# BOOK REVIEWS

***The Regulation of Insurance,*** by Justin L. Brady, Joyce Hall Mellinger, and Kenneth N. Scoles, Jr. (Insurance Institute of America, 1995).

Reviewer: Kenneth J. Crepas, Illinois State University

The publication of *The Regulation of Insurance* is a very readable and practical book that serves as a resource for understanding the complexities of insurance regulation and its impact on the insurance industry. The text is intended to be neither academic nor legal in nature, but rather a primer on insurance regulation for new employees in the insurance industry, and no prior knowledge of insurance regulation is required. The authors are staff members of the American Institute for Chartered Property Casualty Underwriters. The Insurance Institute of America designed this text to provide insurance employees with knowledge about the regulatory process.

*The Regulation of Insurance* is one of the texts used for the IR201 curriculum that provides an overview of the entire system of insurance regulation. The text is well organized and can appeal to a wider audience, including concerned consumers. The first chapter provides a rationale for the need for regulation of business in general. The concepts of imperfect competition and market failure are introduced, and analyses of the impact of both limited choices for consumers and efficiency in allocation of resources are provided. It is suggested that remedies are necessary for these problems. The idea of a system of regulation is introduced. Through the use of an exhibit, the regulatory agency is designated as the entity that interacts with courts, legislature, executive bureaus, firms, consumers, and other interested groups. This exhibit sets the stage for a discussion of various theories of regulation and how insurance regulation is implemented. While this chapter is well written, a more direct discussion of the importance of insurance regulation for protecting consumers and preventing insolvency is needed. A table should be included on the scope of state insolvency laws.

The text provides a very comprehensive treatment of the evolution of insurance regulation. The history and importance of the development of insurance regulation is traced from the early efforts of Massachusetts in 1865 to more current federal programs reviewed—FAIR plans and the National Flood Insurance

program. Current issues to consumers, such as the availability of homeowners insurance in the inner cities and in rural areas, are briefly discussed. It would be useful to expand the review and analysis of the social aspect of insurance. Comments on legislative trends in mandating designated coverages could also be reviewed within the scope of this text material.

The overview of state insurance departments is very well done. A listing of the duties of the insurance commissioner is provided with an example of the organizational chart for a representative state department of insurance. A discussion on regulatory philosophy and style is presented to inform the reader on differing operational methods that are utilized in the regulatory process. A good review of filing laws for property and casualty lines is included in the text with an accompanying table on the number of personnel assigned to rating and form analysis in each state department of insurance. Other topics covered in the text include regulatory commissions and regulatory budgeting.

Another major topic covered in this text is the role of state legislatures and the National Association of Insurance Commissioners (NAIC) in the regulatory process. It is noted that state legislatures indirectly affect the insurance industry through not only legislation but also through state laws that apply to banking, contracts, premium financing, fraud, investments, and lobbying activities. The NAIC has been very active in promoting uniform financial reporting from insurance companies and the development of model laws. Examples of model laws sponsored by the NAIC are included in the text. This text provides a concise examination of the role that the NAIC holds in the insurance regulatory process, including the research and development efforts of this group.

An additional strength of the book is the effective examination of the federal government's role in insurance regulation. A complete discussion of the McCarran Act of 1945 and its impact on insurance regulation is reviewed. The significant cases on the definition of the "business of insurance" and their impact in defining the scope of the insurance industry are reviewed. A good table on the key court cases that have impacted insurance regulation is included.

Other important topics reviewed include the Employee Retirement Income Security Act of 1974, the Occupational Safety and Health Act, antidiscrimination laws, and other related topics. The text material on the federal government's impact on the insurance industry is essential reading for any career employee in the insurance industry. It would be useful to discuss the federal government's role in providing insurance through the FDIC and other agencies and its importance to the economy.

The book is well written, clear, and presents the current status of insurance regulation in the United States. The chapter notes provide effective support and sources for more extensive analysis of insurance regulatory issues. With the present problems facing insurers in the area of ethics and compliance, especially for life insurers, it would be appropriate to provide more coverage of these topics. Furthermore, readers need an update on the trends in mandatory continuing education for insurance producers. A table should be developed on the current status of mandatory continuing education and other efforts to upgrade insurance produc-

ers' level of professionalism. A wealth of information on insurance regulation and the role of other bodies in the regulatory process is provided in less than 200 pages. This book would be very useful for designation courses for insurance industry employees and also as a supplementary text for advanced college insurance courses.

