



# Maricopa County Special Health Care District

## Board of Directors Special Meeting

May 21, 2009  
3:00 p.m.

### Agenda



### **Board Members**

William Bruno, Chair, District 1  
Susan Gerard, Vice Chair, District 3  
Greg Patterson, District 2  
Elbert Bicknell, District 4  
Alice Lara, District 5

# **AGENDA – **AMENDED** Special Meeting**

**Board of Directors of the  
Maricopa County Special Health Care District**

• Maricopa Medical Center • Administration Building • Auditoriums 3 and 4 •  
• 2601 E. Roosevelt • Phoenix, AZ 85008 • Clerk's Office 602-344-5177 • Fax 602-344-0892 •

Thursday, May 21, 2009  
3:00 p.m.

*If you wish to address the Board, please complete a speaker's slip and deliver it to the Clerk of the Board. If you have anything you wish distributed to the Board and include in the official record, please hand it to the Clerk who will distribute the information to the Board Members and Maricopa Integrated Health System Senior Staff. Speakers are limited to (3) three minutes.*

*(NOTE: One or more of the members of the Board of Directors of the Maricopa County Special Health Care District will attend either in person or by telephone conference call.)*

Pursuant to A.R.S. § 38-431.03(A)(3), or any applicable and relevant state or federal law, the Board may vote to recess into an Executive Session for the purpose of obtaining legal advice from the Board's attorney or attorneys on any matter listed on the agenda. Pursuant to A.R.S. § 38-431.03(A)(4), or any applicable and relevant state or federal law, the Board may vote to recess into an Executive Session for the purpose of consulting with its attorneys to consider its position and instruct its attorneys regarding the Board's position regarding any contracts that are subject to negotiations, in pending or contemplated litigation, or in settlement discussions conducted in order to avoid or resolve litigation, and that are listed on the General Session agenda for discussion or action or both. The Board also may wish to discuss any items listed for Executive Session discussion in General Session, or the Board may wish to take action in General Session on any items listed for discussion in Executive Session. To do so, the Board will recess Executive Session on any particular item and reconvene General Session to discuss that item or to take action on such item.

**THE TIMES LISTED FOR AGENDA ITEMS ARE ESTIMATED.  
ITEMS MAY BE DISCUSSED EARLIER OR IN A DIFFERENT SEQUENCE.**

### **Call to Order**

### **Roll Call**

### **Call to the Public**

*This is the time for the public to comment. The Board of Directors may not discuss items that are not specifically identified on the agenda. Therefore, pursuant to A.R.S. § 38-431.01(G), action taken as a result of public comment will be limited to directing staff to study the matter, responding to any criticism or scheduling a matter for further consideration and decision at a later date.*

Agendas are available within 24 hours of each meeting in the Office of the Board, Maricopa Medical Center, Administration Bldg, 2<sup>nd</sup> Floor 2601 E. Roosevelt, Phoenix, AZ 85008, Monday through Friday between the hours of 8:00 a.m. and 5:00 p.m. Accommodations for Individuals with Disabilities, alternative format materials, sign language interpretation, and assistive listening devices are available upon 72 hours advance notice through the Office of the Board, Maricopa Medical Center, Administration Bldg, 2<sup>nd</sup> Floor 2601 E. Roosevelt, Phoenix, Arizona 85008, (602) 344- 5177. To the extent possible, additional reasonable accommodations will be made available within the time constraints of the request.

**General Session, Presentation, Discussion and Action:**

1. Discuss and Review the Fiscal Year 2010 Budget Assumptions for the Maricopa Health Plan **45 min**  
*Ken Meinke, MIHS, Chief Financial Officer*  
*Kathleen Oestreich, CEO, University Physicians Health Plans*

**Motion to Recess General Session and Convene in Executive Session**

**Executive Session:**

- E-1 Records Exempt by Law from Public Inspection Based on Proprietary Information and Demonstrable and Material Harm that Would Place the District at a Competitive Disadvantage; Legal Advice; Contracts Subject to Negotiations; A.R.S. § 38-431.03(A)(2); A.R.S. § 38-431.03(A)(3); A.R.S. § 38-431.03(A)(4); A.R.S. § 48-5541.01(M)(4)(b), A.R.S. § 48-5541.01(M)(4)(c) and A.R.S. § 48-5541.01(M)(4)(d): Discussion or consideration of records exempt by law from public inspection, including the receipt and discussion of information that is specifically required to be maintained as confidential by state or federal law, information that is confidential or proprietary or consists of trade secrets, information the disclosure of which would cause demonstrable and material harm and would place the district at a competitive disadvantage in the marketplace, or information the disclosure of which would violate any privilege or confidentially granted by statute or common law; Discussion or consultation for legal advice with the attorney or attorneys of the public body; Discussion or consultation with the attorneys of the public body in order to consider its position and instruct its attorneys regarding the public body's position regarding contracts that are the subject of negotiations: discussion of a trade-secret and proprietary study of MIHS-strategic initiatives, other confidential proposed strategic initiatives entitled to confidentiality under A.R.S. § 48-5541.01(M)(4)(b), A.R.S. § 48-5541.01(M)(4)(c) and A.R.S. § 48-5541.01(M)(4)(d), and legal advice regarding same. **30 min**  
*Betsey Bayless, MIHS, Chief Executive Officer*  
*Bill Vanaskie, MIHS, Chief Operating Officer*  
*Ken Meinke, MIHS, Chief Financial Officer*  
*Warren Whitney, MIHS, Chief External Affairs Officer*  
*Louis B. Gorman, District Counsel*  
*David J. Cantelme, Board Counsel*
- E-2 Legal Advice; Potential/Pending/Contemplating Litigation; A.R.S. § 38-431.03(A)(3) and A.R.S. § 38-431.03(A)(4); Open or Settled Claims **15 min**  
*Betsey Bayless, MIHS, Chief Executive Officer*  
*Bill Vanaskie, MIHS, Chief Operating Officer*  
*Peter Crowley, Maricopa County Risk Management*  
*Ted Howard, Maricopa County, Risk Management*  
*John Middleton, MIHS, Chief Compliance Officer*  
*Mary McKelvey, MIHS, Director of Risk Management*  
*Louis B. Gorman, District Counsel*  
*David J. Cantelme, Board Counsel*
- E-3 Legal Advice, Contracts Subject to Negotiations; A.R.S. § 38-431.03(A)(3); A.R.S. § 38-431.03(A)(4); Board Counsel; Cantelme & Brown, P.L.C. **20 min**  
*Betsey Bayless, MIHS, Chief Executive Officer*  
*Steve Ellis, MIHS, Director, Procurement & Supply Chain Management*  
*Louis B. Gorman, MIHS, District Counsel*

**Recess Executive Session and Reconvene in General Session**

**General Session Presentation, Discussion and Action:**

**Adjourn**



# Maricopa County Special Health Care District

## Board of Directors Special Meeting

May 21, 2009

Item 1. - Additional  
Maricopa Health Plan  
Information Presented at the  
Meeting



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# Maricopa Health Plan

## FY 2010 Budget

### May 21, 2009



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# MHP Budget 2010

This Discussion will provide a review of detailed Budget assumptions that will show the drivers of growth and profitability

Our Goal is to ensure a good understanding of all the positive and negative pressures on the MHP budget providing the Board confidence in the budget projections for FY 2010

