

# LETTING GO

*of*

# HMO CONTRACTS

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ILLUSTRATION BY JOSEPH DANIEL FIEDLE

By Lester A. Picker

## Getting up the nerve is the biggest obstacle, but according to physicians who have taken the plunge, the rewards are less hassle, more time with patients, and better care.

**I**T was a crisp, December afternoon in the historic town of Havre de Grace, Maryland, quietly nestled on the shores of the Chesapeake Bay. A throng of well-wishers and media, including the affiliates of several national television stations, were stomping their feet to keep warm, waiting for Dr. David Jaffe, a local dermatologist, to step to the makeshift podium.

Finally, under bright sunlight, Jaffe walked out of his office to address the crowd that had assembled on the lawn. "The managed care system has failed," Jaffe told the group, waving a handful of contracts his practice had signed over the years with health maintenance organizations (HMOs). Amid cheers from the partisan onlookers, he set fire to the con-

tracts. "This will be a signal fire for other doctors to do the same," he declared. "Physicians and all health-care givers must rid themselves of this onerous managed care system." With his actions, Jaffe, the president of his county medical society, had given a public profile to one of the most contentious issues affecting physicians in this country.

### A nationwide problem

Jaffe is hardly alone in his frustrations with the managed health system, although he is in a distinctive, but growing minority that has severed all ties to HMOs. In a 1999 survey of physicians and nurses by the Kaiser Family Foundation and the Harvard School of Public Health, 87 percent of physicians complained that their patients had experienced some type of HMO denial of coverage. More startling, these physicians believed that between one-third and two-thirds of those denials resulted in a serious de-

### Dropping Your HMOs / Tips and Recommendations

**Whether you are considering only dropping your "bottom feeder" HMO contract or all of them, the experts we interviewed recommend you consider the following.**

- 1** Talk to your accountant about the financial impact of this move. If your billing and accounts receivable are computerized, it's a simple matter to analyze your downside risk.
- 2** Develop a business plan. Identify your "customers," create a detailed budget, a break-even analysis, a marketing plan, and pricing. "My accountant also recommended that I secure a bank line of credit," said Dr. Margaret Mahony of San Jose, California.
- 3** Share office space to cut down on overhead. Aside from cost savings, you will want the convenience of a "curbside consult"

and collegial support.

