5357
129131

UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C.

FOR RELEASE ON DELIVERY
EXPECTED AT 9:30 AM
TUESDAY, FEBRUARY 18, 1986

STATEMENT OF

JOSEPH F. DELFICO

ASSOCIATE DIRECTOR

HUMAN RESOURCES DIVISION

BEFORE THE SUBCOMMITTEE ON SOCIAL SECURITY

HOUSE COMMITTEE ON WAYS AND MEANS

ON

DISINVESTMENT OF THE SOCIAL SECURITY TRUST FUNDS

Mr. Chairman and members of the Subcommittee. In December we reported to you concerning the noninvestment of the Social Security trust funds during the recent debt ceiling crisis of September through November 1985. We have also reported to the Congress concerning the Railroad Retirement and Civil Service Retirement trust funds. Today, I would like to discuss the management of the trust funds in the context of the debt ceiling and respond to other issues you raised concerning the trust funds and disinvestment.

During 1983 and 1984, there were times when the Secretary could not fully invest the amount of the normalized-tax-transfer (NTT) at the beginning of certain months. This occurred again during September through November 1985. The effect of the Secretary's actions during those months was to convert trust funds assets to a non-interest-bearing form. Furthermore, long-term securities held by the trust funds were redeemed in order to provide the borrowing authority under the debt limit to assure Social Security benefit payments. These actions are detailed in our December 5, 1985 report to the Committee.[1]

For today's hearing you asked that we respond to a number of specific issues and options associated with the disinvestment of the Social Security trust funds.

CONFLICT OF INTEREST

The first question concerns the apparent conflict between the Secretary's roles as chief fiscal officer of the United States and as Managing Trustee of the Social Security trust funds.

---

[1] Treasury's Management of Social Security Trust Funds During the Debt Ceiling Crises (GAO/HRD-85-45).

During normal operations there is no inherent conflict between the Secretary's statutory obligations regarding the debt limit and the trust funds. When, however, Treasury's cash account lacks sufficient funds to pay both Social Security benefits and other obligations, and borrowing authority is limited or non-existent--as during the recent debt ceiling crisis--the Secretary is faced with a conflict between his statutory responsibilities. He is forced to either (1) violate the investment requirements of the Social Security Act in order to gain sufficient borrowing authority to pay benefits and other obligations of the United States or (2) comply with the investment requirements and consequently fail to pay benefits and default on other government obligations.

We see no easy solution to this conflict except to find ways to avoid the debt ceiling crises that precipitate this problem. In the past, we have called for changing the procedure by which the debt ceiling is increased. In light of the continuing debt ceiling problems, we believe that a review of the procedures by which the debt ceiling is increased would be appropriate.

LEGISLATION TO PROHIBIT DISINVESTMENT

Another issue you asked us to address is whether the Social Security Act or the debt ceiling statute should be amended to prohibit disinvestment. Although disinvestment may violate the investment requirements of the Social Security Act, the legislation to prohibit disinvestment could result in Social Security benefits not being paid during debt ceiling crises. This legislation would protect trust fund assets but would also limit the Secretary's flexibility to assure benefit payments. For example, if this legislation had been in effect in November of 1985, the Secretary could not have redeemed $13.7 billion in securities held in the Social Security trust funds. Without this flexibility to gain borrowing authority through disinvestment, and with limited ability to gain borrowing authority elsewhere, Social Security benefits, along with other obligations, could not have been paid in November.

NOTIFICATION OF ACTIONS

In the absence of timely increases to the debt ceiling, conflicts are likely to continue. Therefore, it is important that the Congress receive advance notification of any Treasury plan to not invest or to disinvest the trust funds. While the Secretary and his representatives frequently testify concerning the need to raise the debt ceiling, and did so during the most recent crisis, it appears to us that the Secretary could have better informed the Congress about Treasury's failure to invest NTT amounts in September and October and the implications of this noninvestment.

Although it would be preferable that the Secretary not be put in the position of having to consider disinvestment, we would support a requirement that the Managing Trustee notify the Congress and the public members of the Board of Trustees in advance of any expected failure to invest or action to disinvest the trust funds to meet debt ceiling requirements.

CHANGING NTT PROCEDURES

Another question centered on the possibility of eliminating the normalized-tax-transfer procedure to prevent disinvestment. We feel that the NTT mechanism should not be eliminated at this time. The mechanism was established in 1983 to assure that benefits could be paid at the beginning of the month by advancing anticipated monthly payroll tax receipts to the funds. The advance is normally invested, then redeemed during the month. It generally reduces the need to redeem long term securities during the month to pay benefits, as had been the case under the previous procedures when the trust fund balance was low. While this mechanism is important when the trust fund balance is low, it may not be necessary when the balance is high. However, the balance is not yet large enough that we would recommend deleting the provision. If as predicted, the trust fund balance grows significantly in the future, the Congress may then wish to reconsider the need for the NTT.

EXCLUDING THE TRUST FUNDS FROM THE DEBT CEILING

Another proposal is to exclude debt held by the trust funds from counting against the public debt ceiling. Our major concern with this proposal is that it would not solve the basic problems created by the lack of a debt ceiling capacity. For example, assume that the debt issued by the trust funds is nonmarketable and exempt from any debt ceiling, while regular Treasury debt remains subject to the limit. This would allow the NTT and other trust fund receipts to be invested without any difficulty. However, if the Treasury has insufficient cash and cannot borrow due to the limitation on regular debt, when it comes time to redeem the NTT or other trust fund assets to pay beneficiaries, it would be impossible to do so.

TREASURY'S INVESTMENT ACCOUNTING

Regarding your concerns about Treasury's control over trust fund investments and its accounting methods, we have recently begun a review of these areas.

Several of our objectives in this review relate directly to the Social Security funds. For example:

--The current process for crediting the trust funds with their tax collections involves using estimates. We are reviewing this area to determine whether the trust funds are receiving prompt and accurate credit and whether the process can be improved.

--The current arrangement for handling Social Security fund redemptions will be reviewed. It is critical that Treasury have adequate controls to ensure that the proper securities are redeemed.

--Millions of dollars are collected annually for penalties relating to late payments of taxes including Social Security taxes. We want to review how the fund receives credit for these delinquent tax payments and whether the process is equitable to the Social Security funds as well as the general fund.

Our work to date has shown that the legal requirements governing Treasury's actions are complex and vary among the funds. We are examining this and will keep your staff informed on our progress.

This concludes my testimony. We would be happy to answer any questions you may have.

33579

?

9/19