Department of Health Care Services
Proposed Trailer Bill Language

Medi-Cal Managed Care Plans Medical Loss Ratio Increase

FACT SHEET

Issue Title: Medi-Cal Managed Care Plans Medical Loss Ratio Increase. The Department of Health Care Services (DHCS) proposes to: 1) increase the minimum medical loss ratio (MLR) that Medi-Cal managed care plans (MCPs) are required to achieve from 85 percent to 90 percent; and 2) transfer the State's share of the remitted amounts to the General Fund instead the Medi-Cal Loan Repayment Program Special Fund for MLR for reporting years commencing on or after January 1, 2026.

Background: Federal regulations require DHCS to ensure, through its contracts with MCPs, that each MCP reports an MLR annually in accordance with federal regulations (Title 42 Code of Federal Regulations (CFR) section 438.8). In simplified terms, the MLR is the ratio of an MCP's medical spend, including but not limited to provider payments and expenditures for activities that improve health care quality, for Medi-Cal members to the MCP's Medi-Cal revenues. Federal regulations permit California to require MCPs to provide a remittance for an MLR reporting year if the MCP's MLR for that MLR reporting year does not meet a minimum MLR standard of 85 percent or a higher standard set by the state (Title 42 CFR section 438.8(j)).

Existing state law requires MCPs to achieve a minimum MLR of 85 percent in each MLR reporting year, and to provide a remittance for an MLR reporting year if the MCP's MLR does not meet the minimum MLR standard (Welfare & Institutions (W&I) Code section 14197.2). Existing law requires DHCS determine and return the federal share of the remitted amount and specifies that the State's share of the remitted amounts be transferred to the Medi-Cal Loan Repayment Program Special Fund for the purposes of the Medi-Cal Physicians and Dentists Loan Repayment Program (W&I Code section 14114). The Medi-Cal Loan Repayment Program Special Fund also receives annual revenues from the Electronic Cigarette Excise Tax enacted by SB 395 (Chapter 489, Statutes of 2021). Existing law allocates 48 percent of SB 395 revenues to support the Medi-Cal Physician and Dentists Loan Repayment Program (RTC Code section 31005).

Justification for Change: To address the State's budget shortfall DHCS is proposing trailer bill language that would:

- Increase the minimum MLR standard from 85 to 90 percent effective for MLR reporting years commencing on or after January 1, 2026. (W&I Code section 14197.2(b)(2))

- If an MCP's MLR for an MLR reporting year commencing on or after January 1, 2026, does not meet the minimum MLR standard of 90 percent, then the MCP will be required to provide a remittance for that MLR reporting year. The remittance requirement for reporting years prior to January 1, 2026, for the existing minimum MLR standard of 85 percent remains. (W&I Code section 14197.2(c)).

- Transfer the State's share of the remitted amounts to the General Fund instead the Medi-Cal Loan Repayment Program Special Fund for MLR reporting years commencing on or after January 1, 2026 (W&I Code section 14197.2(c)(3)).

- Authorize DHCS to reduce the minimum MLR, to the extent necessary to ensure that any federal approvals of MCP contracts and rates are obtained. DHCS would be required to notify the Department of Finance, the applicable fiscal and policy committees of the Legislature, and affected MCPs (W&I Code section 14197.2(g)).

Summary of Arguments in Support:
- The proposal addresses the budget shortfall.

Estimate Issue # and Title: 4260-369-ECP-2025-MR, Medi-Cal Managed Care Plans Medical Loss Ratio Increase