



**STATE OF NEW JERSEY  
STATE HEALTH BENEFIT PROGRAM FUNDS**

Financial Statements and Schedules

June 30 2013 and 2012

(With Independent Auditors' Report Thereon)

**STATE OF NEW JERSEY**  
**STATE HEALTH BENEFIT PROGRAM FUNDS**

Financial Statements and Schedules

June 30, 2013 and 2012

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Short Hills, NJ 07078-2702

## **Independent Auditors' Report**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the State of New Jersey State Health Benefit Program Funds (the Funds), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Funds' basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditors' Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net position of the State of New Jersey State Health Benefit Program Funds, as of June 30, 2013, and the respective changes in plan net position thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

### ***Other Matters***

#### *Predecessor Auditors' Opinion*

The accompanying financial statements, and the related notes to the financial statements, of the Funds as of and for the year ended June 30, 2012, were audited by other auditors whose report thereon dated November 5, 2012, expressed an unmodified opinion on those financial statements and the related notes to those financial statements.

#### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis and schedules of funding progress and employer contributions on pages 4–8 and 21-23, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Supplementary Information*

Our audit, for the year ended June 30, 2013, was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Funds' basic financial statements. The supplementary information included in schedules 3 through 8 (the Schedules) as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.



The Schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedules for the year ended June 30, 2013 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

KPMG LLP

Short Hills, New Jersey  
November 20, 2013

**STATE OF NEW JERSEY**  
**STATE HEALTH BENEFIT PROGRAM FUNDS**

Management's Discussion and Analysis

June 30, 2013 and 2012

Our discussion and analysis of the financial performance of the State of New Jersey State Health Benefit Program Funds (SHBP) – State, Local and Education (collectively the Funds) provides an overview of the Funds' financial activities for the fiscal years ended June 30, 2013 and 2012. Please read it in conjunction with the basic financial statements and related notes to the financial statements, which follow this discussion.

**2013 – 2012**

- Net position held in trust for benefits increased by \$63.9 million as a result of fiscal year 2013's operations from \$231.7 million to \$295.6 million.
- Additions for the year are \$5,469.0 million, which are comprised of member and employer pension contributions of \$5,467.6 million and investment income of \$1.4 million.
- Deductions for the year are \$5,405.1 million, which are comprised of benefit payments of \$5,395.7 million and administrative expenses of \$9.4 million.

**2012 – 2011**

- Net position held in trust for benefits decreased by \$306.8 million as a result of fiscal year 2012's operations from \$538.5 million to \$231.7 million.
- Additions for the year are \$4,967.7 million, which are comprised of member and employer pension contributions of \$4,966.3 million and investment income of \$1.4 million.
- Deductions for the year are \$5,274.5 million, which are comprised of benefit payments of \$5,266.2 million and administrative expenses of \$8.3 million.

**The Statements of Fiduciary Net Position and the Statements of Changes in Fiduciary Net Position**

This annual report consists of two financial statements: *The Statements of Fiduciary Net Position* and *The Statements of Changes in Fiduciary Net Position*. These financial statements report information about the Funds and about its activities to help you assess whether the Funds, as a whole, have improved or declined as a result of the year's activities. 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 Statements of Fiduciary Net Position* shows the balances of the assets and liabilities at the end of the fiscal year. The difference between assets and liabilities represents the Funds' net position. Over time, increases or decreases in the Funds' net position provide one indication of whether the financial health of the Funds is improving or declining. *The Statements of Changes in Fiduciary Net Position* show the results of financial operations for the year. The statement provides an explanation for the change in the Funds' net position since the prior year. These financial statements should be reviewed along with the information contained in the related notes to the financial statements, including the required supplementary schedules, to determine whether the Funds are becoming financially stronger or weaker.

**STATE OF NEW JERSEY  
STATE HEALTH BENEFIT PROGRAM FUNDS**

Management's Discussion and Analysis

June 30, 2013 and 2012

**Notes to the Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements and includes a description of the fiduciary funds.

**Financial Analysis**

**Summary of Fiduciary Net Position**

*2013 – 2012*

	<b>2013</b>	<b>2012</b>	<b>Increase</b>
Assets	\$ 912,148,601	791,674,255	120,474,346
Liabilities	616,581,166	559,998,567	56,582,599
Net position	\$ 295,567,435	231,675,688	63,891,747

Assets consist of cash and cash equivalents, 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). Between fiscal years 2012 and 2013, total assets increased by \$120.5 million or 15.2%. The increase in total assets is due to an increase in the investment holdings in the Cash Management Fund (CMF) of \$95.8 million and an increase in net receivables and cash and cash equivalents of \$24.7 million.

Liabilities consist of outstanding medical and long-term disability claim payments, classified under accounts payable and accrued expenses. Total liabilities increased by \$56.6 million or 10.1% due to an increase in claims payable.

Net position increased by \$63.9 million or 27.6%.

**Summary of Fiduciary Net Position**

*2012 – 2011*

	<b>2012</b>	<b>2011</b>	<b>Increase (decrease)</b>
Assets	\$ 791,674,255	991,996,620	(200,322,365)
Liabilities	559,998,567	453,489,031	106,509,536
Net position	\$ 231,675,688	538,507,589	(306,831,901)

Assets consist of cash and cash equivalents, investments, and contributions due from members, participating employers and former members who are covered under the rules of the COBRA. Between fiscal years 2011 and 2012, total assets decreased by \$200.3 million or 20.2%. The decrease in total assets is due to a reduction in the investment holdings in the CMF of \$130.8 million that were utilized to pay the claims of the funds, a decrease in receivables of \$78.4 million, and an increase in cash of \$8.9 million.

