United States General Accounting Office

GAO

Report to Congressional Requesters

September 2003

SOCIAL SECURITY

Proposed Totalization Agreement with Mexico Presents Unique Challenges

GAO

Accountability * Integrity * Reliability

GAO-03-993

September 2003

GAO
Accountability • Integrity • Reliability

Highlights

Highlights of GAO-03-993, a report to congressional requesters

SOCIAL SECURITY

Proposed Totalization Agreement with Mexico Presents Unique Challenges

Why GAO Did This Study

Totalization agreements foster international commerce, protect benefits for persons who have worked in foreign countries, and eliminate dual social security taxes that employers and their employees pay when they operate and reside in countries with parallel social security systems. 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, you asked GAO to (1) describe the Social Security Administration's (SSA) processes for developing the agreement with Mexico, (2) explain how the agreement might affect the payment of benefits to Mexican citizens, and (3) assess the cost estimate for such an agreement.

What GAO Recommends

GAO recommends that SSA (1) establish a formal process to identify and assess risks of proposed agreements, (2) make future reports to the Congress on these agreements more consistent and informative, and (3) work with the Office of the Chief Actuary to improve the cost estimates for agreements. SSA disagreed that additional processes were needed to assess risks, but it agreed that cost estimates should be more consistent and that it should regularly re-examine the accuracy of its estimates.

www.gao.gov/cgi-bin/getrpt?GAO-03-993.

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.

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) in 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 would 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.

Contents

Letter 1

Results in Brief 2
Background 3
SSA's Process for Developing Agreements Is Not Thorough or Well-Documented 6
Totalization Agreements Will Increase Benefit Payments to Mexican Citizens 7
Poor Data Undermine the Reliability of SSA's Cost Estimate 9
Conclusions 14
Recommendations 15
Agency Comments and Our Evaluation 16

Appendix I **Comparison of Totalized and Minimum Social Security Benefits** 20

Appendix II **Comments from the Social Security Administration** 21

Tables

Table 1: Existing Totalization Agreements between the United States and Other Countries and Year of Effective Date of the Original Agreements 5
Table 2: Precision of OCACT's Cost Estimates for 11 Prior Totalization Agreements 14
Table 3: Monthly Social Security Benefits Payable in 2003 at Different Earnings and Coverage Levels under a Totalization Agreement and Compared to the Minimum Benefit Payable 20

Abbreviations

INS	Immigration and Naturalization Service
NAFTA	North American Free Trade Agreement
OCACT	Office of the Chief Actuary
SSA	Social Security Administration

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

G A O
Accountability * Integrity * Reliability

United States General Accounting Office
Washington, DC 20548

September 30, 2003

The Honorable F. James Sensenbrenner, Jr.
Chairman
Committee on the Judiciary
House of Representatives

The Honorable E. Clay Shaw, Jr.
Chairman
Subcommittee on Social Security
Committee on Ways and Means
House of Representatives

Totalization agreements foster international commerce and protect benefits for persons who have worked in foreign countries in two ways. First, the agreements eliminate dual social security taxes that multinational employers and their employees must pay when they operate and reside in countries with parallel social security programs. Second, the agreements help to fill gaps in benefit protection for persons who have worked in different countries for portions of their careers. Since 1977, the United States has entered into 20 totalization agreements.

Over the last year, the United States has been negotiating a totalization agreement with Mexico that has received considerable attention among the media and others regarding its potential impacts. Because Mexicans represent a large share of the millions of unauthorized workers present in the United States, a totalization agreement with Mexico has raised concerns that many such workers would become newly eligible for social security benefits at a time when long-term trust fund solvency is threatened. To shed light on the possible impacts of such an agreement, you asked us to (1) describe the Social Security Administration's (SSA) processes for developing the proposed agreement with Mexico, (2) explain how the agreement might affect the payment of social security benefits to Mexican citizens, and (3) assess SSA's cost estimates for such an agreement.

To address these objectives, we reviewed existing totalization agreements and the laws governing them; interviewed and obtained key documentation from SSA, Department of State, and Mexican Embassy personnel; and reviewed a range of demographic data and estimates addressing Mexican immigration. We also examined SSA's actuarial cost

estimates and supporting documentation for the proposed Mexican agreement. We conducted our work between January and August 2003, in accordance with generally accepted government auditing standards.

Results in Brief

SSA has no written policies or procedures outlining the specific steps 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 said the process it used to develop the proposed totalization agreement with Mexico was the same as for prior totalization agreements. SSA officials told us that they briefly toured Mexican facilities, observed how their 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 Mexico uses to ensure the integrity of information that SSA will rely on to pay social security benefits.

The proposed agreement will increase the number of Mexican workers and family members eligible for social security benefits. Mexican workers who ordinarily could not receive 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 also become newly entitled because of the waiver of rules that prevent payment to noncitizens' dependents and survivors living outside the United States.

The cost of a totalization agreement with Mexico is highly uncertain. In March 2003, the Office of the Chief Actuary (OCACT) estimated that the cost of the Mexican agreement would be $78 million in the first year of the agreement and would grow to $650 million (in constant 2002 dollars) in 2050. SSA's 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. Although the actuarial estimate indicates that the agreement would not generate a measurable impact on the long-range actuarial balance of 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, 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 for the prior agreements.

This report recommends that SSA establish formal processes for entering into totalization agreements that include mechanisms to assess the risks associated with such agreements and to document the range of analyses SSA conducts. The report also recommends that reports of proposed agreements be enhanced to make them more consistent and informative and that SSA establish a regular process to reassess the accuracy of its actuarial estimates. SSA and the OCACT commented on this report. SSA said that the report did not sufficiently discuss the benefits of totalization agreements and that its current process for evaluating whether to enter into negotiations for totalization agreements was sufficient to identify and assess risks. Our report specifically notes that such agreements foster international commerce, protect benefits for persons who have worked in foreign countries, eliminate dual social security taxes, and foster enhanced diplomatic relations. With regard to SSA's current processes, we could find no specific references to SSA examining data reliability and program integrity. We are hopeful that SSA will conduct such examinations of the Mexican Social Security system before submitting a proposed agreement to the Congress for its review. OCACT generally agreed with our recommendations and noted that they are consistent with current practices. OCACT, however, took exception to the implication of our statement that its estimated cost was more likely to be understated than overstated. Our intent was not to imply that the OCACT estimate was biased. Accordingly, we have revised our report to state the very large difference between estimated and potential beneficiaries underscores the uncertainty of the estimate, and the potential costs of an agreement could be higher than OCACT projects. The full text of SSA's and OCACT's comments appears in appendix II. The State Department was also provided a copy of the draft report for review and advised us that it had no comments.

