

Family Care Financial Summary
Nine Months Ending September 30, 2010
(Report Date: January 7, 2011)

Background

- Based on the 2010 calendar year financial reporting through September 30, 2010, Family Care is projected to be a \$1.0 billion program for the year 2010.
- The program has experienced a 36% growth in capitation payments and a 26% growth in member months during the first nine months of 2010, compared to the same period in 2009.
- Five of the MCOs have achieved a surplus position, or are close to breakeven; only one MCO was in a surplus position at the same time point in 2009. This overall improvement is consistent with the chief 2010 program objective of increased financial stabilization.
- Two MCOs in a deficit position through the third quarter have grown dramatically, having seen their member months increase 54% from the same period in 2009, through ongoing expansion.
- The two remaining MCOs in a deficit position and beyond the initial expansion period are receiving close direction with corrective measures from the Department to ensure future operational and financial goals are achieved.
- The composite Family Care program year-to-date surplus gain of \$3.5 million (0.5%) compares to a loss of \$12.7 million (-2.2%) through the first nine months of 2009. While the overall Family Care program is in a modestly positive position, the MCOs in a year-to-date loss position are receiving additional Departmental oversight until their stability is achieved.
- The Department continues to evaluate the significant differences in financial results experienced between the pilot county-based MCOs and the MCOs new to the Family Care program.

Key Metrics

- *Capitation:* The average capitation revenue increased by 7.7%, on a per member per month (PMPM) basis, relative to the first nine months of 2009. This increase is largely due to a change in the representation of the program's enrollment by target group (i.e., increased enrollment of disabled adults). Developmentally disabled and physically disabled members typically have higher acuity and, therefore, higher capitation rates than do frail elders.
- *Member services:* There was a 3.5% increase in the overall member services costs, expressed on a PMPM basis, relative to the same time period in 2009. This is reflective of the changing target group mix discussed above, general inflation (which is low), and efforts by MCOs to provide cost effective services to members. MCOs have been working to implement strategies laid out in their business plans to move closer to Family Care historical program experience.
- *Care Management:* There has been a 7.8% decrease in the overall care management costs measured on a PMPM basis. Eight of the nine MCOs saw their PMPM costs decrease, relative to the same period in 2009. The only exception was associated with an MCO that has been undergoing significant expansion in 2010. The proportion of revenue spent on the combined care management and member services expenses has declined by 1.9%, relative to the same time period in 2009. In addition, the variability between high- and low-cost MCOs, for both member services and care management, has been declining year over year. These metrics indicate that the MCOs are converging toward long-run program averages, as expected.

- *Administration:* The program continues to achieve administrative savings, with 95% of all funding being used to support member services. While the overall PMPM for administrative expenses went up by 0.6% relative to the same period in 2009, seven of the nine family care MCOs decreased their administrative PMPMs. The two MCOs that have increased PMPMs have been investing administrative dollars to support their expansion efforts.
- *Net Income:* Net income for the Family Care program was \$3.5 million for the first nine months. As noted above, this contrasts with a loss of \$12.7 million for the first nine months of 2009. While program expansion continues to require investments with are associated with expected losses, those losses are off set by MCO efforts to bring expenses in line with historical program averages. This was the forecast in the MCOs' business plans for 2010.
- *Solvency:* MCOs continue to struggle to meet all of the capital requirements for the Family Care program. MCO Working Capital declined by \$1 million during the third quarter. The Department is closely monitoring the Working Capital of several MCOs. There has been little change in overall funding of the Restricted Reserves during the third quarter, with funding at 83% of requirements. An additional \$1.4 million was contributed to the MCO Solvency fund during the third quarter, increasing the number of MCOs meeting their Solvency Fund requirement from three to five. Each MCO which is not fully funded has a plan approved by the OCI for their eventual funding over the next 15 months. Overall, the MCOs have funded 64% of their Solvency Fund requirements.

More Recent Developments

- The MCOs submitted detailed, three-year business plans to the Department on October 15, 2010. Interdisciplinary teams within the Department reviewed those plans, and provided tailored feedback to each MCO.
- Several MCOs projected unsustainable losses in 2011, and were asked to make changes in their operating strategies prior to final contracting. Those MCOs are working closely with the Department to identify and implement strategies to improve their operating results.
- Performance expectations included in 2011 contracts reflect the requirements identified by the Department for enhanced MCO Team oversight and monitoring.
- OCI has completed three targeted system MCO audits during November and December of 2010. Reports identifying findings, recommendations, and/or requirements for correction are anticipated during the first half of 2011. Preliminary, informal feedback has identified several areas where technical assistance will be provided. The Department continues to work closely with OCI on monitoring and regulating MCO financial operations.
- An evaluation of the Family Care funding formula and solvency trajectory is being completed by APS Healthcare, with a final report due during the first quarter of 2011. This evaluation has focused on the adequacy and precision of the current payment methodology, and will assist with the development of long-range options that will address the timeline required to satisfy capital requirement deficiencies.
- The Family Care program has been undergoing a comprehensive program audit by the Legislative Audit Bureau over the last six months. A report, and resulting recommendations, is expected late in the first quarter or early in the second quarter of 2011.
- The Department anticipates that several MCOs will be removed from corrective action during 2011, after meeting and sustaining their 2011 capital requirements and demonstrating program stability. This demonstrates solid progress on one of the Department's central 2010 priorities for 2010, increased financial stabilization for the Family Care MCOs.

