CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Phillip L. Swagel, Director

August 15, 2025

Honorable Sheldon Whitehouse
Ranking Member
Committee on Environment and Public Works
United States Senate
Washington, DC 20510

Honorable Jeff Merkley
Ranking Member
Committee on the Budget
United States Senate
Washington, DC 20510

Honorable Ron Wyden
Ranking Member
Committee on Finance
United States Senate
Washington, DC 20510

Honorable Brendan F. Boyle
Ranking Member
Committee on the Budget
U.S. House of Representatives
Washington, DC 20515

Re: CBO's Estimates of the Statutory Pay-As-You-Go Effects of Public Law 119-21

Dear Ranking Member Whitehouse, Ranking Member Merkley, Ranking Member Wyden, and Ranking Member Boyle:

You have asked for information concerning the effects of a potential sequestration (the cancellation of budgetary resources) in accordance with the Statutory Pay-As-You-Go Act of 2010 (S-PAYGO) that could occur as a result of the enactment of the 2025 reconciliation act (Public Law 119-21).

The Congressional Budget Office and the staff of the Joint Committee on Taxation estimate that under the act deficits will increase by $2.1 trillion over the 2025–2029 period and by $3.4 trillion over the 2025–2034 period

relative to CBO's January 2025 baseline, excluding any macroeconomic or debt-service effects.[1]

Under S-PAYGO, the Office of Management and Budget (OMB) is required to maintain 5- and 10-year scorecards that it updates with the estimated cumulative changes in revenues and outlays generated by newly enacted legislation.

If either scorecard indicates a net increase in the deficit, OMB is required to order a sequestration to eliminate the overage. The balance used to determine the amount of a sequestration is not the projected increase in the deficit for that particular year. Rather, OMB's 5- and 10-year scorecards identify the average annual effects of a piece of legislation over those periods and assign the average to each year in the period. Before an average is calculated, any current-year effects are combined with those for the budget year. The amount of a sequestration would equal the larger of the two averages.[2]

Will a Sequestration Occur Under the 2025 Reconciliation Act?

In accordance with S-PAYGO, OMB will estimate the average increases in deficits over the 5- and 10-year periods and record those amounts on the PAYGO scorecards; OMB has not yet done so. By CBO's estimate, the

1. See Congressional Budget Office, estimated budgetary effects of Public Law 119-21, to provide for reconciliation pursuant to title II of H. Con. Res. 14, relative to CBO's January 2025 baseline (July 21, 2025), www.cbo.gov/publication/61570.

2. For more information, see Congressional Budget Office, *The Statutory Pay-As-You-Go Act and the Role of the Congress* (August 2020), www.cbo.gov/publication/56506.

   Also see Congressional Budget Office, letter to the Honorable Brendan F. Boyle concerning the potential Statutory Pay-As-You-Go effects of a bill to provide reconciliation pursuant to H. Con. Res. 14, the One Big Beautiful Bill Act (May 20, 2025), www.cbo.gov/publication/61423, and letter to the Honorable Kevin McCarthy concerning potential Statutory Pay-As-You-Go effects of the American Rescue Plan Act of 2021 (February 25, 2021), www.cbo.gov/publication/57030.

average increases in the deficits stemming from the act will total $415 billion over the 5-year period and $339 billion over the 10-year period.[3]

Without enactment of subsequent legislation that would offset the deficit increase, waive the recordation of the bill's effects on the scorecard, or otherwise mitigate or eliminate the statutory requirements, OMB will be required to issue a sequestration order not more than 14 days after the end of the current session of Congress (excluding weekends and holidays) to reduce spending by $415 billion in fiscal year 2026, CBO estimates.[4]

How Would a Sequestration Affect Medicare and Other Programs in 2026, Assuming That Funding Subject to That Sequestration Remained Equal to the Amounts in CBO's January 2025 Baseline Projections?

Under S-PAYGO, reductions in Medicare spending are limited to 4 percent—or an estimated $45 billion for fiscal year 2026. That would leave $370 billion to be sequestered from the federal budget's remaining direct spending accounts in that year.

S-PAYGO exempts many large accounts, including those that provide funding for Social Security and low-income programs. Therefore, in CBO's estimation, OMB would have roughly $120 billion in budgetary resources available for cancellation in 2026—less than the remaining amount that would be required to be sequestered.[5]

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3. The 5- and 10-year averages reflect CBO's cost estimate for the 2025 reconciliation act, which covered the 2025–2034 period. OMB's scorecard, however, includes an additional year, covering the period through 2035. Thus, OMB's estimate of those averages is expected to differ from CBO's. Nevertheless, the differences are not likely to be large enough to materially affect the results described in this letter. The spending reductions that would be required for other programs, after accounting for the reductions in Medicare, would still be expected to significantly exceed the estimated amounts of resources available to those programs.

4. In past years when the S-PAYGO scorecard has reflected a balance, subsequent legislation has been enacted to mitigate or eliminate the need for a sequestration. For more information, see Congressional Budget Office, letter to the Honorable Lindsey Graham concerning questions about the statutory Pay-As-You-Go Act of 2010 (June 17, 2025), www.cbo.gov/publication/61493.

5. For a full list of accounts subject to automatic reductions, see Office of Management and Budget, *OMB Report to the Congress on the BBEDCA 251A Sequestration for Fiscal Year 2025* (March 2024), https://tinyurl.com/2vu2vsr8.

How Would Medicare Be Affected Between 2027 and 2034?

The 4 percent maximum reduction in Medicare spending would continue to apply to sequestration orders for years after 2026. If OMB ordered a sequestration of $415 billion for each year through 2029 and $339 billion each year from 2030 through 2034, the ordered reductions in Medicare spending would increase to $76 billion in 2034 and would total $491 billion over the 2027–2034 period (see Table 1).

Table 1.
Estimated Statutory Pay-As-You-Go Effects of Public Law 119-21 on Medicare
Billions of Dollars, by Fiscal Year

	2026	2027	2028	2029	2030	2031	2032	2033	2034	2027-2034
Change in Outlays	-45	-48	-54	-52	-58	-62	-66	-75	-76	-491

Source: Congressional Budget Office.

How Would All Other Programs That Are Subject to Sequestration Be Affected Between 2027 and 2034?

After accounting for the reduction in Medicare spending, the required reduction in spending for other programs would exceed the estimated amount of resources available to those programs in each year over the 2027–2034 period. If OMB sequestered all of the funding for those programs, the total amounts would be less than the reductions required by S-PAYGO.

I hope this information is useful to you. Please contact me if you have further questions.

Sincerely,

Phillip L. Swagel
Director

cc: Honorable Shelley Moore Capito
Chairman
Senate Committee on Environment and
Public Works

Honorable Lindsey Graham
Chairman
Senate Committee on the Budget

Honorable Mike Crapo
Chairman
Senate Committee on Finance

Honorable Jodey Arrington
Chairman
House Committee on the Budget