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Sequestration by the Numbers

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The automatic budget cuts known as "sequestration" took effect on March 1. Under the requirements of the 2011 Budget Control Act (BCA) as amended by January's American Taxpayer Relief Act (ATRA), both defense and non-defense programs were automatically cut, or sequestered, reducing total funding by $85 billion. While the press and public have focused on the programmatic effects of sequestration, this analysis explains the dollar and percentage calculations required by the sequestration law.

The origin of sequestration lies with the BCA, which established a congressional Joint Select Committee on Deficit Reduction (supercommittee) to propose legislation that would reduce deficits by $1.2 trillion over ten years. It also created a backup sequestration procedure to ensure that this level of deficit reduction would be achieved even if the supercommittee failed to reach agreement, which is what happened. The sequestration mandates cuts to defense and non-defense funding totaling $109.3 billion in each year from 2014 to 2021. For 2013, however, the mandated cuts are $85.3 billion; ATRA reduced the required cuts. The sequestration law requires that the cuts be split 50-50 between defense and non-defense programs.

Table 1

Summary of Dollar and Percent Cuts in 2013 Funding Required by the Supercommittee Sequestration on March 1st
(Percentages apply only to programs subject to sequestration)

	Billions	Percent
National defense programs:	**42.7**	
Discretionary appropriations	42.6	7.8%
Mandatory programs	0.1	7.9%
Non-defense programs:	**42.7**	
Discretionary appropriations	25.8	5.0%
Medicare (capped at 2%)	11.3	2.0%
Certain other mandatory health funding (capped at 2%)	*	2.0%
Other mandatory programs	5.5	5.1%
Total	**85.3**	

* Indicates less than $50 million. Parts may not add to totals due to rounding. CBPP calculations based on OMB and CBO estimates.

Box 1: Estimates Used in This Analysis

The total dollar targets for defense and non-defense sequestration are specified in law, as is the "allocation target" discussed in footnote 6.

For 2013, the estimated amount of sequestrable mandatory funding for Medicare, certain other health programs, and student loans as well as the total amount of sequestrable mandatory funding is taken directly from OMB's March 1 sequestration report.[a] Likewise, the total amount of sequestrable discretionary funding is taken from that report.

However, OMB did not publish the component pieces of the sequestrable budgetary resources, such as regular funding subject to the BCA caps, war funding, disaster and emergency funding, program integrity funding, and exempt funding (e.g., for military personnel or discretionary veterans' programs). We therefore use CBO's estimate of those component pieces, derived from CBO's scoring of the CR and the Sandy supplemental appropriations bill. The amount of defense unobligated balances and of funding covered by offsetting collections is derived as a residual. The amount by which 2013 funding exceeds the BCA caps is CBO's estimate; OMB did not publish its estimate.

For years after 2013, all estimates are derived from CBO data.

One final note: OMB's March 1 report calculated the percent and account-by-account dollar sequestrations based on the appropriations then in effect (the annualized "continuing resolution"). Under the law, OMB does *not* recalculate the required percentage cuts nor apply the existing percentage cuts to the new account-by-account funding levels that are in the final appropriations bill for 2013 approved by Congress. Rather, the account-by-account dollar cuts calculated on March 1 apply to the funding in the final appropriations bill.

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[a] See OMB Report to the Congress in the Joint Committee Sequestration for Fiscal Year 2013, March 1, 2023, at http://www.whitehouse.gov/sites/default/files/omb/assets/legislative_reports/fy13ombjcsequestrationreport.pdf.

This paper — which refers to the March 1 cuts as the "supercommittee sequestration" — updates our earlier analysis.[1] That analysis also highlighted a second possible sequestration, which we referred to as a "cap sequestration," that could have arisen on March 27 if the appropriations for discretionary (non-entitlement) programs in 2013 had exceeded the funding caps for those programs set in the BCA (see Appendix 3), as they did at the time. However, Congress has now approved a full-year appropriations bill that conforms to the BCA caps. So the likelihood of a cap sequestration seems to have evaporated.

Part 1 of this report examines how the supercommittee sequestration works for 2013. Part 2 discusses the supercommittee sequestration in 2014 and subsequent years. Appendix 1 gives the details about how ATRA and supplemental appropriations for relief and reconstruction after Hurricane Sandy have changed the amounts and percentages associated with sequestration. Appendix 2 examines the special rules around Medicare and student loans under sequestration. Appendix 3 discusses the cap sequestration in more detail.

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[1] See Richard Kogan, "*The Pending Automatic Budget Cuts: How the Two Sequestration Would Work*" Center on Budget and Policy Priorities, February 26, 2013, http://www.cbpp.org/cms/index.cfm?fa=view&id=3910.

