

# COMMITMENT AND VISION

2005 ANNUAL REPORT



**careSource**  
Management Group

In 2005, CareSource Management Group experienced remarkable growth as a leading regional Medicaid managed care plan surpassing both the 500 employee and 500,000 member milestones during the fourth quarter. The level and pace of this growth and the expressed trust we received from members, providers, the community and government officials further validates our commitment to our mission and vision.

In Ohio, CareSource expanded into Mahoning and Trumbull counties bringing the total number of counties served in that state to 15. It is now the largest HMO in Ohio and the seventh largest Medicaid managed care company in the nation. Community Choice Michigan, successfully brought out of rehabilitation in 2004, is now a thriving operation with a high level of consumer satisfaction. And, our success in Indiana is unprecedented. In just one year, CareSource Indiana developed from a start-up operation to a robust plan that grew to more than 104,000 members by year end.

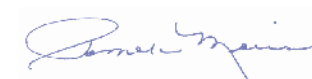
*"Commitment unlocks the doors of imagination, allows vision,  
and gives us the 'right stuff' to turn our dreams into reality."*

*James Womack*

The growth of CareSource Management Group is even more impressive given our performance results. In 2005, our performance was acknowledged through URAC accreditation for CareSource Ohio, Community Choice Michigan and CareSource 24. Our assessment ratings from the states of Ohio and Michigan, already at an impressive level, also continued to improve. And within our own community, we received the 2005 Health Care Heroes Award for innovation and the prestigious Pinnacle Award from the United Way for the second straight year.

As a national leader in Medicaid managed care, it's important that we share our expertise at the state and federal levels of government to help shape policy to improve health care for the underserved. We were asked to do this numerous times by elected officials in 2005, most notably in Ohio during the biennial budget process when we advocated in support of the statewide expansion of Medicaid managed care.

We are proud of our successes this past year, and those accomplishments only deepen our commitment to our vision of expanding our reach to other public-sector health care programs.



Pamela B. Morris  
*President and CEO*

## GROWTH

*"With our focus on customer service, a growing network of providers and extra benefits for members, we offer a health care plan that can truly make a difference."*

## OHIO EXPANSION

### *Adding Trumbull and Mahoning counties*

In 2005, CareSource enrollment in Ohio grew by more than 45,000 members to end the year at 391,000. The increase in enrollment was driven in part by the state's move toward statewide expansion and the transition of five preferred option counties to mandatory status.

We also expanded our service area in 2005 to include Mahoning and Trumbull counties in the northeastern part of the state. By forming strong partnerships with key health care providers

in those counties, we created a broad choice of doctors, hospitals and specialists for the Covered Families and Children (CFC) Medicaid population in that area.

Although significant in terms of enrollment growth, the new mandatory counties and the expansion into Mahoning and Trumbull counties were just the beginning of the Ohio expansion efforts for CareSource.

The passing of the state's biennial budget earlier in the year set the stage for the statewide expansion of Medicaid managed care. With plans for over 1.2 million Ohioians to be covered by a Medicaid managed care plan by the end of 2006, CareSource was front and center when the Ohio Department of Job and Family Services released its request for proposal for the CFC expansion. Knowing that a strong provider network was critical to growing the Ohio plan, we executed

a targeted recruitment strategy that ultimately resulted in CareSource becoming a selected applicant in all seven of the regions for which we applied. Delivering Medicaid managed care across all seven regions will be the primary focus for the Ohio plan throughout 2006 and into 2007.

## GROWTH

*"CareSource is a managed care organization that cares for each provider as if they are their only business partner. CareSource delivers what is promised, accurately and timely."*

## CARESOURCE INDIANA

*Enrollment significantly exceeds expectations*

When CareSource began serving Medicaid consumers in the Hoosier Healthwise program in January of 2005, the expectation was for moderate growth in its start-up year. However, when the state made its decision to implement statewide mandatory Medicaid managed care midway through the year, CareSource supported the move and took on additional enrollment to help enable the program's success.

