



Highlights of [GAO-03-513](#), a report to the Chairman, Subcommittee on Transportation, Treasury, and Independent Agencies, Committee on Appropriations, House of Representatives

Why GAO Did This Study

While the Treasury generally pays lower interest rates on U.S. Savings Bonds than it does on other forms of borrowing from the public, it also incurs substantially higher administrative costs to issue and redeem the paper savings bond certificates. To determine whether these higher administrative costs exceed its interest rate savings, Treasury's Bureau of the Public Debt uses a spreadsheet model to compare the costs of issuing Series EE and Series I savings bonds with those of issuing marketable Treasury securities. GAO was asked to review this model to judge its reliability in measuring the relative costs of Treasury's borrowing alternatives.

What GAO Recommends

GAO is recommending that the Bureau of the Public Debt revise the cost-effectiveness model so that it provides reliable information on the costs of the savings bond program. As part of that revision, the bureau should consider updating some of the key data on the performance of the savings bond program, particularly on savings bond redemption patterns.

www.gao.gov/cgi-bin/getrpt?GAO-03-513.

To view the full report, including the scope and methodology, click on the link above. For more information, contact Thomas J. McCool at (202) 512-8678 or McCoolT@gao.gov.

SAVINGS BONDS

Actions Needed to Increase the Reliability of Cost-effectiveness Measures

What GAO Found

Treasury has several alternative vehicles for issuing debt to the public. A substantial majority of that debt is issued in the form of marketable Treasury securities. U.S. Savings Bonds today account for about 3 percent of total Treasury securities outstanding. A majority of these bonds have lower minimum denominations or face amounts than marketable Treasury securities and generally pay lower interest rates as well, but provide the same assurance of the full faith and credit of the United States, making them an alternative for investors unable or unwilling to pay the minimum denominations of marketable Treasury securities. Savings bonds continue to be issued as paper certificates, rather than in the format of the "book entry" system for marketable Treasury securities; however, this increases the administrative costs of issuing, servicing, and redeeming savings bonds, relative to the marketable securities.

The cost-effectiveness of the savings bond program depends on whether Treasury's savings—in terms of the generally lower interest payments on savings bonds relative to marketable Treasury securities—exceed the costs that Treasury incurs with processing the paper savings bond certificates. The question is complicated by the fact that the interest savings occur over the life of a savings bond, and that Treasury pays costs upfront at issuance and in the future when the savings bond is redeemed.

As prescribed by the Office of Management and Budget and common financial practice, in dealing with savings or costs over time, the value of future savings or costs must be discounted to present value. Treasury has reported that its cost-effectiveness model does calculate the present values of the relative costs of savings bonds and marketable Treasury securities. However, because of flaws in the design and implementation of the spreadsheet used to calculate these present values, the cost-effectiveness model's results do not provide the Bureau of the Public Debt, Treasury, or Congress with accurate information that is needed to assess the relative costs of issuing debt through savings bonds or marketable Treasury securities, or to manage the savings bond program. Further, the bureau has not updated some key data elements in the cost-effectiveness model. In particular, citing budget considerations, the bureau uses data on the redemption patterns for savings bonds that date back to 1993, which do not reflect the effects of the wide variety of financial instruments now available to investors.