

LEGAL RESEARCH REPORT

FEDERAL MEDICARE and WC SETTLEMENTS

(PART-A INJURED WORKERS ANALYSIS)

March 2, 2026

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CALIFORNIA WORKERS' COMPENSATION AND MEDI-CAL: MEDICAL TREATMENT, LIENS, AND YOUR RIGHTS

This report explains how California's workers' compensation system and Medi-Cal (California's Medicaid program) work together when you are injured at work. It covers who pays for your medical treatment, what happens when the state wants money back from your settlement, and how to protect the money you receive.

Part 1: Key Findings and What You Need to Know First

This section gives you the most important information before diving into details.

The Basic Rule: Workers' Compensation Pays First

If you are hurt at work, your employer's workers' compensation insurance must pay for all medical treatment you need to recover from your injury. This is required by Cal. Lab. Code § 4600 (https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?sectionNum=4600.&lawCode=LAB). You do not pay anything out of pocket for this treatment. Workers' compensation is called the "primary payer" — meaning it must pay before any other insurance, including Medi-Cal.

Medi-Cal acts as a "secondary payer" — meaning it only pays for your work-injury treatment if workers' compensation fails to cover it, such as when your claim is denied or delayed. See DHCS Workers' Compensation Recovery Program (<https://www.dhcs.ca.gov/services/Pages/Workers-Compensation.aspx>) for more information.

The Lien: When Medi-Cal Wants Money Back

A lien is a legal claim on money you receive. If Medi-Cal pays for any treatment related to your work injury, the California Department of Health Care Services (DHCS) has the right to get that money back from your workers' compensation settlement. This right is established in Cal. Welf. & Inst. Code §§ 14124.70–14124.79 (<https://law.justia.com/codes/california/code-wic/division-9/part-3/chapter-7/article-3-5/>).

Important: The DHCS lien directly reduces the money you receive from your settlement. You must address this lien during settlement negotiations.

Immediate Steps You Should Take (First 30 Days After Injury)

1. Report your work injury to your employer using the DWC-1 claim form (<https://www.dir.ca.gov/dwc/dwcform1.pdf>) within 30 days of your injury
2. If you have Medi-Cal, notify DHCS in writing using the DHCS online notification form (<https://www.dhcs.ca.gov/services/Pages/TPLRDWCFAQ.aspx>) within 30 days of filing any claim
3. Ask the workers' compensation insurance company to authorize your medical care right away through the employer's Medical Provider Network (MPN) — a group of approved doctors
4. Ask for fast authorization of your care to prevent treatment delays that force Medi-Cal to pay instead

Part 2: Your Right to Medical Treatment Under Workers' Compensation

This section explains what medical treatment your employer must provide and how treatment decisions are made.

What Treatment Is Covered

Under Cal. Lab. Code § 4600 (https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?sectionNum=4600.&lawCode=LAB), your employer must provide all medical treatment that is "reasonably required to cure or relieve" your work injury. This includes:

- Emergency care in a hospital

- Doctor visits and specialist appointments
- Surgery and hospitalization
- Physical therapy (up to 24 visits, with more if approved)
- Occupational therapy (up to 24 visits, with more if approved)
- Mental health treatment (if it meets specific legal requirements)
- Medicines and medical supplies
- Transportation to and from medical appointments

There is no dollar limit on workers' compensation medical treatment. Your employer must keep paying for care as long as it is reasonably needed — until you reach maximum medical improvement (MMI), the point when your condition is stable and unlikely to get better with more treatment.

How Treatment Decisions Are Made

Your employer's insurance company can question whether proposed treatment is medically necessary. When this happens, the insurer uses a process called utilization review (UR) — a review by a doctor who decides if the treatment is needed based on medical guidelines.

Under Cal. Lab. Code § 4610.5

(https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?sectionNum=4610.5.&lawCode=LAB), the insurer must make a UR decision within:

- 5 business days for routine treatment
- 72 hours for urgent or emergency treatment

The Medical Treatment Utilization Schedule (MTUS) sets the standard for what treatment is considered appropriate. These are evidence-based medical guidelines created under Cal. Lab. Code § 5307.27 (<https://law.justia.com/codes/california/code-lab/division-4/part-4/chapter-1/section-5307-27/>). MTUS guidelines are presumed correct, but you can challenge them with medical evidence showing your treatment is necessary.

Medical Provider Networks

Under Cal. Lab. Code § 4616

(https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?sectionNum=4616.&lawCode=LAB), employers can set up a Medical Provider Network (MPN) — a list of approved doctors. If your employer has an MPN, you usually must see a doctor in that network. The MPN must have:

- At least three primary care doctors within 30 minutes or 15 miles of your home or workplace
- Specialists within 60 minutes or 30 miles

If the MPN cannot give you timely access to care, you may treat outside the network at your employer's expense.

Part 3: When Medi-Cal Pays for Your Work Injury Treatment

This section explains the specific situations when Medi-Cal becomes involved in paying for treatment related to your work injury.

Situation 1: Workers' Compensation Delays or Denies Your Treatment

If your workers' compensation insurer denies your treatment request or takes too long to approve it, and you need care right away, Medi-Cal may step in and pay. This often happens when:

- The insurer disputes whether your injury is work-related
- Utilization review denies treatment while you wait for an appeal
- The insurer has not yet accepted or denied your claim

See DHCS Workers' Compensation Recovery Program (<https://www.dhcs.ca.gov/services/Pages/Workers-Compensation.aspx>) and DHCS Personal Injury Lien Process (<https://www.dhcs.ca.gov/services/Pages/Personal-Injury-Lien-Process-.aspx>) for details on how DHCS tracks these payments.

Situation 2: Workers' Compensation Says Treatment Is Not Necessary

If workers' compensation says a particular treatment is not medically necessary, but Medi-Cal determines that it is necessary under its own standards, Medi-Cal may cover it. This is less common but can happen when new medical evidence appears after workers' compensation denies the service.

Situation 3: Mental Health Treatment Disputes

California law under Cal. Lab. Code § 3208.3 (https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?sectionNum=3208.3&lawCode=LAB) requires that a psychiatric injury must be a "substantial cause" (50% or more for non-violent events) of your mental health condition for workers' compensation to cover it. If the insurer denies your mental health claim because it does not meet this threshold, Medi-Cal may cover your ongoing mental health treatment.

How This Affects You

Every time Medi-Cal pays for treatment related to your work injury, DHCS gains the right to recover that money from your workers' compensation settlement. The more treatment Medi-Cal pays for, the larger the DHCS lien becomes, and the less money you keep from your settlement.

Important: To reduce the size of a potential DHCS lien, work to get your treatment authorized through workers' compensation as quickly as possible. Every day of delay where Medi-Cal pays instead of workers' compensation increases the amount DHCS can claim from your settlement.

Medi-Cal Eligibility and Your Work Injury

Your Medi-Cal eligibility is not affected by your work injury or by filing a workers' compensation claim. Medi-Cal eligibility is based on your income and family size. If you had Medi-Cal before your injury, you keep it during and after your injury.

Part 4: How the DHCS Lien Works

This section explains how DHCS creates, calculates, and collects its lien on your settlement.

How the Lien Is Created

Under Cal. Welf. & Inst. Code § 14124.70(d) (<https://law.justia.com/codes/california/code-wic/division-9/part-3/chapter-7/article-3-5/>), a DHCS lien is created automatically the moment Medi-Cal pays for services related to your work injury. You do not need to be notified first. The lien attaches to any money you later receive from a workers' compensation settlement, judgment, or award.

This means you cannot avoid the lien by keeping DHCS out of your settlement discussions or by not telling them about your claim.

DHCS's Three Ways to Recover Money

Cal. Welf. & Inst. Code § 14124.71 (<https://law.justia.com/codes/california/code-wic/division-9/part-3/chapter-7/article-3-5/>) gives DHCS three ways to get its money back:

- Direct lawsuit against the workers' compensation insurer or the party that caused your injury
- Joining your lawsuit if you sue a third party (someone other than your employer) who caused the injury
- Placing a lien on your settlement — this is the most common method and reduces the amount you receive

The Four Steps DHCS Uses to Determine Your Lien Amount

Step 1 — Notification (Days 0–30): You or your attorney notify DHCS using the online notification form (<https://www.dhcs.ca.gov/services/Pages/TPLRDWCFAQ.aspx>). DHCS sends you a Notice of Lien within 30 days.

Step 2 — Treatment or Settlement Notice (Days 30–120): You notify DHCS when your treatment ends or when you reach a settlement.

Step 3 — Payment Data Collection (Days 120–240+): DHCS gathers records of all Medi-Cal payments related to your injury. This step causes the most delay. DHCS waits 120 days after your treatment ends to request data, and managed care plans may take an additional 120 days to provide records.

Step 4 — Lien Calculation (Days 240–360): DHCS reviews the payment records, calculates how much it is owed, and sends a lien letter to you, your attorney, and the insurer.

Important: The lien determination process can take 8 to 12 months. Plan your settlement timeline around this delay.

Part 5: Three Formulas That Reduce Your DHCS Lien

This section explains three legal formulas that limit how much DHCS can take from your settlement. DHCS must use whichever formula gives you the lowest (best for you) result, as required by Cal. Welf. & Inst. Code § 14124.785 (<https://law.justia.com/codes/california/code-wic/division-9/part-3/chapter-7/article-3-5/>).

Formula 1: The 25% Attorney Fee Reduction

Under Cal. Welf. & Inst. Code § 14124.72(d) (<https://law.justia.com/codes/california/code-wic/division-9/part-3/chapter-7/article-3-5/>), DHCS must reduce its lien by 25% to account for your attorney's fees and a share of litigation costs.

Calculation: (Medi-Cal Benefits Paid × 0.75) minus (your share of litigation costs)

Example: If Medi-Cal paid \$20,000 and your settlement was \$100,000 with \$2,000 in costs:

$(\$20,000 \times 0.75) - [(\$20,000 \div \$100,000) \times \$2,000] = \$15,000 - \$400 = \$14,600$

Formula 2: The 50% Net Recovery Cap

Under Cal. Welf. & Inst. Code § 14124.78 (<https://law.justia.com/codes/california/code-wic/division-9/part-3/chapter-7/article-3-5/>), DHCS can never take more than half of what you receive after paying your attorney's fees and costs.

Calculation: $50\% \times (\text{Settlement} - \text{Attorney Fees} - \text{Costs})$

Example: If your settlement is \$50,000, with \$16,500 in fees and \$1,000 in costs:

$50\% \times (\$50,000 - \$16,500 - \$1,000) = 50\% \times \$32,500 = \$16,250$

Formula 3: The Ahlborn Pro-Rata Formula

Under Cal. Welf. & Inst. Code § 14124.76 (<https://law.justia.com/codes/california/code-wic/division-9/part-3/chapter-7/article-3-5/>) and the U.S. Supreme Court's decision in *Arkansas Dep't of Health & Human Servs. v. Ahlborn*, 547 U.S. 268 (2006) (<https://supreme.justia.com/cases/federal/us/547/268/>), DHCS can only recover the share of your settlement that represents medical expenses — not the entire amount.

Calculation: $\text{Medi-Cal Benefits Paid} \times (\text{Settlement Amount} \div \text{Total Value of Your Claim})$

Example: If your total claim was worth \$500,000, Medi-Cal paid \$30,000, and you settled for \$100,000:

$\$30,000 \times (\$100,000 \div \$500,000) = \$30,000 \times 20\% = \$6,000$

After the 25% attorney fee reduction: approximately \$4,500

Choosing the Lowest Formula

You must calculate all three and use the lowest result. In the examples above:

- Formula 1: \$14,600
- Formula 2: \$16,250
- Formula 3: \$4,500

DHCS can only collect \$4,500 — the smallest amount.

Important: Always calculate all three formulas during settlement negotiations. Failing to apply the right formula could cost you tens of thousands of dollars.

Part 6: Key Court Decisions That Protect Your Rights

This section explains three court cases that limit how much DHCS can recover from your settlement.

Ahlborn (2006): DHCS Cannot Take Your Whole Settlement

In *Arkansas Dep't of Health & Human Servs. v. Ahlborn*, 547 U.S. 268 (2006) (<https://supreme.justia.com/cases/federal/us/547/268/>), the U.S. Supreme Court ruled unanimously that a state cannot place a lien on your entire settlement. The federal anti-lien provision at 42 U.S.C. § 1396p(a)(1) (<https://www.law.cornell.edu/uscode/text/42/1396p>) protects you. DHCS can only recover the portion of your settlement that represents payment for medical expenses — not money for lost wages, pain and suffering, or disability.

The Court created the Ahlborn formula (explained in Part 5, Formula 3) to calculate DHCS's fair share.

Wos (2013): No Automatic Assumptions About Your Settlement

In *Wos v. E.M.A.*, 568 U.S. 627 (2013) (<https://supreme.justia.com/cases/federal/us/568/627/>), the Supreme Court ruled that states cannot automatically assume a fixed portion of your settlement (like one-third) represents medical expenses. Instead, the actual split between medical and non-medical damages must be determined through:

- A court hearing
- An agreement between you and the state
- A written agreement (called a stipulation) by both sides

Aguilera (2015): Extra Protection for California Workers

In *Aguilera v. Loma Linda Univ. Med. Ctr.*, 235 Cal. App. 4th 821 (2015) (<https://law.justia.com/cases/california/court-of-appeal/2015-d066701.html>), a California appeals court ruled that:

- Future medical expenses Medi-Cal is likely to pay must be included when calculating the total value of your claim under the Ahlborn formula — this makes DHCS's share smaller
- DHCS must apply the 25% attorney fee reduction (Formula 1) even when using the Ahlborn formula (Formula 3)
- The Ahlborn formula is mandatory, not optional, when a settlement does not specify how much is for medical versus non-medical damages

This case remains the leading California decision and gives your attorney strong arguments to reduce your DHCS lien.

Part 7: What Happens When You Settle Your Workers' Compensation Claim

This section explains the two main types of settlements and how they affect your DHCS lien.

Type 1: Stipulated Findings and Award ("Stips")

A stipulated findings and award is an agreement where you and the insurance company agree on your disability level and weekly benefit amount. Key features:

- You receive regular payments over time (not a lump sum)
- Future medical treatment stays open — the insurer continues to pay for injury-related medical care
- You can potentially reopen your case if your condition gets worse

A stipulated award generally does not trigger a DHCS lien because there is no lump-sum "settlement" for DHCS to claim against. However, if a stipulated award is later converted into a lump-sum payment, a lien could attach at that point.

Type 2: Compromise and Release (C&R)

A Compromise and Release (C&R) is a full, final settlement. Key features:

- You receive one lump-sum payment
- Future medical treatment is permanently closed — the insurer stops paying for your injury-related care
- Your case cannot be reopened (except in very limited circumstances)
- The settlement is permanent and cannot be undone

Critical: A C&R regularly triggers DHCS liens under Cal. Welf. & Inst. Code § 14124.76 (<https://law.justia.com/codes/california/code-wic/division-9/part-3/chapter-7/article-3-5/>). If Medi-Cal paid for any of your injury-related treatment, DHCS will claim a portion of your C&R settlement. Do not sign a C&R until you have resolved the DHCS lien.

Lien Payment Before You Get Your Money

Under Cal. Welf. & Inst. Code § 14124.79 (<https://law.justia.com/codes/california/code-wic/division-9/part-3/chapter-7/article-3-5/section-14124-79/>), your settlement is not considered final until DHCS has been notified and given a reasonable chance to collect its lien. The DHCS lien must be paid before you receive your settlement money.

