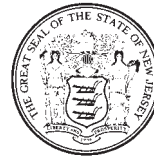


DEPARTMENT OF
THE TREASURY
John E. McCormac, CPA
State Treasurer

DIVISION OF PENSIONS
AND BENEFITS
Frederick J. Beaver
Director



State of New Jersey
DIVISION OF PENSIONS AND BENEFITS
PO Box 295 • Trenton, NJ 08625-0295

October 2004

STATE HEALTH
BENEFITS PROGRAM
OF NEW JERSEY
COMMISSION

Commission
as of June 30, 2004

JOHN E. McCORMAC
State Treasurer
Chairperson

HOLLY BAKKE
Commissioner
Department of
Banking and Insurance

IDA L. CASTRO
Commissioner
Department of Personnel

FREDERICK J. BEAVER
Secretary

ERIC E. RICHARD
*State Employees' Representative
of the AFL-CIO*

BRIAN VOLZ
NJEA Representative

TO THE HONORABLE
JAMES E. MCGREEVEY
GOVERNOR of the STATE OF NEW JERSEY

Dear Governor McGreevey:

As Secretary of the New Jersey State Health Benefits Commission and Director of the Division of Pensions and Benefits, I am pleased to present the fiscal year 2004 State Health Benefits Program Annual Report in accordance with the provisions of N.J.S.A. 52:14-17.27.

The State Health Benefits Program (SHBP) continues to grow in membership. The number of public employers choosing to participate in the SHBP this past fiscal year has increased from 953 to 976. This fiscal year, the State Health Benefits Program covered more than 800,000 eligible employees, retirees, spouses and dependents.

Highlights of the past fiscal year include:

- Moderation in rate increases over prior years with an average cost increase of 8.95%;
- Legislation was enacted (Chapter 172 P.L. 2003) which allows certain State part-time employees to obtain NJ PLUS coverage through the SHBP;
- As the result of contract negotiations, certain intermittent employees are now provided with health coverage provided that they met specific service hour completion;
- Continuing our efforts to promote quality care, the SHBP became a member of LeapFrog a national organization whose platform includes hospital changes to improve quality and safety.
- The State Health Benefits Commission adopted regulations which will allow the Commission to contract for its benefits plans. This ability should allow the SHBP to obtain excellent cost effective contracts.

We will continue to pursue new and innovative benefit designs and concepts that will enhance the benefits provided to our members while continuing to contain health costs for all concerned.

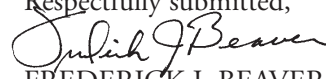
Respectfully submitted,

FREDERICK J. BEAVER
Secretary

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NEW JERSEY STATE HEALTH BENEFITS PROGRAM

Mission and Vision

Mission

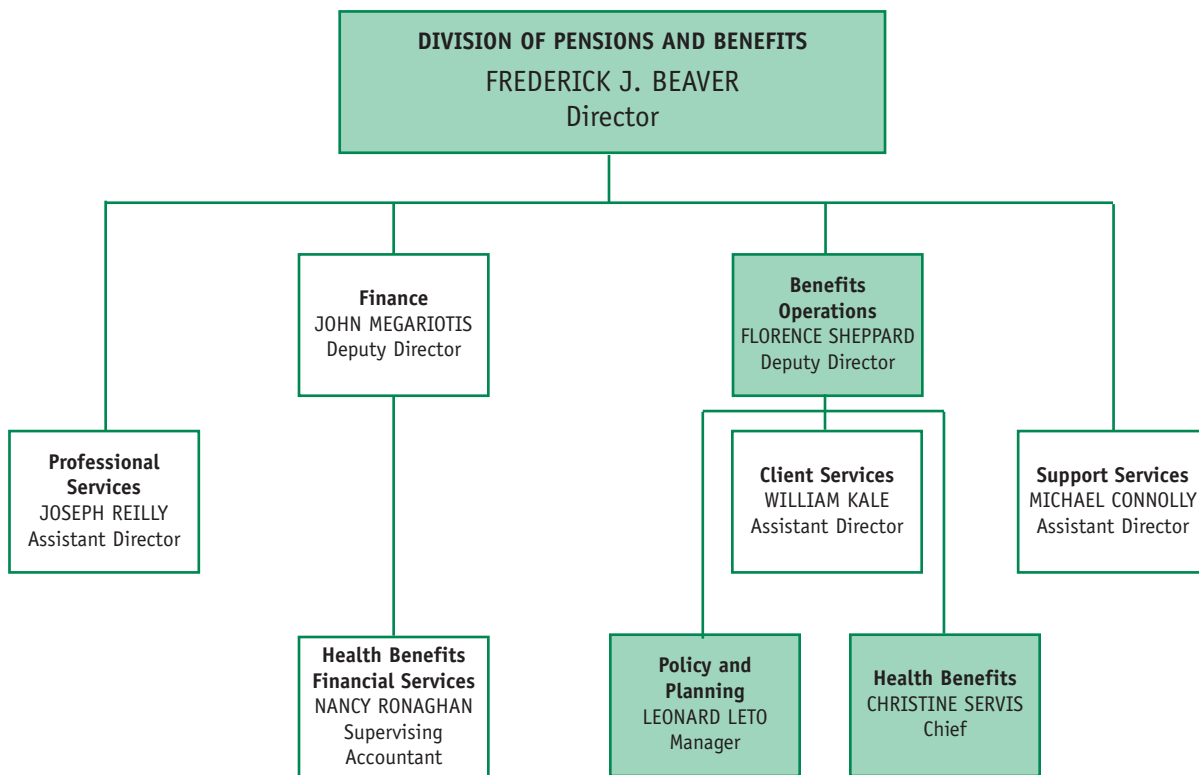
The State Health Benefits Program is committed to a standard of excellence that delivers quality health care in an efficient and cost effective manner.

Vision

To be proactive in establishing the standard for top quality benefits by focusing on innovative approaches and a commitment to member satisfaction.

STATE HEALTH BENEFITS PROGRAM AND RELATED SERVICES

Organization Chart as of June 30, 2004



NEW JERSEY STATE HEALTH BENEFITS PROGRAM

Overview

The State Health Benefits Program (SHBP) offers a variety of health plans for the more than 800,000 active and retired New Jersey public sector employees and their dependents. The SHBP consists of two distinct groups - the State Group and the Local Employer Group that includes entities such as boards of education, municipalities, counties, etc.

The responsibility for the operations of the SHBP resides with the Director of the Division of Pensions and Benefits. The Division is part of the State's Department of the Treasury. The policy-making body of the SHBP is the State Health Benefits Commission (SHBC). The SHBC includes the State Treasurer as the chairperson, the Commissioner of the Department of Banking and Insurance, the Commissioner of the Department of Personnel, a State employee representative chosen by the Public Employees' Committee of the AFL-CIO, and a representative chosen by the New Jersey Education Association (NJEA), or their designated representatives. The Director of the Division of Pensions and Benefits is the Secretary to the SHBC. The Division of Pensions and Benefits, specifically the Health Benefits Bureau and the Bureau of Policy and Planning, is responsible for the daily administrative activities of the SHBP. All decisions made by the Commission are a matter of public record.

The operations of the SHBP are handled by two bureaus under the direction of a Deputy Director.

Health Benefits Bureau

The Health Benefits Bureau is responsible for all SHBP enrollment activities encompassing 7 medical plans, 11 dental plans, and a prescription drug plan. In addition, the Bureau is responsible for the administration of benefits under the federal COBRA law.

Bureau of Policy and Planning

The Bureau of Policy and Planning analyzes and makes recommendations concerning all current and proposed health benefits programs. The Bureau is also responsible for contract renewals, requests for proposals, State Health Benefits Commission business, and plan vendor compliance.



NEW JERSEY STATE HEALTH BENEFITS PROGRAM

History

The State Health Benefits Program was established by Chapter 49, P.L. 1961 to provide traditional indemnity benefits for State employees and their dependents. Chapter 125, P.L. 1964 extended the program to include employees of local government at the option of each public employer.

Chapter 337 of the Public Laws of 1973 (C.26:2J-3) authorized the establishment of Health Maintenance Organizations to be offered to both State and local employers. The first HMO enrollment took place in 1976.

In 1989, the State Health Benefits Commission introduced a point-of-service plan known as NJ PLUS.

A carved-out Prescription Drug Program was initiated as a result of union negotiations for certain State employees effective December 1, 1974. The passage of Chapter 41, P.L. 1976 extended this coverage to all eligible State employees. The State Health Benefits Commission offered the program to local employers that participated in the SHBP on July 1, 1993.

The State Dental Program was established February 1, 1978 for State employees only. Initially only one plan was offered: a traditional indemnity plan known as the New Jersey State Dental Expense Benefits Program. The Program expanded in June 1984 to include Dental Provider Organizations (DPOs). All eligible State employees may enroll for themselves and their eligible dependents by paying the premium calculated to meet half of the cost of the program.

The Traditional Plan, NJ PLUS and the Prescription Drug Program, as well as 3 HMOs, are self-insured. The dental indemnity plan is also self-insured, with administrative services provided by Aetna. Currently two HMOs and all participating Dental Provider Organizations offered are on an insured basis.

The Statutes governing the SHBP can be found in the New Jersey Statutes Annotated, Title 52, Chapter 14, Article 3D. Rules governing the operation and administration of the program may be found in Title 17, Chapter 9 of the New Jersey Administrative Code.

NEW JERSEY STATE HEALTH BENEFITS PROGRAM

Medical Plans Offered

NJ PLUS

A point-of-service plan that utilizes a gatekeeper approach, offers in-network services and the health promotion features of managed care plans. The plan also offers out-of-network services with a full choice of physicians and services, subject to deductibles, coinsurance and reasonable and customary allowances similar to an indemnity plan.

Traditional Plan

An indemnity plan that allows free choice of medical providers and facilities. Reimbursement is subject to reasonable and customary allowances, deductibles and coinsurance. The plan does not provide coverage for wellness services such as routine checkups and screening tests.

Health Maintenance Organizations (HMOs)

Choices of multiple programs offering comprehensive coverage where employees choose a primary care physician from a closed network of participating providers to manage all care provided. Most HMOs cover the entire State and adjacent counties in neighboring states where licensed. For Medicare eligible retirees, all State participating HMOs coordinate their benefits with Medicare. Several self-insured HMOs now offer coverage in the following states: Pennsylvania, Connecticut, Delaware, Arizona, South Carolina, and Washington, D.C.; parts of California, New York, Florida, Illinois, Indiana, Maryland, North Carolina, Ohio, Texas, Virginia, Georgia, and West Virginia.

Dental Program

State employees may choose a traditional indemnity plan called the Dental Expense Plan or prepaid dental HMOs, called Dental Provider Organizations. Dental coverage is optional. State employees who opt for coverage pay 50% of the overall cost through payroll deductions. Dental coverage is not available to State retirees or to employees or retirees of local employers.

Prescription Drug Program

Employee Prescription Drug Plan

The Employee Prescription Drug Plan is offered to active State employees and their eligible dependents as a separate drug plan. Local employers may also elect to provide the SHBP Employee Prescription Drug Plan to their employees as a separate prescription drug benefit.

The Employee Prescription Drug Plan is currently administered by AdvancePCS through Horizon Blue Cross Blue Shield of New Jersey (Horizon BCBSNJ).

For each 30-day supply obtained at a retail pharmacy, participants pay a \$1.00 copayment for generic drugs and a \$5.00 copayment for brand name drugs. Members may purchase up to a 90-day supply of medication at a pharmacy when prescribed by a provider, by paying applicable copayments (60-day supply-two copayments, 90-day supply-three copayments).

A mail order program is also available. When mail order is used, up to a 90-day supply of medication has a \$1.00 copayment for generic drugs and a \$5.00 copayment for brand name drugs.

Retiree Prescription Drug Plan

Effective 2002, all retirees became covered under a separate three-tiered prescription drug card plan. Mail order service is included in all retiree prescription drug plans.

NEW JERSEY STATE HEALTH BENEFITS PROGRAM

Plan Changes

Administrative Change

The Health Net HMO plan benefit design available to participants of the SHBP is on a self-insured basis effective January 1, 2003.

HIPAA Requirements

The State Health Benefits Commission has filed for exemption from the HIPAA mental health parity requirement with the federal Health Care Financing Administration for calendar year 2003. As a result, the maximum annual and lifetime dollar limits for mental health benefits under the Traditional Plan and NJ PLUS have not changed.

2004 Significant Legislation

Chapter 119, P.L. 2003

This law modifies the benefits of State employees under the New Jersey State Health Benefits Program (SHBP) and the New Jersey Employer-Employee Relations Act. The law provides that a State employee enrolled in SHBP on or after July 1, 2003 may not be eligible for coverage in the traditional plan pursuant to a binding collective negotiations agreement or pursuant to the application by the State Health Benefits Commission, in its sole discretion, of the terms of any collective negotiations agreement binding on the State to non-aligned State employees.

This law was effective July 1, 2003.

Chapter 127, P.L. 2003

This law provides additional retirement benefits to certain employees of a public agency or instrumentality, other than State agencies or instrumentalities, that elects to provide the benefits, who retire under the Public Employees' Retirement System (PERS). The governing body of the employer will have one year after the enactment of this law to adopt a resolution. Once a resolution is adopted and effective, employees will have three months to retire. These employers are authorities, boards, commissions, corporations and other agencies and instrumentalities participating in the PERS.

Employees who are at least 50 years of age and have at least 25 years of service credit as of the effective date of retirement will receive an additional three years of service credit. If the member is under age 55 at the time of retirement, the member's retirement allowance will not be reduced. Employees who satisfy age and service requirements and who retire on special veteran's retirement will receive an additional pension in the amount of 3/55 of the compensation upon which the retirement allowance is based.

Employees of employers that offer retirees paid health care benefits coverage who are at least 60 years of age with between 20 and 25 years of service as of the effective date of retirement will receive employer-paid post-retirement health care benefits coverage. Employees of employers that do not offer retirees paid health care benefits coverage who are at least 60 years of age and have at least 20 years of service as of the effective date of retirement will not be eligible for paid health care benefits coverage, but will receive an additional pension payment of \$500 per month for the first 24 months after retirement. Employees who are at least 60 years of age with at least 10 but not more than 20 years of service credit as of the effective date of retirement will receive an additional pension of \$500 per month for the first 24 months after retirement.

2004 Significant Legislation, Continued

When the needs of an employer require the services of an employee who elects to retire and receive a benefit under this law, the employer, with the approval of the governing body and the consent of the employee, may delay the effective retirement date of the employee for up to one year. The delay authorized under the law does not extend the dates for qualification for benefits.

The cost of the enhanced PERS pension benefits will be funded by employer contributions to the retirement system and paid by the public agency or instrumentality that elects to participate. The additional pension liability shall be paid by each electing entity over a period of 15 years.

An employer may elect to provide these benefits by the adoption of a resolution by its governing body and the filing of a certified copy with the Director of the Division of Pensions and Benefits within three business days. The effective date of the resolution must fall within one year of enactment of this law. An employer may offer these benefits only once. An employer covered by this law must meet with the employee union representatives, whether or not the employer adopts a resolution, within a year of the enactment of this law.

The provisions of this law do not apply to employees of a public agency or organization that were eligible to participate in the State early retirement incentive program offered in 2002 pursuant to P.L. 2002, c.23.

This law also provides for the following:

- Partial purchase of pension service credit to qualify.
- The employer shall pay the cost of the actuarial work to determine the additional liability of the retirement systems for the benefits under this act, which shall be included in the initial contribution required from the employer.
- The promulgation of rules and regulations by the Division of Pensions and Benefits deemed necessary for the effective implementation of this act.
- Authorizes public agencies and instrumentalities to issue refunding bonds to retire the present value of the unfunded accrued pension liabilities for early retirement incentive benefits granted by the law.

This law was effective July 14, 2003.

Chapter 128, P.L. 2003

This law provides additional retirement benefits to certain employees of a county, a county college or a municipality that elect to provide the benefits, who retire under the Public Employees' Retirement System (PERS), the Teachers' Pension and Annuity Fund (TPAF) or the Alternate Benefit Program (ABP). The governing body of the employer will have one year after the enactment of this law to adopt a resolution electing to participate in this program. Once a resolution is adopted and effective, employees will have three months to retire. Employers participating in several locally administered county, municipal and school district pension systems may also adopt the provisions of this law.

Employees who are at least 50 years of age and have at least 25 years of service credit as of the effective date of retirement will receive an additional three years of service credit. If a member of PERS or TPAF is under age

2004 Significant Legislation, Continued

55 at the time of retirement, the member's retirement allowance will not be reduced. Employees who satisfy age and service requirements and who retire on a special veteran's retirement will receive an additional pension in the amount of 3/55 of the compensation on which the retirement allowance is based. Participants in ABP will receive an amount equal to 100% of base annual salary at the time of retirement.

Employees who are at least 60 years of age with between 20 and 25 years of service as of the effective date of retirement will receive employer-paid coverage in the New Jersey State Health Benefits Program. The retired employees and their dependents will be eligible for coverage in the program even if the employer does not participate in the program or otherwise provide health care benefits coverage in retirement upon the normal retirement of such employees. Employees who are at least 60 years of age with between 10 and 20 years of service as of the effective date of retirement will receive an additional pension payment of \$500 per month for the first 24 months after retirement.

When the needs of an employer require the services of an employee who elects to retire and receive a benefit under this law, the employer, with the approval of the governing body and the consent of the employee, may delay the effective retirement date of the employee for up to one year. The delay authorized under the law does not extend the dates for qualification for benefits.

The cost of the enhanced PERS and TPAF pension benefits will be funded by employer contributions to the retirement systems and paid by the county, county college or municipality who elect to participate. The additional pension liability shall be paid by each electing entity over a period of 15 years. Payments to ABP members shall be made by employers first to the members' annuity contract under the ABP, then to a member's section 403(b) contract, up to the limits allowed by the Internal Revenue Code. Payments in excess of any limits shall be paid directly to the member. The SHBP health care benefits payments for eligible retirees and their dependents will be paid by the employer on a current cost basis. Additionally, an electing county college employer shall be required to pay the SHBP health care premiums for three years following retirement for each employee who retires under this program with 25 or more years of pension service credit and who would otherwise be qualified for State-paid health benefits after retirement.

An employer may elect to provide these benefits by the adoption of a resolution by its governing body and the filing of a certified copy with the Director of the Division of Pensions and Benefits within three business days. The effective date of the resolution must fall within one year of enactment of this law. An employer may offer these benefits only once. An employer covered by this law must meet with the employee union representatives, whether or not the employer adopts a resolution, within a year of the enactment of this law.

The provisions of this law do not apply to employees of a public agency or organization, nor does it apply to members of the Prosecutors Part of PERS.

This law also provides for the following:

- Partial purchase of pension service credit to qualify.
- The employer shall pay the cost of the actuarial work to determine the additional liability of the retirement systems for the benefits under this act, which shall be included in the initial contribution required from the employer.

2004 Significant Legislation, Continued

- The promulgation of rules and regulations by the Division of Pensions and Benefits deemed necessary for the effective implementation of this act.
- The enrollment in the SHBP of those retiring under this act at age 60 with between 20 and 25 years of service within 60 days of retirement.
- Authorizes counties and municipalities to issue refunding bonds to retire the present value of the unfunded accrued pension liabilities for early retirement incentive benefits granted by the law.

This law was effective July 14, 2003.

Chapter 129, P.L. 2003

This law provides additional retirement benefits to certain employees of a local school board, educational services commission or jointure commission that elect to provide the benefits, who retire under the Public Employees' Retirement System (PERS) or the Teachers' Pension and Annuity Fund (TPAF). The governing body of the employer will have one year after the enactment of this law to adopt a resolution electing to participate in this program. Once a resolution is adopted and effective, employees will have two months to retire.

An employee who is at least 50 years of age and has at least 25 years of service credit under PERS or TPAF as of the effective date of retirement will receive an additional three years of service credit. If a member of PERS or TPAF is under age 55 at the time of retirement, the member's retirement allowance will not be reduced. An employee veteran who meets the age and service credit requirements and retires on a special veteran's retirement under PERS or TPAF will receive an additional pension in the amount of 3/55 of the compensation on which the retirement allowance is based.

