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October 17, 2007

Eric A. Cioppa, Acting Superintendent
c/o Vanessa Leon
Docket No. INS-07-1000
Maine Bureau of Insurance
34 State House Station
Augusta, Maine 04333-0034

RE: ANTHEM BCBS 2008 HEALTHCHOICE INDIVIDUAL RATE FILING

I. FILING COVERSHEET

Dear Superintendent Cioppa:

Enclosed for filing please find the following:

SUBMITTED BY: Christopher T. Roach
DATE: October 17, 2007
DOCUMENT TITLE: Prefiled Testimony of Amy Cheslock
DOCUMENT TYPE: Prefiled Testimony
CONFIDENTIAL: **No**

Thank you for your assistance in this matter.

Very truly yours,

/s/ Christopher T. Roach

cc: Thomas C. Sturtevant, Esquire
Christina M. Moylan, Esquire
Judith M. Shaw, Deputy Superintendent
James Bowie, Esquire

NON-CONFIDENTIAL

STATE OF MAINE
DEPARTMENT OF PROFESSIONAL AND FINANCIAL REGULATION
BUREAU OF INSURANCE

IN RE:) EXHIBIT 2
)
)
ANTHEM BLUE CROSS AND BLUE)
SHIELD 2008 INDIVIDUAL RATE)
FILING FOR HEALTHCHOICE,) PREFILED TESTIMONY OF
HEALTHCHOICE STANDARD) AMY CHESLOCK
AND BASIC)
)
)
)
DOCKET NO. INS-07-1000)

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October 17, 2007

NON-CONFIDENTIAL

1 **Q. Please state your name and your position with Anthem Health Plans of**
2 **Maine, Inc. d/b/a Anthem Blue Cross and Blue Shield (“Anthem BCBS”).**

3 A. My name is Amy Cheslock and I am the Regional Vice President for Health
4 Services with Anthem BCBS. I have held this position with Anthem BCBS since March
5 2006. During my tenure in this position, I have participated and/or supervised every
6 significant negotiation with the hospitals and physicians in the Anthem BCBS network in
7 Maine.

8

9 **Q. Briefly describe your educational background and work experience prior to**
10 **joining Anthem BCBS.**

11 A. I have a bachelor’s degree in healthcare administration from the University of
12 Rochester. Prior to joining Anthem BCBS, I was in contracting and network
13 management for United Healthcare. I have been working in the healthcare industry for
14 approximately nine years.

15

16 **Q. What is the scope of your testimony?**

17 A. My testimony will describe Anthem BCBS’s philosophy and process for
18 negotiating provider agreements and ensuring that Anthem BCBS obtains the lowest
19 possible contract prices for our members, while balancing the need to ensure that we
20 maintain the stable and broad network to serve our members’ healthcare needs. As I
21 described in last year’s HealthChoice and DirigoChoice rate hearings, part of that process
22 is to ensure that all cost savings, whether or not they are as a result of the operation of
23 Dirigo Health, are included in the contract rates that we have negotiated with providers
24 and, therefore, included in the assumptions for the proposed HealthChoice rates.

25

26 **Q. Please describe the status of the 2008 savings offset payment.**

27 A. The current savings offset payment (“SOP”) assessment of 1.85% of paid claims
28 was implemented effective July 1, 2007 and will run through June 30, 2008. The current
29 status of the SOP that would be effective beginning July 1, 2008 is as follows: On August
30 3, 2007, the Board of Directors of the Dirigo Health Agency issued a decision finding
31 aggregate measurable cost savings (“AMCS”) of approximately \$78 million. On

1 September 17, 2007, the Superintendent issued a decision finding \$32.8 million AMCS to
2 be reasonably supported by the record evidence. Based on that AMCS determination, the
3 DHA Board determined that the SOP assessment effective July 1, 2008 is 1.74%.

4
5 **Q. You testified in proceedings before the Superintendent in, among others, last**
6 **year's HealthChoice and DirigoChoice proceedings. Before describing the process**
7 **your team uses in provider negotiations, please state whether that process has**
8 **changed at all since your prior testimony.**

9 A. No, our negotiation strategy and process have not changed since my last
10 testimony.

11
12 **Q. Please describe the process Anthem BCBS uses to negotiate with providers.**

13 A. Anthem BCBS is constrained to some degree by the network adequacy
14 requirements of Rule 850, but our team engages in an extensive and vigorous negotiation
15 process with Anthem BCBS's providers to get the best possible contract price for our
16 members. We generally start the process many months in advance of the renewal.
17 During the negotiation process, we have internal discussions concerning financial data
18 from the provider, as well as extensive discussions with the provider to get their
19 perspective of their financial status, the factors that are impacting that status, and how to
20 achieve the best possible contractual arrangement that, while responsive to their
21 concerns, ensures we achieve the absolute best possible price. The impacts, if any, of
22 Dirigo are included in those extensive discussions, as well as any changes to bad debt and
23 charity care costs.

