

## What is a Health Maintenance Organization?

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Health Maintenance Organizations (HMOs) are only one of many types of managed care arrangements. However, it is one of the oldest forms of managed care. Some describe it as “pure” managed care. If the different types of managed care were placed along a continuum. Managed indemnity plans, which are very similar to conventional insurance, would be at one end. At the other end would be HMO’s. As one moves toward the HMO end of the continuum, the organizations becomes more complex and have higher operating costs. However, more emphasis is placed on prevention and quality of care. There is also more opportunity to control health care costs in HMOs than in indemnity plans.

Individuals who join an HMO are considered members. Typically HMOs provide members with comprehensive health care. When someone joins an HMO, they select a primary care physician from the list provided by the HMO. That primary care physician coordinates all of that member’s medical care. If care by a specialist is needed, the primary care physician will refer the member to a specialist who is usually also in the HMO network. In an HMO, physicians may be employees of the HMO or the HMO may contract with independent physicians to provide care. Members who go outside of the network to receive care (unless given prior approval) will probably pay all or most of the cost of that care out of their own pockets.



HMOs use a “capitated” financing system. Care is provided to each member of the plan for a fixed amount. Typically, an employer contracts with an HMO to provide care for its employees and pays this fixed charge. If you are part of a Medicare HMO, than Medicare pays the fee. Some HMOs also charge individuals a small \$5 to \$10 co-payment for each visit. If the HMO is efficient and keeps its members healthy, it will make a profit. If it has too many members who require costly sick care, its profits are smaller or it may lose money. Remember under a “capitated system”, the HMO is paid a fixed amount per person rather than for each visit or by type of service.

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