Proposed Federal Tax Policy Promoting Economic Recovery and Healthcare Parity In Puerto Rico

Congressional Task Force
Briefing Book
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Introduction

On June 30,2016, the Puerto Rico Oversight, Management, and Economic Stability Act, hereinafter known as PROMESA, was enacted to provide for a short-term solution to the ongoing fiscal crisis of the Commonwealth of Puerto Rico. PROMESA provided a limited debt restructuring mechanism for the Commonwealth through the creation of an Oversight Board. The Act also created a bicameral Congressional Task Force to report on impediments in current federal law to economic growth in Puerto Rico.

This document is created to provide the Members of the Congressional Task Force and other stakeholders the necessary information related to the tax and healthcare policy changes that both the Commonwealth and a coalition of the private sector seek at the federal level. Such policy changes would create economic development tools and provide the necessary healthcare funding to secure the long-term fiscal and economic stability of the Commonwealth.

Chapter One: Tax Policy

I. Executive Summary

Over the past decade, Puerto Rico has been facing a deepening fiscal and economic crisis. The challenges of the Commonwealth of Puerto Rico call for long-term solutions based on economic growth. Such solutions should address the debt issue and provide a framework to handle it in an orderly manner. However, no restructuring process could be successful if the Commonwealth is not also provided with the tools that for decades proved to foster economic development, jobs and growth. Congress can, using proven tax policy, provide Puerto Rico with the tools necessary to jump-start its economy, increase tax collections and pay off creditors.

The recessionary period in Puerto Rico -and therefore its amplified debt- have been a direct consequence of the lack of a federal tax policy recognizing the unique and significant relationship between the U.S. and Puerto Rican economies. Notwithstanding the fact that Puerto Ricans are U.S. citizens, absent the inclusion of an explicit policy to the contrary, the U.S. tax Code treats Puerto Rico as a foreign country. Since 1921, Congress has recognized the absurdity of this assumption and provided specific provisions to remedy this inconsistent tax treatment. However, this critical treatment came to an end in 2006 with the full expiration of section 936. Ever since, the Commonwealth has been left without such comprehensive tax policy.

The efforts to address the financial woes of Puerto Rico should restore an explicit provision in the U.S. tax code that corrects the baseline assumption that Puerto Rico should be treated as a foreign country. Implementation of such a tax policy would restore the historical relationship between Puerto Rico and the United States and promote the long-term sustainability of the Commonwealth's economy. Such policy should ultimately pursue the objective of driving significant new economic activity to Puerto Rico through private investment and jobs, in order to help the central government increase its revenue base through renewed sources of income.

The growth proposal presented here would create a strong incentive for businesses to operate in Puerto Rico, restoring the investment and jobs lost to other countries as a result of the expiration of section 936 and ensuring Puerto Rico maintains an advantage over other foreign jurisdictions. Specifically, the proposal would:

- Exempt 85% of income earned in Puerto Rico from the second layer of tax when that income is repatriated back to the United States.
- Would reduce the rate of U.S. corporate tax on the residual amount of that income subject to tax by 50%, thereby ensuring that Puerto Rico has an advantage over other jurisdictions assuming the U.S. provides an

exemption to repatriated income from other countries at sometime in the future.

- Ensure that there would be no net revenue loss to the U.S. Treasury by imposing new limitations on the ability of taxpayers to claim foreign tax credits against the repatriated income, and by mandating a repatriation of earnings currently trapped in Puerto Rico as a result of its treatment as a foreign tax jurisdiction.

This proposal would significantly increase investment and economic growth in Puerto Rico. Applying economic analysis consistent with that used by the Congressional Budget Office, this proposal is estimated to generate an additional $7.3 to $16.3 billion in new investment in Puerto Rico. Over a ten-year period, the policy would foster the creation of approximately 100,000 new jobs and would drive and increase in GNP growth of between 0.6% and 1.5% annually. This additional economic growth and job creation would drive an increase in Puerto Rico tax receipts by approximately 10 percent, or an additional $6-$9 billion that can be used to pay down Puerto Rico's debt. Also, the mandatory repatriation would result in the repatriation of approximately $120 billion back to the U.S. for investment and job creation on the mainland.

