



State of New Jersey
DEPARTMENT OF BANKING AND INSURANCE
INDIVIDUAL HEALTH COVERAGE PROGRAM
PO Box 325
TRENTON, NJ 08625-0325

JON S. CORZINE
Governor

TEL (609) 633-1882
FAX (609) 633-2030

STEVEN M. GOLDMAN
Commissioner

December 18, 2006

To: Carrier Members of the Individual Health Coverage Program

From: Ellen DeRosa, Executive Director

Re: Interim Reconciliation – 1997/1998 Loss Assessment

The Individual Health Coverage Program Board billed for the 1997/1998 Loss and Administrative Assessment on November 17, 1999 and an interim reconciliation of the 1997/1998 Loss and Administrative Assessment on June 23, 2000. Subsequent to that time, various events occurred which necessitate issuing this Interim Reconciliation. This Interim Reconciliation only addresses the Loss Assessment for the 1997/1998 calculation period.

This Interim Reconciliation addresses the following categories of reconciling events as explained in greater detail below:

- The Individual Health Coverage Program Board adopted N.J.A.C. 11:20-2.17 effective December 18, 2006, a new rule for calculation and distribution of the loss assessments;
- Refund to one carrier of disputed funds held in Treasury;
- Adjustments to Net Earned Premium (NEP) as a consequence of successful appeals; and
- Adjustments to the net paid losses as a result of independent audits and agreed upon procedures.

Adoption of N.J.A.C. 11:20-2.17, the new rule: Because a provision of the prior rule was invalidated by the Supreme Court of New Jersey in In re New Jersey Individual Health Coverage Program's Adoption of N.J.A.C. 11:20-1 et seq., 179 N.J. 570 (2004), the Adjusted Net Earned Premium Method was developed for calculation of the distribution of the net paid losses authorized under N.J.S.A. 17B:27A-2 et seq. See 38 N.J.R. 5383(a) (Dec. 18, 2006).

Refund of Disputed Funds: Because a provision of the prior rule was invalidated by the Supreme Court decision in In re New Jersey Individual Health Coverage Program's Adoption of N.J.A.C. 11:20-1 et seq., 179 N.J. 570 (2004), the IHC Board granted the carrier's appeal of the 1997/1998 loss assessment and refunded the disputed funds to the carrier.

Adjustments to Net Earned Premiums (NEP): Following the billings in November, 1999 and June, 2000, some member carriers appealed their assessment liability stating that the Net Earned Premium used in the calculation was incorrect. To the extent that any carrier was successful in its appeal, its Net Earned Premium was adjusted, with a corresponding adjustment to the carrier's assessment liability.

Adjustments to net paid losses: The IHC Board contracted with an independent auditing firm to audit or perform agreed upon procedures to evaluate the amount of net paid losses for which reimbursement was sought for the 1997/1998 calculation period. The audits completed to date have resulted in some adjustments to the net paid losses. Independent audits and agreed upon procedures of three carriers have yet to be completed.

Given the significance of the above, during its meeting on December 5, 2006, the IHC Board voted to issue this Interim Reconciliation for the 1997/1998 calculation period. It is called an Interim Reconciliation rather than a Final Reconciliation because final audits and agreed upon procedures for three carriers have not been completed for the 1997/1998 assessment period.

Attached is a step-by-step explanation of the manner in which this Interim Reconciliation – 1997/1998 Assessment was calculated.

If you have any questions concerning the Interim Reconciliation after you have reviewed the spreadsheet and this memorandum and the attached explanation, please do not hesitate to contact me at ederosa@dobi.state.nj.us or 609-633-1882 x 50302.

Explanation of Interim Assessment - 1997/1998 Assessment

Carrier Names

N.J.A.C. 11:20-1.2 provides that "Affiliated carrier means two or more carriers that are treated as one carrier for purposes of complying with the Act because the carriers are subsidiaries of a common parent or one another." To the extent that a carrier submitted an Exhibit K filing that indicated affiliated carrier status, the attached spreadsheet specifies the name of the single carrier, but the total information for all carriers affiliated with that named carrier is included in the data shown for the named carrier. If the Exhibit K filings failed to specify affiliated carrier status, the spreadsheet shows each carrier separately. Full or partial exemption for those carriers that requested and were granted full or partial exemptions, were applied to the carrier and all affiliated carriers to the extent that the Exhibit K filings were clear as to affiliated carrier status.