Background

SSA administers the Old Age, Survivors, and Disability Insurance programs under Title II of the Social Security Act. About 96 percent of the nation's work force is in social security-covered employment and pays tax on its

annual earnings. When workers pay social security taxes, they earn coverage credits, and 40 credits—equal to at least 10 years of work—entitle them to social security benefits when they reach retirement age.[1]

In 1977, the Congress authorized the President to enter into totalization agreements with other countries. These bilateral agreements are intended to accomplish three purposes. First, they eliminate dual social security coverage and taxes that multinational employers and employees encounter when they operate and their workers temporarily reside and work for the corporation, usually no more than 5 years, in a foreign country with its own social security program. Under the agreements, U.S. employers and their workers sent temporarily abroad would benefit by paying only U.S. social security taxes, and foreign businesses and their workers would benefit by paying only social security taxes to their home country. Second, the agreements provide benefit protection to workers who have divided their careers between the United States and a foreign country, but lack enough coverage under either social security system to qualify for benefits, despite paying taxes into both systems. Totalization agreements allow such workers to combine (totalize) work credits earned in both countries to meet minimum benefit qualification requirements. Third, most totalization agreements improve the portability of social security benefits by removing rules that suspend benefits to noncitizens who live outside the benefit-paying country.

By law, proposed agreements are sent to the Congress, which has 60 legislative days to review them. The agreements become effective unless either House of the Congress adopts a resolution of disapproval. Table 1 shows agreements in effect and the years they became effective.

[1]Different requirements govern the number of coverage credits necessary to receive disability and survivors benefits for workers who become disabled or die with relatively short work careers.

Table 1: Existing Totalization Agreements between the United States and Other Countries and Year of Effective Date of the Original Agreements

Countries	Year
Italy	1978
Germany	1979
Switzerland	1980
Belgium	1984
Norway	1984
Canada	1984
United Kingdom	1985
Sweden	1987
Spain	1988
France	1988
Portugal	1989
Netherlands	1990
Austria	1991
Finland	1992
Ireland	1993
Luxembourg	1993
Greece	1994
South Korea	2001
Chile	2001
Australia	2002

Source: SSA.

To qualify for totalized U.S. social security benefits, a worker must have at least 6 but no more than 39 U.S. coverage credits. Benefit amounts are based on the portion of time a foreign citizen worked in the United States, and thus, are almost always lower than full social security benefits. The average monthly, totalized social security benefit at the end of 2001 was $162, compared with the average nontotalized monthly social security benefit of $825. In 2001, SSA paid about $173 million under totalization agreements to about 89,000 persons, including their dependents. (Appendix I compares the amount of U.S. totalized benefits for different coverage credits and earnings levels with a minimum benefit that would be paid to a worker with 40 credits.)

Under U.S. law, immigrants may not work in the United States unless specifically authorized. Nevertheless, immigrants often do work without authorization and pay social security taxes. Under the Social Security Act,

all earnings from covered employment in the United States count towards earning social security benefits, regardless of the lawful presence of the worker, his or her citizenship status, or country of residence. Immigrants become entitled to benefits from unauthorized work if they can prove that the earnings and related contributions belong to them. However, they cannot collect such benefits unless they are either legally present in the United States or living in a country where SSA is authorized to pay them their benefits. Mexico is such a country.

SSA's Process for Developing Agreements Is Not Thorough or Well-Documented

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.

Current law does not prescribe how SSA should select potential agreement countries. According to SSA, interest in a Mexican agreement dates back more than 20 years. SSA officials noted that increased business interaction between the two countries due to the North American Free Trade Agreement (NAFTA) was a factor in the renewed negotiations. In addition, because there is a totalization agreement with Canada, our other NAFTA partner, SSA believed that equity concerns required consideration of an agreement with Mexico. In February 2002, SSA sought clearance from the Department of State to begin such negotiations.

The law also does not specify which elements of other countries' social security systems must be evaluated during totalization agreement negotiations. SSA officials met with Mexican officials to exchange narrative information on their respective programs. Senior SSA officials also visited Mexico for 2 days in August 2002. During their visit, these officials told us that they toured social security facilities, observed how Mexico's automated social security systems functioned, and identified the type of data maintained on Mexican workers. SSA took no technical staff on this visit to assess system controls or data integrity processes. In effect, SSA only briefly observed the operations of the Mexican social security program. Moreover, SSA did not document its efforts or perform any additional analyses then, or at a later time, to assess the integrity of Mexico's social security data and the controls over that data. In particular,

SSA officials provided no evidence that they examined key elements of Mexico' s program, such as its controls over the posting of earnings and its processes for obtaining key birth and death information for Mexican citizens. Nor did SSA evaluate how access to Mexican data and records is controlled and monitored to prevent unauthorized use or whether internal and external audit functions exist to evaluate operations.

Because all totalization agreements represent a financial commitment with implications for social security tax revenues and benefit outlays, a reasonable level of due diligence and analysis is necessary to help federal managers identify issues that could affect benefit payment accuracy or expose the nation's system to undue risk. Our Internal Control Management and Evaluation Tool provides a risk assessment framework to help federal managers mitigate fraud, waste, abuse, and mismanagement in public programs, such as social security. A key component of this framework is the identification of internal and external risks that could impede the achievement of objectives at both the entity and program levels. Identified risks should then be analyzed for their potential effect and an approach devised to mitigate them.

SSA did not conduct these types of analyses in previous agreements or in the case of the proposed Mexican agreement, despite documented concerns among Mexican government officials and others regarding the integrity of Mexico's records, such as those for birth, death, and marriage, as well as its controls over assigning unique identification numbers to workers for benefit purposes. Such information will likely play a role in SSA's ability to accurately determine Mexican workers' initial and continuing eligibility for benefits under a totalization agreement.

Totalization Agreements Will Increase Benefit Payments to Mexican Citizens

A totalization agreement with Mexico will increase the number of Mexican citizens who will be paid U.S. social security benefits in two ways. First, the agreement will make it easier for Mexican workers to qualify for benefits. Second, it will remove some nonpayment restrictions that affect benefit payments to non-U.S. citizens' family members residing in another country, thus providing U.S. social security benefits to more survivors and dependents of entitled Mexican workers.

Under current law, a worker must earn sufficient coverage credits to qualify for benefits under the U.S. Social Security program. For example, a worker who was born in 1929 or later generally needs 40 coverage credits to be insured for retirement benefits. Credits are based on a worker's annual earnings in social security-covered employment. At most, 4 credits can be earned per year so that it takes at least 10 years of covered earnings

in the United States for a worker to accumulate the necessary 40 credits and become insured for retirement benefits.

Currently, social security credits are earned by anyone who has worked in covered employment in the United States. This is true even if the person was unauthorized to work when he or she earned coverage credits. For example, noncitizens, including Mexicans, who are at least 62 years old and lawfully present in the United States, will receive retirement benefits today as long as they meet the coverage credit threshold. Even Mexican citizens who are not lawfully present in this country can receive social security benefits earned through unauthorized employment if they later return to live in Mexico. Similarly, under current law, noncitizen dependents and survivors can also receive social security benefits under some circumstances.

Totalization agreements generally expand benefits to both authorized and unauthorized workers and create new groups of beneficiaries. This would be the case for a totalization agreement with Mexico if it follows the same pattern as all prior totalization agreements. Mexican citizens with fewer than 40 coverage credits will be permitted to combine their annual earnings under their home country's social security program with their annual earnings under the U.S. Social Security program to meet the 40-credit requirement.[2] In addition, more family members of covered workers will qualify for dependent and survivor benefits. Totalization agreements generally override Social Security Act provisions that prohibit benefit payments to noncitizens' dependents and survivors who reside outside the United States for more than 6 months, unless they can prove that they lived in the United States for 5 years in a close family relationship with the covered worker. If a totalization agreement with Mexico is structured like others already in force, the 5-year rule for dependents and survivors will be waived.