Liabilities consist of outstanding medical and long-term disability claim payments, classified under accounts payable and accrued expenses. Total liabilities increased by \$106.5 million or 23.5% due to an increase in claims payable.

**STATE OF NEW JERSEY  
STATE HEALTH BENEFIT PROGRAM FUNDS**

Management's Discussion and Analysis

June 30, 2013 and 2012

Net position decreased by \$306.8 million or 56.9%.

**Summary of Changes in Fiduciary Net Position**

2013 – 2012

	<u>2013</u>	<u>2012</u>	<u>Increase</u>
<b>Additions:</b>			
Member contributions	\$ 304,860,078	244,680,394	60,179,684
Employer contributions	5,162,767,727	4,721,637,111	441,130,616
Net investment income	1,378,523	1,361,300	17,223
Total additions	<u>5,469,006,328</u>	<u>4,967,678,805</u>	<u>501,327,523</u>
<b>Deductions:</b>			
Benefits	5,395,752,981	5,266,242,035	129,510,946
Administrative expenses	9,361,600	8,268,671	1,092,929
Total deductions	<u>5,405,114,581</u>	<u>5,274,510,706</u>	<u>130,603,875</u>
Changes in net position	<u>\$ 63,891,747</u>	<u>(306,831,901)</u>	<u>370,723,648</u>

Additions consist of member and employer contributions and earnings from CMF investment activities. Total additions increased by \$501.3 million or 10.1% primarily due to an increase in member and employer contributions.

Member contributions increased by \$60.2 million or 24.6%. In SHBP – State member contributions increased by \$50.7 million or 33.3%, in SHBP – Local member contributions increased by \$6.9 million or 16.1%, and in SHBP – Education member contributions increased by \$2.6 million or 5.2%. Active employee contributions increased as a result of Chapter 78, P.L. 2011 premium share requirements. In plan year 2013, the active employee group rate for SHBP – State increased by 6.9%, in SHBP – Local the increase was 7.9%, and in SHBP – Education the increase was 14.7%. SHBP membership increases between plan years 2012 and 2013 also contributed to the higher member contributions.

The SHBP – State employer contributions increased by \$57.3 million. For the SHBP – Local, employer contributions increased by \$155.7 million. For the SHBP – Education, employer contributions increased by \$228.1 million. These increases are attributable to rate increases effective January 1, 2012 and 2013, as well as an increase in the number of covered members.

Net investment income slightly increased by \$17.2 thousand or 1.3%.

Deductions primarily consist of claim charges for the self-insured health and prescription drug, and administrative expenses. During the year, total expenses increased by \$130.6 million or 2.5% due to an increase in claims paid.

**STATE OF NEW JERSEY  
STATE HEALTH BENEFIT PROGRAM FUNDS**

Management's Discussion and Analysis

June 30, 2013 and 2012

**Summary of Changes in Fiduciary Net Position**

2012 – 2011

	<u>2012</u>	<u>2011</u>	<u>Increase (decrease)</u>
Additions:			
Member contributions	\$ 244,680,394	233,187,835	11,492,559
Employer contributions	4,721,637,111	4,607,439,545	114,197,566
Net investment income	1,361,300	2,777,355	(1,416,055)
Total additions	<u>4,967,678,805</u>	<u>4,843,404,735</u>	<u>124,274,070</u>
Deductions:			
Benefits	5,266,242,035	4,750,880,105	515,361,930
Administrative expenses	8,268,671	9,030,035	(761,364)
Total deductions	<u>5,274,510,706</u>	<u>4,759,910,140</u>	<u>514,600,566</u>
Changes in net position	<u>\$ (306,831,901)</u>	<u>83,494,595</u>	<u>(390,326,496)</u>

Additions consist of member and employer contributions and earnings from CMF investment activities. Total additions increased by \$124.3 million or 2.6% primarily due to an increase in employer contributions.

Member contributions increased by \$11.5 million or 4.9%. In the SHBP – State, the member contributions increased by \$11.7 million or 8.3%, in SHBP – Local the member contributions increased by \$2.9 million or 7.3% and in SHBP – Education, the member contributions decreased by \$3.1 million or 5.9%. Active employee contributions increased as a result of Chapter 78, P.L. 2011 premium share requirements. In plan year 2012 the active employee group rate for SHBP – State increased by 9.0%, in SHBP – Local the increase was 10.3% and in SHBP–Education, the increase was 10.1%. SHBP membership increases between plan year 2011 and 2012 also contributed to the higher member contributions. However, in the SHBP – Education total member contributions decreased between fiscal years 2011 and fiscal year 2012 due to a reduction in the number of self pay members with adult child coverage as a result of the extension of coverage for qualified adult children under the provisions of the Federal Patient Protection and Affordable Care Act (PPACA).

The SHBP – State employer contributions decreased by \$82.0 million. This is a result of using available reserves to cover claims. For the SHBP – Local, employer contributions increased by \$89.1 million. For the SHBP – Education, employer contributions increased by \$107.0 million. These increases are attributable to rate increases effective January 1, 2011.

Net investment income decreased by \$1.4 million or 51.0% primarily due to the lower investment return in fiscal year 2012 as compared to fiscal year 2011.

Deductions primarily consist of claim charges for the self-insured health and prescription drug, and administrative expenses. During the year, total expenses increased by \$514.6 million or 10.8% due to an increase in claims paid.

