ACTION REQUIRED: How underfunding Puerto Rico’s health system costs federal and state governments more money than it saves
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BY: MARIA LEVIS AND KAREN NEOH

**Summary**
A fiscal crisis looms on the island of Puerto Rico, and the controversy – about health care spending – has far-reaching implications that extend well beyond the Atlantic coastlines of the United States’ largest territory. At stake are the long-term health of the Puerto Rican population, the pragmatic use of the U.S. taxpayer’s money and the flow of Puerto Rican citizens from their island to mainland states.

As soon as December 2017, the territory faces a terrifying deadline. That month brings Puerto Rico face to face with the Medicaid Funding Cliff, when money allotted under the Affordable Care Act (ACA) to finance the Medicaid is projected to run out. That will reduce the annual Puerto Rico Medicaid Budget by $1.2 billion, risking the coverage of more than 817,000 Medicaid and nearly 300,000 dually eligible patients (PR Medicaid, 2017).

Inequitable funding to Puerto Rico has an outsized, and perhaps largely unrealized, impact on American taxpayers. Consider the facts: Puerto Rico has the lowest annual per capita health expenditures in the nation and maintains the lowest Medicaid ($1,571 per enrollee vs. $5,790 in the U.S.) and Medicare ($5,208 per enrollee vs. $8,700 in the U.S.) annual spending while cost of living remains comparable (Perreira, 2016). That tamp-down on spending translates to significant savings – of about $5,790 in Medicaid and $3,492 in Medicare funding for every U.S. citizen who is enrolled in these programs in Puerto Rico.

The underlying challenge is that unequal treatment of Puerto Rico in federal health and economic policy has created unintended, pernicious incentives that have set the local health system on a downward spiral. That spiral is leading to significant population changes. Nearly two-thirds (65%) of people living in Puerto Rico have considered moving to the United States to receive better health services, according to an August 2017 Impactivo poll. Already, many Puerto Ricans are enrolled in Medicaid within a U.S. state. In 2015, for instance, 1.9 million Puerto Ricans were receiving health care under the jurisdiction of a state, rather than the territory, according to data from the U.S. Census. Due to the
differences in per capita spending, that locality change translates to an additional $9.7 billion in annual Medicaid expenses to federal and state governments.

Enrolling beneficiaries stated to loose coverage because of the Medicaid Funding Cliff in Medicaid and/or Medicare programs in the states would cost federal and state governments $4.2 billion in Medicaid and $1.7 billion in Medicare annually. This far surpasses the approximately $2.6 billion that Congress would need to authorize annually to provide Puerto Rico with equal treatment (parity) in the Medicaid program.

The reauthorization of the Children’s Health Insurance Program, a bill that also encompasses provisions to ensure care for the underserved, may be the last opportunity to avert the Medicaid Funding Cliff facing Puerto Rico. This Issue Brief presents data and policy recommendations to address severe health disparities already affecting millions of U.S. citizens living in its territories.

Key facts about Puerto Rico

1. Puerto Ricans have been U.S. citizens since 1917

2. 8.8 million Puerto Ricans live in the U.S. Of those:
   • 5.4 million live in the 50 states and the District of Columbia (of these, 1.7 million were born in PR).
   • 3.4 million live in Puerto Rico (46% live under the federal poverty level versus 15% in the U.S.).

3. Puerto Rico’s Medicaid program is subject to an annual funding ceiling as specified under section 1108 of the Social Security Act, but CHIP allotment is determined using the same methodology used for states. Federal Medicaid ceiling covers approximately 19% of Government Health Insurance Plan expenses instead of the 55% FMAP to which it is statutorily entitled. Approximately 1.5 million people are enrolled in Puerto Rico’s Government Health Insurance Plan.

4. Additional funds under section 2005 of the Affordable Care Act currently provide Puerto Rico with approximately $1.3 billion in federal funding to cover the difference between the funding ceiling and its statutory 55% FMAP. This funding is projected to run out by December 2017 if no action is taken by Congress.