An employee who is at least 60 years of age and has at least 20, but less than 25, years of service as of the effective date of retirement will receive full payment of premiums for coverage under the State Health Benefits Program (SHBP) for the retired employee and dependents, but not including survivors, whether or not the employer participates in SHBP with respect to its active employees. An employee who is at least 60 years of age with at least 10, but less than 20, years of service credit will receive an additional pension of \$500 per month for the 24 months following retirement.

When the needs of an employer require the services of an employee who elects to receive a benefit under this law, the employer may delay, with the consent of the employee, the effective retirement date of the employee for up to one year. The authorization for a delay in the effective retirement date does not extend the dates for qualification for benefits.

The cost of the enhanced pension benefits will be funded by employer contributions to the retirement systems and paid by the school boards, educational services commissions or jointure commissions who elect to participate. The additional pension liability shall be paid by each electing entity in level payments over a period of 15 years. The SHBP health care benefits payments for eligible retirees and their dependents will be paid by the employer on a current cost basis. Additionally, an electing employer shall be required to pay the SHBP health care premiums for each employee who retires under this program with 25 or more years of pension service credit for three years following retirement.

2004 Significant Legislation, Continued

An employer may elect to provide these benefits by the adoption of a resolution by its governing body, which is to be effective July 1, and the filing of a certified copy with the Director of the Division of Pensions and Benefits within three business days after its adoption. The effective date of the resolution must fall within 15 months of enactment of this law. An employer may offer these benefits only once. An employer covered by this law must meet with the employee union representatives, whether or not the employer adopts a resolution, within a year of the enactment of this law.

Any employee that was eligible, or could have been if the employer elected, to participate in the State early retirement incentive program offered in 2002 pursuant to P.L. 2002, c.23, is not eligible for the early retirement incentive benefits granted under this law.

This law also provides for the following:

- Partial purchase of pension service credit to qualify.
- The employer shall pay the cost of the actuarial work to determine the additional liability of the retirement systems for the benefits under this act which shall be included in the initial contribution required from the employer.
- The promulgation of rules and regulations by the Division of Pensions and Benefits deemed necessary for the effective implementation of this act.
- Authorizes boards of education to issue refunding bonds to retire the present value of the unfunded accrued pension liabilities for early retirement incentive benefits granted by the law.

This law was effective July 14, 2003.

Chapter 130, P.L. 2003

This law provides for additional retirement benefits for employees of an employer other than the State, that elects to offer the benefits, who retire under the Police and Firemen's Retirement System (PFRS). The governing body of the employer will have one year after the enactment of this law to adopt a resolution to offer the benefits. Once a resolution is adopted and effective, employees will have three months to retire.

Employees who have at least 25 years of service credit as of the effective date of retirement will receive an additional three years of service credit.

Employees who are at least 55 years of age with between 20 and 25 years of service as of the effective date of retirement will receive employer-paid coverage in the New Jersey State Health Benefits Program (SHBP). The retired employees, their dependents and survivors will be eligible for coverage in the program even if the employer does not participate in the SHBP or otherwise provide health care benefits coverage in retirement upon the normal retirement of such employees.

Employees who are at least 55 years of age with between 10 and 20 years of service as of the effective date of retirement will receive an additional pension payment of \$500 per month for the first 24 months after retirement.

2004 Significant Legislation, Continued

When the needs of an employer require the services of an employee who elects to retire and receive a benefit under this law, the employer, with the approval of the governing body and the consent of the employee, may delay the effective retirement date of the employee for up to one year. The delay authorized under the law does not extend the dates for qualification for benefits.

The cost of the enhanced PFRS pension benefits will be funded by employer contributions to the retirement systems and paid by the employers who elect to participate. The additional pension liability shall be paid by each electing entity over a period of 15 years. The SHBP health care benefits payments for eligible retirees and their dependents will be paid by the employer on a current cost basis.

An employer may elect to provide these benefits by the adoption of a resolution by its governing body and the filing of a certified copy with the Director of the Division of Pensions and Benefits within three business days. The effective date of the resolution must fall within one year of enactment of this law. An employer may offer these benefits only once. An employer covered by this law must meet with the employee union representatives, whether or not the employer adopts a resolution, within a year of the enactment of this law.

This law also provides for the following:

- Partial purchase of pension service credit to qualify.
- The employer shall pay the cost of the actuarial work to determine the additional liability of the retirement systems for the benefits under this act, which shall be included in the initial contribution required from the employer.
- The promulgation of rules and regulations by the Division of Pensions and Benefits deemed necessary for the effective implementation of this act.
- The enrollment in the SHBP of those retiring under this act at age 55 with between 20 and 25 years of service within 60 days of retirement.
- Authorizes counties and municipalities to issue refunding bonds to retire the present value of the unfunded accrued pension liabilities for early retirement incentive benefits granted by the law.

This law was effective July 14, 2003.

Chapter 142, P.L. 2003

Provides health care benefits coverage through the State Health Benefits Program to members of the New Jersey National Guard, and their dependents, during the period when the member is called to State active duty by the Governor for at least 30 days within a 35 consecutive day period.

Benefits under the law are provided through enrollment in the State Health Benefits Program's NJ PLUS plan. The coverage would begin on the first day of active duty and end on the last day of such duty. It is available only if the member:

1. Is not a compensated, full-time appointed or elected public officer or employee of the State or any political subdivision thereof when called to active duty;

2. Had employer-provided health care benefits coverage that was canceled due to the member's military service or does not have employer-provided health care benefits coverage; and
3. Is not covered for health care benefits under a program, plan or policy as a dependent of the member's spouse when called to active duty.

The cost of coverage will be paid in full by the State.

Health care benefits coverage will be provided only if such coverage by the SHBP does not violate applicable federal statutes in a manner that would change the nature, governance, or status of the program.

This law was effective August 1, 2003

Chapter 172, P.L. 2003

Provides that a part-time State employee or a part-time faculty member, including part-time lecturers and adjunct faculty members, at a public institution of higher education in this State, who is enrolled in a State-administered retirement system, will be entitled to participate in the State Health Benefits Program and may purchase health benefits coverage in the State managed care plan under the State Health Benefits Program for the employee or faculty member, and the dependents of the employee or faculty member. If such an employee or faculty member elects to enroll and purchase coverage, the employee or faculty member will pay the full cost of the coverage. The employer will not be responsible for any costs in connection with the purchase of the coverage, unless the employer is obligated to pay all or a portion of such costs in accordance with the provisions of a binding collective negotiations agreement.

This law includes the following provisions:

- Part-time State employees and part-time faculty members will not qualify for employer or State-paid post-retirement health care benefits under the State Health Benefits Program, but that upon retirement, such employees and faculty members will be permitted to enroll in the State Health Benefits Program managed care plan they were enrolled in prior to retirement through the retired group at their own expense.
- The State Health Benefits Commission must advise eligible employees, and the public institutions of higher education must advise eligible faculty members, that they may enroll in the State Health Benefits Program and about any benefits to which they are entitled upon the termination of their employment.
- The State Health Benefits Commission may establish such rules and regulations necessary to enroll the persons covered by the law and to adopt procedures for the remittance to the program of the cost of coverage.
- A faculty member may enroll in the State Health Benefits Program only if the public institution of higher education that employs the faculty member participates in the program.

This law was effective on January 1, 2004.

Chapter 181, P.L. 2003

Provides that the eligibility of a surviving spouse to receive an accidental death benefit under the Police and Firemen's Retirement System (PFRS) or the State Police Retirement System (SPRS) shall not terminate upon remarriage.

Under the PFRS, when a member of the system dies in active service as a result of an accident met in the actual performance of duty, the surviving spouse is eligible to receive a survivorship benefit consisting of (i) a pension equal to 70% of the compensation upon which contributions by the member were based in the last year of creditable service, and (ii) State-paid coverage under the member's employer-sponsored health insurance plan. Under the SPRS, the corresponding accidental death benefit to the surviving spouse is a pension of 70% of the final compensation received by the member in the last 12 months of creditable service prior to death, plus the health benefit coverage.

Prior to the enactment of this law, under both the PFRS and SPRS, the surviving spouse ceased to be eligible for the accidental death benefit if he or she remarried. This law allows these surviving spouses to remarry without losing the benefit.

This law was effective on September 12, 2003.

Chapter 193, P.L. 2003

Establishes a Mandated Health Benefits Advisory Commission to study the social, financial, and medical impact of proposed mandated health benefits. Mandated health benefits are defined in this law as benefits or coverage that are required by law to be provided by a carrier and includes: coverage for specific health care services, treatments or practices; or direct reimbursement to specific health care providers.

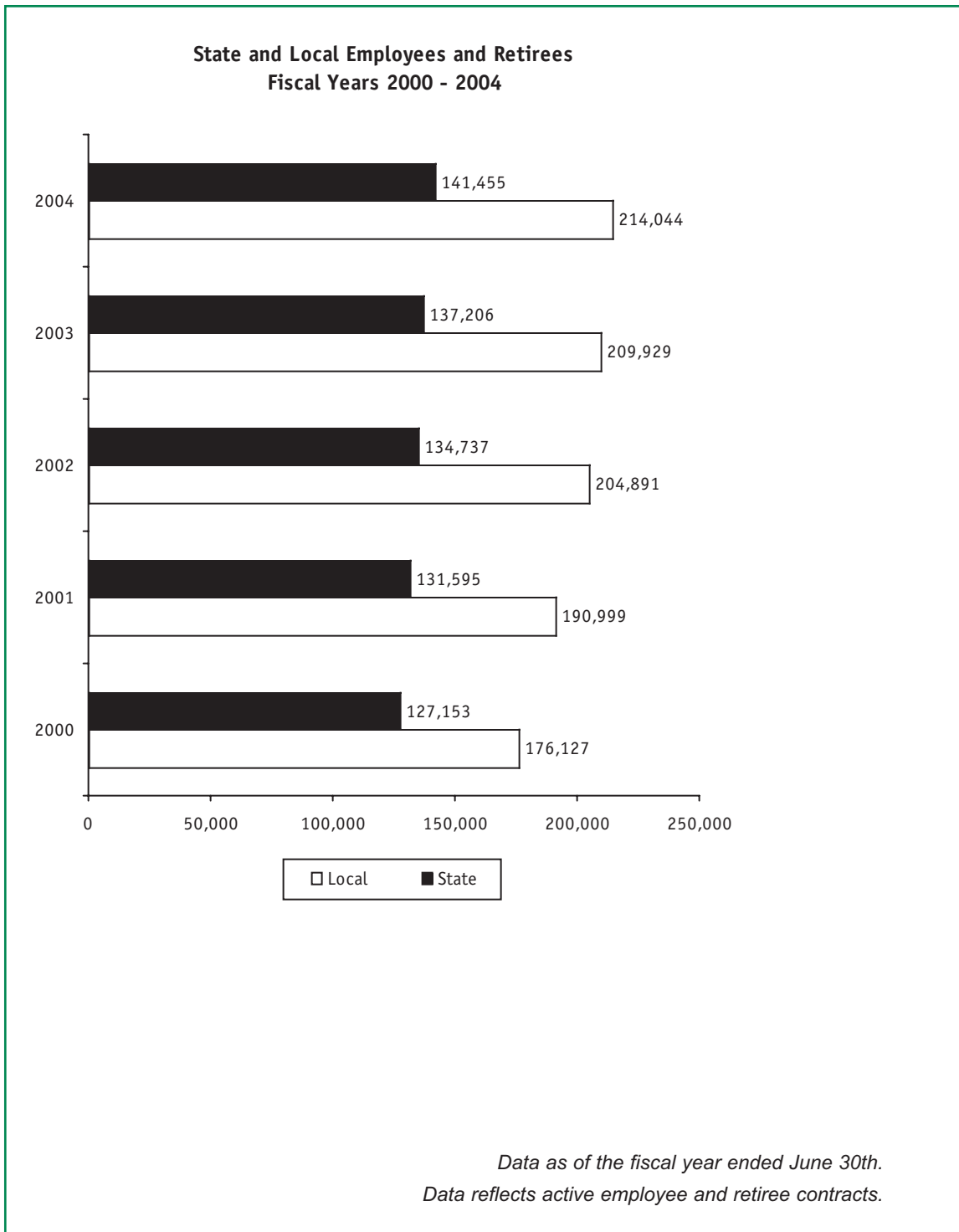
This law was effective on November 21, 2003.

Chapter 308, P.L. 2003

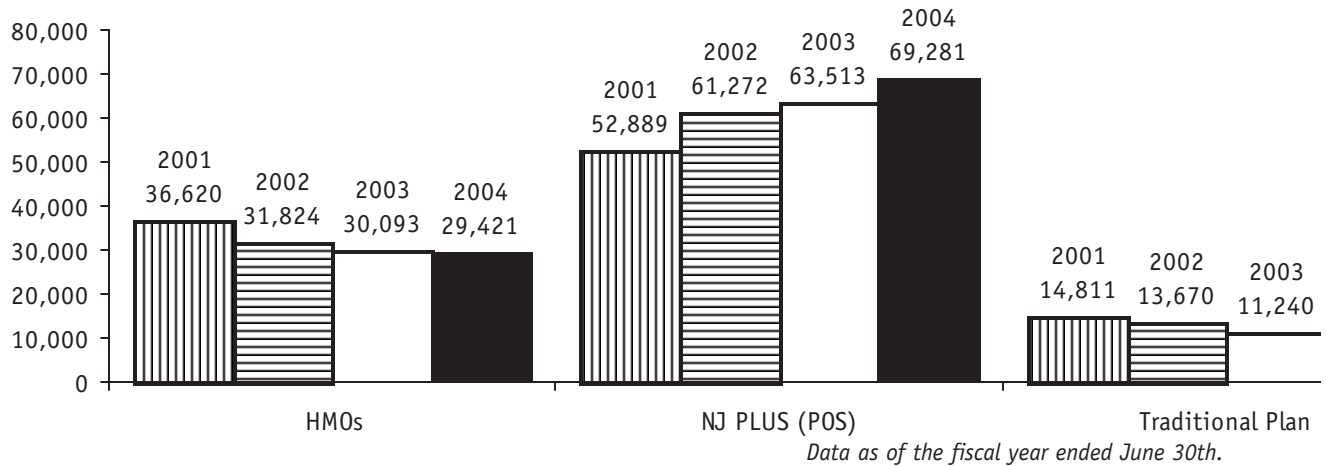
Provides that if a member of the Legislature elects health benefits coverage on the basis of service in the Legislature, the member will not enroll as the primary insured for health benefits for which the member is eligible through any other public entity, and will not accept any amount of money in consideration for filing a waiver of coverage.

This law was effective on January 14, 2004.

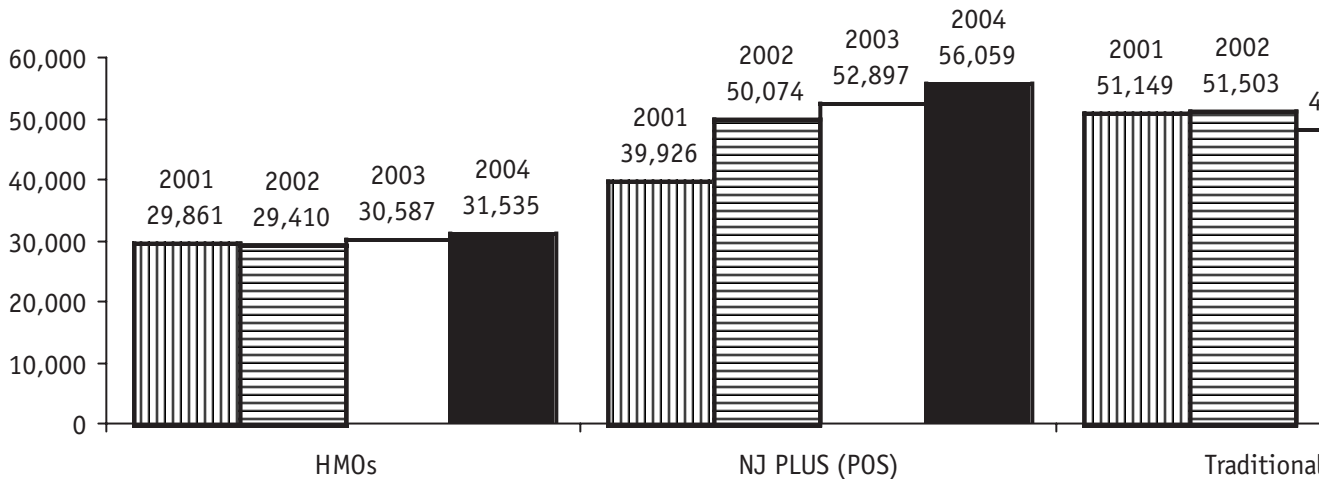
SHBP Membership



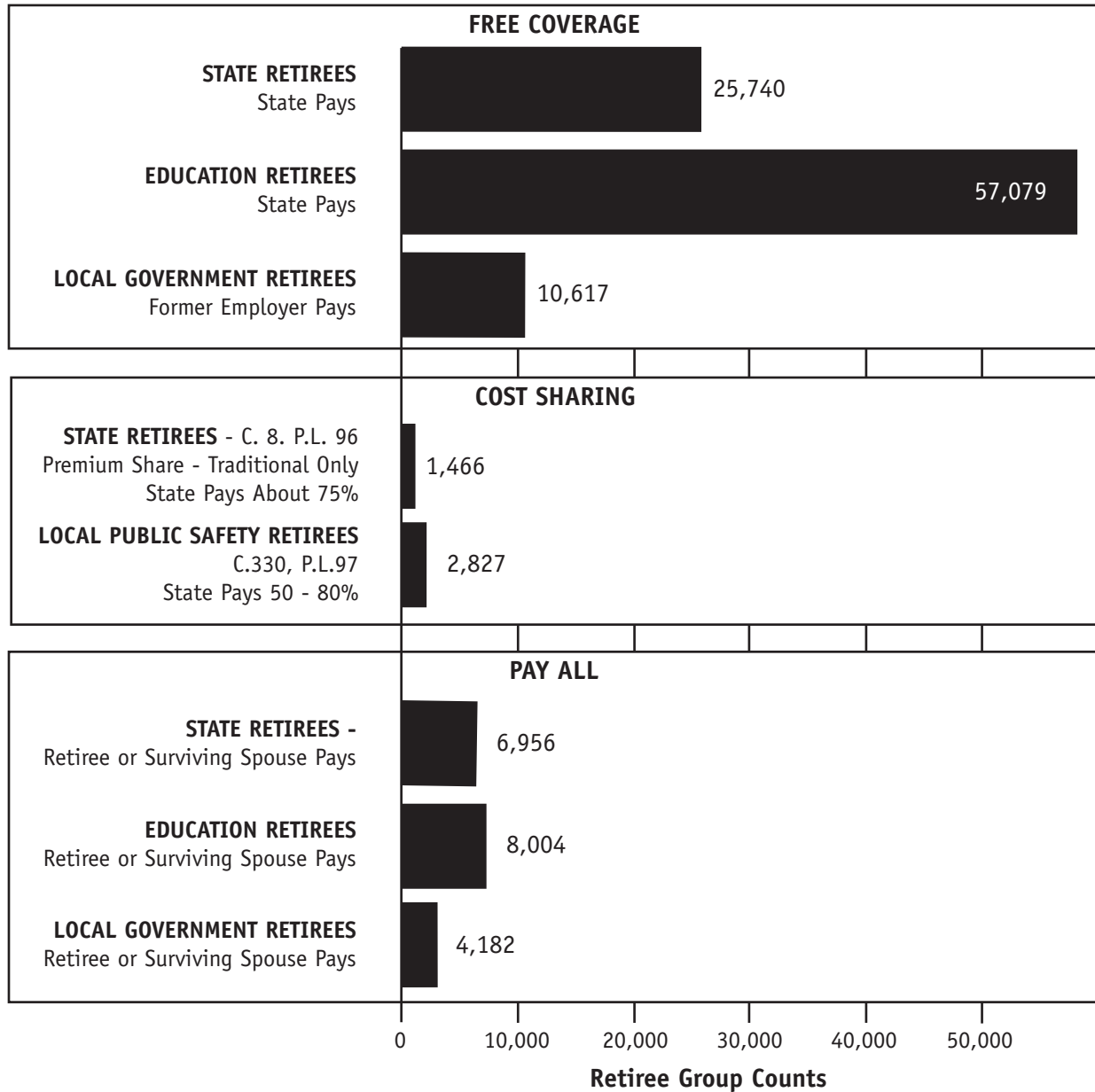
**State Employer
Active Employees - Plan Participation
Fiscal Years 2001 - 2004**



**Local Employers
Active Employees - Plan Participation
Fiscal Years 2001-2004**



SHBP Retirees - Who pays for Health Benefits Coverage?



