UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2022
OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ________ to ________
Commission file number: 001-31719

MOLINA HEALTHCARE, INC.
(Exact name of registrant as specified in its charter)

Delaware	**13-4204626**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
200 Oceangate, Suite 100	
Long Beach, California	**90802**
(Address of principal executive offices)	**(Zip Code)**

(562) 435-3666
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.001 Par Value	MOH	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☒ Accelerated Filer ☐ Non-Accelerated Filer ☐ Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares of the issuer's Common Stock, $0.001 par value, outstanding as of July 22, 2022, was approximately 58,100,000.

MOLINA HEALTHCARE, INC. FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2022

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CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(Dollars in millions, except per-share amounts) (Unaudited)			
Revenue:				
Premium revenue	$ 7,799	$ 6,583	$ 15,330	$ 12,889
Premium tax revenue	215	185	423	372
Investment income	22	10	33	19
Other revenue	18	22	38	42
Total revenue	8,054	6,800	15,824	13,322
Operating expenses:				
Medical care costs	6,872	5,819	13,435	11,293
General and administrative expenses	551	484	1,122	957
Premium tax expenses	215	185	423	372
Depreciation and amortization	44	31	84	64
Other	11	8	27	28
Total operating expenses	7,693	6,527	15,091	12,714
Operating income	361	273	733	608
Other expenses, net:				
Interest expense	27	30	55	60
Total other expenses, net	27	30	55	60
Income before income tax expense	334	243	678	548
Income tax expense	86	58	172	135
Net income	$ 248	$ 185	$ 506	$ 413
Net income per share - Basic	$ 4.29	$ 3.20	$ 8.74	$ 7.14
Net income per share - Diluted	$ 4.25	$ 3.16	$ 8.63	$ 7.05

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(In millions) (Unaudited)			
Net income	$ 248	$ 185	$ 506	$ 413
Other comprehensive loss:				
Unrealized investment (loss) gain	(62)	1	(162)	(14)
Less: effect of income taxes	(15)	1	(39)	(3)
Other comprehensive loss, net of tax	(47)	—	(123)	(11)
Comprehensive income	$ 201	$ 185	$ 383	$ 402

See accompanying notes.

CONSOLIDATED BALANCE SHEETS

	June 30, 2022	December 31, 2021
	(Dollars in millions, except per-share amounts)	
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,312	$ 4,438
Investments	3,567	3,202
Receivables	2,240	2,177
Prepaid expenses and other current assets	213	247
Total current assets	10,332	10,064
Property, equipment, and capitalized software, net	401	396
Goodwill, and intangible assets, net	1,286	1,252
Restricted investments	219	212
Deferred income taxes	141	106
Other assets	193	179
Total assets	$ 12,572	$ 12,209
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Medical claims and benefits payable	$ 3,775	$ 3,363
Amounts due government agencies	2,722	2,472
Accounts payable, accrued liabilities and other	715	842
Deferred revenue	13	370
Total current liabilities	7,225	7,047
Long-term debt	2,175	2,173
Finance lease liabilities	216	219
Other long-term liabilities	126	140
Total liabilities	9,742	9,579
Stockholders' equity:		
Common stock, $0.001 par value, 150 million shares authorized; outstanding: 58 million shares at June 30, 2022 and December 31, 2021	—	—
Preferred stock, $0.001 par value; 20 million shares authorized, no shares issued and outstanding	—	—
Additional paid-in capital	251	236
Accumulated other comprehensive loss	(128)	(5)
Retained earnings	2,707	2,399
Total stockholders' equity	2,830	2,630
Total liabilities and stockholders' equity	$ 12,572	$ 12,209

See accompanying notes.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
	Outstanding	Amount				
			(In millions) (Unaudited)			
Balance at December 31, 2021	58	$ —	$ 236	$ (5)	$ 2,399	$ 2,630
Net income	—	—	—	—	258	258
Other comprehensive loss, net	—	—	—	(76)	—	(76)
Share-based compensation	1	—	(18)	—	—	(18)
Balance at March 31, 2022	59	—	218	(81)	2,657	2,794
Net income	—	—	—	—	248	248
Common stock purchases	(1)	—	(2)	—	(198)	(200)
Other comprehensive loss, net	—	—	—	(47)	—	(47)
Share-based compensation	—	—	35	—	—	35
Balance at June 30, 2022	58	$ —	$ 251	$ (128)	$ 2,707	$ 2,830

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	Outstanding	Amount				
			(In millions) (Unaudited)			
Balance at December 31, 2020	59	$ —	$ 199	$ 37	$ 1,860	$ 2,096
Net income	—	—	—	—	228	228
Common stock purchases	(1)	—	(2)	—	(120)	(122)
Other comprehensive loss, net	—	—	—	(11)	—	(11)
Share-based compensation	—	—	(27)	—	—	(27)
Balance at March 31, 2021	58	—	170	26	1,968	2,164
Net income	—	—	—	—	185	185
Share-based compensation	—	—	21	—	—	21
Balance at June 30, 2021	58	$ —	$ 191	$ 26	$ 2,153	$ 2,370

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2022	2021
	(In millions) (Unaudited)	
Operating activities:		
Net income	$ 506	$ 413
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	84	64
Deferred income taxes	3	7
Share-based compensation	57	35
Other, net	(6)	10
Changes in operating assets and liabilities:		
Receivables	(43)	(192)
Prepaid expenses and other current assets	(64)	(6)
Medical claims and benefits payable	405	272
Amounts due government agencies	247	792
Accounts payable, accrued liabilities and other	(147)	(15)
Deferred revenue	(357)	(333)
Income taxes	46	14
Net cash provided by operating activities	731	1,061
Investing activities:		
Purchases of investments	(1,413)	(1,006)
Proceeds from sales and maturities of investments	879	622
Purchases of property, equipment and capitalized software	(50)	(29)
Other, net	(7)	5
Net cash used in investing activities	(591)	(408)
Financing activities:		
Common stock purchases	(200)	(128)
Common stock withheld to settle employee tax obligations	(53)	(52)
Contingent consideration liabilities settled	(20)	(20)
Other, net	5	—
Net cash used in financing activities	(268)	(200)
Net (decrease) increase in cash, cash equivalents, and restricted cash and cash equivalents	(128)	453
Cash, cash equivalents, and restricted cash and cash equivalents at beginning of period	4,506	4,223
Cash, cash equivalents, and restricted cash and cash equivalents at end of period	$ 4,378	$ 4,676

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

JUNE 30, 2022

1. Organization and Basis of Presentation

Organization and Operations

Molina Healthcare, Inc. provides managed healthcare services under the Medicaid and Medicare programs, and through the state insurance marketplaces (the “Marketplace”). We currently have four reportable segments consisting of: 1) Medicaid; 2) Medicare; 3) Marketplace; and 4) Other. Our reportable segments are consistent with how we currently manage the business and view the markets we serve.

As of June 30, 2022, we served approximately 5.1 million members eligible for government-sponsored healthcare programs, located across 19 states.

Our state Medicaid contracts typically have terms of three to five years, contain renewal options exercisable by the state Medicaid agency, and allow either the state or the health plan to terminate the contract with or without cause. Such contracts are subject to risk of loss in states that issue requests for proposal (“RFPs”) open to competitive bidding by other health plans. If one of our health plans is not a successful responsive bidder to a state RFP, its contract may not be renewed.

In addition to contract renewal, our state Medicaid contracts may be periodically amended to include or exclude certain health benefits (such as pharmacy services, behavioral health services, or long-term care services); populations such as the aged, blind or disabled (“ABD”); and regions or service areas.

Recent Developments

Wisconsin Acquisition — Medicaid and Medicare. On July 13, 2022, we announced a definitive agreement to acquire substantially all the assets of My Choice Wisconsin (“MCW”). As of May 2022, MCW served over 44,000 managed long-term services and supports and core Medicaid members throughout Wisconsin, delivering approximately $1 billion in premium revenue for the 12 months ended March 31, 2022. The purchase price for the transaction is approximately $150 million, net of expected tax benefits and required regulatory capital, which we intend to fund with cash on hand. The transaction is subject to receipt of applicable federal and state regulatory approvals, and the satisfaction of other customary closing conditions. We currently expect the transaction to close in 2022.

Texas Acquisition—Medicaid and Medicare. On January 1, 2022, we closed on our acquisition of Cigna Corporation’s Texas Medicaid and Medicare-Medicaid Plan (“MMP”) contracts, along with certain operating assets. See Note 4, “Business Combinations,” for further information.

New York Acquisition—Medicaid. On October 7, 2021, we announced a definitive agreement to acquire the Medicaid Managed Long Term Care business of AgeWell New York. The purchase price for the transaction is approximately $106 million, net of certain tax benefits and target allocation of required regulatory capital, which we intend to fund with cash on hand. The transaction is subject to applicable federal and state regulatory approvals and the satisfaction of other customary closing conditions. We currently expect the transaction to close in the fourth quarter of 2022.

California Procurement—Medicaid. In April 2022, we submitted our RFP response. We expect the award to be announced in early August 2022, with an effective date of January 2024.

Texas Procurement—Medicaid. In March 2022, the Texas Health and Human Services Commission posted the ABD program (known in Texas as STAR+PLUS) RFP, with awards estimated to be announced in the first quarter of 2023, and start of operations in February 2024.

Nevada Procurement—Medicaid. Our new contract in Clark and Washoe Counties commenced on January 1, 2022, and offers health coverage to TANF, CHIP and Medicaid Expansion beneficiaries. The four year contract with a possible two-year extension was ratified in September 2021.

Consolidation and Interim Financial Information

The consolidated financial statements include the accounts of Molina Healthcare, Inc., and its subsidiaries. In the opinion of management, these financial statements reflect all normal recurring adjustments, which are considered necessary for a fair presentation of the results as of the dates and for the interim periods presented have been included. All significant intercompany balances and transactions have been eliminated. The consolidated results of operations for the six months ended June 30, 2022 are not necessarily indicative of the results for the entire year ending December 31, 2022.

The unaudited consolidated interim financial statements have been prepared under the assumption that users of the interim financial data have either read or have access to our audited consolidated financial statements for the fiscal year ended December 31, 2021. Accordingly, certain disclosures that would substantially duplicate the disclosures contained in our December 31, 2021, audited consolidated financial statements have been omitted. These unaudited consolidated interim financial statements should be read in conjunction with our audited consolidated financial statements for the fiscal year ended December 31, 2021.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

2. Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term, highly liquid investments that are both readily convertible into known amounts of cash and have a maturity of three months or less on the date of purchase. The following table provides a reconciliation of cash and cash equivalents, and restricted cash and cash equivalents reported within the accompanying consolidated balance sheets that sum to the total of the same such amounts presented in the accompanying consolidated statements of cash flows. The restricted cash and cash equivalents presented below are included in "Restricted investments" in the accompanying consolidated balance sheets.