5. This loss in Medicaid funding puts coverage at risk for at least 817,742 Medicaid and 296,527 Medicare beneficiaries who are all eligible for coverage in many of the 50 states.
6. Enrolling these beneficiaries in Medicaid and/or Medicare programs in the states would cost federal and state governments $4.2 billion in Medicaid spending and $1.7 billion in Medicare spending.

7. About 1.9 million Puerto Ricans are enrolled in a state-side Medicaid program, adding an estimated $9.7 billion in annual Medicaid expenses to federal and state governments. These expenditures far surpass the total expenses necessary to provide Medicaid parity to the island.

8. The states that have received the most Puerto Ricans over the past five years are Florida (with a population of 1.1 million native Puerto Ricans in 2015), New York (1.1 million), Pennsylvania and Georgia.

9. 65% of Puerto Ricans have considered moving to the United States to receive better health services.

10. In May 2017 alone 9,953 enrollees dropped off the GHP Plan and most likely moved to a state, according to Impactivo polling.

11. Puerto Ricans pay the same level of Medicare taxes, but the Island receives 38% less in Medicare funding.

12. If Puerto Rico had Medicaid parity it would receive 83% FMAP, which would have covered the Puerto Rican government’s entire primary fiscal balance.

Why is this issue important now?

“The Task Force believes that the future financing of the Medicaid program in Puerto Rico is a serious and urgent issue facing federal policymakers attempting to address the territory’s economic and social challenges.”

– Congressional Task Force on Economic Growth in Puerto Rico, Report to the House and Senate, December 20, 2016

The reauthorization of CHIP, which also encompasses provisions to ensure care for the underserved, presents what may be the last opportunity to avert the Puerto Rico Medicaid Funding Cliff. This Issue Brief presents data and recommendations aligned with the current administration’s policies to “broaden healthcare access, make healthcare more affordable and improve the quality of the care available to all Americans” and use this opportunity to address the severe health disparities that already affect the millions of U.S. citizens living in its territories.
Key Points

1. Puerto Rico currently receives supplemental federal funding to cover the difference between the federal funding ceiling under section 1108 of the Social Security Act and its statutory 55% FMAP. This funding is slated to run out by December 2017 – the Medicaid cliff – if no action is taken by Congress.

2. This loss in Medicaid funding puts coverage at risk for approximately 1 million people who, if they enroll in Medicaid and/or Medicare programs in the states, would cost federal and state governments a combined $4.2 billion in Medicaid spending and $1.7 billion in Medicare spending.

3. The generalized uncertainty resulting from the fiscal crisis has accelerated the migration of health professionals, with the most recent census data showing that 2,488 health professionals and technicians left the Island in 2014 compared to 864 in 2013.

4. Physician shortages are further exacerbated by Puerto Rico having the lowest Geographic Practice Cost Index (GPCI) score in the nation, which may be the result of a statistical bias resulting from a higher proportion in subsidized housing on the island to address the needs of the poor.

5. Formulas for Medicare Advantage, Disproportionate Share Hospital GPCI are all based in part or in whole on factors that are not applicable to the territories and create unfair conditions for patients and providers in Puerto Rico.

Why does inaction cost more?

Federal and state spending is reduced by enrollment reductions in the Puerto Rico Medicaid program. The PR Medicaid program is severely underfunded and federal funding is statutorily capped at approximately 19% of costs for the Medicaid program, which is significantly below the federal medical assistance percentage (FMAP) of 55% to which it is entitled. Therefore, the PR program already has more enrollees than are covered by Medicaid. Additionally, Medicare spending on the island is significantly lower than in any state even though Puerto Ricans on the island pay the same in Medicare payroll taxes. Therefore, the federal government saves a significant amount of funding from enrollees who decide to live on the island versus in the states.

