



**Financial Services Group**

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MEMORANDUM

**DATE:** December 11, 2013

**FROM:** Julia Gorner, CPA  
Director, Division of Capitated Plan Audits

**SUBJECT:** Impact of Sequestration

**TO:** All Section 1833 and 1876 Cost-based Contracts

On March 22, 2013, the Centers for Medicare & Medicaid Services (CMS) released a memorandum notifying all affected plans that, beginning April 1, 2013, monthly payments will be reduced by 2% in accordance with the Balanced Budget and Emergency Deficit Control Act of 1985, as amended. On May 1, 2013, CMS issued a memorandum, which clarified that the 2% reduction was also applicable to the cost reports submitted by Section 1876 and 1833 cost-based Managed Care Organizations (MCOs). This memorandum provides specific instructions for calculating the sequestration reduction on the cost-based MCO cost reports.

As noted above, the effective date of the sequestration order was April 1, 2013. The 2% payment reduction applies to all cost reports overlapping the effective period of the order. The reduction will be applied to reimbursable costs and prorated based on the portion of the cost reporting period covered by the sequester. To account for this reduction, all cost-based MCOs are required to calculate the sequestration reduction amount and report this amount as an adjustment on Line 26 of Worksheet M, using the instructions below.

**Worksheet M:**

**Add Line 26. Please name this line, “Sequestration Reduction”.**

For cost reporting periods that overlap, or begin on or after April 1, 2013, calculate the sequestration reduction amount as follows:

- Calculate Total Adjusted Reimbursable Costs by subtracting from Line 21 the adjustments on Lines 24 and 25 that pertain to the sequestered period and impact reimbursable costs;
- Multiply the Total Adjusted Reimbursable Costs by the fraction of the cost reporting period that occurs after April 1, 2013. The numerator of this fraction is the number of months between April 1, 2013 and the end of the cost reporting period. The denominator of the fraction is the number of months in the cost reporting period. This results is Reimbursable Costs Subject to Sequestration.

- Multiply the Reimbursable Costs Subject to Sequestration by 2 percent (2% is the sequester percentage). This amount is the Sequestration Reduction and should be reported as a negative number on Line 26.

Below is an example of the calculation for Line 26, Sequestration Reduction, for the cost reporting period ending December 31, 2013.

|   |                   |
|---|-------------------|
| Line 21 Reimbursable Costs  | \$500,000         |
| Less any adjustments reported on Lines 24 & 25,<br>which impact sequestered year's reimbursable costs | <u>(\$50,000)</u> |
| Total Adjusted Reimbursable Costs   | \$450,000         |
| Multiply by fraction of cost reporting period that<br>occurs after April 1, 2013 (April- Dec.)        | <u>X 9/12</u>     |
| Reimbursable Costs Subject to Sequestration   | \$337,500         |
| Multiply by Sequestration Percentage  | <u>2%</u>         |
| <b>Line 26 Sequestration Reduction</b>  | <b>(\$6,750)</b>  |

If you have any questions about the guidance in this memorandum, please contact our Cost MCO mailbox at [CostMCO@cms.hhs.gov](mailto:CostMCO@cms.hhs.gov).