II. Background

Puerto Rico is in the midst of its worst economic crisis since the Great Depression. Contrary to some popular belief the large debt accumulated by Puerto Rico is not the cause of this economic crisis but is rather one symptom of a crisis brought about by the collapse of economic growth. Economic experts and bondholders agree that the root cause of the rapid erosion of Puerto Rico's debt is the collapse of economic growth that followed the elimination of Section 936 of the US Tax Code.

About 20 years ago, economist Norman B. Ture, of the Institute for Research on the Economics of Taxation, warned of the damage that would result from any negative action by the U.S. Congress on Section 936: "Curtailing these tax incentives threatens to bring this progress (Puerto Rico's) to a halt with attendant increases in political and social unrest." A full decade of recession and stagnation—the true engines of the debt crisis—attests to the accuracy of Dr. Ture's admonition.

The beginning of Puerto Rico's current economic crisis can be dated to the year 2006, when section 936 fully expired. Since then, the island's economy has suffered a drastic contraction of total production, a depression-like decline in employment and a massive wave of outmigration. This is in stark contrast to the performance of the U.S. economy during the same period.

For example, in 2014 there were 660,500 non-farm jobs in Puerto Rico, which is 100,100 fewer jobs than in 2005, the year before the onset of the crisis. This is a 13% decline over a nine-year period. In contrast, the number of non-farm jobs in the U.S. mainland increased 4% during the same nine years, with a gain of more than 5 million new jobs. It is hard to imagine yet true that an economy the size of Puerto Rico's, with a total labor force of about 1.2 million people, has lost more than 100,000 jobs in less than a decade.

The real Gross National Product of Puerto Rico—the measure of the economy's total output of goods and services—declined 12.6% between 2005 and 2014—, equivalent to an annual decline of 1.5% per year during nine years. Few countries in the world have experienced such a prolonged and deep contraction in output. In contrast, the U.S. economy enjoyed growth of 12.1% in those nine years, even though there was a major recession in 2009. So, Puerto Rico's economy has been shrinking at a rate of 1.5% per year at the same time that the U.S. economy has been expanding at 1.3% annual pace.

The U.S. economy has seen a strong comeback in the housing construction industry after the 2009 recession, which was caused to a large extent by the bursting of a real estate bubble. Puerto Rico had a similar disruption of the real estate market, but, contrary to the U.S. experience, the construction industry on the island is still depressed. From 2010 to 2014, the value of housing construction in Puerto Rico declined a dramatic 50%, while housing construction in the U.S. increased by a healthy 44%.

Another indicator of how hard the economic contraction has hit Puerto Rican families is the behavior of auto sales. Prior to the start of the recession, new car sales reached a high of 120,000 and used to average somewhere above 100,000. Today, sales have declined to approximately 80,000, roughly one-third less than the pre-936 expiration period.

All of this has caused a large number of Puerto Ricans to seek better employment and income opportunities in the 50 states, leaving the island in large numbers. According to the Bureau of the Census, Puerto Rico lost 173,130 inhabitants between 2010 and 2014, and more recent data show that emigration continues at the same high rate. In contrast, the total U.S. population grew 3.1% between 2010 and 2014, with a net gain of 9.5 million.

In 2005, the last year before the full phase-out of Section 936, manufacturing firms in Puerto Rico accounted directly for 115,000 high-quality and well-paid jobs. Considering the sector's multiplier effect in the island's economy, there were easily another 100,000 jobs generated indirectly and/or induced by manufacturing activity. In 2014, the number of direct jobs in manufacturing was down to 74,200, showing a loss of more than 40,000 high-powered employment opportunities. During the same period, the number of nonfarm payroll jobs on the island declined by almost 150,000, doubtless reflecting the negative multiplier effects of the ongoing deindustrialization process. At its peak in 1995, just before the move to strike down the Section, direct manufacturing employment was at 160,000; today it is less than one-half of that number, for a total loss of nearly 90,000 jobs. It is a telling fact that direct jobs in manufacturing started to decline right after the elimination of Section 936.

