COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

December 5, 1985

B-221077

The Honorable James R. Jones, Chairman
Subcommittee on Social Security
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

Subject: Treasury's Management of Social Security Trust Funds During the Debt Ceiling Crises (GAO/HRD-86-45)

In your November 1, 1985, letter, you asked for our opinion on the legality and propriety of the Secretary of the Treasury's management of the Social Security Trust Funds (Federal Old Age and Survivors' Insurance Trust Fund and Federal Disability Insurance Trust Fund) during the government's October 1984 and September-November 1985 public debt ceiling crises. You also asked for factual information on the Department of the Treasury's actions regarding the Trust Funds and the effects of those actions on the Funds' long-term investments.

Appendix I addresses the legal issues raised in your letter. We conclude that, although some of the Secretary's actions appear in retrospect to have been in violation of the requirements of the Social Security Act, we cannot say that the Secretary acted unreasonably given the extraordinary situation in which he was operating. On the other issues you raised, we conclude that:

--Treasury may restore any interest lost because of failure to fully invest the normalized tax transfers.

--To the extent that the Trust Funds' assets were kept uninvested to permit the payment of other obligations of the government or to restore cash balances, the Trust Funds were being used to sustain the government's operations contrary to the statutory scheme.

--Because the Trust Funds transactions did not increase the total amount of outstanding debt subject to the statutory limit, the Secretary did not violate the statutory debt limit and did not usurp the congressional power under the Constitution to borrow.

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--There is no evidence that the Secretary redeemed securities, or failed to invest funds, for the purpose of avoiding General Fund interest payments to the Trust Funds, which would be contrary to his statutory duty as Managing Trustee.

Appendix II presents the factual information on Treasury's actions in not timely investing and in disinvesting Social Security Trust Funds' assets during the 1984 and 1985 debt ceiling crises.

In reviewing Treasury's recent actions, we found that normalized tax transfer (NTT) amounts were not fully invested in interest-bearing Treasury securities at the beginning of September, October, and November 1985. Instead, Treasury redeemed the Trust Funds' short- and long-term securities to meet social security benefit payments. Our analysis shows that, if adequate borrowing authority under the statutory limit had been available during September through November 13, it would not have been necessary to redeem any of the Trust Funds' long-term securities. We also found that the noninvestment of NTT amounts in September and October was not unprecedented--similar actions were taken in 1983 and 1984. However, the actions of November 1985 appear to have no precedent.

As agreed with your office, neither the Treasury Department nor other administration officials have been given an opportunity to formally review and comment on this report. However, the legal issues and factual information presented in this report were discussed with Treasury officials during our examination.

After your November 1 letter, your office asked that we also examine the Treasury Department's management of the Railroad Retirement Trust Funds during the 1985 debt ceiling crisis. As agreed with your office, this information will be provided in a separate report.

Unless you publicly announce the contents of this report earlier, we will withhold further distribution of it for 2 days, after which copies will be made available to other interested congressional committees and members; the Secretary of the Treasury; the Director, Office of Management and Budget; and other interested parties.

Sincerely yours,

Charles A. Bowsher

Comptroller General
of the United States

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ABBREVIATIONS

CI	certificate of indebtedness
DI	Disability Insurance
NTT	normalized tax transfer
OASDI	Old Age, Survivors', and Disability Insurance
OASI	Old Age and Survivors' Insurance

LEGALITY OF SECRETARY OF THE TREASURY'S MANAGEMENT OF SOCIAL SECURITY TRUST FUNDS DURING THE 1985 DEBT CEILING CRISIS

This appendix addresses the legality of the Secretary of the Treasury's management of the Social Security Trust Funds[1] during the government's debt ceiling crisis this year. For the reasons indicated below, we conclude that, although some of the Secretary's actions appear in retrospect to have been in violation of the requirements of the Social Security Act, we cannot say the Secretary acted unreasonably given the extraordinary situation in which he was operating.

BACKGROUND

It must be understood that there are no Social Security Trust Funds in the sense that the term is normally used in the private sector. That is, there is no body of assets, derived from social security tax revenues, which is separately held and managed for the benefit of participants in the social security system. Instead, there are only accounts maintained on the books of the Treasury called Social Security Trust Funds.

In a normal month, on the first business day of the month, the Secretary of the Treasury, under subsection 201(a) of the Social Security Act, as amended, 42 U.S.C. § 401(a), transfers from the General Fund and credits to the Social Security Trust Funds an amount equivalent to the estimated payroll tax revenues which will be received that month. These funds, called the normalized tax transfer, are immediately invested in short-term Treasury securities. Social security benefits for the month are paid from the General Fund of the Treasury. On the benefit payment date, which is usually the third day of the month, a portion of the Treasury securities held by the Trust Funds are redeemed to reimburse the General Fund for social security benefits which are paid by electronic fund transfer on that date. Additional securities are redeemed 4 and 5 business days later to reimburse the General Fund for social security benefits which were paid by check on the benefit payment date. Actual payroll tax revenues during the month are deposited directly in the General Fund of the

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[1] In this opinion we shall refer to the Federal Old Age and Survivors' Insurance Trust Fund and the Federal Disability Insurance Trust Fund as the Social Security Trust Funds.

Treasury in order to keep it whole for the normalized tax transfer to the Trust Funds.

