

[SECOND REPRINT]
ASSEMBLY, No. 3108

STATE OF NEW JERSEY

INTRODUCED MAY 9, 1988

By Assemblywoman FARRAGHER

1 AN ACT to amend ²and supplement² the "New Jersey State
Health Benefits Program Act," approved June 3, 1961
3 (P.L.1961, c.49), as said short title was amended by P.L.1972,
c.75.

5

BE IT ENACTED by the Senate and General Assembly of the
7 State of New Jersey:

1. Section 4 of P.L.1961, c.49 (C.52:14-17.28) is amended to
9 read as follows:

4. The commission shall negotiate with and arrange for the
11 purchase, on such terms as it deems to be in the best interests of
the State and its employees, from carriers licensed to operate in
13 the State, contracts providing hospital, surgical, obstetrical,
medical and major medical expense benefits covering employees
15 of the State and their dependents, and shall execute all
documents pertaining thereto for and on behalf and in the name
17 of the State. [The contracts providing the basic benefits of
hospital, surgical, obstetrical and medical expense benefits shall
19 be purchased from carriers authorized by chapter 48 of Title 17
of the Revised Statutes of New Jersey as amended and by chapter
21 74 of the laws of 1940 as amended. The contract providing the
major medical expense benefits shall be purchased from an
23 insurance company licensed to operate in the State whose
premium income, as last reported to the Department of Banking
25 and Insurance, from accident and health, hospitalization,
medical-surgical or major medical expense contracts in force in
27 the State amounts to at least \$5,000,000.00 annually.] The
commission shall not enter into a contract under this act unless
29 the benefits provided thereunder equal or exceed the minimum
standards specified in section 5 for the particular coverage which
31 such contract provides; and unless coverage is available to all
eligible employees and their dependents on the basis specified by
33 section 7.

(cf: P.L.1961, c.49, s.4)

EXPLANATION--Matter enclosed in bold-faced brackets [thus] in the
above bill is not enacted and is intended to be omitted in the law.

Matter underlined thus is new matter.

Matter enclosed in superscript numerals has been adopted as follows:

¹ Assembly AIN committee amendments adopted October 13, 1988.

² Assembly floor amendments adopted October 27, 1988.

1 ¹[2. Section 5 of P.L.1961, c.49 (C.52:14-17.29) is amended to
read as follows:

3 5. (A) The contract or contracts purchased by the commission
pursuant to section 4 shall provide separate coverages or policies
5 as follows:

(1) Basic benefits which shall include:

7 (a) Hospital benefits, including outpatient;

(b) Surgical benefits;

9 (c) Inpatient medical benefits;

(d) Obstetrical benefits;

11 and

(e) Services rendered by an extended care facility or by a
13 home health agency and for specified medical care visits by a
physician during an eligible period of such services, without
15 regard to whether the patient has been hospitalized, to the extent
and subject to the conditions and limitations agreed to by the
17 commission and the carrier or carriers.

[Basic benefits shall be substantially equivalent to those
19 available on a group remittance basis to employees of the State
and their dependents under the subscription contracts of the New
21 Jersey "Blue Cross" and "Blue Shield" plans.] Such basic benefits
shall include extended benefits for:

23 (i) Additional days of inpatient medical service;

(ii) Surgery elsewhere than in a hospital;

25 (iii) X-ray, radioactive isotope therapy and pathology services;

(iv) Physical therapy services; and

27 (v) Radium or radon therapy services[; and the extended basic
benefits shall be subject to the same conditions and limitations,
29 applicable to such benefits, as are set forth in "Extended
Outpatient Hospital Benefits Rider," Form 1500, 71 (9-66), and in
31 "Extended Benefits Rider" (as amended), Form MS 7050J (9-66)
issued by the New Jersey "Blue Cross" and "Blue Shield" plans,
33 respectively, and as the same may be amended or superseded,
subject to filing by the Commissioner of Insurance; and].

35 The commission may determine, by regulation, what types of
services and supplies shall be included as basic benefits and
37 extended basic benefits as well as those which shall be excluded
from or limited under these coverages.

