



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

Financial Statements and Schedules

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

STATE OF NEW JERSEY
STATE HEALTH BENEFIT PROGRAM FUNDS

Financial Statements and Schedules

June 30, 2016 and 2015

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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, 2016 and 2015, 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, 2016 and 2015, and the respective changes in plan net position thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

Adoption of New Accounting Pronouncement

As discussed in note 2(f) to the basic financial statements, as of July 1, 2014, the Funds adopted Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the schedules of funding progress and employer contributions as listed in the table of contents 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.

Management has omitted management's discussion and analysis that U.S. generally accepted accounting principles require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit, for the year ended June 30, 2016, 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, 2016 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

KPMG LLP

Short Hills, New Jersey
July 13, 2017

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

Statement of Fiduciary Net Position

June 30, 2016

	State Health Benefit Program Fund State	State Health Benefit Program Fund Local	State Health Benefit Program Fund Education
	<u> </u>	<u> </u>	<u> </u>
Assets:			
Cash and cash equivalents	\$ 817,433	315,923	773,632
Receivables:			
Contributions:			
Members	1,213,182	931,947	1,007,322
Employers	27,858,211	109,073,332	55,026,909
Other	498,879	1,903,484	901,642
Total receivables	<u>29,570,272</u>	<u>111,908,763</u>	<u>56,935,873</u>
Investments, at fair value:			
Cash Management Fund	<u>11,889,276</u>	<u>321,057,191</u>	<u>355,989,124</u>
Total investments	<u>11,889,276</u>	<u>321,057,191</u>	<u>355,989,124</u>
Total assets	<u>42,276,981</u>	<u>433,281,877</u>	<u>413,698,629</u>
Liabilities:			
Accounts payable and accrued expenses	285,919,991	165,908,869	339,722,317
Administrative expense payable	968,391	472,575	1,141,410
Total liabilities	<u>286,888,382</u>	<u>166,381,444</u>	<u>340,863,727</u>
Net position (deficit):			
Restricted for other postemployment benefits	\$ <u>(244,611,401)</u>	<u>266,900,433</u>	<u>72,834,902</u>

See accompanying notes to financial statements.

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

Statement of Fiduciary Net Position

June 30, 2015

	State Health Benefit Program Fund State	State Health Benefit Program Fund Local	State Health Benefit Program Fund Education
	<u> </u>	<u> </u>	<u> </u>
Assets:			
Cash and cash equivalents	\$ 1,064,614	440,833	1,183,740
Receivables:			
Contributions:			
Members	1,252,238	1,141,174	921,412
Employers	25,738,270	82,722,754	62,435,682
Other	653,922	459,987	972,350
Total receivables	<u>27,644,430</u>	<u>84,323,915</u>	<u>64,329,444</u>
Investments, at fair value:			
Cash Management Fund	<u>106,033,357</u>	<u>369,178,243</u>	<u>398,042,381</u>
Total investments	<u>106,033,357</u>	<u>369,178,243</u>	<u>398,042,381</u>
Total assets	<u>134,742,401</u>	<u>453,942,991</u>	<u>463,555,565</u>
Liabilities:			
Accounts payable and accrued expenses	<u>256,360,008</u>	<u>159,856,057</u>	<u>318,686,781</u>
Total liabilities	<u>256,360,008</u>	<u>159,856,057</u>	<u>318,686,781</u>
Net position (deficit):			
Restricted for other postemployment benefits	\$ <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, 2016

