



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

Financial Statements and Schedules

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

STATE OF NEW JERSEY
STATE HEALTH BENEFIT PROGRAM FUNDS

Financial Statements and Schedules

June 30, 2015 and 2014

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KPMG LLP
New Jersey Headquarters
51 John F. Kennedy Parkway
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 fiduciary activities of the State of New Jersey State Health Benefit Program Funds (the Funds) as of and for the years ended June 30, 2015 and 2014, 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 audits. We conducted our audits 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 financial position of the State of New Jersey State Health Benefit Program Funds, as of June 30, 2015 and 2014, and the respective changes in plan net position thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

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 3–7 and 18–20, 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, 2015, 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, 2015 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

KPMG LLP

Short Hills, New Jersey
July 1, 2016

STATE OF NEW JERSEY
STATE HEALTH BENEFIT PROGRAM FUNDS

Management's Discussion and Analysis

(Unaudited)

June 30, 2015 and 2014

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, 2015 and 2014. Please read it in conjunction with the basic financial statements and related notes to the financial statements, which follow this discussion.

2015 – 2014

- Net position held in trust for benefits increased by \$70.2 million as a result of fiscal year 2015's operations from \$247.1 million to \$317.3 million.
- Additions for the year are \$6,370.2 million, which are comprised of member and employer pension contributions of \$6,369.0 million and investment income of \$1.2 million.
- Deductions for the year are \$6,300.0 million, which are comprised of benefit payments of \$6,290.9 million and administrative expenses of \$9.1 million.

2014 – 2013

- Net position held in trust for benefits decreased by \$48.5 million as a result of fiscal year 2014's operations from \$295.6 million to \$247.1 million.
- Additions for the year are \$5,879.9 million, which are comprised of member and employer pension contributions of \$5,878.7 million and investment income of \$1.2 million.
- Deductions for the year are \$5,928.3 million, which are comprised of benefit payments of \$5,919.0 million and administrative expenses of \$9.3 million.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of two components: 1) fiduciary financial statements and 2) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements.

Fiduciary Financial Statements

The statement of fiduciary net position presents the Funds' assets and liabilities by major categories and may serve over time as a useful indicator of the Funds' financial position. The difference between assets and liabilities represents the net position restricted for pensions.

The statement of changes in fiduciary net position provides information on the change in the Funds' net position during the current year. Additions are comprised of investment income and employer and member contributions. Deductions include retirement benefit payments and administrative expenses.

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(Unaudited)

June 30, 2015 and 2014

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 Trust.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, which includes information regarding the funding status and employer contributions to the Funds.

Financial Analysis

Summary of Fiduciary Net Position

2015 – 2014

	2015	2014	Increase
Assets	\$ 1,052,240,957	942,229,366	110,011,591
Liabilities	734,902,846	695,096,985	39,805,861
Net position	\$ 317,338,111	247,132,381	70,205,730

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 2014 and 2015, total assets increased by \$110.0 million or 11.7%. The increase in total assets is due to a combination of an increase in the investment holdings in the Cash Management Fund (CMF) of \$180.0 million offset by a decrease in receivables of \$8.7 million and cash and cash equivalents of \$61.3 million.

Liabilities consist of outstanding medical and long-term disability claim payments, classified under accounts payable and accrued expenses. Total liabilities increased by \$39.8 million or 5.7% due to an increase in claims payable.

Net position increased by \$70.2 million or 28.4%.

Summary of Fiduciary Net Position

2014 – 2013

	2014	2013	Increase (Decrease)
Assets	\$ 942,229,366	912,148,601	30,080,765
Liabilities	695,096,985	616,581,166	78,515,819
Net position	\$ 247,132,381	295,567,435	(48,435,054)

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Management's Discussion and Analysis

(Unaudited)

June 30, 2015 and 2014

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 COBRA. Between fiscal years 2013 and 2014, total assets increased by \$30.1 million or 3.3%. The increase in total assets is due to a combination of an increase in receivables of \$41.0 million and cash and cash equivalents of \$62.3 million offset by a decrease in the investment holdings in CMF of \$73.2 million.