Data as of the fiscal year ended June 30th.

SHBP Enrollment — State Employer Group

As of June 30, 2004

EMPLOYEES

| PLAN NAME | EMPLOYEES | AS A % OF EMPLOYEE ENROLLMENT | DEPENDENTS OF EMPLOYEES | EMPLOYEES AND DEPENDENTS |
|--------------|----------------|-------------------------------|-------------------------|--------------------------|
| NJ PLUS | 69,281 | 63.67% | 101,909 | 171,190 |
| Traditional | 10,105 | 9.29% | 10,474 | 20,579 |
| Aetna, Inc. | 21,104 | 19.40% | 35,361 | 56,465 |
| Cigna | 2,571 | 2.36% | 3,914 | 6,485 |
| Oxford | 2,148 | 1.97% | 3,600 | 5,748 |
| Amerihealth | 1,490 | 1.37% | 2,370 | 3,860 |
| Healthnet | 2,108 | 1.94% | 3,424 | 5,532 |
| TOTAL | 108,807 | 100.00% | 161,052 | 269,859 |

RETIREES

| PLAN NAME | RETIREES | AS A % OF RETIREE ENROLLMENT | DEPENDENTS OF RETIREES | RETIREES AND DEPENDENTS |
|--------------|---------------|------------------------------|------------------------|-------------------------|
| NJ PLUS | 8,421 | 25.79% | 6,740 | 15,161 |
| Traditional | 18,426 | 56.44% | 10,315 | 28,741 |
| Aetna, Inc. | 4,356 | 13.34% | 3,568 | 7,924 |
| Cigna | 568 | 1.74% | 478 | 1,046 |
| Oxford | 282 | 0.86% | 173 | 455 |
| Amerihealth | 261 | 0.81% | 225 | 486 |
| Healthnet | 334 | 1.02% | 236 | 570 |
| TOTAL | 32,648 | 100.00% | 21,735 | 54,383 |

BOTH EMPLOYEES AND RETIREES

| PLAN NAME | EMPLOYEES AND RETIREES | DEPENDENTS OF EMPLOYEES AND RETIREES | TOTAL | AS A % OF ALL STATE ENROLLMENT (TOTAL LIVES) |
|--------------|------------------------|--------------------------------------|----------------|--|
| NJ PLUS | 77,702 | 108,649 | 186,351 | 57.48% |
| Traditional | 28,531 | 20,789 | 49,320 | 15.21% |
| Aetna, Inc. | 25,460 | 38,929 | 64,389 | 19.86% |
| Cigna | 3,139 | 4,392 | 7,531 | 2.32% |
| Oxford | 2,430 | 3,773 | 6,203 | 1.91% |
| Amerihealth | 1,751 | 2,595 | 4,346 | 1.34% |
| Healthnet | 2,442 | 3,660 | 6,102 | 1.88% |
| TOTAL | 141,455 | 182,787 | 324,242 | 100.00% |

SHBP Enrollment — Local Employer Group — Education

As of June 30, 2004

EMPLOYEES

| PLAN NAME | EMPLOYEES | AS A % OF EMPLOYEE ENROLLMENT | DEPENDENTS OF EMPLOYEES | EMPLOYEES AND DEPENDENTS |
|--------------|---------------|-------------------------------|-------------------------|--------------------------|
| NJ PLUS | 34,260 | 40.63% | 53,647 | 87,907 |
| Traditional | 31,766 | 37.68% | 41,286 | 73,052 |
| Aetna, Inc. | 10,699 | 12.68% | 16,934 | 27,633 |
| Cigna | 2,013 | 2.38% | 3,361 | 5,374 |
| Oxford | 2,476 | 2.94% | 4,163 | 6,639 |
| Amerihealth | 1,266 | 1.54% | 2,133 | 3,399 |
| Healthnet | 1,809 | 2.15% | 2,998 | 4,807 |
| TOTAL | 84,289 | 100.00% | 124,522 | 208,811 |

RETIREES

| PLAN NAME | RETIREES | AS A % OF RETIREE ENROLLMENT | DEPENDENTS OF RETIREES | RETIREES AND DEPENDENTS |
|--------------|---------------|------------------------------|------------------------|-------------------------|
| NJ PLUS | 8,416 | 13.54% | 6,548 | 14,964 |
| Traditional | 49,257 | 79.26% | 29,887 | 79,144 |
| Aetna, Inc. | 3,222 | 5.18% | 2,333 | 5,555 |
| Cigna | 555 | 0.89% | 463 | 1,018 |
| Oxford | 153 | 0.25% | 84 | 237 |
| Amerihealth | 369 | 0.59% | 337 | 706 |
| Healthnet | 171 | 0.29% | 113 | 284 |
| TOTAL | 62,143 | 100.00% | 39,765 | 101,908 |

BOTH EMPLOYEES AND RETIREES

| PLAN NAME | EMPLOYEES AND RETIREES | DEPENDENTS OF EMPLOYEES AND RETIREES | TOTAL | AS A % OF ALL ENROLLMENT (TOTAL LIVES) |
|--------------|------------------------|--------------------------------------|----------------|--|
| NJ PLUS | 42,676 | 60,195 | 102,871 | 33.11% |
| Traditional | 81,023 | 71,173 | 152,196 | 48.98% |
| Aetna, Inc. | 13,921 | 19,267 | 33,188 | 10.68% |
| Cigna | 2,568 | 3,824 | 6,392 | 2.06% |
| Oxford | 2,629 | 4,247 | 6,876 | 2.21% |
| Amerihealth | 1,635 | 2,470 | 4,105 | 1.32% |
| Healthnet | 1,980 | 3,111 | 5,091 | 1.64% |
| TOTAL | 146,432 | 164,287 | 310,719 | 100.00% |

SHBP Enrollment — Local Employer Group — Government Employers

As of June 30, 2004

EMPLOYEES

| PLAN NAME | EMPLOYEES | AS A % OF EMPLOYEE ENROLLMENT | DEPENDENTS OF EMPLOYEES | EMPLOYEES AND DEPENDENTS |
|--------------|---------------|-------------------------------|-------------------------|--------------------------|
| NJ PLUS | 21,799 | 44.76% | 37,256 | 59,055 |
| Traditional | 13,633 | 27.99% | 19,291 | 32,924 |
| Aetna, Inc. | 7,773 | 15.96% | 13,400 | 21,173 |
| Cigna | 1,455 | 2.99% | 2,863 | 4,318 |
| Oxford | 1,054 | 2.16% | 2,163 | 3,217 |
| Amerihealth | 1,033 | 2.12% | 1,754 | 2,787 |
| Healthnet | 1,957 | 4.02% | 3,545 | 5,502 |
| TOTAL | 48,704 | 100.00% | 80,272 | 128,976 |

RETIREEES

| PLAN NAME | RETIREEES | AS A % OF RETIREE ENROLLMENT | DEPENDENTS OF RETIREEES | RETIREEES AND DEPENDENTS |
|--------------|---------------|------------------------------|-------------------------|--------------------------|
| NJ PLUS | 3,482 | 18.42% | 3,124 | 6,606 |
| Traditional | 12,895 | 68.20% | 8,304 | 21,199 |
| Aetna, Inc. | 1,517 | 8.02% | 1,621 | 3,138 |
| Cigna | 346 | 1.82% | 389 | 735 |
| Oxford | 287 | 1.52% | 335 | 622 |
| Amerihealth | 162 | 0.86% | 172 | 334 |
| Healthnet | 219 | 1.16% | 242 | 461 |
| TOTAL | 18,908 | 100.00% | 14,187 | 33,095 |

BOTH EMPLOYEES AND RETIREEES

| PLAN NAME | EMPLOYEES AND RETIREEES | DEPENDENTS OF EMPLOYEES AND RETIREEES | TOTAL | AS A % OF ALL ENROLLMENT (TOTAL LIVES) |
|--------------|-------------------------|---------------------------------------|----------------|--|
| NJ PLUS | 25,281 | 40,380 | 65,661 | 40.51% |
| Traditional | 26,528 | 27,595 | 54,123 | 33.39% |
| Aetna, Inc. | 9,290 | 15,021 | 24,311 | 15.00% |
| Cigna | 1,801 | 3,252 | 5,053 | 3.12% |
| Oxford | 1,341 | 2,498 | 3,839 | 2.37% |
| Amerihealth | 1,195 | 1,926 | 3,121 | 1.93% |
| Healthnet | 2,176 | 3,787 | 5,963 | 3.68% |
| TOTAL | 67,612 | 94,459 | 162,071 | 100.00% |

SHBP Enrollment by State and Local Employer Groups

As of June 30, 2004

EMPLOYEES

| PLAN NAME | EMPLOYEES | AS A % OF EMPLOYEE ENROLLMENT | DEPENDENTS OF EMPLOYEES | EMPLOYEES AND DEPENDENTS |
|--------------|----------------|-------------------------------|-------------------------|--------------------------|
| NJ PLUS | 125,340 | 51.84% | 192,812 | 318,152 |
| Traditional | 55,504 | 22.95% | 71,051 | 126,555 |
| Aetna, Inc. | 39,576 | 16.37% | 65,695 | 105,271 |
| Cigna | 6,039 | 2.50% | 10,138 | 16,177 |
| Oxford | 5,678 | 2.35% | 9,926 | 15,604 |
| Amerihealth | 3,789 | 1.57% | 6,257 | 10,046 |
| Healthnet | 5,874 | 2.42% | 9,967 | 15,841 |
| TOTAL | 241,800 | 100.00% | 365,846 | 607,646 |

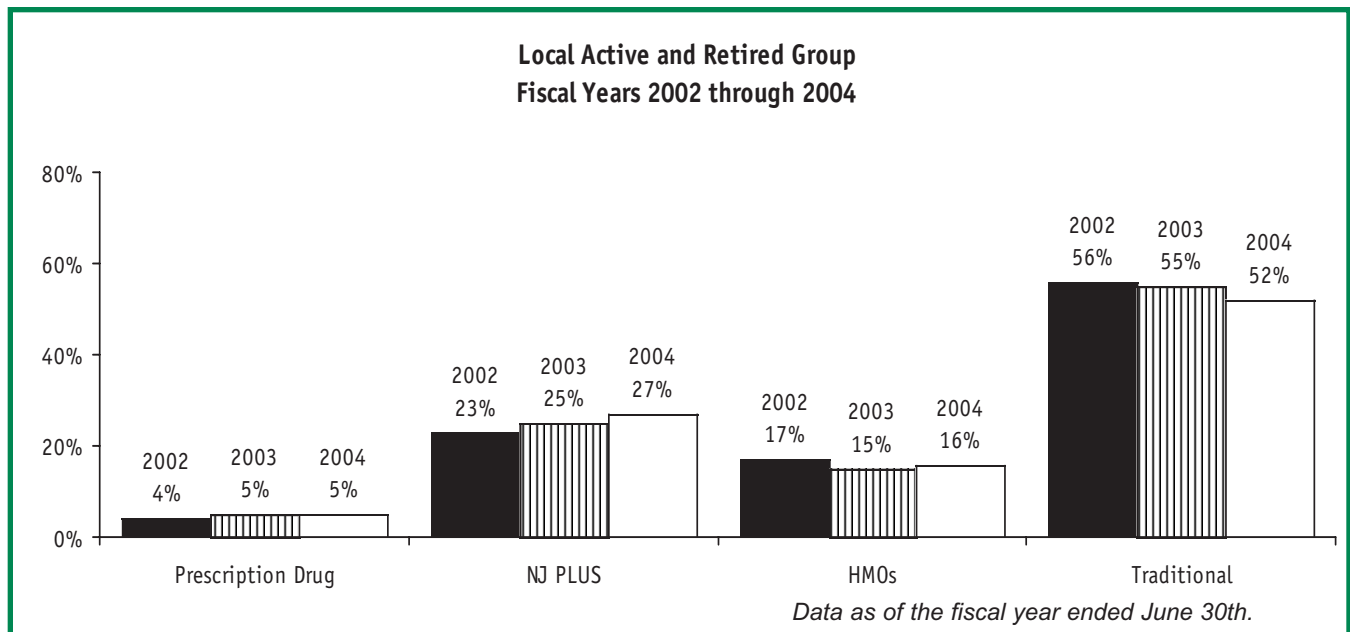
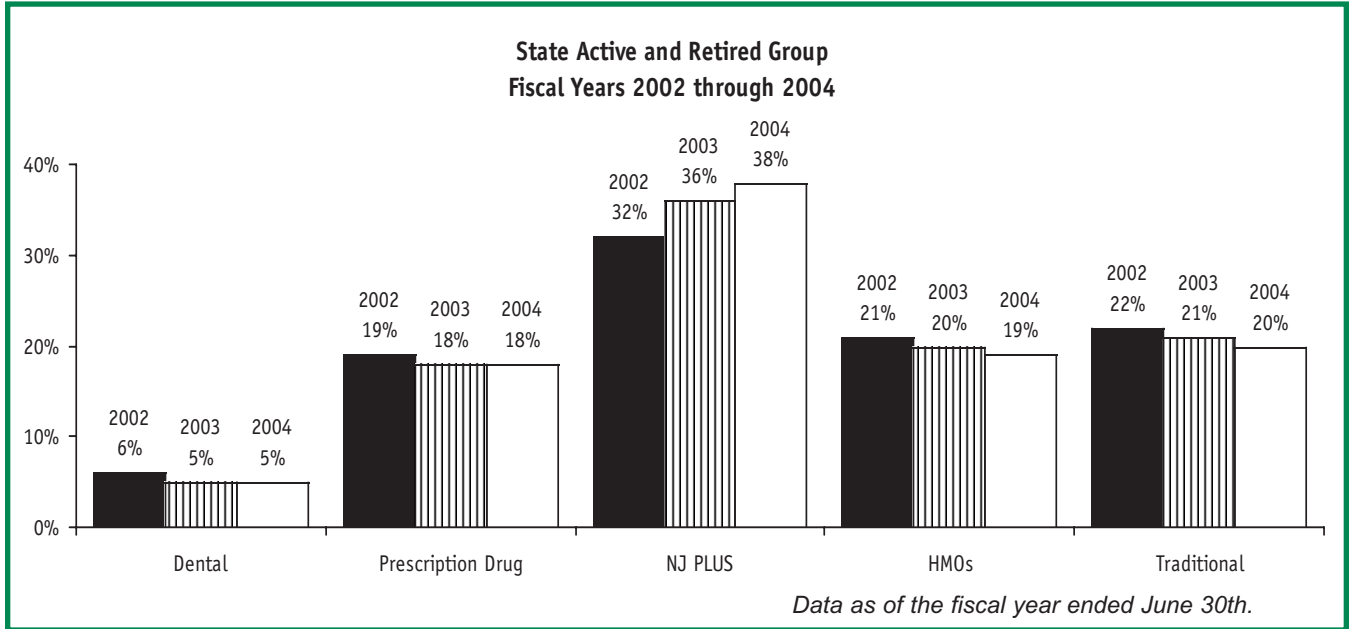
RETIREES

| PLAN NAME | RETIREES | AS A % OF RETIREE ENROLLMENT | DEPENDENTS OF RETIREES | RETIREES AND DEPENDENTS |
|--------------|----------------|------------------------------|------------------------|-------------------------|
| NJ PLUS | 20,319 | 17.87% | 16,412 | 36,731 |
| Traditional | 80,578 | 70.87% | 48,506 | 129,084 |
| Aetna, Inc. | 9,095 | 8.00% | 7,522 | 16,617 |
| Cigna | 1,469 | 1.29% | 1,330 | 2,799 |
| Oxford | 722 | 0.63% | 592 | 1,314 |
| Amerihealth | 792 | 0.70% | 734 | 1,526 |
| Healthnet | 724 | 0.64% | 591 | 1,315 |
| TOTAL | 113,699 | 100.00% | 75,687 | 189,386 |

BOTH EMPLOYEES AND RETIREES

| PLAN NAME | EMPLOYEES AND RETIREES | DEPENDENTS OF EMPLOYEES AND RETIREES | TOTAL | AS A % OF ALL SHBP ENROLLMENT (TOTAL LIVES) |
|--------------|------------------------|--------------------------------------|----------------|---|
| NJ PLUS | 145,659 | 209,224 | 354,883 | 44.53% |
| Traditional | 136,082 | 119,557 | 255,639 | 32.08% |
| Aetna, Inc. | 48,671 | 73,217 | 121,888 | 15.29% |
| Cigna | 7,508 | 11,468 | 18,976 | 2.38% |
| Oxford | 6,400 | 10,518 | 16,918 | 2.12% |
| Amerihealth | 4,581 | 6,991 | 11,572 | 1.45% |
| Healthnet | 6,598 | 10,558 | 17,156 | 2.15% |
| TOTAL | 355,499 | 441,533 | 797,032 | 100.00% |

Percentage of Health Care Premium Dollars Required for State Employer Group and Local Employer Group Plan Coverages



SHBP Local Participation 1996 - 2004

| | COUNTIES | SCHOOL DISTRICTS | MUNICIPALITIES | OTHERS* | CHARTER SCHOOLS** | SUB TOTAL | SUB GROUPS*** | TOTAL |
|----------|----------|------------------|----------------|---------|-------------------|-----------|---------------|------------|
| JUL 1996 | 4 | 256 | 243 | 248 | | 751 | 19 | 770 |
| JAN 1997 | 3 | 206 | 229 | 247 | | 685 | 17 | 702 |
| JUL 1997 | 3 | 218 | 224 | 250 | | 695 | 21 | 716 |
| JAN 1998 | 3 | 221 | 225 | 250 | 7 | 706 | 21 | 727 |
| JUL 1998 | 3 | 236 | 228 | 250 | 9 | 726 | 20 | 746 |
| JAN 1999 | 4 | 245 | 227 | 250 | 9 | 735 | 22 | 757 |
| JUL 1999 | 4 | 280 | 230 | 253 | 9 | 776 | 23 | 799 |
| JAN 2000 | 4 | 278 | 236 | 257 | 20 | 795 | 25 | 820 |
| JUL 2000 | 4 | 293 | 246 | 254 | 22 | 819 | 29 | 848 |
| JAN 2001 | 4 | 295 | 254 | 267 | 23 | 843 | 35 | 878 |
| JUL 2001 | 4 | 307 | 267 | 268 | 23 | 869 | 37 | 906 |
| JAN 2002 | 4 | 310 | 279 | 268 | 24 | 885 | 38 | 923 |
| JUL 2002 | 5 | 312 | 293 | 274 | 23 | 907 | 37 | 944 |
| JAN 2003 | 5 | 314 | 300 | 267 | 22 | 908 | 35 | 943 |
| JUL 2003 | 5 | 311 | 308 | 274 | 22 | 920 | 33 | 953 |
| JAN 2004 | 6 | 309 | 310 | 282 | 22 | 929 | 32 | 961 |
| JUL 2004 | 5 | 302 | 311 | 286 | 23 | 927 | 49 | 976 |

* Others category includes agencies such as authorities, commissions, state autonomous agencies, etc.

** A charter school is a public school open to all students, on a space-available basis, that operates independently of the district board of education under a charter granted by the Commissioner.