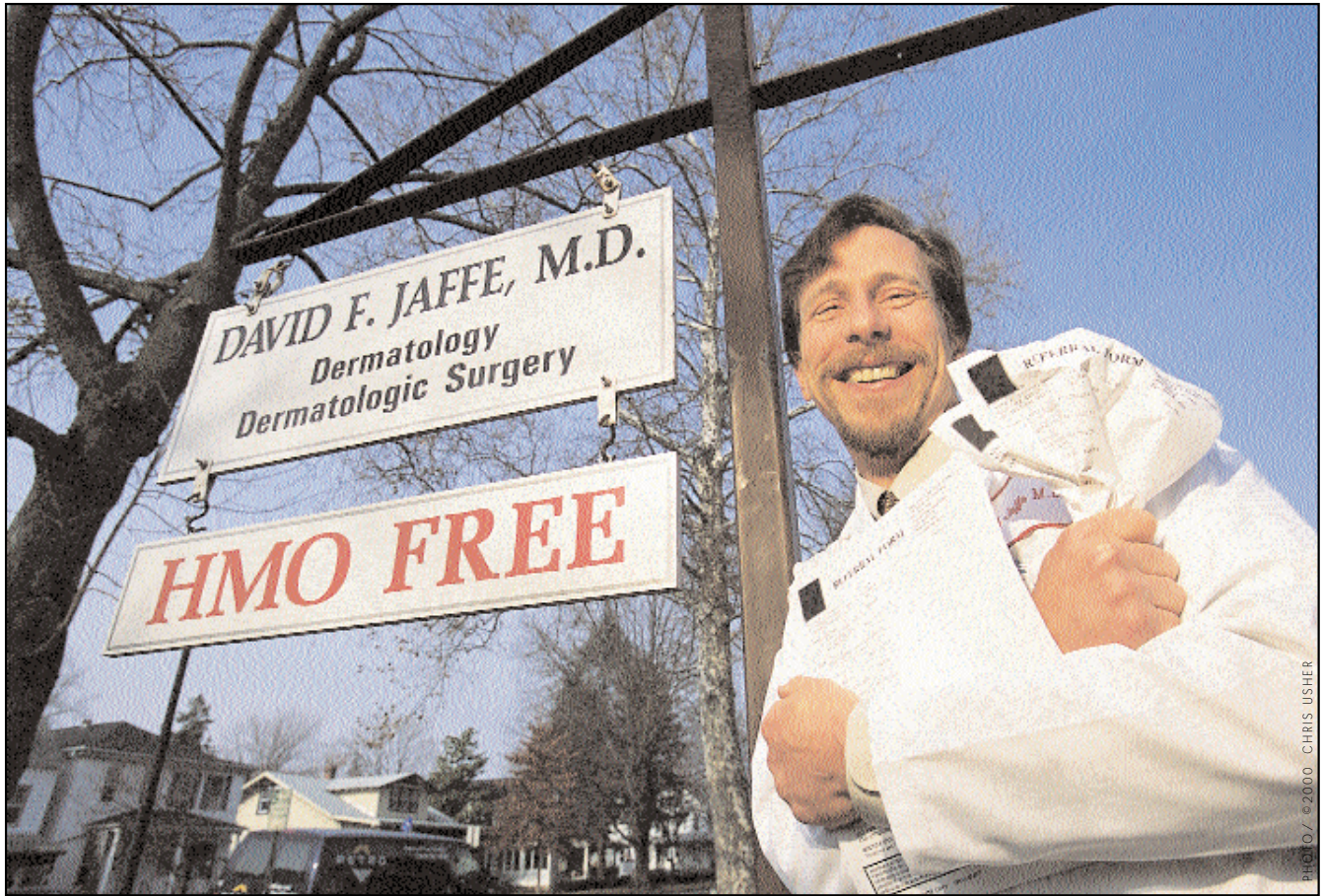
- 4** Educate your patients. Use creative solutions to help them stay with you and get reimbursed by their insurance companies or another source. Remind them about their out-of-network options. Provide patients with all the billing information they will need to obtain reimbursement from their third-party payer. Offer your "best price" — discounts — to patients who pay cash.
- 5** Market yourself. Spruce up your office. Consider hosting an in-house seminar to describe your services. Advertise. Write an article for a local newspaper or magazine.
- 6** Network with colleagues. Dr. Mahony, whose specialty is menopausal counseling, sent out flyers to doctors explaining her

specialty and what kind of service their patients could expect if they were referred to her.

- 7** Get involved and stay informed. One way is to get on line (see sidebar, "Helpful Web sites") Get involved with at least one of the physician groups who are trying to effect change. "You'll find that there is a whole community out there of like-minded individuals that's readily accessible—physicians and others struggling to redress these same wrongs. It's very easy to communicate, share information, and mobilize support," says Jaffe.
- 8** Be involved in your state and local medical societies. Jaffe was influential in getting legislation passed which required insurance companies to drop their "all-products" clauses in the state of Maryland. ■

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David Jaffe, MD made a public statement by burning his HMO contracts. He urges other physicians to drop contracts as well.

**"I suggest that doctors look over their contracts and start by dropping their 'bottom feeder' HMO contract. If every physician dumps just one, the whole managed care industry is going to have to become more responsive to our concerns."**

cline in their patients' health.