Part 1: How the "Supercommittee Sequestration" Works in 2013

The BCA details the steps that the Office of Management and Budget (OMB) must take because the supercommittee — established by the BCA and charged to find $1.2 trillion in deficit reduction (including interest) over the ten-year period 2012-2021 — did not agree on a deficit-reduction plan. As Table 2 shows, the sequestration law called for $1.2 trillion in deficit reduction through 2021; it required $984 billion in budget cuts and assumed those savings would reduce interest payments by $216 billion.[2] The $984 billion in budget cuts is divided equally over each of the nine years 2013-2021, for $109.3 billion per year. Those cuts themselves are divided equally between the "National Defense" budget function[3] and all other budget functions: $54.7 billion per year in defense and $54.7 billion per year in non-defense programs.

ATRA reduced the sequestration for 2013 by precisely $24 billion, to $85.3 billion. (ATRA replaced this $24 billion in sequestration cuts with $24 billion of other savings.) ATRA left in place the requirement of an even split between defense and non-defense programs, and so reduced the 2013 defense and non-defense sequestrations by $12 billion apiece, to $42.7 billion.

Table 2

How the $1.2 Trillion in Deficit Reduction Is Apportioned
(In billions of dollars)

	Non-Defense	Defense	Total
$1.2 trillion shortfall due to Joint Select Committee inaction			1,200.0
Less 18% of shortfall, attributed to interest savings			-216.0
Equals required program cuts			984.0
Annual program cuts, 2013-2021 in equal amounts			109.3
Split equally between defense and non-defense programs	54.7	54.7	109.3
Reduction of $24 billion applicable only to 2013			-24.0
Program cuts for 2013 *only*	**42.7**	**42.7**	**85.3**

Figures do not add to totals due to rounding

Defense Sequestration

The $42.7 billion in 2013 defense cuts are imposed on both discretionary (non-entitlement) and mandatory (entitlement) defense programs, though some programs — including those that constitute most *mandatory* defense funding — are exempt.[4]

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[2] Because CBO now assumes lower interest rates than the BCA drafters assumed in 2011, CBO would likely estimate that the supercommittee sequestration would actually reduce interest payments by about $135 billion through 2021.

[3] The National Defense function includes all military programs of the Department of Defense as well as the nuclear weapons and clean-up activities of the Department of Energy and some other activities that are classified as National Defense, such as portions of the FBI, the Department of Homeland Security, and the Coast Guard.

[4] All mandatory defense funding, except $662 million, is exempt from sequestration. The three largest examples of non-exempt funding are administrative costs of commissaries financed by surcharge collections, the national defense stockpile transaction fund, and administrative expenses of the Energy Employees Occupational Illness Compensation Fund (which is administered by the Department of Labor).

The vast bulk of the defense cuts occur through across-the-board, proportional cuts in funding for discretionary defense accounts provided by the existing continuing resolution. Within the National Defense function, war costs are subject to sequestration, as are unobligated balances carried over from prior years; but military personnel funding is not, at the President's option.[5] Table 3 shows the three steps that OMB takes in calculating the supercommittee sequestration of defense funding.

- Step 1 shows how the required dollar sequestration in defense is allocated between discretionary and mandatory funding. The share of the cut allocated to discretionary funding is based on the *allocation target* for defense discretionary funding in fiscal year 2013, which is $544.0 billion.[6] The share allocated to mandatory defense funding is based on the amount of such funding actually subject to sequestration.

- Step 2 shows the amount of defense discretionary funding that is subject to sequestration ($549.3 billion), after adjusting for war costs, emergency funding in the Sandy supplemental, unobligated balances, and the exemption of military personnel funding.

- Step 3 divides the required cut for discretionary and mandatory defense funding (Step 1) by the amount of such funding that is subject to sequestration (Step 2) to derive the percentages applicable to discretionary and mandatory defense funding that are subject to sequestration.

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[5] Under the law, the President has the option to exempt none, some, or all funding for military personnel from a coming sequestration or to reduce the percentage cut applicable to military personnel, if he announces his decision by the applicable date (in this case, August 10, 2012). Exempting this funding causes an increase in the sequestration of other defense accounts, since the total dollar amount of the required defense reduction is not altered by a presidential decision on personnel funding. This is the only discretion granted to the executive under the sequestration law. For 2013, President Obama chose to completely exempt military personnel from sequestration.

[6] Under the BCA, the defense cap (which was $546 billion) was the figure used in this step of the calculation. Because ATRA reconfigured the BCA's 2013 caps on discretionary funding to apply to security and non-security funding rather than to defense and non-defense funding, an applicable defense cap for this purpose no longer exists. Therefore, ATRA also created an allocation target to serve this purpose and set it at the $544 billion figure shown in Table 3. As a result, this figure is *not* the cap that applies to discretionary funding for this year. Rather, this figure exists only for the purpose of starting the allocation calculations for the supercommittee sequestration, which is why we call it an "allocation target." For later years, however, the corresponding figure remains the statutory cap on defense funding (or, as applicable, the cap on non-defense discretionary funding), as required by the BCA.