After the Medicaid funding cliff, Puerto Rico funding would revert to the federal ceiling under section 1108 of the Social Security Act (see Table 1).
According to 2015 Medicare Advantage Program Ratebooks and Supporting Data, the average amount that the Centers for Medicare and Medicaid Services (CMS) pays for Medicare Fee for Service (FFS) for an enrollee on the Island is 42% lower than the average in the states; for a Medicare Advantage enrollee that amount is 32% lower (see Table 3).

Between 2006 and 2015, the net migration between Puerto Rico and the United States was estimated at 450,000 emigrants going to a U.S. state (Perfil del Migrante 2015, Instituto de Estadísticas de Puerto Rico Estado Libre Asociado de Puerto Rico, 2017). Those emigrating to the States have a lower median income when compared to the general Puerto Rican population, with 74% of those moving indicating that their reason for leaving was to work or find work (Levis, 2015). In 2015, 5.4 million Puerto Ricans were living in a U.S. state, with a median age of 29 and median annual income of $21,600. With regard health coverage, 42% had Medicaid coverage, 12% Medicare and 24% had no coverage.

**TABLE 1: Medicaid and CHIP Spending in Puerto Rico FY 2011–FY 2015 by Source of Funds (millions)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Medicaid</th>
<th>CHIP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Federal ceiling under $1108</td>
<td>Federal spending</td>
</tr>
<tr>
<td>FY 2015</td>
<td>$329.0</td>
<td>$1,521.5</td>
</tr>
</tbody>
</table>

Source: CMS 2016c; MACPAC 2016; MACPAC 2015b.

Notes: FY is fiscal year. Federal Medicaid ceiling reflects the annual ceilings for federal funds that territories receive under Section 1108(g) of the Social Security Act, while actual federal spending reflects utilization of the allotments provided by the ACA, as well as spending not subject to the ceiling. Federal CHIP allotments are provided under Section 2104 of the Social Security Act. If states and territories exhaust their own available CHIP allotments, they may receive additional funding from unused state CHIP allotments. Puerto Rico received these redistributed funds in several recent years, including FYs 2011 through 2014.

Source: Medicaid and CHIP in Puerto Rico Fact Sheet, Medicaid and CHIP Payment and Access Commission, 2017

**TABLE 2: Health Spending in Puerto Rico as Compared to the US for 2015**

<table>
<thead>
<tr>
<th></th>
<th>PR</th>
<th>US</th>
<th>Yearly Savings to the Federal and State Government per Beneficiary living in Puerto Rico</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicaid</td>
<td>$1,571</td>
<td>$5,790</td>
<td>$5,790*</td>
</tr>
<tr>
<td>Medicare</td>
<td>$5,208</td>
<td>$10,365</td>
<td>$5,157</td>
</tr>
</tbody>
</table>

<p>| | Population at Risk of Loosing Coverage | Additional Cost to Federal and State Governments |</p>
<table>
<thead>
<tr>
<th></th>
<th>Per Beneficiary</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare Eligible</td>
<td>296,527</td>
<td>$5,790</td>
</tr>
<tr>
<td>Medicaid Eligible</td>
<td>817,742</td>
<td>$5,157</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1,114,269</td>
<td>$10,947</td>
</tr>
</tbody>
</table>

* Puerto Rico cannot enroll more patients in Medicaid due to the cap.
Since those emigrating to a U.S. state are younger and have lower incomes than the general Puerto Rican population, it stands to reason that at least 40% of these will continue as Medicaid and CHIP beneficiaries in their new states of residence.

Given the population shift and the projected health costs associated with such a change, Puerto Rican immigration over the past five years has added approximately $802.5 million in extra Medicaid spending per year (see Table 4).

