CENTER FOR ECONOMIC AND POLICY RESEARCH

More Trouble Ahead: Puerto Rico's Impending Medicaid Crisis

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Contents

Executive Summary....1
Introduction....3
Medicaid in Puerto Rico: Essential, Yet Underfunded....5
Cost of Medicaid Coverage for Puerto Ricans:....7
On the Island Versus Stateside US....7
Conclusion....10
References....12

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Executive Summary

Already in the midst of a fiscal crisis, Puerto Rico faces a long road to recovery from Hurricane Maria, a devastating storm it was ill-equipped to handle. The urgent efforts to address both the humanitarian needs and damage caused by the storm must also extend to solving the island's imminent Medicaid crisis, a preexisting condition that plagued Puerto Rico before the hurricane and that has been exacerbated by it.

This paper examines the inadequate federal support received by Puerto Rico for its Medicaid program, and shows that — barring immediate action from the US Congress — the territory will not have sufficient funds to continue operating in 2018. While the cost of living is higher in Puerto Rico than the US average, health care services are the only item that is significantly less costly on the island. We show that the federal government and various states incur much higher costs to provide Medicaid for Puerto Ricans pushed to move to states. Rather than receiving federal reimbursement as a percentage of what it actually spends on Medicaid, Puerto Rico is subject to a hard cap — first set by the US Congress in 1968 — that is currently at about $300 million per year. The insufficient funding has forced the Puerto Rican government to cover a large portion of the costs from its own budget, contributing to the island's ongoing debt crisis.

Using 2016 Medicaid costs and looking at known migration patterns, we calculate what the federal government and states are likely to pay for providing Medicaid for Puerto Ricans moving to US states from 2018 to 2027. We examine these potential costs between 2018 and 2027 under two scenarios: first, if we assume the same migration rate as recorded during the last five years, we calculate a total cost of about $9.7 billion for the federal government, and $6.1 billion divided among various states. By comparison, the cost of providing these services in Puerto Rico would total less than $4 billion. Under a more pessimistic assumption in which the rate of migration doubles due to the deteriorating Puerto Rican economy and lagging hurricane recovery efforts, the cost for providing Medicaid to new Puerto Rican migrants stateside is $19.4 billion for the federal government and $12.3 billion among states, as compared to $7.8 billion in Puerto Rico.

Finally, we note that if Congress were to grant Puerto Rico the same treatment as states with regard to Medicaid reimbursements, this could ensure continuing coverage for Puerto Rico's most vulnerable citizens, and over the next decade would be expected to save the federal and state governments $23.9 billion.

Introduction

After years of crippling austerity that led to the deterioration of Puerto Rico's infrastructure, the island is particularly ill-equipped to deal with the aftermath of Hurricane Maria. The island's power grid was essentially destroyed by the storm, leaving much of the island without electricity for the foreseeable future. Other basic services, such as health care and water, are also lacking. As members of Congress move to address the immediate need for humanitarian assistance, it is essential to make sure that Puerto Rico receives a relief package that tackles both its immediate and long-term needs.

Prior to the destruction caused by Hurricane Maria, Puerto Rico's health care system already found itself in a particularly vulnerable position. Barring immediate US congressional action, Puerto Rico will not have the necessary funds for its Medicaid program to continue operating in 2018. Over 40 percent of the population is enrolled in Puerto Rico's Medicaid program, known as "Mi Salud," and significant cutbacks to the program, especially in this time of crisis, will be disastrous to the island's residents as they struggle to recover from the hurricane and a lost decade of economic growth.

As a result of a reimbursement cap arbitrarily set by the US Congress decades ago, Puerto Rico is unable to access the same level of Medicaid funding offered to states, resulting in a significant shortfall. By acting now to address the issue of inadequate funding for Medicaid in Puerto Rico, the US Congress can assure that the most vulnerable residents of the battered island can at least continue to receive basic medical care. Not addressing this issue will cost taxpayers billions of dollars over the next ten years, since the collapse of Medicaid in Puerto Rico would result in more of its residents seeking health care on the mainland, where the costs incurred to treat Medicaid patients are much higher.