***Future Risks and Risk Management,*** edited by Berndt Brehmer and Nils-Eric Sahlin (Kluwer Academic Publishers, 1994).

Reviewer: Kathleen L. Henebry, University of Nebraska at Omaha

This collection of papers on various aspects of risk and risk management is volume 9 in the Technology, Risk and Society series on risk analysis. The papers published here are updated versions of selected papers presented to a 1989 conference sponsored by the Institute for Future Studies in Stockholm. The focus is mainly on issues of environmental risks, with examples drawn from nuclear power plants to new drugs to genetic engineering risks, but the discussions are adaptable to other risk types.

The eight chapters, or papers, are divided into four parts: risk generation, perceptions of risk, risk management, and mitigation and compensation. All four parts contain essays that bring new ways of thinking to the topics. Although there is no direct integration among the different parts of the book, there are areas of connection between some of the papers. Some of the concepts and problems discussed in the papers on epistemic risk and perceptions of risk link up nicely with a discussion of these areas in two later papers on risk communication and lay risk evaluation. The authors' different perspectives are useful in a thorough discussion of these.

Because the authors are mostly philosophers and psychologists rather than insurance and risk management specialists, the papers offer an interestingly different point of view. This difference in background and even, perhaps especially, difference in vocabulary makes for a thought-provoking and enjoyable look at the familiar topics of risk and risk management. These different facets are important to our ability to communicate about risk with the general public and its political representatives, and the seventh paper in the book focuses on this very issue.

Most of the papers are well written and fairly easy to follow, though some are marred by typographical errors, grammatical mistakes, and poor sentence structure. These problems should have been taken care of by the technical editors. Although seemingly petty, such faults distract the reader from the train of thought being laid out by the author and unnecessarily interfere with the reader's understanding of what the author is proposing. In a book such as this, which departs from the norm in its presentation methods or language, such distractions are particularly disruptive.

Overall, I still recommend the book to those interested in expanding their perspectives on risk and risk management issues. The interesting and unique discussions of the need for broader vocabulary and models of thought in the fields of risk assessment and risk management are particularly important in developing a broader perspective for researchers and practitioners in these fields. Such a broadening of perspective can only improve our credibility and increase the acceptance of research and reports on risk issues.

***State Insurance Regulation,*** First Edition, by Kathleen Heald Ettlinger, Karen L. Hamilton, and Gregory Krohm (Insurance Institute of America, 1995).

Reviewer: Albert L. Auxier, University of Tennessee, Knoxville

*State Insurance Regulation* is a very well done basic text covering state regulations of the property-liability insurance business. It is authored by Kathleen Heald Ettlinger, Karen L. Hamilton, and Gregory Krohm, who are, respectively, Insurance Education Consultant with Heald/Ettlinger Enterprises, Director of Curriculum, Insurance Institute of America, and Editor, *Journal of Insurance Regulation.* Contributing authors are Justin L. Brady, Vice President and Manager, Government and Industry Services, Factory Mutual Service Bureau; Joyce Hall Mellinger, Vice President and Associate General Counsel, the Maryland Insurance Group; and Kenneth N. Scoles, Assistant Director of Curriculum, Insurance Institute of America. The authors are well equipped for such a work, and, moreover, they tap the expertise of a distinguished group of insurance educators, practitioners, and regulators. The Insurance Institute of America uses *State Insurance Regulation* as one of its texts for its Certificate of Insurance Regulation, IR 201 curriculum, and the American Institute for Chartered Property Casualty Underwriters gives those who pass this course credit for the CPCU 10/Related Studies requirement of the CPCU curriculum.

*State Insurance Regulation* covers, in eight chapters, all areas of property-liability insurance state regulation, including forming and licensing an insurance company, rate regulation, solvency regulation, claims regulation, underwriting regulation, and agent and broker regulation. Then, in the ninth chapter, "Insurance Regulation in Practice," the authors effectively summarize all major phases of insurance regulation by presenting four cases covering formation of an insurer, investigating an insurer's market conduct, conducting an insurer's financial examination, and dealing with a financially troubled insurer. A good portion of the entire text is based on various National Association of Insurance Commissioners' publications, which gives the material a ring of authenticity. Finally, the authors furnish a fine, lengthy bibliography of insurance regulation, which will be especially useful to researchers.