Focusing on its commitment to serving both members and providers in the Hoosier Healthwise program, CareSource's enrollment grew exponentially with each passing month. By the end of the year, more than 104,000 Indiana Medicaid recipients were enrolled as CareSource members.

Significant growth in our Indiana start-up operation created numerous challenges for the company. Those challenges are driving a focused approach to streamline operations while delivering the best possible service to our Indiana members and providers.

Our commitment to the Hoosier Healthwise program remains strong, and we look forward to preparing our bid for the 2007 program changes.

**careSource**  
Indiana

## GROWTH

*"Community Choice Michigan has been a wonderful resource for my son and me. We have never had such extensive medical follow-up in the past."*



## COMMUNITY CHOICE MICHIGAN

### *A thriving health plan*

With Community Choice Michigan (CCM) successfully out of rehabilitation, CareSource Management Group continued to work diligently to help the plan thrive in 2005. Financially, the plan is healthy and strong with the solid foundation needed for future growth.

Earning health plan accreditation from URAC this past year demonstrated to members, providers, and state regulators that CCM is committed to supplying the highest quality care.

But CCM did not stop there. The plan also launched several new initiatives for members including *Call It Quits*, a smoking cessation program, and *Babies First*, an incentive program for pregnant members and new moms to get prenatal and well-child checkups. For its primary care providers, CCM developed an enhanced reimbursement program as well as new incentive payments for ESPDT exams, blood lead level tests, and childhood immunizations.

Consumer satisfaction also improved. CCM showed improvement in every major category of the Consumer Assessment of Healthcare Providers and Systems (CAHPS) survey for the second straight year and now exceeds the national benchmark in three areas: getting care quickly, how well doctors communicate, and rating of personal doctor.

CCM is poised for growth in 2006, having already been named the preferred option for

Medicaid consumers in Antrim, Grand Traverse, Alpena and Charlevoix counties.

## PERFORMANCE

*"URAC accreditation demonstrates that we are committed to the highest quality care. It shows that we put our members' health first."*



## URAC ACCREDITATION

*Committed to quality health care*

For CareSource Management Group, making a difference in the lives of our members starts with our commitment to delivering the highest quality health care. In 2005, we backed that commitment by pursuing URAC accreditation and being granted full health plan accreditation for both CareSource Ohio and Community Choice Michigan, and health call center accreditation for our 24-hour nurse triage service.

To be awarded accreditation, the CareSource Management Group quality team led the organization through rigorous review and documentation of all required processes. We became one of only a few plans to receive full accreditation the first time through the process.

URAC's health plan and call center standards offer a comprehensive assessment

of performance. Developed and continuously revised through a consensus-driven process involving hundreds of industry experts, URAC standards set the bar on health and managed care accreditation. We are very proud to have earned our URAC accreditation.



## PERFORMANCE

*"Meeting state standards is a direct reflection of our strong performance and our ability to serve members."*

## STATE EVALUATIONS

### *Ohio and Michigan plans show strong performance*

As Medicaid managed care providers, our Ohio and Michigan plans receive annual performance evaluations from their respective states. In general, the states evaluate the health plans' ability to deliver quality and clinical performance, member satisfaction and consumer access to care.

In Ohio, CareSource not only scored well above state mandated minimum standards in all

but one category, but it increased performance over last year's scores in almost every individual performance measure. Particularly notable are a 99.9 percent rating on its external quality review, a primary care provider turnover rate of just 8.4 percent, and an increase in the percentage of well-child exams received by members in all three measured age groups.

Community Choice Michigan (CCM) also continued its positive performance trend in 2005. For the second straight year, member satisfaction scores increased in every major category as measured by the CAHPS survey. CCM actually exceeded the national benchmark in three separate categories: getting care quickly, how well doctors communicate, and rating of personal doctor.

