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Management Division

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December 12, 1995

The Honorable Sam Gibbons
Ranking Minority Member
Committee on Ways and Means
House of Representatives

Dear Mr. Gibbons:

This letter responds to questions raised by your staff regarding actions taken to date by Secretary of the Treasury Rubin during the current debt ceiling crisis. Specifically, your staff asked whether the Department of the Treasury had followed its normal investment and redemption policies regarding the Social Security trust funds.

Enclosed is our December 7, 1995, letter to Representative Nick Smith (GAO/AIMD-96-20R), which discusses three of the options available to the Secretary to meet the federal government's obligations and stay within the statutory limit on public debt. Our review of Treasury records showed that between November 1, 1995, and December 8, 1995, Treasury followed its normal investment and redemption policies for all transactions affecting the Social Security trust funds.

If we can be of further assistance, please call me at (202) 512-9510, or Gary Engel, Assistant Director, at (202) 512-8815.

Sincerely yours,

Gregory M. Holloway

Gregory Holloway
Director, Governmentwide Audits

Enclosure

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General Accounting Office
Washington, D.C. 20548

Accounting and Information
Management Division

B-270558

December 7, 1995

The Honorable Nick Smith
House of Representatives

Dear Mr. Smith:

This letter (1) provides information on options currently available to the Secretary of the Treasury to meet the federal government's obligations and stay within the statutory limit on public debt and (2) lists actions that former Treasury Secretary James Baker took during the 1984 and 1985 debt ceiling crisis.

On November 15 and 16, 1995, Treasury Secretary Robert E. Rubin invoked two authorities available to him to manage within the debt ceiling:

1. Suspend investment of the Government Securities Investment Fund ("G" Fund). Subsection (g) of 5 U.S.C. 8438 authorizes the Secretary of the Treasury to suspend the issuance of additional amounts of obligations of the United States to the Fund if such issuance cannot be made without causing the amount of public debt to exceed the debt ceiling. The subsection contains instructions on how the Secretary is to make the Fund whole after the debt ceiling crisis has ended.

2. Redeem securities held by the Civil Service Retirement and Investment Fund. Subsection (k) of 5 U.S.C. 8348 authorizes the Secretary of the Treasury to redeem securities or other assets of the Fund before maturity to prevent the amount of public debt from exceeding the debt ceiling. Before exercising this authority, the Secretary must first determine that a "debt issuance suspension period" exists. Such a period is defined as any period for which the Secretary has determined that obligations of the United States may not be issued without exceeding the debt ceiling. The amount of securities that can be redeemed under this authority is limited to an amount equal to the total amount of benefit payments authorized under subchapters 83

(Civil Service Retirement System) and 84 (Federal Employees Retirement System) that would be made during the debt issuance suspension period. The Secretary may redeem securities whether or not the fund contains sufficient cash to pay benefits during the suspension period. Subsection 8348 (j) (3) contains instructions on how the Secretary is to make the Fund whole after the debt ceiling crisis has ended. The Secretary, based on estimates provided by the Office of Personnel Management, has authorized redemption of $39.8 billion of trust fund securities prior to maturity under the debt suspension declared on November 15, 1995.

Secretary Rubin had not invoked a third available authority during this most recent debt ceiling crisis as of November 30, 1995:

3. Suspend investment of the Civil Service Retirement and Disability Fund. Subsection (j) of 5 U.S.C. 8348 authorizes the Secretary of the Treasury to suspend additional investment of amounts in the Fund if such investment cannot be made without causing the amount of public debt to exceed the debt ceiling. The subsection contains instructions on how the Secretary is to make the Fund whole after the debt crisis has ended.

During the 1984 and 1985 debt ceiling crisis, before the enactment of the statutory authorities cited above, then Treasury Secretary Baker took other actions affecting the trust funds. These included:

-- Delaying investment of trust fund receipts. In 1984 and 1985, the Secretary chose to delay investment of certain trust fund receipts, including those of the Civil Service and Social Security trust funds. The Secretary did not invest those funds because total Treasury borrowings were already at the debt ceiling.

-- Redeeming securities of other trust funds earlier than normal. On November 1, 1985, the Secretary chose to redeem securities held by several trust funds, including those of the Civil Service and Social Security trust funds, earlier than normal to pay fund benefits.

-- Exchanging Treasury securities held by the Civil Service Trust Fund for Securities issued by the Federal Financing Bank (FFB). During 1985, the Secretary of the Treasury exchanged Treasury securities held by the Civil Service Trust Fund for the same amount of securities

B-270558

issued by FFB, which are not subject to the debt ceiling. The Treasury securities were then redeemed, thereby reducing the pubic debt subject to the ceiling.

We have provided your staff with previous GAO reports related to these issues. If you have any questions about this matter, please call me at (202) 512-9510 or George Stalcup, Associate Director, at (202) 512-9490.

Sincerely yours,

Gregory M. Holloway
Director, Governmentwide Audits

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