Policy:	FF.3003
Title:	**Minimum Medical Loss Ratio**
Department:	Finance
Section:	Not Applicable
CEO Approval:	*/s/ Michael Hunn 12/20/2024*
Effective Date:	01/01/2003
Revised Date:	12/01/2024
Applicable to:	☒ Medi-Cal ☒ OneCare ☐ PACE ☐ Administrative

I. PURPOSE

This policy defines the minimum acceptable Health Network Medical Loss Ratio (MLR) included as part of a Health Network's participation requirement and as required by the Department of Health Care Services (DHCS) for a Medi-Cal Managed Care Plan's Subcontractors and Downstream Subcontractors.

II. POLICY

A. A Health Network shall maintain a minimum MLR, as defined herein, throughout the term of its Health Network Contract.

1. A Health Network shall be required to submit evidence of maintenance of the minimum MLR as described in Section III.F. of this policy, regardless of DHCS reporting requirements.

B. A Health Network that fails to comply with the minimum MLR as described in this policy may be subject to penalties and Sanctions, up to and including termination, pursuant to its Health Network Contract, and CalOptima Health Policy HH.2002: Sanctions.

C. A Health Network must ensure that its Subcontractor(s) and Downstream Subcontractor(s) subject to DHCS MLR requirements comply with CalOptima Health policies regarding MLR, including this policy, and DHCS policy letters.

III. PROCEDURE

A. Throughout the term of its Health Network Contract, a Health Network shall maintain a minimum MLR of no less than eighty-five percent (85%) in each calendar year (CY). CalOptima Health shall measure a Health Network's MLR performance for each CY.

B. Effective CY 2023, Fully Delegated Subcontractors, Partially Delegated Subcontractors, Downstream Fully Delegated Subcontractors, and Downstream Partially Delegated Subcontractors, subject to the DHCS imposed materiality threshold, are required to comply with equivalent MLR reporting responsibilities.

C. Effective CY 2025, Fully Delegated Subcontractors, Partially Delegated Subcontractors, Downstream Fully Delegated Subcontractors, and Downstream Partially Delegated Subcontractors, subject to the DHCS imposed materiality threshold, are required to comply with equivalent MLR remittance responsibilities.

D. CalOptima Health and DHCS reserves the right to measure a Health Network's MLR using a different measurement period other than a calendar year.

E. The minimum MLR shall apply to the Health Network's contracts for CalOptima Health Medi-Cal and OneCare Members, on an individual basis.

F. A Health Network shall utilize the most current DHCS Special Terms and Conditions (STC) Annual Medi-Cal MLR Reporting Template for Medi-Cal and Annual Financial Reporting Form (AFRF) for OneCare, provided by CalOptima Health, to report its MLR within one hundred fifty (150) calendar days after the close of each CY, in accordance with CalOptima Health Policy FF.3001: Financial Reporting. For Medi-Cal, a Health Maintenance Organization (HMO) shall report its MLR on a consolidated physician and hospital basis. For OneCare, a Physician Hospital Consortium (PHC) and HMO shall report its MLR on a consolidated physician and hospital basis.

G. A Health Network shall prepare its financial documentation in accordance with generally accepted accounting principles (GAAP) and on an accrual basis of accounting.

H. A Health Network shall cooperate with CalOptima Health or its contracted vendor to complete a review of documentation supporting its MLR following submission of the final MLR reports for the CY.

I. Medi-Cal Requirements Based on DHCS MLR Requirements

1. Materiality threshold for MLR reporting and remittance. Health Networks that meet a materiality threshold, as established by DHCS, must comply with DHCS MLR reporting and remittance requirements. Health Networks that do not meet the DHCS-established materiality threshold may be required to submit an MLR report at DHCS' discretion.

2. MLR reporting and remittance exemption. CalOptima may exempt a newly contracted Health Network from the DHCS MLR reporting requirements in the first year of the Health Network's operation under its contract with CalOptima Health CalOptima will report any MLR reporting exemption that it grants to DHCS. If DHCS or CalOptima Health reverses an MLR reporting exemption, the Health Network must comply with all applicable MLR reporting and remittance requirements.

