

Sequestration and the Super Committee

Background on the Budget Control Act

On August 2, 2011, the Budget Control Act of 2011 (BCA) (P.L. 112-25) became public law. While the bill allowed the debt ceiling to be increased up to \$2.8 trillion, it also include provisions to reduce the deficit by \$2.3 trillion over 10 years. The BCA aims to reduce the deficit by \$2.3 trillion over 10 years through two main vehicles:

- **Caps on discretionary spending:** BCA limits – or “caps” – overall discretionary spending for the next ten years. If implemented as enacted, these caps will reduce spending by \$841 billion over the next decade. Under BCA, discretionary spending will be cut by \$841 billion over 10 years, with \$44 billion (4 percent) in cuts in FY 2012, accelerating over 10 years to \$119 billion (9 percent) in FY 2021. The new caps do not constrain spending for the war in Afghanistan or similar activities or for designated emergencies. Given the emphasis on discretionary spending, the caps would not affect Medicare or Medicaid programs.
- **The “Super Committee” deficit reduction plan:** BCA also creates a new, special joint committee of Congress charged with finding at least \$1.2 trillion in deficit reduction to avoid any potential sequestration. This “Super Committee” can cut spending (including Social Security and Medicare), raise revenue, or propose a combination of both. If the committee cannot agree on a plan, or Congress fails to approve it, automatic cuts of \$1.2 trillion will be triggered through sequestration. To assist the Super Committee with its task, Congress also provided for an accelerated review of the Super Committee recommendations, provided that the Super Committee followed specific timelines, as outlined in the text box.

This paper will summarize the potential for the sequestration process for both the caps on discretionary spending, as well as the “Super Committee” deficit reduction plan. For each of these summaries, this paper will examine the BCA *as it was enacted*. As with all actions of Congress, Congress may opt to revisit some of the key components of the BCA.

Sequestration

Sequestration is a mechanism through which automatic, across-the-board spending cuts are made. The BCA will initiate a sequestration if Congress approves spending higher than caps set forth in the law or if a plan from the Super Committee fails to become law or does not result in the desired amount of deficit reduction. The BCA creates two slightly different sequestration procedures for each scenario.

Super Committee Timeline

November 23, 2011 (day before Thanksgiving) – Select Committee must vote on recommendations

December 9, 2011 – Select Committee must report out recommendations

December 23, 2011 – Both chambers must vote on recommendations, with no amendments in order in either chamber.

January 15, 2012 – Bill must be enacted

January 31, 2012 – Super Committee terminated

Sequestration and the Discretionary Spending Caps

The BCA sets out discretionary spending limits through FY 2021, starting with FY 2012. These caps represent spending cuts relative to current spending levels (or baseline). The first two fiscal years, FY 2012 and 2013, have caps for both security¹ and non-security discretionary spending; FY 2014 through FY 2021 have only one overall cap for all discretionary spending.

When Sequestration Occurs. Within 15 days of Congress ending a session (typically at the end of a calendar year, so each Congress has two sessions), the Office of Management and Budget (OMB) is required to produce a report estimating spending for that fiscal year. If Congress has appropriated spending levels above the caps set forth in the debt agreement, then the president orders a sequestration. In addition, if, at any time after the initial sequestration, Congress passes a law increasing spending above any of the spending caps, there is another sequestration fifteen days after the passage of the law. If the law is passed before July 1, the sequester occurs for that fiscal year; if the law is passed on or after July 1, the relevant cap for the next fiscal year is lowered by the amount of the breach.

How Sequestration Occurs. Each nonexempt account is reduced by an equal amount to bring the spending level to the cap. For instance, if security spending ends up above the FY 2012 cap, all security accounts will be reduced by the same amount until overall security spending is below the cap; non-security spending would not be affected if it was under its cap.

Exempt Accounts. Congress outlined a whole series of exempt accounts.² Health-related accounts include:

- All programs administered by the Department of Veterans Affairs,
- Grants to States for Medicaid (75–0512–0–1–551),
- Children’s Health Insurance Fund (75–0515–0–1–551),
- Non-defense unobligated balances,
- Black Lung Disability Trust Fund Refinancing (16–0329–0–1–601),
- Medical Facilities Guarantee and Loan Fund (75–9931–0–3–551),
- Payment to Department of Defense Medicare-Eligible Retiree Health Care Fund (97–0850–0–1–054),
- Payments to Health Care Trust Funds (75–0580–0–1–571),
- Payment to Radiation Exposure Compensation Trust Fund (15–0333–0–1–054),
- Radiation Exposure Compensation Trust Fund (15–8116–0–1–054),
- Vaccine Injury Compensation (75–0320–0–1–551),
- Vaccine Injury Compensation Program Trust Fund (20–8175–0–7–551),
- Black Lung Disability Trust Fund (20–8144–0–7–601),
- Department of Defense Medicare-Eligible Retiree Health Care Fund (97–5472–0–2–551),
- Energy Employees Occupational Illness Compensation Fund (16–1523–0–1–053),
- Postal Service Retiree Health Benefits Fund (24–5391–0–2–551), and the
- Retirement Pay and Medical Benefits for Commissioned Officers, Public Health Service (75–0379–0–1–551).

