



## Federal Debt and the Statutory Limit, November 2012

The Congress has traditionally placed a limit on the total amount of debt that the Department of the Treasury can issue to the public and to other federal agencies. Lawmakers have enacted numerous increases to the debt limit—commonly known as the debt ceiling—some of which have been temporary and many of which have been permanent. Treasury debt is now approaching the current limit.

### What Is the Current Debt Limit, and When Is It Likely to Be Reached?

The current statutory debt limit is \$16.394 trillion. As of November 27, 2012, debt subject to that limit stood at \$16.279 trillion—\$115 billion below the statutory ceiling.

The Treasury anticipates that borrowing will reach the current limit near the end of December 2012.<sup>1</sup> However, because the Treasury can take certain measures that it has used previously when borrowing approached or reached the debt limit, the Congressional Budget Office (CBO) expects that the department will be able to continue

funding government activities without an increase in the debt limit until mid-February or early March.

### What Makes Up the Debt Subject to Limit?

Debt subject to the statutory limit consists of two main components: debt held by the public and debt held by government accounts.<sup>2</sup> Debt held by the public consists mainly of securities that the Treasury issues to raise cash to fund the operations and pay off the maturing liabilities of the federal government that revenues are insufficient to cover. Such debt is held by outside investors, including the Federal Reserve System. Debt held by government accounts is debt issued to the federal government's trust funds and other federal accounts for internal transactions of the government; it is not traded in capital markets. Of the \$16.3 trillion in outstanding debt subject to limit, \$11.5 trillion is held by the public and \$4.8 trillion is held by government accounts.

### What Will Occur If the Debt Limit Is Reached?

If the Congress does not raise the current debt limit, the Treasury will have to employ alternative strategies for managing its cash and borrowing in order to continue

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1. For more information, see Department of the Treasury, "Treasury Assistant Secretary for Financial Markets Matthew Rutherford November 2012 Quarterly Refunding Statement" (press release, Washington, D.C., October 31, 2012), [www.treasury.gov/press-center/press-releases/Pages/tg1753.aspx](http://www.treasury.gov/press-center/press-releases/Pages/tg1753.aspx).

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2. For more information on federal debt, see Congressional Budget Office, *Federal Debt and Interest Costs* (December 2010).

funding government activities. In fact, the Treasury has a well-established toolbox of so-called extraordinary measures that will make continued borrowing possible for a limited time if the current debt limit is reached. Specifically, the Treasury can take the following steps:

- Suspend the investments of the Thrift Savings Plan G Fund (otherwise rolled over [or reinvested] daily, such investments totaled \$154 billion in Treasury securities as of October 31, 2012);<sup>3</sup>
- Suspend the investments of the Exchange Stabilization Fund (otherwise rolled over daily, such investments totaled \$23 billion as of October 31, 2012);<sup>4</sup>
- Suspend the issuance of new securities to the Civil Service Retirement and Disability Fund and Postal Service Retiree Health Benefits Fund (totaling about \$17 billion on December 31 and about \$2 billion each subsequent month);
- Redeem a limited amount of Civil Service Retirement and Disability Fund securities and Postal Service Retiree Health Benefits Fund securities (valued at about \$6 billion per month) early;
- Suspend the issuance of new State and Local Government Series (SLGS) securities and savings bonds (typically between \$3 billion and \$12 billion in SLGS securities and less than \$1 billion in savings bonds are issued each month);<sup>5</sup> and
- Replace Treasury securities subject to the debt limit with debt issued by the Federal Financing Bank, which is not subject to the limit (up to \$8 billion).<sup>6</sup>

Those measures provide the Treasury with additional room to borrow by limiting the amount of debt held by

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3. The Thrift Savings Plan is a retirement program for federal employees and members of the uniformed services similar to a 401(k) plan; the G Fund is one component of the plan and is solely invested in Treasury securities.
  4. The Exchange Stabilization Fund is a fund used by the Department of the Treasury for the purpose of stabilizing exchange rates.
  5. The Treasury offers SLGS securities to state and local governments as part of its regulation of their issuance of tax-exempt securities.

the public or debt held by government accounts that would otherwise be outstanding. By statute, if those measures are taken, both the Civil Service and Postal Service funds, as well as the G Fund, will eventually be made whole (with interest) after the debt limit has been raised.<sup>7</sup>

