



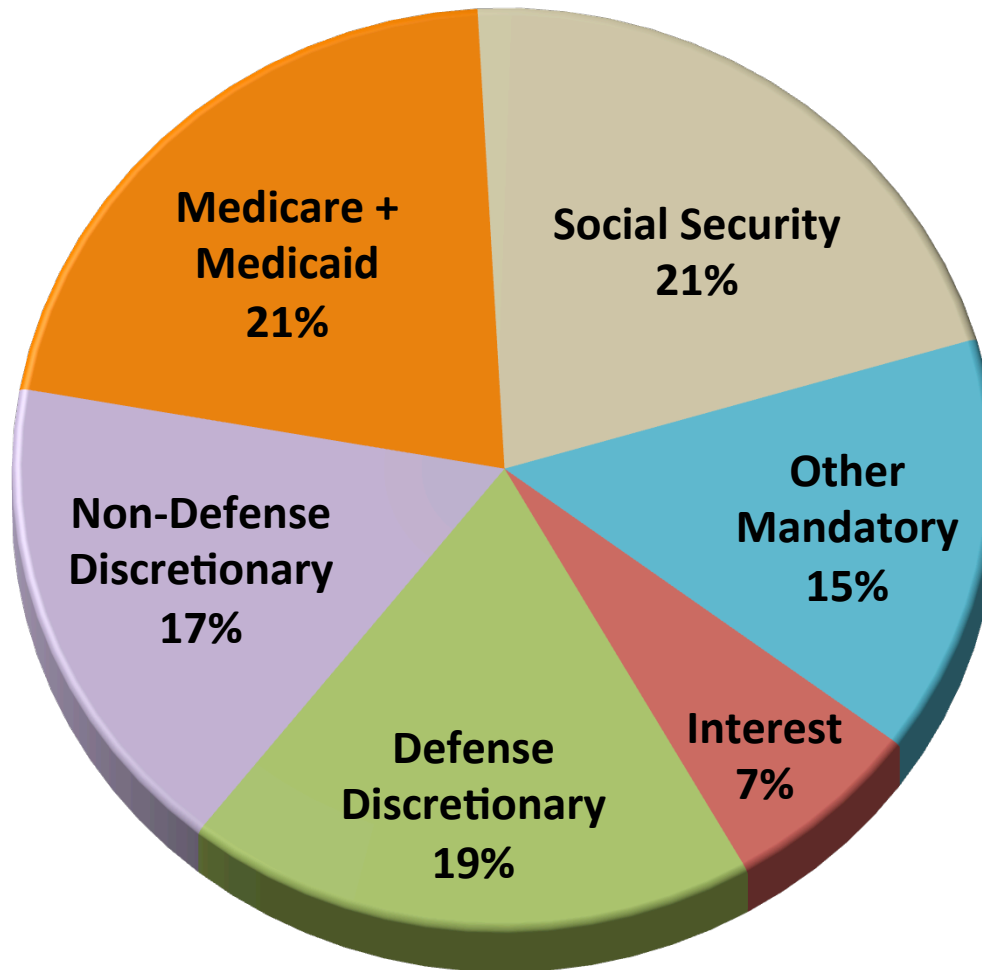
BIPARTISAN POLICY CENTER

Everything You Want to Know About the Sequester (and more)

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“Unless a joint committee bill achieving an amount greater than \$1.2 trillion in deficit reduction...is enacted by January 15, 2012, the discretionary spending limits listed in section 251(c) shall be revised, and discretionary appropriations and [mandatory] spending shall be reduced” – Language from the BCA

- There are ambiguities and points where the law contradicts itself when it describes how the sequester is to be carried out
- **The Office of Management and Budget (OMB) is given the final say to sort out these complications and act according to its interpretation**

- Sequester takes effect on January 2, 2013
- It applies to fiscal years 2013-2021 (9 years)
- **CBO's interpretation:** The sequester will not achieve \$1.2 trillion in deficit reduction over the ten-year window; it will cut *budget authority* by that amount
 - The law contradicts itself – OMB will have the final say
 - For now, we assume CBO is correct

- Cuts are required to be half from defense spending and half from non-defense (discretionary and mandatory) spending
- For 2014-2021 (i.e., every year but 2013), the sequester will lower the BCA caps already in place for defense and non-defense discretionary spending, and cut mandatory spending programs