	<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	\$ 431,274,290	52,682,811	54,570,018
Employers	<u>1,998,551,825</u>	<u>1,316,195,962</u>	<u>2,824,618,676</u>
Total contributions	<u>2,429,826,115</u>	<u>1,368,878,773</u>	<u>2,879,188,694</u>
Investment income:			
Net (decrease) increase in fair value of investments	(6,956)	71,005	78,199
Interest	<u>327,133</u>	<u>1,162,131</u>	<u>1,168,638</u>
Net investment income	<u>320,177</u>	<u>1,233,136</u>	<u>1,246,837</u>
Total additions	<u>2,430,146,292</u>	<u>1,370,111,909</u>	<u>2,880,435,531</u>
Deductions:			
Benefits	2,549,202,032	1,395,376,640	2,947,827,761
Administrative expenses	<u>3,938,054</u>	<u>1,921,770</u>	<u>4,641,652</u>
Total deductions	<u>2,553,140,086</u>	<u>1,397,298,410</u>	<u>2,952,469,413</u>
Net decrease	(122,993,794)	(27,186,501)	(72,033,882)
Net position restricted for other postemployment benefits:			
Beginning of year	<u>(121,617,607)</u>	<u>294,086,934</u>	<u>144,868,784</u>
End of year	<u>\$ (244,611,401)</u>	<u>266,900,433</u>	<u>72,834,902</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, 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 decrease 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 restricted for other postemployment 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**

Notes to Financial Statements

June 30, 2016 and 2015

(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 (OPEB) 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 cost-sharing 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. 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, 2016 and 2015:

	2016			Contributing Employers
	Active	Retired	Total	
SHBP - State	107,349	66,383	173,732	1
SHBP - Local	43,094	38,765	81,859	583
SHBP - Education	207,854	139,158	347,012	1
	2015			
	Active	Retired	Total	Contributing Employers
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

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Notes to Financial Statements

June 30, 2016 and 2015

(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 \$2.0 billion, \$1.3 billion and \$2.8 billion for State fiscal year 2016, respectively. For State fiscal year 2015, 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, 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.

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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

The Division of Investment manages the State of New Jersey Cash Management Fund (CMF), which is available on a voluntary basis for investment by State and certain non-State participants. CMF is considered to be an investment trust fund as defined in GASB Statement No. 31, Certain Investments and External Investment Pools. Units of ownership in CMF may be purchased or redeemed on any given business day (excluding State holidays) at the unit cost or value of \$1.00. CMF values participant shares on a fair value basis. For additional information about CMF, refer to the audited financial statements, which can be obtained at <http://www.state.nj.us/treasury/doinvest/cmF/FinancialStatementsFiscal2016.pdf>.

(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.

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Notes to Financial Statements

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(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.

(f) New Accounting Standard Adopted

In State fiscal year 2016, the Funds adopted GASB Statement No. 72, *Fair Value Measurement and Application* (GASB 72). The statement addresses accounting and financial reporting issues related to fair value measurements of assets and liabilities. GASB 72 identifies various approaches to measuring fair value and levels of inputs based on the objectivity of the data used to measure fair value. It provides additional fair value application guidance and requires enhanced disclosures about fair value measurements. As a result of the adoption of GASB 72, the Funds added note 4 to the financial statements.

(g) Accounting Pronouncements Applicable to the Funds, Issued but Not Yet Effective

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB 74). The statement improves the usefulness of information about postemployment benefits other than pensions for making decisions and assessing accountability. GASB 74 establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. GASB 74 will be effective for periods beginning after June 15, 2016. The Funds are evaluating the impact of this new statement.

(3) Investments

The Funds' investments as of June 30, 2016 and 2015, 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) Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between independent market participants at the measurement date. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The three levels of the fair value hierarchy are as follows:

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Notes to Financial Statements

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Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the investment and inputs into the determination of fair value require significant management judgment or estimation, including assumptions about risk.

The Cash Management Fund is considered a local government investment pool and does not meet the leveling definitions as described above, therefore is excluded from the fair value hierarchy.