	June 30,	
	2022	**2021**
	(In millions)	
Cash and cash equivalents	$ 4,312	$ 4,608
Restricted cash and cash equivalents	66	68
Total cash, cash equivalents, and restricted cash and cash equivalents presented in the consolidated statements of cash flows	$ 4,378	$ 4,676

Receivables

Receivables consist primarily of premium amounts due from government agencies, which are subject to potential retroactive adjustments. Because substantially all of our receivable amounts are readily determinable and substantially all of our creditors are governmental authorities, our allowance for credit losses is insignificant. Any amounts determined to be uncollectible are charged to expense when such determination is made.

	June 30, 2022	**December 31, 2021**
	(In millions)	
Government receivables	$ 1,628	$ 1,566
Pharmacy rebate receivables	272	276
Other	340	335
Total	$ 2,240	$ 2,177

Premium Revenue Recognition and Amounts Due Government Agencies

Premium revenue is generated from our contracts with state and federal agencies, in connection with our participation in the Medicaid, Medicare, and Marketplace programs. Premium revenue is generally received based on per member per month ("PMPM") rates established in advance of the periods covered. These premium revenues are recognized in the month that members are entitled to receive healthcare services, and premiums collected in advance are deferred. State Medicaid programs and the federal Medicare program periodically adjust premium rates.

Certain components of premium revenue are subject to accounting estimates and are described in further detail below, and in our 2021 Annual Report on Form 10-K, Note 2, "Significant Accounting Policies," under "Contractual Provisions That May Adjust or Limit Revenue or Profit," and "Quality Incentives."

Contractual Provisions That May Adjust or Limit Revenue or Profit

Many of our contracts contain provisions that may adjust or limit revenue or profit, as described below. Consequently, we recognize premium revenue as it is earned under such provisions. Liabilities accrued for premiums to be returned under such provisions are reported in the aggregate as "Amounts due government agencies," in the accompanying consolidated balance sheets.

The following table sets forth amounts due government agencies, categorized by program:

	June 30, 2022	December 31, 2021
	(In millions)	
Medicaid program:		
Minimum MLR and profit sharing	$ 1,018	$ 1,016
Other	402	263
Medicare program:		
Risk adjustment and Part D risk sharing	68	89
Minimum MLR and profit sharing	115	101
Other	22	35
Marketplace program:		
Risk adjustment	1,037	902
Minimum MLR	7	18
Other	53	48
Total amounts due government agencies	$ 2,722	$ 2,472

Medicaid Program

Minimum MLR and Retroactive Premium Adjustments. State Medicaid programs periodically adjust premium rates on a retroactive basis. In these cases, we adjust our premium revenue in the period in which we determine that the adjustment is probable and reasonably estimable, based on our best estimate of the ultimate premium we expect to realize for the period being adjusted.

Beginning in 2020, various states enacted temporary risk corridors in response to the reduced demand for medical services stemming from COVID-19, which have resulted in a reduction of our medical margin. In some cases, these risk corridors were retroactive to earlier periods in 2020, or as early as the beginning of the states' fiscal years in 2019. Since the second quarter of 2020, we have recognized risk corridors that we believe to be probable, and where the ultimate premium amount is reasonably estimable. For the three and six months ended June 30, 2022, we recognized approximately $94 million and $122 million, respectively, related to such risk corridors, primarily in the Medicaid segment, compared to $56 million and $166 million, respectively, recognized in the three and six months ended June 30, 2021. The decrease is due to the elimination of several of the COVID-19 risk corridors.

It is possible that certain states could change the structure of existing risk corridors, implement new risk corridors in the future or discontinue existing risk corridors. Due to these uncertainties, the ultimate outcomes could differ materially from our estimates as a result of changes in facts or further developments, which could have an adverse effect on our consolidated financial position, results of operations, or cash flows.

Marketplace Program

Risk Adjustment. Under this program, our health plans' composite risk scores are compared with the overall average risk score for the relevant state and market pool. Generally, our health plans will make a risk adjustment payment into the pool if their composite risk scores are below the average risk score (risk adjustment payable), and will receive a risk adjustment payment from the pool if their composite risk scores are above the average risk score (risk adjustment receivable). We estimate our ultimate premium based on insurance policy year-to-date experience, and recognize estimated premiums relating to the risk adjustment program as an adjustment to premium revenue in our consolidated statements of income. As of June 30, 2022, Marketplace risk adjustment payables amounted to $1,037 million and related receivables amounted to $61 million, for a net payable of $976 million. As of December 31, 2021, Marketplace risk adjustment payables amounted to $902 million and related receivables amounted to $7 million, for a net payable of $895 million.

Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents, investments, receivables, and restricted investments. Our investments and a portion of our cash equivalents are managed by professional portfolio managers operating under documented investment guidelines. Our portfolio managers must obtain our prior approval before selling investments where the loss position of those investments exceeds certain levels. Our investments consist primarily of investment-grade debt securities with final maturities of less than 15 years, or less than 15 years average life for structured securities. Restricted investments are invested principally in cash, cash equivalents, and U.S. Treasury securities. Concentration of credit risk with respect to accounts receivable is limited because our payors consist principally of the federal government, and governments of each state in which our health plan subsidiaries operate.

Income Taxes

The provision for income taxes is determined using an estimated annual effective tax rate, which generally differs from the U.S. federal statutory rate primarily because of foreign and state taxes, and nondeductible expenses such as certain compensation and other general and administrative expenses.

The effective tax rate may be subject to fluctuations during the year as new information is obtained. Such information may affect the assumptions used to estimate the annual effective tax rate, including projected pretax earnings, the mix of pretax earnings in the various tax jurisdictions in which we operate, valuation allowances against deferred tax assets, the recognition or the reversal of the recognition of tax benefits related to uncertain tax positions, and changes in or the interpretation of tax laws in jurisdictions where we conduct business. We recognize deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of our assets and liabilities, along with net operating loss and tax credit carryovers.

Recent Accounting Pronouncements

Recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the American Institute of Certified Public Accountants, and the Securities and Exchange Commission ("SEC") did not have, nor does management expect such pronouncements to have, a significant impact on our present or future consolidated financial statements.

3. Net Income Per Share

The following table sets forth the calculation of basic and diluted net income per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(In millions, except net income per share)			
Numerator:				
Net income	$ 248	$ 185	$ 506	$ 413
Denominator:				
Shares outstanding at the beginning of the period	58.1	57.7	57.9	58.0
Weighted-average number of shares issued:				
Stock-based compensation	—	—	0.2	0.2
Stock purchases	(0.3)	—	(0.2)	(0.5)
Denominator for basic net income per share	57.8	57.7	57.9	57.7
Effect of dilutive securities: [1]				
Stock-based compensation	0.6	0.7	0.7	0.8
Denominator for diluted net income per share	58.4	58.4	58.6	58.5
Net income per share - Basic [2]	$ 4.29	$ 3.20	$ 8.74	$ 7.14
Net income per share - Diluted [2]	$ 4.25	$ 3.16	$ 8.63	$ 7.05

(1) The dilutive effect of all potentially dilutive common shares is calculated using the treasury stock method.
(2) Source data for calculations in thousands.

4. Business Combinations

Cigna. On January 1, 2022, we closed on our acquisition of Cigna Corporation's Texas Medicaid and Medicare-Medicaid Plan contracts, along with certain operating assets, for purchase consideration of approximately $60 million. We acquired membership and a provider network with a preliminary fair value of approximately $36 million. We allocated the remaining $24 million of purchase consideration to goodwill, primarily in the Medicaid segment, which relates to future economic benefits arising from expected synergies from the use of our existing infrastructure to support the added membership, and from the assembled workforce. The goodwill is deductible for income tax purposes.

Affinity. On October 25, 2021, we closed on our acquisition of substantially all of the assets of Affinity Health Plan, Inc., a Medicaid health plan in New York, for initial purchase consideration of approximately $176 million. In the six months ended June 30, 2022, we recorded various measurement period adjustments, including an increase of $7 million to "Medical claims and benefits payable," and an increase of $17 million to "Receivables" net of "Amounts due government agencies." In the aggregate, we recorded a net increase of $11 million to goodwill for these measurement period adjustments and various purchase price adjustments.

5. Fair Value Measurements

We consider the carrying amounts of current assets and current liabilities to approximate their fair values because of the relatively short period of time between the origination of these instruments and their expected realization or payment. For our financial instruments measured at fair value on a recurring basis, we prioritize the inputs used in measuring fair value according to the three-tier fair value hierarchy. For a description of the methods and assumptions used to: a) estimate the fair value; and b) determine the classification according to the fair value hierarchy for each financial instrument, refer to our 2021 Annual Report on Form 10-K, Note 5, "Fair Value Measurements."

The net changes in fair value of Level 3 financial instruments are reported in "Other" operating expenses in our consolidated statements of income. In the six months ended June 30, 2022 and 2021, we recognized a loss of $4 million and $3 million, respectively, for the increase in the fair value of the contingent consideration liabilities described below.

Our financial instruments measured at fair value on a recurring basis at June 30, 2022, were as follows:

	Total	Observable Inputs (Level 1)	Directly or Indirectly Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
		(In millions)		
Corporate debt securities	$ 2,268	$ —	$ 2,268	$ —
Mortgage-backed securities	717	—	717	—
Asset-backed securities	293	—	293	—
Municipal securities	146	—	146	—
U.S. Treasury notes	96	—	96	—
Other	47	—	47	—
Total assets	$ 3,567	$ —	$ 3,567	$ —
Contingent consideration liabilities	$ 8	$ —	$ —	$ 8
Total liabilities	$ 8	$ —	$ —	$ 8

Our financial instruments measured at fair value on a recurring basis at December 31, 2021, were as follows:

	Total	Observable Inputs (Level 1)	Directly or Indirectly Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
		(In millions)		
Corporate debt securities	$ 1,833	$ —	$ 1,833	$ —
Mortgage-backed securities	614	—	614	—
Asset-backed securities	247	—	247	—
Municipal securities	123	—	123	—
U.S. Treasury notes	353	—	353	—
Other	32	—	32	—
Total assets	$ 3,202	$ —	$ 3,202	$ —
Contingent consideration liabilities	$ 47	$ —	$ —	$ 47
Total liabilities	$ 47	$ —	$ —	$ 47

Contingent Consideration Liabilities

Our Level 3 financial instruments at June 30, 2022 are comprised solely of contingent consideration liabilities of $8 million, in connection with our 2020 acquisition of certain assets of Passport Health Plan, Inc., a Medicaid health plan in Kentucky. Such liabilities are recorded at fair value on a recurring basis. In the six months ended June 30, 2022, the estimated fair value of contingent purchase consideration increased by approximately $4 million, relating to an operating income guarantee.

In the six months ended June 30, 2022, we paid the seller $43 million, of which $23 million was for the remaining half of the consideration due for minimum member enrollment targets and $20 million was for the first payment of the consideration due for the operating income guarantee. For the amounts paid in the six months ended June 30, 2022, $20 million has been presented in “Financing activities” in the accompanying consolidated statements of cash flows, with the balance reflected in “Operating activities.” The remaining balance of the liabilities is reported in “Accounts payable, accrued liabilities and other” in the accompanying consolidated balance sheets.