- What is unique about **FY 2013**?
 - Cuts occur in the middle of the fiscal year
 - Cuts occur regardless of the levels that Congress appropriates
 - Overseas Contingency Operations are not exempt

- Aside from active duty pay, almost all defense spending is subject to the sequester. Conversely, there are numerous large carve-outs within domestic spending

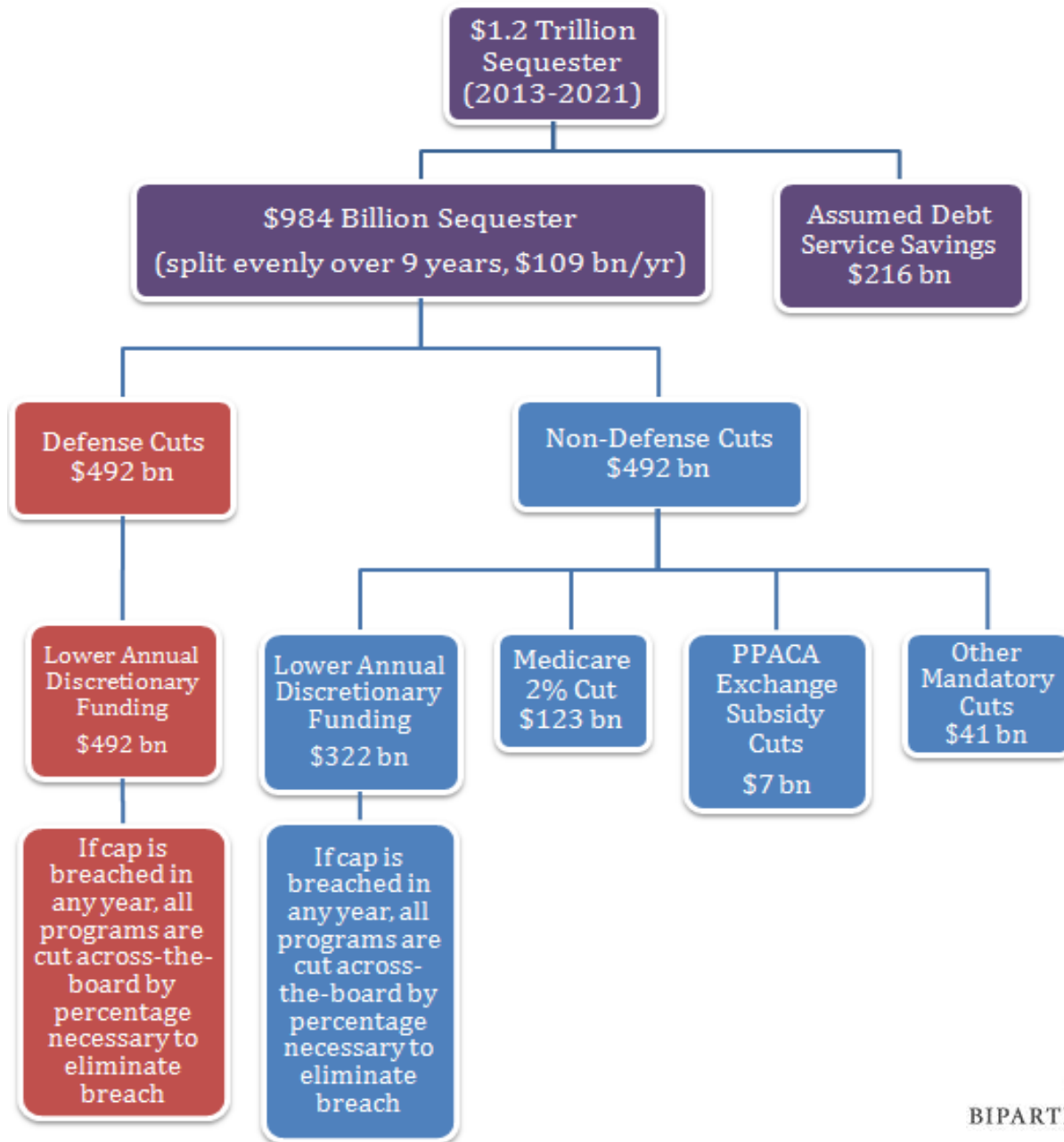
Defense

- All military personnel accounts (upon the president's request)
- Overseas Combat Operations (OCO) – only 2013
- Foreign Military Sales Trust Fund
- Military Retirement Fund

