

Excerpt 7: Know Your Opponent -- HMO or PPO?

[Previous Excerpt 6 "Where Are the First Three Places to Go When Your Insurance Company Denies?"](#)

The HMO is a vanishing breed. The only surviving HMO of any size is Kaiser Permanente. Plus, there are a few small local HMOs.

Since most of us have PPOs, it behooves us to know what this means, and how the PPO set-up plays out in real life.

What is an HMO?

The HMO concept originated in the early 1970s. Prior to 1970, doctors had their own practices. Insurance companies were their own businesses, separate from doctors.

All of a sudden, new and expensive tests and treatments were being developed, and doctors were ordering them for their patients. Doctors were also prescribing drugs for their patients, and the cost of prescription drugs was going through the roof.

The insurance companies got together to solve their common problem: How do we control skyrocketing costs?

The answer? In order to control costs, we must control doctors, and find a way to limit the treatments and medications they prescribe.

How do we control them? We offer them a medical office, and a hospital to use for their patients. Setting up a stand-alone office was already becoming prohibitively expensive, and this move will save doctors the initial investment in infrastructure.

In exchange for having an office, medical equipment, a hospital, and a ready pool of patients—the doctors will sign a contract with us.

Once the doctors are contracted with us, we can dictate everything from how many patients they must see per day, to how many healthcare dollars they can spend, to whom they may refer patients, to what treatments and medications they may prescribe.

Scary, isn't it? But that is the concept upon which your insurance is based. They called it "Managed Care." Whether you have an HMO or a PPO, your insurer operates according to this model.

The insurance company employs the doctors, binds them by contract, controls their decisions—and thus controls costs.

The hospital is our hospital, owned by the HMO. So, we also control hospital costs.

In the HMO system, the insurer has a medical office building, which is filled with doctors. They also have a hospital. This system is supposed to provide low-cost, cradle-to-grave complete medical care.

With an HMO, you have no out-of-network benefit. In other words, you are required to rely on the HMO's doctors for your medical care, or you will be paying out of your own pocket.

What is a PPO?

I often ask people who have a PPO plan, "What does PPO mean?" They say, "It means that I get to

Excerpt 7: Know Your Opponent -- HMO or PPO?

Published on The Carcinoid Cancer Foundation (<http://www.carcinoid.org>)

go anywhere I want for medical treatment."

So not so. If you don't understand the PPO set-up better than that, plan to be unpleasantly surprised. Shocked, in fact.

Many people who need out-of-network treatment believe that the PPO deal is simple. I need out-of-network brain surgery. My PPO gives me a 70% out-of-network benefit.

I am diligent, so I get an estimate of my upcoming surgery and hospitalization. The total for my treatment will be approximately \$100,000. That means that Acme PPO will pay \$70,000, right?

Wrong. I ask the key question, "What is your insurer planning to pay 70% OF?" Nobody—including doctors, dentists, and attorneys—ever gets it right.

When it comes to out-of-network reimbursement, your insurer plans to pay 70% of whatever they deem to be "Reasonable and Customary." Reasonable and customary according to whom? According to the insurance company, of course.

How much are they going to pay? The figures upon which insurance companies base their reimbursement are proprietary (secret). The company that has been generating these figures for many years is owned by—guess who—a very large insurance company.

If your brain surgery turns out like other complex procedures, here is how the financials will go. Of the \$100,000 total bill, \$20,000 will be for the surgery, \$80,000 for the hospital.

Since most insurers are networked with most hospitals, Acme PPO will cover 70% of the hospital bill, or \$56,000. The serious cost-shifting usually happens with the surgeon's bill.

Your insurer will decide that, of the \$20,000 surgeon's bill, \$1,000 is reasonable and customary. They will pay 70% of what, or \$700. I am not over-estimating, this is really how it pans out.

The surgeon billed \$20,000; Acme Insurance paid \$700. Who is responsible for the \$19,300 they didn't pay? You, of course. Since the surgeon is not contracted with the insurance company, he is perfectly within his rights to balance bill you for anything the insurer didn't pay.

The words "reasonable and customary" are the rocks upon which your financial ship will crash—if you do not write an appeal.

The PPO appeal

If a person comes to me needing an appeal for out-of-network treatment, I address the "reasonable and customary" issue in the appeal:

"I request that you fund my lifesaving brain surgery with Dr. Jones at the in-network rate, with no patient responsibility."

I have already proved that no doctor IN the network is qualified to perform this brain surgery. As a matter of fact, I have told the patient's entire embarrassing Bad Medical Story. All of the tests that the in-network doctors misread. All of the wrong surgeries that they performed. All of the misdiagnoses, all of the incorrect advice. In short, all of the things that the in-network doctors have done to reduce the patient's chance of a good outcome.

I treat an approval by a PPO to pay "a percentage of a secret unknown amount" for out-of-network treatment to be exactly the same as a denial. I write an appeal. Acme Insurance says, "You can't appeal; we approved it."

I reply, "My expert surgeon will not accept a percentage of "reasonable and customary." So, your approval is exactly the same as a denial. I request that Acme Insurance sign a single-case contract

Excerpt 7: Know Your Opponent -- HMO or PPO?

Published on The Carcinoid Cancer Foundation (<http://www.carcinoid.org>)

with my expert surgeon's office, with an agreement to pay 90% of his billed charges."

If you apply the right strategies in your appeal, they will sign a single-case contract. Many physicians will accept the in-network reimbursement. However, the single-case contract is the best situation for both you and your doctor.

Once Acme PPO and Dr. Jones have signed the contract, you are good to go. Instead of having to come up with an extra \$44,000 after you get home from brain surgery, you will be paying nothing, zero, nada.

Which is exactly how it should be.

* * * * *

So you see that, in some ways, a PPO is worse than an HMO.

With the HMO, we know where we stand. We need out-of-network treatment, we have no out-of-network benefit.

We write an appeal, proving that comparable treatment is not available IN the network, and Acme HMO pays for our treatment. Simple.

With the PPO, however, what we have is an illusion of coverage. How many patients go to treatment or surgery believing that they will be owing \$5,000, only to find out that they owe \$55,000 for their out-of-network treatment—or \$550,000, as was the case with one of my helpees.

Know where you stand. Write a blockbuster appeal, and make them pay either the in-network rate, or a percentage of billed charges. Be sure to add "with no patient responsibility."

Your recovery will be much more relaxed, knowing that you will not go broke in the process of getting your lifesaving treatment.

[Next Excerpt 8 "Self-Funded Plans -- A Battle on Two Fronts"](#)

[Return to main Insurance Warrior page.](#)

To purchase Laurie's book and CD, click here: <http://theinsurancewarrior.com/thebookandthecd.html>

The insurance information presented on The Carcinoid Cancer Foundation website is a collaboration between the Foundation and Laurie Todd.

Direct linking to this information and/or unauthorized use and/or duplication of this material without express and written permission from The Carcinoid Cancer Foundation is strictly prohibited. See also Disclaimer.

Copyright 2010, The Carcinoid Cancer Foundation and Laurie Todd.

Source URL: <http://www.carcinoid.org/content/excerpt-7-know-your-opponent-hmo-or-ppo>