Although this text provides a wealth of information, and all that one can expect from a basic text, one wishes that there were even more. But, given the great

variety of state regulation, the authors' focus is to present the regulation promulgated in most states and to present the regulation of a small number of states to suggest the variety of regulation pertaining to a given business practice, say auto insurance cancellation.

The purpose of *State Insurance Regulation* is to describe current, existing regulation. Thus, almost none of this work is devoted to suggestions for improving property-liability insurance regulation. This omission is disappointing; I had hoped these distinguished authors would provide suggestions for improving regulation, such as replacing more often the hand of the regulator with the invisible hand of the market.

In the next edition, the authors might consider including the names, addresses (e-mail also), and phone and fax numbers of all insurance commissioners, which would be useful to many readers. Also, the authors might consider compiling and charting some data on costs of state regulation in order to analyze regulation trends. Likewise, supplying NAIC budget information might substantiate the growing importance of the NAIC in solvency and other regulation.

In a solvency regulation chapter, I liked the risk-based capital and insurance department accreditation coverage. Risk-based capital will not be easy for some students to grasp, but basically it is an application of modern portfolio theory, which considers each insurance company's uniqueness, for the purpose of determining the insurer's required capital (or surplus). The state insurance department accreditation program is designed to beef up state solvency regulation. At press time, 44 states were accredited. Solvency regulation has always relied heavily on financial ratio analyses. But today it is far more sophisticated than it used to be. Let's hope that all our present solvency regulation sophistication enables much better performance of this most important regulatory function.

Insurance is a highly regulated business. Thus, it behooves almost everyone who is connected to the business to be well informed with regard to its regulation. This book is a fine, scholarly introduction to state property-liability insurance regulation. I recommend it highly.

***Employee Benefits Answer Book,*** by Cynthia M. Combe and Gerald J. Talbot (Panel Publishers, 1994).

Reviewer: Dongsae Cho, Quinnipiac College

This *answer book* is intended for employee benefits professionals to give them "quick and authoritative answers" in "simple and straightforward language to avoid technical jargon." Indeed, it provides concise as well as precise answers to many important questions in the field of employee benefits plans. It starts with a list of hundreds of questions, all related to employee welfare benefits that protect employees during their active working years.

Despite all these merits, this book is unsuitable for a textbook. Rather, it can be used only as a supplement to a textbook for graduate students or as a reference book for instructors. Contrary to what the title implies, it covers welfare plans but leaves out retirement income programs. (However, it does discuss ERISA requirements that apply to both retirement and welfare benefits, such as requirements for plan documents, fiduciaries and fiduciary responsibility, plan adoption, plan amendment, plan termination, plan assets, trustees and investment managers, trust requirement, prohibited transactions, reporting and disclosure, and others.)

***Breaking the Vicious Circle: Toward Effective Risk Regulation,*** by Stephen Breyer (Harvard University Press, 1993).

Reviewers: William Jennings and Penelope Mercurio-Jennings, California State University, Northridge

All too often, articles and books we read and ask others to read are not well written, too long, or just boring. *Breaking the Vicious Circle: Toward Effective Risk Regulation* by Stephen Breyer, an Associate Justice of the Supreme Court, is a refreshing change from the usual fare. The book offers an enjoyable 127 pages of reading, succinctly identifies major problems of our imperfect system of risk regulation, and offers practical recommendations for improving our governmental institutions and the regulation of health and safety risks.

The book is divided into three chapters. Chapter 1 focuses on risk assessment, risk measurement, and three systematic problems underlying the regulation of risk. The discussion of risk measurement and assessment draws widely from statistics, science, and law to explore the public's misconceptions of risk. The first systematic problem addressed is the familiar problem of imposing regulations in situations where the marginal costs far outweigh marginal benefits—the issue of "the last 10%." The author illustrates the problem with several fine examples, such as a case where litigation sought to make the dirt from a toxic dump safe enough for dirt-eating children to ingest daily even though no children lived in the area. The second problem, called the random agenda selection problem, points out that our risk and safety regulations may overemphasize cancer risk associated with a handful of chemicals, while showing limited, if any, concern for the cancer risks of other chemicals or the risk of other physical damages. The third problem is the inconsistency between various government programs and agencies. As an example of inconsistency, the chapter describes the conflicting views of two agencies of the Environmental Protection Agency, one arguing against recycling refrigerators because chlorofluorocarbons are dangerous and the other encouraging refrigerator recycling as a way to help protect the ozone layer. Throughout, the chapter skillfully blends scientific discussion of risk with anecdotal examples of regulatory problems to explain the basic problems of risk regulation.

