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FY2020 Mandatory Sequester Reduces Medicare $15.3 Billion, Other Mandatory Spending $5.39 Billion

On October 1, 2019, the first day of FY2020, the FY2020 mandatory sequester order became effective. "Sequestration" is a budgetary mechanism that requires automatic cancellation of budgetary authority—the legal authority Congress grants agencies to enter into financial obligations.

The FY2020 mandatory sequester order reduced Medicare payments by $15.31 billion and other (nonexempt) mandatory spending by $5.392 billion. The reductions are required by the Budget Control Act of 2011 (BCA; P.L. 112-25). The BCA, as amended, requires similar reductions on the first day of each fiscal year through FY2029. (For an in-depth analysis of the mandatory sequester, see CRS Report R45941, *The Annual Sequester of Mandatory Spending through FY2029*, by Charles S. Konigsberg.)

Mandatory Spending and Sequestration

There are two types of budgetary authority (BA): *discretionary spending* provided in annual appropriations bills, which makes up about 30% of federal spending; and (2) *mandatory* or *direct spending*—the other 70%—where the BA flows directly from multiyear authorizing laws enacted *outside the annual appropriations process*. Examples of mandatory spending programs include entitlement programs, nutrition assistance, and multiyear highway bills.

Since the creation of the sequester mechanism in the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA; P.L. 99-177), it has been used to enforce a variety of fiscal policy goals. Sequestration is generally implemented through across-the-board (uniform percentage) reductions to programs, projects, and activities.

BCA and the Mandatory Sequester

The BCA included discretionary spending caps to save about $900 billion through FY2021 and a "Joint Committee process" aimed at saving another $1.5 trillion.

For the initial tranche of budgetary savings, the BCA placed statutory limits on discretionary spending for each fiscal year from FY2012 through FY2021.

To accomplish the second tranche of savings, the BCA established a bipartisan, bicameral Joint Select Committee on Deficit Reduction ("Joint Committee"). The committee was to negotiate a broad deficit reduction package, and as a fallback, automatic spending reductions would be triggered if Congress failed to enact at least **$1.2 trillion** in budget savings by January 15, 2012.

The deadline was not met, triggering the BCA's $1.2 trillion in automatic reductions. Most of the $1.2 trillion was to be achieved through annual reductions in discretionary spending by reducing the defense and nondefense spending caps below their initial BCA levels. However, subsequent legislation—the Bipartisan Budget Acts of 2013, 2015, 2018, and 2019—have partially or fully rolled back the additional discretionary savings.

The remainder of the $1.2 trillion in savings was to be achieved through annual across-the-board cuts (sequestration) in all nonexempt mandatory spending. This portion of the automatic reductions has been fully implemented—and extended for an additional eight fiscal years through FY2029.

Calculating the Mandatory Sequester

The BCA includes detailed statutory directions for the Office of Management and Budget (OMB) to calculate, and the President to implement, the Joint Committee reductions for each fiscal year through FY2021 (see **Figure 1**).

To achieve the required $1.2 trillion of deficit reduction, the BCA first subtracts an amount for debt service savings, then divides the remainder over nine years to arrive at an annual required reduction of $109.3 billion for each fiscal year through FY2021.

That amount is split equally between defense and nondefense spending, and each half is then allocated on a mostly proportional basis between discretionary and mandatory spending.

The resulting reductions in discretionary spending were to be implemented by lowering the BCA discretionary spending limits—although the required cap reductions have been superseded by four Bipartisan Budget Acts (2013, 2015, 2018 and 2019) that have raised the caps.

The required reductions in mandatory spending in the defense and nondefense categories are achieved through a mandatory sequester (across-the-board cuts)—subject to numerous exemptions and special rules. OMB refers to the mandatory reductions as the "Joint Committee sequester."

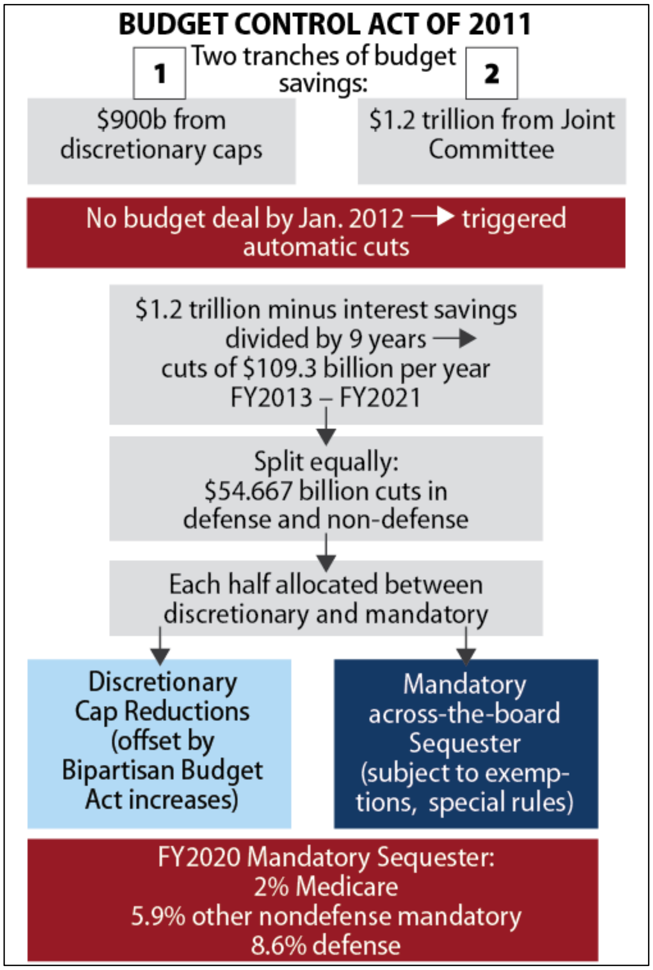
2% Limit for Medicare and Other Special Rules; Sequester Exemptions