In months in which the normalized tax transfer is greater than the amount of social security benefits, the surplus remains invested in Treasury securities. Each June 30, any surplus for the year, after correcting for actual payroll taxes received, is converted to investment in long-term securities. In months in which the normalized tax transfer is less than the amount of social security benefits, the Secretary must redeem not only the securities purchased with that month's normalized tax transfer but also other short-term securities sold to the Trust Funds during the year to cover the excess payments. If there are insufficient short-term securities maturing the following June 30, he is forced to redeem long-term securities representing surpluses of prior years.

The Events of September, October, and November

In September, October, and November 1985, there were some departures from the normal procedure. On September 3, the first business day of the month, the Secretary effected the normalized tax transfer by crediting the estimated payroll tax revenues for the month to the Trust Funds. However, because the Treasury Department was near the debt ceiling, the Secretary invested only a small amount of the transfer. Instead, the bulk of the credit representing the transfer was kept in a non-interest-bearing account. September 3 was also the September benefit payment date. To reimburse the General Fund of the Treasury for the electronic fund transfers that took place that day, the Secretary redeemed current-year securities, and, because these were insufficient to cover the full amount of the payments, some long-term securities held by the Trust Funds as well. Four and five business days later, to reimburse the General Fund for benefits paid by check, the Secretary redeemed additional long-term securities of the Trust Funds. During the month, as total Treasury borrowing fell below the debt ceiling, the Secretary invested most of the uninvested normalized tax transfer funds in short-term securities.

On October 1, the Secretary again made the normalized tax transfer by crediting the anticipated payroll tax revenues to the Trust Funds. He did not immediately invest the transferred credits because total Treasury borrowing was already at the debt limit. He redeemed securities held by the Trust Funds on October 3, the electronic fund transfer benefit payment date, and, on the fourth and fifth business days after that date for check payments, to reimburse the General Fund for October social security benefits. Unlike September, however, the Secretary did not invest any of the uninvested normalized tax transfer funds later in the month because total Treasury borrowing did not drop below the debt limit.

On November 1, the Secretary again made the normalized tax transfer. As in September and October, the funds were credited to a non-interest-bearing account rather than being invested because Treasury borrowing was at the debt ceiling. November 1 was also the electronic fund transfer benefit payment date. Benefit checks were dated November 2. The Treasury Department estimated that it would have insufficient cash on November 1 to pay social security benefits and other government obligations. In order for these payments to be made, the Treasury needed to borrow money from the public, and in order to borrow the money, Treasury had to reduce its outstanding debt below the statutory limit. Therefore, on November 1 the Secretary redeemed $9.613 billion of the Trust Funds' long-term securities, and $1.9 billion of securities held by certain other government-managed trust funds, to permit public borrowing of about $13 billion. On November 4, an additional $4.181 billion of the Trust Funds' securities were redeemed, as well as securities held by the other trust funds, which allowed public borrowing of $4.75 billion. Finally, on November 8 and 12 an additional $715 million and $266 million, respectively, of the Trust Funds' obligations were redeemed.

On November 14, when the Congress passed a temporary increase to the statutory debt limit, the Secretary was able to invest the Trust Funds' uninvested assets.

DISCUSSION

The Secretary of the Treasury was subject to two statutory obligations and a statutory constraint relevant to his management of the Social Security Trust Funds during September, October, and November of this year.

First, subsection 201(a) of the Social Security Act, as amended, 42 U.S.C. § 401(a), provides that the monthly normalized tax transfer "shall be invested by the Managing Trustee in the same manner and to the same extent as the other assets of the Trust Funds." Subsection 201(d), 42 U.S.C. § 401(d), requires the Secretary of the Treasury, as Managing Trustee of the Trust Funds, "to invest such portion of the Trust Funds as is not, in his judgment, required to meet current withdrawals." The investments may be made only in interest-bearing obligations of the United States or obligations guaranteed by the United States.

Second, the Secretary has a statutory duty to pay social security benefits to those who are entitled to receive them. See title II of the Social Security Act, as amended, 42 U.S.C. §§ 401-433.

The constraint lies against the Secretary's authority to borrow money on the credit of the United States. The Constitution grants the power to borrow money to the Congress. U.S. Const., art. I, § 8, cl. 2. While the Congress has, by statute, authorized the Secretary to borrow money on the credit of the United States, it has limited the authority for most borrowing by a debt ceiling. During September, October, and the relevant period of November of this year, that limit was $1,823,800,000,000. See 31 U.S.C. § 3101(b). Investment of the Social Security Trust Funds' assets count against this limit. Section 201(d), supra.

There is no inherent conflict between these statutory obligations. As long as there are adequate funds in the cash account through which the government conducts all cash transactions, both obligations can be met. Funds in the account can be used to pay social security benefits and, if necessary, to reduce the government debt held by the public so that the Trust Funds' assets can be invested without exceeding the debt ceiling. On the other hand, if there are not sufficient funds in the cash account, then both obligations cannot be fully met, and the Secretary is forced to choose the manner in which he will satisfy them.

An examination of the data shows that, although there were insufficient funds in the Treasury cash account in September, October, and November for the Secretary to fully satisfy both obligations, he could have done more than he did to invest the Trust Funds' assets while assuring that all benefit payments were made.

For example, on September 3, Treasury had a sufficient operating balance in its cash account and available borrowing authority under the debt limit to permit the Secretary to pay social security benefits that day and still invest substantially more of the normalized tax transfer than he did. Further, it appears that the Secretary could have continued to meet the government's obligations throughout the month and still have kept a larger proportion of the Trust Funds' assets invested for a longer period than he did. By the end of the month it should have been possible to have invested the entire normalized tax transfer amount.

