hospital stays for patients with specific illnesses. Beginning in 1994, hospitals set their own charges according to what the market would bear.

The reforms also changed the way hospitals were reimbursed for uncompensated care such as uncollectible charges and charity care. Under the old system, hospitals charged all payors a fixed markup, with the money being redistributed to hospitals with the greatest uncompensated care loads. Beginning in 1993, the state instead used a surplus in its unemployment trust fund and other funds to subsidize uncompensated care. The amount available was much lower than the old markup had produced, however, and it was distributed to a broader set of hospitals than had received the earlier subsidies. This raised concerns about the financial viability of weaker, inner-city hospitals that had relied heavily on the uncompensated-care funds produced by the fixed markup prior to deregulation.

Hospitals were expected to adopt a number of strategies to cope with price competition in the unregulated environment. The strategies included (1) offering discounts to high-volume payors while raising the overall charge levels for other payors, (2) seeking new revenue sources in related and unrelated businesses, (3) focusing on profitable services or patients while eliminating unprofitable payor and/or product areas, and (4) altering capital investments to accommodate new strategic directions and new financial realities.

Two other projects supported by RWJF were related to the implementation of New Jersey's health care reform effort. In the first (ID# 021769), investigators at Massachusetts Institute of Technology conducted interviews with key players in New Jersey's health care system to elucidate the forces behind the dismantling of the hospital rate-setting system. The second project (ID# 022580) was designed to help six local advisory boards established by the state monitor the impact of the legislation on access to health services.

THE INITIATIVE

This study was designed to assess the financial behavior of New Jersey hospitals during the three-year period preceding deregulation (1990–92) and the three-year period following it (1993–95). The investigators sought to examine trends in the financial health of the state's hospitals and identify third-party payment and other factors that contributed to the financial outcome. Characteristics of hospitals that improved were to be compared with those that experienced a deteriorating financial position.