

Why



Why?

"Making our communities healthy." That's why.

For many years now, all of us at Fallon Community Health Plan have been guided by our simply stated mission statement: "Making our communities healthy." It defines what we stand for and why we exist as a company.

Not all companies have a "why." Ours does, and that's important to us and, we hope, to the customers and communities we serve. While we're proud of the many differentiators we have in the marketplace, having a clear mission—and staying true to that mission—puts us head and shoulders above the rest.

During the past year, our mission became an even greater source of inspiration to us. Every challenge we faced, every obstacle in our path was no match for our commitment to our mission. It kept us focused, and, like a bright star on the horizon, guided us through a year that would have tested the resolve of any organization. We remembered and understood why we do what we do, and how important it was to those we serve that we act with integrity, passion and an appetite for achieving results.

And, with a brave resiliency, we achieved results.

- We finished 2010 in a much stronger financial position than forecasted. And we're getting stronger by the day. The proof? Our healthy bottom line for the first quarter of 2011: an operating income of \$8 million and a net income of \$10.2 million. These favorable results are due, in large part, to the successful efforts of our employees to remain focused on our business goals and disciplined at achieving greater cost-efficiencies.
- For the second consecutive year, Fallon Community Health Plan was the only health plan in America to be ranked in the top 10 in all products by the National Committee for Quality Assurance.
- Summit ElderCare®, our Program of All-inclusive Care for the Elderly (PACE), grew to become the largest PACE organization in New England. We're proud of our PACE program, which provides comprehensive, coordinated care to frail elders. It's just one of the ways in which FCHP is taking the lead in addressing the unique, changing and often specialized health care needs of a growing and influential senior population.



- We completed the upgrade of our core business system—a lengthy and complex process, to be sure, but one that has given us a much improved platform which will provide greater administrative efficiencies to us and our customers. It also will help us be more competitive and responsive in what's become an extraordinarily dynamic business, regulatory and competitive marketplace environment.
- The cost of health care remained an area of keen focus for us. In the Commonwealth and the country, 2010 saw continued debate and discussion about how to reduce costs in the health care system. The rising, unsustainable cost of care has a significant impact on businesses, families, taxpayers and communities. We believe the path to providing access to high-quality, affordable health care starts with collaboration, shared responsibility, and relying on market-based solutions to provide choices, achieve results and create a more sustainable system.
- To take the lead in heading down that path, we persisted in our commitment to our successful Cost of Care Program, a company-wide effort we launched in 2009. Through the program, a team is working together at FCHP, as well as in collaboration with our



provider partners, to identify and implement innovative, common-sense approaches that improve the quality and cost-effectiveness of care.

- While we worked all year to rein in the cost of care, we never once lost sight of the fact that the vast majority of our members' premium dollar is spent directly on the care and services they receive from hospitals, physicians and other health care providers. FCHP has built a reputation for being a responsible steward of the premiums paid by our customers—a responsibility that is even more important today, given the economic recession and focus on health care costs.
- We also applied an equally rigorous focus to how we manage our day-to-day expenses. Like so many of our customers and business partners, we tightened our belts even more. As a result, FCHP continued to have among the lowest administrative costs of all health plans in the country.
- We furthered our commitment to our mission by continuing our strong tradition of supporting the communities we serve. In 2010, FCHP contributed more than \$1 million through sponsorships, grants and in-kind donations to support many community-based events, activities, agencies and organizations that are working to improve the health and well-being of residents across the Commonwealth. Included was the more than \$170,000 we raised and donated to hunger relief programs and food pantries across the state.

As we confidently face the future, our mission will serve us well in our quest for continued growth and financial stability. It will continue to guide us as we partner with others throughout our communities, to ensure our members have access to high-quality, affordable health care. It will fuel our aspirations to provide extraordinary innovation, quality, and health care solutions.

David W. Hillis
Chairman, FCHP Board of Directors

W. Patrick Hughes
President and Chief Executive Officer

**"We're getting stronger by the day. ...
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“He who has a **why** to live can bear almost any how.”