Because the federal government will be running a significant deficit in 2013, the Treasury's extraordinary measures will allow the government to continue operating for only a limited time. Given the magnitude of the government's daily cash flows and uncertainty about the size of certain key transactions over the next few months, it is difficult to be precise about the date on which the Treasury will lose its authority to borrow additional funds. That uncertainty includes the possibility of substantial delays by the Internal Revenue Service (IRS) in processing many individual income tax returns and issuing refunds—which are usually considerable in February and March—if significant changes to the rules regarding the alternative minimum tax are not enacted by the end of December or possibly very early in 2013. (In preparing tax forms and programming its computers, the IRS may anticipate the types of adjustments to the AMT that have routinely been made in recent years, and would be delayed in processing returns if those adjustments are not made soon.)<sup>8</sup>

## What Is the Typical Schedule for Cash Flows and Debt Issuance?

The amount of debt accumulated over the next few months depends on the size of the deficit during that

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6. The Federal Financing Bank is an arm of the Treasury Department that acts as a financial intermediary for a few federal agencies, government corporations, and government-sponsored enterprises. The bank is authorized to borrow up to \$15 billion from sources other than the Treasury; about \$7 billion of that total is currently held by the Civil Service Retirement and Disability Fund.
  7. For more information on extraordinary measures and actions taken after a debt limit increase, see Government Accountability Office, *Debt Limit: Analysis of Actions Taken and Effect of Delayed Increase on Borrowing*, GAO-12-701 (July 2012).
  8. Higher exemption amounts under the alternative minimum tax, which substantially reduced the number of people subject to that tax, expired at the end of December 2011; those higher exemption amounts have been routinely extended, with adjustments for inflation and other factors, since they were enacted in 2001.

period (which largely determines how much additional cash the government needs) and on the magnitude of transactions between the Treasury and other parts of the federal government. The amount of cash flowing to and from the government will determine how much needs to be borrowed from the public and when that borrowing must occur. In addition, transactions between the Treasury and other parts of the federal government, described below, will increase the amount of debt held by government accounts.

### Federal Cash Flows

Certain large inflows of cash to and outflows of cash from the Treasury follow a regular schedule. That schedule directly affects the amount of borrowing from the public, a key component of debt subject to limit. For large government expenditures, the following are typical dates and amounts (although the actual date of a disbursement may shift by a day or two in either direction if the normal payment date falls on a weekend or federal holiday):

- Payments to Medicare Advantage and Medicare Part D plans: on the first day of the month (about \$17 billion);
- Social Security benefits: on the third day of the month (about \$25 billion), with subsequent smaller payments on three Wednesdays per month (about \$11 billion each);
- Pay for active-duty members of the military and benefit payments for civil service and military retirees, veterans, and recipients of Supplemental Security Income: on the first day of the month (about \$25 billion); and
- Interest payments: around the 15th and the last day of the month (with some variation).

Deposits (mostly tax revenues) are relatively smooth throughout each month except for large payments of nonwithheld taxes occurring near specified dates. The largest payments occur in April, when individual tax returns are due. Estimated taxes from corporations and individuals are due at four different points in the year, including mid-December (for most corporations) and mid-January (for individuals). In addition, corporate income tax receipts rise in March, when most corporations' tax returns are due.

### Debt Issuance: Treasury Auctions

The Treasury issues numerous securities to obtain funds to pay off maturing securities and to finance government activities. Those securities, which have various maturities, are normally issued in regularly scheduled auctions (although the date of issuance may shift by a day or two in either direction if the normal issuance date falls on a weekend or federal holiday):

- Treasury bills (with maturities of up to 52 weeks): issued every Thursday (sales in recent auctions have ranged from a total of \$85 billion to \$150 billion);
- Treasury notes (which mature in 2 to 10 years): issued on the 15th and last day of the month (sales in recent auctions on the 15th have totaled about \$55 billion; and on the last day of the month, over \$100 billion); and
- Treasury bonds (which mature in 30 years): issued in the middle of the month (sales in recent auctions have ranged from \$13 billion to \$17 billion); 30-year inflation-protected securities are issued in February, June, and October (sales in recent auctions have ranged from \$7 billion to \$9 billion).

In recent months, the Treasury has raised most of its cash on the last day of the month (about \$60 billion recently, on average) and the middle of the month (about \$30 billion).