39 (2) Major medical expense benefits which shall provide benefit

1 payments for reasonable and necessary eligible medical expenses
2 for hospitalization, surgery, medical treatment and other related
3 services and supplies to the extent they are not covered by basic
4 benefits. The commission may, by regulation, determine what
5 types of services and supplies shall be included as "eligible
6 medical services" under the major medical expense benefits
7 coverage as well as those which shall be excluded from or limited
8 under such coverage. Benefit payments for major medical
9 expense benefits shall be equal to a percentage of the reasonable
10 charges for eligible medical services incurred by a covered
11 employee or an employee's covered dependent during a calendar
12 year as exceed a deductible for such calendar year of \$100.00,
13 subject to the maximums hereinafter provided and to the other
14 terms and conditions authorized by this act. The percentage shall
15 be 80% of the first \$2,000.00 of charges for eligible medical
16 services incurred subsequent to satisfaction of the deductible and
17 100% thereafter. There shall be a separate deductible for each
18 calendar year for (a) each enrolled employee and (b) all enrolled
19 dependents of such employee. Not more than \$1,000,000.00 shall
20 be paid for major medical expense benefits with respect to any
21 one person for the entire period of such person's coverage under
22 the plan, whether continuous or interrupted, except that this
23 maximum may be reapplied to a covered person in amounts not to
24 exceed \$2,000.00 a year. Maximums of \$10,000.00 per calendar
25 year and \$20,000.00 for the entire period of the person's
26 coverage under the plan shall apply to eligible expenses incurred
27 because of mental illness or functional nervous disorders, and
28 such may be reapplied to a covered person. For retired
29 employees, the maximum lifetime benefit for each person shall
30 be the unused balance of the lifetime maximum remaining while
31 in active service or \$100,000.00, whichever is less, with a
32 minimum benefit of \$5,000.00. Under the conditions agreed upon
33 by the commission and the carriers as set forth in the contract,
34 the deductible for a calendar year may be satisfied in whole or in
35 part by eligible charges incurred during the last three months of
36 the prior calendar year.

37 Any service determined by regulation of the commission to be
38 an "eligible medical service" under the major medical expense
39 benefits coverage which is performed by a duly licensed

1 practicing psychologist within the lawful scope of his practice
shall be recognized for reimbursement under the same conditions
3 as would apply were such service performed by a physician.

(B) Benefits under the contract or contracts purchased as
5 authorized by this act may be subject to such limitations,
exclusions, or waiting periods as the commission finds to be
7 necessary or desirable to avoid inequity, unnecessary utilization,
duplication of services or benefits otherwise available, including
9 coverage afforded under the laws of the United States, such as
the federal Medicare program, or for other reasons.

11 Benefits under the contract or contracts purchased as
authorized by this act shall include those for the treatment of
13 alcoholism, where such treatment is prescribed by a physician and
shall also include treatment while confined in or as an outpatient
15 of a licensed hospital or residential treatment program which
meets minimum standards of care equivalent to those prescribed
17 by the Joint Commission on Hospital Accreditation. No benefits
shall be provided beyond those stipulated in the contracts held by
19 the State Health Benefits Commission.

(C) The rates charged for any contract purchased under the
21 authority of this act shall reasonably and equitably reflect the
cost of the benefits provided based on principles which in the
23 judgment of the commission are actuarially sound. The rates
charged shall be determined by the carrier on accepted group
25 rating principles with due regard to the experience, both past and
contemplated, under the contract. The commission shall have the
27 right to particularize subgroups for experience purposes and
rates. No increase in rates shall be retroactive.

29 (D) The initial term of any contract purchased by the
commission under the authority of this act shall be for such
31 period to which the commission and the carrier may agree, but
permission may be made for automatic renewal in the absence of
33 notice of termination by the commission. Subsequent terms for
which any contract may be renewed as herein provided shall each
35 be limited to a period not to exceed one year.

(E) The contract shall contain a provision that if basic benefits
37 or major medical expense benefits of an employee or of an
eligible dependent under the contract, after having been in effect
39 for at least one month in the case of basic benefits or at least

1 three months in the case of major medical expense benefits, is
2 terminated, other than by voluntary cancellation of enrollment,
3 there shall be a 31-day period following the effective date of
4 termination during which such employee or dependent may
5 exercise the option to convert, without evidence of good health,
6 to converted coverage issued by the carrier on a direct payment
7 basis. Such converted coverage shall include benefits of the type
8 classified as "basic benefits" or "major medical expense
9 benefits" in subsection (A) hereof and shall be equivalent to the
10 benefits which had been provided when the person was covered as
11 an employee. The provision shall further stipulate that the
12 employee or dependent exercising the option to convert shall pay
13 the full periodic charges for the converted coverage which shall
14 be subject to such terms and conditions as are normally
15 prescribed by the carrier for this type of coverage.

(F) The commission may purchase a contract or contracts to
17 provide drug prescription and other health care benefits or
18 authorize the purchase of a contract or contracts to provide drug
19 prescription and other health care benefits as may be required to
20 implement a duly executed collective negotiations agreement or
21 as may be required to implement a determination by a public
22 employer to provide such benefit or benefits to employees not
23 included in collective negotiations units.

(cf: P.L.1985, c.428, s.1)]¹

25 2. (New section) Notwithstanding the provisions of any other
26 law to the contrary, the commission shall not enter into a
27 contract under the "New Jersey State Health Benefits Program
28 Act," P.L.1961, c.49 (C.52:14-17.25 et seq.) for the benefits
29 provided pursuant to the contract in effect on October 1, 1988,
30 including, but not limited to, basic benefits, extended basic
31 benefits, and major medical benefits unless the level of benefits
32 provided under the contract entered into is equal to or exceeds
33 the level of benefits provided for in the contract in effect on
34 October 1, 1988, or unless the benefits in effect on October 1,
35 1988 are modified by an authorized collective bargaining
36 agreement made on behalf of the State.²

37 ¹[3.] ²[2.1] ^{3.2} This act shall take effect immediately.