As noted above, the downhill path of Puerto Rico's economy in the post-936 decades has led to depression-like depths in economic activity and to previously unthinkable extremes of fiscal and financial stress. A point has been reached where there is no alternative to deploying a new growth strategy to overcome the present emergency and put the local economy back in a path of convergence with the U.S. economy. Without such a strategy, the current courageous efforts to stabilize the government's finances will be doomed to eventual failure. U.S. tax incentives for continued industrial development in Puerto Rico must be a cornerstone of the new strategy.

III. Proposal

The proposed tax policy would provide additional incentives for investment and job creation in Puerto Rico. It is based on well established, and effective tax policy that reflects both recent bipartisan proposals and tax policy adopted by many other developed countries.

Specifically, the proposal provides an incentive for companies that invest in Puerto Rico to repatriate income back to the mainland U.S. by granting an 85 percent exemption against the second layer of U.S. tax. Thus, if a U.S. company earns $100 in Puerto Rico and repatriates that money back to the United States, it is subject to U.S. tax on only 15 percent, or $15 dollars. This exemption structure eliminates the lock out effect that keeps income trapped in Puerto Rico and instead encourages U.S. companies to bring that income back to the United States.

This exemption structure is consistent with the bipartisan recommendations in such proposals as the Portman-Schumer international tax reform white paper, the Bowles-Simpson report from the National Commission on Fiscal Responsibility and matches the structure that most other developed countries have adopted.

Anticipating that the U.S. will eventually enact broader international tax reform that applies to all foreign tax jurisdictions, the proposal also reduces the tax rate paid on the portion of the repatriated income still subject to tax by 50 percent. Thus, after broader tax reform is enacted, U.S. companies will still have an incentive to pick Puerto Rico over other foreign jurisdictions when deciding where to invest abroad.

In order to reduce the fiscal impact on the U.S. Treasury and to ensure the proposal does not allow companies to manipulate it to reduce taxes on income earned outside of Puerto Rico, the proposal will establish limits on the use of foreign tax credits. This effectively prevents U.S. companies from using credits against taxes paid in Puerto Rico to reduce the taxes owed on income earned in third-countries.

IV. Economic Estimates

Economist Juan Lara estimated two scenarios that present estimates of incremental tax revenues for the Puerto Rico Treasury as a result of the implementation of the proposed U.S. tax incentive for economic development in Puerto Rico. These estimates were subsequently reviewed and verified by Puerto Rico's Department of Treasury.

Estimate A used the following procedure:

1. Eligible companies were assumed to increase their direct employment in Puerto Rico by 50,000 jobs in a ten-year window (2016-2025). This means recovering slightly less than 60% of the 86,000 direct jobs lost in manufacturing during 1995-2014.
2. An input-output multiplier of 2 is applied to obtain a total increase in employment of 100,000 in the ten-year window. New jobs are assumed to start in the third year after the enactment of the incentive, so the 100,000 new jobs are spread over an eight-year period at the rate of 12,500 per year.
3. The trend ratio of GNP-per-worker is applied to generate the increment in real GNP resulting from the new jobs.
4. Real GNP is converted to Nominal (or current-dollar) GNP and then increased at a 2.0% trend annual inflation rate.
5. The increment in Nominal GNP over a baseline projection is calculated.
6. An average tax take of 12.26% is applied to the increment in Nominal GNP to obtain the increment in tax revenues. The 12.26% parameter is taken from the fiscal estimations in the Krueger Report.

The result is an increase in tax revenues of $8.85 billion over ten years, or an annual average of $885 million. This is a macro estimate that would capture all direct and indirect effects of the new investment.

Estimate B applied the same procedure used in the previous estimate, but applying the GNP growth impact estimated by economist Warren Payne, developed using the economic modeling techniques employed by the Congressional Budget Office (CBO).

1. Relying on the general economic literature and CBO's published economic assumptions, the amount of incremental investment by eligible companies that would result from the tax incentive was calculated.
2. The economic impact of this incremental investment by eligible companies was converted into an incremental increase Puerto Rico real GNP using a range of multiplier values.
3. This analysis yielded a total incremental increase of 6.2% in Puerto Rico real GNP over the ten-year window, equivalent to an annual average gain of 0.6%.

4. This increase in real GNP gain was converted to Nominal GNP gains and the increment in tax revenues was calculated following steps 4, 5 and 6 in the previous section.

