Advantages/Disadvantages PPO's and HMO'S

There are two basic types of managed care health insurance plans: (1) HMOs, and (2) PPOs.

HMOs/ACOs
A health maintenance organization (HMO) – Accountable Care Organization (ACO) are a type of managed healthcare system. HMOs, and their close cousins, preferred provider organizations (PPOs), share the goal of reducing healthcare costs by focusing on preventative care and implementing utilization management controls.

Unlike many traditional insurers, HMOs do not merely provide financing for medical care. The HMO actually delivers the treatment as well. Doctors, hospitals, and insurers all participate in the business arrangement known as an HMO.

HMOs provide medical treatment on a prepaid basis, which means that HMO members pay a fixed monthly fee, regardless of how much medical care is needed in a given month. In return for this fee, most HMOs provide a wide variety of medical services, from office visits to hospitalization and surgery. With a few exceptions, HMO members must receive their medical treatment from physicians and facilities within the HMO network. The size of this network varies depending on the individual HMO.

When you join an HMO, you choose a primary care physician (PCP) who is your first contact for all medical care needs. The primary care physician provides your general medical care and must be consulted before you can see a specialist. Because of this control system, HMO costs tend to increase less rapidly than other insurance plans.

Advantages of HMOs
Low out-of-pocket costs for In-Patient and Out-Patient care
With most types of insurance, you are responsible for paying a percentage of the bill every time you receive In and Out patient medical care. Additionally, there may be a deductible that must be met before insurance starts picking up the tab. In contrast, HMO members pay a fixed monthly fee, regardless of how much medical care is needed in a given month. Instead of deductibles for most services, HMOs often have nominal co-payments for typical day-in-day-out care typically including doctor visits, prescriptions, convenience care walk-in clinics, emergency and urgent care.

Focus on wellness and preventative care
By reducing out-of-pocket costs and paperwork, HMOs encourage members to seek medical treatment early, before health problems become severe. Additionally, HMOs offer preventative care (annual exams for all members) at no cost every year. HMOs also offer health education classes and discounted health club memberships.

Simple for the Insured to Understand and Use
With an HMO plan based mostly on simple copays, it is easy for the insured to understand the cost of care you are seeking treatment for. A copay is much easier to afford than meeting and coming up with a deductible and easier to understand. Copay for services are collected at the time services are rendered.

Disadvantages of HMOs
Tight controls can make it more difficult to get specialized care
As an HMO member, you must choose a primary care physician (PCP). Your PCP provides your general medical care and must be consulted before you seek care from another physician or specialist. Going to a PCP first sometimes is an extra step some do not like to make when needing care from a specialist. This screening process helps to reduce and manage costs both for the HMO and for HMO members, but it can also lead to complications if your PCP doesn't provide the referral you need.

Care from non-HMO providers generally not covered
Except for emergencies occurring outside the HMO's treatment area, HMO members are required to obtain all treatment from HMO physicians. The HMO will not pay for non-emergency care provided by a non-HMO physician. Additionally, there may be a strict definition of what constitutes an emergency. Typically an Emergency is a 911 situation, or a life-threatening situation.

PPOs
Like an HMO, a preferred provider organization (PPO) is a managed healthcare system. However, there are several important differences between HMOs and PPOs.
A PPO is actually a group of doctors and/or hospitals that provides medical service only to a specific group or association. The PPO may be sponsored by a particular insurance company, by one or more employers, or by some other type of network organization. PPO physicians provide medical services to the policyholders, employees, or members of the sponsor(s) at discounted rates (usually close to 50% off the retail pricing for services without health insurance coverage) and may set up utilization control programs to help reduce the cost of medical care. In return, the sponsor(s) attempts to increase patient volume by creating an incentive for employees or policyholders to use the physicians and facilities within the PPO network.

Rather than prepaying for medical care, PPO members pay for services as they are rendered. The PPO sponsor (employer or insurance company) generally reimburses the member for the cost of the treatment, less any co-payment percentage. In some cases, the physician may submit the bill directly to the insurance company for payment. The insurer then pays the covered amount directly to the healthcare provider, and the member pays his or her copayment amount. The price for each type of service is negotiated in advance by the healthcare providers and the PPO sponsor(s).

**Advantages of PPOs**

*Free choice of healthcare providers*

PPO members are not required to seek care from PPO primary care physicians first. However, there is generally strong financial incentive to do so. For example, members may receive 90% reimbursement for care obtained from network physicians but only 60% for non-network treatment. In order to avoid paying an additional 30% out of their own pockets, most PPO members choose to receive their healthcare within the PPO network.

*Out-of-pocket costs generally limited*

Healthcare costs paid out of your own pocket (e.g., deductibles and co-payments) are limited. Typically, out-of-pocket costs for network care are limited to $2,500 - $6,000 for individuals and $5,000 - $12,000 for families. Out-of-pocket costs for non-network treatment are typically capped at much higher levels for both the individuals and families.

**Disadvantages of PPOs**

*Less coverage for treatment provided by non-PPO physicians*

As mentioned previously, there is a strong financial incentive to use PPO network physicians. For example, members may receive 90% reimbursement for care obtained from network physicians but only 60% for treatment provided by non-network physicians. Thus, if your longtime family doctor is outside of the PPO network, you may choose to continue seeing him/her, but it will cost you more.

*More paperwork and expenses than HMOs*

As a PPO member, you may have to fill out paperwork in order to be reimbursed for your medical treatment, mostly when you seek services with out-of-network providers. Additionally, most PPOs have larger co-payment amounts than HMOs, and you will be required to meet a deductible when seeking services IN and OUT of the Network..