3. MLR reporting. The MLR report must comply with applicable DHCS requirements and be submitted to CalOptima Health as outlined in CalOptima Health Policy FF.3001: Financial Reporting.

4. MLR reporting oversight. Health Network shall comply with CalOptima Health's oversight and monitoring activities related to the Health Network's MLR, that could include but are not limited to:

    a. Review of each Health Network's MLR and reported medical cost per Member per month to identify and investigate outliers;

    b. Review of reported expenses to ensure medical and non-medical expenses are appropriately accounted for in the MLR calculation;

    c. Verification that reported expenses align with service volume reported in encounters;

d. Verification that reported revenues align with the upstream entities' reported payments;

e. Review of the reasonableness of methodologies for allocation of expenditures across multiple lines of business; and

f. Review of the reasonableness of incurred but not reported (IBNR) estimates.

5. Retroactive MLR reporting: If DHCS makes retroactive changes to CalOptima Health's capitation payments for an MLR measurement period and the Health Network has already submitted its MLR report to CalOptima, the Health Network must re-calculate the MLR for all MLR measurement periods affected by the change and submit a new MLR report to CalOptima Health. Health Networks must comply with any requirements and limitations on re-reporting and ad-hoc MLR reporting, as may be determined by DHCS. Health Network will not be required to re-report its MLR to CalOptima Health more than once for any MLR measurement period without DHCS approval.

6. Remittance: Effective CY 2025, if the Health Network's MLR reported to CalOptima Health for an MLR measurement period falls below the minimum requirement of eighty-five percent (85%), the Health Network must provide a remittance to CalOptima Health. CalOptima Health will validate the Health Network's reported remittance amount owed to CalOptima Health for each MLR measurement period.

7. Subcontractor compliance: Health Network must impose the DHCS MLR requirements detailed in this policy on its Subcontractors and Downstream Subcontractors that meet DHCS materiality thresholds and accept financial risk to perform activities or reporting responsibilities delegated to Health Network by CalOptima. At minimum, Health Network must ensure that its Subcontractors and Downstream Subcontractors:

   a. Maintain a minimum MLR level of eighty-five percent (85%);

   b. Submit MLR reports upstream to Health Network in compliance with this policy and DHCS requirements;

   c. Comply with Health Network's MLR oversight and monitoring activities;

   d. Submit remittances to Health Network; and

   e. Comply with retroactive MLR reporting, as applicable.

II. ATTACHMENT(S)

Not Applicable

III. REFERENCE(S)

A. CalOptima Health Contract with the Department of Health Care Services (DHCS) for Medi-Cal
B. CalOptima Health Policy FF.3001: Financial Reporting
C. CalOptima Health Policy HH.2002: Sanctions
D. Health Network Contract
E. Title 42, Code of Federal Regulations (CFR), Section 438.8

IV. REGULATORY AGENCY APPROVAL(S)

Date	Regulatory Agency	Response
03/03/2015	Department of Health Care Services (DHCS)	Approved as Submitted
06/26/2023	Department of Health Care Services (DHCS)	Approved as Submitted

V. BOARD ACTION(S)

Date	Meeting
05/07/2002	Regular Meeting of the CalOptima Board of Directors

VI. REVISION HISTORY

Action	Date	Policy	Policy Title	Program(s)
Effective	01/01/2003	FF.3003	Minimum Medical Loss Ratio	Medi-Cal
Revised	05/22/2003	FF.3003	Minimum Medical Loss Ratio	Medi-Cal
Revised	01/01/2004	FF.3003	Minimum Medical Loss Ratio	Medi-Cal
Revised	01/01/2007	FF.3003	Minimum Medical Loss Ratio	Medi-Cal
Revised	09/01/2014	FF.3003	Minimum Medical Loss Ratio	Medi-Cal
Revised	07/01/2016	FF.3003	Minimum Medical Loss Ratio	Medi-Cal OneCare Connect
Revised	12/01/2017	FF.3003	Minimum Medical Loss Ratio	Medi-Cal OneCare Connect
Revised	12/01/2018	FF.3003	Minimum Medical Loss Ratio	Medi-Cal OneCare Connect
Revised	10/01/2019	FF.3003	Minimum Medical Loss Ratio	Medi-Cal OneCare Connect
Revised	06/01/2020	FF.3003	Minimum Medical Loss Ratio	Medi-Cal OneCare Connect
Revised	09/01/2023	FF.3003	Minimum Medical Loss Ratio	Medi-Cal OneCare
Revised	12/01/2024	FF.3003	Minimum Medical Loss Ratio	Medi-Cal OneCare

