



California
Department of
Health Services

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State of California—Health and Human Services Agency
Department of Health Services



ARNOLD SCHWARZENEGGER
Governor

DATE: **OCT 18 2005**

MMCD All-Plan Letter 05008

TO: All Medi-Cal Managed Care Health Plans

SUBJECT: REVIEW AND ANALYSIS OF FINANCIAL STATUS OF HEALTH PLANS
PROPOSED REQUEST FOR FUNDING AUGMENTATIONS

The California Department of Health Services (CDHS) is beginning an extensive review of the financial condition of each contractor in all managed care models. The primary purpose of this review and analysis is to determine short-term financial viability and solvency of health plans contracting with Medi-Cal under the following programs: Two-Plan Model (TPM), County Organized Health Systems (COHS), Geographic Managed Care (GMC), Program for All-Inclusive Care for the elderly (PACE), and individual contractors in other models. The primary goal will be to determine whether the CDHS should propose funding augmentations, and if so the amount of an increase, in the May 2006 Medi-Cal Estimate.

With more than half of all Medi-Cal membership enrolled in managed care and more than \$5 billion per year in capitation expenditure, it is critical that this analysis be performed. It must be recognized that any requests for an increased appropriation will face significant budget hurdles given the continuing fiscal crisis of the State. Therefore, it is important to understand the current financial position and future viability of each health plan participating in the Medi-Cal managed care program and for each model collectively.

In the report, "The Impact of California's Fiscal Crisis on Medi-Cal Health Plans", prepared by Mercer Consulting for the Medi-Cal Policy Institute, it was reported that "Overall, the financial performance of the 22 health plans participating in Medi-Cal improved as a group over the time period between 1998 and 2002. On average, they remained profitable, which allowed them to build equity. Based on seven indicators Mercer measured, this group as a whole is currently financially viable. On an individual basis, there is tremendous variation in the financial condition among the 22 health plans, where some health plans appear to be experiencing difficult financial challenges." We are all cognizant that the Medi-Cal program and the health care industry are not

static and that changes have occurred since completion of this report. Mercer used forecasting models to project the impact on Medi-Cal health plans if revenue growth lags behind medical expense trends. A primary focus of this study is to establish what has occurred in the profitability and viability of Medi-Cal managed care plans since the Mercer study and identify the parameters for additional funding for rate increases in the 2006-07 budget.

Currently, CDHS is reviewing the financial position of its Medi-Cal managed care contractors. Data sources for this study will include the audited financial statements from the past three fiscal years, quarterly statements filed with the Department of Managed Health Care, and any supplemental data provided by health plans. Information contained in these statements and reports shows that there have been adverse changes in the financial position for many managed care contractors. Also, throughout the review period, there are often substantial differences between information shown in the quarterly statements and results included in the certified statements. These values will need to be reconciled and CDHS staff will work with plans to accomplish this activity.

The importance of capitation funding and revenue to the financial viability of our Medi-Cal managed care contractors and program is readily apparent. Therefore, the primary purpose of this letter is to inform contractors that this study is occurring and to provide ample opportunities for managed care plans to provide input and insights into this work. Key elements being studied and reviewed that will ultimately have an impact on decisions include the following: net income, profit margins, tangible net equity and financial reserves, medical loss ratios, administrative cost ratios, and capitation rate changes. Most of this information is readily available from reported data; however, over the past quarters there have been some significant changes in the status of these factors.

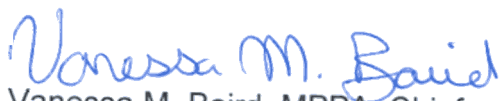
Medi-Cal managed care plans are encouraged to participate in the study by providing information that may not be apparent from the financial statements and reports. For instance, what changes have occurred in critical financial elements since the last annual certified statements, what changes have occurred in the key cost centers for the health plan, what will be the impact of the carve out of Medicare Part D services, and others.

Any requests for additional funding included in the Medi-Cal Estimate will require substantiating evidence. It is imperative that this data be clear and complete. There will be definitive timelines in this process, and information and data submissions will need to be received as soon as possible. Also, in some cases, financial staff from Medi-Cal Managed Care Division may need to contact the plan and/or visit plans to reconcile differences that exist in the different data submissions.

It is anticipated that the Department of Managed Health Care (DMHC) will have a role in this work. CDHS has already contacted DMHC to determine the data that they now possess, as well as to receive updates on the work they have and will continue to perform related to the financial status of Medi-Cal managed care contactors.

It is anticipated that plans will be active participants in this process with a significant need to exchange data, information, and insights on a timely basis. Health plans wishing to provide input on the nature and scope of this financial review, not plan specific concerns or data, should provide that input no later than October 31, 2005. Should you have any questions or need further assistance, the contacts for this project are Greg Rose, Health Program Specialist II, and Calvin Oshiro, Research Program Specialist I, of the Financial Analysis Section of the Medi-Cal Managed Care Division, they can be contacted at (916) 449-5042 (grose1@dhs.ca.gov) and (916) 449-5043 (coshiro@dhs.ca.gov), respectively.

Sincerely,


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