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STATE GOVERNMENT

Insurance - Health

3

Provides the State Health Benefits Commission with greater

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flexibility in choosing carriers.

1 three months in the case of major medical expense benefits, is
terminated, other than by voluntary cancellation of enrollment,
3 there shall be a 31-day period following the effective date of
termination during which such employee or dependent may
5 exercise the option to convert, without evidence of good health,
to converted coverage issued by the carrier on a direct payment
7 basis. Such converted coverage shall include benefits of the type
classified as "basic benefits" or "major medical expense
9 benefits" in subsection (A) hereof and shall be equivalent to the
benefits which had been provided when the person was covered as
11 an employee. The provision shall further stipulate that the
employee or dependent exercising the option to convert shall pay
13 the full periodic charges for the converted coverage which shall
be subject to such terms and conditions as are normally
15 prescribed by the carrier for this type of coverage.

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17 provide drug prescription and other health care benefits or
authorize the purchase of a contract or contracts to provide drug
19 prescription and other health care benefits as may be required to
implement a duly executed collective negotiations agreement or
21 as may be required to implement a determination by a public
employer to provide such benefit or benefits to employees not
23 included in collective negotiations units.

(cf: P.L. 1985, c. 428, s. 1)

25 3. This act shall take effect immediately.

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Sponsors' STATEMENT

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This bill provides the State Health Benefits Commission with
31 greater flexibility in choosing carriers for the State Health
Benefits Program. At present, contracts for basic hospital and
33 medical expense benefits must be purchased from hospital service
and medical service corporations and contracts for major medical
35 expense benefits must be purchased from an insurance company
licensed to operate in this State whose premium income from
37 accident and health, hospitalization, medical-surgical or major
medical expense contracts in force in the State is at least
39 \$5,000,000 annually. In addition, at least three separate carriers

1 are required. These requirements, which this bill eliminates,
2 severely limit the commission's ability to obtain carriers for the
3 program on a competitive basis and prevent more efficient
4 administration of the program which can be achieved by placing
5 it with less than three carriers.

6 This bill provides that the commission may determine what
7 types of services and supplies shall be included as basic and
8 extended basic benefits as well as those which shall be excluded
9 from or limited under these coverages. In so doing, it removes
10 the requirement that extended basic benefits be subject to the
11 conditions and limitations set forth by the New Jersey Blue Cross
12 and Blue Shield Plans. This revision also increases the
13 commission's flexibility.

14 While the bill provides the commission with increased
15 flexibility, it does not reduce health benefits.

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STATE GOVERNMENT

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Insurance - Health

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21 Provides the State Health Benefits Commission with greater
flexibility in choosing carriers.

ASSEMBLY INSURANCE COMMITTEE

STATEMENT TO

ASSEMBLY, No. 3108

with Assembly committee amendments

STATE OF NEW JERSEY

DATED: OCTOBER 13, 1988

The Assembly Insurance Committee reports this bill with amendments and with a favorable recommendation.

This bill amends the "New Jersey State Health Benefits Program Act," P.L.1961, c.49 (C.52:14-17.25 et seq.), to give the State Health Benefits Commission greater latitude in negotiating with health insurers to provide benefits to state employees and to others who are covered by the State health benefits plan.

The bill deletes language in the law which would require the commission to purchase basic benefits contracts (hospital, surgical, obstetrical and medical expense benefits) from carriers authorized by P.L.1938, c.366 (C.17:48-1 et seq.) and by P.L.1940, c.74 (C.17:48A-1 et seq.). This language originally would have required the commission to purchase benefits from Blue Cross and Blue Shield, but those entities are no longer organized under the laws referred to; they were reorganized by P.L.1985, c.236 (C.17:48E-1 et seq.) as a health service corporation. Technically, therefore, the language of the law no longer accomplishes its original purpose. The bill also deletes the requirement that major medical insurance be purchased from a specific type of carrier.

The Assembly Insurance Committee has deleted section 2 of the bill, which deals with benefit levels and which is not material to the bill's purpose.

Benefits for state employees and other public employees are presently established by law and administered by the State Health Benefits Commission. The Commission is composed of the State Treasurer, the Commissioner of Insurance, and the Commissioner of Personnel. The Director of the Division of Pensions functions as the secretary to the Commission.

The law presently governing the benefit structure is quite specific in nature in that it requires the purchase of certain benefits from specific types of carriers. The Department of the Treasury believes that this specificity locks the system into an outdated administrative structure and impedes efforts to make the system more cost efficient. The bill is intended to provide the necessary flexibility to consolidate portions of the benefit package and to either bid or negotiate its placement with a single carrier or carriers.