Table 3 **Defense Cuts Required by the March 1st Supercommittee Sequestration** (In billions of dollars)			
	Discretionary	**Mandatory**	**Total**
Step 1: allocate share of cuts for discretionary and mandatory programs:			
Discretionary = allocation target; mandatory = sequestrable funding	544.0	0.7	544.7
Percentage allocation of $42.667 billion in cuts	99.88%	0.12%	100.00%
Allocate $42.667 billion in required cuts according to above shares	42.615	0.052	42.667
Step 2: calculate amounts subject to sequestration:			
Defense funding in the CR, scorable against discretionary caps	556.9		
-- Plus war funding in the national defense function	88.7		
-- Plus emergency funding in the Sandy supplemental	0.1		
-- Plus unobligated balances of defense funding carried over from prior years and additional sequestrable funding offset by collections attributable to defense accounts	57.6		
-- Minus military personnel funding, exempt by presidential decision	-154.0		
Equals defense funding subject to sequestration	549.3	0.7	555.0
Step 3: percentage cuts in sequestrable funding (Step 1 divided by Step 2)	**7.8%**	**7.9%**	

Table 3 shows that the cut in sequestrable discretionary defense funding is 7.8 percent. Had the President not chosen to exempt military personnel from sequestration, the figure would have been 6.1 percent.

Table 3 also shows that defense mandatory funding is cut by 7.9 percent, slightly higher than the discretionary cut of 7.8 percent. If the sequestration were administered uniformly across all sequestrable defense funding, the two percentages would be identical, of course. They differ only because the required sequestration is allocated to mandatory and defense discretionary programs based on the amount of sequestrable mandatory funding and the defense discretionary allocation target, as seen in Step 1 of Table 3. The amount of discretionary, sequestrable defense funding ($549.3 billion) is modestly larger than the defense discretionary allocation target ($544.0 billion); as a result, the required percentage reduction to achieve the needed defense discretionary reduction is slightly lower.

A final note: the law requires that unobligated balances of funding carried over from prior years be subject to the defense sequestration. This does not change the *dollar* amount of the defense sequestration but does lower the *percentage* cut because it increases the size of the sequestrable base, as shown in Step 2. If unobligated balances were not subject to defense sequestration, the discretionary percentage cut would have been about 8.6 percent rather than 7.8 percent. Effectively, subjecting carryover unobligated balances to sequestration modestly reallocates the sequestration within the defense function, for example by reducing the dollar cut to Operations and Maintenance funding and increasing the dollar cut to Procurement funding.

Non-Defense Sequestration

As with the defense cuts, the $42.7 billion in non-defense cuts come from both mandatory and discretionary programs. The mandatory cuts total $16.8 billion, as follows:

- *Cuts in Medicare payments to providers and insurance plans.* Those cuts are limited to 2 percent of such payments a year, or $11.3 billion in 2013. That means that doctors, hospitals, and providers will continue to bill Medicare in the normal way but will be reimbursed at 98 cents on the dollar, as will per-capita premium payments made to health insurance plans on behalf of Medicare participants.[7]

- *About $5.5 billion in cuts to other mandatory programs subject to sequestration.* The biggest such program is Emergency Unemployment Compensation, which provides federally funded unemployment benefits to workers who have been unemployed for more than six months and are still looking for jobs. Other mandatory programs subject to sequestration include Extended Unemployment benefits, available in states with unusually high unemployment rates; farm price supports; vocational rehabilitation; mineral leasing payments to states; the Social Services Block Grant; and dozens of smaller programs. A special rule limits the sequestration of mandatory funding for health centers and the Indian health service to 2 percent.

  Some key mandatory programs are exempt from sequestration, including Social Security, Medicaid, the Children's Health Insurance Program (CHIP), SNAP (formerly known as food stamps), child nutrition, Supplemental Security Income (SSI), refundable tax credits such as the Child Tax Credit and the Earned Income Tax Credit, veterans' compensation and pensions, regular state unemployment benefits, and federal retirement.[8]

As described in the two bullets above, in 2013 about $16.8 billion of the $42.7 billion in non-defense cuts come from mandatory programs. The remaining non-defense cuts — about $25.8 billion in 2013 — come from discretionary programs. For 2013, the non-defense discretionary cuts occur through across-the-board, proportional cuts in the new funding[9] provided for each non-exempt discretionary program in the continuing resolution and in the Hurricane Sandy supplemental. The BCA exempts all veterans' funding, Pell Grants, and SSI administrative costs from those cuts, even though they count against the BCA caps. Non-defense discretionary programs that are effectively excluded from the BCA discretionary caps but are *not* exempt from

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[7] A special rule in the sequestration law provides that the Medicare sequestration starts the first full month after the order is issued and continues for 12 months; the $11.3 billion figure thus represents the 12-month savings in Medicare. See Appendix 2.

[8] The Budget Control Act is drafted as a portion of the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA, also known as Gramm-Rudman-Hollings), which contains a list of exemptions in section 255 and a list of special rules in section 256. Therefore, these exemptions and special rules generally apply to this supercommittee sequestration, just as they have applied to all laws since 1985 containing a sequestration mechanism. These two sections of BBEDCA were most recently updated by the Statutory Pay-As-You-Go Act of 2010 and were not altered by the Budget Control Act or ATRA.

