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Build Back Better Permanently Extends Economic Security to Puerto Rico and Other Territories

By Javier Balmaceda

The House-passed Build Back Better (BBB) legislation would fill critical gaps in economic and health security programs for all five U.S. Territories — Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa, and the Commonwealth of the Northern Mariana Islands — including permanent funding increases for their Medicaid programs and full access to Supplemental Security Income (SSI) benefits. As in the states, BBB also would ensure that families in the territories continue to get a significantly expanded Child Tax Credit through 2022, and it would permanently make the full credit available to children in families with low or no earnings in a year. Moreover, the legislation would extend new administrative funding to the territories to implement the Earned Income Tax Credit (EITC).

These provisions would provide substantial support to hundreds of thousands of families and mark real progress in correcting long-standing disparities that have kept the territories from fully accessing federal programs that promote health, economic security, and opportunity for people who reside in states. Fairer treatment for people who live in the territories is a key component to achieving broader racial and ethnic justice goals.

Medicaid

States receive open-ended federal funds for Medicaid for a specified percentage of their expenditures for Medicaid-covered health services they provide to their enrollees. But the territories receive only fixed block grant funding annually that falls short of covering the costs of health care for their residents enrolled in Medicaid.¹ Furthermore, the percentage of Medicaid costs that the federal government covers (known as the Federal Medical Assistance Percentage or FMAP) in a state is based on the state’s per capita income relative to the nation as a whole. But the FMAP for the territories is arbitrarily capped in statute at 55 percent, which is well below what the rate would be if based on the territories’ per capita incomes, and well below the level received by the lowest-income states.

The inadequacy of the allotments and FMAP has led Congress to periodically provide time-limited tranches of supplemental funding to stave off harsh cuts the territories would have to make in their Medicaid programs’ eligibility criteria, health services, and provider payments. These temporary increases have not provided the stable and adequate funding the territories need to strengthen their programs and fully meet the health care needs of their residents.

BBB would permanently increase the allotments both to make them more adequate today and to ensure that they rise over time as health care costs rise.2 Starting in 2022, the legislation also would increase the FMAP to 76 percent for Puerto Rico and 83 percent for the other territories. In 2023, Puerto Rico’s FMAP would increase to 83 percent. The FMAP increase would be permanent as well.

BBB would minimize the risk that the territories will exhaust their block grants or will be forced to cut eligibility, covered health care services, or provider rates. And the increased funding could provide resources to [modestly] expand and improve the territories’ Medicaid programs. At the same time, BBB would not put Medicaid in the territories on an equal footing with states. Territories would still receive block grant funding, which has proven inadequate over time. Congress should eventually provide open-ended federal funding to allow the territories to have eligibility standards in line with those in states and to provide the same level of care Medicaid enrollees receive in the states.3

Supplemental Security Income

In another landmark policy advance, BBB would end the exclusion of people who reside in four territories — Puerto Rico, Guam, the U.S. Virgin Islands, and American Samoa, — from receiving assistance under SSI.4 (Only residents of the Northern Mariana Islands are currently eligible to receive SSI benefits.) Under BBB, these four territories would be granted full and permanent access to SSI starting in 2024, marking the first time in half a century that elderly and disabled people with very low incomes living in these territories would have access to SSI benefits. Federal policymakers created SSI in 1972 to replace the patchwork system of federal grants that states used to aid people who were elderly, blind, or disabled. But people who lived in these four territories were not included in SSI; instead, three territories continued to receive matching grants to operate a much more limited program called Aid to the Aged, Blind, and Disabled (AABD). People who live in American Samoa don’t have access to either SSI or AABD.

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The Government Accountability Office estimated that in Puerto Rico alone, 2011 federal spending on AABD was less than 2 percent of what it would have been if Puerto Rico residents received full SSI benefits.\(^5\) Potential qualifying individuals in Puerto Rico would total 435,886 according to more recent estimates based on data from the 2018 American Community Survey, calculated by the Center for a New Economy, a think tank and policy institute based in Puerto Rico.\(^6\) Roughly 37,000 people participated in AABD in an average month in 2015, the latest year for which data are available.\(^7\)

**Refundable Tax Credits**

BBB would extend for one year the American Rescue Plan’s one-year expansion of the Child Tax Credit and make the full credit available on a permanent basis to families with low or no earnings in a year. These changes would apply to families living both in states and those living in all the territories. Prior to the Rescue Plan, families in territories other than Puerto Rico were eligible for the Child Tax Credit from their own tax authorities, though available information would suggest that the credit they received was generally less than the amount received by families in states.\(^8\) In Puerto Rico, only families with three or more children were eligible for any Child Tax Credit at all.\(^9\)

For both people in states and in the territories, the maximum amount of the tax credit in 2022 would remain at $3,600 for children under age 6 and $3,000 for older children, including 17-year-olds, whom the Rescue Plan made eligible for the first time. While policymakers should ensure that the higher credit is made permanent, even if the maximum credit amount is reduced after 2022, the full credit would remain available to families with low or no earnings on a permanent basis, which is a significant driver in reducing child poverty. (If the credit’s expansion is not extended, the maximum credit amount would drop to $2,000 per child after 2022.)

Moreover, the Rescue Plan made the credit available via advance monthly payments of $300 per child under age 6 and $250 per older child for children in states, and gave territories other than Puerto Rico the option to advance payments in a manner similar to the federal advance program. BBB would continue monthly payments in 2022 and, for the first time, extend them to families in Puerto Rico. (In 2021, families in Puerto Rico could only receive the Child Tax Credit as a lump sum. In 2022, families could claim advance monthly payments for half of the total credit, which would be distributed from July to December 2022, and they could claim the other half as a lump-sum payment when they file their 2022 taxes in 2023.)

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Furthermore, all five territories would receive key funding to help them administer their EITC programs, all of which secured major funding and permanent benefit improvements through the Rescue Plan. BBB would provide $4 million annually to Puerto Rico and $200,000 annually to each of the remaining territories on a permanent basis. These funds would provide critical support to the territorial government agencies administering the credit and greatly aid outreach efforts to maximize take-up rates, particularly in Puerto Rico where the local EITC program will be significantly expanded starting in 2022.

These policy advances will provide much-needed help to people living in the U.S. Territories, which have among the highest poverty rates in the country. Historically, these territories have been excluded from the full benefits of economic and health security programs available to other U.S. citizens who reside in states. And, more recently, they have faced economic duress and natural disasters that further elevate the need for federal relief.