J2 HEALTH

Network Compliance Adds Up To Costly Penalties For Payers

The regulatory climate is changing throughout healthcare. While payer organizations have always been under scrutiny, the intensity of regulatory moves has a far-reaching impact on payers' bottom lines. Network strategy is a lever that payers can use to avoid hefty fines and reduce overall administrative costs.

NON-COMPLIANCE WITH NETWORK RULES RESULTS IN HIGH FINES

While network rules vary, state regulators have a history of monitoring health plan networks and enforcing policies, which could result in financial penalties for policy violations. Recent trends indicate the fallout from the enforcement will only increase.

> **The AHA has long-raised concerns about the inadequacy of many health plans' networks…We understand that additional details of network adequacy standards will be borne out in future rulemaking.**
>
> —Stacey Hughes, Executive Vice President, American Hospital Association, in a letter to Chiquita Brooks-LaSure, Administrator, Centers for Medicare & Medicaid Services, January 27, 2022

INCREASING NETWORK COSTS AT ODDS WITH OTHER REQUIREMENTS

In order to be compliant with new adequacy standards, it is likely that plans using traditional adequacy processes will need to invest more resources into their network strategy. However, strict medical loss ratio (MLR) standards and new price transparency regulations leave payers wondering how they can achieve both.

Qualified Health Plan Networks

Qualified health plans across 30 states participating in the federally facilitated marketplace in 2023 must meet various quantitative standards in order to be certified to offer their products.

+37
New provider specialties added since 2017

+15%
Increase in Essential Community Provider contracts since 2022

Medicare Advantage Networks

According to 2024 rules, Medicare Advantage network builders must demonstrate — not just attest to — adequacy standards. These additional requirements and aggressive timelines infuse even more extra costs into the network-building process.

Build networks
1 year
in advance

Submit application
10 months
ahead of contract year

MEDICAL LOSS RATIOS

Health plans are categorically the only businesses that have federally mandated limits on their margins. Rules enacted under the Affordable Care Act subject certain plans to minimum MLR requirements, leaving only 15 to 20 percent of their premium revenue for all the work that falls outside of direct care and quality such as network building activities, administrative functions, and profits. Insurers failing to meet the applicable MLR standards must deliver rebates to their customers.

Federal MLR Requirements

Large Group Markets

85%
- Clinical care
- Quality improvements

15%
- Administrative costs, including network building activities
- Profits

Individual & Small Group Markets

80%
- Clinical care
- Quality improvements

20%
- Administrative costs, including network building activities
- Profits

MLR Rebates / 2021
$1.5 Billion

MLR Rebates / 2022
$1 Billion

HEALTH INSURER AVERAGE PROFIT MARGINS

2017	2018	2019	2020	2021
2.4%	3.2%	3.0%	3.8%	2.1%

TRANSPARENCY IN COVERAGE

Plans must comply with new price transparency rules that went into effect in July 2022, which have significantly added to their existing administrative burden. Plans are required to make public their pricing for in-network rates, billed charges, and prescription drugs, as well as allowed amounts for out-of-network providers. Plans that fail to comply could be fined up to $100 per day for each violation and each member.

Penalties for Non-Compliance
$100 per day

J2 Health combines best-in-class data and powerful analytics to build high-performing provider networks that meet evolving adequacy standards. Use cases include marketplace, Medicare Advantage and risk-bearing entities, Medicaid, commercial, and employer-sponsored plans.

Reach out today to increase access to care, ensure network adequacy, and avoid regulatory enforcement actions.

CONTACT US

J2 HEALTH

929.464.7976

j2health.com

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