



## Federal Debt and the Statutory Limit, June 2013

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. The Treasury is currently at its limit on borrowing.

### What Is the Current Debt Limit?

The current statutory limit on total debt issued by the Treasury is just under \$16.7 trillion. The No Budget, No Pay Act of 2013 (Public Law 113-3) suspended the debt ceiling from February 4, 2013, through May 18, 2013. The act also specified that the amount of borrowing that occurred during that period should be added to the previous debt limit of \$16.394 trillion. On May 19, the limit was reset to reflect the cumulative borrowing through May 18 and now stands at \$16.699 trillion.

Because the No Budget, No Pay Act provided no additional borrowing authority above the amount of debt that had already been issued as of May 18, the Treasury has no room under the newly established limit to increase total borrowing. Therefore, to avoid a breach of that limit, the Treasury has begun employing its well-established toolbox of so-called extraordinary measures to allow continued borrowing for a limited time.<sup>1</sup> As it reported in May, CBO projects that those measures will be exhausted in either October or November of this year.<sup>2</sup>

1. For more information, see Jacob J. Lew, Secretary of the Treasury, Department of the Treasury, letter to the Honorable John Boehner, Speaker of the House, May 17, 2013, <http://go.usa.gov/bRnP>.

### 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>3</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 tax 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 \$16.699 trillion in outstanding debt subject to limit, roughly \$11.9 trillion is held by the public and about \$4.8 trillion is held by government accounts.

### What Happened When the Debt Limit Was Reached in May?

To stay under the debt ceiling, the Treasury has employed some of its extraordinary measures. Since May 17, 2013, it has suspended the issuance of new state and local government securities (SLGS) and declared a "debt issuance suspension period" from May 20, 2013, until August 2, 2013. During that period, the Treasury has the ability to suspend the issuance of securities to the Civil Service Retirement and Disability Fund and the Postal Service

2. See Congressional Budget Office, *Updated Budget Projections: Fiscal Years 2013 to 2023* (May 2013), p. 4, [www.cbo.gov/publication/44172](http://www.cbo.gov/publication/44172).

3. For more information on federal debt, see Congressional Budget Office, *Federal Debt and Interest Costs* (December 2010), [www.cbo.gov/publication/21960](http://www.cbo.gov/publication/21960).

Retiree Health Benefits Fund, as well as to redeem early an amount of securities held by the funds equal to expected benefit payments during those two and a half months.

In all, the Treasury has the following measures available to it:

- Suspend the investments of the Thrift Savings Plan G Fund (otherwise rolled over or reinvested daily, such investments totaled \$130 billion in Treasury securities as of May 31, 2013);<sup>4</sup>
- Suspend investments of the Exchange Stabilization Fund (otherwise rolled over daily, such investments totaled \$23 billion as of May 31, 2013);<sup>5</sup>
- Suspend the issuance of new securities to the Civil Service Retirement and Disability Fund and Postal Service Retiree Health Benefits Fund (totaling an estimated \$79 billion on June 30, 2013, and about \$2 billion each subsequent month);<sup>6</sup>
- Redeem early securities held by the Civil Service Retirement and Disability Fund and the Postal Service Retiree Health Benefits Fund equal in value to expected benefit payments (valued at about \$6 billion per month);
- Suspend the issuance of new State and Local Government Series (SLGS) securities and savings bonds (between \$4 billion and \$17 billion in SLGS securities and less than \$1 billion in savings bonds are issued each month);<sup>7</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>8</sup>

Those measures provide the Treasury with additional room to borrow by limiting the amount of debt held by the public or debt held by government accounts that would otherwise be outstanding. By statute, 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>9</sup>

Although the federal government will run a significant deficit in 2013, tax receipts and other payments to the Treasury—in conjunction with the extraordinary measures—will probably allow the government to continue operating for a few more months. However, given the magnitude of the government’s daily cash flows and uncertainty about the size of certain key transactions over the next few months, being precise about the date on which the Treasury will exhaust its extraordinary measures and lose its authority to borrow additional funds is difficult.