*** Sub-groups may be a county, a municipality or a school district and each one is linked to another SHBP employer. Subgroups are developed when an employer has a need to particularize a group of employees for billing purposes.

***SHBP Participation by Dental Plans
as of June 30, 2004***

| PLAN NAME | ESTIMATED STATE EMPLOYEE CONTRACTS | AS A % OF ALL EMPLOYEES | AS A % OF ALL DENTAL CONTRACTS |
|---|---|-------------------------------|---|
| <u>DENTAL PROVIDER ORGANIZATIONS</u> | | | |
| Unity Dental | 3,536 | 3.5% | 4% |
| International HealthCare | 4,363 | 4.2% | 4% |
| Atlantic Southern | 6,193 | 6.0% | 6% |
| Fortis | 2,730 | 2.7% | 3% |
| Flagship Health | 2,063 | 2.0% | 2% |
| Community Dental | 1,680 | 1.6% | 2% |
| Horizon Healthcare Dental | 5,328 | 5.2% | 6% |
| Aetna DMO | 11,196 | 10.9% | 12% |
| Group Dental | 383 | .4% | 0% |
| Dental Group of New Jersey | 93 | 0.0% | 0% |
| Cigna Dental Health | 6,904 | 6.7% | 7% |
| Subtotals | 44,469 | 43.2% | 46% |
| Dental Expense Plan | 52,851 | 51.3% | 54% |
| Employees that did not elect coverage | 5,631 | 5.5% | N/A |
| Totals | 102,951 | 100% | 100% |

**STATE OF NEW JERSEY
HEALTH BENEFITS PROGRAM FUNDS, DENTAL EXPENSE
PROGRAM FUND AND PRESCRIPTION DRUG PROGRAM FUNDS**

June 30, 2004

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KPMG LLP
New Jersey Headquarters
150 John F. Kennedy Parkway
Short Hills, NJ 07078

Independent Auditors' Report

Office of Legislative Services
Office of the State Auditor
State of New Jersey:

We have audited the accompanying financial statements of the State of New Jersey Health Benefits Program Funds, Dental Expense Program Fund, and Prescription Drug Program Funds (the Funds) as of and for the year ended June 30, 2004, which collectively comprise the Funds' basic financial statements as listed in the accompanying index. These financial statements are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements 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 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 audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Funds are intended to present the financial position, and the changes in financial position and cash flows, where applicable, of only that portion of the governmental and proprietary funds, of the State that is attributable to the transactions of the Division of Pensions and Benefits. They do not purport to, and do not, present fairly the financial position of the State of New Jersey as of June 30, 2004, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the State of New Jersey Health Benefits Program Funds, Dental Expense Program Fund, and Prescription Drug Program Funds as of June 30, 2004, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The information included in the schedule of loss development information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the audit procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

September 24, 2004

KPMG LLP

**STATE OF NEW JERSEY
HEALTH BENEFITS PROGRAM FUNDS, DENTAL EXPENSE
PROGRAM FUND AND PRESCRIPTION DRUG PROGRAM FUNDS**

Management's Discussion and Analysis

June 30, 2004

Our discussion and analysis of the financial performance of the Health Benefits Program Funds – State and Local, Dental Expense Program Fund, and Prescription Drug Program Funds – State and Local (the Funds) provides an overview of the Funds' financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the basic financial statements and financial statement footnotes which follow this discussion.

FINANCIAL HIGHLIGHTS

Government-wide Financial Statements

Governmental Activities:

- For Health Benefits Program-State, net assets increased by \$31.8 million as a result of operations decreasing the deficit from \$(95.3) million to \$(63.5) million. For Prescription Drug Program-State, net assets increased by \$2.9 million from \$24.7 million to \$27.6 million. For Dental Expense Program, net assets decreased by \$4.2 million from \$16.3 million to \$12.1 million.
- Revenues recognized during the year were as follows: \$967.2 million for the Health Benefits Program-State; \$222.8 million for the Prescription Drug Program-State; \$61.8 million for the Dental Expense Program.
- Expenses incurred during the year were as follows: \$935.4 million for the Health Benefits Program-State; \$219.8 million for the Prescription Drug Program-State; \$66.1 million for the Dental Expense Program.

Business-Type Activities:

- For Health Benefits Program-Local, net assets increased by \$70.3 million from \$58.1 million to \$128.4 million. For Prescription Drug Program-Local, net assets increased by \$0.6 million from \$8.3 million to \$8.9 million.
- For the Health Benefits Program-Local and the Prescription Drug Program-Local, revenues recognized during the year were \$1.7 billion and \$84.1 million, respectively.
- For Health Benefits Program-Local and the Prescription Drug Program-Local, expenses incurred during the year were \$1.6 billion and \$83.4 million, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide financial statements

Government-wide financial statements include the following governmental activities and business-type activities:

Governmental Activities:

Health Benefits Program – State

Prescription Drug Program – State

Dental Expense Program

STATE OF NEW JERSEY
HEALTH BENEFITS PROGRAM FUNDS, DENTAL EXPENSE
PROGRAM FUND AND PRESCRIPTION DRUG PROGRAM FUNDS

Management's Discussion and Analysis, Continued

Business-Type Activities:

Health Benefits Program – Local

Prescription Drug Program – Local

The government-wide financial statements consist of the statement of net assets (deficit) and the statement of activities. The statement of net assets (deficit) presents information on all of the assets and liabilities of the Funds, with the difference between the two reported as net deficit. Over time, increases or decreases in the net assets (deficit) provide one indication of whether the financial health of the Funds is improving or declining. The statement of activities presents information showing how the Funds' net assets (deficit) changed during the most recent fiscal year. All changes in net assets (deficit) are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Division uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds:

Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Funds' long-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary Funds:

Proprietary funds include funds that are classified as Enterprise funds. Enterprise funds account for operations that are financed and operated in a manner similar to business enterprises where the intent is that the costs of providing services on a continuing basis be financed or recovered primarily through user charges.

Like government-wide financial statements, the financial statements of the proprietary funds were prepared using the accrual basis of accounting. The basic proprietary fund financial statements consist of the statement of net assets, the statement of revenues, expenses, and changes in net assets (deficit), and the statement of cash flows. The statement of cash flows provides detail about the individual sources and uses of cash associated with operating activities and noncapital financing activities.

The Health Benefits Program Fund-State, Dental Expense Program Fund, and Prescription Drug Program Fund-State are classified as Governmental Funds. The Health Benefits Program Fund-Local and the Prescription Drug Program Fund-Local are classified as Proprietary Funds.

The annual report for governmental and proprietary funds consists of the following:

Governmental Funds:

Balance Sheet

Statement of Revenues, Expenditures, and Changes in Fund Balances

**STATE OF NEW JERSEY
HEALTH BENEFITS PROGRAM FUNDS, DENTAL EXPENSE
PROGRAM FUND AND PRESCRIPTION DRUG PROGRAM FUNDS**

Management's Discussion and Analysis, Continued

Proprietary Funds:

- Statement of Net Assets
- Statement of Revenues, Expenses, and Changes in Net Assets (Deficit)
- Statement of Cash Flows

These financial statements report information about the Funds and about their activities to help you assess whether the Funds have improved or declined as a result of the year's activities. For the proprietary funds, the financial statements were prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the period they are earned, and expenses are recorded in the year they are incurred, regardless of when cash is received or paid. The modified accrual basis of accounting was used for measuring financial position and changes in financial position for the governmental funds. Under this method, revenues are recognized when measurable and available, and expenditures are recognized when incurred and measurable.

The governmental fund *Balance Sheet* and the proprietary fund *Statement of Net Assets* show the balances in all of the assets and liabilities of the Funds at the end of the fiscal year. The difference between assets and liabilities represents the Funds' fund balances or net assets. Over time, increases or decreases in the fund balances or net assets provide one indication of whether the financial health of the Funds is improving or declining. The governmental fund *Statement of Revenues, Expenditures, and Changes in Fund Balances* and the proprietary fund *Statement of Revenues, Expenses, and Changes in Net Assets (Deficit)* show the results of financial operations for the year. These statements provide an explanation for the change in the Funds' fund balances or net assets since the prior year. The *Statement of Cash Flows* provides detail about the individual sources and uses of cash associated with operating activities and noncapital financing activities of the proprietary funds. These financial statements should be reviewed along with the information contained in the financial statement footnotes to determine whether the Funds are becoming financially stronger or weaker.

FINANCIAL ANALYSIS

STATEMENT OF NET ASSETS (DEFICIT)

Governmental Activities:

| | 2004 | 2003 | Increase (Decrease) |
|----------------------|----------------|----------------|---------------------|
| Assets | \$152,666,147 | \$92,631,301 | \$60,034,846 |
| Liabilities | 176,501,958 | 147,010,056 | 29,491,902 |
| Net Assets (Deficit) | \$(23,835,811) | \$(54,378,755) | \$30,542,944 |

Business-Type Activities:

| | 2004 | 2003 | Increase (Decrease) |
|----------------------|---------------|---------------|---------------------|
| Assets | \$399,618,655 | \$277,525,205 | \$122,093,450 |
| Liabilities | 262,269,465 | 211,092,531 | 51,176,934 |
| Net Assets (Deficit) | \$137,349,190 | \$66,432,674 | \$70,916,516 |

Assets mainly consist of cash, investments, and contributions due from members, participating employers and former members who are covered under the rules of the Federal Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA), and contributions due from Public Employees' Retirement System (PERS) and Teachers' Pension and Annuity Fund (TPAF) to provide funding for post-retirement medical benefits. For the Governmental Activities, between fiscal years 2003 and 2004, total assets increased by \$60.0 million or 64.8%. For the Business-Type Activities, total assets increased by \$122.1 million or 44.0%. The increase in total assets is mainly due to an increase in fair value balances invested in the Cash Management Fund (CMF).

**STATE OF NEW JERSEY
HEALTH BENEFITS PROGRAM FUNDS, DENTAL EXPENSE
PROGRAM FUND AND PRESCRIPTION DRUG PROGRAM FUNDS**

Management's Discussion and Analysis, Continued

Liabilities mainly consist of outstanding medical and long-term disability claim payments, including incurred but not reported (IBNR) claims. For the Governmental Activities, total liabilities increased by \$29.5 million or 20.1%. For the Business-Type Activities, total liabilities increased by \$51.2 million or 24.2%. The increase in total liabilities is mainly due to an increase in claims payable including IBNR.

For the Governmental Activities, net assets increased by \$30.5 million or 56.2%. For the Business-Type Activities, net assets increased by \$70.9 million or 106.8%. The increase in net assets is due to an increase in fair value of investments and revenues exceeding expenses.

STATEMENT OF ACTIVITIES

REVENUES - ADDITIONS TO NET ASSETS (DEFICIT)

Governmental Activities:

| | 2004 | 2003 | Increase (Decrease) |
|------------------------|------------------------|------------------------|----------------------|
| Member Contributions | \$108,605,249 | \$98,538,421 | \$10,066,828 |
| Employer Contributions | 1,142,379,402 | 964,089,279 | 178,290,123 |
| CMF Investment & Other | 856,232 | 1,157,744 | (301,512) |
| Totals | \$1,251,840,883 | \$1,063,785,444 | \$188,055,439 |

Business-Type Activities:

| | 2004 | 2003 | Increase (Decrease) |
|------------------------|------------------------|------------------------|----------------------|
| Member Contributions | \$85,621,581 | \$75,340,822 | \$10,280,759 |
| Employer Contributions | 1,683,134,186 | 1,411,263,887 | 271,870,299 |
| CMF Investment & Other | 2,841,106 | 1,378,803 | 1,462,303 |
| Totals | \$1,771,596,873 | \$1,487,983,512 | \$283,613,361 |

Revenues primarily consist of member and employer contributions and earnings from CMF Investment activities. For the Governmental Activities, revenues increased by \$188.1 million or 17.7%. For the Business-Type Activities, total revenues increased by \$283.6 million or 19.1%. The increase in revenues is attributable to an increase in the premium rates for the health, dental, and prescription drug plans. Member contributions increased by 10.2% for the Governmental Activities and by 13.7% for the Business-Type Activities for the same reason. The reduction in investment and other revenues in the Governmental Activities is primarily due to a low CMF interest rate.

EXPENSES - DEDUCTIONS FROM NET ASSETS (DEFICIT)

Governmental Activities:

| | 2004 | 2003 | Increase (Decrease) |
|-------------------------|------------------------|------------------------|----------------------|
| Benefits | \$1,218,641,656 | \$1,046,043,657 | \$172,597,999 |
| Administrative Expenses | 2,656,283 | 2,919,206 | (262,923) |
| Totals | \$1,221,297,939 | \$1,048,962,863 | \$172,335,076 |

Expenses primarily consist of claim charges for the self-insured health, prescription drug, and dental plans, premium charges for the insured health and dental programs, and administrative expenses. During the year, expenses increased by \$172.3 million or 16.4% for the Governmental Activities. For the insured plans, expenses increased due to the higher premium rates for calendar year 2004. The average premium rate increase for all plans is 7.6% for active members and 14.7% for retirees in calendar year 2004. For the self-insured plans, the increase in benefit expenses was due to higher claim charges, which is attributable to the rising cost of health services.

**STATE OF NEW JERSEY
HEALTH BENEFITS PROGRAM FUNDS, DENTAL EXPENSE
PROGRAM FUND AND PRESCRIPTION DRUG PROGRAM FUNDS**

Management's Discussion and Analysis, Continued

Business-Type Activities:

| | 2004 | 2003 | Increase (Decrease) |
|-------------------------|------------------------|------------------------|----------------------|
| Benefits | \$1,696,844,732 | \$1,362,676,860 | \$334,167,872 |
| Administrative Expenses | 3,835,625 | 4,378,810 | (543,185) |
| Totals | \$1,700,680,357 | \$1,367,055,670 | \$333,624,687 |

Expenses primarily consist of claim charges for the self-insured health and prescription drug plans, premium charges for the insured health and administrative expenses. During the year, expenses increased by \$333.6 million or 24.4% for the Business-Type Activities. For the insured plans, expenses increased due to higher premium rates for calendar year 2004. The average premium rate increase for all plans is 10.1% for active members and 13.5% for retirees in calendar year 2004. For the self-insured plans, the increase in benefit expenses was due to higher claim charges, which is attributable to the rising cost of health services.

OVERALL FINANCIAL CONDITION OF THE FUNDS

For the State Health Benefits Program Fund - State and Local, contributions received by the Funds to pay the premiums for covered members are now keeping pace with the rising health costs and produce a necessary reserve. Management intends that through further rate actions and other initiatives, the Funds will maintain sufficient reserves.

The Prescription Drug - State and Local received contributions to meet this year's benefit obligations and to maintain a sufficient reserve. Through further rate actions and other initiatives, management intends that the financial condition of these benefit programs will remain stable.

CONTACTING SYSTEM FINANCIAL MANAGEMENT

The financial report is designed to provide our members, beneficiaries, investors and creditors with a general overview of the Funds' finances and to show the Funds' accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295.

**STATE OF NEW JERSEY
HEALTH BENEFITS PROGRAM FUNDS,
DENTAL EXPENSE PROGRAM FUND AND
PRESCRIPTION DRUG PROGRAM FUNDS**

Statement of Net Assets (Deficit)

June 30, 2004

| | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL |
|--|------------------------------------|-------------------------------------|----------------|
| Assets: | | | |
| Cash and cash equivalents | \$ 52,515 | 951,435 | \$ 1,003,950 |
| Investments, at fair value: | | | |
| Cash Management Fund | 119,714,179 | 313,669,981 | 433,384,160 |
| Total investments | 119,714,179 | 313,669,981 | 433,384,160 |
| Receivables: | | | |
| Other | 992,248 | 84,034,279 | 85,026,527 |
| Due from other funds | 31,907,205 | 962,960 | 32,870,165 |
| Total receivables | 32,899,453 | 84,997,239 | 117,896,692 |
| Total assets | \$ 152,666,147 | 399,618,655 | \$ 552,284,802 |
| Liabilities: | | | |
| Accounts payable and accrued expenses | \$ 44,761,902 | 45,021,143 | \$ 89,783,045 |
| Incurred but not reported claims | 126,227,000 | 211,550,000 | 337,777,000 |
| Deferred revenue | 5,160,153 | 4,836,606 | 9,996,759 |
| Due to other funds | 352,903 | 861,716 | 1,214,619 |
| Total liabilities | 176,501,958 | 262,269,465 | 438,771,423 |
| Net assets (deficit) - unrestricted | \$ (23,835,811) | 137,349,190 | \$ 113,513,379 |

See accompanying notes to financial statements.

**STATE OF NEW JERSEY
HEALTH BENEFITS PROGRAM FUNDS,
DENTAL EXPENSE PROGRAM FUND AND
PRESCRIPTION DRUG PROGRAM FUNDS**

Statement of Activities

Year Ended June 30, 2004

| Functions/Programs | Expenses | Program Revenues Charges for Services (Contributions) | Net (Expense) Revenue and Changes in Net Assets (Deficit) | |
|--|------------------|--|--|-----------------------------|
| | | | Governmental Activities | Business-Type Activities |
| Primary government: | | | | |
| Governmental activities: | | | | |
| Health Benefits Program - State | \$ 935,377,863 | 966,797,040 | 31,419,177 | \$ 31,419,177 |
| Dental Expense Program | 66,061,435 | 61,643,304 | (4,418,131) | (4,418,131) |
| Prescription Drug Program - State | 219,858,641 | 222,544,307 | 2,685,666 | 2,685,666 |
| Total governmental activities | 1,221,297,939 | 1,250,984,651 | 29,686,712 | 29,686,712 |
| Business-type activities: | | | | |
| Health Benefits Program - Local | 1,617,245,564 | 1,684,721,256 | — | 67,475,692 |
| Prescription Drug Program - Local | 83,434,793 | 84,034,511 | — | 599,718 |
| Total business-type activities | 1,700,680,357 | 1,768,755,767 | 68,075,410 | 68,075,410 |
| Total primary government | \$ 2,921,978,296 | \$ 3,019,740,418 | \$ 29,686,712 | \$ 97,762,122 |
| General Revenues : | | | | |
| Investment Earnings | | | | |
| Total general revenues | | | 2,841,106 | \$ 3,697,338 |
| Change in Net Assets | | | 30,542,944 | 101,459,460 |
| Net assets (deficit) - Beginning of year | | | 66,432,674 | 12,053,919 |
| Net assets (deficit) - End of year | | | \$ 137,349,190 | \$ 113,513,379 |

See accompanying notes to financial statements.

**STATE OF NEW JERSEY
HEALTH BENEFITS PROGRAM FUNDS,
DENTAL EXPENSE PROGRAM FUND AND
PRESCRIPTION DRUG PROGRAM FUNDS**

Balance Sheet
Governmental Funds

June 30, 2004

| | HEALTH BENEFITS PROGRAM FUND STATE | DENTAL EXPENSE PROGRAM FUND | PRESCRIPTION DRUG PROGRAM FUND STATE | TOTAL |
|--|---|--|---|------------------------|
| Assets: | | | | |
| Cash and cash equivalents | \$ 52,515 | — | — | \$ 52,515 |
| Investments, at fair value: | | | | |
| Cash Management Fund | <u>79,295,356</u> | <u>18,689,030</u> | <u>21,729,793</u> | <u>119,714,179</u> |
| Total investments | <u>79,295,356</u> | <u>18,689,030</u> | <u>21,729,793</u> | <u>119,714,179</u> |
| Receivables: | | | | |
| Other | 503,201 | 433,236 | 55,811 | 992,248 |
| Due from other funds | <u>18,521,181</u> | <u>1,546,824</u> | <u>11,839,200</u> | <u>31,907,205</u> |
| Total receivables | <u>19,024,382</u> | <u>1,980,060</u> | <u>11,895,011</u> | <u>32,899,453</u> |
| Total assets | <u>\$ 98,372,253</u> | <u>20,669,090</u> | <u>33,624,804</u> | <u>\$ 152,666,147</u> |
| Liabilities: | | | | |
| Accounts payable and accrued expenses | \$ 36,752,545 | 2,069,357 | 5,940,000 | \$ 44,761,902 |
| Deferred revenue | 4,220,053 | 938,617 | 1,483 | 5,160,153 |
| Due to other funds | <u>243,012</u> | <u>—</u> | <u>109,891</u> | <u>352,903</u> |
| Total liabilities | <u>41,215,610</u> | <u>3,007,974</u> | <u>6,051,374</u> | <u>50,274,958</u> |
| Fund Balances: | | | | |
| Unreserved | <u>57,156,643</u> | <u>17,661,116</u> | <u>27,573,430</u> | <u>102,391,189</u> |
| Total liabilities and fund balances | <u>\$ 98,372,253</u> | <u>20,669,090</u> | <u>33,624,804</u> | <u>\$ 152,666,147</u> |
| Amounts reported in the statement of net assets are different because: | | | | |
| Long term liabilities including IBNR are not due and payable in the current period and therefore not reported in the funds. | <u>(120,657,000)</u> | <u>(5,570,000)</u> | | <u>(126,227,000)</u> |
| Fund Balances (Deficiencies) | <u>\$ (63,500,357)</u> | <u>12,091,116</u> | | <u>\$ (23,835,811)</u> |

See accompanying notes to financial statements.

