

Social Security Administration

SHADOW COMMISSIONER OF SOCIAL SECURITY EDWIN S. RUBENSTEIN

Mission: “[The Social Security Administration] SSA advances the economic security of the Nation’s people through compassionate and vigilant leadership in shaping and managing America’s social security programs. These programs include Old-Age and Survivors Insurance and Disability Insurance, commonly referred to as Social Security, and Supplemental Security Income (SSI).” <http://www.ssa.gov/budget/genst06.htm>

Can Immigration Save Social Security?

Social Security is in trouble. If current trends in population, incomes, and age expectancy persist, the benefits promised to future retirees will exceed payroll tax collections. The long-term (75-year) actuarial deficit is estimated to be a whopping \$13.4 trillion in present value terms. <http://www.whitehouse.gov/omb/budget/fy2008/pdf/budget/ssa.pdf>

Many claim increased immigration can reduce Social Security’s long-term deficit. As we discuss below, this conclusion is based on flawed assumptions regarding the amount of payroll taxes immigrants pay into the system as well as the benefits they are likely to receive. Moreover, the reduction in native income resulting from competition with low-wage immigrants is invariably ignored by those who claim increased immigration can help shore up the program.

Social Security today operates on what is known as a pay-as-you-go basis, in which current worker payroll taxes are used immediately to pay for the benefits of current retirees and other beneficiaries. In 1950, there were about 16 workers for every retiree. Today, there are slightly over

three workers for every beneficiary, and by the time today’s 20-year-olds retire, that number will fall to two workers for every beneficiary. Furthermore, Social Security is paying greater benefits for longer periods of time as life expectancy increases, and the imminent retirement of the baby boom generation will result in added strain on the system. <http://www.whitehouse.gov/omb/budget/fy2008/pdf/budget/ssa.pdf>

By 2017, the Social Security system will collect less in taxes than it pays in benefits and will shift into a permanent cash deficit that will grow every year. In 2040, the Retirement Trust Fund will have spent its accumulated surplus and lack the resources to pay the benefits that have been promised. <http://www.whitehouse.gov/omb/budget/fy2008/pdf/budget/ssa.pdf>

The 2005 Economic Report of the President estimates that over the last 10 years as much as 58 percent of employment growth in the United States and 51 percent of growth in the working age population have been due to new immigrants. The U.S. population and work force is aging rapidly due to the baby boom cohort entering retirement years and steady increases in the life expectancy at birth and at age 65.

Since most immigrants to the United States tend to enter the country as young adults, they lower the average age of the population. As they age, however, they tend to raise the average age of the nation. Immigrants also tend to have slightly higher fertility rates than non-immigrants. The children of immigrants will continue to affect the size and growth rate of GDP and the ratio of workers to beneficiaries well into the future. <http://www.ssab.gov/brief-1-immigration.pdf>

But population growth is not the major reason

Immigration Fiscal Impact Statement

why immigration is deemed good for Social Security. It has been the conventional wisdom for years that illegal immigrants pay payroll taxes but do not stick around to collect retirement benefits. Illegal immigrant workers in the United States are now providing the system with a subsidy estimated to be as much as \$7 billion per year. That amount represents 10 percent of the current surplus—the difference between what the system currently receives in payroll taxes and what it doles out in pension benefits. <http://www.immigrationforum.org/PrintFriendly.aspx?tabid=724>



Social Security’s actuaries estimate that a sustained 250,000 per year increase in immigration will reduce the retirement fund’s actuarial deficit by about 5 percent, or by \$670 billion (5 percent of \$13.4 trillion.) <http://www.ssab.gov/brief-1-immigration.pdf>

Subsidizing Social Security is not what illegal immigrants came here to do. The 1986 immigration reform act (IRCA) required employers to verify the citizenship status of employees by asking for documents such as Social Security cards. This triggered a boom in forged cards and fictitious or stolen Social Security numbers. <http://www.immigrationforum.org/PrintFriendly.aspx?tabid=724>

IRCA did little to deter employers from hiring illegals with (obviously) phony Social Security cards.

