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Overview of the Debt Limit and Extraordinary Measures

Presentation to Congressional Staff

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Introduction

- Overview of the Debt Limit/Current Debt Limit
- Components of the Debt Limit
- Treasury Procedures and Extraordinary Measures
- Cash Flows and Debt Issuance
- CBO Estimate and Ramifications of Not Raising the Debt Limit

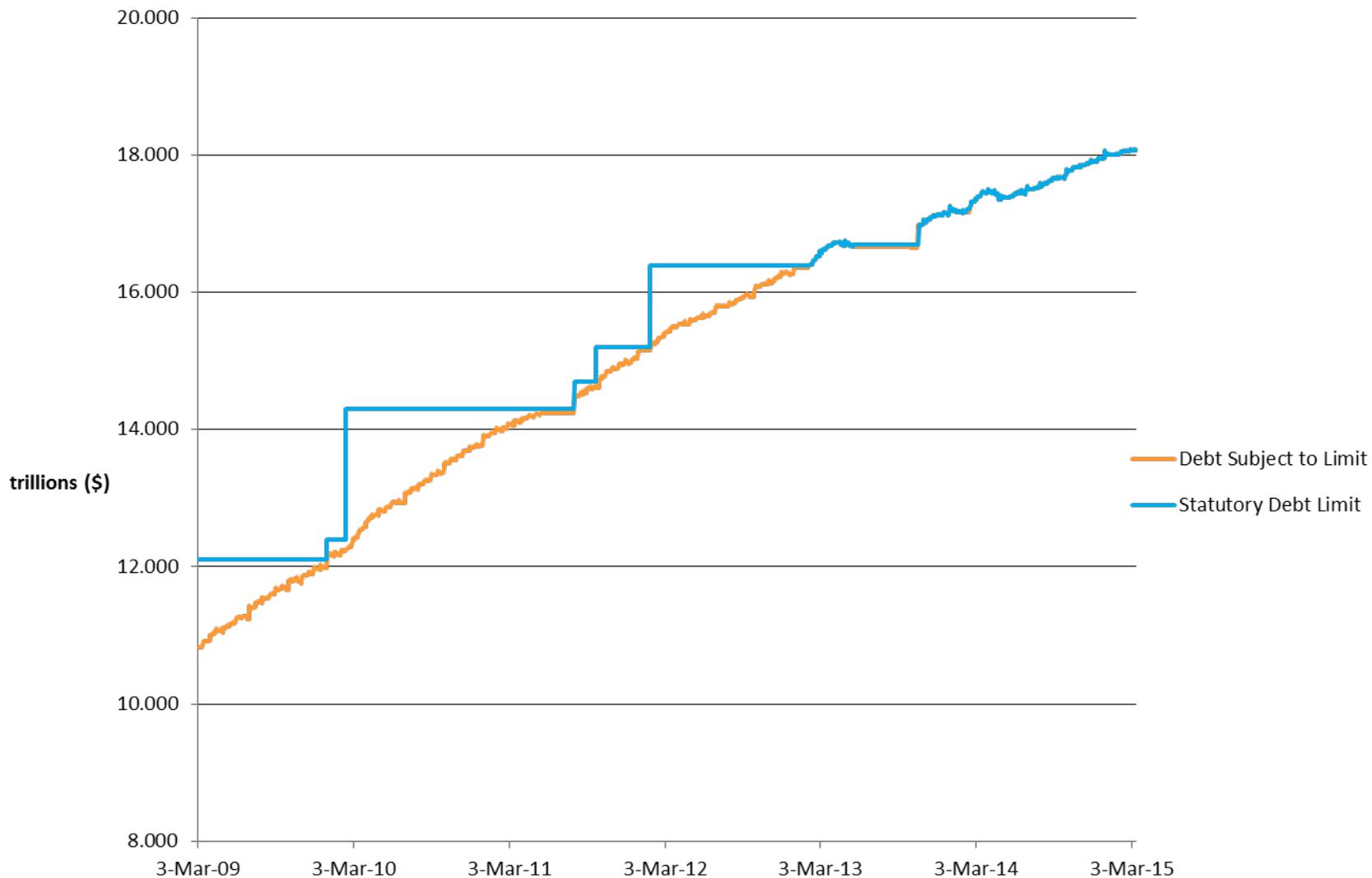
Overview of the Debt Limit

- Limits federal borrowing
- Around in some form since 1917
- Modified 14 times since 2001
- Raising the debt limit enables the government to pay the bills it has already incurred; it does not, by itself, change future tax or spending policies

Current Debt Limit

- Temporary Debt Limit Extension Act (Public Law 113-83):
 - Suspended the debt limit from February 15, 2014, through March 15, 2015
 - Reset limit to \$18.113 trillion
- Debt limit previously reset at \$17.212 trillion after suspension period expired on February 4, 2014

