

**The Best of Times,
The Worst of Times . . .**

Molina Healthcare of California
Lisa A. Rubino
President
January 26, 2009



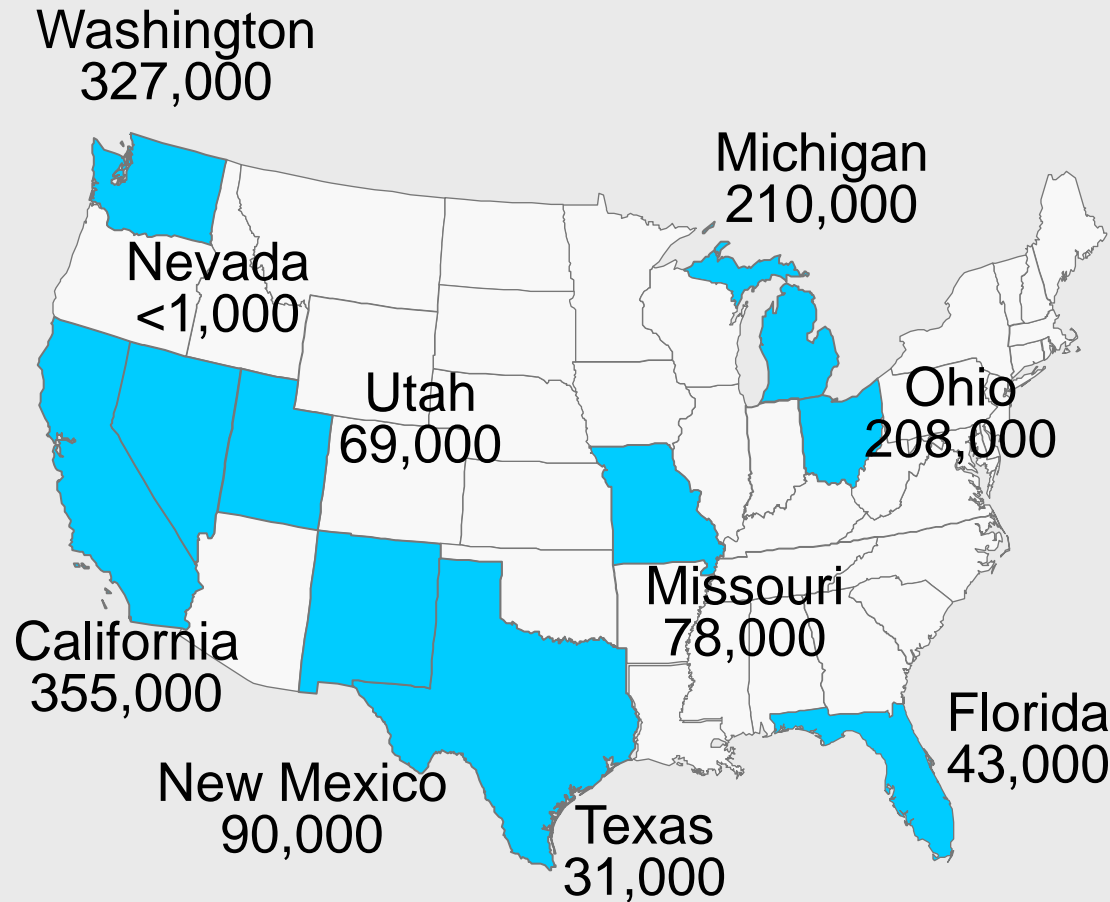
MOLINA[®]
HEALTHCARE

Your Extended Family.