Further, given the actual events of September, the Secretary could have kept a larger amount of the Trust Funds' assets invested for a longer period in October than he did and still have paid benefits. Admittedly, by October 1, the Treasury was already at the debt ceiling. There was a sufficient operating balance in its cash account, however, to permit the Secretary to redeem outstanding publicly held securities, thus permitting investment of some of the normalized tax transfer. Although these investments soon would have had to be redeemed to cover benefit payments, in our opinion the Secretary did not keep the Trust Funds' assets invested for as long a time and in as large amount as he could have.

The November situation was more complex. On November 1, there was no available borrowing authority, and Treasury's cash balance was insufficient for the Secretary either to pay benefits or to invest any part of the normalized tax transfer. The Secretary, therefore, could not meet both of his statutory obligations within the constraint imposed. He elected to pay the social security benefits. To do this, he needed first to ignore his obligation to invest the normalized tax transfer, which he did. Second, he needed to redeem approximately $5 billion of the Trust Funds' existing investments in order to borrow enough money to bring the balance in the cash account to approximately $6.9 billion, the amount needed to make the benefit payments. In fact, however, the Secretary redeemed $9.6 billion of the Trust Funds' investments on November 1, more than appeared to be necessary on that day.

During the period of November 4 to 12, the Secretary redeemed additional Trust Funds' investments in order to borrow additional funds to cover November benefits paid by check. The total redemptions during November 1 to 12 were about the same as the total benefits paid. However, it appears that the redemptions occurred at a faster rate than necessary to make the benefit payments.

In sum, it appears, on the basis of the information now available, that the Secretary redeemed or failed to invest the Trust Funds' assets in amounts and for periods of time greater than absolutely necessary to pay social security benefits. However, this is a judgment reached only with the benefit of hindsight. The Secretary was required to act in a complex and fluid situation, without the benefit of all of the information now available.[2] Further, the Secretary had many other duties to carry out, including managing the government's finances and investing assets of and making payments from other government-managed trust funds. Under all the circumstances involved, we conclude that he did not act unreasonably.

OTHER QUESTIONS ADDRESSED

Other questions raised by Treasury's actions are discussed below.

Question 1: Does Treasury have authority to restore interest that may have been lost because the Secretary did not invest the entire normalized tax transfers in September, October, and November?

Aside from providing for the normalized tax transfer, subsection 201(a) of the Social Security Act, 42 U.S.C. § 401(a), provides that the Trust Funds shall pay to the General Fund the difference between the interest they earn from the invested normalized tax transfer and the interest they would have earned if they had invested payroll tax revenues as they were received during the month.

Interest earned on the Trust Funds' investments is credited to the Trust Funds every 6 months, in June and December. At the same time, the Trust Funds pay to the General Fund the interest required by subsection 201(a). In December 1985, Treasury should be able to restore interest lost due to noninvestment of the normalized tax transfers in September, October, and November, by offsetting that amount against the interest the Trust Funds owe to Treasury under subsection 201(a) for the months in which the transfer was invested.

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[2]Because of the complexity of Treasury operations, the Secretary is unable to know at any given time the exact operating balance in the cash account or the exact amount of debt. Much of the information he has is based on estimates. To provide a safety margin against inadvertent statutory violations, it is Treasury policy to try to maintain a minimum cash balance and to leave a small amount of debt unused. We find these procedures to be reasonable.

Question 2: Did the continued deposit of payroll tax revenues in the General Fund, the failure to make the normalized tax transfer in advance each month, and the subsequent cancellation of long-term bonds, together result in the Trust Funds being used to finance general government expenses in violation of the intent and requirements of the Social Security Act?

The normalized tax transfer procedure established by subsection 201(a) of the Social Security Act, as amended, contemplates a transfer to the Trust Funds, in advance at the beginning of the month, of the estimated amount of the payroll tax revenues which are expected to be received that month. The actual payroll taxes are deposited as they are received in the General Fund of the Treasury rather than in the Trust Funds because the Trust Funds have already been credited with that revenue. As indicated above, the normalized tax transfers for September, October, and November were made by the Secretary. However, he did not fully invest them. Therefore, there was nothing improper in payroll tax revenues being used to meet general obligations of the government.

However, not all of the withholding from investment and securities redemptions in September, October, and November were necessary to meet social security benefit payments. To the extent that the Trust Funds' assets were kept uninvested to permit the payment of other government obligations or to restore cash balances, the Trust Funds were being used contrary to the statutory scheme to sustain the government's general operations.

Question 3: By not investing the normalized tax transfer and by redeeming long-term obligations to finance social security benefits, did the Secretary, in effect, raise the debt ceiling without an act of Congress? Does the executive branch have the constitutional and statutory authority to act this way?

Article I, section 8, clause 2, of the Constitution authorizes the Congress "To borrow Money on the credit of the United States." The Congress has delegated this authority to the Secretary of the Treasury in chapter 31 of title 31, United States Code, subject to the limitation in 31 U.S.C. § 3101(b). The debt subject to the limit is defined as "[t]he face amount of obligations issued under [chapter 31 of title 31] and the face amount of obligations whose principal and interest are guaranteed by the United States Government * * *. " Id. Subsection 201(d) of the Social Security Act provides that securities issued to the Trust Funds are issued under chapter 31 of title 31, and therefore, they are counted toward the debt limit.