**STATE OF NEW JERSEY
HEALTH BENEFIT PROGRAM FUNDS,
DENTAL EXPENSE PROGRAM FUND AND
PRESCRIPTION DRUG PROGRAM FUNDS**

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds

Year Ended June 30, 2004

| | HEALTH BENEFITS PROGRAM FUND STATE | DENTAL EXPENSE PROGRAM FUND | PRESCRIPTION DRUG PROGRAM FUND STATE | TOTAL |
|--|---|--|---|------------------------|
| Revenues: | | | | |
| Contributions: | | | | |
| Members | \$ 75,615,208 | 31,771,180 | 1,218,861 | \$ 108,605,249 |
| Employers | <u>891,181,832</u> | <u>29,872,124</u> | <u>221,325,446</u> | <u>1,142,379,402</u> |
| Total contributions | <u>966,797,040</u> | <u>61,643,304</u> | <u>222,544,307</u> | <u>1,250,984,651</u> |
| Investment income: | | | | |
| Net depreciation in fair value of investments | (23,698) | (13,891) | (19,306) | (56,895) |
| Interest | <u>444,174</u> | <u>213,464</u> | <u>255,489</u> | <u>913,127</u> |
| Total investment income | <u>420,476</u> | <u>199,573</u> | <u>236,183</u> | <u>856,232</u> |
| Total revenues | <u>967,217,516</u> | <u>61,842,877</u> | <u>222,780,490</u> | <u>1,251,840,883</u> |
| Expenditures: | | | | |
| Benefits | 918,995,580 | 63,841,435 | 219,858,641 | 1,202,695,656 |
| Administrative expense | <u>2,656,283</u> | <u>—</u> | <u>—</u> | <u>2,656,283</u> |
| Total expenditures | <u>921,651,863</u> | <u>63,841,435</u> | <u>219,858,641</u> | <u>1,205,351,939</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>45,565,653</u> | <u>(1,998,558)</u> | <u>2,921,849</u> | <u>46,488,944</u> |
| Fund Balances: | | | | |
| Beginning of year | <u>11,590,990</u> | <u>19,659,674</u> | <u>24,651,581</u> | <u>55,902,245</u> |
| End of year | <u>\$ 57,156,643</u> | <u>17,661,116</u> | <u>27,573,430</u> | <u>\$ 102,391,189</u> |
| Benefits - Modified Accrual | 918,995,580 | 63,841,435 | 219,858,641 | 1,202,695,656 |
| Benefits - Full Accrual | <u>1,039,652,580</u> | <u>69,411,435</u> | <u>219,858,641</u> | <u>1,328,922,656</u> |
| Adjustment of IBNR | (120,657,000) | (5,570,000) | 0 | (126,227,000) |
| Adjusted Fund Balance: End of Year | <u>\$ (63,500,357)</u> | <u>12,091,116</u> | <u>27,573,430</u> | <u>\$ (23,835,811)</u> |

See accompanying notes to financial statements.

**STATE OF NEW JERSEY
HEALTH BENEFIT PROGRAM FUNDS,
DENTAL EXPENSE PROGRAM FUND AND
PRESCRIPTION DRUG PROGRAM FUNDS**

Statement of Net Assets
Proprietary Funds

June 30, 2004

| | HEALTH BENEFITS PROGRAM FUND LOCAL | PRESCRIPTION DRUG PROGRAM FUND LOCAL | TOTAL |
|---------------------------------------|---|---|-----------------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| Assets: | | | |
| Cash and cash equivalents | \$ 818,250 | 133,185 | \$ 951,435 |
| Investments, at fair value: | | | |
| Cash Management Fund | <u>305,671,011</u> | <u>7,998,970</u> | <u>313,669,981</u> |
| Total investments | <u>305,671,011</u> | <u>7,998,970</u> | <u>313,669,981</u> |
| Receivables: | | | |
| Other | 76,337,116 | 7,697,163 | 84,034,279 |
| Due from other funds | <u>962,960</u> | <u>—</u> | <u>962,960</u> |
| Total receivables | <u>77,300,076</u> | <u>7,697,163</u> | <u>84,997,239</u> |
| Total assets | <u>\$ 383,789,337</u> | <u>15,829,318</u> | <u>\$ 399,618,655</u> |
| Liabilities: | | | |
| Accounts payable and accrued expenses | \$ 45,021,143 | — | \$ 45,021,143 |
| Incurred but not reported claims | 205,220,000 | 6,330,000 | 211,550,000 |
| Deferred revenue | 4,836,606 | — | 4,836,606 |
| Due to other funds | <u>340,857</u> | <u>520,859</u> | <u>861,716</u> |
| Total liabilities | <u>255,418,606</u> | <u>6,850,859</u> | <u>262,269,465</u> |
| Net Assets | <u>\$ 128,370,731</u> | <u>8,978,459</u> | <u>\$ 137,349,190</u> |

See accompanying notes to financial statements.

**STATE OF NEW JERSEY
HEALTH BENEFIT PROGRAM FUNDS,
DENTAL EXPENSE PROGRAM FUND AND
PRESCRIPTION DRUG PROGRAM FUNDS**

Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds

Year Ended June 30, 2004

| | HEALTH BENEFITS PROGRAM FUND LOCAL | PRESCRIPTION DRUG PROGRAM FUND LOCAL | TOTAL |
|-------------------------------|---|---|-----------------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| Operating Revenues: | | | |
| Contributions: | | | |
| Members | \$ 85,100,730 | 520,851 | \$ 85,621,581 |
| Employers | <u>1,599,620,526</u> | <u>83,513,660</u> | <u>1,683,134,186</u> |
| Total operating revenues | <u>1,684,721,256</u> | <u>84,034,511</u> | <u>1,768,755,767</u> |
| Operating Expenses: | | | |
| Benefits | 1,613,409,939 | 83,434,793 | 1,696,844,732 |
| Administrative expense | <u>3,835,625</u> | <u>—</u> | <u>3,835,625</u> |
| Total operating expenses | <u>1,617,245,564</u> | <u>83,434,793</u> | <u>1,700,680,357</u> |
| Operating income | 67,475,692 | 599,718 | 68,075,410 |
| Non-operating revenue: | | | |
| Investment income: | | | |
| Net depreciation | | | |
| in fair value of investments | (160,032) | (4,826) | (164,858) |
| Interest | <u>2,942,092</u> | <u>63,872</u> | <u>3,005,964</u> |
| Total non-operating revenue | <u>2,782,060</u> | <u>59,046</u> | <u>2,841,106</u> |
| Change in net assets | <u>70,257,752</u> | <u>658,764</u> | <u>70,916,516</u> |
| Net Assets: | | | |
| Beginning of year | <u>58,112,979</u> | <u>8,319,695</u> | <u>66,432,674</u> |
| End of year | <u>\$ 128,370,731</u> | <u>\$ 8,978,459</u> | <u>\$ 137,349,190</u> |

See accompanying notes to financial statements.

**STATE OF NEW JERSEY
HEALTH BENEFITS PROGRAM FUNDS,
DENTAL EXPENSE PROGRAM FUND AND
PRESCRIPTION DRUG PROGRAM FUNDS**

Statement of Cash Flows
Proprietary Funds

Year Ended June 30, 2004

| | HEALTH BENEFITS PROGRAM FUND LOCAL | PRESCRIPTION DRUG PROGRAM FUND LOCAL | TOTAL |
|---|---|---|-----------------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| Cash flows from operating activities: | | | |
| Receipts - Employer Contributions | \$ 1,599,437,621 | 82,946,231 \$ | 1,682,383,852 |
| Receipts - Member Contributions | 85,326,884 | 515,837 | 85,842,721 |
| Benefit payments | (1,514,132,484) | (82,233,301) | (1,596,365,785) |
| Premium payments | (49,226,232) | — | (49,226,232) |
| Administrative expense | (3,911,407) | — | (3,911,407) |
| | <u> </u> | <u> </u> | <u> </u> |
| Net cash provided by operating activities | <u>117,494,382</u> | <u>1,228,767</u> | <u>118,723,149</u> |
| Cash flows from investing activities: | | | |
| Interest and dividends | 2,942,092 | 63,872 | 3,005,964 |
| Sale/purchase of investments | (122,956,359) | (1,213,471) | (124,169,830) |
| | <u> </u> | <u> </u> | <u> </u> |
| Net cash provided by investing activities | <u>(120,014,267)</u> | <u>(1,149,599)</u> | <u>(121,163,866)</u> |
| Increase/decrease in cash equivalents | <u>(2,519,885)</u> | <u>79,168</u> | <u>(2,440,717)</u> |
| Cash and cash equivalents beginning of year | <u>3,338,135</u> | <u>54,017</u> | <u>3,392,152</u> |
| Cash and cash equivalents end of year | \$ <u>818,250</u> | \$ <u>133,185</u> | \$ <u>951,435</u> |
| Reconciliation of operating income to net cash provided by operating activities: | | | |
| Operating Income | \$ 67,475,692 | 599,718 \$ | 68,075,410 |
| Adjustments to reconcile operating income to net cash used by operating activities: | | | |
| Changes in assets and liabilities: | | | |
| (Increase)/decrease in accounts receivable | (385,260) | (572,443) | (957,703) |
| (Increase)/decrease in interfund receivable | 428,508 | — | 428,508 |
| Increase/(decrease) in accounts payable | 49,975,442 | 1,630,000 | 51,605,442 |
| Increase/(decrease) in due to other funds | — | (428,508) | (428,508) |
| Total adjustments | <u>50,018,690</u> | <u>629,049</u> | <u>50,647,739</u> |
| Net cash provided by operating activities | \$ <u>117,494,382</u> | \$ <u>1,228,767</u> | \$ <u>118,723,149</u> |

See accompanying notes to financial statements.

**STATE OF NEW JERSEY
HEALTH BENEFITS PROGRAM FUNDS, DENTAL EXPENSE
PROGRAM FUND AND PRESCRIPTION DRUG PROGRAM FUNDS**

Notes to Financial Statements

June 30, 2004

(1) DESCRIPTION OF THE FUNDS

The State of New Jersey sponsors and administers the following funds which have been included in the accompanying financial statements of the State of New Jersey Division of Pensions and Benefits (the Division):

Governmental funds:

State Health Benefits Program Fund (SHBP) - State
Dental Expense Program Fund (DEPF)
Prescription Drug Program Fund (PDPF) - State

Proprietary funds:

State Health Benefits Program Fund (SHBP) - Local
Prescription Drug Program Fund (PDPF) - Local

The financial statements of these funds and accounts have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Division's accounting policies are described below.

Reporting entity:

The financial statements include the State and Local Health Benefit Funds, Dental Program Fund, and State and Local Prescription Drug Program Funds, which are administered by the Division over which operating controls are with the individual funds governing Boards and/or the State of New Jersey. The financial statements of the funds are included in the financial statements of the State of New Jersey; however, the accompanying financial statements are intended to present the funds administered by the Division and not the State of New Jersey as a whole.

Fund accounting:

The accounts of the Division are maintained in accordance with the principles of fund accounting to ensure observance of limitations and restrictions on the resources available. The principles of fund accounting require that the resources be classified for accounting and reporting purposes into funds in accordance with activities or objectives specified for the resources. Each fund is a separate accounting entity with a self-balancing set of accounts. Funds are classified into two categories: governmental and proprietary.

Governmental funds:

Governmental funds account for proceeds of specific revenue sources that are legally restricted for expenditure for specified purposes.

Proprietary funds:

Proprietary funds account for operations that are financed and operated in a manner similar to business enterprises where the intent is that the costs of providing services on a continuing basis be financed or recovered primarily through user charges.

**STATE OF NEW JERSEY
HEALTH BENEFITS PROGRAM FUNDS, DENTAL EXPENSE
PROGRAM FUND AND PRESCRIPTION DRUG PROGRAM FUNDS**

Notes to Financial Statements, Continued

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting:

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All funds, except for the governmental funds, are accounted for using an economic resources measurement focus. Funds that focus on total economic resources employ the accrual basis of accounting, which recognizes increases and decreases in economic resources as soon as the underlying event or transaction occurs.

The governmental funds are accounted for using a current financial resources measurement focus and modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases, i.e., revenues and other financing additions, and decreases, i.e., expenditures and other deductions, in net assets.

The modified accrual basis of accounting is used for measuring financial position and changes in financial position for the governmental funds. Under this method, revenues are recognized when measurable and available, and expenditures are recognized when due and payable.

The focus of the government-wide statements and proprietary funds measurement is upon determination of net income, financial position and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector.

Capital Assets:

Capital assets utilized by the Division include equipment which is owned by the State of New Jersey.

Investment Valuation:

Investments, including short-term investments (State of New Jersey Cash Management Funds) are reported at fair value.

The State of New Jersey Division of Investment, under the jurisdiction of the State Investment Council, has the investment responsibility for all funds administered by the State of New Jersey Division of Pensions and Benefits. All investments must conform to standards set by state law.

The State of New Jersey, Department of the Treasury, Division of Investment, issues publicly available financial reports that include the financial statements of the State of New Jersey Cash Management Fund. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 290, Trenton, New Jersey 08625-0290.

The purchase, sale, receipt of income, and other transactions affecting investments are governed by custodial agreements between the Funds, through the State Treasurer, and custodian banks as agents for the Funds. State laws and policies set forth the requirements of such agreements and other particulars as to the size of the custodial institutions, amount of the portfolio to be covered by the agreements, and other pertinent matters.

Federal securities are maintained at Federal Reserve Banks in Philadelphia and New York through the custodian banks in trust for the Funds. A significant portion of corporate equity and debt securities are maintained by the Depository Trust Company (DTC) through the custodian banks in trust for the Funds. The custodian banks as agents for the Funds maintain internal accounting records identifying the securities maintained by the Federal Reserve Banks and the DTC as securities owned by or pledged to the Funds.

Securities not maintained by the Federal Reserve Banks or DTC are in the name of a designated nominee representing the securities of the Funds, which establishes the Funds' unconditional right to the securities.

New Legislation:

Chapter 246, P.L. 2004, "Domestic Partnership Act" establishes the rights and responsibilities of domestic partnerships effective July 10, 2004.

**STATE OF NEW JERSEY
HEALTH BENEFITS PROGRAM FUNDS, DENTAL EXPENSE
PROGRAM FUND AND PRESCRIPTION DRUG PROGRAM FUNDS**

Notes to Financial Statements, Continued

Chapter 172, P.L. 2004 allows part-time State employees and part-time faculty members at public institutions of higher education in this State to purchase SHBP coverage, effective January 1, 2004.

Chapter 3, P.L. 2003, effective January 27, 2003, amends the statutes that allow a municipality that participates in the State Health Benefit Program – or a county or a municipality that participates in another group health benefits plan – to allow an employee who is eligible for other health care coverage to waive coverage to which the employee is entitled as an employee of the county or the municipality.

Chapter 119, P.L. 2003, effective July 1, 2003, provides that a State employee enrolled in SHBP on or after July 1, 2003 may not be eligible for coverage in the traditional plan pursuant to a binding collective negotiation agreement by the State Health Benefits Commission.

Membership and Contributing Employers:

Membership in the funds administered by the Division consisted of the following as of June 30, 2004:

| | STATE | LOCAL | TOTAL |
|-----------------------------------|--------------|--------------|--------------|
| Health Benefits Program Fund* | 142,342 | 216,267 | 358,609 |
| Prescription Drug Program Fund | 109,831 | 38,333 | 148,164 |
| Dental Expense Program Fund | 99,072 | — | 99,072 |
| * active and retired participants | | | |

Administrative Expenses:

Administrative expenses are paid by the funds to the State of New Jersey, Department of the Treasury and are included in the accompanying statements of changes in net assets and fund balances.

Cash and Cash Equivalents:

GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Purchase Agreements*, requires that deposits held in financial institutions be categorized to indicate the level of custodial risk assumed by the entity. Category 1 consists of deposits that are insured or collateralized with securities held by the entity or by its agent in the entity's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institutions trust department or agent in the entity's name. Category 3 consists of deposits which are uninsured and uncollateralized.

Based upon aggregate collateral levels maintained for all State bank accounts as a whole, substantially all cash balances maintained in financial institutions as of June 30, 2004, which includes funding for the July 1, 2004 retirement payroll, are designated Category 3.

(3) CONTRIBUTIONS

Contribution Requirements - SHBP- State and Local

Contributions to pay for the health premiums of participating employees in the State Health Benefits Program (SHBP) are collected from the State of New Jersey, participating local employers, active members, retired members, the Public Employees' Retirement System (PERS), and the Teachers' Pension and Annuity Fund (TPAF). The State of New Jersey provides contributions for State employees through State appropriations. These appropriations are generally distributed to the SHBP on a monthly basis. Local employer payments, active and retired member contributions, and payments from the PERS and TPAF are generally received on a monthly basis. Certain State employees share in the cost of their premiums, as provided by Chapter 8, P.L. 1996.

**STATE OF NEW JERSEY
HEALTH BENEFITS PROGRAM FUNDS, DENTAL EXPENSE
PROGRAM FUND AND PRESCRIPTION DRUG PROGRAM FUNDS**

Notes to Financial Statements, Continued

Under the provisions of Chapter 8, P.L. 1996, the SHBP implemented premium sharing for employees covered under the State component of the program. Chapter 8 authorizes the State to negotiate premium sharing in the collective bargaining agreements governing employment of State employees. Premium sharing also applies to Retired group coverage for employees who attain 25 years of creditable pension service after July 1, 1997 or who retire on a Disability retirement after that same date. Those employees not represented by any bargaining unit premium share in accordance with rules established by the State Health Benefits Commission. Local group employees are not affected by the premium sharing provisions of Chapter 8, P.L. 1996.

Contribution Requirements - PDPF- State and Local

Contributions to pay for the premiums of participating employees in the Prescription Drug Program Fund are collected from the State of New Jersey, participating local employers, and former active and retired members who have elected to participate under the rules of COBRA. The State of New Jersey provides contributions for State employees through State appropriations. These appropriations are distributed to the PDPF on a monthly basis. Local employer payments as well as COBRA contributions are also received on a monthly basis.

Contribution Requirements - DEPF

Contributions to pay for the premiums of participating employees in the State Employee Dental Expense Program Fund are collected from the State of New Jersey, active employees, and former and retired members who have elected to participate under the rules of COBRA. The cost of the premiums is shared equally by the State of New Jersey and active State employees. Former and retired employees who have chosen to participate under the rules of COBRA pay the full cost of the premium. The State of New Jersey provides contributions through State appropriations. These appropriations are distributed to the DEPF on a biweekly and monthly basis. The active member share of the cost of premiums is paid to the State on a biweekly and monthly basis. Members participating under COBRA remit their payments on a monthly basis.