The annual Joint Committee mandatory sequester generally applies reductions across the board but is subject to special rules and exemptions. The most significant special rule is the 2% limit on Medicare reductions.

Medicare is the largest mandatory spending program subject to sequestration, although special rules limit the sequestration of Medicare benefit payments to 2%. Most Medicare spending—$765.5 billion in FY2020—is subject to the 2% sequester, including payments to health care providers for hospitalizations, physician services, prescription drugs, skilled nursing facility care, home health visits, and hospice care. The reductions apply to fee-for-service payments as well as Medicare Advantage plans.

Other special rules that impact the mandatory sequester include a 2% limit on reductions to mandatory spending for community and migrant health centers and the Indian Health Service and a special rule for student loans that achieves the required budgetary savings by *increasing* origination fees.

Figure 1. Mandatory Sequester Calculations



Source: OMB, FY2020.

Many programs are exempt from the mandatory sequester under Section 255 of BBEDCA (2 U.S.C. §905). Three-quarters of all mandatory spending is exempt from the mandatory sequester, including Social Security; veterans programs; net interest; refundable income tax credits; civilian and military retirement; federal aid highways; unemployment compensation; and low-income programs including Medicaid, Children's Health Insurance, Supplemental Security Income, Supplemental Nutrition Assistance, and Temporary Assistance for Needy Families.

FY2020 Mandatory Sequester

After implementing the above calculations and special rules, the Joint Committee reductions for FY2020 require:

- 2% across-the-board reduction in Medicare spending amounting to **$15.31 billion**;
- 5.9% across-the-board reduction in more than 200 nondefense mandatory spending accounts amounting to **$4.491 billion** and a **$59 million** increase in student loan origination fees; and
- 8.6% across-the-board reductions in defense mandatory accounts, amounting to **$842 million** (less than the nondefense reductions due to the small amount of defense spending that is mandatory).

Scope of the Mandatory Sequester

The Joint Committee sequester automatically reduces more than *200 budget accounts listed in the OMB Report.* The reductions impact a broad array of programs, including Affordable Care Act cost-sharing reduction subsidies and risk adjustment, farm price and income supports, compensation and services for crime victims, citizenship and immigration services, agricultural marketing services and conservation programs, promoting safe and stable families, and animal and plant health inspection. It also includes Federal Deposit Insurance Corporation orderly liquidation operations, vocational rehabilitation services, mineral leasing payments, Centers for Medicare and Medicaid Services program management, social services block grants, Departments of Justice and Treasury law enforcement activities, and student loan origination fees. Also included are highway performance; school construction bonds; spectrum relocation activities; Trade Adjustment Assistance; Consumer Financial Protection Bureau; Drug Enforcement Administration operations; Tennessee Valley Authority; fish and wildlife restoration and conservation; affordable housing; the maternal, infant, and early childhood home visiting program; and Gulf Coast restoration.

Extension of the Joint Committee Sequester

The requirement for a Joint Committee (mandatory) sequester in FY2013-FY2021 has been extended on five occasions—to offset increases approved in discretionary spending and other legislation—and is now required *for each fiscal year through FY2029.* (The five extensions were enacted as part of the Bipartisan Budget Acts of 2013, 2015, 2018, and 2019, and a 2014 law relating to cost-of-living adjustments for military retirees.)

Annual calculation of the mandatory sequester is interdependent with calculation of the BCA discretionary cap reductions. However, after FY2021, the BCA statutory requirement for cap reduction calculations expires. Therefore, the statutes extending the Joint Committee mandatory sequester through FY2029 tie the defense and nondefense mandatory savings for the extension years to the uniform percentage reductions that will be calculated for FY2021. Those numbers are to be included in the *Report on the Joint Committee Reduction* that are to be released concurrent with the President's budget for FY2021 (in February 2020).

Charles S. Konigsberg, ckonigsberg@crs.loc.gov, 7-7545

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