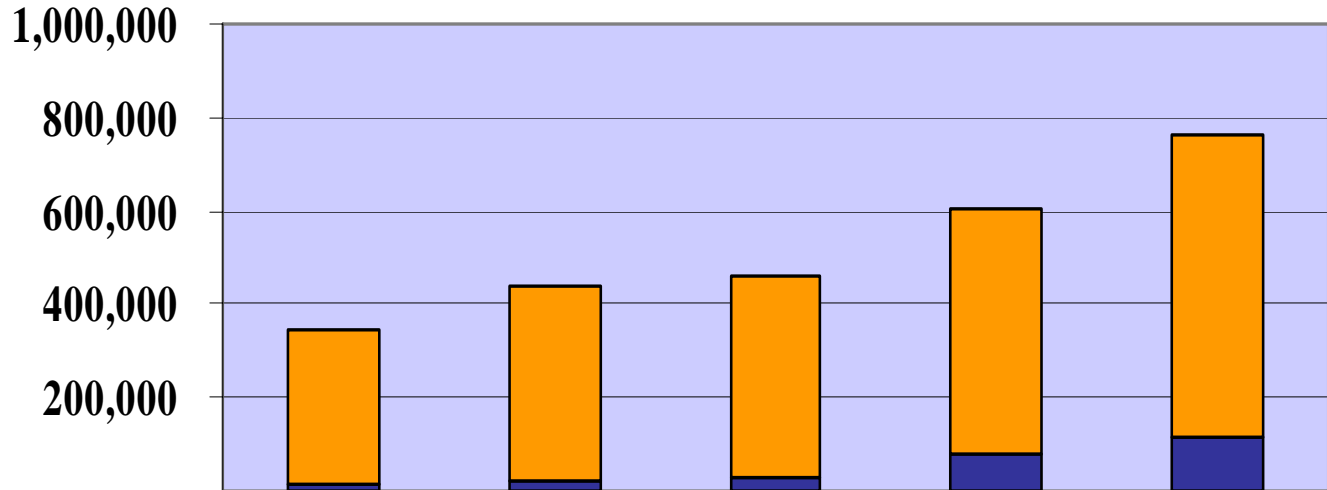


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# Member Months Trend



	FY 06	FY 07	FY 08	FY 09	FY 10
Prospective	328,751	416,525	428,181	521,120	652,076
Prior Period Coverage	16,698	24,815	29,230	80,339	112,222

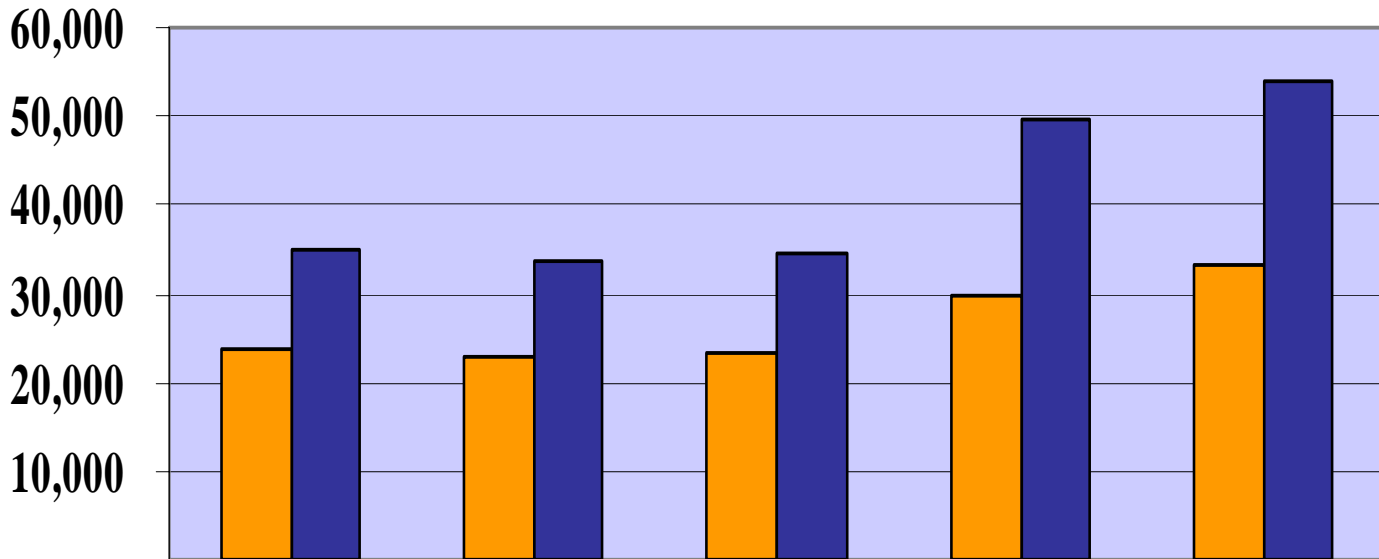


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# Enrollment Assigned to MIHS Physicians Trend



	FY 06	FY 07	FY 08	FY 09	FY 10
MIHS Assigned	23,535	22,987	23,316	29,595	33,440
MHP	34,929	33,752	34,593	49,566	54,065



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# Revenue Assumptions

- **State Legislature mandated AHCCCS budget cuts**
  - No increase in medical component of capitation rates
  - Allowable admin reduced from 8.5% to 8.0%
    - Admin cut equals \$1.5M
  - Reconciled risk corridors reduced from 2% to 1%
  - Current medical component capitation rates were trended forward for utilization and inflation
  - Current capitation rates adjusted for utilization and inflation were then adjusted down to original current capitation rates for a net impact change in the capitation rates of a 5% cut in capitation rates
  - The 5% cut from current medical capitation equals \$7.3M

# Medical Expense Assumptions

- **5% Cut in Provider Payments**
  - AHCCCS implemented 5% cut on Physician fee schedule May 1
  - AHCCCS will implement all other providers fee schedule reductions October 1
- MHP provider payments are attached to the AHCCCS fee schedule and custom contracts
- 5% cuts on this group will be negotiated before October 1. 5% on this group equals \$1.4M



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# Administrative Expenses Assumptions

- \$200K Medical Home Payment Incentive
- \$200K Performance Measure Sanctions
- \$50K AHCCCS E-Prescribing Initiative
- 0% Increase in Management Fee Pricing



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# Income Statement

(\$ millions and per member per month)

	2009 Budget	April 2009 YTD	June 2009 Forecast	2010 Budget	2009 Budget PMPM	April 2009 YTD PMPM	June 2009 Forecast PMPM	Budget PMPM	PMPM % Change
<b>Revenues</b>	\$153.5	\$163.5	\$206.0	\$264.1	\$314.04	\$340.93	\$342.49	\$345.59	0.91%
<b>Net Medical Expenses</b>	\$126.7	\$138.5	\$175.6	\$228.5	\$259.11	\$288.84	\$291.89	\$298.92	2.41%
<b>Admin Expenses</b>	14.0	14.3	17.7	22.1	28.57	29.74	29.44	28.85	-2.00%
<b>Total Expenses</b>	\$140.6	\$152.8	\$193.3	\$250.5	287.67	318.58	321.33	327.77	2.01%
<b>Operating Income</b>	\$12.9	\$10.7	\$12.7	\$13.6	26.37	22.34	21.16	17.82	-15.79%
<b>Premium Tax</b>	3.2	3.4	4.6	5.6	6.61	7.17	7.63	7.34	-3.74%
<b>Net Income (Loss)</b>	\$9.7	\$7.3	\$8.1	\$8.0	\$19.75	\$15.17	\$13.53	\$10.48	-22.57%