¹ For purposes of the discretionary spending caps, security funding is defined as the Department of Defense, the Department of Homeland Security (DHS), the Department of Veterans Affairs (VA), the National Nuclear Security Administration, “intelligence community management,” and international affairs.

² See http://www.law.cornell.edu/uscode/html/uscode02/usc_sec_02_00000905----000-.html for a full listing.

Sequestration and the Super Committee

When Sequestration Occurs. Sequestration only occurs if Congress does not approve a plan for deficit reduction by December 23, 2011 of at least \$1.2 trillion. If the Super Committee produces a plan (and it becomes law) that contains less than \$1.2 trillion in deficit reduction, then the Super Committee sequestration procedure will still be triggered, and the total amount of across-the-board spending cuts will equal \$1.2 trillion minus the amount of the approved deficit reduction package, with special rules to account for debt service. If the Super Committee does not produce a report or if the report does not become law, then the sequestration process would entail the full \$1.2 trillion of reductions. If sequestration is triggered, it would be initiated on January 2, 2013.

How Sequestration Occurs. If Congress fails to act, spending will be lowered by \$1.2 trillion, with \$109.3 billion in cuts per year (beginning in FY 2013), half of which (\$54.7 billion) comes from security spending³ and the other half from the rest of the budget. If Congress acts and does not produce the full \$1.2 trillion in deficit reduction, then the remaining amount of deficit reduction (applying the special rules for debt service) would be allocated using the same process. These cuts affect both mandatory and discretionary spending with proportionate cuts to both.

For Super Committee sequestration purposes, FY 2013 is a special case. In 2013, discretionary spending caps are not lowered, but cuts are made from whatever discretionary and mandatory spending Congress approves for FY 2013, regardless of whether the level is at the spending caps or not (in other words, discretionary spending that year may be cut below the cap already instituted). For the other years, FY 2014 through FY 2021, the discretionary caps are lowered and mandatory spending is reduced by their respective calculated amounts.

Exempt Accounts. With respect to exempt accounts, the Super Committee sequestration process is identical to that of the discretionary caps sequestration process, except that Congress further specified that only Medicare payments to providers would be cut, and these cuts would be limited to 2% per fiscal year.

CBO Estimate. The Congressional Budget Office (CBO) has estimated the changes in discretionary and mandatory spending that would occur if the sequestration process was triggered because no new deficit reduction legislation was enacted. CBO's analysis can only approximate the ultimate results; the Administration's Office of Management and Budget (OMB) would be responsible for implementing any such automatic reductions on the basis of its own estimates

CBO estimates that, if no legislation originating from the deficit reduction committee was enacted, the automatic enforcement process specified in the Budget Control Act would produce the following results between 2013 and 2021:

- Reductions ranging from 10.0 percent (in 2013) to 8.5 percent (in 2021) in the caps on new discretionary appropriations for defense programs, yielding total outlay savings of \$454 billion.
- Reductions ranging from 7.8 percent (in 2013) to 5.5 percent (in 2021) in the caps on new discretionary appropriations for nondefense programs, resulting in outlay savings of \$294 billion.
- Reductions ranging from 10.0 percent (in 2013) to 8.5 percent (in 2021) in mandatory budgetary resources for nonexempt defense programs, generating savings of about \$0.1 billion.
- Reductions of 2.0 percent each year (emphasis added) in most Medicare spending because of the application of a special rule that applies to that program, producing savings of \$123 billion, and

³ For purposes of the Super Committee sequestration process, "security spending" is defined only as Department of Defense funding (budget function 050).

- Reductions ranging from 7.8 percent (in 2013) to 5.5 percent (in 2021) in mandatory budgetary resources for other nonexempt nondefense programs and activities, yielding savings of \$47 billion. Thus, savings in nondefense mandatory spending would total \$170 billion.
- About \$31 billion in outlays stemming from the reductions in premiums for Part B of Medicare and other changes in spending that would result from the sequestration actions.
- An estimated reduction of \$169 billion in debt-service costs.