**STATE OF NEW JERSEY**  
**STATE HEALTH BENEFIT PROGRAM FUNDS**

Management's Discussion and Analysis

June 30, 2013 and 2012

**Overall Financial Condition of the Funds**

For the SHBP – Education, total revenues recognized exceeded total expenses incurred by \$41.3 million, increasing the surplus at the beginning of the year from \$183.9 million to \$225.2 million at year-end. This increase is attributable to a gain on the active member side. The contribution rates for active members for calendar year 2012 and 2013 included a 2% margin in order to produce a gain to raise the Claim Stabilization Reserve (CSR). The target CSR is equivalent to 2 months of plan costs and, as of June 30, 2013, the CSR is approximately 1.5 months of plan costs. For the SHBP – State, total expenses incurred exceeded total revenues recognized by \$53.0 million, increasing the balance from a deficit at the beginning of the year of \$100.1 million to a deficit of \$153.2 million at year end. This increase in the deficit balance is due to the State contributing less than the full required premium contributions in order to utilize available cash reserves to meet incurred claim charges. For the SHBP – Local, total revenues recognized exceeded total expenses incurred by \$75.6 million, increasing the surplus at the beginning of the year from \$147.9 million to \$223.5 million at year-end. The increase in the surplus is due to margin being added to the calendar year 2012 and 2013 premium rates in order to raise reserve levels.

For the State Health Benefit Program Funds for fiscal year 2013, based on the current actuarial valuation dated July 1, 2012, the State had a \$19.3 billion unfunded actuarial accrued liability for other post-employment benefits (OPEB) under Governmental Accounting Standards Board (GASB) Statement No. 43 for the SHBP – State active and retired members and \$32.2 billion for the SHBP – Education employees and retirees that become the obligation of the State of New Jersey upon retirement. In comparison, based on the prior year actuarial valuation, the State had a \$18.1 billion unfunded actuarial accrued liability for the SHBP – State active and retired members and \$30.9 billion for the SHBP – Education employees and retirees. This increase in the post-retirement medical unfunded actuarial accrued liability (UAAL) is attributable to the State funding post-retirement medical benefits on a pay-as-you-go basis as opposed to funding on an actuarial reserve basis. The SHBP – Local fiscal year 2013 unfunded actuarial accrued liability for OPEB based on the same actuarial valuation was \$12.4 billion, and for the prior year actuarial valuation, the liability was \$11.1 billion.

**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. This report is available on the Division of Pensions and Benefits website at [www.state.nj.us/treasury/pensions](http://www.state.nj.us/treasury/pensions). 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  
STATE HEALTH BENEFIT PROGRAM FUNDS**

Statement of Fiduciary Net Position

June 30, 2013

	<b>State Health Benefit Program Fund State</b>	<b>State Health Benefit Program Fund Local</b>	<b>State Health Benefit Program Fund Education</b>
Assets:			
Cash and cash equivalents	\$ 816,188	450,743	388,507
Investments, at fair value:			
Cash Management Fund	58,829,316	276,062,786	431,574,077
Total investments	58,829,316	276,062,786	431,574,077
Receivables:			
Contributions:			
Members	531,090	872,245	792,537
Employers	6,227,807	74,989,837	57,704,981
Other	924,587	847,594	1,136,306
Total receivables	7,683,484	76,709,676	59,633,824
Total assets	67,328,988	353,223,205	491,596,408
Liabilities:			
Accounts payable and accrued expenses	220,496,302	129,671,252	266,413,612
Total liabilities	220,496,302	129,671,252	266,413,612
Net position:			
Held in trust for health benefits	\$ (153,167,314)	223,551,953	225,182,796

See accompanying notes to financial statements.



**STATE OF NEW JERSEY  
STATE HEALTH BENEFIT PROGRAM FUNDS**

Statement of Changes in Fiduciary Net Position

Year ended June 30, 2013

	<b>State Health Benefit Program Fund State</b>	<b>State Health Benefit Program Fund Local</b>	<b>State Health Benefit Program Fund Education</b>
Additions:			
Contributions:			
Members	\$ 202,711,158	50,048,889	52,100,031
Employers	1,749,261,868	1,088,415,378	2,325,090,481
Total contributions	1,951,973,026	1,138,464,267	2,377,190,512
Investment income:			
Net appreciation in fair value of investments	1,735	3,131	3,349
Interest	332,015	403,866	634,427
Net investment income	333,750	406,997	637,776
Total additions	1,952,306,776	1,138,871,264	2,377,828,288
Deductions:			
Benefits	2,001,820,015	1,061,533,307	2,332,399,659
Administrative expenses	3,510,600	1,713,172	4,137,828
Total deductions	2,005,330,615	1,063,246,479	2,336,537,487
Net (decrease) increase	(53,023,839)	75,624,785	41,290,801
Net position held in trust for health benefits:			
Beginning of year	(100,143,475)	147,927,168	183,891,995
End of year	\$ (153,167,314)	223,551,953	225,182,796

See accompanying notes to financial statements.