Fair Value Measurements – Disclosure Only

The carrying amounts and estimated fair values of our notes payable are classified as Level 2 financial instruments. Fair value for these securities is determined using a market approach based on quoted market prices for similar securities in active markets or quoted prices for identical securities in inactive markets.

	June 30, 2022		December 31, 2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(In millions)		
4.375% Notes due 2028	$ 792	$ 724	$ 791	$ 829
3.875% Notes due 2030	642	550	642	675
3.875% Notes due 2032	741	630	740	760
Total	$ 2,175	$ 1,904	$ 2,173	$ 2,264

6. Investments

Available-for-Sale

We consider all of our investments classified as current assets to be available-for-sale. The following tables summarize our current investments as of the dates indicated:

	June 30, 2022			
		Gross Unrealized		
	Amortized Cost	Gains	Losses	Estimated Fair Value
	(In millions)			
Corporate debt securities	$ 2,372	$ 2	$ 106	$ 2,268
Mortgage-backed securities	759	—	42	717
Asset-backed securities	306	—	13	293
Municipal securities	153	—	7	146
U.S. Treasury notes	96	—	—	96
Other	49	—	2	47
Total	$ 3,735	$ 2	$ 170	$ 3,567

	December 31, 2021			
		Gross Unrealized		
	Amortized Cost	Gains	Losses	Estimated Fair Value
	(In millions)			
Corporate debt securities	$ 1,836	$ 9	$ 12	$ 1,833
Mortgage-backed securities	616	2	4	614
Asset-backed securities	248	—	1	247
Municipal securities	123	1	1	123
U.S. Treasury notes	353	—	—	353
Other	32	—	—	32
Total	$ 3,208	$ 12	$ 18	$ 3,202

The contractual maturities of our current investments as of June 30, 2022 are summarized below:

	Amortized Cost	Estimated Fair Value
	(In millions)	
Due in one year or less	$ 340	$ 338
Due after one year through five years	2,276	2,175
Due after five years through ten years	377	358
Due after ten years	742	696
Total	$ 3,735	$ 3,567

Gross realized gains and losses from sales of available-for-sale securities are calculated under the specific identification method and are included in investment income. Gross realized investment gains and losses were insignificant for the six months ended June 30, 2022, and 2021.

We have determined that unrealized losses at June 30, 2022, and December 31, 2021, primarily resulted from fluctuating interest rates, rather than a deterioration of the creditworthiness of the issuers. Therefore, we determined that an allowance for credit losses was not necessary. So long as we maintain the intent and ability to hold these securities to maturity, we are unlikely to experience losses. In the event that we dispose of these securities before maturity, we expect that realized losses, if any, will be insignificant.

The following table segregates those available-for-sale investments that have been in a continuous loss position for less than 12 months, and those that have been in a continuous loss position for 12 months or more as of June 30, 2022:

	In a Continuous Loss Position for Less than 12 Months			In a Continuous Loss Position for 12 Months or More		
	Estimated Fair Value	Unrealized Losses	Total Number of Positions	Estimated Fair Value	Unrealized Losses	Total Number of Positions
	(Dollars in millions)					
Corporate debt securities	$ 1,971	$ 104	921	$ 36	$ 2	19
Mortgage-backed securities	647	40	273	50	2	26
Asset-backed securities	264	13	134	—	—	—
Municipal securities	100	7	124	—	—	—
Other	27	2	14	—	—	—
Total	$ 3,009	$ 166	1,466	$ 86	$ 4	45

The following table segregates those available-for-sale investments that have been in a continuous loss position for less than 12 months, and those that have been in a continuous loss position for 12 months or more as of December 31, 2021:

	In a Continuous Loss Position for Less than 12 Months			In a Continuous Loss Position for 12 Months or More		
	Estimated Fair Value	Unrealized Losses	Total Number of Positions	Estimated Fair Value	Unrealized Losses	Total Number of Positions
	(Dollars in millions)					
Corporate debt securities	$ 1,063	$ 12	395	$ —	$ —	—
Mortgage-backed securities	408	4	146	—	—	—
Asset-backed securities	166	1	75	—	—	—
Municipal securities	69	1	61	—	—	—
Total	$ 1,706	$ 18	677	$ —	$ —	—

Restricted Investments Held-to-Maturity

Pursuant to the regulations governing our state health plan subsidiaries, we maintain statutory deposits and deposits required by government authorities primarily in cash, cash equivalents, and U.S. Treasury securities. We also maintain restricted investments as protection against the insolvency of certain capitated providers. The use of these funds is limited as required by regulations in the various states in which we operate, or as needed in the event of insolvency of capitated providers. Therefore, such investments are reported as “Restricted investments” in the accompanying consolidated balance sheets.

We have the ability to hold these restricted investments until maturity and, as a result, we would not expect the value of these investments to decline significantly due to a sudden change in market interest rates. Our held-to-maturity restricted investments are carried at amortized cost, which approximates fair value. Such investments amounted to $219 million at June 30, 2022, of which $191 million will mature in one year or less, and $28 million will mature in one through five years.

7. Medical Claims and Benefits Payable

The following table provides the details of our medical claims and benefits payable as of the dates indicated:

	June 30, 2022	December 31, 2021
	(In millions)	
Claims incurred but not paid (“IBNP”)	$ 2,719	$ 2,486
Pharmacy payable	229	219
Capitation payable	94	82
Other	733	576
Total	$ 3,775	$ 3,363

“Other” medical claims and benefits payable include amounts payable to certain providers for which we act as an intermediary on behalf of various government agencies without assuming financial risk. Such receipts and payments do not impact our consolidated statements of income. Non-risk provider payables amounted to $229 million and $226 million as of June 30, 2022, and December 31, 2021, respectively.

The following tables present the components of the change in our medical claims and benefits payable for the periods indicated. The amounts presented for “Components of medical care costs related to: Prior years” represent the amount by which our original estimate of medical claims and benefits payable at the beginning of the year varied from the actual liabilities, based on information (principally the payment of claims) developed since those liabilities were first reported.

	Six Months Ended June 30, 2022			
	Medicaid	Medicare	Marketplace	Consolidated
	(In millions)			
Medical claims and benefits payable, beginning balance	$ 2,580	$ 404	$ 379	$ 3,363
Components of medical care costs related to:				
Current year	11,059	1,681	1,006	13,746
Prior years	(243)	(33)	(35)	(311)
Total medical care costs	10,816	1,648	971	13,435
Payments for medical care costs related to:				
Current year	8,532	1,270	820	10,622
Prior years	1,801	330	280	2,411
Total paid	10,333	1,600	1,100	13,033
Acquired balances, net of post-acquisition adjustments	7	—	—	7
Change in non-risk and other provider payables	3	—	—	3
Medical claims and benefits payable, ending balance	$ 3,073	$ 452	$ 250	$ 3,775

	Six Months Ended June 30, 2021			
	Medicaid	Medicare	Marketplace	Consolidated
	(In millions)			
Medical claims and benefits payable, beginning balance	$ 2,129	$ 392	$ 175	$ 2,696
Components of medical care costs related to:				
Current year	8,869	1,459	1,158	11,486
Prior years	(150)	(24)	(19)	(193)
Total medical care costs	8,719	1,435	1,139	11,293
Payments for medical care costs related to:				
Current year	7,043	1,111	869	9,023
Prior years	1,491	330	128	1,949
Total paid	8,534	1,441	997	10,972
Acquired balances, net of post-acquisition adjustments	(19)	(7)	—	(26)
Change in non-risk and other provider payables	(48)	(1)	—	(49)
Medical claims and benefits payable, ending balance	$ 2,247	$ 378	$ 317	$ 2,942

Our estimates of medical claims and benefits payable recorded at December 31, 2021, and 2020 developed favorably by approximately $311 million and $193 million as of June 30, 2022, and 2021, respectively.

The favorable prior year development recognized in the six months ended June 30, 2022 was primarily due to lower than expected utilization of medical services by our members and improved operating performance. Consequently, the ultimate costs recognized in 2022, as claims payments were processed, were lower than our estimates in 2021.

8. Debt

All our debt is held at the parent, which is reported in the Other segment. The following table summarizes our outstanding debt obligations, all of which are non-current as of the dates reported below:

	June 30, 2022	December 31, 2021
	(In millions)	
Non-current long-term debt:		
4.375% Notes due 2028	$ 800	$ 800
3.875% Notes due 2030	650	650
3.875% Notes due 2032	750	750
Deferred debt issuance costs	(25)	(27)
Total	$ 2,175	$ 2,173

Credit Agreement

We are party to a credit agreement (the “Credit Agreement”) which includes a revolving credit facility (“Credit Facility”) of $1.0 billion, among other provisions. The Credit Agreement has a term of five years, and all amounts outstanding will be due and payable on June 8, 2025. Borrowings under the Credit Agreement bear interest based, at our election, on a base rate or other defined rate, plus in each case, the applicable margin. In addition to interest payable on the principal amount of indebtedness outstanding from time to time under the Credit Agreement, we are required to pay a quarterly commitment fee.

The Credit Agreement contains customary non-financial and financial covenants. As of June 30, 2022, we were in compliance with all financial and non-financial covenants under the Credit Agreement. As of June 30, 2022, no amounts were outstanding under the Credit Facility.

Senior Notes

Our senior notes are described below. Each of these notes are senior unsecured obligations of Molina and rank equally in right of payment with all existing and future senior debt, and senior to all existing and future subordinated debt of Molina. In addition, each of the indentures governing the senior notes contain customary non-financial covenants and change of control provisions. As of June 30, 2022, we were in compliance with all non-financial covenants in the indentures governing the senior notes.

The indentures governing the senior notes contain cross-default provisions that are triggered upon default by us or any of our subsidiaries on any indebtedness in excess of the amount specified in the applicable indenture.

4.375% Notes due 2028. We had $800 million aggregate principal amount of senior notes (the “4.375% Notes”) outstanding as of June 30, 2022, which are due June 15, 2028, unless earlier redeemed. Interest, at a rate of 4.375% per annum, is payable semiannually in arrears on June 15 and December 15.

3.875% Notes due 2030. We had $650 million aggregate principal amount of senior notes (the “3.875% Notes due 2030”) outstanding as of June 30, 2022, which are due November 15, 2030, unless earlier redeemed. Interest, at a rate of 3.875% per annum, is payable semiannually in arrears on May 15 and November 15.

3.875% Notes due 2032. We had $750 million aggregate principal amount of senior notes (the “3.875% Notes due 2032”) outstanding as of June 30, 2022, which are due May 15, 2032, unless earlier redeemed. Interest, at a rate of 3.875% per annum, is payable semiannually in arrears on May 15 and November 15.