Recent Modifications to Debt Limit



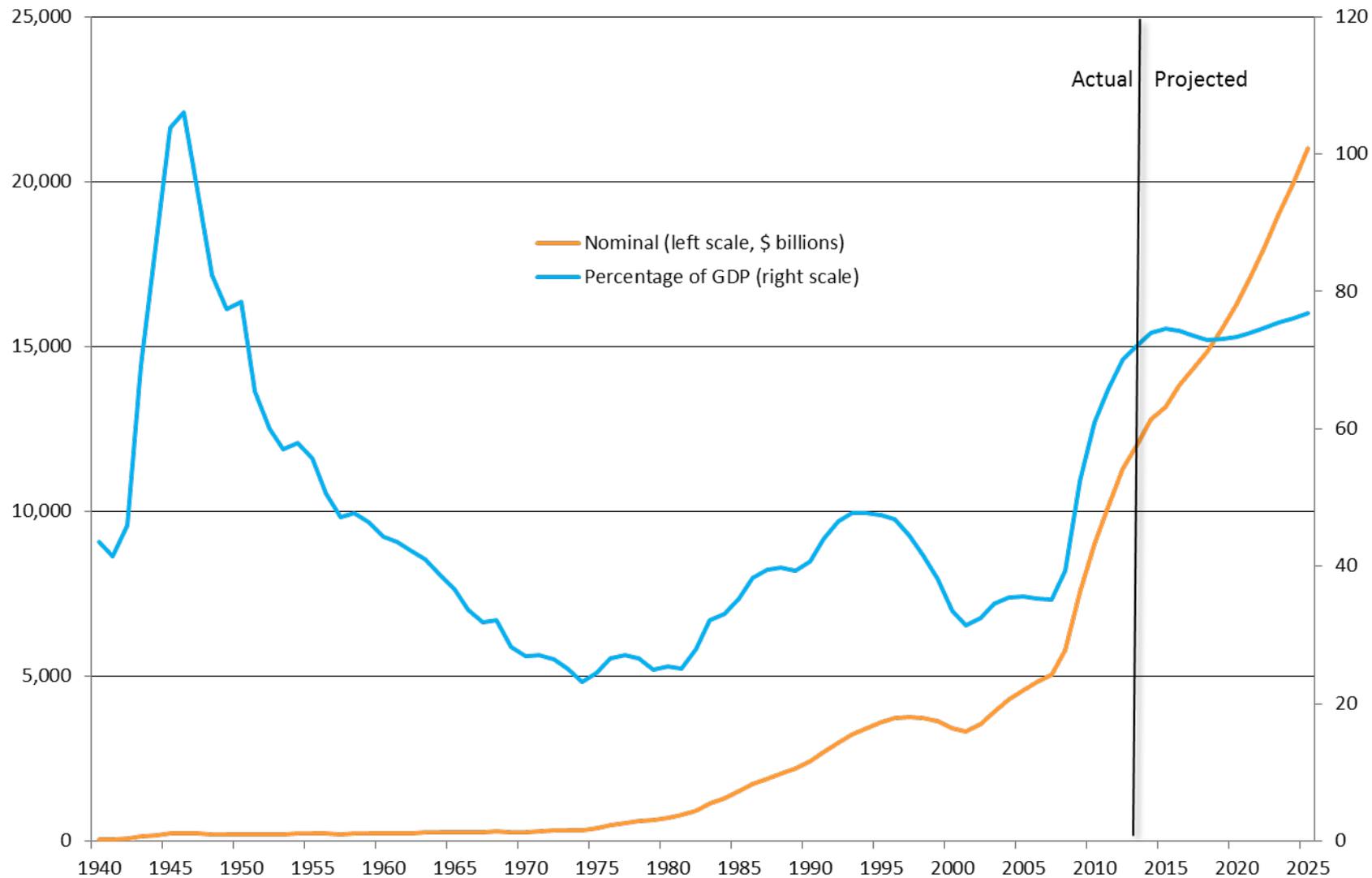
Composition of Debt Limit

- Outstanding debt subject to limit on October 8:
 - \$13.0 trillion in debt held by the public
 - \$5.1 trillion in debt held by government accounts

Debt Held by the Public

- Consists mainly of securities issued by Treasury to raise cash to fund government activities
- Measures the cumulative net amount the federal government has borrowed over time
- Two types of securities:
 - Marketable
 - Non-marketable

Debt Held By the Public (cont'd)



Debt Held By Government Accounts

- Government Account Series (GAS) securities
- Represent internal transactions of the government (does not affect the credit markets)
- When a trust fund receives cash not immediately needed, Treasury **issues** GAS securities
- When trust fund expenses are greater than revenues, Treasury **redeems** GAS securities

Debt Held By Government Accounts (cont'd)

- Largest Holders (as of August 31, 2015)
 - Social Security Trust Funds (\$2.8 trillion)
 - Civil Service Retirement and Disability Fund (\$731 billion)
 - Military Retirement Fund (\$534 billion)
 - Medicare Trust Funds (\$255 billion)

When the Treasury Reaches the Debt Limit

- Treasury issues a letter to Congress declaring a debt issuance suspension period
- Treasury employs extraordinary measures
- Current debt issuance suspension period ends October 30

Extraordinary Measures

- Suspend investments of the Thrift Savings Plan's G Fund and Exchange Stabilization Fund
- Suspend the issuance of new securities and semiannual interest payments to the Civil Service Retirement and Disability Fund (CSRDF) and Postal Service Retiree Health Benefits Fund