MCO Financial Statement Summaries
Family Care
YTD for Period Ending September 30, 2010

	SFCA	CCCW	LCD	WWC	MCDA	CCI	CWF	CHP	NB	Total
Revenue										
Capitation	40,603,596	68,289,459	42,622,965	76,276,783	169,378,436	159,694,912	87,710,739	31,123,641	49,452,656	725,153,187
Other DHS Funding	357,609	929,812	1,254,100	823,993	18,471	1,015,795	3,060,915	764,228	667,936	8,892,859
Interest Income- Operating Acct	12,236	28,673				8,794	21,731		21,544	92,978
Risk Sharing Accrual						3,200,800		7,725,000		10,925,800
Other Retro Adjustments, DHS	113,018		(78,752)		2,410,826	1,332,488	777,000			4,554,580
Other	47,027	101,448	138,590	1,302	302,889		2,500			593,756
Total Revenue	41,133,486	69,349,392	43,936,903	77,102,078	172,110,622	165,252,789	91,572,885	39,612,869	50,142,136	750,213,159

Expenses										
Member Services	33,877,339	62,463,064	42,050,614	67,993,319	159,222,830	160,431,140	86,984,692	38,697,489	47,561,200	699,281,687
Cost Share	(702,415)	(1,402,049)	(958,963)	(1,687,846)	(7,415,313)	(2,387,785)	(1,074,508)	(271,566)	(578,604)	(16,479,049)
Room & Board	(2,845,725)	(5,523,892)	(3,252,676)	(5,483,120)	(12,037,958)	(14,132,927)	(8,863,148)	(3,002,072)	(3,551,548)	(58,693,066)
Spend Down & Third Party	(95,351)	(416,295)	(305,793)	(218,013)	(1,139,413)	(940,702)	(569,564)	(88,997)	(114,191)	(3,888,319)
Net Member Services Costs	30,233,848	55,120,828	37,533,182	60,604,340	138,630,145	142,969,726	76,477,472	35,334,855	43,316,857	620,221,253

Net Care Management Costs	5,347,331	9,166,900	5,800,312	10,338,620	21,395,569	18,049,467	8,401,789	3,853,292	6,732,652	89,085,933
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Administrative Expenses	2,449,672	3,410,620	2,650,027	3,565,176	9,849,136	6,539,409	6,492,210	1,743,184	2,596,549	39,295,983
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Total Operating Expenses	38,030,851	67,698,348	45,983,521	74,508,136	169,874,851	167,558,601	91,371,471	40,931,331	52,646,058	748,603,168
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Income (Loss) from Operations	3,102,635	1,651,044	(2,046,618)	2,593,942	2,235,771	(2,305,812)	201,414	(1,318,462)	(2,503,922)	1,609,991
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Other (Revenue)/Expense										
Total Non-Operating (Revenue)/Expense	14,084	(437,367)	(405,523)	(912,498)	84,173	(113,494)	703,696	(708,072)	(72,465)	(1,847,467)

Net excess/(deficit) Revenues/Expenses	3,088,551	2,088,411	(1,641,095)	3,506,440	2,151,598	(2,192,318)	(502,282)	(610,390)	(2,431,457)	3,457,458
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Member Months	14,336	23,703	15,542	29,090	65,916	50,203	27,207	9,743	16,330	252,069
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Key Ratios										
Member Service Cost	73.5%	79.5%	85.4%	78.6%	80.5%	86.5%	83.5%	89.2%	86.4%	82.7%
Care Management Service Cost	13.0%	13.2%	13.2%	13.4%	12.4%	10.9%	9.2%	9.7%	13.4%	11.9%
Combined Member Service Cost	86.5%	92.7%	98.6%	92.0%	93.0%	97.4%	92.7%	98.9%	99.8%	94.5%
Administrative Expense	6.0%	4.9%	6.0%	4.6%	5.7%	4.0%	7.1%	4.4%	5.2%	5.2%
Total Operating Expenses	92.5%	97.6%	104.7%	96.6%	98.7%	101.4%	99.8%	103.3%	105.0%	99.8%
Excess Revenue to Expense	7.5%	2.4%	-4.7%	3.4%	1.3%	-1.4%	0.2%	-3.3%	-5.0%	0.2%

Notes

1. Other retro adjustments to estimate case mix adjustments through September 30, 2010 were not reflected by all MCOs. DHS estimates additional revenue through June 30, 2010 of \$2.8M with the calculation through September 30, 2010 pending.
2. The results represent financial reporting as submitted by the MCOs and are unaudited.

