ASPE
DATA POINT

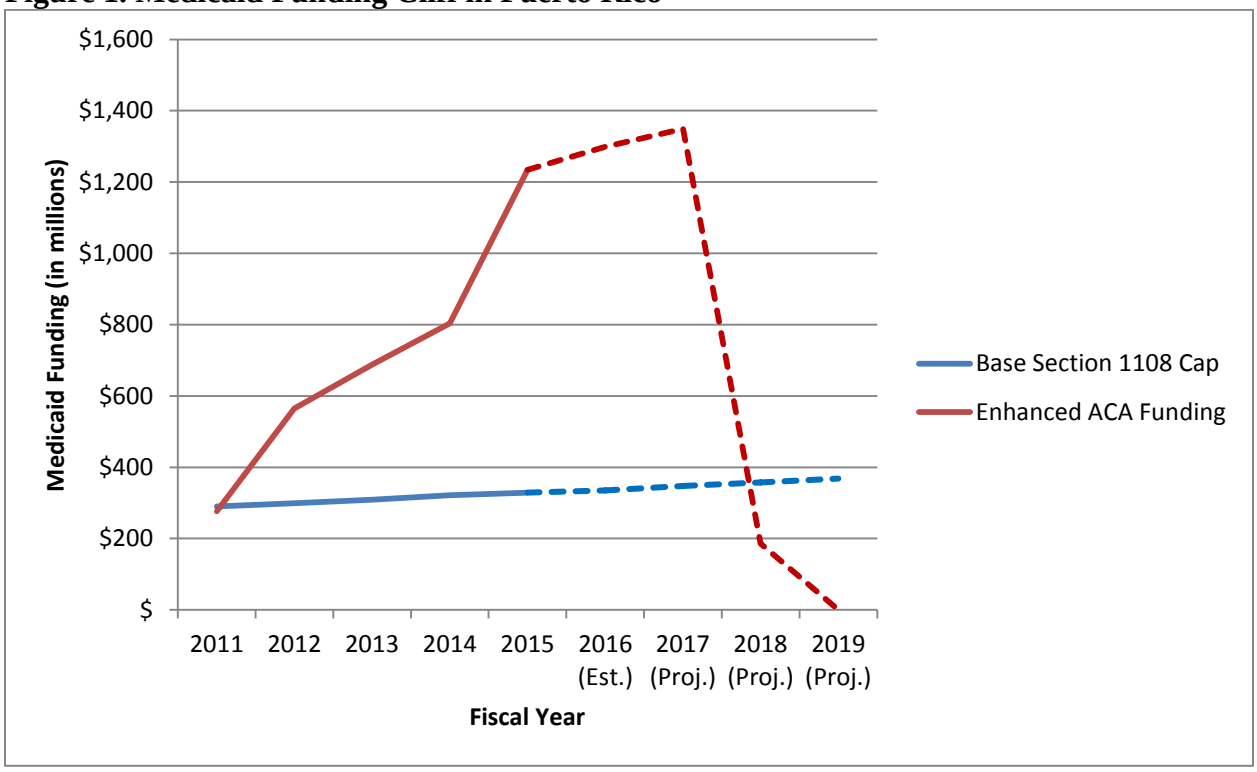
Nearly 900,000 Puerto Ricans May Lose Health Coverage When Medicaid Funds Run Out

January 12, 2017

Puerto Rico's Medicaid program is projected to exhaust the last of the $6.4 billion additional funds allocated it for Federal Fiscal Years (FY) 2011-2019 as early as the first quarter of FY 2018. As many as 900,000 American citizens covered by Medicaid in Puerto Rico could lose coverage as a result of the depletion of these funds.

