



**State of New Jersey**  
 DEPARTMENT OF BANKING AND INSURANCE  
 DIVISION OF INSURANCE  
 OFFICE OF SOLVENCY REGULATION  
 PO BOX 325  
 TRENTON, NJ 08625-0325

PHIL MURPHY  
*Governor*

SHEILA OLIVER  
*Lt. Governor*

MARLENE CARIDE  
*Commissioner*

TEL (609) 292-5350  
 FAX (609) 292-6765

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 XXXXXXXXXXXXXXX

January 2, 2019

Re: Annual Health Service Corporations (HSC) Report Filings

Dear XXXXX

The annual reports shall be received by this office no later than close of business (5:00 P.M.) **Friday, March 1, 2019** in accordance with Statutory Accounting Practices using the most current format for the quarterly NAIC Health blank, and in accordance with the NAIC annual instructions for the Health blank. Contact the NAIC directly at (816) 842-3600 if you require copies of the annual instructions. These instructions implement the requirements of the Accounting Practices and Procedures effective January 1, 2016. The NAIC Health blank forms are available for purchase through several independent insurance service companies throughout the United States.

Please note that the Commissioner of Banking and Insurance has the regulatory authority (**N.J.S.A. 17:48E-36**) to impose enforcement remedies against a HSC for violations of any statutory requirements including the late filing of quarterly reports. The commissioner may, "... levy an administrative penalty in an amount not less than **\$100.00** for each day's neglect, to be recovered in civil action; and upon notice by the commissioner to such effect, its authority to do new business in this State shall cease while such default continues.

This letter is reasonable notice and any HSC that files late will be fined **\$100.00** per day.

**Please note that any additional or revised annual/quarterly filing requirements are outlined in bold.**

- (1) The following manuals should be obtained and maintained current:
  - (a) ANNUAL STATEMENT INSTRUCTIONS HEALTH MANUAL
  - (b) ACCOUNTING PRACTICES AND PROCEDURES MANUAL EFFECTIVE JANUARY 1, **2019** (AS OF MARCH **2019**). THIS VALUABLE RESOURCE CONTAINS THE STATEMENT OF STATUTORY ACCOUNTING PRINCIPLES (SSAP), EXTRACTS FROM NAIC MODEL LAWS, INTERPRETATIONS OF SSAP, ISSUE PAPERS AND POLICY STATEMENTS OF THE NAIC
  - (c) PURPOSES AND PROCEDURES MANUAL OF THE NAIC SECURITIES VALUATION OFFICE (SVO)

These may be obtained from:  
 National Association of Insurance Commissioners  
 Insurance Products & Service Division

2301 McGee Street  
Suite 800  
Kansas City, MO 64108-2604  
Telephone (816) 783-8300  
Facsimile (816) 460-7593  
Web address [www.naic.org/insprod/](http://www.naic.org/insprod/)

- (2) Original signatures are required on all filings. The President and Secretary, or in their absence two principal officers must sign the quarterly statement. All requests for exceptions from normal filings must be submitted at least 30 days prior to the due date.
- (3) All HSC's are required to complete the blanks and supplemental schedules in their entirety. If a specific schedule is not applicable to the Life and Health Insurers, should be so indicated using "N/A" or "None". Any deviations from the instructions in this announcement, without the permission of the Commissioner of Banking and Insurance will be considered a violation of filing requirements and cause the entire statement filing to be rejected. Accordingly, per (N.J.S.A. 17:48A-15-16) & (N.J.S.A. 17:48-11) the Department may also impose the maximum penalties and enforcement measures available under statute for failure to file proper or timely financial statements.
- (4) Please note that if you have ASO/ASC business, footnote #18 must be completed in its entirety and included in the quarterly filing in the format prescribed by the NAIC Instructions.
- (5) The HSC shall segregate assets into categories of "Admitted Assets" and "Non-Admitted Assets". The later will be excluded by the Department in considering the HMDI's minimum statutory net worth, solvency, and deposit requirements.

See SSAP #4 "Assets and Nonadmitted Assets "for further guidance". Assets not specifically identified as an admitted asset within the Accounting Practices and Procedures Manual shall be considered Nonadmitted.

Note that SSAP #84 "Health Care Receivables" was passed at the 2001 NAIC Winter Meetings and is effective as of December 31, 2001.

