



BIPARTISAN POLICY CENTER

The Sequester Explained

The Budget Control Act (BCA) requires a cut of over \$1 trillion in spending through a sequester. The Office of Management and Budget (OMB) is given authority to carry out the sequester. We do not yet know OMB's interpretation of the Act, but the Congressional Budget Office (CBO) assumes that the sequester is intended to make cuts to discretionary appropriations and mandatory spending that add up to \$1.2 trillion (less assumed debt service savings) over nine years, beginning in 2013.

- **For fiscal years 2014-2021, cuts would be achieved by lowering the original BCA caps on defense** (which does *not* include Overseas Contingency Operations (OCO)) **and non-defense discretionary budget authority, and by cancelling budgetary resources for some mandatory spending programs.**
 - **2013 is dealt with differently.** There are no new discretionary caps. Rather, the cuts will be made regardless of Congress' appropriation levels. (Note: Our interpretation is that this cut will include OCO.) Unless resolved by September, agencies will have to begin their fiscal years with a high level of uncertainty about their funding levels.
- **Real level of program cuts is \$984 billion.** This is because \$216 billion of the \$1.2 trillion will come from assumed interest savings.
- **Cuts are evenly divided between each of the nine sequester years.** Therefore, each year, OMB must sequester \$109 billion from projected spending.
- **Annual cuts are split evenly between the *non-exempt* portions of defense** (function 050) **and non-defense spending** – an approximate cut of \$55 billion to each. Cuts are spread among discretionary and non-exempt mandatory spending. Defense and non-defense discretionary spending will be cut to lowest levels as a percentage of the economy in the modern era.
- **Most mandatory spending is exempt from the sequester**, including: Social Security, retirement programs, veteran's benefits, refundable tax credits, Medicaid, the Children's Health Insurance Program (CHIP), unemployment insurance, food stamps (SNAP), Temporary Assistance for Needy Families (TANF), and a host of other programs (mostly those benefitting individuals with low incomes).
- **Medicare is subject to the sequester in the form of provider payment cuts, but those cuts cannot exceed 2 percent.**

For more detailed information on the sequester, find our in-depth analysis at:
<http://www.bipartisanpolicy.org/blog/2011/11/bca-sequester>