

**REPORT ON TARGET EXAMINATION**  
**OF THE**  
**CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND**  
**250 PEHLE AVENUE SUITE 701**  
**SADDLE BROOK, NEW JERSEY 07663**  
**AS AT DECEMBER 31, 2009**

FILED

July 10, 2012

Commissioner  
Department of Banking &  
Insurance

**CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND**

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

CHRIS CHRISTIE  
*Governor*

KIM GUADAGNO  
*Lt. Governor*

KENNETH E. KOBYSLOWSKI  
*Acting Commissioner*

TEL (609) 292-5350  
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July 9, 2012

Honorable Kenneth E. Kobylowski  
Acting Commissioner of Banking and Insurance  
State of New Jersey  
20 West State Street  
P.O. Box 325  
Trenton, New Jersey 08625

Dear Acting Commissioner:

In accordance with the authority vested in you by the Revised Statutes of New Jersey, an examination has been made of the assets, liabilities, and excess insurance/reinsurance of the:

The Central New Jersey Regional Employee Benefits Fund  
C/O PERMA Risk Management Services  
250 Pehle Avenue, Suite 701  
Saddle Brook, New Jersey 07663

hereinafter referred to in this report as the "Fund."

#### SCOPE OF EXAMINATION

This financial condition examination was called by the Commissioner of Banking and Insurance of the State of New Jersey pursuant to the authority granted under the provisions of N.J.S.A. 40A:10-36 of the New Jersey Revised Statutes.

The examination was made as at December 31, 2009. The examination was limited to the assets and liabilities reported by the Fund and included a review of the excess insurance program in place at December 31, 2009. The examination was conducted at the office of the Fund's Executive Director, PERMA Risk Management Services, 250 Pehle Avenue Suite 701, Saddle Brook, New Jersey 07663.

The conduct of the examination was governed by the procedures outlined in the N.A.I.C. Financial Condition Handbook and followed accepted procedures of regulatory authorities and generally accepted insurance company examination standards. In determining the emphasis to be placed on specific accounts, consideration was given to the Fund's system of internal control, the nature and size of each account, its relative importance to solvency and the results of the previous financial condition examination.

In the verification of matters as shown in this report, limited test checks were made, some complete and others partial. Consideration was allowed for limiting the verification on certain accounts at a point where they were determined to be substantially correct or the account under review was considered insignificant and not crucial to the Fund's solvency.

## **HISTORY**

The Fund was created in February, 1992 in accordance with P.L. 1983, C. 372, entitled "An act concerning joint insurance funds for local units of governments, and supplementing Chapter 10 of Title 40A of the New Jersey statutes." The Fund is a self-administered group of municipalities established for the purpose of providing self-funded employee health benefits for the member municipalities. The following coverage's are offered by the Fund to its members at the choice of the individual member unit:

- Medical
- Dental
- Vision
- Prescription
- Disability

A participating municipality may be terminated by a majority vote of the Fund Commissioners or a two thirds vote of the Executive Committee for nonpayment of assessments or continued noncompliance after written notice to comply with the bylaws or other obligations. Termination may occur only after proper notice has been given, in accordance with the Fund's bylaws. A participating member may withdraw before the end of its membership by giving proper notices and following required procedures at least sixty (60) days before the date of withdrawal. The Executive Director/Administrator is responsible for the overall administration of the Fund. Fees paid to the Executive Director/Administrator encompass all administrative duties, which are performed at the Executive Director/Administrator's office. Accordingly, the Fund does not maintain any fixed assets or incur any employee payroll expense. As a member of the MRHIF, the Fund could be subject to supplemental assessments in the event of deficiencies.

The Address of the registered agent upon whom process may be served at December 31, 2009 was obtained and is noted below

PERMA Risk Management Services  
250 Pehle Ave, Suite 701  
Saddle Brook, NJ 07663

## **MANAGEMENT AND CONTROL**

Each participating Local Unit shall appoint one member to represent the Local Unit as a representative to the Fund. The person appointed shall be either a member of its governing body,

or one of its employees. Each participating Local Unit may also appoint an alternate Fund Representative who shall be a member of its governing body or one of its employees, who shall serve as the Fund Representative in the absence of the appointed regular Fund Representative. In the event the number of participating local units is an even number one additional representative shall be appointed annually for each Fund Year by a participating local unit on a rotating basis determined alphabetically.

