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GOVERNMENT RELATIONS

News Alert – January 2, 2013

Entitlement fight, sequester postponed in last-minute deal to avert fiscal cliff

Congress waited until the early hours of the new year to pass a package of new revenues and spending cuts that will temporarily avert the so-called "fiscal cliff" once it is signed by the President.

Over $600 billion in automatic tax hikes and spending cuts were slated to automatically go into effect by today if Congress failed to act. The legislation (H.R. 8) avoids most of the tax hikes by making permanent the Bush-era tax cuts for the 98 percent of Americans who earn less than $400,000 per year for individuals or $450,000 for families. However, tax cuts for those earning higher amounts were allowed to expire, as well as the two percent reduction in the payroll tax that was in effect since the 2009 federal stimulus package. The latter will take roughly $1,000 out of the paychecks of those earning around $50,000 per year.

The controversial 26.5 percent cut in Medicare reimbursement for physicians once again received a full-year reprieve, as it has every year since 2003 Congress has yet to formulate a permanent fix, and offset the $25.1 billion cost of the delay largely by targeting Medicare hospital reimbursement. Safety net providers particularly objected to further cuts in disproportionate share payments for indigent care that are already slated to decline by 18 percent from 2014-2020 under the Affordable Care Act (ACA). Congress also rescinded the remaining $2.3 billion in unobligated funds to create consumer-oriented non-profit health insurance cooperatives under the ACA.

At least 151 House Republicans withheld their support for the bipartisan deal as it does not contain any of the $300 billion cuts they sought for entitlement programs and the ACA. It also merely postpones the across-the-board sequester for two months, at which time most agency budgets will be cut by 8-10 percent without further congressional action. Medicaid and Social Security programs remain exempt from this sequester, although Medicare reimbursement would fall by another two percent.

The deal also sets up another showdown over raising the federal debt ceiling, which must be negotiated in February. House Republicans are already pledging to block any increase in the debt ceiling unless President Obama imposes deep spending cuts and moves off his demand for additional revenues. The 2011 stalemate over the debt ceiling resulted in the sequester as well as a first-ever downgrade in the nation's credit rating.

The White House disputes Congressional Budget Office (CBO) estimates that H.R. 8 will increase federal spending by $330 billion over the next decade while adding $3.9 trillion to the federal deficit. It emphasized that CBO did not account for Bush-era tax cuts expiring for wealthy Americans and wrongly assumed the Medicare physician payment cut would go into effect. When adjusting for these and other factors, it insists that H.R. 8 will actually reduce the deficit by $737 billion.

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