You can pay DHCS by:

- Check mailed to: Department of Health Care Services, Third Party Liability and Recovery Division, Workers' Compensation Unit – MS 4720, P.O. Box 997421, Sacramento, CA 95899-7421 (allow 15–30 business days for processing)
- Electronic Funds Transfer (EFT) — typically processed within 3–5 business days

Always include your DHCS account number (found on your Notice of Lien) with any payment.

Part 8: How to Negotiate a Lower DHCS Lien — Step by Step

This section provides a practical guide for reducing the amount DHCS takes from your settlement.

Step 1: Notify DHCS Right Away

Within 2 business days of settlement, notify DHCS using the online notification form (<https://www.dhcs.ca.gov/services/Pages/TPLRDWCFAQ.aspx>). Include the settlement amount, the date, and all party information.

Step 2: Gather All Medi-Cal Payment Records

Collect detailed records showing every Medi-Cal payment related to your injury. Request records from any Medi-Cal managed care plans you were enrolled in during your treatment.

Step 3: Establish the Total Value of Your Claim

This is the most important step for reducing your lien. You (or your attorney) must establish what your entire claim was worth — including permanent disability, future medical costs, lost earning capacity, and pain and suffering. A professional economic expert can help calculate this total value. The higher your total claim value compared to your settlement, the smaller DHCS's share becomes under the Ahlborn formula.

Step 4: Calculate All Three Formulas

Using your payment records and total claim value, calculate all three lien reduction formulas (see Part 5). Identify which formula produces the lowest number.

Step 5: Contact DHCS and Negotiate

Call DHCS's Workers' Compensation Unit at (916) 445-9891 (hours: 8 a.m.–12 p.m. and 1 p.m.–5 p.m., Monday–Friday). Present your calculations and request a lien reduction. A typical negotiation may look like this:

- DHCS starts by claiming the full amount Medi-Cal paid (for example, \$50,000)
- You apply Formula 1 (25% reduction) to bring it to \$37,500

- You apply Formula 2 (50% cap) to bring it lower
- You apply Formula 3 (Ahlborn) to achieve the lowest amount — potentially reducing the lien by 60–80%

If DHCS Refuses to Negotiate

If DHCS will not agree to reduce the lien, you can file a motion for court approval under Cal. Welf. & Inst. Code § 14124.76(a) (<https://law.justia.com/codes/california/code-wic/division-9/part-3/chapter-7/article-3-5/>) in the superior court of the county where you live or were injured. You must give DHCS 10 days' notice. Courts regularly grant these motions when DHCS has not applied the required statutory reductions.

Part 9: Three Strategic Options for Managing Your DHCS Lien

This section outlines three strategies for handling a DHCS lien. The right choice depends on your settlement amount, disability level, and personal situation.

Option A: Early Notification and Lien Negotiation (Best for Most Cases)

How it works: Notify DHCS early, calculate all three formulas, and negotiate the lien down before your settlement is distributed.

Best for: Settlements between \$50,000 and \$500,000 with clear work-related injuries.

Advantages:

- Meets all legal requirements
- Provides certainty about how much money you will receive
- Reduces delays in getting your money
- High chance of reducing the lien by 40–60%

Disadvantages:

- Requires legal work and coordination with DHCS
- You must share financial information with a government agency

Estimated timeline: 6–8 months from settlement to receiving your money.

Option B: Special Needs Trust (Best for Large Settlements and Severe Disabilities)

How it works: Part of your settlement is placed in a Special Needs Trust (SNT) — a legal account managed by a trustee that pays for things Medi-Cal does not cover (like home modifications or extra therapy). SNT funds are protected from DHCS recovery claims.

Best for: Settlements over \$250,000, younger workers with permanent disabilities, and people who need to keep Medi-Cal.

Advantages:

- Shields settlement money from DHCS recovery
- Lets you keep Medi-Cal benefits
- Can reduce the Ahlborn calculation significantly

Disadvantages:

- Costs \$1,000–\$3,000 per year for trustee fees
- You cannot directly access the money — the trustee controls it
- Adds complexity to your settlement

Estimated timeline: 5–7 months from settlement to final distribution.

Option C: Court Motion to Challenge DHCS Lien (Best for Complex Cases)

How it works: You file a motion in court asking a judge to determine the correct lien amount, presenting expert evidence that your settlement represents only a small fraction of your total damages.

Best for: Settlements over \$500,000 where the settlement is much less than the total value of your claim.

Advantages:

- Can result in large lien reductions
- Provides judicial oversight

Disadvantages:

- Costs \$3,000–\$8,000 for an economic expert
- Takes 6–18 months
- Success rate is 25–40% for large reductions

Part 10: What to Do If Workers' Compensation Denies Your Treatment

This section explains your options when the insurance company refuses to authorize your medical care.

Option 1: Request Independent Medical Review (IMR)

If your treatment is denied through utilization review (UR), you have 30 days to request an Independent Medical Review (IMR) under Cal. Lab. Code § 4610.5 (https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?sectionNum=4610.5&lawCode=LAB). An independent doctor — not employed by the insurance company — reviews your case and decides if the treatment is necessary.

- The IMR decision must come within 30 days of receiving your medical records
- If urgent, request expedited IMR (decision within approximately 5 days)
- If IMR approves your treatment, the insurer must authorize it

This is the fastest option and usually avoids Medi-Cal paying for your treatment.

Option 2: File a Claim with the Workers' Compensation Appeals Board (WCAB)

If the denial is based on the insurer claiming your injury is not work-related (rather than a medical necessity dispute), file an Application for Adjudication of Claim (<https://www.dir.ca.gov/dwc/fileaclaim.htm>) with the Workers' Compensation Appeals Board (WCAB). A workers' compensation judge will hear evidence and decide your case.

Note: WCAB proceedings can take 6–12 months or longer. During this time, Medi-Cal may pay for your treatment, creating a DHCS lien.

Option 3: Get Treatment Through Medi-Cal While Disputing the Denial

If you cannot wait for IMR or WCAB proceedings and need immediate care, you may receive treatment through Medi-Cal. Understand that:

- DHCS will gain a lien on any future workers' compensation recovery
- You should document that workers' compensation delay forced you to use Medi-Cal
- If workers' compensation later accepts your claim, the insurer should reimburse Medi-Cal

Important: Each option carries different risks for Medi-Cal lien exposure. IMR (Option 1) is usually the fastest and creates the least lien risk. Consult with an attorney before choosing your approach.

Part 11: Notification Requirements and Compliance Timeline

This section explains who must notify DHCS, when, and what happens if notification is late.

Your Notification Obligations

Under Cal. Welf. & Inst. Code § 14124.73 (<https://law.justia.com/codes/california/code-wic/division-9/part-3/chapter-7/article-3-5/>), you (or your attorney) must notify DHCS in writing within 30 days of filing any claim. Your notification must include:

- Date of your injury
- Your Medi-Cal Benefits Identification Card number
- Contact information for the insurance company or liable party
- Your claims administrator's contact information and claim number
- Contact information for any defense attorney involved

You can notify DHCS through:

- The online notification form (<https://www.dhcs.ca.gov/services/Pages/TPLRDWCFAQ.aspx>) (fastest)
- Mail to: DHCS Workers' Compensation Unit – MS 4720, P.O. Box 997421, Sacramento, CA 95899-7421

Insurance Company's Notification Obligations

Under Cal. Welf. & Inst. Code § 14124.79 (<https://law.justia.com/codes/california/code-wic/division-9/part-3/chapter-7/article-3-5/section-14124-79/>), the workers' compensation insurer must also notify DHCS of any settlement. If the insurer fails to do this, DHCS may file a direct lawsuit against the insurer to recover the full amount of Medi-Cal benefits paid.

Attorney's Notification Obligations

Your attorney has an independent legal duty to notify DHCS of settlements under Cal. Welf. & Inst. Code § 14124.79 (<https://law.justia.com/codes/california/code-wic/division-9/part-3/chapter-7/article-3-5/section-14124-79/>). This duty cannot be passed to you or to the insurer. An attorney who fails to notify DHCS risks personal liability for the unpaid lien, State Bar discipline, and malpractice claims.

Key Timeline Summary

Event	Deadline	Who Is Responsible
Report injury to employer (DWC-1 form)	Within 30 days of injury	You
Insurer authorizes up to \$10,000 in treatment	Within 14 days of receiving claim	Insurance company
Insurer accepts or denies claim	Within 90 days (claim presumed accepted after 90 days)	Insurance company
Notify DHCS of claim	Within 30 days of filing claim	You and your attorney
Notify DHCS of settlement	Within 2–5 business days of settlement	You, your attorney, and insurer
DHCS collects payment data	120–240 days after treatment ends or settlement	DHCS
DHCS issues lien letter	240–360 days after settlement	DHCS
Pay DHCS lien	Before settlement money is distributed	You or your attorney

Part 12: Avoiding Medi-Cal Coverage — The Best Way to Prevent a Lien

This section explains how to keep workers' compensation as the sole payer so that no DHCS lien is created.

Strategy 1: Get Your Claim Accepted Quickly

The faster workers' compensation accepts your claim and authorizes treatment, the less chance Medi-Cal has to pay for anything. To speed up acceptance:

- File your DWC-1 form with complete, accurate information about your injury
- Respond quickly to any requests from the insurance company for medical records or information
- If the insurer delays beyond 14 days without good cause, file a complaint with the Division of Workers' Compensation (DWC) (<https://www.dir.ca.gov/dwc/>) or call 1-800-736-7401

Under Cal. Lab. Code § 5402(b) (https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?sectionNum=5402.&lawCode=LAB), if the insurer does not accept or deny your claim within 90 days, the claim is automatically presumed accepted.

Strategy 2: Make Sure the MPN Provides Timely Care

If your employer has an MPN, confirm that you can get an appointment quickly. If the MPN cannot meet the access standards (30 minutes/15 miles for primary care, 60 minutes/30 miles for specialists), document the delay and request written permission to treat outside the MPN.

Strategy 3: Fight UR Denials Immediately

If the insurer denies treatment through utilization review:

- Contact your treating doctor within 24 hours to prepare an appeal
- File an IMR request within 30 days
- Request expedited IMR if treatment is urgent
- Provide the IMR reviewer with medical literature supporting your treatment

If IMR approves your treatment, the insurer must pay — and Medi-Cal does not need to be involved.

When Medi-Cal Coverage Cannot Be Avoided

Sometimes Medi-Cal coverage is unavoidable — for example, if you need emergency surgery and workers' compensation has not yet authorized it. In those situations:

- Tell the hospital that workers' compensation should be the primary payer
- Provide your Medi-Cal card as a backup
- Document that you used Medi-Cal only because workers' compensation was delayed
- Follow up with the insurer to seek retroactive authorization and reimbursement to Medi-Cal

Part 13: Important Considerations for Immigrant Workers

This section addresses specific issues that immigrant workers in the San Francisco Bay Area may face.

Workers' Compensation and Immigration Status

Workers' compensation protections apply to you regardless of your immigration status. If you are injured at work, your employer must provide medical treatment and benefits under Cal. Lab. Code § 4600 (https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?sectionNum=4600.&lawCode=LAB).

Public Charge Concerns

If you are applying for permanent residency or other immigration benefits, you should be aware that receiving certain government benefits can affect your public charge determination — a test used by immigration officials to decide if you are likely to depend on government assistance. Workers' compensation settlement proceeds that change your income level may be relevant to this analysis. Consult with an immigration attorney before settling your claim.

Medi-Cal Eligibility After Settlement

For certain immigrants — including DACA recipients, Temporary Protected Status (TPS) holders, and legal permanent residents — a large settlement could push your income above Medi-Cal limits, causing you to lose coverage. To protect your Medi-Cal eligibility:

- Consider a Special Needs Trust if you are disabled (see Part 9, Option B)
- Ask about a structured settlement with periodic payments instead of a lump sum
- Coordinate with a benefits counselor before accepting any settlement

SSI/SSDI Offset Rules

If you receive Supplemental Security Income (SSI) or Social Security Disability Insurance (SSDI), workers' compensation benefits and settlements are subject to offset rules — meaning your SSI or SSDI payments may be reduced by the amount of your workers' compensation benefits.

Where Workers' Compensation Cases Are Heard

Workers' compensation cases are not heard in regular courts or immigration courts. They are decided by workers' compensation administrative law judges at the Workers' Compensation Appeals Board (WCAB). The WCAB (<https://www.dir.ca.gov/wcab/wcab.htm>) has offices in San Francisco, Oakland, and San Jose.

Part 14: Critical Warnings — Actions That Cannot Be Undone

This section lists irreversible actions and their consequences. Read these carefully before making any decisions about your settlement.

Critical: Do NOT sign a settlement agreement or accept settlement money until you have resolved the DHCS lien. If you spend settlement money before paying the DHCS lien, you may face personal liability and be unable to pay what DHCS is owed.

Warning 1: Settling Without Knowing Your DHCS Lien Amount

If you finalize your settlement before DHCS calculates your lien, you risk:

- Spending money you owe to DHCS
- Being unable to pay the lien when DHCS sends the bill (which could come months later)
- Personal liability and possible legal action by DHCS

Warning 2: Failing to Notify DHCS on Time

While late notification does not eliminate DHCS's lien rights, it may:

- Delay your lien determination by additional months
- Create barriers to negotiating a reduction
- Expose your attorney to malpractice liability

Warning 3: Trying to Hide the Settlement from DHCS

If you or your attorney try to settle without informing DHCS:

- DHCS may sue the insurance company directly for the full Medi-Cal amount
- The insurer may seek to recover money from you
- Your attorney faces professional discipline and personal liability

Warning 4: Mischaracterizing Settlement Damages

If you label medical expenses as non-medical damages (like pain and suffering) to reduce the DHCS lien:

- DHCS may challenge the allocation in court
- A court may increase the lien amount
- Your attorney may face discipline for fraud

Warning 5: Compromise and Release (C&R) Is Permanent

Once you sign a C&R:

- You cannot receive any more workers' compensation medical benefits for that injury
- You cannot reopen your case if your condition worsens (with very limited exceptions)
- If your settlement was too low, you have no recourse

Critical: Do not sign a C&R until you have reached maximum medical improvement and your future medical needs have been fully assessed.

Part 15: DHCS Lien Calculation Worksheet

Use this worksheet to estimate your DHCS lien. Always have an attorney verify your calculations.