Nurses, often closest to a practice's patients, concur. Nearly half of all nurses surveyed felt that a managed health plan had made an administrative decision that resulted in the decline of a patient's health. Nearly two-thirds say they see such adverse managed care decisions on a weekly or monthly basis, a point upon which most patients seem to agree. A 1999 *Newsweek* poll found 61 percent of Americans frustrated and angry over the health-care system. Fifty-one percent felt there were too many coverage restrictions and worried that health treatment decisions had been pried out of doctors'

hands. And 72 percent believed that managed care has hurt the quality of the health care they receive.

Closely related to the issue of patient care is the administrative paperwork burden that HMOs, in particular, force on medical practices. Ninety-five percent of doctors experience increased paperwork as a result of their managed care contracts, according to the Kaiser-Harvard study. More than eight in 10 physicians surveyed see that burden played out every day in less time available for patients. These findings ring true for Jaffe.

"My office staff, instead of taking care of patients, were on the phone with

managed care bureaucrats, waiting to get a referral corrected or an authorization issued. This would go on constantly, to the point that I had to hire an extra employee just to be on the phone doing the administrative work with the managed care plans," Jaffe said. "Then we had to take time to deal with the anger and frustration that our patients felt. It just burdened my practice."

In her book *Saving the Soul of Medicine*, Dr. Margaret A. Mahony, a gynecologist in San Jose, California, describes another common problem most private practices encounter every day with third-party payers. Non-payments or seriously de-

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### Helpful Web sites

**www.pwc.org** - Physicians Who Care is a group of physicians who believe that medicine should be a relationship between a patient and a physician. Forum topics include Managed Care and Medical Ethics.

**www.hmopage.org** - A forum for the publication and discussion of HMO issues. Sponsored by Physicians Who Care. Features books, information, the "The Atrocity of the Month," and archives of HMO "horror stories."

**www.msapage.org** - Site devoted to innovative Medical Savings Accounts.

**www.simplecare.com** - SimpleCare is a network of physicians who offer their "best price" to patients who pay at time of service. Designed by members of the American Association of Patients and Providers (AAPP), SimpleCare shows providers how to save overhead costs and pass the savings along to the patient.

**www.aapsonline.org** - The Association of American Physicians and Surgeons Web site provides a rich source of information regarding the latest government and health-care initiatives. Also provides a forum for sharing issues and concerns, and sends out regular e-mail alerts.

**www.sba.gov** - The government's Small Business Administration Web site has valuable how-tos for the small business, including step-by-step business plans.

**www.fpdunion.org** - The Federation of Physicians and Dentists is a group affiliated with The Alliance of Healthcare and Professional Employees, a non-profit organization representing private and public-sector physicians, health-care employees, and professionals which acts as a collective bargaining agent for members. The site contains advocacy information and links to other related sites.

**www.indoc.com** - INDOC (Independent Doctors of the South Bay) is a network of physicians who have no involvement with HMOs.



**"It wasn't one specific incident that made me decide to abandon all third-party payer contracts, it was the accumulated experience of trying to work under the constraints of the entire system. It was watching and experiencing all the distress of the patients."**

—Dr. Margaret Mahony, a gynecologist in San Jose, California (shown here with her son, Stephen)

layed payments — frequently by as much as 18 months — are legendary and HMOs seem to have the most egregious record. Payment arrives only after repeated calls by office staff. While managed care's "we had a computer glitch" or "you put in the wrong ICD-9 code" excuses rival the infamous "the check is in the mail," they are far from funny to the doctors in a small practice struggling to earn a fair living. Mahony's book explores these problems, as well as the frustrations her patients experienced in dealing

with HMOs. "It wasn't one specific incident that made me decide to abandon all third-party payer contracts," Mahony said. "It was the accumulated experience of trying to work under the constraints of the entire system. It was watching and experiencing all the distress of the patients. And it exacts a great toll on the people who work in physicians' offices."