**STATE OF NEW JERSEY  
STATE HEALTH BENEFIT PROGRAM FUNDS**

Statement of Changes in Fiduciary Net Position

Year ended June 30, 2012

	<b>State Health Benefit Program Fund State</b>	<b>State Health Benefit Program Fund Local</b>	<b>State Health Benefit Program Fund Education</b>
Additions:			
Contributions:			
Members	\$ 152,051,630	43,109,391	49,519,373
Employers	1,691,931,065	932,727,716	2,096,978,330
Total contributions	1,843,982,695	975,837,107	2,146,497,703
Investment income:			
Net depreciation in fair value of investments	(23,086)	(20,975)	(67,295)
Interest	209,428	391,077	872,151
Net investment income	186,342	370,102	804,856
Total additions	1,844,169,037	976,207,209	2,147,302,559
Deductions:			
Benefits	1,957,384,329	979,913,607	2,328,944,099
Administrative expenses	3,100,752	1,513,167	3,654,752
Total deductions	1,960,485,081	981,426,774	2,332,598,851
Net decrease	(116,316,044)	(5,219,565)	(185,296,292)
Net position held in trust for health benefits:			
Beginning of year	16,172,569	153,146,733	369,188,287
End of year	\$ (100,143,475)	147,927,168	183,891,995

See accompanying notes to financial statements.

**STATE OF NEW JERSEY  
STATE HEALTH BENEFIT PROGRAM FUNDS**

Notes to Financial Statements

June 30, 2013 and 2012

**(1) Description of the Funds**

The State Health Benefit Program Fund (SHBP)–State, SHBP–Local and SHBP–Education (the Funds) are included along with other state-administered trust funds in the basic financial statements of the State of New Jersey (the State).

The Prescription Drug Program (PDP) of each respective SHBP are combined and reported as a trust fund with the respective SHBP – State, SHBP – Local, and SHBP – Education. The SHBP – State is classified as a single-employer plan. The SHBP – Local and SHBP – Education are classified as cost-sharing multiple-employer plans.

**(2) Summary of Significant Accounting Policies**

The financial statements of the funds have been prepared in conformity with accounting principles generally accepted in the United States 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.

***Measurement Focus and Basis of Accounting***

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All funds are accounted for using an economic resources measurement focus.

The accrual basis of accounting is used for measuring financial position and changes in fiduciary net position of the Funds. Under this method, revenues are recorded in the accounting period in which they are earned, and deductions are recorded at the time the liabilities are incurred. The financial statements of the Funds conform to the provisions of GASB Statement No. 43, *Financial Reporting for Post-Employment Benefits Other than Pension Plans*.

**STATE OF NEW JERSEY  
STATE HEALTH BENEFIT PROGRAM FUNDS**

Notes to Financial Statements

June 30, 2013 and 2012

***Membership***

Membership (active and retired participants) in the Funds consisted of the following as of June 30, 2013 and 2012 based on the internal database:

	<b>2013</b>			
	<b>State</b>	<b>Local</b>	<b>Education</b>	<b>Total</b>
Health Benefits Program Fund <sup>(1)</sup>	143,425	74,570	190,580	408,575
Prescription Drug Program Fund <sup>(1)</sup>	142,894	60,772	139,064	342,730
	<b>2012</b>			
	<b>State</b>	<b>Local</b>	<b>Education</b>	<b>Total</b>
Health Benefits Program Fund <sup>(2)</sup>	143,099	68,457	188,831	400,387
Prescription Drug Program Fund <sup>(2)</sup>	142,616	56,380	138,747	337,743

<sup>(1)</sup>The health benefit program had a total of 1,126 state, local, and education participating employers and contributing entities for fiscal year 2013.

<sup>(2)</sup>The health benefit program had a total of 1,103 state, local, and education participating employers and contributing entities for fiscal year 2012.

***Valuation of Investments***

Cash Management Fund units are stated at the closing net position on the last day of trading during the period as determined by the Transfer Agent.

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 State of New Jersey, Department of the Treasury, 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 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.

**STATE OF NEW JERSEY**  
**STATE HEALTH BENEFIT PROGRAM FUNDS**

Notes to Financial Statements

June 30, 2013 and 2012

***Investments***

The Funds' investments as of June 30, 2013 and 2012, consist of an interest in the Cash Management Fund. The Cash Management Fund is not evidenced by securities that exist in physical or book entry form held by the Funds, and it is unrated.

***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 financial statements.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the reporting period. Actual results could differ from those estimates.

***Funded Status and Funding Progress***

The required supplementary information regarding the funded status and funding progress of the Funds for the other post-employment benefits (OPEB) includes actuarial valuations which involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the probability of future events.

The required schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial calculations reflect a long-term perspective and are based on the benefits provided under State statutes in effect at the time of each valuation and also consider the pattern of the sharing of costs between the employer and members at that point in time. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and members in the future.

**STATE OF NEW JERSEY  
STATE HEALTH BENEFIT PROGRAM FUNDS**

Notes to Financial Statements

June 30, 2013 and 2012

***Actuarial Methods and Assumptions***

In the July 1, 2012 and 2011 actuarial valuations, the projected unit credit was used as the actuarial cost method. The actuarial assumptions included 4.50% for investment rate of return.