(4) VESTING AND BENEFITS

Vesting and Benefit Provisions - SHBP - State and Local

The Program provides medical coverage to qualified active and retired participants. Under Chapter 136, P.L. 1977, the State of New Jersey pays for the health insurance coverage of all enrolled retired State employees (regardless of age) whose pensions are based upon 25 years or more of credited service or a disability retirement regardless of years of service. The State of New Jersey also provides free coverage to members of the Public Employees' Retirement System, Teachers' Pension and Annuity Fund, and the Alternate Benefit Program who retire from a board of education or county college with 25 years of service or on a disability retirement. Partially funded benefits are also provided to local police officers and firefighters who retire with 25 years of service (or on disability) from an employer who does not provide coverage. Retirees who are not eligible for employer paid health coverage at retirement can continue in the program by paying the cost of the insurance for themselves and their covered dependents.

Benefit Provisions - PDPF - State and Local

The Program provides coverage to employees and their eligible dependents for drugs which under federal or State law may be dispensed only upon a prescription written by a physician. State and local employees are eligible for coverage after 60 days of employment.

Benefit Provisions - DEPF

The Program provides coverage to employees and their eligible dependents for dental services performed by a qualified dentist. State employees are eligible for coverage after 60 days of employment.

**STATE OF NEW JERSEY
HEALTH BENEFITS PROGRAM FUNDS, DENTAL EXPENSE
PROGRAM FUND AND PRESCRIPTION DRUG PROGRAM FUNDS**

Notes to Financial Statements, Continued

(5) RESERVE FUNDS

The Funds maintain the following legally required reserve funds as follows:

Reserve Fund - SHBP - State (\$57,156,643); PDPF - State (\$27,573,430); DEPF (\$17,661,116)

The net assets of the SHBP - State, PDPF - State, and DEPF are available to pay claims of future periods. These reserves are maintained by the Funds to stabilize rates and to meet unexpected increase in claims.

Reserve Fund - SHBP - Local (\$128,370,731); PDPF - Local (\$8,978,459)

The SHBP - local has net assets of \$128,370,731 as of June 30, 2004. The deficit of the fiscal year 2002 was made up by a rate action.

The PDPF - local has net assets, which are available to pay claims of future periods.

**STATE OF NEW JERSEY
HEALTH BENEFITS PROGRAM FUNDS, DENTAL EXPENSE
PROGRAM FUND AND PRESCRIPTION DRUG PROGRAM FUNDS**

Notes to Financial Statements, Continued

(6) UNPAID CLAIMS LIABILITIES

As discussed in Note 2, the proprietary funds established liabilities for both reported and unreported claims, which includes estimates of future payments of claims and related claim adjustment expenses. The following represent changes in those aggregate liabilities for the proprietary funds during the year:

| | HEALTH BENEFITS PROGRAM FUND LOCAL | PRESCRIPTION DRUG PROGRAM FUND LOCAL |
|--|---|---|
| Unpaid claims at beginning of year | \$ 200,486,104 | \$ 4,700,000 |
| Incurred claims: | | |
| Provision for insured events of current year | 1,613,409,939 | 83,434,793 |
| Payments | <u>(1,563,654,900)</u> | <u>(81,804,793)</u> |
| Unpaid claims at end of year | <u>\$ 250,241,143</u> | <u>\$ 6,330,000</u> |

**STATE OF NEW JERSEY
HEALTH BENEFITS PROGRAM FUNDS,
DENTAL EXPENSE PROGRAM FUND AND
PRESCRIPTION DRUG PROGRAM FUNDS**

Loss Development Information

June 30, 2004

| HEALTH BENEFITS PROGRAM FUND - LOCAL | FISCAL YEAR ENDED JUNE 30, 2004 |
|---|--|
| | <hr/> |
| Premiums and investment revenue | |
| Earned | \$ 1,687,503,316 |
| Estimated expenses | 1,617,245,564 |
| | |
| PRESCRIPTION DRUG PROGRAM FUND - LOCAL | FISCAL YEAR ENDED JUNE 30, 2004 |
| | <hr/> |
| Premiums and investment revenue | |
| Earned | \$ 84,093,557 |
| Estimated expenses | 83,434,793 |

New Jersey State Health Benefits Program
Related State Legislation

The State Health Benefits Program was established by state statute, cited as N.J.S.A. 52:14-17.25 et. seq. A brief description of the key laws modifying this section of the statute is provided below.

- Chapter 49, P.L. 1961** established the State Health Benefits Program. The State Health Benefits Commission was authorized to solicit and award contracts for hospitalization, medical-surgical, and major medical insurance benefits with the cost to be paid by the State for employee coverage. Optional coverage for dependents was to be provided at the employee's expense.
- Chapter 125, P.L. 1964** permitted State Health Benefits Program coverage for local public employees at the option of each public employer. This law also allowed continuation of coverage from the Active Group into the Retired Group.
- Chapter 75, P.L. 1972** provided for state payment of retired health benefits coverage of all enrolled retired state employees and their dependents, retired after July 1, 1972, whose pensions are based on 25 years of credited service (except those who elected a deferred retirement) or a disability retirement based on fewer years credited service. It also provided for state reimbursement of Part B Medicare premiums for eligible retired State employees and their dependents.
- Chapter 111, P.L. 1973** allowed local employers to elect to pay for health benefits coverage and reimburse Part B Medicare premiums of certain eligible retired employees and their dependents. Eligible employees include those who had retired on or after July 1, 1972, and receive a retirement benefit from a state- or locally-administered retirement system based on 25 years of credited service (excluding those who elected a deferred retirement) or retired on a disability pension based on fewer years service.
- Chapter 337, P.L. 1973** allowed an employee to elect to enroll in a Health Maintenance Organization. The employee is permitted to elect HMO participation at least once a year.
- Chapter 88, P.L. 1974** allowed local employers who had adopted the provisions of Chapter 111, P.L. 1973, to extend coverage to eligible enrolled retirees who retired between July 1, 1964, and June 30, 1972.
- Chapter 136, P.L. 1977** amended Chapter 75, P.L. 1972 to extend the eligibility for State-paid coverage to those otherwise eligible retirees who retired between July 1, 1964, and June 30, 1972, and were enrolled for Retired Group coverage.
- Chapter 54, P.L. 1979** allowed local employers who had adopted the provisions of Chapter 88, P.L. 1974 to extend benefits to those eligible retirees who had retired between July 1, 1964, and the date the employer joined the State Health Benefits Program.
- Chapter 436, P.L. 1981** allowed employers who adopted the provisions of Chapter 88, P.L. 1974, to also include surviving spouses of eligible retirees. The law also gave employers who had adopted Chapter 88, P.L. 1974, the option of including otherwise eligible employees who retired after the employer joined the State Health Benefits Program but who had not continued coverage into retirement because they had to pay for it.
- Chapter 384, P.L. 1987**, although designed to bring benefits for retired teachers in line with those for state retirees, affected many other retirees also. The law permitted the Teachers' Pension and Annuity Fund (TPAF) to pay for the State Health Benefits Program coverage of members receiving retirement allowances based upon 25 or more years of credited service or a disability retirement (regardless of years of service). In addition to paying for the cost of coverage, the pension fund reimburses eligible retirees and/or covered spouses for the cost of Part B (medical insurance) of the federal Medicare program. The TPAF

began paying for coverage as of June 1, 1988. Those eligible retirees not already enrolled were given an opportunity through May 31, 1988, to enroll in the program. One of the most important features of this law is that it applies to all eligible TPAF members (except those who elected a deferred retirement - adjusted by Chapter 126, P.L. 1992), not just those who belong to the State Health Benefits Program while actively employed. Beginning June 1, 1988, a new TPAF retiree qualifying for TPAF-paid coverage was offered the opportunity to join this program.

Another important feature of Chapter 384 was the elimination of the July 1, 1964, restrictions. Previously only those who retired on or after that date could enroll in the State Program. This allowed TPAF members who were eligible for TPAF-paid coverage to join the program regardless of their retirement date. Further, the law amended Chapter 136, P.L. 1977, to permit the State to pay for the coverage of eligible state individuals who retired prior to July 1, 1964; those eligible former state employees who had retired prior to July 1, 1964, even those who had not been teachers, were given an opportunity to enroll as of June 1, 1988. Finally, the law amended Chapter 54, P.L. 1979, to permit local employers who have adopted the provisions of Chapter 88, P.L. 1974, as amended by Chapter 436, P.L. 1981, to also agree to include all former employees who retired before the location joined the State Plan. Originally, Chapter 54 only applied to those who retired on or after July 1, 1964.

Chapter 386, P.L. 1987 required that, as of June 1, 1988, all boards of education in New Jersey must give their retirees an opportunity to join the employer's current health insurance plan. For a one-year period (from June 1, 1988, through May 31, 1989) former employees who were not eligible under another plan (for instance, those eligible under Chapter 384 would not be eligible under Chapter 386) must have been given the opportunity to enroll under the employer's group contract. The retiree would pay the cost of such coverage. If the employer belonged to the State Health Benefits Program, the retiree had the chance to enroll under the State Program regardless of the retirement date.

Chapter 6, P.L. 1989 redefined the qualifications of the carriers or providers of the health benefits with whom the State Health Benefits Commission may contract in order to provide such benefits to participants in the State Health Benefits Program. This law eliminated the former requirements that basically forced the State Health Benefits Program to use two specific carriers.

Chapter 48, P.L. 1989 established the same major medical benefits limit for retired employees in the State Health Benefits Program as is provided to active employees. The lifetime maximum available to retirees was previously significantly less than that provided Active Group employees.

Chapter 127, P.L. 1989 permits school employees who have been employed under a permanent appointment for at least three years to continue State Health Benefits Program coverage when they are on an approved leave of absence with or without pay up to a maximum of two years. The employer may pay the premiums for such coverage in these instances.

Chapter 271, P.L. 1989 provides that the State shall pay the State Health Benefits Program (State Health Benefits Program) costs for the surviving spouse and dependent children of members of the Police and Firemen's Retirement System (PFRS) and the State Police Retirement System (SPRS) who die as a result of an accident met in the actual performance of their duties. Such surviving spouses and dependent children can enroll in the State Health Benefits Program or, if enrolled in a local employer's plan, can obtain reimbursement of required premiums from the State. This law was approved on January 8, 1990, and applies to all present surviving spouses and dependent children of members for whom an accidental death benefit was payable.

Chapter 6, P.L. 1990 provides, in addition to other matters, that the premiums or periodic charges which the State is required to pay for the post-retirement health care benefits under the State Health Benefits Program to retired state employees of PERS and their dependents shall be paid by the retirement system and shall be funded in a manner similar to that provided for the funding of employer obligations for

retirement benefits. This law was effective March 8, 1990.

Chapter 126, P.L. 1992 provides that members of the Public Employees' Retirement System (PERS) and the Alternate Benefits Program (ABP) who retired from a school board of education or a county college with a benefit based upon 25 or more years of service or on a disability pension based upon fewer years of service credit and receive a retirement allowance from that system are eligible for state-paid health coverage regardless of employers' participation in the State Health Benefits Program

Members of PERS, TPAF, and ABP who retire from a school board of education or county college and elect deferred retirement based upon 25 or more years of service credit and receive a retirement allowance from that system will be eligible to enroll in the State Health Benefits Program This law also provides for the State to reimburse Part B Medicare premiums for the retirees' extended benefits under its provisions.

Chapter 8, P.L. 1993 provides that members of PERS, TPAF, and PFRS who retire from a school board of education, vocational/technical school, or a special service commission may be eligible to join the State Health Benefits Program providing they meet the following requirements: the member is currently participating in the health benefit plan of the employer for whom (s)he was previously employed, and (s)he is eligible for the full Medicare Parts A and B.

This law also imposes a surcharge on insurance carriers (including hospital service corporations, medical service corporations, health service corporations, and health maintenance organizations) that provide health coverage to local boards of education that do not participate in the State Health Benefits Program.

Chapter 275, P.L. 1994 makes special provisions for retirement coverage and Medicare reimbursement for a select group of county judicial employees from seven counties who became state employees under the terms of the State Judicial Unification Act. This law was enacted to fulfill the mandate of a 1993 constitutional referendum moving control of county courts to the State. The purpose of the law was to authorize the continuation of certain contractual benefits.

Chapter 259, P.L. 1995 authorizes municipalities which participate in the State Health Benefits Program or another group health benefits plan to allow an employee who is enrolled for health care coverage as a dependent of his/her spouse to waive coverage to which (s)he is entitled as an employee of the municipality. It permits a municipality to pay an employee an amount not to exceed 50% of the amount saved by the municipality because of the waiver. Any municipal employee waiving coverage under the State Health Benefits Program must file such waiver with the Division. Further, an employee who waives coverage shall be able to immediately resume coverage under the State Health Benefits Program if the employee ceases to be covered by the spouse for any reason by filing a declaration with the Division that the waiver is revoked.

Chapter 8, P.L. 1996 applies to state employees in the executive, legislative, and judicial branches of government as well as employees of the state universities and colleges and independent commissions and agencies participating in the State Health Benefits Program. The law applies to local employers only with regards to provisions affecting Medicare reimbursement for active employees and the HMO coverage restrictions. Chapter 8, P.L. 1996 ends Medicare reimbursement for active employees and their spouses; prohibits dual coverage by any individual in two State Health Benefits Program HMO contracts; allows active employee premium sharing resulting from labor contract agreements; allows retiree premium sharing resulting from labor contract agreements; allows adjustments to retiree Medicare reimbursement resulting from labor contract agreements; authorizes the State Health Benefits Commission to establish rules governing active employee and retiree premium sharing and retiree Medicare reimbursement for employees not represented by labor unions, that is, for nonaligned employees; and grandfathers retired health coverage and retiree Medicare reimbursement for employees who retire prior to July 1, 1997, and employees who have 25 years of credited pension service before July 1, 1997, regardless of when they

retire (except for deferred retirements).

Chapter 94, P.L. 1997 requires the State Health Benefits Program to provide coverage for a minimum of 72 hours of inpatient care following a modified radical mastectomy and a minimum of 48 hours of inpatient care following a simple mastectomy. The law also provides that a carrier under the program shall not require a health care provider to obtain authorization from the carrier for prescribing 72 or 48 hours, as appropriate, of inpatient care. The law shall not be construed to require a patient to receive inpatient care for 72 or 48 hours, as appropriate, if the patient in consultation with the patient's physician determines that a shorter length of stay is medically appropriate or relieve a patient or physician from any insurer notification requirements.

Chapter 330, P.L. 1997 provides health benefits to qualified retirees and their dependents (but not survivors), from the Police and Firemen's Retirement System (PFRS), the Consolidated Police and Firemen's Pension Fund (CPFPPF), or the Public Employees' Retirement System (PERS) if the service was as a law enforcement officer or in a position eligible for participation in the PFRS. A qualified retiree is one who:

1. retires with 25 or more years of service or on a disability retirement;
2. retires from an employer who does not currently provide any payment or compensation toward the cost of health benefits to the retiree for any period of time;
3. was eligible to receive health benefits coverage at the expense of the employer immediately preceding retirement; and
4. has no other employer group coverage as an "employee" as a result of employment while retired.

The State pays 80% of the cost of coverage for the least expensive plan covering all 21 counties in the State. The retiree pays the rest. Qualified retirees are eligible regardless of whether the retiree's employer participated in the State Health Benefits Program.

Chapter 335, P.L. 1997 provides State paid health benefits to a retired State employee and any dependents (not including survivors), to employees who retire under the State Police Retirement System (SPRS) prior to January 12, 1998 with more than 20 but less than 25 years of service credit in the SPRS; were subsequently employed by the State in another position(s) not covered by the SPRS; and have in the aggregate, at least 30 years of full-time employment with the State. To be eligible the employee must be covered by the State Health Benefits Program at the time of terminating full-time employment with the State.

Chapter 338, P.L. 1997 requires hospital, medical and health service corporations, individual, small employer and large group insurers, health maintenance organizations and the New Jersey State Health Benefits Program (State Health Benefits Program) to provide coverage for the therapeutic treatment of inherited metabolic diseases, including the purchase of medical foods and low protein modified food products, when diagnosed and determined to be medically necessary by the covered person's physician. An "inherited metabolic disease" is defined as a disease caused by an inherited abnormality of body chemistry such as phenylketonuria (PKU). A "Low protein modified food product" is a food product that is specially formulated to have less than one gram of protein per serving and is intended to be used under the direction of a physician for the dietary treatment of an inherited metabolic disease, but does not include a natural food that is naturally low in protein; and "medical food" is a food that is intended for the dietary treatment of a disease or condition for which nutritional requirements are established by medical evaluation and is formulated to be consumed under direction of a physician.

Chapter 44, P.L. 1998 abolishes the Department of Commerce and Economic Development and creates the New Jersey Commerce and Economic Growth Commission. Section 7 of the bill states that employees of the commission shall be enrolled in the Public Employees' Retirement System and shall be eligible to participate in the State Health Benefits Program. The Commission can, however, elect to provide health benefits for its employees through private insurance policies, hospital and medical service corporations,

HMOs, or any other manner available for the provision of health benefits, provided that the types of benefits do not provide less coverage than those benefits provided to other State employees.

Chapter 48, P.L. 1999 changes the way local employers participating in the State Health Benefits Program (State Health Benefits Program) can provide post-retirement health benefit coverage to its retired employees. The law makes the age and service eligibility requirements for employer payment of State Health Benefits Program health benefits coverage for retired employees the same as the requirements of N.J.S.40A:10-23 currently applicable to local government employers that do not participate in State Health Benefits Program. The employer may, by filing a resolution with the Division of Pensions and Benefits, assume the cost of post retirement medical coverage for employees (and their dependents) who:

1. retired on a disability pension; or
2. retired with 25 or more years of service credit in a State or locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement, such period as established by the employer; or
3. retired and reached the age of 65 with 25 or more years of service credit in a State or locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement, such period as established by the employer; or
4. retired and reached age 62 with at least 15 years of service with the employer.

Further, the law provides that the employer payment obligations for retiree coverage may be determined by means of a collective negotiations agreement. With respect to employees for whom there is no majority representative for collective negotiations purposes, the employer may, in its sole discretion, determine the payment obligations for the employer and the employees, except that if there are collective negotiations agreements binding upon the employer for employees who are within the same community of interest as employees in a collective negotiations unit, the payment obligations shall be determined in a manner consistent with the terms of any collective negotiations agreement applicable to the collective negotiations unit. This provision applies to all local employers except an independent State authority, board, commission, corporation, agency or organization covered by Chapter 8, P. L. 1996, and school boards.

This law includes a grandfather provision which provides that the payment obligations of an employee for State Health Benefits Program coverage in retirement shall be the payment obligations applicable to the employee on the date the employee retires on a disability pension or the date the employee meets the age and service requirements for employer payment for the coverage, as the case may be.

Chapter 390, P.L. of 1999 impacts the insured managed care plans that participate in the State Health Benefits Program. This law requires carriers which offer managed care plans, including health maintenance organizations and preferred provider organizations and selective contracting arrangements offered by health insurance companies in the State, to provide for the continuation of treatment by a physician, under certain circumstances, in the event that the physician is no longer employed by the carrier.

Specifically, the law permits a covered person who is receiving post-operative follow-up care, oncological treatment, psychiatric treatment or obstetrical care by a physician who is employed by or under contract with a carrier at the time the treatment is initiated, to continue to be treated by that physician for the duration of the treatment in the event that the physician is no longer employed by or under contract with the carrier as follows:

- (1) for a period not to exceed six months in the case of post-operative follow-up care;
- (2) for a period not to exceed one year in the case of oncological treatment and psychiatric treatment; and
- (3) through the duration of a pregnancy and up to six weeks after delivery in the case of obstetrical care.

The continuation of treatment by a particular physician shall be at the option of the covered person. The law also provides that a carrier which offers a managed care plan shall provide in that plan for continued coverage of other health care services by a physician who was employed by or under contract with the carrier at the time the treatment was initiated, but is no longer employed by or under contract with the carrier, for up to 120 calendar days in cases where it is medically necessary for the covered person to continue treatment with that physician.