Starting in the late 1980s the Social Security Administration received a flood of W-2 earnings reports with incorrect Social Security numbers. It stashed them in what it calls the “earnings suspense file” in the hope that someday it would figure out whom they belonged to. <http://www.immigrationforum.org/PrintFriendly.aspx?tabid=724>

The file has been mushrooming ever since: \$189 billion worth of wages ended up recorded in the suspense file over the 1990s, two and a half times the amount of the 1980s. <http://www.immigrationforum.org/PrintFriendly.aspx?tabid=724>

While Social Security does not know what fraction of the suspense file corresponds to the earnings of illegal immigrants, other researchers say illegal immigrants are the main contributors. <http://www.immigrationforum.org/PrintFriendly.aspx?tabid=724>

In the current decade, the file has grown, on average, by more than \$50 billion a year, generating \$6 billion to \$7 billion in Social Security tax revenue and about \$1.5 billion in Medicare taxes. In 2002 alone nine million W-2s with incorrect Social Security numbers landed in the suspense file, accounting for \$56 billion in earnings, or about 1.5 percent of total reported wages. <http://www.immigrationforum.org/PrintFriendly.aspx?tabid=724>

Reality Check: Totalization Agreements

The assumption that most illegal immigrants will not collect Social Security—and that the suspense file money will be available to fund Social Security benefits for natives and legal immigrants—is unrealistic.

A law called the Social Security Protection Act of 2004 explicitly prohibits benefits to “aliens residing in the United States unlawfully.” But a loophole in that law exempts illegals from any country “that has a social insurance or pension system under which benefits are paid to eligible U.S. citizens who reside outside that country.”

“Totalization” agreements do that. They are designed to protect workers who have divided

their careers between the United States and a foreign country but haven't worked long enough under either social security system to qualify for benefits. The agreements allow workers to combine ("totalize") work credits earned in both countries to meet minimum eligibility requirements.

With the signing of the U.S.-Mexico totalization agreement on June 29, 2004, most of the illegal aliens living in the United States became potential Social Security recipients.

We say "potential" because the U.S.-Mexico agreement has yet to be signed by the President—or even sent to Congress for review. Eligibility and costs will ultimately depend on specific terms and language of the final agreement.

Indeed, some observers fear Mexican totalization could metastasize into a *de facto* guest worker program, effectively legalizing millions of erstwhile illegal aliens. (See, for example, *Totalization: Sellout of American Workers*, by Phyllis Schlafly, November 17, 2004)

That devil will be in the details of the final agreement.

But in any event, the Social Security Administration's preliminary cost estimates for Mexican totalization are absurdly low. In 2003 SSA's actuaries projected those costs at \$78 million in the first year, growing to \$650 million (in constant 2002 dollars) by 2050. SSA claimed that the agreement would have a "negligible impact" on the Social Security trust fund long-range actuarial deficit. (As noted above, the trust fund is expected to be exhausted—with or without Mexican totalization—by 2040.)

However, SSA's projections assume only 50,000 newly eligible Mexican beneficiaries would be added during the initial phases of totalization, with that number growing to 300,000 over time. Amazingly, these are the same numbers that SSA used to cost out the totalization agreement with Canada. Illegal aliens from Mexico make up about

70 percent of all illegals in the United States. Those from Canada and the 19 other totalization countries combined account for less than 3 percent of all illegals. (*Social Security "Totalization": Examining a Lopsided Agreement with Mexico*, CIS Backgrounder, by Marti Dinerstein, September 2004)

And illegal alien headcounts don't tell the whole story. Mexico's retirement system is rudimentary compared to those of other totalization countries. Americans, for example, vest for Social Security benefits after working for 10 years; Mexicans must work for 24 years before vesting in their national pension plan. (Mexican aliens can vest for

Social Security after working just 18 months in the United States and make up the difference by "claiming" to have worked in Mexico.)

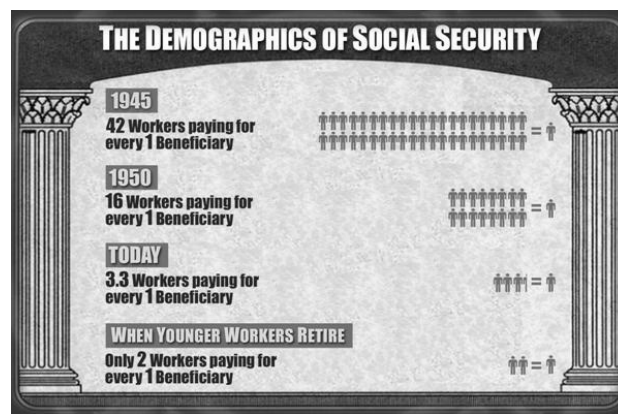
Moreover, under the Mexican system workers receive back exactly what they paid in, plus interest. (If it's not stolen, that is.