Each term of office shall expire on January 1 in accordance with the Fund’s By-laws. The Commissioners shall hold office for two years or the remainder of their terms as elected officials, whichever shall be less, except that those Commissioners who are employees of the member local unit shall serve at the pleasure of the appointing authority. The unexpired term of a Commissioner shall be filled by the appointing local unit in the manner generally prescribed by law or provided by its bylaws. Fund Commissioners can be removed from office for cause by two-thirds (2/3) vote of the full membership of Fund Commissioners.

The Fund Commissioners are authorized to operate the Fund in accordance with the By-laws and appropriate State laws and regulations. The following is listing of Board Representatives and Commissioners serving at December 31, 2009.

Thomas Nolan	Chairman
Adeline Schmidt	Secretary
Stephen Mayer	Treasurer
Richard Bethea	Executive Committee
Jerome A. Cevetello, Jr.	Executive Committee
William Rieker	Executive Committee
Joseph Gilsonon	Executive Committee
Dianne Lapp	Executive Committee
Joe Criscoulo	Fund Commissioner
Robert Benick	Fund Commissioner
Adam Hubeny	Fund Commissioner
David Breeden	Fund Commissioner
Joseph Gilsonon	Fund Commissioner
Thomas Nolan	Fund Commissioner
Laurie Gavin	Fund Commissioner
Peter Gorbatuk	Fund Commissioner
Michael Muscilla	Fund Commissioner
Amie Sweeney	Fund Commissioner
John White	Fund Commissioner
William Rieker	Fund Commissioner
John Trengrove	Fund Commissioner
Jerome A. Cevetello, Jr.	Fund Commissioner
Dianne Lapp	Fund Commissioner
Mary Sapp	Fund Commissioner
Eric Surkol	Fund Commissioner
Frank Mason	Fund Commissioner
Richard Bethea	Fund Commissioner
Adeline Schmidt	Fund Commissioner
Angela Palmer	Fund Commissioner
David Pawlishak	Fund Commissioner

PERMA Risk Management Services	Administrator
Aetna, Inc.	Claims Administrators, Medical
Delta Dental	Claims Administrator, Dental
Express Scripts, Inc.	Claims Administrator, Prescriptions Pharmacy
QualCare, Inc.	Claims Administrators, Medical

**INSURANCE AND EXCESS INSURANCE**

The Fund is a self-administered group of municipalities established for the purpose of providing self-funded employee health benefits for the member municipalities. The following coverage's are offered by the Fund to its members at the choice of the individual member unit:

- Medical
- Dental
- Vision
- Prescription
- Disability

The coverage the Fund provides is limited to \$5,000,000 for each claim with aggregate retentions of \$31,918,410 or 127.4% of budgeted claims for medical and \$1,453,162 or 105% of budgeted claims for dental. The Fund is a member of the Municipal Reinsurance Health Insurance Fund (MRHIF). As a member of MRHIF the Fund is provided excess insurance/reinsurance protection as follows:

**Specific Excess**

\$300,000 excess of \$200,000 with coverage provided by MRHIF  
 \$4,500,000 excess of \$500,000 with coverage provided by Munich American Reinsurance Company through a reinsurance agreement with MRHIF

**Aggregate**

\$10,000,000 in excess of the Fund's aggregate retention as noted above is provided by Munich American Reinsurance Company through a reinsurance agreement with MRHIF.

**AUDITED FINANCIAL REPORT:**

Pursuant to **N.J.A.C. 11:2-26.4** an annual audit was performed by the CPA firm Holman & Frenia, P.C. and an audited financial CPA report was filed with the Commissioner of the Department of Banking and Insurance.