Health care benefits or services, as applicable, shall be provided by the health benefits plan for treatment of the specified conditions and any medically necessary treatment to the same extent as such benefits or services were provided while the physician was employed by or under contract with the carrier. Reimbursement for the health care services shall be pursuant to the same fee schedule used to reimburse for the services when the physician was employed by or under contract with the carrier.

The law provides that a carrier shall not be liable for any inappropriate treatment provided to the covered person by a physician who is no longer employed by or under contract with the carrier. Also, the provisions of the law shall not apply to health care services provided by a physician who is the subject of disciplinary action by the State Board of Medical Examiners.

This law was approved on January 18, 2000.

Chapter 441, Public Law of 1999 requires that the State Health Benefits Commission provide the same coverage for biologically-based mental illness to persons covered under the State Health Benefits Program as that required for other health insurers and health maintenance organizations under P.L.1999, c.106. Specifically, this law:

- requires that coverage be provided for biologically-based mental illness under the same terms and conditions as provided for any other sickness under the contract;
- defines "biologically-based mental illness" as a mental or nervous condition that is caused by a biological disorder of the brain and results in a clinically significant or psychological syndrome or pattern that substantially limits the functioning of the person with the illness, including but not limited to, schizophrenia, schizoaffective disorder, major depressive disorder, bipolar disorder, paranoia and other psychotic disorders, obsessive-compulsive disorder, panic disorder and pervasive developmental disorder or autism;
- defines "same terms and conditions" to mean that a health insurance carrier cannot apply different copayments, deductibles or benefit limits to biologically-based mental health benefits than those applied to other medical or surgical benefits;
- stipulates that its provisions shall not be construed to change the manner in which a health insurance carrier determines:
 - a. whether a mental health care service meets the medical necessity standard as established by the carrier; or
 - b. which health care providers shall be entitled to reimbursement for providing services for mental illness under the contract; and
- requires the State Health Benefits Commission to provide notice to employees regarding the coverage required by this bill in accordance with the provisions of the bill and regulations adopted by the Commissioner of Health and Senior Services.

The law clarifies that its provisions are an exception to the provisions in N.J.S.A.52:14-17.29, which provides for annual and lifetime caps on eligible expenses incurred because of mental illness or functional nervous disorders (a category which is broader than the biologically-based mental illnesses addressed in this law) that are lower than for major medical expense benefits.

This law was approved on January 18, 2000.

Chapter 126, P. L. of 2000 revises certain mandates, requirements and procedures that are burdensome on counties, municipalities and school districts. It also resolves certain administrative ambiguities and encourages more business-like practices on the part of local units in order to effectuate cost savings that will benefit property taxpayers. It is an omnibus piece of legislation, much of which is not related to pension or health benefit coverage.

Sections of the law impacting health benefits coverage are as follows:

Section 24: Amends N.J.S.A. 40A:10-6 to permit certain local units to establish health benefits funds for the provision of contributory or non-contributory self-funded or partially self-funded health benefits for employees or their dependents, or both. Boards of education, venture commissions, educational service commissions, county special services school districts, county vocational-technical schools, and county colleges are not included in the provision. Previously, the law only permitted local units to enter into contracts for health insurance and was not clear whether local units could be self insured for health insurance without specific statutory authority. This provision validates local unit health benefits funds operating prior to the effective date of this law.

Section 25: Amends section 37 of P.L.1995, c.259 (N.J.S.A. 40A:10-17.1) to permit a county employee who receives health benefits as the dependent of his or her spouse, to waive health coverage under the county plan. Such persons could, at the discretion of the county, receive annually a payment from the county that does not exceed 50% of the county's savings because of the employee's waiver of coverage. Municipal employees received this right to waive coverage as a result of the enactment of P.L.1995, c.259.

This law was approved on September 21, 2000 and was effective immediately.

CHAPTER 189, P.L. 2001 extends to municipal authorities health benefit waiver provisions similar to those applicable to municipal employers under Chapter 259, P.L. 1995. Unlike Chapter 259, which applied to municipalities that participated in either the State Health Benefits Program or another group health plan, Chapter 189 only applies to municipal authorities that participate in the State Health Benefits Program. The law pertains to any municipal authority created by a municipality under either the municipal sewerage authorities law, N.J.S.A.40:14A-1 et seq., or the municipal and county utilities authority law, N.J.S.A.40:14B-1 et seq. A municipal authority that participates in the State Health Benefits Program, may allow any employee who is eligible for coverage as a dependent of the employee's spouse under that program or under another health benefits plan offered by the spouse's employer, whether a public or private employer, to waive the State Health Benefits Program coverage to which the employee is entitled by virtue of employment with the municipal authority. In consideration of filing such a waiver, a municipal authority may pay to the employee annually an amount, to be established in the sole discretion of the authority, which shall not exceed 50% of the amount saved by the authority because of the employee's waiver of coverage. Under this law, an employee who waives coverage will be permitted to immediately resume coverage if the employee ceases to be covered through the employee's spouse for any reason, including, but not limited to, the retirement or death of the spouse or divorce. An employee who resumes coverage will repay, on a pro rata basis, any amount received from the municipal authority which represents an advance payment for a period of time during which coverage is resumed.

The law also provides that the decision of a municipal authority to allow its employees to waive State Health Benefits Program coverage and the amount of consideration to be paid therefor will not be subject to the collective bargaining process.

This law was approved on July 31, 2001 and was effective immediately.

Chapter 200, P.L. 2001 requires providers of most health benefits plans that include prescription drug coverage to issue to their insured members an identification card containing standardized pharmacy information.

The law applies to any health insurance carrier, multiple employer welfare arrangement or other health benefits plan provider, its agents (including any pharmacy benefits manager or third party administrator for a self-insured health benefits plan), that provides, administers or manages coverage for prescription drugs provided on an outpatient basis. The law explicitly does not apply to providers of Medicaid fee for service, Medicare supplemental insurance, disability income and long-term care plans, hospital indemnity insurance, and various other plans offering restricted health benefit coverage.

The law stipulates that the card shall comply with the standards set forth in the National Council for Prescription Drug Programs Pharmacy ID Card Implementation Guide in effect at the time of card issuance or, at a minimum, contain the following information:

- (1) the insured's identification number;
- (2) the insured's name or, if the card is issued for another person included under the primary insured's coverage, that person's name;
- (3) if required for proper claims adjudication,
 - the name or identification number of the health benefits plan,
 - the American National Standards Institute International Identification Number assigned to the plan's administrator or pharmacy benefits manager,
 - the processor control number, and
 - the insured's group number;
- (4) the telephone number that providers may call for pharmacy benefits assistance; and
- (5) any other information needed for proper claims adjudication, except for information required to be provided on the prescription.

The law directs a plan provider to issue each primary insured a new pharmacy identification card within 180 days after a change in the insured's coverage that changes the information required to be included on the card. The plan provider does not, however, have to issue a new card more than once in a calendar year.

The law provides that a plan provider need not issue a special pharmacy identification card to an insured who has already been issued a general plan member identification card containing the information required under the law. Also, it allows providers to use data elements that are required by State or federal regulations adopted under the federal "Health Insurance Portability and Accountability Act of 1996" ("HIPAA") in place of the information required under the law.

This law was approved August 8, 2001 and was effective on September 1, 2002.

Chapter 209, P.L. 2001 amends the statutes governing a retiree's eligibility for paid coverage under the State Health Benefits Program.

This law provides that instead of having to meet the 25-year service credit requirement for paid post-retirement medical coverage in a single State or locally-administered retirement system, a public employee under the State Health Benefits Program may receive this benefit if the 25 years of service credit is in one or more State or locally-administered retirement systems.

This law was approved August 15, 2001 and was effective immediately.

Chapter 227, P.L. 2001 clarifies the requirements of Chapter 415, P.L.1995, which requires health insurers that cover groups of 51 or more persons and HMOs to provide benefits for Pap smears. This law stipulates that the required health insurance coverage shall include coverage for any confirmatory test, when medically necessary and as ordered by the woman's physician, and all laboratory costs associated with the initial Pap smear and any such confirmatory test.

This law also requires the State Health Benefits Commission to provide these same benefits to each person covered under the State Health Benefits Program.

This law was approved August 27, 2001 and was effective immediately.

Chapter 284, P.L. 2001 requires the State Health Benefits Program to ensure that any person covered under the program who is enrolled in a health maintenance organization or the NJ PLUS, will be provided with 90-days notice if that person's primary care physician will be terminated from the provider network by the plan. If 90-days notice cannot be provided because the termination will occur prior to the end of the 90-day period, the health maintenance organization or NJ PLUS must notify the member as soon as the health maintenance organization or NJ PLUS has knowledge of the termination. Upon receiving such notification, the covered person shall be permitted to change coverage to another health benefits plan, even though the physician's termination may occur outside of the annual open enrollment period.

This law was approved on December 27, 2001 and was effective immediately.

Chapter 367, P.L. 2001 applies to health care carriers which offer a managed care plan that provides for both in-network and out-of-network benefits. It requires a carrier to reimburse a health care facility for the services provided by the facility at the carrier's full contracted rate without any penalty for the patient's selection of an out-of-network health care provider, in accordance with the in-network policies and in-network copayment, coinsurance or deductible requirements of the managed care plan. This is so even if:

- a covered person is admitted by an out-of-network provider to an in-network health care facility for medically necessary health care services, or
- the covered person receives covered, medically necessary health care services from an out-of-network provider while the covered person is a patient at an in-network health care facility and was admitted to the health care facility by an in-network provider.

The law also amends the "Health Care Quality Act," N.J.S.A.26:2S-1 et seq., to require carriers which offer a managed care plan to disclose to subscribers, at the time of enrollment and annually thereafter, the carrier's preauthorization and review requirements of the health benefits plan regarding the determination of medical necessity that apply to a covered person who is admitted to an in-network health care facility, and the financial responsibility of the patient for the cost of services provided by an out-of-network admitting or attending health care practitioner.

The law applies to all policies and contracts issued or renewed on or after the date of enactment of the law.

Any contract purchased or renewed by the State Health Benefits Commission on or after the effective date of this Act, which provides hospital or medical expense benefits through a managed care plan, must meet the requirements of this law.

This law was approved on January 8, 2002 and was effective February 1, 2002..

The law also provides that the decision of a municipal authority to allow its employees to waive State Health Benefits Program coverage and the amount of consideration to be paid therefor will not be subject to the collective bargaining process.

This law was approved on January 8, 2002 and was effective February 1, 2002.

Chapter 23, P.L. 2002 Provides additional retirement benefits to eligible State employees and employees of State autonomous authorities who meet specified age and service requirements and who retire within a specified time period. State employees must retire on or after February 1, 2002, but no later than July 1, 2002. Employees of State autonomous authorities must retire on or after July 1, 2002, but no later than September 1, 2002 if the authority fiscal year ends on or before June 30, 2002. If the fiscal year ends after June 30, 2002, employees shall retire no earlier than two months before and not later than the first day of the calendar month after the close of the fiscal year. The offering of the additional retirement benefits is optional for the authorities.

The eligibility requirements and the additional benefits are as follows:

- Employees who are at least 50 years of age with at least 25 years of service credit under the Public Employees' Retirement System (PERS) or the Teachers' Pension and Annuity Fund (TPAF) will receive three additional years of service credit. Such members of the Alternate Benefit Program (ABP), federal Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS) will receive an amount equal to 60% of base annual salary. The amounts payable to members of the ABP and the federal systems will be paid in two separate installments.
- Employees who are at least 60 years of age with at least 20, but less than 25, years of service credit in PERS, TPAF or ABP, will receive payment by the retirement system or the State of retiree health care benefits on the same basis that the State currently pays for the coverage of retirees with 25 or more years of service credit. Authority employees already eligible for authority-paid health care benefits will receive \$500 per month for 24 months, as will employees of authorities which do not offer employer-paid retiree health care coverage.
- Employees who are at least 60 years of age with at least 10, but not more than 20, years of service credit in PERS, TPAF or ABP, will receive an additional pension or payment of \$500 a month for 24 months following the date of retirement.
- Employees who are at least 55 years of age with 25 or more years of service credit in PERS or TPAF and who retire on a veteran's retirement will receive an additional pension in the amount of 3/55 of the compensation upon which the retirement allowance is based.

Amounts payable to members of the ABP will be made to the employee's retirement annuity contract, up to the amount allowed by Section 415 of the Internal Revenue Code, and then to a contract on behalf of the employee that meets the requirements of Section 403(b) of the Code. Any amount in excess of the cumulative maximum contributions allowed under these Code provisions will be payable directly to the employee.

When the needs of State government, a college or university, or a State autonomous authority so require, an employee electing to retire under the law may continue in employment for up to one year with the approval of the employer and the agreement of the employee. If the employee dies during the period of continued employment, the retirement will become effective on the first day of the month after the date of death.

A State autonomous authority may elect to provide the benefits of this law by filing a resolution with the Division. A State autonomous authority which elects to offer the benefits provided by this law to its employees who are in PERS and which also has employees under other retirement systems or pension plans would be required to provide comparable benefits to those eligible employees.

The additional PERS and TPAF pension liabilities incurred by the State and electing State autonomous authorities will be added to their accrued liability and funded pursuant current pension laws governing unfunded accrued liabilities. Cash payments to ABP members will be made by the State colleges and universities.

The Director of the Division of Pensions and Benefits is required to report annually for five years to the Joint Budget Oversight Committee on the aggregate costs and savings resulting from the enactment of this substitute.

This law was effective on May 30, 2002.

Chapter 3, P.L. 2003 This law amends the statutes that allow a county, municipality, or contracting unit, as defined in the "Local Public Contracts Law" P.L. 1971 c. 198 (C. 40A:11-1 et seq.) that participates in the State Health Benefits Program or another group health benefits plan to allow an employee who is eligible for other health care coverage to waive coverage to which the employee is entitled as an employee of the county, municipality, or contracting unit.

The new law amends these statutes in two ways:

1. The ability to waiver is no longer limited to employees who have other coverage as a dependent of a spouse. It extends the waiver of coverage provisions to apply to any situation in which an employee is eligible for other health care coverage, and
2. The waiver provisions are extended to county colleges in the State Health Benefits Program or another group health benefits plan.

This law was effective January 27, 2003.

Chapter 27, P.L. 2003 This law requires:

- an employer that provides a health benefits plan to its employees or their dependents to provide 30 days' prior written notice to its employees if the plan is terminated, and
- a health insurer that increases premium rates upon the renewal of a health benefits plan to provide 60 days' prior written notice of the amount of a proposed increase to the employer that purchased the plans.

The provisions of this law apply to health benefits plans impacted by P.L. 1997, c. 192, otherwise known as the "Health Care Quality Act" (N.J.S.A. 26:2S-1 et seq.).

Although there is a question whether this law impacts the SHBP, the SHBP already meets or exceeds the notification provisions of this law.

This law was effective May 9, 2003.

Chapter 71, P.L. 2003 This law provides for the addition of two members to the membership of the State Health Benefits Commission. The current members are the State Treasurer who serves as the Chairman, the Commissioner of Banking and Insurance and the Commissioner of Personnel.

One of the additional members will be a State employees' representative chosen by the Public Employees' Committee of the AFL-CIO; the other will be a representative chosen by the New Jersey Education Association.

This law was effective May 5, 2003.

**NEW JERSEY STATE HEALTH BENEFITS PROGRAM
STATE MONTHLY ACTIVE GROUP
RATES EFFECTIVE 1/1/2004 TO 12/31/2004**

| | DESCRIPTION OF COVERAGE | STATE CONTRIBUTION | MAXIMUM EMPLOYEE CONTRIBUTION | TOTAL |
|---------------------------------------|------------------------------------|-------------------------------|--|--------------|
| NJ PLUS-#001 | Single | \$286.23 | ----- | \$286.23 |
| | Member & Spouse | \$623.88 | ----- | \$623.88 |
| | Family | \$742.57 | ----- | \$742.57 |
| | Parent & Child | \$430.61 | ----- | \$430.61 |
| TRADITIONAL-#002 | Single | \$343.31 | \$114.43 | \$457.74 |
| | Member & Spouse | \$734.77 | \$244.92 | \$979.69 |
| | Family | \$874.50 | \$291.50 | \$1,166.00 |
| | Parent & Child | \$507.08 | \$169.02 | \$676.10 |
| AETNA, INC.-#019 | Single | \$269.88 | \$14.20 | \$284.08 |
| | Member & Spouse | \$596.19 | \$31.37 | \$627.56 |
| | Family | \$693.42 | \$36.49 | \$729.91 |
| | Parent & Child | \$399.27 | \$21.01 | \$420.28 |
| CIGNA HEALTHCARE-#020 | Single | \$308.57 | \$16.24 | \$324.81 |
| | Member & Spouse | \$673.06 | \$35.42 | \$708.48 |
| | Family | \$802.75 | \$42.24 | \$844.99 |
| | Parent & Child | \$463.18 | \$24.37 | \$487.55 |
| OXFORD-#028 | Single | \$275.88 | \$14.51 | \$290.39 |
| | Member & Spouse | \$606.84 | \$31.93 | \$638.77 |
| | Family | \$717.18 | \$37.74 | \$754.92 |
| | Parent & Child | \$413.82 | \$21.77 | \$435.59 |
| AMERIHEALTH-#033 | Single | \$289.94 | \$15.25 | \$305.19 |
| | Member & Spouse | \$645.01 | \$33.94 | \$678.95 |
| | Family | \$751.18 | \$39.53 | \$790.71 |
| | Parent & Child | \$427.97 | \$22.52 | \$450.49 |
| HEALTH NET-#034 | Single | \$305.77 | \$16.09 | \$321.86 |
| | Member & Spouse | \$666.06 | \$35.05 | \$701.11 |
| | Family | \$808.54 | \$42.55 | \$851.09 |
| | Parent & Child | \$469.05 | \$24.68 | \$493.73 |
| PRESCRIPTION DRUG PROGRAM-#201 | Single | \$102.81 | ----- | \$102.81 |
| | Member & Spouse | \$234.99 | ----- | \$234.99 |
| | Family | \$246.82 | ----- | \$246.82 |
| | Parent & Child | \$137.22 | ----- | \$137.22 |

*Employee contribution: Traditional = 25%; HMOs = 5%.

