

**Family Care Financial Summary
Six Months ending June 30, 2010
(Report Date: October 1, 2010)**

Background

- Based on the 2010 calendar year financial reporting through June 30, 2010, Family Care is projected to be a \$950+ million program this year.
- The program has experienced a 33% growth in capitation payments and a 26% growth in member months during the first six months of 2010, compared to the same period in 2009.
- The collective 2010 net surplus, which was \$1.1 million for the nine FC MCOs at the end of the first quarter, increased to \$4.8 million at the end of the second quarter.
- Five of the MCOs have positive surplus, or close to breakeven. Two of the MCOs in a deficit position are in the process of expanding. Other MCOs that are in a deficit position and beyond initial expansion are receiving close direction with corrective measures from the Department to ensure operational requirements are achieved.
- Business Plans for the upcoming 2011-13 time period are due October 15, 2010. The continuation of the positive trends and strategies addressing areas of desired improvement are anticipated in those submissions.
- The turnaround of the MCOs in expansion was projected in the 2010 Business Plans, and provides a good basis for evaluating successful strategies for both individual MCO performance, and overall performance of the Family Care program.

Key Metrics

- *Capitation:* The average capitation revenue increased by 8.9%, on a per member per month (PMPM) basis, relative to the first six months of the prior year. 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 generally have higher acuity and, therefore, higher capitation rates than do frail elders.
- *Member services:* There was a 3.4% increase in the overall member services costs, expressed on PMPM basis, relative to the same period in 2009. This is reflective of the changing target group mix described above, and the cost structure associated with care in the legacy waiver programs for MCOs in initial expansion. MCOs have implemented efforts/strategies to move toward and achieve Family Care program historical experience. The proportion of revenue spent on the combined member services and care management expenses has declined by 1.4%, from 95.7% to 94.3%, compared to the same period in 2009. The wide variation in what each MCO is spending for member services reflects both member mix, or acuity, and progress toward achieving the pilot MCO experience.
- *Administration:* The program continues to achieve administrative savings relative to the fee-for-service system. The percentage of revenue going to administrative expenses has decreased from 5.5% to 5.2%, when compared to the first six months in 2009. PMPM expenses for administrative functions have decreased 1.4% on a year-over-year basis. Seven of the nine MCOs have lowered their administrative PMPMs in 2010, compared to the same time period in 2009. The two MCOs with higher PMPMs have been investing administrative dollars to support their expansion efforts.

- *Net Income:* Net income for the Family Care program was \$4.8 million surplus for the first six months. This represents improvement relative to the \$1.1 million surplus in the first quarter, and significant improvement over the \$5.9 million loss incurred in the first six months in 2009. This turnaround was predicted in the MCO business plans for 2010. Surplus expressed as a proportion of total revenue is now at +1.0%, compared to +0.5% in the first quarter of 2010 and -1.3% for the first six months in 2009.
- *Solvency:* MCOs continue to struggle to meet all of the capital requirements for the program. During the second quarter, however, Working Capital improved by \$4.2 million, primarily as a result of MCO surpluses. MCOs are short of meeting Restricted Reserve requirements by \$3.4 million, or 18%. Each MCO must have a plan approved by the Office of the Commissioner of Insurance (OCI) to meet the \$750,000 MCO Solvency Fund requirement; MCOs have funded almost 60% of their required Solvency Fund deposits by the end of June.

More Recent Developments

- As a result of positive second quarter results, two additional MCOs have entirely funded their \$750,000 solvency fund requirements.
- Many MCOs remain in a state of fiscal corrective action because they are not meeting all capital requirements, a result of the financial distress associated with rapid expansion. MCOs will remain in corrective action until the full set of capital requirements are met.
- DHS and OCI continue to monitor MCO financial health on a monthly basis, provide MCOs with feedback, and identify emerging issues that warrant regulatory intervention. OCI has begun one of the three targeted MCO audits that has been planned for 2010.
- An evaluation of the Family Care funding formula and solvency trajectory is currently underway by APS Healthcare, with a report due in late fall. This evaluation will focus on the adequacy and precision of the current payment methodology and assist with the development of long-range options that will address the timeline required to satisfy capital requirement deficiencies.
- The Department, through its integrated Oversight Teams, continues to actively monitor the MCOs' progress on achieving their overall performance, contractual Performance Expectations, and Business Plan goals. Success in meeting these goals has been an effective predictor of improved financial health.
- 2011 - 2013 MCO Business Plans are due October 15, 2010. As with 2009, the MCO Oversight Teams will be reviewing the plans, making recommendations on approval of the plans, and assessing whether the strategies outlined in the plans will meet the financial and programmatic benchmarks of the program.

