



What Physicians Should Know about Medicare Sequestration

The ABC has prepared the following primer to help its members understand the origins of sequestration and physicians should be prepared to take action later this year.

What is Sequestration?

Sequestration is a budgetary enforcement mechanism created by the Statutory Pay-As-You-Go (PAYGO) Act of 2010 and the Budget Control Act (BCA) of 2011.

The BCA established a bipartisan Joint Select Committee on Deficit Reduction, which was responsible for developing legislation that would reduce the deficit by at least \$1.2 trillion from FY2012 to FY2021. Because the Joint Committee was unable to achieve that goal, automatic spending reductions, known as sequestration, were triggered.

When did Sequestration Start and When will it End?

Under the BCA, the sequestration of mandatory spending was originally scheduled to occur in the Fiscal Years (FY) 2013 through 2021. However, six subsequent actions by Congress have extended the BCA mandatory sequester to FY 2030.

How Much can be Sequestered?

Under a BCA mandatory sequestration order, Medicare benefit payments and Medicare Integrity Program spending cannot be reduced by more than 2 percent. Sequestration is applied to the portion of the payment paid to providers by Medicare and does not affect beneficiary cost-sharing amounts.

What is PAYGO?

Under the PAYGO Act, if legislation is enacted that increases the federal deficit over a 5- and/or 10-year period, a sequester of certain mandatory spending is required.

Although Congress has passed legislation that has been estimated to increase the deficit since the law went into effect, the PAYGO sequester has never been triggered because both parties have worked together to waive the effects of PAYGO. Under PAYGO sequestration, Medicare cuts are capped at 4 percent.



Will the American Rescue Plan Trigger PAYGO?

The \$1.9 trillion *American Rescue Plan*, enacted on March 11, 2021, sets in motion PAYGO reductions in Medicare spending of 4 percent next year, totaling \$36 billion.

Sequestration under PAYGO can be avoided if Congress passes legislation that offsets the deficit increase, waives the bill's effects on the federal spending scorecard, or otherwise mitigates or eliminates the statutory PAYGO requirements.

[H.R. 1868](#), as passed by the House would waive PAYGO requirements. And, while Senate has approved extending the 2 percent Medicare sequestration, it does not intend to address PAYGO sequestration until later this year.