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Addressing Puerto Rico's Medicaid Funding Shortfalls Would Help Ensure Fiscal Stability and Growth

By Edwin Park

In June, President Obama and Congress enacted legislation — the Puerto Rico Oversight, Management, and Economic Stability Act, or PROMESA — to help address Puerto Rico's immediate debt crisis. Unfortunately, the law didn't address the island's inadequate federal Medicaid funding, which is critical to remedying Puerto Rico's short- and long-term budgetary and economic problems.

Although Congress should also consider some *Medicare* policy changes to assist Puerto Rico, *Medicaid* should be the clear priority. Nearly half of Puerto Rico's residents are enrolled in Medicaid, leading Puerto Rico's severely stressed health care system to rely disproportionately on Medicaid payments. As Treasury Secretary Jacob Lew and Health and Human Services Secretary Sylvia Burwell recently wrote to the Congressional Task Force on Economic Growth in Puerto Rico, which PROMESA established to develop federal policy recommendations for Puerto Rico, any "serious proposal for Puerto Rico's future growth starts with addressing the inadequacies of Puerto Rico's treatment in the Medicaid program...."¹ Congress should seriously consider an Obama Administration proposal to increase Puerto Rico's federal Medicaid funding, which would better ensure that the island's Medicaid beneficiaries have access to needed care while also helping shore up its health care system.

Fixing Puerto Rico's Inequitable Federal Medicaid Financing Is Essential

Unlike the 50 states and the District of Columbia, Puerto Rico is limited to a low, fixed amount of federal Medicaid funding each year irrespective of its actual Medicaid costs. This is a major cause of Puerto Rico's long-term budget troubles. The federal government generally pays a specified share of states' total Medicaid costs (known as the federal Medicaid matching rate or FMAP). The regular matching rate varies by state based on per-capita income and averages 57 percent. Puerto Rico's FMAP was 50 percent until 2011, when the Affordable Care Act (ACA) raised it to 55 percent. But

¹ Letter to Congressional Task Force on Economic Growth in Puerto Rico from U.S. Treasury Secretary Jacob Lew and U.S. Health and Human Services Secretary Sylvia Burwell, August 26, 2016, <https://www.treasury.gov/connect/blog/Pages/Secretary-Lew-and-Secretary-Burwell-Send-Letter-to-Congressional-Task-Force-on-Economic-Growth-in-Puerto-Rico.aspx>.

for Puerto Rico (and the other territories), that rate applies *only up to a very low capped dollar amount of federal Medicaid funding each year*; Puerto Rico must cover all costs above the cap.

Under this cap, Puerto Rico's *effective* matching rate — how much of its total Medicaid costs the federal government actually pays — has generally been between 15 and 20 percent. If there were no funding cap and Puerto Rico's FMAP were based on per-capita income, the federal government would pick up approximately *83 percent* of its total Medicaid costs.²

These steep federal Medicaid funding shortfalls have contributed to Puerto Rico's troubled fiscal situation and added substantial stress to the island's struggling health care system. Health care providers in Puerto Rico heavily rely on Medicaid for reimbursement because the program covers a large share of their patients. In 2015, Puerto Rico's residents' low incomes and relative lack of access to private insurance resulted in more than 1.6 million people, or nearly half of Puerto Rico's population, being enrolled in Medicaid. That's despite the program's much lower income eligibility levels for certain populations like children and pregnant women than the federal minimum levels required of all states.³

The current fiscal crisis has exacerbated these problems. Media reports have documented serious health care provider shortages as physicians leave Puerto Rico, floor closures and elimination of services by hospitals, and significant delays in Medicaid payments to health plans and providers serving Medicaid beneficiaries.⁴ And that's before taking account the effects of the Zika epidemic on Puerto Rico's health system and its Medicaid program; as of September 7, the number of individuals in Puerto Rico infected with Zika had risen to 15,600, according to estimates from the Centers for Disease Control and Prevention (CDC).⁵ Zika could infect up to one-quarter of Puerto Rico's population in the epidemic's first year, the CDC's director has indicated.⁶

² U.S. Department of Health and Human Services, "Fiscal Year 2017 Budget in Brief," February 2016, <http://www.hhs.gov/sites/default/files/fy2017-budget-in-brief.pdf>. See also Government Accountability Office, "Puerto Rico: Information on How Statehood Would Potentially Affect Selected Federal Programs and Revenue Sources," March 2014, <http://www.gao.gov/assets/670/661334.pdf>.

³ Annie Mach, "Puerto Rico and Health Care Finance: Frequently Asked Questions," Congressional Research Service, June 20, 2016, <https://www.fas.org/sgp/crs/row/R44275.pdf>.

