Insight

The Impact of the Puerto Rico Debt Crisis on its Medicaid Beneficiaries

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Executive Summary

- Two-thirds of Puerto Rico's population relies on Medicare and/or Medicaid.
- Medicaid enrollment on the island increased by 63 percent between 2011 and 2015.
- The federal government matches Puerto Rico's Medicaid spending at a 55 percent rate; however, total federal Medicaid spending on the island is capped.
- In recent years, federal spending on Puerto Rico's Medicaid program has far exceeded the cap, as a result of temporary relief measures.

Introduction

Puerto Rico's economy has been suffering for nearly a decade, and the problems have finally reached a breaking point. The territory has more than $70 billion in debt and has become insolvent; $2 billion worth of debt payments are due on July 1 and Puerto Rican officials have said they will be unable to make those payments given the territory's current circumstances.[i] The island's fiscal crisis is quickly becoming a health care crisis as well.

Background

Approximately two-thirds of Puerto Ricans rely on Medicare and/or Medicaid for health care coverage. (For comparison, California has the highest rate among the states of its population enrolled in Medicaid at 29 percent. [ii]) As of June 2015, 1.7 million Puerto Ricans were enrolled in Medicaid.[iii] Prior to the Affordable Care Act (ACA), individuals with income up to 56 percent of the Puerto Rican poverty level (PRPL) were eligible for Medicaid in Puerto Rico, and the program was funded by a 50 percent federal matching assistance percentage (FMAP). Federal funding is subject to a cap for medical expenses which was increased to $364 million in 2010 under the American Recovery and Reinvestment Act (the 2009 federal stimulus package).

Following passage of the ACA, Puerto Rico's FMAP was raised to 55 percent (with a temporary increase to 57.2 percent for calendar years 2014 and 2015), and eligibility was expanded to include individuals up to 133 percent of the PRPL (which is approximately equal to 50 percent of the federal poverty level). However, the federal funding cap still applies, and individuals in the territories newly eligible for Medicaid under the expansion provisions of the ACA were not eligible for the enhanced FMAP provided for expansion-populations in the states. In order to provide some assistance to fill in the expected funding gap that would result because of these provisions, Puerto Rico was also provided an additional $6.4 billion in Medicaid funding. This additional allotment was intended to provide funding through 2019.

The Current Situation

As is to be expected of social assistance programs in times of economic hardship, the number of people reliant on Medicaid in Puerto Rico has increased as the economic situation on the island has worsened, exacerbating the program's funding challenges. Between 2011 and 2015, Medicaid enrollment increased 63 percent.[iv] Over the last several years, Medicaid spending in Puerto Rico has reached nearly $2 billion, with the federal government providing as much as $1.32 billion in FY2015, well above the 55 percent match rate to which Puerto Rico is otherwise entitled.[v]

Roughly 60 percent of the additional funding provided through the ACA had been spent by the end of the last fiscal year, and the remaining funds may be exhausted as early as 2017, two years sooner than expected. Once these funds have been spent, Puerto Rico's federal Medicaid funding will again be limited to the amount of the cap, resulting in a reduction of federal funding of approximately 72 percent. Puerto Rico and the other territories are not eligible to receive Medicaid DSH payments, which states use to cover the cost of uncompensated care.

The Difference Between Puerto Rico and the States

In light of the situation in Puerto Rico, some concerns have been raised that proposals to block grant Medicaid funding or provide states with a per capita allotment would leave individuals all over the country in the same dire situation, unable to get the care they need, despite qualifying for the Medicaid program. It is important to understand, though, that Puerto Rico's program is not funded through either a block grant or a capped allotment system, as states would be under these proposals. While the territories' Medicaid programs are subject to a federal cap, this is different than a black grant or capped allotment.

By definition, the territories are not states, are not legally recognized as such, and therefore are not treated as such. The territories possess greater autonomy from the federal government than states in some regards; for instance, citizens of U.S. territories are not required to pay federal income taxes.[vi] Therefore, it makes sense that they would not receive equal benefits from the federal government as states, which is why there is a cap on the amount of federal Medicaid funds territories may receive. To clarify, the territories receive federal funding for Medicaid in the same manner that states do, based on their FMAP. The FMAP is the percentage of every dollar spent on Medicaid that the federal government will finance; the state or territory must finance the rest.

Historically, the average FMAP among the states has been 57 percent, though it may be as high as 83 percent, depending on a state's per capita income. Puerto Rico's FMAP, as stated earlier, is currently 55 percent. The difference is that for states, the funding is open-ended; states may continue to draw-down federal funds without limit provided that they cover their share of the cost and are using the money for allowable services. The territories, on the other hand, may draw down funds only until they have reached the cap determined by statute, which currently stands at $364 million for Puerto Rico, and increases annually based on the Consumer Price Index for All Urban Consumers (CPI-U). Upon reaching the limit, territories become responsible for the full cost of medical services provided to Medicaid beneficiaries.

Block grants function much differently than the cap described above. Block grants provide states with a set amount of funding, regardless of the amount of money a state puts forward. Under a block grant financing system, as recently proposed for the Medicaid program, recipients of the grant are entitled to the full amount of the grant without any obligation to spend their own money until the funds from the block grant have been exhausted. Thus, if a state were able to keep costs down, they could potentially reduce their share of financing for the program. Block grants are typically adjusted for inflation and/or population growth in an attempt to keep

pace with changing funding needs.

Different still is a per capita allotment. This type of financing provides a fixed amount of funding for each individual enrolled in the program, rather than providing a fixed total amount of funding for the program. Of any type of financing structure that places some limit on the amount of federal funding available, a per capita allotment provides the greatest protection that there will be federal funding available for each individual who enrolls in the program. Further, most recent proposals include provisions to adjust the allotment based on an individual's category of eligibility and the average spending per beneficiary in that category. For example, under Medicaid, beneficiaries eligible due to age or disability status would be provided a greater amount of funding than children, given that expenditures for these individuals are typically five times greater than those of children.

The final, and most important, distinction to keep in mind is that states would not be treated in the same manner as territories. States are legally distinct from territories, and are entitled to greater assistance from the federal government. Funding levels for states under either a block grant or per capita allotment would be set so as to provide for an initial funding level similar to what states currently receive, and funding levels would be indexed to prevent the purchase power of the dollars from eroding over time. Territories are not intended to receive equal amounts of federal funding and assistance as the states.

Conclusion

The economic crisis in Puerto Rico created its current health crisis. The Medicaid crisis was exacerbated by Puerto Rico's decision to expand eligibility for the program when the funding increase was only temporary. Obligations of permanent expenditure increases should never be made when financed by non-permanent funds. Further, Puerto Rico's funding cap is tied to the CPI-U, a measure of national inflation, which may not track well with the inflation rate experienced by residents of the island. Medicaid block grant and per capita allotment proposals would not place states under a territory-like financing structure.

[1] http://newyorkfed.org/outreach-and-education/puerto-rico/2014/report-main.html

[2] http://www.ppinys.org/reports/2010/innovation/MedicaidEnrollment.html

[3] https://www.medicaid.gov/medicaid-chip-program-information/by-state/puerto-rico.html

[4] https://www.medicaid.gov/Medicaid-CHIP-Program-Information/By-Topics/Data-and-Systems/Downloads/2011-Medicaid-MC-Enrollment-Report.pdf

[5] http://pierluisi.house.gov/sites/pierluisi.house.gov/files/5.11.15%20Rep.%20Pierluisi%20Letter%20to%20President%20

[6] https://www.irs.gov/individuals/international-taxpayers/individuals-living-or-working-in-us-possessions