Family Care
MCO Financial Statement Summaries
Year to Date January 1, 2010 Through June 30, 2010

| | SFCA | CCCW | LCD | WWC | MCCMO | CCI | CWF | CHP | NB | Total |
|--|-------------------|-------------------|-------------------|-------------------|--------------------|--------------------|-------------------|--------------------|--------------------|--------------------|
| Revenue | | | | | | | | | | |
| Capitation | 25,873,836 | 45,028,097 | 21,454,302 | 50,598,143 | 111,495,343 | 97,229,654 | 58,206,151 | 20,392,586 | 32,264,235 | 462,542,347 |
| Other DHS Funding | 145,604 | 656,925 | 429,000 | 525,259 | 8,379 | 682,652 | 955,803 | 438,898 | 438,963 | 4,281,483 |
| Interest Income- Operating Acct | 8,654 | 19,730 | | | | 5,013 | 19,127 | | 15,513 | 68,036 |
| Risk Sharing Accrual | | | | | | 571,397 | 0 | 5,150,000 | | 5,721,397 |
| Other Retro Adjustments, DHS | 113,018 | | | | 1,733,278 | 627,841 | 1,036,143 | | | 3,510,280 |
| Other Income | 47,027 | 69,580 | 139,159 | 376 | 165,411 | | | | | 421,553 |
| Total Revenue | 26,188,139 | 45,774,332 | 22,022,461 | 51,123,778 | 113,402,411 | 99,116,556 | 60,217,224 | 25,981,483 | 32,718,711 | 476,545,096 |
| Expenses | | | | | | | | | | |
| Member Services | 21,782,189 | 40,978,302 | 20,067,017 | 44,703,322 | 104,700,805 | 95,429,626 | 57,044,698 | 25,697,398 | 30,814,176 | 441,217,533 |
| Cost Share | (432,508) | (915,674) | (539,946) | (1,086,760) | (4,428,229) | (1,449,345) | (691,135) | (167,367) | (362,912) | (10,073,875) |
| Room & Board | (1,778,770) | (3,623,827) | (1,547,450) | (3,657,817) | (7,176,935) | (8,628,145) | (5,841,685) | (1,967,011) | (2,351,013) | (36,572,653) |
| Spend Down/ Third Party/ Refunds | (61,081) | (261,054) | (136,861) | (144,278) | (751,439) | (613,410) | (379,700) | (56,884) | (82,642) | (2,487,350) |
| Net Member Services Costs | 19,509,830 | 36,177,747 | 17,842,760 | 39,814,467 | 92,344,202 | 84,738,725 | 50,132,178 | 23,506,137 | 28,017,609 | 392,083,655 |
| Net Care Management Costs | 3,423,891 | 6,010,147 | 3,082,210 | 6,857,449 | 14,506,542 | 11,197,948 | 5,434,923 | 2,608,724 | 4,419,198 | 57,541,031 |
| Administrative Expenses | 1,612,371 | 2,228,709 | 1,697,076 | 2,322,876 | 5,144,315 | 4,237,234 | 4,728,471 | 1,093,807 | 1,693,107 | 24,757,967 |
| Total Operating Expenses | 24,546,091 | 44,416,603 | 22,622,046 | 48,994,792 | 111,995,058 | 100,173,907 | 60,295,572 | 27,208,668 | 34,129,914 | 474,382,652 |
| Income (Loss) from Operations | 1,642,048 | 1,357,729 | (599,585) | 2,128,986 | 1,407,352 | (1,057,351) | (78,348) | (1,227,185) | (1,411,203) | 2,162,443 |
| Other (Revenue)/Expense | | | | | | | | | | |
| Total Non-Operating (Revenue)/Expense | (907) | (409,211) | (404,228) | (1,073,664) | 21,467 | (94,619) | (2,399) | (705,624) | (142) | (2,669,326) |
| Net Surplus (Deficit) | 1,642,954 | 1,766,940 | (195,357) | 3,202,650 | 1,385,885 | (962,732) | (75,949) | (521,561) | (1,411,061) | 4,831,769 |
| Member Months | 9,130 | 15,632 | 8,036 | 19,285 | 43,429 | 30,765 | 18,009 | 6,307 | 10,879 | 161,471 |
| Key Ratios | | | | | | | | | | |
| Member Service Cost | 74.5% | 79.0% | 81.0% | 77.9% | 81.4% | 85.5% | 83.3% | 90.5% | 85.6% | 82.3% |
| Care Management Service Cost | 13.1% | 13.1% | 14.0% | 13.4% | 12.8% | 11.3% | 9.0% | 10.0% | 13.5% | 12.1% |
| Total Member Service Cost (Loss Ratio) | 87.6% | 92.2% | 95.0% | 91.3% | 94.2% | 96.8% | 92.3% | 100.5% | 99.1% | 94.4% |
| Administrative Expense | 6.2% | 4.9% | 7.7% | 4.5% | 4.5% | 4.3% | 7.9% | 4.2% | 5.2% | 5.2% |
| Total Operating Expenses | 93.7% | 97.0% | 102.7% | 95.8% | 98.8% | 101.1% | 100.1% | 104.7% | 104.3% | 99.5% |
| Net Surplus (Deficit) | 6.3% | 3.0% | -2.7% | 4.2% | 1.2% | -1.1% | -0.1% | -4.7% | -4.3% | 0.5% |