Liabilities consist of outstanding medical and long-term disability claim payments, classified under accounts payable and accrued expenses. Total liabilities increased by \$78.5 million or 12.7% due to an increase in claims payable.

Net position decreased by \$48.4 million or 16.4%.

Summary of Changes in Fiduciary Net Position

2015 – 2014

	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>
Additions:			
Member contributions	\$ 497,483,666	399,307,467	98,176,199
Employer contributions	5,871,536,760	5,479,344,541	392,192,219
Net investment income	1,175,123	1,223,707	(48,584)
Total additions	<u>6,370,195,549</u>	<u>5,879,875,715</u>	<u>490,319,834</u>
Deductions:			
Benefits	6,290,847,391	5,918,951,153	371,896,238
Administrative expenses	9,142,428	9,359,616	(217,188)
Total deductions	<u>6,299,989,819</u>	<u>5,928,310,769</u>	<u>371,679,050</u>
Changes in net position	<u>\$ 70,205,730</u>	<u>(48,435,054)</u>	<u>118,640,784</u>

Additions consist of member and employer contributions and earnings from CMF investment activities. Total additions increased by \$490.3 million or 8.3% primarily due to an increase in member and employer contributions.

Member contributions increased by \$98.2 million or 24.6%. In SHBP – State member contributions increased by \$99.6 million or 34.1%, in SHBP – Local, member contributions decreased by \$0.7 million or 1.2%, and in SHBP – Education member contributions decreased by \$0.8 million or 1.4%. Active employee contributions increased as a result of Chapter 78, P.L. 2011 premium share requirements and rate increases in plan year 2015. In SHBP – Local and SHBP – Education, the slight decrease in member contributions was due to a reduction in active membership. In plan year 2015, the active employee group rate for SHBP – State increased by 8.0%, in SHBP – Local, the increase was 8.1%, and in SHBP – Education, the increase was 10.3%.

The SHBP – State employer contributions increased by \$54.7 million. For the SHBP – Local, employer contributions increased by \$70.8 million. For the SHBP – Education, employer contributions increased by \$266.6 million. These increases are attributable to rate increases effective January 1, 2014 and 2015.

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Management's Discussion and Analysis

(Unaudited)

June 30, 2015 and 2014

Net investment income decreased slightly by \$48.6 thousand or 4.0%.

Deductions primarily consist of claim charges for the self-insured health and prescription drug, and administrative expenses. During the year, total expenses increased by \$371.7 million or 6.3% due to an increase in claims paid.

Summary of Changes in Fiduciary Net Position

2014 – 2013

	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>
Additions:			
Member contributions	\$ 399,307,467	304,860,078	94,447,389
Employer contributions	5,479,344,541	5,162,767,727	316,576,814
Net investment income	1,223,707	1,378,523	(154,816)
Total additions	<u>5,879,875,715</u>	<u>5,469,006,328</u>	<u>410,869,387</u>
Deductions:			
Benefits	5,918,951,153	5,395,752,981	523,198,172
Administrative expenses	9,359,616	9,361,600	(1,984)
Total deductions	<u>5,928,310,769</u>	<u>5,405,114,581</u>	<u>523,196,188</u>
Changes in net position	<u>\$ (48,435,054)</u>	<u>63,891,747</u>	<u>(112,326,801)</u>

Additions consist of member and employer contributions and earnings from CMF investment activities. Total additions increased by \$410.9 million or 7.5% primarily due to an increase in member and employer contributions.

Member contributions increased by \$94.4 million or 31.0%. In SHBP – State, member contributions increased by \$89.7 million or 44.3%, in SHBP – Local, member contributions increased by \$3.2 million or 6.3%, and in SHBP – Education, member contributions increased by \$1.5 million or 3.0%. Active employee contributions increased as a result of Chapter 78, P.L. 2011 premium share requirements. In plan year 2014, the active employee group rate for SHBP – State increased by 8.1%, in SHBP – Local the increase was 7.8%, and in SHBP – Education the increase was 5.4%. SHBP membership increases between plan years 2013 and 2014 also contributed to the higher member contributions.