97/98 Net Earned Premium (NEP)

Carriers are required to file a Carrier Market Share and Net Paid Gain (Loss) Report (Exhibit K) by March 1 of the year following the close of the two-year calculation period. The Exhibit K filing for the 1997/1998 two-year calculation period was due March 1, 1999. A carrier's Net Earned Premium shown reflects the aggregate New Jersey Net Earned Premium for BOTH 1997 and 1998 as reported by the carrier on Exhibit K.

NEP Adjustment

This column shows the dollar amount of the adjustment made to the NEP as compared to what was reported on the Exhibit K.

Reason for Adjustment

This column explains the reason for the adjustment. The numbers following "Exhibit K Adjmt" are the numbers of the Administrative Orders issued to the carriers regarding the adjustment being made.

Adjusted Net Earned Premium

This column specifies the NEP after the adjustment explained in the previous columns has been made. The Adjusted Net Earned Premium is the NEP used in the calculation of the Interim Reconciliation – 1997/1998 Assessment.

%NEP

"% NEP" refers to the carrier market share. As specified in N.J.A.C. 11:20-2.17(c)1, the carrier market share is the ratio of the carrier's reported NEP to the total NEP for the two-year calculation period.

$$\text{Carrier's Adjusted NEP} \div \text{Total Adjusted NEP}$$

(shown for each carrier under Adjusted NEP) (shown as Total Carrier NEP under Adjusted NEP)

Reimbursable Loss Share (unadjusted)*

As specified in N.J.A.C. 11:20-2.17(c), the reimbursable loss share is the product of the market share and the amount of reimbursable net paid losses.

$$\text{Market Share} \times \text{reimbursable losses}$$

* "Unadjusted" means that the calculation does not take the full or partial exempt status of carriers into account.

Pro-Rata Exemptions from Loss Assessment

This column shows the percentage of the 1997/1998 non-group person target enrolled by carriers that requested and were granted an exemption.

(Percentage is determined from the data provided on Non-Group Person Certifications submitted by each Carrier seeking an exemption.)

Goal Not Met %

This column shows the percentage of the 1997/1998 non-group person target not enrolled by carriers that requested and were granted an exemption.

(100% minus the percentage of Pro-Rata Exemptions)

Adjusted NEP after Exemptions

For each carrier who was granted a full or partial exemption, this column adjusts each carrier’s Net Earned Premium to account for the full or pro-rata exemptions.

Adjusted Net Earned Premium x Goal Not Met % = Adjusted Net Earned Premium after Exemptions

If a carrier has not received an exemption, its adjusted NEP after exemptions equals their adjusted Net Earned Premium reported on their Exhibit K or adjusted for revisions, administrative orders, and appeals granted.

% of Adjusted NEP after Exemptions

*Carrier’s Adjusted NEP after exemptions ÷ Total Adjusted NEP after exemptions
(shown for each carrier under Adjusted NEP) (shown as Total Carrier NEP under Adjusted NEP)*

1997-1998 Loss Assessment

This calculation multiplies the % of Adjusted NEP after Exemptions by the total 1997/1998 reimbursable losses in the data table.

Redistribution of Liability of Carrier in Liquidation

The calculation takes each carrier’s adjusted Net Earned Premium after exemptions divided by the total of all carriers adjusted Net Earned Premiums after exemptions less the adjusted Net Earned Premium of the carrier in liquidation multiplied by the liability of the carrier in liquidation. American Preferred Provider Plan’s liability of \$16,765.30 has been redistributed to the other carriers according to the formula above.

Loss Assessment Amount after Redistribution of Liability of Carrier in Liquidation

This column is the sum of the 1997/1998 Loss Assessment plus the carrier’s share of the liability of American Preferred Provider Plan.

Loss Amount Received with the 11/17/99 Billing

This amount represents the amount that was paid for the carrier’s share of the 1997/1998 losses billed on November 17, 1999.

Loss Amount Received/Adjusted with the 6/23/00 Billing

This amount represents the amount that was paid or adjusted for the carrier’s share of the 1997/1998 losses based on the Interim Reconciliation billed on June 23, 2000.

Amount Refunded

This involves one carrier entitled to release of the funds held in Treasury after the 2004 Supreme Court's decision which invalidated the assessment methodology, because the IHC Board granted its appeal of the 1997/1998 loss assessment.

Total Amount Received & Refunded

This is the sum of the loss amounts received and adjusted with the billings of November 17, 1999 and June 23, 2000, and the amount refunded to the carrier, as set forth in the previous three columns.

Amount Due IHC (Carrier)

The amounts in this column indicate what is due to IHC or the amount in parenthesis is to be refunded to the carriers.