Performing well as a managed care plan reinforces our commitment to serving our members, which is the core of our mission.

## SERVICE

*"Our commitment to building and maintaining a strong operational presence is vital to accomplishing our mission."*

## FOCUS ON OPERATIONS

*Medical cost reduction enables additional member benefits*

Driven by a commitment to constantly improve benefits and services for its members, CareSource Management Group embarked on a company-wide process improvement initiative around its medical cost in 2005.

Faced with 11 percent inflation, CareSource's management team needed to take action to

reduce its medical costs. Building the cost reduction initiative into the overall business plan and involving all employees created a focused, cross-functional approach that drove the creation of a list of 16 separate projects. Key projects on the list included coordination of benefits, clinical editing and pharmacy management. The medical cost reduction projects resulted in combined

savings for the year of more than \$16 million in Ohio alone.

In addition to reducing the overall medical costs, the savings generated helped enable additional member benefits such as waiving co-payments and increasing transportation services. CareSource Management Group will be expanding the medical cost reduction

initiatives in 2006 to include both the Indiana and Michigan plans and expects a return of more than three times the 2005 savings.

## INNOVATION

*"Our easy-to-use websites make CareSource more accessible to members and providers and demonstrate our commitment to service, innovation and performance."*



## STRATEGIC TECHNOLOGY INVESTMENTS

*Finding better ways to do business*

Employing technology to better serve our members and providers is a core strength of CareSource Management Group. This past year, we focused on a number of technology enhancements that will have far-reaching benefits as the business continues to grow.

In March 2005, CareSource Management Group successfully completed its conversion to a new claims processing system. The new system was quickly put to the test with the processing

of more than 7.1 million claims for the year, a 54 percent increase from the number of claims processed in 2004. Investing in a new claims processing system has resulted in better and more efficient service for our members, providers and other business partners.

During this past year, we also invested heavily in developing the content and architecture for our external websites to enable more effective communication with both members and

providers through the internet. Through our new health plan websites, [www.caresource-ohio.com](http://www.caresource-ohio.com), [www.caresource-indiana.com](http://www.caresource-indiana.com), and [www.ccmhmo.org](http://www.ccmhmo.org), members and providers will soon be able to interact with us for services that have previously only been available through telephone interaction with our service center staff. Requesting a new ID card, changing a primary care doctor, locating a physician and