The result is an increase in tax revenues of $6.31 billion over the ten-year window, or an annual average of $631 million. Like the previous estimate, this is also a macro estimate that would capture all direct and indirect effects of the new investment.

Table 1 below presents the details of the calculations for Estimate A and Estimate B.

TABLE 1

DETAILS OF ESTIMATE A

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Ten Year Total	Annual Average
Incremental Employment	0	0	0	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	100,000	10,000
Real GNP per Worker ($)	6,417.6	6,417.6	6,462.1	6,507.0	6,552.2	6,597.6	6,643.4	6,689.5	6,736.0	6,782.7	6,829.8	n.a	n.a
Real GNP (Million $)	6,328.0	6,264.7	6,264.7	6,346.0	6,427.9	6,510.4	6,593.5	6,677.1	6,761.3	6,846.1	6,931.4	71,951.1	7,195.1
%	-1.0%	-1.0%	0.0%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.2%	n.a	n.a
Nominal GNP (Million $)	70,585.6	71,277.4	72,702.9	75,119.8	77,611.1	80,179.0	82,825.7	85,553.6	88,365.1	91,262.7	94,248.8	889,731.6	88,973.2
Nominal GNP in Baseline (Million $)	70,585.6	71,277.4	72,702.9	73,284.5	73,870.8	74,461.8	75,057.5	75,657.9	76,263.2	76,873.3	77,488.3	817,523.1	81,752.3
Increment in Nominal GNP (Million $)	0.0	0.0	0.0	1,835.3	3,740.3	5,717.2	7,768.2	9,895.7	12,102.0	14,389.4	16,760.5	72,208.5	7,220.8
Increment in Tax Revenue (Million $)	0.0	0.0	0.0	225.0	458.6	700.9	952.4	1,213.2	1,483.7	1,764.1	2,054.8	8,852.8	**885.3**

DETAILS OF ESTIMATE B

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Ten Year Total	Annual Average
Real GNP (Million $)	6,328.0	6,264.7	6,264.7	6,302.5	6,340.5	6,378.8	6,417.3	6,456.0	6,494.9	6,534.1	6,573.6	70,355.1	7,035.5
%	-1.0%	-1.0%	0.0%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	n.a	n.a
Nominal GNP (Million $)	70,585.6	71,277.4	72,702.9	74,604.4	76,555.6	78,557.9	80,612.5	82,720.8	84,884.3	87,104.4	89,382.6	868,988.5	86,898.8
Nominal GNP in Baseline (Million $)	70,585.6	71,277.4	72,702.9	73,284.5	73,870.8	74,461.8	75,057.5	75,657.9	76,263.2	76,873.3	77,488.3	817,523.1	81,752.3
Increment in Nominal GNP (Million $)	0.0	0.0	0.0	1,319.9	2,684.8	4,096.1	5,555.0	7,062.9	8,621.2	10,231.1	11,894.3	51,465.3	5,146.5
Increment in Tax Revenue (Million $)	0.0	0.0	0.0	161.8	329.2	502.2	681.0	865.9	1,057.0	1,254.3	1,458.2	6,309.7	**631.0**

Chapter Two: Healthcare Funding

I. Executive Summary

The Commonwealth of Puerto Rico is in the midst of an economic and fiscal crisis. One of the crucial elements of such crisis is directly related to healthcare funding. Congressional action must be taken in order to strengthen federal healthcare programs in Puerto Rico and in other U.S. territories. Such steps would avoid a loss in coverage when one-time funds from the Affordable Care Act (ACA) run out, and to create a more rational alignment and balance of the territories with the Federal healthcare programs elsewhere.

The proposed changes would mitigate existing disparities on a system that is partially funded by collections coming from both residents of the mainland and the territories. Congress must act with extreme urgency to remove the cap on Medicaid funding in the Territories, gradually increase the Federal support territories receive through the Federal Medicaid match by transitioning them to the same level that is received on the mainland, and expand eligibility to 100 percent of the Federal poverty level in territories currently below this level. Also, legislation should be enacted to eliminate the ACA health insurance providers' fee (also known as HIT), establish reasonable minimum MA benchmarks, and eliminate the exclusion of the Part D Low Income Subsidy for beneficiaries residing in Territories. Through these proposals, there would be more equitable treatment in Federal healthcare programs for US citizens that reside in Puerto Rico. Moreover, these changes would directly impact the fiscal burden of the programs to the local government's general fund, and create a minimally reasonable healthcare platform, which is vital to support economic growth.