(5) 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, 2015	July 1, 2014	July 1, 2015	July 1, 2014	July 1, 2015	July 1, 2014
Actuarial Valuation Date						
Actuarial value of assets	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Actuarial accrued liability	25,937,400,000	24,470,500,000	16,800,900,000	16,408,500,000	41,565,900,000	40,575,700,000
Unfunded (overfunded) actuarial accrued liability	25,937,400,000	24,470,500,000	16,800,900,000	16,408,500,000	41,565,900,000	40,575,700,000
Funded ratio	— %	— %	— %	— %	— %	— %
Covered payroll	\$ 7,660,189,014	\$ 7,554,955,233	\$ 2,945,900,000	\$ 3,067,600,000	\$ 12,277,410,986	\$ 12,526,744,767
Unfunded (overfunded) actuarial accrued liability as a percentage of covered payroll	338.60%	323.90%	570.30%	534.90%	338.60%	323.90%

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

Notes to Financial Statements

June 30, 2016 and 2015

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, 2015 and 2014 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

Based on the valuation dated July 1, 2015, for pre-Medicare PPO medical benefits, this amount initially is 6.0% and decreases to a 5.0% long-term trend rate after ten years. For post-65 PPO medical benefits, the trend rate is 4.5%. For HMO medical benefits, the trend rate is initially 6.0% and decreases to a 5.0% long-term trend rate after ten years. For prescription drug benefits, the initial trend rate is 11.0% decreased to a 5.0% long-term trend rate after nine 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, 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.

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Notes to Financial Statements

June 30, 2016 and 2015

(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 (2016 – \$-244,611,401; 2015 – \$-121,617,607)

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 (2016 – \$266,900,433; 2015 – \$294,086,934)

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 (2016 – \$72,834,902; 2015 – \$144,868,784)

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, 2015	\$	—	25,937,400,000	25,937,400,000	—%	\$ 7,660,189,014	338.6%
July 1, 2014		—	24,470,500,000	24,470,500,000	—	7,554,955,233	323.9
July 1, 2013		—	19,746,700,000	19,746,700,000	—	7,811,194,620	252.8
State Health Benefit Program – Local							
July 1, 2015	\$	—	16,800,900,000	16,800,900,000	—%	\$ 2,945,900,000	570.3%
July 1, 2014		—	16,408,500,000	16,408,500,000	—	3,067,600,000	534.9
July 1, 2013		—	13,804,500,000	13,804,500,000	—	3,156,000,000	437.4
State Health Benefit Program – Education							
July 1, 2015	\$	—	41,565,900,000	41,565,900,000	—%	\$ 12,277,410,986	338.6%
July 1, 2014		—	40,575,700,000	40,575,700,000	—	12,526,744,767	323.9
July 1, 2013		—	33,253,400,000	33,253,400,000	—	13,153,105,380	252.8

See accompanying independent auditors' report.

**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 2015 and 2014 actuarial valuations include the following:

	<u>July 1, 2015</u>	<u>July 1, 2014</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, 2015	July 1, 2014

July 1, 2015

For pre-Medicare PPO medical benefits, this amount initially is 6.0% and decreases to a 5.0% long-term trend rate after ten years. For post-65 PPO medical benefits, the trend rate is 4.5%. For HMO medical benefits, the trend rate is initially 6.0% and decreases to a 5.0% long-term trend rate after ten years. For prescription drug benefits, the initial trend rate is 11.0% decreased to a 5.0% long-term trend rate after nine 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, 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.

See accompanying independent auditors' report.

**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, 2016	\$ 2,506,300,000	696,519,227	27.8%
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
State Health Benefit Program – Local			
Year ended June 30, 2016	\$ 1,566,000,000	439,100,000	28.0%
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
State Health Benefit Program – Education			
Year ended June 30, 2016	\$ 4,095,900,000	1,138,280,773	27.8%
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

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.