Guidance on allowable Goodwill can be found in SSAP #68. Goodwill carried by any merged entity related to a previous business combination shall be charged or credited to surplus immediately in the event that the investee that the goodwill relates to ceases to exist (e.g. by merger or dissolution).

- (6) All HSCs are required to comply with the requirements of (N.J.S.A.17:48A-14) (N.J.S.A.17:48-10) & (N.J.S.A.17:B20-1) regarding Investments.
- (7) A supplement to the annual statement titled "*Management's Discussion and Analysis*" must be submitted by March 1 (not April 1 as recommended by the NAIC) each year. This supplement is primarily a narrative document setting forth information which enables the Departments to enhance our understanding of the HMDI's financial position, results of operations, changes in capital and surplus accounts and cash flow. (See Attached NAIC MD&A instructions for the specific format and detailed guidance).
- (8) The annual statement shall include an actuarial certification. This should be attached to Page 1. It should include a statement by an actuary who is a member in good standing of the American Academy of Actuaries and who is familiar with the actuarial aspects of health plans setting forth his or her opinion relating to reserves, and any other actuarial items. Such a statement of opinion must include the following:
  - (a) a paragraph identifying the actuary and his/her employer if applicable.
  - (b) a scope paragraph identifying the subjects on which an opinion is to be expressed and describing the scope of the actuary's work;

The scope paragraph should list the items and amounts

on which the actuary is expressing an opinion. The list should include but is not necessarily limited to:

- A. Claims Payable (reported and Unreported)
  - B. Other Actuarial Liabilities
- (c) An opinion paragraph expressing his or her opinion with respect to such subjects.
- (d) Note that ASOP #16 requires a statement by the actuary concerning his knowledge of any capitated risk contracts that exist and whether the actuary has evaluated the financial position of the provider entities. If appropriate you must include an amount in the IBNR reserve for the contingency that the provider group becomes insolvent and is not able to perform under its contract.

One or more additional paragraphs may be needed in individual cases if the actuary considers it necessary to state a qualification of his or her opinion or to explain some aspect of the annual statement which is not already sufficiently explained in the annual statement.

- (9) Liabilities, Capital and Surplus page 3 line 2 “Accrued medical incentive pool and bonus amounts” shall

Include: Liability for arrangements with providers and other risk sharing arrangements whereby the reporting entity agrees to share savings with contracted providers.

Exclude: Percentage withholds from providers that are reported with claims unpaid.

Column 3 should equal the amount reported in Underwriting and Investment Exhibit, Part 2, Column 1, Line 5.

The company should refer to SSAP No. 55 Unpaid Claims, Losses and Loss Adjustment Expenses, for further accounting guidance. Also see the attachment on “Accrued Medical Incentive Pool and Bonus Amounts”.

The company is to complete the attached schedule and submit it along with its annual statement. Also see sample “Accrued Medical Incentive Pool and Bonus Amounts” form.

- (10) All items listed as “other” with a value of 10% or greater of total assets, total liabilities, total revenue, total expenses, etc. must be broken out as a “Detailed Write In” with an appropriate identification including:

- (a) Aggregate write-ins for gains or (losses) in surplus, in Statement of Revenue and Expenses, Page 5, Line 47 and,
- (b) Other cash provided (applied), in Cash Flow, Line 16.6.

Disclose these items in the MD&A, also in the Notes to Financial Statement when applicable.

- (11) All expenses paid to medical providers (including dentists) should be included on line #9 “Hospital/medical benefits” of the Statement of Revenue and Expenses. They should not be included on line #10 “Other Professional Services” or line #29 “Aggregated write-ins for other income or expenses”.

- (12) MAILING ADDRESS

Every HSC shall submit Three (3) signed copies of the Annual Report:

Kwame Asare  
NJ Department of Banking and Insurance

Office of Solvency Regulation  
20 West State Street, 10<sup>th</sup> Floor  
PO Box 325  
Trenton, NJ 08625-0325

Contact me at (609) 292-5350 extension 50358 or e-mail me at [richard.kartes@dobi.nj.gov](mailto:richard.kartes@dobi.nj.gov) if you have any questions concerning this correspondence.

Sincerely,

Richard K. Kartes  
Supervisor  
Health Entities Financial Operations

CC: Steven P. Kerner, Assistant Commissioner  
Richard Schlesinger, Chief Insurance Examiner  
Mary Pesce, Assist Chief, Health Entities Financial Operations  
Kwame Asare, Supervisor, Office of Solvency Regulation