IMMIGRATION AND SOCIAL SECURITY

By Paul N. Van de Water

Increases in immigration tend to improve the financial status of the Social Security program by a modest amount. Estimates by both the Congressional Budget Office (CBO) and the Social Security actuaries belie contentions that legalizing some undocumented immigrants, or increasing immigration in general, would impair the solvency of Social Security.¹

Social Security’s financial outlook reflects the projected balance between its revenues (primarily payroll taxes paid by active workers) and spending (largely benefits to retired and disabled workers, their dependents, and survivors of deceased workers). Immigration affects both sides of this ledger. Additional immigrants increase the size of the working-age population, the number of workers in jobs covered by Social Security, and the amount of payroll taxes collected. Eventually, many of these immigrants will become eligible for Social Security and receive cash benefits. And the children and grandchildren of immigrants will affect the population, the economy, and the ratio of workers to beneficiaries long into the future.² Under the intermediate assumptions of Social Security’s trustees, virtually all of the projected growth in the U.S. labor force for the next 50 years can be attributed to immigrants and their U.S.-born offspring.³

The effects of immigration policies on Social Security and the rest of the federal budget depend on the characteristics and behavior of past and future immigrants.⁴ As a group, immigrants differ from the native-born population in terms of their average age, educational attainment, income,

¹ See, for example, Lamar Smith, “Illegals and the Coffers,” Washington Times, August 22, 2008.


labor-force participation, fertility, rate of emigration, and other socioeconomic characteristics. Immigrants also differ from each other. For example, although immigrants are much more likely than natives not to have completed high school, they are also more likely to hold advanced degrees.5

Because immigrants are so diverse, it is possible to construct hypothetical — but unrealistic — scenarios in which immigration has either very unfavorable or very favorable effects on Social Security’s finances. Social Security benefits are progressive and replace a larger portion of previous wages for people with low earnings than for those with high earnings. If all immigrants were very low-wage workers who would receive benefits that significantly exceed their contributions and if they had few children, immigration could have an adverse or only slightly favorable effect on the solvency of Social Security. Conversely, if immigrants were all highly skilled and highly paid and had many children, immigration could be very beneficial to Social Security. Neither of these extreme outcomes is at all likely.

In general, researchers conclude that increases in immigration will somewhat improve the financial status of Social Security and that decreases in immigration will worsen it. According to the chief actuary of Social Security, “Provisions that will increase net immigration tend to improve the financial status of the [Social Security] program both because of the immigrants themselves and their children. This effect is much like the effect of increased birth rates, which also have positive effects of the financial status of the program.”6 Adding more young workers to the labor force, whether through higher birth rates or more immigration, improves the outlook for Social Security because the resulting increase in payroll tax collections occurs relatively soon, while Social Security benefit outlays grow only in the more distant future. Social Security’s trustees estimate that an increase in net immigration of 300,000 persons a year would eliminate about one-tenth of Social Security’s 75-year deficit.7 The Congressional Budget Office also finds that increases in immigration generally improve Social Security’s finances.8

The presence of unauthorized (undocumented) workers in the United States also has a positive effect on the financial status of Social Security. The earnings of unauthorized workers are less likely to be reported for tax purposes than the earnings of the rest of the population and even less likely to result in future benefits, according to Social Security’s chief actuary. Although the magnitudes cannot be precisely determined, the actuary has estimated that unauthorized immigrants paid as much as $13 billion in Social Security payroll taxes in 2007. About $1 billion in benefit payments were made based on unauthorized work (for example, survivor benefits paid to U.S. citizens who were dependents of deceased individuals who had made payments into the Social Security system while performing unauthorized work). Thus, undocumented immigrants improved Social Security’s cash flow by an estimated $12 billion in 2007.9

7 Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, 2008 Annual Report of the Board of Trustees, p. 159.
Previously, many undocumented workers were able to obtain a Social Security number (SSN) in their own name and have earnings credited to their own record for potential benefits in the future. Sometimes these were “non-work SSNs” issued only for identification. In other cases, the SSNs were obtained using fraudulent documentation. For over a decade, the rules under which immigrants can obtain Social Security numbers and become eligible for benefits have been tightening. Since 1996, immigrants must be lawfully present in the United States to receive Social Security benefits.\(^{10}\) The Social Security Administration has significantly decreased the issuance of non-work SSNs, and it has given much greater scrutiny to the birth certificates of those applying for SSNs. In addition, the Social Security Protection Act of 2004 (Public Law 108-203) provides that noncitizens issued a Social Security number after 2003 can receive Social Security benefits only if they were at some point legally authorized to work.

As a result of these changes, undocumented workers are unlikely to receive Social Security benefits based on the wages they earned while undocumented, even if they and their employers paid Social Security payroll taxes. Many undocumented workers use a Social Security number that does not match their name. To receive credit toward benefits, they would have to establish that the reported earnings belonged to them. “While credit for such work is possible,” according to Social Security’s chief actuary, “and would be more likely with certain changes in immigration laws, proof of ‘ownership’ of earnings during periods of residence without documentation is difficult and so such credit will be unlikely in any case.”\(^{11}\)

Estimates issued of specific legislative proposals by the Congressional Budget Office and the Social Security actuaries confirm these general conclusions. For example, CBO’s cost estimate of the 2007 Senate immigration bill showed that it would have increased Social Security revenues over 10 years by $57 billion while increasing Social Security expenditures by only $1 billion.\(^{12}\) In the longer run, expenditures would have grown as more of the new immigrants became eligible for Social Security benefits, but the legislation would still have modestly improved the long-run outlook for Social Security. Social Security’s chief actuary estimated that the bill would have improved the 75-year financial balance of the Social Security program by an amount equal to 0.03 percent of payroll subject to Social Security taxes. By itself, the provision in the bill that permitted the legalization of current unauthorized residents would have improved Social Security’s long-run balance by 0.01 percent of taxable payroll.\(^{13}\)

Since additional immigration is likely to affect Social Security’s finances modestly, although favorably, the impact of immigration on Social Security should not be a significant consideration in setting either immigration or Social Security policy.

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\(^{10}\) Section 202(y) of the Social Security Act, added by division C, section 503(a), of Public Law 104-208.

\(^{11}\) Stephen C. Goss, Letter to the Honorable Lamar Smith, July 18, 2008, p. 3.

\(^{12}\) Congressional Budget Office, Senate Amendment 1150 to S. 1348, the Comprehensive Immigration Reform Act of 2007, June 4, 2007.

\(^{13}\) Stephen C. Goss, Letter to the Honorable Edward M. Kennedy. The estimate applies to S. 1348 as modified by Senate Amendments 1150 and 1169.