II. Background

There is one central issue when it comes to addressing the depressed healthcare economy of Puerto Rico. Federal healthcare programs, namely Medicare, Medicaid and the ACA, have been implemented partially and inconsistently for decades, when compared to the rest of the nation. Historic disparities have impacted a healthcare economy that today counts with only $3,500 per capita annually for healthcare, while the national average is $10,000. Operating within the US market and the general Federal program requirements, our system does pay higher than average prices for basic inputs like prescription drugs, medical devices, equipment, diagnostic testing, and utilities. Therefore, survival at such disparate funding levels has relied on severe limitations in the appropriate development of infrastructure, and of professional compensation and access to specialized care for our citizens. However, this scenario also presents a unique opportunity, where corrections to increase and balance funding levels in Medicare and Medicaid can have significant impact in the system, and in the economy, while still maintaining the most cost-effective Federal healthcare programs in the nation.

A primary issue when it comes to Federal funding of healthcare programs in Puerto Rico is related to the caps established to the Medicaid funding it comes to territories. Medicaid, the governmental health program for low-income individuals, is funded in part by the federal government and, in part, by the state or territory government. Currently, for states, there is no limit on the amount of federal funding provided for Medicaid as long as the state provides its share of matching funds. The federal contribution in such cases—known as an FMAP (Federal Medical Assistance Percentages)—ranges from 50 percent for the wealthiest states to 83 percent for the poorest states. For U.S. territories like Puerto Rico, the amount of federal funding for the Medicaid program is capped, leading to a lower standard of care than may be otherwise experienced on the mainland. As a consequence beneficiaries are offered fewer benefits; and the Federal government contributes less on a per-capita basis than it does to the rest of the Nation.

Through 2009, Puerto Rico's cap was only $260.4 million a year and the FMAP was just 50 percent. However, in 2010, Congress enacted the Patient Protection and Affordable Care Act (ACA), which rather than simply removing the cap, increased the Federal match rate and provided $6.3 billion above the territory funding caps between July 1, 2011 and the end of 2019. As a result, Puerto Rico now receives $1.1 to $1.3 billion a year in combined federal Medicaid funding, which will expire at the end of fiscal year 2019.

Although the provision made a major improvement, it was far less than what Puerto Rico would receive if it were a state. For example, the state of Oregon, which has roughly the same number of people as Puerto Rico with a much lower poverty level, receives $5 billion a year.

The situation and disparity is aggravated by the fact that currently the Puerto Rico government has less than $2.9 billion (FFY 2015) of its $6.3 billion allocation in funding remaining, and could deplete this funding as soon as next year, in December 2017. If this funding is not replenished, Puerto Rico will go back to receiving approximately less than $400 million in Federal funding a year. The consequences would have a devastating impact on healthcare services for the 3.5 American citizens that currently live in the Commonwealth. Basically, the government would have to find over $1.3 billion more in local funds, or cancel coverage to hundreds of thousands of poor citizens. Conversely, Medicaid parity at 83% FMAP could alleviate approximately $500 million in current expenses from the Puerto Rico government's general fund.

There are three other significant issues related to equitable treatment in Federal healthcare programs that directly impact the government's budget, and the PR economy: the incongruent applicability of the health insurance tax, the increasing cuts in Medicare Advantage (MA), and the exclusion from the Part D Low Income Subsidy (LIS).

There is a basic conflict in the applicability of Section 9010 of the ACA (HIT) to Puerto Rico under the definition of the ACA as an integrated health policy reform. As defined in the legislation, and interpreted by HHS and CMS, Territories are excluded from several core provisions of the ACA that are linked to new Federal expenditures. One group of excluded provisions is the inapplicability of the marketplaces, related individual and employer subsidies, patient protections, and mandates. Another is the exclusion from the Medicaid expansion funded by the Federal government for eligibility over 100% FPL. However, Puerto Rico has been required to pay the HIT, which will take away over $200 million from the healthcare system and the economy in 2016. Unless Congressional action is taken, the HIT will apply again in 2018 and forward, costing over $250 million to a community of citizens that is excluded from core benefits of the ACA. Within the $250M, resolving this incongruence would alleviate over $125 million in the Medicaid and dual eligible programs in PR, annually.

