

Puerto Rico Short-Changed in Major Federal Programs

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If Puerto Rico were treated the same as the states in major social support programs, thousands of dollars more in federal funds would be provided for most families and individual residents on the island (about 40% to 50% more than is currently provided from Washington for these programs). In addition to improving the well-being of the Puerto Rican people, the inflow of funds would provide a huge stimulus to the island's economy. As much as \$10 billion in new funds could come to Puerto Rico each year, an extremely large stimulus in an economy with a GNP of about \$70 billion. Moreover, if Puerto Rico had been treated equitably during the life of these programs, over the last fifty years they would have brought perhaps \$175 billion (in today's prices), a much greater amount than the island's GNP or the debts that forced the government into effective bankruptcy.

Although Puerto Ricans are U.S. citizens, in important federal programs, Puerto Ricans living in Puerto Rico are excluded or treated differently—more poorly—than U.S. citizens living in the states.

Consider a Puerto Rican who has been living in New York for a few years, has developed disabilities, has lost his job, and needs regular medical attention. He has been getting some support from the Supplemental Security Income (SSI) program; he gets food through the Supplemental Nutritional Assistance Program (SNAP); and he has health care through Medicaid.

But then he moves back to Puerto Rico.

SSI does not exist in Puerto Rico. A nutritional assistance program exists, but it provides less than did SNAP back in the states. Medicaid is available, but the funds provided from the federal government are significantly less on the island than in the states. His losses are substantial.

For Puerto Ricans living on the island, there are important additional federal programs from which they are excluded or in which they are treated more poorly than were they in the states. Two major examples are the federal Earned Income Tax Credit (EITC), for which they are not eligible (unless they earn income sourced in the states), and Medicare, for which fewer federal funds are provided in Puerto Rico than in the states. (In recent years, some federal funds have been provided to Puerto Rico that enhance the island's own earned income tax credit program. (See below.) These funds are significant, even if they do not fully make up for the exclusion of Puerto Ricans on the island from the federal EITC.)

Table 1 shows for each of the five programs mentioned above, the amount of federal funds provided per recipient in Puerto Rico and the states.

Table 1: Federal Funds Provided Annually to Eligible Individual Recipients in Five Major Programs in the States and Puerto Rico (2020 or 2021)

	States	Puerto Rico
Supplemental Security Income ¹	\$7,506	0
Nutritional Assistance ²	\$2,618	\$1,955
Medicaid ³	\$6,671	\$2,027*
Medicare ⁴	\$13,208	\$8,848
Earned Income Tax Credit ⁵	\$2,411	0

Sources and methods are in the endnotes as numbered.

* The figure here is for 2020, and in the period since 2020, Puerto Rico was provided with an additional 20% in federal Medicaid funding.

Although Puerto Ricans on the island receive substantially less in federal funds under these programs than do residents in the states, in some of these programs the Puerto Rican government supplies additional funds. For example, under Medicaid, as is the case with state governments, the Puerto Rican government pays a share of the total costs from its tight operating budget. The Puerto Rican government, however, has long paid a higher share of costs than it would pay if the formula for determining a state government's share were applied to the Puerto Rican government.

Moreover, since 2020 and 2021 (the years of the data in Table 1), partly in response to the pandemic, Puerto Rico has received additional federal funds. For example, as indicated in the note to Table 1, federal Medicaid funds were increased by 20% in the subsequent years (though this increase is not permanent).⁶ It is especially important that, first, in 2022 Puerto Rico is receiving \$600 million in federal funds to support expansion of its own EITC; and second, the federal child tax credit, that was formally available in Puerto Rico only for families with three or more children has now been made available to families with one or two children, as is the case in the states.

The \$600 million for support of Puerto Rico's own EITC merits special emphasis because it is a permanent allocation, will be adjusted for inflation each year, and will make a large difference. In new provisions established in 2018, with tax forms filed for the taxable year 2019, "The [Puerto Rican] Treasury chief estimated that the EITC ... will distribute about \$204 million to salaried workers in Puerto Rico."⁷ Thus, the \$600 million will roughly quadruple the amount that can be given out under the island's own EITC, and individuals will receive an amount close to what they would receive under the federal EITC.⁸

This increase of funds through the EITC and some other changes of recent years are significant. Yet, with the EITC, as with the other programs listed in Table 1, even when amounts are increased, U.S. citizens in Puerto Rico are being treated less well than U.S. citizens in the states.

The Stimulus to the Puerto Rican Economy

The funds that individuals and families receive under social programs are, of course, important. The federal funds, however, also provide an aggregate impact, a stimulus to the Puerto Rican economy, as they do for states.

Table 2 shows the difference for 2020 between the total amount of federal funds Puerto Rico received under the five programs shown in Table 1 and the federal funds Puerto Rico would have received had it been treated in the same manner as the states. Table 2 also shows the year of each federal program's inception, an issue of relevance shortly.