	<b>SHBP – State</b>		<b>SHBP – Local</b>		<b>SHBP – Education</b>	
	July 1, 2012	July 1, 2011	July 1, 2012	July 1, 2011	July 1, 2012	July 1, 2011
Actuarial valuation date	July 1, 2012	July 1, 2011	July 1, 2012	July 1, 2011	July 1, 2012	July 1, 2011
Actuarial value of assets	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Actuarial accrued liability	19,319,700,000	18,077,800,000	12,378,100,000	11,127,000,000	32,182,900,000	30,871,900,000
Unfunded actuarial accrued liability	19,319,700,000	18,077,800,000	12,378,100,000	11,127,000,000	32,182,900,000	30,871,900,000
Funded ratio	—	—	—	—	—	—
Covered payroll	\$ 7,695,193,894	\$ 7,491,835,889	\$ 2,937,000,000	\$ 2,831,000,000	\$ 12,818,706,106	\$ 12,794,864,111
Unfunded actuarial accrued liability as a percentage of covered payroll	251.1%	241.3%	421.5%	393.0%	251.1%	241.3%
Actuarial cost method	Projected unit credit					
Amortization method	Level dollar, open					
Remaining amortization period	30 years					
Actuarial assumptions:						
Interest rate	4.50% (assuming no prefunding)					
Salary range	N/A	N/A	N/A	N/A	N/A	N/A
Cost-of-living adjustments	N/A	N/A	N/A	N/A	N/A	N/A

For medical benefits, the healthcare cost trend rate assumption initially is at 8.5% and decreases to a 5.0% long-term trend rate for all medical benefits after 8 years, except for NJ Direct Post-65 whose rate assumption is 5.0% throughout 8 years. For prescription drug benefits, the initial healthcare cost trend rate assumption is 8.5%, decreasing to a 5.0% long-term trend rate after 8 years. For Medicare Part B reimbursement, the healthcare cost trend rate assumption is 5.0% throughout 8 years.

**STATE OF NEW JERSEY**  
**STATE HEALTH BENEFIT PROGRAM FUNDS**

Notes to Financial Statements

June 30, 2013 and 2012

**(3) Contributions**

***Contribution Requirements – SHBP – State (including PDP – State)***

Contributions to pay for the health premiums of participating employees in the SHBP – State are collected from the State of New Jersey, active and retired members, and former active and retired members who have elected to participate under the rules of Consolidated Omnibus Budget Reconciliation Act (COBRA). 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. Active and retired member contributions are generally received on a monthly basis.

Contributions to pay for the premiums of participating employees in the PDP are collected from the State of New Jersey, 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 PDP on a monthly basis.

The State made a contribution of \$1.7 billion, including administrative revenue of \$3.9 million, for fiscal year 2013. The State made a contribution of \$1.7 billion, including administrative revenue of \$3.8 million, for fiscal year 2012.

Chapter 103, P.L. 2007 implemented changes to SHBP and established an employee contribution of 1.5% of the employee's base salary for State employees, effective July 1, 2007.

Chapter 2, P.L. 2010, effective May 21, 2010, requires a minimum contribution of 1.5% of base salary toward the cost of health care benefits coverage by all active public employees. Employees of the State, local governments, and boards of education who become a member of a State or locally-administered retirement system on or after the law's effective date would be required to pay in retirement 1.5% of their pension benefit toward the cost of health care coverage under the SHBP.

Chapter 78, P.L. 2011, effective June 28, 2011, established new employee contribution requirements towards the cost of employer provided health benefit coverage. Employees are required to contribute a certain percentage of the cost of coverage. The rate of contribution is determined based on the employee's annual salary and the selected level of coverage. The increased employee contributions will be phased in over a four-year period for those employed prior to Chapter 78's effective date with a minimum contribution required to be at least 1.5% of salary. For those employed on or after June 28, 2011, the four-year phase-in does not apply, and contributions based on the full percentage rate of contribution are required. Under Chapter 78, certain future retirees eligible for state-paid health care coverage at retirement are also required to pay a percentage of the cost of their medical coverage determined on the basis of their annual retirement benefit.

***Contribution Requirements – SHBP – Local (including PDP – Local)***

Contributions to pay for the health premiums of participating employees in the SHBP – Local are collected from the State of New Jersey, participating local employers, active members, and retired members. Local employer payments and active and retired member contributions are generally received on a monthly basis.

**STATE OF NEW JERSEY**  
**STATE HEALTH BENEFIT PROGRAM FUNDS**

Notes to Financial Statements

June 30, 2013 and 2012

Contributions to pay for the premiums of participating employees in the PDP are collected from participating local employers, and former active and retired members who have elected to participate under the rules of COBRA. Local employer payments as well as COBRA contributions are also received on a monthly basis.

Local employers participating in the SHBP – Local made a contribution of \$1.1 billion, including administrative revenue of \$2.1 million, for fiscal year 2013. Local employers participating in the SHBP – Local made a contribution of \$932.7 million, including administrative revenue of \$2.0 million, for fiscal year 2012.

Chapter 2, P.L. 2010, effective May 21, 2010, requires a minimum contribution of 1.5% of base salary toward the cost of health care benefits coverage by all active public employees. Employees of the State, local governments, and boards of education who become a member of a State or locally-administered retirement system on or after the law's effective date would be required to pay in retirement 1.5% of their pension benefit toward the cost of health care coverage under the SHBP.

Chapter 78, P.L. 2011, effective June 28, 2011, established new employee contribution requirements towards the cost of employer provided health benefit coverage. Employees are required to contribute a certain percentage of the cost of coverage. The rate of contribution is determined based on the employee's annual salary and the selected level of coverage. The increased employee contributions will be phased in over a four-year period for those employed prior to Chapter 78's effective date with a minimum contribution required to be at least 1.5% of salary. For those employed on or after June 28, 2011, the four-year phase-in does not apply, and contributions based on the full percentage rate of contribution are required. Under Chapter 78, certain future retirees eligible for state-paid health care coverage at retirement are also required to pay a percentage of the cost of their medical coverage determined on the basis of their annual retirement benefit.