In parallel, the MA program serves 570,000 Medicare beneficiaries in Puerto Rico, but has seen funding cuts close to 30% since 2011. Today, MA rates on PR are 43% below the US average, down from 24% lower in 2011. The current levels of MA rates are an outlier at the bottom and unsustainable within the MA system and requirements. In past years, this program became the backbone of the healthcare system, and the only reason why Puerto Rico can take care of 280,000 dual eligible beneficiaries. However, unless a minimum level of MA benchmark is re-established, the program's viability is at risk. It has been estimated that if MA is not able to support the dual eligible program, the local government would have to spend $500M more through Medicaid. This disparity happens even in spite the fact that all beneficiaries, including those residing in Puerto Rico, pay the same Medicare Tax required under the Federal Insurance Contributions Act (FICA).

Thirdly, another is related with the Part D Low Income Subsidy program. Building up on the disadvantages that Puerto Rico and other territories experience with regards of healthcare funding, the Medicare Modernization Act of 2003 created the Part D program and the Low Income Subsidy program to assure adequate access to prescription drugs for beneficiaries below 150% federal poverty level. The legislation excluded eligible citizens that reside in the U.S. Territories from this benefit, effectively creating a different, more limited Part D benefit design in Territories compared to other jurisdictions. As a result, it is estimated that beneficiaries in Puerto Rico lose about $300M+ in benefits every year because of the lack of the regular Low Income Subsidy program. The applicability of the LIS would also support the viability and funding of the Medicaid program by helping to cover the cost of the 280,000 dual eligible currently in part D.

III. Proposal

Congress should correct the disparities that U.S. citizens in Puerto Rico face when it comes to healthcare federal funding. Not doing so could set in motion an unprecedented healthcare crisis in the Commonwealth, aggravating its already weak economy.

To avoid this, Congress should provide U.S. Territories, including Puerto Rico, with state-like treatment under Medicaid within well-defined parameters. Proposals that have been previously introduced in Congress would eliminate the annual funding cap to Territories, allowing for each Territory's Medicaid program to cover individuals whose family income is equal to or less than 100 percent of the federal poverty level. The federal government would provide state-like funding for that purpose. Therefore, as long as a Territory government covers individuals whose household income is within these limits, the federal government would fund the Territory's Medicaid program as if it were a state Medicaid program.

Under these proposals, each territory would receive a Federal Medical Assistance Percentages (FMAP) based on its per capita income. However, the limiting principle would be that if a Territory wants to cover individuals earning above 100 percent of the federal poverty level, it would be required to use territorial funds, and not Federal funds.

Congress should also take action to eliminate the incongruence of the HIT tax, which takes away over $200 million in 2016, and $250 annually starting 2018, from Medicaid, Medicare and commercial healthcare. In addition, the definition of a minimum level of rates for MA would support the healthcare system in general, and reduce the burden of Medicaid to the local government by providing the resources to take care for 280,000 or more dual eligible.

Lastly, legislation should be enacted to eliminate the exclusion of the Part D Low Income Subsidy for beneficiaries residing in Territories. This action would provide Part D funding to cover extra benefits for all dual eligible and citizens with incomes below 150% federal poverty level. As a result, Puerto Rico's Medicaid program could avoid an additional expense that has been estimated in $500M+, if the dual program collapses.

IV. Economic Estimates

Addressing the healthcare underfunding in Puerto Rico would represent significant savings to the U.S. Treasury. It is important to note that Puerto Ricans who leave the island to the mainland are able to receive benefits in the states that are more costly than if Congress were to address the healthcare crisis locally. The increasing migration flow of Puerto Ricans to the continental U.S. combined with the current funding disparities will inevitably cost more to the Federal government.

