

**State of New Hampshire  
Department of Administrative Services**

# **Annual Financial Report**

## **Internal Service Fund**



**FY2014**



## Table of Contents

Introductory Section (Unaudited) .....	2
Organizational Listing .....	2
Letter of Transmittal .....	3
FINANCIAL SECTION .....	4
Independent Auditor's Report .....	4
Management Discussion and Analysis (Unaudited) .....	7
Financial Highlights .....	7
Economic Conditions and Outlook .....	9
Financial Statements .....	10
Statement of Net Position ( <i>Expressed in Thousands</i> ) .....	10
Statement of Revenues, Expenses and Changes in Net Position ( <i>Expressed in Thousands</i> ) .....	11
Statement of Cash Flows ( <i>Expressed in Thousands</i> ) .....	12
NOTES TO THE FINANCIAL STATEMENTS TABLE OF CONTENTS .....	13

**Introductory Section (Unaudited)**

**Organizational Listing**

**STATE OF NEW HAMPSHIRE**

**Governor**

Margaret Wood Hassan

**Executive Council**

Joseph D. Kenney  
Colin Van Ostern  
Christopher C. Pappas  
Deborah B. Pignatelli  
Christopher T. Sununu

**State Treasurer**

William F. Dwyer

**Secretary of State**

William M. Gardner

**Attorney General**

Joseph Foster

**NEW HAMPSHIRE DEPARTMENT OF ADMINISTRATIVE SERVICES**

**Commissioner**

Linda M. Hodgdon

**Assistant Commissioner**

Joseph Bouchard

**Deputy Commissioner**

Michael Connor

**Comptroller**

Karin Benincasa

**Director of Risk & Benefits**

Catherine A. Keane

**Administrator, Bureau of Financial Reporting**

Gerard J. Murphy

**Senior Financial Analyst**

Sarah G. Trask



**Linda M. Hodgdon**  
Commissioner  
(603) 271-3201

## STATE OF NEW HAMPSHIRE

Department of Administrative Services  
**RISK MANAGEMENT UNIT**  
State House Annex – Room 412  
25 Capitol St.  
Concord NH 03301

**Catherine A. Keane**  
Director  
(603) 271-3180

### Letter of Transmittal

December 30, 2014

To: Her Excellency the Governor,  
and the Honorable Council,  
and The Citizens of New Hampshire

We are pleased to submit the Annual Financial Report of the State of New Hampshire Internal Service Fund for the fiscal year ended June 30, 2014.

This report has been prepared by the Department of Administrative Services, Risk Management Unit and Bureau of Accounts, and responsibility for both the accuracy of the data presented and completeness and fairness of the presentation, including all disclosures, rests with the management of the Department. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position, results of operations and cash flows of the Internal Service Fund. All disclosures necessary to enable the reader to gain an understanding of the Internal Service Fund's financial activities have been included.

Governmental Accounting Standards Board Statement No. 34 requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is intended to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the independent auditor's report.

The Internal Service Fund is reported in the State's Comprehensive Annual Financial Report as a proprietary fund, reporting only the financial activity for the self-funded health and dental benefits provided to State employees and retirees. In this report, the Internal Service Fund financial activity includes workers compensation benefits and unemployment compensation to State employees.

For further information please visit our website <http://admin.state.nh.us/riskmanagement/index.asp>.

Respectfully Submitted,

Linda M. Hodgdon  
Commissioner



JEFFRY A. PATTISON  
Legislative Budget Assistant  
(603) 271-3161

MICHAEL W. KANE, MPA  
Deputy Legislative Budget Assistant  
(603) 271-3161

## State of New Hampshire

OFFICE OF LEGISLATIVE BUDGET ASSISTANT  
State House, Room 102  
Concord, New Hampshire 03301

STEPHEN C. SMITH, CPA  
Director, Audit Division  
(603) 271-2785

### **Independent Auditor's Report**

*To The Fiscal Committee Of The General Court:*

#### **Report On The Financial Statements**

We have audited the accompanying financial statements of the Internal Service Fund of the State of New Hampshire which comprise the Statement of Net Position as of June 30, 2014, and the related Statements of Revenues, Expenses, and Changes in Net Position and Cash Flows for the year then ended, and the related notes to the financial statements.