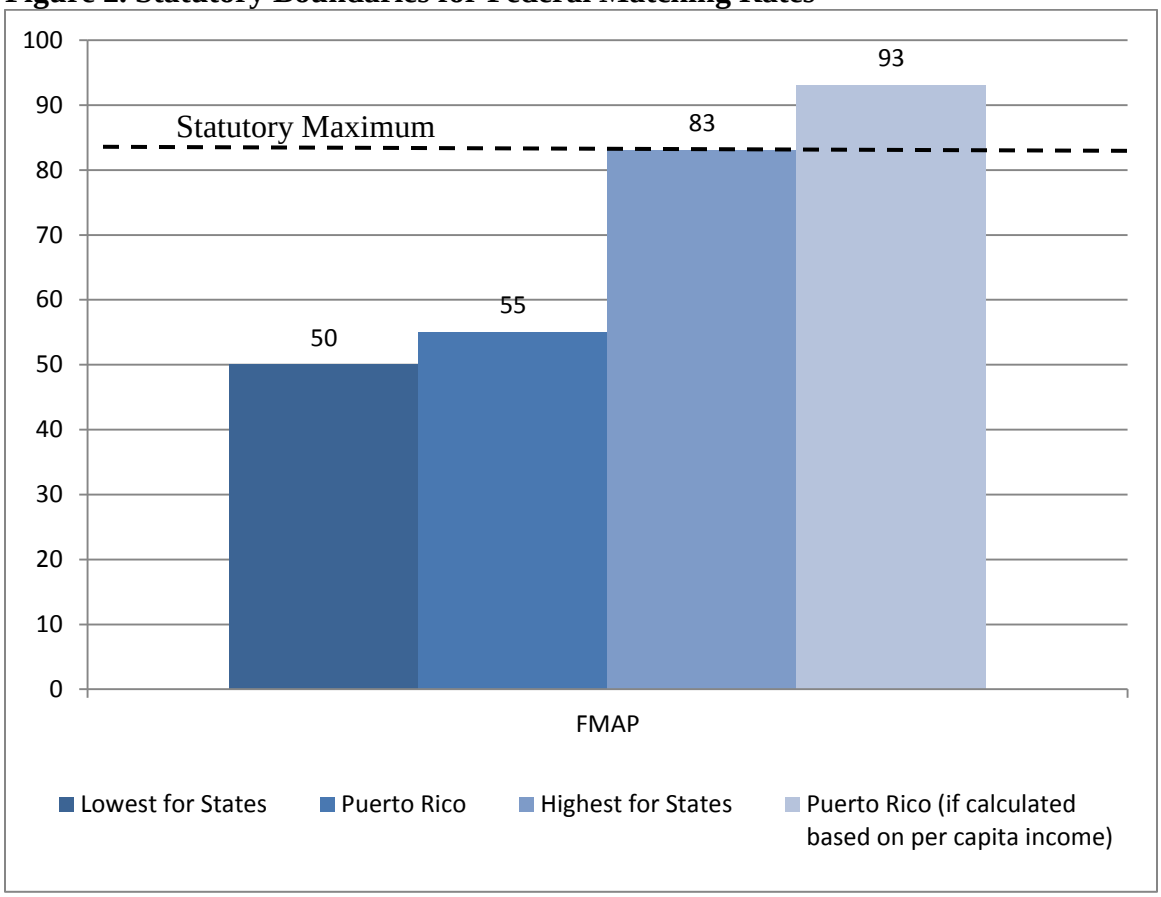
Medicaid – the primary source of coverage for low-income families, qualified pregnant women and children, and individuals with disabilities – operates differently in U.S. territories than in the 50 states and the District of Columbia (DC). State Medicaid programs are provided an unlimited amount of available federal matching dollars as long as Medicaid agencies can demonstrate that the expenses are valid under the program's rules. In contrast, federal funding to Medicaid programs in the territories is capped. The territories are provided a fixed allotment of funds that increase with inflation. As illustrated in Figure 1, Puerto Rico's Medicaid funding in FY 2014 was capped by statute at $321 million.

Figure 1. Medicaid Funding Cliff in Puerto Rico



Additionally, the rate at which territories' expenditures are matched (known as the federal medical assistance percentage or FMAP) is set in statute rather than calculated by the per capita income formula used for the 50 states (see Figure 2). In Puerto Rico, Medicaid expenditures are matched at 55 percent compared to state FMAPs that range from 50 percent to about 75 percent for the poorest state, Mississippi. If calculated using the per capita income formula applied to the states, Puerto Rico's FMAP would be approximately 93 percent in the absence of a statutory upper limit. Consequently, it would receive the statutory maximum of 83 percent.