***Contribution Requirements – SHBP – Education (including PDP – Education)***

Contributions to pay for the health premiums of participating employees in the SHBP – Education are collected from the State of New Jersey, participating local employers, active members and retired members. Local employer payments and active and retired member contributions are generally received on a monthly basis.

Contributions to pay for the premiums of participating employees in the PDP are collected from participating local employers, and former active and retired members who have elected to participate under the rules of COBRA. Local employer payments as well as COBRA contributions are also received on a monthly basis.

Local employers participating in the SHBP – Education made a contribution of \$2.3 billion, including administrative revenue of \$4.9 million, for fiscal year 2013. Local employers participating in the SHBP – Education made a contribution of \$2.1 billion, including administrative revenue of \$4.8 million, for fiscal year 2012.

**STATE OF NEW JERSEY**  
**STATE HEALTH BENEFIT PROGRAM FUNDS**

Notes to Financial Statements

June 30, 2013 and 2012

Chapter 2, P.L. 2010, effective May 21, 2010, requires a minimum contribution of 1.5% of base salary toward the cost of health care benefits coverage by all active public employees. Employees of the State, local governments, and boards of education who become a member of a State or locally-administered retirement system on or after the law's effective date would be required to pay in retirement 1.5% of their pension benefit toward the cost of health care coverage under the SHBP.

Chapter 78, P.L. 2011, effective June 28, 2011, established new employee contribution requirements towards the cost of employer provided health benefit coverage. Employees are required to contribute a certain percentage of the cost of coverage. The rate of contribution is determined based on the employee's annual salary and the selected level of coverage. The increased employee contributions will be phased in over a four-year period for those employed prior to Chapter 78's effective date with a minimum contribution required to be at least 1.5% of salary. For those employed on or after June 28, 2011, the four-year phase-in does not apply, and contributions based on the full percentage rate of contribution are required. Under Chapter 78, certain future retirees eligible for state-paid health care coverage at retirement are also required to pay a percentage of the cost of their medical coverage determined on the basis of their annual retirement benefit.

**(4) Vesting and Benefits**

***Vesting and Benefit Provisions – SHBP – State (including PDP – State)***

The SHBP – State 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. Retirees who are not eligible for state-paid health coverage at retirement can continue in the program by paying the cost of the insurance for themselves and their covered dependents. The PDP was established in December 1974, under N.J.S.A. 52:14–17.29 to provide 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 employees are eligible for PDP coverage after 60 days of employment.

***Vesting and Benefit Provisions – SHBP – Local (including PDP – Local)***

The SHBP – Local provides medical coverage to qualified local active and retired participants. 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 under the provision of Chapter 330, P.L. 1997. Also, local employees are eligible for the PDP coverage after 60 days of employment.

**STATE OF NEW JERSEY**  
**STATE HEALTH BENEFIT PROGRAM FUNDS**

Notes to Financial Statements

June 30, 2013 and 2012

***Vesting and Benefit Provisions – SHBP – Education (including PDP – Education)***

The SHBP – Education provides medical coverage to qualified local education active and retired participants. Members of the Teachers’ Pension and Annuity Fund who retire from a board of education or county college with 25 years of service or on a disability retirement receive state-paid post-retirement medical coverage. Under the provisions of Chapter 126, P.L. 1992, the program also provides state-paid coverage to members of the Public Employees’ Retirement System and Alternate Benefit Program who retire from a board of education or county college with 25 years of service or on a disability retirement if the member’s employer does not provide this coverage. Certain local participating employers also provide post-retirement medical coverage to their employees. Retirees who are not eligible for state-paid health coverage at retirement can continue in the program if their employer participates in this program or if they are participating in the health benefits plan of their former employer and are enrolled in Medicare Parts A and B by paying the cost of the insurance for themselves and their covered dependents. Also, education employees are eligible for the PDP coverage after 60 days of employment.

**(5) Funds**

The Funds maintain the following legally required funds as follows:

***Reserve Fund – SHBP – State (including PDP – State) (2013 – \$-153,167,314; 2012 – \$-100,143,475)***

Due to ongoing budget constraints, the State has not made the full required premium contributions for active members over the past several years resulting in a negative fund balance. However, the fund has received sufficient State appropriations to maintain a positive cash balance in order to pay all benefit obligations on a timely basis.

***Reserve Fund – SHBP – Local (including PDP – Local) (2013 – \$225,182,796; 2012 – \$147,927,168)***

The net position of the SHBP – Local is available to pay claims of future periods. These reserves are maintained by the fund to stabilize rates and to meet unexpected increase in claims.

***Reserve Fund – SHBP – Education (including PDP – Education) (2013 – \$223,551,953; 2012 – \$183,891,995)***

The net position of the SHBP – Education is available to pay claims of future periods. These reserves are maintained by the fund to stabilize rates and to meet unexpected increase in claims.