⁴ Nick Timraios, "Puerto Rico's Drastic Population Loss Deepens its Economic Crisis," *Wall Street Journal*, June 29, 2016, <http://www.wsj.com/articles/puerto-ricos-drastic-population-loss-deepens-its-economic-crisis-1467219467>; Marga Arroyo, "Healthcare Services on the Island Are in Danger," *El Nuevo Día*, May 4, 2016, <http://www.elnuevodia.com/noticias/locales/nota/healthcareservicesontheislandareindanger-2195238/>; Marga Arroyo, "Thousands of Doctors Flee the Island," *El Nuevo Día*, July 28, 2016, <http://www.elnuevodia.com/english/english/nota/thousandsofdoctorsfleetheisland-2225026/>; and Heather Long, "Puerto Rico Is Losing a Doctor a Day," CNN.com, April 13, 2016, <http://money.cnn.com/2016/04/13/investing/puerto-rico-debt-medicare/>. See also Kaiser Family Foundation, "8 Questions and Answers about Puerto Rico," updated August 17, 2016, <http://kff.org/disparities-policy/fact-sheet/8-questions-and-answers-about-puerto-rico/>.

⁵ Centers for Disease Control and Prevention, "Case Counts in the U.S.," September 7, 2016, <http://www.cdc.gov/zika/geo/united-states.html>.

⁶ Maggie Fox and Erika Angulo, "Rare Zika Complication Hits 30 in Puerto Rico; CDC Expects More," NBCNews.com, <http://www.nbcnews.com/storyline/zika-virus-outbreak/rare-zika-complication-hits-30-puerto-rico-cdc-expects-more-n633781>.

Along with modestly raising Puerto Rico’s federal matching rate on a permanent basis, health reform provided a one-time Medicaid boost of about \$6.4 billion available to be spent through 2019. But Puerto Rico is expected to exhaust those funds by the end of calendar year 2017, and up to 900,000 people in Puerto Rico — *more than half of total Medicaid enrollment* — could lose their health coverage when the funds run out, according to estimates cited by the Obama Administration.⁷

To ensure that Puerto Rico has sufficient federal funding to sustain Medicaid, the Obama Administration has proposed (as part of its fiscal year 2017 budget) eliminating the funding cap and eventually setting Puerto Rico’s (as well as the other territories’) federal Medicaid matching rates in the same manner as the matching rates are set for the states. The proposal also would raise minimum Medicaid eligibility levels and strengthen benefit standards in Puerto Rico and the other territories.⁸ The Administration’s proposal would increase federal Medicaid expenditures by \$28.2 billion over the next ten years, according to Congressional Budget Office estimates.⁹ This proposal would help ensure that Puerto Rico’s Medicaid beneficiaries have access to needed care and shore up the island’s health care system. Congress should give very serious consideration to this proposal as part of legislation following up on PROMESA, as it would help considerably in addressing Puerto Rico’s short- and long-term budgetary and economic challenges.

Boosting Medicare Advantage Payments Would Be Poorly Targeted and Inefficient

Policymakers may consider other health policy options in addition to or instead of addressing Puerto Rico’s Medicaid financing issues, including raising payments to private Medicare Advantage plans. Increasing Medicare Advantage reimbursement rates, however, wouldn’t directly benefit Puerto Rico, as the higher payments would accrue to insurance companies, rather than the island’s government, and thus be a far less targeted and efficient way to help its residents and health care providers than increasing its federal Medicaid funding.

Medicare has historically paid Medicare Advantage plans substantially more per beneficiary than it would cost to cover the same beneficiaries in traditional Medicare; the ACA curbs but does not eliminate such overpayments nationwide over time (including in Puerto Rico). Moreover, the largest Medicare Advantage overpayments have historically been in Puerto Rico — with payments well above the island’s Medicare costs per beneficiary (which are well below the U.S. average). Raising the payment “benchmarks” in Puerto Rico, which help determine the overall payment rates, would increase the amount of overpayments, effectively reversing some of health reform’s Medicare Advantage reforms.

⁷ Letter to Congressional Task Force on Economic Growth in Puerto Rico, *op cit*. The Administration had previously estimated that Puerto Rico would exhaust its temporary Affordable Care Act funding by the end of fiscal year 2017. U.S. Department of Health and Human Services, “Fiscal Year 2017 Budget in Brief,” *op cit*.

⁸ U.S. Department of Health and Human Services, “Fiscal Year 2017 Budget in Brief,” *op cit*.

⁹ Congressional Budget Office, “Proposals for Health Care Programs — CBO’s Estimate of the President’s Fiscal Year 2017 Budget,” March 29, 2016, <https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/dataandtechnicalinformation/51431-HealthPolicy.pdf>.