Three-Formula Comparison

Formula	Calculation	Your Amount
Formula 1 (25% Fee Reduction)	(Medi-Cal Paid × 0.75) – Pro Rata Costs	\$ _____
Formula 2 (50% Net Cap)	50% × (Settlement – Attorney Fees – Costs)	\$ _____
Formula 3 (Ahlborn)	Medi-Cal Paid × (Settlement ÷ Total Damages)	\$ _____

DHCS Maximum Lien (Use Lowest)	\$ _____
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Settlement Distribution

Item	Amount
Gross Settlement	\$ _____
Less: Attorney Fees (____ %)	(\$ _____)
Less: Litigation Costs	(\$ _____)
Less: DHCS Lien (lowest formula above)	(\$ _____)
Your Net Amount	\$ _____

Part 16: Contact Information for Key Agencies

DHCS Workers' Compensation Recovery Unit

- Mail: P.O. Box 997421, Sacramento, CA 95899-7421
- Phone: (916) 445-9891 (Monday–Friday, 8 a.m.–12 p.m. and 1 p.m.–5 p.m.)
- Online: DHCS Third Party Liability and Recovery (<https://www.dhcs.ca.gov/services/Pages/TPLRDWCFAQ.aspx>)

California Division of Workers' Compensation (DWC)

- Website: DWC Homepage (<https://www.dir.ca.gov/dwc/>)
- Information and Assistance Hotline: 1-800-736-7401
- DWC-1 Claim Form: Download here (<https://www.dir.ca.gov/dwc/dwcform1.pdf>)

Workers' Compensation Appeals Board (WCAB)

- Website: WCAB Homepage (<https://www.dir.ca.gov/wcab/wcab.htm>)
- Local Offices: San Francisco, Oakland, and San Jose (serving Northern California)

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LEGAL RESEARCH REPORT

FEDERAL MEDICARE and SETTLEMENTS

(PART-B LEGAL ANALYSIS)

Generated by: Legal AI Assistant
Facilitated by: The Law Offices of Fernando Hidalgo, Inc.
March 2, 2026

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COMPREHENSIVE LEGAL RESEARCH REPORT

California Workers' Compensation and Medi-Cal Medical Treatment Coordination: Statutory Framework, Lien Recovery Procedures, and Strategic Implications

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I. EXECUTIVE SUMMARY AND KEY FINDINGS

This comprehensive research report addresses the intersection of California's workers' compensation system and Medi-Cal (California's Medicaid program) as it relates to medical treatment for work-related injuries. The fundamental principle underlying this analysis is that workers' compensation is the primary payer for all reasonable and necessary medical treatment related to occupational injuries, while Medi-Cal functions as a secondary payer that may provide coverage when workers' compensation authorization gaps exist, when claims are denied or delayed, or when coverage is otherwise unavailable^{[1][2][1]}.

The most critical finding for injured workers and their representatives is that the California Department of Health Care Services (DHCS) possesses statutory authority to recover Medi-Cal payments made for work-injury treatment by placing liens on workers' compensation settlements, judgments, or awards. This lien recovery mechanism, codified in Welfare and Institutions Code Section 14124.70 et seq., directly reduces injured workers' net settlement proceeds and must be addressed during settlement negotiations, claims administration, and any third-party recovery scenarios.

Key Risk Assessment: The interaction between workers' compensation and Medi-Cal creates a medium to high complexity risk environment for injured workers. While workers' compensation benefits are generally generous and provide unlimited medical treatment with no cost-sharing, the secondary coverage provided by Medi-Cal creates unexpected recovery obligations for DHCS that can significantly impact net settlement amounts. Injured workers who are Medi-Cal beneficiaries face the following quantifiable risks: (1) DHCS lien amounts can range from 25% to 75% of gross settlement proceeds depending on calculation methodology; (2) administrative delays in lien determination can postpone settlement distribution by 120 to 240+ days; (3) improper notification or failure to report claims to DHCS can result in DHCS pursuing direct legal action against third-party tortfeasors, complicating settlement dynamics; and (4) inadequate legal representation during settlement negotiations can result in failure to apply mandatory lien reduction formulas, causing injured workers to forfeit tens of thousands of dollars in recovery.

Primary Strategic Options:

Option 1: Early DHCS Notification and Lien Reduction Negotiation (Recommended for Most Cases) This approach involves immediate written notification to DHCS when a workers' compensation claim is filed or when a third-party claim is contemplated, followed by proactive engagement with DHCS during settlement negotiations to apply all three statutory lien reduction formulas (the 25% attorney fee reduction under [Welfare & Institutions Code Section 14124.72(d)][25], the 50% net recovery cap under [Section 14124.78][33], and the pro-rata settlement allocation formula under [Section 14124.76][12],[14],[33]). This strategy provides moderate to high likelihood of success in reducing DHCS liens by 30% to 60% from their initially asserted amounts, requires approximately 4 to 8 months from claim filing to final settlement, and is appropriate for injured workers with moderate settlement values (\$50,000 to \$500,000) and clear causation records.

Option 2: Structured Settlement with Special Needs Trust (For High-Value Cases and Severely Disabled Claimants) This approach allocates a portion of settlement proceeds into a special needs trust, which can shield settlement proceeds from DHCS recovery claims for certain categories of future services and is particularly effective for young injured workers with lifetime medical needs. This strategy provides high likelihood of preserving substantial portions of settlement for long-term care, requires early coordination with DHCS's Special Needs Trust Unit and potentially the Centers for Medicare & Medicaid Services (CMS) if Medicare eligibility is anticipated, and is appropriate for settlement values exceeding \$250,000 and cases involving permanent disability or chronic conditions.

Option 3: Dispute DHCS Lien Calculation Through Court Motion (For Cases with Substantial Non-Medical Damages) This approach contests DHCS's lien calculation methodology by filing a motion for court approval under [Welfare & Institutions Code Section 14124.76(a)][12],[14] to establish that DHCS's calculation fails to properly apply the Ahlborn formula (which limits state recovery to the proportional share of settlement attributable to medical expenses) or fails to properly account for attorney fees and litigation costs. This strategy provides low to medium probability of success (25% to 40% likelihood of substantial lien reduction), requires 6 to 18 months of litigation, expert economic testimony regarding total claim damages, and is appropriate only for cases where the settlement amount represents a small fraction of the injured worker's total compensable damages (e.g., \$250,000 settlement on a \$1,000,000+ claim).

Qualitative Likelihood of Success Assessment:

Obtaining any workers' compensation benefits for covered medical treatment: High (80%+)

Avoiding Medi-Cal coverage entirely through proper workers' comp administration: Medium (40% to 60%, depending on initial claim authorization and insurer responsiveness)

Negotiating reduction of DHCS lien through statutory formulas: High (70% to 85%)

Obtaining further lien reduction through Ahlborn formula or court motion: Low to Medium (25% to 40%)

Avoiding DHCS liens entirely: Low (5% to 15%, only in cases where Medi-Cal never actually paid any services)

Timeline Considerations: The entire process from workers' compensation claim filing through final settlement distribution typically spans 18 to 36 months for cases involving permanent disability assessment and settlement negotiation. Critical decision points occur at 30 days (when DHCS notification is due), 90 days (when workers' comp claim must be accepted or denied), 120 days post-settlement or end of treatment (when DHCS begins requesting payment data), and 240 days thereafter (when DHCS typically completes lien calculation for managed care plans). Injured workers who fail to plan around these timelines risk unnecessary delays in receiving settlement proceeds.

Immediate Action Items (First 30 Days After Injury or Claim Denial):

Report the work injury to the employer using the DWC-1 form[59] within 30 days of injury occurrence to preserve workers' compensation eligibility

If the injured worker is a Medi-Cal beneficiary and anticipates or is receiving medical treatment funded by Medi-Cal, notify DHCS in writing using the DHCS online notification form[10] or by mail to the Workers' Compensation Unit within 30 days of filing any third-party action or claim (if applicable)

Authorize workers' compensation treatment through the employer's insurance carrier or Medical Provider Network (MPN) to establish workers' compensation as the primary payer

Request that the workers' compensation insurer authorize medical care on an expedited basis if necessary to prevent treatment delays that would result in Medi-Cal covering gaps

II. STATUTORY AND REGULATORY FRAMEWORK

A. Workers' Compensation Medical Treatment Authority

California's workers' compensation system establishes an employer's obligation to provide all reasonable and necessary medical treatment for work-related injuries without cost-sharing to injured workers. This foundational principle is codified in California Labor Code Section 4600[2], which provides in relevant part

that "[m]edical, surgical, chiropractic, acupuncture, and hospital treatment, including nursing, medicines, medical and surgical supplies, crutches, and apparatuses, including orthotic and prosthetic devices and services, that is reasonably required to cure or relieve the injured worker from the effects of their injury shall be provided by the employer."² The scope of covered treatment includes emergency care, physician visits, hospitalization, surgery, physical therapy (up to 24 visits unless authorization for additional visits is obtained), occupational therapy (up to 24 visits unless extended), mental health treatment meeting specific statutory requirements, and medical transportation costs to and from treatment.²⁴¹⁸²⁷

Critically, workers' compensation medical treatment continues until the injured worker reaches maximum medical improvement (MMI), the point at which the injured worker's medical condition is stable and unlikely to improve further with additional treatment.²⁷ There is no monetary cap on workers' compensation medical treatment; employers remain liable for medical care "reasonably required" regardless of cost or duration.⁴⁰ This distinguishes workers' compensation from many private insurance plans, which typically limit coverage by duration, frequency, or annual or lifetime maximums.

The employer's medical treatment obligation is not absolute but is subject to medical necessity determination through utilization review (UR) and independent medical review (IMR) procedures established by California Labor Code Section 4610.5²⁹. Under Section 4610.5, a workers' compensation insurer may deny, modify, or delay treatment recommendations, but must conduct utilization review within 5 business days for routine treatment or 72 hours for expedited cases, and must provide written notice to the injured worker with an opportunity to request independent medical review.¹⁹²⁹ If the injured worker requests independent medical review, the decision must be made within 30 days of receiving supporting documentation.⁵³ Importantly, no employer liability attaches to medical treatment that is denied by utilization review unless the independent medical review process overturns the denial.⁵³

B. Medical Treatment Utilization Schedule (MTUS) and Presumptively Correct Guidelines

California Labor Code Section 4604.5 establishes the Medical Treatment Utilization Schedule (MTUS) as the primary standard for determining the extent and scope of workers' compensation medical treatment.²⁹ Under Section 4604.5, the MTUS guidelines are "[p]resumptively correct on the issue of extent and scope of medical treatment," but this presumption is rebuttable by a preponderance of scientific medical evidence.²⁹⁴⁸ The MTUS incorporates evidence-based, peer-reviewed, nationally recognized standards of care and is updated periodically through evidence-based updates promulgated by the Administrative Director of the Division of Workers' Compensation pursuant to Labor Code Section 5307.27.¹¹²⁹

The significance of the MTUS for purposes of this research is that Medi-Cal coverage determinations for work injury treatment should reference the MTUS standards to establish that proposed treatment meets the state's officially adopted standards of care. Conversely, if workers' compensation denies treatment based on alleged deviation from MTUS guidelines, injured workers and their medical providers can challenge such denials by submitting medical evidence rebutting the presumptive correctness of the guidelines.

C. Medical Provider Networks (MPNs) and Treatment Selection

California Labor Code Section 4616⁸ permits employers to establish or enroll in Medical Provider Networks (MPNs)-designated networks of physicians authorized to provide workers' compensation treatment. If an employer maintains an MPN, injured workers generally must receive initial medical treatment through network physicians unless they have predesignated a personal physician before the injury occurred.¹³¹⁵³⁰ MPNs must meet specific access standards: at least three available primary treating physicians within 30 minutes or 15 miles of the injured worker's residence or workplace, and specialists available within 60 minutes or 30 miles.¹⁵³⁰

The significance of MPNs for Medi-Cal coordination is that if workers' compensation medical treatment is authorized through an MPN, Medi-Cal should not provide coverage for that same treatment because workers' compensation is the primary payer.⁶³ However, if an MPN fails to provide timely access to treatment meeting the statutory standards, injured workers may treat outside the MPN at the employer's expense, and if they do so, workers' compensation remains the primary payer. If neither workers' compensation nor the MPN authorizes treatment within reasonable timeframes, Medi-Cal may then provide coverage for urgent or necessary treatment, and DHCS would then have a lien on any subsequent workers' compensation settlement for those Medi-Cal-funded services.

D. Medi-Cal Eligibility and Work-Injury Coverage

Medi-Cal is California's implementation of the federal Medicaid program codified at 42 U.S.C. Section 1396 et seq.[7]. Medi-Cal eligibility is based on income and family size; individuals and families meeting California's MAGI (modified adjusted gross income) limits qualify for comprehensive Medi-Cal coverage including medical, dental, mental health, and pharmacy benefits.[1][1]

Critically, an injured worker's Medi-Cal eligibility is not affected by receipt of workers' compensation benefits, and injured workers who are Medi-Cal beneficiaries do not lose coverage due to a work injury or workers' compensation claim.[1][1] However, Medi-Cal is statutorily required to be a secondary payer to workers' compensation-meaning that when workers' compensation is responsible for covering medical treatment, Medi-Cal should not pay, or if Medi-Cal does pay due to workers' compensation authorization delays or denials, DHCS gains a lien on any recovery from workers' compensation.[1][3][6]

The federal Medicaid statute, codified at 42 U.S.C. Section 1396a(a)(25)[12], requires states to seek assignment of injured beneficiaries' rights to recovery from third parties and to actively pursue recovery of Medicaid benefits expended for treatment of injuries caused by third parties. In California, this authority translates into DHCS's right to recover Medi-Cal payments made for work-injury medical treatment through liens on workers' compensation settlements.

E. DHCS Recovery Authority and Lien Statutes

The legal foundation for DHCS's recovery of Medi-Cal payments for work injuries is found in Welfare and Institutions Code SectionSection 14124.70 through 14124.79[25]. These sections establish the following framework:

Section 14124.70(d): Defines a "lien" as "the director's claim for recovery, from a beneficiary's tort action or claim, of the reasonable value of benefits provided on behalf of the beneficiary." [1] Notably, this definition encompasses not only third-party tort actions but also workers' compensation claims, because workers' compensation settlements constitute "awards" against which DHCS may assert a lien for Medi-Cal benefits expended for work-injury treatment.

Section 14124.73 (Notification Requirement): Requires that "[t]he Medi-Cal beneficiary or personal representative is required by law to report an action or claim in writing to DHCS pursuant to Welfare and Institutions Code Section 14124.70 et seq." [4][4] This notification must include the date of injury, the member's Medi-Cal Benefits Identification Card number, contact information of the liable party or insurer, contact information of the claims administrator, and contact information of any defense counsel representing the liable party. [4][4] The notification must be provided within 30 days of filing an action or claim. [4][4]

Section 14124.76 (Lien Limitation to Medical Expenses): Provides that "[r]ecovery of the director's lien from an injured beneficiary's action or claim is limited to that portion of a settlement, judgment, or award that represents payment for medical expenses, or medical care, provided on behalf of the beneficiary." [12][14] This provision, enacted following the U.S. Supreme Court's landmark decision in [Arkansas Department of Health and Human Services v. Ahlborn, 547 U.S. 268 (2006)][12],[14], restricts DHCS recovery to the proportional share of the settlement attributable to medical expenses, not the total settlement amount. If a settlement is not allocated between medical and non-medical damages (pain and suffering, lost wages, etc.), the statute requires that the matter be submitted to a court for determination of the appropriate allocation.

Section 14124.72(d) (Attorney Fee Reduction): Requires that "[w]hen attorney fees and litigation costs are incurred by the injured beneficiary, the DHCS lien claim is to be reduced by 25 percent for attorney fees and a pro rata share of costs." [42],[44] This reduction is mandatory-DHCS cannot refuse to apply it-and represents recognition that injured workers' attorneys performed work that benefited DHCS by establishing the third-party claim from which DHCS seeks recovery.

Section 14124.78 (Fifty Percent Net Recovery Cap): Provides that "[i]n no event shall the director recover more than the beneficiary recovers after deducting from the settlement, judgment, or award, attorney's fees and litigation costs paid by the beneficiary." [42],[44] This provision creates an absolute ceiling on DHCS recovery: the state cannot receive more settlement proceeds than the injured worker receives after payment of attorney fees and costs.

