NARFE FEDERAL BENEFITS EXPERTS

FACT SHEET

DEBT LIMIT FREQUENTLY ASKED QUESTIONS

What is the debt limit?

The "debt limit" or "debt ceiling" refers to the limit imposed by law on the amount of national debt that the U.S. government can have outstanding. The federal government borrows money and accrues debt to pay its bills when it spends more than it takes in through taxes and other revenue measures. The U.S. Treasury issues debt by creating and selling securities, such as Treasury bills, notes and bonds. The debt limit caps the total amount of that debt issued via those securities.

What happens when we hit the debt limit?

The U.S. is projected to hit the debt limit on January 19, 2023, reaching the most recent temporary extension that was enacted in 2021, limiting the total national debt outstanding to $31.381 trillion. That does not mean the government is unable to pay its bills. Instead, the Treasury prevents default by employing "extraordinary measures," including "redeeming existing, and suspending new, investments of the Civil Service Retirement and Disability Fund (CSRDF) and the Postal Service Retiree Health Benefits Fund (PSRHBF)," and "suspending reinvestment of the federal employee (TSP) Government Securities Investment Fund." But those measures only extend the date of expected default, which is not often clear as it is based on estimates of expected revenues and expenses. The Treasury Secretary will provide Congress with estimates on when the federal government will default on its legally binding obligations if Congress does not suspend or increase the debt limit by that time. (More information on the latest news regarding deals and efforts to avert default is provided below).

What about federal retirement and health benefit funds? Extraordinary measures? What does that mean for my federal retirement annuity and TSP account?

As mentioned above, the Treasury employs accounting tactics called extraordinary measures, accessing funds held by the CSRDF, PSHBF and TSP (Government Securities Fund) to prevent a default by the federal government. The good news is that it's just an accounting gimmick; the tactic does not affect the payment of annuities, health benefits, or loans or withdrawals from the TSP. Federal law requires the reversal of any extraordinary measures after the debt limit has been suspended or increased, including the refund of interest that may have accrued during the suspension to make each account whole.

In her letter to Congress, Yellen wrote, "After the debt limit impasse has ended, the CSRDF, Postal Fund, and G Fund will be made whole."
During previous debt limit impasses, the Federal Retirement Thrift Investment Board confirmed this, writing, "G Fund investors remain fully protected, and G Fund earnings

are fully guaranteed by the federal government. This statutory guarantee has effectively protected G Fund investors many times over the past 30 years. G Fund account balances will continue to accrue earnings and will be updated each business day, and loans and withdrawals will be unaffected."

OK, but what will happen when those extraordinary measures are exhausted?

If a failure to raise the debt limit prevents the U.S. government from having sufficient cash on hand to pay its bills, we cannot be certain exactly what actions the Treasury will execute. But according to policy experts with the Brookings Institution, the Treasury did have a contingency plan in 2011, when a previous impasse brought the country to the brink of default. Per the plan, the department would continue to pay interest on its securities as they come due and make principal payments by auctioning new securities of the same amount as those coming due.

Unfortunately, under that plan, the Treasury would need to delay payments for all other obligations, including payments for federal employee salaries, federal retirement annuities, Social Security benefits, payments to contractors and Medicare providers, and much more. Payments would be delayed until the department had enough cash to pay a full day's obligations.

Even if the Treasury wanted to prioritize payments among those coming due, it's very unlikely they would be able to do so, according to former Treasury chief of staff Mark Patterson. As he explained to the *Washington Post*: "The U.S. government's payment system is sprawling. It involves multiple agencies. It involves multiple interacting computer systems. And all of them are designed for only one thing: To pay all bills on time. The technological challenge of trying to adapt that to some other system would be very daunting, and I suspect that if we were forced into a mode like that [prioritizing payments] the results would be riddled with all kinds of errors." Just delaying bill payment could lead to logistical problems.

It's noteworthy that the computer system handling payments on Treasury securities is different than the one that handles payments to government agencies and other vendors, so it's possible for the Treasury to prioritize those. But if the Treasury paid interest and principal on those securities and delayed payments on other obligations, per its 2011 contingency plan, the federal government could be subject to legal challenges. As the Brookings Institution explains, "lawsuits would probably argue that holders of Treasury securities have no legal standing to be paid before others. It is not clear how such litigation would turn out, in part because the law itself imposes contradictory requirements on the government—requiring it to make payments, honor the debt and not go above the debt limit, three things that cannot all happen at once."

Wait, did you say a failure to raise the debt limit could delay payment of salaries for federal workers and federal retirement annuities?

Unfortunately, yes. A failure to raise the debt limit could delay payment of federal wages and retirement annuities until the federal government had enough cash on hand to pay them. If the crisis dragged on, the duration of the delays would increase.

What other consequences could result from a failure to raise the debt limit in time to prevent default?

That's difficult to answer because there's so much uncertainty surrounding the situation, and the answer would depend on how long a failure to raise the limit would last. The Government Accountability Office (GAO) estimated that simply approaching the deadline closely in 2011 cost the federal government around $1.3 billion in increased borrowing costs. If an impasse lasted long enough for the government to miss beginning-of-the-month payments (e.g., to Social Security beneficiaries and federal retirees), Moody's Analytics estimated a 4 percent decline in gross domestic product (GDP), 6 million lost jobs and a $15 trillion loss in net household wealth.

Sounds bad. Has Congress figured this out? What's the latest on increasing the debt limit?

In December 2021, Congress passed a one-time process to bypass the threat of a filibuster on raising the debt limit, therefore only requiring approval of a simple majority in the Senate. Soon after, Congress passed a deal to increase the debt limit by $2.5 trillion, which extended the target date for a default until early 2023. With the debt limit approaching again, the new 118th Congress will need to come to an agreement and raise the debt limit to avoid a default. According to the Bipartisan Policy Center, which helps estimate when the government will be unable to fulfill its financial obligations in full and on time, believes that day will likely arrive no earlier than the third quarter of 2023. An update on the expected default date will come in February.