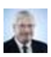
COLUMN MICHAEL HILTZIK BUSINESS

Health Net became the favored insurer of drug abuse patients in California. Then it stopped paying their bills.


By **MICHAEL HILTZIK** DEC 06, 2017 | 1:45 PM

Centene CEO Michael Neidorff, left, tries to explain to CNBC's Jim Cramer in July 2016 why a $390-million reserve against Health Net's expenses wasn't a big deal. But the company is still paying obligations to drug treatment centers at a trickle. (CNBC)

In 2014, Gary Millman signed up his 28-year-old son James for health coverage with Health Net for a very specific reason. James had been battling drug addiction for close to a decade, and the Woodland Hills insurer offered the best coverage in California for substance abuse treatment.

Millman, a semi-retired business executive living in Santa Rosa, was happy with the coverage, even as the premium for James' policy alone rose to more than $700 a month. But in early 2016, something suddenly changed. James needed another round of treatment, but of the addiction treatment centers Millman contacted, all of which were outside the insurer's network, none would take him as a patient.

"Place after place after place would say, 'You have Health Net? No way,'" Millman told me recently. "Word had gotten around. They were just stiffing everybody."

> They brought us to the point of having to shut down.
>
> — BERNADETTE CATTANEO, THE LAKES TREATMENT CENTER

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Interviews and a review of billing documents, Insurance Department records and corporate disclosures show that Millman may not have been far wrong.In early 2016, Health Net suddenly cut off payments to hundreds of for-profit substance abuse centers that had treated its enrollees. In a form letter issued to the providers, the insurer demanded extensive documentation of patient treatments in 2015 and 2016 even though the treatments often had been subject to the insurer's prior authorization.

Treatment centers say they were all swept up in what Stampp Corbin, president of the Addiction Treatment Advocacy Coalition, an organization of treatment providers, calls a "dragnet audit."

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"It had nothing to do with individual providers," he told me. "Everyone was being investigated." Even after notifying some centers that they had passed their audit, Health Net paid them only a fraction of what they were owed.

Health Net asserts that its blanket investigation was aimed at verifying that all the treatment claims were legitimate. But the timing of Health Net's "investigation" suggests its motivation may have been to dress up its financial results after its acquisition by Centene, a St. Louis insurance company, in a $6.3-billion deal announced in 2015.

The result has been hundreds of complaints from treatment centers that say Health Net stiffed them, and unexpected roadblocks for policyholders seeking treatment for family members.

Some centers that received belated payments from Health Net say the reimbursements are 20% of what they're owed under the terms of their patients' insurance policies, or less. Facilities that were due $1,300 a day for intensive detox and rehabilitation services have been fobbed off with $250, for example, according to Devon Herrera, a billing manager for several drug treatment centers.

That could pose another issue for families battling substance abuse: Because so many of the facilities are outside Health Net's network, some can "balance bill" their patients, coming after them for whatever remains unpaid after insurance reimbursements. Families and patients already struggling under the burdens of drug and alcohol addiction could face bills for tens of thousands of dollars.

"It's not like being balance-billed for a broken leg," says Joan Borsten, a former treatment center owner and vice president of the addiction center coalition. "Think of the impact when you're just getting out of recovery and you're handed a bill for $30,000."

The total underpayments that have been claimed by Health Net's drug treatment providers is hard to gauge, but an informal survey of for-profit providers by Corbin's group turned up 51 facilities owed more than $92 million as of April 2016, with some claims dating from mid-2015.

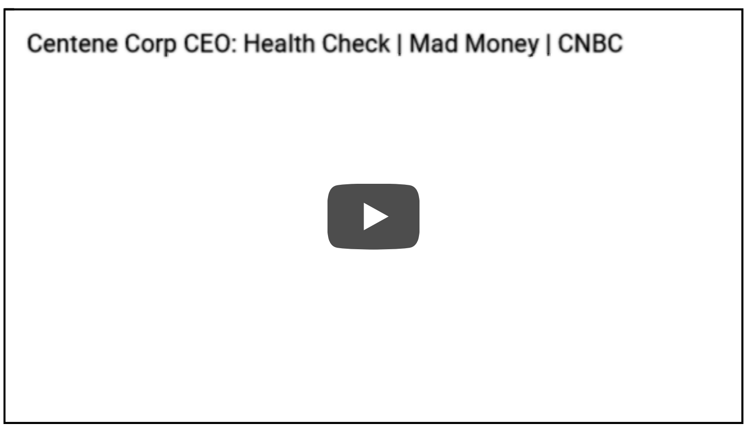
For individual treatment centers, the delays and underpayments can be a matter of life and death. "They brought us to the point of having to shut down," says Bernadette Cattaneo, program director at The Lakes, a treatment center in Copperopolis, about 80 miles southeast of Sacramento. Health Net owes the center about $1 million for patient treatments in 2015 and 2016, Cattaneo says. She kept the 76-bed facility running by borrowing from family and friends and laying off staff, while some administrative staff worked for months without pay.