#### Into the great unknown

It is a huge step from being dissatisfied with practicing medicine under

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the constraints of managed care to severing ties with the system. Yet, more and more physicians are doing just that, according to Thomas LaGrelus, MD, the president of Independent Doctors of California (INDOC), an organization set up specifically to help physicians who wish to break their practices away from HMOs or other managed care systems. "In my community, where we're totally overwhelmed by HMOs, there are about 100 doctors out of 1,000 who have dropped their HMO contracts. I don't know whether that 10 percent generalizes around the country, but I can tell you it sure wasn't 10 percent around here five years ago. The percentage seems to be growing every month. We now have about 110 INDOC members in the South Bay area."

But, knowing that other physicians are surviving without HMO contracts may not lessen the fears of taking the leap toward independent practice. Before striking out on his own, Maryland's Jaffe did an extensive up-front business analysis, a practice he recommends for anyone considering such a move. "I had about 35 percent HMO patients before I terminated my contracts," Jaffe recalls. "So, I knew my downside risk was 35 percent, plus another 15 percent of my Preferred Provider Organization (PPO) patients, because of the 'all-products' clause that the big insurers have in their contracts." An all-products clause, also known as an 'all-or-none' clause, requires a participating physician to accept all health plans that insurance company offers, even if he or she only wishes to accept one or two plans. That clause forces most practices to accept money-losing HMO plans, when they might ordinarily only accept more patient-focused and profitable PPO or traditional indemnity plans. But, physicians have so far been willing to accept such clauses, because it has meant a

steady stream of patients without the need for heavy marketing. However, more and more physicians have discovered that there is no such thing as a free lunch. The patient supply pipeline also means less time with those patients, administrative headaches, lower profit margins, and the need to log in much longer hours to make a living.

"Fear is the only real hurdle to going independent," says INDOC's LaGrelus. "But, once doctors make the jump away from the managed care system, they survive fine and actually do better."

Because of those fears, local groups like INDOC, and national organizations like SimpleCare, have been formed to provide physicians with the support they need to drop their HMO contracts, survive the transition period and, ultimately, thrive. These nonprofit organizations provide practices with support, advice, forms, and a network of peers. "They're sort of like 12-step programs to wean doctors away from their unhealthy addiction to managed care," says LaGrelus jokingly. Membership fees are modest. INDOC ([www.indoc.com](http://www.indoc.com)), for example, charges a \$500 initiation fee and \$50 a month for membership. Interestingly, no medical specialties predominate.

SimpleCare ([www.simplecare.com](http://www.simplecare.com)) serves to link independent doctors with patients who are looking for a doctor with lower fees. By avoiding the managed care middlemen, doctors using SimpleCare are able to offer the lowest possible prices to cash-paying patients, often 25 to 40 percent less. Even with these discounts, the physician ends up with higher profits by avoiding all the ancillary costs associated with maintaining relationships with managed care systems. SimpleCare charges member physicians \$50 per year.

### Do it yourself

For physicians enmeshed in the managed

care system, untying the knots can be a daunting process. Assuming a physician has decided to make the break, how does he or she proceed? While the answer may vary slightly from one practice to another, there is now a large enough body of successful, independent physician pioneers out there to provide a template for those exploring their options.

Dr. Mahony, for example, began her journey to independence by examining her own motivations. "I was feeling so much angst and feeling so deep within my heart that practicing managed care medicine was just not the right way to do things. But, when I looked around, and saw everyone else was caught up in the system and doing it, I wondered if I was the only one bothered by this craziness. Maybe I was in the wrong field."

Plagued by her doubts, Mahony tried career counseling and took a battery of tests to see if she was miscast as a physician. The results strongly reaffirmed her decision to enter medicine. It was how she practiced within a managed care environment that ill suited her. With her confidence boosted, she followed the same steps as David Jaffe, albeit on the other side of the country.

Mahony, Jaffe, and LaGrelus all recommend creating a business plan to better understand and be prepared for the challenges ahead. In Mahony's case, her accountant helped her see the need for a line of credit to sustain her until she was able to turn a profit, which typically takes four to eight months.

"If your goal is to get rich, you're in the wrong business," says LaGrelus. "But, I think your bottom line income will be better if you're not in managed care at all. You can set your own fees and deal with patients the way you want."