Chapter 1 contains introductory materials regarding employee welfare benefits, such as its definition, federal laws and the IRC governing these benefits, and federal agencies with jurisdiction over these plans. Chapter 2 addresses the general aspects of the ERISA requirements for employee welfare plans. Other major subjects include medical plans, retiree medical benefits, HMOs, COBRA requirements for continuation of coverage in group health plans, cafeteria plans, dependent care assistance, educational assistance, and group legal services.

The book also examines group long-term care insurance, disability income plans, group term life insurance plans, death benefits other than employee group term life insurance, fringe benefits, vacation and severance pay plans, family and medical leave, the Age Discrimination in Employment Act of 1967, the Americans with Disabilities Act of 1990, other federal laws, how to fund and finance welfare benefits, and financial accounting rules for nonpension retiree and post-employment benefits. Finally, an appendix summarizes President Clinton's proposed health plan.

Although designed for professionals, this book is also good for teachers and students. As an instructor of an upper level undergraduate course on employee benefit plans, I sometimes find it very difficult to grasp important aspects of some employee benefit plans due to the complexity of the subject matter and the overwhelming quantity of materials. This book provides the concise and precise meaning of many terms in employee benefit plans in plain language (hardly the case in other basic text books). For example, many students find the term *welfare benefits* difficult to understand because major textbooks draw the definition directly from ERISA with a list of benefit plans that could qualify as welfare benefits. This book gives not only a basic definition of welfare benefits, but also explains their relations to pensions and additional aspects that cannot be gleaned in major textbooks—such as why employers offer employee welfare benefits, why they are important to employees, the federal laws that apply to welfare benefit plans, whether such plans are required by law, and a wide range of federal agencies that have jurisdiction over welfare plans.

Perhaps the single most important facet from the viewpoint of employers is the book's discussion of how to comply with federal and state requirements. For example, contained in the book are answers to questions such as whether state insurance laws or state laws mandating the coverage of particular benefits may also apply to group health plans; whether federal law permits a medical plan to exclude AIDS coverage or coverage for adopted children and children placed for adoption; whether federal law requires a medical plan to offer maternity benefits and abortions; whether federal law permits coordination of group medical benefits with Medicare and Medicaid; and whether group medical plans are subject to ERISA, COBRA, and nondiscrimination rules set forth by the Internal Revenue Code.

The glossary of terms toward the end of the book is very helpful because so many technical terms have specific legal meanings in welfare benefit plans. To help researchers investigate particular subject matters in greater detail, relevant authority is also cited in this answer book.

In chapter 2, Justice Breyer argues that interactions among the public's misperceptions of risk, congressional action and reactions, and uncertainty in the regulatory processes tend to create a "vicious circle" that diminishes public trust in our regulatory agencies and inhibits the development of effective government institutions and rational regulations. Although the arguments are strained at times and lack the clarity of thought exhibited in chapter 1, the chapter conveys the basic idea that the interactions and differing self-interests among the public, Congress, and regulatory agencies impede the adoption and implementation of effective and rational risk regulation.

The final chapter offers a solution to the "vicious circle" by creating a new central administrative regulatory group. The new administrative regulatory group, run and staffed by notable scientists and other experts, would provide oversight and interagency jurisdiction over the various governmental agencies involved in risk regulation. The new regulatory group would have greater political insulation from Congress and broad legal authority to bring about change. An important goal of a new administrative group would be to improve public confidence in the process and regulatory decisions of government. As with many books that attempt to both analyze underlying problems and offer institutional remedies, *Breaking the Vicious Circle* is at its weakest and most controversial when offering solutions. Even so, the offered solutions merit serious consideration and will encourage discussion and debate on an important topic.

At a time when state and federal legislatures are taking a second look at current regulatory schemes, *Breaking the Vicious Circle* is an important book. It provides a well-written and excellent discussion of the problems of effective risk regulation and offers innovative solutions. The book should be required reading for all members of Congress and state legislatures and their staffs who are involved in risk regulation. The book would also be an excellent supplementary reading assignment for a graduate or an undergraduate course related to risk regulations and public policy.