**STATE OF NEW JERSEY  
STATE HEALTH BENEFIT PROGRAM FUNDS**

Required Supplementary Information

Schedule of Funding Progress

(Unaudited – See accompanying independent auditors' report)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (b)	Unfunded actuarial accrued liability (b – a)	Funded ratio (a / b)	Covered payroll * (c)	Unfunded actuarial accrued liability as a percentage of covered payroll * ((b – a) / c)
<b>State Health Benefit Program – State</b>						
July 1, 2008	\$	—	19,850,900,000	—%	\$ 7,163,803,681	277.1%
July 1, 2009		—	20,461,400,000	—	7,493,198,538	273.1
July 1, 2010		—	21,090,400,000	—	7,424,794,315	284.1
July 1, 2011		—	18,077,800,000	—	7,491,835,889	241.3
July 1, 2012		—	19,319,700,000	—	7,695,193,894	251.1
<b>State Health Benefit Program – Local</b>						
July 1, 2008	\$	—	8,840,500,000	—%	\$ 2,411,700,000	366.6%
July 1, 2009		—	10,010,400,000	—	2,607,200,000	384.0
July 1, 2010		—	12,089,800,000	—	2,844,100,000	425.1
July 1, 2011		—	11,127,000,000	—	2,831,000,000	393.0
July 1, 2012		—	12,378,100,000	—	2,937,000,000	421.4
<b>State Health Benefit Program – Education</b>						
July 1, 2008	\$	—	36,062,600,000	—%	\$ 13,016,396,319	277.1%
July 1, 2009		—	36,321,100,000	—	13,301,201,462	273.1
July 1, 2010		—	38,191,500,000	—	13,445,205,685	284.1
July 1, 2011		—	30,871,900,000	—	12,794,864,111	241.3
July 1, 2012		—	32,182,900,000	—	12,818,706,106	251.1

\* Required disclosure at adoption of standard. Covered payroll not available for the initial analysis.

**STATE OF NEW JERSEY  
STATE HEALTH BENEFIT PROGRAM FUNDS**

Required Supplementary Information

Schedule of Funding Progress – Additional Actuarial Information

(Unaudited – See accompanying independent auditors' report)

Significant actuarial methods and assumptions used in the most recent 2012 and 2011 actuarial valuations include the following:

	<u>July 1, 2012</u>	<u>July 1, 2011</u>
Actuarial cost method	Projected unit credit	Projected unit credit
Amortization method	Level dollar, open	Level dollar, open
Remaining amortization period	30 years	30 years
Actuarial assumptions:		
Interest rate	4.50% (assuming no prefunding)	4.50% (assuming no prefunding)
Salary range	N/A	N/A
Cost-of-living adjustments	N/A	N/A
Valuation date	July 1, 2012	July 1, 2011

July 1, 2012

For medical benefits, the healthcare cost trend rate assumption initially is at 8.5% and decreases to a 5.0% long-term trend rate for all medical benefits after 8 years, except for NJ Direct Post-65 whose rate assumption is 5.0% through 8 years. For prescription drug benefits, the initial healthcare cost assumption is 8.5%, decreasing to a 5.0% long-term trend rate after 8 years. For Medicare Part B reimbursement, the healthcare cost trend rate assumption is 5.0% throughout 8 years.

July 1, 2011

For medical benefits, the healthcare cost trend rate assumption initially is at 8.0% or 9.0% (depending on the medical plan) and decreases to a 5.0% long-term trend rate for all medical benefits after six or eight years. For prescription drug benefits, the initial healthcare cost trend rate assumption is 9.0% or 9.5% (depending on retirement status), decreasing to a 5.0% long-term trend rate after eight or nine years. For Medicare Part B reimbursement, the health care cost trend rate assumption is 5.0% throughout 11 years.

**STATE OF NEW JERSEY  
STATE HEALTH BENEFIT PROGRAM FUNDS**

Required Supplementary Information

Schedule of Employer Contributions

(Unaudited – See accompanying independent auditors' report)

	<u>Annual required contribution<sup>(1)</sup></u>	<u>Employer contributions</u>	<u>Percentage contributed</u>
<b>State Health Benefit Program – State</b>			
Year ended June 30, 2009	\$ 1,651,900,000	424,341,000	25.7%
Year ended June 30, 2010	1,676,000,000	476,394,000	28.4
Year ended June 30, 2011	1,714,500,000	511,846,000	29.9
Year ended June 30, 2012	1,802,200,000	505,481,000	28.0
Year ended June 30, 2013	1,911,400,000	562,698,000	29.4
<b>State Health Benefit Program – Local</b>			
Year ended June 30, 2009	\$ 713,900,000	169,600,000	23.8%
Year ended June 30, 2010	802,100,000	209,100,000	26.1
Year ended June 30, 2011	976,900,000	251,100,000	25.7
Year ended June 30, 2012	1,098,200,000	274,800,000	25.0
Year ended June 30, 2013	1,200,700,000	322,300,000	26.8
<b>State Health Benefit Program – Education</b>			
Year ended June 30, 2009	\$ 2,969,700,000	762,859,000	25.7%
Year ended June 30, 2010	2,992,500,000	850,606,000	28.4
Year ended June 30, 2011	3,125,400,000	933,054,000	29.9
Year ended June 30, 2012	3,115,800,000	873,919,000	28.0
Year ended June 30, 2013	3,238,900,000	953,502,000	29.4

Notes to schedule:

- <sup>(1)</sup> The annual required contribution reflects a 30-year, 4.0% annual increasing amortization of the unfunded actuarial accrued liability. Based on expected benefit payments plus retiree drug subsidy for the applicable fiscal year end.

