Federal Debt and the Statutory Limit, August 2015

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. In March, the debt ceiling was reached, and the Secretary of the Treasury announced a "debt issuance suspension period." During such a period, existing statutes allow the Treasury to take a number of "extraordinary measures" to borrow additional funds without breaching the debt ceiling. The Congressional Budget Office projects that if the debt limit remains unchanged, those measures will be exhausted and the Treasury will run out of cash between mid-November and early December.[1] At such time, the government would be unable to fully pay its obligations, a development that would lead to delays of payments for government activities, a default on the government's debt obligations, or both.

What Is the Current Situation?

The Temporary Debt Limit Extension Act (Public Law 113-83), enacted in February 2014, suspended the debt ceiling through March 15, 2015. The act also specified that the amount of borrowing that occurred during the suspension period would be added to the previous debt limit of $17.212 trillion. Therefore, on March 16, the debt limit was reset to $18.113 trillion to match the amount of outstanding debt.

1. CBO previously projected that those developments would probably occur in October or November. The revised date primarily results from the smaller deficit now anticipated for fiscal year 2015. CBO projects that the deficit for this year will be $426 billion, $60 billion less than the agency estimated in March. For more information, see *An Update to the Budget and Economic Outlook: 2015 to 2025* (August 2015), www.cbo.gov/publication/50724.

Because the Temporary Debt Limit Extension Act did not provide additional borrowing authority above the amount of debt that had already been issued as of March 15, the Treasury has no room to borrow under its standard operating procedures. To avoid breaching the limit, the Treasury has used extraordinary measures that allow it to continue to borrow for a limited period. Continued use of those measures, along with the regular cash inflows over the next few months, should allow the Treasury to finance the government's activities through the end of this fiscal year and into the next without an increase in the debt ceiling.

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.[2]

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 hold most of that debt.

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

Of the $18.1 trillion in outstanding debt subject to limit, $13.1 trillion was held by the public and $5.0 trillion was held by government accounts as of July 31, 2015.

What Extraordinary Measures Are Still Available to the Treasury?

The extraordinary measures taken by the Treasury around and after March 15, 2015, have consisted of suspending the issuance of new state and local government securities (effective March 13), disinvesting a portion of the Thrift Savings Plan's G Fund and the Exchange Stabilization Fund, and limiting investments of the Civil Service Retirement and Disability Fund and the Postal Service Retiree Health Benefits Fund.

The Treasury still has the following measures available to it:

- Suspend the remaining investments of the Thrift Savings Plan's G Fund (otherwise rolled over or reinvested daily, such investments totaled $40 billion in Treasury securities as of July 31, 2015);[3]
- Suspend investments of the Exchange Stabilization Fund (otherwise rolled over daily, such investments totaled $23 billion as of July 31, 2015);[4]
- For the Civil Service Retirement and Disability Fund (CSRDF) and the Postal Service Retiree Health Benefits Fund, suspend the issuance of new securities (which typically total about $2 billion each month), amortization and interest payments on the unfunded liability of the CSRDF (which will amount to $36 billion on September 30, 2015), and semiannual interest payments (which are expected to total $15 billion on December 31, 2015);
- Redeem, in advance, securities held by the Civil Service Retirement and Disability Fund that are equal in value to benefit payments due in the near future (valued at about $7 billion per month); and
- Suspend the issuance of new State and Local Government Series (SLGS) securities and savings bonds (between $6 billion and $15 billion in SLGS securities and less than $1 billion in savings bonds are generally issued each month).[5]

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.[6]

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

The amount of debt accumulated over the next several 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 amounts 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 (typically about $19 billion);

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 invested solely in Treasury securities.
4. The Exchange Stabilization Fund is a fund controlled by 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.
6. 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.

- Social Security benefits: on the third day of the month (about $24 billion), with subsequent smaller payments on three Wednesdays per month (about $14 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 steady throughout each month except for large payments of taxes occurring near specified dates. The largest upcoming quarterly payments are for corporate income taxes in September and December (about $70 billion was received in mid-June 2015) and for individual income taxes in September (about $70 billion was received in September 2014, including some final payments with tax returns).

Debt Issuance: Treasury Auctions

The Treasury issues numerous securities to obtain funds to pay off maturing securities and to finance government activities. These new securities, which have various maturities, are normally issued in regularly scheduled auctions as follows (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): every Thursday (sales in recent auctions have ranged from a total of $78 billion to $118 billion);

- Treasury notes (which are currently issued with maturities of 2 to 10 years and include floating-rate notes and 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 $45 billion, and those on the last day of the month have totaled as much as $123 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).

Debt Issuance: Government Account Series

Debt held by government accounts—in the form of 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, when payments are made by the Treasury to the Highway Trust Fund so that the trust fund's obligations could be met in a timely manner). In addition, most GAS securities pay interest to the funds holding them; those payments are reinvested (if they are 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. In the past year, the payments due on each of those dates has amounted to about $70 billion, but because of the debt ceiling impasse, the payments to the Civil Service Retirement and Disability Fund and the Postal Service Retiree Health Benefits Fund were not invested on June 30, 2015.

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

If the debt limit is not increased, 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 ultimately lead to delays of payments for government activities, a default on the government's debt obligations, or both.[7] By CBO's estimate, the Treasury would most likely be able to continue borrowing and have sufficient cash to make its usual payments through mid-November or early December without an increase in the debt limit. Earlier or later dates are possible, depending on the amount and timing of cash flows in the next few months.

This Congressional Budget Office report, prepared in response to interest expressed by the Congress, is an update to *Federal Debt and the Statutory Limit, March 2015*. In keeping with CBO's mandate to provide objective, impartial analysis, the report contains no recommendations.

Meredith Decker of CBO's Budget Analysis Division prepared the report with guidance from Theresa Gullo and Jeffrey Holland. This report is available on the agency's website (www.cbo.gov/publication/50739).

Keith Hall
Director

7. 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.