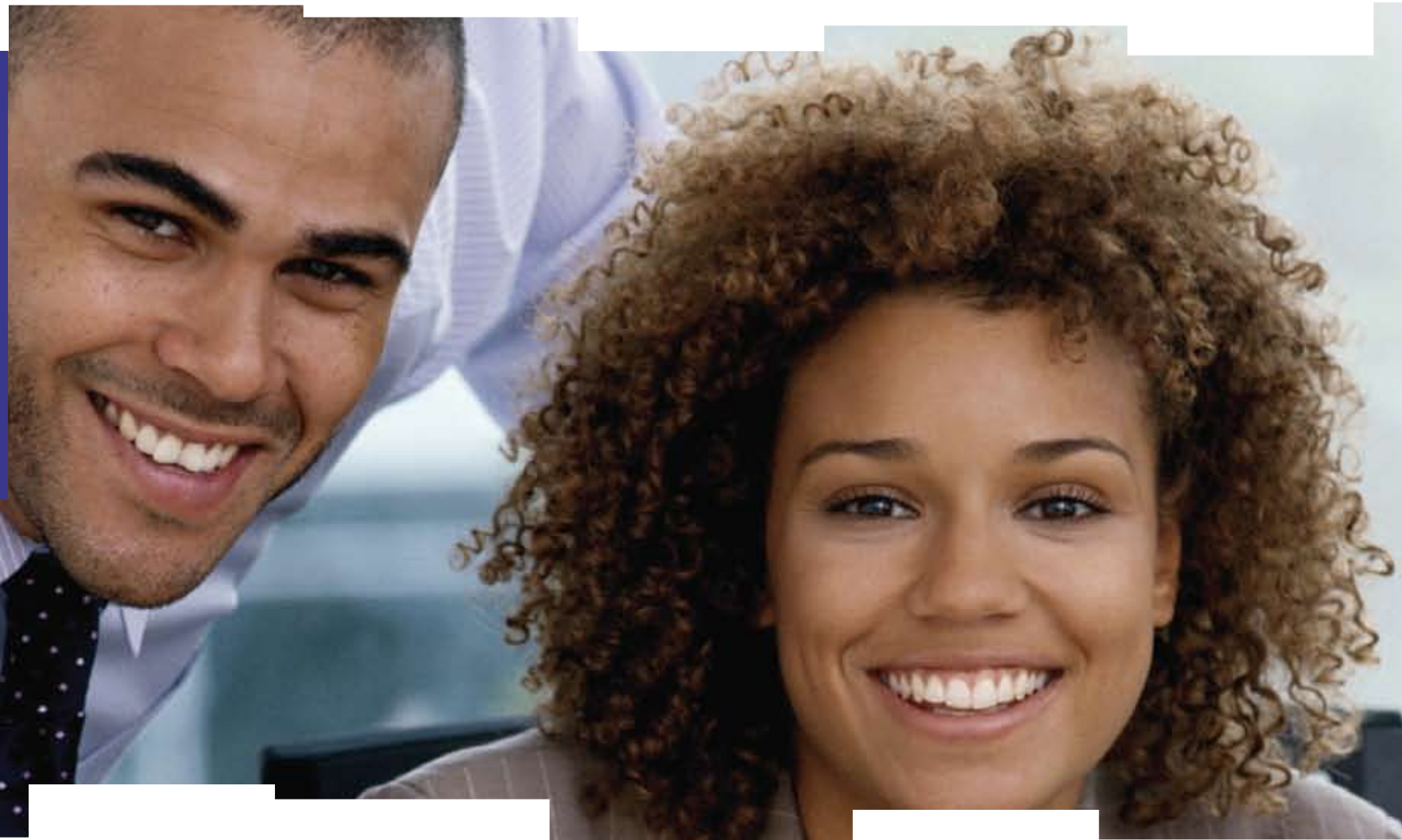
checking member eligibility, are just a few of the services that will be available through the internet.

Investments in technology will continue to provide the framework for our success.



## COMMITMENT

*"Our goal is to create and maintain a high performance work environment that balances achieving results with meeting the needs of our diverse workforce."*



## PEOPLE FIRST

*Providing the tools for total wellness*

CareSource Management Group is committed to the welfare and development of our most valuable asset — our employees. We want them to be successful professionals, but their overall well-being is just as important to us. That's why we created our Total Wellness program.

We know that balancing work and home is critical to achieving total wellness, so we developed a program that emphasizes the importance of good physical and mental health. Our Total Wellness program not only addresses basic health needs, but also includes stress management, work-home life balance and even finances. And, we encourage employees to

take an active role in their well-being through programs such as Weight Watchers at Work, mammography screenings, and our annual health fair.

In 2005, our employee base grew by 48 percent, and we are expecting to add as many as 200 new jobs this year to support our business growth. Employee-oriented initiatives like our

Total Wellness program are key to building a work environment that not only supports our business growth, but also the needs of our diverse workforce.

## COMMUNITY

*"Naturally, we're proud of the professional services we provide, but we're just as proud to be a good citizen who is making a positive contribution to our community on multiple levels."*

## A GOOD CORPORATE CITIZEN

*Making a positive contribution*

CareSource Management Group does more than provide health care services to the communities it serves. It is an active part of the community that provides jobs, supports schools and community centers, and shares in its values.

