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Highlights

Highlights of GAO-03-1035T, a testimony before the Subcommittee on Immigration, Border Security, and Claims, Committee on the Judiciary, House of Representatives

Why GAO Did This Study

Totalization agreements foster international commerce and protect benefits for persons who have worked in foreign countries. They eliminate dual social security taxes that multinational employers and their employees pay when they operate and reside in countries with parallel social security systems and fill gaps in benefit protection for persons who have worked in different countries. Because Mexicans are believed to represent a large share of the millions of unauthorized workers present in the United States, a totalization agreement with Mexico has raised concerns that they would become newly eligible for social security benefits.

To shed light on the possible impacts, this testimony (1) describes the Social Security Administration's (SSA) processes for developing the agreement with Mexico, (2) explains how the agreement might affect the payment of benefits to Mexican citizens, and (3) assesses the cost estimate for such an agreement.

www.gao.gov/cgi-bin/getrpt?GAO-03-1035T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Barbara D. Bovbjerg, (202) 512-7215, bovbjergb@gao.gov.

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SOCIAL SECURITY

Proposed Totalization Agreement with Mexico Presents Unique Challenges

What GAO Found

SSA has no written policies or procedures it follows when entering into totalization agreements, and the actions it took to assess the integrity and compatibility of Mexico's social security system were limited and neither transparent nor well-documented. SSA followed the same procedures for the proposed Mexican agreement that it used in all prior agreements. SSA officials told GAO that they briefly toured Mexican facilities, observed how its automated systems functioned, and identified the type of data maintained on Mexican workers. However, SSA provided no information showing that it assessed the reliability of Mexican earnings data and the internal controls used to ensure the integrity of information that SSA will rely on to pay social security benefits.

The proposed agreement will likely increase the number of unauthorized Mexican workers and family members eligible for social security benefits. Mexican workers who ordinarily could not receive social security retirement benefits because they lack the required 40 coverage credits for U.S. earnings could qualify for partial Social Security benefits with as few as 6 coverage credits. In addition, under the proposed agreement, more family members of covered Mexican workers would become newly entitled because the agreements usually waive rules that prevent payments to noncitizens' dependents and survivors living outside the United States.

The cost of such an agreement is highly uncertain. In March 2003, the Office of the Chief Actuary estimated that the cost of the Mexican agreement would be $78 million in the first year and would grow to $650 million (in constant 2002 dollars) by 2050. The actuarial cost estimate assumes the initial number of newly eligible Mexican beneficiaries is equivalent to the 50,000 beneficiaries living in Mexico today and would grow sixfold over time. However, this proxy figure does not directly consider the estimated millions of current and former unauthorized workers and family members from Mexico and appears small in comparison with those estimates. The estimate also inherently assumes that the behavior of Mexican citizens would not change and does not recognize that an agreement could create an additional incentive for unauthorized workers to enter the United States to work and maintain documentation to claim their earnings under a false identity. Although the actuarial estimate indicates that the agreement would not generate a measurable long-term impact on the actuarial balance of the trust funds, a subsequent sensitivity analysis performed at GAO's request shows that a measurable impact would occur with an increase of more than 25 percent in the estimate of initial, new beneficiaries. For prior agreements, error rates associated with estimating the expected number of new beneficiaries have frequently exceeded 25 percent, even in cases where uncertainties about the number of unauthorized workers were less prevalent. 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 in prior agreements.