Plasma Protein Therapeutics Association

Sequestration January 2, 2013
Issue Brief

Issue: Under the Balanced Budget and Emergency Deficit Control Act of 1985 ("BBEDCA"), as amended by the Budget Control Act of 2011 ("BCA"), the November 23, 2011 failure and resultant dissolution of the Joint Select Committee on Deficit Reduction ("Super Committee") triggered sequestration of $1.2 trillion over 9 years beginning January 2, 2013. The law requires that $1.2 trillion in deficit reduction will be achieved through the following process (with the calculations done by the Office of Management and Budget ("OMB")):

(1) Subtract 18% in debt service savings from $1.2 trillion resulting in a total of $984 billion in required savings from FY 2013 to 2021;
(2) Evenly distribute the $984 billion in required savings over the 9 fiscal years from 2013 to 2021 resulting in a total of $109.3 billion in required savings per year;
(3) Each year, split the required savings equally between defense and non-defense resulting in $54.7 billion in required savings for both categories annually from 2013-2021;
(4) For FY 2014-2021,[1] allocate each category's allotted cuts between discretionary and mandatory savings.[2]

Once the sequestration reductions have been allocated evenly between defense and nondefense, and proportioned between mandatory and discretionary spending, the required savings will be realized by applying a uniform percentage decrease in spending caps to discretionary spending, and a uniform percentage decrease in mandatory spending, with certain federal programs having spending reductions limited and some programs altogether exempted

[1] For FY 2013, sequestration presents a special case wherein discretionary spending will be cut by a set amount ($38.6 billion non-defense), regardless of whether FY 2013 spending falls above the discretionary cap. This means that for 2013 discretionary spending there is the potential for overlapping sequestrations. For instance, if Congress spends above the discretionary cap for FY 2013, and adjourns after December 18, 2012, the Super Committee sequestration, taking place first, could lower the spending level below the FY 2013 cap, thereby avoiding a second sequester triggered by a breach of the FY 2013 cap. If, however, Congress breaches the 2013 cap and adjourns prior to December 18, 2012, cap-breach sequestration would be triggered first, reducing the spending level to an amount even with the FY 2013 cap, and then sequestration would be implemented, lowering spending by an additional $38.6 billion for 2013. 2013 sequestration cuts to Medicare, while capped at 2%, are predicted to reach $10.8b. See *Estimated Impact of Automatic Budget Enforcement Procedures Specified in the Budget Control Act*, CBO, September 12, 2011, at http://www.cbo.gov/ftpdocs/124xx/doc12414/09-12-BudgetControlAct.pdf .

[2] The proportion of cuts that will come from discretionary and mandatory spending is derived using the following formula: [(Required annual category savings) X (Annual disc. spending cap for that category)]/[(Annual disc. spending cap for that category) + (Projected mandatory funding for that category)] = Amount of discretionary spending cut for the category. The difference between the calculated amount for discretionary spending cuts and the total amount of annual categorical reduction required ($54.7b) is the amount of mandatory spending cuts necessary. For example, for FY 2014, the spending cap for non-defense discretionary spending is $510 billion and the projected non-defense mandatory funding is $206 billion, thus the following determines the amount of mandatory vs. discretionary spending cuts for FY 2014: ($54.7b X $510b)/($510b + $206b)= $38.9b in cuts to nondefense discretionary spending, and $54.7-$38.9= $15.7b in cuts to nondefense mandatory spending for FY 2014. 2014 sequestration cuts to Medicare, while capped at 2%, are predicted to reach $11.4b.

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from the spending cuts. For example, there is a 2% cap on reductions for the Medicare program and payments to States for the Medicaid program are exempt from the sequestration cuts altogether. Notably, in practice the 2% cap to Medicare translates to physicians and providers seeing a marginally higher than 2% cut to their Medicare reimbursement rate for calendar year 2013.[3]

PPTA Position: In short, the Super Committee's failure means indiscriminate across-the-board cuts to mandatory and discretionary programs that are vital for patient access and industry innovation. Because of the unique qualities of both the plasma protein industry and the rare disease patient populations served by plasma protein therapies, indiscriminately cutting funding to programs such as Medicare risks patient access to safe and effective treatment, and undercuts valuable research and development for chronic, life threatening, diseases.

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3 Because the BCA initiates sequestration on January 2, 2013, there will likely be no sequestration reductions to physician or provider payments for the first part of FY 2013 (Oct. 1, 2012- January 1, 2013); however, the sequestration cuts are calculated by the fiscal year not the calendar year. As a result, the pertinent percentage cut will be calculated to compensate for the lack of sequestration reductions in the 1st quarter of FY 2013, and for the period between January 2, 2013-September 30, 2013, the decrease in payments will be slightly more than 2% to ensure that 2% is taken off across all items and services furnished for the full fiscal year.