In the past, the Puerto Rican government has borrowed funds to cover necessary expenses for its Medicaid program, and for the last six years it has received additional assistance through a federal block grant provided under the Affordable Care Act (ACA). However, the grant money will run out at the end of this year and the island is currently in the midst of a debt crisis, with no access to financial markets. In April, more than 70 members of Congress signed a letter from Representative Nydia Velázquez (D-NY) urging Congress to address the upcoming Medicaid funding collapse and warning that not doing so "will not only exacerbate Puerto Rico's already fragile fiscal condition but will deny health care coverage to nearly 1 million residents on the island," while also accelerating the pace of out-migration.[1]

The differential treatment in Medicaid reimbursements received from the federal government has long been an issue for Puerto Rico. In 2005, the Commonwealth of Puerto Rico Federal Affairs Administration estimated that if the effective cap for Puerto Rico had grown at the same rate as program costs, Puerto Rico would have received $1.7 billion, instead of $219 million, in 2005.[2] This unequal treatment means Puerto Rico has spent over $1 billion per year from its own budget to make up for this shortfall. Undoubtedly, some of the island's current $73 billion debt burden can be attributed to its unequal Medicaid treatment.

As described at length in a previous CEPR report, [3] the ongoing fiscal crisis in Puerto Rico and the island's economic collapse can be traced back to decisions that were mostly made over the last decades in Washington, DC, and outside of Puerto Rican authorities' control. These decisions, as well as some that were part of Washington-led changes in the global economy, resulted in multiple negative shocks to the island's economy. As the rules of global commerce were rewritten in the early 2000s, Puerto Rico lost its competitiveness as a manufacturing hub for the US market, and due to its political status had limited policy space to respond to these challenges. While Puerto Rico has to comply with US law and further restrictions imposed by its status as a territory, it is not fully eligible for the same federal benefits as US states, such as federal Medicaid reimbursements.

Under these circumstances, Puerto Rico faced a lost decade of economic growth. As its economy declined, Puerto Rico's government, which had access to US municipal bond markets, issued large amounts of debt to pay for basic services, such as its Medicaid program. When in 2015 Puerto Rico attempted to declare bankruptcy, the US Supreme Court ruled it could not do so on its own, partly due to its special political status as an unincorporated territory of the United States. Thus, in 2016, the US Congress passed the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), which granted control over Puerto Rico's fiscal decisions and debt restructuring process to the newly created Financial Oversight and Management Board of Puerto Rico (the Board).

1 Velázquez, Serrano, Hoyer, Crowley, et al., letter to Paul D. Ryan (2017).
2 Bhatia, letter to Donald Sundquist (2005).
3 Merling, Cashman, Johnston, and Weisbrot (2017).

The Board certified a ten-year austerity plan in a failed bid to please creditors, who rejected it nonetheless. As Puerto Rico currently fights for debt restructuring in court, the overall prospects for its economy are grim. The certified fiscal plan calls for severe spending cuts along with tax increases that will likely result in at least another decade without economic growth.[4] People on the island have lower incomes, yet a higher cost of living than in the US overall, and as social indicators continue to worsen, large numbers of Puerto Ricans are moving to the mainland US.[5] The damage caused by the hurricane will only exacerbate this situation, and without a robust recovery program that addresses both the structural problems of the island, as well as assuring funding for necessary social services, more of the island's residents will be pushed to relocate. Without action from the US Congress, there is little hope that Puerto Rico's government can raise funds to cover expenses for its Medicaid program.

Medicaid in Puerto Rico: Essential, Yet Underfunded

The Medicaid program was created, alongside Medicare, in 1965 as part of an amendment to the Social Security Act to provide health coverage for low income people in the US.[6] In Puerto Rico, over 40 percent of the population is enrolled in Medicaid, a much higher rate than the US average of about 20 percent. This is consistent with the much higher incidence of poverty on the island (46 percent, as compared to less than 15 percent for the US overall).[7] Despite Puerto Rico's higher dependence on the program, the territory receives less support than US states from the federal government to cover its costs.

Each state and territory manages its own program under established federal guidelines, and the federal government provides reimbursements for part of the expenses incurred. For states, the federal government covers between 50 and 83 percent of the costs, following an established "Federal Medical Assistance Percentage" (FMAP) that is based on per capita income in the state.[8] The formula does not

4 Ibid.
5 Ibid.
6 Medicaid.gov, "Program History."
7 US Census Bureau (2016).
8 MACPAC, "Matching rates."

apply to territories, which have a fixed FMAP rate of 55 percent, regardless of income. If Puerto Rico's FMAP were calculated using the same formula as for states, it would be at the maximum level of 83 percent.[9]

However, there is another hard cap on Medicaid funding available for Puerto Rico that was imposed by the US Congress in 1968, and that has not kept up with the increase in the costs and size of the program. In 2012, the ACA raised the FMAP rate for US territories to 55 percent from 50 percent, which made no difference for Puerto Rico, given that the much lower hard cap was left in place. In 2016, Puerto Rico spent $2.46 billion on Medicaid, but the cap was $335.3 million,[10] which means the effective reimbursement rate was less than 14 percent, significantly lower than both the 55 percent rate set for territories, and the 83 percent Puerto Rico would qualify for if it were treated the same way as states.[11]