VII. GLOSSARY

Term	Definition
Downstream Subcontractor	An individual or an entity that has a Downstream Subcontractor Agreement with a Subcontractor or Downstream Subcontractor. A Network Provider is not a Downstream Subcontractor solely because it enters into a Network Provider Agreement.
Downstream Subcontractor Agreement	For purposes of this policy, a written agreement between a Subcontractor and a Downstream Subcontractor or between any Downstream Subcontractors. The Downstream Subcontractor Agreement must include a delegation of CalOptima Health's and Subcontractor's duties and obligations.
Fully Delegated Subcontractor	A Subcontractor that contractually assumes all duties and obligations of CalOptima Health under the Contract, except for those contractual duties and obligations where delegation is legally or contractually prohibited. A managed care plan can operate as a Fully Delegated Subcontractor.
Health Maintenance Organization (HMO)	A health care service plan, as defined in the Knox-Keene Health Care Service Plan Act of 1975, as amended commencing with Section 1340 of the California Health and Safety Code.
Health Network	For the purposes of this policy, a physician group under a Physician Hospital Consortium (PHC) contract, a hospital under a PHC contract, physician group under a shared risk contract, or health care service plan, such as a Health Maintenance Organization (HMO) that contracts with CalOptima Health to provide Covered Services to Members assigned to that Health Network, either directly or through the use of subcontractors and downstream subcontractors that may be subject to the terms of this policy.
Health Network Contract	For purposes of this policy, the applicable written instrument between CalOptima and a Health Network, for the purposes of providing delegated services to assigned Members. Health Network Contracts include the Contract for Health Care Services and the Medicare Advantage Service Agreement, including any and all amendments thereto.
Medical Loss Ratio (MLR)	The percentage calculated by dividing the Health Network's total medical costs paid on behalf of CalOptima Health Members by the total revenue received from CalOptima Health. Health Network medical costs would include incurred claims, expenditures for activities that improve healthcare quality, and fraud reduction activities.
Member	A beneficiary enrolled in a CalOptima Health program.
Network Provider	Any Provider or entity that has a Network Provider Agreement with CalOptima Health or CalOptima Health's Subcontractor(s) and receives Medi-Cal funding directly or indirectly to order refer or render Covered Services under the contract between said parties. A Network Provider is not a Subcontractor by virtue of the Network Provider Agreement.
Network Provider Agreement	A written agreement between a Network Provider and contractor, Subcontractor, or Downstream Subcontractor.

Term	Definition
Partially Delegated Subcontractor	A Subcontractor that contractually assumes some, but not all, duties and obligations of CalOptima Health under the Contract, including, for example, obligations regarding specific Member populations or obligations regarding a specific set of services. Individual physician associations and medical groups often operate as Partially Delegated Subcontractors.
Physician Hospital Consortium (PHC)	A physician group or physician groups contractually aligned with at least one (1) hospital to provide Medi-Cal services to a common set of assigned Members, as described in CalOptima Health's Contract for Health Care Services.
Sanction	Action taken by CalOptima Health including, without limitations, restrictions, monetary fines, termination or a combination thereof, based on a Health Network's or its delegate's, subcontractor's, or any Health Network partner's failure to comply with statutory, regulatory, contractual, CalOptima Health policy, or other requirements related to the CalOptima Health Medi-Cal program.
Subcontractor	An individual or entity that has a Subcontractor Agreement with contractor that relates directly or indirectly to the performance of contractor's obligations under this contract. A Network Provider is not a Subcontractor solely because it enters into a Network Provider Agreement.
Subcontractor Agreement	For the purposes of this policy, a written agreement between CalOptima Health or CalOptima Health's Subcontractor and a Subcontractor. The Subcontractor Agreement must include a delegation of CalOptima Health's duties and obligations.