MCO Financial Statement Summaries
Family Care
YTD for Period Ending September 30, 2010

	SFCA	CCCW	LCD	WWC	MCDA	CCI	CWF	CHP	NB	Total
Revenue										
Capitation	2,832.37	2,881.05	2,742.44	2,622.10	2,569.60	3,180.98	3,223.83	3,194.53	3,028.33	2,876.80
Other DHS Funding- Cost Based Reimb	24.95	39.23	80.69	28.33	0.28	20.23	112.50	78.44	40.90	35.28
Interest Income- Operating Acct	0.85	1.21	0.00	0.00	0.00	0.18	0.80	0.00	1.32	0.37
Risk Sharing Accrual	0.00	0.00	0.00	0.00	0.00	63.76	0.00	792.89	0.00	43.34
Other Retro Adjustments, DHS	7.88	0.00	(5.07)	0.00	36.57	26.54	28.56	0.00	0.00	18.07
Other	3.28	4.28	8.92	0.04	4.60	0.00	0.09	0.00	0.00	2.36
Total Revenue	2,869.33	2,925.76	2,826.98	2,650.47	2,611.05	3,291.69	3,365.79	4,065.86	3,070.55	2,976.22
Expenses										
Member Services	2,363.17	2,635.24	2,705.61	2,337.35	2,415.54	3,195.65	3,197.14	3,971.91	2,912.50	2,774.16
Cost Share	(49.00)	(59.15)	(61.70)	(58.02)	(112.50)	(47.56)	(39.49)	(27.87)	(35.43)	(65.38)
Room & Board	(198.51)	(233.05)	(209.28)	(188.49)	(182.63)	(281.52)	(325.77)	(308.13)	(217.49)	(232.84)
Spend Down	(6.65)	(17.56)	(19.68)	(7.49)	(17.29)	(18.74)	(20.93)	(9.13)	(6.99)	(15.43)
Net Member Services Costs	2,109.01	2,325.48	2,414.95	2,083.35	2,103.13	2,847.83	2,810.95	3,626.77	2,652.59	2,460.52
Net Care Management Costs	373.01	386.74	373.20	355.40	324.59	359.53	308.81	395.50	412.29	353.42
Administrative Expenses	170.88	143.89	170.51	122.56	149.42	130.26	238.62	178.92	159.00	155.89
Total Operating Expenses	2,652.90	2,856.11	2,958.66	2,561.31	2,577.14	3,337.62	3,358.38	4,201.19	3,223.89	2,969.83
Income (Loss) from Operations	216.43	69.66	(131.68)	89.17	33.92	(45.93)	7.40	(135.33)	(153.33)	6.39
Other (Revenue)/Expense										
Total Non-Operating (Revenue)/Expense	0.98	(18.45)	(26.09)	(31.37)	1.28	(2.26)	25.86	(72.68)	(4.44)	(7.33)
Net Excess/(Deficit) Revenues/Expenses	215.45	88.11	(105.59)	120.54	32.64	(43.67)	(18.46)	(62.65)	(148.90)	13.72
Member Months	14,336	23,703	15,542	29,090	65,916	50,203	27,207	9,743	16,330	252,069

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Family Care
YTD for Period Ending September 30, 2010

	SFCA	CCCW	LCD	WWC	MCDA	CCI	CWF	CHP	NB	Total
Solvency Protection										
Working Capital										
Current Assets	9,963,740	11,736,616	15,510,826	11,501,756	30,403,644	32,602,708	10,541,475	6,996,432	5,319,260	134,576,458
Current Liabilities	6,931,811	11,803,532	13,797,632	9,580,477	21,328,586	39,667,399	20,179,686	13,845,591	8,536,338	145,671,052
Working Capital	3,031,929	(66,916)	1,713,194	1,921,279	9,075,057	(7,064,691)	(9,638,211)	(6,849,158)	(3,217,078)	(11,094,594)
Requirement	1,347,342	2,274,204	1,672,945	2,605,560	5,901,259	5,724,874	3,226,829	1,102,817	1,745,992	25,601,822
Excess/(shortage)	1,684,587	(2,341,120)	40,249	(684,281)	3,173,799	(12,789,565)	(12,865,040)	(7,951,975)	(4,963,070)	(36,696,416)
Restricted Reserve										
Current Restricted Reserve	364,152	2,423,393	1,678,742	1,551,901	3,361,348	4,482,408	1,726,800	250,846	0	15,839,590
Required	1,538,937	1,909,681	1,669,178	2,042,224	3,360,504	3,289,949	2,290,732	1,382,254	1,698,397	19,181,856
Excess/(shortage)	(1,174,785)	513,712	9,564	(490,323)	844	1,192,459	(563,932)	(1,131,409)	(1,698,397)	(3,342,266)
Solvency Fund										
Current Solvency Fund	0	750,000	750,000	750,000	750,000	750,000	250,000	0	331,171	4,331,171
Required	750,000	750,000	750,000	750,000	750,000	750,000	750,000	750,000	750,000	6,750,000
Excess/(shortage)	(750,000)	0	0	0	0	0	(500,000)	(750,000)	(418,829)	(2,418,829)