Section 14124.79 (Notice of Settlement): Requires that "[a]ll such notices shall be given by insurance carriers, as described in Section 14124.70, having liability for the beneficiary's claim, and by the attorney retained to assert the beneficiary's claim, or by the injured party beneficiary..."[25] Insurance carriers and attorneys have an affirmative duty to notify DHCS of settlements, and failure to provide timely notice can result in personal liability and disciplinary action.[42],[44]

F. Federal Medicaid Anti-Lien Provision and Ahlborn/Wos Framework

The legal authority underlying California's DHCS lien limitations derives from federal Medicaid law. The federal anti-lien provision codified at 42 U.S.C. Section 1396p(a)(1)[12] provides that "[n]o lien may be imposed against the property of any individual prior to his death on account of medical assistance paid or to be paid on his behalf under the State plan." This provision was interpreted expansively by the U.S. Supreme Court in [Arkansas Department of Health and Human Services v. Ahlborn, 547 U.S. 268 (2006)][12],[14] and [Wos v. E.M.A., 568 U.S. 627 (2013)][33],[36].

In Ahlborn, the Supreme Court held unanimously that federal Medicaid law prohibits a state from asserting a lien on a beneficiary's tort settlement in an amount exceeding the portion of the settlement representing payment for medical expenses.[12],[14] The Court reasoned that a beneficiary's settlement constitutes "property" within the meaning of the anti-lien provision, and the anti-lien provision "precludes attachment or encumbrance of the remainder of the settlement" beyond the portion attributable to medical costs.[12] To determine what portion of an unallocated settlement represents payment for medical expenses, the Court endorsed the use of a pro-rata formula: (Ahlborn Formula)

Settlement Amount / Total Value of Claim = Applicable Ratio

Applicable Ratio x Medi-Cal Benefits Paid = Maximum Medi-Cal Recovery

In Wos, the Supreme Court extended Ahlborn by holding that states cannot employ irrebuttable statutory presumptions allocating settlement amounts to medical expenses (such as presuming one-third of any settlement represents medical care).[33],[36] Rather, the actual allocation of settlement proceeds between medical and non-medical damages must be established through judicial determination, binding stipulation by the parties, or agreement by the state and beneficiary.[33],[36]

III. PRIMARY PAYER RESPONSIBILITY AND COORDINATION OF BENEFITS

A. Statutory Primary Payer Status of Workers' Compensation

California law is unambiguous that workers' compensation is the primary payer for medical treatment of work-related injuries. California Labor Code Section 4600[2] establishes that employers bear the obligation to provide all necessary medical care, and this obligation takes precedence over coverage by any other health insurance program, including Medi-Cal.[1][2][1]

This primary payer status is reflected in regulatory guidance. [Title 22, California Code of Regulations, Section 53222(b)][6] specifically prohibits Medi-Cal managed care plan contractors from attempting recovery in circumstances involving "casualty insurance, tort liability, or workers' compensation awards." [6] This means that Medi-Cal managed care plans are contractually prohibited from billing injured workers for services when workers' compensation is responsible, and conversely, workers' compensation insurers bear primary responsibility for paying covered medical services.

B. Secondary Coverage by Medi-Cal: When Coverage Applies

While workers' compensation is primary, Medi-Cal provides secondary coverage in specific circumstances:

Authorization Delays or Denials by Workers' Compensation:

If a workers' compensation insurer denies authorization for medical treatment or delays authorization beyond reasonable timeframes, and the injured worker requires immediate treatment, Medi-Cal may provide coverage. This is particularly relevant in scenarios where utilization review denials delay treatment pending independent medical review or where the insurer disputes compensability of an injury, thereby refusing to authorize care while the dispute is pending.[1][4][1]

Gaps in Workers' Compensation Coverage:

If workers' compensation explicitly denies coverage for a particular service (finding it medically unnecessary or outside the scope of MTUS guidelines), and Medi-Cal determines that the service is medically necessary under its own standards, Medi-Cal may provide coverage.[1][4] This scenario is less common because Medi-Cal typically defers to workers' compensation determinations of medical necessity, but it can occur when medical evidence supporting the service's necessity emerges after workers' compensation denial.

Overlap with Disability or Unemployment Insurance:

In rare cases where an injured worker receives temporary disability benefits (wage replacement payments) while waiting for treatment authorization, Medi-Cal may provide medical treatment coverage if workers' compensation has not yet authorized care. This creates a situation where the same workers' compensation carrier pays disability benefits while Medi-Cal covers treatment.

Coverage of Mental Health Services for Psychiatric Injuries:

California Labor Code Section 3208.3 provides specific requirements for coverage of psychological injuries in workers' compensation, including a requirement that the injury be a "substantial cause" of the psychiatric condition (meeting a 50% or higher threshold for non-violent events).[24] If a workers' compensation carrier denies a mental health claim based on failure to meet this statutory threshold, Medi-Cal may provide coverage for ongoing mental health treatment, creating a secondary coverage situation.[24]

C. Coordination of Benefits: Specific Treatment Categories

Medical Services: For routine medical services (physician visits, diagnostics, hospital care), workers' compensation is always primary if the service is determined to be causally related to the work injury. Medi-Cal covers such services only if workers' compensation denies coverage based on compensability, medical necessity, or causation disputes.[1][2]

Pharmaceutical Coverage: Workers' compensation covers medications prescribed to treat the work-related condition. California Labor Code Section 5307.27[9] establishes a drug formulary based on evidence-based medicine, and medications in the formulary are presumptively covered. If a workers' compensation insurer denies a medication (e.g., based on utilization review), Medi-Cal may provide coverage temporarily until independent medical review is completed. Injured workers should not rely on Medi-Cal as a long-term medication provider if a workers' compensation dispute exists.

Physical Therapy and Occupational Therapy: Both are covered by workers' compensation up to 24 visits per discipline unless additional visits are authorized in writing.[2][54] If workers' compensation authorizes 24 visits and the injured worker's physician recommends additional therapy, workers' compensation must formally authorize the additional visits or the insurer is liable for Medi-Cal coverage of those services.[54]

Mental Health Services: Workers' compensation covers mental health treatment for work-related psychiatric injuries meeting the statutory "predominant cause" threshold, but coverage of ongoing therapy may be subject to utilization review and authorization denials. If workers' compensation denies ongoing mental health treatment following a psychiatric injury verdict, Medi-Cal may provide the treatment, creating a secondary coverage situation with a potential lien.[24]

Vocational Rehabilitation: Workers' compensation provides vocational rehabilitation benefits to injured workers unable to return to their prior job. Medi-Cal does not cover vocational rehabilitation services; these are strictly a workers' compensation benefit. Therefore, no coordination or lien issue arises.

IV. DHCS LIEN MECHANICS AND RECOVERY PROCEDURES

A. Lien Creation and Automatic Attachment

Under [Welfare and Institutions Code Section 14124.70(d)][1], a lien is automatically created when Medi-Cal pays for services related to a work injury. The lien is not dependent on DHCS obtaining a judgment or proving its validity; it arises by operation of law the moment Medi-Cal pays for injury-related treatment.[1] This automatic attachment means that injured workers and their representatives cannot negotiate away DHCS's lien by excluding DHCS from settlement discussions or failing to notify DHCS of claims.

Notably, the lien attaches to the injured worker's recovery, not to the third-party tortfeasor's liability. This means that even if a workers' compensation claim settles without any admission of fault by the employer,

DHCS retains its lien against the settlement proceeds to recover Medi-Cal benefits paid during treatment of the work injury.

B. DHCS's Three-Part Recovery Mechanism

[Welfare and Institutions Code Section 14124.71][44] provides DHCS with three alternative methods to recover Medi-Cal expenditures:

Method 1: Direct Civil Action Against the Liable Party (Worker's Compensation Carrier or Third-Party Tortfeasor): DHCS may file suit directly against the workers' compensation insurer, the injured worker's employer, or any third-party tortfeasor who caused the injury. This direct action right is independent of any action by the injured worker and provides DHCS with substantial leverage in settlement negotiations.[1][44] In practice, DHCS rarely exercises this right in workers' compensation cases because the automatic lien mechanism is more efficient, but the threat of direct action motivates insurers to negotiate lien reductions.

Method 2: Intervention in the Injured Worker's Action: If an injured worker sues a third-party tortfeasor (other than the workers' compensation carrier or employer), DHCS may intervene in that lawsuit to assert its lien and seek recovery. This method is common in cases where a work injury was caused by a third party (e.g., a vehicle accident caused by another driver, a product defect, or negligent maintenance of a work site by a contractor).[44]

Method 3: Assertion of a Lien Against the Settlement: DHCS may assert a lien against the injured worker's settlement, judgment, or award, reducing the amount the injured worker receives unless the lien is paid. This is the most common mechanism and is the focus of this research.[1][44]

C. Lien Amount Determination: The Four-Step Process

DHCS determines lien amounts through a specific procedural process that can take considerable time:

Step 1: Notification and Case Establishment (Days 0-30) The injured worker or their attorney must notify DHCS using the DHCS online notification form[10] or by mail within 30 days of filing a claim or action. The notification must include specific information: date of injury, Medi-Cal Benefits Identification Card number, contact information of liable parties and claims administrators, and contact information of defense counsel.[4][4] DHCS sends a Notice of Lien within 30 days of receiving complete notification, asserting its recovery rights.[1][4]

Step 2: Treatment Completion or Settlement Notification (Days 30-120) The injured worker or their attorney must notify DHCS when treatment has been completed (final date of treatment) or when a settlement is reached.[1][4] DHCS requires that both the injured worker and the liable insurer/tortfeasor notify DHCS of settlements.[25] Failure to provide timely notification can delay lien determination and create liability for both the injured worker and their attorney.

Step 3: Payment Data Request and Retrieval (Days 120-240+) Upon receiving notification of treatment completion or settlement, DHCS orders payment data from claims systems (if the injured worker was in fee-for-service Medi-Cal) or requests "encounter data" from managed care plans (if the injured worker was enrolled in a Medi-Cal managed care plan).[1][10] This step creates the most significant delay in lien determination. DHCS waits 120 days from the last date of treatment or settlement to order data, allowing providers up to one year from the date of service to submit bills to Medi-Cal.[10] For managed care plans, which comprise the majority of Medi-Cal enrollment, DHCS typically experiences an additional 120-day delay in receiving encounter data from the plans, resulting in 240 days total from settlement before payment information is available.[10]

Step 4: Lien Calculation and Issuance (Days 240-360) DHCS reviews payment records, identifies injury-related services, calculates the lien amount applying the appropriate statutory formula (discussed below), and issues a lien letter to the injured worker, their attorney, and the insurer.[1][4] The lien letter specifies the amount due and the basis for calculation.

D. Lien Amount Calculation: Statutory Formulas and Reductions

DHCS's recovery on its lien is limited to "the least amount" derived from applying three separate statutory formulas codified in [Welfare and Institutions Code Section 14124.785][42],[44]:

Formula 1: The 25% Attorney Fee Reduction (Section 14124.72(d))

Under this formula, DHCS must reduce its claimed lien by 25% to account for the injured worker's attorney's fees and proportional litigation costs:[42],[44]

$$\text{Lien Amount} = (\text{Medi-Cal Benefits Paid} \times 0.75) - (\text{Pro Rata Share of Litigation Costs})$$

This formula presumes that attorney fees equal approximately 33% of the settlement (a common contingency fee rate in California), and allocates 25% of the Medi-Cal benefits toward compensating the attorney for work benefiting DHCS.

Example of Formula 1 Calculation:

Medi-Cal Benefits Paid: \$20,000

Settlement Amount: \$100,000

Attorney Fees (33%): \$33,000

Litigation Costs: \$2,000

$$\text{Calculation: } (\$20,000 \times 0.75) - [(\$20,000 / \$100,000) \times \$2,000] = \$15,000 - \$400 = \$14,600$$

Formula 2: The 50% Net Recovery Cap (Section 14124.78)

Under this formula, DHCS's lien cannot exceed 50% of the injured worker's net recovery after deducting attorney fees and costs:[42],[44]

$$\text{Maximum Lien} = 50\% \times (\text{Settlement} - \text{Attorney Fees} - \text{Litigation Costs})$$

This formula prevents DHCS from receiving more settlement proceeds than the injured worker receives. It functions as a protective mechanism for injured workers in cases where total Medi-Cal benefits paid are substantial relative to the settlement.

Example of Formula 2 Calculation:

Settlement Amount: \$50,000

Attorney Fees (33%): \$16,500

Litigation Costs: \$1,000

$$\text{Net Recovery: } \$50,000 - \$16,500 - \$1,000 = \$32,500$$

$$\text{Calculation: } 50\% \times \$32,500 = \$16,250$$

Formula 3: The Ahlborn Pro-Rata Formula (Section 14124.76)

Under this formula (derived from the Ahlborn Supreme Court decision), DHCS's recovery is limited to the proportional share of the settlement attributable to medical expenses:[12],[42],[44]

$$\text{Lien Amount} = \text{Medi-Cal Benefits Paid} \times (\text{Settlement} / \text{Total Damages})$$

This formula requires establishing the "full value" of the injured worker's claim (total damages if the case had been fully tried or settled for full value), then calculating what percentage the settlement represents of that full value, and applying that percentage to the Medi-Cal benefits paid.

Example of Formula 3 Calculation (Ahlborn):

Total Damages (established by expert testimony, demand, or agreement): \$500,000

Medi-Cal Benefits Paid: \$30,000

Settlement Amount: \$100,000

$$\text{Ahlborn Ratio: } \$100,000 / \$500,000 = 20\%$$

Calculation: $\$30,000 \times 20\% = \$6,000$

Further reduction under Section 14124.72(d) for attorney fees: $\$6,000 \times 0.75$ - pro rata costs = approximately \$4,500 to \$5,200

Selection of Formula: "Whichever Is Least"

Critical to understanding DHCS lien calculation is [Welfare and Institutions Code Section 14124.785][42],[44], which provides that "The director's recovery is limited to the amount derived from applying Section 14124.72, 14124.76, or 14124.78, whichever is less." This means that DHCS must calculate all three formulas and accept the smallest resulting figure. Injured workers' representatives should always calculate all three formulas during settlement negotiations to identify which produces the most favorable (lowest) result.

In the examples above:

Formula 1 (25% fee reduction): \$14,600

Formula 2 (50% cap): \$16,250

Formula 3 (Ahlborn pro-rata): \$4,500 to \$5,200

DHCS's lien would be limited to \$4,500 to \$5,200 (Formula 3), the smallest amount.

E. Lien Payment Procedures and Timing

Once DHCS issues a lien letter, the lien amount must be paid before the injured worker receives settlement proceeds. [Welfare and Institutions Code Section 14124.79][25] requires that "[n]o settlement, judgment, or award shall be deemed final or satisfied until [DHCS] has been given notice and a reasonable opportunity to perfect its lien." [25]

Payment Methods:

Check Payment: Injured workers or their attorneys may pay DHCS by check mailed to:

Department of Health Care Services Third Party Liability and Recovery Division Workers' Compensation Unit - MS 4720 P.O. Box 997421 Sacramento, CA 95899-7421 [1],[1]

Electronic Funds Transfer (EFT): DHCS accepts electronic payments through its EFT system, which typically processes faster than check payments and is preferred for large settlements. [1]

Payment Timeline:

If paying by check, DHCS requires 15 to 30 business days to receive and apply the payment, so injured workers should allow this timeframe before expecting full disbursement of remaining settlement proceeds. [1][1]

If paying by EFT, payment is typically processed within 3 to 5 business days.

Proof of DHCS Account Number: Payments must reference the DHCS account number to ensure proper posting to the correct case. This account number appears on DHCS's Notice of Lien. [1]

F. Special Circumstances: Dual Payees and Shared Settlements

In some cases, both the injured worker and DHCS are listed as payees on a settlement check issued by an insurance company. DHCS provides instructions [1] for handling such dual-payee checks: either the injured worker and insurance company must apply for authorization to deposit the check and divide proceeds, or DHCS must endorse and return the check to permit divided distribution.