The SHBP – State employer contributions increased by \$121.1 million. For the SHBP – Local, employer contributions increased by \$120.8 million. For the SHBP – Education, employer contributions increased by \$74.7 million. These increases are attributable to rate increases effective January 1, 2013 and 2014, as well as an increase in the number of covered members.

STATE OF NEW JERSEY
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Management's Discussion and Analysis

(Unaudited)

June 30, 2015 and 2014

Net investment income decreased by \$154.8 thousand or 11.2%.

Deductions primarily consist of claim charges for the self-insured health and prescription drug, and administrative expenses. During the year, total expenses increased by \$523.2 million or 9.7% due to an increase in claims paid.

Overall Financial Condition of the Funds

For SHBP – Local, total revenues recognized exceeded total expenses incurred by \$36.7 million, increasing the surplus at the beginning of the year from \$257.4 million to \$294.1 million at year end. This increase was attributable to a gain for the retired group due to favorable claims experience. Local premium rates for calendar year 2015 were set to match expected claim charges and administrative costs. Similarly, for SHBP – Education, total revenues recognized exceeded total expenses incurred by \$13.4 million, increasing the surplus at the beginning of the year from \$131.5 million to \$144.9 million at year end. For SHBP – State, total revenues recognized exceeded total expenses incurred by \$20.2 million, reducing the deficit at the beginning of the year from \$141.8 million to \$121.6 million at year end. This small reduction in the deficit was due to favorable claims experience.

For the other postemployment benefit plans for State fiscal year 2015, based on the current actuarial valuation dated July 1, 2014, the State had a \$24.5 billion unfunded actuarial accrued liability (UAAL) under GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, for SHBP – State active and retired members and a \$40.6 billion UAAL for 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 \$19.7 billion UAAL for SHBP – State active and retired members and a \$33.3 billion UAAL for SHBP – Education employees and retirees. Major factors that contributed to the increase in the UAAL include the following: (1) the State continues to fund post-retirement medical benefits on a pay-as-you-go basis as opposed to funding on an actuarial reserve basis; (2) new mortality assumption tables were utilized in the July 1, 2014 valuation which assume longer life expectancies as compared to the prior mortality assumptions; and (3) trend rates used to project retiree prescription drug costs were increased based on recent poor experience and projected future increases in retiree prescription drug costs. SHBP – Local fiscal year 2015 UAAL for OPEB based on the same actuarial valuation was \$16.4 billion and, for the prior year actuarial valuation, the liability was \$13.8 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. 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, 2014

	State Health Benefit Program Fund State	State Health Benefit Program Fund Local	State Health Benefit Program Fund Education
Assets:			
Cash and cash equivalents	\$ 24,143,707	8,964,793	30,849,906
Investments, at fair value:			
Cash Management Fund	37,610,815	324,394,982	331,221,944
Total investments	37,610,815	324,394,982	331,221,944
Receivables:			
Contributions:			
Members	999,600	990,696	876,023
Employers	38,541,214	71,942,509	66,249,318
Other	1,027,081	1,885,978	2,530,800
Total receivables	40,567,895	74,819,183	69,656,141
Total assets	102,322,417	408,178,958	431,727,991
Liabilities:			
Accounts payable and accrued expenses	244,110,245	150,751,023	300,235,717
Total liabilities	244,110,245	150,751,023	300,235,717
Net position:			
Held in trust for health benefits	\$ (141,787,828)	257,427,935	131,492,274

