SEQUESTRATION, GME, AND NDD

Frequently Asked Questions

What is sequestration?

The Budget Control Act of 2011 established caps on discretionary spending over 10 years, resulting in $1 trillion in cuts spread across defense and non-defense discretionary (NDD) programs. The law also created a congressional Joint Select Committee on Deficit Reduction (known as the “Super Committee”) to identify an additional $1.2 trillion in deficit reduction over 10 years. The failure of that committee to reach an agreement on a deficit reduction plan triggered sequestration, which will take effect on January 2, 2013.

To “sequester” means to set apart or to take something away until a debt has been repaid. In the context of funding federal programs, sequester means imminent, across-the-board cuts to most programs, both defense and non-defense – in addition to the $1 trillion in cuts already mandated by the Budget Control Act’s discretionary caps.

There are a few discretionary programs that are exempt from the sequester during the first year, such as Pell grants in the U.S. Department of Education (USDE). Medicare is treated uniquely, as described below.

How is GME treated under sequestration?

A number of programs for which funding is automatic if the recipient meets certain eligibility criteria (“entitlement programs”) are exempt from sequestration. For example, Social Security, veterans and federal employee pensions, and others are not cut. Medicare, which is also an entitlement program, would be cut, according to the law. However, the reduction is limited to 2 percent. Further, the law directs that the 2 percent reduction can only come from “providers” as distinct from beneficiaries.

While complete details are not yet available, it is anticipated that the statutory language will be interpreted to mean that, for example, co-pays and deductibles on beneficiaries cannot be increased, but that hospital and physician reimbursement must be cut. Graduate medical education (GME) would clearly not fall within the “beneficiary” category and therefore is expected to be reduced when sequestration takes effect.

What are “NDD” Programs?

Discretionary programs differ from “entitlement” programs in that they must be funded annually by Congress through the appropriations process. Congress retains complete discretion, or choice, on whether, and at what level, to fund discretionary programs.
Non-defense discretionary, or “NDD”, programs are core functions that government provides for the benefit of all, including medical and scientific research; education and job training (including health professions training); public health infrastructure; public safety and law enforcement; weather monitoring and environmental protection; natural and cultural resources; housing and social services; and international relations. Every day these programs support economic growth and strengthen the safety and security of each American in the states and communities across the nation.

**How will sequestration impact GME and NDD programs?**

In 2013, sequestration will mean an automatic 2 percent reduction in Medicare and an 8.2 percent cut to program funding levels in most NDD programs. These cuts will truly be across-the-board, with no departmental or agency control over how the sequester impacts individual NDD programs. Cuts of this level will be devastating to programs of interest to AACOM membership. For example:

Cuts to Medicare will result in $123 billion less in spending over the next 10 years. That will have an impact on both physician and hospital revenues. GME was “on the table” during recent discussions of previous deficit reduction initiatives (such as the Simpson-Bowles Task Force), and we have every reason to expect that it will be considered again.

Cuts to the health professions programs related to primary care training in the Health Resources and Services Administration (HRSA) will take an already inadequately funded program and make it even smaller. With 32 million new patients entering the health insurance system as a result of the enactment of the Affordable Care Act, this is a devastating time to cut training, and therefore, restrict access to qualified physicians such as those who graduate from osteopathic medical schools.

Cuts to the National Institutes of Health (NIH) will stifle medical discoveries that save lives and drive the nation’s economy. NIH supports researchers in each state across the nation and in many colleges of osteopathic medicine (COMs); thus every state will experience sequestration’s impact. In eight states, these cuts will exceed $100 million.

Among the other programs of interest that will be cut by sequestration are community health centers, the Agency for Healthcare Research and Quality, the Centers for Disease Control and Prevention, the administrative staff responsible for paying Medicare and Medicaid claims, the Office of Rural Health Policy at HRSA, the Substance Abuse and Mental Health Services Administration, and virtually all of the programs at the USDE that benefit the COMs.

For further information about the impact of sequestration on osteopathic medical education, please contact Pamela Murphy, Director of Government Relations, at pmurphy@aacom.org.