9. Stockholders' Equity

In September 2021, our board of directors authorized the purchase of up to $500 million, in the aggregate, of our common stock. This new program, which superseded the stock purchase program approved by our board of directors in September 2020, is funded with cash on hand and extends through December 31, 2022. The exact timing and amount of any repurchase is determined by management based on market conditions and share price, in addition to other factors, and subject to the restrictions relating to volume, price, and timing under applicable law. Under this program, pursuant to a Rule 10b5-1 trading plan, we purchased approximately 658,000 shares for $200 million in the second quarter of 2022 (average cost of $304.13 per share).

10. Segments

We currently have four reportable segments consisting of: 1) Medicaid; 2) Medicare; 3) Marketplace; and 4) Other. Our reportable segments are consistent with how we currently manage the business and view the markets we serve.

The Medicaid, Medicare, and Marketplace segments represent the government-funded or sponsored programs under which we offer managed healthcare services. The Other segment, which is insignificant to our consolidated results of operations, includes certain corporate amounts not associated with or allocated to the Medicaid, Medicare, or Marketplace segments. Additionally, the Other segment includes service revenues and service costs associated with the long-term services and supports consultative services we provide in Wisconsin.

The key metrics used to assess the performance of our Medicaid, Medicare, and Marketplace segments are premium revenue, medical margin and medical care ratio (“MCR”). MCR represents the amount of medical care costs as a percentage of premium revenue. Therefore, the underlying medical margin, or the amount earned by the Medicaid, Medicare, and Marketplace segments after medical costs are deducted from premium revenue, represents the most important measure of earnings reviewed by management, and is used by our chief executive officer to review results, assess performance, and allocate resources. The key metric used to assess the performance of our Other segment is service margin. The service margin is equal to service revenue minus cost of service revenue. We do not report total assets by segment because this is not a metric used to assess segment performance or allocate resources.

The following table presents total revenue by segment. Inter-segment revenue was insignificant for all periods presented.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(In millions)			
Total revenue:				
Medicaid	$ 6,524	$ 5,209	$ 12,711	$ 10,229
Medicare	963	822	1,912	1,627
Marketplace	549	751	1,165	1,431
Other	18	18	36	35
Total	$ 8,054	$ 6,800	$ 15,824	$ 13,322

The following table reconciles margin by segment to consolidated income before income taxes.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(In millions)			
Margin:				
Medicaid	$ 755	$ 551	$ 1,465	$ 1,155
Medicare	124	101	252	178
Marketplace	48	112	178	263
Other	3	3	6	7
Total margin	930	767	1,901	1,603
Add: other operating revenues (1)	237	199	458	398
Less: other operating expenses (2)	(806)	(693)	(1,626)	(1,393)
Operating income	361	273	733	608
Other expenses, net	27	30	55	60
Income before income tax expense	$ 334	$ 243	$ 678	$ 548

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(1) Other operating revenues include premium tax revenue, investment income, and other revenue.
(2) Other operating expenses include general and administrative expenses, premium tax expenses, depreciation and amortization, and other operating expenses.

11. Commitments and Contingencies

COVID-19 Pandemic

We continue to monitor and assess the estimated operating and financial impact of the COVID-19 pandemic on our business and, as it evolves, we continue to process, assemble, and assess member utilization information. We believe that our cash resources, borrowing capacity available under the Credit Agreement, and cash flow generated from operations will be sufficient to withstand the financial impact of the pandemic, and will enable us to continue to support our operations, regulatory requirements, debt repayment obligations, and capital expenditures for the foreseeable future.

Legal Proceedings

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Penalties associated with violations of these laws and regulations include significant fines and penalties, exclusion from participating in publicly funded programs, the repayment of previously billed and collected revenues and reputational damage.

We are involved in legal actions in the ordinary course of business including, but not limited to, various employment claims, vendor disputes and provider claims. Some of these legal actions seek monetary damages, including claims for punitive damages, which may not be covered by insurance. We review legal matters and update our estimates of reasonably possible losses and related disclosures, as necessary. We have accrued liabilities for legal matters for which we deem the loss to be both probable and reasonably estimable. These liability estimates could change as a result of further developments of the matters. The outcome of legal actions is inherently uncertain. An adverse determination in one or more of these pending matters could have an adverse effect on our consolidated financial position, results of operations, or cash flows.

Kentucky RFP. On September 4, 2020, Anthem Kentucky Managed Care Plan, Inc. brought an action in Franklin County Circuit Court against the Kentucky Finance and Administration Cabinet, the Kentucky Cabinet for Health and Family Services, and all of the five winning bidder health plans, including our Kentucky health plan. The appellate briefing has concluded and no assurances can be given regarding the ultimate outcome. Under the Court’s June 16, 2021 final Order, our Kentucky health plan will continue to operate for the foreseeable future under its current Medicaid contract and provide care to Kentucky Medicaid members.

Puerto Rico. On August 13, 2021, Molina Healthcare of Puerto Rico, Inc. (“MHPR”) filed a complaint against the Puerto Rico Health Insurance Administration (“ASES”), asserting, among other claims, breach of contract. On September 13, 2021, ASES filed a counterclaim and a third-party complaint against MHPR and the Company. The parties are currently awaiting the Court’s appointment of a Special Commissioner. This matter is in its early stages and remains subject to significant additional proceedings, and no prediction can be made as to the outcome.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS ("MD&A")

FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains forward-looking statements regarding our business, financial condition, and results of operations within the meaning of Section 27A of the Securities Act of 1933, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, or Securities Exchange Act. Many of the forward-looking statements are located under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations." Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Forward-looking statements can also be identified by words such as "guidance," "future," "anticipates," "believes," "estimates," "expects," "growth," "intends," "plans," "predicts," "projects," "will," "would," "could," "can," "may," and similar terms. Readers are cautioned not to place undue reliance on any forward-looking statements, as forward-looking statements are not guarantees of future performance and the Company's actual results may differ significantly due to numerous known and unknown risks and uncertainties. Those known risks and uncertainties include, but are not limited to, the risk factors identified in the section titled "Risk Factors" in our 2021 Annual Report on Form 10-K, including without limitation the following:

- *the impact of the COVID-19 pandemic and its associated or indirect effects on our business, operations, and financial results, including without limitation the duration of the Public Health Emergency Declaration ("PHE") and associated suspension in redeterminations, and the potential impact on our workforce or contractors of federal or state vaccine mandates;*
- *significant budget pressures on state governments from diminished tax revenues incidental to the COVID-19 pandemic and their efforts to reduce rates or limit rate increases, to impose profit caps or risk corridors, or to recoup previously paid premium amounts on a retroactive basis;*
- *the numerous political, judicial, and market-based uncertainties associated with the Affordable Care Act (the "ACA");*
- *the market dynamics surrounding the ACA Marketplaces, including issues impacting enrollment, risk adjustment estimates and results, the potential for disproportionate enrollment of higher acuity members, and the discontinuation of premium tax credits;*
- *the outcome of the legal proceedings in Kentucky with regard to the Medicaid contract award to our Kentucky health plan and our acquisition of certain assets of Passport;*
- *the success of our efforts to retain existing or awarded government contracts, and the success of any bid submissions in response to requests for proposal, including our contracts in California and Texas;*
- *subsequent adjustments to reported premium revenue based upon subsequent developments or new information, including changes to estimated amounts payable or receivable related to Marketplace risk adjustment;*
- *our ability to consummate, integrate, and realize benefits from acquisitions, including the completed acquisitions of Magellan Complete Care, Passport, Affinity, and the Medicaid assets of Cigna in Texas, and the announced acquisitions of AgeWell New York and My Choice Wisconsin;*
- *effective management of our medical costs;*
- *our ability to predict with a reasonable degree of accuracy utilization rates, including utilization rates associated with COVID-19;*
- *cyber-attacks, ransomware attacks, or other privacy or data security incidents resulting in an inadvertent unauthorized disclosure of protected information;*
- *the ability to manage our operations, including maintaining and creating adequate internal systems and controls relating to authorizations, approvals, provider payments, and the overall success of our care management initiatives;*
- *our receipt of adequate premium rates to support increasing pharmacy costs, including costs associated with specialty drugs and costs resulting from formulary changes that allow the option of higher-priced non-generic drugs;*
- *our ability to operate profitably in an environment where the trend in premium rate increases lags behind the trend in increasing medical costs;*
- *the interpretation and implementation of federal or state medical cost expenditure floors, administrative cost and profit ceilings, premium stabilization programs, profit-sharing arrangements, and risk adjustment provisions and requirements;*
- *our estimates of amounts owed for such cost expenditure floors, administrative cost and profit ceilings, premium stabilization programs, profit-sharing arrangements, and risk adjustment provisions and requirements;*

- *the Medicaid expansion medical cost corridor, and any other retroactive adjustment to revenue where methodologies and procedures are subject to interpretation or dependent upon information about the health status of participants other than Molina members;*
- *the interpretation and implementation of at-risk premium rules and state contract performance requirements regarding the achievement of certain quality measures, and our ability to recognize revenue amounts associated therewith;*
- *the success and renewal of our duals demonstration programs in California, Illinois, Michigan, Ohio, South Carolina, and Texas;*
- *the accurate estimation of incurred but not reported or paid medical costs across our health plans;*
- *efforts by states to recoup previously paid and recognized premium amounts;*
- *changes in our annual effective tax rate, due to federal and/or state legislation, or changes in our mix of earnings and other factors;*
- *complications, member confusion, eligibility redeterminations, or enrollment backlogs related to the renewal of Medicaid coverage;*
- *fraud, waste and abuse matters, government audits or reviews, comment letters, or potential investigations, and any fine, sanction, enrollment freeze, corrective action plan, monitoring program, or premium recovery that may result therefrom;*
- *our exit from Puerto Rico, including the payment in full of our outstanding accounts receivable, the effective run-out of claims, the return of our capital, and the outcome of the claims filed against our Puerto Rico health plan and us by the Puerto Rico Health Insurance Administration, or ASES;*
- *changes with respect to our provider contracts and the loss of providers;*
- *approval by state regulators of dividends and distributions by our health plan subsidiaries;*
- *changes in funding under our contracts as a result of regulatory changes, programmatic adjustments, or other reforms;*
- *high dollar claims related to catastrophic illness;*
- *the resolution, favorable or unfavorable, of litigation, arbitration, or administrative proceedings;*
- *the relatively small number of states in which we operate health plans, including the greater scale and revenues of our California, Ohio, Texas, and Washington health plans;*
- *the failure to comply with the financial or other covenants in our credit agreement or the indentures governing our outstanding notes;*
- *the availability of adequate financing on acceptable terms to fund and capitalize our expansion and growth, repay our outstanding indebtedness at maturity, and meet our general liquidity needs;*
- *the sufficiency of funds on hand to pay the amounts due upon maturity of our outstanding notes;*
- *the failure of a state in which we operate to renew its federal Medicaid waiver;*
- *changes generally affecting the managed care industry;*
- *increases in government surcharges, taxes, and assessments;*
- *the unexpected loss of the leadership of one or more of our senior executives; and*
- *increasing competition and consolidation in the Medicaid industry.*

Each of the terms “Molina Healthcare, Inc.” “Molina Healthcare,” “Company,” “we,” “our,” and “us,” as used herein, refers collectively to Molina Healthcare, Inc. and its wholly owned subsidiaries, unless otherwise stated. The Company assumes no obligation to revise or update any forward-looking statements for any reason, except as required by law.