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, 2015

	<u>State Health Benefit Program Fund State</u>	<u>State Health Benefit Program Fund Local</u>	<u>State Health Benefit Program Fund Education</u>
Additions:			
Contributions:			
Members	\$ 392,058,372	52,547,496	52,877,798
Employers	<u>1,925,134,226</u>	<u>1,279,987,154</u>	<u>2,666,415,380</u>
Total contributions	<u>2,317,192,598</u>	<u>1,332,534,650</u>	<u>2,719,293,178</u>
Investment income:			
Net depreciation in fair value of investments	(4,233)	(10,698)	(12,513)
Interest	<u>191,961</u>	<u>555,525</u>	<u>455,081</u>
Net investment income	<u>187,728</u>	<u>544,827</u>	<u>442,568</u>
Total additions	<u>2,317,380,326</u>	<u>1,333,079,477</u>	<u>2,719,735,746</u>
Deductions:			
Benefits	2,293,781,694	1,294,747,415	2,702,318,282
Administrative expenses	<u>3,428,411</u>	<u>1,673,063</u>	<u>4,040,954</u>
Total deductions	<u>2,297,210,105</u>	<u>1,296,420,478</u>	<u>2,706,359,236</u>
Net increase	20,170,221	36,658,999	13,376,510
Net position held in trust for health benefits:			
Beginning of year	<u>(141,787,828)</u>	<u>257,427,935</u>	<u>131,492,274</u>
End of year	<u>\$ (121,617,607)</u>	<u>294,086,934</u>	<u>144,868,784</u>

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, 2014

	State Health Benefit Program Fund State	State Health Benefit Program Fund Local	State Health Benefit Program Fund Education
Additions:			
Contributions:			
Members	\$ 292,452,484	53,211,178	53,643,805
Employers	1,870,389,106	1,209,175,752	2,399,779,683
Total contributions	2,162,841,590	1,262,386,930	2,453,423,488
Investment income:			
Net appreciation in fair value of investments	10,229	23,522	25,914
Interest	179,203	437,727	547,112
Net investment income	189,432	461,249	573,026
Total additions	2,163,031,022	1,262,848,179	2,453,996,514
Deductions:			
Benefits	2,148,141,681	1,227,259,388	2,543,550,084
Administrative expenses	3,509,855	1,712,809	4,136,952
Total deductions	2,151,651,536	1,228,972,197	2,547,687,036
Net (decrease) increase	11,379,486	33,875,982	(93,690,522)
Net position held in trust for health benefits:			
Beginning of year	(153,167,314)	223,551,953	225,182,796
End of year	\$ (141,787,828)	257,427,935	131,492,274

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2015 and 2014

(1) Description of the Funds

(a) Organization

The State of New Jersey, Division of Pensions and Benefits (the Division) was created and exists pursuant to N.J.S.A. 52:18A to oversee and administer the pension trust and other postemployment benefit plans sponsored by the State of New Jersey (the State), including the State Health Benefit Program Fund (SHBP)–State, SHBP–Local, and SHBP–Education (the Funds or the Plans).

The SHBP – State is classified as a single-employer plan, the SHBP – Local is classified as a cost-sharing multiple-employer plan, and the SHBP – Education is classified as a multiple-employer plan with a special funding situation. Each of these Plans is further described below:

Plan	Established as of	Legislation	Membership
SHBP - State SHBP - Local	1961	Title 52, Article 14- 17.25 et seq	Offers medical and prescription drug coverage to qualified State and local government public employees, retirees, and eligible dependents; and dental coverage to qualified State and local government/education public employees, retirees, and their eligible dependents. Local employers must adopt a resolution to participate in the SHBP.
SHBP - Education	2007	Title 52, Article 14- 17.46 et seq	Offers medical and prescription drug coverage to qualified local education public employees, retirees, and eligible dependents. Local education employers must adopt a resolution to participate in the SHBP.

Plan Membership and Contributing Employers

Membership and contributing employers of the defined benefit OPEB plans consisted of the following at June 30, 2015 and 2014:

	2015			Contributing Employers
	Active	Retired	Total	
SHBP - State	108,544	62,805	171,349	1
SHBP - Local	44,975	38,219	83,194	590
SHBP - Education	210,343	133,833	344,176	1
	2014			
	Active	Retired	Total	Contributing Employers
SHBP - State	114,464	60,528	174,992	1
SHBP - Local	47,533	36,374	83,907	589
SHBP - Education	231,652	129,387	361,039	1

STATE OF NEW JERSEY
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Notes to Financial Statements

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(b) Contribution Requirements and Benefit Provisions

Contributions to pay for the health benefit premiums of participating employees in SHBP – State, Local and Education (including the prescription drug programs (PDP)) are collected from the State of New Jersey, participating local employers, active and retired members, and former active and retired members who have elected to participate under the rules of the 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 SHBP – State on a monthly basis. Local and Education employers remit employer contributions on a monthly basis. Active and retired member contributions are generally received on a monthly basis.