However, it is important to understand that not all unauthorized Mexican citizens who have worked in the United States will receive totalization benefits. Some will have earned at least 40 coverage credits and can receive social security benefits without a totalization agreement. Still others may have worked under false identities and may not be able to

[2]Under an agreement, U.S. citizens will also be able to receive totalized Mexican benefits. The amount of time needed to qualify for Mexican social security benefits is about 9.6 years under the former pay-as-you-go plan that closed in July 1997 and 24 years under the defined contribution plan that replaced it.

prove that they have the necessary coverage credits to be entitled to benefits. Others still may not accumulate sufficient credits under the Mexican social security system to totalize with their U.S. social security coverage.

Poor Data Undermine the Reliability of SSA's Cost Estimate

The cost of a totalization agreement with Mexico 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 $650 million (in constant 2002 dollars) in 2050. SSA's actuarial cost estimate assumes the initial number of newly eligible Mexican beneficiaries was equivalent to the 50,000 beneficiaries living in Mexico today and would grow sixfold over time. However, this proxy figure is not directly related to the estimated millions of current and former unauthorized workers and their family members from Mexico and appears small in comparison to those estimates. Furthermore, even if the baseline estimate is used, a sensitivity analysis performed by OCACT shows that an increase of more than 25 percent—or 13,000 new beneficiaries—would produce a measurable impact on the long-range actuarial balance of the trust funds. Our review of cost estimates for prior totalization agreements shows that the actual number of beneficiaries has frequently been underestimated and far exceeded the original actuarial estimates.

Actuarial Estimates Are Based on Varied Data Sources

OCACT develops estimates of expected costs of totalization agreements by analyzing pertinent data from prior agreements, work visas issued, foreign corporations operating in the United States, and U.S. Census data. Because of extensive unauthorized immigration from Mexico, OCACT concluded that U.S. Census data, that would typically be used to estimate the number of new beneficiaries under an agreement, were not reliable.

Instead, OCACT used the number of fully insured beneficiaries—U.S. citizens and others living in Mexico—currently receiving U.S. social security benefits as a proxy for the number of Mexican citizens who would initially receive totalized benefits. The principal basis for this assumption was a 1997 study of Mexican immigration patterns conducted by a private nonprofit organization.[3] This study indicated that the percentage of Mexican immigrants who returned to Mexico after more than 10 years and,

[3]Belinda I. Reyes, *Dynamics of Immigration: Return Migration to Western Mexico*, Public Policy Institute of California, January 1997.

therefore, could qualify for benefits is roughly equal to the percentage that returned after staying 2 to 9 years and would not have the required credits. Thus, OCACT assumed that the potential totalized initial new beneficiaries would be equivalent to the 50,000 persons currently receiving benefits in Mexico.

For the proposed Mexican agreement, both a short-term (covering the first 8 years of the agreement) and a long-term (covering 75 years) cost estimate were developed.[4] The estimated cost to the Social Security Trust Funds would be about $78 million in the first year of the agreement. For the long-term cost estimate, OCACT projected that the number of beneficiaries would ultimately increase sixfold to 300,000 over a 45-year period after the agreement took effect and equal about $650 million (in constant 2002 dollars) in 2050. However, the actuarial analysis notes that the methodology was indirect and involved considerable uncertainty.

As a rough check on the reasonableness of using current beneficiaries in Mexico for its cost estimate, OCACT analyzed totalized beneficiary data for Canadian citizens because Canada, like Mexico, is a NAFTA trading partner and shares a large contiguous border. After determining the ratio of Canadians receiving totalized versus fully insured benefits, OCACT applied this ratio to the number of Mexican-born U.S. social security beneficiaries and found that about 37,000 beneficiaries would be expected under the agreement initially, if the Canadian experience proves predictive of the Mexican outcome. According to OCACT, this comparison increased its confidence that the assumed 50,000 new beneficiaries under the agreement was within a reasonable range.

Estimated Cost of Mexican Agreement Is Highly Uncertain

Limited data about unauthorized workers make any estimate of the expected costs of a Mexican totalization agreement highly uncertain. A significant variable of any totalization agreement cost estimate is the identification of the number of potential beneficiaries. Estimates of the number of unauthorized Mexican immigrants living in the United States

[4]For prior agreements with other countries, the OCACT developed only short-term estimates covering periods ranging from 1 to 5 years because it was determined that the number of expected beneficiaries were too few to have a measurable cost impact on the long-range actuarial balance of the trust funds.

vary[5] The federal government's estimate was published in January 2003 and comes from the former Immigration and Naturalization Service (INS)[6] INS estimated that, as of January 2000, about 5 million, or 69 percent of all unauthorized immigrants in the United States, were from Mexico. INS's estimate also indicated that this figure was expected to increase by about 240,000 persons annually.

The INS estimate, however, does not include unauthorized Mexican workers and family members who no longer live in the United States and could also conceivably benefit from a totalization agreement. Economic disparity between the United States and Mexico has fostered longstanding immigration from Mexico to the United States dating back many decades. Various studies also show that fewer than a third of Mexican immigrants stay more than 10 years in the United States, the minimum amount of time needed to qualify for social security retirement benefits.[7] For cost analysis purposes, little is known about the population of former immigrants who have returned to Mexico in terms of their age, work history, dependents, and social security coverage. These factors increase the inherent uncertainty of any long-range forecasts with regard to Mexico. It is under this backdrop that OCACT set about developing an estimate of the costs of the potential totalization agreement.

We have several concerns about OCACT's estimate of the number of expected beneficiaries and cost of an agreement with Mexico. First, the use of the 50,000 fully insured beneficiaries receiving benefits in Mexico as a proxy for individuals who might initially benefit from an agreement, does not directly consider the estimated millions of unauthorized Mexican immigrants in the United States and Mexico who are not fully insured and might receive totalized benefits. Furthermore, despite the availability of key data about earnings, work histories, years of employment, and dependents for the 50,000 fully insured beneficiaries, OCACT did not analyze this population to determine whether they represented a good

[5]For example, the Pew Hispanic Center estimated that there are between 3.4 and 5.7 million unauthorized Mexican citizens in the United States and the Urban Institute has estimated that there are more than 4 million.

[6]In March 2003, INS functions were transferred to the Department of Homeland Security. Responsibility for deriving these estimates now lies with the Under Secretary Management, Office of Immigration Statistics.

[7]Reyes (1997), p. 13 lists several studies that document the temporary and circular nature of Mexican migration to the United States.

proxy for individuals likely to qualify for totalized benefits. The cost estimate also inherently assumes that the behavior of Mexican citizens would not change after a totalization agreement goes into effect. Under totalization, unauthorized workers would have an additional incentive to enter the United States to work and to maintain the appropriate documentation necessary to claim their earnings under a false identity. Thus, a large number of Mexican citizens have likely earned some social security coverage credits through both authorized and unauthorized work to meet the 40-credit threshold requirement and are not directly accounted for in SSA's estimate.

