



Federal Debt and the Statutory Limit, September 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 but many of which have been permanent. The Treasury’s borrowing has been at the current limit since May, although it has employed a well-established toolbox of so-called extraordinary measures that allow it to borrow additional funds without breaching the debt ceiling.

On September 25, 2013, the Treasury estimated that its ability to borrow under those extraordinary measures will be exhausted no later than October 17, leaving a cash balance of approximately \$30 billion.¹ The Congressional Budget Office (CBO) currently projects that the Treasury will exhaust all of the borrowing authority created by those measures, as well as its cash balance, between October 22 and the end of the month. (It is possible, however, that the date could fall outside of that range.)

Those dates are sooner than CBO estimated earlier this month, for two reasons: Forthcoming investments in Government Account Series (GAS) securities are expected to be greater than previously anticipated because a transfer of general funds to the Highway Trust Fund is scheduled to occur in October this year (rather than in November, as occurred last year) and because deposits in the Military Retirement Fund and the Medicare-Eligible Retiree Health Care Fund are now expected to be larger than they were last year; also, receipts of corporate

income taxes during the past several days fell short of CBO’s expectations.

What Is the Current Debt Limit?

The debt ceiling at the beginning of 2013 was \$16.394 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 in that period should be added to the previous debt limit. As a result, on May 19, the limit was reset to reflect cumulative borrowing through May 18; it now stands at \$16.699 trillion.

Because the No Budget, No Pay Act did not provide additional borrowing authority above the amount of debt that had already been issued as of May 18, the Treasury has had no room to borrow under its standard operating procedures. To avoid breaching the limit, the Treasury has turned to the extraordinary measures that allow continued borrowing for a limited period.²

What Makes Up the Debt Subject to Limit?

Debt subject to the statutory limit has two main components: debt held by the public and debt held by government accounts.³ Debt held by the public consists mainly of securities that the Treasury issues to raise cash to fund the federal government’s operations and pay off maturing liabilities that tax revenues are insufficient to cover. Such

1. For more information, see Jacob J. Lew, Department of the Treasury, letter to the Honorable John Boehner (September 25, 2013), <http://go.usa.gov/DdG4>.

2. For more information, see Jacob J. Lew, Department of the Treasury, letter to the Honorable John Boehner (May 17, 2013), <http://go.usa.gov/DpEJ>.

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

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 the government's internal transactions; 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 Extraordinary Measures Are Still Available to the Treasury?

The extraordinary measures taken by the Treasury since May 17 have consisted of suspending the issuance of new state and local government securities, disinvesting a portion of the Thrift Savings Plan G Fund, and declaring two debt issuance suspension periods, which allowed it to limit the investments of the Civil Service Retirement Fund and the Postal Service Retiree Health Benefits Fund in GAS securities.⁴

The following measures are still available:

- Suspend the investments of the Thrift Savings Plan G Fund (which otherwise is rolled over or reinvested daily; such investments totaled \$49 billion in Treasury securities as of August 31, 2013).⁵
- Suspend the investments of the Exchange Stabilization Fund (otherwise rolled over daily; such investments totaled \$23 billion as of August 31, 2013).⁶
- Suspend the issuance of new securities to the Civil Service Retirement and Disability Fund and the Postal Service Retiree Health Benefits Fund (about \$2 billion per month covered by a debt issuance suspension period; the current period ends on October 11, 2013, so the remaining amount to be suspended is approximately \$1 billion through the end of that period).
- Redeem in advance securities held by the Civil Service Retirement and Disability Fund and the Postal Service Retiree Health Benefits Fund that are equal in value to benefit payments that are due in the near future. (Until October 1, 2013, the value remaining is approximately \$6 billion; on that date it will fall to zero. If the debt issuance suspension period was extended beyond October 11, the value of the securities that could be redeemed early would initially be about \$6 billion for any subsequent month in which the first business day was covered by the extension.)
- 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 \$9 billion).⁷

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 the Postal Service funds, as well as the G Fund, will be made whole (with interest) after the debt limit has been raised.⁸

Given the magnitude of the government's daily cash flows and the uncertainty about the size of certain key transactions over the next few weeks, it is difficult to specify

4. When the debt limit is reached, the Secretary of the Treasury has the authority to declare a "debt issuance suspension period," during which the Treasury may 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 to be made during that period. The Treasury also can suspend the issuance of new securities to both funds during such a period. 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" (August 2, 2013), www.treasury.gov/initiatives/pages/debtlimit.aspx.

5. 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 at the end of April was \$159 billion.)

6. The Exchange Stabilization Fund is used by the Treasury for the purpose of stabilizing exchange rates.

7. The Federal Financing Bank is an arm of the Treasury 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 \$6 billion of that total is currently held by the Civil Service Retirement and Disability Fund.

8. 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.

the precise date on which the Treasury will exhaust its extraordinary measures and lose its authority to borrow additional funds.

What Is the Regular Schedule for Cash Flows and Debt Issuance?

The amount of debt accumulated over the next few weeks will depend on the size of the cash shortfall during that period 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 must be borrowed from the public and when that borrowing must occur; transactions between the Treasury and other parts of the federal government will determine the amount of debt accrued by government accounts.