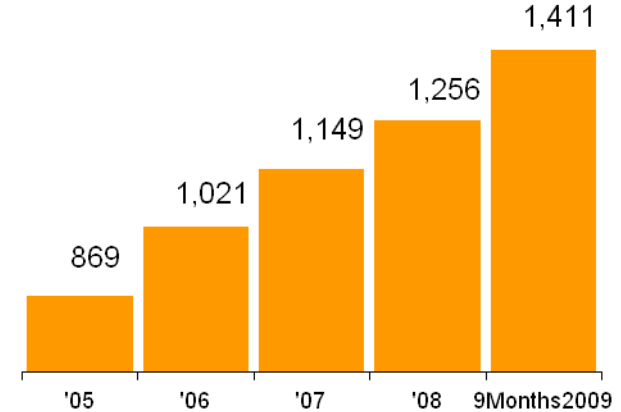


Molina Healthcare, Inc. – Business Snapshot

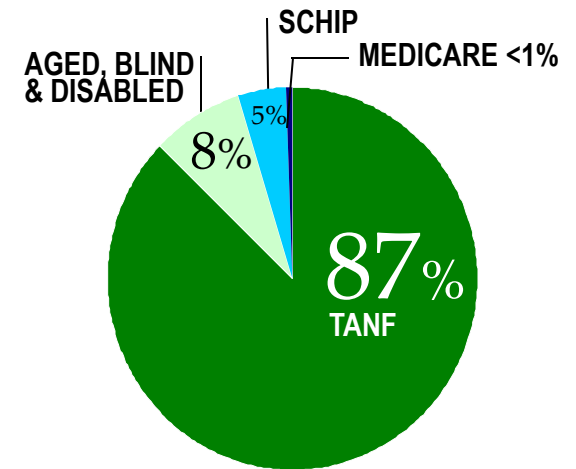
Markets and members served – Q3 '09



Membership growth in thousands



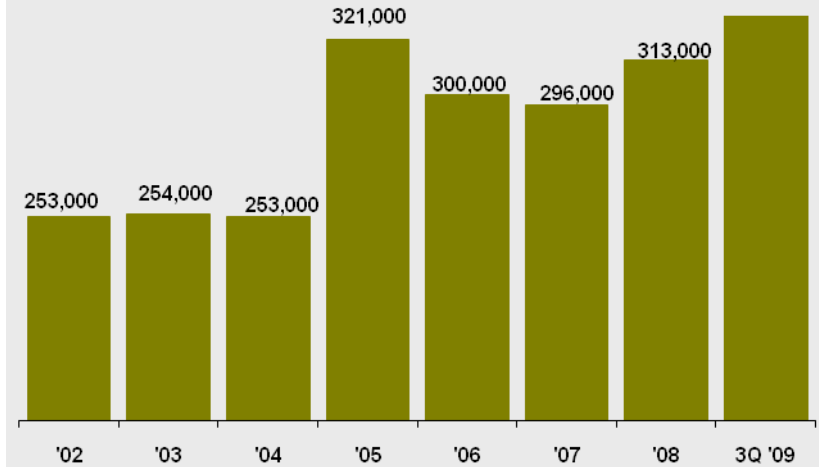
Our members



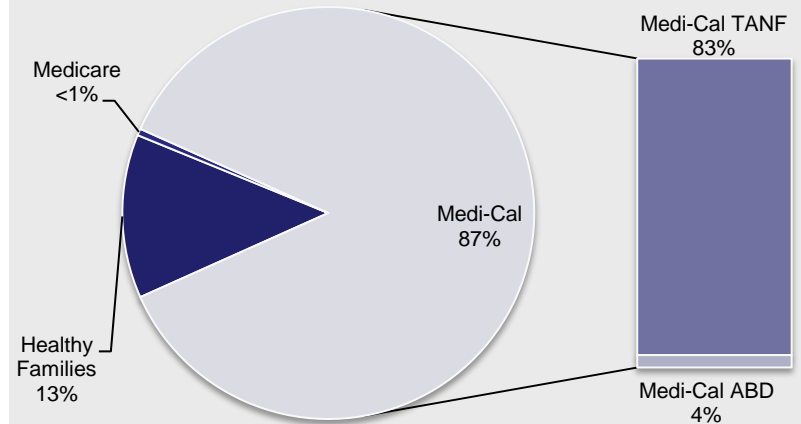
Molina Healthcare of California



Membership History



Membership



- 30 years of experience in different Medi-Cal programs
- NCQA accredited
- Cultural and Linguistic competence
- Multiple provider network models
- Innovative care management programs
- Own and operate 16 primary care clinics across California

