

SEQUESTRATION IN A NUTSHELL

The Budget Control Act (BCA) enacted in August stipulates that if the Joint Select Committee on Deficit Reduction fails to produce a bill to reduce the deficit, there will be across-the-board cuts sufficient to reduce the deficit by a total of \$1.2 trillion, starting in 2013.

The BCA's formula for establishing specific cuts begins by reducing the \$1.2 trillion by 18 percent (\$216 billion) to account for interest savings that will flow from the spending cuts. This leaves \$984 billion that must be achieved through equal amounts of spending cuts in each of the nine years between fiscal years 2013 and 2021, or about \$109 billion per year.

The total annual spending cut of about \$109 billion is divided equally between defense and nondefense spending. Thus, each such category of spending must be reduced by roughly \$55 billion annually. Generally speaking, these cuts are divided proportionately between the discretionary and *nonexempt* direct spending within each broad category. Since defense spending is largely discretionary and much direct spending is exempt, sequestration primarily will affect discretionary spending (\$813 billion of the \$984 billion in non-interest savings).

[CBO](#) estimates that sequestration will produce the following:

- * Cuts ranging from 10.0 percent in 2013 to 8.5 percent in 2021 in the caps on new defense discretionary appropriations, for a total cut in budget authority of \$492 billion, which is estimated to yield \$454 billion in outlay savings.
- * Cuts ranging from 7.8 percent in 2013 to 5.5 percent in 2021 in the caps on new nondefense discretionary appropriations, for a total cut in budget authority of \$322 billion, which is estimated to yield \$294 billion in outlay savings.
- * Cuts ranging from 10.0 percent in 2013 to 8.5 percent in 2021 in mandatory budgetary resources for nonexempt defense programs, generating savings of about \$0.1 billion.
- * Cuts of 2 percent each year in most Medicare spending because of a special rule for that program, producing savings of \$123 billion, and cuts ranging from 7.8 percent in 2013 to 5.5 percent in 2021 in mandatory budgetary resources for other nonexempt nondefense programs and activities, yielding savings of \$47 billion. Thus, savings in nondefense mandatory spending would total \$170 billion.

Reductions in discretionary spending in FY13 would be implemented on January 2, 2013, by an order that cancels budget authority provided for that year to specific accounts. In subsequent years (fiscal years 2014-2021), discretionary cuts are achieved by reducing discretionary spending limits.

A large number of mandatory programs are exempt from sequestration, including Social Security, Medicaid, Federal retirement programs, and many programs that assist those with low incomes. There also are special rules that apply in some cases, such as the 2 percent limit on cuts to Medicare. For more information about exemptions and special rules, see [this CRS report](#).

For more detailed explanations, see [this CRS report](#) or [this CBO report](#).