In June, the California Insurance Department alleged that Health Net had engaged in "unfair or deceptive" business practices by failing to settle provider claims fairly in which its liability "had become reasonably clear." In a show-cause order dated June 23, the agency said it had received "hundreds of complaints" from treatment centers and laboratories and warned the insurer it would be liable for penalties up to $10,000 for each violation.

After that, Health Net agreed to make payments to many of the providers, Deputy Insurance Commissioner Janice Rocco says. But new complaints have been flowing into the department, including dozens in the last several weeks. Rocco says the agency is monitoring the situation.

Health Net says it's merely trying to defend itself against a "staggering" volume of fraud in the substance abuse treatment field that produced a sharp run-up in its substance abuse claims. In 2013, the company says in several court filings, it paid out only $251,000 in claims for drug treatment to out-of-network facilities through its standard individual and family plans. In 2014 the sum rose to $10 million, and in 2015 reached $190 million.

Health Net has countersued several treatment centers, alleging that they paid illicit kickbacks to "brokers" to send patients their way, sometimes from out of state, and waived co-pays and deductibles for some patients in violation of the terms of patient health plans.



It's true that the substance abuse field is poorly regulated and littered with unqualified, unlicensed and dishonest promoters. But there's much more to the story than Health Net is telling.

The increase in the firm's drug treatment claims in 2014 coincided with the Affordable Care Act's designation of mental health and substance abuse treatment as an essential health benefit mandated for inclusion in individual health plans. Health Net dove into the substance abuse treatment business with its eyes wide open; by 2015, the insurer was offering appreciably better benefits than its rivals. For example, the company was more generous in terms of the length of time it would cover residential treatment. For families facing substance abuse issues, Health Net became the insurer of choice.

But the company also backed itself into a corner. Its health policy documents for 2015 and 2016 set the reimbursement rate for substance abuse treatment at 190% of the Medicare reimbursement rate for equivalent treatment. But Medicare doesn't cover residential substance abuse treatment, so there is no Medicare benchmark for that coverage. And for services without such a benchmark, Health Net committed itself to paying a reimbursement rate of 75% of provider bills (after subtracting patient co-pays and deductibles). That left Health Net exposed to enormous provider claims.

Health Net tried to get around this problem by cobbling together a Medicare benchmark based on treatments the government program does cover. But the providers, backed by the California Insurance Department, called foul. Labeling Health Net's calculations "improper" because they were based on a Medicare rate "for an entirely different service furnished by an entirely different type of facility," the agency stated in its show-cause order that Health Net is bound to pay the non-network centers the default 75% rate for 2015 and 2016.

The consequences came home for Centene shareholders on July 26, 2016, when the company disclosed it would take a $390-million reserve to cover Health Net's "underperforming" health plans, including at least $90 million for "disputed substance abuse treatment center claims." The size of the reserve — which was enough to wipe out Health Net's 2014 and 2015 after-tax profits combined — stunned investors, who drove down the value of Centene stock by 8.5% the next day.

Centene rewrote Health Net's health plans for 2017, raising deductibles and out-of-pocket maximums for non-network services and slashing reimbursements for non-network providers. The default rate of 75% of billed charges was eliminated entirely. The goal, Chief Financial Officer Jeffrey Schwaneke told Wall Street analysts, was "decreased substance abuse utilization" — that is, fewer claims.

At a health industry conference in September 2016, Centene's investor relations chief, Edmund E. Kroll, essentially acknowledged that Health Net had underpaid many of its drug treatment providers. The California insurer, he said, "had denied a lot of claims that we subsequently determined should be on the books…. They were owed."

Yet to this day, many treatment centers say they're still waiting for settlements and have received little or no explanation for the delay or underpayment. Some suspect that the company is dribbling out the money it owes to avoid overburdening Centene's quarterly results.

There's no excuse for managing providers that way. Centene knows it owes the money, and payment is way overdue. It's time for the company to bite the bullet and pay up, instead of keeping treatment providers and their patients dangling on the hook.

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Pulitzer Prize-winning journalist Michael Hiltzik writes a daily blog appearing on latimes.com. His business column appears in print every Sunday, and occasionally on other days. As a member of the Los Angeles Times staff, he has been a financial and technology writer and a foreign correspondent. He is the author of six books, including “Dealers of Lightning: Xerox PARC and the Dawn of the Computer Age” and “The New Deal: A Modern History.” Hiltzik and colleague Chuck Philips shared the 1999 Pulitzer Prize for articles exposing corruption in the entertainment industry.