[9] For non-defense appropriations, "new funding" means new budget authority provided for 2013, including advance appropriations enacted in prior years that first become available for obligation in 2013. The term does not include unobligated balances carried over from prior years.

sequestration include war costs within the budget's International Affairs function, disaster and emergency funding, and program integrity funding.[10]

Table 4 shows the six steps that OMB takes in calculating the supercommittee sequestration of non-defense funding.

- Step 1 shows the Medicare sequestration, which is limited to 2 percent of Medicare costs, with minor exceptions.[11] The Medicare sequestration is calculated before the remaining sequestration is allocated between non-defense discretionary funding and other non-defense mandatory funding. As a result, limiting the Medicare cut to 2 percent increases the subsequent cut in both discretionary and other mandatory non-defense programs.

- Step 2 allocates the remaining non-defense sequestration, after accounting for Medicare cuts, between discretionary and other mandatory programs. Just as with the defense sequestration outlined in Table 2, this allocation is based on the non-defense discretionary allocation target[12] (not the amount of non-defense discretionary funding that is subject to sequestration) and the non-defense mandatory funding that is subject to sequestration. This allocation is thus not strictly proportional to the amount of non-defense discretionary and non-defense mandatory funding subject to sequestration, which is why the non-defense discretionary percentage and the "other mandatory" percentage are not identical.

- Step 3 shows that a 2 percent limitation on the cut to mandatory funding for community health centers and the Indian health service means that mandatory funding for those programs is cut by $27 million.[13] Unlike the Medicare 2 percent limit, this 2 percent limit slightly increases the sequestration of other *mandatory* programs, but none of the offsetting increase is imposed on non-defense *discretionary* programs.

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[10] Program integrity funding refers to the fact that the BCA allows the discretionary caps to be adjusted upward by a limited amount to the extent that Congress increases funding for the Social Security Administration to review disability cases and for the Department of Health and Human Services to fight Medicare fraud. This extra program integrity funding more than pays for itself by generating savings in disability and Medicare payments.

[11] Some Medicare costs, such as the low-income subsidy for the prescription drug benefit, are exempt from sequestration. Also, about $1 billion of mandatory Medicare funding for administrative costs is subject to across-the-board sequestration rather than being limited to 2 percent. For simplicity, this analysis refers to a "2 percent limit on Medicare sequestration," but the calculations account for the portion of Medicare that is completely exempt and the portion that is subject to across-the-board sequestration.

[12] As explained in footnote 6, this $499 billion is not a cap on non-defense funding in 2013; because of ATRA's reconfiguration of the 2013 discretionary caps, the actual cap applies to non-*security* funding. The $499 billion figure exists only for the purpose of allocating the non-defense sequestration between discretionary and mandatory funding for the supercommittee sequestration, which is why we call it an "allocation target."

[13] For obscure legal reasons, the 2 percent limit on the cut to funding for health centers and the Indian Health Service applies to mandatory funding for those programs but not discretionary funding for those programs for purposes of the supercommittee sequestration. Under the supercommittee sequestration, discretionary funding for those programs is cut by the standard non-defense discretionary percentage, 5.0 percent. However, for purposes of any *cap* sequestration (discussed in Appendix 3 of this analysis), the 2 percent limit would apply to discretionary funding for those programs if the non-security cut were greater than 2 percent rather.

Table 4 **Non-Defense Cuts Required by the March 1st Supercommittee Sequestration** (In billions of dollars)			
	Discretionary	**Mandatory**	**Total**
Step 1: apply 2% cut to Medicare and calculate remaining required cuts:			
Total required non-defense cuts			42.7
Medicare funding subject to the 2% cut			567.3
2% cut of Medicare			11.3
Equals remaining non-defense cuts			31.3
Step 2: allocate share of remaining cuts for discretionary and mandatory programs:			
Discretionary = allocation target ; mandatory = sequestrable funding	499.0	106.8	605.8
Percentage allocation of non-Medicare cuts	82.37%	17.63%	100.00%
Allocate $31.5 billion in required cuts according to above shares	25.796	5.522	31.320
Step 3: apply 2% limit to mandatory funding for "special health" programs:			
Base level of mandatory "special health" programs		1.3	
2% cut in "special health" programs		0.027	
Remaining required cuts, to be taken across the board	25.8	5.5	31.3
Step 4: account for special treatment of student loans:			
De facto student loan sequestrable base		1.6	
Add student loans but subtract "special health" from sequestration base		107.1	
Step 5: calculate non-defense discretionary amounts subject to across-the-board sequestration:			
CR funding that is subject to discretionary caps	490.5		
Sandy funding that is subject to discretionary caps	3.5		
-- Plus war funding in the international affairs function (outside caps)	11.2		
-- Plus program integrity funding (outside caps)	0.5		
-- Plus disaster and emergency funding in the CR and Sandy supplemental (outside caps)	52.8		
-- Plus additional sequestrable funding financed by offsets (where the offsets are unaffected by sequestration):	43.1		
-- Minus Pell funding, exempt from sequestration	-23.0		
-- Minus veterans' funding, exempt from sequestration	-63.3		
-- Minus SSI adm. funding, exempt from sequestration	-3.7		
Equals non-defense funding subject to sequestration	511.8	107.1	618.9
Step 6: percentage cuts in sequestrable funding (Step 3 divided by Step 5)	**5.0%**	**5.1%**	
May not add due to rounding.			