Readers should refer to the section entitled “Risk Factors” in our 2021 Annual Report on Form 10-K, for a discussion of certain risk factors that could materially affect our business, financial condition, cash flows, or results of operations. Given these risks and uncertainties, we can give no assurance that any results or events projected or contemplated by our forward-looking statements will in fact occur.

This Quarterly Report on Form 10-Q and the following discussion of our financial condition and results of operations should be read in conjunction with the accompanying consolidated financial statements and the notes to those statements appearing elsewhere in this report, and the audited financial statements and Management’s Discussion and Analysis appearing in our 2021 Annual Report on Form 10-K.

OVERVIEW

Molina Healthcare, Inc., a FORTUNE 500 company (currently ranked 125), provides managed healthcare services under the Medicaid and Medicare programs, and through the state insurance marketplaces (the “Marketplace”). We served approximately 5.1 million members as of June 30, 2022, located across 19 states.

SECOND QUARTER 2022 HIGHLIGHTS

We reported net income of $248 million, or $4.25 per diluted share, for the second quarter of 2022, which reflected the following:

- Membership increase of 422,000, or 9%, compared with June 30, 2021, and a 33,000 sequential increase compared to March 31, 2022;
- Premium revenue of $7.8 billion increased 18% compared with the second quarter of 2021, reflecting the impact of acquisitions, increased organic membership in Medicaid and Medicare, and state directed payments in our Texas Medicaid plan, partially offset by the expected attrition in Marketplace membership;
- Consolidated medical care ratio (“MCR”) was 88.1%, compared with 88.4% for the second quarter of 2021;
- General and administrative expense (“G&A”) ratio of 6.8%, which compared with 7.1% in the second quarter of 2021, reflecting the benefits of scale produced by our increase in revenue and disciplined cost management; and
- After-tax margin of 3.1%, which was in line with our expectations.

We note the following factors impacting the 2022 second quarter financial results:

- The net effect of COVID decreased net income by approximately $0.68 per diluted share and increased the MCR by 60 basis points in the second quarter of 2022. The net effect of COVID decreased net income by approximately $1.00 per diluted share and increased the MCR by 110 basis points in the second quarter of 2021;
- An increase in the 2021 Marketplace risk adjustment payable decreased net income by approximately $0.44 per diluted share; and
- Higher net investment income that was mainly driven by recent Federal Reserve interest rate increases.

CONSOLIDATED FINANCIAL SUMMARY

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(In millions, except per-share amounts)			
Premium revenue	$ 7,799	$ 6,583	$ 15,330	$ 12,889
Less: medical care costs	6,872	5,819	13,435	11,293
Medical margin	927	764	1,895	1,596
MCR (1)	*88.1 %*	*88.4 %*	*87.6 %*	*87.6 %*
Other revenues:				
Premium tax revenue	215	185	423	372
Investment income	22	10	33	19
Other revenue	18	22	38	42
General and administrative expenses	551	484	1,122	957
G&A ratio (2)	*6.8 %*	*7.1 %*	*7.1 %*	*7.2 %*
Premium tax expenses	215	185	423	372
Depreciation and amortization	44	31	84	64
Other	11	8	27	28
Operating income	361	273	733	608
Interest expense	27	30	55	60
Income before income tax expense	334	243	678	548
Income tax expense	86	58	172	135
Net income	$ 248	$ 185	$ 506	$ 413
Net income per share – Diluted	$ 4.25	$ 3.16	$ 8.63	$ 7.05
Diluted weighted average shares outstanding	58.4	58.4	58.6	58.5
Other Key Statistics				
Ending membership	5.1	4.7	5.1	4.7
Effective income tax rate	25.8 %	24.2 %	25.4 %	24.7 %
After-tax margin (3)	3.1 %	2.7 %	3.2 %	3.1 %

(1) MCR represents medical care costs as a percentage of premium revenue.
(2) G&A ratio represents general and administrative expenses as a percentage of total revenue.
(3) After-tax margin represents net income as a percentage of total revenue.

CONSOLIDATED RESULTS

NET INCOME AND OPERATING INCOME

Net income in the second quarter of 2022 amounted to $248 million, or $4.25 per diluted share, compared with $185 million, or $3.16 per diluted share, in the second quarter of 2021. The 34% increase in net income is consistent with the improvement in operating income, which increased to $361 million in the second quarter of 2022, compared with $273 million in the second quarter of 2021.

Net income in the six months ended June 30, 2022 amounted to $506 million, or $8.63 per diluted share, compared with $413 million, or $7.05 per diluted share, in the six months ended June 30, 2021. The 23% increase in net income is consistent with the improvement in operating income of $733 million in the six months ended June 30, 2022, compared with $608 million in the six months ended June 30, 2021.

The improvement in operating income for both periods was mainly due to membership growth and higher premium revenues, and a decrease in MCR for the second quarter of 2022 compared to the prior year period.

Net income per share in the second quarter and six months ended June 30, 2022 was favorably impacted by the reduction in common shares outstanding as a result of our share repurchases during the second quarter of 2022. See further discussion in “Liquidity and Financial Condition,” below.

PREMIUM REVENUE

Premium revenue increased $1.2 billion, or 18%, in the second quarter of 2022, when compared with the second quarter of 2021, and increased $2.4 billion, or 19%, in the six months ended June 30, 2022, when compared with the six months ended June 30, 2021. The higher premium revenue reflects the impact of acquisitions, increased organic membership in the Medicaid and Medicare segments, and state directed payments in our Texas Medicaid health plan, partially offset by a decline in the Marketplace segment.

MEDICAL CARE RATIO

The consolidated MCR in the second quarter of 2022 was 88.1%, compared with 88.4% in the second quarter of 2021. The net effect of COVID impacted all of our segments and increased the consolidated MCR by approximately 60 basis points in the second quarter of 2022, and approximately 110 basis points in the second quarter of 2021. The year-over-year comparative impact mainly reflects higher COVID-related utilization curtailment, partially offset by higher COVID inpatient costs. The combined impact of state directed payments in our Texas Medicaid health plan and an increase in the 2021 Marketplace risk adjustment payable increased the consolidated MCR by 90 basis points.

The consolidated MCR in the six months ended June 30, 2022 was 87.6%, and is consistent with the 87.6% MCR for the six months ended June 30, 2021. Similar to the quarter-to-date consolidated MCR, net effect of COVID impacted each period; however, the results were varied by segment. See further explanation in “Segment Financial Performance,” below.

The prior year reserve development in the second quarter and six months ended June 30, 2022 was favorable, and its impact on earnings was partially absorbed by the COVID-related risk corridors.

PREMIUM TAX REVENUE AND EXPENSES

The premium tax ratio (premium tax expense as a percentage of premium revenue plus premium tax revenue) was 2.7% for both the second quarter of 2022 and 2021, and 2.7% and 2.8% for the six months ended June 30, 2022 and 2021, respectively. The current year ratio decrease was mainly due to changes in business mix.

INVESTMENT INCOME

Investment income increased to $22 million in the second quarter of 2022, compared with $10 million in the second quarter of 2021, and increased to $33 million in the six months ended June 30, 2022, compared with $19 million in the six months ended June 30, 2021.The improvement in both periods was driven by recent Federal Reserve interest rate increases and higher invested assets. Additionally, investment yields were lower in the first half of 2021 due to a temporary allocation in shorter-term invested assets due to the COVID-19 pandemic, which was rescinded in the second quarter of 2021.

OTHER REVENUE

Other revenue decreased to $18 million in the second quarter of 2022, compared with $22 million in the second quarter of 2021, and decreased to $38 million in the six months ended June 30, 2022, compared with $42 million in the six months ended June 30, 2021. Other revenue mainly includes service revenue associated with long-term services and supports consultative services we provide in Wisconsin.

G&A EXPENSES

The G&A expense ratio decreased to 6.8% in the second quarter of 2022, compared with 7.1% in the second quarter of 2021. The G&A expense ratio was 7.1% in the six months ended June 30, 2022, compared with 7.2% with the six months ended June 30, 2021, mainly reflecting the benefits of scale produced by our increase in revenue and disciplined cost management. We expect our full year 2022 G&A ratio to be consistent with our long term targets.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased to $44 million in the second quarter of 2022, compared with $31 million in the second quarter of 2021, and increased to $84 million in the six months ended June 30, 2022, compared with $64 million in the six months ended June 30, 2021. The increases in both periods were due primarily to amortization associated with acquisitions completed in the fourth quarter of 2021 and the first quarter of 2022.

OTHER OPERATING EXPENSES

Other operating expenses increased to $11 million in the second quarter of 2022, compared with $8 million in the second quarter of 2021, and decreased to $27 million in the six months ended June 30, 2022, compared with $28 million in the six months ended June 30, 2021. Other operating expenses mainly includes service costs associated with long-term services and supports consultative services we provide in Wisconsin, as noted above.

INTEREST EXPENSE

Interest expense decreased to $27 million in the second quarter of 2022, compared with $30 million in the second quarter of 2021, and to $55 million in the six months ended June 30, 2022, compared with $60 million in the six months ended June 30, 2021. The decrease resulted from our early redemption of $700 million aggregate principal amount of our 5.375% senior notes due 2022 in the fourth quarter of 2021, partially offset by interest related to the private offering of the 3.875% Notes due 2032 in the same period.

INCOME TAXES

Income tax expense amounted to $86 million in the second quarter of 2022, or 25.8% of pretax income, compared with income tax expense of $58 million, or 24.2% of pretax income in the second quarter of 2021. Income tax expense amounted to $172 million in the six months ended June 30, 2022, or 25.4% of pretax income, compared with income tax expense of $135 million, or 24.7% of pretax income in the six months ended June 30, 2021. The difference in the effective tax rate is primarily due to the impact of certain discrete tax benefits recognized in the second quarter and the six months ended June 30, 2021.

TRENDS AND UNCERTAINTIES

COVID-19 PANDEMIC

As the COVID-19 pandemic continues to evolve, its ongoing impact to our business, results of operations, financial condition, and cash flows is uncertain and difficult to predict. Specific trends and uncertainties related to our Medicaid, Medicare, and Marketplace segments follow.

Federal Economic Stabilization and Other Programs

Effective April 17, 2022, the Biden Administration extended the COVID-19 related PHE, which, among other things, continued the suspension in state Medicaid eligibility redeterminations for 90 days until July 15, 2022. Effective July 15, 2022, the Biden Administration extended the PHE for another 90 days and it will remain in effect until October 13, 2022, unless extended.

Due to the uncertainty as to the duration and breadth of the pandemic, we are unable to reasonably estimate the ultimate impact of the economic stabilization and other programs to our business, financial condition, and operating results.