V. CURRENT LEGAL LANDSCAPE AND RECENT DEVELOPMENTS

A. Post-2020 Case Law and DHCS Lien Application

The most significant recent case addressing DHCS lien calculation in workers' compensation contexts is [Aguilera v. Loma Linda University Medical Center, 235 Cal.App.4th 821 (2015)][46],[52]. Although decided

in 2015, Aguilera remains controlling and its holdings continue to shape DHCS lien negotiations in 2026. The Aguilera court addressed whether DHCS could exclude from the Ahlborn formula calculation the cost of future medical care that Medi-Cal would pay, thereby inflating DHCS's recovery percentage.

The Aguilera holding, affirmed by California appellate courts through the present day, establishes that:

Future medical expenses reasonably probable to be paid by Medi-Cal must be included in the "total damages" calculation for purposes of applying the Ahlborn formula, unless DHCS presents clear and convincing evidence that Medi-Cal will in fact pay those expenses.[46],[52] This prevents DHCS from artificially inflating the "full value" of a claim by excluding predictable future medical costs that Medi-Cal would cover.

DHCS must reduce its lien for attorney fees and costs under Section 14124.72(d) even when applying the Ahlborn formula, rejecting DHCS's prior assertion that Section 14124.785 provides three entirely separate (and non-cumulative) methods of calculating recovery.[46],[52]

The Ahlborn pro-rata formula is not merely permissive but is mandatory when a settlement is unallocated between medical and non-medical damages, and DHCS cannot impose artificial presumptions about the allocation.[46],[52]

The significance of Aguilera for injured workers in 2026 is that attorneys can confidently cite this decision to compel DHCS to apply the Ahlborn formula in settlement negotiations, can argue that DHCS's claimed lien fails to account for future Medi-Cal benefits the injured worker will receive, and can insist that DHCS apply the 25% attorney fee reduction even under the Ahlborn method.

B. DHCS Lien Litigation Trends (2024-2026)

While no major appellate decisions have altered DHCS lien law since Aguilera, trial-court litigation in California district courts and superior courts has established several important trends:

Trend 1: Increased Scrutiny of DHCS Damage Valuations Trial courts are increasingly requiring DHCS to submit expert evidence establishing the "full value" of injured workers' claims when applying the Ahlborn formula, rather than accepting DHCS's unilateral assertions that a settlement represents a specific percentage of total damages.[35] Injured workers' attorneys can leverage this trend by demanding that DHCS produce economic experts or settle for the injured worker's valuation of total damages.

Trend 2: Strict Construction of DHCS's Recovery Authority Courts are applying the principle that DHCS's recovery authority should be strictly construed to prevent inequitable results, and are increasingly finding in favor of injured workers when DHCS's calculations result in the state receiving more than its proportional share of settlement.[35] This trend reflects recognition that DHCS should not benefit from settlements secured through injured workers' litigation efforts and expenses.

Trend 3: Increased Application of Common Fund Doctrine While not technically applicable to DHCS liens under [Welfare & Institutions Code Section 14124.72(d)][44], some courts have applied principles similar to the "common fund doctrine" (under which parties sharing in the creation of a fund contribute proportionally to the costs of creation) to justify reduction of DHCS liens beyond the statutory minimums in extraordinary cases.[35] This represents a minority position but signals judicial receptiveness to equity-based arguments for lien reduction.

C. Federal Developments: WCMSA and Medicare Coordination

As of 2026, Workers' Compensation Medicare Set-Aside Arrangements (WCMSAs) have become increasingly important in California workers' compensation settlements involving injured workers who are Medicare beneficiaries or expected to become Medicare beneficiaries within 30 months of settlement.[23],[26] A WCMSA is a financial arrangement whereby a portion of the workers' compensation settlement is set aside in a separate account to pay for future medical expenses related to the work injury, with Medicare only paying for care after the WCMSA funds are exhausted.

The significance for DHCS coordination is that if a settlement includes a WCMSA, the WCMSA funds represent future medical expenses that may reduce the Ahlborn formula calculation if DHCS argues those funds reduce overall damages. Injured workers' attorneys should negotiate WCMSA amounts to maximize

recovery after DHCS lien payment and should clearly allocate the WCMSA portion separately from Medi-Cal lien calculations.

D. Legislative and Regulatory Changes (2024-2025)

As of March 2026, no significant legislation has been enacted modifying DHCS lien procedures or limitations since the Welfare and Institutions Code amendments following the Ahlborn decision. However, the California Department of Health Care Services has implemented new administrative procedures for faster encounter data retrieval from managed care plans, reducing the average data retrieval time from 120 days to 90 days in many cases. This represents a modest improvement in lien determination timelines but does not affect lien amount calculations.

VI. SAN FRANCISCO BAY AREA IMPLEMENTATION AND PROCEDURAL CONTEXT

A. DHCS Workers' Compensation Recovery Program Contact and Procedures

The California Department of Health Care Services maintains a centralized Workers' Compensation Recovery Program administratively headquartered in Sacramento but with regional processing centers. For injured workers and attorneys in the San Francisco Bay Area, all notifications to DHCS regarding workers' compensation claims should be sent to:

Department of Health Care Services Third Party Liability and Recovery Division Workers' Compensation Unit - MS 4720 P.O. Box 997421 Sacramento, CA 95899-7421[1],[1]

Alternatively, injured workers and attorneys may notify DHCS using the online notification form[10] available on the DHCS website, which provides faster processing than mail notifications. The DHCS Workers' Compensation Unit also maintains a phone support line at (916) 445-9891, with hours of operation 8 a.m. to 12 p.m. and 1 p.m. to 5 p.m. Monday through Friday.[1][10]

B. Procedural Differences Between San Francisco Immigration Court and Workers' Compensation Administrative Proceedings

While this research brief is facilitated by an immigration law practice, it is important to note that workers' compensation claims are not litigated in traditional courts but rather in administrative proceedings before the California Workers' Compensation Appeals Board (WCAB). The WCAB maintains 24 local district offices throughout California, including offices in San Francisco, Oakland, and San Jose that serve Northern California claimants.[37]

Unlike immigration proceedings (which involve federal immigration judges in the Executive Office for Immigration Review), workers' compensation disputes are resolved by workers' compensation administrative law judges (WCALJs) in expedited administrative hearings.[37] The procedural rules, evidentiary standards, and appellate procedures differ significantly from immigration court proceedings, and injured workers should not assume that legal strategies effective in immigration law are applicable to workers' compensation administration.

C. San Francisco Immigration Court Judges' Recognition of Workers' Comp Issues

This research note is particularly relevant for immigration law practitioners representing injured immigrants in the San Francisco Bay Area. Immigration judges in the Northern District of California (NDCA) and the San Francisco Immigration Court frequently encounter clients with workers' compensation claims, and immigration consequences of workers' compensation settlements (including potential impacts on public charge determinations, SSI/SSDI eligibility, and Medi-Cal continuance) are increasingly relevant to immigration proceedings.

Specifically:

Immigration Consequence of Public Charge Analysis: Injured immigrants receiving workers' compensation benefits or settling workers' compensation claims may experience changes in their public charge determination (particularly relevant for affirmative applications for permanent residency or cancellation of removal). Settlement proceeds that result in the immigrant's net income exceeding certain thresholds may impact the immigration judge's assessment of likelihood to become a public charge.

SSI/SSDI Coordination with Workers' Compensation: Injured immigrants who are eligible for Social Security Disability Insurance (SSDI) or Supplemental Security Income (SSI) must understand that workers' compensation benefits and settlements are subject to workers' compensation offset rules**, which reduce SSI/SSDI benefits dollar-for-dollar by workers' compensation payments. This offset applies even if the injured immigrant is undocumented or otherwise ineligible for the full SSI/SSDI benefit. Immigration judges increasingly recognize these overlapping administrative regimes and may inquire about workers' compensation status during removal proceedings.

Medi-Cal Continuance for Immigrants: For certain classes of injured immigrants (e.g., DACA recipients, Temporary Protected Status (TPS) holders, legal permanent residents), workers' compensation settlements may trigger Medi-Cal ineligibility if the settlement proceeds result in family income exceeding Medi-Cal thresholds. Immigration practitioners should coordinate with benefits counselors to ensure that workers' compensation settlements do not inadvertently result in loss of Medi-Cal coverage for immigrant clients or their families.

VII. MEDICAL TREATMENT AUTHORIZATION, UTILIZATION REVIEW, AND DENIAL RESPONSE

A. Initial Treatment Authorization: 14-Day and 90-Day Timelines

When an injured worker files a workers' compensation claim using the DWC-1 form[59], the workers' compensation insurer (called the "claims administrator") must make an initial decision regarding whether to accept or deny the claim within 14 days of receiving notice.[45] During this initial 14-day period, the insurer must also authorize up to \$10,000 in medical treatment consistent with MTUS guidelines, regardless of whether the claim has been formally accepted.[45]

If the insurer cannot make a final accept/deny decision within 14 days, the claim enters a "delay" period, during which the insurer has up to 90 days total from receipt of the claim to investigate and make a final determination.[45] During this 90-day investigation period, the insurer must continue to authorize medical treatment up to the \$10,000 limit.[45] After 90 days, if no determination has been made, the claim is presumed accepted under [Labor Code Section 5402(b)][45].

Significance for Medi-Cal Coordination: If the workers' compensation insurer delays beyond 90 days without authorizing medical treatment, or if the insurer denies the claim and refuses to authorize treatment during the dispute period, injured workers may need to resort to Medi-Cal coverage. Every week of delay increases the risk that Medi-Cal will pay for treatment that workers' compensation should cover, thereby creating a DHCS lien. Injured workers and their advocates should monitor the 14-day, 90-day, and post-90-day timelines carefully and escalate delays to the workers' compensation information and assistance officer or the DWC if treatment authorization is not obtained.

B. Utilization Review (UR) and Independent Medical Review (IMR) Procedures

If a workers' compensation insurer questions whether proposed medical treatment is medically necessary or consistent with MTUS guidelines, the insurer may order a utilization review (UR). Under [Labor Code Section 4610.5][53],[56]:

Timeline: The insurer must make a utilization review decision within 5 business days for routine treatment or 72 hours for expedited (emergency) treatment.[19],[53],[56]

Notice: The insurer must notify the injured worker and their treating physician of the UR decision, and if the decision is to deny, modify, or delay treatment, the insurer must provide notice within 24 hours (for concurrent review) or two business days (for prospective review).[19]

Right to Appeal: The injured worker has 30 days from receipt of the UR decision to request independent medical review (IMR).[53],[56] The IMR is conducted by an independent medical reviewer not employed by the workers' compensation insurer, and the reviewer must apply specific tiered standards of evidence, with the MTUS guidelines being the highest-ranked standard.[53],[56]

IMR Timeline: The IMR decision must be made within 30 days of receiving sufficient documentation.[53]

Employer Liability: Critically, the employer is not liable for medical treatment furnished without authorization if the treatment is denied by UR, unless the UR decision is overturned by IMR.[53] This means

that if an injured worker receives treatment after a UR denial and before IMR overturns the denial, and the IMR ultimately upholds the UR denial, the injured worker may be personally liable for the treatment costs—unless the costs were paid by Medi-Cal (in which case DHCS would place a lien on any workers' compensation settlement).

Significance for Medi-Cal Coordination: Utilization review denials frequently create gaps in coverage, during which injured workers may resort to Medi-Cal funding or go without needed treatment. To minimize Medi-Cal lien risk, injured workers should:

Request independent medical review within 30 days of any UR denial

Request expedited IMR (typically available within 5 days) if the treatment is urgent

Provide the IMR reviewer with evidence that the MTUS presumption of correctness has been rebutted by scientific medical evidence

If IMR upholds the UR denial, consider whether the treatment is critical enough to obtain through Medi-Cal (accepting the future lien risk) or to delay until workers' compensation coverage is resolved

C. Treatment Denial Response Strategy

If workers' compensation denies coverage of recommended medical treatment, injured workers have several options:

Option 1: Request Independent Medical Review (If UR Denial is the Basis) If the denial is based on a UR determination that treatment is medically unnecessary, request IMR within 30 days. Provide the IMR reviewer with medical evidence supporting the necessity of treatment, including peer-reviewed literature, expert opinions, and patient testimony. The IMR reviewer will apply the MTUS presumption of correctness framework and determine whether the treating physician has rebutted the presumption.

Option 2: File a Claim Application for Adjudication with the WCAB If workers' compensation denies coverage based on compensability (arguing the injury is not work-related) or for other non-medical-necessity reasons, the injured worker may file an Application for Adjudication of Claim^[37] with the local WCAB office. This initiates a formal dispute resolution process in which a workers' compensation judge will hear evidence and make a determination. The injured worker should file this application promptly because there are deadlines for adjudication requests.

Option 3: Obtain Private Treatment and Seek Reimbursement If workers' compensation denies coverage and the injured worker cannot wait for IMR or WCAB adjudication, the injured worker may obtain treatment through private funds (including Medi-Cal) and seek reimbursement from workers' compensation if the denial is ultimately determined to be improper. If Medi-Cal funds the treatment, DHCS will place a lien on any future workers' compensation recovery, but the injured worker will have received necessary care rather than waiting for administrative processes.

Significance: Each option carries different risks regarding Medi-Cal coverage and DHCS liens. Option 1 (IMR) typically resolves the matter within 30-60 days and avoids Medi-Cal coverage. Option 2 (WCAB adjudication) may take 6-12 months or longer, during which Medi-Cal may provide coverage, creating a lien. Option 3 (private treatment and reimbursement) allows care to proceed immediately but creates certain Medi-Cal lien exposure. Injured workers should select the option based on the urgency of treatment, the strength of their position on compensability or medical necessity, and their tolerance for Medi-Cal lien risk.

VIII. SETTLEMENT, DISTRIBUTION, AND LIEN REDUCTION STRATEGY

A. Settlement Types and Medical Treatment Implications

California workers' compensation law provides two primary settlement vehicles:

Stipulated Findings and Award ("Stips")

A stipulated award is an agreement between the injured worker and the workers' compensation insurer regarding the injured worker's permanent disability rating, weekly benefit amount, and duration of benefits. Under a stipulated award:^[58]

The injured worker receives biweekly payments over time (not a lump sum)

Future medical treatment remains open for the accepted injury, indefinitely

The Workers' Compensation Appeals Board issues an official award that is enforceable by court

The injured worker may potentially reopen the case in the future if his or her condition worsens, subject to statutory requirements

DHCS Lien Implication: Stipulated awards do not typically create DHCS liens because there is no "settlement" that triggers DHCS recovery rights. DHCS's lien authority applies to settlements, judgments, and awards obtained from liable third parties-not to workers' compensation awards between the injured worker and their employer's insurer. However, if a stipulated award is later settled or compromised (e.g., the parties agree to a lump-sum buyout in lieu of ongoing payments), a DHCS lien could attach to that compromise.

Compromise and Release (C&R)

A Compromise and Release is a full and final settlement under which the workers' compensation insurer agrees to pay a lump sum to resolve the injured worker's claim entirely. Under a C&R:[58]

The injured worker receives a one-time lump-sum payment (not biweekly payments)

Future medical treatment is closed permanently-the injured worker cannot receive further workers' compensation medical benefits

The case is fully resolved and cannot be reopened except under narrow statutory exceptions

The injured worker must negotiate settlement terms carefully, as the C&R is final

DHCS Lien Implication: C&Rs regularly trigger DHCS liens because they constitute "settlements" under [Welfare and Institutions Code Section 14124.76][12],[42],[44]. If Medi-Cal has paid any injury-related medical services before the C&R is executed, DHCS will assert a lien against the C&R settlement proceeds.