Federal Health Reform: An Historic Moment

- House passed bill on Nov. 7th; Senate passed bill Dec. 24th
- Conference Committee debate in early 2010
- Important Similarities
 - **Medicaid Expansion: Expanded eligibility and add'l federal financial support for states**
 - Coverage Mandates: 30+ million more Americans covered
 - Medicare Rate Cuts: Medicare Advantage & Fee-for-Service
- Important Differences
 - Medicaid Expansion: Senate – up to 133% FPL; House – 150% FPL
 - Public Option: Senate – No; House – Yes
 - Financing: Senate – Medicare payroll tax, “Cadillac” plans, health insurer fees; House – tax on high-income earners

The Worst of Times

California State Budget Crisis

- Projected State budget deficit of \$21B by July 2010
- Limited budgetary flexibility due to constitutionally-mandated spending
- CA Health and Human Services Agency '09-10 budget of ~\$32.8B will again be a prime target of cuts
- Legislature needs 2/3 majority to pass a budget
- Enhanced FMAP ends half-way through budget year in December 2010

Medicaid Program Challenges in California

- Very low health plan capitation rates
- Inadequate Medi-Cal provider payment rates
 - 6th lowest Medicaid FFS provider rates in nation¹
 - At or near bottom of national Medicaid managed care payment rates
- More risk is being shifted to plans without commensurate rate changes
- Efforts to implement 85% MLR undermines plan long-term planning

The Worst of Times, cont'd.

Provider Network Dynamics

- Market dominance of hospital systems in regions of the State
- Unwillingness of certain hospital systems to set contract rates in-line with level of Medi-Cal managed care plan capitation rates
- State's non-contracted hospital payment methodology is under legal challenge
- Loss of specialist providers willing to participate in Medi-Cal managed care due to low reimbursement levels

Perception of Health Plans in Government Healthcare Programs

- Winning the PR battle - demonstrating the efficacy of managed care in serving Medi-Cal members
- Trying to partner with advocacy groups that question managed care plans' ability to improve access to quality health care
- Providing evidence that managed care systems improve beneficiary access to care in a cost-effective manner

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Challenges in Healthcare Programs = Great Potential Opportunities for Change and Improvement

- State must address shrinking budgets and increasing Medi-Cal costs by establishing more cost-effective systems without compromising quality
- State is preparing to implement Federal Healthcare Reform initiatives by pursuing activities that include:
 - Developing new conceptual models of Medi-Cal care delivery to improve coordination of care in Medi-Cal FFS
 - Anticipating (hoping for!) increased federal Medi-Cal funding to ease State budgetary burdens
 - Engaging and dialoguing with key stakeholders, advocates, providers and other interested parties to identify new and innovative ways to provide quality healthcare services

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Renewal of Section 1115 Waiver

- Initiative to reform State's Medi-Cal program
- Acknowledges the deficiencies of the current Medi-Cal FFS model
- Effort to bring high-need Medi-Cal populations into structured delivery system to coordinate care and improve access
- State is considering various new models and care concepts (e.g. enhanced medical homes) to be implemented in late 2010

Reshaping How & Where Care is Provided to High Need Populations

- Encouraging Medi-Cal ABDs to enroll into managed care
- Adopting more rigorous quality and access standards in Medi-Cal managed care that are specific to higher-need member populations
- Helping enable Medi-Cal beneficiaries to live independently by facilitating access to quality care in those settings
- Establishing more effective coordinated care models for members with mental health, LTC or other needs