To address the immediate shortfall in funding, in 2012 the ACA offered a one-time grant of $6.4 billion for Puerto Rico to fund its Medicaid program. The grant has helped keep the program afloat for the past six years, yet this solution was only temporary and the money will run out at the end of 2017. Without immediate action from the US Congress, Puerto Rico is only eligible to receive $357.8 million in 2018, regardless of how much it would need to spend on the program.[12]

In 2016, Puerto Rico received $1.63 billion in support from the federal government, an effective reimbursement rate of 66.2 percent. The amount received includes the ACA grant, which is set to run out after 2017.

9 Congressional Task Force (2016).
10 Ibid.
11 MACPAC, "MACStats."
12 Mach (2016).

TABLE 1

Medicaid Payments, 2016 (millions)	Federal Reimbursement	Cost to Puerto Rico	Reimbursement Rate*
Federal Cap	$335.5	$2,126.5	13.6%
With ACA Grant	$1,630.0	$832.0	66.2%
Territory FMAP	$1,354.4	$1,107.6	55.0%
State Formula	$2,043.9	$418.1	83.0%

* Out of total cost for 2016 of $2,460 million.
Source: MACPAC, "MACStats" and authors' calculation.

Table 1 illustrates the different ways the cost of the Medicaid program in 2016 could have been split between the federal government and Puerto Rico, depending on what reimbursement rule is applied. Without the ACA grant, under the hard cap that is currently in place, Puerto Rico would have only received $335.5 million from the federal government, an effective reimbursement rate of 13.6 percent. In 2016, thanks to the ACA grant, the effective reimbursement rate was 66.2 percent. This is a higher rate than under the official FMAP for territories but is still a much lower amount than what Puerto Rico would receive if it were reimbursed under the same formula that applies to states.

If Puerto Rico were treated equally to states, it would have received $2,043.9 million in 2016. The hard cap imposed on federal support for Medicaid in Puerto Rico means that without the one-time ACA grant, Puerto Rico would spend five times more on Medicaid than it would if it were a state. Furthermore, even with the ACA grant, Puerto Rico still paid twice as much as it would have under the state reimbursement formula. Prior to the ACA grant, the government of Puerto Rico, despite its fragile economy, covered most of the costs of the program by issuing bonds, an option no longer available for the territory in 2018.

Cost of Medicaid Coverage for Puerto Ricans: On the Island Versus Stateside US

With no end in sight for Puerto Rico's woes, the pattern of out-migration to the mainland US is expected to continue over the next decade. In the past ten years, Puerto Rico has lost about 10 percent of its population. Over the past five years, the population has decreased at an average yearly rate of 1.66 percent.[13] Give the massive devastation caused by the storm, the lack of access to basic services,

13 IMF (2017).

and the impending Medicaid cliff, out-migration is likely to accelerate. As US citizens, Puerto Ricans are fully eligible for Medicaid when moving to states. Thus, when Medicaid beneficiaries migrate, the cost of providing medical services is borne by the federal government, along with the states that people relocate to.

Overall, the cost of living is higher in Puerto Rico than the US average,[14] due to high energy and transportation costs. However, health care services are the only item that is significantly less costly on the island.[15] These lower costs mean that providing services in Puerto Rico is significantly cheaper than in the stateside US. It makes more sense, economically, for the federal government to provide higher reimbursements for Medicaid in Puerto Rico than to states that would otherwise take on the extra patients.

Using known migration patterns from US Census data, and migration trends from the last five years, we estimate the number of Puerto Ricans eligible for Medicaid that would relocate over the next ten years. Based on 2016 Medicaid spending in each state, we calculate the cost of providing Medicaid services for those Puerto Ricans who relocated. Note that these estimates do not account for any increase in the cost of Medicaid, and are thus likely on the lower end.

Assuming out-migration continues at the same pace as the last five years, an overly optimistic scenario given the current situation, an estimated 207,154 Medicaid recipients would relocate to US states.

14 Instituto de Estadísticas de Puerto Rico (2016).
15 The lower costs are a result of lower wages for health care professional, as well as differences in services provided. However, the question of quality of care goes beyond the scope of this paper.

