

NEW JERSEY
INDIVIDUAL HEALTH COVERAGE PROGRAM BOARD

Trenton, NJ 08625

IN THE MATTER OF THE INDIVIDUAL HEALTH
COVERAGE PROGRAM BOARD'S ADJUSTMENT OF BLUE
CROSS AND BLUE SHIELD OF NEW JERSEY'S REQUESTS
FOR REIMBURSEMENT OF LOSSES FOR CALENDAR
YEARS 1993 AND 1994

ADMINISTRATIVE ORDER NUMBER 96-21

WHEREAS, the New Jersey Individual Health Coverage Program ("IHC") Board is authorized by the Individual Health Insurance Reform Act of 1992 ("IHC Act"), N.J.S.A. 17B:27A-2 et seq., and regulations promulgated thereunder, to administer the IHC Program, to assess members of the IHC Program on the basis of their proportionate share of program losses and administrative expenses and to reimburse carriers for eligible losses;

WHEREAS, Blue Cross and Blue Shield of New Jersey ("BCBSNJ") is a "carrier" that filed combined carrier Market Share and Net Paid Loss Reports ("Exhibits K") with the IHC Board on behalf of BCBSNJ and its affiliates, five wholly-owned subsidiaries of Medigroup, Inc., on March 31, 1994, which reported 1993 net earned premium of \$1,355,620,499 and sought reimbursement of net paid losses of \$54,178,827 and on March 1, 1995, which reported 1994 net earned premium of \$1,314,525,419 and sought reimbursement of net paid losses of \$39,976,798;

WHEREAS, N.J.A.C. 11:20-8.6(b)1 requires a carrier which has filed for reimbursement of losses to file a certification that the administrative expenses reported on the Exhibit K are allocated on a basis consistent with previous Exhibits K and annual statements or other corporate reports of the member required to be filed with the Commissioner of Insurance pursuant to law or regulations or, if changed, the changes have been outlined in detail including the impact and reason for the change;

WHEREAS, pursuant to N.J.A.C. 11:20-8.6(b)1, in documents titled "Certification of the Allocation Methodologies for the IHC Carrier Market Share and Net Paid Loss Report" (hereinafter "Certifications") which accompanied the above referenced Exhibits K and are incorporated herein by reference, Robert J. Pures, Vice President of Finance and Treasurer of BCBSNJ, among other things, certified that the administrative expenses reported on the Exhibits K did not include employee incentive expenses of \$373,000 in 1993 and \$885,000 in 1994 "since BCBSNJ believes that they should not be subsidized by other carriers" or amortization of deferred system development costs of \$2,596,000 in 1993 and \$2,238,000 in 1994 "since they pertain to expenditures incurred prior to 1993;"

WHEREAS, the effect of the Certifications was to explain that BCBSNJ had reduced the reimbursement for losses BCBSNJ could have sought in the amount of \$2,969,000 for calendar year 1993 and \$3,123,000 for calendar year 1994;

WHEREAS, pursuant to N.J.A.C. 11:20-8.8(b) and following a competitive bidding process, the IHC Board on May 9, 1995 selected Deloitte and Touche, LLP (“D&T”), to conduct an independent audit of BCBSNJ’s 1993 and 1994 Exhibits K;

WHEREAS, following its audit of BCBSNJ, D&T presented a final audit report to the IHC Board on May 7, 1996, which reported net paid losses of \$54,153,372 in 1993 and \$38,081,088 in 1994. In calculating net paid losses for calendar years 1993 and 1994, D&T included employee incentive expenses and deferred system development costs, which were reported in BCBSNJ’s annual statements for those years, and stated, in the section of the audit report titled “Note to Combined Statements of Net Paid Losses - Statutory Basis for Individual Business,” that D&T’s presentation of BCBSNJ’s reported expenses “do not reflect changes, identified by Blue Cross and Blue Shield of New Jersey, Inc., in Certifications accompanying the Carrier Market Share and Net Paid Loss Reports filed with the New Jersey Individual Health Coverage Program Board as compared with the annual statements filed with the New Jersey Department of Insurance;”

WHEREAS, the Board voted to adopt D&T’s audit report on May 7, 1996 and to adjust BCBSNJ’s net paid losses for 1993 and 1994 in accordance with the amounts in the audit report, pursuant to N.J.A.C. 11:20-8.8(c). The Board then voted to acknowledge and give effect to the clear, voluntary, and intentional statements in the Certifications, which statements waived reimbursement for employee incentive expenses and amortization of deferred system development costs, thereby reducing the net paid losses of BCBSNJ by \$2,969,000 for calendar year 1993 and \$3,123,000 for calendar year 1994. Accordingly, the Board determined that the reimbursable losses of BCBSNJ should be reduced from \$54,178,827 to \$51,184,372 for 1993, and from \$39,976,798 to \$34,958,008 for 1994;

NOW THEREFORE, pursuant to the authority granted to the Board by N.J.S.A. 17B:27A-2 et seq., and all powers expressed or implied therein, and the decision of the Board as expressed by this Administrative Order;

IT IS on this 20th day of May, 1996,

ORDERED that BCBSNJ's requests for reimbursement of net paid losses for calendar years 1993 and 1994 are hereby adjusted to \$51,184,372 for 1993 and \$34,958,008 for 1994 on the basis of the findings of an independent auditor, in accordance with N.J.A.C. 11:20-8.8(c), and BCBSNJ's voluntary waiver of reimbursement for certain expenses identified in the Certifications submitted with BCBSNJ's Exhibits K. The Board will recalculate all carriers' assessments for reimbursable losses for calendar years 1993 and 1994 in accordance with the reimbursable losses provided in this order.

Kevin O'Leary, Executive Director

Date