Figure 2. Statutory Boundaries for Federal Matching Rates



Beginning in 2011, Puerto Rico's Medicaid program had access to an additional allotment of funding (that is, funds in addition to the pre-existing Medicaid statutory cap). Totaling $6.4 billion, these additional funds are available until 2019. Puerto Rico, however, is on track to exhaust the additional ACA funding as early as the first quarter of FY 2018 (October-December 2017). When the funding expires, Puerto Rico will revert to the original statutory caps of less than $400 million shown in Figure 1. If the Commonwealth continues to contribute the same amount to its Medicaid program as it is contributing today, total spending would decrease to 44 percent less than would be required to maintain current enrollment (Figure 3), and 500,000 individuals would lose coverage (Figure 4). If, instead, Puerto Rico spends no Commonwealth funds above the amount necessary to obtain the maximum federal funding, total spending would be 80 percent less than what would be needed to maintain current enrollment, and enrollment would drop by nearly 900,000. (See the Appendix for a detailed description of how these estimates were calculated.)

Figure 3. Total Medicaid Spending

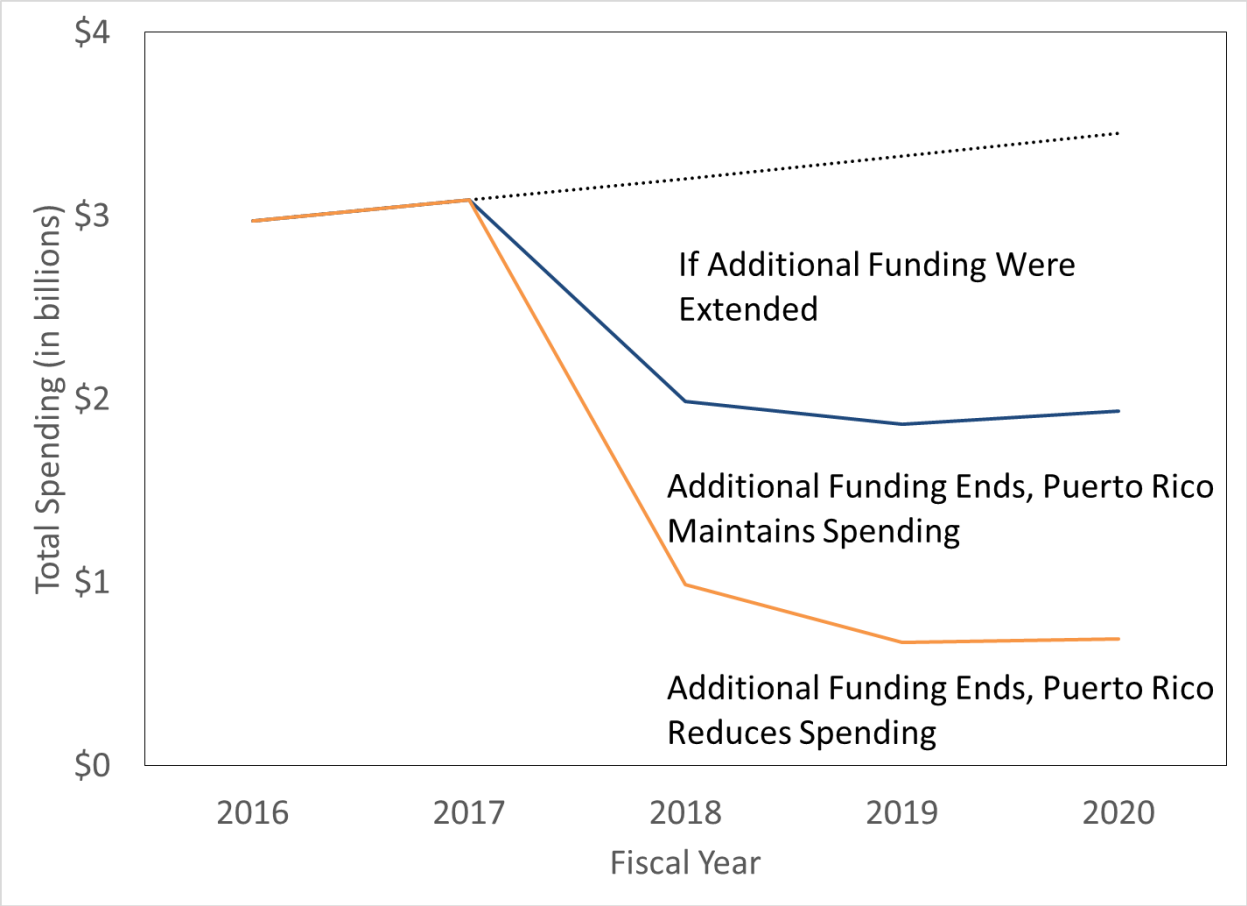
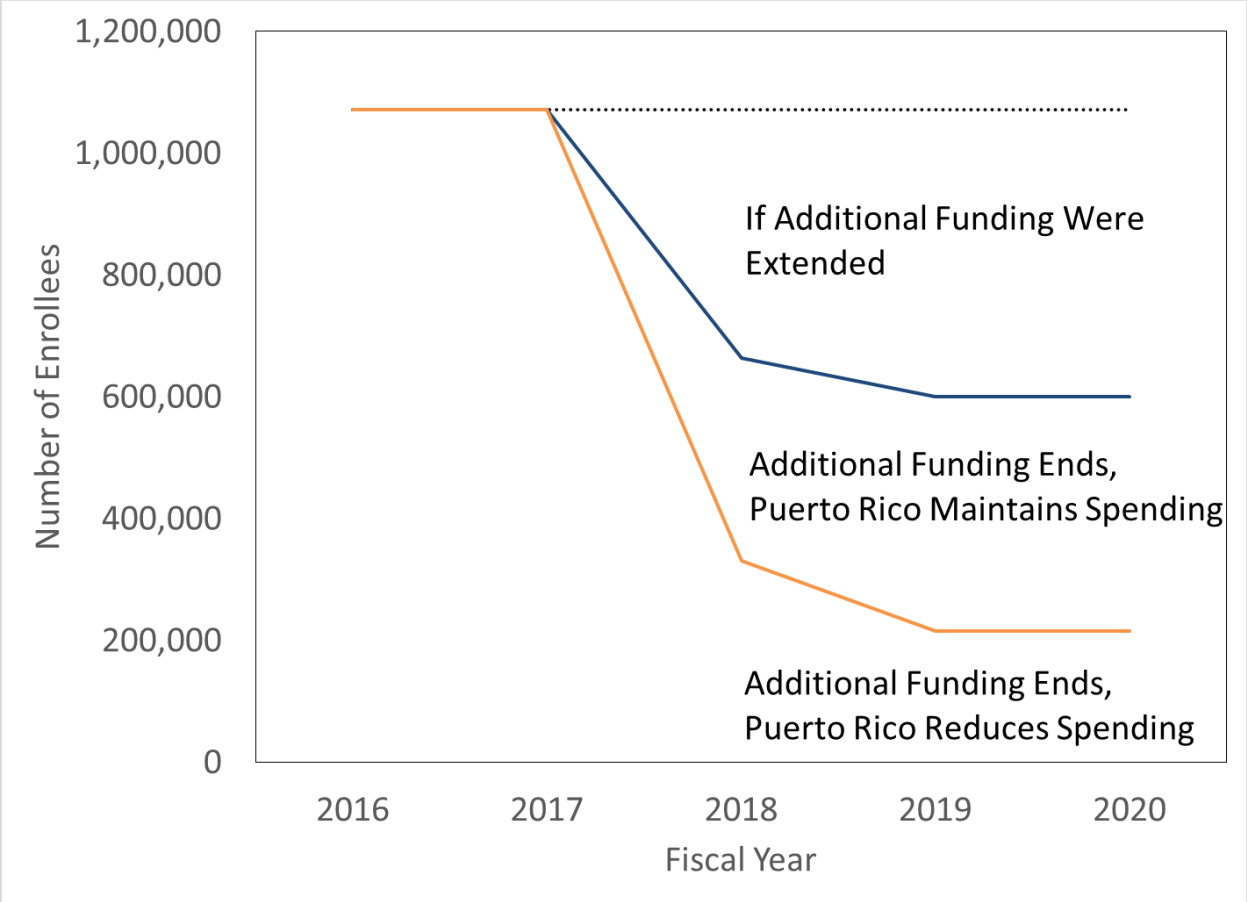
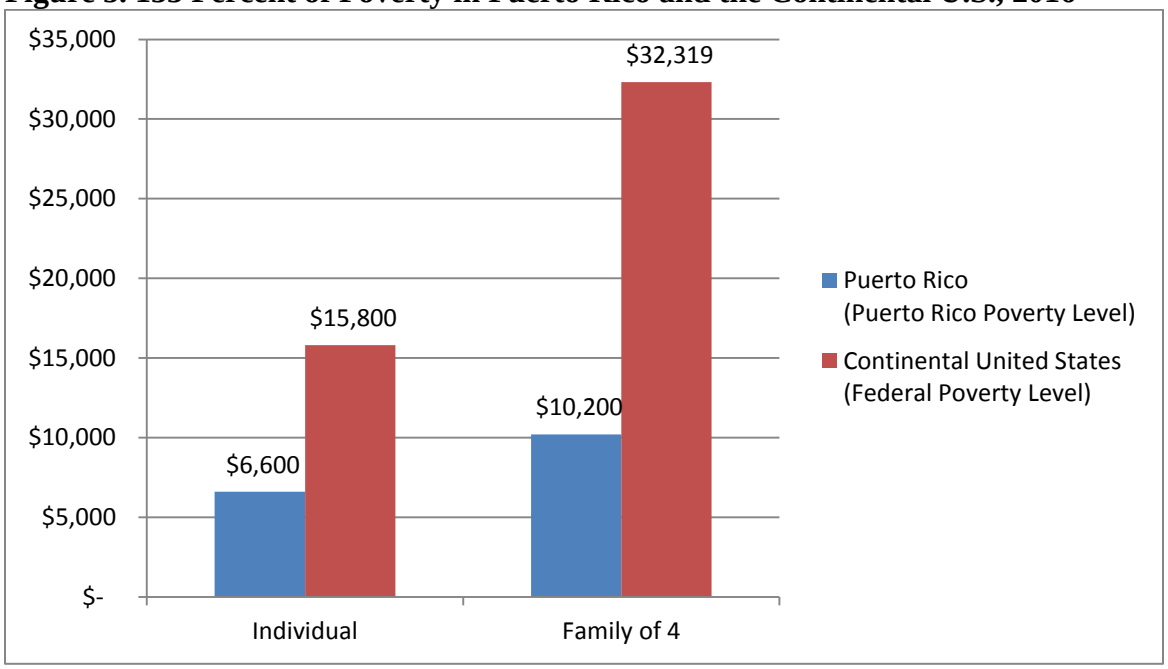


