to successful reforms needed in the health care industry. These include (1) efforts to expand tax subsidies for health insurance, a policy which camoflauges rising costs and hides underlying inefficiencies, (2) efforts to have federal and state regulation of hospital rates, (3) efforts to prohibit discounts to aggressive buyers of medical services and supplies, (4) and efforts to expand antitrust exemption for health insurers. Havighurst concludes: "Commercial insurers, if they are to have any future at all, must respond to the new demands for cost control."

This book is well worth reading by all serious students of health insurance. It contains much information and analysis not ordinarily covered by introductory insurance textbooks. The chapters contain well reasoned arguments and offer full bibliographies for additional reading. All in all, it is a first rate contribution to our knowledge of this important area.

Medicare's New Hospital Payment System: Is It Working?, by Louise B. Russell (The Brookings Institution, 1989)

Reviewer: Jacqueline S. Zinn, Temple University

Six years have passed since the medicare program replaced its cost-based retrospective method for hospital payment with the charged-based prospective payment system (PPS). Has enough time elapsed for meaningful evaluation of its performance? In this book, Louise Russell, a health care economist affiliated with Rutgers University, attempts a preliminary assessment and issues an interim grade.

The relatively speedy passage of the federal PPS legislation in 1983 was an effort to salvage the medicare program from imminent bankruptcy. The intent was to make payments to hospitals more predictable than under the open-ended cost-based retrospective system, and to curb the rate of cost increase. Thus, the first criteria applied in assessing PPS performance is the extent to which program expenditures have been brought under control. Evidence indicates that results have far exceeded expectations. Actual 1990 expenditures were 20 percent below 1980 projections. As a result of these savings, the Hospital Insurance Trust Fund is projected to remain solvent through the year 2000. Further, the author contends that prospective payment accomplished its primary goal without shifting costs to medicare recipients or to other third party payers.

A balanced assessment of PPS requires identification of any negative health care consequences attributable to its implementation. From the onset, the new financial incentives under PPS clearly implied the use of alternatives to hospital care. In what may have been a reaction to pressure to contain hospital admissions, the use of outpatient and home health services surged, while admissions and hospital length of stay dramatically declined. While there has been no apparent change in the volume of nursing home services provided to medicare beneficiaries, there is evidence that the amount of terminal care provided to nursing home residents has increased. However, as the author

notes, it is difficult to determine if these changes are primarily attributable to the incentive to transfer sub-acute patients under PPS, to concurrent changes in medicare policies regarding these services, or to the continuation of the existing trend in the practice of medicine deemphasizing hospital-based care.

Similarly, the impact of PPS on the health status of medicare recipients is rendered inconclusive by available evidence. While admittedly indirect outcome measures such as rates of post-discharge mortality, transfers to other hospitals, and hospital readmissions indicate no apparent deterioration in the quality of inpatient care, these limited measures cannot address total care received across treatment settings. Due to the absence of a pre-PPS baseline for the most directly relevant health status measure, the impact of PPS on the effectiveness of health care largely remains to be determined.

A final consideration in this assessment is equity: how even-handed is PPS in its payment to providers? As the author notes, the level and distribution of hospital profits remains one of the more controversial aspects of PPS. How equitable this system of similar prices (as opposed to similar profits) is depends upon how well the factors taken into account in setting rates reflect relevant and legitimate sources of variation in hospital costs. Currently, about 70% of the variation in hospital costs is accounted for by the factors that PPS payments take into account. At issue is whether the remaining difference can be attributed to the relative efficiency of different hospitals, or to a legitimate but unrecognized cost factor, such as case mix severity. While most hospitals appear to have profited under PPS, some facilities, particularly in rural areas, have faired much worse than others. Monetary losses related to the provision of services to medicare recipients may have undermined the fiscal viability of these hospitals.

However, even reformers interested in improving equity have not challenged the rationality of PPS's basic structure. The PPS also comes out of this evaluation with better than a passing grade. On balance, the author concludes that PPS serves its primary task of resource allocation well.

Louise Russell once again has demonstrated the ability to make complex public policy issue comprehensible to a broad audience. Her clear and focused arguments are presented in a journalistic style which sustains reader interest. In achieving this clarity, however, some aspects of context may have been sacrificed. Little or no mention is made of concurrent major developments in health care, such as the growth of managed care, the increasing burden of medical indigency, and the malpractice crisis. A thorough accounting of these issues is clearly beyond the scope of this book. However, her conclusions about the impact of PPS, ceteris peribus, ignore the cumulative and interactive effects implied by these developments. For example, if as reported, most hospitals have profited under prospective payment, why did 43% posted operating losses in 1988?

Neither are related Medicare policies considered. Most notably, no mention is given of the soon to be implemented changes in the way medicare reimburses physicians for services. These changes are bound to have an impact on the cost, quality, and locus of care for recipients. Futhermore, the book gives the

impression that the medicare program has achieved its cost containment objectives and is now focused on quality. However, additional cuts in medicare funding are proposed in the current federal budget. Unless it can be established that there is additional slack related solely to inefficiency, squeezing more savings out of the system can only aggravate potential quality and equity problems.

As a final comment, a bias common to cost effectiveness studies appears to be incorporated into this analysis. Costs and benefits which are more readily quantifiable are given greater weight than those that are more difficult to document. In this analysis, the conclusion that PPS is "working" appears to be based on the documented savings to the medicare program, despite outstanding quality and equity concerns. In light of current evidence, withholding judgement, or qualifying for whom PPS is working, may be more prudent.

Essentials of Hospital Risk Management; Edited by Barbara J. Youngberg. Aspen Publishers, Inc. 1990.

Reviewed by: Dr. John J. O'Connell, C.V. Starr Professor of International Insurance and Risk Management, The American Graduate School of International Management, Glendale, Arizona

When the review of this book first began I looked forward to a discussion of the entire risk management process as it related to hospitals.
The Table of Contents indicates 5 separate parts:

I. Setting Up A Strong Department;
II. Assessing The Needs Of The Institution;
III. Developing Tools To Manage Risk;
IV. Insurance Concepts; and
V. Management Of Actual And Potential Claims.

A thorough review of all of the topics listed above would provide a risk manager with an invaluable tool to deal with future situations. Unfortunately, one quickly finds that the text almost exclusively addresses risks associated with medical malpractice or professional liability of hospitals and/or practicioners. Although, it's true that professional liability is probably the most pressing problem facing medical facilities and providers, this book should have indicated in it title (or at least early in the text) that only a portion (albeit an important one) of the risk manager's task would be reviewed.

The book is an accumulation of 18 separate chapters written by as many different authors. There are portions of several of the chapters, however, which if followed by anyone other than an expert in the area of discussion would likely result in serious additional exposures to loss. Specific examples will be discussed as this review continues.

Generally speaking, the book contains useful information regarding the risk management of hospital professional liability as well as the importance of