#### ***Management's Responsibility For The Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Internal Service Fund of the State of New Hampshire as of June 30, 2014, and the changes in net position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis Of Matter***

As discussed in Note 1, the financial statements present only the Internal Service Fund and do not purport to, and do not, present fairly the financial position of the State of New Hampshire, as of June 30, 2014, the changes in financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 7 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Internal Service Fund of the State of New Hampshire's basic financial statements. The Introductory Section of this report is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Introductory Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required By *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2014 on our consideration of the State of New Hampshire's internal control over its Internal Service Fund financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of New Hampshire's internal control over its Internal Service Fund financial reporting and compliance.

*Office of Legislative Budget Assistant*

Office Of Legislative Budget Assistant

December 30, 2014



## **Management Discussion and Analysis (Unaudited)**

The Employee and Retiree Benefit Risk Management Fund, established by RSAs 21-I:30-e, accounts for the State's self-funding of employee and retiree health benefits and employee dental benefits. The State initiated the self-funding of these benefits beginning October 2003.

The State also self-insures its Workers Compensation and Unemployment Compensation claims. State agencies reimburse the Internal Service Fund for claims paid on their behalf.

The Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows report information on the activities of the Internal Service Fund comprised of the State's Employee and Retiree Benefit Risk Management Fund, Workers Compensation Program and Unemployment Compensation. These activities are normally supported through contributions from State departments and agencies, limited other employers, covered employees and retirees, and a subsidy from the New Hampshire Retirement System for retired employees.

The Statement of Net Position presents the reporting entity's assets and liabilities, with the difference reported as net position. Net position is reserved when constraints placed on it are either externally imposed or are imposed by constitutional provisions or enabling legislation. Restricted resources are not presented as reserved net assets in the Statement of Net Position.

The Statement of Revenues, Expenses, and Changes in Net Position demonstrates the degree to which expenses are offset by revenues. All revenues and expenses are operating. Revenues are classified by major revenue sources. Expenses are classified by function.

The Statement of Cash Flows provides relevant information about the cash effects (i.e. receipts and payments) of the Internal Service Fund's operations during the fiscal year ended June 30, 2014. Operating income is reconciled to net cash flows from operating activities.

The following is a discussion and analysis of the financial activities of the Internal Service Fund for the State of New Hampshire for the fiscal year ended June 30, 2014.

### **Financial Highlights**

Discussion and comparisons of fiscal year 2013 and 2014 balance and activity are limited to the Employee and Retiree Benefit Risk Management Fund (Fund).

The total assets of the Fund exceeded total liabilities at fiscal year ending June 30, 2014 by \$34.1 million. The Fund's net position increased by \$9.1 million, or 36%, in fiscal year 2014 as compared to the prior year. The change in net position of the Employee and Retiree Benefit Risk Management Fund accounted for the total increase in net position of the Internal Service Fund. The increase in net position of the Fund is due to lower health claims costs than actuarially projected in fiscal year 2014.

The following is a condensed statement of net position as of June 30, 2014 and 2013 (in thousands).

<b>Assets:</b>	<b>2014</b>	<b>2013</b>
Cash and Cash Equivalents	\$ 52,156	\$ 41,150
Accounts Receivable	3,746	2,550
<b>Total Assets</b>	<b>55,902</b>	<b>43,700</b>
<b>Liabilities:</b>		
Accounts Payable	1,925	875
Claims Payable	6,210	3,493
Incurred but Not Reported Claims Payable	13,668	13,555
<b>Total Liabilities</b>	<b>21,803</b>	<b>17,923</b>
<b>Net Position:</b>		
Unrestricted Net Position	34,099	25,777
<b>Total Net Position</b>	<b>\$ 34,099</b>	<b>\$ 25,777</b>

Total revenues were \$260.2 million, a decrease of \$794 thousand (-0.3%) as compared to the prior year. Approximately \$220.1 million, 84.6%, of the Fund's revenue was from State agency contributions intended to cover the employee and retiree benefit expenses in fiscal year 2014. The remaining \$40.1 million, 15.4%, of revenue was primarily from employee and retiree premium contributions, New Hampshire Retirement medical subsidies, and prescription drug rebates. The source of revenue to the fund in fiscal year 2014 was consistent with the period the prior year.

