

**Family Care Financial Summary
Six Months Ending June 30, 2011
(Report Date: September 30, 2011)**

Background

- As of the end of the June 30, 2011, financial reporting period, the Family Care program will be a \$1.15 billion program, when annualized for the full 2011 calendar year.
- The program has experienced a 20.9% growth in total capitation payments and a 19.1% growth in member months during the first six months of 2011, compared to the same period in 2010.
- Seven of the MCOs reported a surplus during this period, while an eighth reported a modest loss (0.7%). Only four MCOs reported surplus results for the same 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 significant 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, and agency staff are actively monitoring performance to ensure that operational and financial goals are met.
- The composite, year-to-date Family Care program surplus of \$10.3 million (1.2%) compares to a gain of \$4.8 million (.5%) through the first six 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 average capitation revenue increased by 1.6%, on a per member per month (PMPM) basis, relative to the first six months of 2010. The increase reflects slower enrollment growth and greater program stabilization after a two-year period of rapid expansion. The increase also reflects a series of policy actions taken by the Department to slow capitation growth.
- *Member services:* There was a 2.1% increase in overall member services costs, expressed on a PMPM basis, relative to the same time period in 2010. The increase generally results from additional expansion and transition of members from the waiver programs to the Family Care program since the quarter ending June 30, 2010. Service costs generally decline over time to reflect the Family Care program model of cost effective, member-centered, care planning. MCOs will continue to implement strategies laid out in their 2011 business plans to achieve the historical Family Care program experience.
- *Care Management:* Year-to-date results reflect a 1.5% decrease in care management costs, on a PMPM basis, since the quarter ending June 30, 2010, accelerating the trend observed last quarter. 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) increased by 0.2%, relative to the same time period

in 2010. As observed in the prior quarter, virtually all of the MCOs are achieving, or 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 cost to administer the program decreased by 17.3%, on a PMPM basis, relative to the same period in 2010. 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.
- *Net Income:* Net income for the Family Care program was \$10.3 million for the quarter ending June 30, 2011. As noted above, this compares to a gain of \$4.8 million for the first six months of the same reporting period in the prior year.
- *Solvency:* MCO Working Capital improved by \$12.8 million since the quarter ending June 30, 2010, while the requirement increased from a 2.5% to 3% of annual budgeted capitation effective January 1, 2011. As of June 30, 2011, total Working Capital is \$2.7 million. The Department is closely monitoring the Working Capital of five MCOs with negative positions to ensure 2011 trends improve in alignment with the 2011 business plan projections (i.e., 2011 budgets). As of June 30, 2011, Restricted Reserves are fully funded by six of nine, five original pilot MCOs and one new expansion MCO, with total funding at 91.0% of requirements. The MCO Solvency fund, a pooled and segregated fund held by the Department of Administration (DOA), is within \$850,000 of full funding, with seven of the nine MCOs currently meeting the requirements and the two remaining MCOs meeting funding plans approved by the OCI. Overall, the MCOs have funded 87.4% 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 enrollment cap policy became effective July 1. The Department has worked to carefully implement this policy and is now in the process of closely monitoring its effects, including those on the finances of the MCOs.
- The Department issued a response to the Legislative Audit Bureau report. Within the fiscal area, the response addresses rate setting, program and fiscal oversight, and identification of program evaluation metrics to support a better understanding of both the fiscal sustainability and cost-effectiveness of the Family Care program.
- CY 2012 capitation rates have been provided to MCOs. These initial rates were down roughly 1.1%. MCOs are now assembling their 3-year business plans for submission on October 15th.
- The program's Solvency Fund is at 92% of full funding. Eight of the nine MCOs are now in full compliance with this capital requirement.
- Procurement activity has been completed for the region that covers Kenosha and Racine Counties. Community Care, Inc. will continue its operations. iCare will have an opportunity to demonstrate readiness to implement the Partnership program. Milwaukee County, with contingencies, may be able to operate the Family Care program in those counties.
- The Department continues to work closely with OCI on monitoring and regulating MCO financial operations, with increased focus on the MCOs that are at greatest financial risk.