(FOR EMPLOYERS **WITHOUT** A PRESCRIPTION DRUG PLAN)

NEW JERSEY STATE HEALTH BENEFITS PROGRAM
LOCAL MONTHLY ACTIVE GROUP - EDUCATION EMPLOYERS
RATES EFFECTIVE 1/1/2004 TO 12/31/2004

| PROGRAM | DESCRIPTION OF COVERAGE | EMPLOYER SINGLE COST | DEPENDENT COST | TOTAL |
|------------------------------|--------------------------------|-----------------------------|-----------------------|--------------|
| NJ PLUS-#001 | Single | \$312.71 | ----- | \$312.71 |
| | Member & Spouse | \$314.02 | \$381.95 | \$695.97 |
| | Family | \$314.50 | \$495.26 | \$809.76 |
| | Parent & Child | \$313.28 | \$148.47 | \$461.75 |
| TRADITIONAL-#002 | Single | \$430.60 | ----- | \$430.60 |
| | Member & Spouse | \$431.91 | \$502.84 | \$934.75 |
| | Family | \$432.39 | \$661.48 | \$1,093.87 |
| | Parent & Child | \$431.17 | \$195.34 | \$626.51 |
| AETNA, INC.-#019 | Single | \$401.68 | ----- | \$401.68 |
| | Member & Spouse | \$402.99 | \$467.42 | \$870.41 |
| | Family | \$403.47 | \$578.27 | \$981.74 |
| | Parent & Child | \$402.25 | \$152.25 | \$554.50 |
| CIGNA HEALTHCARE-#020 | Single | \$425.58 | ----- | \$425.58 |
| | Member & Spouse | \$426.89 | \$487.17 | \$914.06 |
| | Family | \$427.37 | \$626.00 | \$1,053.37 |
| | Parent & Child | \$426.15 | \$170.54 | \$596.69 |
| OXFORD-#028 | Single | \$349.87 | ----- | \$349.87 |
| | Member & Spouse | \$351.18 | \$418.42 | \$769.60 |
| | Family | \$351.66 | \$557.89 | \$909.55 |
| | Parent & Child | \$350.44 | \$174.34 | \$524.78 |
| AMERIHEALTH-#033 | Single | \$412.98 | ----- | \$412.98 |
| | Member & Spouse | \$414.29 | \$504.49 | \$918.78 |
| | Family | \$414.77 | \$655.23 | \$1,070.00 |
| | Parent & Child | \$413.55 | \$196.04 | \$609.59 |
| HEALTH NET-#034 | Single | \$424.50 | ----- | \$424.50 |
| | Member & Spouse | \$425.81 | \$498.92 | \$924.73 |
| | Family | \$426.29 | \$696.27 | \$1,122.56 |
| | Parent & Child | \$425.07 | \$226.16 | \$651.23 |

(FOR EMPLOYERS WITH A PRESCRIPTION DRUG PLAN)

NEW JERSEY STATE HEALTH BENEFITS PROGRAM
LOCAL MONTHLY ACTIVE GROUP - EDUCATION EMPLOYERS
RATES EFFECTIVE 1/1/2004 TO 12/31/2004

| PROGRAM | DESCRIPTION OF COVERAGE | EMPLOYER SINGLE COST | DEPENDENT COST | TOTAL |
|---------------------------------------|-------------------------|----------------------|----------------|----------|
| NJ PLUS-#001 | Single | \$275.00 | ----- | \$275.00 |
| | Member & Spouse | \$276.31 | \$335.73 | \$612.04 |
| | Family | \$276.79 | \$435.33 | \$712.12 |
| | Parent & Child | \$275.57 | \$130.50 | \$406.07 |
| TRADITIONAL-#002 | Single | \$350.86 | ----- | \$350.86 |
| | Member & Spouse | \$352.17 | \$413.05 | \$765.22 |
| | Family | \$352.65 | \$541.83 | \$894.48 |
| | Parent & Child | \$351.43 | \$160.43 | \$511.86 |
| AETNA, INC.-#019 | Single | \$301.30 | ----- | \$301.30 |
| | Member & Spouse | \$302.61 | \$363.02 | \$665.63 |
| | Family | \$303.09 | \$471.09 | \$774.18 |
| | Parent & Child | \$301.87 | \$143.90 | \$445.77 |
| CIGNA HEALTHCARE-#020 | Single | \$324.81 | ----- | \$324.81 |
| | Member & Spouse | \$326.12 | \$382.36 | \$708.48 |
| | Family | \$326.60 | \$518.39 | \$844.99 |
| | Parent & Child | \$325.38 | \$162.17 | \$487.55 |
| OXFORD-#028 | Single | \$290.39 | ----- | \$290.39 |
| | Member & Spouse | \$291.70 | \$347.07 | \$638.77 |
| | Family | \$292.18 | \$462.74 | \$754.92 |
| | Parent & Child | \$290.96 | \$144.63 | \$435.59 |
| AMERIHEALTH-#033 | Single | \$305.19 | ----- | \$305.19 |
| | Member & Spouse | \$306.50 | \$372.45 | \$678.95 |
| | Family | \$306.98 | \$483.73 | \$790.71 |
| | Parent & Child | \$305.76 | \$144.73 | \$450.49 |
| HEALTH NET-#034 | Single | \$321.86 | ----- | \$321.86 |
| | Member & Spouse | \$323.17 | \$377.94 | \$701.11 |
| | Family | \$323.65 | \$527.44 | \$851.09 |
| | Parent & Child | \$322.43 | \$171.30 | \$493.73 |
| PRESCRIPTION DRUG PROGRAM-#201 | Single | \$108.33 | ----- | \$108.33 |
| | Member & Spouse | \$108.33 | \$139.31 | \$247.64 |
| | Family | \$108.33 | \$152.05 | \$260.38 |
| | Parent & Child | \$108.33 | \$36.30 | \$144.63 |

(FOR EMPLOYERS **WITHOUT** A PRESCRIPTION DRUG PLAN)

NEW JERSEY STATE HEALTH BENEFITS PROGRAM
LOCAL MONTHLY ACTIVE GROUP - (EXCLUDES EDUCATION EMPLOYERS)
RATES EFFECTIVE 1/1/2003 TO 12/31/2003

| PROGRAM | DESCRIPTION OF COVERAGE | EMPLOYER SINGLE COST | DEPENDENT COST | TOTAL |
|------------------------------|----------------------------|-------------------------|-------------------|------------|
| NJ PLUS-#001 | Single | \$331.82 | ----- | \$331.82 |
| | Member & Spouse | \$333.13 | \$405.37 | \$738.50 |
| | Family | \$333.61 | \$525.65 | \$859.26 |
| | Parent & Child | \$332.39 | \$157.58 | \$489.97 |
| TRADITIONAL-#002 | Single | \$467.39 | ----- | \$467.39 |
| | Member & Spouse | \$468.70 | \$545.95 | \$1,014.65 |
| | Family | \$469.18 | \$718.21 | \$1,187.39 |
| | Parent & Child | \$467.96 | \$212.07 | \$680.03 |
| AETNA, INC.-#019 | Single | \$401.68 | ----- | \$401.68 |
| | Member & Spouse | \$402.99 | \$467.42 | \$870.41 |
| | Family | \$403.47 | \$578.27 | \$981.74 |
| | Parent & Child | \$402.25 | \$152.25 | \$554.50 |
| CIGNA HEALTHCARE-#020 | Single | \$425.58 | ----- | \$425.58 |
| | Member & Spouse | \$426.89 | \$487.17 | \$914.06 |
| | Family | \$427.37 | \$626.00 | \$1,053.37 |
| | Parent & Child | \$426.15 | \$170.54 | \$596.69 |
| OXFORD-#028 | Single | \$349.87 | ----- | \$349.87 |
| | Member & Spouse | \$351.18 | \$418.42 | \$769.60 |
| | Family | \$351.66 | \$557.89 | \$909.55 |
| | Parent & Child | \$350.44 | \$174.34 | \$524.78 |
| AMERIHEALTH-#033 | Single | \$412.98 | ----- | \$412.98 |
| | Member & Spouse | \$414.29 | \$504.49 | \$918.78 |
| | Family | \$414.77 | \$655.23 | \$1,070.00 |
| | Parent & Child | \$413.55 | \$196.04 | \$609.59 |
| HEALTH NET-#034 | Single | \$424.50 | ----- | \$424.50 |
| | Member & Spouse | \$425.81 | \$498.92 | \$924.73 |
| | Family | \$426.29 | \$696.27 | \$1,122.56 |
| | Parent & Child | \$425.07 | \$226.16 | \$651.23 |

(FOR EMPLOYERS WITH A PRESCRIPTION DRUG PLAN)

NEW JERSEY STATE HEALTH BENEFITS PROGRAM
LOCAL MONTHLY ACTIVE GROUP - (EXCLUDES EDUCATION EMPLOYERS)
RATES EFFECTIVE 1/1/2004 TO 12/31/2004

| PROGRAM | DESCRIPTION OF COVERAGE | EMPLOYER SINGLE COST | DEPENDENT COST | TOTAL |
|---------------------------------------|--------------------------------|-----------------------------|-----------------------|--------------|
| NJ PLUS-#001 | Single | \$302.96 | ----- | \$302.96 |
| | Member & Spouse | \$304.27 | \$370.05 | \$674.32 |
| | Family | \$304.75 | \$479.84 | \$784.59 |
| | Parent & Child | \$303.53 | \$143.84 | \$447.37 |
| TRADITIONAL-#002 | Single | \$410.60 | ----- | \$410.60 |
| | Member & Spouse | \$411.91 | \$483.64 | \$895.55 |
| | Family | \$412.39 | \$634.44 | \$1,046.83 |
| | Parent & Child | \$411.17 | \$187.89 | \$599.06 |
| AETNA, INC.-#019 | Single | \$301.30 | ----- | \$301.30 |
| | Member & Spouse | \$302.61 | \$363.02 | \$665.63 |
| | Family | \$303.09 | \$471.09 | \$774.18 |
| | Parent & Child | \$301.87 | \$143.90 | \$445.77 |
| CIGNA HEALTHCARE-#020 | Single | \$324.81 | ----- | \$324.81 |
| | Member & Spouse | \$326.12 | \$382.36 | \$708.48 |
| | Family | \$326.60 | \$518.39 | \$844.99 |
| | Parent & Child | \$325.38 | \$162.17 | \$487.55 |
| OXFORD-#028 | Single | \$290.39 | ----- | \$290.39 |
| | Member & Spouse | \$291.70 | \$347.07 | \$638.77 |
| | Family | \$292.18 | \$462.74 | \$754.92 |
| | Parent & Child | \$290.96 | \$144.63 | \$435.59 |
| AMERIHEALTH-#033 | Single | \$305.19 | ----- | \$305.19 |
| | Member & Spouse | \$306.50 | \$372.45 | \$678.95 |
| | Family | \$306.98 | \$483.73 | \$790.71 |
| | Parent & Child | \$305.76 | \$144.73 | \$450.49 |
| HEALTH NET-#034 | Single | \$321.86 | ----- | \$321.86 |
| | Member & Spouse | \$323.17 | \$377.94 | \$701.11 |
| | Family | \$323.65 | \$527.44 | \$851.09 |
| | Parent & Child | \$322.43 | \$171.30 | \$493.73 |
| PRESCRIPTION DRUG PROGRAM-#201 | Single | \$108.33 | ----- | \$108.33 |
| | Member & Spouse | \$108.33 | \$139.31 | \$247.64 |
| | Family | \$108.33 | \$152.05 | \$260.38 |
| | Parent & Child | \$108.33 | \$36.30 | \$144.63 |

NEW JERSEY STATE HEALTH BENEFITS PROGRAM
DENTAL PROGRAM
MONTHLY GROUP RATES EFFECTIVE 1/1/2004 TO 12/31/2004

| | DESCRIPTION OF COVERAGE | STATE CONTRIBUTION | EMPLOYEE CONTRIBUTION | TOTAL |
|--|----------------------------|-----------------------|--------------------------|----------|
| DENTAL EXPENSE PLAN - #399 | SINGLE | \$20.08 | \$20.08 | \$40.16 |
| | MEMBER & SPOUSE | \$30.95 | \$30.95 | \$61.90 |
| | FAMILY | \$51.34 | \$51.34 | \$102.68 |
| | PARENT & CHILD | \$40.45 | \$40.44 | \$80.89 |
| DENTAL PROVIDER ORGANIZATIONS (DPO) | | | | |
| HEALTHPLEX (DPO #307) | | | | |
| FORTIS (DPO #308) | | | | |
| FLAGSHIP HEALTH SYSTEMS, INC. (DPO #312) | | | | |
| HORIZON DENTAL CHOICE (DPO #317) | | | | |
| | SINGLE | \$9.35 | \$9.32 | \$18.67 |
| | MEMBER & SPOUSE | \$16.14 | \$16.31 | \$32.45 |
| | FAMILY | \$26.52 | \$26.57 | \$53.09 |
| | PARENT & CHILD | \$19.79 | \$19.54 | \$39.33 |
| BENECARE (DPO #301) | SINGLE | \$12.66 | \$9.32 | \$21.98 |
| | MEMBER & SPOUSE | \$21.88 | \$16.31 | \$38.19 |
| | FAMILY | \$35.92 | \$26.57 | \$62.49 |
| | PARENT & CHILD | \$26.75 | \$19.54 | \$46.29 |
| COMMUNITY DENTAL (DPO #302) | SINGLE | \$11.66 | \$9.32 | \$20.98 |
| | MEMBER & SPOUSE | \$20.15 | \$16.31 | \$36.46 |
| | FAMILY | \$33.08 | \$26.57 | \$59.65 |
| | PARENT & CHILD | \$24.64 | \$19.54 | \$44.18 |
| CIGNA (DPO #305) | SINGLE | \$9.81 | \$9.32 | \$19.13 |
| | MEMBER & SPOUSE | \$16.95 | \$16.31 | \$33.26 |
| | FAMILY | \$27.84 | \$26.57 | \$54.41 |
| | PARENT & CHILD | \$20.78 | \$19.54 | \$40.32 |
| GROUP DENTAL HEALTH ADMINISTRATORS (DPO #306) | SINGLE | \$9.71 | \$9.32 | \$19.03 |
| | MEMBER & SPOUSE | \$16.75 | \$16.31 | \$33.06 |
| | FAMILY | \$27.53 | \$26.57 | \$54.10 |
| | PARENT & CHILD | \$20.55 | \$19.54 | \$40.09 |
| UNITY (DPO #311) | SINGLE | \$8.40 | \$9.32 | \$17.72 |
| | MEMBER & SPOUSE | \$14.52 | \$16.31 | \$30.83 |
| | FAMILY | \$23.86 | \$26.57 | \$50.43 |
| | PARENT & CHILD | \$17.84 | \$19.54 | \$37.38 |
| DENTAL GROUP OF NEW JERSEY, INC. (DPO#314) | SINGLE | \$8.13 | \$9.32 | \$17.45 |
| | MEMBER & SPOUSE | \$14.04 | \$16.31 | \$30.35 |
| | FAMILY | \$23.06 | \$26.57 | \$49.63 |
| | PARENT & CHILD | \$17.24 | \$19.54 | \$36.78 |
| AETNA DMO (DPO #319) | SINGLE | \$8.46 | \$9.32 | \$17.78 |
| | MEMBER & SPOUSE | \$14.61 | \$16.31 | \$30.92 |
| | FAMILY | \$24.01 | \$26.57 | \$50.58 |
| | PARENT & CHILD | \$17.94 | \$19.54 | \$37.48 |

NEW JERSEY STATE HEALTH BENEFITS PROGRAM
STATE RETIRED GROUP
RATES EFFECTIVE 1/1/2004 TO 12/31/2004

| Description | NJ PLUS (001) | Traditional (002) | Aetna, Inc. (019) | Cigna Healthcare (020) | Oxford (028) | Amerihealth (033) | Health Net (034) |
|--------------------------------------|------------------|----------------------|----------------------|------------------------------|-----------------|----------------------|---------------------|
| Single — No Medicare | \$570.07 | \$637.04 | \$379.29 | \$425.58 | \$349.87 | \$412.98 | \$424.50 |
| Single — On Medicare | \$370.01 | \$376.21 | \$355.62 | \$355.62 | \$330.21 | \$364.84 | \$355.62 |
| Member & Spouse — No Medicare | \$1,242.54 | \$1,363.53 | \$821.92 | \$914.06 | \$769.60 | \$918.78 | \$924.73 |
| Member & Spouse — One on Medicare | \$940.08 | \$976.97 | \$745.64 | \$781.21 | \$678.43 | \$777.83 | \$780.13 |
| Member & Spouse — Both on Medicare | \$739.93 | \$752.44 | \$711.28 | \$711.28 | \$660.46 | \$729.72 | \$711.28 |
| Family — No Medicare | \$1,478.97 | \$1,622.84 | \$927.10 | \$1,053.37 | \$909.55 | \$1,070.00 | \$1,122.56 |
| Family — One on Medicare | \$1,176.43 | \$1,221.56 | \$893.94 | \$952.23 | \$794.58 | \$974.35 | \$1,006.77 |
| Family — Both on Medicare | \$976.31 | \$996.97 | \$859.58 | \$882.30 | \$850.22 | \$926.24 | \$937.91 |
| Parent & Child — No Medicare | \$857.62 | \$940.99 | \$523.66 | \$596.69 | \$524.78 | \$609.59 | \$651.23 |
| Parent & Child — Retiree on Medicare | \$606.36 | \$620.86 | \$503.92 | \$526.64 | \$548.66 | \$561.36 | \$582.25 |

**NEW JERSEY STATE HEALTH BENEFITS PROGRAM
LOCAL RETIRED GROUP - EDUCATION EMPLOYERS
RATES EFFECTIVE 1/1/2004 TO 12/31/2004**

| Description | NJ PLUS (001) | Traditional (002) | Aetna, Inc. (019) | Healthcare (020) | Oxford (028) | Amerihealth (033) | Health Net (034) |
|--------------------------------------|------------------|----------------------|----------------------|---------------------|-----------------|----------------------|---------------------|
| Single — No Medicare | \$521.73 | \$616.28 | \$401.68 | \$425.58 | \$349.87 | \$412.98 | \$424.50 |
| Single — On Medicare | \$350.29 | \$351.11 | \$355.62 | \$355.62 | \$330.21 | \$364.84 | \$355.62 |
| Member & Spouse — No Medicare | \$1,161.33 | \$1,342.29 | \$870.41 | \$914.06 | \$769.60 | \$918.78 | \$924.73 |
| Member & Spouse — One on Medicare | \$872.06 | \$947.15 | \$745.64 | \$781.21 | \$678.43 | \$777.83 | \$780.13 |
| Member & Spouse — Both on Medicare | \$700.60 | \$702.26 | \$711.28 | \$711.28 | \$660.46 | \$729.72 | \$711.28 |
| Family — No Medicare | \$1,351.17 | \$1,569.54 | \$981.74 | \$1,053.37 | \$909.55 | \$1,070.00 | \$1,122.56 |
| Family — One on Medicare | \$1,061.86 | \$1,152.39 | \$893.94 | \$952.23 | \$794.58 | \$974.35 | \$1,006.77 |
| Family — Both on Medicare | \$890.46 | \$911.24 | \$859.58 | \$882.30 | \$850.22 | \$926.24 | \$937.91 |
| Parent & Child — No Medicare | \$770.42 | \$898.40 | \$554.50 | \$596.69 | \$524.78 | \$609.59 | \$651.23 |
| Parent & Child — Retiree on Medicare | \$540.14 | \$560.26 | \$503.92 | \$526.64 | \$548.66 | \$561.36 | \$582.25 |

NEW JERSEY STATE HEALTH BENEFITS PROGRAM
LOCAL RETIRED GROUP - GOVERNMENT EMPLOYERS (EXCLUDES EDUCATION)
RATES EFFECTIVE 1/1/2004 TO 12/31/2004

| Description | NJ PLUS (001) | Traditional (002) | Aetna, Inc. (019) | Healthcare (020) | Oxford (028) | Amerihealth (033) | Health Net (034) |
|--------------------------------------|------------------|----------------------|----------------------|---------------------|-----------------|----------------------|---------------------|
| Single — No Medicare | \$521.73 | \$670.79 | \$401.68 | \$425.58 | \$394.87 | \$412.98 | \$424.50 |
| Single — On Medicare | \$350.29 | \$375.99 | \$355.62 | \$355.62 | \$330.21 | \$364.84 | \$355.62 |
| Member & Spouse — No Medicare | \$1,161.33 | \$1,461.09 | \$870.41 | \$914.06 | \$769.60 | \$918.78 | \$924.73 |
| Member & Spouse — One on Medicare | \$872.06 | \$1,010.92 | \$745.64 | \$781.21 | \$678.43 | \$777.83 | \$780.13 |
| Member & Spouse — Both on Medicare | \$700.60 | \$751.88 | \$711.28 | \$711.28 | \$660.46 | \$729.72 | \$711.28 |
| Family — No Medicare | \$1,351.17 | \$1,708.47 | \$981.74 | \$1,053.37 | \$909.55 | \$1,070.00 | \$1,122.56 |
| Family — One on Medicare | \$1,061.86 | \$1,238.47 | \$893.94 | \$952.23 | \$794.58 | \$974.35 | \$1,006.77 |
| Family — Both on Medicare | \$890.46 | \$979.45 | \$859.58 | \$882.30 | \$850.22 | \$926.24 | \$937.91 |
| Parent & Child — No Medicare | \$770.42 | \$977.93 | \$554.50 | \$596.69 | \$524.78 | \$609.59 | \$651.23 |
| Parent & Child — Retiree on Medicare | \$540.14 | \$603.58 | \$503.92 | \$526.64 | \$548.66 | \$561.36 | \$582.25 |

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