- Step 4 adjusts the base of sequestrable funding for mandatory programs in two ways. First, it reduces the starting base by $1.344 billion, the amount associated with the special health

programs discussed in Step 3, because the 2 percent sequestration of those programs is handled in Step 3. Second, it adds $1.6 billion for student loans, which is the *de facto* sequestrable base for that program and which was not included in the mandatory sequestrable funding base in Step 2. The net impact of these two changes is to increase the mandatory starting base of $106.8 billion to $107.1 billion.

- Step 5 shows how the non-defense discretionary amount subject to sequestration differs from the amount that is subject to the discretionary caps. In addition to the continuing resolution and Sandy supplemental funding that counts against the caps, those laws contain sequestrable funding that does *not* count against the caps: war funding, program integrity funding (see footnote 10), disaster funding, and emergency funding.[14]

  Step 5 also shows another reason that the level of sequestrable non-defense funding exceeds the amounts that are scored for purposes of compliance with the discretionary caps. Savings from changes in mandatory programs (CHIMPs), negative credit subsidies, and certain types of federal collections are scored as offsets to funding. These three types of budget transactions produce savings totaling $43 billion. Because these savings count towards meeting the BCA caps, their inclusion in the CR allows for $43 billion in offsetting, additional funding. The key point is that although these savings cannot be subject to sequestration, the extra funding that they finance *is* subject to sequestration, as shown in Step 5.

  Finally, Step 5 shows that the CR and Sandy supplemental together contain $23 billion in funding for Pell Grants, $63 billion in discretionary veterans' funding (primarily for the VA health system), and almost $4 billion in funding for SSI administrative costs, which are exempt from sequestration.

  As a result, the amount of gross non-defense discretionary funding that is subject to sequestration totals $512 billion.

- Step 6 divides the required across-the-board dollar sequestration amounts calculated in Step 3 by the discretionary and mandatory funding subject to those cuts, shown in Step 5, thereby producing the percentage cut in non-defense discretionary funding (5.0 percent) and the percentage cut in non-defense mandatory funding (5.1 percent) for programs subject to sequestration.

Part 2: The Supercommittee Sequestration in 2014 and Subsequent Years

The sequestration required by the supercommittee's failure entails an annual cut of $109.3 billion in each year from 2014 through 2021; ATRA lowers the 2013 target to $85.3 billion. The process for the 2013 sequestration (described in Part 1) has several features for discretionary programs that are not repeated in future years.

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[14] Technically, war, program integrity, disaster, and emergency funding are not outside the BCA caps but rather trigger an automatic upward adjustment in the caps. The distinction between disaster and emergency funding is unimportant in a legal sense, but the BCA provides for upward adjustments both for disaster funding (within limits) and emergency funding (with no specified limits).

For *mandatory* programs, however, the supercommittee sequestration will work in essentially the same way in future years as in 2013. In effect, this means that mandatory sequestrations ordered on March 1, 2013, will be repeated each year for nine years. Each year the mandatory sequestration percentage will change modestly, but the sequestration will otherwise be implemented the same way, except that it will be effective on October 1 (the start of each fiscal year) rather than five months later. The percentage cuts in mandatory programs will change from year to year for four reasons.

- The percentage cuts are higher in 2014 and subsequent years than in 2013 because the total non-defense sequestration is larger: $54.7 billion rather than the $42.7 billion that applies for 2013.

- In the outyears, the discretionary targets that are used in allocating the cuts between discretionary and mandatory programs (see Step 1 of Table 3 regarding defense, and Step 2 of Table 4 regarding non-defense) are the actual defense and non-defense caps established by the BCA, not the allocation targets that apply in 2013. And those discretionary cap amounts change each year.

- The allocation of the sequestration between discretionary and mandatory programs changes each year as the estimated amount of mandatory funding subject to sequestration changes, since estimates of the cost of these programs change over time.

- For non-defense programs, the calculation of the 2 percent Medicare sequestration occurs first and so reduces the required dollar cuts in both the discretionary and the remaining mandatory programs subject to sequestration. Because Medicare generally grows more rapidly than other programs, the dollar amount of cuts to be applied across the board to non-defense programs other than Medicare will shrink each year.