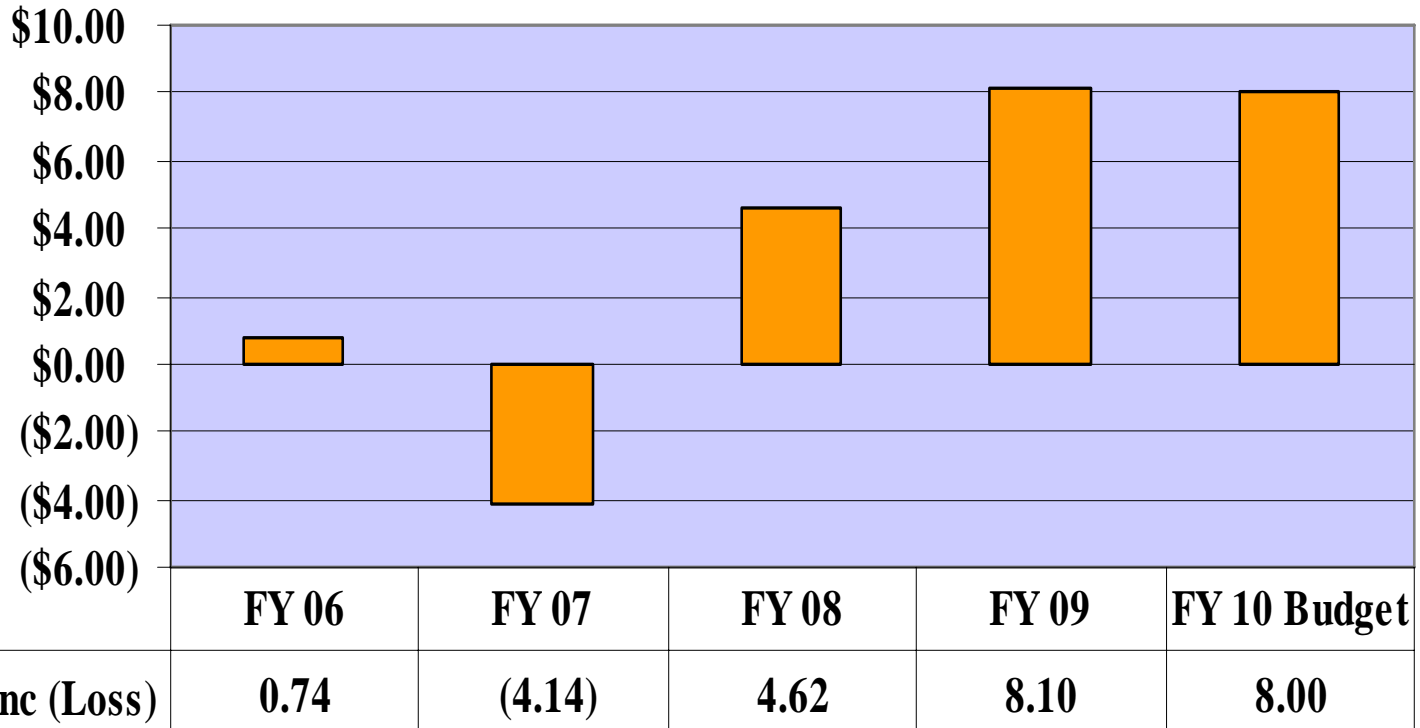
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# Net Income (Loss) Trend

(\$ Millions)



# Value of MHP to MIHS System

- More volume to MIHS Facilities
- More volume to FQHC's
  - Member assignments have grown from 23,315 in FY 08; 29,595 in FY 09; and 33,440 projected for FY 10
  - Volume in FQHC's provides not only MHP dollars but the additional FQHC matching dollars from AHCCCS
  - Provides base of patients for referrals to CHC
  - More profit to MIHS
- Serving the Community aligned with MIHS mission



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# Impact of MHP Growth

- Growth in prospective member months from Oct thru March – 41%
- Growth in FHC volume (assuming a two month lag) – 32%
- Growth in CHC volume (assuming a two month lag) – 28%
- Inpatient admissions from MHP have grown 14% (assuming a three month lag)



# Maricopa County Special Health Care District

## Board of Directors Special Meeting

May 21, 2009

Item 1.



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2502 E. University Drive, Suite 125 • Phoenix, Arizona 85034  
1 (800) 582-8686 • (520) 874-5290 • Fax (602) 344-8371  
[www.mhpaz.com](http://www.mhpaz.com)

May 14, 2009

Board of Directors  
Maricopa Integrated Health System  
2601 E Roosevelt  
Phoenix, AZ

Dear Directors:

Attached is the FY 2010 Maricopa Health Plan (MHP) Budget presentation. This power point presentation includes a lot of detail to provide you with as broad a picture as possible of how the FY 2010 budget was derived.

We have provided in this set of slides historical information on Plan membership, profitability, volumes, etc. We have also included an overview of the current environment including the impact of the current economic conditions on the AHCCCS program and thus on the Health Plans and the providers. We have broken out each section of the budget (membership, revenues, medical expense, and administrative expense) to provide you with enough detail on the drivers of these various parts of the Health Plan budget. In some cases this maybe more detail than you want but in an effort to give you a full picture, we are providing the supporting detail.

We will be presenting the MHP Budget at the Special Board Meeting on May 21<sup>st</sup>. Our presentation will be much shorter than this detailed presentation. We will be available to answer all of your questions related to the budget and the MHP impact on the MIHS delivery system.

We thank you in advance for your review of the MHP budget, and we look forward to presenting and discussing it with you next week.

Sincerely,

Kathleen Oestreich  
Chief Executive Officer



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# Maricopa Health Plan

## FY 2010 Budget

### May 21, 2009



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# MHP Budget 2010

- **Budget Discussion will include**
  - Key Historical Facts
  - Review of Current Environment
  - Review of Membership
  - Review of Revenues
  - Review of Medical Expenses
  - Review of Administrative Expenses
  - Review of Plan Profitability



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# MHP Budget 2010

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# Environment

- **5 year contract with AHCCCS 2009 – 2013**
  - MHP actively pursued new 5 year contract with AHCCCS in response to the AHCCCS 2008 Request for Proposal
  - Successful in winning the contract as one of 6 existing contractors
  - Bid response also made commitments for clinical and member centric program changes and enhancements
  - AHCCCS increased the contract deliverables in this bid cycle



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# Environment

- **Enhanced auto assignment Oct 08 – Mar 09**
  - AHCCCS through the bid created opportunity for smaller plans to achieve critical mass
  - Plans with less than 50,000 members in Maricopa County received all auto assigned members equally; MHP and Care 1st received the enhanced auto assignment
  - MHP grew 43% from 35,000 to 49,000 members during this time period



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# Environment

- **AHCCCS Risk Adjustment Methodology**
  - During the bid, AHCCCS proposed to “risk adjust” the AHCCCS population by County
  - Each member is assigned an acuity based upon their historical diagnosis and procedure coding
  - Typical members have a risk adjustment of 1.0
  - AHCCCS did not use an industry standard methodology, but developed a hybrid methodology
  - Risk adjusted capitation payment is a significant shift from the historical payment methodology with the goal of Plans being paid for the true acuity of their members, not all members are equal in their medical expense requirements



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# Environment

- **AHCCCS Risk Adjustment Methodology**
  - Preliminary risk scores for MHP, issued in January 2009, indicated that the average risk score was .92.
  - UPHP worked with the MHP actuary and identified data discrepancies and AHCCCS updated its data files with new diagnosis data
  - Current assessment, based upon actuarial analysis, is that the MHP average risk score could increase from .92 to .95 based upon the revised diagnosis data
  - Revised risk scores are expected from AHCCCS by the end of May 2009
  - Each .01 equals \$1.9M



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# Environment

- **Complicated Economic Landscape**
  - Recession has grown AHCCCS Statewide enrollment 11% in 2009
  - JLBC FY FY2010 projection is 8% enrollment growth
  - State budget deficit is limiting funding and requiring program and administrative cuts that impact the plans and the plans' providers
  - Legislative actions will impose 0% capitation rate increases, cuts in administration dollars to the Plan, adjustments in reconciliation payment methodologies.
  - Work continues with Legislature, Plans and Key Provider groups to identify any possible solutions that could avoid deep payment cuts to Plans and their providers.