Research shows that much of Medicare Advantage overpayments goes to insurance company profits and administrative costs rather than enrollee benefits, so such a proposal may do little to directly benefit Puerto Rico’s Medicare beneficiaries.¹⁰ While larger payments to Medicare Advantage plans could eventually lead them to pay higher reimbursement rates to very financially stressed hospitals, physicians, and other health care providers, there would be no assurance that Medicare Advantage plans would actually do so or to what degree such reimbursements might rise.

Medicare beneficiaries in Puerto Rico rely disproportionately on Medicare Advantage — in 2015, nearly three-quarters of Medicare beneficiaries were enrolled in Medicare Advantage plans, compared with about 32 percent nationwide.¹¹ But even so, those in Medicare Advantage constitute less than one-sixth of the island’s population. As discussed above, far more Puerto Rico residents are enrolled in Medicaid.¹² Moreover, the Administration, as part of its announcement of Medicare Advantage payment rates for 2017, has already adopted several policy changes that will increase payments to Medicare Advantage plans in Puerto Rico starting next year.¹³

Other Medicare Proposals Deserve Consideration

Policymakers should, however, consider two other Medicare proposals that would directly benefit Puerto Rican Medicare beneficiaries and also provide some indirect fiscal relief to Puerto Rico’s Medicaid program:

- Establish automatic Medicare Part B enrollment for residents of Puerto Rico. Unlike states, the District of Columbia, and the other territories, Puerto Rico residents who are Medicare-eligible are not automatically enrolled in Medicare Part B.¹⁴ Instead of an “opt-out” enrollment process, Puerto Rico residents have to “opt-in” to Medicare Part B coverage. This leads not only to a greater share of Medicare beneficiaries in Puerto Rico paying late Part B enrollment penalties (4.2 percent compared with 1.4 percent of Medicare beneficiaries nationwide) but also to some eligible beneficiaries going without Part B entirely. That has resulted in a Medicare Part B participation rate of only 78 percent, which is well below the national average of nearly 95 percent.¹⁵

¹⁰ See Mark Duggan, Amanda Starc and Boris Vabson, “Who Benefits When the Government Pays More? Pass-Through in the Medicare Advantage Program,” *National Bureau of Economic Research*, Working Paper No. 19989, March 2014, <http://www.nber.org/papers/w19989>. See also Edwin Park, “Medicare Advantage Overpayments Help Insurers More than Beneficiaries,” Center on Budget and Policy Priorities, April 9, 2014, <http://www.cbpp.org/blog/medicare-advantage-overpayments-help-insurers-more-than-beneficiaries>.

¹¹ Mach, *op cit*.

¹² Commonwealth of Puerto Rico, “Financial Information and Operating Data Report,” November 6, 2015, <http://www.gdb-pur.com/documents/CommonwealthReport11-06-15.pdf>.

¹³ Centers for Medicare and Medicaid Services, “Supporting Medicare in Puerto Rico,” April 4, 2016, <https://www.cms.gov/Newsroom/MediaReleaseDatabase/Fact-sheets/2016-Fact-sheets-items/2016-04-04-2.html>. In December 2016, Congress also enacted legislation that increased payments to hospitals in Puerto Rico.

¹⁴ Mach, *op cit*.

¹⁵ President’s Task Force on Puerto Rico’s Status, “Report of the President’s Task Force on Puerto Rico’s Status,” March 2011, www.whitehouse.gov/sites/default/files/uploads/Puerto_Rico_Task_Force_Report.pdf.

This, in turn, has likely placed fiscal pressure on Puerto Rico's Medicaid program because it has to provide Medicaid-covered services for some individuals who would otherwise be covered by Medicare. (Medicaid would then continue to cover other health services that Medicare doesn't cover, as is the case with people in the mainland United States who are enrolled in both Medicare and Medicaid.) Automatic enrollment could be applied to residents of Puerto Rico, just as it is for the rest of the United States.¹⁶ This would benefit seniors in Puerto Rico as well as the providers and plans that serve them.

- Expand the Medicare drug benefit's Low Income Subsidy (LIS), for which residents of Puerto Rico and the other territories are now ineligible.¹⁷ That would reduce fiscal pressures on Medicaid in Puerto Rico, to the extent that it is now picking up drug costs for Medicare beneficiaries that the LIS would otherwise pay for. It also would make drug coverage more affordable for low-income Medicare beneficiaries in Puerto Rico, increasing access to needed medications and improving health outcomes.

¹⁶ See, for example, S. 1453 (sponsored by Senator Charles Schumer) and H.R. 1418 (sponsored by Representative Pedro Pierluisi).

¹⁷ See Mach, *op cit* and see, for example, S. 2342 (sponsored by Senator Bill Nelson) and H.R. 4163 (sponsored by Representative Pedro Pierluisi).