Raising the Federal Debt Limit Matters to Retirees

We count on the federal government to pay its bills. From food assistance to help with heating costs, to public safety and clean drinking water, to federal tax refunds and free COVID and shingles vaccinations through Medicare, and a monthly Social Security check, retirees get peace of mind in knowing that the federal government will always pay its bills on time and in full. But House Republican leaders have said that unless spending cuts or changes in Social Security, Medicare or other programs are included in legislation to increase the debt limit, the House would not pass the bill. They are threatening to let the federal government default on its bills if the President and the Senate do not agree to their demands to cuts or radical changes in Social Security and Medicare and other important programs. This fact sheet answers key questions about the debt limit and what is at stake for retirees.

What is the Federal Debt Limit?

Current law controls the ability of the U.S. Treasury to borrow money to meet the government’s ongoing cash needs through a legislatively set ceiling called the debt limit. This federal debt limit caps the total amount of money that the Treasury can borrow to make payments and cover legally authorized debts for money the government owes. These authorized payments include Social Security and Medicare benefits, military salaries, veterans’ benefits, interest payments to public pension systems that invest in U.S. Treasury financial instruments, tax refunds, and other payments like grants to states and localities through Medicaid or mental health grants.

Since 1960, Congress has acted 78 separate times to permanently raise, temporarily extend, or revise the definition of the debt limit. This has occurred 49 times under Republican presidents and 29 times under Democratic presidents, and Congress has never failed to act when called upon to raise the debt limit and ensure that America can pay its bills.

When Congress increases or raises the debt limit it is not making new commitments with regard to federal spending, it is allowing the Treasury to borrow money through the U.S. Treasury to pay for the already existing legal obligations that Congresses and presidents of both parties have already made.

What Happens if the Federal Debt Limit is Breached?

If Congress fails to lift the cap on total money the U.S. Treasury can borrow to pay for existing and legally required payments, the federal government could default on its debts. People, businesses, and state and local governments will not receive the services, money or grants on which they depend. A default also puts at risk all federal programs, including Social Security, Medicare and Medicaid. Millions of American families would be unable to meet basic needs, and countless businesses could soon fail. The stress on the U.S. economy would spread, hurting public pensions and the global economy which rely on U.S. Treasury bonds, notes and bills as safe and low risk assets. With each missed
payment from the federal government the economic harm would amplify. A severe recession with massive job losses could result.

Extremists in Congress and those cheering them on from the sidelines who are threatening to allow the United States to default by not raising the debt limit are holding hostage everyone else in Congress until they agree to cut or radically change Medicare, Social Security, Medicaid or other important programs. These agents of chaos are holding the health and economic security of seniors hostage, too.

Couldn’t the Federal Government still make Social Security payments?

NO. Some House Republican leaders have suggested that the federal government could use the revenues it has to “prioritize” payments of Social Security, but this is not possible. U.S. Treasury systems are designed to pay all our bills when they are due and on time, and not to prioritize one form of payment over another. Paying some obligations but not others undermines the risk-free status of U.S. Treasury bonds, bills, notes and other financial instruments, because some would still be in default.

Congress must not let the U.S. Treasury default on its promised payments. Congress must raise the debt limit with no strings or other requirements.

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