We believe that good health depends on more than just medical care — it results from a combination of a positive living environment,

healthy personal relationships and overall physical and mental well-being. Our support of programs like the YMCA of Greater Dayton's youth fitness and wellness program, and the many others delivered through United Way agencies, helps sustain a holistic approach to overall good health.

In 2006, CareSource Management Group intends to take its community support to an even higher level with the creation of our new CareSource Foundation. The foundation will be focused on furthering the CareSource mission in the communities we serve through long-term innovative solutions that support a holistic approach to addressing the health care needs of

the underserved. It is our goal to create healthier and happier communities for us all.

**CareSource**  
FOUNDATION

## FINANCIALS

*"Financial strength is critical to the commitment CareSource Management Group has to the more than 500,000 Medicaid consumers it now serves."*

## FINANCIALS

### *Financial stability remains strong*

Financial strength is critical to the commitment CareSource Management Group has to the more than 500,000 Medicaid consumers it now serves. In 2005, our focus remained clear. For our Ohio operations, the year brought an increase in enrollment and continued strengthening of our financial position. Total revenue in Ohio in 2005 was \$763.9 million, an increase of nearly 13 percent over 2004. Net income was two percent of revenue, and our total net worth in Ohio was more than \$74 million.

In its first full year out of rehabilitation, Community Choice Michigan also demonstrated financial strength, ending the year with total

revenue of \$95.7 million and total net worth of \$10.8 million.

CareSource Indiana delivered mixed results in its first year of operations. Although new to the Hoosier Healthwise program in 2005, CareSource experienced phenomenal growth, ending the year with more than 104,000 members. The significant growth coupled with a challenging cost and rate environment put the start-up operation to the test. But CareSource is focused on the future. With newly revised rates and a multi-faceted approach to stabilizing operations, CareSource's commitment to the Indiana market is as strong as ever.

The company-wide medical cost reduction initiative helped keep medical costs as a percentage of revenue nearly constant year over year for the Ohio plan, despite strong upward cost trends in the overall health care market. Investments were made in technology and personnel company-wide to position the organization for anticipated growth in 2006 and beyond, but administrative costs remained at "best practice" industry levels.

To ensure more robust financial analysis and reporting, we also established the foundation for our new enterprise-wide financial management system this past year. CareSource Management

Group began its implementation of the new software in January 2006.

*Financial statements for CareSource and CareSource Indiana are audited annually by Deloitte & Touche, Certified Public Accountants.*

## APPLAUSE

*"There is no greater calling than to serve your fellow men. There is no greater contribution than to help the weak. There is no greater satisfaction than to have done it well."*

*Walter Reuther*



## AWARDS AND RECOGNITION

*Acknowledging a job well done*

We are proud of the recognition earned by CareSource Management Group and the health plans it manages. In 2005 we were recognized with the following awards:

- Winner of the 2005 Health Care Heroes Award for innovation from the *Dayton Business Journal*.
- Winner of two National Health Information Awards of Merit in the Health Information

Resource Center category for the Hoosier Health Plan member handbook and the 24-hour nurse triage postcard.

- Winner of two Meritorious Awards for Best Practices from the Ohio Association of Health Plans. One in the area of community outreach and partnership for our Consumer Council forum and one for business and operational performance for the Medical Management electronic fax program.

- Named finalist for *HealthLeaders* Top Leadership Teams award for management of CCM.
- CareSource Ohio named the seventh-largest Medicaid managed care plan in the country by InterStudy, a leading researcher and publisher for the health care industry.
- Featured in the *Innovations in Medicaid Managed Care* report by "America's Health Insurance Plans" for creating programs that improve the health of their members while providing value

to state governments through innovative and cost-effective programs.

- Winner of the Pinnacle Award for contributions to the United Way of the Greater Dayton area for the second straight year.

## VISION

We will be an innovative national leader in the management of quality public-sector health care programs.

## MISSION

Making a difference in the lives of underserved people by improving their health care

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