Total expenses were \$251.1 million, an increase of \$86 thousand (0.03%) as compared to fiscal year 2013. On a per member per month (pmpm) basis, fiscal year 2014 experienced a 1.6% decrease in pmpm to \$550 from a fiscal year 2013 pmpm of \$559. The low increase in costs was the result of various cost containment initiatives such as:

- Aggressive third party administrator (TPA) service procurement contracting and vigorous vendor management,
- Participation in the collective bargaining process through comprehensive financial and plan design modeling support and
- Implementation of cost-effective programs as well as plan design changes such as, implementation of the first ever deductible and administrative changes to the benefit.

The Fund's largest expenses were employee and retiree health care claims which accounted for \$239.3 million, 95.3% of total expenses. Administrative expenses paid to benefit third party administrators, salary and benefits of program personnel, and consulting services accounted for \$11.9 million, 4.7%, of total expenses. Compared to the prior year, the Fund's expenses were consistent. Health care claims and administrative claims were 95.3% and 4.7%, respectively, for the fiscal year ending June 30, 2013.

	(Amounts in thousands)			
	2014	2013	\$ Change	% Change
<b>Revenues</b>				
State Contributions:	\$ 220,131	\$ 221,673	\$ (1,542)	-0.7%
Non-State Contributions	40,080	39,332	748	1.9%
<b>Total Revenues</b>	<b>260,211</b>	<b>261,005</b>	<b>(794)</b>	<b>-0.3%</b>
<b>Expenses</b>				
Total Claims Expenses	239,271	239,325	(54)	0.0%
Administrative Expenses	11,876	11,736	140	1.2%
<b>Total Expenses</b>	<b>251,147</b>	<b>251,061</b>	<b>86</b>	<b>0.0%</b>
<b>Change in Net Position</b>	<b>\$ 9,064</b>	<b>\$ 9,944</b>	<b>\$ (880)</b>	<b>-8.9%</b>

## Economic Conditions and Outlook

Although the State Employee and Retiree Health Benefit Program (Program) has proven the financial advantage of self-funding, the State must continue to address the challenges of health care cost increases to ensure programs are sustainable. In particular, the Program must monitor and assess the effects of the Affordable Care Act (ACA). In calendar year 2014, the State paid the ACA Comparative Effective Research Fee of \$63,960 and the Transitional Reinsurance Fee of \$1.5 million. The Comparative Effective Research Fee funds patient-centered comparative clinical effectiveness research to improve key health outcomes and the Transitional Reinsurance Fee helps stabilize premiums in the individual health insurance market for those with pre-existing conditions. In addition, the Program must continue to evaluate the effects of the looming excise tax in 2018 that will be levied on both insured and self-funded employer-sponsored health plans which exceed coverage thresholds established by the ACA. The 40% excise tax will be assessed on the balance of the value of coverage exceeding the thresholds for health plans to the employer. With the current trajectory and information available at this time, the Health Program expects to exceed the threshold of the tax. However, the impact of the tax will depend on the calculation assumptions required by the ACA. To mitigate this future tax liability, the Program now includes a deductible and is educating employees and retirees to make cost effective health care choices. The Program is also working with the collective bargaining team to keep it informed of the estimated excise tax liability and recommend responsible plan changes that will lower its overall costs.