# 2010 Member Months

## Assumptions

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- 43% MHP growth in FY 09 due to the enhanced auto assignment from October 08 to March 09
- 11% AHCCCS Statewide growth in FY 09
- 8% FY 10 JLBC Statewide growth estimate
- 11% FY 10 MHP growth June 09 to June 10
  - Equates to total fiscal year member months growth of 25%
- Prior Period Coverage member months equals 17% of prospective member months
  - Equates to total fiscal year member months growth of 51%
- 1 member month equals \$10.48 in net income



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# 2010 Member Months

	<b>2009 Budget</b>	<b>April 2009 YTD</b>	<b>June 2009 Forecast</b>	<b>2010 Budget</b>
<b>Prior Period Member Months</b>	<b>28,169</b>	<b>61,039</b>	<b>80,339</b> 85% increase over 2009 Budget	<b>112,222</b> 51% increase over June 2009
<b>Prospective Member Months</b>	<b>460,726</b>	<b>418,515</b>	<b>521,120</b> 13% increase over 2009 Budget	<b>652,076</b> 25% increase over June 2009
<b>Total Member Months</b>	<b>488,895</b>	<b>479,553</b>	<b>601,459</b> 130% increase over 2009 Budget	<b>764,298</b> 27% increase over June 2009

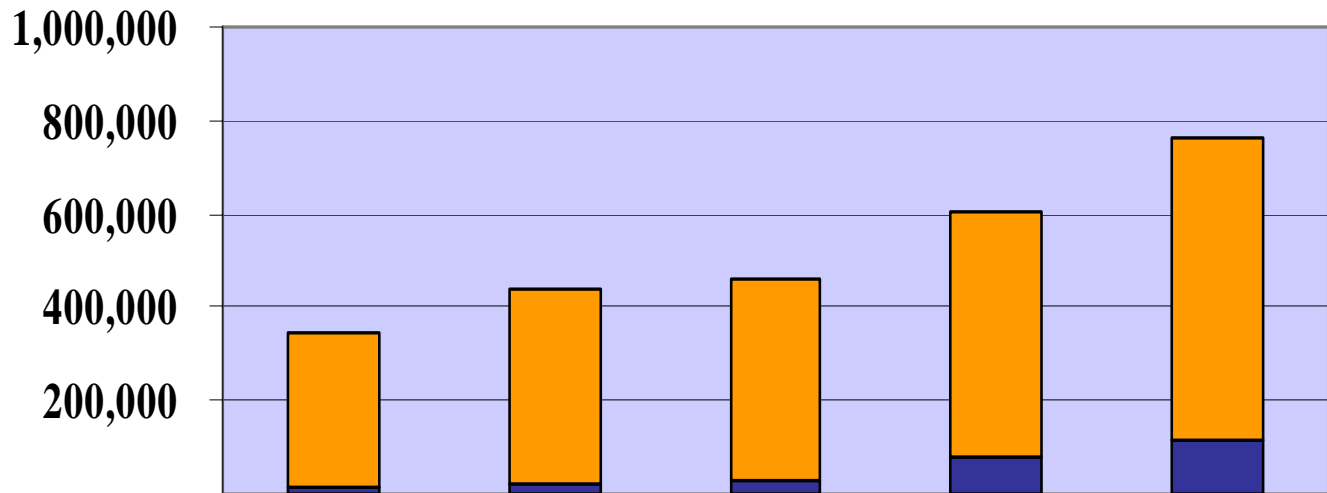


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# Member Months Trend



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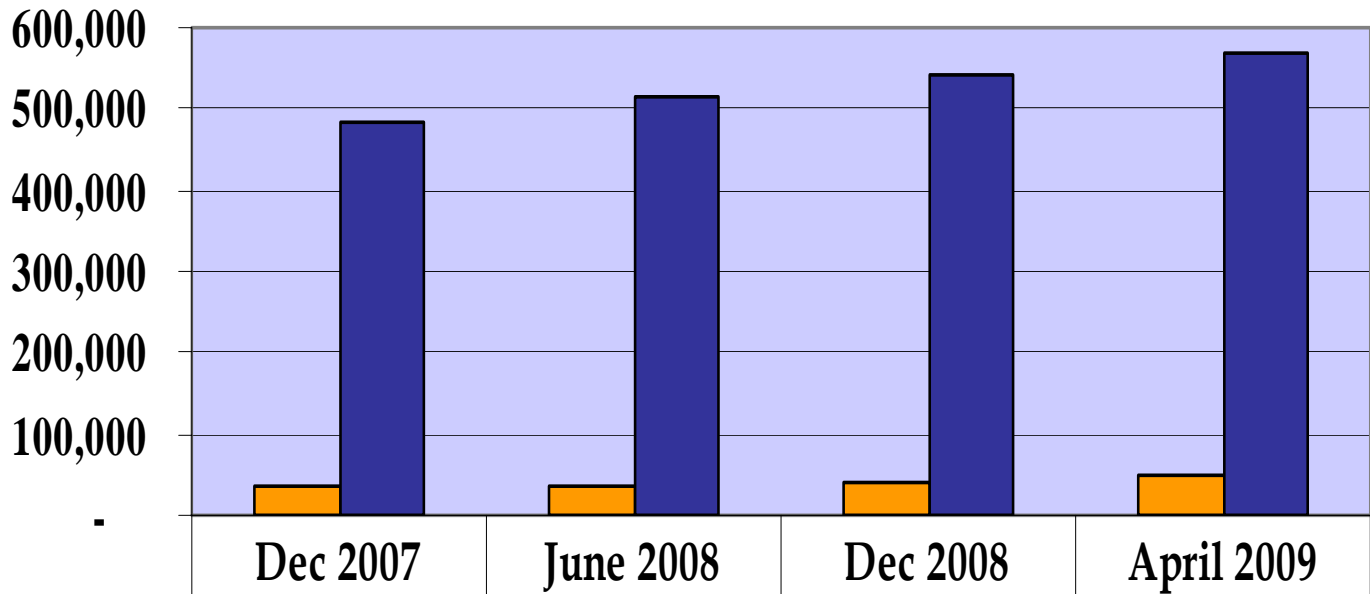


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# MHP Growth Compared to Maricopa County



