

Operational Policy Letter #22

Department of Health & Human Services

Health Care Financing Administration

Medicare Managed Care

December 9, 1994

NON-FEDERALLY QUALIFIED LINE OF BUSINESS

Operational Policy Question:

May a Federally Qualified HMO (FQHMO) establish and operate a separate non-Federally qualified component or "line of business?"

Answer:

Yes, an FQHMO may establish and operate separate non-Federally qualified lines of business.

The requirements for Federal qualification, (e.g., community rating and comprehensive benefit packages) would not apply to the non-Federally qualified line of business. The non-Federally qualified component would still be subject to state requirements, however. A non-Federally qualified HMO line of business would be able to use rating practices, such as age and gender rating, permitted under state law and HMO licensure requirements when contracting with, for example, health insurance purchasing cooperatives (HIPCs) in the state.

Therefore, an FQHMO that participates in a private sector HIPC can set up a separate non-Federally qualified line of business. We will consider the FQHMO component to be in compliance with Title XIII of the Public Health Service Act as long as that line of business continues to meet the requirements of the Federal legislation and regulations.

Additionally, it is our understanding that Federal qualification is not a prerequisite for tax-exempt status. We do not anticipate that FQHMOs establishing a non-FQ line of business will have a problem with tax-exemption as long as they retain their status as non-profit entities and continue to meet the other requirements established by the Internal Revenue Service.

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