Figure 4. Medicaid Enrollment



This drop in enrollment would affect many of Puerto Rico's most vulnerable citizens. Puerto Rico provides Medicaid coverage to individuals with modified adjusted gross incomes of up to 133 percent of the Puerto Rico Poverty Level (PRPL), a local poverty level that is lower than the federal poverty level (FPL) used by most state Medicaid programs. As shown in Figure 5, this is currently $550 per month (approximately 56 percent of FPL) for a one-person family and $850 per month (approximately 42 percent of FPL) for a family of four (https://www.medicaid.gov/medicaid/by-state/puerto-rico.html). Adults with incomes at or below these levels are eligible without regard to parental status.

Figure 5. 133 Percent of Poverty in Puerto Rico and the Continental U.S., 2016



Appendix: Background and Methods

In September 2016, the most recent month for which data are available from the Centers for Medicare & Medicaid Services (CMS), 1,071,373 individuals, including about 330,000 children, were enrolled in Puerto Rico's Medicaid program, the Government Health Insurance Plan (GHIP). This figure does not include 91,116 children enrolled in the Children's Health Insurance Program (CHIP), which covers children with household incomes up to twice the Medicaid limits, or 166,461 people with Commonwealth-only funded coverage for public employees and some individuals with incomes above Medicaid eligibility limits. It also does not include 261,644 Medicare-Medicaid enrollees in Platino, a Medicare Advantage plan. Medicaid enrollment in recent years has generally been stable.

As is true for the other U.S. territories (American Samoa, Guam, the Commonwealth of the Northern Mariana Islands, and the U.S. Virgin Islands), Puerto Rico's Medicaid funding is subject to different provisions than those that apply to the states. FMAP is set by statute, rather than based on per capita income. Before the ACA, this rate was set at 50 percent, the same rate that is applied to the highest-income states, even though Puerto Rico is poorer than any state, and would qualify for the maximum 83 percent FMAP if it were a state. Moreover, territorial spending is only matched at the statutory FMAP up to a statutory cap that is typically reached in the first quarter of the fiscal year.