MHP	34,252	34,593	39,766	49,566
Maricopa County	483,535	514,661	540,843	566,852

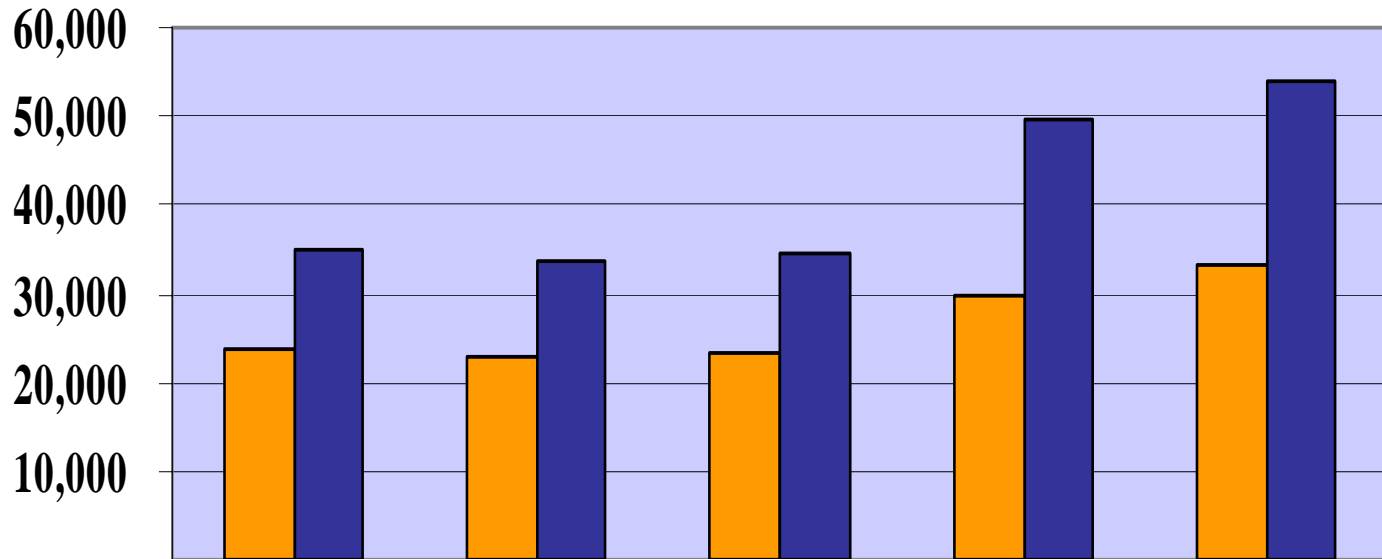


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  - Current capitation rates adjusted for utilization and inflation were then adjusted down to original current capitation rates for a net impact change in the capitation rates of a 5% cut in capitation rates
  - The 5% cut from current medical capitation equals \$7.3M



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# Revenues

(\$ millions and per member per month)

	2009 Budget	April 2009 YTD	June 2009 Forecast	2010 Budget	2009 Budget PMPM	April 2009 YTD PMPM	June 2009 Forecast PMPM	2010 Budget PMPM	PMPM % Change
<b>Capitation (incl Risk Adj in 2010)</b>	\$128.6	\$121.9	\$152.7	\$179.0	\$279.11	\$291.15	\$293.08	\$274.49	-6.34%
<b>Risk Adjustment</b>	(1.2)	(4.4)	(6.0)	-	(2.67)	(10.56)	(11.44)	-	100.00%
<b>Prior Period Covg</b>									
<b>Capitation</b>	14.3	38.5	50.6	75.5	507.91	630.01	629.54	672.80	6.87%
<b>Hospital Supplement</b>	0.9	1.9	1.9	-	31.89	30.76	23.37	-	100.00%
<b>Delivery Supplement</b>	4.8	5.5	6.9	9.0	10.44	13.09	13.32	13.81	3.69%
<b>HIV Supplement</b>	-	0.2	0.2	-	-	0.40	0.32	-	100.00%
<b>TWG Settlement</b>	(0.1)	(0.9)	(1.4)	(1.4)	(0.16)	(2.25)	(2.76)	(2.22)	-19.68%
<b>PPC Settlement</b>	5.9	0.2	(0.1)	0.5	209.63	3.36	(1.40)	4.04	387.77%
<b>Investment Income</b>	0.3	0.8	1.2	1.6	0.66	1.70	2.02	2.13	5.38%
<b>Total Revenues</b>	<b>\$153.5</b>	<b>\$163.5</b>	<b>\$206.0</b>	<b>\$264.1</b>	<b>\$314.04</b>	<b>\$340.93</b>	<b>\$342.49</b>	<b>\$345.59</b>	<b>0.91%</b>

Hospital Supplement & HIV Supplement discontinued on 10/1/09

# Medical Expense Assumptions

- **5% Cut in Provider Payments**
  - AHCCCS implemented 5% cut on Physician fee schedule May 1
  - AHCCCS will implement all other fee schedule reductions October 1
  - 85% of MHP provider payments are attached to the AHCCCS fee schedule
  - 15% of MHP provider payments are attached to custom contracts
    - 5% cuts on this group will be negotiated before October 1. 5% on this group equals \$1.4M



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# Medical Expense Assumptions

- **3 – 5% Utilization Trend for Physician and Other Medical**
  - Utilization trend by expense category based on consultation with MHP actuary
- **5% Inpatient Days per K Reduction**
  - Medical management initiative to reduce inpatient utilization
  - 1% reduction in Days per K equals \$640K reduction in inpatient medical expense



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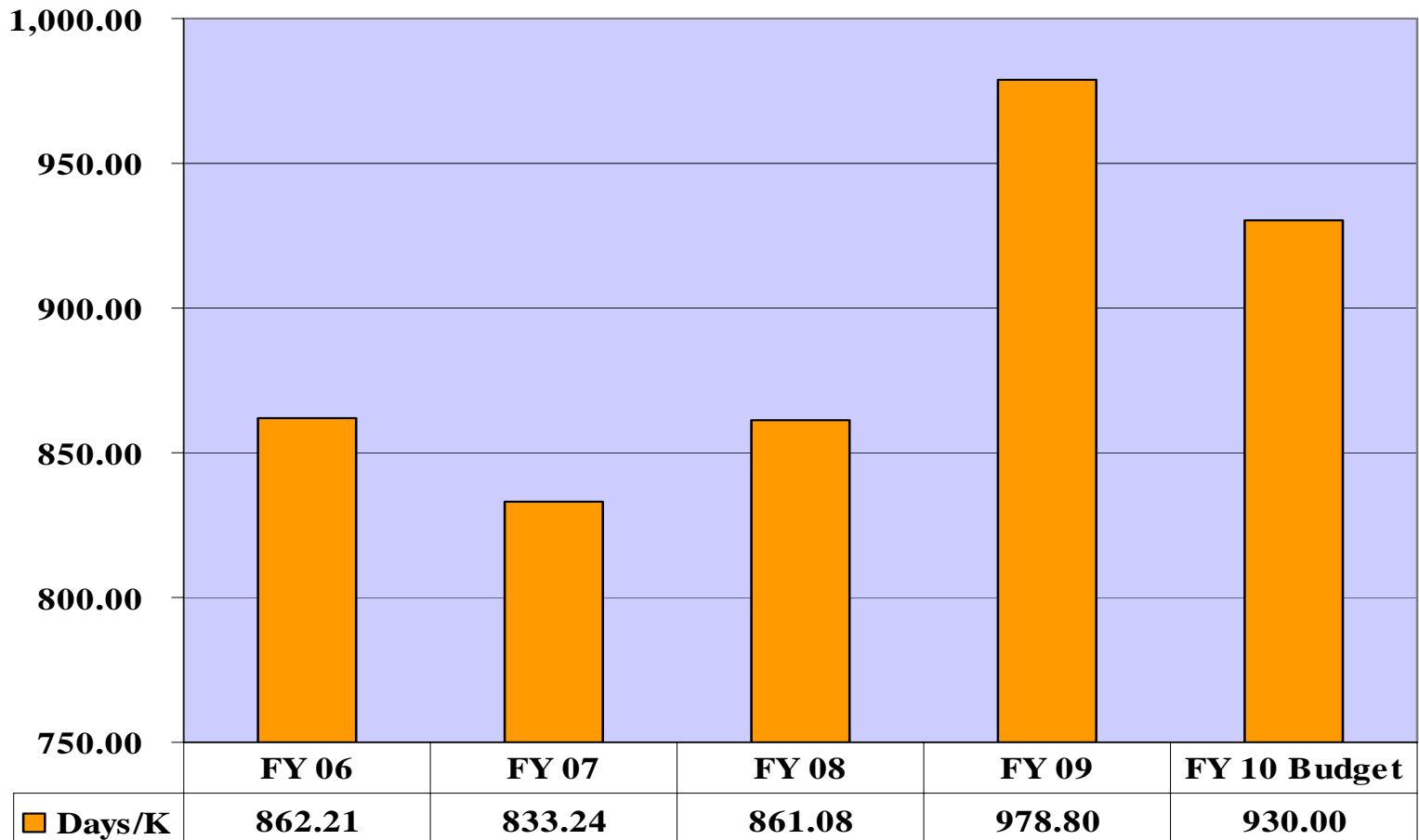
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# Medical Expenses

