Sequestration

**Action Needed**

Many Kansas hospitals are facing financial challenges as a result of reimbursement reductions such as the two percent Medicare sequestration. In Kansas, the financial impact of sequestration is more than $36 million per year. Congress needs to act now to restore funding lost through sequestration.

The Budget Control Act of 2011 imposed two percent reductions on Medicare claims submitted by providers on or after April 1, 2013. Nearly seven years into these cuts, the results are not good: nearly two-thirds of Kansas’ hospitals operated in 2020 with negative profit margins. While this hardship is driven by a combination of factors including Medicare cuts from the Affordable Care Act and Kansas’ lack of Medicaid expansion, sequestration’s added burden has put many hospitals’ financial solvency at risk. Each year, the overall Medicare reductions through sequestration impact Kansas hospitals by roughly $36 million.

When a hospital faces losses like this, year after year, they are forced to make difficult decisions. Do they ask their communities for increased revenue through property tax hikes? Do they scale back services? Do they close their doors? Unfortunately, since 2010, there have been seven rural hospitals in Kansas that have closed their doors. Around the country, more than 100 rural hospitals have closed since sequestration went into effect.

Kansas hospitals have appreciated the Medicare sequestration “holiday” during the public health emergency that is slated to end on July 1, 2022. However, the price for that “holiday” under federal pay-as-you-go rules is a four percent increase in sequestration beginning Jan. 1, 2023. This increase will triple the cut to hospitals to an estimated $108 million in 2023. Hospitals cannot absorb this reduction.

Now that Congress has passed a law that waives sequestration for the Department of Defense, it is time for Congress to do the same for other federal programs. The Kansas Hospital Association believes that removal of sequestration on Medicare reimbursement should lead that discussion: health care costs inflate faster than the consumer price index, so not addressing this problem as soon as possible will leave providers in increasingly challenging financial positions over time.

Congress needs to act now to eliminate the Medicare sequester cliff and restore the funding that has been lost through sequestration.

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**Bottom Line:**

A four percent increase in sequestration begins Jan. 1, 2023. This increase will triple the cut to hospitals to an estimated $108 million in 2023. Hospitals cannot absorb this reduction.

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