***Perspectives of Insurance Regulation,*** First Edition, edited by Karen L. Hamilton (Insurance Institute of America, 1995).

Reviewer: Han B. Kang, Illinois State University

*Perspectives of Insurance Regulation* is an excellent choice as a supplementary reading for those who have some background and knowledge in the area of insurance regulation. The book's eight readings present various points of view on insurance regulation and are designed to provide readers with a broad understanding of current issues in insurance regulation and their impact on the insurance industry. Each reading avoids complicated and technical discussions. The order of the readings facilitates understanding the various regulatory issues in a step-by-step approach.

In a good introduction to the roles of state and federal governments in regulation, readers can obtain knowledge on the statutory regulation system and the need for insurance regulation. The second and third readings discuss regulation from the industry point of view. The industry criticizes the role of government in regulating insurance and argues that the current regulatory system is inefficient and costly. These readings point out the very important fundamental problems associated with our current regulatory system. However, they do not offer any solutions or propose what kind of regulatory structure can best serve the interests of both consumers and producers. A more detailed discussion on solutions would enhance readers' interest and motivation. Also, the author should present points of view of both opponents and advocates of regulation. (The title of the third reading, insurance regulation, is too general and should be made more specific.)

When the author of the monograph argues that insurance regulation is not necessary, my interpretation is that the author refers to rate regulation rather than other regulated areas. There are some reasons for regulation—primarily, to protect the public from incompetent insurers. Some policies contain technical and legal terms that are not familiar to buyers. A certain degree of public control is necessary to prevent some insurers from including unreasonable restrictions or exclusions in their contracts. Also, government regulation can prevent insolvencies and protect the public interest. Regulation can assure that the industry is sufficiently solid financially to meet the expanding demand for coverage. The reading could have discussed this social benefit of regulation along with criticisms.

Fortunately, the next reading does present a view of regulation that fosters fair competition and monitors the solvency of insurers, helping make insurance available to those who need it and making sure that the insuring public is treated fairly and equitably. Reading 4, "Issues Confronting State Insurance Regulation," is an excellent chapter that presents a balanced view of regulation based on the cost and benefit of regulation. It identifies current issues and challenges facing today's insurance regulation and discusses the need for extensive restructuring of the industry due to competitive pressures and economic changes. This reading is highly valuable because it offers an excellent overview of regulation for both consumers and producers.

Reading 6 makes a significant contribution to the book because it provides the agent's perspective. Agents play a critical role in the insurance industry because they link consumers and insurers. The book includes two additional readings on surplus lines and redlining. They are well-organized and address today's real issues in a constructive manner.

In sum, the book presents an excellent overview of insurance regulation from various perspectives. Although the book is intended for people who prepare for associate designations, I would recommend it as a supplementary reading for upper-level undergraduate courses and graduate insurance courses. For future editions, I recommend that the editor include one or two additional readings on what is regulated. Suggested topics can include rate regulation, financial regulation, licensing, and product regulation.

***Research in Canadian Workers' Compensation,*** edited by Terry Thomason and Richard P. Chaykowski (IRC Press, 1995).

Reviewer: Anne E. Kleffner, University of Calgary

*Research in Canadian Workers' Compensation* is a collection of eleven papers that were prepared for a conference entitled "Challenges to Workers' Compensation in Canada." These papers provide both institutional and empirical analyses of a variety of issues surrounding workers' compensation, including the effects of safety regulation, benefit levels, experience rating, and vocational rehabilitation programs.

An introductory chapter by the editors provides a comprehensive description of workers' compensation (WC) in Canada. Beginning with its historical development, the chapter then describes the institutional features of WC and summarizes theoretical and empirical economic analyses of WC in general, and in Canada in particular. The chapter concludes with a well-written summary of the book. This introduction, along with a detailed table of contents, allows readers to focus on precisely those studies in which they are interested.

The first paper, by Cousineau, Girard, and Lanoie, examines whether occupational safety and health regulation in Quebec has affected the incidence of specific types of workplace injuries. This paper is the first to examine this issue in Canada. Quebec makes for an interesting case study because it has adopted two safety-enhancing measures not adopted by any other Canadian province or in the United States: mandatory prevention programs and the right to protective reassignment (which gives workers who can provide a medical certificate attesting to the potential danger of their job the right to be transferred to another job within the same firm). Generally, the evidence shows that regulation is more likely to affect specific injury rates rather than the global injury rate.

