

**BEFORE THE COMMISSIONER OF INSURANCE
OF THE STATE OF KANSAS**

In the Matter of the Conversion and)
Acquisition of Blue Cross and Blue Shield)
of Kansas, Inc.)

Docket No. 3014-DM

**PREFILED DIRECT TESTIMONY OF
SAMUEL R. NUSSBAUM, M.D.**

Q. Please state your name and your position with Anthem Blue Cross and Blue Shield (“Anthem BCBS”).

A. My name is Sam Nussbaum, and I am Executive Vice President and Chief Medical Officer of Anthem BCBS.

Q. What will be the subject matter of your testimony?

A. I will describe how Anthem develops and administers its medical policies. I will also briefly address Anthem’s physician and hospital arrangements.

Q. Please explain what you mean by medical policy, and its importance in the administration of a health insurance plan.

A. A health benefit company’s medical policy is an important aspect of a company’s operation. Anthem BCBS recognizes that its process for developing medical policy is critical to maintaining the confidence of our customers and the professional provider community. Medical policy establishes a scientific and clinical basis for medical necessity determinations and a foundation for benefit coverage.

Anthem distinguishes between medical policy and utilization management. I will describe for you the differences between the two and focus on our company's approach to medical policy, commenting briefly on utilization management.

Science and technology are changing rapidly; medical policy guides the safe introduction of beneficial new technology. Medical policy is used to determine whether new medical treatments are more effective in certain conditions than existing treatments; whether a new mode of treatment is experimental and/or investigational, or conversely, is appropriate for widespread application; and whether it is appropriate to provide benefits for a certain procedure, knowing that a more effective procedure is available. Following the definitions in the benefit certificate for medically necessary and investigational treatments, Anthem creates medical policy which is first and foremost based on the current status of medical science.

A medical policy group comprised of medical directors from all Anthem states, evaluates the available scientific and clinical literature, analyzes assessments of technology and scientific research organizations, evaluates positions of national organizations such as the National Cancer Institute and the American Diabetes Association, and engages the viewpoints of academic and community specialist physician experts in Anthem states to determine Anthem's national policy. In this manner, Anthem develops an evidence-based, best approach to the application of medical technologies.

Q. Please describe in a general way the extent to which medical decisions are made on a local basis at Anthem BCBS.

A. We recognize and respect the uniqueness of clinical care and while medical policy creates the overarching guidance, our locally based medical directors are involved in complex clinical decisions. Anthem's policy is that individual medical care decisions are made locally. In addition, Anthem anticipates that a Kansas physician will act as the medical director for

Anthem Health Plans of Kansas, and matters such as medical management and medical decision-making will occur at the local level, with the Kansas medical director and other health care professionals in Kansas working in conjunction with Kansas participating physicians.

Q. How does medical policy differ from utilization management?

A. Utilization management focuses on the performance and clinical effectiveness of our delivery system, considering a number of different criteria. For example, for certain procedures, is care being delivered in the right setting? Is the length of time members are spending in institutional care appropriate? Is the intensity of care delivered appropriate? The health care industry, including practitioners and institutional providers of care, has developed nationally accepted guidelines that address many of these questions. While these are important issues, they are not the subjects of medical policy as Anthem has defined it; rather they are utilization management issues.

Q. Generally speaking, how does Anthem develop medical policy?

A. There are two principles that drive medical policy development at Anthem BCBS. The first is our commitment to evidence-based decision-making. Our medical policies place a heavy emphasis on incorporating the very best of what clinical researchers and the current state of medicine proves to be the most effective way to provide care to our customers.

The second principle that drives the development of medical policy, consistent with our operating model, is that medical policy development seeks and engages input from the most knowledgeable network physicians from the states which we serve. That means that in the future, physicians in our Kansas network with the required clinical expertise will, in conjunction with their colleagues across other Anthem states, provide input into the development of Anthem's medical policy.

Q. Please describe the process used at Anthem BCBS to develop or change medical policy.

A. There are four steps that we take in developing or modifying a medical policy. The first is the creation of a draft policy. Anthem clinical professionals prepare a draft policy following a review of peer-reviewed journals, policies and positions of governmental agencies, professional specialty societies, opinions of physician consultants, summaries of safety and effectiveness from the FDA and findings of the Blue Cross and Blue Shield Technology Assessments and Hayes Technology Reviews. Our staff also assesses the impact of a proposed policy on long-term clinical outcomes (if information is available); considers whether the desired results can be obtained outside an investigational setting; assesses findings regarding safety and effectiveness; and considers whether the beneficial effects on health outcomes are outweighed by any harmful effects on health outcomes or risks to the patient.