There are two ways of looking at the Secretary's failure to invest the normalized tax transfer and his redemption of long-term obligations. Debt subject to the statutory limit consists of securities held by the public and securities held by government agencies, including the Trust Funds. The Trust Funds' transactions in September, October, and November had the effect of reducing the portion of the debt held by government agencies and increasing the portion held by the public. However, they did not increase the total amount of outstanding debt subject to the statutory limit. Therefore, it may be said that the Secretary did not violate the statutory debt limit and did not usurp the congressional power under the Constitution to borrow. Under this view the measure of debt subject to the debt limit is determined solely by the amount of applicable securities outstanding.

A distinction must be recognized, however, between timely actions by the Secretary regarding amounts up to the total of social security benefits paid and those of his actions regarding amounts which exceeded requirements to meet social security benefit payments. Timely disinvestment or failure to invest (that is, such actions taken in proper amounts to finance imminent social security payments due) were authorized and proper, as the Trust Funds are not entitled to interest earnings on the amounts involved. On the other hand, excessive amounts disinvested or not invested (that is, amounts over and above those needed to meet social security payments) may be viewed as having given rise to exceeding the debt ceiling where the excess amounts when added to the debt ceiling securities outstanding totaled more than the authorized ceiling.

Conceptually, the second analysis is more satisfying--excessive amounts disinvested or not invested should be added to the government's outstanding debt, as if those amounts were, in fact, a debt to the Trust Funds. Yet, given the necessity for Treasury's operations to be on the basis of estimates and in light of the grave consequences attendant to the government defaulting on its obligations, it does not appear that the Secretary can reasonably be said to have acted improperly in September, October, and November, despite the facts as we now know them to have been.

Question 4: Has the Secretary breached his duty as fiduciary by sacrificing the interests of the Trust Funds for the purpose of minimizing general revenue interest obligations to the Trust Funds?

First, we note that by statute neither the Secretary nor any of the other trustees of the Trust Funds are fiduciaries. 42 U.S.C. § 401(c). Rather, the duties of the Secretary as Managing Trustee are set by the Social Security Act.

Moreover, there is no evidence that the Secretary redeemed securities, or failed to invest funds, for the purpose of avoiding General Fund interest payments to the Trust Funds.

FACTUAL INFORMATION ON TREASURY'S MANAGEMENT OF SOCIAL SECURITY TRUST FUNDS DURING THE 1984 AND 1985 DEBT CEILING CRISES

INTRODUCTION

On November 1, 1985, the Chairman, House Ways and Means Subcommittee on Social Security, requested that we investigate the Department of the Treasury's handling of the Social Security Trust Funds--Federal Old Age and Survivors' Insurance (OASI) Trust Fund and Federal Disability Insurance (DI) Trust Fund--during the past several months and in October 1984. Many of the issues raised were of a legal nature regarding the Funds' investment and disinvestment; our legal opinion on those issues is contained in appendix I. This appendix discusses factual information on the Department's actions in the context of the statutory debt limit. Specifically, the Chairman asked us to determine:

--What actions Treasury took with respect to the Social Security Trust Funds in October 1984 and in August, September, October, and November 1985.

--How much of estimated monthly tax receipts were invested in interest-bearing securities held by the Trust Funds on the first day of each of these months to finance benefits.

--What long-term bonds were redeemed in each of these months to finance benefit payments and whether these bonds would have been otherwise redeemed had there been no possibility of the federal government reaching the debt limit in any of those months.

--Whether the Treasury has routinely drawn upon long-term reserves of the Trust Funds to generate additional borrowing authority and thus avoid hitting the debt ceiling.

RESULTS IN BRIEF

In summary, we found that:

--During September, October, and the first 13 days of November 1985, Treasury did not invest $28.2 billion in accumulated normalized tax transfers credited to the

Trust Funds at the beginning of those months, due to the statutory debt ceiling having been reached on September 3, 1985. With the $80 billion temporary increase in the debt ceiling enacted on November 14, 1985, Treasury immediately acted to invest all of the $28.2 billion, initially, in short-term interest-bearing certificates of indebtedness maturing on June 30, 1986. However, as required by the temporary debt ceiling legislation, Treasury subsequently reinstated $18,512 million of this amount in long-term bonds carrying their original interest rates and maturity dates.

--During the same September-November 1985 period, Treasury redeemed $27.9 billion in long-term, special-issue bonds bearing interest rates ranging from 8-3/4 to 10-3/4 percent, with June 30 maturity dates ranging from 1986 to 2000. The Trust Funds' highest interest-bearing long-term securities, at 13-3/4 percent and totaling $5.2 billion, were not redeemed. The resulting borrowing authority below the debt ceiling gained by these redemptions was used to generate operating cash in Treasury's General Fund to continue government operations, including paying social security benefits.

--In the absence of a limit on Treasury's borrowing authority, none of the long-term bonds would have had to be redeemed as Treasury would have been able to follow its normal Trust Fund investment/redemption practices throughout September, October, and November 1985.

--During September and October 1984, Treasury redeemed high-interest-bearing, long-term, special-issue Treasury bonds held by the Trust Funds to obtain borrowing authority under the statutory debt ceiling so that social security benefit payments could be made.

--Treasury's actions in September and October 1985--redeeming long-term securities held by the Trust Funds to generate borrowing authority under the debt limit--were similar to those in past debt ceiling crises. However, the accelerated redemption of securities in November 1985 appears unprecedented.