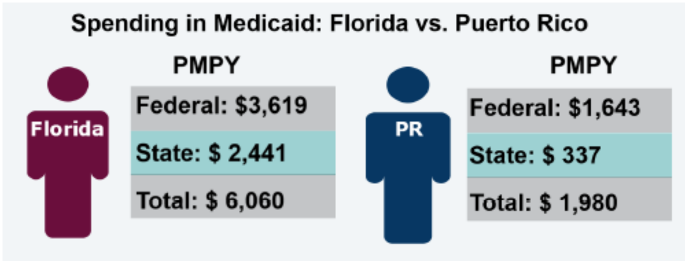
For example, it has been estimated that 100,000 new Medicare beneficiaries in Florida would cost to the U.S. Treasury $1.8 billion more compared to providing the necessary funding to cover the same group of beneficiaries in Puerto Rico. The table below illustrates the cost differentials if as a result of migration, the number residents of Puerto Rico that move to the mainland reach 100,000 Medicare eligible:

Medicare A&B (Distribution based on scenario in PR)		PR		Florida		New York		National	
100,000	Beneficiaries	PMPM	Aggregate	PMPM	Aggregate	PMPM	Aggregate	PMPM	Aggregate
FFS (10%)	10,000	$400	$48,000,000	$818	$98,160,000	$685	$82,200,000	$758	$90,960,000
MA (44%)	44,000	$488	$257,664,000	$803	$423,984,000	$759	$400,752,000	$788	$416,064,000
Part D LIS, Non-Duals (20%)	20,000	$0	$0	$120	$28,800,000	$120	$28,800,000	$120	$28,800,000
Duals (46%)	46,000	$950	$524,400,000	$2,956	$1,631,712,000	$4,004	$2,210,208,000	$2,633	$1,453,600,000
Suplemental Security Income (SSI) (46%)	46,000	$0	$0	$737	$406,686,000	$737	$406,686,000	$737	$406,686,000
	Total Costs		$830,064,000		$2,589,342,000		$3,128,646,000		$2,396,110,000
		Annual Cost Difference			$1,759,278,000		$2,298,582,000		$1,566,046,000

*Per Member Per Months (PMPM) costs based on CMS Ratebook 2016 data for beneficiaries at 1.0 risk, and no bonus. Final MA payment would vary given retention of MA rebate CMS and risk score adjustments. Still, we assume the standardized MA benchmarks are the best estimates to be used for comparison between jurisdictions. national data about duals. Dual eligible costs include Medicare+Medicaid as per data in the Medicare Medicaid Coordination Office state profiles, MA+PD+ASES Platino data, and MedPac reports. Total costs of duals from June 2014 Data Book, Chapter 4, MedPac ($31,600).
SSI impact based on average SSI income per eligible person in US ($8,841) form the American Fact Finder data, US Census Bureau, American Community Survey 2011-2013.
Part D LIS additional costs added for beneficiaries between 87% FPL and 150% who are not eligible to the dual (Medicaid) Medicare Platino program in PR.

This basic illustration reflects how Congressional action to provide more balance and increase funding levels of Medicaid and Medicare in Puerto Rico can provide basic stability to the system while still being the most cost-effective programs. The proposals described can generate the urgent balance needed between the Medicaid and Medicare program versions in Puerto Rico, and the ones in Florida, New York, Texas or other.

Similarly, as included below, spending per member per year in Medicaid is so low in Puerto Rico relative to Florida, and the states in general, that even with equitable treatment the Federal government would be spending less compared to the cost implied by a continuing massive outmigration to the states.



The changes would directly impact outmigration of both beneficiaries, and also health professionals. Moreover, restoring some balance would directly impact the local government's general fund, and the economy, enhancing its capacity to pay debt annually. Congressional action for healthcare in Puerto Rico now, will save Federal expenses in the near future not only within the island, but across states.

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L. Bill - S. 2342 (December 2, 2015) - Territories Medicare Prescription Drug Assistance Equity Act of 2015

VI. Credits

The following entities contributed materials to the creation of this document:

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- PricewaterhouseCoopers
- The Roth Group
- Miller & Chevalier
- NWG Public Affairs
- Policy Committee, Medicaid and Medicare Advantage Assoc. of Puerto Rico; PR Chamber of Commerce Health Committee