



Budget Sequestration and the U.S. Health Sector

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The inability of the Congress and President Barack Obama to agree by March 1 on a plan to reduce the budget deficit is triggering \$85 billion in across-the-board cuts in most federal agencies and programs

for the final 7 months of fiscal year 2013. These reductions will have adverse effects on many important governmental functions and activities affecting both the health sector and the health of Americans. Why is this happening, and what will the impact be on the U.S. health sector?

In August 2011, in an agreement to raise the nation's debt ceiling, bipartisan majorities in the House and Senate approved the Budget Control Act of 2011 (BCA) to reduce the deficit by \$1.2 trillion between 2013 and 2021. The BCA established a threat of across-the-board cuts, or "sequestration," if the Joint Select Committee on Deficit Reduction failed to approve, and Congress

to enact, alternative reductions. In November 2011, the Select or "Super" Committee declared its inability to reach an agreement. Sequestration became operational on March 1, 2013, after Congress acted in January to delay its initiation by 2 months. President Obama is now overseeing equal cuts of \$42.67 billion from defense-related and nondefense parts of the fiscal 2013 budget.

Jeffrey Zients, the deputy director in the Office of Management and Budget (OMB), wrote in a March 1 report to Congress, "Because these cuts must be achieved in only seven months instead of 12, the effective percentage reduction will be approximately 13 percent for non-

exempt defense programs and 9 percent for non-exempt nondefense programs."¹ Complicating this situation further is the fact that the government is operating on a continuing resolution (which extends last year's budget into this year) only until March 27; it must agree on further funding for the current fiscal year by then or face a shutdown.

Although most parties agree that sequestration was never intended to be implemented, the OMB is now leading federal agencies through a process to implement the reductions. Of the \$1.2 trillion in cuts, \$216 billion will be reductions in debt-service payments, and the remaining \$984 billion will be split evenly over 9 years at \$109 billion per year, and further adjusted and split evenly between cuts to national defense and nondefense functions at \$42.667 billion each.¹

The \$42.667 billion per year

| Impact of Budget Sequestration on Key Federal Health and Safety Programs, Fiscal Year 2013.* | | |
|--|----------------|-----------------------|
| Department or Program | Base Funding | Sequestration |
| | \$ (millions) | |
| Department of Agriculture | | |
| Animal and Plant Health Inspection Service | 1,106 | 56 |
| Food Safety and Inspection Service | 1,055 | 53 |
| Food and Nutrition Service: Supplemental Nutrition for Women, Infants, and Children | 6,660 | 333 |
| Department of Health and Human Services | | |
| Food and Drug Administration | 4,168 | 209 |
| Health Resources and Services Administration | 8,109 | 365 |
| Indian Health Services | 4,483 | 220 |
| Centers for Disease Control and Prevention | 6,019 | 303 |
| National Institutes of Health | 31,049 | 1,553 |
| Substance Abuse and Mental Health Services Administration | 3,368 | 168 |
| Centers for Medicare and Medicaid Services | 577,439 | 11,851 |
| Administration for Children and Families | 19,689 | 982 |
| Prevention and Public Health Fund (established by ACA) | 1,000 | 51 |
| Office of National Coordinator for Health Information Technology | 17 | 1 |
| Department of Housing and Urban Development | | |
| Office of Healthy Homes and Lead Hazard Control | 121 | 6 |
| Department of Labor | | |
| Occupational Safety and Health Administration | 568 | 28 |
| Mine Safety and Health Administration | 377 | 19 |
| Department of State | | |
| Global Health Programs | 8,218 | 411 |
| Department of Transportation | | |
| National Highway Traffic Safety Administration | 141 | 7 |
| Environmental Protection Agency | 9,418 | 472 |
| Federal Drug Control Program | 341 | 17 |
| Patient-Centered Outcomes Research Institute | 390 | 20 |
| Total | 683,736 | 17,225 (2.52%) |

* Data are from the U.S. Office of Management and Budget, March 1, 2013.

in nondefense cuts will not fall equally on all health-related government programs. Nonexempt and nondefense discretionary funding faces reductions of 7.6 to 8.2% in this fiscal year; certain programs such as Medicare and community health centers will have 2% reductions; and certain programs such as Medicaid and the Veterans Health Administra-

tion are exempt. In fiscal 2012, only 17% of federal spending was for nondefense discretionary purposes, though this spending category will experience 35% of the sequester cuts. The OMB's March 1 report includes estimated effects on all federal programs. The table shows the dollar amounts of sequestration cuts from 21 agencies and programs that are im-

portant to the health sector and the health of Americans. Secretary of Health and Human Services Kathleen Sebelius outlined the potential damage in a February 1 letter to Senator Barbara Mikulski (D-MD).²

Medicare funding will be cut by 2% (\$11.08 billion) through reductions in payments to hospitals, physicians, and other health care providers, as well as insurers participating in Medicare Advantage (Part C). The BCA prohibits cuts affecting premiums for Medicare Parts B and D, cost sharing, Part D subsidies, and Part A trust-fund revenues. The sequestration cuts arrive just as Medicare is beginning to fully implement the savings and cuts required by the Affordable Care Act (ACA), which the Congressional Budget Office estimates will slow Medicare's rate of growth by \$716 billion between 2013 and 2022. Some health care industry groups did not support the idea of finding an alternative to the sequestration cuts, fearing that any agreement between the administration and Congress would only cut Medicare more deeply.

