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Testimony

Before the Subcommittee on Immigration,
Border Security, and Claims, Committee
on the Judiciary, House of Representatives

For Release on Delivery
Expected at 11:00 a.m. EDT
Thursday, September 11, 2003

SOCIAL SECURITY

**Proposed Totalization
Agreement with Mexico
Presents Unique Challenges**

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





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, bovbjerg@gao.gov.

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.

Mr. Chairman and Members of the Subcommittee

I am pleased to be here today to discuss social security totalization agreements and specific issues related to a potential agreement between the United States and Mexico.

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, the Chairman of the House Judiciary Committee, and the Chairman of the House Ways and Means Social Security Subcommittee 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. My statement today is based on this completed work. Our final report with recommendations will be issued by September 30th.

In summary, 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 officials 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 in place 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. 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. 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.

Finally, the cost of a totalization agreement with Mexico is highly uncertain. SSA's actuarial estimate states that the cost of a Mexican agreement would be \$78 million in the first year and would grow to \$650 million by 2050. The 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 trust funds, an increase of more than 25 percent in the estimate of initial, new beneficiaries would generate a measurable impact. For prior agreements, error rates associated with estimating the expected number of new beneficiaries have frequently exceeded 25 percent. Because of the significant number of unauthorized Mexican workers in the United States, the estimated cost of the proposed totalization agreement is even more uncertain than for the prior agreements.

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 their

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 together with a report on the effects on the agreement. Under the statute, the agreement becomes effective on any date provided in the agreement after one House of the Congress has been in session 60 days, unless either House of the Congress adopts a resolution of disapproval.² Table 1 shows agreements in effect and the years they became effective.

¹Different 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.

²In 1983, the Supreme Court found that a provision in the Immigration and Nationality Act that allowed either House of the Congress to adopt a resolution of disapproval of a deportation decision was unconstitutional (*INS v. Chadha*, 462 U.S. 919 (1983)). To date, neither House of the Congress has ever disapproved a proposed totalization agreement. The effect of the *Chadha* decision on the part of the Social Security Act providing for totalization agreements has not been ruled on by the courts.

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.

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/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.³ 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

³Under 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 (OCACT) 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.⁴ This study indicated that the percentage of Mexican immigrants who returned to Mexico after more than 10 years and,

⁴Belinda 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.⁵ 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

⁵For 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.⁶ The federal government's estimate was published in January 2003 and comes from the former Immigration and Naturalization Service (INS).⁷ 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.⁸ 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

⁶For 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.

⁷In 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.

⁸Reyes (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 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. 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 suggests that any difference between estimated and actual costs will be on the high side.

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.⁹ 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.

⁹OCACT 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 of SSA data.

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, they 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.

Mr. Chairman, this concludes my statement. I would be happy to respond to any questions that you or other members of the Subcommittee may have.

For information regarding this testimony, please contact Barbara D. Bovbjerg, Director, Education, Workforce, and Income Security Issues, on (202) 512-7215. Individuals who made key contributions to this testimony are Daniel Bertoni, Gerard Grant, William Staab, and Paul Wright.

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