Second, SSA's reasonableness check using Canadian data faces similar questions. While Mexico and Canada are NAFTA partners and share a common border with the United States, there is a dramatic difference in the extent of unauthorized immigration from these two countries and, in our view, the Canadian experience is not a good predictor of experience under an agreement with Mexico. Recent INS data show that Mexican citizens account for about 69 percent of unauthorized U.S. immigrants, whereas Canadian citizens account for less than 1 percent, and all other totalization agreement countries combined account for less than 3 percent. It is this population of unauthorized immigrants that makes estimating the cost of a totalization agreement with Mexico particularly problematic.

Finally, even though SSA's actuarial analysis increases the number of beneficiaries sixfold over time, the expected 300,000 beneficiaries in 2050 represents only about 6 percent of the estimated number of unauthorized Mexicans in the United States today, and thus appears relatively low. Although it would be unreasonable to expect all unauthorized Mexicans in the United States to qualify for totalized benefits, the very large difference between estimated and potential beneficiaries underscores the uncertainty of the estimate and the potential costs of an agreement could be higher than OCACT projects.

Indeed, it would take only a relatively small increase in new beneficiaries from the original actuarial assumption of 50,000 initial new beneficiaries to have a measurable impact on the long-range actuarial balance of the trust funds. OCACT has estimated that the agreement would not generate a measurable impact on the long-range actuarial balance. However, a subsequent sensitivity analysis performed at our request shows that a measurable impact on the long-range actuarial balance of the trust funds will occur if the baseline figure is underestimated by more than 25 percent—just 13,000 additional beneficiaries above the estimated 50,000 new beneficiaries.

Our analysis of past actuarial estimates of expected beneficiaries under totalization agreements shows that exceeding the 25 percent threshold has not been unusual, even in agreements where uncertainty about the number of unauthorized workers is substantially less.[8] Our review of prior estimates shows that OCACT frequently either overestimated or underestimated the number of expected beneficiaries, usually by more than 25 percent (see table 2). In fact, where underestimates occurred, the differences were huge, involving several orders of magnitude. However, it is important to note that the number of estimated beneficiaries for prior agreements is substantially smaller than for the proposed Mexican agreement. Therefore, the differences in actual beneficiaries from estimated beneficiaries have a higher proportional impact. Furthermore, OCACT has not underestimated the number of expected beneficiaries for the agreements we analyzed since the 1991 agreement with Austria. Nevertheless, the numerous uncertainties and data gaps associated with the Mexican agreement elevate the risks associated with any cost estimate.

[8]OCACT staff told us that it would be best to look at precision of past estimates by comparing the estimated number of beneficiaries for the last year of the estimate with actual data for that same year. We were able to make this comparison for 11 countries.

Table 2: Precision of OCACT's Cost Estimates for 11 Prior Totalization Agreements

Country	Effective year of agreement	Beneficiaries		Percent actual beneficiaries is greater/(less) than estimated beneficiaries
		Estimated	Actual	
United Kingdom	1985	3,500	2,084	(40)
Sweden	1987	100	211	111
Spain	1988	300	377	26
France	1988	200	968	384
Portugal	1989	100	701	601
Netherlands	1990	100	310	210
Austria	1991	100	314	214
Finland	1992	100	38	(62)
Luxembourg	1993	40	12	(70)
Ireland	1993	1,100	515	(53)
Greece	1994	1,000	918	(8)

Source: GAO analysis.

Note: Actual data were not available for years prior to 1987 so comparisons for six earlier agreements could not be made. Also, comparison could not be made for the three recent agreements.

Conclusions

Totalization agreements between the United States and other countries often foster enhanced diplomatic relations and provide mutually beneficial business, tax, and other incentives to employers and employees affected by these agreements. At the same time, the agreements impose a financial cost to both countries' social security programs. SSA's processes for entering into these agreements have been informal and have not included specific steps to assess and mitigate potential risks. Regardless of the country under consideration, sound management practices dictate that SSA managers have a risk management process in place to ensure that the interests of the United States and the Social Security Trust Funds are protected.

Most totalization agreements have been with countries that are geographically distant to the United States, have developed economies, and represent only a fraction of the estimated unauthorized immigrants in the United States. Still, all agreements include some level of uncertainty and require due diligence on SSA's part to alleviate those uncertainties. An agreement with Mexico, however, presents unique and difficult challenges for SSA because so little is known about the size, work history, earnings,

and dependents of the unauthorized Mexican population. Furthermore, a common border and economic disparity between the United States and Mexico have fostered significant and longstanding unauthorized immigration into the United States, making an agreement with Mexico potentially far more costly than any other. Thus, for the Mexican agreement, additional analyses to assess risks and costs may be called for.

A revised approach for entering into totalization agreements with all countries would enhance the quality of information provided to the Congress, which is tasked with reviewing these vital long-term commitments. A more thorough prospective analysis will also provide a better basis for determining whether agreements under consideration meet the mutual economic and business needs of all parties. Finally, current solvency issues require the Congress to think carefully about future trust fund commitments resulting from totalization agreements. Having more timely and complete information on the benefits, costs, and risks associated with each agreement can only serve to better inform their decisions.

Recommendations

In light of the potential impact of totalization agreements on the Social Security Trust Funds, we recommend that the Commissioner of Social Security

- establish a formal process to identify and assess the major risks associated with entering into agreements with other countries. Such a process should include mechanisms to assess the integrity of a country's retirement data and records, as well as a means for documenting the range of analyses conducted by SSA;
- enhance future reports to the Congress for proposed totalization agreements with other countries by making them more consistent and informative. Such reports should include consistent time periods for estimating both the short- and long-term effects on the trust fund and, as appropriate, include data on how alternative assumptions or sensitivity analyses could affect costs and potential beneficiaries; and
- work with the Office of the Chief Actuary to establish a regular process that examines original projected costs and beneficiaries affected versus what actually transpired over time and use this information, as appropriate, to adjust future estimating methods for totalization agreements.

Agency Comments and Our Evaluation

We obtained written comments on a draft of this report from the Commissioner of SSA, as well as OCACT. The full texts of these comments are reproduced in appendix II. We made limited changes to the report as appropriate. The State Department was also provided a copy of the draft report for review and advised us that it had no comments.

SSA said that the report did not sufficiently discuss the benefits of totalization agreements to U.S. workers and employers and disagreed with our recommendation that the agency establish a formal process to identify and assess the major risks associated with entering into agreements with other countries. The agency noted that its current informal process for evaluating whether to enter into negotiations for totalization agreements was sufficient to identify and assess risks.

Regarding the potential benefits of totalization agreements, our report specifically notes that such agreements foster international commerce, protect benefits for persons who have worked in foreign countries, and eliminate dual social security taxes for multinational employers and employees. Our concluding remarks also note that totalization agreements often foster enhanced diplomatic relations between participating countries. However, these agreements also have costs to the U.S. social security system, and we continue to believe that SSA should take steps to assess and mitigate risk during the negotiation process rather than after an agreement is signed.

