Highlights of GAO-09-118, a report to congressional requesters

Why GAO Did This Study

A timing difference between cash in- and outflows poses challenges for the Department of the Treasury. Increased volatility of monthly cash flows may lead to unexpected short-term debt issuance and hence increased borrowing. While Social Security payments made at the start of the month will diminish gradually in coming years, start-of-month payments to Medicare plan sponsors for Medicare Advantage and Part D benefits are projected to grow. As requested, this report (1) describes how Treasury, the Centers for Medicare & Medicaid Services (CMS), and plan sponsors operate under the current payment schedule; (2) identifies timing options; and (3) describes potential implications for Treasury, CMS, and Medicare. GAO analyzed Treasury cash flows, and interviewed Treasury, CMS officials, and plan sponsor representatives.

What GAO Recommends

Congress should consider the impacts of payment timing on Treasury's cash management challenges when enacting legislation that specifies payment timing. GAO also recommends that the Treasury and CMS jointly study options to improve Treasury's ability to manage cash flow and reduce interest costs while not unduly increasing CMS's administrative burden. Based on the work done and our discussions with Treasury officials, we believe it is reasonable for this study to be completed by the end of CY 2009. Both Treasury and CMS agreed with GAO's recommendation.

To view the full product, including the scope and methodology, click on GAO-09-118. For more information, contact Susan J. Irving at irvings@gao.gov or James C. Cosgrove at cosgrovej@gao.gov.

January 2009

DEBT MANAGEMENT

Treasury's Cash Management Challenges and Timing of Payments to Medicare Private Plans

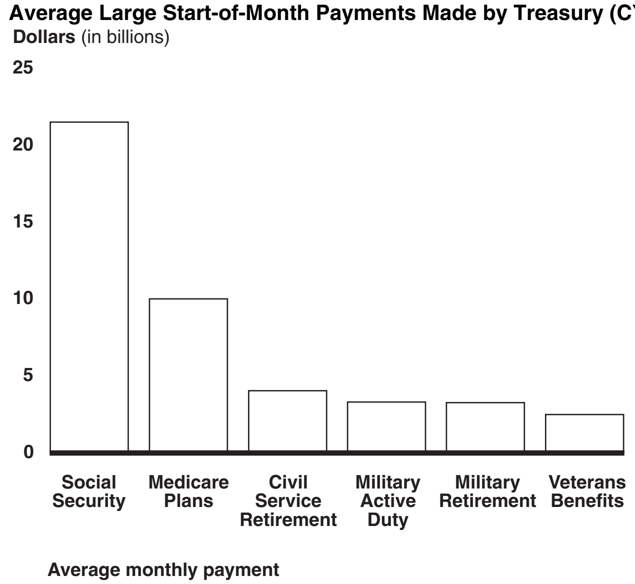
What GAO Found

Treasury's primary debt management goal is to finance the government's borrowing needs at the lowest cost over time. Issuing debt through regularly scheduled auctions lowers borrowing costs because investors and dealers are willing to pay a premium for liquidity and certainty of supply. In 2006 GAO reported that Treasury faced misalignment of cash flows, with large payments due at the start of the month and large cash receipts occurring midmonth. This misalignment results in increasing cash flow volatility. The volatility leads Treasury to carry higher average cash balances and issue short-term debt outside its regular schedule, which may raise overall interest costs.

Payments to Medicare plan sponsors made at the start of the month have increased the misalignment of cash flows. These payments have more than doubled between 2005 and 2007, and they are projected to continue to grow. GAO developed several options for changing the timing of Medicare plan payments that would facilitate cash management, keep payments predictable, and treat all plans equally. The options include keeping a single payment but making it on a different date or making multiple payments each month.

Treasury officials said that moving some or all of the Medicare payments away from the start of the month would greatly facilitate cash management. CMS expressed concerns about potentially increased administrative burden. Plan sponsors GAO interviewed and CMS's Office of the Actuary indicated that sponsors would generally seek to recoup any loss by raising their Medicare bids, thereby raising costs to the Medicare program and beneficiaries. The overall impact on the federal budget of changing payment timing would depend on the relative size of interest cost reductions and plans' responses.

Average Large Start-of-Month Payments Made by Treasury (CY 2007)



Source: GAO analysis of Treasury data.