## What Is the Upcoming 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 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

4. 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. On May 31, 2013, the Treasury announced that, under the current debt limit, it would no longer be able to fully invest the G Fund in Treasury securities. (The total amount invested in the G Fund before that date was about \$160 billion.)

5. The Exchange Stabilization Fund is a fund controlled by the Department of the Treasury for the purpose of stabilizing exchange rates.

6. For more information, see Department of the Treasury, “Frequently Asked Questions on the Civil Service Retirement and Disability Fund and the Postal Service Retiree Health Benefit Fund” (May 20, 2013), [www.treasury.gov/initiatives/pages/debtlimit.aspx](http://www.treasury.gov/initiatives/pages/debtlimit.aspx).

7. The Treasury offers SLGS securities to state and local governments as part of its regulation of their issuance of tax-exempt securities.

8. 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.

9. For more information on extraordinary measures and actions taken after a debt limit increase, see Government Accountability Office, *Debt Limit: Analysis of 2011–2012 Actions Taken and Effect of Delayed Increase on Borrowing Costs*, GAO-12-701 (July 2012), [www.gao.gov/products/GAO-12-701](http://www.gao.gov/products/GAO-12-701).

must occur. Transactions between the Treasury and other parts of the federal government, described below, will establish amount of debt held by government accounts.

### Federal Cash Flows

Certain large inflows and outflows of cash from the Treasury follow a regular schedule. That schedule directly affects the amount of borrowing from the public, the largest 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 \$12 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 (in varying amounts).

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-June and mid-September. In particular, at those times the Treasury can expect receipts as follows:

- Payments of estimated individual income taxes (which have averaged about \$40 billion in mid-June and \$45 billion in mid-September over the past few years) and
- Payments of estimated corporate taxes (which were about \$55 billion in both mid-June and mid-September of last year).

In addition, Fannie Mae is expected to make an unusually large cash payment of \$60 billion to the Treasury on June 28. CBO also anticipates that Freddie Mac will make a payment of around \$25 billion in the near future.<sup>10</sup>

### 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 \$73 billion to as much as \$135 billion);
- Treasury notes (which mature in 2 to 10 years and include inflation-protected securities): 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, as much as \$117 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 \$16 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 through end-of-the-month auctions of notes (about \$55 billion on average) and through the intermittent issuance of cash management bills (in varying amounts).

### 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

10. Fannie Mae and Freddie Mac, which are operating under federal conservatorship, are required to make quarterly payments related to their net worth. The large payments this year stem from accounting changes that significantly raised the entities' estimated net worth.

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 of those days.) Because the Treasury has already declared a "debt issuance suspension period," interest payments to the Civil Service Retirement and Disability Fund and the Postal Service Retiree Health Benefits Fund will not be made on June 30.

### **When Are the Extraordinary Measures Expected to Run Out, and What Will Happen If the Debt Ceiling Is Not Raised After They Are Exhausted?**

In the coming months, the Treasury will employ its full arsenal of extraordinary measures to stay under the current debt limit. If a new debt limit is not agreed upon, CBO expects those measures to run out sometime in October or November of this year.

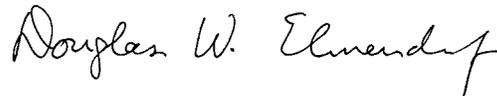
If the debt limit is not increased before extraordinary measures are exhausted, the Treasury will not be authorized to issue additional debt that increases the amount outstanding. (It will be able to issue additional debt only in amounts equal to maturing debt.) That restriction would severely strain 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>11</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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11. 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), [www.gao.gov/products/GAO-11-203](http://www.gao.gov/products/GAO-11-203).

This Congressional Budget Office (CBO) report, prepared in response to interest expressed by the Congress, is an update to *Federal Debt and the Statutory Limit, November 2012*. In keeping with CBO's mandate to provide objective, impartial analysis, the report contains no recommendations.

Jared Brewster of CBO's Budget Analysis Division prepared the report with guidance from Peter Fontaine, Theresa Gullo, and Jeffrey Holland. This report and other CBO publications are available on the agency's website ([www.cbo.gov](http://www.cbo.gov)).



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