24
25 **Q. You mentioned that you include in the negotiation process discussions**
26 **surrounding Dirigo. Does Anthem BCBS include in its discussions with providers**
27 **questions aimed at assuring that all cost savings categories determined by the**
28 **Superintendent to be includable in the calculation of AMCS are included in the**
29 **providers' rates?**

30 A. Yes. We are very specific with providers in asking whether the contract rates
31 reflect all cost savings that may be attributable to Dirigo, but our discussions go well
32 beyond those specifics. In our negotiations, we probe to ensure that all savings, from

1 whatever source, are included in the final negotiated rate. Hospital finance is complex
2 and, as such, it may never be possible to isolate with precision the cause of any cost
3 savings or reduction in the growth of expenses. This is consistent with the views held by
4 consultants for the Dirigo Health Agency who gather the evidence in support of the
5 AMCS calculation; they too have recognized that isolating the precise cause of provider
6 cost reductions is not possible. To ensure any such savings are embedded in the rates we
7 negotiate with providers, we take a global perspective, asking specifics related to Dirigo
8 and other impacts, but in the end, working diligently to ensure that any cost savings – no
9 matter the source or cause – are reflected in our provider contracts.

10
11 **Q. Understanding that isolating the cause of any particular cost savings driver**
12 **may be impossible to ascertain, have providers indicated that the contract rates**
13 **include any cost savings that have resulted from Dirigo?**

14 A. Yes, providers have given us that assurance and I am confident that our detailed
15 discussions and analyses ensure that we get the best possible contract rates for our
16 members, which would include any cost savings that have resulted from Dirigo.

17
18 **Q. Do your discussions also include the impact of expansions in MaineCare?**

19 A. Yes, but it is important to recognize that expansions in MaineCare do not
20 necessarily reduce a provider's costs. For example, the rate of reimbursement to a
21 hospital for a MaineCare member seeking particular services is clearly higher than if that
22 same individual is uninsured and does not pay for the services rendered by the hospital.
23 In that situation, all else equal, the reimbursement from MaineCare has a positive effect
24 on the hospital's financials. If instead, however, the MaineCare member formerly had
25 commercial insurance, the member's migration to MaineCare would have a negative
26 impact on the hospital financially because the MaineCare reimbursement rate is lower
27 than the rate paid by commercial insurers.

28
29 **Q. Are you confident that Anthem BCBS has used its best efforts to recover in**
30 **negotiated rates all cost savings that are as a result of the operation of Dirigo Health**
31 **or expansions in MaineCare?**

1 A. Yes, I am very confident of that.

2

3 **Q. What duration of contract does Anthem BCBS typically seek in a provider**
4 **agreement?**

5 A. For network stability and predictability, we prefer a multi-year agreement.

6

7 **Q. If provider agreements are for multiple years, how do you ensure that cost**
8 **savings attributable to Dirigo Health are included in the out years of the contract?**

9 A. As I have previously testified, we negotiate vigorously to ensure that we get the
10 best possible contract rates, including any cost savings that may be attributable to Dirigo.
11 In multi-year deals, we often negotiate inflationary factors that would maintain the lowest
12 possible rates for the duration of the contract. There are also provisions that would allow
13 us to recoup lower than expected rates of increase. As such, if additional cost savings
14 yield better financial results, we have the ability to recapture those savings in the out
15 years.

16

17 **Q. For those multi-year contracts in which you do not have an inflationary**
18 **factor, would you suggest re-opening the contract in the event that cost savings**
19 **proved to be greater than expected?**

20 A. First let me say that the reduction in the SOP assessment from 1.85% to 1.74%
21 truly makes your question a hypothetical because the approved cost savings that form the
22 basis for the SOP assessment for the second half of 2008 are lower than those that form
23 the basis for the current SOP. That said, the answer to your hypothetical is no, I would
24 not suggest that contracts should be re-opened in the out years. Our negotiation process
25 is vigorous and there are many concessions made by both sides to the agreement that are
26 important to the totality of the agreement. As such, if we were to suggest re-opening the
27 agreement in an out-year due to higher than expected AMCS, undoubtedly the provider
28 would want to re-open other aspects of the agreement that will have been favorable to
29 Anthem BCBS and its members. Attempting to re-open negotiations midway through the
30 contract term would also undermine our approach to multi-year deals, which in our view,

1 provide stability that benefits our members and given our contractual ability to recoup
2 lower than expected rates of increase would be unnecessary.

3

4 **Q. Once your team has negotiated a contract rate with a provider, how does that**
5 **provider rate become embedded in premium rates, such as the rates proposed for**
6 **HealthChoice members?**

7 A. There is an impact in really two ways. First, our contract team communicates
8 regularly with a forecasting team so that they can include in their cost projections the
9 most up to date information concerning expected contract rates. That forecasting team
10 includes representatives from underwriting, actuarial and forecasting. In addition to
11 using this up to date information in forecasting costs, all of the discounts that are in place
12 in our current agreements are embedded in the HealthChoice claim experience upon
13 which the proposed rates are based.

14

15 So in summary, any cost savings that are attributable to Dirigo are captured in Anthem
16 BCBS's provider agreements and those contract rates are used to develop premium rates,
17 such as those proposed for HealthChoice for 2008.

18

19 **Q. Does this conclude your testimony?**

20 A. Yes.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that on October 17, 2007, a copy of the Non-Confidential Version of Prefiled Testimony of Amy Cheslock was served on each of the persons listed below and in the manner indicated.

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DATED October 17, 2007

/s/ Christopher T. Roach
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