American Hospital Association™
Advancing Health in America

Fact Sheet: Statutory PAYGO Sequester Relief Needed for Health Providers

The Issue

The COVID-19 pandemic has resulted in historic challenges for hospitals and health systems and the communities they serve, placing unprecedented stress on the entire health care system and its financing. In recent months, the spread of the highly contagious delta variant has demonstrated that hospitals will continue to experience profound headwinds throughout the rest of 2021.

The Statutory Pay-As-You-Go Act of 2010 (Statutory PAYGO) requires, among other things, that mandatory spending and revenue legislation not increase the federal budget deficit over a 5- or 10-year period. Should such legislation be enacted without offsets, the Office of Management and Budget (OMB) is required to implement sequestration, or across-the-board reductions, in certain types of mandatory federal spending. Medicare benefit payments and Medicare program integrity spending would be cut, but the reduction cannot be more than 4%.

The Congressional Budget Office has estimated that a Statutory PAYGO sequester in fiscal year 2022 resulting from passage of the American Rescue Plan Act of 2021, the $1.9 trillion COVID-19 relief package passed this March, would cause a 4% reduction in Medicare spending – or cuts of approximately $36 billion. Failure to waive Statutory PAYGO would result in $9.4 billion in cuts to hospital providers in fee-for-service Medicare in calendar year 2022 (see attached table with state-by-state data). Medicare fee-for-service payments to hospitals tend to total about one-quarter of total Medicare spending.

Although Congress has passed legislation that has increased the deficit several times since enactment of the Statutory PAYGO law, a PAYGO sequester has never been triggered. In fact, Congress always has acted to waive the reductions, or "wipe the PAYGO scorecard clean," prohibiting the enacted deficit effects of legislation from causing a PAYGO sequester of Medicare or other federal spending programs.

Data from Johns Hopkins University (through Oct. 4) show that there have been nearly 44 million confirmed COVID-19 cases and over 700,000 reported deaths from COVID-19 in the United States. In addition, according to data from the Centers for Disease Control and Prevention (CDC), there have been over 3 million hospitalizations since August of 2020, with the 7-day average of new hospital admissions of patients with COVID-19 increasing 280%, from about 1,900 the week ending July 1, 2021, to over 7,200 the week ending Oct. 2, 2021. Hospitals have never experienced such a widespread, national health crisis.

The number of cases and hospitalization rates have directly affected the U.S. health care system and its ability to continue to provide access to care.

The pandemic has put severe financial pressure on hospitals, including, but not limited to: higher expenses for labor, drugs and supplies; the astronomical costs of preparing for a surge of COVID-19 patients; months of essential hospital revenue being erased due to the combination of a forced shutdown and slowdown of regular operations for non-emergent care; and the high cost of treating COVID-19 cases, which tend to be incredibly resource intensive.

In a report released by the AHA in September 2021, Kaufman Hall projected that hospitals nationwide will lose an estimated $54 billion in net income over the course of the year, even after taking into account Coronavirus Aid, Relief, and Economic Security (CARES) Act funding from last year. However, the uncertain trajectory of the delta and mu variants in the U.S. this fall could result in even greater financial uncertainty for the hospital field.

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AHA Take

There continues to be a relatively dire financial outlook for many hospitals and health systems. Now is not the time for reductions in Medicare payments to providers. Congress always has acted to prevent a Statutory PAYGO sequester in years when legislation has been enacted that increases the deficit. Congress must do so again this year, enacting into law provisions to prevent a Statutory PAYGO sequester from taking effect at the end of this session of Congress. Congress must prevent 4% cuts to Medicare from taking effect so that hospitals and health systems can continue to care for patients, families and communities.

Estimated Medicare Fee-for-service Cuts to Hospitals in 2022 for Failure to Waive the 4% Statutory PAYGO

State Abbreviation	State Name	Statutory PAYGO at 4% Cap
U.S. Total (Includes all Hospital Providers)		**$9.4 Billion**
State-level Total (Excludes Some Types of Hospital Providers: see note 1)		**$8.4 Billion**
AK	Alaska	$24.4 Million
AL	Alabama	$106.8 Million
AR	Arkansas	$91.9 Million
AZ	Arizona	$144.8 Million
CA	California	$843.0 Million
CO	Colorado	$106.6 Million
CT	Connecticut	$96.8 Million
DC	District of Columbia	$34.4 Million
DE	Delaware	$36.9 Million
FL	Florida	$497.0 Million
GA	Georgia	$212.9 Million
HI	Hawaii	$22.9 Million
IA	Iowa	$103.6 Million
ID	Idaho	$45.6 Million
IL	Illinois	$343.0 Million
IN	Indiana	$188.0 Million
KS	Kansas	$102.4 Million
KY	Kentucky	$119.2 Million
LA	Louisiana	$119.1 Million
MA	Massachusetts	$288.2 Million
MD	Maryland	$239.2 Million
ME	Maine	$39.6 Million
MI	Michigan	$241.9 Million

MN	Minnesota	$160.1 Million
MO	Missouri	$181.1 Million
MS	Mississippi	$98.9 Million
MT	Montana	$45.2 Million
NC	North Carolina	$245.6 Million
ND	North Dakota	$40.8 Million
NE	Nebraska	$74.0 Million
NH	New Hampshire	$54.1 Million
NJ	New Jersey	$243.5 Million
NM	New Mexico	$41.7 Million
NV	Nevada	$68.1 Million
NY	New York	$573.0 Million
OH	Ohio	$300.0 Million
OK	Oklahoma	$125.1 Million
OR	Oregon	$93.4 Million
PA	Pennsylvania	$352.6 Million
PR	Puerto Rico	$9.7 Million
RI	Rhode Island	$21.2 Million
SC	South Carolina	$136.0 Million
SD	South Dakota	$48.8 Million
TN	Tennessee	$159.7 Million
TX	Texas	$573.4 Million
UT	Utah	$53.0 Million
VA	Virginia	$215.0 Million
VT	Vermont	$14.4 Million
WA	Washington	$181.4 Million
WI	Wisconsin	$153.2 Million
WV	West Virginia	$61.4 Million
WY	Wyoming	$21.3 Million

Sources: Medicare fee-for-service claims, Centers for Medicare & Medicaid Services, Chronic Conditions Data Warehouse, www2.ccwdata.org/web/guest/home; Congressional Budget Office, Medicare Baseline Projections, July 2021.

Notes:

1. Using Medicare fee-for-service claims for inpatient, outpatient, skilled nursing facility (SNF), home health (HH) and hospice services, these estimates reflect 2% and 4% of the payment amounts made to hospital providers in 2021, annualized and trended forward to 2022. State-level estimates include inpatient and outpatient services provided by general short-term acute hospitals, critical access hospitals, children's hospitals, long-term care hospitals, psychiatric facilities and units, and rehabilitation facilities and units. The state-level estimates do not include payments contained in the Carrier (Physician) fee-for-service files for services provided by off-campus outpatient hospital, on-campus outpatient hospital, hospital emergency room and inpatient hospital professional providers, since all claims could not be attributed to individual states. However, the national totals shown above the state-level totals include these providers.
2. We used monthly claims from January to July, 2021 to calculate payments to hospital providers. June and July data were adjusted for completion; January to May data were assumed to be complete. Data were then annualized to estimate a total value for 2021. The data were then conservatively trended forward using the 2022 Part A growth rate of 6% published in CBO's July 2021 Medicare baseline.