(\$ millions and per member per month)

	2009 Budget	April 2009 YTD	June 2009 Forecast	2010 Budget	2009 Budget PMPM	April 2009 YTD PMPM	June 2009 Forecast PMPM	2010 Budget PMPM	PMPM % Change
<b>Inpatient</b>	\$44.9	\$40.2	\$49.4	\$62.7	\$97.47	\$96.00	\$94.82	\$96.21	1.47%
<b>Physician</b>	22.2	24.8	30.8	39.3	48.19	59.29	59.17	60.20	1.75%
<b>Other Medical</b>	55.3	44.9	56.0	70.8	120.03	107.40	107.45	108.52	1.00%
<b>PPC Medical</b>	19.5	37.3	49.1	68.5	693.59	611.60	611.60	610.39	-0.20%
<b>Total Medical</b>	141.9	147.3	185.4	241.3	290.34	307.10	308.21	315.66	2.42%
<b>Reinsurance</b>	(15.2)	(8.6)	(9.6)	(12.6)	(32.89)	(20.55)	(18.47)	(19.25)	4.20%
<b>TPL</b>	(0.1)	(0.2)	(0.2)	(0.2)	(0.25)	(0.37)	(0.37)	(0.37)	-0.92%
<b>Net Medical</b>	\$126.7	\$138.5	\$175.6	\$228.5	\$259.11	\$288.84	\$291.89	\$298.92	2.41%

# Inpatient Days per K Trend



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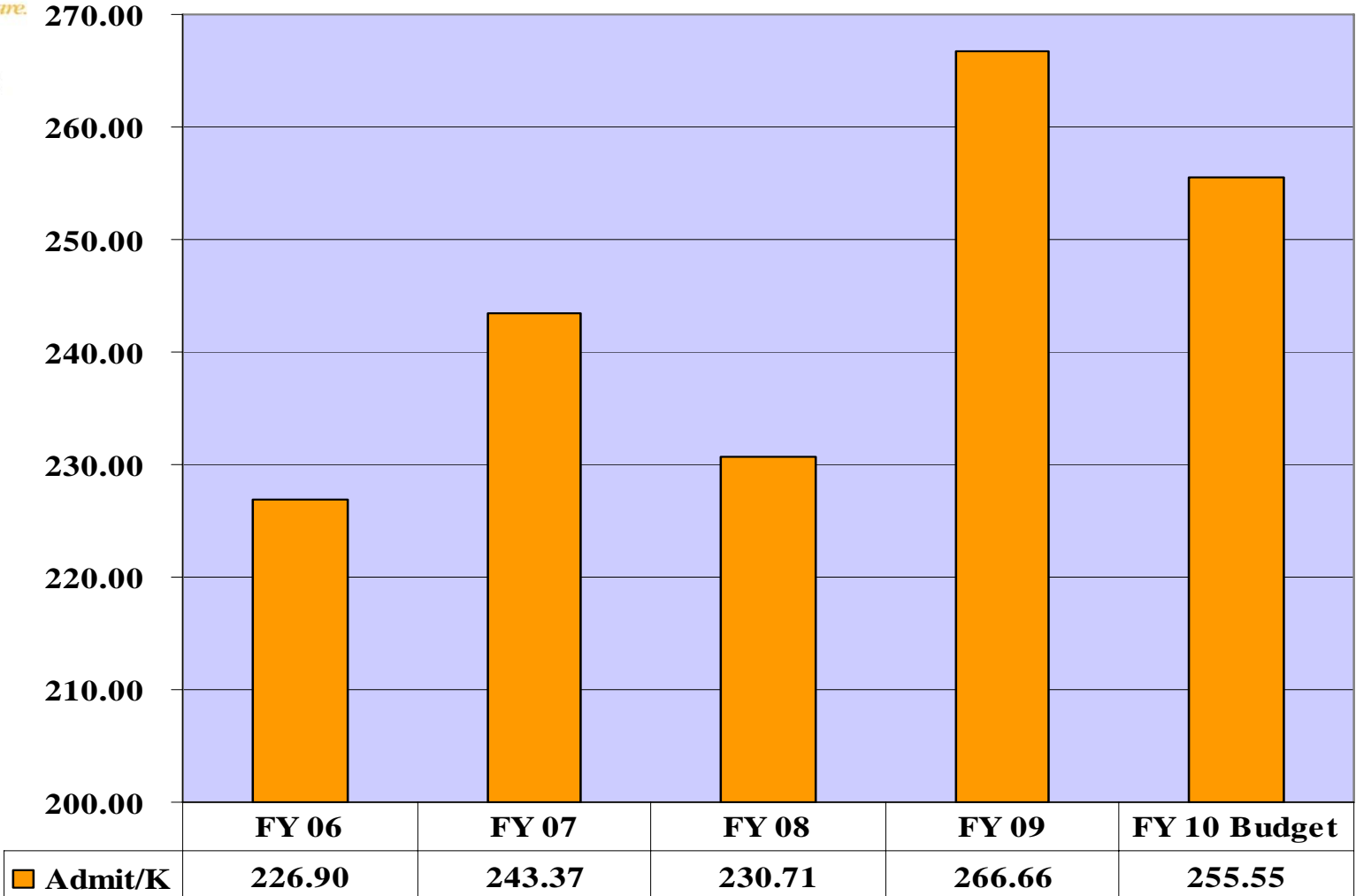


