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Medicaid Financing for the Territories

Medicaid is a joint federal-state program that finances the delivery of medical services for low-income individuals. The territories (i.e., American Samoa, Commonwealth of the Northern Mariana Islands [CNMI], Guam, Puerto Rico, and the U.S. Virgin Islands) operate Medicaid programs under rules that differ from those applicable to the 50 states and the District of Columbia (DC).

American Samoa and CNMI operate their Medicaid programs under the Section 1902(j) waiver authority. Under these waivers, the only Medicaid requirements that may not be waived are (1) the federal medical assistance percentage (FMAP) rate (i.e., federal matching rate); (2) the annual federal capped funding; and (3) the requirement that Medicaid payments are for services otherwise coverable.

For Guam, Puerto Rico, and the U.S. Virgin Islands, most of the eligibility and benefit requirements for the states apply. However, the Government Accountability Office has documented that these three territories do not cover all of the federally mandated coverage groups or benefits.

Medicaid financing for the territories is different from the financing for the states. Federal Medicaid funding to the states and DC is open-ended, but the Medicaid programs in the territories are subject to annual federal capped funding. The FMAP rate for the territories is not determined using the FMAP formula used for the states and DC.

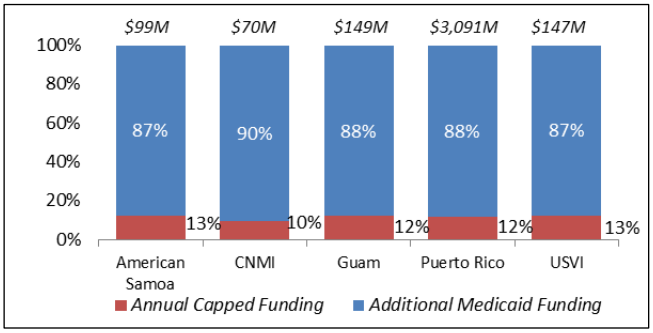
Federal Medicaid Funding

The federal Medicaid funding for the territories comes from a few different sources. The permanent source of federal Medicaid funding for the territories is the annual federal capped funding, which has been supplemented by various funding sources since July 1, 2011.

Figure 1 shows the proportion of each territory's federal Medicaid funding from annual federal capped funding and additional Medicaid funding in FY2020. The aggregate total of the annual federal capped funding for the territories is $431.5 million, and the aggregate additional federal Medicaid funding for all the territories is $3.1 billion. After each territory spends through its capped funding, it has access to additional federal Medicaid funding.

Usually, the territories also receive Section 1935(e) of the Social Security Act (SSA) funding in addition to the annual federal capped funding, but for FY2020 and FY2021, the 1935(e) funding comes out of the additional Medicaid funding. Section 1935(e) funding is sometimes referred to as the *enhanced allotment program* (or EAP), and territories receive these funds in lieu of their residents being eligible for low-income subsidies under Medicare Part D. The territories can use this funding to provide prescription drug coverage under Medicaid for low-income Medicare beneficiaries.

Figure 1. Proportion of Federal Medicaid Funding from Annual Capped Funding and Additional Funding (FY2020)



Source: SSA §1108(g)(2) and (6); Medicaid and CHIP Payment and Access Commission, *Medicaid and CHIP in the Territories,* April 2020.

Notes: CNMI = Commonwealth of the Northern Mariana Islands; USVI = U.S. Virgin Islands.

Annual Federal Capped Funding

The Medicaid programs in the territories are subject to annual federal capped funding. These Medicaid cap amounts vary by territory and increase annually according to the change in the medical component of the Consumer Price Index for All Urban Consumers. Once the cap is reached, absent additional federal funding, the territories assume the full cost of Medicaid services or, in some instances, may suspend services or cease payments to providers until the next fiscal year.

Certain Medicaid expenditures are disregarded for purposes of the annual federal capped funding, such as (1) Medicaid Electronic Health Record Incentive Program payments and (2) design and operation of the claims and eligibility systems. Also, for Puerto Rico and the U.S. Virgin Islands, Medicaid Fraud Control Unit expenditures are disregarded.

Additional Medicaid Funding

Prior to the Patient Protection and Affordable Care Act (ACA; P.L. 111-148, as amended), all five territories typically exhausted their federal Medicaid annual federal capped funding before the end of the fiscal year. For this reason, the ACA included additional Medicaid federal funding for all of the territories. Certain territories received additional federal funding through the Consolidated Appropriations Act, 2017 (P.L. 115-31); the Bipartisan Budget Act of 2018 (P.L. 115-123); and the Additional Supplemental Appropriations for Disaster Relief Act, 2019 (P.L. 116-20). All of these funds expired on either September 30, 2019, or December 31, 2019.