For *discretionary* programs, the supercommittee sequestration works very differently after 2013. Instead of Congress enacting appropriations bills at levels that do not breach the existing discretionary caps and the President then ordering an across-the-board sequestration of the funding provided by those bills, the law requires that the sequestration of discretionary programs be implemented *up front through reductions in the defense and non-defense discretionary caps themselves*. Policymakers then determine how to live within those reduced caps. Essentially, after 2013, there are *no automatic, proportional cuts of affected discretionary programs*; instead, the Appropriations Committees (and then, more broadly, the President and Congress) decide how to fund discretionary defense and non-defense programs within the newly reduced funding caps.

Specifically, in each year from 2014 through 2021:

- The $109.3 billion sequestration amount is divided evenly between defense and non-defense: $54.7 billion for each category.

- The defense sequestration comes almost entirely from discretionary funding, with only a tiny amount from mandatory funding.

- For the non-defense sequestration, the first step is to calculate the 2 percent cut in Medicare payments to providers and health insurance plans. Because Medicare costs are projected to rise

from 2013 through 2021, the dollar amount saved by this 2 percent cut will increase each year, from $11.3 billion in 2013 (see Table 4) to $11.6 billion in 2014 and ultimately to $18.2 billion in 2021 (see Table 5).[15]

- In each year from 2014 through 2021, the remaining amount of the $54.7 billion in annual non-defense cuts will be applied proportionally to: a) the statutory cap on overall non-defense funding, and b) other non-exempt mandatory programs.[16] Because Medicare will account for a growing share of the $54.7 billion annual non-defense cut — 21 percent in 2014, rising to 33 percent in 2021 — other non-defense programs will absorb a falling share of the cut, as Table 5 shows.

Because the defense and non-defense discretionary cuts will occur through the normal appropriations process, Pell Grants, SSI administrative costs, veterans' medical care, and military personnel will have *no* special status; the normal process of policymaking will determine how the President and Congress adhere to the newly reduced caps, and they will be able to cut these programs to help fit within the reduced caps if they choose.

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[15] OMB will re-estimate the amount of mandatory savings from sequestration — for example, the amount estimated to be saved by the 2 percent cut in Medicare reimbursement rates — when it submits its budget each year. While these estimates are unlikely to change much from year to year from those shown in Table 5 (which are CBO's current projections), any change in estimated mandatory savings will necessarily produce an offsetting change in the size of the reduction in the non-defense discretionary cap, since the total amount of annual non-defense savings must equal $54.7 billion.

[16] The 2 percent limit on the sequestration of certain mandatory health funding and the special treatment of student loans will also continue to apply in the outyears, as they do in 2013 and as described in Table 4.

Table 5 **Sequestration in 2014 through 2021** (In billions of dollars)								
	2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Defense caps before reduction	552	566	577	590	603	616	630	644
Required reduction, dollars	54.6	54.6	54.6	54.7	54.7	54.7	54.7	54.7
Required reduction, percent	9.9%	9.7%	9.5%	9.3%	9.1%	8.9%	8.7%	8.5%
Resulting level of defense caps	497	511	522	535	548	561	575	589
Non-exempt defense mandatory cuts	*	*	*	*	*	*	*	*
2% Medicare sequestration, dollars	11.6	12.3	12.8	13.6	14.7	15.7	16.9	18.2
Non-defense caps before reduction	506	520	530	541	553	566	578	590
Required reduction, dollars	37.0	36.7	36.5	36.0	35.4	34.5	33.0	32.2
Required reduction, percent	7.3%	7.1%	6.9%	6.7%	6.4%	6.1%	5.7%	5.5%
Resulting level of non-defense caps	469	483	494	505	518	532	545	558
Other non-exempt mandatory programs								
Required reduction, dollars	6.0	5.7	5.4	5.0	4.6	4.5	4.8	4.2
Required reduction, percent	7.3%	7.1%	6.9%	6.7%	6.4%	6.1%	5.7%	5.5%
Total sequestration	**109.3**	**109.3**	**109.3**	**109.3**	**109.3**	**109.3**	**109.3**	**109.3**

* Less than $0.05 billion.

CBPP estimates from CBO data. The cap levels shown in this analysis do not include later adjustments for the actual enactment of war funding, disaster funding, or program integrity funding because the downward adjustments in the caps required each year by the sequestration law are made before Congress has enacted any such funding.

Appendix 1
How ATRA and the Sandy Supplemental Have Changed the Sequestration Calculations

The supercommittee sequestration has changed from what would have been required on January 2 for three reasons.

- **Change in rules.** In ATRA, the President and Congress chose to change the 2013 sequestration rules, reducing the 2013 sequestration by $24 billion (from $109.3 billion to $85.3 billion),[17] reducing the non-defense discretionary allocation target by $2 billion, and delaying the sequestration date until March 1. The latter two changes had almost no effect on the calculations. As shown in Table 6, these changes by themselves reduce the dollar and percent sequestrations that are otherwise required. The non-defense discretionary sequestration is reduced from $38.0 billion to $27.5 billion (from 8.2 percent to 5.9 percent). And the cut in non-defense mandatory programs drops from $5.5 billion to $4.0 billion (from 7.5 percent to 5.5 percent).

