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U.S. v. Inland Empire Health Plan Will Be Major Test for DOJ's FCA Theory based on Expenditure of Medicaid Adult Expansion Funds

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After securing a number of settlements with California healthcare plans and providers in recent years related to the expenditure of Medicaid Adult Expansion funds, the United States faces a pivotal test of its theory under the False Claims Act in federal court later this month. In *United States v. Inland Empire Health Plan* (C.D. Cal. (9/17/25), Case No. 5:25-cv-02444) (complaint available at www.justice.gov/opa/media/1414371/dl), the United States alleges that Inland Empire Health Plan (IEHP), a county-based non-profit health plan in Southern California, violated the False Claims Act (FCA) by knowingly retaining excess funds it received under the Affordable Care Act's provisions expanding Medicaid coverage for low income adults.

Pursuant to IEHP's contract with the California Department of Healthcare Services (DHCS), the agency which oversees California's Medicaid program, IEHP was required to spend at least 85% of Adult Expansion funding on "allowed medical expenses," with the remaining 15% intended to cover overhead and administrative expenses. Under this "Medical Loss Ratio" arrangement, IEHP was required to return any portion of the 85% of Adult Expansion funds not spent on allowed medical expenses to DHCS, which would then return those funds to the United States. The lawsuit alleges that between 2014 and 2016, rather than returning surplus Adult Expansion funds to DHCS, IEHP engaged in a scheme to improperly retain those funds through a number of unlawful mechanisms, including creating sham incentive payments and retroactive rate increases to providers, and using funds for purposes that did not qualify as "allowed medical expenses."

The FCA theory advanced by the United States in *IEHP* is similar to that employed against two other county-based health plans (and several contracted providers) in California in recent years, which resulted in substantial recoveries for the government. In 2022, the U.S. Department of Justice and the State of California secured $70.7 million in settlements with Gold Coast Health Plan and three healthcare providers in the Ventura County area, and $22.5 million in settlements with three healthcare providers in Santa Barbara and San Luis Obispo Counties. In 2023, the U.S. and California secured a total of $68 million in settlements with CenCal Health, a county-organized health system, and three healthcare providers that contracted with CenCal. In all these cases, the central allegations were that the defendants improperly obtained or retained Adult Expansion funds.

Although the FCA theory in IEHP is similar to the FCA theory in prior cases, this case is unique in a number of ways. First is scope; the U.S alleges that IEHP wrongfully retained at least $320 million in federal funding. This amount is more than double the total recovery in all the 2022 and 2023 settlements mentioned above, *before* factoring in treble damages and other penalties available under the False Claims Act.

Second, and importantly, the State of California is not a party to this lawsuit. This is significant because the United States' central theory of liability is that IEHP violated its contract with DHCS, a state agency, by manipulating its expenses to meet the 85% Medical Loss Ratio threshold and avoid returning excess funds to the state. As IEHP pointed out in its motion to dismiss, California is "conspicuously absent" from this lawsuit, which alleges fraud in the first instance against the state's Medi-Cal program. IEHP argues that DHCS had actual or constructive knowledge of IEHP's expenditures of Adult Expansion funds throughout the relevant time period and never objected or sought repayment from IEHP. Thus, IEHP argues that its actions could not have been "material" to the government's payment decision, a required element of an FCA claim. The state's absence will be a critical factor throughout this case, including at this first dispositive motion stage.

Finally, this case is unique for the simple reason that it has progressed to active litigation where the government's theories will be tested, beginning with IEHP's motion to dismiss, currently set for hearing on January 26. In addition to its arguments on materiality, IEHP asserts that the dismissal is warranted on multiple grounds, including failure to plead fraud with particularity, failure to allege specific legal requirements governing the alleged misconduct, and failure to properly allege IEHP's knowledge in the first years that the novel Adult Expansion program was being rolled out in California. If the District Court agrees with any of these arguments, it will have major implications for pending and future cases brought under a similar theory in California or elsewhere. Governments, industry, and FCA practitioners will be watching closely.

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