The State, employers participating in SHBP – Local and employers participating in SHBP – Education made contributions of \$1.9 billion, \$1.3 billion and \$2.7 billion for State fiscal year 2015, respectively. For State fiscal year 2014, the State, employers participating in SHBP – Local and employers participating in SHBP – Education made contributions of \$1.9 billion, \$1.2 billion and \$2.4 billion, respectively.

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 are being phased in over a four-year period for those employed prior to June 28, 2011 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.

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.

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 provisions of Chapter 330, P.L. 1997. Also, local employees are eligible for the PDP coverage after 60 days of employment.

STATE OF NEW JERSEY
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Notes to Financial Statements

June 30, 2015 and 2014

SHBP – Education provides medical coverage to qualified local education active and retired participants. Members of TPAF 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 PERS and ABP 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.

(2) Summary of Significant Accounting Policies

(a) Measurement Focus and Basis of Accounting

The accompanying financial statements were prepared in accordance with U.S. generally accepted accounting principles as applicable to governmental organizations. In doing so, the Funds adhere to reporting requirements established by the Governmental Accounting Standards Board (GASB).

The accrual basis of accounting is used for measuring financial position and changes in 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 due and payable in accordance with the terms of the Funds. The Fund is accounted for using an economic resources measurement focus.

(b) Receivables

Receivables consist primarily of member and employer contributions and other amounts that are due to the Funds.

(c) Investments

Investments are reported at fair value as follows:

- Cash Management Fund – 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.

(d) 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.

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

Notes to Financial Statements

June 30, 2015 and 2014

(e) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

(3) Investments

The Funds' investments as of June 30, 2015 and 2014, consist of an interest in the State of New Jersey Cash Management Fund (CMF). The CMF is a short-term cash fund and is open to state and certain non-state participants. The Funds' investments in the CMF are not evidenced by securities that exist in physical or book entry form held by the Funds, and are unrated.

(4) Funded Status

The following represents the funded status of each of the Funds as of the most recent actuarial valuation dates.

	SHBP – State		SHBP – Local		SHBP – Education	
	July 1, 2014	July 1, 2013	July 1, 2014	July 1, 2013	July 1, 2014	July 1, 2013
Actuarial Valuation Date	July 1, 2014	July 1, 2013	July 1, 2014	July 1, 2013	July 1, 2014	July 1, 2013
Actuarial value of assets	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Actuarial accrued liability	24,470,500,000	19,746,700,000	16,408,500,000	13,804,500,000	40,575,700,000	33,253,400,000
Unfunded (overfunded) actuarial accrued liability	24,470,500,000	19,746,700,000	16,408,500,000	13,804,500,000	40,575,700,000	33,253,400,000
Funded ratio	— %	— %	— %	— %	— %	— %
Covered payroll	\$ 7,554,955,233	\$ 7,811,194,620	\$ 3,067,600,000	\$ 3,156,000,000	\$ 12,526,744,767	\$ 13,153,105,380
Unfunded (overfunded) actuarial accrued liability as a percentage of covered payroll	323.90%	252.80%	534.90%	437.40%	323.90%	252.80%

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

Notes to Financial Statements

June 30, 2015 and 2014

Actuarial Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future, and these amounts and assumptions are subject to continual revision as actual results are compared to past expectations. Calculations are based on the benefits provided under the terms of the plan in effect and the pattern of cost sharing between employees and the employer. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. A summary of the significant actuarial methods and assumptions used by SHBP – State, SHBP – Local, and SHBP – Education as of the most recent actuarial valuations dated July 1, 2014 and 2013 are as follows:

