

Understanding S-PAYGO and Its Implications for H.R. 1 – One Big, Beautiful Bill Act

WHAT IS S-PAYGO?

The **Statutory Pay-As-You-Go Act of 2010 (S-PAYGO)** is a federal law that requires that new legislation **not increase the federal deficit** by increasing direct (mandatory) spending or enacting tax cuts. S-PAYGO does not apply to spending provided and controlled through the annual appropriations process (i.e., discretionary spending) and certain delineated pieces of legislation addressing mandatory spending, such as emergency spending bills.

If new laws in a Congressional session increase the deficit, S-PAYGO triggers **automatic spending cuts (sequestration)** to certain non-exempt mandatory programs at the end of the year.

HOW IT WORKS

- **Scorecards:**

The Office of Management and Budget (OMB) tracks the net deficit impact of new laws after the conclusion of each Congressional session on 5- and 10-year **S-PAYGO scorecards**.

- **Sequestration:**

If OMB's calculation, in either scorecard, reflects a net deficit increase, the President is required to issue a sequestration order (**across-the-board spending cuts**) in the following year. The higher of the two averages (5 and 10 years) determines the sequestered amount. Spending for each program is reduced by the same percentage for one year to offset the average projected deficit increase. Unless Congress acts to reduce or eliminate the projected deficit increase, there is another sequestration the following year, and so on.

- **Exemptions:**

Many programs are fully or partially exempt:

- Fully Exempt: Social Security, Medicaid, unemployment insurance, postal service, and many other programs.
- Partially Exempt: Medicare (limited to 4% reduction). If sequestration calls for an across-the-board reduction of more than 4 percent, the additional amount that would have come from Medicare is allocated proportionally to other programs.

- Congress can enact legislation to eliminate a balance or roll it over to future years, thereby eliminating or delaying the need for sequestration.

IMPLICATIONS OF H.R. 1 – ONE BIG, BEAUTIFUL BILL ACT

- **Background:**

H.R. 1, passed by the House in May 2025, contains significant **deficit-increasing provisions**, including **tax reductions and mandatory spending increases**. The most recent Congressional Budget Office score of H.R.1 estimates the cost to be \$2.4 trillion over ten years.

- **S-PAYGO Exposure:**

Unless Congress enacts a waiver, these effects will appear on OMB's PAYGO scorecards, likely triggering **sequestration in early 2026**.

- **Programs at Risk:**

If no action is taken to offset or exempt the bill:

- **Medicare** will face a **4% automatic cut** (estimated ~\$45 billion/year)
- The total spending on the other sequesterable programs was \$130 billion in FY24. Due to the total cost of H.R.1, our understanding is that mandatory funding for the following programs (among many others) would be completely eliminated for 10 years:
 - Social Services Block Grant (SSBG)
 - Promoting Safe and Stable Families (PSSF)
 - Maternal, Infant, Early Child Home Visiting (MIECHV)

KEY CONSIDERATIONS

- S-PAYGO has never been triggered (or put another way, has always been waived or delayed) since its 2010 passage. It is possible this could still occur through the Reconciliation process or could be passed alone or along with another bill before the end of the year.
- However, our understanding is that a provision waiving S-PAYGO was negotiated out of the House bill language before its passage, leaving us uncertain about its prospects of being included at a later point.