**FINANCIAL STATEMENTS AND OTHER EXHIBITS**

**Exhibit A - Combined Statement of Net Assets Available**

**Exhibit B – Statement Of Revenue, Expenses And Changes In Fund Equity For The Years Ended December 31, 2009 and 2008**

**EXHIBIT-A**

**CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND**  
**COMBINED STATEMENT OF NET ASSETS AVAILABLE**  
**DECEMBER 31, 2009**

<b><u>ASSETS</u></b>	<b><u>2009</u></b>
Cash and Cash Equivalents	\$8,668,802
Investments	4,690,704
Assessment Receivable	1,627,718
Excess Insurance Receivable	246,195
Interest Receivable	31,465
Other Assets	148,222
Investment In Joint Venture	<u>2,064,075</u>
Total Assets	<u>\$17,477,181</u>
 <b><u>LIABILITIES and RESERVES</u></b>	
Accounts Payable	\$ 22,496
Prepaid Contributions	3396,969
Loss Reserves IBNR	<u>3,100,000</u>
Total Liabilities and Reserves	<u>\$3,519,465</u>
Net Assets Unrestricted	<u>\$13,957,716</u>
Total Liabilities, Reserves and Net Assets	<u>\$17,477,181</u>

**EXHIBIT -B****CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND**  
**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
Operating Revenues:		
Assessments	\$33,481,720	\$27,357,819
Total Revenue:	\$ 33,481,720	\$ 27,357,819
Operating Expenses:		
Claims – Net of Claims Adjustment	27,043,933	22,902,970
Premium Expenses	1,938,985	1,623,918
Contractual Expenses	936,005	734,022
Professional Contractual Expenses	810,227	701,601
Miscellaneous Expenses	11,621	14,192
Total Operating Expenses	30,740,771	25,976,703
Operating Income	2,740,949	1,381,116
Non-Operating Revenue / (Expenses)		
Interest Income	57,696	337,451
Dividend Income	0	111,192
Dividends Paid	(2,000,077)	(1,512,771)
Investment In Joint Venture	950,952	336,546
Total Nonoperating Revenue/(expenses)	(991,429)	(727,582)
Net Income/(Loss)	1,749,520	653,534
Net Assets Beginning of Year	12,208,196	11,554,662
Fund Equity, End of Year	\$13,957,716	\$12,208,196



**LOSS RESERVES/IBNR**

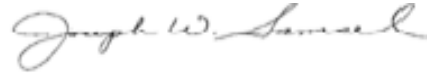
The Loss Reserves/IBNR as reported by the Fund at December 31, 2009 was \$3,100,000. The reserves as reported were verified by the performance of a six month run off of the payments made in 2010. This review indicated that the reserves reported by the Fund were understated by approximately \$400,000 after applying excess insurance. The Fund Administrator is aware of this understatement and is researching the cause for consideration in setting IBNR reserves for the Fund in future statements. It is noted that the Fund retains surplus which equates to approximately three months of paid claims as a contingency any reserve shortfalls.

Paid losses were reconciled to Fund reports and no material exceptions were noted. Samples of payments were scheduled and traced to supporting documentation without exception. Completeness testing was performed for selected TPA's without exception.

**ACKNOWLEDGEMENT**

The examination was completed at the office of the Fund's Executive Director, PERMA Risk Management Services, 250 Pehle Avenue Suite 701, Saddle Brook, New Jersey 07663. The courteous cooperation extended to the examiners by Fund Management is acknowledged.

Respectfully submitted



Joseph Samsel, CFE  
Insurance Examiner

**CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND**

I, Joseph Samsel, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2009 to the best of my information, knowledge and belief.

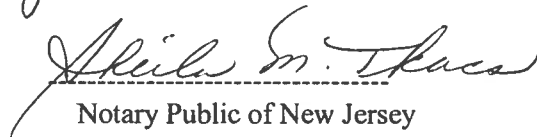
Respectfully Submitted,



Joseph Samsel CFE  
Examiner-In-Charge  
New Jersey Department of Banking and Insurance

State of New Jersey  
County of Mercer

Subscribed and sworn to before me,  
on this 10<sup>th</sup> day of July 2012



Notary Public of New Jersey

My commission expires on July 2015