On December 20, 2019, the Further Consolidated Appropriations Act, 2020 (P.L. 116-94), was enacted; this law includes additional federal Medicaid funding for all of the territories for FY2020 and FY2021 that was later increased through the Family First Coronavirus Response Act (FFCRA; P.L. 116-127). **Table 1** shows the additional funding amounts for FY2020 and FY2021.

Table 1. Additional Federal Medicaid Funding for FY2020 and FY2021

($ in millions)

	FY2020	FY2021
American Samoa	$86.3	$85.6
CNMI	63.1	62.3
Guam	130.9	129.7
Puerto Rico	2,716.2	2,809.1
USVI	128.7	127.9
Total	**$3,125.2**	**$3,214.6**

Source: SSA §1108(g)(2) and (6).

Notes: CNMI = Commonwealth of the Northern Mariana Islands; USVI = U.S. Virgin Islands.

Through a provision in P.L. 116-94, Puerto Rico could receive an additional $200 million in each of FY2020 and FY2021 if Puerto Rico establishes a floor for Medicaid physician payment rates that is 70% of the Medicare payment rate in Puerto Rico for those services.

The territories are to submit annual reports to Congress no later than 30 days after the end of FY2020 and FY2021 to describe how the territories increase access to health care under Medicaid using the additional Medicaid funding and the increased FMAP rates provided in P.L. 116-94.

FMAP Rates

The federal share of most Medicaid expenditures is determined by the FMAP rate. The FMAP rates for the 50 states and DC are determined annually and vary by state according to each state's per capita income. The rates can range from 50% to 83%. By contrast, the FMAP rates for the territories have been set at 55% since July 1, 2011; this means each territory gets 55 cents back from the federal government for almost every dollar the territory spends on its Medicaid program up to the federal funding limits (i.e., annual capped funding and additional Medicaid funding).

For FY2020 and FY2021, FMAP rates for the territories have been temporarily increased through a few laws. **Table 2** shows FMAP rates for FY2019 through FY2022.

For the beginning of FY2020 (i.e., October 1, 2019, through December 20, 2019), the FMAP rate for the territories was increased to 100% (i.e., fully federally funded) for all territories through the Continuing Appropriations Act, 2020; the Health Extenders Act of 2019 (P.L. 116-59); the Further Continuing Appropriations Act, 2020; and the Further Health Extenders Act of 2019 (P.L. 116-69).

For the remainder of FY2020 (i.e., December 21, 2019, through September 30, 2020) and FY2021, P.L. 116-69 increases the FMAP rate for the territories from 55% to 83% for American Samoa, CNMI, Guam, and the U.S. Virgin Islands and from 55% to 76% for Puerto Rico.

These matching rates for the remainder of FY2020 and FY2021 could be reduced if the territories do not comply with certain program integrity requirements. All the territories are required to designate a program integrity lead. Puerto Rico is also required to publish (1) a plan to develop measures to satisfy the payment error rate measurement requirements; (2) a contracting reform plan to combat fraudulent, wasteful, or abusive Medicaid contracts; and (3) a plan to comply with the Medicaid eligibility quality control requirements.

FFCRA increases the FMAP rate for all states, DC, and the territories by 6.2 percentage points beginning January 1, 2020, and ending on the last day of the calendar quarter in which the last day of the Coronavirus Disease 2019 (COVID-19) pandemic public health emergency period. As a result, in FY2020 and FY2021, during this period, the FMAP rate for American Samoa, CNMI, Guam, and the U.S. Virgin Islands is 89.2% and the FMAP rate for Puerto Rico is 82.2%.

Conclusion

The territories are increasingly relying on the additional Medicaid funding for their Medicaid programs. In every year since FY2012, a majority of the federal Medicaid funding has come from the additional Medicaid funding. The additional Medicaid federal funding and the increased FMAP rates expire after September 30, 2021. Each territory will need to make decisions about how to deal with its loss of this federal funding. The territories could (1) make programmatic changes (e.g., restrict eligibility or cut benefits), (2) suspend Medicaid programs when the annual spending cap is exhausted, or (3) increase territory funding of Medicaid (if possible).

Table 2. FMAP Rates for the Territories

	American Samoa, CNMI, Guam, and USVI	Puerto Rico
FY2019	55%	55%
FY2020		
Through 12/20/19	100%	100%
After 12/20/19	83%	76%
FY2021	83%	76%
FY2022	55%	55%

Source: SSA §1905(b) and (ff).

Notes: The FMAP rates do not include the FFCRA FMAP increase of 6.2 percentage points during the COVID-19 pandemic public health emergency period. CNMI = Commonwealth of the Northern Mariana Islands; USVI = U.S. Virgin Islands.

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