

Family Care Financial Summary
Nine Months Ending September 30, 2011
(Report Date: January 3, 2012)

Background

- As of the end of the September 30, 2011, financial reporting period, the Family Care program will be a \$1.17 billion program, when annualized for the full 2011 calendar year.
- Seven of the MCOs reported a surplus during this period, while an eighth reported a modest loss (0.7%). Five MCOs had reported a surplus for the same time period in 2010.
- This improvement in financial results continues the trend observed in earlier reporting periods. This general recovery is consistent with the Department's expectation of increased financial stabilization during the second and third years after the program's expansion into a given service region.
- The MCO that remains in a greater deficit position, and which is also beyond the 3-year transition period, is under heightened oversight by both DHS and the OCI. Intensive corrective action measures have been put in place. Agency staff are working closely with MCO leadership and staff to assist them in meeting operational and financial goals, and are also actively monitoring MCO performance.
- The composite, year-to-date Family Care program surplus of \$23.5 million (1.9%) compares to a gain of \$3.5 million (.2%) through the first nine months of 2010. While the overall Family Care program is in a modestly positive position overall, MCOs that are not yet compliant with the program's capital requirements are receiving additional oversight until their stability is achieved.
- The Department continues to evaluate differences in financial results that have been experienced by the pilot county-based MCOs and the MCOs that are newer to the Family Care program. There do appear to be differences in the business practices and resulting outcomes associated with these sets of MCOs, and leveraging best practices is emerging as a central Department strategy.

Key Metrics

- *Capitation:* The program has experienced 17.9% growth in total capitation payments, compared to the same time period in 2010. Over 90% of this growth in total payments was associated with growth in program membership. The nominal increase in capitation rates (roughly 1.4%) reflects a series of policy actions taken by the Department to limit rate growth.
- *Member services:* Expressed on a PMPM basis, overall member service costs were flat, relative to the same time period in 2010. Cost increases generally result from inflationary pressures, changes in acuity (or case mix), and the additional expansion and transition of members from the legacy waiver programs to the Family Care program. The absence of cost growth is one signal that MCOs have been successful in implementing some of the strategies that were identified in their 2011 business plans and are, collectively, on a path to achieve the historical patterns experienced by more established Family Care MCOs.
- *Care Management:* Year-to-date results reflect a 2.0% decrease in care management costs, on a PMPM basis, since the quarter ending September 30, 2010, further accelerating the trend observed over the prior two quarters. The reported decrease includes a change in accounting methods implemented by one MCO to more accurately reflect administrative expenses included in care management, an increase to that MCO's care management PMPM. The proportion of total revenue spent on direct care (i.e., care management and member services combined) decreased by 0.5%, relative to the same time period in 2010. As observed in each of the prior two quarters, virtually all of the MCOs are achieving, or are close to achieving, the long-run Family Care program averages.

- *Administration:* The program continues to achieve administrative savings, with almost 95% of funding used to support member services. The costs associated with MCO administration of the program decreased by 21.5%, on a PMPM basis, relative to the same period in 2010, accelerating the trend observed in prior quarters. This is largely a result of the economies of scale that are achieved when fixed costs are spread across a larger number of enrollees. MCOs have also generated savings by contracting for claims processing under the Department's master contract, a pooled purchasing approach to administrative services, and through MCO-specific initiatives to achieve other administrative efficiencies. Sharing of best practices in this area will be a priority for the Department.
- *Net Income:* Net income for the Family Care program was \$23.5 million for the quarter ending September 30, 2011. As noted above, this compares to a gain of \$3.5 million for the first nine-month reporting period of the prior year.
- *Solvency:* MCO Working Capital improved by \$28.7 million since the quarter ending September 30, 2010, while the requirement increased from 2.5% to 3% of annual budgeted capitation, effective January 1, 2011. As of September 30, 2011, total Working Capital is \$17.6 million. This is a signal of greater financial stabilization within the program. The Department is closely monitoring the Working Capital of six MCOs with negative positions to ensure 2011 trends are consistent with MCO expectations, as expressed in their 2011 business plan projections (i.e., 2011 budgets). As of September 30, 2011, Restricted Reserves are fully funded by six of nine MCOs, five original pilot MCOs and one new expansion MCO, with total funding at 92.7% of requirements. The MCO Solvency fund, a pooled and segregated fund held by the Department of Administration (DOA), is within \$525,000 of full funding, with eight of the nine MCOs currently meeting the requirements and the remaining MCO in compliance with its OCI-approved funding plan. Overall, the MCOs have funded 92.2% of their Solvency Fund requirements, with plans to achieve full funding by December 31, 2012 on track. MCOs that do not meet the capital requirements are under fiscal corrective action that requires monthly financial reporting.