	<u>SHBP – State</u>	<u>SHBP – Local</u>	<u>SHBP – Education</u>
Actuarial cost method	Projected unit credit	Projected unit credit	Projected unit credit
Amortization method	Level dollar, open	Level dollar, open	Level dollar, open
Remaining amortization period	30 years	30 years	30 years
Actuarial assumptions:			
Interest rate	4.50% (assuming no prefunding)	4.50% (assuming no prefunding)	4.50% (assuming no prefunding)
Salary range	N/A	N/A	N/A
Cost-of-living adjustments	N/A	N/A	N/A

OPEB used the projected unit credit as actuarial cost method. The actuarial assumptions for OPEB included 4.50% for investment rate of return.

Based on the valuation dated July 1, 2014, for pre-Medicare PPO medical benefits, this amount initially is 7.5% and decreases to a 5.0% long-term trend rate after five years. For post-65 PPO medical benefits, the trend rate is 5.0%. For HMO medical benefits, the trend rate is initially 7.0% and decreases to a 5.0% long-term trend rate after four years. For prescription drug benefits, the initial trend rate is 13.0% decreased to a 5.0% long-term trend rate after eight years. For the Medicare Part B reimbursement, the trend rate is 5.0%. This reflects the known underlying cost of the Part B premium.

Based on the valuation dated July 1, 2013, for medical benefits, the healthcare cost trend rate assumption initially is at 8.0% and decreases to a 5.0% long-term trend rate for all medical benefits after 7 years, except for NJ Direct Post-65 whose rate assumption is 5.0% throughout 7 years. For prescription drug benefits, the initial healthcare cost trend rate assumption is 8.0%, decreasing to a 5.0% long-term trend rate after 7 years. For Medicare Part B reimbursement, the healthcare cost trend rate assumption is 5.0% throughout 7 years.

STATE OF NEW JERSEY
STATE HEALTH BENEFIT PROGRAM FUNDS

Notes to Financial Statements

June 30, 2015 and 2014

(5) Reserves

The Funds maintain the following legally required reserves as follows (amounts indicated in parenthesis represent net position restricted for the respective reserve as indicated):

SHBP Reserve Fund – State (2015 – \$-121,617,607; 2014 – \$-141,787,828)

The State uses this fund (NJSA: SHBP 52:14-17.42) to cover claims payments. 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.

SHBP Reserve Fund – Local (2015 – \$294,086,934; 2014 – \$257,427,935)

The net position of SHBP – Local (NJSA: SHBP 52:14-17.42) are available to pay claims of future periods. These reserves are maintained by the fund to stabilize rates and to meet unexpected increase in claims.

SHBP Reserve Fund – Education (2015 – \$144,868,784; 2014 – \$131,492,274)

The net position of SHBP – Education (NJSA: SHBP 52:14-17.42) are available to pay claims of future periods. These reserves are maintained by the fund to stabilize rates and to meet unexpected increase in claims.

(6) Contingencies

The Funds are party to various legal actions arising in the ordinary course of its operations. While it is not feasible to predict the ultimate outcome of these actions, it is the opinion of management that the resolution of these matters will not have a material adverse effect on the Funds' financial statements.

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)
State Health Benefit Program – State						
July 1, 2014	\$	—	24,470,500,000	—%	\$ 7,554,955,233	323.9%
July 1, 2013		—	19,746,700,000	—	7,811,194,620	252.8
July 1, 2012		—	19,319,700,000	—	7,695,193,894	251.1
July 1, 2011		—	18,077,800,000	—	7,491,835,889	241.3
State Health Benefit Program – Local						
July 1, 2014	\$	—	16,408,500,000	—%	\$ 3,067,600,000	534.9%
July 1, 2013		—	13,804,500,000	—	3,156,000,000	437.4
July 1, 2012		—	12,378,100,000	—	2,937,000,000	421.4
July 1, 2011		—	11,127,000,000	—	2,831,000,000	393.0
State Health Benefit Program – Education						
July 1, 2014	\$	—	40,575,700,000	—%	\$ 12,526,744,767	323.9%
July 1, 2013		—	33,253,400,000	—	13,153,105,380	252.8
July 1, 2012		—	32,182,900,000	—	12,818,706,106	251.1
July 1, 2011		—	30,871,900,000	—	12,794,864,111	241.3