The second and third papers consider the impact of benefit levels on claims. Thomason and Pozzebon present data on WC claim rates in each of the provinces and in Canada overall. They offer explanations for differences in the incidence of claims, noting program characteristics that differ by province and that influence the frequency of claims, such as benefit levels and experience rating. The paper provides an intuitive explanation of how the probability of a WC claim is expected to be influenced by the worker's pre-injury wages, expected compensation benefits, and other demographic and job characteristics. Their results support the notion that claim frequency is positively related to benefit levels. Johnson, Butler, and Baldwin examine the factors that affect the duration of work absences for Ontario workers with permanent partial disabilities. They find that the benefit-wage ratio does not affect the duration of work absences among men, but increases the duration among women.

The next paper considers the problem of moral hazard as it relates to post-accident behavior and optimal auditing. The situation envisioned is one in which

the claimant has the incentive to misrepresent the occurrence of his or her realized income or accident because the employer is unable to perfectly observe whether the employee is telling the truth. An important contribution of this paper is the theoretical model of moral hazard that shows how varying levels of insurance can affect optimal consumption behavior for a given auditing scheme. Using Quebec WC data, they find evidence that the duration of the recovery period increases with an increase in insurance coverage, but only for those injuries more subject to moral hazard—hard-to-diagnose injuries, such as lower back pain and sprains. The optimal auditing scheme, therefore, is one that is selective and focuses on these types of injuries.

Boris Kralj examines the effect of experience rating on the duration of workplace injuries. Kralj offers a straightforward and concise explanation of the incentive effects of experience rating. The major hypothesis tested is whether experience rated firms have shorter disability claim duration, and therefore lower claim costs, because they bear a higher marginal cost of claims relative to non–experience rated firms. Claims data for the Ontario construction industry are analyzed at two points in time: before and after the introduction of experience rating. Contrary to what is predicted, experience rating increased claim duration. Kralj explains that it is the relatively minor injuries that are most easily prevented by employers, while the more severe injuries are those that are actually reported and become a part of the employer's experience rating record. As a result, the average duration of claims increased at the aggregate industry level due to experience rating.

Prior to 1989 and the passage of Bill 162 in Ontario, the primary objective of Ontario workers' compensation benefits was to replace lost wages. However, Bill 162 introduced a noneconomic loss component into the compensation package, raising the issue of how to measure such losses. The focus of the study by Sinclair and Burton was to determine if noneconomic loss values derived from survey participants were in line with permanent impairment ratings from the American Medical Association's Guides to the Evaluation of Permanent Impairment (Guides). Not surprisingly, the Guides systematically underestimate the loss of the quality of life that workers associate with the various permanent impairments, and the authors conclude that such clinically determined impairment ratings are not an appropriate measure of noneconomic loss.

The private, social, and compensation costs of permanently disabling work injuries are high, and this has resulted in a number of programs that emphasize returning to work. The next two papers examine the impact of such programs. Reemployment and accommodation requirements in workers' compensation are not common generally, but are consistent with the increased interest in issues pertaining to human rights and accommodation of diversity. Gunderson, Hyatt, and Law show that such requirements are closely tied to other reforms to WC, particularly vocational rehabilitation (VR) and compensation for noneconomic loss. The paper briefly looks at the cost of reasonable accommodation and cost shifting. There is evidence that injured workers bear the cost only if they return to work to a different employer. The cost of such programs is a critical issue and one

deserving more attention given the increasingly competitive nature of the global marketplace.

Allingham and Hyatt are the first to use Canadian data to examine the impact of vocational rehabilitation on the probability of returning to work. A strength of the paper is that it not only addresses the factors that influence the probability of returning to work conditional upon being in a VR program, but also considers the factors that influence the participation in a VR program when participation is assumed to be endogenous. This is important given that it is the more seriously disabled workers who tend to receive VR services, and such workers are also less likely to return to work, all else equal. The results suggest that VR is having its intended effect and increasing the likelihood that an injured worker will return to work.