Operations

Enrollment and Premium Revenue

Excluding acquisitions and our exit from Puerto Rico, we added over 750,000 new Medicaid members since March 31, 2020, when we first began to report on the impacts of the pandemic. We believe this membership increase was mainly due to the suspension of redeterminations for Medicaid eligibility. We expect Medicaid enrollment to continue to benefit from the extension of the PHE period, and the associated pause on membership redeterminations, at least through mid-October 2022.

Beginning in 2020, various states enacted temporary risk corridors in response to the reduced demand for medical services stemming from COVID-19, which have resulted in a reduction of our medical margin. The current rate environment is stable and rational. We continue to believe that the risk-sharing corridors previously introduced are related to the declared PHE and will likely be eliminated as the COVID pandemic subsides. However, the risk corridors continue to contribute an added level of variability to our results of operations. In the three and six months ended June 30, 2022, we recognized approximately $94 million and $122 million, respectively, for the impact of these risk corridors, compared to $56 million and $166 million, respectively, recognized in the three and six months ended June 30, 2021. The decrease in 2022 is due to the elimination of several of the COVID-19 risk corridors.

It is possible that certain states could change the structure of existing risk corridors, implement new risk corridors in the future or discontinue existing risk corridors. Due to these uncertainties, the ultimate outcomes could differ materially from our estimates as a result of changes in facts or further developments, which could have an adverse effect on our consolidated financial position, results of operations, or cash flows.

Medical Care Costs

We expect continued uncertainty regarding utilization trends as the pandemic continues. The speed and extent to which utilization rebounds will be greatly impacted by the economy and consumer behavior, provider capacity, and the potential resurgence of COVID-19 infection rates. We believe that some portion of the utilization curtailment experienced in the six months ended June 30, 2022 is likely the result of service deferrals, and so these services will likely be provided to members over the remainder of the year.

Capital and Financial Resources

We continue to monitor and assess the estimated operating and financial impact of the COVID-19 pandemic on our business and, as it evolves, we continue to process, assemble, and assess member utilization information. We believe that our cash resources, borrowing capacity available under the Credit Agreement, and cash flow generated from operations will be sufficient to withstand the financial impact of the pandemic, and will enable us to continue to support our operations, regulatory requirements, debt repayment obligations, and capital expenditures for the foreseeable future. Refer to “Liquidity and Financial Condition” below for further discussion of our capital and financial resources.

OTHER RECENT DEVELOPMENTS

Wisconsin Acquisition — Medicaid and Medicare. On July 13, 2022, we announced a definitive agreement to acquire substantially all the assets of My Choice Wisconsin (“MCW”). As of May 2022, MCW served over 44,000 managed long-term services and supports and core Medicaid members throughout Wisconsin, delivering approximately $1 billion in premium revenue for the 12 months ended March 31, 2022. The purchase price for the transaction is approximately $150 million, net of expected tax benefits and required regulatory capital, which we intend to fund with cash on hand. The transaction is subject to receipt of applicable federal and state regulatory approvals, and the satisfaction of other customary closing conditions. We currently expect the transaction to close in 2022.

Texas Acquisition—Medicaid and Medicare. On January 1, 2022, we closed on our acquisition of Cigna Corporation’s Texas Medicaid and Medicare-Medicaid Plan (“MMP”) contracts, along with certain operating assets.

New York Acquisition—Medicaid. On October 7, 2021, we announced a definitive agreement to acquire the Medicaid Managed Long Term Care business of AgeWell New York. The purchase price for the transaction is approximately $106 million, net of certain tax benefits and target allocation of required regulatory capital, which we intend to fund with cash on hand. The transaction is subject to applicable federal and state regulatory approvals and the satisfaction of other customary closing conditions. We currently expect the transaction to close in the fourth quarter of 2022.

California Procurement—Medicaid. In April 2022, we submitted our RFP response. We expect the award to be announced in early August 2022, with an effective date of January 2024.

Texas Procurement—Medicaid. In March 2022, the Texas Health and Human Services Commission posted the ABD program (known in Texas as STAR+PLUS) RFP, with awards estimated to be announced in the first quarter of 2023, and start of operations in February 2024.

Nevada Procurement—Medicaid. Our new contract in Clark and Washoe Counties commenced on January 1, 2022, and offers health coverage to TANF, CHIP and Medicaid Expansion beneficiaries. The four year contract with a possible two-year extension was ratified in September 2021.

Marketplace Enrollment. We now expect to end 2022 with approximately 315,000 members, reflecting normal attrition over the remainder of the year and limited special enrollment period growth based on revised eligibility rules and our product design and distribution strategy. This represents an increase compared to our previous estimate of 270,000 members by the end of 2022, resulting from stronger final enrollment and grace period membership.

Pharmacy. We have entered into an early renewal of our long-standing pharmacy benefit management (“PBM”) agreement with CVS Caremark (“Caremark”). Under the renewal, Caremark will continue to be the exclusive PBM provider to us and our health plan subsidiaries through December 31, 2026. The renewal includes improvements to network rates and administrative costs as well as improved terms around performance standards. Caremark’s services to Molina include, among other things, pharmacy network management, mail order, specialty pharmacy, pharmacy claims processing, and pharmaceutical rebate management.

Real Estate. We intend to move permanently to a remote work environment, a model we have been working under successfully for nearly two years. As a result, we expect to formalize a reduction of our real estate footprint by the end of the year, which will yield substantial and sustainable G&A expense savings.

For a discussion of additional segment trends, uncertainties and other developments, refer to our 2021 Annual Report on Form 10-K, “Item 1. Business—Our Business,” and “—Legislative and Political Environment.”

REPORTABLE SEGMENTS

As of June 30, 2022, we served approximately 5.1 million members eligible for Medicaid, Medicare, and other government-sponsored healthcare programs for low-income families and individuals, including Marketplace members, most of whom receive government premium subsidies.

We currently have four reportable segments consisting of: 1) Medicaid; 2) Medicare; 3) Marketplace; and 4) Other.

The Medicaid, Medicare, and Marketplace segments represent the government-funded or sponsored programs under which we offer managed healthcare services. The Other segment, which is insignificant to our consolidated results of operations, includes certain corporate amounts not associated with or allocated to the Medicaid, Medicare, or Marketplace segments. Additionally, the Other segment includes service revenues and service costs associated with the long-term services and supports consultative services we provide in Wisconsin.

HOW WE ASSESS PERFORMANCE

We derive our revenues primarily from health insurance premiums. Our primary customers are state Medicaid agencies and the federal government.

The key metrics used to assess the performance of our Medicaid, Medicare, and Marketplace segments are premium revenue, medical margin and medical care ratio (“MCR”). MCR represents the amount of medical care costs as a percentage of premium revenue. Therefore, the underlying medical margin, or the amount earned by the Medicaid, Medicare, and Marketplace segments after medical costs are deducted from premium revenue, represents the most important measure of earnings reviewed by management, and is used by our chief executive officer to review results, assess performance, and allocate resources. The key metric used to assess the performance of our Other segment is service margin. The service margin is equal to service revenue minus cost of service revenue.

Management’s discussion and analysis of the change in medical margin is discussed below under “Segment Financial Performance.” For more information, see Notes to Consolidated Financial Statements, Note 10, “Segments.”

SEGMENT MEMBERSHIP

The following table sets forth our membership by segment as of the dates indicated:

	June 30, 2022	December 31, 2021	June 30, 2021
Medicaid	4,610,000	4,329,000	3,928,000
Medicare	151,000	142,000	130,000
Marketplace	357,000	728,000	638,000
Total	5,118,000	5,199,000	4,696,000

SEGMENT FINANCIAL PERFORMANCE

The following tables summarize premium revenue, medical margin, and MCR by segment for the periods indicated (dollars in millions):

	Three Months Ended June 30,					
	2022			2021		
	Premium Revenue	Medical Margin	MCR	Premium Revenue	Medical Margin	MCR
Medicaid	$ 6,301	$ 755	88.0 %	$ 5,034	$ 551	89.0 %
Medicare	957	124	86.9	814	101	87.6
Marketplace	541	48	91.2	735	112	84.8
Total	$ 7,799	$ 927	88.1 %	$ 6,583	$ 764	88.4 %

	Six Months Ended June 30,					
	2022			2021		
	Premium Revenue	Medical Margin	MCR	Premium Revenue	Medical Margin	MCR
Medicaid	$ 12,281	$ 1,465	88.1 %	$ 9,874	$ 1,155	88.3 %
Medicare	1,900	252	86.7	1,613	178	89.0
Marketplace	1,149	178	84.5	1,402	263	81.2
Total	$ 15,330	$ 1,895	87.6 %	$ 12,889	$ 1,596	87.6 %

Medicaid

Medicaid premium revenue increased $1.3 billion, or 25% in the second quarter of 2022, when compared with the second quarter of 2021. Medicaid premium revenue increased $2.4 billion, or 24% in the six months ended June 30, 2022, when compared with the six months ended June 30, 2021. The increases in both periods were mainly due to organic membership growth, including Nevada, the impact from the Affinity and Cigna acquisitions that closed in the fourth quarter of 2021 and in January 2022, respectively, and state directed payments in our Texas health plan. Excluding the acquisitions, the membership growth was across several states and was mainly driven by the extension of the PHE period and the associated suspension of membership redeterminations due to COVID-19.

As described above in “Trends and Uncertainties,” we recognized approximately $94 million and $122 million in the second quarter and six months ended June 30, 2022, respectively, for the impact of risk corridors enacted in several states since the second quarter of 2020, in response to the lower utilization of medical services resulting from COVID-19. We recognized approximately $56 million and $166 million, respectively, for the impact of such risk corridors in the second quarter and six months ended June 30, 2021. The decrease was due to the elimination of most of the COVID-19 risk corridors.

The medical margin in our Medicaid program increased $204 million, or 37%, in the second quarter of 2022 when compared with the second quarter of 2021, and increased $310 million, or 27%, in the six months ended June 30, 2022 when compared with the six months ended June 30, 2021. The increase in margin in both periods was driven by the increased membership growth and premium revenues discussed above and the MCR decrease discussed below.

The Medicaid MCR decreased to 88.0% in the second quarter of 2022, from 89.0% in the second quarter of 2021, and decreased to 88.1% in the six months ended June 30, 2022, from 88.3% in the six months ended June 30, 2021. The decrease for both periods is mainly attributable to improved operations, including medical cost management, lower utilization and the year-over-year change in the net effect of COVID, partially offset by the impact of state directed payments in our Texas health plan. The year-over-year change in the net effect of COVID for the second quarter of 2022 reflects an increase in COVID-related utilization curtailment, partially offset by an increase in COVID-related inpatient costs. The 2022 Medicaid MCR is consistent with our long-term target despite the net effect of COVID and other impacts.

Medicare

Medicare premium revenue increased $143 million, or 18%, in the second quarter of 2022 compared to the second quarter of 2021, and increased $287 million, or 18%, in the six months ended June 30, 2022 compared to the six months ended June 30, 2021. The increase was primarily due to the impact of product expansion and organic membership growth in existing states, partially offset by lower premium revenue PMPM from the change in business mix.