For example, many physicians who leave managed care behind are more than happy to offer discounts to patients who

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pay up front. Since even traditional indemnity plans discount physician fees 20 to 40 percent, offering a cash-paying patient a 30 percent discount is simply smart business. Aside from immediate working capital, the practice avoids all the time and money lost in filling out forms and chasing payments from third-party payers.

Jaffe, who offers cash discounts as well as help for indigent patients, quickly turned the corner to profitability by dropping all his HMO contracts. "I suggest that doctors look over their contracts and start by dropping their 'bottom feeder' HMO contract. If every physician dumps just one, the whole managed care industry is going to have to become more responsive to our concerns."

But, dropping one or more HMO contracts does not mean throwing out the baby with the bath water, say physicians who have been through the experience. Jaffe's practice, for example, still accepts Preferred Provider Organizations (PPOs) and traditional indemnity plans. His criteria? "I will not participate in any plan that requires a patient to get a referral from somebody else to see me, unless the patient participates outside of their plan." Jaffe even has a system in place to help those patients financially, using a program that SimpleCare recommends.

For LaGrelius, it has been 12 years since he has accepted an HMO plan. However, he does accept Medicare, PPOs, Medical Savings Accounts, and traditional indemnity plans. "My advice to doctors is that anyone who's any good at what they do, and who drops their HMOs, does fine. Everything gets simpler when you're out of HMOs: patient care, paperwork, hassles, restricted income. Everything gets better. I don't know of one single doctor who has ever gone back to HMO contracts after giving them up."

To increase ones chances of thriving

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without HMO contracts, physicians are well advised to market smarter. First, they should explore joining one of the many referral networks now springing up around the country, within which physicians who do not accept HMO contracts refer to each other. There are also a number of Web sites that offer support and a wealth of information to physicians cutting their reliance on managed care contracts (see the sidebar "Helpful Web Sites," ).

Another smart marketing tactic is to write to physician colleagues in the area, explaining that you have made the decision to abandon HMO contracts and that referrals to your office will now be out-of-network. However, use that same letter to review with them what your practice offers that is unique. Dr. Mahony, for example, used that letter, along with talks to medical groups, to emphasize her unique focus on menopause and perimenopause. Marketing experts also suggest you emphasize how you will now have the time to give referred patients the very highest level of service.

Quality patient service, in fact, leapfrogs to front-and-center when a physician decides to abandon HMO contracts, so doctors and their office staff should consider investing in patient service training. "As a fee-for-service doctor, it's clear to me that I need to give my patients the kind of service they expect," Mahony says. "Because when they leave, if they don't think I did a good job, then they don't really have to pay me. But, that's consistent with what doctors should be doing; taking care of our patients."

Paradoxically, focusing on quality patient care by giving up HMO contracts

may actually save the practice a considerable amount of money. Mahony doesn't even use a computer to run her managed care-free practice. Since all transactions are cash-based, she was able to downsize her practice while spending more time with her patients. She has been able to decrease her grueling 24-patients-a-day schedule under managed care by more than 60 percent and increase her income. Her one full-time and one part-time employee use old-fashioned, hand-written accounts receivable ledgers to run the financial side of the practice. Within five months of abandoning all of her managed care contracts, her practice was solvent, albeit with some tense, sleepless nights.

But, beyond the obvious financial and administrative benefits, nearly every physician who has reduced reliance on managed care contracts reports much higher satisfaction with what originally drew them to their medical calling. "My life has been immeasurably improved by this," Jaffe says, leaning back in his chair with a smile. "I like coming to work. I'm excited again about seeing patients. My staff is happier. The tone in my waiting room is positive. People who come here know that I'm a doctor willing to take a stand for his patients and willing to take feedback to improve care. That charges me up because it reinforces that this is really the right thing to do. I feel that I can practice medicine the way it should be practiced and take care of people the way they really need to be taken care of. It's just rewarding all the way around." ■

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