**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 2014 and 2013 actuarial valuations include the following:

	<u>July 1, 2014</u>	<u>July 1, 2013</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, 2014	July 1, 2013

July 1, 2014

For pre-Medicare PPO medical benefits, this amount initially is 7.5% and decreases to a 5.0% long-term trend rate after five years. For post-65 PPO medical benefits, the trend rate is 5.0%. For HMO medical benefits, the trend rate is initially 7.0% and decreases to a 5.0% long-term trend rate after four years. For prescription drug benefits, the initial trend rate is 13.0% decreased to a 5.0% long-term trend rate after eight years. For the Medicare Part B reimbursement, the trend rate is 5.0%. This reflects the known underlying cost of the Part B premium.

July 1, 2013

For medical benefits, the healthcare cost trend rate assumption initially is at 8.0 and decreases to a 5.0% long-term trend rate for all medical benefits after 7 years, except for NJ Direct Post-65 whose rate assumption is 5.0% through 7 years. For prescription drug benefits, the initial healthcare cost assumption is 8.0%, decreasing to a 5.0% long-term trend rate after 7 years. For Medicare Part B reimbursement, the healthcare cost trend rate assumption is 5.0% throughout 7 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⁽¹⁾</u>	<u>Employer contributions</u>	<u>Percentage contributed</u>
State Health Benefit Program – State			
Year ended June 30, 2015	\$ 2,396,900,000	613,079,000	25.6%
Year ended June 30, 2014	1,935,100,000	569,367,000	29.4
Year ended June 30, 2013	1,911,400,000	562,698,000	29.4
Year ended June 30, 2012	1,802,200,000	505,481,000	28.0
State Health Benefit Program – Local			
Year ended June 30, 2015	\$ 1,535,100,000	396,900,000	25.9%
Year ended June 30, 2014	1,324,400,000	369,600,000	27.9
Year ended June 30, 2013	1,200,700,000	322,300,000	26.8
Year ended June 30, 2012	1,098,200,000	274,800,000	25.0
State Health Benefit Program – Education			
Year ended June 30, 2015	\$ 4,034,800,000	1,032,021,000	25.6%
Year ended June 30, 2014	3,346,800,000	984,733,000	29.4
Year ended June 30, 2013	3,238,900,000	953,502,000	29.4
Year ended June 30, 2012	3,115,800,000	873,919,000	28.0

Notes to schedule:

⁽¹⁾ 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 – Local

June 30, 2015

(Unaudited – See accompanying independent auditors’ report)

	Health Benefit Program Fund Local	Prescription Drug Program Fund Local	Total State Health Benefit Program Fund Local
	<u> </u>	<u> </u>	<u> </u>
Assets:			
Cash and cash equivalents	\$ 117,365	323,468	440,833
Investments, at fair value:			
Cash Management Fund	<u>287,397,965</u>	<u>81,780,278</u>	<u>369,178,243</u>
Total investments	<u>287,397,965</u>	<u>81,780,278</u>	<u>369,178,243</u>
Receivables:			
Contributions:			
Members	735,003	406,171	1,141,174
Employers	70,533,247	12,189,507	82,722,754
Other	<u>31,370</u>	<u>428,617</u>	<u>459,987</u>
Total receivables	<u>71,299,620</u>	<u>13,024,295</u>	<u>84,323,915</u>
Total assets	<u>358,814,950</u>	<u>95,128,041</u>	<u>453,942,991</u>
Liabilities:			
Accounts payable and accrued expenses	<u>143,635,057</u>	<u>16,221,000</u>	<u>159,856,057</u>
Total liabilities	<u>143,635,057</u>	<u>16,221,000</u>	<u>159,856,057</u>
Net position held in trust for health benefits	<u>\$ 215,179,893</u>	<u>78,907,041</u>	<u>294,086,934</u>

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, 2015

(Unaudited – See accompanying independent auditors' report)