The impact of safety expenditures on occupational accident rates is analyzed by Cousineau, Lacroix, and Girard. The authors present a framework that accounts for the tradeoff employers face between the level of investment in safety and the risk of accidents. Using data aggregated by occupational classification, making it possible to control for potential heterogeneity of risk across occupations and to account for specific work conditions, they find support for their main hypothesis that employers respond to changes in the costs of work-related injuries—as these costs increase, the accident rate declines.

One of the most difficult issues in workers' compensation is how to compensate for occupational disease. Problems arise given the ambiguity involved in defining and diagnosing such diseases. Elinson's paper provides a history of occupational disease compensation in Ontario and an overview of related current legislation. The paper discusses the complexity of adjudicating these claims and notes the possibility of eliminating the time and cost involved in attributing causation to the workplace by moving to universal disability as an alternative form of compensation.

The final paper (by Vaillancourt) analyzes the determinants of the costs of workers' compensation in Ontario, Quebec, and British Columbia. Vaillancourt provides a detailed picture of the evolution of the costs and revenues of WC programs and separates out the different cost components in order to identify the key forces that account for the growth in these costs.

Overall, this is an interesting collection of papers that provides a useful summary of some of the most difficult issues for workers' compensation programs and evidence of the effects of different features of the system. Given the relative scarcity of empirical analyses of the Canadian WC system, this book should provide valuable input into the ongoing debate about workers' compensation and possible reform. As well, it would be an appropriate text for graduate students in economics and insurance. Two other points to recommend the book include the citing of, and comparison to, similar U.S. studies, noting important differences in results between the two. This makes it a useful reference for U.S. practitioners and academics in the WC field. And, second, a number of the papers use rich data sets that provide for strong tests of the impact of different features of the workers' compensation system.

***Mandated Benefits: A Practical Guide to Cost-Effective Compliance,*** by McGladrey & Pullen (Panel Publishers, 1995).

Reviewer: Dean G. Smith, University of Michigan

As a reference book, *Mandated Benefits* offers human resources personnel a collection of minimum requirements for compliance with state and federal laws and guidelines concerning employee compensation and benefits. The book starts with a discussion of the minimum wage and ends with a state-by-state summary of drug testing policies and regulations. Between these are eleven chapters devoted to each major area of benefits. The contributors include 13 members of McGladrey & Pullen, a CPA and consulting firm, and three others who contribute the concluding chapters on sexual harassment and privacy in the workplace.

Although not divided in quite this way, *Mandated Benefits* considers three areas of interest to human resources: compensation, *fringe* benefits, and workplace conditions. Compensation and workplace conditions consume the largest body of legislation and regulation, since these are areas where there are common points of federal and state authority. Fringe benefits have fewer compliance issues, since by definition these are not required benefits in most states. However, for the employer electing to offer fringe benefits, such as medical insurance, life insurance, or pensions, there are a host of regulations regarding acceptable benefit arrangements.

Most chapters include state-by-state outlines of major legislation or regulations. Seven such outlines are given in the area of lay-off and termination, where there has been more than a fair share of state level concern over protecting workers' rights through placing additional regulations on firm behavior. Recent and controversial legislative or regulatory proposals are relatively lightly covered here. For example, there is a half page table on the status of health care reform legislation. While this is spartan coverage of an area of high interest, it is quite fair for a reference book to cover well-established topics with authority and to make only quiet note of topics that are likely to be outdated before publication. As with health care reform, pension and savings plans are areas where this is significant action, and where newsletters and other ephemera are likely to be of greater utility than a reference book.

This is a reference and not a book that is meant to be "read through." Most of the chapters stand alone, and material within chapters is in bullet point or tabular form that makes it easy to find items of particular interest. Areas in which overlapping authority exists, such as medical insurance plans and the Americans with Disabilities Act (ADA), are noted in each chapter. Along these same lines, it is not in general a manual for designing a complete human resources package, although the sample policies for compliance with ADA and the Federal Family and Medical Leave Act of 1993 would serve this purpose.

Altogether, *Mandated Benefits* is a useful resource for academicians teaching courses or conducting research in human resources, requiring knowledge of factors varying by state. It is most directly intended as a resource for practicing human resources personnel trying to keep pace with the ever-increasing requirements for

compliance. Throughout are notices of the importance of careful planning and documentation of actions affecting workers' benefits. Those who do find this reference book useful will likely take advantage of Panel Publishers' updating service.