SSA also noted that it has specific criteria it follows when deciding whether to enter into totalization agreements with other countries and that the agency received detailed information on Mexico's social security system during its 2-day visit to Mexico City. In reviewing SSA's criteria, we could find no specific reference to data reliability and program integrity as a factor in negotiations. Further, our review of the activities surrounding SSA's visit to Mexico and the limited documentation SSA received from Mexican social security officials shows that data integrity issues and systems controls were not sufficiently examined. In its comments, SSA notes that it is currently in the process of scheduling additional visits to Mexican facilities outside of Mexico City and will utilize SSA technical staff to further examine Mexico's social security system. We are hopeful that—prior to submitting a proposed agreement with Mexico—SSA will take additional steps to assess key data it will rely on to determine Mexican worker's initial and continuing eligibility for U.S. totalized benefits and that it will sufficiently document its efforts. Enhancing its due diligence efforts and formalizing this process to include all future totalization agreements would further improve SSA's risk assessment efforts.

OCACT generally agreed with our recommendations that cost estimates for future totalization agreements should be more consistent and informative and that such agreements should be regularly analyzed to examine the differences between original projections and actual experience as an aid to making better estimates. OCACT noted that, consistent with the U.S./Mexican totalization agreement, all future potential agreements would include both long-range (75 year) and short-range (10 year) cost projections. OCACT also noted that regularly examining the differences between original projections and actual experience for future totalization agreements made sense and was consistent with current practice. Although we could find no evidence during our review that such analyses had occurred on a systematic basis, we are pleased to hear that such analyses are now being done and are hopeful that OCACT will both complete them in the future and document and make available the results.

Both SSA and OCACT disagreed with our analysis and conclusions regarding the estimates of the potential cost of a totalization agreement with Mexico, as well as our statement that any difference between estimated and actual costs will be on the high side. OCACT noted that, given the relative uncertainty of the data, this outcome is possible, but that our statement inaccurately implied that there was evidence that OCACT estimates are more likely to be understated than overstated. OCACT went on to note that a number of factors suggest that OCACT's estimate of 50,000 new beneficiaries, which will increase sixfold to 300,000 by 2050, could indeed be too high.

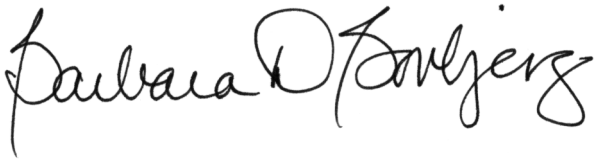
Our intent was not to imply that OCACT's estimate was biased. Thus, we have revised our report to state that, given the large disparity between the estimated beneficiaries and the large number of undocumented Mexican workers, the potential cost of an agreement could be higher than OCACT projects. However, we continue to believe that a totalization agreement with Mexico is both qualitatively and quantitatively different than any other agreement signed to date, especially regarding estimating the potential impact of millions of unauthorized workers and their families. Thus, in assessing the risks of a totalization agreement with Mexico, we believe it is important to discuss the potentially significant impact that any underestimate of beneficiaries could have on the Social Security Trust Funds. As table 2 shows, error rates associated with SSA's estimates of potential beneficiaries under prior agreements have often been substantial, even in cases where uncertainties about the number of unauthorized workers were less prevalent. OCACT's comment that "taken as a whole" its estimate of initial beneficiaries differs from actual initial beneficiaries by only 3 percent is misleading because it nets overestimates

against underestimates. OCACT prepares estimates of initial beneficiaries for each proposed agreement with an individual country. Thus, any comparison of estimated to actual initial beneficiaries should be on a country-by-country basis, rather than by aggregating the error rates for all agreements.

Finally, in response to our concern that the OCACT's original baseline estimate of 50,000 first-year totalization beneficiaries did not directly consider millions of current and former unauthorized Mexican workers, OCACT said that this estimate was based on the best available data. OCACT's comments also included excerpted text from the original estimate in order to illustrate the analyses and assumptions that supported using the 50,000 individuals already receiving Old-Age, Survivors, and Disability Insurance benefits in Mexico as a proxy for potential totalization beneficiaries. We acknowledge the data limitations facing OCACT as well as its good faith effort to reasonably estimate the costs of a totalization agreement with Mexico. However, based on our audit work—which involved a thorough review of the full text of the actuarial estimate, numerous in-depth interviews with OCACT officials to discuss issues of concern, and regular consultation with our own Chief Actuary—it seems reasonable to examine all sources of data and address the estimates of unauthorized Mexican immigrants directly to provide a more complete picture of possible outcomes from an agreement with Mexico. We continue to believe that, given the magnitude of the proposed Mexican agreement relative to other totalization agreements, it is not unreasonable to expect that OCACT should develop and use a variety of approaches to estimate potential costs and perhaps develop a range of cost estimates based on those data sources and alternative assumptions. Such efforts would better serve the information needs of the Congress in the event that an agreement is ultimately submitted for its review.

We are sending copies of this report to the House and Senate committees with oversight responsibilities for the Social Security Administration. We will also make copies available to other interested parties upon request. In addition, the report will be available at no charge on GAO's Web site at http://www.gao.gov. If you or your offices have any questions concerning this report, please call me or Daniel Bertoni, Assistant Director, on

(202) 512-7215. Other major contributors to this report are Patrick Dibattista, Gerard Grant, Daniel Schwimer, William Staab, and Paul Wright.



Barbara D. Bovbjerg
Director, Education, Workforce,
and Income Security Issues

Appendix I: Comparison of Totalized and Minimum Social Security Benefits

Table 3: Monthly Social Security Benefits Payable in 2003 at Different Earnings and Coverage Levels under a Totalization Agreement and Compared to the Minimum Benefit Payable

	Monthly totalized social security retirement benefit for the credits earned			
Social security earnings level[a]	**8 credits**	**20 credits**	**36 credits**	**Monthly social security benefit with 40 credits earned**
Low earnings	$39.00	$99.00	$178.00	$296.00
Average earnings	$65.00	$163.00	$294.00	$561.00
High earnings	$85.00	$212.00	$382.00	$702.00
Maximum earnings	$94.00	$237.00	$427.00	$899.00

Source: Office of International Programs, SSA.

[a]A low earnings level equals 45 percent below the national average wages for each year. An average earnings level equals the national average wages for each year. A high earnings level equals 60 percent above the national average wages for each year. A maximum earnings level equals the maximum taxable amount of covered earnings for each year.

Appendix II: Comments from the Social Security Administration

SOCIAL SECURITY
The Commissioner

September 15, 2003

Ms. Barbara D. Bovbjerg
Director
Education, Workforce, and
Income Security Issues
US General Accounting Office
Washington, DC 20548

Dear Ms. Bovbjerg:

Thank you for the opportunity to review and comment on the preliminary draft report "Social Security: Proposed Agreement with Mexico Presents Unique Challenges" (GAO-03-993). Our comments on your report are enclosed. Staff questions may be directed to Martin H. Gerry, Deputy Commissioner for Disability and Income Security Programs on 410-965-0100.

Sincerely,

Jo Anne B. Barnhart

Enclosure

SOCIAL SECURITY ADMINISTRATION BALTIMORE MD 21235-0001

Comments of the Social Security Administration (SSA) on the General Accounting Office's (GAO) Draft Report "Social Security: Proposed Agreement with Mexico Presents Unique Challenges" GAO-03-993

General Comment

SSA was surprised and disappointed to see that GAO's draft report made no mention of the considerable benefits of totalization agreements to U.S. employees and employers. Under the existing 20 totalization agreements, U.S. workers and their employers save more than $800 million in foreign taxes. In contrast, under those same agreements, tax savings for foreign workers and their employers total only about $200 million. Without totalization, the combined social security tax rate that U.S. employees and employers must pay often approaches 40 percent or more of total payroll.