The medical margin for Medicare increased $23 million in the second quarter of 2022, and increased $74 million in the six months ended June 30, 2022, when compared to the same periods in 2021. The year-over-year changes in margin are mainly due to the increase in premium revenues and the improvement in the MCR discussed below.

The Medicare MCR decreased to 86.9% in the second quarter of 2022, from 87.6% in the second quarter of 2021, or 70 basis points. The Medicare MCR decreased to 86.7% in the six months ended June 30, 2022, compared to 89.0% in the six months ended June 30, 2021, or 230 basis points. The improvement in both periods was primarily driven by improved operating performance, including higher risk scores that more closely reflect the acuity of our membership, and strong medical cost management, partially offset by the change in business mix. The 2022 Medicare MCR is lower than our long-term target.

Marketplace

Marketplace premium revenue decreased $194 million in the second quarter of 2022 compared to the second quarter of 2021, and decreased $253 million in the six months ended June 30, 2022 compared to the six months ended June 30, 2021. The decrease was mainly due to expected attrition of membership, partially offset by an increase in premium revenue PMPM. Our Marketplace membership as of June 30, 2022, amounted to 357,000 members, representing a decrease of 281,000 members compared to June 30, 2021. The increase in premium revenue PMPM is consistent with the product and pricing strategy, reflecting an increase of members in the silver metal tier and a decrease of members in the bronze metal tier, partially offset by an increase in the 2021 risk adjustment payable that was finalized in June 2022.

The Marketplace medical margin decreased $64 million in the second quarter of 2022 when compared with the second quarter of 2021, and decreased $85 million in the six months ended June 30, 2022 when compared with the six months ended June 30, 2021. The decrease in both periods is primarily due to the net decrease in membership and premiums, and the increase in the MCR described below.

The Marketplace MCR increased to 91.2% in the second quarter of 2022, compared to 84.8% in the second quarter of 2021, or 640 basis points, and increased to 84.5% in the six months ended June 30, 2022, compared to 81.2% in the six months ended June 30, 2021, or 330 basis points. The increase for both periods resulted mainly from the increase in the 2021 risk adjustment payable discussed above. Results in 2022 also reflect changes in membership mix that includes higher acuity members, partially offset by the year-over-year change in the net effect of COVID. We are incurring less MCR seasonality relative to the prior year, due to the lower deductibles in the silver metal tier product.

Other

The Other segment includes service revenues and costs associated with long-term services and supports consultative services we provide in Wisconsin, and also includes certain corporate amounts not allocated to the Medicaid, Medicare, or Marketplace segments. Such amounts were immaterial to our consolidated results of operations for the second quarters of and six months ended June 30, 2022 and 2021, respectively.

LIQUIDITY AND FINANCIAL CONDITION

LIQUIDITY

We manage our cash, investments, and capital structure to meet the short- and long-term obligations of our business while maintaining liquidity and financial flexibility. We forecast, analyze, and monitor our cash flows to enable prudent investment management and financing within the confines of our financial strategy.

We maintain liquidity at two levels: 1) the regulated health plan subsidiaries; and 2) the parent company. Our regulated subsidiaries generate significant cash flows from premium revenue, which is generally received a short time before related healthcare services are paid. Premium revenue is our primary source of liquidity. Thus, any decline in the receipt of premium revenue, and our profitability, could have a negative impact on our liquidity. In the first half of 2022, we did not experience noticeable delays to, or changes in, the timing or level of premium receipts as a result of the COVID-19 pandemic, but there can be no assurances that we will not experience such delays in the future. See further discussion below in “Future Sources and Uses of Liquidity—Future Uses—*Potential Impact of COVID-19 Pandemic*.”

A majority of the assets held by our regulated health plan subsidiaries is in the form of cash, cash equivalents, and investments. When available and as permitted by applicable regulations, cash in excess of the capital needs of our regulated health plan subsidiaries is generally paid in the form of dividends to our parent company to be used for general corporate purposes. In the second quarter and six months ended June 30, 2022, the parent company received $165 million and $280 million, respectively, in dividends and return of capital from the regulated health plan subsidiaries. See further discussion of dividends below in “Future Sources and Uses of Liquidity—Future Sources.”

The parent company may also contribute capital to the regulated health plan subsidiaries to satisfy minimum statutory net worth requirements, including funding for newer health plans. In the second quarter and six months ended June 30, 2022, the parent company contributed capital of $10 million and $29 million, respectively, to the regulated health plan subsidiaries.

Cash, cash equivalents and investments at the parent company amounted to $210 million and $348 million as of June 30, 2022, and December 31, 2021, respectively. The decrease as of June 30, 2022, was primarily due to our share repurchase program and the timing of corporate payments and capital contributions to regulated health plan subsidiaries, partially offset by dividends received from regulated health plan subsidiaries.

Investments

After considering expected cash flows from operating activities, we generally invest cash of regulated subsidiaries that exceeds our expected short-term obligations in longer term, investment-grade, and marketable debt securities to improve our overall investment return. These investments are made pursuant to board-approved investment policies which conform to applicable state laws and regulations.

Our investment policies are designed to provide liquidity, preserve capital, and maximize total return on invested assets, all in a manner consistent with state requirements that prescribe the types of instruments in which our subsidiaries may invest. These investment policies require that our investments have final maturities of less than 15 years, or less than 15 years average life for structured securities. Professional portfolio managers operating under documented guidelines manage our investments and a portion of our cash equivalents. Our portfolio managers must obtain our prior approval before selling investments where the loss position of those investments exceeds certain levels.

We believe that the risks of the COVID-19 pandemic, as they relate to our investments, are minimal. The overall rating of our portfolio remains strong and is rated A+. Our investment policy has directives in conjunction with state guidelines to minimize risks and exposures in volatile markets. Additionally, our portfolio managers assist us in navigating volatility in the capital markets.

Our restricted investments are invested principally in cash, cash equivalents, and U.S. Treasury securities; we have the ability to hold such restricted investments until maturity. All of our unrestricted investments are classified as current assets.

Cash Flow Activities

Our cash flows are summarized as follows:

	Six Months Ended June 30,		
	2022	2021	Change
		(In millions)	
Net cash provided by operating activities	$ 731	$ 1,061	$ (330)
Net cash used in investing activities	(591)	(408)	(183)
Net cash used in financing activities	(268)	(200)	(68)
Net (decrease) increase in cash, cash equivalents, and restricted cash and cash equivalents	$ (128)	$ 453	$ (581)

Operating Activities

We typically receive capitation payments monthly, in advance of payments for medical claims; however, government payors may adjust their payment schedules, positively or negatively impacting our reported cash flows from operating activities in any given period. For example, government payors may delay our premium payments, or they may prepay the following month’s premium payment.

Net cash provided by operations for the six months ended June 30, 2022 was $731 million, compared with $1,061 million in the six months ended June 30, 2021. The $330 million decrease in cash flow was due to the net impact of timing differences in government receivables and payables and partially offset by an increase in net earnings.

Investing Activities

Net cash used in investing activities was $591 million in the six months ended June 30, 2022, compared with $408 million used in investing activities in the six months ended June 30, 2021, a decrease in cash flow of $183 million. This decrease in cash flow was primarily due to the net activity of proceeds and purchases of investments in the six months ended June 30, 2022.

Financing Activities

Net cash used in financing activities was $268 million in the six months ended June 30, 2022, compared with $200 million used in the six months ended June 30, 2021, a decrease in cash flow of $68 million. In the six months ended June 30, 2022, financing cash outflows included common stock purchases of $200 million and $53 million for common stock withheld to settle employee tax obligations. In the six months ended June 30, 2021, financing cash outflows included common stock purchases of $128 million and $52 million for common stock withheld to settle employee tax obligations. Additionally, we paid $20 million in each of the six months ended June 30, 2022 and 2021 to settle contingent consideration liabilities relating to our Kentucky Passport acquisition that closed in 2020.

FINANCIAL CONDITION

We believe that our cash resources, borrowing capacity available under the Credit Agreement as discussed further below in “Future Sources and Uses of Liquidity—Future Sources,” and internally generated funds will be sufficient to support our operations, regulatory requirements, debt repayment obligations and capital expenditures for at least the next 12 months.

On a consolidated basis, at June 30, 2022, our working capital was $3.1 billion, compared with $3.0 billion at December 31, 2021. At June 30, 2022, our cash and investments amounted to $8.1 billion, compared with $7.9 billion at December 31, 2021.

Regulatory Capital and Dividend Restrictions

Each of our regulated, wholly owned subsidiaries must maintain a minimum amount of statutory capital determined by statute or regulations. Such statutes, regulations and capital requirements also restrict the timing, payment and amount of dividends and other distributions, loans or advances that may be paid to us as the sole stockholder. To the extent our subsidiaries must comply with these regulations, they may not have the financial flexibility to transfer funds to us. Based upon current statutes and regulations, the minimum capital and surplus requirement for these subsidiaries was estimated to be approximately $2.2 billion at June 30, 2022, compared with $2.1 billion at December 31, 2021. The aggregate capital and surplus of our regulated, wholly owned subsidiaries was in excess of these minimum capital requirements as of both dates.

Under applicable regulatory requirements, the amount of dividends that may be paid by our regulated, wholly owned subsidiaries without prior approval by regulatory authorities as of June 30, 2022, was approximately $170 million in the aggregate. These subsidiaries may pay dividends over this amount, but only after approval is granted by the regulatory authorities.

Based on our cash and investments balances as of June 30, 2022, management believes that our regulated, wholly owned subsidiaries remain well capitalized and exceed their regulatory minimum requirements. We have the ability, and have committed to provide, additional capital to each of our health plans as necessary to ensure compliance with statutory capital and surplus requirements.

Debt Ratings

Each of our senior notes is rated “BB-” by Standard & Poor’s, and “Ba3” by Moody’s Investor Service, Inc. A downgrade in our ratings could adversely affect our borrowing capacity and increase our future borrowing costs.

Financial Covenants

The Credit Agreement contains customary non-financial and financial covenants, including a net leverage ratio and an interest coverage ratio. Such ratios are computed as defined by the terms of the Credit Agreement.

In addition, the indentures governing each of our outstanding senior notes contain cross-default provisions that are triggered upon default by us or any of our subsidiaries on any indebtedness in excess of the amount specified in the applicable indenture. As of June 30, 2022, we were in compliance with all financial and non-financial covenants under the Credit Agreement and senior notes.

FUTURE SOURCES AND USES OF LIQUIDITY

Future Sources

Our regulated subsidiaries generate significant cash flows from premium revenue, which is generally received a short time before related healthcare services are paid. Premium revenue is our primary source of liquidity. Thus, any decline in the receipt of premium revenue, and our profitability, could have a negative impact on our liquidity.

Potential Impact of COVID-19 Pandemic. Excluding acquisitions and our exit from Puerto Rico, we added over 750,000 new Medicaid members since March 31, 2020, when we first began to report on the impacts of the pandemic. We believe this membership increase was mainly due to the suspension of redeterminations for Medicaid eligibility. We expect Medicaid enrollment to continue to benefit from the extension of the PHE period, and the associated pause on membership redeterminations, at least through mid-October 2022.