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

	SFCA	CCCW	LCD	WWC	MCDFC	CCI	CWF	CHP	NB	Total
Revenue										
Capitation	28,663,889	51,609,156	43,393,069	51,415,430	123,517,742	139,314,925	63,246,520	24,324,867	33,853,318	559,338,915
Other DHS Funding										0
Interest Income- Operating Acct		59,886		25,409			54,653		31,243	171,191
Risk Sharing Accrual						3,882,836				3,882,836
Other Retro Adjustments, DHS	519,012	1,565,774	1,036,000	1,054,848	2,124,211	1,083,903	2,121,368	(172,835)	2,066,466	11,398,747
Other Income	17,978	197,298	287,580	239	16,467					519,561
Total Revenue	29,200,879	53,432,115	44,716,649	52,495,926	125,658,419	144,281,664	65,422,541	24,152,032	35,951,027	575,311,251
Expenses										
Total Member Service Expenses	26,175,531	47,380,480	42,730,470	48,112,897	117,258,970	136,894,508	63,755,597	24,370,336	31,554,699	538,233,488
Cost Share	(521,268)	(869,987)	(975,580)	(1,365,657)	(4,885,019)	(2,345,313)	(944,067)	(247,966)	(490,930)	(12,645,788)
Room & Board	(2,251,047)	(4,433,107)	(3,616,590)	(3,714,842)	(8,374,414)	(12,201,811)	(6,277,817)	(2,083,203)	(2,563,578)	(45,516,408)
Spend Down & Third Party	(57,618)	(404,035)	(334,476)	(174,667)	(766,522)	(872,118)	(472,416)	(73,847)	(64,495)	(3,220,193)
Net Member Services Costs	23,345,599	41,673,352	37,803,824	42,857,731	103,233,015	121,475,267	56,061,297	21,965,320	28,435,696	476,851,099
Net Care Management Costs	3,465,199	7,502,764	5,397,817	7,438,635	14,796,646	14,424,615	6,218,442	3,204,270	5,022,870	67,471,259
Administrative Expenses	1,698,862	2,465,208	2,013,112	2,573,643	5,509,390	4,052,010	3,326,569	925,970	1,806,847	24,371,610
Total Operating Expenses, CY	28,509,660	51,641,324	45,214,753	52,870,009	123,539,051	139,951,891	65,606,308	26,095,560	35,265,413	568,693,969
Income (Loss) from Operations, CY	691,219	1,790,791	(498,104)	(374,084)	2,119,368	4,329,772	(183,767)	(1,943,528)	685,614	6,617,282
Other (Revenue)/Expense, Ordinary										
Total Non-Operating (Revenue)/Expense	(639,089)	(49,605)	(1,049,018)	(103,692)	(513,558)	137,824	(1,090,818)	(221,856)	(118,655)	(3,648,467)
Net Surplus (Deficit)	1,330,308	1,840,396	550,914	(270,392)	2,632,926	4,191,948	907,051	(1,721,672)	804,269	10,265,749
Member Months	10,990	18,075	15,416	20,593	45,887	43,054	19,465	7,125	11,649	192,254
Key Ratios										
Member Service Cost	79.9%	78.0%	84.5%	81.6%	82.2%	84.2%	85.7%	90.9%	79.1%	82.9%
Care Management Service Cost	11.9%	14.0%	12.1%	14.2%	11.8%	10.0%	9.5%	13.3%	14.0%	11.7%
Total Member Service Cost (Loss Ratio)	91.8%	92.0%	96.6%	95.8%	93.9%	94.2%	95.2%	104.2%	93.1%	94.6%
Administrative Expense	5.8%	4.6%	4.5%	4.9%	4.4%	2.8%	5.1%	3.8%	5.0%	4.2%
Total Operating Expenses	97.6%	96.6%	101.1%	100.7%	98.3%	97.0%	100.3%	108.0%	98.1%	98.8%
Net Surplus (Deficit)	2.4%	3.4%	-1.1%	-0.7%	1.7%	3.0%	-0.3%	-8.0%	1.9%	1.2%

