Weekly Checkup

Do Not Pass PAYGO, Do Not Collect $38 Billion

JACKSON HAMMOND | DECEMBER 2, 2022

The Weekly Checkup recently explained the 4.5-percent “cut” physicians are staring down in 2023 for the Physician Fee Schedule (PFS). But the yearly PFS “doc fix” emergency isn’t Congress’ only kicked can. **Medicare is also theoreticallysubject to Statutory Pay-As-You-Go (S-PAYGO) cuts**. **This has been threatened before**, prompting providers to sound alarm bells about “devastating” cuts to the Medicare program. **This year is no different, but how did we get to this point?**

First, let’s review S-PAYGO. Fortunately, my colleague Gordon Gray has recently written an excellent primer on S-PAYGO, and how it’s functionally broken. Gray explains:

> “Under S-PAYGO, the average annual net revenue and direct spending effects of legislation over the 5- and 10-year periods subsequent to its enactment are estimated, averaged, and recorded by [the Office of Management and Budget (OMB)]…if there is a positive balance on either the 5- or 10-year scorecard, OMB is required to order a sequestration of non-exempt ?funding to offset the debit on the S-PAYGO scorecard.”

Seems straightforward enough. **Congress regularly enacts legislation that is not paid for. But—through a mix of statutory exemptions and other budget gimmicks—these deficit increases have not once in the 12 years of S-PAYGO’s existence given rise to an S-PAYGO spending cut.** At present, the 5-and 10-year S-PAYGO scorecards carry respective balances of $742 billion and $375 billion, almost entirely due to the American Rescue Plan Act. Thanks to a wide variety of exemptions passed by Congress, OMB could potentially cancel only $138 billion in budget authority for 2023, and even less in actual outlay reductions.

Which brings us back to Medicare. **The potential S-PAYGO cuts for Medicare in 2023 are currently set at 4 percent ($38 billion), the maximum cap for sequestration in Medicare. Why is Medicare expected to make up for such a large portion? Essentially, because it is one of the last big programs with sequesterable funding left.** Naturally, hospitals and physicians are fighting this, claiming they cannot sustain these cuts given decreased hospital profitability (the yearly median hospital margin is, as of October, -0.5 percent) and significantly higher labor costs.

As Gray quips, “the future, alas for Congress, has a bad habit of becoming the present.” For better or worse, Congress will almost assuredly either reduce or cancel entirely the S-PAYGO cuts to Medicare. If we’d like to avoid the same song and dance in the future, Congress should begin reducing S-PAYGO exemptions and open more programs to sequestration. No one likes having their funding cut, but **spreading the sequestration burden around will make it easier on our health care system and give lawmakers less of an incentive to kick the can down the road yet again. Medicare’s trust fund shortfall isn’t getting any smaller, and that can is going to get a lot bigger and harder to kick in the future.**