## Financial Statements

State of New Hampshire  
Internal Service Fund

### Statement of Net Position (Expressed in Thousands)

June 30, 2014

	Employee and Retiree Benefit Fund	Workers Compensation	Unemployment Compensation	Total Internal Service Fund
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash and Cash Equivalents.....	\$ 52,156	\$ -	\$ 50	\$ 52,206
Accounts Receivable (Net of Allowances for Uncollectible).....	3,746			3,746
Due from Other Funds.....		26,944	89	27,033
<b>Total Assets.....</b>	<b>55,902</b>	<b>26,944</b>	<b>139</b>	<b>82,985</b>
<b>LIABILITIES</b>				
<b>Current Liabilities:</b>				
Accounts Payable.....	1,925	522	139	2,586
Due to Other Funds.....		86		86
Claims Payable.....	6,210			6,210
Incurred but Not Reported Claims Payable (Note 3).....	13,668			13,668
Current Loss Reserve Liability (Note 4).....		6,406		6,406
<b>Total Current Liabilities.....</b>	<b>21,803</b>	<b>7,014</b>	<b>139</b>	<b>28,956</b>
<b>Non-Current Liabilities</b>				
Loss Reserves Liability.....		19,833		19,833
<b>Total Liabilities.....</b>	<b>21,803</b>	<b>26,847</b>	<b>139</b>	<b>48,789</b>
<b>Net Position</b>				
Unrestricted Net Position (Deficit).....	34,099	97		34,196
<b>Total Net Position.....</b>	<b>\$ 34,099</b>	<b>\$ 97</b>	<b>\$ -</b>	<b>\$ 34,196</b>

*The Notes to the Financial Statements are an integral part of this statement.*

State of New Hampshire

Internal Service Fund

Statement of Revenues, Expenses and Changes in Net Position (Expressed in Thousands)  
For the Fiscal Year Ended June 30, 2014

	Employee and Retiree Benefit Fund	Workers Compensation	Unemployment Compensation	Total Internal Service Fund
<b>Operating Revenues</b>				
<b>State Contributions For:</b>				
Active Employees.....	\$ 169,998	\$ 8,137	\$ 488	\$ 178,623
Retired Judges & Constitutional Officers.....	564			564
Retirees.....	49,569			49,569
<b>Non-State Contributions</b>				
Employees and Retirees.....	15,752			15,752
Other Employers.....	2,809			2,809
COBRA.....	487			487
Legislators.....	959			959
Retirement Subsidies and Deductions.....	12,342			12,342
Medicare Part D Subsidy.....	3,296			3,296
Drug Rebates and Other Recoverable.....	4,435			4,435
Total Operating Revenue.....	260,211	8,137	488	268,836
<b>Operating Expenses</b>				
<b>Claims Expenses:</b>				
Medical Payments.....	180,738			180,738
Pharmaceuticals.....	57,808			57,808
Exercise Incentives.....	725			725
Unemployment Compensation.....			488	488
Workers Compensation.....		6,752		6,752
Total Claims Expenses.....	239,271	6,752	488	246,511
Administrative Expenses.....	11,876	1,385		13,261
Total Operating Expenses.....	251,147	8,137	488	259,772
Operating Income (Loss)	9,064			9,064
<b>Change in Net Position</b> .....	9,064		-	9,064
Net Position - July 1, 2013.....	25,035	97	-	25,132
Net Position - June 30, 2014.....	\$ 34,099	\$ 97	\$ -	\$ 34,196

The Notes to the Financial Statements are an integral part of this statement.

State of New Hampshire  
Internal Service Fund  
**Statement of Cash Flows (Expressed in Thousands)**  
For the Fiscal Year Ended June 30, 2014

	Employee and Retiree Benefit Fund	Workers Compensation	Unemployment Compensation	Total Internal Service Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts From Contributions.....	\$ 38,884	\$ -	\$ -	\$ 38,884
Receipts from Interfund Charges.....	220,131	8,746	484	229,361
Payments to Vendors.....	(9,806)	(8,073)	(434)	(18,313)
Payments for Claims.....	(236,441)			(236,441)
Payments for Interfund Services.....	(1,039)	(150)		(1,189)
Net Cash Provided by Operating Activities.....	11,729	523	50	12,302
Net Increase in Cash & Cash Equivalents.....	11,729	523	50	12,302
Cash and Cash Equivalents - July 1.....	40,427	(523)	0	39,904
Cash and Cash Equivalents -June 30.....	52,156		50	52,206
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:</b>				
Operating Income (Loss).....	9,064			9,064
Change in Operating Assets and Liabilities:				
Increase in Receivables/Loans.....	(1,196)	(85)	(3)	(1,284)
Increase in Accounts Payable and Other Accruals.....	1,031			1,031
Increase in Claims Payable.....	2,830	608	53	3,491
Net Cash Provided by (Used In) Operating Activities...	\$ 11,729	\$ 523	\$ 50	\$ 12,302