Dividends from Subsidiaries. When available and as permitted by applicable regulations, cash in excess of the capital needs of our regulated health plans is generally paid in the form of dividends to our unregulated parent company to be used for general corporate purposes. As a result of the COVID-19 pandemic, state regulators could further restrict the ability of our regulated health plan subsidiaries to pay dividends to the parent company, which would reduce the liquidity of the parent company.

Credit Agreement Borrowing Capacity. As of June 30, 2022, we had available borrowing capacity of $1 billion under the revolving credit facility of our Credit Agreement. In addition, the Credit Agreement provides for a $15 million swingline sub-facility and a $100 million letter of credit sub-facility, as well as incremental term loans available to finance certain acquisitions up to $500 million, plus an unlimited amount of such term loans as long as our consolidated net leverage ratio is not greater than a defined maximum. See further discussion in the Notes to Consolidated Financial Statements, Note 8, “Debt.”

Future Uses

Common Stock Purchases. In September 2021, our board of directors authorized the purchase of up to $500 million, in the aggregate, of our common stock. This new program, which superseded the stock purchase program approved by our board of directors in September 2020, is funded with cash on hand and extends through December 31, 2022. The exact timing and amount of any repurchase is determined by management based on market conditions and share price, in addition to other factors, and subject to the restrictions relating to volume, price, and timing under applicable law. As of July 27, 2022, $300 million remained available to purchase our common stock under this program through December 31, 2022.

Acquisitions. On July 13, 2022, we announced a definitive agreement to acquire substantially all the assets of My Choice Wisconsin (“MCW”). As of May 2022, MCW served over 44,000 managed long-term services and supports and core Medicaid members throughout Wisconsin, delivering approximately $1 billion in premium revenue for the 12 months ended March 31, 2022. The purchase price for the transaction is approximately $150 million, net of expected tax benefits and required regulatory capital, which we intend to fund with cash on hand. The transaction is subject to receipt of applicable federal and state regulatory approvals, and the satisfaction of other customary closing conditions. We currently expect the transaction to close in 2022.

On October 7, 2021, we announced a definitive agreement to acquire the Medicaid Managed Long Term Care business of AgeWell New York. The purchase price for the transaction is approximately $106 million, net of certain tax benefits and target allocation of required regulatory capital, which we intend to fund with cash on hand. The transaction is subject to applicable federal and state regulatory approvals and the satisfaction of other customary closing conditions. We currently expect the transaction to close in the fourth quarter of 2022.

Potential Impact of COVID-19 Pandemic. As described above in “Trends and Uncertainties,” we have been subject to Medicaid risk corridors as a result of the pandemic. Beginning in 2020, various states enacted temporary risk corridors in response to the reduced demand for medical services stemming from COVID-19, which have resulted in a reduction of our medical margin. In some cases, these risk corridors were retroactive to earlier periods in 2020, or as early as the beginning of the states’ fiscal years in 2019. Since the second quarter of 2020, we have recognized risk corridors that we believe to be probable, and where the ultimate premium amount is reasonably estimable. For the three and six months ended June 30, 2022, we recognized approximately $94 million and $122 million, respectively, related to such risk corridors, primarily in the Medicaid segment.

It is possible that certain states could change the structure of existing risk corridors, implement new risk corridors in the future or discontinue existing risk corridors. Due to these uncertainties, the ultimate outcomes could differ materially from our estimates as a result of changes in facts or further developments, which could have an adverse effect on our consolidated financial position, results of operations, or cash flows.

Regulatory Capital Requirements. We have the ability, and have committed to provide, additional capital to each of our health plans as necessary to ensure compliance with statutory capital and surplus requirements.

CONTRACTUAL OBLIGATIONS

A summary of future obligations under our various contractual obligations and commitments as of December 31, 2021, was disclosed in our 2021 Annual Report on Form 10-K.

There were no significant changes to our contractual obligations and commitments outside the ordinary course of business during the six months ended June 30, 2022.

CRITICAL ACCOUNTING ESTIMATES

When we prepare our consolidated financial statements, we use estimates based on assumptions that may affect reported amounts and disclosures; actual results could differ from these estimates. Our critical accounting estimates relate to:

- *Medical claims and benefits payable*. Refer to Notes to Consolidated Financial Statements, Note 7, “Medical Claims and Benefits Payable,” for a table that presents the components of the change in medical claims and benefits payable, and for additional information regarding the factors used to determine our changes in estimates for all periods presented in the accompanying consolidated financial statements. Other than the discussion as noted above, in the six months ended June 30, 2022 there were no significant changes to our disclosure reported in “Critical Accounting Estimates” in our 2021 Annual Report on Form 10-K.
- *Contractual provisions that may adjust or limit revenue or profit*. For a discussion of this topic, including amounts recorded in our consolidated financial statements, refer to Notes to Consolidated Financial Statements, Note 2, “Significant Accounting Policies.”
- *Quality incentives*. In the six months ended June 30, 2022, there were no significant changes to our disclosure reported in “Critical Accounting Estimates” in our 2021 Annual Report on Form 10-K.
- *Business combinations, goodwill, and intangible assets, net.* In the six months ended June 30, 2022, there were no significant changes to our disclosure reported in “Critical Accounting Estimates” in our 2021 Annual Report on Form 10-K.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our earnings and financial position are exposed to financial market risk relating to changes in interest rates, and the resulting impact on investment income and interest expense.

Substantially all of our investments and restricted investments are subject to interest rate risk and will decrease in value if market interest rates increase. Assuming a hypothetical and immediate 1% increase in market interest rates at June 30, 2022, the fair value of our fixed income investments would decrease by approximately $87 million. Declines in interest rates over time will reduce our investment income.

For further information on fair value measurements and our investment portfolio, please refer to Notes to Consolidated Financial Statements, Note 5, “Fair Value Measurements,” and Note 6, “Investments.”

Borrowings under the Credit Agreement bear interest based, at our election, on a base rate or other defined rate, plus in each case, the applicable margin. For further information, see Notes to Consolidated Financial Statements, Note 8, “Debt.”

CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. Our management, with the participation of our chief executive officer and our chief financial officer, has concluded, based upon its evaluation as of the end of the period covered by this report, that the Company’s “disclosure controls and procedures” (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act), are effective to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms.

Changes in Internal Control Over Financial Reporting. There were no changes in our internal control over financial reporting during the six months ended June 30, 2022, that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

LEGAL PROCEEDINGS

For information regarding legal proceedings, see Notes to Consolidated Financial Statements, Note 11, “Commitments and Contingencies.”

RISK FACTORS

Certain risks may have a material adverse effect on our business, financial condition, cash flows, results of operations, or stock price, and you should carefully consider them before making an investment decision with respect to our securities. In addition to the other information set forth in this report, you should carefully consider the risk factors discussed under the caption “Risk Factors,” in our 2021 Annual Report on Form 10-K. The risk factors described in our 2021 Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business, financial condition, cash flows, results of operations, or stock price.

UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

ISSUER PURCHASES OF EQUITY SECURITIES

Purchases of common stock made by us, or on our behalf, during the second quarter of 2022, including shares withheld by us to satisfy our employees’ income tax obligations, are set forth below:

	Total Number of Shares Purchased [(1)]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [(2)]
April 1 - April 30	3,000	$ 339.41	169,000	$ 446,000,000
May 1 - May 31	—	$ —	314,000	$ 350,000,000
June 1 - June 30	—	$ —	175,000	$ 300,000,000
Total	3,000	$ 339.41	658,000	

(1) During the second quarter of 2022, we withheld approximately 3,000 shares of common stock, to settle employee income tax obligations, for releases of awards granted under the Molina Healthcare, Inc. 2019 Equity Incentive Plan.
(2) For further information on our stock repurchase programs, refer to the accompanying Notes to Financial Statements, Note 9, “Stockholders' Equity.”

INDEX TO EXHIBITS

Exhibit No.	Title	Method of Filing
31.1	Section 302 Certification of Chief Executive Officer	Filed herewith.
31.2	Section 302 Certification of Chief Financial Officer	Filed herewith.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
101.INS	Inline XBRL Taxonomy Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the inline XBRL document.	Filed herewith.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.	Filed herewith.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.	Filed herewith.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.	Filed herewith.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.	Filed herewith.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith.
104	Cover Page Interactive Data file (formatted as Inline XBRL and embedded within Exhibit 101)	Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	MOLINA HEALTHCARE, INC. (Registrant)
Dated: July 28, 2022	/s/ JOSEPH M. ZUBRETSKY
	Joseph M. Zubretsky **Chief Executive Officer** **(Principal Executive Officer)**
Dated: July 28, 2022	/s/ MARK L. KEIM
	Mark L. Keim **Chief Financial Officer and Treasurer** **(Principal Financial Officer)**

EXHIBIT 31.1

CERTIFICATION PURSUANT TO
RULES 13a-14(a)/15d-14(a)
UNDER THE SECURITIES EXCHANGE
ACT OF 1934, AS AMENDED

I, Joseph M. Zubretsky, certify that:

1. I have reviewed the report on Form 10-Q for the period ended June 30, 2022, of Molina Healthcare, Inc.;

2. Based on my knowledge, the report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the report;

3. Based on my knowledge, the financial statements, and other financial information included in the report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in the report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended), and internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934, as amended), for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period for which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in the report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the report based on such evaluation; and

(d) Disclosed in the report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and to the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Dated: July 28, 2022

/s/ Joseph M. Zubretsky
Joseph M. Zubretsky
Chief Executive Officer, President and Director

EXHIBIT 31.2

CERTIFICATION PURSUANT TO
RULES 13a-14(a)/15d-14(a)
UNDER THE SECURITIES EXCHANGE
ACT OF 1934, AS AMENDED

I, Mark L. Keim, certify that:

1. I have reviewed the report on Form 10-Q for the period ended June 30, 2022, of Molina Healthcare, Inc.;

2. Based on my knowledge, the report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the report;

3. Based on my knowledge, the financial statements, and other financial information included in the report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in the report;

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended), and internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934, as amended), for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period for which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in the report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the report based on such evaluation; and

(d) Disclosed in the report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and to the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Dated: July 28, 2022

/s/ Mark L. Keim
Mark L. Keim
Chief Financial Officer and Treasurer

EXHIBIT 32.1

CERTIFICATE PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the report of Molina Healthcare, Inc. (the “Company”) on Form 10-Q for the period ended June 30, 2022 (the “Report”), I, Joseph M. Zubretsky, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: July 28, 2022	/s/ Joseph M. Zubretsky
	Joseph M. Zubretsky
	Chief Executive Officer, President and Director

EXHIBIT 32.2

CERTIFICATE PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the report of Molina Healthcare, Inc. (the “Company”) on Form 10-Q for the period ended June 30, 2022 (the “Report”), I, Mark L. Keim, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: July 28, 2022	/s/ Mark L. Keim
	Mark L. Keim
	Chief Financial Officer and Treasurer