Federal Cash Flows

Certain large inflows and outflows of cash from the Treasury follow a regular schedule that directly affects the amount borrowed from the public, the largest component of debt subject to limit. Typical days and amounts for sizable government expenditures are as follows (although actual disbursements can shift by a day or two in either direction if a normal payment date falls on a weekend or federal holiday):

- Payments to Medicare Advantage and Medicare Part D plans—first of the month (about \$17 billion);
- Social Security benefits—third of the month (about \$25 billion), with subsequent smaller payments made 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—first of the month (about \$25 billion); and
- Interest payments—around the 15th of the month and on the last day of the month (with some variation).

Deposits (mostly tax revenues) are relatively smooth throughout each month except for large payments of taxes that occur around specified dates. The largest payments come in April, when individual tax returns are due. Estimated taxes from corporations and individuals are due at four points during the year. For example, in

mid-September of this year, the Treasury received about \$55 billion in estimated corporate taxes; it is still collecting payments of estimated individual income taxes.

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 issuance may shift by a day or two in either direction if the normal date falls on a weekend or federal holiday):

- Treasury bills (with maturities of up to 52 weeks)—each Thursday (sales in recent auctions have ranged from a total of \$85 billion to \$135 billion);
- Treasury notes (which are currently issued with maturities of 2 to 10 years and include inflation-protected securities)—on the 15th of the month and on the last day of the month (sales in recent auctions on the 15th have totaled about \$55 billion and those on the last day of the month have totaled as much as \$117 billion); and
- Treasury bonds (30-year maturity)—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 each February, June, and October (sales in recent auctions have ranged from \$7 billion to \$9 billion).

In the past few 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 Securities

Debt held by government accounts, known as 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 program financed by a trust fund 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 the trust funds are intra-governmental 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 such programs as Social Security and Medicare. (The trust funds for those programs account for about two-thirds of the government's balances in such funds.) 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. In the past year, the interest payments due on each of those dates amounted to about \$80 billion, but because of the debt ceiling, some of those intragovernmental interest payments were not invested on June 30, 2013.

What Are the Upcoming Key Dates for Treasury Cash Flows and Debt Issuance?

In the coming weeks, transactions on certain dates will have a significant influence on when the Treasury will exhaust the borrowing authority created by its extraordinary measures and will have insufficient cash to pay obligations as they become due.

Cash Outflows from the Treasury

- October 1—payments to Medicare Advantage and Medicare Part D plans; pay for active-duty members of the military; and benefit payments for civil service and military retirees, veterans, and recipients of Supplemental Security Income (about \$42 billion, in total).
- October 3—payments of Social Security benefits (about \$25 billion).
- October 9, 16, and 23—additional Social Security benefit payments (about \$12 billion each time).
- October 31—payment of interest on Treasury securities (about \$6 billion).
- November 1—payments of Social Security benefits (shifted from the third of the month, which falls on a Sunday); payments to Medicare Advantage and Medicare Part D plans; pay for active-duty members of the military; and benefit payments for civil service and military retirees, veterans, and recipients of Supplemental Security Income (about \$67 billion).
- November 13—payments of additional Social Security benefits (about \$12 billion).
- November 15—large quarterly payment of interest on Treasury securities (about \$30 billion).

Most of the benefit payments involve redeeming GAS securities from a trust fund, thereby temporarily providing additional room to borrow from the public in order to raise cash.

In addition to these payments, government spending for its ongoing programs and activities is likely to average about \$10 billion a day over the next several weeks, but can vary from one business day to the next.

Issuance of Government Account Series Securities

At the beginning of October, large investments will be made in both the Military Retirement Fund and the Medicare-Eligible Retiree Health Care Fund to account for the amortization of the unfunded liability for certain retirement benefits earned by military personnel for service before 1985 and for accrual contributions to cover the cost of future benefits for current military personnel. Those payments are expected to boost the amount of debt held by government accounts by a total of about \$80 billion.

Also, in the middle of October, the Highway Trust Fund is expected to receive an intragovernmental payment from the general fund, thereby increasing debt held by government accounts by \$12 billion.

Cash Inflows to the Treasury

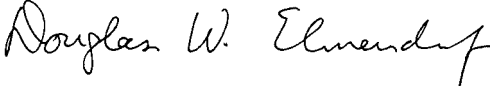
Most inflows will be from remittances by employers of income and payroll taxes withheld from paychecks. Those remittances typically average about \$7 billion per day but can vary significantly from one business day to the next.

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

If the debt limit is not increased before the 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 to a default on the government's debt obligations.⁹ By CBO's estimate, depending on the amount and timing of cash flows, the Treasury might be unable to fully pay its obligations anytime from October 22 on. Which of the government's various financial obligations would be paid and which would not be paid is unclear.

This Congressional Budget Office report, prepared in response to interest expressed by the Congress, is an update to *Federal Debt and the Statutory Limit, June 2013*. 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 is available on the agency's website (www.cbo.gov/publications/44608).



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9. 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.