  The change in rules similarly reduces the defense discretionary sequestration percentage from 9.9 percent to 7.8 percent.

- **Changes in mandatory funding.** ATRA continued Emergency Unemployment Compensation for another year, increasing the mandatory sequestrable base by about $35 billion. In addition, ATRA increased the Medicare sequestrable base by providing relief from the scheduled steep cut to the reimbursement rate for Medicare physicians under the Sustainable Growth Rate or SGR formula. Finally, the Sandy supplemental appropriations bill increased 2013 funding for the Social Services Block Grant, a capped entitlement, by $0.5 billion. Each of these programs is subject to sequestration.

Table 6
The Effect of ATRA and the Sandy Supplemental on the Non-Defense Supercommittee Sequestration
(In billions of dollars)

	Medicare (2%)	Discretionary		Other mandatory	
	Dollars	Dollars	Percent	Dollars	Percent
Sequestration without ATRA or Sandy supplemental	$11.1	$38.0	8.2%	$5.5	7.5%
ATRA reduces targeted savings	$11.1	$27.5	5.9%	$4.0	5.5%
ATRA increases Medicare (SGR) and provides EUC; Sandy supplemental increases SSBG	$11.3	$25.8	5.6%	$5.5	5.1%
Sandy provides new discretionary funding, increasing sequestrable base	$11.3	$25.8	5.0%	$5.5	5.1%

The effect of these increases is twofold. First, about $1.7 billion of the required non-defense sequestration shifts from discretionary to mandatory programs. For discretionary programs, the

[17] The President and Congress chose to offset this $24 billion reduction in the size of the 2013 sequestration, and so included in ATRA $12 billion in other spending cuts and $12 billion in revenue from a timing shift that moves up tax receipts on certain retirement accounts.

shift reduces the required cut from 5.9 percent to 5.6 percent. Second, because the sequestrable base of mandatory programs is bigger, the required percentage reduction is smaller. The shift in cuts towards mandatory programs is more than offset by the larger sequestrable base, so the required cut in other mandatory programs falls from 5.5 percent to 5.1 percent.

- **Changes in discretionary funding.** The Sandy supplemental appropriations bill also increased by $49.7 billion the amount of non-defense discretionary funding that is subject to sequestration. Because the sequestrable base of discretionary funding is therefore larger, the required percentage reduction is smaller, dropping to 5.0 percent.

Appendix 2
Technical Notes About the Sequestration of Medicare and Student Loans

Medicare: with ATRA's two-month delay in the date of the supercommittee sequestration, the Medicare cuts now begin April 1, 2013. As before, they last for 12 months. This means that the "2013" sequestration of Medicare occurs partly in fiscal year 2013 and partly in fiscal year 2014. However, under the Statutory PAYGO Act, which the BCA cross-references in describing how sequestration will be implemented, the fiscal year *2014* Medicare savings from the cut in reimbursement rates ordered in March 2013 count toward the sequestration target for fiscal year *2013*. (The same phenomenon applies in each subsequent year, but we illustrate this point by reference to the 2013 sequestration.)

In our estimates, therefore, we take this requirement into account, which is why we attribute $11.3 billion in Medicare savings — a full 12 months' worth — to achieving the *2013* non-defense sequestration target of $42.7 billion, rather than attributing only six months of Medicare savings.[18]

The Statutory PAYGO Act also provides that there be no overlapping Medicare sequestrations. As a result, because the 2013 Medicare sequestration runs from April 2013 through March 2014, of necessity the 2014 Medicare sequestration cannot start until April 2014 and so runs through March 2015. As result of this requirement, the nine-year Medicare sequestration starts April 2013 and ends March 2022. In essence, there is a full nine-year period starting April 2013 during which Medicare providers and plans will bill Medicare in the normal way but be reimbursed 98 cents on the dollar (unless Congress and the President enact legislation to cancel the sequestration).

Student loans: the student loan program is mandatory and is not exempt from the supercommittee sequestration. The sequestration law includes a special rule for the program: under a sequestration, origination fees that borrowers pay to the government rise by the uniform percentage applicable to non-exempt mandatory programs generally. For example, if a student's origination fee would otherwise be $100, the 5.1 percent sequestration increases her fee to $105.10.

In its March 1 report, OMB stated that each 1 percent increase in the sequestration rate would save the government $16 million. In effect, this means that the student loan sequestration base for 2013 is $1.6 billion. Although OMB did not portray its calculations this way, that $1.6 billion is effectively part of the mandatory sequestration base of $107.1 billion shown in Table 4 at the end of Step 4. However, OMB does not treat this $1.6 billion as a "sequestrable budgetary resource" for purposes of the allocation of the required cuts between discretionary and mandatory programs in Step 2.

[18] A similar rule applies for sequestration of farm price support payments, which are cut for each crop year that starts after March 1 and so will spill over into fiscal year 2014, but will all be attributed to the fiscal year 2013 target.