Table 2: Estimates Based on 2020 Data of the Additional Federal Funds that Would Come to Puerto Rico Were Puerto Rico Treated in the Same Manner as the States in Five Major Programs (millions of dollars); and Year of Each Federal Program's Inception

		<u>Year of Program's Inception</u>
Supplemental Security Income (SSI)*	\$970	1972
Nutritional Assistance*	\$85	1964
Medicaid**	\$5,767	1965
Medicare	\$3,052	1965
EITC ⁹	\$800	1975
Total	\$10,674	

Sources: See Table 1 source notes. But for the EITC figure, endnote 8.

* The Nutritional Assistance and SSI figures are based on 2022 data.

** In 2021 & 2022, as noted above, federal funds for Medicaid in Puerto Rico have been increased 20%.

The total of \$10.7 billion is especially large in an economy with a GNP of around \$70 billion.¹⁰ A shift in these federal programs to treating Puerto Rico and Puerto Ricans in the same manner as states and people in the states would provide a very large, in fact, huge, stimulus to the Puerto Rican economy. Of course, a change could be adopted gradually, but the impact would still be very great.

Also, the unequal treatment of Puerto Rico on these (and other) programs is not new. Four of the five have been in place for 50 years or more, and the EITC has existed for 47 years (see Table 2). The programs have been adjusted

various times in the decades of their existence, but the relative magnitude of the difference between treatment in Puerto Rico and treatment in the states has been there all along. The accumulated benefits that have been denied to Puerto Rico – that would have come to Puerto Rico had it been treated in the same manner as the states – would amount to as much as \$175 billion. *In terms of the impact on individuals and the overall Puerto Rican economy, the cumulative effect has been extremely great, more than twice as large as the island's annual GNP or the debts that pushed the government into effective bankruptcy.*¹¹

Moves toward equity in recent years—for example, the \$600 million for Puerto Rico's EITC, the reform of the Child Tax Credit, and the increase of funds (perhaps temporary) for Medicaid—are certainly welcome. But the basic problem remains.

Those who attempt to justify the different treatment of Puerto Rico in federal programs often argue that the funds for several of these programs come from general federal revenue, to which Puerto Ricans on the island make no, or minimal, contribution. In particular, Puerto Ricans do not pay federal income taxes (except on income sourced in the states). This argument is applied to SSI, EITC, Nutritional Assistance, and Medicaid. Yet, in the states, the great majority of people who receive funding under these programs pay no or very little federal income taxes simply because their incomes are too low. Furthermore, the treatment of eligibility for the Child Tax Credit has created a precedent of irrelevance for this argument, as Puerto Ricans with three or more children have long been eligible and all families with children have recently been made eligible. Finally, while these programs are indeed funded from general revenue, their original rationale was to alleviate poverty. Surely, this rationale would apply to Puerto Rico, where the poverty rate is roughly twice as high as in the lowest income states. (Puerto Ricans do pay Medicare taxes – as well as Social Security taxes – and thus the argument based on their not paying income taxes is irrelevant in this program.)

¹ The figure here is derived from data in Social Security, Research, Statistics & Policy Analysis (Table 3), https://www.ssa.gov/policy/docs/quickfacts/stat_snapshot/#table3, US Census, Quick Facts, United States, <https://www.census.gov/quickfacts/fact/table/US/PST045221>, and *US Census, Quick Facts, Puerto Rico*, <https://www.census.gov/quickfacts/PR>. It was assumed (a) that monthly payments by age group would be the same in Puerto Rico as in the United States and (b) that the percentage of each age group in Puerto Rico receiving SSI would be the same as the percentage for each age group in the states.

² The Puerto Rico figure is calculated from the USDA, 'Puerto Rico Food Nutritional Assistance Program,' <https://www.fns.usda.gov/pd/puerto-rico-nutrition-assistance-program>. The figure for the states is from USDA "National Level Annual Survey," <https://www.fns.usda.gov/pd/supplemental-nutrition-assistance-program-snap>.

³ The Puerto Rico figure of 2020 is calculated from data in Medicaid and CHIP Payment and Access Commission (MACPAC), "Fact Sheet, Medicaid and CHIP in Puerto Rico," February 2021, <https://www.macpac.gov/publication/medicaid-and-chip-in-puerto-rico/>. The U.S. figure is calculated from data in the following sources: Medicaid.gov, "Medicaid and CHIP Enrollment Trend Snapshot,"

<https://www.medicaid.gov/medicaid/program-information/medicaid-chip-enrollment-data/medicaid-and-chip-enrollment-trend-snapshot/index.html>; CMS.gov, “NHE Fact Sheet,” <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NHE-Fact-Sheet#:~:text=Medicaid%20spending%20grew%209.2%25%20to,28%20percent%20of%20total%20NHE>; and Kaiser Family Foundation, “Medicaid Financing: The Basics,” <https://www.kff.org/medicaid/issue-brief/medicaid-financing-the-basics/#:~:text=Medicaid%20accounted%20for%207%20percent,federal%20government%20and%20the%20states>.