The GAO report includes two basic criticisms of SSA's preliminary work on a possible agreement with Mexico. The first relates to SSA's process of determining whether to enter into totalization agreements with any nation, and, specifically, with the methodology for evaluating Mexico's ability to manage an agreement with the U.S. The second concerns projections prepared by SSA's independent Office of the Chief Actuary (OACT). We are concerned that the draft report omits important information and includes a number of instances of misinterpreted data. We are particularly troubled by the draft report's flawed analysis of the OACT cost estimates and the processes by which they were derived. The Chief Actuary's comments on the draft report, which are included as an attachment to this report, provide information about how OACT derived its cost estimates and GAO's misunderstandings of OACT's methods and assumptions.

SSA's Process of Developing Totalization Agreements

The draft report questions the extent to which SSA has identified criteria for determining whether to enter into negotiations for a totalization agreement. SSA's criteria were first enunciated in 1978 in response to questions posed by the Social Security Subcommittee of the Ways and Means Committee, and have been followed for all negotiations since that time. The following are the major criteria that we use:

- Whether the other country has a system that meets the requirements in Section 233 of the Social Security Act (a system of general application that pays periodic benefits or the actuarial equivalent on account of death, old age or disability);
- Costs to the trust funds;
- The number of and cost savings to U.S. employers and workers who would benefit from the elimination of dual taxes;
- The interest of the other country in negotiating an agreement;
- The ability of the other country to administer an agreement; and,
- Input from other U.S. Government agencies such as the Department of State and the Office of the U.S. Trade Representative.

2

SSA's Analysis of Mexico's Ability to Administer a Totalization Agreement

The draft report questions whether SSA exercised due diligence in identifying and analyzing risks that could impede SSA's ability to accurately determine Mexican workers' initial and continuing eligibility for benefits under a totalization agreement. In its criticism, GAO cites the length of a visit by senior SSA officials to Mexico City in August 2002 to assess Mexico's ability to effectively administer an agreement.

SSA participants in meetings with Mexican social security officials included two senior officials well versed in SSA operations as well as senior policy officials. The purpose was to exchange information on the two countries' social security systems and particularly to examine Mexico's ability to implement an agreement. Among the topics on which the SSA delegation received detailed information were:

- Agency organization
- Description of types of benefits provided and tax rates
- Claims processes
- Evidentiary standards
- Coverage of workers inside and outside of their respective countries (including Mexico's old and new privatized system)
- Enumeration and earnings records
- Experience under their existing agreements (Mexico has only two - Canada and Spain).

Mexican officials demonstrated their processes, including:

- Their electronic system for storing all earnings records under a single identifier like our SSN. The system, expected to be complete by December 2003, will include all coverage records under both the old and new systems. Mexico has also started enumeration at birth.
- The speed and accuracy with which they can retrieve and verify an individual's records
- The method employers use to register employees under the Mexican system. The delegation watched an employer registering several employees.
- How claims are processed and records stored
- Controls by which more than one individual is involved in the claims process to reduce the possibility of employee fraud.

At the conclusion of the August meetings, both countries' representatives agreed to further examination of each other's organization and systems. We are in the process of scheduling additional visits to Mexican facilities outside Mexico City. Participants at these meetings will include technical experts from SSA's Office of Systems, as well as experts in the agency's policy and operations.

Further, a totalization agreement would involve the development of an administrative agreement that details arrangements necessary to implement the totalization agreement.

3

It should also be noted that the totalization agreements now in effect contain a standard provision that allows each side to determine the probative value of any documents provided by the other nation. We have on occasion applied other requirements. (For example, we require additional evidence of date of birth for claimants who were born in Greece.) With regard to Mexico's coverage records, we would be free to develop other factors and evidentiary requirements (e.g., date of birth) following our own rules and regulations if we found that to be necessary.

GAO Recommendation

The draft report recommends establishing a formal process to identify and assess the major risks associated with entering into agreements with other countries. As discussed above, we believe that our process for evaluating whether to enter into negotiations for totalization agreements are sufficient to identify and assess risks—and that they allow for differences in circumstances from one nation to another.

Certainly, SSA would not complete a totalization agreement with Mexico or any other nation without having thoroughly assessed risks involved, and resolved all major issues, and—most importantly—whether it is in the interest of the U.S., its workers, and its employers.

SOCIAL SECURITY

MEMORANDUM

Date: September 11, 2003 Refer To: **TCA**

To: Jo Anne B. Barnhart
Commissioner

From: Stephen C. Goss
Chief Actuary

Subject: Comments on GAO Draft Report "Proposed Totalization Agreement with Mexico Presents Unique Challenges"

The draft report from Barbara D. Bovberg to the Chairmen of the Committee on the Judiciary, and the Subcommittee on Social Security, Committee on Ways and Means, House of Representatives provides assessments of two areas of work by the Social Security Administration. First, the GAO provides a critical assessment of the process by which the Social Security Administration has explored the possibility of entering into an agreement with Mexico. Second, the GAO provides a critical assessment of the estimates produced by the Office of the Chief Actuary, concluding that "... any difference between estimated and actual costs will be on the high side." Regarding these estimates, the GAO recommends expanded cost estimates with sensitivity analysis, and adjustment of estimating methods to reflect past experience.

This memorandum addresses the GAO assessment of and recommendations for estimates made by the Office of the Chief Actuary (OCACT). We are in agreement with the spirit of the two recommendations, and in fact believe that they are consistent with current practice. However, we do not agree with the assessment that the specific estimates of the expected number of persons that would receive a totalized benefit from the United States Social Security program are more likely to be too low than too high.

General Comments on OCACT Estimates

As presented in our March 10, 2003 memorandum[1] (which was provided to the GAO), the estimated financial effects of any proposed agreement consists of the effects on contribution income due to exemptions from dual payroll taxation provided by the agreement, as well as the effects on program benefit outlays due to the provision for totalized benefits (benefits based on a combined earnings record from the two countries entering into the agreement). In addition, there can be additional effects on benefits from special aspects of a particular agreement. For example,

[1] "Estimated Financial Effects of a Proposed Totalization Agreement Between the United States and Mexico on Their Respective Social Security Programs," by Chris Chaplain.

in the potential Mexican agreement there is a provision that would eliminate the current 5-year residency requirement for the payment of benefits to dependents and survivors who are non-resident non-citizens.

The March 10, 2003 OCACT memorandum cited above states clearly that there is a great deal of uncertainty surrounding every aspect of estimates for totalization agreements. (This point is restated several times by the GAO.) This should not be surprising given the fact that any proposed totalization agreement involves aspects of international commerce for which there is often little relevant recorded experience. This is especially true in the case of the potential agreement with Mexico given the proximity of our two countries and the past history of legal and other-than-legal immigration between Mexico and the U.S. It should be understood, however, that the OCACT always attempts to provide unbiased estimates; this means that actual experience is expected to be equally likely to be higher or lower than estimated.