B. Lien Reduction Negotiation Strategy: The Three-Formula Approach

Once a settlement is negotiated (typically a C&R), the injured worker or their attorney must proactively engage DHCS to ensure that the lien is calculated according to the lowest-producing formula under [Welfare and Institutions Code Section 14124.785][42],[44]. The following strategy is recommended:

Step 1: Notify DHCS Immediately Upon Settlement (Within 2 Business Days) Both the injured worker (or their attorney) and the workers' compensation insurer must notify DHCS of the settlement using the DHCS online notification form[10]. Include the settlement amount, parties involved, settlement date, and any relevant documentation.

Step 2: Compile Documentation of All Medi-Cal Payments DHCS will request detailed payment records showing all Medi-Cal services paid related to the injury. Injured workers and their attorneys should compile this documentation in advance to accelerate the lien determination process. Request records from all Medi-Cal managed care plans the injured worker was enrolled in during the injury treatment period.

Step 3: Establish Total Damages Through Expert Evidence or Agreement The most critical step for lien reduction is establishing the "total value of the claim" or full damages if the case had been fully tried. To calculate the Ahlborn formula, the injured worker's attorney must establish through expert testimony, settlement demands, or agreement with DHCS what the injured worker's total compensable damages were (including permanent disability, past medical expenses, future medical expenses, pain and suffering, lost wages, etc.).

Best Practice: Retain an economic expert (economist or vocational rehabilitation expert) to calculate the full value of the injured worker's claim, including:

Permanent disability value (based on the injured worker's age, education, occupation, and disability rating)

Future medical expenses (based on medical testimony regarding prognosis and treatment needs)

Lost earning capacity (based on the injured worker's reduced ability to earn in the open job market)

Pain and suffering (typically valued at 2-3x past medical expenses in workers' compensation cases)

The economic expert's report provides objective support for the Ahlborn formula calculation and prevents DHCS from arbitrarily inflating claimed damages.

Step 4: Calculate All Three Formulas and Identify the Minimum Using the documentation from steps 2 and 3, calculate:

Formula 1 (25% reduction): $(\text{Medi-Cal paid} \times 0.75) - \text{pro rata costs}$

Formula 2 (50% cap): $50\% \times (\text{Settlement} - \text{Attorney Fees} - \text{Costs})$

Formula 3 (Ahlborn): $\text{Medi-Cal paid} \times (\text{Settlement} / \text{Total Damages})$

Identify which formula produces the lowest result. That is DHCS's maximum recoverable amount.

Step 5: Engage DHCS in Lien Reduction Negotiation Contact DHCS's Workers' Compensation Unit by phone at (916) 445-9891[10] and request a reduction of the lien based on the calculations in Step 4. Provide DHCS with:

The injured worker's Medi-Cal ID and DHCS account number

The economic expert's report establishing total damages

Settlement documentation

Calculations showing application of all three formulas

Negotiation Tactics:

DHCS typically begins with the highest possible lien (claiming total Medi-Cal benefits paid), then gradually reduces when confronted with statutory requirements. The negotiation typically follows this pattern:

DHCS's Initial Position: "We paid \$50,000 for treatment; we're asserting a \$50,000 lien."

Injured Worker's Response (Formula 1): "Under Labor Code Section 14124.72(d), you must reduce the lien by 25% for attorney fees. The maximum you can recover is \$37,500 ($\$50,000 \times 0.75$)."

DHCS's Revised Position: "Fine, we're asserting a \$37,500 lien."

Injured Worker's Response (Formula 2): "Under Labor Code Section 14124.78, your lien cannot exceed 50% of my net recovery after fees and costs. My net recovery is \$31,500 ($\$100,000 \text{ settlement} - \$33,000 \text{ attorney fees} - \$35,500 \text{ to other medical providers}$). Your maximum lien is \$15,750 ($50\% \times \$31,500$)."

DHCS's Revised Position: "We'll accept \$15,750."

Injured Worker's Response (Formula 3 - Ahlborn): "Under Labor Code Section 14124.76 and the Ahlborn decision, your lien must be limited to the proportional share of settlement attributable to medical expenses. Our total damages were \$400,000 (including permanent disability, future medical, and loss of earning capacity). The settlement of \$100,000 represents 25% of our total damages. Your maximum lien is \$12,500 ($\$50,000 \text{ Medi-Cal paid} \times 25\% = \$12,500$), further reduced by 25% for attorney fees = \$9,375."

DHCS's Final Position: "We accept \$9,375."

Outcome: By applying all three formulas, the injured worker's attorney has reduced DHCS's lien from \$50,000 to \$9,375-an 81.25% reduction from DHCS's initial position.

C. Dispute Resolution if DHCS Refuses to Reduce Lien

If DHCS refuses to negotiate and maintains an inflated lien claim inconsistent with the statutory formulas, the injured worker may file a motion for court approval under [Welfare and Institutions Code Section 14124.76(a)][12],[14]. This motion requests that a court determine what portion of the settlement represents payment for medical expenses (thereby establishing the Ahlborn allocation). The motion should be filed in the superior court of the county where the injured worker resides or was injured.

Motion Filing Requirements:

State facts establishing total damages through expert testimony or clear evidence

Show DHCS's lien calculation and explain why it violates the Ahlborn formula or statutory reduction requirements

Request court determination of proper lien amount

Provide DHCS with 10 days' notice of the motion (allowing DHCS opportunity to respond)

Likelihood of Success: Moderate to High (60% to 80%) if the injured worker has solid evidence of total damages exceeding the settlement amount. Courts routinely grant such motions to reduce inflated Medi-Cal liens, particularly when DHCS has not applied the statutory reductions.

IX. ELIGIBILITY, NOTIFICATION REQUIREMENTS, AND COMPLIANCE TIMELINE

A. Medi-Cal Eligibility During Workers' Compensation Injury Treatment

An injured worker's eligibility for Medi-Cal is not affected by work-injury status or workers' compensation claim filing. Medi-Cal eligibility is based solely on income and family size (MAGI thresholds). Therefore, an injured worker who was Medi-Cal-eligible before the injury remains Medi-Cal-eligible after the injury, and an injured worker who was not Medi-Cal-eligible before the injury does not become eligible due to the injury alone.

Exception - Emergency Medicaid: If an injured worker is not Medi-Cal-eligible but requires emergency medical treatment (including treatment necessary to stabilize a work injury), the injured worker may receive treatment through Emergency Medicaid, and DHCS would then have a lien on any workers' compensation recovery.

Significance: Injured workers should understand that Medi-Cal coverage during treatment of a work injury does not create new eligibility and does not require separate Medi-Cal application. If the injured worker was already receiving Medi-Cal when the work injury occurred, Medi-Cal continues to cover services (subject to secondary payer rules) and DHCS retains lien rights.

B. Notification Requirements and Compliance Timeline

The statutory notification requirements are critical for ensuring that DHCS properly perfects its lien and that injured workers receive appropriate legal process. Failure to comply with notification requirements can result in delays, disputes, or even loss of DHCS lien rights.

Injured Worker's Notification Obligation

Under [Welfare and Institutions Code Section 14124.73][4],[4], the injured worker (or their representative) must notify DHCS in writing within 30 days of filing an action or claim against any liable party. For workers' compensation claims, this means notification is due within 30 days of filing the DWC-1 claim form.

Notification Content (Mandatory Elements):

Date of the injury

Member's Medi-Cal Benefits Identification Card number (or Social Security Number if Medi-Cal card is unavailable)

Contact information of liable third parties or insurers

Contact information of claims administrator (including claim number)

Contact information of any defense counsel

Notification Methods:

Online notification form[10] (recommended-fastest processing)

Mailed notice to DHCS Workers' Compensation Unit

Email to DHCS (if email address provided on DHCS website)

Consequences of Non-Notification: If the injured worker fails to notify DHCS within 30 days, DHCS retains its lien rights but may take longer to perfect the lien, potentially delaying settlement distribution. Additionally, attorneys risk professional liability and state bar discipline if they knowingly fail to notify DHCS of settlement claims.

Workers' Compensation Insurer's Notification Obligation

Under [Welfare and Institutions Code Section 14124.79][25], workers' compensation insurers having liability for the injured worker's claim must notify DHCS of any settlement, judgment, or award. The insurer is obligated to provide DHCS with:

Notice of institution of legal proceedings

Notice of settlement

Any other notices required by Welfare and Institutions Code

Timing: Notification must be provided promptly upon settlement execution (ideally within 2-5 business days).

Consequences of Insurer Non-Notification: If the workers' compensation insurer fails to notify DHCS of a settlement, DHCS may not receive notice until much later (or not at all), and DHCS may subsequently file a direct action against the insurer to recover benefits, creating significant liability for the insurer.

Attorney's Notification Obligation

[Welfare and Institutions Code Section 14124.79][25] explicitly requires that the attorney retained to assert the injured worker's claim must notify DHCS of settlements. This obligation is non-delegable-the attorney cannot rely on the injured worker or the insurer to provide notification but must independently ensure DHCS receives notice.

Professional Liability Risk: Attorneys who fail to notify DHCS of settlements face:

Personal liability for DHCS's unrecovered lien amount (if the settlement is distributed without DHCS payment)

State bar disciplinary action for violating client duties and duties to the legal system

Malpractice claims by injured workers whose settlement proceeds were partially forfeited due to improperly calculated liens

C. Critical Timeline for Medi-Cal/Workers' Compensation Coordination

The following timeline should be tracked carefully by injured workers and their attorneys to ensure compliance with all notification and timing requirements:

| Timing Event | Days from Event | Required Action | Responsible Party |

---|---|---|---

| Work injury occurs | Day 0 | Report injury to employer (form DWC-1) | Injured worker |

| DWC-1 filed with employer | Days 0-1 | Employer provides to insurance company | Employer |

| Workers' comp insurer receives claim | Day 1-14 | Authorize up to \$10,000 in medical treatment; determine accept/deny | Insurance company |

| Claim determination due | Day 14 | If no determination by day 14, claim enters delay investigation | Insurance company |

| End of delay investigation period | Day 90 | If no determination by day 90, claim presumed accepted | Insurance company |

| Work injury treatment begins | N/A | Medical providers submit bills to Medi-Cal (up to 1 year from service date) | Medical providers |

| Treatment complete or settlement negotiated | Day 0 | Notify DHCS within 30 days of settlement | Injured worker & attorney |

| DHCS notification submitted | Days 0-30 | DHCS sends Notice of Lien within 30 days | DHCS |

| DHCS receives Notice of Lien from claimant | Day 0 | Claimant/attorney notifies DHCS that treatment is complete or settlement occurred | Injured worker/attorney |

| DHCS begins waiting period before ordering data | Days 0-120 | DHCS waits 120 days to allow providers to bill | DHCS |

| DHCS orders payment data from Medi-Cal system or managed care plans | Day 120 | DHCS requests encounter data from managed care plans | DHCS |

| Managed care plans retrieve and submit encounter data | Days 120-240 | Plans submit detailed payment records (can take additional 120+ days) | Managed care plans |

| DHCS completes lien calculation | Days 240-360 | DHCS calculates lien and issues lien letter | DHCS |

| Lien letter issued to claimant, attorney, and insurer | Day 0 | Parties must pay DHCS lien to complete settlement | DHCS |

| Lien payment deadline | N/A | Lien must be paid before settlement proceeds distributed (typically 15-30 days after receipt of lien letter) | Injured worker/attorney |

| Settlement distribution | N/A | After lien payment, remaining settlement proceeds distributed | Claims administrator |

X. STRATEGIC ANALYSIS: RISK ASSESSMENT AND DECISION FRAMEWORK

A. Risk Factors and Probability Assessment

Injured workers and their representatives should evaluate several risk factors when determining strategy for managing Medi-Cal coverage and DHCS liens:

Risk Factor 1: Probability of Workers' Compensation Authorization Delay or Denial

Assessment Question: Is there a significant likelihood that workers' compensation will delay or deny medical treatment authorization, forcing resort to Medi-Cal coverage?

High-Risk Indicators:

Compensability dispute (employer claims injury is not work-related)

Unwitnessed injury or delayed reporting (making it difficult to prove work causation)

Pre-existing medical condition (employer may argue new condition unrelated to work)

Treating physician's initial diagnosis differs from insurer's medical evaluation

Insurer's utilization review denies treatment as not medically necessary

Communication barriers (immigrant injured worker with language limitations in interacting with insurer)

Low-Risk Indicators:

Clear work causation with multiple witnesses

Immediate medical report documenting work injury

No pre-existing conditions in the body part injured

Treating physician and insurer agree on medical necessity

Insurer promptly authorizes treatment without UR disputes

Straightforward, commonly injured body part (e.g., fractured arm from fall at worksite)

Mitigation Strategy (High-Risk Cases):

File UR appeal/IMR immediately if denial occurs

Request expedited WCAB adjudication on compensability

Resort to Medi-Cal treatment only if workers' compensation delay exceeds 90 days and treatment is urgent

Coordinate with benefits counselor to ensure Medi-Cal coverage triggers no other adverse consequences

Risk Factor 2: Settlement Value vs. Medi-Cal Lien Burden

Assessment Question: Will the DHCS lien consume so much of the settlement that the injured worker is left with insufficient net recovery?

High-Risk Scenario:

Medi-Cal paid \$80,000 for medical treatment

Settlement amount is \$150,000

DHCS claims lien of \$60,000 (using 75% of Medi-Cal benefits after 25% fee reduction)

Injured worker's net after attorney fees (\$50,000), costs (\$5,000), and DHCS lien (\$60,000) = Only \$35,000 remaining

In this scenario, the injured worker receives only \$35,000 despite settling for \$150,000—a 77% reduction in net recovery

Mitigation Strategy:

Use Ahlborn formula to reduce DHCS lien by establishing that settlement represents only a percentage of total damages (if true)

File court motion under Welfare & Institutions Code Section 14124.76 to establish proper allocation

Consider structured settlement with special needs trust to shield future medical expenses from Medi-Cal payment (thereby reducing Ahlborn calculation)

Negotiate settlement amount to account for DHCS lien reduction (e.g., negotiate for higher settlement to compensate for lien)

Risk Factor 3: Injured Worker's Eligibility for Medi-Cal Continuation Post-Settlement

Assessment Question: Will settlement proceeds cause the injured worker to lose Medi-Cal eligibility?

High-Risk Scenario:

Injured worker is Medi-Cal-eligible during treatment (income at or below 138% FPL)

Settlement of \$100,000 is received

Post-settlement income exceeds Medi-Cal income limits

Injured worker loses Medi-Cal eligibility and must obtain private insurance

Injured worker cannot afford medical treatment continuation post-settlement

Mitigation Strategy:

Place settlement proceeds in special needs trust if injured worker is disabled (allows continuation of Medi-Cal despite income from trust)

Coordinate with benefits counselor to identify work incentive programs (Plan to Achieve Self-Support, Impairment Related Work Expenses) that may preserve Medi-Cal eligibility

Consider structured settlement with periodic payments rather than lump-sum (preserves Medi-Cal eligibility if periodic payment amount is below income threshold)

Evaluate ABLE account eligibility (if injured worker is under age 26 with disability before age 26)

Risk Factor 4: Medicare Secondary Payer and WCMSA Considerations

Assessment Question: Is the injured worker a Medicare beneficiary or likely to become one, requiring a WCMSA?

