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Why Everyone Hates HMOs

by Gerry Smedinghoff

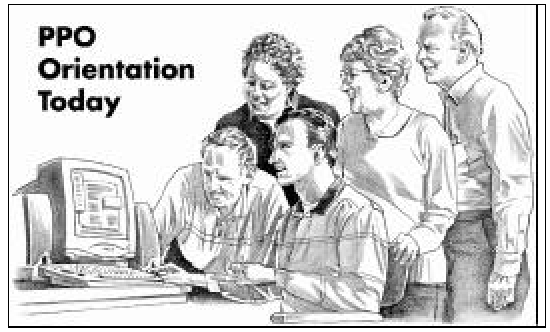
Poor Richard Huber, the former CEO of Aetna, had both the fortune and misfortune to run a company in the over-regulated health care industry, where the customer feedback loop is measured in decades. In unregulated consumer products, where the feedback loop is measured in weeks or even days, things are vastly different.

In less than 90 days, U. S. consumers so overwhelmingly rejected New Coke that the Coca Cola company was forced to return to its original formula. But HMOs, born in 1973 with the HMO Act, signed into law by President Nixon, keep going and going — like the Energizer Bunny — regardless of how intensely consumers hate them.

What's truly amazing about HMOs is that they've lasted this long. Although few people are aware of it, twenty years ago, two major U. S. corporations restructured their businesses on the HMO model. But since both were disastrous failures, they didn't last very long, and consumers never got a chance to hate them as much as HMOs. They failed for the simple reason that no company can cover a category so well that it offers a complete range of products and services to all people, at all times, in all places, with the highest quality, at the best price.

The most famous attempt by a regular business to adopt the HMO model is United Airlines, or more accurately, Allegis. Allegis? Yes, back in the 1980s, that was the name for the new parent company that United thought would revolutionize commercial travel. Like HMOs, which pretend to be an association of networks covering every possible health care need, in every possible way, at the highest level of quality, at the lowest price, Allegis was going to be a similar association of travel networks — what could be described as a Travel Maintenance Organization, or TMO.

Allegis was going to cover the traveler's every need from door-to-door, including the flight, the cruise, the hotel, the rental car, etc. No one would want to seek travel outside the Allegis TMO because it had everything and because its discounts would assure that it would offer the best price. Fortunately, because Allegis's concept wasn't backed by coercive government legislation — such as the Internal Revenue Code (IRC) Section 105 tax-exemption for employer-sponsored health benefits and the HMO Act — travelers today can fly any airline, get a car from any rental agency, and stay at any hotel they choose. And, by the way, they don't require any new federal legislation to sue their travel agent.



The other great corporate venture using the HMO model was the Sears Financial Network model of a Financial Maintenance Organization or FMO. This was the world-beater combination of Allstate Insurance, Dean Witter brokerage, the Discover credit card, and home mortgage lending by Coldwell Bankers — not to mention supplementing your home with Sears furniture, Kenmore appliances, and Craftsman tools.

Without the coercion of federal legislation, Sears attempted to leverage its dominance (at the time) in the retail sector by refusing to accept American Express, Master Card, and Visa. Instead, Sears offered its customers the annoying time-wasting option of filling out an application for their new Discover card. To some extent, this strategy worked. Sears was able to gain limited acceptance of its FMO and get its Discover card off the ground. Unfortunately, it was even more successful at driving away its customers to the plethora of other stores that readily accepted other major credit cards.

The only industry that still uses the HMO model is a weak, half-hearted attempt by new car dealers to convince their customers to get all their parts and service though them. But since they don't have coercive legislation to back them up, and since they can't be the best at everything, most people get their oil changed at Jiffy Lube, batteries from Sears, tires from Goodyear, and mufflers from Midas. And no one needs to get a referral from Mr. Goodwrench (their primary care mechanic) to go there.

The moral of the story: if you want to push mediocre overpriced products and services onto the public, and deny them any choices and options, you'd better get Congress and the IRS to do the dirty work for you. Because the free market will tolerate that kind of behavior only as long as you're willing to burn through your dwindling supply of cash. The free market didn't create HMOs; Congress did. And Congress didn't have the foresight to kill the Allegis TMO and the Sears FMO; angry and indifferent customers did.

Congress once had the sense to deregulate the travel industry and the banking industry (although there's still more work to be done here). It should have the collective intelligence to deregulate the health care industry by repealing the HMO Act and doing away with the IRC. Otherwise, the state of Minnesota will have to change its motto to "the land of 10,000 lakes … but only one health plan."

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