The ACA made three changes to these arrangements. First, FMAP for the territories was permanently increased from 50 percent to 55 percent. Second, under Section 2005, the territories collectively received $6.3 billion for spending above their statutory caps, available between July 1, 2011 (after similarly purposed monies under the American Recovery and Reinvestment Act ended) and September 30, 2019. Puerto Rico, which accounts for the bulk of the population in the five territories, received $5.5 billion under Section 2005. Third, under Section 1323, the territories collectively received another $1 billion for Medicaid spending above their caps in lieu of funding for individuals enrolling in the exchanges that none of them elected to establish. Puerto Rico received $925 million under Section 1323, to be spent after exhausting the Section 2005 funds. Puerto Rico and the other territories must spend Section 1323 funds by December 31, 2019.

The limitation of federal matching funds up to the level set by the statutory cap plus the Section 2005 and 1323 funds, if available, does not apply to children covered under CHIP. Spending on Medicare-Medicaid dual enrollee prescription drug coverage under the Enhanced Allotment Plan funding provided to U.S. Territories in lieu of a Medicare Part D Low-Income Subsidy is also not counted against the limitation on federal matching funds.

We used the enrollment and expenditure data provided by CMS to model two different scenarios for the exhaustion of Puerto Rico's Section 2005 and 1323 funds. In Scenario 1, Puerto Rico spends the same amount of territorial funds in FY 2018 as in FY 2017, with an adjustment for inflation of 3.8 percent based on the change in per enrollee spending from FY 2015 to projected FY 2016 spending. In Scenario 2, Puerto Rico spends no unmatched Commonwealth funds. Both scenarios assume that Puerto Rico responds to reduced funding by reducing coverage (for example, by lowering income eligibility limits or by imposing an enrollment cap) rather than by

reducing benefits for those who are covered, which already include only 10 of the 17 categories that are mandatory for the states and the District of Columbia.

We assumed the September 2016 Medicaid enrollment total for both FY 2016 and FY 2017. FY 2016 Federal spending is based on the amount of the statutory cap plus the projected draw on Section 2005 funds. FY 2017 Federal spending is based on the amount of the statutory cap (which includes an inflation adjustment) plus the projected exhaustion of Section 2005 funds, and then an initial draw from Section 1323. Puerto Rico spending is based on Federal spending multiplied by the Commonwealth/Federal FMAP ratio of .45/.55 = .82. With total enrollment held constant, total spending and total spending per enrollee increase by the same assumed 3.8 percent inflation adjustment between FY 2016 and FY 2017. Because the additional funding from the ACA funding fully covers enrollment at current levels for these years, the estimates for FY 2016 and FY 2017 are the same for Scenario 1 and Scenario 2.

Coverage deteriorates in FY 2018 due to the expected exhaustion of Section 1323 funding during the first quarter, with further deterioration in FY 2019 and FY 2020 when the Section 1323 funding is completely unavailable, so that the only ACA provision still in effect is the FMAP increase. In Scenario 1, Federal spending is based on the amounts available from the cap plus Section 1323 (FY 2018 only), and Commonwealth spending is assumed to be the same as in FY 2017, plus the 3.8 percent inflation adjustment in each successive year. We estimated the number of enrollees in each year by dividing the available Federal and Commonwealth funding by total spending per enrollee. Under these assumptions, total funding for FY 2019 falls to 56 percent of what is needed to maintain coverage and benefits and 470,426 individuals lose coverage. The estimated number of people losing coverage grows to 471,342 in FY 2020 because the scheduled 3.0 percent increase in the Federal funding cap is below the assumed 3.8 percent annual increase in spending per enrollee.

Scenario 1 is consistent with Commonwealth policy before the Recovery Act and ACA, when Federal funds covered about 16 percent of annual expenditures, as opposed to the 50 percent that would be expected if the Commonwealth spent only enough to get the maximum Federal match. In the context of the current economic crisis and fiscal controls, however, Commonwealth officials might decide to use scarce resources for competing priorities such as physical infrastructure or debt payments rather than for Medicaid and spend only up to the amount needed to obtain the maximum Federal match (Scenario 2). Coverage outcomes under Scenario 2 are much worse than in Scenario 1 because the exhaustion of Federal funding above the statutory cap also reduces Commonwealth spending. By FY 2019, total spending falls to 20 percent of what would be needed to maintain coverage and benefits, and 855,321 individuals lose coverage. The estimated number of people losing coverage grows to 856,237 in FY 2020, again because the scheduled 3.0 percent increase in the Federal funding cap is below the assumed 3.8 percent annual increase in spending per enrollee.