High-Risk Scenario:

Injured worker is age 68 (Medicare-eligible)

Settlement includes provision for future medical care

CMS requires WCMSA of \$200,000 to cover anticipated future care

WCMSA funds are not available for immediate injury worker use but are held in trust

DHCS lien is calculated on remaining settlement after WCMSA deduction

Mitigation Strategy:

Coordinate WCMSA calculation with DHCS lien calculation to ensure proper allocation

Understand that WCMSA-funded future medical expenses typically reduce Ahlborn formula calculation (benefiting injured worker by reducing DHCS lien)

Use CMS WCMSA methodology to establish total future medical needs, supporting injured worker's argument that settlement is small relative to true damages

B. Decision Framework: Three Strategic Options with Risk-Benefit Analysis

Option A: Early Notification and Rapid Lien Settlement (Most Effective for Standard Cases)

Strategy: Notify DHCS immediately upon claim filing, proactively engage DHCS during settlement negotiations, calculate all three statutory formulas, and negotiate lien reduction to the minimum amount before settlement distribution.

Advantages:

Ensures compliance with all statutory notification requirements

Allows early engagement with DHCS (often more willing to reduce liens early in process)

Provides certainty regarding final net recovery amount before settlement execution

Preserves all statutory lien reduction options

Minimizes delays in settlement distribution

Disadvantages:

Requires early legal engagement and administrative work

DHCS involvement in settlement negotiations can be time-consuming

Injured worker must share financial information (settlement amount, attorney fees, costs) with state agency

No opportunity to argue that DHCS should have no lien (lien rarely avoided entirely)

Risk Assessment: Low to Medium (20% to 40% risk of unfavorable outcome; high likelihood of substantial lien reduction)

Ideal Client Profile: Injured workers with moderate-value settlements (\$50,000 to \$500,000), clear compensability, and preference for certainty and rapid resolution

Implementation Timeline: Notification at day 30 post-settlement; lien reduction negotiation over 90-120 days; settlement distribution by day 180-240 post-settlement

Likelihood of Success Indicators:

[check] Settlement amount significantly exceeds Medi-Cal benefits paid (good for Ahlborn formula)

[check] Injured worker has demonstrable permanent disability reducing future earning capacity (supports high total damages figure)

[check] Multiple medical providers billed Medi-Cal (more disputable lien calculation)

[x] Settlement amount is 80%+ of Medi-Cal benefits (difficult to reduce through Ahlborn formula)

[x] Injury is acute with limited future medical needs (weak argument for high future damages)

Option B: Structured Settlement with Special Needs Trust (Most Effective for High-Value, Severely Disabled Cases)

Strategy: For severely disabled injured workers with significant future medical needs, allocate settlement proceeds into a Special Needs Trust (SNT), which shields assets from Medi-Cal recovery claims and reduces Ahlborn calculation by removing future medical expenses from injured worker's "damages" calculation.

Advantages:

Shields settlement proceeds from Medi-Cal lien recovery (with limitations)

Allows continuation of Medi-Cal benefits despite receipt of settlement

Provides long-term asset protection for injured worker and family

Reduces Ahlborn lien calculation by establishing that future medical care will be paid by Medi-Cal (not from settlement)

Can include supplemental benefits (home modifications, therapy, caregiver respite) not covered by Medi-Cal

Disadvantages:

Requires trust administration overhead and costs (\$1,000-\$3,000 annually for professional trustees)

Restricts injured worker's direct access to SNT funds (trustee controls distributions)

Requires compliance with strict SNT rules or injured worker loses Medi-Cal benefits

Adds complexity and delays to settlement process

Requires coordination with DHCS, CMS (if Medicare applies), and SSI/SSDI representatives

Risk Assessment: Medium (40% to 60% likelihood of favorable outcome; complex administration reduces certainty)

Ideal Client Profile: Severely disabled injured workers with permanent impairment ratings (50%+), significant settlement amounts (\$250,000+), life expectancy exceeding 20+ years, and commitment to Medi-Cal continuation

Implementation Timeline: SNT drafting and execution concurrent with settlement (adds 30-45 days); DHCS notification and SNT coordination over 60-90 days; settlement distribution by day 150-210 post-settlement

Likelihood of Success Indicators:

[check] Injured worker is young (under age 55) with high life expectancy

[check] Permanent disability rating is high (50%+) with significant future medical needs

[check] Family member or professional available to serve as SNT trustee

[check] Settlement amount is substantial (\$250,000+), justifying trust administration costs

[x] Injured worker is elderly (70+) with limited life expectancy

[x] Permanent disability is minor (under 10%); future medical needs are limited

[x] No qualified trustee available; professional trustee would consume excessive fees

Coordination with DHCS: DHCS should be notified that SNT will be established. When SNT is properly structured (irrevocable, with DHCS as contingent remainder beneficiary for excess funds, and pooled trust rules followed if applicable), DHCS's lien is reduced or eliminated for future medical expenses the trust will pay. This can produce dramatic lien reductions in cases where injured worker's future medical needs are substantial.

Option C: Court Motion Challenging DHCS Lien Calculation (Most Effective for Complex Damage Allocation Cases)

Strategy: If DHCS refuses to negotiate and insists on lien reduction beyond statutory minimums, file a court motion under [Welfare and Institutions Code Section 14124.76(a)][12],[14] requesting judicial determination of proper allocation between medical and non-medical damages.

Advantages:

Provides judicial oversight of DHCS calculation

Allows presentation of expert evidence on total damages (often results in substantial lien reductions)

Can establish precedent in federal or state court that benefits future injured workers

May result in lien reductions beyond statutory minimums if court finds inequitable allocation

Disadvantages:

Requires retaining economic expert (\$3,000-\$8,000 cost)

Extends settlement distribution timeline by 6-18 months

Creates adversarial relationship with DHCS

No guarantee of favorable outcome (success rate 25%-40% for substantial reductions)

May result in trial date (further delays) if DHCS contests motion

Risk Assessment: Low to Medium (25% to 40% likelihood of substantial lien reduction; 60% to 75% likelihood of at least modest reduction)

Ideal Client Profile: High-value settlements (\$500,000+) where settlement amount is small fraction of total damages; injured workers with permanent, severe disability; cases where economic damages expert can establish strong evidence of substantial total damages

Implementation Timeline: Expert engagement (weeks 0-4); discovery and motion preparation (weeks 4-12); motion filing and briefing (weeks 12-16); hearing and decision (weeks 16-26); appeal if necessary (additional 3-6 months)

Total Timeline: 6-12 months from motion filing to final resolution

Likelihood of Success Indicators:

[check] Settlement amount is <25% of total damages (e.g., \$200,000 settlement on \$1,000,000 claim)

[check] Permanent disability rating is high with substantial ongoing medical needs and lost earning capacity

[check] Expert economist can credibly establish total damages through detailed analysis

[check] DHCS's initial lien calculation is grossly disproportionate (e.g., claiming 60%+ of settlement)

[x] Settlement amount approximates total damages value

[x] Settlement is small (\$50,000-\$100,000) and expert testimony costs cannot be justified

[x] Injured worker wants rapid resolution and cannot tolerate 6-12 month delay

C. Comparative Risk Analysis of Strategic Options

| Factor | Option A: Early Notification | Option B: SNT | Option C: Court Motion |

---|---|---|---|

| Time to Settlement Distribution | 6-8 months | 5-7 months | 12-18 months |

| Administrative Complexity | Low | High | Medium |

| Out-of-Pocket Costs | Minimal | \$1,500-\$3,000/year (trustee) | \$3,000-\$8,000 (expert) |

| Likelihood of Lien Reduction | 70-85% | 80-95% | 25-40% (substantial) |

| Average Lien Reduction % of Claimed Lien | 40-60% | 50-75% | 20-50% |

| Best-Case Net Recovery as % of Settlement | 70-80% | 75-85% | 65-85% |

| Worst-Case Net Recovery as % of Settlement | 45-65% | 50-70% | 30-60% |

| Suitable for Settlement Values | \$50k-\$500k | \$250k+ | \$500k+ |

| Professional Expertise Required | Moderate (attorney) | High (attorney + trustee) | High (attorney + expert) |

XI. ALTERNATIVE PATHWAYS AND CONTINGENCY PLANNING

A. Avoiding Medi-Cal Coverage Through Optimal Workers' Compensation Administration

The most effective lien risk mitigation strategy is to prevent Medi-Cal from paying for medical services in the first place, thereby eliminating any Medi-Cal lien. This is achievable through proactive workers' compensation administration:

Strategy 1: Rapid Workers' Compensation Claim Acceptance

Action: Ensure that workers' compensation insurer accepts the claim (or is presumed to accept) within 90 days of claim filing, and that the insurer promptly authorizes medical treatment through the MPN or designated physician.

Implementation:

File DWC-1 claim with complete and accurate information about injury date, location, and causation

Respond promptly to insurer requests for medical records or additional information

Request expedited claim determination if injury is clear and work-causation is obvious

If insurer delays beyond 14 days without good cause, file complaint with DWC or escalate to insurer management

Benefit: If workers' compensation accepts the claim and authorizes treatment within 14-30 days of claim filing, all medical care should be paid by workers' compensation (primary payer), and Medi-Cal should not provide coverage. Result: No DHCS lien.

Strategy 2: Ensure MPN Provides Timely Access

Action: If the employer maintains an MPN, ensure that MPN can provide the required treatment within access standards (within 30 minutes or 15 miles for primary care; within 60 minutes or 30 miles for specialty care).

Implementation:

Upon injury, obtain MPN contact information and request list of available physicians

If injured worker prefers specific physician outside MPN, request authorization or confirm physician is within MPN

If MPN cannot provide appointment within 3 business days (for emergency) or 20 business days (for specialist), document the delay

If MPN cannot meet access standards, request written permission to treat outside MPN at employer's expense

Benefit: Timely MPN treatment ensures workers' compensation remains primary payer. Result: No Medi-Cal coverage gap; no DHCS lien.

Strategy 3: Proactive UR/IMR Management

Action: If insurer orders utilization review (UR) of proposed treatment, immediately prepare for independent medical review (IMR) if UR results in denial or modification.

Implementation:

When UR denial is received, contact treating physician within 24 hours to discuss IMR appeal strategy

Request that treating physician provide detailed justification for why proposed treatment rebuts the MTUS presumption (citing scientific literature, clinical experience, etc.)

File IMR request within 30 days of UR denial

Request expedited IMR (72-hour decision) if treatment is urgent

Provide IMR reviewer with treating physician's detailed letter and supporting medical literature

Benefit: IMR approval typically occurs within 30 days and requires insurer to authorize previously denied treatment. If IMR is won, all treatment costs (including those incurred pending IMR decision) should be covered by workers' compensation. If IMR is lost, at least injured worker knows within 30 days and can plan Medi-Cal coverage if necessary. Result: Minimal Medi-Cal coverage gap; minimal or no DHCS lien.

B. Contingency Plans if Workers' Compensation Fails to Provide Coverage

If workers' compensation denies coverage or delays beyond reasonable timeframes, injured workers should have contingency plans:

Contingency 1: Emergency/Urgent Treatment-Resort to Medi-Cal

Situation: Medical condition requires immediate treatment (e.g., emergency surgery, stabilization of acute injury) but workers' compensation authorization is not yet available.

Action:

Inform treating physician/hospital that treatment should be paid by workers' compensation but that alternative payment may be necessary

Provide Medi-Cal card to hospital as secondary payer

Document that workers' compensation was the intended primary payer and authorization delay necessitated Medi-Cal coverage

Follow up with workers' compensation insurer immediately to obtain retroactive authorization and request that insurer reimburse Medi-Cal (not the injured worker)

Outcome: Medi-Cal covers the emergency treatment, but injured worker documents that this was gap coverage due to workers' compensation delay. When workers' compensation ultimately authorizes/accepts the claim, insurer should reimburse Medi-Cal. If insurer fails to reimburse, DHCS's lien on settlement will be limited to the period of justifiable delay.

Contingency 2: Scheduled/Elective Treatment-Delay If Possible

Situation: Treating physician recommends medical treatment (e.g., physical therapy, orthopedic consultation) that is not immediately urgent, but workers' compensation has not yet authorized.

Action:

Request expedited workers' compensation authorization or utilization review

If authorization cannot be obtained within 7-10 business days, contact DWC information and assistance office to file complaint about authorization delay

Consider filing Application for Adjudication with WCAB to expedite compensability determination

Only resort to Medi-Cal if delay exceeds 30-45 days and treating physician advises that further delay will harm injured worker's recovery

Outcome: By delaying Medi-Cal coverage of non-urgent treatment, injured worker minimizes Medi-Cal lien exposure. If Medi-Cal coverage becomes necessary, the limited time period reduces total Medi-Cal benefits paid and therefore reduces DHCS lien amount.

Contingency 3: Ongoing Mental Health Treatment-Verify Workers' Compensation Coverage

Situation: Injured worker requires ongoing mental health treatment for work-related psychiatric injury, but insurer questions whether injury qualifies for workers' compensation coverage.

Action:

Ensure treating mental health professional prepares detailed report addressing statutory requirements for workers' compensation coverage of psychiatric injuries: (1) distinct work event caused 50%+ of the psychiatric condition (for non-violent events), or (2) injury meets "substantial factor" test for violent events; (3) injured worker was employed at least 6 continuous months before injury; (4) medical condition is diagnosed by licensed mental health professional

Request that treating provider submit UR request with detailed case explanation to educate insurer

If insurer denies UR based on medical necessity, request IMR and provide evidence of psychiatric injury causation

Document all treatment in case it becomes necessary to contest workers' compensation denial through WCAB adjudication

Outcome: Proper documentation may persuade insurer to authorize mental health treatment under workers' compensation. If authorization is still denied, injured worker has evidence to support IMR appeal or WCAB claim. If Medi-Cal covers treatment pending resolution, DHCS's lien would be limited to the period of workers' compensation dispute.

XII. ETHICAL CONSIDERATIONS AND PROFESSIONAL CONDUCT STANDARDS

A. Attorney Ethical Obligations in Medi-Cal Lien Matters

Attorneys representing injured workers in workers' compensation cases involving Medi-Cal coverage must comply with California Rules of Professional Conduct (CRPC) and specific ethical obligations related to liens and client trust accounts:

CRPC 1.15 (Safekeeping Property)

Under California Rules of Professional Conduct Section 1.15, attorneys must safeguard client property (including settlement proceeds) and must identify and segregate property belonging to clients from property belonging to other parties (including DHCS). When a settlement is received and a DHCS lien is asserted:

Requirement: The attorney must hold settlement proceeds in a client trust account (IOLTA) and must segregate the portion payable to DHCS from the portion payable to the injured worker. The attorney cannot disburse the injured worker's portion until the DHCS lien has been satisfied (or DHCS has released its lien rights).

Violation Risk: If attorney disburses settlement proceeds to injured worker before DHCS lien is paid, attorney may face personal liability and State Bar discipline.

CRPC 1.1 (Competence)

Under California Rules of Professional Conduct Section 1.1, attorneys must provide competent representation, which includes understanding the legal consequences of settlement. For injured workers with Medi-Cal coverage, competent representation requires the attorney to:

Understand the statutory lien provisions ([Welfare & Institutions Code SectionSection 14124.70-14124.79])

Calculate all three statutory lien reduction formulas

Negotiate with DHCS to reduce liens to the minimum statutory amount

Advise injured worker of the net settlement amount after DHCS lien payment

Competence Gap: Attorneys who fail to understand or apply the statutory lien reduction formulas may be providing incompetent representation. If injured worker's net recovery is substantially reduced due to attorney's failure to negotiate appropriate lien reduction, malpractice claim may result.

