

Sequestration in 2014

FAQ: How Did We Get Here?

The origin of sequestration lies with the Budget Control Act of 2011 (BCA), which established a congressional Joint Select Committee on Deficit Reduction (the so-called “Super Committee”) to propose legislation that would reduce federal deficits by \$1.2 trillion over ten years. The law also created a backup sequestration procedure to ensure that this level of deficit reduction would be achieved even if the Super Committee failed to reach agreement, which is what happened. As a result, the sequester mandates cuts to defense and non-defense funding totaling \$109.3 billion in each year from 2013 to 2021. For 2013, however, the mandated cuts were \$85.3 billion, because January’s American Taxpayer Relief Act (ATRA) offset the first three months’ worth of cuts.

In addition to the sequester, the BCA established ten-year caps on discretionary programs that will reduce their funding by more than \$1 trillion from 2012- 2021. These caps are statutorily set and are distinct from sequestration. Therefore, these caps - and the savings they achieve - would remain in place regardless of Congressional attempts to replace the BCA’s sequester. Table 1 (below) shows these ten-year caps, pre-sequestration.

Table 1: BCA Discretionary Spending Caps 2013 – 2021 (pre-sequestration, in billions of dollars)*									
	2013	2014	2015	2016	2017	2018	2019	2020	2021
Defense	544	552	566	577	590	603	616	630	644
Non-Defense	499	506	520	530	541	553	566	578	590
Total	1043	1058	1086	1107	1131	1156	1182	1208	1234
<p><i>*Figures include ATRA, which reduced the FY13 and FY14 BCA spending caps by \$4 billion and \$8 billion, respectively.</i></p> <p><i>Source: Congressional Budget Office (CBO) projections</i></p>									

FAQ: How Will Sequestration Operate in 2014?

The BCA sequester requires cuts to defense and non-defense funding totaling \$109.3 billion in each year from 2014 – 2021. The law also requires parity in the cuts. Accordingly, the \$109.3 billion annual sequestration target will be divided evenly between defense and non-defense spending, and each category must achieve \$54.7 billion in savings.

For non-exempt discretionary programs (on both the defense and non-defense side) sequestration will operate differently in 2014 and beyond than in 2013. However, for defense and non-defense mandatory programs that are covered by the sequester, the process is the same in future years as it was in FY13.

Non-Exempt Discretionary Programs. The BCA sequester operates very differently in the out years (FY14-FY21) than it did in 2013. In FY13, discretionary reductions for both defense and non-defense programs were achieved through automatic, across-the-board (ATB) cuts at the federal program level.

From FYs 2014-2021, reductions to non-exempt discretionary programs will be achieved by lowering the caps on discretionary spending each year. Funding levels for specific programs would then be set through the regular appropriations process. That is, once the BCA caps have been adjusted to recoup the necessary savings, Congressional appropriators will have the same discretion they always do in deciding what programs to fund and by how much.

Non-Exempt Mandatory Programs. For defense and non-defense mandatory programs that are covered by the sequester, the process is the same in future years as it was in FY13. Specifically, those mandatory programs will be subject to automatic ATB cuts each year.

Once these cuts are taken, the applicable \$54.7 billion sequester target will be reduced by the savings they achieve. The remaining cuts will come from a downward adjustment to the discretionary spending caps, as described above.

Mandatory vs. Discretionary

The bulk of sequestration savings comes from discretionary programs, which are funded by annual appropriations bills, as opposed to mandatory programs, the funding for which is established in their authorizing legislation.

FAQ: In FY14 and Beyond, How Will the Cuts Within each Spending Category – Defense and Non-Defense – be Calculated?

Under the BCA, the required sequestration savings each year are to come half from defense programs and half from non-defense programs. Within each half, the savings are allocated to discretionary and mandatory programs based on the contribution each makes to the total of discretionary budget authority and sequesterable direct spending.

Cuts to Defense Spending. There are not many mandatory defense programs that are subject to sequestration. Therefore, on the defense side, the annual \$54.7 billion sequestration will come almost entirely from discretionary defense funding, with only a tiny amount resulting from reductions to mandatory defense programs. Table 2 (below) projects how sequestration will impact defense spending, both mandatory and discretionary, in 2014 and beyond.

Table 2: Defense Sequestration in 2013 through 2021 (in billions of dollars)*									
	2013	2014	2015	2016	2017	2018	2019	2020	2021
Defense Caps before reduction	544	552	566	577	590	603	616	630	644
Non-exempt mandatory programs	**	**	**	**	**	**	**	**	**
Required reduction	26	54.6	54.6	54.6	54.7	54.7	54.7	54.7	54.7
Resulting level of defense caps	518	497	511	522	535	548	561	575	589

**Figures include ATRA, which reduced the FY13 and FY14 BCA spending caps by \$4 billion and \$8 billion, respectively*
***Less than \$0.05 billion*
Source: CBPP

Cuts to Non-Defense Spending. Unlike on the defense side, there are some large non-defense mandatory programs that are subject to sequestration, including Medicare payments to providers and health insurance plans. The BCA mandates that these payments be reduced by two percent each year. Because Medicare costs are projected to rise in the coming years, the dollar amount of this two percent cut will increase each year, from \$11.6 billion in 2014 to \$18.2 billion in 2021. Table 3 (below) captures both the dollar amount of this mandatory cut, as well as the growing share of the \$54.7 billion sequestration target for which it will account.

