



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 theoretically subject 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.