

6. One example of the restrictive nature of the guidelines is chest pain. Local experience with chest pain denials suggests Anthem applies the criteria restrictively, contending outpatient treatment is best.
7. Litigation has resulted from other insurer's restrictive uses of the Milliman & Robertson Guidelines. Consumers describe their experiences with Anthem as a nightmare.
8. When length of stay or medically necessary denials result from the Milliman & Robertson Guidelines, they are justified by the insurer because the hospital is not being "efficient." In Kansas, there are numerous small, rural hospitals that serve as the only entry into the health care system. Due to size, provider mix, and resources, these hospitals cannot meet the efficiency levels of larger institutions.
9. Milliman & Robertson has already opined that over half of Kansas Medicare hospital stays were too long or unnecessary.
10. The criteria utilized by Anthem and the method of application will functionally alter the contracts between KBCBS and its insureds, and with its providers. Claim denials or extended turn around times for claims payments may make providers, particularly rural providers, unwilling or financially unable to contract with Anthem. Consumers will receive less care and have less access to care than with KBCBS.

B. CARL J. SCHRAMM

1. This report was prepared for submission to the Kansas Insurance Department for the Department's consideration as it evaluates the public interest in the potential sale of the Kansas Blue Cross/Blue Shield plan (the "Kansas Blue Plan") to Anthem, Inc., a publicly-traded Blue Cross affiliate that owns and operates Blue plans in eight states.
2. The report considers the general implications for health care providers (doctors and hospitals) in the event that the Kansas Blue Plan is sold. Specifically, how will a proposed sale of a non-profit health insurance company of the magnitude of the Kansas Blue Plan, and its conversion to a for-profit entity, affect the economic conditions that govern the practice of medicine in the State's hospitals and by physicians in Kansas? Because of the traditional non-profit nature of Blue Cross plans and their long-recognized quasi-public mission, these considerations are closely related to several public policy issues.

3. The report takes an economic perspective on the implications for providers as well as the public policy issues. It builds on the economic analysis performed by the author as part of ongoing analyses of similar transactions in other jurisdictions and their implications on markets for health care and insurance.
4. The author is an economist and lawyer by training. He served as a professor of health management and policy at The Johns Hopkins University School of Hygiene and Public Health and founded the Johns Hopkins Center for Hospital Finance and Management. Mr. Schramm served as chairman of the Maryland Health Services Cost Review Commission, the agency that regulates Maryland hospital prices. He currently serves as a member of the Maryland Health and Higher Education Facilities Authority, the agency that issues debt on behalf of non-profit hospitals. Mr. Schramm has served as President of the Health Insurance Association of America and as President of Fortis Healthcare, a commercial health insurance company, as well as Executive Vice President of Fortis, Inc. He is vice-chairman of the board of Patient Choice Healthcare, Inc., in Minneapolis, and chairman of Greenspring Advisors, a consulting and economic research firm specializing in health care.
5. This report finds as follows:
 - A. Kansas Blue Cross Blue Shield was founded and has operated as a non-profit entity to serve a special function in the State's insurance market. Given the continuing failure of the insurance market to provide available and affordable insurance coverage to all citizens, the State and its health care providers have a long history of encouraging Blue Cross to provide coverage to citizens who otherwise would have no option in the marketplace. Blue Cross was established and continues to exist, in part, to mitigate a classic situation of market failure.
 - B. The Kansas Blue Plan is the largest economic force in the Kansas health care economy. The manner in which it will operate in the future is of enormous consequence to the hospitals and doctors of the State and the citizens who are covered by the Plan, as well as to its competitors. Hospitals and doctors will be affected directly by a change in the managerial objectives within the Kansas Plan; in addition, there will be critical changes in the market for health insurance that will produce significant secondary

effects. Such changes in the insurance market will produce significant public policy issues for the State related to the availability of insurance and the price at which it is offered to Kansas citizens.