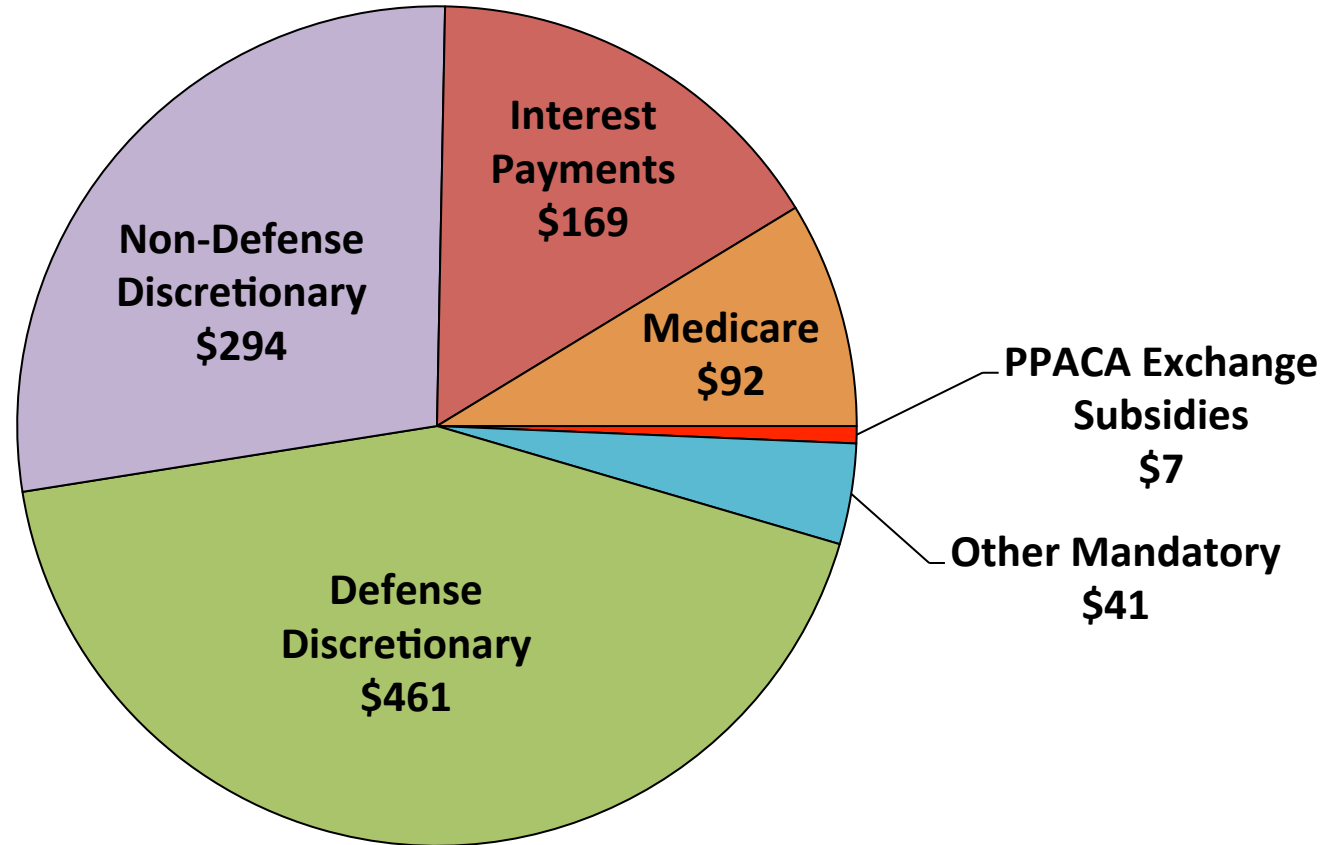
Domestic

- Social Security
- Medicare (limited to 2% cut in provider payments)
- All low-income programs, including:
 - Medicaid
 - Refundable income tax credits
 - Food stamps

Breaking Down the Sequester



SEQUESTER SAVINGS BREAKDOWN (2013-2021, IN BILLIONS OF \$)

