What Is the Difference Between an HMO and a PPO?

Selecting health insurance is often one of the most important decisions you will make. Health maintenance organizations (HMOs) and preferred provider organizations (PPOs) are types of managed health-care plans and can cost much less than comprehensive individual policies.

Through the use of managed care, HMOs and PPOs are able to reduce the costs of hospitals and physicians. Managed care is a set of incentives and disincentives for physicians to limit what the HMOs and PPOs consider unnecessary tests and procedures. Managed care generally requires the consent of a primary-care physician before a patient can see a specialist.

An HMO provides comprehensive health-care services to the insured for a fixed periodic payment. There may also be a nominal fee paid for each visit to a health-care provider. Unlike traditional insurance, HMOs actually provide the health care rather than just making payments to health-care providers. HMOs can have a variety of relationships with hospitals and physicians. Plan physicians may be salaried employees, members of an independent multi-specialty group, part of a network of independent multi-specialty groups, or part of an individual practice association.

Because HMOs integrate health-care providers with insurance, they are able to provide improved health-care delivery. This unique relationship often allows HMOs to maintain a lower cost of service from plan providers. Because the HMO is both a provider and an insurer, this allows for lower administrative costs and paperwork for the patient.

HMOs also try to reduce costs by providing preventive care. Because visits to primary-care physicians are inexpensive for patients, the chance of early detection and care increases.

Preferred provider organizations have also contracted with hospitals and physicians to provide health-care services. Unlike the case with an HMO, you do not have to go to these physicians. However, you will pay more if you go outside the list of preferred providers. PPO plans usually have a deductible, which is the amount that the insured must pay before the PPO begins to pay. When the PPO plan does start to pay, it will usually pay a percentage of the bill and you have to pay the remainder, which is called “coinsurance.” Most plans have an out-of-pocket maximum. This helps protect you from paying more than a certain amount per year. After you exceed the out-of-pocket maximum, the coinsurance percentage paid by the PPO increases to 100%.

The out-of-pocket maximum, deductible, and coinsurance will each affect the cost of the PPO insurance coverage. You can help lower your premiums by having as high a deductible as you can afford to pay.