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# Admits Per K Trend



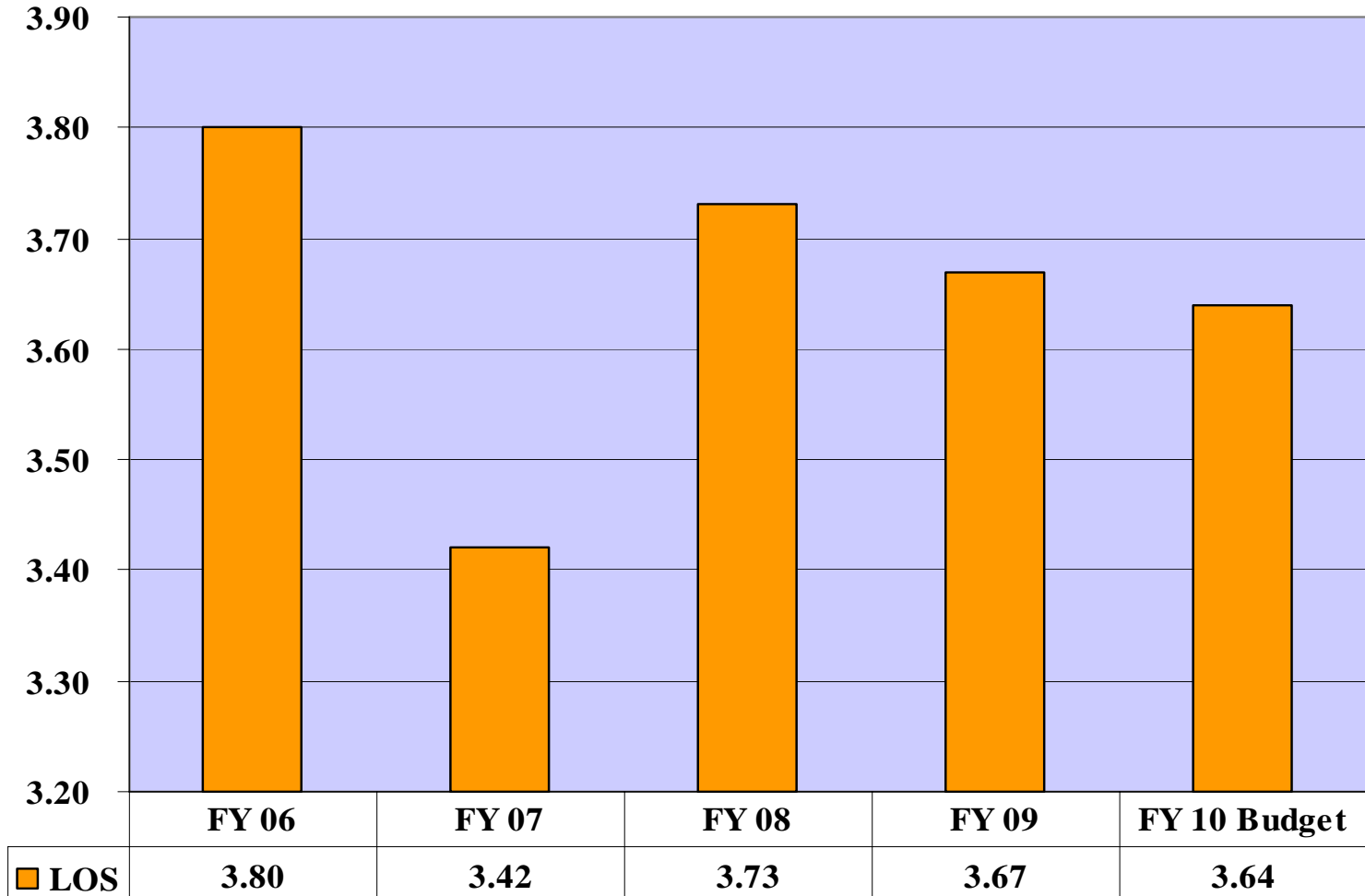


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# Length of Stay Trend



# Administrative Expenses Assumptions

- \$200K Medical Home Payment Incentive
- \$200K Performance Measure Sanctions
- \$50K AHCCCS E-Prescribing Initiative
- 0% Increase in Management Fee Pricing



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# Administrative Expenses

	2009 Budget	April 2009 YTD	June 2009 Forecast	2010 Budget	2009 Budget PMPM	April 2009 YTD PMPM	June 2009 Forecast PMPM	2010 Budget PMPM	PMPM % Change
Management Fee	\$12.8	\$14.2	\$17.7	\$21.6	\$26.18	\$29.69	\$29.40	\$28.31	-3.72%
Other Admin	1.2	0.0	0.0	0.4	2.53	0.06	0.05	0.64	1239.37%
<b>Total Admin</b>	<b>\$14.0</b>	<b>\$14.3</b>	<b>\$17.7</b>	<b>\$22.1</b>	<b>\$28.57</b>	<b>\$29.74</b>	<b>\$29.44</b>	<b>\$28.85</b>	<b>-2.00%</b>
Premium Tax	\$3.23	\$3.44	\$4.59	\$5.61	\$6.61	\$7.17	\$7.63	\$7.34	-3.74%