Table 3: Medicare Sequestration in 2014-2021								
	2014	2015	2016	2017	2018	2019	2020	2021
2% Medicare sequestration (in billions of dollars)	11.6	12.3	12.8	13.6	14.7	15.7	16.9	18.2
2% Medicare sequestration (as a percentage of total non-defense cut)	21%	22%	23%	25%	27%	29%	31%	33%

Source: NASUAD calculations based on CBO projections

In calculating the non-defense sequester, the Medicare cuts will be taken first. The remaining cuts will be applied proportionally to (1) the statutory cap on overall non-defense discretionary (NDD) funding and (2) the other non-exempt mandatory programs. Since Medicare will account for a growing portion of the \$54.7 billion annual non-defense savings target, rising from 21 percent in 2014 to 33 percent in 2021 (See Table 3, above), other non-defense programs will absorb a falling share of the cut. Table 4 (below) illustrates the non-defense sequester in the out-years.

Table 4: Non-Defense Sequestration in 2013 through 2021 (in billions of dollars)*									
	2013	2014	2015	2016	2017	2018	2019	2020	2021
Non-defense caps before reduction	499	506	520	530	541	553	566	578	590
2% Medicare sequestration	11.1	11.6	12.3	12.8	13.6	14.7	15.7	16.9	18.2
Other non-exempt mandatory programs	5.4	6	5.7	5.4	5	4.6	4.5	4.8	4.2
Required cap reduction	31	37	36.7	36.5	36	35.4	34.5	33	32.2
Resulting level of non-defense caps	468	469	483	494	505	518	532	545	558
<i>*Figures include ATRA, which reduced the FY13 and FY14 BCA spending caps by \$4 billion and \$8 billion, respectively</i> <i>Source: CBPP</i>									

FAQ: How Will Individual Program Funding Levels be Set?

Once the reductions to mandatory programs have been made and the BCA caps have been adjusted to achieve the remaining required savings, Congressional appropriators will have the same discretion they always do in deciding what programs to fund and by how much.

For FY14, the cuts to non-exempt mandatory programs (including the two percent Medicare sequestration) and upfront reductions to the BCA-established spending caps means that the topline discretionary spending level is projected to total \$967 billion. Of this amount, \$497 would go to defense programs and \$469 billion to non-defense. These are the pots of money that appropriators would have to work with. Table 5 (below) illustrates the estimated sequestration calculations for defense and non-defense spending through 2021, and highlights the dollars that would be available to appropriators.

Table 5: Sequestration in 2014 through 2021 (in billions of dollars, unless otherwise indicated)*

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Defense Caps before reduction	544	552	566	577	590	603	616	630	644
Required reduction	26	54.6	54.6	54.6	54.7	54.7	54.7	54.7	54.7
Required reduction (percent)	7.7%	9.90%	9.70%	9.50%	9.30%	9.10%	8.90%	8.70%	8.50%
Resulting level of defense caps	518	497	511	522	535	548	561	575	589
Non-defense caps before reduction	499	506	520	530	541	553	566	578	590
Required reduction	31	37	36.7	36.5	36	35.4	34.5	33	32.2
Required reduction (percent)	5.1%	7.30%	7.10%	6.90%	6.70%	6.40%	6.10%	5.70%	5.50%
Resulting level of non-defense caps	468	469	483	494	505	518	532	545	558

*Figures include ATRA, which reduced the FY13 and FY14 BCA spending caps by \$4 billion and \$8 billion, respectively

Source: [CBPP](#)

FAQ: Is Sequestration Cumulative?

No. The sequester cuts each year are NOT cumulative. They ARE repetitive. The BCA does not cut \$109 billion from the prior FY's enacted spending level. If overall program funding, set at \$986 billion in FY13, were reduced by an additional \$109 billion each year from 2014 to 2021, that would allocate \$877 billion for defense and non-defense programs in FY14 instead of \$967 billion, and discretionary funding would be down to \$114 billion by 2021, instead of the actual projected post-sequester level of \$1.15 trillion.