*The Notes to the Financial Statements are an integral part of this statement.*

## NOTES TO THE FINANCIAL STATEMENTS TABLE OF CONTENTS

1.	Summary of Significant Accounting Policies .....	14
a.	Financial Reporting Entity .....	14
b.	Measurement Focus, Basis of Accounting and Financial Statement Presentation .....	14
c.	Statutory Reserve .....	15
d.	Accounts Receivable .....	15
e.	Accounts Payable .....	15
f.	Claims Payable .....	15
g.	Incurred but Not Reported (IBNR) Claims Payable .....	15
h.	Loss Reserve Liability .....	15
i.	Revenues and Expenses .....	16
j.	Use of Estimates .....	16
2.	Cash and Cash Equivalents .....	16
3.	Incurred But Not Reported Claims Payable .....	17
4.	Loss Reserve Liability .....	17
5.	Risk Management and Insurance .....	17
a.	Employee and Retiree Health Benefits .....	17
b.	Workers Compensation .....	17
6.	Contractual Commitments .....	18
a.	Medical Third Party Administrator .....	18
b.	Prescription Drug Third Party Administrator .....	18
c.	Dental Third Party Administrator .....	18
d.	Benefits Consultant .....	18
e.	Workers Compensation Third Party Administrator .....	18

## **NOTES TO THE FINANCIAL STATEMENTS**

*State of New Hampshire*

*Internal Service Fund*

*For the Fiscal Year Ended June 30, 2014*

### **1. Summary of Significant Accounting Policies**

The accompanying financial statements of the Internal Service Fund have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for establishing governmental accounting and financial reporting principles.

The Internal Service Fund is a fund of the primary government of the State of New Hampshire. The Internal Service Fund is accounted for and reported as a proprietary fund in the State of New Hampshire's Comprehensive Annual Financial Report. The accompanying financial statements present only the Internal Service Fund and do not purport to, and do not, present the financial position of the State of New Hampshire, as of June 30, 2014, the changes in financial position, or where applicable, its cash flow for the year then ended.

#### **a. Financial Reporting Entity**

The Internal Service Fund provides services primarily to employees and retirees of the State of New Hampshire (State), rather than to the general public. In the State's government-wide financial statements as presented in the State's Comprehensive Annual Financial Report, internal service funds are included with governmental activities. The Internal Service Fund includes the balance and activity for employee and retiree health and dental benefits, workers compensation, and unemployment compensation.

The Employee and Retiree Benefit Risk Management Fund, established by RSA 21-I:30-e, accounts for the State's self-funding of employee and retiree health benefits and employee dental benefits. The State initiated the self-funding of these benefits beginning October 2003.

The State also self-insures its Workers Compensation and Unemployment Compensation claims. State agencies reimburse the Fund for claims paid on their behalf.

#### **b. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

##### Measurement Focus and Basis of Accounting

The accounting policies of the Internal Service Fund conform to GAAP and the statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.



### Financial Statement Presentation

A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to report financial position and the results of operations, to demonstrate legal compliance, and to aid financial management by segregating transactions related to certain government functions or activities.

### Proprietary Fund Type

Internal Service Fund - provides services primarily to employees and retirees of the State, rather than to the general public. These services include provision of health related fringe benefits. In the State of New Hampshire's government-wide financial statements, the internal service fund is included with governmental activities.

### Reporting Periods

The accompanying financial statements of the Internal Service Fund are presented as of June 30, 2014, and for the year then ended.

#### **c. Statutory Reserve**

Pursuant to RSA 21-I:30-b, the Employee and Retiree Benefit Fund must maintain a claim reserves equal to a minimum of five percent of estimated fiscal year program expenses. For the year ending June 30, 2014 this reserve equals \$16.1 million.