⁴ The figure for Puerto Rico is calculated from the total amount of Medicare funding coming to Puerto Rico in 2020 and the number of Medicare enrollees in that year. The total figure is from Table 21 in *Informe Económico al Gobernador 2020*, <https://jp.pr.gov/index.php/informe-economico-al-gobernador/>. The number of Medicare enrollees in Puerto Rico does not seem to be available. So here the total enrollment is taken as 700,000, which is the number of people in Puerto Rico who were 65 or older. While not all people in this age group would have been covered by Medicare, others below 65 would have been covered. It is assumed, then, that these two differences balance out. Number of people 65 or over is from the “Puerto Rico Demographic Profile, Index Mundi,” [https://www.indexmundi.com/puerto_rico/demographics_profile.html#:~:text=3%2C142%2C779%20\(July%202021%20est.\)&text=White%2075.8%25%2C%20Black%2FAfrican,3.3%25%20\(2010%20est.\)&text=The%20World%20Factbook%2C%20the%20indispensable%20source%20for%20basic%20information](https://www.indexmundi.com/puerto_rico/demographics_profile.html#:~:text=3%2C142%2C779%20(July%202021%20est.)&text=White%2075.8%25%2C%20Black%2FAfrican,3.3%25%20(2010%20est.)&text=The%20World%20Factbook%2C%20the%20indispensable%20source%20for%20basic%20information). The figure for the U.S. is calculated from the CMS.gov, “NHE Fact Sheet,” cited in the previous note.

⁵ The figure here is calculated from the IRS, which reports that “Nationwide during 2021, 25 million eligible workers and families received about \$60 billion in EITC. The average amount of EITC received nationwide was about \$2,411· Earned Income Tax Credit & Other Refundable Credits,” <https://www.eitc.irs.gov/partner-toolkit/basic-marketing-communication-materials/eitc-fast-facts/eitc-fast-facts#:~:text=The%20EITC%20credit%20ranges%20from,%243%2C618%20with%20one%20qualifying%20child>.

⁶ Katie O'Connor, “Increased Medicaid Funding for Territories Urgently Needed, Experts Say,” *Psychiatric News*, 26 April 2022, <https://psychnews.psychiatryonline.org/doi/10.1176/appi.pn.2022.05.5.16> <https://psychnews.psychiatryonline.org/doi/10.1176/appi.pn.2022.05.5.16#:~:text=Puerto%20Rico%2C%20for%20example%2C%20would,The%20Build%20Back%20Better%20Act%E2%80%9C>.

⁷ AAFAF, Puerto Rico Fiscal Agency and Financial Advisory Authority, <https://www.aafaf.pr.gov/press-room/articles/puerto-rico-treasury-eitc-can-be-claimed-in-2019-tax-returns/#:~:text=The%20Treasury%20chief%20estimated%20that,status%20and%20number%20of%20dependents>.

⁸ Javier Balmaceda, “Tax Credit Expansions Expected to Significantly Reduce Poverty in Puerto Rico,” Center for Budget and Policy Priorities, MARCH 14, 2022, [HTTPS://WWW.CBPP.ORG/BLOG/TAX-CREDIT-EXPANSIONS-EXPECTED-TO-SIGNIFICANTLY-REDUCE-POVERTY-IN-PUERTO-RICO](https://www.cbpp.org/blog/tax-credit-expansions-expected-to-significantly-reduce-poverty-in-puerto-rico)

⁹ As noted in the text, \$600 million additional federal funds would roughly quadruple the funds for Puerto Rico’s own EITC, which now provides about \$200 million. This implies that it would take about \$800 million in federal funds to treat Puerto Ricans the same as residents in the states.

¹⁰ Puerto Rico’s GDP is around \$100 billion, but, even with this higher basis for comparison, the \$10.7 billion still looms large. The difference is explained largely, if not entirely, by the income (profits) obtained, actually or on paper, by firms or subsidiaries of firms based outside of Puerto Rico (mainly in the states).

¹¹ To calculate the amount of additional federal funds that would have come to Puerto Rico over the life of these programs if Puerto had been treated in the same manner as the states, the amounts are presented in prices of today and the following assumptions have been made: (1) the amounts in previous

years were 80% of the annual \$10.7 billion in the 2020/2021 period, which is to say that the annual amount averaged \$8.5 billion; (2) the full application of the programs would have been associated with Puerto Rico becoming a state, which would have meant that \$5 billion annually in federal (individual and corporate) income taxes would have flowed to the federal government each year; (3) the programs as a group have been in place for 50 years (i.e., the actual different length of the programs is ignored). Then the net flow of funds to Puerto Rico would have been \$3.5 billion annually, and the total amount over the 50 years would have been \$175 billion. (If Puerto Rico had not become a state, it is unlikely that it would have been treated equally with the states, though it could have received better treatment than it has received. In that case, the inflow would have been less than the \$8.5 billion annually, and there would have been no \$5 billion outflow of taxes. So perhaps the net inflow of \$3.5 billion would still be reasonable.)