Once this initial drafting phase is completed, the draft policy is reviewed by local network physicians who practice in academic and community settings, who have expertise in the subject area under review. Local input from our provider networks assures Anthem that it receives the necessary feedback from its expert practicing physicians.

Those in our medical policy area also solicit internal feedback on proposed medical policies. Input from other business units helps identify legal, operating or marketplace issues that may accompany implementation of the proposed policy.

The final step in the development of medical policy is review and approval of the proposed policy by Anthem's Medical Policy Committee. This committee is comprised of medical directors from each state in which Anthem markets Blue Cross and Blue Shield products. If this transaction is approved and concluded, the medical director of the Kansas company will become a member of the committee. This group of medical directors gives final approval to any new medical policy or changes to an existing medical policy. We then

determine an appropriate interval to thoroughly review the specific medical policy, particularly with the rapidly changing technologic and scientific environment.

I recognize clearly the concern among Kansas physicians and other health professionals over maintaining a high degree of local input into decisions that are made regarding medical policy. The process I have described outlines a number of steps to ensure that local medical input into our medical policies is solicited and considered. I hope that my description will give the Commissioner confidence in the integrity of our process and the degree to which Anthem engages its professional partners and solicits input from the physician community in the states in which Anthem operates.

Q. Please describe in general Anthem's provider arrangements.

A. Anthem's relationships with health care providers – physicians, hospitals and those professionals that provide ancillary health care services – are guided by the principle that health care is a local activity. To that end, Anthem provides fair, market-based hospital reimbursement along industry standards. We use multi-year contracting strategies with hospitals, including case or fixed rates, to limit trend exposure and increase cost predictability. Anthem also seeks to ensure that physicians in our networks are paid in a timely manner at appropriate rates. We seek to maintain broad provider networks to ensure customer choice while implementing effective medical management programs designed to improve the quality of care received by our customers. Anthem contracts with more than 75,000 physicians in the states we serve, and 99.7% of all hospitals in those states are in Anthem's networks.

In Colorado and Nevada, two other states that along with Kansas would comprise the Anthem West region, there has been an expansion of primary and specialty physicians in the network following their affiliation with Anthem. In Colorado, our HMO network grew from 1,664 to 1,829 primary care physicians, and from 4,882 to 5,482 specialty care physicians. Our

Colorado PPO physician network grew from 6,950 to 7,314 physicians. In Nevada, our HMO network grew from 441 to 657 primary care physicians, and from 1,890 to 2,102 specialty care physicians. Our Nevada PPO physician network grew from 2,524 to 3,165 physicians.

Quality scores, reflected by HEDIS measurement, continue to improve in all Anthem states, demonstrating the effectiveness of programs developed to improve the health of our members. We strongly believe that quality health care is best achieved through collaborative programs with our network physicians and hospitals. To that end, Anthem BCBS has developed a Hospital Quality Program to improve the quality of health care delivered in hospitals in Anthem's networks. The program consists of a broad and comprehensive set of metrics that address quality of care, clinical outcomes, patient safety and processes of care. The measures were based upon best hospital practices as well as input from hospitals. Currently, over 300 hospitals in the Anthem Midwest region participate in the program.

In addition, Anthem has developed a disease management program, in partnership with providers, to improve clinical outcomes and quality. Anthem's disease management and health promotion programs include specific programs for the following conditions: asthma, diabetes, coronary artery disease and congestive heart failure.

Q. What will be Anthem's approach to providing coverage for the health care needs of policyholders in rural areas in Kansas?

A. Given our operations in other states with significant rural populations such as Maine, New Hampshire, Kentucky, Colorado and Nevada, we have experience in meeting the needs of rural policyholders. We understand Blue Cross and Blue Shield of Kansas's ("BCBSKS's) history of working to develop strong relationships with professional and other providers to ensure that its policyholders have access to essential health care services. As noted in our filings and in other testimony, Anthem intends to assume BCBSKS's contracts with current providers, including the parts of the network which currently serve rural populations in Kansas.

After the closing, we will work to maintain the adequacy of the provider network for our rural policyholders.

Q. Does this conclude your testimony?

A. Yes.

Respectfully submitted,

Samuel R. Nussbaum, M.D.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing was served upon counsel by depositing same in the United States Mail, first class postage prepaid, on this 17TH day of December 2001, properly addressed as follows:

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