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

PMPMs										
Revenue										
Capitation	2,608.18	2,855.28	2,814.81	2,496.74	2,691.78	3,235.82	3,249.24	3,414.12	2,906.11	2,909.38
Other DHS Funding	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest Income- Operating Acct	0.00	3.31	0.00	1.23	0.00	0.00	2.81	0.00	2.68	0.89
Risk Sharing Accrual	0.00	0.00	0.00	0.00	0.00	90.19	0.00	0.00	0.00	20.20
Other Retro Adjustments, DHS	47.23	86.63	67.20	51.22	46.29	25.18	108.98	(24.26)	177.39	59.29
Other Income	1.64	10.92	18.65	0.01	0.36	0.00	0.00	0.00	0.00	2.70
Total Revenue	2,657.04	2,956.13	2,900.66	2,549.21	2,738.43	3,351.18	3,361.03	3,389.86	3,086.19	2,992.46
Expenses										
Total Member Service Expenses	2,381.76	2,621.33	2,771.83	2,336.37	2,555.39	3,179.60	3,275.40	3,420.50	2,708.79	2,799.60
Cost Share	(47.43)	(48.13)	(63.28)	(66.32)	(106.46)	(54.47)	(48.50)	(34.80)	(42.14)	(65.78)
Room & Board	(204.83)	(245.26)	(234.60)	(180.39)	(182.50)	(283.41)	(322.52)	(292.39)	(220.07)	(236.75)
Spend Down & Third Party	(5.24)	(22.35)	(21.70)	(8.48)	(16.70)	(20.26)	(24.27)	(10.36)	(5.54)	(16.75)
Net Member Services Costs	2,124.26	2,305.58	2,452.25	2,081.18	2,249.72	2,821.46	2,880.11	3,082.94	2,441.04	2,480.32
Net Care Management Costs	315.30	415.09	350.14	361.22	322.46	335.04	319.47	449.74	431.18	350.95
Administrative Expenses	154.58	136.39	130.59	124.98	120.06	94.11	170.90	129.96	155.11	126.77
Total Operating Expenses, CY	2,594.15	2,857.06	2,932.98	2,567.38	2,692.25	3,250.61	3,370.48	3,662.64	3,027.33	2,958.04
Income (Loss) from Operations, CY	62.90	99.08	(32.31)	(18.17)	46.19	100.57	(9.44)	(272.78)	58.86	34.42
Other (Revenue)/Expense, Ordinary										
Total Non-Operating (Revenue)/Expense	(58.15)	(2.74)	(68.05)	(5.04)	(11.19)	3.20	(56.04)	(31.14)	(0.08)	(18.98)
Net Surplus/(Deficit)	121.05	101.82	35.74	(13.13)	57.38	97.36	46.60	(241.65)	58.94	53.40
Member Months	10,990	18,075	15,416	20,593	45,887	43,054	19,465	7,125	11,649	192,254

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

Solvency Protection

Working Capital

Current Assets	14,766,384	24,245,074	23,750,290	23,093,288	59,084,759	59,504,975	24,825,501	6,621,244	13,472,589	249,364,104
Current Liabilities	11,600,172	24,703,693	20,643,301	20,242,353	46,570,064	63,298,577	29,192,961	14,817,129	15,635,263	246,703,512
Working Capital	3,166,212	(458,619)	3,106,990	2,850,935	12,514,695	(3,793,602)	(4,367,460)	(8,195,884)	(2,162,674)	2,660,593
Required	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)	1,341,995	(3,801,639)	292,066	(329,647)	4,690,832	(12,662,143)	(8,282,537)	(9,779,680)	(4,324,241)	(32,854,994)

Restricted Reserve

Current Restricted Reserve	1,610,712	2,123,883	1,940,909	2,062,627	3,609,235	4,537,417	1,727,337	250,654	1,100,015	18,962,788
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)	2,640	9,543	2,601	2,433	1,281	581,237	(577,689)	(1,277,278)	(620,507)	(1,875,740)

Solvency Fund

Current Solvency Fund	750,000	750,000	750,000	750,000	750,000	750,000	500,000	150,000	750,000	5,900,000
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	(250,000)	(600,000)	0	(850,000)

Total Equity	6,340,706	4,320,936	6,895,759	6,177,721	15,887,502	9,198,889	1,171,987	(7,795,231)	(112,720)	42,085,547
--------------	-----------	-----------	-----------	-----------	------------	-----------	-----------	-------------	-----------	------------