the final average salary for each year of service credit; and employees in tier 5 who retire at the age of 65 are entitled to a retirement benefit determined to be 1/60th 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 in tiers 1 and 2 before reaching age 60, in tiers 3 and 4 with 25 years or more of service credit before age 62, and in tier 5 with 30 years or more of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the age at which a member can receive full early retirement benefits in accordance with their respective tier. Tier 1 members can receive an unreduced benefit from age 55 to 60 if they have at least 25 years of service. Members may elect deferred retirement after achieving ten years of service credit and have not reached the service retirement age for their respective tier, in which case, benefits would begin the first day of the month after the member attains normal retirement age.

State of New Jersey
Medicare Supplement Under 50 Plan
Notes to Financial Statements
June 30, 2022

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, 2021, because the report for the fiscal year ended June 30, 2022 is not available at the time of issuance of this audit report and the information contained in the note is not reflected in the financial statements for the Program for the fiscal year ended June 30, 2022.

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, 2022. There were no net assets with restrictions at June 30, 2022.

Cash and cash equivalents	\$ 10,444
Cash held by the SEH Program	<u>50,369</u>
Total financial assets	<u>\$ 60,813</u>

Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 60,813</u>
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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 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.

State of New Jersey
Medicare Supplement Under 50 Plan
Notes to Financial Statements
June 30, 2022

In accordance with accounting standards, the following table represents 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, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 10,444	\$ -	\$ -
Cash held by the SEH Program	<u>50,369</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 60,813</u>	<u>\$ -</u>	<u>\$ -</u>

5. SUBSEQUENT EVENTS

The Program has evaluated subsequent events occurring after the statement of financial position date through the date of December 27, 2022. Based on this evaluation, the Program has determined that no subsequent events have occurred which require disclosure in the financial statements.