SCOPE AND METHODOLOGY

In conducting our review within the time frame provided in the Chairman's letter, we concentrated primarily on Treasury's actions during August through November 15, 1985. We met with Treasury officials in the Office of the Assistant General Counsel for Banking and Finance, Office of the Fiscal Assistant Secretary, and Financial Management Service, to obtain specific data and documentation, and we reviewed Trust Fund investment ledgers. We also reviewed recent Treasury testimony and other information contributed for the public record concerning Treasury's procedures and actions. Our findings represent a distillation of the information obtained directly from Treasury and additional information provided by other sources.

TREASURY'S NORMAL TRUST FUND INVESTMENT PRACTICES

Treasury's practice regarding the Social Security (OASI and DI) Trust Funds on June 30 of each investment year (July 1 to June 30) is to convert any year-end surplus funds into long-term, special-issue, nonmarketable Treasury bonds with varying maturities of 1 to 15 years. These surplus funds are generally held during the year in short-term securities called certificates of indebtedness (CIs) having a maturity date of June 30. Therefore, all of the assets of the Trust Funds as of June 30 are invested in Treasury bonds.

As table II.1 shows, the total assets of the Trust Funds as of July 1, 1985, were $36,883 million, all of which were in long-term, special-issue bonds.

At the beginning of each month, based on procedures adopted in the 1983 Amendments to the Social Security Act, the Treasury Department advances to the Trust Fund receipt accounts an amount equal to the estimated Social Security payroll tax (FICA and SECA)[1] receipts for that month. This amount, called a normalized tax transfer (NTT), is an advance that normally is immediately invested in CIs. The interest earned on this advance must be repaid to the Treasury, and the actual (net) interest earned by the Trust Funds is that which would be earned by investing actual tax receipts as received during the month.

NORMAL PRACTICES FOLLOWED IN JULY AND AUGUST 1985

On July 1, 1985, an NTT amount of $13,785 million was credited to the Trust Funds and immediately invested in CIs.

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[1]Federal Insurance Contributions Act and Self-Employment Contributions Act.

These and other certificates were redeemed during the month to meet required disbursements for benefit payments and expenses. During July the short-term certificates as well as some 10-3/8-percent special-issue Treasury bonds, all with maturity dates of June 30, 1986, were redeemed to finance disbursements. In this case about $638 million in bonds were redeemed in addition to CIs; however, this was not unusual because bonds and CIs maturing on the same date are treated identically for redemption purposes. Treasury would normally redeem the lowest interest rate first for these "short-term" issues.[2] Treasury's actions during July left securities balances as of July 31 of $1,564 million in CIs and $36,244 million in bonds (see table II.1).

In August 1985 the normalized tax transfer was credited to the Trust Funds in the normal way and amounted to $13,968 million. This amount was fully invested in CIs. During the month $14,680 million in CIs and $1,808 million in 10-3/8-percent bonds maturing on June 30, 1986, were redeemed to pay benefits and expenses. Thus, in terms of Trust Fund investment/redemption procedures, August, like July, could be considered a normal month. At the end of August the total assets of the Trust Funds were $37,355 million; $37,196 million of this total was invested. Special-issue bonds totaled $34,436 million. (See table II.1.)

TREASURY DEPARTED FROM NORMAL PRACTICES IN SEPTEMBER AND OCTOBER 1985

At the beginning of September, the Treasury General Fund held an operating cash balance of $11,841 million, and the public debt subject to the statutory limit was within $5,113 million of the debt limit. Therefore, on the first business day, September 3, Treasury credited the Trust Funds with the NTT ($15,128 million); however, most of this amount was not immediately invested because of the statutory debt limit (see table II.2). By the end of the first business day in September, the public debt was within $5 million of the debt limit.

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[2]That is, all Trust Fund securities maturing on June 30, 1986, regardless of whether they are CIs or bonds are considered "short-term" securities as this term is used in appendix I. Whereas all bonds could be considered long-term, in appendix I "long-term" refers to all bonds held by the Trust Funds except those maturing at the end of the current investment year (i.e., June 30, 1986).

Treasury met benefit payments from the General Fund, and this was followed by redemption of available CIs and bonds. In this case, Treasury redeemed long-term bonds--specifically, 10-3/8-percent bonds maturing in 1987-88 in an amount of $6,901 million on September 3, 9, 19, and 30 (see tables II.6 and II.7). If Treasury had sufficient borrowing authority below the debt ceiling to fully invest the September NTT at the beginning of the month, long-term bonds would not have had to be redeemed in September. During September total redemptions of Trust Funds securities were $16,110 million. This amount was $4,447 million less than the total CIs that would have been available to cover these redemptions, had Treasury been able to follow its normal NTT investment procedures (see table II.3).

As borrowing authority became available under the debt limit during September, Treasury moved to invest the NTT amount, and by the end of September, most of the NTT amount was so invested. Available CIs at the end of September totaled $8,875 million. The uninvested NTT amount was $2,348 million. Trust Funds investments totaled $36,410 million. (See tables II.1 and II.4.)

On October 1, 1985, the Treasury General Fund held a beginning operating cash balance of $17,060 million, and the public debt subject to the statutory limit was still within $5 million of the debt limit. Because October 1 was the first business day of the month, $12,783 million--the NTT amount--was credited to the Trust Funds, but unlike September, none of this amount was invested in CIs because of the debt limit (see table II.4). Treasury again met required benefit payments from its available cash, and this was followed by redemption of available CIs (the $8,875 million remaining from September) and bonds. On October 9, 10, 15, 19, 20, 29, and 31, Treasury redeemed $4,558 million of 10-3/8-percent bonds maturing in 1989 to 1991. Also redeemed, on October 10 and 31, were $212 million of 10-3/4-percent bonds maturing in 1990.