**STATE OF NEW JERSEY  
STATE HEALTH BENEFIT PROGRAM FUNDS**

Combining Schedule of Fiduciary Net Position Information  
State Health Benefit Program Fund – State

June 30, 2013

	<b>Health Benefit Program Fund State</b>	<b>Prescription Drug Program Fund State</b>	<b>Total State Health Benefit Program Fund State</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Assets:			
Cash and cash equivalents	\$ 663,227	152,961	816,188
Investments, at fair value:			
Cash Management Fund	<u>26,799,563</u>	<u>32,029,753</u>	<u>58,829,316</u>
Total investments	<u>26,799,563</u>	<u>32,029,753</u>	<u>58,829,316</u>
Receivables:			
Contributions:			
Members	296,079	235,011	531,090
Employers	6,098,063	129,744	6,227,807
Other	<u>53,474</u>	<u>871,113</u>	<u>924,587</u>
Total receivables	<u>6,447,616</u>	<u>1,235,868</u>	<u>7,683,484</u>
Total assets	<u>33,910,406</u>	<u>33,418,582</u>	<u>67,328,988</u>
Liabilities:			
Accounts payable and accrued expenses	<u>200,000,002</u>	<u>20,496,300</u>	<u>220,496,302</u>
Total liabilities	<u>200,000,002</u>	<u>20,496,300</u>	<u>220,496,302</u>
Net position held in trust for health benefits	<u>\$ (166,089,596)</u>	<u>12,922,282</u>	<u>(153,167,314)</u>

See accompanying independent auditors' report.



**STATE OF NEW JERSEY  
STATE HEALTH BENEFIT PROGRAM FUNDS**

Combining Schedule of Fiduciary Net Position Information  
State Health Benefit Program Fund – Local

June 30, 2013

	<b>Health Benefit Program Fund Local</b>	<b>Prescription Drug Program Fund Local</b>	<b>Total State Health Benefit Program Fund Local</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Assets:			
Cash and cash equivalents	\$ 434,677	16,066	450,743
Investments, at fair value:			
Cash Management Fund	<u>189,318,859</u>	<u>86,743,927</u>	<u>276,062,786</u>
Total investments	<u>189,318,859</u>	<u>86,743,927</u>	<u>276,062,786</u>
Receivables:			
Contributions:			
Members	500,382	371,863	872,245
Employers	62,979,717	12,010,120	74,989,837
Other	<u>35,427</u>	<u>812,167</u>	<u>847,594</u>
Total receivables	<u>63,515,526</u>	<u>13,194,150</u>	<u>76,709,676</u>
Total assets	<u>253,269,062</u>	<u>99,954,143</u>	<u>353,223,205</u>
Liabilities:			
Accounts payable and accrued expenses	<u>120,146,252</u>	<u>9,525,000</u>	<u>129,671,252</u>
Total liabilities	<u>120,146,252</u>	<u>9,525,000</u>	<u>129,671,252</u>
Net position held in trust for health benefits	<u>\$ 133,122,810</u>	<u>90,429,143</u>	<u>223,551,953</u>

See accompanying independent auditors' report.

**STATE OF NEW JERSEY  
STATE HEALTH BENEFIT PROGRAM FUNDS**

Combining Schedule of Changes in Fiduciary Net Position Information  
State Health Benefit Program Fund – Local

Year ended June 30, 2013

	<b>Health Benefit Program Fund Local</b>	<b>Prescription Drug Program Fund Local</b>	<b>Total State Health Benefit Program Fund Local</b>
Additions:			
Contributions:			
Members	\$ 33,322,999	16,725,890	50,048,889
Employers	869,896,636	218,518,742	1,088,415,378
Total contributions	903,219,635	235,244,632	1,138,464,267
Investment income:			
Net appreciation in fair value of investments	2,809	322	3,131
Interest	323,213	80,653	403,866
Net investment income	326,022	80,975	406,997
Total additions	903,545,657	235,325,607	1,138,871,264
Deductions:			
Benefits	854,920,636	206,612,671	1,061,533,307
Administrative expenses	1,713,172	—	1,713,172
Total deductions	856,633,808	206,612,671	1,063,246,479
Net increase	46,911,849	28,712,936	75,624,785
Net position held in trust for health benefits:			
Beginning of year	86,210,961	61,716,207	147,927,168
End of year	\$ 133,122,810	90,429,143	223,551,953

See accompanying independent auditors' report.

**STATE OF NEW JERSEY**  
**STATE HEALTH BENEFIT PROGRAM FUNDS**

Combining Schedule of Fiduciary Net Position Information  
State Health Benefit Program Fund – Education

June 30, 2013

	<b>Health Benefit Program Fund Education</b>	<b>Prescription Drug Program Fund Education</b>	<b>Total State Health Benefit Program Fund Education</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Assets:			
Cash and cash equivalents	\$ 350,807	37,700	388,507
Investments, at fair value:			
Cash Management Fund	<u>317,208,370</u>	<u>114,365,707</u>	<u>431,574,077</u>
Total investments	<u>317,208,370</u>	<u>114,365,707</u>	<u>431,574,077</u>
Receivables:			
Contributions:			
Members	395,554	396,983	792,537
Employers	52,548,683	5,156,298	57,704,981
Other	<u>13,214</u>	<u>1,123,092</u>	<u>1,136,306</u>
Total receivables	<u>52,957,451</u>	<u>6,676,373</u>	<u>59,633,824</u>
Total assets	<u>370,516,628</u>	<u>121,079,780</u>	<u>491,596,408</u>
Liabilities:			
Accounts payable and accrued expenses	<u>245,055,612</u>	<u>21,358,000</u>	<u>266,413,612</u>
Total liabilities	<u>245,055,612</u>	<u>21,358,000</u>	<u>266,413,612</u>
Net position held in trust for health benefits	<u>\$ 125,461,016</u>	<u>99,721,780</u>	<u>225,182,796</u>

See accompanying independent auditors' report.