#### **d. Accounts Receivable**

Accounts receivable represent amounts earned and due to the State at June 30, 2014 recorded as revenue, which will be collected sometime in the future and consist primarily of pharmacy rebates and prescription drug Medicare part D subsidy funds.

#### **e. Accounts Payable**

Accounts payable represent the amount of administrative expenses incurred as a result of normal operations, but for which payment had not been issued to vendors as of June 30, 2014.

#### **f. Claims Payable**

Claims payable represents the cost for health and dental services provided to employees and retirees incurred and invoiced to the State for payment, but for which payment had not been issued as of June 30, 2014.

#### **g. Incurred but Not Reported (IBNR) Claims Payable**

IBNR claims payable are the actuarially estimated cost of health and dental claims expenses incurred but not reported to the State for payment as of June 30, 2014.

#### **h. Loss Reserve Liability**

The Loss Reserve Liability consists of workers compensation actuarially estimated case reserves and IBNR claims, including losses due to defense, litigation, and medical cost containment expenses estimates as of June 30, 2014. The loss reserve liability for the program is estimated as current and non-

current based on the average annual workers compensation expenses for the most recent five fiscal years.

### **i. Revenues and Expenses**

All revenues and expenses are classified as operating. The employee and retiree benefit revenues generally result from collecting health and dental actuarially determined premiums and expenses generally result from reimbursing third party administrators for medical, pharmaceutical, and dental claims costs for services to covered individuals. Administrative expenses are primarily made up of administrative fees to third party administrators (TPAs) to process and settle all benefit claims with providers. Administrative expenses also include salary and benefits for the program staff, benefits consulting services, Affordable Care Act fees and vaccine association fees.

The workers compensation expenses result from reimbursing the third party for paying employee medical claims expenses and employee wage replacement. Workers Compensation administrative expenses include quarterly administrative fees and salary and benefits of program staff. Workers compensation revenue is collected from the State agencies as reimbursement for workers compensation claims paid for employees on the agencies behalf.

Unemployment expenses are unemployment benefits paid to former employees of the State. Unemployment revenue is collected from the State agencies as reimbursement for unemployment claims paid to former employees on the agencies behalf.

### **j. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

## **2. Cash and Cash Equivalents**

The Internal Service Fund's cash and cash equivalents reported on the Statement of Net Position consists of cash and cash equivalents in the State Treasury. Statutory requirements and Treasury Department policies have been adopted to minimize risk associated with deposits. RSA 6:7 establishes the policy the State Treasurer must adhere to when depositing public monies.

Credit risk is managed in a variety of ways. Although State law does not require deposits to be collateralized, the Treasurer does utilize such arrangements where prudent and or cost effective. All banks, where the State has deposits and or active accounts are monitored as to their financial health through the services of Veribanc, Inc., a bank rating firm. In addition, ongoing reviews with officials of depository institutions are used to allow for frequent monitoring of custodial credit risk. Whereas all payments to the State are to be in U.S. dollars, foreign currency risk is essentially nonexistent on State deposits.

### **3. Incurred But Not Reported Claims Payable**

The Employee and Retiree Benefit incurred but not reported liability is an actuarially determined recommended reserve for the State's medical, dental, and pharmacy drug plans as of June 30, 2014. The reserve is intended to cover both claims reported to the third party administrator (TPA) but not reported to the State and claims incurred by participants but not reported to the TPA. The reserve amount as of June 30, 2014 is \$13.7 million and is intended to cover IBNR claims incurred in the normal operating cycle of the program.

### **4. Loss Reserve Liability**

The total workers compensation loss reserve liability is \$26.2 million as of June 30, 2014. The amount is comprised of \$16 million in case reserves and \$10.2 million for IBNR program expenses as of June 30, 2014. The case reserve liability is the estimated expense for the life of all current workers compensation claims.