Table 6: Spending Caps 2013-2021 if Sequestration were Cumulative (in billions of dollars)*

	2013	2014	2015	2016	2017	2018	2019	2020	2021
BCA-established cap (post-sequester)	986	967	994	1016	1040	1066	1093	1120	1147
Funding level if FY13 enacted is baseline and sequester cut 109 each year**	986	877	768	659	550	441	332	223	114
Difference year to year	N/A	-109	-109	-109	-109	-109	-109	-109	-109
<i>*Figures include ATRA, which reduced the FY13 and FY14 BCA spending caps by \$4 billion and \$8 billion, respectively</i> <i>**Purely hypothetical! The sequester does not operate this way!</i> <i>Source: NASUAD calculations based on CBO projections</i>									

As the hypothetical scenario in Table 6 (above) shows, cumulative cuts would rapidly deplete the overall pot of funding for discretionary programs. Instead, the BCA requires an average cut of \$109 billion each year for ten years, to be achieved by required reductions to covered mandatory programs and subsequent downward adjustments to the BCA's discretionary spending caps. Table 7 (below) shows the impact of sequestration on the spending caps each year through 2021. Unlike the hypothetical cumulative cuts above (see Table 6), the BCA-established caps actually rise in the out years, and the year-to-year cut is dramatically less than \$109 billion.

Table 7: Spending Caps 2013-2021 Under Current Law (in billions of dollars)*

	2013	2014	2015	2016	2017	2018	2019	2020	2021
BCA-established cap (pre-sequester)	1043	1058	1086	1107	1131	1156	1182	1208	1234
BCA-established cap (post-sequester)	986	967	994	1016	1040	1066	1093	1120	1147
Difference year to year	N/A	-20	+27	+22	+24	+26	+27	+27	+27
<i>*Figures include ATRA, which reduced the FY13 and FY14 BCA spending caps by \$4 billion and \$8 billion, respectively</i> <i>Source: NASUAD Calculations based on CBO projections</i>									

FAQ: Is the 2014 Defense Sequester More Severe than Last Year?

Yes. Policy changes to 2013 funding levels reduced the defense cuts in that year. The BCA requires that the \$109 billion sequester be split evenly between defense and non-defense programs each year. This parity was embedded into the law to make sequestration equally unpalatable to proponents of both defense and non-defense programs.

However, largely through January’s American Taxpayer Relief Act (ATRA), Congress made several changes to the way sequestration worked in 2013, and to the caps in 2013 and 2014. As a result of these changes, and one other technical factor in the application of sequestration known as ‘crediting,’ defense programs ended up bearing roughly \$20 billion less in cuts in 2013 than originally called for under sequestration, while the amount of non-defense cuts in 2013 remained essentially unchanged.

Notably, these one-time exceptions for defense spending do not extend beyond 2013. In 2014, total discretionary funding is capped at \$967 billion - a \$20 billion decrease from 2013. Most of this amount will be taken on the defense side, in order to restore the parity between defense and non-defense cuts that the BCA requires, but which policymakers circumvented in 2013.

Accordingly, to comply with sequestration in 2014, defense funding must come down about \$20 billion relative to 2013. As the highlighted portion of Table 8 (below) shows, relative to last year, 2014 defense levels will fall from \$518 billion to \$489 billion, while funding for discretionary programs, which were not similarly protected last year, would essentially remain flat, at \$469 billion.

Table 8: 2014 Discretionary Levels (in billions of dollars)*			
	2013 post sequester	2014 BCA cap pre sequester	2014 BCA cap post sequester
Defense	518	552	498
Non-Defense	468	506	469
Total	986	1058	967
<i>*Figures include ATRA, which reduced the FY13 and FY14 BCA spending caps by \$4 billion and \$8 billion, respectively</i> <i>Source: CBPP</i>			

FAQ: What Does this Mean for FY14 Funding?

Assuming sequester stays in place and we have a year-long Continuing Resolution (CR) in 2014, which would extend the current FY13 post-sequester levels, this amount (\$986 billion) would then be ‘sequestered’ down to \$967 billion. Under such a scenario, projections indicate that the sequester cuts to discretionary programs in FY14 would be approximately two percent greater than they were in FY13.

That is, relative to FY12 enacted spending levels, in FY13, non-defense discretionary (NDD) spending was reduced by about 5.2 percent. For FY14, the projected reductions would be about 7.2 percent below FY12 levels. Table 9 (below) illustrates how sequestration could operate in the out-year, and the highlighted row estimates the percentage reduction that programs would face if current law and funding levels continue.

Notably, however, the final percentage cut will depend largely on the overall amount that is to be sequestered, and the Office of Management and Budget (OMB) is charged with making this determination. Unfortunately, we will not know what this base is if and until Congress passes a long-term FY14 spending bill, which means we can only speculate at this point. If a FY14 sequester is ordered, OMB will calculate the necessary reduction percentage by mid-January, in accordance with the BCA’s guidelines.

Table 9: Sequestration in 2014 through 2021 (in billions of dollars, unless otherwise indicated)*

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Defense Caps before reduction	544	552	566	577	590	603	616	630	644
Required reduction	26	54.6	54.6	54.6	54.7	54.7	54.7	54.7	54.7
Required reduction (percent)	7.7%	9.90%	9.70%	9.50%	9.30%	9.10%	8.90%	8.70%	8.50%
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Required reduction	31	37	36.7	36.5	36	35.4	34.5	33	32.2
Required reduction (percent)	5.1%	7.30%	7.10%	6.90%	6.70%	6.40%	6.10%	5.70%	5.50%
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Source: CBPP