	Health Benefit Program Fund Local	Prescription Drug Program Fund Local	Total State Health Benefit Program Fund Local
Additions:			
Contributions:			
Members	\$ 34,666,203	17,881,293	52,547,496
Employers	1,021,272,396	258,714,758	1,279,987,154
Total contributions	<u>1,055,938,599</u>	<u>276,596,051</u>	<u>1,332,534,650</u>
Investment income:			
Net depreciation in fair value of investments	(9,743)	(955)	(10,698)
Interest	465,804	89,721	555,525
Net investment income	<u>456,061</u>	<u>88,766</u>	<u>544,827</u>
Total additions	<u>1,056,394,660</u>	<u>276,684,817</u>	<u>1,333,079,477</u>
Deductions:			
Benefits	996,336,797	298,410,618	1,294,747,415
Administrative expenses	1,673,063	—	1,673,063
Total deductions	<u>998,009,860</u>	<u>298,410,618</u>	<u>1,296,420,478</u>
Net increase (decrease)	58,384,800	(21,725,801)	36,658,999
Net position held in trust for health benefits:			
Beginning of year	<u>156,795,093</u>	<u>100,632,842</u>	<u>257,427,935</u>
End of year	<u>\$ 215,179,893</u>	<u>78,907,041</u>	<u>294,086,934</u>

STATE OF NEW JERSEY
STATE HEALTH BENEFIT PROGRAM FUNDS

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

June 30, 2015

(Unaudited – See accompanying independent auditors' report)

	<u>Health Benefit Program Fund Education</u>	<u>Prescription Drug Program Fund Education</u>	<u>Total State Health Benefit Program Fund Education</u>
Assets:			
Cash and cash equivalents	\$ 298,345	885,395	1,183,740
Investments, at fair value:			
Cash Management Fund	<u>359,058,659</u>	<u>38,983,722</u>	<u>398,042,381</u>
Total investments	<u>359,058,659</u>	<u>38,983,722</u>	<u>398,042,381</u>
Receivables:			
Contributions:			
Members	515,824	405,588	921,412
Employers	48,889,036	13,546,646	62,435,682
Other	<u>51,483</u>	<u>920,867</u>	<u>972,350</u>
Total receivables	<u>49,456,343</u>	<u>14,873,101</u>	<u>64,329,444</u>
Total assets	<u>408,813,347</u>	<u>54,742,218</u>	<u>463,555,565</u>
Liabilities:			
Accounts payable and accrued expenses	<u>280,994,786</u>	<u>37,691,995</u>	<u>318,686,781</u>
Total liabilities	<u>280,994,786</u>	<u>37,691,995</u>	<u>318,686,781</u>
Net position held in trust for health benefits	<u>\$ 127,818,561</u>	<u>17,050,223</u>	<u>144,868,784</u>

STATE OF NEW JERSEY
STATE HEALTH BENEFIT PROGRAM FUNDS

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

Year ended June 30, 2015

(Unaudited – See accompanying independent auditors' report)

	Health Benefit Program Fund Education	Prescription Drug Program Fund Education	Total State Health Benefit Program Fund Education
Additions:			
Contributions:			
Members	\$ 31,175,956	21,701,842	52,877,798
Employers	2,136,174,603	530,240,777	2,666,415,380
Total contributions	2,167,350,559	551,942,619	2,719,293,178
Investment income:			
Net depreciation in fair value of investments	(11,081)	(1,432)	(12,513)
Interest	403,192	51,889	455,081
Net investment income	392,111	50,457	442,568
Total additions	2,167,742,670	551,993,076	2,719,735,746
Deductions:			
Benefits	2,105,320,572	596,997,710	2,702,318,282
Administrative expenses	4,040,954	—	4,040,954
Total deductions	2,109,361,526	596,997,710	2,706,359,236
Net increase (decrease)	58,381,144	(45,004,634)	13,376,510
Net position held in trust for health benefits:			
Beginning of year	69,437,417	62,054,857	131,492,274
End of year	\$ 127,818,561	17,050,223	144,868,784