– Friedrich Nietzsche

Mission

Making our communities healthy.

Vision

Extraordinary innovation, quality, health care.

Values

The FCHP way: We focus on our members, supporting them in being as healthy as they can be at a cost they can reasonably afford.

Member-driven: We support our members in a caring and compassionate way, advocating for them as they navigate through the complexities of the health care system, and exceeding their expectations for service.

Innovative: We anticipate evolving health care needs and create innovative, common sense solutions.

Accountable: We set high standards for ourselves focused on our strategic priorities, and we hold ourselves accountable for achieving high-quality results with integrity.

Teamwork: We win as a team and perform the best when we work together collaboratively.



Why be innovative and agile?

Because it's the only way to respond to a dynamic health care environment **and** the needs of your customers. It's also in our DNA. A look at the key health care reform activities in 2010 is proof that FCHP's history of innovation and agility means we are—and will continue to be—best positioned to anticipate and respond to the waves of change rolling through the health care system.

- A pioneer in developing high-performing, cost-effective provider networks, FCHP introduced Massachusetts businesses to the Commonwealth's first limited network in 2002. Today, as other health plans begin the work of developing limited networks to comply with new state legislation, FCHP's innovative, well-established, cost-saving product continues to grow and exceed customer expectations for service and quality of care.
- In 2005, years before it was federally mandated, FCHP made preventive care a priority by being the first health plan in the state (and one of the first in the country) to eliminate copayments for routine and well-child care. Investing in prevention and wellness today saves on health care costs tomorrow.
- More than 30 years ago, FCHP began partnering with providers to establish payment arrangements that put patient care first. Today, as stakeholders in the health care system look for different reimbursement models that will lead to reduced costs and better outcomes, nearly 50% of our network providers provide high-quality care to our members under a global payment arrangement.

Why respond to the needs of seniors?

Our country's aging population is growing in numbers, diversity, and demand for more customized health care services. As the complexity of their health care, and therefore cost of care, increases, they are at even greater risk to delay or simply not seek the care they need, when they need it. Fallon Community Health Plan's strong brand reputation and expertise in the senior market uniquely positions us to anticipate and respond to the health care needs of this growing and potentially vulnerable population. FCHP's solutions are focused on providing access to and delivering coordinated care. Based on our decades-long experience, we know that coordinated care is highly effective in increasing quality, reducing or eliminating fragmentation and decreasing costs.

- FCHP was the first health plan in America to have a Medicare HMO product. Our 2010 national rankings by the National Committee for Quality Assurance as the third-highest-ranked Medicare HMO in the country and the highest-ranked in Massachusetts demonstrate our continued commitment to the value and quality of our Medicare Advantage product.
- FCHP is the only health plan in America with a Program of All-Inclusive Care for the Elderly (PACE). In 2010, our PACE organization, called Summit ElderCare, became the largest PACE in New England. Summit ElderCare provides comprehensive medical care and services to frail elders, helping to keep them out of nursing homes and living independently in their homes and communities.
- Through NaviCare HMO, FCHP's Senior Care Options (SCO) program, we're broadening accessibility to coordinated care for some of Massachusetts' most vulnerable residents. Enrollment in NaviCare HMO accelerated in 2010, so that it is now the second-largest SCO program in Worcester County.





Why care about cost and quality?

The vast majority of our members' premium dollar—about 90 cents—is spent on the medical care and services they receive. Which means it's our responsibility to care about cost and quality. Making sure we work to reduce costs in meaningful ways without compromising quality or service is our passion.

- We advocate for and support our members through the complexities of the health care system, using evidence-based criteria to ensure they receive the right care, at the right time, and in the right setting.
- We optimize the cost of health care by integrating and aligning initiatives across major areas, such as fraud and abuse, utilization of services and benefit design. Our focus is on eliminating or minimizing duplicative, unnecessary, or inappropriate care while supporting those initiatives and activities that improve the quality of care.
- Several Cost of Care initiatives we put into action during 2010 have significantly improved the quality of our members' experience, while also providing important cost savings. One example is benefit changes made for prescription medications used to treat heartburn, which gave our members easier access to equally effective and safe, yet far less expensive, over-the-counter versions. As a result, 75% of members previously using prescription versions are now using an over-the-counter version, saving them an average of \$500 a year.