The men who paid into

the Mexican Government's Bracero Program in the 1940s haven't been paid; the money just disappeared.) By comparison, Social Security is also an income-redistribution system, with low-wage workers receiving benefits far in excess of their contributions.

Another federal agency, the Government Accountability Office (GAO), has said the prospect of easy Social Security eligibility could draw far more illegal aliens to the United States than SSA actuaries have projected:

Although the actuarial estimate indicates that the agreement would not generate a measurable impact on the trust funds, an increase of more than 25 percent in the estimate of initial, new beneficiaries would generate a measurable impact. For prior agreements, error rates associated with estimating the expected number of new beneficiaries have frequently exceeded



25 percent. Because of the significant number of unauthorized Mexican workers in the United States, the estimated cost of the proposed totalization agreement is even more uncertain than for the prior agreements. (Barbara D. Bovbjerg, "Proposed Totalization Agreement with Mexico Presents Unique Challenges," GAO, September 2003. PDF)



Social Security Administration bureaucrats updating information on file, circa 1930s.

Overarching everything, according to GAO, are SSA’s secretive, albeit sloppy, procedures:

A lack of transparency in SSA’s processes, and the limited nature of its review of Mexico’s program, cause us to question the extent to which SSA will be positioned to respond to potential program risks should a totalization agreement with Mexico take place. SSA officials told us that the process used to develop the proposed totalization agreement with Mexico was the same as for prior agreements with other countries. The process—which is not specified by law or outlined in written policies and procedures—is informal, and the steps SSA takes when entering into agreements are neither transparent nor well-documented.

Bottom line: most immigrants—legal and illegal—are likely to become Social Security pensioners

after retirement. The much touted immigration subsidy is just a brief one-time effect of new workers arriving who have no retired counterparts.

Today’s low-wage immigrants will be tomorrow’s drain on the Social Security system.

Other Federal and State Programs

Social Security is not the only program affected when immigrants obtain fraudulent Social Security numbers. Illegal immigrants are also eligible for welfare, medical assistance, and housing subsidies. Like all people, they enroll their children in school, drive on roads, and require police, sanitation, and fire services. They are also more likely to be incarcerated.

They also pay taxes. Even those who avoid Social Security taxes can’t escape paying excise, sales, and other taxes. But fiscal impact studies invariably find that the expenditures attributable to illegal immigrants exceed their tax payments by a wide margin.

At the federal level, illegal aliens receive more than \$26 billion a year in federal services and pay only \$16 billion in federal taxes, creating an annual fiscal deficit of about \$10.3 billion. These figures are from a report published by the Center for Immigration Studies (CIS) in 2004. <http://www.cis.org/articles/2004/fiscal.html>

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State and local governments incur even larger deficits. This is the conclusion of the National Research Council (NRC)’s comprehensive 1997 study of immigrants in California. While not explicitly comparing illegal and legal immigrants, the NRC research staff calculated that immigrant households generated a net fiscal deficit of \$3,463 per household—that is, they received \$3,463 (in 1996 dollars) more in state and local spending than they paid in state and local taxes. http://books.nap.edu/openbook.php?record_id=5779&page=281

Using the NRC figure as a proxy for the national average—and adjusting for inflation—we estimate that the state and local deficit attributable to illegal aliens is currently \$15 billion (3.8 million

households × \$3,823 per household).

The total (federal, state, and local) deficit attributable to illegal aliens is therefore \$25 billion—\$10 billion federal and \$15 billion state and local.

Much of this could have been avoided if SSA cracked down on identity theft.

Obviously, the Social Security Administration is not responsible for enforcing our immigration laws. But SSA is the only agency with a comprehensive database of individuals working in the United States. SSA is supposed to verify immigration documents for all non-citizens with the Department of Homeland Security and refugee documents with the Department of State. <http://www.ssa.gov/budget/genst06.htm>

SSA is also responsible for implementing provisions of the Intelligence Reform and Terrorism Prevention Act of 2004, which place limitations on the number of replacement Social Security cards an individual may request. <http://www.ssa.gov/budget/genst06.htm>



By all accounts, SSA has not adequately discharged these responsibilities. Its reports on immigrants who hold stolen or multiple Social Security numbers are often outdated and incomplete. Efforts to make this information available electronically have been delayed by bureaucratic infighting. <http://washingtontimes.com/article/20070825/EDITORIAL/108250003/1013>

Fiscal stability and national security are both threatened by SSA’s laxness. ■