

Provider Bulletin

Molina Healthcare of California

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March 28, 2025

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Medical Loss Ratio Requirements for Subcontractors and Downstream Subcontractors – APL 24-018

This is an advisory notification to Molina Healthcare of California (MHC) network providers applicable to the Medi-Cal line of business.

What you need to know:

BACKGROUND

Federal regulations require states to mandate Managed Care Plans (MCPs) to annually calculate and report a Medical Loss Ratio (MLR) in compliance with 42 CFR 438.8. States can require MCPs to remit payments if they do not meet a minimum MLR standard of 85%. California's Welfare and Institutions Code (W&I) section 14197.2 sets this MLR minimum at 85%, with a remittance requirement for MCPs (excluding Dental MCPs) starting in the 2024 rating period. The California Advancing & Innovating Medi-Cal (CalAIM) Section 1915(b) waiver, approved in December 2021, introduced new MLR reporting and remittance rules, increasing oversight of Subcontractor arrangements, including those involving Downstream Subcontractors.

POLICY

Effective January 1, 2023, MHC will impose MLR reporting requirements equivalent to the requirements in 42 CFR section 438.8(k) on their applicable Subcontractors and Downstream Subcontractors. No sooner than January 1, 2025, MHC will impose MLR remittance requirements equivalent to the requirements in 42 CFR section 438.8(j) on their applicable Subcontractors and Downstream Subcontractors.

Scope

MHC will use the framework to identify the Subcontractors and Downstream Subcontractors that are subject to the MLR reporting and remittance requirements as outlined in STC A1 (Refer to the complete APL for Table 1, which lists Entities Subject to STC A11.) Applicable Subcontractors are Subcontractors or Downstream Subcontractors that enter into a Subcontractor agreement with, and consequently assume financial risk from, MHC or its Subcontractors and Downstream Subcontractors and receive payment that relates directly or indirectly to the performance of MHC's obligations under the Contract.

Provider Action

This notification is based on All-Plan Letter (APL) 24-018, which can be found in full on the Department of Health Care Services (DHCS) website at:

dhcs.ca.gov/formsandpubs/Documents/MMCDAPLsandPolicyLetters/APL%202024/APL24-018.pdf



POLICY CONT.

Materiality Threshold

MHC will follow a materiality threshold set by DHCS to determine whether Subcontractor or Downstream Subcontractor Agreements are subject to MLR reporting and remittance requirements. For the 2023 MLR reporting year, Subcontractors receiving \$30 million or more in Medi-Cal capitation annually from a single upstream entity will be subject to these requirements. Subcontractors below this threshold will not be required to report unless specified by DHCS.

Four-Part Test

States have the option to adopt the Four-Part Test to determine whether payments to Subcontractors or Downstream Subcontractors count as incurred claims or are excluded as administrative costs under 42 CFR 438.8. DHCS will apply the Four-Part Test for the 2023 and 2024 MLR reporting years, but payments to Subcontractor Plans will not be viewed through this lens since they are not clinical risk-bearing entities. The Four-Part Test considers payments as incurred claims if the Subcontractor bears financial risk, provides clinical services, and coordinates care through an integrated system. Starting with the 2025 MLR reporting year, DHCS will no longer use the Four-Part Test and will instead follow the 2019 CIB guidelines for determining incurred claims.

Newer Experience

MHC can exempt a newly contracted Subcontractor or Downstream Subcontractor from MLR reporting requirements during their first year of operation. This exemption applies only to the first MLR reporting year that overlaps with the Subcontractor's first year, regardless of the duration. Starting with the 2023 MLR reporting year, MHC will report exempted Subcontractors to DHCS by the end of the third quarter. DHCS can reverse any exemption if necessary, and MHC will comply with any changes, including submitting or amending MLR reports as required. Additionally, MHC will identify all Subcontractors and Downstream Subcontractors in their MLR submission, regardless of their reporting requirement.

Flow of Reporting and Remittance

MHC will ensure that our Subcontractors and Downstream Subcontractors report an MLR at the agreement level, broken down by county or rating region, to their upstream entity, as DHCS will not accept direct submissions. These reports will include relevant revenues, expenses, and membership data specific to services the Subcontractors are at risk for but do not directly provide. MHC will also require Subcontractors involved in claims adjudication to provide supporting data within 180 days of the reporting year's end or within 30 days of request. Starting with the 2025 MLR reporting year, MHC will impose remittance requirements on Subcontractors and Downstream Subcontractors if their MLR does not meet the 85% standard, and the remittance must be accounted for in the upstream entity's MLR report as a reduction to expenditures.

Credibility Adjustment

Subcontractors and Downstream Subcontractors may apply credibility adjustment factors in their MLR reporting, as per 42 CFR sections 438.8(h) and (k)(1)(viii). MHC will require non-credible Subcontractors that meet the materiality threshold to submit an MLR report, and DHCS will notify any changes to these adjustment factors through an APL or similar instruction.

If you are not contracted with Molina and your fax number is not shared with a contracted provider, and you wish to opt out of receiving the MHC Provider Bulletin, please email mhcproviderbulletin@molinahealthcare.com.

Please include the provider's name, NPI, county, and fax number, and you will be removed within 30 days.

What if you need assistance?

If you have any questions regarding the notification, please contact your Molina Provider Relations Representative below.

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