**TABLE 3: Medicare Spending in Puerto Rico as compared to the US for 2015**

<table>
<thead>
<tr>
<th></th>
<th>Puerto Rico (per member per month)</th>
<th>US (per member per month)</th>
<th>Savings to the Federal Government from PR rates as compared to US average</th>
<th>Estimated Yearly Saving to the Federal Government per Beneficiary living in Puerto Rico</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare FFS</td>
<td>$419</td>
<td>$725</td>
<td>42%</td>
<td>$3,672</td>
</tr>
<tr>
<td>Medicare Advantage</td>
<td>$520</td>
<td>$766</td>
<td>32%</td>
<td>$2,952</td>
</tr>
</tbody>
</table>

**FIGURE 1: Migratory Movement per Year** (Thousands of People)


**How Medicaid funding impacts Puerto Rico public finance?**

Puerto Rico’s Medicaid program, known as Mi Salud, has about 1.4 million enrollees, or more than 40% of the island’s population. Puerto Rico uses a managed care system to deliver Medicaid services and contracts with managed care organizations (MCOs) that accept a set per-member, per-month payment (PMPM), known as a capitation payment.
Medicaid funding to the states and the District of Columbia

- Federal Medicaid funding to the states and the District of Columbia is open-ended – that is, it is not subject to a cap of any kind. The federal government reimburses each state for a portion of the state’s Medicaid expenditures.
- The FMAP is determined by a formula, with a higher reimbursement rate provided to states with lower per capita incomes.
- There is a statutory minimum FMAP rate of 50% and a statutory maximum of 83%. In fiscal year 2016, nine states, including the District of Columbia, had an FMAP rate of 70% or above.

Medicaid funding in Puerto Rico

- Federal Medicaid funding is subject to an annual cap pursuant to Section 1108 of the Social Security Act (42 U.S.C. 1308). Once the annual federal funding cap is reached, the territory’s government is responsible for the remaining cost of all Medicaid services. Puerto Rico’s annual cap in fiscal year 2015 was $329 million.
• The FMAP rate is not based on per capita income; rather, it is fixed in federal statute. Prior to July 1, 2011, the statutory FMAP rate for the territories was 50%. According to CRS, Puerto Rico’s FMAP rate would likely be 83%, the maximum rate allowable under current Medicaid law. (See Annie L. Mach et al, Puerto Rico and Health Care Finance: Frequently Asked Questions, Congressional Research Service, June 27, 2016, at page 25, footnote 88.)

• The ACA permanently increased the territories’ statutory FMAP rate from 50% to 55% – a number that is still below the FMAP rate each territory would receive if its rate were based on per capita income.

• The ACA provided for a one-time increase in Medicaid funding for the territories, of which Puerto Rico received $5.4 billion. Based on CMS’s projections, Puerto Rico’s supplemental funding will be depleted before the end of calendar year 2017, a date that has come to be known as the “Medicaid cliff.” Once Puerto Rico depletes this supplemental funding, it will revert to receiving only its annual capped federal Medicaid allotment, which is expected to be $357.8 million in fiscal year 2018.

Members of the Congressional Task Force on Economic Growth in Puerto Rico believe that, even if differential tax treatment may potentially serve as an argument against equal treatment for Puerto Rico under Medicaid, more equitable treatment should still be considered.


Under the federal cap, which was in place from 1999 to 2011, Puerto Rico received an average of 17% FMAP, significantly below the intended 50% FMAP floor, leaving the island with significant expenses to cover.

**FIGURE 3: Actual Primary Fiscal Balance vs. Medical Assistance Spending in Puerto Rico from 1998-2013**

![Graph showing actual primary fiscal balance vs. medical assistance spending in Puerto Rico from 1998-2013](source: Calculations from CNE 2015 Analysis and Impactivo 2016 Analysis.)
Puerto Rico spent over $19 billion from 1998 to 2013, covering the local share of its spending on the medically indigent. Over the same period, the Puerto Rican government’s primary fiscal balance totalled negative $12.1 billion. Puerto Rico could have significantly reduced its deficit if its FMAP were not capped.

How does this impact people living in Puerto Rico?