During October, total redemptions of Trust Fund securities totaled $16,510 million. This amount, however, was $3,907 million less than the total CIs that would have been available for redemption had Treasury been able to follow its normal NTT investment procedures in September and October. (See table II.3.)

Because Treasury did not invest any of the NTT during October, the uninvested portion of the Trust Funds' assets grew significantly. At the end of October, the uninvested NTT portion of the Trust Funds was $15,131 million. The invested portion of the Trust Funds had decreased to $23,087 million. (See tables II.1 and II.4.)

TREASURY ACCELERATED TRUST FUND REDEMPTIONS IN NOVEMBER 1985

The latter part of October saw the Treasury General Fund cash position continuing to worsen. It was expected that sufficient cash would not be available on November 1 to meet the government's obligations for that day, including $6,899 million required to meet social security payments by electronic fund transfer.

Treasury projected that it needed to borrow $13 billion on November 1 to meet its obligations and restore an adequate cash balance. After informing the Congress on October 22, Treasury proceeded on November 1 to disinvest securities of several trust funds, including the Social Security Trust Funds, to create sufficient borrowing authority below the debt ceiling. Accordingly, it redeemed $9,613 million of the Social Security Trust Funds' long-term securities on November 1. This was followed by additional redemptions of $4,181 million on November 4, $715 million on November 8, and $266 million on November 12. This disinvestment of the Trust Funds represented an acceleration of redemptions and was a departure from the normal pattern of redemptions to meet social security payments. The normal pattern of redemptions for November, in the absence of a debt ceiling crisis, is compared to Treasury's actual redemptions in table II.5.[3]

On November 1, the NTT amount of $13,088 million was credited to the Trust Funds but, as in October, remained totally uninvested until November 14, when the debt ceiling was temporarily raised. Thus, the uninvested portion of the Trust Funds again increased significantly, and as of November 13 the total uninvested portion of the NTT was $28,219 million. The invested portion of the Trust Funds was $9,098 million. (See table II.1.)

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[3]It should be noted that, for the November redemptions, Treasury departed from its normal redemption procedures for long-term bonds. Normally, Treasury redeems the earliest maturity date first and then within that maturity date, redeems the lowest interest rate first. In November, Treasury redeemed securities with the lowest interest rate first, regardless of maturity date. This was done to minimize the impact (i.e., potential interest loss) to the Trust Funds.

To cover the regular social security benefit payments in November, Treasury redeemed $13,742 million of long-term bonds maturing in 1991 through 2000 and carrying interest rates ranging from 8-3/4 to 10-3/4 percent. None of the Trust Funds' highest interest-bearing, long-term securities, at 13-3/4 percent and totaling $5,208 million, were redeemed during November or at any earlier time during the 1985 debt ceiling crisis. Also, absent the debt ceiling crisis, none of the other long-term bonds would have had to be redeemed in November if Treasury had been able to follow its normal NTT investment procedures in September, October, and November (see table II.3).

Tables II.6 and II.7 provide additional data on Trust Fund long-term bond redemptions between July and November 1985.

TREASURY DISINVESTED TRUST FUNDS DURING PREVIOUS DEBT LIMIT CRISES

The practices in which the Treasury engaged in September and October 1985 are not without precedent. Actions that the Treasury took in 1983 and 1984 are discussed in The Budget of the U.S. Government for Fiscal Year 1986, Special Analysis E. It is stated that lack of borrowing authority prevented Treasury from fully investing NTT amounts on the first of the month in November 1983 and in May, June, and July 1984. In addition, our analysis of Treasury's actions during the September-October 1984 debt ceiling crisis shows that the NTT was not fully invested on the first business days of either month.

In September 1984, the NTT amount credited to the Trust Funds was $13,575 million, $5,658 million of which was invested on the first business day, September 4. On October 1, none of the NTT amount of $11,561 million was invested.

During the September 6-October 12 period, Treasury redeemed 13-3/4-percent long-term bonds with maturity dates ranging from 1988 through 1990. Also redeemed were 10-3/4-percent bonds with maturity dates of 1986 through 1991. Also on August 31, 1984, 13-3/4-percent bonds were redeemed to finance social security payments by electronic funds transfer made on that date.[4] This took place on August 31 because the normal payment date of

[4]The redemption of the Trust Funds' 13-3/4-percent securities followed the Treasury's normal procedure of redeeming the earliest available maturity first.

September 3 fell on a holiday (Labor Day), and there were insufficient CIs available to cover the required redemption. Thus, during the period August 31 through October 12, 1984, $9,854 million in long-term bonds held by the Trust Funds were redeemed. Specific information on these bond redemptions is given in table II.8.

POSSIBLE INTEREST LOSSES TO THE TRUST FUNDS

We did not attempt, as a part of this review, to determine the extent of possible interest losses to the Trust Funds. Based on the information available, it appears that no interest losses should result from Treasury's noninvestment of the NTT during September through November 1985. However, losses may result from the earlier than normal redemption of the Trust Funds' long-term securities during this period. Depending on changes in interest rates, long-term bond redemptions during September through November (and in earlier years) may result in losses or gains to the Trust Funds compared to a hypothetical situation where debt limit considerations are absent.

Our office has recently initiated a government-wide review of trust fund financial management activities, the results of which should provide a basis for assessing possible interest gains or losses to the Trust Funds.