### Debt Issuance: Government Account Series (GAS) Securities

Debt held by government accounts—Government Account Series (GAS) securities—is dominated by the transactions of a few large trust funds. When a trust fund receives cash that is not immediately needed to pay benefits or to cover the relevant program's expenses, the Treasury credits the trust fund with that income by issuing GAS securities to the fund. The Treasury then uses the cash to finance the government's ongoing activities. When revenues for a trust fund program fall short of expenses, the reverse happens: The Treasury redeems some of the GAS securities. The crediting and redemption of securities between the Treasury and trust funds are intragovernmental in nature but directly affect the amount of debt subject to limit.

On net, the amount of outstanding GAS securities tends to fluctuate very little during a month, except when redemptions occur to reflect the payment of benefits for programs like Social Security and Medicare. (Those trust funds account for about two-thirds of the government's trust fund balances.) However, those redemptions of GAS securities, which reduce the amount of debt subject to limit, are normally offset by additional borrowing from the public to obtain the cash to make actual payments. Most GAS securities pay interest in the form of additional securities on June 30 and December 31. (Recent payments have amounted to about \$80 billion on each day.)

### What Are the Key Dates in Early 2013 for Cash Flows and Debt Issuance?

In the coming months, transactions on a number of key dates will determine what steps the Treasury will have to take to stay under the debt limit and when those steps will be necessary. The first such date is December 31, when a large interest payment is due to trust funds for Social Security and other programs. If the debt limit is unchanged, CBO expects that the Secretary of the Treasury will employ the extraordinary measures described above to clear room under the debt ceiling and continue to raise cash to finance government activities. CBO expects that employing such measures would enable the Treasury to continue borrowing from the public through at least mid-February.

But the amounts of some large inflows to and outflows from the federal government could influence when the Treasury will be unable to borrow further under the current limit, even after taking the extraordinary measures:

#### Cash Inflows to the Treasury

- Mid-January: receipt of nonwithheld individual income tax payments (which have averaged about \$45 billion over the past few years) and

- Mid-March: receipt of corporate tax payments (which have averaged about \$23 billion over the past few years).

#### Cash Outflows from the Treasury

- February 1: payments for Social Security benefits (ordinarily made on the 3rd of the month, which is a Sunday), Medicare Advantage, Medicare Part D, certain other benefits, and pay for active-duty members of the military (recently about \$67 billion);
- February 6, 13, and 20: additional Social Security benefit payments (recently about \$11 billion each time);
- February 15: a large interest payment on publicly issued securities (previously over \$30 billion);
- March 1: payments for Social Security benefits (ordinarily made on the 3rd of the month, which again is a Sunday), Medicare Advantage, Medicare Part D, certain other benefits, and pay for active-duty members of the military (recently about \$67 billion);
- March 6, 13, and 20: additional Social Security benefit payments (recently about \$11 billion each); and
- February and March: ordinarily, substantial payments of tax refunds (amounts vary).

Depending on the amount and timing of other revenues and outlays, any of those dates involving large cash outflows could prove binding for the Treasury's ability to borrow.<sup>9</sup>

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9. The dates presented are for typical patterns of tax and spending transactions. Any significant change to the timing for such transactions could change the outlook for borrowing by the Treasury.

## What Will Happen If the Debt Ceiling Is Not Raised After Extraordinary Measures Are Exhausted?

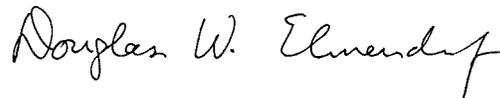
In the event that the debt limit is not increased before extraordinary measures are exhausted, the Treasury will not be authorized to issue additional debt that increases the amount outstanding. (It will be able to issue additional debt only in amounts equal to maturing debt.) That restriction would severely strain the Treasury's ability to manage its cash and could lead to delays of payments for government activities and possibly a default on the government's debt obligations.<sup>10</sup> Which of the government's various financial obligations would be paid and which would not would be determined by the Administration.

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10. For more information on debt management challenges and the debt limit, see Government Accountability Office, *Debt Limit: Delays Create Debt Management Challenges and Increase Uncertainty in the Treasury Market*, GAO-11-203 (February 2011).

This Congressional Budget Office (CBO) report was prepared in response to interest expressed by the Congress. In keeping with CBO's mandate to provide objective, impartial analysis, the report contains no recommendations.

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