Congressional Budget Office

Federal Debt and the Statutory Limit, November 2013

The debt limit—commonly referred to as the debt ceiling—is the maximum amount of debt that the Department of the Treasury can issue to the public and to other federal agencies. That amount is set by law and has been increased over the years in order to finance the government's operations. The debt ceiling was suspended earlier this year—from February 4 through May 18—so that the Department of the Treasury had the authority to borrow any amounts necessary to meet the government's operating needs during that period. The debt limit has again been suspended, this time through February 7, 2014.

What Is the Current Situation?

Currently, there is no statutory limit on the issuance of new federal debt because the Continuing Appropriations Act, 2014 (Public Law 113-46) suspended the debt ceiling from October 17, 2013, through February 7, 2014. The act also specified that the amount of borrowing that occurred during that period be added to the previous debt limit of $16.699 trillion. Therefore, on February 8, the limit will be reset to reflect cumulative borrowing through February 7. The amount of outstanding debt subject to limit is now around $17.1 trillion.

If the current suspension is not extended or if a higher debt limit is not specified in law before February 8, 2014, beginning on that date the Treasury will have no room to borrow under standard operating procedures. Therefore, to avoid a breach of the ceiling, the Treasury would begin employing its well-established toolbox of so-called extraordinary measures to allow continued borrowing for a limited time. CBO projects that those measures would probably be exhausted in March. However, the timing and magnitude of tax refunds and receipts in February, March, and April could shift that date of exhaustion into May or June.

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.[1]

- 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. Trust funds for Social Security, Medicare, military retirement, and civil service retirement and disability account for most of the debt held by government accounts.

Of the $17.1 trillion in outstanding debt subject to limit, roughly $12.2 trillion is held by the public and about $4.9 trillion is held by government accounts.

What Measures Will Be Available to the Treasury in February?

Without further legislation, the Treasury will have to employ its extraordinary measures to continue funding government activities after February 7, 2014. Those extraordinary measures would allow the Treasury to continue borrowing for a limited time.

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

In all, the Treasury will have 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 $173 billion in Treasury securities as of October 31, 2013);[2]

- Suspend investments of the Exchange Stabilization Fund (otherwise rolled over daily, such investments totaled $23 billion as of October 31, 2013);[3]

- Suspend the issuance of new securities to the Civil Service Retirement and Disability Fund and Postal Service Retiree Health Benefits Fund (totaling about $2 billion each month covered);

- 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 (valued at nearly $7 billion per month); and

- 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 generally issued each month).[4]

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 would eventually be made whole (with interest) after the debt limit was raised.[5]

Overall, the federal government is expected to run a significant deficit for fiscal year 2014. Within the year, deficits tend to be large in February and March, when significant amounts of tax refunds are issued, but the government normally runs a large surplus in April, when final payments of individual income taxes for the preceding calendar year are due. Given the volume of the government's daily cash flows and the uncertainty about the magnitude of key transactions during those months, the Treasury could exhaust its extraordinary measures and authority to borrow as early as March or as late as May or June.

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 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. Transactions between the Treasury and other parts of the federal government, described below, will establish the 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 $18 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);

2. 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.

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

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

5. 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), www.gao.gov/products/GAO-12-701.

- 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);
- Interest payments: around the 15th and the last day of the month (with some variation); and
- Individual income tax refunds: daily, especially large from February to April (amounts vary).

Deposits (mostly tax revenues) are relatively smooth throughout each month except for large payments of taxes occurring near specified dates. The largest payments occur in April, when individual income tax returns and quarterly estimated payments of income taxes by individuals and most corporations are due. Major quarterly payments from corporations and individuals are also made at other times, including December (corporate taxes) and January (individual taxes). A large payment also occurs in March, when most corporate tax returns are due. At those times in the past year, the Treasury has collected receipts as follows:

- Payments with individual income tax returns and for estimated taxes of individuals (which totaled about $230 billion in April 2013);
- Payments of estimated corporate taxes (which were about $55 billion in mid-December 2012 and nearly $40 billion in mid-April 2013);
- Payments of estimated individual income taxes (which were about $60 billion in mid-January 2013); and
- Payments with corporate income tax returns (which amounted to about $25 billion in mid-March 2013).

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 $90 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 (with 30-year maturities)—in the middle of each month (sales in recent auctions have ranged from $13 billion to $16 billion) and, for inflation-protected securities, at the end of the month 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

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 many days, the amount of outstanding GAS securities does not change much. However, that amount can fall noticeably when redemptions occur to reflect the payment of benefits for programs like Social Security and Medicare. The redemption of GAS securities, which reduces the amount of debt subject to limit, is normally offset by additional borrowing from the public to obtain the cash to make actual payments.

The amount of outstanding GAS securities can also rise noticeably when large payments are made from the general fund to trust funds (for example, payments made by the Treasury to the Civil Service Retirement Fund to compensate for the difference between the current assets held by the fund and the present value of expected benefit payments). In addition, most GAS securities pay interest to the funds holding them; those payments are reinvested (if not needed to pay current benefits) in the form of additional securities. Many large trust funds receive interest payments on June 30 and December 31, including those associated with the Social Security and Medicare programs. (Recent payments to trust funds amounted to about $80 billion on each of those days.) Although those transactions are all intragovernmental, they have the effect of increasing debt subject to limit.

When Would the Extraordinary Measures Run Out, and What Would Happen Then?

If the debt limit is not increased (above the amount that will be established on February 8, 2014) 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 to a default on the government's debt obligations.[6] By CBO's estimate, the Treasury might be unable to fully pay its obligations starting in March, but depending on the timing and magnitude of tax refunds and receipts in February, March, and April, the Treasury might be able to continue borrowing into May or early June.

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, September 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/publication/44877).

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6. 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.