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. This has placed unprecedented stress on the entire health care system and its financing.

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.

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. 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 show that by March 2021, there were over 29 million confirmed COVID-19 cases and over 500,000 reported deaths from COVID-19 in the United States. Hospitals have never experienced such a widespread, national health crisis. The number of cases and hospitalization rates have directly impacted 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: the astronomical costs of preparing for a surge of COVID-19 patients; added expenses due to supply chain and labor market disruptions; 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 pair of reports released in May and June of 2020, the AHA projected that hospitals' and health systems' financial losses would amount to at least $323.1 billion through the end of 2020. In addition, a February 2021 report forecasts that total hospital revenue in 2021 could be down an additional $53 billion to $122 billion from pre-pandemic levels. Losses on that scale have seriously threatened hospitals' and health systems' financial sustainability.

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.