***Financing Health Care,*** edited by Ullrich K. Hoffmeyer and Thomas R. McCarthy (Kluwer Academic Publishers, 1994).

Reviewer: Helen I. Doerpinghaus, University of South Carolina

Health care systems worldwide offer a variety of approaches to the financing and provision of medical services. Despite differences in approach, all systems face the same problem: providing high quality care given scarce resources. No country has found a solution to this dilemma.

*Financing Health Care* provides a comprehensive look at health financing alternatives worldwide. Based on a study by the National Economic Research Associates (NERA), the two-volume set describes the health care systems of twelve countries. In addition, it analyzes the strengths and weaknesses of each system and forecasts health care expenditures for each country, assuming no reform initiatives and no major restructuring of the systems. The third and perhaps most interesting contribution of the book, however, is development of a model health care system (i.e., a prototype) which could be applied across countries to address the common problem of providing quality care given scarce resources.

The twelve countries chosen represent a wide range of alternatives available for financing health care. A predominantly tax-funded health care system is represented by Canada, Italy, New Zealand, Spain, Sweden, and the United Kingdom. A predominantly social insurance–based system is represented by France, Germany, Japan, and the Netherlands. The predominantly voluntary insurance–based system is exemplified by the United States and Switzerland.

The range of countries also affords analysis of the mix of public and private reimbursement methods for providers (e.g., physicians and hospitals) such as fee-for-service payment, capitated payment, and global budgeting. The economic incentives inherent to these reimbursement methods are carefully outlined for patients, providers, and insurers. In addition, the differences in the basic package of health benefits provided in each country are highlighted; even the United States defines such a package for Medicare and Medicaid recipients. National health reform initiatives are summarized, but these are somewhat dated as evidenced by discussion of the Clinton Health Plan for the United States. Following description and analysis of the current system in each country, the NERA's specific recommendations for reform are presented.

Well-chosen tables, graphs, and flow charts succinctly provide useful national measures of the health status of the population, health expenditure and benefit levels, and interactions among the various sectors involved in health care finance

and delivery. Despite the length of the book (two volumes totaling 1,453 pages), the organization and layout of the chapters are sufficiently clear to allow use of the book as a quick reference also. A glossary aids clarity for those unfamiliar with health care terms and conventions in other countries. In short, the book provides an excellent and readable source of descriptive information about the major design features of the twelve health care systems as well as useful analysis of the consequences of system design on costs and quality of care.

In addition to describing twelve health care systems, *Financing Health Care* provides a prototype health care system devised by the NERA for use worldwide. This model is intended to provide a mechanism for evaluation of long-term reform proposals throughout the world. Incremental reforms can be evaluated relative to progression toward the prototype.

In general, the model uses market-based incentives to control costs and allocate resources, thus enhancing efficiency. Private entities provide health insurance and, in turn, contract with providers, most of which operate out of the private sector. The role of government is to require mandatory insurance coverage for all citizens for a basic package of health benefits and to require insurers to accept all individuals, regardless of risk, at a standard premium rate (which may be related to income). In short, the role of government is to enhance social welfare. Given the mandate for coverage, individuals are able to choose their own insurer (who must accept them as insureds), thus promoting competition and efficiency to an extent.

Funding for the basic benefit package comes from three sources. First, an income-related premium, not based on the health risk of the insured, is paid to a general state fund. This premium is collected as a payroll tax. Then the general fund passes a risk-adjusted premium on to the insurer covering the particular individual. A second fee is collected directly from insureds. This second premium reflects risk factors that are within the insured's control (e.g., smoking). Third, basic benefits are funded by patient copayments. Since copayments have been shown to reduce moral hazard, requiring insureds to share in the cost is likely to negatively affect the demand for discretionary services.

In the NERA model, the government would be responsible for medical teaching facilities and would set up an agency to approve all pharmaceuticals. In addition, the prototype health care plan calls for establishment of a government agency to oversee and regulate competition among insurance funds and providers as needed. While the prototype is subject to criticism by some on the basis of too much government regulation and subject to criticism by others on the basis of too little regard for social welfare (due to reliance on market forces for efficient allocation of health resources), study of the prototype provides a useful starting point for discussion of an optimal health care financing system. It guides analysis of economic incentives inherent to health financing systems and the likely effects of various reform initiatives. *Financing Health Care* provides both a comprehensive look at twelve health care systems worldwide and a thought-provoking discussion of an optimal health care system, making these volumes a valuable addition to the health economists' library.