- C. Conversion from non-profit to investor-owned status will result in a reduction of the medical claims cost ratio, the percentage of premium dollars paid in Kansas that are returned as payments to providers of care, doctors and hospitals. The resulting outcome will be reduced receipts for the population covered by the Kansas Blue Plan, and/or higher premiums to be paid by businesses and individuals than if the Blue Plan were to remain a non-profit organization.
- D. The arguments typically propounded by management seeking to sell a Blue plan often include the need to compete with larger, ostensibly more efficient carrier. In fact, there is scant evidence that larger carriers are more efficient or more competitive.
- E. Attending all past Blue plan conversion transactions is an implicit or explicit case that the historic nationwide organization of Blue plans as non-profit entities no longer can survive in the current environment of insurance industry dynamics. This argument overlooks the facts, suggested in finding 4 above, that larger carriers are not more efficient or more competitive. In addition, this thesis overlooks what economic policy makers have long understood to be the need for a mix of economic models of service delivery in the American economy. The founders and past managers of the Kansas Blue Plan – and other Blue plans across the U.S. – were not “do-gooders” who were naïve regarding the rigors of internal economics and external competition in the health insurance business, as this pro-conversion argument implies. Rather, they were persons who as social entrepreneurs operated businesses that were consciously formed as special service companies to meet the need to provide a non-profit model for providing one of the most public of private services. In the face of sixty years of competition from commercial carriers, most Blue plan managers built strong and successful businesses and made their non-profit Blue Cross Blue Shield franchises the predominant insurance carrier in many states. The economics and mission of non-profit

Blue plans was and is a viable combination, perhaps, in the long run, the most viable form of providing coverage.

Respectfully submitted,

GOODELL, STRATTON, EDMONDS &
PALMER, L.L.P.

By: _____
CHARLES R. HAY, #08536
515 South Kansas Avenue
Topeka, KS 66603-3999

COUNSEL FOR KANSAS HOSPITAL
ASSOCIATION

and

POLSINELLI SHALTON & WELTE,
A PROFESSIONAL CORPORATION

By: _____
DOUGLAS S. LAIRD, #18123
WILLIAM W. SNEED, #10630
555 Kansas Avenue, Suite 301
Topeka, Kansas 66603
(785) 233-1446
Telecopier No. (785) 233-1939

ATTORNEYS FOR
KANSAS MEDICAL SOCIETY

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the above and foregoing pleading was served by e-mail and U.S. Mail this _____ day of _____, 2001, to:

Kathy Greenlee, Esq.
KANSAS INSURANCE DEPARTMENT
420 S.W. 9th Street
Topeka, KS 66612-1678
COUNSEL FOR THE KANSAS
INSURANCE DEPARTMENT

Patrick H. Cantilo, Esq.
CANTILO & BENNETT, L.L.P.
7501 North Capital of Texas Highway
Suite 200
Austin, TX 78731
COUNSEL FOR THE KANSAS
INSURANCE DEPARTMENT

Gary D. McCallister, Esq.
DAVIS, UNREIN, MCCALLISTER,
BIGGS & HEAD, L.L.P.
29 South La Salle Street, Suite 1210
Chicago, IL 60603
COUNSEL FOR BLUE CROSS AND
BLUE SHIELD OF KANSAS, INC.

James C. Scoville, Esq.
DEBOVOISE & PLIMPTON
919 Third Avenue
New York, NY 10022
COUNSEL FOR BLUE CROSS AND
BLUE SHIELD OF KANSAS, INC.

Doug Fauth, Esq.
ANTHEM BLUE CROSS AND
BLUE SHIELD
120 Monument Circle
Indianapolis, IA 46204-4903
COUNSEL FOR ANTHEM BLUE CROSS
AND BLUE SHIELD

Randy J. Forbes, Esq.
FREDEN, HAYNES & FORBES
555 South Kansas Avenue, Suite 303
P.O. Box 639
Topeka, KS 66061-0639
COUNSEL FOR ANTHEM BLUE CROSS
AND BLUE SHIELD

Karen A. Eager, Esq.
LAW OFFICES OF THEODORE J.
LICKTEIG
16 East 13th Street
Lawrence, KS 66044
COUNSEL FOR THE STATE NURSES
ASSOCIATION AND KANSAS
ASSOCIATION OF THE MEDICALLY
UNDERSERVED

Charles R. Hay