Why build partnerships?

By definition, partnerships are about relationships. And there's no more important relationship in health care than the one between patient and physician. We respect that, which is why we continue to seek innovative, collaborative ways to support those relationships. Partnerships work best when there's listening, give and take, shared responsibility and aligned incentives. The end result? Better solutions that improve health outcomes and quality, drive down costs, and provide choices to our members. Building partnerships means building a better health care system.

- Our continuously highly ranked national quality scores are a reflection of the work we do, in partnership with physicians, to build financial incentives that promote and reward the achievement of high levels of clinical and service quality.
- During 2010, our partnerships with local physicians resulted in new programs, or improvements to existing ones, that enhanced the delivery of care to patients. One example is our award-winning Home Run Program, a collaboration with local health care providers. Working together, we're improving the functional status and quality of life—as well as reducing the cost of care—of frail, homebound Medicare Advantage members.
- When done the right way, product and benefit design provide solutions that drive down costs—for members and for businesses—while also improving the quality of care. What's the right way? Partnering with those directly impacted—the local physicians and hospitals that provide care and the local employers looking for affordable, high-quality health care for their employees. It's the approach FCHP took during 2010 by developing an exclusive provider option using a tiered network driven by provider efficiency and quality. Our "Advantage" product is redesigning the way care is provided and helping reduce costs by keeping a local focus on the delivery and management of care.

Fallon Community Health Plan, Inc., and Subsidiaries Consolidated Statements of Financial Position

	As of December 31,		
	2010	2009	2008
	(in thousands)		
Assets			
Cash and investments	\$269,462	\$247,174	\$258,339
Premiums and other receivables	34,045	23,542	20,054
Property and equipment, net	36,457	38,659	22,144
Investment in joint venture	2,233	2,183	2,131
Goodwill	0	2,674	2,537
Prepaid expenses	1,878	1,716	2,093
Total assets	\$344,075	\$315,948	\$307,298
Liabilities and net assets			
Medical claims payable	\$167,716	\$128,150	\$107,293
Unearned premiums	15,171	9,914	12,206
Account payable and accrued expenses	26,376	25,166	28,084
Long-term debt	0	12,500	15,000
Total liabilities	209,263	175,730	162,583
Net assets	134,812	140,218	144,715
Total liabilities and net assets	\$344,075	\$315,948	\$307,298

Fallon Community Health Plan, Inc., and Subsidiaries Consolidated Statements of Income and Changes in Net Assets

	Year ended December 31,		
	2010	2009	2008
	(in thousands)		
Revenues			
Premiums	\$1,130,382	\$1,104,606	1,015,526
Investment income	19,368	8,644	4,644
Other income	319	300	165
Total revenues	<u>1,150,069</u>	<u>1,113,550</u>	<u>1,020,335</u>
Expenses			
Cost of benefits provided	1,046,365	1,042,189	920,656
General and administrative	112,510	100,546	93,828
Total expenses	<u>1,158,875</u>	<u>1,142,735</u>	<u>1,014,484</u>
Net gain (loss)	(8,806)	(29,185)	5,851
Unrealized gain (loss) on investments	4,336	22,523	(30,055)
Change in pension plan funded status	(936)	2,165	(6,137)
Decrease in net assets	<u>(5,406)</u>	<u>(4,497)</u>	<u>(30,341)</u>
Net assets at beginning of year	<u>140,218</u>	<u>144,715</u>	<u>175,056</u>
Net assets at end of year	<u>\$134,812</u>	<u>\$140,218</u>	<u>\$144,715</u>

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NCQA is a private, non-profit organization dedicated to improving health care quality.