- Redeem early securities held by the CSRDF and Postal Benefits Fund equal in value to expected benefit payments
- Suspend issuance of State and Local Government (SLGS) securities
- Exchange debt subject to limit for Federal Financing Bank (FFB) debt

Schedule of Cash Flows and Debt Issuance

- The amount of debt accumulated depends on the size of the deficit and internal government transactions throughout the year
 - Federal cash flows
 - Debt issuance

Schedule of Federal Cash Flows

- Regular large payments:
 - Medicare
 - Social Security
 - Active duty pay and benefits, veterans' benefits, Supplemental Security Income
 - Interest

- Relatively steady deposits in October and November

Schedule of Debt Issuance

■ Treasury Auctions

- Bills: every Thursday
- Notes: 15th and last day of month
- Bonds: mid-month
- Inflation-protected securities: end of month

■ GAS Securities

- Dominated by trust funds
- Large interest payments in June and December to trust funds

Exhausting the Extraordinary Measures and Cash Balance

- CBO projects:
 - Low cash balance in early November
 - Exhaustion of extraordinary measures and cash in first half of November
- Exact date depends primarily on cash flows in next month

If the Debt Limit is Not Raised and the Extraordinary Measures Are Exhausted

- Treasury not authorized to issue additional debt beyond the amount of debt outstanding
- Delay in payments for government activities
- Possible default on debt obligations
- Administration determines which obligations are paid

Sources

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