The National Institutes of Health (NIH) faces an 8.2% across-the-board reduction for the 7 months remaining in fiscal 2013, equaling cuts of \$1.55 billion that, Sebelius noted, will "delay or halt vital scientific projects" and force the institutes to "make hundreds of fewer research awards" — meaning that "several thousand personnel could lose their jobs." Harold Varmus, director of the National Cancer Institute, offered this assessment to the NIH cancer community: "One of the guiding principles in our plans for adapting to sequestration is to maintain the num-

ber of competitive awards — new grants and renewals — at levels similar to that achieved in the past few years (over 1000 grants, with success rates of 13 to 14 percent). . . . [T]o achieve this goal, we need to make reductions, modest but significant, in virtually all of our extra- and intramural programs.”³

The Centers for Disease Control and Prevention (CDC), which is still recovering from major budget reductions in 2011, anticipates effective reductions of 8 to 10% for the remainder of the year. The agency anticipates paying for 424,000 fewer HIV tests (it funded 3.26 million in 2010) and 50,000 fewer immunizations for adults and children (from a baseline of about 300 million), eliminating tuberculosis programs in 11 states, shutting down the National Healthcare Safety Network, which tracks health care-associated infections, identifying 150 fewer outbreaks of food-borne disease, eliminating the Cities Readiness Initiative, and more. State, county, and local public health agencies will also experience significant cuts because of the sequester.

The Food and Drug Administration projects that it will conduct 2100 fewer inspections at domestic and foreign food manufacturers (down from just over 20,000 in 2012). The Substance Abuse and Mental Health Services Administration plans to cut the Mental Health Block Grant program, eliminating services for 373,000 (of about 6.9 million) adults and children and cutting inpatient admissions for addiction by 109,000 (from about 1.8 million). The Indian Health Service, which normally covers about

48,000 inpatient admissions and 12.8 million outpatient visits per year, expects to cover 3000 and 804,000 fewer, respectively. The Health Resources and Services Administration anticipates cuts to AIDS drug-assistance programs, with 7400 fewer patients’ receiving HIV medications as a result (about 209,000 received treatment in 2010).

Unaffected for all 9 years of the sequester are most expenses associated with the ACA. Medicaid is exempt, as is funding for its expansion, beginning next January, to all lower-income Americans in states that choose to participate. Also exempt are private insurance subsidies that will be available next January through new health insurance exchanges, because they were designed as refundable tax credits, another BCA-exempt category. Finally, the Children’s Health Insurance Plan, the Supplemental Nutrition Assistance Program, Temporary Assistance to Needy Families, and Supplemental Security Income are all exempt.

Because March 1 came and went without visible, dramatic consequences, some observers assert that the President misjudged public opposition to the cuts. National Public Radio’s Julie Rovner suggests that sequestration reductions may be perceived by the public as “a brownout . . . compared to a blackout.” If so, the cuts may stand, even if Congress gives the administration more flexibility in administering them. This month’s continuing-resolution process will be the next, and perhaps final, opportunity for Congress to undo any of this year’s damage.

The immediate source of this

dispute is a disagreement between Democrats (including Obama) and Congressional Republicans over raising governmental revenues by reducing yet-unspecified tax deductions. Although both parties agree with this strategy, Democrats want new revenue to balance against the cuts, whereas Republicans want such revenue to finance new tax cuts. As the U.S. economy improves, cuts and uncertainty about federal policy are two factors threatening further improvement; some experts predict that sequestration will reduce real growth in the gross domestic product by 0.5 to 0.7 percentage points in 2013 if it is not replaced with a new budget.⁴ In my view, the damage that the sequester process will inflict on vital health care functions at all levels is unnecessary and unfortunate.

Disclosure forms provided by the author are available with the full text of this article at NEJM.org.

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1. Office of Management and Budget. OMB report to the Congress on the joint committee sequestration for fiscal year 2013. March 1, 2013 (<http://www.politico.com/story/2013/03/document-ombs-88322.html>).
2. Letter to Honorable Barbara Mikulski, chairwoman, Senate Appropriations Committee, from Kathleen Sebelius, Secretary of HHS. February 1, 2013 (<http://ascrs.org/download/gov/HHS%20Letter-February%20Sequester%20Hearing.pdf>).
3. Letter from NCI Director Harold Varmus to the National Cancer Institute’s scientific community. March 7, 2013 (<http://osp.fad.harvard.edu/blog/harold-varmus-director-nci-comments-on-sequestration>).
4. Congressional Budget Office. The budget and economic outlook: fiscal years 2013 to 2023. February 5, 2013 (<http://www.cbo.gov/publication/43907>).

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