More Recent Developments

- The MCOs submitted detailed, three-year business plans to the Department on October 14, 2011. Interdisciplinary teams within the Department reviewed those plans, and provided tailored feedback to each MCO.
- The collective set of Business Plan submissions project that 2012 will be a year of continued rebuilding and program stabilization, with respect to the MCOs' financial health.
- Performance expectations were included in 2012 contracts for the more financially distressed MCOs, reflecting specific areas of improvement that have been identified by Department staff for closer MCO Team oversight and monitoring.
- Capitation rates were finalized, and they include important methodological changes that were discussed in the LAB's audit of the program.
- MCOs were permitted by the OCI for 2012 operations. Three MCOs received 6-month permits, which will require a mid-year assessment of program operations and finances.
- The Department anticipates that several MCOs will be removed from corrective action during 2012, after coming into full compliance with their capital requirements and demonstrating ongoing stability for a period of time. This reflects progress on one of the Department's central priorities for the program, increased financial stabilization for the Family Care MCOs.

Family Care
MCO Financial Statement Summaries
YTD for Period Ending September 30, 2011

	SFCA	CCCW	LCD	WWC	MCDFC	CCI	CWF	CHP	NB	Total
Revenue										
Capitation	43,911,223	79,026,936	66,029,253	78,350,253	186,663,173	213,032,107	97,299,535	38,776,478	52,051,065	855,140,022
Interest Income- Operating Acct	25,227	75,671	0	27,224	0	0	54,653	0	34,221	216,996
Risk Sharing Accrual	0	0	0	0	0	2,857,693	0	0	0	2,857,693
Other Retro Adjustments, DHS	717,345	2,516,602	1,242,000	1,727,424	2,895,952	1,129,592	3,794,174	(172,835)	2,799,396	16,649,650
Other Income	0	111,652	321,859	3,863	200,340	0	66,235	0	55,428	759,377
Total Revenue	44,653,795	81,730,861	67,593,112	80,108,764	189,759,465	217,019,393	101,214,597	38,603,643	54,940,110	875,623,739
Expenses										
Member Service Expense	40,355,320	71,410,745	63,363,132	73,592,505	177,097,121	207,647,951	96,560,105	36,414,941	48,736,864	815,178,684
Cost Share	(808,409)	(1,329,102)	(1,514,296)	(2,109,320)	(7,315,573)	(3,664,683)	(1,458,549)	(378,474)	(754,579)	(19,332,986)
Room & Board	(3,484,310)	(6,794,811)	(5,534,027)	(5,609,610)	(12,688,313)	(18,512,825)	(9,566,143)	(3,141,846)	(3,941,790)	(69,273,674)
Spend Down & Third Party	(110,663)	(622,900)	(572,939)	(257,475)	(1,250,246)	(1,439,543)	(731,795)	(129,121)	(105,960)	(5,220,640)
Net Member Services Expense	35,951,938	62,663,932	55,741,870	65,616,100	155,842,989	184,030,900	84,803,618	32,765,500	43,934,535	721,351,383
Net Care Management Expense	5,196,072	11,383,490	8,436,548	11,154,745	22,208,504	21,559,928	9,395,813	4,882,799	7,378,114	101,596,014
Administrative Expense	2,453,803	3,673,860	3,114,932	3,869,382	7,628,690	6,098,132	4,969,036	1,403,931	2,649,849	35,861,615
Total Operating Expenses, CY	43,601,813	77,721,283	67,293,350	80,640,227	185,680,184	211,688,961	99,168,466	39,052,230	53,962,498	858,809,012
Income (Loss) from Operations, CY	1,051,981	4,009,578	299,762	(531,464)	4,079,281	5,330,432	2,046,131	(448,587)	977,612	16,814,727
Other (Revenue)/Expense, Ordinary										
Total Other (Revenue)/Expense	(694,046)	(90,635)	(3,016,983)	(82,132)	(428,252)	(370,945)	(1,174,930)	(144,243)	(719,247)	(6,721,414)
Net Surplus (Deficit)	1,746,027	4,100,213	3,316,745	(449,332)	4,507,533	5,701,377	3,221,061	(304,343)	1,696,859	23,536,141
Member Months	16,838	27,647	23,452	31,409	69,295	65,980	29,878	10,814	17,893	293,206
Key Ratios (as % of Revenue)										
Member Service Expense, Net	80.5%	76.7%	82.5%	81.9%	82.1%	84.8%	83.8%	84.9%	80.0%	82.4%
Care Management Service Expense	11.6%	13.9%	12.5%	13.9%	11.7%	9.9%	9.3%	12.6%	13.4%	11.6%
Total Member Service Expense	92.1%	90.6%	94.9%	95.8%	93.8%	94.7%	93.1%	97.5%	93.4%	94.0%
Administrative Expense	5.5%	4.5%	4.6%	4.8%	4.0%	2.8%	4.9%	3.6%	4.8%	4.1%
Total Operating Expense	97.6%	95.1%	99.6%	100.7%	97.9%	97.5%	98.0%	101.2%	98.2%	98.1%
Net Surplus(Deficit)	2.4%	4.9%	0.4%	-0.7%	2.1%	2.5%	2.0%	-1.2%	1.8%	1.9%

Family Care
MCO Financial Statement Summaries
YTD for Period Ending September 30, 2011