Comments on GAO Recommendations Regarding Cost Estimates

Page 14 of the GAO report makes two recommendations regarding cost estimates for future potential or proposed totalization agreements. Both of these recommendations make sense and are consistent with current practice.

The first recommendation suggests making estimates "more consistent and informative", including both "short- and long-term effects on the trust funds" and "data on how alternative assumptions or sensitivity analyses could affect costs and potential beneficiaries". Historically, estimates for totalization agreements made by the OCACT have consistently reflected expected changes in cost and income over the first 5 years after implementation. Due to the potential magnitude of the effects of an agreement with Mexico, the OCACT produced estimates that would extend through the short-range (10-year) projection period of the 2002 Trustees Report, as well as estimates for the potential effects through the long-range (75-year) projection period. The OCACT plans to continue providing long-range, as well as short-range estimates for future potential agreements. The OCACT has also developed methods for providing illustrations of potential variation in cost estimates for future potential totalization agreements. We agree with the GAO that these developments will provide further valuable information to policymakers.

The second recommendation suggests that the OCACT should regularly examine the differences between original projections and actual subsequent experience, as an aid to making better estimates in the future. This well describes the process by which the OCACT has continually modified and updated estimating methods throughout the history of the Social Security Program. In the case of potential totalization agreements, OCACT estimates are based generally on relationships between data that are known before an agreement is implemented and the actual effects after implementation of agreements put into effect in past years. These relationships, derived from past experience, are used to make projections for proposed agreements. Thus, with each passing year of actual experience, the base of data available is expanded and OCACT estimating methods are updated and improved. While this practice will continue, it cannot eliminate possible variation across countries in terms of the relationship between data known before implementation of an agreement and the effects recorded after implementation.

Comments on GAO Assessment of OCACT Estimates for a Potential Totalization Agreement with Mexico

In their discussion of OCACT estimates, the GAO focuses on the estimated number of individuals that would become eligible for "totalized benefits" from the OASDI program under the potential agreement. The OCACT has estimated that about 50,000 individuals would be receiving OASDI totalized benefits now if a totalization agreement were currently fully in place between the United States and Mexico. This estimate was based on the best available data and includes potential benefits for both documented and undocumented workers in the U.S in the past. As past experience has shown, some time is needed after initial implementation of an agreement for this potential number of beneficiaries to "phase in" to maturity. Thus, this expected number of totalized beneficiaries is projected to be realized several years after implementation. Moreover, due to significant increases in immigration and visas in recent years, the OCACT has projected an unprecedented increase in this number to a level six times as large by 2050. The balance of this memorandum deals explicitly with the basis for this estimate and GAO's concerns.

The GAO has concluded on page 11 of their report that "actual costs will be on the high side" of estimates made by the OCACT. Given the uncertainty of the estimate, this outcome is, of course, possible. However, we do not believe that it is accurate to suggest that that there is evidence to imply that the OCACT estimates of benefit cost are more likely to be understated than to be overstated. In fact there are several aspects of the estimate that suggest tendencies for the estimated cost to be too high. These were discussed with GAO staff but were not mentioned in their report. These aspects include the following. First, the number of individuals estimated currently at 50,000, rising to 300,000, actually reflects the number of individuals who might be eligible for totalized benefits on the basis of having earned from 6 to 39 "quarters of coverage" for the OASDI program from work in the United States. This estimate was not reduced to reflect the fact that not all of these individuals would have enough additional earnings credits from work in Mexico to actually qualify for an OASDI totalized benefit. Thus, the estimated number of such beneficiaries might have a tendency to be overstated. Second, comparisons with the experience from the agreement with Canada suggest the estimate of 50,000 potential totalized beneficiaries under an agreement with Mexico may be too high. Third, the number of Mexican temporary workers working for a Mexican firm in the U.S. who would stop paying taxes to the OASDI program could well be overstated given the relatively small number of Mexican corporations with operations in the United States. Fourth, in estimates of the number of alien dependents and survivors who would become newly eligible for benefits upon ratification of a totalization agreement, OCACT assumed that, in addition to the number of individuals currently on the rolls in suspense status, an additional 20 percent would be induced to apply for benefits. This number, we reasoned, might already be aware of the restriction to alien dependents and survivors and thus have not bothered to apply for benefits. It is very possible that this estimate is overstated.

Specific Comments

- In the last paragraph under the section "Totalization Agreements Will Increase Benefit Payments to Mexican Citizens" (page 8), GAO notes reasons why "not all unauthorized

4

Mexican citizens who have worked in the United States will receive totalization benefits." However, one important category was left out. A significant number of residents of the United States work in jobs where they are paid on a "cash" basis in the "underground economy", and thus have no earnings officially reported. This category is likely to be disproportionately large among unauthorized aliens. Individuals employed on this basis cannot become eligible for OASDI benefits, either currently, or under a totalization agreement. Thus, the percentage of unauthorized Mexican citizens working in the United States who could become eligible for an OASDI benefit is even more restricted than suggested by the GAO.

- In the section "Poor Data Undermine the Reliability of SSA's Cost Estimate" on page 8 (as well as in the initial summary "What GAO Found", GAO makes reference to the tabulated number of individuals currently receiving an OASDI benefit while residing in Mexico. GAO suggests that the "50,000 beneficiaries living in Mexico today … this proxy figure is not directly related to the estimated millions of current and former unauthorized workers and their family members from Mexico and appears small in comparison to those estimates." This is, in fact, not the case. This 50,000 count of beneficiaries in Mexico does include a number of Mexican citizens who earned some or all of their OASDI work credits as unauthorized residents in the United States. In fact, for individuals applying for benefits after November 1996, Mexican citizens who are not authorized U.S. residents can only receive OASDI benefits by residing in Mexico. Thus, the tabulated 50,000 residents of Mexico receiving OASDI benefits currently does indeed include individuals from among those Mexican citizens who have worked in the U.S. in the past as unauthorized residents.

  Later in these two paragraphs, the GAO states that OCACT sensitivity analysis showed that if the number of totalized beneficiaries exceed our estimated number by more than 25 percent, then the long-range cost effect of an agreement with Mexico would exceed the negligible level, and would round up to 0.01 percent of taxable payroll. The GAO further cites that error in the estimate of beneficiaries has "frequently exceeded 25 percent" for prior agreements. As shown in Table 2 in the GAO report, actual totalized beneficiaries for the fifth year after implementation exceeded OCACT estimates for six of eleven agreements that went into effect between 1985 and 1994. However, for the four of these agreements that went into effect most recently (between 1992 and 1994) OCACT estimates have all turned out to be too high. Taken as a whole, OCACT estimates of totalized beneficiaries for the fifth year of these eleven agreements has been within 3 percent of the actual number.

- The third paragraph under the section "Actuarial Estimates are Based on Varied Data Sources" on page 9, indicates that in regard to long-range estimates, "the actuarial analysis notes that the methodology was indirect and involved considerable uncertainty." While it is clearly acknowledged that the actuarial estimates involve considerable uncertainty, it is not clear what is intended by saying the methodology was "indirect." The long-term estimate of 300,000 U.S. totalized beneficiaries reflects the increase in the flow of non-immigrant but authorized workers, as well as the increase in immigration, from the mid 1980s to current and expected levels. For example, the base assumption of the 2002 and 2003 Trustees Reports presumes that the ultimate annual rate of net other-than-legal immigration to the United

States will be higher than in the 1970's and the 1980's, but that it will be far lower than the level estimated for the 1990's.

