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U.S. INSULAR AREAS

Multiple Factors Affect Federal Health Care Funding

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Highlights

Highlights of GAO-06-75, a report to congressional requesters

Why GAO Did This Study

Five insular areas of the United States—American Samoa, the Commonwealth of the Northern Mariana Islands (CNMI), Guam, Puerto Rico, and the U.S. Virgin Islands—benefit from federal health care financing and grant programs that help fund health care services to their over 4 million residents. However, notable differences exist in how the programs are funded or operate in the insular areas, such as statutory limits on federal Medicaid funding to the insular areas that do not apply in the states. To help understand these differences, GAO was asked to identify (1) the key sources of federal health care funding in the insular areas, (2) differences between insular areas and the states in the methods used to allocate these funds, and (3) differences in spending levels per individual between insular areas and the states.

In commenting on a draft of this report, American Samoa, CNMI, and Puerto Rico suggested the need for additional information on certain issues, such as implications of statutory limits on federal Medicaid spending and a more comprehensive analysis of local circumstances that affect the availability and costs of health care services.

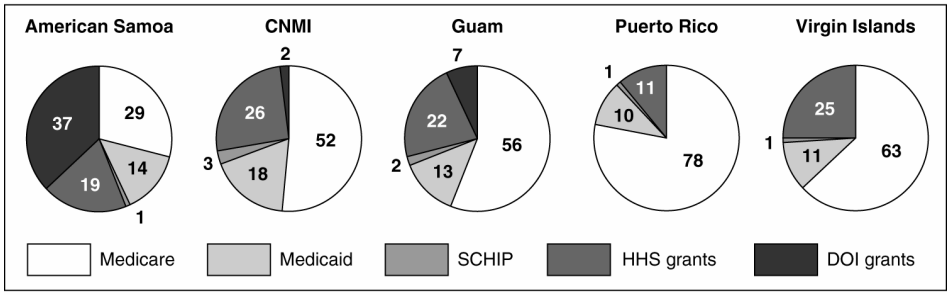
www.gao.gov/cgi-bin/getrpt?GAO-06-75.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Kathryn G. Allen at (202) 512-7118 or allenk@gao.gov.

What GAO Found

Multiple federal programs fund health care services in the insular areas. Federal health care financing programs—Medicare, Medicaid, and the State Children's Health Insurance Program (SCHIP)—represented nearly 90 percent of the $2.2 billion in health care funding to these areas in fiscal year 2003, with Medicare alone representing over three-quarters of total funding. The Departments of Health and Human Services (HHS) and the Interior (DOI) also provide grants to the insular areas. Significant variation exists among the insular areas in terms of the distribution of funds by these sources, largely due to the number of Medicare beneficiaries in each area.

Key Federal Health Care Funding Sources to Five Insular Areas, by Percentage, Fiscal Year 2003



Source: GAO analysis of funding data from Medicare, Medicaid, SCHIP, grants from three HHS agencies, and DOI.

The methods used to allocate these federal funds to insular areas often differ from methods used in the states. For example, Medicare pays hospitals in most insular areas based on their costs rather than the prospective payment system used for most hospitals in the states. Similarly, federal funding for Medicaid and SCHIP is subject to statutory limits that do not apply to states, including minimum federal contributions and a cap on federal Medicaid payments. In addition, certain HHS grants use different rules to determine insular areas' funding.

Differences in allocation methods as well as other factors contribute to lower spending levels per individual in the insular areas compared to the states. For example, Medicare spending per beneficiary in the insular areas was less than half the amount it was in the states, due in part to differences in payment policies and to beneficiaries' lower utilization of services. In addition, the statutory limits on federal Medicaid funding in these areas contributed to lower federal Medicaid per capita payments in the five insular areas compared to the national average. However, in light of limits on federal funding, the insular areas are not held accountable for covering all Medicaid benefit requirements, such as nursing facility services that represent nearly one-third of Medicaid expenditures in the states. Insular areas benefit from certain HHS grant allocation formulas that result in higher per capita payments to them than the states, on average.