	SFCA	CCCW	LCD	WWC	MCDFC	CCI	CWF	CHP	NB	Total
Summary PMPM Presentation										
Revenue										
Capitation	2,607.86	2,858.43	2,815.51	2,494.52	2,693.75	3,228.74	3,256.58	3,585.67	2,908.95	2,916.51
Interest Income- Operating Acct	1.50	2.74	0.00	0.87	0.00	0.00	1.83	0.00	1.91	0.74
Risk Sharing Accrual	0.00	0.00	0.00	0.00	0.00	43.31	0.00	0.00	0.00	9.75
Other Retro Adjustments, DHS	42.60	91.03	52.96	55.00	41.79	17.12	126.99	(15.98)	156.45	56.78
Other Income	0.00	4.04	13.72	0.12	2.89	0.00	2.22	0.00	3.10	2.59
Total Revenue	2,651.97	2,956.23	2,882.19	2,550.50	2,738.43	3,289.17	3,387.61	3,569.69	3,070.41	2,986.37
Expenses										
Member Service Expenses	2,396.68	2,582.95	2,701.82	2,343.04	2,555.70	3,147.13	3,231.83	3,367.30	2,723.73	2,780.22
Cost Share	(48.01)	(48.07)	(64.57)	(67.16)	(105.57)	(55.54)	(48.82)	(35.00)	(42.17)	(65.94)
Room & Board	(206.93)	(245.77)	(235.97)	(178.60)	(183.11)	(280.58)	(320.18)	(290.53)	(220.29)	(236.26)
Spend Down & Third Party	(6.57)	(22.53)	(24.43)	(8.20)	(18.04)	(21.82)	(24.49)	(11.94)	(5.92)	(17.81)
Net Member Services Expenses	2,135.17	2,266.57	2,376.85	2,089.09	2,248.98	2,789.19	2,838.34	3,029.83	2,455.34	2,460.22
Net Care Management Expense	308.59	411.74	359.74	355.14	320.49	326.76	314.47	451.51	412.34	346.50
Administrative Expenses	145.73	132.88	132.82	123.19	110.09	92.42	166.31	129.82	148.09	122.31
Total Operating Expenses, CY	2,589.49	2,811.20	2,869.41	2,567.42	2,679.57	3,208.38	3,319.13	3,611.17	3,015.77	2,929.02
Income (Loss) from Operations, CY	62.48	145.03	12.78	(16.92)	58.87	80.79	68.48	(41.48)	54.64	57.35
Other (Revenue)/Expense, Ordinary										
Total Other (Revenue)/Expense	(41.22)	(3.28)	(128.65)	(2.61)	(6.18)	(5.62)	(39.32)	(13.34)	(40.20)	(22.92)
Net Surplus (Deficit)	103.70	148.31	141.43	(14.31)	65.05	86.41	107.81	(28.14)	94.83	80.27
Member Months	16,838	27,647	23,452	31,409	69,295	65,980	29,878	10,814	17,893	293,206

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YTD for Period Ending September 30, 2011

	SFCA	CCCW	LCD	WWC	MCDFC	CCI	CWF	CHP	NB	Total
Solvency Protection										
Working Capital										
Current Assets	9,318,471	14,367,332	16,543,133	13,249,211	42,621,147	38,260,986	17,126,281	3,295,655	7,887,442	162,669,659
Current Liabilities	5,736,016	12,451,718	10,577,395	10,595,503	26,047,503	40,508,669	19,543,548	10,149,151	9,442,230	145,051,733
Working Capital	3,582,454	1,915,614	5,965,739	2,653,708	16,573,644	(2,247,683)	(2,417,267)	(6,853,496)	(1,554,788)	17,617,925
Requirement	1,824,217	3,343,020	2,814,924	3,180,582	7,823,863	8,868,541	3,915,077	1,583,796	2,161,567	35,515,587
Excess/(shortage)	1,758,237	(1,427,406)	3,150,815	(526,874)	8,749,781	(11,116,224)	(6,332,344)	(8,437,292)	(3,716,355)	(17,897,662)
Restricted Reserve										
Current Restricted Reserve	1,612,194	2,123,699	1,941,903	2,063,494	3,610,001	4,581,818	1,727,337	250,593	1,400,074	19,311,113
Required	1,608,072	2,114,340	1,938,308	2,060,194	3,607,954	3,956,180	2,305,026	1,527,932	1,720,522	20,838,528
Excess/(shortage)	4,122	9,359	3,595	3,300	2,047	625,638	(577,689)	(1,277,339)	(320,448)	(1,527,415)
Solvency Fund										
Current Solvency Fund	750,000	750,000	750,000	750,000	750,000	750,000	750,000	225,000	750,000	6,225,000
Required	750,000	750,000	750,000	750,000	750,000	750,000	750,000	750,000	750,000	6,750,000
Excess/(shortage)	0	0	0	0	0	0	0	(525,000)	0	(525,000)
Total Equity	6,761,925	6,585,346	9,661,590	5,998,780	19,922,218	10,658,330	3,504,099	(6,377,902)	779,873	57,494,260