Appendix 3
How the "Cap Sequestration" Could Have Worked in 2013

The Budget Control Act (BCA) established statutory caps to limit discretionary funding through 2021. As a result of changes made in ATRA, there are separate security and non-security caps in 2013. (In addition to defense, the security category includes veterans, international affairs, and homeland security.) If the full-year appropriation for discretionary funding subject to the BCA caps had exceeded the cap, then the BCA requires that this excess amount be cut across the board through sequestration — which we refer to as a "cap sequestration," to distinguish it from the "supercommittee sequestration" described in this analysis.

Congress has now approved a full-year appropriations bill that adheres to the discretionary caps. If instead it had extended the previous continuing resolution (which was slated to expire on March 27) without change, then automatic, across-the-board cuts would have taken effect that day to bring the enacted funding down to the cap levels.

The BCA established the supercommittee sequestration and the cap sequestration for separate purposes: one ensures that the savings assigned to the supercommittee are achieved, while the other ensures that the savings associated with the discretionary caps are achieved. In order to attain the full amount of savings, therefore, the two sequestrations operate independently; there is no interaction between them. The savings resulting from the supercommittee sequestration are not counted for assessing whether enacted full-year appropriations have met the discretionary caps. And any savings from the cap sequestration, had one been necessary, could not have been used to mitigate the effects of the supercommittee sequestration.

This appendix explains the cap sequestration that would have occurred *if* the continuing resolution (CR) slated to expire March 27 had been extended through the end of the year at its existing levels. We include this hypothetical example so that readers can better understand the mechanics by which the discretionary caps that apply through 2021 are enforced.

According to CBO, security funding in that CR for fiscal year 2013 was $6.8 billion over its cap, which would have triggered an automatic across-the-board cut in those programs to offset the breach. Similarly, CBO scored non-security funding as $1.0 billion over its cap, which also would have triggered an across-the-board cut. The cut date was previously set to occur within 15 days of the 112th Congress's adjournment *sine die*, but ATRA pushed it back to March 27.

The CR slated to expire March 27, which Congress enacted in September (just before the start of the fiscal year), was designed to adhere to the discretionary caps. Yet it would have breached the caps for three reasons. First, ATRA reduced the 2013 caps by a total of $4 billion. Second, for technical reasons, ATRA also increased the discretionary funding attributed to the CR by $0.4 billion.[19] And third, the Sandy supplemental appropriations bill included $3.5 billion of funding for the Corps of Engineers that was not designated as either disaster or emergency funding and so counts against the discretionary caps.

[19] As one of its savings provisions, the CR carried forward a 2012 rescission of $0.4 billion in mandatory funds provided by the Affordable Care Act; because this action is taken in the CR, CBO originally scored the savings as helping the CR comply with the discretionary caps. ATRA then rescinded those funds, however, so OMB and CBO no longer score the CR as containing that $0.4 billion in savings.

Table 7 shows that cutting $6.8 billion from the security category would have required a 1.0 percent cut in sequestrable security funding. Likewise, cutting $1.0 billion from the non-security category would have required a 0.3 percent cut from sequestrable funding. Which discretionary funding is subject to sequestration and which is exempt is essentially the *same* for purposes of these across-the-board cuts as for the supercommittee sequestration shown in Tables 3 and 4.[20]

Table 7

Cap Cut to Offset the Breach of the 2013 Security and Non-Security Caps If the Prior Continuing Resolution (CR) Had Been Extended
(In billions of dollars)

	Security	Non-Security
Breach: amount to have been cut across the board on March 27	**6.8**	**1.0**
Funding subject to the caps (from above)	690.8	360.0
-- Plus war funding (outside caps)	99.9	0.0
-- Plus program integrity funding (outside caps)	0.0	0.5
-- Plus disaster/emergency funding (outside caps)	18.8	34.1
-- Plus defense unobligated balances and additional sequestrable funding financed by offsets (where the offsets are unaffected by cap cuts)	63.2	37.6
-- Minus military personnel funding, exempt at presidential option	-154.0	n.a.
-- Minus veterans' funding, exempt by law	-63.1	-0.1
-- Minus Pell Grant funding, exempt by law	n.a.	-23.0
Equals funding subject to across-the-board cuts	**655.6**	**409.2**
Percent reduction in funding subject to cap cuts	**1.0%**	**0.3%**

May not add due to rounding.

[20] There are two exceptions. The first is the treatment of discretionary funding for the "special health programs," i.e. health centers and the Indian Health Service.

As explained in footnote 13, the cut to discretionary funding for the programs is limited to 2 percent under the cap sequestration but not so limited under the supercommittee sequestration. Since we estimate that the cap sequestration of non-security funding would have been only 0.3 percent, however, the 2 percent limitation applicable to these programs would have had no effect in this case.

In addition, SSI administrative expenses are exempt from the supercommittee sequestration, as shown in Table 4, but are subject to sequestration for purposes of enforcing the discretionary caps.