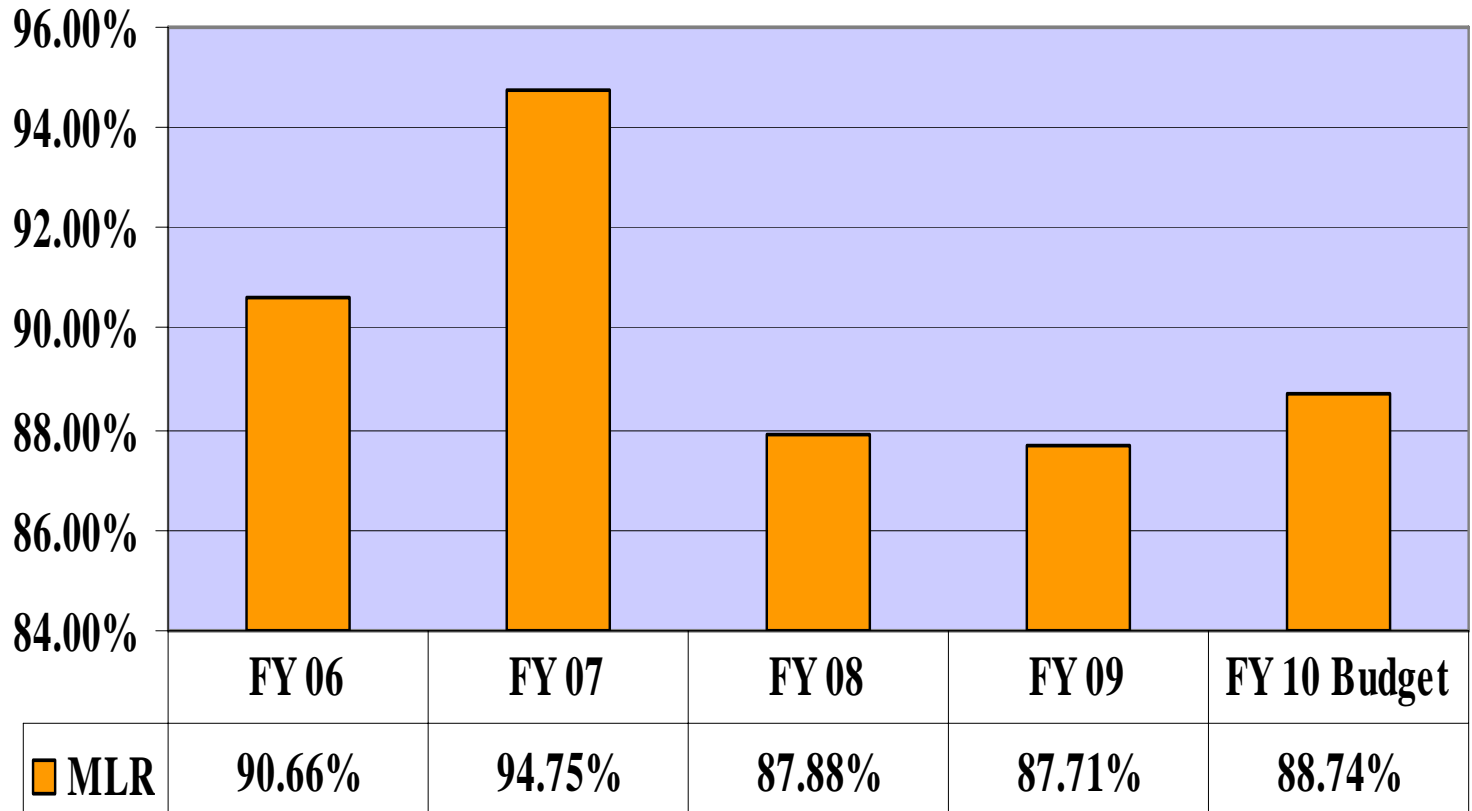


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# Medical Loss Ratio Trend



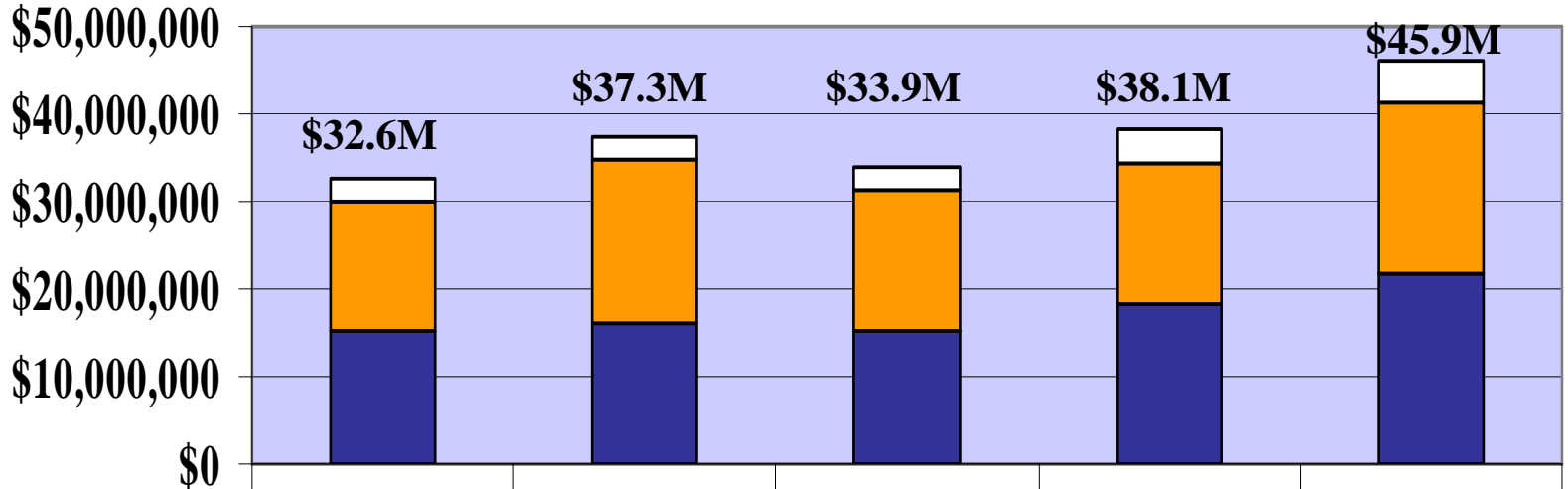


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# MIHS Payments



	FY 06	FY 07	FY 08	FY 09	FY 10 Budget
□ Physician	2,465,158	2,414,371	2,638,958	3,627,336	4,435,942
■ Outpatient	14,970,396	18,793,505	15,970,748	16,482,978	19,832,160
■ Inpatient	15,195,155	16,069,323	15,330,660	18,056,853	21,668,224



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# Budget Vulnerabilities

Area of Risk	Risk Range	1% Value	Total Risk Value	Risk Potential	Est Risk
Member Months	0-3%	\$70K	210K	50%	105K
Risk Adjustment	0-3%	1.9M	5.7M	unknown	unknown
Non Fee Sched Prov Cuts	0-5%	280K	1.4M	50%	700K
Inpatient Days per K	0-5%	640K	3.2M	20%	640k
			\$10.5M		\$1.4M



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# Income Statement

(\$ millions and per member per month)

	2009 Budget	April 2009 YTD	June 2009 Forecast	2010 Budget	2009 Budget PMPM	April 2009 YTD PMPM	June 2009 Forecast PMPM	Budget PMPM	PMPM % Change
<b>Revenues</b>	\$153.5	\$163.5	\$206.0	\$264.1	\$314.04	\$340.93	\$342.49	\$345.59	0.91%
<b>Net Medical Expenses</b>	\$126.7	\$138.5	\$175.6	\$228.5	\$259.11	\$288.84	\$291.89	\$298.92	2.41%
<b>Admin Expenses</b>	14.0	14.3	17.7	22.1	28.57	29.74	29.44	28.85	-2.00%
<b>Total Expenses</b>	\$140.6	\$152.8	\$193.3	\$250.5	287.67	318.58	321.33	327.77	2.01%
<b>Operating Income</b>	\$12.9	\$10.7	\$12.7	\$13.6	26.37	22.34	21.16	17.82	-15.79%
<b>Premium Tax</b>	3.2	3.4	4.6	5.6	6.61	7.17	7.63	7.34	-3.74%
<b>Net Income (Loss)</b>	\$9.7	\$7.3	\$8.1	\$8.0	\$19.75	\$15.17	\$13.53	\$10.48	-22.57%



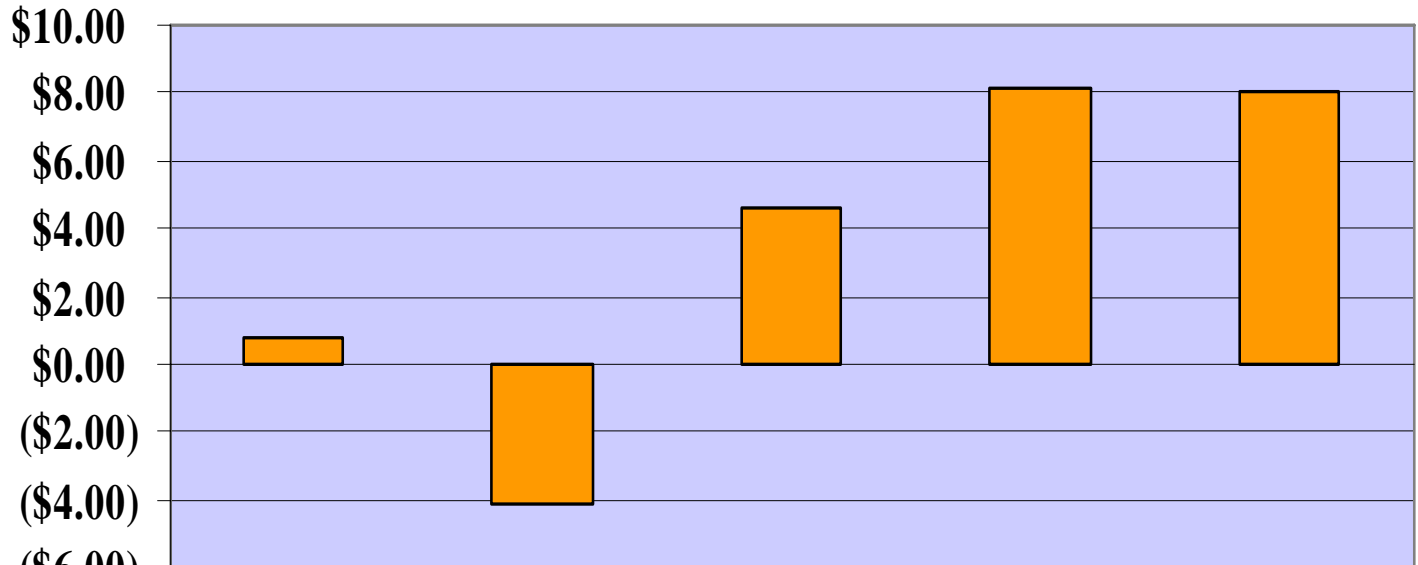
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# Net Income (Loss) Trend

(\$ Millions)



	FY 06	FY 07	FY 08	FY 09	FY 10 Budget
<b>Net Inc (Loss)</b>	<b>0.74</b>	<b>(4.14)</b>	<b>4.62</b>	<b>8.10</b>	<b>8.00</b>