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, 2016

(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	\$ 305,646	10,277	315,923
Receivables:			
Contributions:			
Members	532,624	399,323	931,947
Employers	93,656,371	15,416,961	109,073,332
Other	52,318	1,851,166	1,903,484
Total receivables	<u>94,241,313</u>	<u>17,667,450</u>	<u>111,908,763</u>
Investments, at fair value:			
Cash Management Fund	<u>312,878,273</u>	<u>8,178,918</u>	<u>321,057,191</u>
Total investments	<u>312,878,273</u>	<u>8,178,918</u>	<u>321,057,191</u>
Total assets	<u>407,425,232</u>	<u>25,856,645</u>	<u>433,281,877</u>
Liabilities:			
Accounts payable and accrued expenses	146,406,869	19,502,000	165,908,869
Administrative expense payable	472,575	—	472,575
Total liabilities	<u>146,879,444</u>	<u>19,502,000</u>	<u>166,381,444</u>
Net position restricted for other postemployment benefits	<u>\$ 260,545,788</u>	<u>6,354,645</u>	<u>266,900,433</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, 2016

(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	\$ 34,080,441	18,602,370	52,682,811
Employers	1,041,627,610	274,568,352	1,316,195,962
Total contributions	1,075,708,051	293,170,722	1,368,878,773
Investment income:			
Net increase (decrease) in fair value of investments	71,664	(659)	71,005
Interest	1,086,731	75,400	1,162,131
Net investment income	1,158,395	74,741	1,233,136
Total additions	1,076,866,446	293,245,463	1,370,111,909
Deductions:			
Benefits	1,029,578,781	365,797,859	1,395,376,640
Administrative expenses	1,921,770	—	1,921,770
Total deductions	1,031,500,551	365,797,859	1,397,298,410
Net increase (decrease)	45,365,895	(72,552,396)	(27,186,501)
Net position restricted for other postemployment benefits:			
Beginning of year	215,179,893	78,907,041	294,086,934
End of year	\$ 260,545,788	6,354,645	266,900,433

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, 2016

(Unaudited – See accompanying independent auditors' report)

	Health Benefit Program Fund Education	Prescription Drug Program Fund Education	Total State Health Benefit Program Fund Education
Assets:			
Cash and cash equivalents	\$ 769,587	4,045	773,632
Receivables:			
Contributions:			
Members	396,276	611,046	1,007,322
Employers	49,957,830	5,069,079	55,026,909
Other	901,642	—	901,642
Total receivables	<u>51,255,748</u>	<u>5,680,125</u>	<u>56,935,873</u>
Investments, at fair value:			
Cash Management Fund	<u>354,561,481</u>	<u>1,427,643</u>	<u>355,989,124</u>
Total investments	<u>354,561,481</u>	<u>1,427,643</u>	<u>355,989,124</u>
Total assets	<u>406,586,816</u>	<u>7,111,813</u>	<u>413,698,629</u>
Liabilities:			
Accounts payable and accrued expenses	296,378,273	43,344,044	339,722,317
Administrative expense payable	<u>1,141,410</u>	<u>—</u>	<u>1,141,410</u>
Total liabilities	<u>297,519,683</u>	<u>43,344,044</u>	<u>340,863,727</u>
Net position restricted for other postemployment benefits	<u>\$ 109,067,133</u>	<u>(36,232,231)</u>	<u>72,834,902</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 – Education

Year ended June 30, 2016

(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	\$ 30,184,313	24,385,705	54,570,018
Employers	2,195,399,775	629,218,901	2,824,618,676
Total contributions	2,225,584,088	653,604,606	2,879,188,694
Investment income:			
Net increase (decrease) in fair value of investments	79,188	(989)	78,199
Interest	1,052,646	115,992	1,168,638
Net investment income	1,131,834	115,003	1,246,837
Total additions	2,226,715,922	653,719,609	2,880,435,531
Deductions:			
Benefits	2,240,825,698	707,002,063	2,947,827,761
Administrative expenses	4,641,652	—	4,641,652
Total deductions	2,245,467,350	707,002,063	2,952,469,413
Net decrease	(18,751,428)	(53,282,454)	(72,033,882)
Net position restricted for other postemployment benefits:			
Beginning of year	127,818,561	17,050,223	144,868,784
End of year	\$ 109,067,133	(36,232,231)	72,834,902

See accompanying independent auditors' report.