- The second paragraph under the section "Estimated Cost of Mexican Agreement Is Highly Uncertain" (page 10) states that "Various studies also show that fewer than a third of Mexican immigrants stay more than 10 years in the United States." In fact, the cited study does indicate that the number of individuals staying 10 years or more is about 30 percent, or significantly larger than the study estimate of about 20 percent that stay for between 2 and 9 years in the U.S. It should be observed that this study underestimates the proportion of individuals who reside in the U.S. for a *total* of at least 2 years because individuals often migrate back and forth between Mexico and the United States more than once. This circulatory migration increases the likelihood that Mexican workers would work at least 2 years in the United States. OCACT assumes that reflecting this circular migration would increase the percentages of Mexican workers with a stay in the U.S. to about 33 percent for both total duration of 2 to 9 years and total duration of 10 years or longer. This is, in fact, one of the key assumptions used by OCACT in making these estimates.

- The third paragraph under the section "Estimated Cost of Mexican Agreement Is Highly Uncertain" (page 11) suggests that "the use of the 50,000 fully insured beneficiaries receiving benefits in Mexico as a proxy … does not directly consider the estimated millions of unauthorized Mexican immigrants in the United States and Mexico who are not fully insured and might receive totalized benefits." While this statement is literally true, it misses the point. The roughly 50,000 fully-insured beneficiaries currently in Mexico does reflect the number of unauthorized Mexicans who worked at least 10 years in the United States in the past and returned to Mexico to receive a benefit. The studies cited above suggest that the number of Mexicans coming to the United States and staying for between 2 and 9 years is likely to be similar. Thus, this 50,000 count of fully-insured OASDI beneficiaries residing in Mexico seems a reasonable level for estimating the number of likely totalized beneficiaries in Mexico, including those with work in the U.S. as unauthorized residents.

  Later in the same paragraph, GAO states that OCACT did not analyze the earnings and work histories of the population of 50,000 fully-insured beneficiaries "to determine whether they represented a good proxy for individuals likely to qualify for totalized benefits". This statement appears to miss the basis for and use of this piece of data. The OCACT analysis equated the number of individuals staying in the U.S. from 2 to 9 years and the number staying for 10 or more years before returning to Mexico, and used the 50,000 count only for this purpose. Reviewing earnings and work histories of these fully-insured beneficiaries would not aid in determining the number of individuals likely to qualify for OASDI totalized benefits.

  Also in this paragraph, the GAO reports that the OCACT estimate assumes that the extent to which Mexican citizens may enter the United States to work would not be affected by the availability of totalized benefits. The GAO claims that "unauthorized workers could have an additional incentive to enter the United States to work and to maintain the appropriate documentation necessary to claim their earnings under a false identity." We believe that any behavioral effect of this type would be very small. Most individuals who come from Mexico

6

to the U.S. to work, and particularly unauthorized immigrants, are quite young. It seems entirely reasonable that for individuals willing to leave their home country to seek employment at a young age, current earnings are the overwhelming incentive, and the prospect of a relatively small potential totalized benefit some 40 years in the future would generally add little if anything to the incentive. Indeed, the current and much larger incentive of becoming eligible for a more substantial fully-insured benefit would seem to be a far greater potential incentive. But even this seems unlikely to be a substantial factor in younger individuals coming to the U.S. to seek employment.

- The fourth paragraph under the section "Estimated Cost of Mexican Agreement Is Highly Uncertain" (page 11) concludes that the Canada/Mexico comparison of fully-insured to totalized beneficiaries is problematic because of the relatively large amount of unauthorized immigration from Mexico as compared with Canada and other totalization agreement countries. While the current number of unauthorized residents from Mexico is large, these individuals are generally young, and thus have the potential to become eligible for totalized benefits far in the future. The Canada/Mexico analysis we offered is designed to yield a *current* estimate of potential OASDI totalized beneficiaries arising from an agreement with Mexico. Specifically, the analysis looks at the ratio of Canadian totalized to non-totalized beneficiaries by resident country (Canada or U.S.), and applies these ratios to the known numbers of Mexican non-totalized beneficiaries by residence. While the actual ratios for Mexico could well differ, Canada is the only other border country to the U.S. where beneficiary residence could have some correlation with what would happen under the Mexican agreement. Moreover, there is no reason to believe that these ratios would be any different for authorized and unauthorized residents in the U.S. Finally, the OCACT estimate of 50,000 totalized beneficiaries for an agreement with Mexico is substantially higher than the 37,000 totalized beneficiaries suggested by this ratio comparison with Canada.

- The fifth paragraph under the section "Estimated Cost of Mexican Agreement Is Highly Uncertain" (page 11) questions the long-range estimate of about 300,000 beneficiaries in 2050 relative to the unauthorized Mexicans living in the U.S. today. If one considers, however, that (1) at least one-third of Mexican immigrants (legal or otherwise) stay longer than 10 years, as suggested by the 1997 study cited by the GAO, and (2) as many as another one third of Mexican immigrants stay fewer than 2 years, likely not accumulating the minimum 6 quarters of coverage to become eligible for totalized benefits, then the estimated ratio of totalized beneficiaries to the estimated current number of unauthorized residents in the U.S. would be closer to 20 percent than the 6 percent figure suggested in the report. Considering that the pool of individuals who might become eligible for a totalized benefit would be further reduced because of (3) the need to have a combined U.S.-Mexico recorded covered work history of at least 10 years, (4) the fact that many of these individuals are likely to have had at least some of the earnings not reported (underground economy), (5) some of the relatively young unauthorized residents today will die before reaching retirement age, and (6) the ultimate rate of other-than-legal immigration assumed by the Trustees is far lower than during the last decade, we believe that the estimate of 300,000 totalized beneficiaries in 2050 seems reasonable.

GAO's Mission

The General Accounting Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through the Internet. GAO's Web site (www.gao.gov) contains abstracts and full-text files of current reports and testimony and an expanding archive of older products. The Web site features a search engine to help you locate documents using key words and phrases. You can print these documents in their entirety, including charts and other graphics.

Each day, GAO issues a list of newly released reports, testimony, and correspondence. GAO posts this list, known as "Today's Reports," on its Web site daily. The list contains links to the full-text document files. To have GAO e-mail this list to you every afternoon, go to www.gao.gov and select "Subscribe to e-mail alerts" under the "Order GAO Products" heading.

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are $2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. General Accounting Office
441 G Street NW, Room LM
Washington, D.C. 20548

To order by Phone:	Voice:	(202) 512-6000
	TDD:	(202) 512-2537
	Fax:	(202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm
E-mail: fraudnet@gao.gov
Automated answering system: (800) 424-5454 or (202) 512-7470

Public Affairs

Jeff Nelligan, Managing Director, NelliganJ@gao.gov (202) 512-4800
U.S. General Accounting Office, 441 G Street NW, Room 7149
Washington, D.C. 20548

PRINTED ON RECYCLED PAPER