

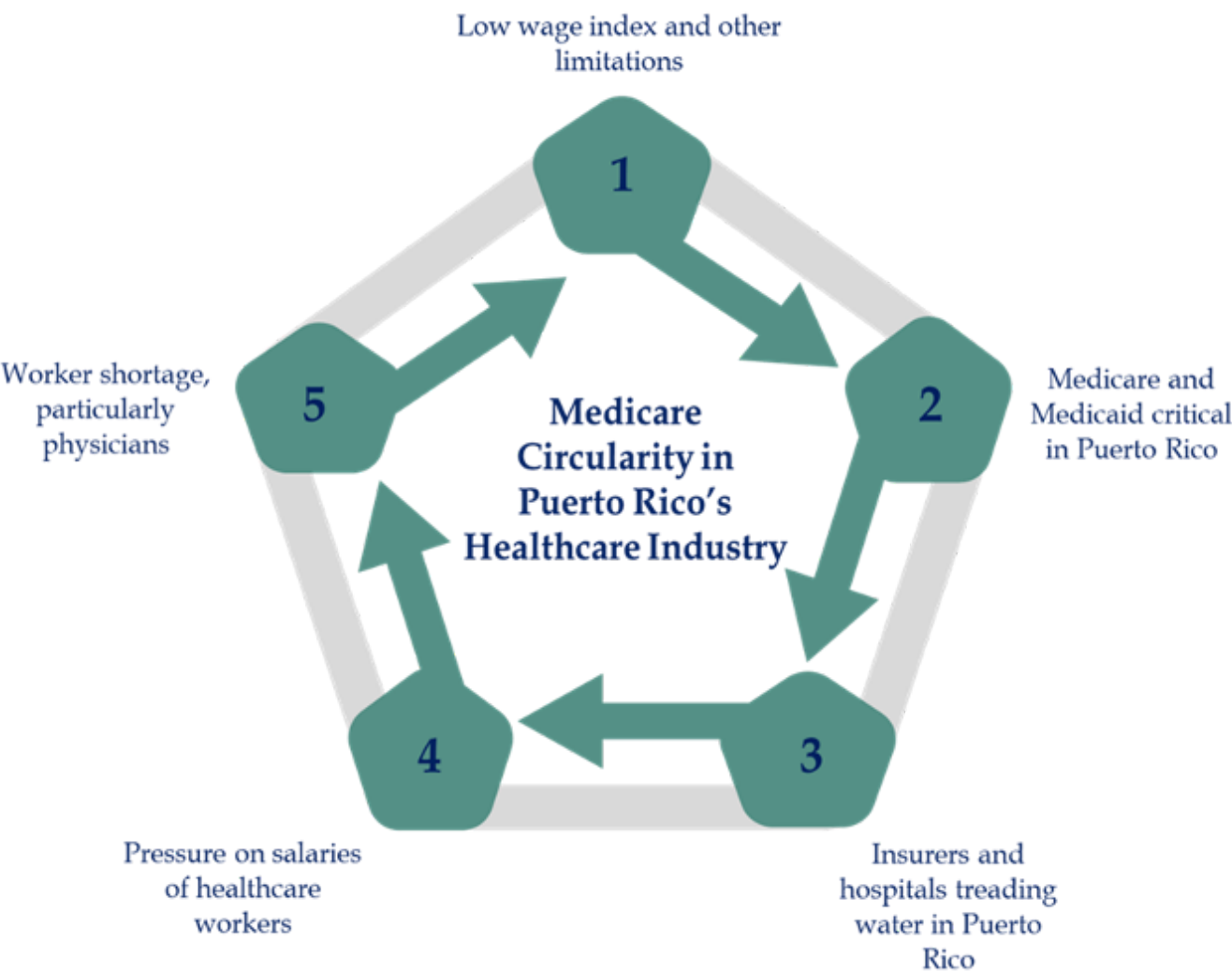
Medicare Circularity in Puerto Rico's Healthcare Industry

In Puerto Rico, the wage index has historically been lower than in the United States due to the lower reported wages on the island. However, this difference is partly explained by the problem that circularity entails in the methodology used by the Center for Medicare and Medicaid Services (CMS) to estimate the wage index.

Circularity refers to a situation where the wage index used to adjust Medicare payments to hospitals is influenced by Medicare payments themselves. This is recognized as an issue that needs to be addressed by CMS, the Office of the Inspector General, and the Congressional Research Service.

An indication of circularity is that Puerto Rico salaries in the occupations of healthcare practitioners as a percentage of U.S. salaries are low compared with other occupational sectors that are not impacted by the Medicare circularity. Thus, all occupations in Puerto Rico are at 0.52 of the U.S. level, much higher than the 0.40 CMS wage index.

Since 22.7% of the Puerto Rico population relies on Medicare compared to 14.6% for the U.S., the problem of circularity in the determination of the wage index is exacerbated. In Puerto Rico, most of the population relies on either Medicare or Medicaid for health insurance. Puerto Ricans are not only older than their fellow U.S. citizens, but they are also poorer. Almost half of Medicare beneficiaries are dual eligible for Medicare and Medicaid.



Due partly to the issue of circularity, the financial condition of the Puerto Rico health sector has been under pressure, much more so than in the United States. Both health insurance operations and hospitals have been under stress.

The circularity problem that puts pressure on the financial condition of Puerto Rico insurance operations and hospitals means that the capacity to increase salaries is limited. The gap between salaries in Puerto Rico on one hand and salaries in the United States and the U.S. Virgin Islands on the other hand is widening.

Low salaries in the healthcare sector, forced upon the labor market by insurance operations and hospitals under financial pressure, lead to healthcare worker shortages, particularly of physicians. Some professionals leave the jurisdiction for better working conditions elsewhere, leaving the ones with low salaries to be counted for the CMS wage index.

The demographic profile of this group of professionals indicates that in Puerto Rico, 47.3% of physicians are over 60 years old compared to 32.9% in the U.S. As a result of the age profile of doctors, significant challenges arise in some critical specialties. It is no coincidence that a patient has to wait months to be seen by a specialist doctor.

And thus, we come full circle, completing the circularity. The standard wage index analysis performed by CMS would result in a low wage index, continuing a merry go round that threatens the appropriate healthcare of Medicare beneficiaries in Puerto Rico.