Family Care
MCO Financial Statement Summaries
Year to Date January 1, 2010 Through June 30, 2010
PMPM

| | SFCA | CCCW | LCD | WWC | MCDA | CCI | CW | CHP | NB | Total |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <u>Revenue</u> | | | | | | | | | | |
| Capitation | 2,833.94 | 2,880.51 | 2,669.91 | 2,623.70 | 2,567.32 | 3,160.40 | 3,232.14 | 3,233.31 | 2,965.74 | 2,864.56 |
| Other DHS Funding | 15.95 | 42.02 | 53.39 | 27.24 | 0.19 | 22.19 | 53.07 | 69.59 | 40.35 | 26.52 |
| Interest Income- Operating Acct | 0.95 | 1.26 | 0.00 | 0.00 | 0.00 | 0.16 | 1.06 | 0.00 | 1.43 | 0.42 |
| Risk Sharing Accrual | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 18.57 | 0.00 | 816.55 | 0.00 | 35.43 |
| Other Retro Adjustments, DHS | 12.38 | 0.00 | 0.00 | 0.00 | 39.91 | 20.41 | 57.54 | 0.00 | 0.00 | 21.74 |
| Other Income | 5.15 | 4.45 | 17.32 | 0.02 | 3.81 | 0.00 | 0.00 | 0.00 | 0.00 | 2.61 |
| Total Revenue | 2,868.36 | 2,928.25 | 2,740.61 | 2,650.96 | 2,611.23 | 3,221.73 | 3,343.81 | 4,119.45 | 3,007.51 | 2,951.28 |
| <u>Expenses</u> | | | | | | | | | | |
| Member Services | 2,385.78 | 2,621.44 | 2,497.26 | 2,318.04 | 2,410.87 | 3,101.89 | 3,167.64 | 4,074.41 | 2,832.45 | 2,732.49 |
| Cost Share | (47.37) | (58.58) | (67.19) | (56.35) | (101.97) | (47.11) | (38.38) | (26.54) | (33.36) | (62.39) |
| Room & Board | (194.83) | (231.82) | (192.57) | (189.67) | (165.26) | (280.45) | (324.38) | (311.88) | (216.11) | (226.50) |
| Spend Down/ Third Party/ Refunds | (6.69) | (16.70) | (17.03) | (7.48) | (17.30) | (19.94) | (21.08) | (9.02) | (7.60) | (15.40) |
| Net Member Services Costs | 2,136.89 | 2,314.34 | 2,220.46 | 2,064.53 | 2,126.34 | 2,754.39 | 2,783.80 | 3,726.97 | 2,575.38 | 2,428.20 |
| Net Care Management Costs | 375.02 | 384.48 | 383.57 | 355.58 | 334.03 | 363.98 | 301.80 | 413.62 | 406.21 | 356.36 |
| Administrative Expenses | 176.60 | 142.57 | 211.19 | 120.45 | 118.45 | 137.73 | 262.57 | 173.43 | 155.63 | 153.33 |
| Total Operating Expenses | 2,688.51 | 2,841.39 | 2,815.23 | 2,540.56 | 2,578.83 | 3,256.10 | 3,348.16 | 4,314.02 | 3,137.23 | 2,937.88 |
| Income (Loss) from Operations | 179.85 | 86.86 | (74.62) | 110.40 | 32.41 | (34.37) | (4.35) | (194.57) | (129.72) | 13.39 |
| <u>Other (Revenue)/Expense</u> | | | | | | | | | | |
| Total Non-Operating (Revenue)/Expense | (0.10) | (26.18) | (50.30) | (55.67) | 0.49 | (3.08) | (0.13) | (111.88) | (0.01) | (16.53) |
| Net Surplus/(Deficit) | 179.95 | 113.03 | (24.31) | 166.07 | 31.91 | (31.29) | (4.22) | (82.70) | (129.71) | 29.92 |
| Member Months | 9,130 | 15,632 | 8,036 | 19,285 | 43,429 | 30,765 | 18,009 | 6,307 | 10,879 | 161,471 |