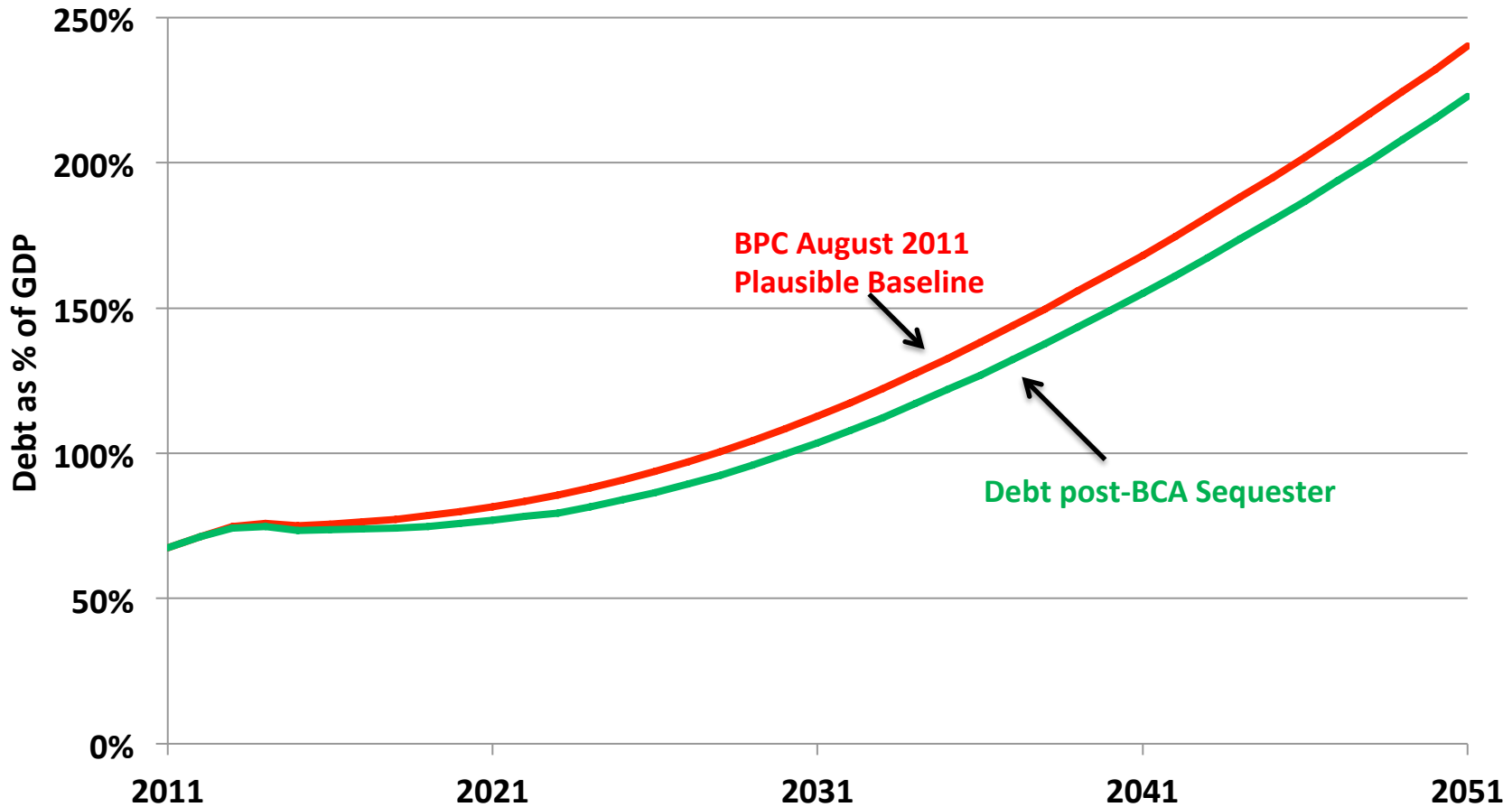


Note: This chart lists net outlay savings from different parts of the budget. Specifically, \$92 bn is an estimate of the net Medicare cuts from the sequester. For simplicity, we assume that all \$31 billion listed by the Congressional Budget Office as additional “outlays resulting from sequestration of mandatory spending” come from lower Part B premium receipts, which increases net Medicare spending.

Source: Congressional Budget Office

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THE BUDGET CONTROL ACT DOESN'T CONTROL THE DEBT



Sources: Congressional Budget Office, Bipartisan Policy Center projections

BPC's August 2011 Plausible Baseline assumes that the 2001, 2003, and 2010 tax cuts are extended permanently, Medicare physician payments are frozen, the AMT is indexed to inflation, and overseas combat operations wind down.