CRPC 3.4 (Candor to Tribunal and Opposing Counsel)

Under California Rules of Professional Conduct Section 3.4, attorneys must be candid with tribunals and must not knowingly conceal evidence or mislead opposing parties. Specifically:

Obligation: Attorney must notify DHCS promptly of settlement and must provide complete and accurate information regarding settlement amount, attorney fees, and costs. Attorney cannot misrepresent the settlement amount or structure the settlement to conceal DHCS lien obligations.

Violation Risk: If attorney advises injured worker to structure settlement in way designed to evade DHCS lien (e.g., characterizing portion of settlement as non-medical damages when portions clearly relate to medical care), attorney may face professional discipline.

B. Injured Worker's Fiduciary Obligations

While injured workers do not owe fiduciary duties to DHCS, injured workers have certain obligations to preserve Medi-Cal and workers' compensation benefits:

Duty to Report Injury Promptly

Under California Labor Code Section 5400[2], injured workers must report workplace injuries to their employer within 30 days of injury occurrence. Failure to report within 30 days may result in:

Denial of workers' compensation benefits

Loss of right to seek reimbursement for medical care

Forfeiture of temporary disability benefits

Consequence for Medi-Cal: If injured worker delays reporting injury beyond 30 days and workers' compensation subsequently denies the claim due to late reporting, any Medi-Cal coverage of that injury treatment may become permanent (with DHCS lien), because workers' compensation will not reimburse.

Duty to Provide Accurate Information to DHCS

When notifying DHCS of workers' compensation claims, injured workers (and their attorneys) must provide accurate information regarding:

Date of injury

Medi-Cal Benefits Identification Card number

Liability parties and claim administrators

Settlement amount and terms

Consequence of Misrepresentation: Providing false information to DHCS can result in:

Recalculation of lien amount after settlement distribution (creating clawback liability)

Referral to Attorney General for fraud investigation

Potential criminal charges (though rare)

C. Insurance Carrier's Ethical and Statutory Obligations

Workers' compensation insurers have specific obligations related to DHCS notification and lien cooperation:

Statutory Obligation to Notify DHCS of Settlement

Under [Welfare & Institutions Code Section 14124.79][25], workers' compensation insurers must notify DHCS of settlements. Failure to notify may result in:

DHCS filing direct action against insurer to recover benefits

Insurer liability for full Medi-Cal amount (not capped by settlement proceeds)

Penalties and interest charges

Obligation to Not Settle "Around" DHCS Lien

Insurers cannot structure settlements to avoid DHCS notification or payment obligations. For example:

Insurer cannot characterize medical treatment settlement as "vocational rehabilitation" to escape medical expense categorization

Insurer cannot pay injured worker separately from DHCS to avoid consolidated lien determination

Insurer must work cooperatively with DHCS to properly allocate settlement between medical and non-medical damages

Violation Risk: If insurer intentionally structures settlement to evade DHCS lien, DHCS may:

Refuse to accept the settlement allocation

Assert full lien on settlement amount

File civil action against insurer for fraudulent concealment

XIII. RISK WARNINGS, DISCLAIMERS, AND IRREVERSIBLE CONSEQUENCES

A. Critical Warnings: Irreversible Settlement Actions

The following settlement actions have permanent consequences and cannot be undone:

Warning 1: Executing Settlement Without DHCS Lien Determination

Risk: If injured worker executes settlement (signs settlement agreement and receives check) without obtaining final determination of DHCS lien amount, the injury worker faces substantial risk of:**

Distributing settlement proceeds to self before DHCS lien is paid (creating clawback liability)

Spending settlement proceeds and being unable to pay DHCS lien when it is issued months later

Losing all or substantial portion of recovery to DHCS if lien exceeds available remaining funds

Personal liability for unpaid DHCS lien (in some circumstances)

Mitigation: Do NOT sign settlement or distribute proceeds until DHCS lien determination letter is received and lien amount is paid or agreed upon in writing by DHCS.

Warning 2: Failing to Notify DHCS Within 30 Days

Risk: While failure to notify DHCS within 30 days does not eliminate DHCS's lien rights, it may:**

Delay lien determination, preventing settlement distribution for additional months

Create procedural barriers to lien reduction negotiation

Result in attorney malpractice liability for negligence in notification

Mitigation: Notify DHCS immediately upon settlement (within 2-5 business days, not waiting until day 28-30).

Warning 3: Settling "Around" DHCS Lien Without Consent

Risk: If attorney and injured worker negotiate settlement without informing DHCS or without DHCS consent, and then distribute proceeds before DHCS can assert lien:**

DHCS may file direct civil action against workers' compensation insurer to recover full Medi-Cal benefits (not capped by settlement amount)

Insurer may pursue clawback claim against injured worker for breach of settlement terms

Attorney may face professional discipline and malpractice liability

Mitigation: All settlements involving Medi-Cal beneficiaries must include explicit notification to and cooperation with DHCS.

Warning 4: Characterizing Medical Settlement as Non-Medical to Reduce DHCS Lien

Risk: If attorney and injured worker attempt to characterize portion of settlement as compensating for pain and suffering, lost wages, or other non-medical damages (when facts show treatment expenses were the primary issue):**

DHCS may challenge settlement allocation in court motion

Court may reallocate proceeds to expand DHCS lien amount (resulting in injured worker owing money back to DHCS)

Attorney may face professional discipline for fraud against DHCS

Mitigation: Settlement allocations must accurately reflect the actual basis for settlement (treatment expenses are medical damages; permanent disability is non-medical; pain and suffering is non-medical).

B. Irreversible Consequences of Suboptimal Settlement Structure

The following consequences cannot be reversed after settlement is executed:

Consequence 1: Compromise & Release (C&R) Permanence

A Compromise and Release is final and not reopenable (with limited exceptions). Once a C&R is executed:

Injured worker cannot receive additional workers' compensation medical benefits for the accepted injury

Injured worker cannot claim future temporary disability benefits

Injured worker cannot reopen case if condition worsens (except in rare circumstances with specific procedural requirements)

Implication: If settlement amount is too low and injured worker's condition deteriorates requiring expensive future treatment, injured worker is personally liable for medical costs.

Warning: Do not execute C&R unless injured worker has reached maximum medical improvement (MMI) and future medical needs are accurately assessed.

Consequence 2: Special Needs Trust Restrictions (If Applicable)

If settlement proceeds are placed in a Special Needs Trust (SNT):

Injured worker cannot directly access funds without trustee approval

Funds may only be used for "supplemental" benefits (not duplicating Medi-Cal)

Trust administration costs reduce available funds

Trustee decisions are binding on injured worker

Implication: If injured worker later regrets SNT structure or changes trustees, cannot easily dissolve trust or transfer funds.

Warning: Only use SNT structure if injured worker is committed to long-term Medi-Cal benefits and agrees to trustee restrictions.

Consequence 3: Release of DHCS Lien Claims

Once settlement is distributed and DHCS lien is paid, DHCS releases all lien rights. However, if subsequent work-related medical treatment is required and Medi-Cal again pays for services, DHCS may assert a new lien on any future workers' compensation award/settlement.

Implication: Injured workers with chronic conditions may face multiple DHCS liens over time (one for each settlement).

Warning: Understand that settlement of one claim does not prevent future DHCS liens if Medi-Cal continues to fund treatment of the same injury.

C. Disclaimers: Limitations of This Research

This research brief is provided for informational and educational purposes. The following limitations apply:

Not Legal Advice: This research is not legal advice specific to any injured worker's situation. Injured workers requiring legal representation should consult with a licensed attorney.

Changing Law: Workers' compensation and Medi-Cal lien law are subject to legislative change. This research reflects law as of March 2, 2026, and may become outdated.

Jurisdiction-Specific Issues: This research focuses on California workers' compensation and Medi-Cal. Federal Medicaid law and other state workers' compensation systems operate under different rules.

Case-Specific Analysis Required: Each injured worker's situation is unique, involving specific facts regarding injury date, compensability, settlement amount, Medi-Cal benefits paid, and future medical needs. The strategic recommendations in this research must be tailored to individual circumstances.

XIV. COMPLETE APPENDICES

Appendix A: Full Text of Key Statutory Provisions

California Welfare & Institutions Code Section 14124.70 (Text)

Full statutory text available at [Justia]

"(d) As used in this article, 'lien' means the director's claim for recovery, from a beneficiary's tort action or claim, of the reasonable value of benefits provided on behalf of the beneficiary..."

California Labor Code Section 4600 (Medical Treatment Obligation - Full Text)

Full statutory text available at [Employees First Labor Law]

California Title 22 CCR Section 53222 (Medi-Cal Lien Procedures)

Full regulatory text available at [Cornell Law School]

Appendix B: DWC-1 Form and DHCS Notification Forms

DWC-1 Workers' Compensation Claim Form:

Available for download: California Department of Industrial Relations[59]

Must be completed by injured worker within 30 days of injury

Must be provided to employer, who forwards to insurance company

DHCS Notification Forms (Workers' Compensation):

Online notification portal: DHCS Third Party Liability and Recovery[10]

Mail-in forms available upon request

Must include date of injury, Medi-Cal ID, liable party information, and claims administrator contact

Appendix C: Key Judicial Decisions and Holdings

Arkansas Department of Health and Human Services v. Ahlborn, 547 U.S. 268 (2006)

Citation: Arkansas Dept. of Health and Human Servs. v. Ahlborn, 547 U.S. 268 (2006)[12],[14]

Holding: Federal Medicaid anti-lien provision prohibits states from asserting liens on tort settlements exceeding the portion attributable to medical expenses. Established the pro-rata formula for calculating state recovery.

Application to California: This Supreme Court decision underlies [Welfare & Institutions Code Section 14124.76], which limits DHCS recovery to the proportional share of settlement attributable to medical expenses.

Wos v. E.M.A., 568 U.S. 627 (2013)

Citation: Wos v. E. M. A., 568 U.S. 627 (2013)[33],[36]

Holding: States cannot employ irrebuttable statutory presumptions allocating portions of settlements to medical expenses. Requires case-specific judicial determination of allocation.

Application to California: Confirms that DHCS cannot presume one-third of any settlement represents medical care; allocation must be based on evidence.

Aguilera v. Loma Linda University Medical Center, 235 Cal.App.4th 821 (2015)

Citation: Aguilera v. Loma Linda Univ. Med. Center, 235 Cal.App.4th 821 (2015)[46],[52]

Holding: Future Medi-Cal benefits reasonably probable to be paid must be included in Ahlborn calculation; DHCS must apply Section 14124.72(d) attorney fee reduction even under Ahlborn formula.

Application to California: Injured workers can argue that Ahlborn lien reduction should account for future Medi-Cal coverage of ongoing medical needs.

Appendix D: DHCS Lien Calculation Templates

Template 1: Three-Formula Lien Calculation Worksheet

| Calculation Method | Formula | Result | Notes |

|---|---|---|---|

| Formula 1: 25% Attorney Fee Reduction | (Benefits Paid x 0.75) - Pro Rata Costs | \$ _ | Max. recovery = 75% of benefits paid |

| Formula 2: 50% Net Recovery Cap | 50% x (Settlement - Attorney Fees - Costs) | \$ _ | DHCS cannot exceed injured worker's net |

| Formula 3: Ahlborn Pro-Rata | Benefits Paid x (Settlement / Total Damages) | \$ _ | Limited to proportional share of settlement |

| MINIMUM (Whichever Formula Produces Lowest Amount) | Choose smallest from three formulas above | \$ _ | THIS IS DHCS'S MAXIMUM RECOVERABLE |

Template 2: Settlement Allocation Worksheet

| Category | Amount | Notes |

|---|---|---|

| Gross Settlement | \$ _ | Total settlement received |

| Less: Attorney Fees (specify %) | (\$ _) | Typically 33%-40% in CA |

| Less: Litigation Costs (itemize below) | (\$ _) | Must be itemized for DHCS |

| - Medical records | (\$ _) ||

| - Expert reports | (\$ _) ||

| - Court filing fees | (\$ _) ||

| - Deposition transcripts | (\$ _) ||

| - Other costs: ___ | (\$ ___) ||

| Subtotal: Net Recovery (Injured Worker) | \$ _ | Before DHCS lien |

| Less: DHCS Lien (from calculation above) | (\$ _) | Use minimum of three formulas |

| FINAL: Injured Worker's Net After DHCS Lien | \$ _ | Amount distributed to injured worker |

Appendix E: Contact Information for Key Agencies

California Department of Health Care Services - Workers' Compensation Recovery Unit:

Mailing Address: P.O. Box 997421, Sacramento, CA 95899-7421

Phone: (916) 445-9891 (hours: 8 a.m.-12 p.m. and 1 p.m.-5 p.m. Monday-Friday)

Online Portal: DHCS Third Party Liability and Recovery[10]

California Division of Workers' Compensation (DWC):

Website: California Department of Industrial Relations - Division of Workers' Compensation[59]

Local Offices: 24 district offices statewide (including San Francisco, Oakland, San Jose)

Information and Assistance: 1-800-736-7401

Workers' Compensation Appeals Board (WCAB):

Website: WCAB[64]

San Francisco District Office: [Various hearing locations in Northern California]

XV. REFERENCES

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[2] <https://employeesfirstlaborlaw.com/labor-code-%C2%A74600-right-to-medical-treatment-workers-comp/> - Employees First Labor Law, Labor Code Section 4600 - Right to Medical Treatment

[3] <https://www.dhcs.ca.gov/formsandpubs/Documents/MMCDAPLsandPolicyLetters/APL2011/APL11-012.pdf> - DHCS All Plan Letter 11-012, Reporting Responsibilities Regarding Third-Party Tort Liability

[4] <https://www.dhcs.ca.gov/services/Pages/Personal-Injury-Lien-Process-.aspx> - DHCS, Personal Injury Lien Process

[5] <https://law.justia.com/codes/california/code-lab/division-4/part-2/chapter-2/article-2/section-4600-4/> - California Labor Code Section 4600.4, Utilization Review Standards

[6] <https://www.law.cornell.edu/regulations/california/22-CCR-53222> - California Code of Regulations, Title 22, Section 53222, Recovery from Other Sources

[7] <https://www.alvandigroup.com/blog/2018/september/can-i-receive-both-medicare-and-workers-compensa/> - Alvandi Law Group, Medicare and Workers' Compensation Coordination

[8] <https://brandpeters.com/blog/understanding-the-lien-process-in-personal-injury-cases-walnut-creek/> - Brand Peters, Understanding the Lien Process in Personal Injury Cases

[9] <https://law.justia.com/codes/california/code-lab/division-4/part-4/chapter-1/section-5307-27/> - California Labor Code Section 5307.27, Medical Treatment Utilization Schedule

[10] https://www.dhcs.ca.gov/services/Pages/TPLRD_WC_FAQ.aspx - DHCS Workers' Compensation Recovery Program FAQ

[1] <https://www.dhcs.ca.gov/services/Pages/Workers-Compensation.aspx> - DHCS, Workers' Compensation Recovery Program (comprehensive overview)

[11] <https://www.cwci.org/document.php?file=4476.doc> - California Workers' Compensation Institute, Notice of Proposed Evidence-Based Updates to Medical Treatment Utilization Schedule

[12] <https://supreme.justia.com/cases/federal/us/547/268/> - Arkansas Department of Health and Human Services v. Ahlborn, 547 U.S. 268 (2006)

[13]