SUMMARY

In reviewing Treasury's actions during the current debt ceiling crisis, we found that NTT amounts were not fully invested at the beginning of September, October, and November 1985. Instead, Treasury redeemed the Trust Funds' short- and long-term securities to meet social security payments. Our analysis shows that, if adequate borrowing authority under the statutory debt limit had been available during September through November 13, it would not have been necessary to redeem any of the Trust Funds' long-term securities. We also found that the noninvestment of NTT amounts in September and October was not unprecedented--similar actions were taken in 1983 and 1984. The actions of November 1985, however, appear to have no precedent.

Table II.1: Status of the Social Security Trust Funds' Assets, July through November 13, 1985

(dollars in thousands)

	July 1[a]	July 31	August 31	September 30	October 31	November 13[b]
Certificates of Indebtedness						
OASI	$ 0	$ 1,404,367	$ 2,634,514	$ 8,209,540	$ 237,408	$ 0
DI	0	159,461	124,952	665,468	84,192	74,758
OASDI	0	1,563,828	2,759,466	8,875,008	321,600	74,758
Bonds						
OASI	30,856,517	30,426,189	28,799,415	22,757,963	18,772,697	6,329,042
DI	6,026,195	5,818,306	5,636,735	4,777,159	3,992,501	2,694,046
OASDI	36,882,712	36,244,495	34,436,150	27,535,122	22,765,198	9,023,088
Total investments	36,882,712	37,808,323	37,195,616	36,410,130	23,086,798	9,097,846
Uninvested amounts[c]	d	452,508	159,318	2,348,021	15,131,021	28,219,021
Total assets	$36,882,712	$38,260,831	$37,354,934	$38,758,151	$38,217,819	$37,316,867

[a]Status before transacting business on July 1, 1985.

[b]Status before enactment of legislation temporarily increasing the statutory public debt limit.

[c]July and August amounts were tax receipts in transit at the end of these months. September-November amounts resulted from uninvested normalized tax transfers.

[d]Data were not available.

Table II.2: Social Security Trust Funds--Comparison of NTT Amounts Credited and Invested on the NTT Dates in Selected Months

(dollars in thousands)

NTT date[a]	NTT amount credited	NTT amount invested on NTT date
9-4-84	$13,575,000	$ 5,658,000
10-1-84	11,561,000	0
11-1-84	12,037,000	12,037,000
7-1-85	13,785,000	13,785,000
8-1-85	13,968,000	13,968,000
9-3-85	15,128,000	981,000
10-1-85	12,783,000	0
11-1-85	13,088,000	0

[a]First business day of the month.

Table II.3: Analysis of Potential Trust Fund Certificates of Indebtedness That Would Have Been Issued and Redeemed During September to November 1985 Without a Debt Ceiling Problem

(dollars in thousands)

Actual CIs at beginning of September 1985:	**$ 2,759,466**
NTT for September	15,128,000
Actual CI investments of other receipts in September	2,669,352
Total potential CIs to meet all redemptions in September	20,556,818
Total actual redemptions of securities in September	(16,109,865)
Potential CI balance at end of September 1985:	**4,446,953**
NTT for October	12,783,000
Actual CI investments of other receipts in October	3,186,775
Total potential CIs to meet all redemptions in October	20,416,728
Total actual redemptions of securities in October	(16,510,107)
Potential CI balance at end of October 1985:	**3,906,621**
NTT for November	13,088,000
Actual CI investments of other receipts in early November	785,653
Total potential CIs to meet all redemptions in early November	17,780,274
Total actual redemptions of securities in early November	(14,690,413)
Potential CI balance as of November 13, 1985:	**$ 3,089,861**

Table II.4: Summary of Uninvested Normalized Tax Transfers as of November 13, 1985[a]

(dollars in thousands)

Month	Trust fund	Normalized tax transfers	Uninvested portion	Cumulativ uninveste amounts
September 1985	OASI	$13,803,000	$ 2,142,546	
	DI	1,325,000	205,475	
		15,128,000	2,348,021	$ 2,348,021
October 1985	OASI	11,662,000	11,662,000	
	DI	1,121,000	1,121,000	
		12,783,000	12,783,000	15,131,021
November 1985	OASI	11,940,000	11,940,000	
	DI	1,148,000	1,148,000	
		13,088,000	13,088,000	28,219,021
Totals	OASI	37,405,000	25,744,546	
	DI	3,594,000	2,474,475	
		$40,999,000	$28,219,021	

[a]Before enactment of the emergency legislation temporarily increasing the statutory public debt limit.

Table II.5: Securities Redemptions in November 1985 to Meet Regular Social Security Benefit Payments

(dollars in millions)

Description	Nov. 1	Nov. 4	Nov. 5	Nov. 6	Nov. 7	Nov. 8	Nov. 12	Total
	Business dates							
Actual redemptions	$9,612.5	$4,181.3	$0	$0	$0	$ 714.7	$266.1	$14,774.6
Planned redemptions without a debt ceiling crisis	6,899.0	0	0	0	4,816.0	3,210.0	0	14,925.0
Differences (actual as compared to planned)	$2,713.5	$4,181.3	$0	$0	$-4,816.0	$-2,495.3	$266.1	$ -150.4

Table II.6: OASI and DI Trust Funds--
Summary of Bond Redemptions, July-November 1985

(dollars in thousands)