## **5. Risk Management and Insurance**

### **a. Employee and Retiree Health Benefits**

The State established the Employee and Retiree Benefit Risk Management Fund, an internal service fund, during fiscal year 2004 to account for its uninsured risks of loss related to employee and retiree health benefits. Currently, the State retains all of the risk associated with these benefits, and utilizes an actuarially-established IBNR (incurred but not reported) claims reserve. In addition, state law prescribes the retention of a reserve comprising 5% of annual claims and administrative costs, for unexpected costs. For fiscal year 2014, this reserve equaled \$16.1 million for the Fund. Rates are established annually, by actuaries, based on an analysis of past claims, state and other medical trend, and future estimated loss experience. The process used in estimating claim liabilities may not result in an exact payout amount due to variables such as medical inflation, or changes in law, enrollment or plan design.

### **b. Workers Compensation**

Since February 2003, the State has been self-insured for its workers compensation exposures, retaining all of the risk associated with workers compensation claims. The State utilizes an actuarial study that provides an annual estimate of the outstanding liabilities for the prior years' claims. The study also contains assumptions about loss development patterns, trends and other claim projections based upon the State's historical loss experience. According to the fiscal year 2014 actuarial study, the Selected Ultimate Loss and Allocated Loss Adjustment Expense (ALAE), which comprises past claims, claim trends and future estimated loss experience, is \$7.8 million as of June 30, 2014.

The following table presents the changes in claim liabilities during the fiscal years ending June 30, 2013 and 2014 (In Thousands):

Total Internal Service Fund	6/30/2012			6/30/2013			6/30/2014		
	Balance	Increases	Decreases	Balance	Increases	Decreases	Balance	Current	Long-Term
Workers Compensation Claims Payable	\$24,770	\$8,778	\$7,172	\$26,376	\$6,435	\$6,572	\$26,239	\$6,406	\$19,833
Health Claims Payable	\$17,383	\$238,990	\$239,325	\$17,048	\$241,905	\$239,075	\$19,878	\$19,878	\$0
Total	\$42,153	\$247,768	\$246,497	\$43,424	\$248,340	\$245,647	\$46,117	\$26,284	\$19,833

## 6. Contractual Commitments

The Department of Administrative Services has entered into a number of contracts to gain assistance in administering the programs reported in the Internal Service Fund.

### a. Medical Third Party Administrator

The Department of Administrative Services, Risk Management Unit, entered into a three-year contract for the period of January 1, 2013 through December 31, 2015, renewable for up to two additional years, with Anthem Health Plans of New Hampshire, Inc., d/b/a Anthem Blue Cross and Blue Shield, located in Manchester, NH for an amount not to exceed \$20.526 million for the administration of the medical benefit provided to state employees and retirees.

### b. Prescription Drug Third Party Administrator

The Department of Administrative Services, Risk Management Unit, entered into a three-year contract for the period of January 1, 2014 through December 31, 2016, renewable for up to two additional years, with Express Scripts, Inc. located in Saint Louis, Missouri for an amount not to exceed \$174.168 million for the administration of the prescription drug benefit provided to state employees and retirees.

### c. Dental Third Party Administrator

The Department of Administrative Services, Risk Management Unit, entered into a 30 month contract, renewable for up to two additional years through December 31, 2014, with Delta Dental Plan of New Hampshire, Inc., d/b/a Northeast Delta Dental (Delta Dental) located in Concord, NH for the administration of the dental benefit provided to state employees and retirees. In May of 2012, the contract with Delta Dental was renewed for an additional two years, for the period of January 1, 2013 through December 31, 2014, for an amount not to exceed \$879,000.

### d. Benefits Consultant

The Department of Administrative Services, Risk Management Unit, entered into a three-year contract for the period of January 1, 2012 through December 31, 2014 with The Segal Company located in Boston, MA for an amount not to exceed \$1.375 million for actuarial, claim audit, procurement and general health benefits consulting services.

### e. Workers Compensation Third Party Administrator

The Department of Administrative Services entered into a three-year contract for the period of July 1, 2012 through July 1, 2015, renewable for up to one additional year, with Helmsman Management Services, LLC, located in Boston, MA, for an amount not to exceed \$1.695 million for workers compensation third party claims administration and related services for State employees.



  
**State of New Hampshire**  
**Department of Administrative Services**  
**December 2014**