TABLE 2

Out-migration Continues at Same Pace as Five-year Average, Projected Medicaid Spending 2018–2027 (millions)

	Federal Share	State Share
Florida	$1,219.6	$787.3
Pennsylvania	$633.2	$415.7
New York	$546.4	$447.4
Massachusetts	$444.0	$371.1
Texas	$402.3	$294.9
New Jersey	$326.8	$209.9
Connecticut	$306.2	$211.0
Illinois	$73.7	$49.5
California	$69.9	$39.9
All Other	$5,681.6	$3,319.3
Total	$9,703.7	$6,145.9

Source: MACPAC, "MACStats," Meléndez and Vargas-Ramos (2017), IMF (2017), and authors' calculation.

Table 2 illustrates the projected Medicaid costs to insure eligible Puerto Ricans who move over a ten-year period, assuming the rate remains the same as over the last five years. The spending is broken down by the share covered by the federal government, and by each individual state. Overall, the federal government would pay $9.7 billion, and among the states the cost would be $6.1 billion over the ten-year period. In terms of individual states for the ten-year period, Florida, as the top destination for Puerto Ricans, would have to spend about $787 million. Other states that would incur high costs are New York with $447 million, Pennsylvania with $416 million, Texas with $295 million, Connecticut with $211 million, and New Jersey with $210 million.

Given the worsening situation in Puerto Rico, barring a large-scale recovery program, it is reasonable to expect that the pace of out-migration will accelerate. If out-migration were to double, and 414,310 Medicaid recipients relocate over the next ten years, the total cost for the federal government shoots up to $19.4 billion, and to $12.3 billion for all the states. Given the devastation from the hurricane and continuing austerity program, this may also prove to be an overly-optimistic scenario.

TABLE 3

Cost Differential for Medicaid 2018–2027 (millions)	Total Cost in Puerto Rico	Total Cost on US Mainland	Difference
Same Migration	$3,924.0	$15,849.6	$11,925.6
Out-migration Doubles	$7,847.9	$31,699.2	$23,851.3

Source: MACPAC, "MACStats," Meléndez and Vargas-Ramos (2017), IMF (2017), and authors' calculation.

Table 3 illustrates the total cost, over the ten-year period, of providing Medicaid for Puerto Ricans that would relocate under each scenario on the mainland, versus the cost of covering the same number of beneficiaries in Puerto Rico. The difference is striking: the cost of coverage is four times higher on the mainland than in Puerto Rico. While there are differences in the quality of services provided, and Puerto Rico's health system has suffered yet another shock from the hurricane, these issues are beyond the scope of this paper. Overall, there is clearly room for improvement in services, while keeping costs down in Puerto Rico. Simply providing fair funding to Puerto Rico's Medicaid system would end up saving billions for both the federal and state governments that would otherwise provide services to people pushed to relocate from the island.

Conclusion

As Puerto Rico struggles to recover from the massive destruction caused by Hurricane Maria, and its debt saga continues to unfold, residents of the island are paying the price for decades of misguided economic policies, mostly decided in Washington, DC, that have failed Puerto Rico. With bleak economic prospects and the uncertainty brought by the storm, we can expect more Puerto Ricans to be reliant on the island's Medicaid program. While securing funding for Medicaid in Puerto Rico will not solve its ongoing crisis, not doing so will surely deepen the crisis and further punish the most vulnerable.

The US Congress has a number of options to address Puerto Rico's Medicaid cliff, but the perils of doing nothing — in both humanitarian and fiscal terms — are clear. Allowing the collapse of Puerto Rico's Medicaid program would result in billions of dollars in additional costs to the federal government as well as to states such as Florida, Pennsylvania, New York, and Massachusetts. Congress has an opportunity now to both save lives in Puerto Rico and save itself money in the long term.

One thing Congress could do is to remove the arbitrary and dated cap imposed on Medicaid reimbursements, allowing Puerto Rico to receive a reimbursement of 55 percent. Given Puerto Rico's dire economic situation, however, it is likely that this level of support would still result in significant cuts to Medicaid. Alternatively, Congress could authorize additional short-term grants to Puerto Rico, such as it did for the past six years. This may help cover the financing gap, but will do little to address the long-term unsustainability of Puerto Rico's Medicaid program.

In a time of hardship and crisis for Puerto Rico, Congress needs to rapidly act and show their solidarity for Puerto Ricans by supporting immediate relief efforts, as well as assuring funding for Medicaid, a program essential to so many residents. For that, the simplest and most sustainable solution is for Congress to grant Puerto Rico the same treatment as states regarding Medicaid reimbursements. This would ensure continuing coverage for Puerto Rico's most vulnerable citizens, and over the next decade would be expected to save the federal and state governments as much as $23.9 billion.

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