- Puerto Rico has the highest national prevalence of non-communicable diseases (NCDs). These significant disparities in funding may start to explain why residents of the island also face the highest national prevalence of diabetes (13.7% in Puerto Rico vs. 9.3% in U.S. states), hypertension (42.3% vs. 32.5%), and fair or poor self-rated health status among adults (35.4 % vs. 16.9% U.S.)
- Children on the island are also affected with the highest pediatric asthma rates in the nation (14.1% vs. 9.2%), and what until recently was the highest premature birth rate in the world (11.8% vs. 9.6%).
- Children with special needs (129,000 minors) have limited access to necessary treatment due to a cap on federal funding (Levis, 2015)
- Pharmacists have reported that their patients, especially those on

![FIGURE 4: Puerto Rico Health Insurance Enrollment Estimates](image-url)
Medicare, had substantial difficulty paying for prescribed medicines (Perreira, 2017).

- Due to physician shortages, 92% of the island’s municipalities are categorized by the U.S. Health Resources and Services Administration as medically underserved areas.
- The Medicaid Funding Cliff puts coverage at risk for at least 817,742 Medicaid and 296,527 beneficiaries who are all eligible for coverage in many of the 50 States.

**Congressional action is required**

Inadequate federal financing for Puerto Rico’s Medicaid program is unlikely to save federal taxpayer dollars. Over time, any “savings” are likely to be offset by the additional costs borne by the federal government and state governments from conditions-based migration from Puerto Rico to the U.S. mainland. The costs will be particularly significant for states, such as Florida, that are popular destinations for individuals from Puerto Rico.

If Congress does not enact legislation to avoid the impending Medicaid cliff, the consequences for the health care system in Puerto Rico are likely to be severe. CHIP reauthorization provides an opportunity to resolve this issue. Actions Congress can take include:

1. Eliminate the formula for the federal ceiling under Section 1108 and replace with a per capita cap on par with those being proposed in current health reform bills, providing Puerto Rico with parity and/or a formula that is more closely tied to the size and needs of the low-income population. This can serve as an opportunity to both address the Puerto Rico Medicaid Funding Cliff and pilot federal health reform initiatives.

2. Provide the Department of Health and Human Services (HHS) and Centers for Medicare and Medicaid Services (CMS) with a mandate and flexibility to make reasoned and justifiable adjustments for any formula that is dependent in whole or in part on data that are not available or not reliable or dependent on factors inapplicable to the territories. In these cases, the best proxy would be to use data from other states with similar demographics. Additionally, Congress can ask HHS to establish a pilot or demonstration project for territories like the State Innovation Models, to effectively transition to improved health system quality and value-based payments since current CMS pathways remain inaccessible.

3. Adjust Disproportionate Share Hospital (DSH) Formula to appropriately reflect the inapplicability of SSI to Puerto Rico.
4. Extend Part D Low Income Subsidy (LIS) for the territories and eliminate enhanced allotment program (EAP) which does not currently attend the need.

5. Eliminate HIT Tax for Puerto Rico since it does not manage any public Health Insurance Exchanges that could be financed through this collection.

6. Eliminate Affordable Care Act requirements for Medicare Advantage on the island to be 115% of Medicare Fee For Service (FFS) since the small percent of patients enrolled in FFS are not representative of the general population.

7. Adjust the GPCI to 1.25 to reflect the cost of living on the island, on par with treatment of other U.S. jurisdictions required to use the U.S. Merchant Marines for maritime transport.


9. Reduce/eliminate Medicaid program requirements that increase costs.

10. Eliminate the systematic exclusion of Puerto Rico from most national statistics which have made the Puerto Rico crisis more difficult to resolve.

Conclusion

The U.S. President's FY 2018 Budget presented to Congress includes an allocation of $1.5 billion for Puerto Rico’s Medicaid Program, recognizing the need for action. The National Association of Medicaid Directors (http://bit.ly/2ev08Fk) and the American Academy of Pediatrics (http://bit.ly/2wuYwW8) have both included equal Medicaid treatment for all U.S. territories in their legislative priorities. The Bi-Partisan Congressional Task Force on Economic Growth in Puerto Rico also recommended that Puerto Rico and the other territories should be treated in a more equitable and sustainable manner under the Medicaid program. The time to act is now.
References


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