	8-3/4%	9-3/4%	10-3/8%	10-3/4%	13-3/4%	Totals
Beginning balances, July 1, 1985[a]	$ 386,756	$ 766,286	$21,615,774	$ 8,905,880	$ 5,208,016	$ 36,882,712
Redemptions:						
July	$ 0	$ 0	$ (638,217)	$ 0	$ 0	$ (638,217)
August	0	0	(1,808,345)	0	0	(1,808,345)
September	0	0	(6,901,028)	0	0	(6,901,028)
October	0	0	(4,557,576)	(212,348)	0	(4,769,924)
November	(386,756)	(766,286)	(6,791,034)	(5,798,034)	0	(13,742,110)
Total redemptions	(386,756)	(766,286)	20,696,200	6,010,382	0	(27,859,624)
Ending balances[b]	$ 0	$ 0	$ 919,574	$ 2,895,498	$ 5,208,016	$ 9,023,088

[a]Balances before transacting business on July 1.

[b]Balances before enactment of legislation temporarily increasing the statutory public debt limit on November 14.

Table II.7: OASI and DI Trust Funds--
Bond Redemptions, July-November 1985

(dollars in thousands)

Date redeemed		Maturity date	8-3/4%	9-3/4%	10-3/8%	10-3/4%	13-3/4%
OASI:							
July	2	6/30/86			$ 39,894		
	5	6/30/86			90,443		
	8	6/30/86			165,971		
	31	6/30/86			134,020		
August	2	6/30/86			1,626,774		
September	3	6/30/87			2,057,102		
	3	6/30/88			1,420,717		
	9	6/30/88			636,384		
	9	6/30/89			1,860,100		
	30	6/30/89			67,149		
October	9	6/30/89			129,852		
	9	6/30/90			628,021		
	10	6/30/90			1,429,080		
	10	6/30/91			1,392,518		
	10	6/30/91			93		
	15	6/30/91			324,628		
	29	6/30/91			5		
	31	6/30/91			39,641		
	31	6/30/91			16,100		
	31	6/30/91			25,328		
November	1	6/30/91			67,032		
	1	6/30/92			565,186		
	1	6/30/93			565,186		
	1	6/30/94			565,186		
	1	6/30/95			565,186		
	1	6/30/96			565,186		
	1	6/30/97			565,186		
	1	6/30/98			565,186		
	1	6/30/99			565,186		
	1	6/30/00			2,057,101		
	1	6/30/92				$1,022,231	
	1	6/30/93				801,552	
	4	6/30/93				3,710	
	4	6/30/93				216,969	
	4	6/30/94				1,022,231	
	4	6/30/95				1,022,231	
	4	6/30/96				822,013	
	8	6/30/96				200,218	
	8	6/30/97				420,770	
	12	6/30/97				266,109	
Total OASI			$ 0	$ 0	$18,729,441	$5,798,034	$ 0

Table II.7 (continued)

Date redeemed		Maturity date	8-3/4%	9-3/4%	10-3/8%	10-3/4%	13-3/4%
DI:							
July	2	6/30/86			$ 16,055		
	11	6/30/86			26,556		
	13	6/30/86			145,918		
	31	6/30/86			19,360		
August	2	6/30/86			181,571		
September	3	6/30/87			389,460		
	3	6/30/88			124,701		
	9	6/30/88			264,758		
	9	6/30/89			80,654		
	19	6/30/89			3		
October	9	6/30/89			308,802		
	9	6/30/90			79,108		
	10	6/30/90			98,003		
	10	6/30/90				$ 195,517	
	20	6/30/91			76,381		
	31	6/30/90				16,831	
	31	6/30/91			10,016		
November	1	6/30/93	$ 47,479				
	1	6/30/93		$ 142,337			
	1	6/30/94		142,336			
	1	6/30/94	339,277				
	1	6/30/95		150,042			
	1	6/30/95		331,571			
	4	6/30/91			15,106		
	4	6/30/92			47,466		
	8	6/30/92			54,037		
	8	6/30/93			28,804		
Total DI			386,756	766,286	1,966,759	212,348	0
Total OASI and DI			$386,756	$766,286	$20,696,200	$6,010,382	$ 0

Table II.8: OASI and DI Trust Funds-- Bond Redemptions During 1984 (August 31 - October 12)

(dollars in thousands)

Date redeemed		Maturity date	10-3/4%	13-3/4%	Total redemptions
OASI:					
August	31	6/30/86		$1,479,217	
	31	6/30/87		1,491,915	
	31	6/30/88		698,150	
September	6	6/30/88		63,546	
	28	6/30/88		358,878	
October	9	6/30/89		36,988	
	10	6/30/89		371,341	
	10	6/30/89		670,945	
	10	6/30/89	$ 154,934		
	11	6/30/89	629,048		
	11	6/30/90	1,022,231		
	11	6/30/90		469,684	
	11	6/30/91	626,619		
	11	6/30/91	143,974		
	12	6/30/90		277,925	
	12	6/30/91	21,841		
Total OASI			2,598,647	5,918,589	$8,517,236
DI:					
August	31	6/30/85		184,954	
	31	6/30/86		167,911	
	31	6/30/86	120,045		
	31	6/30/87	100,363		
October	3	6/30/87	103,152		
	9	6/30/89	15,459		
	10	6/30/88	287,956		
	10	6/30/87	84,441		
	10	6/30/89	60,004		
	11	6/30/89	212,493		
Total DI			983,913	352,865	1,336,778
Total OASI and DI			$3,582,560	$6,271,454	$9,854,014