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How a U.S.–Mexico Social Security Agreement Can Benefit Both Nations

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With the war on terrorism focused on the Middle East and political crises erupting in other parts of Latin America, Mexican leaders complain that their country has been receiving little attention from the Bush Administration. Indeed, President Vicente Fox's plea to open borders to help Mexican laborers find work in the United States was sidelined by the tragedy of September 11. The U.S.–Mexico Social Security totalization agreement that is now being negotiated provides an opportunity to boost sagging relations and benefit both countries without enacting complicated and premature immigration reforms.

Properly structured, the totalization agreement would allow Mexican workers who are now legally in the United States to invest in the American economy while building a retirement nest egg that would benefit them when they return to their own country. In addition, it would serve as a model of a reformed Social Security system that could eventually allow American workers to have better and more secure retirement incomes. The key is placing Mexican workers' U.S. Social Security taxes into accounts managed by the existing U.S. federal employees' Thrift Savings Plan (TSP) rather than into the existing U.S. Social Security "trust fund."

Totalization Is Nothing New. Despite sensational press reports, totalization is nothing more than a negotiated agreement between two nations that allows their respective Social Security programs to better serve workers from one nation who are employed in the other during part of their careers. The United States already has similar agreements with nearly 20 other nations, including most of Western Europe, Australia, Chile, and South Korea. The agreement with Mexico differs only in that it would affect more people: While the 20 existing agreements affect a total of approximately 100,000 workers, the Mexican agreement would affect nearly 165,000 in the first five years alone.

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Such agreements make it easier for aliens who lived in the United States and paid American Social Security taxes for at least 10 years, as well as Americans who have worked overseas and paid Social Security taxes to another nation, to draw their benefits. The proposed agreement would allow citizens from either nation who worked in both countries to receive credit for their entire career from the country that eventually pays their benefits. Thus, an American worker who worked in the United States for 25 years and in Mexico for 15 years, paying

Social Security taxes to the country of employment, could receive American retirement benefits based on a combined 40-year work history. The U.S.–Mexico agreement would also eliminate an American requirement that the survivors of a Mexican worker who earned and received U.S. Social Security benefits must come to the United States every year to prove that they still qualify for survivors benefits.

Helping Mexico at a Critical Juncture. Mexico's President Vicente Fox would like the United States to grant easier access to Mexican immigrants who cannot find adequate work at home. In the wake of September 11, that is impractical for both political and security reasons. Moreover, it would relieve pressure on Fox to fulfill valid campaign promises to improve Mexico's inadequate education system, streamline burdensome regulations that strangle small businesses, and create institutions to provide credit to start new job-providing enterprises.

Nonetheless, totalization could help Mexicans start solving some of these problems on their own. Those already working legally in the United States could recover more of their social security to take back to their local economy. Coupled with a new U.S. Agency for International Development program to enhance Mexican credit unions, the flow could provide a basis for increased savings, credit, and mortgages to those who never had them.

An Example for the Future. Properly structured, the U.S.–Mexico Social Security totalization agreement can benefit the United States and serve as a model for U.S. Social Security reform. The Social Security taxes of U.S.-employed Mexicans, instead of being channeled into the U.S. Social Security trust fund, would be deposited in private accounts managed by the U.S. federal employees' TSP that currently provides federal workers and military personnel with low-cost, low-risk retirement investments. Their funds would be invested in a mixed portfolio of U.S. stocks, corporate bonds, and U.S. federal government debt. Upon their retirement or return home, the Mexican nationals' accounts could be paid into the Mexican Social Security system or converted into an annuity that would pay regular retirement benefits. While invested in the TSP, those Mexican workers would help to build the U.S. economy.

Creating a Thrift Savings account for Mexican workers in the United States through a totalization agreement would provide a model for Social Security reform that could benefit American citizens as well. Similar to the TSP, Mexico's social security system allows its workers to invest in one of several licensed privately managed pension funds, including stocks, bonds, and other financial instruments. These give Mexicans a much higher rate of return than American workers receive under the current U.S. pay-as-you-go system. While many younger Americans may end up paying more into Social Security than they will ever receive in benefits, Mexicans have the opportunity through their system to build real assets that will fund their retirement incomes and consequently help support their economy.

Conclusion. The proposed U.S.–Mexico Social Security totalization agreement offers a win-win opportunity. Through it, the Bush Administration can relieve any future stress that the new agreement might place on the U.S. Social Security system while also strengthening the American economy and giving Mexican nationals the same opportunity that they would have if they worked in Mexico.

According to the Social Security Administration, the American system will begin to pay out more in benefits than it receives in taxes starting in 2017. By establishing a transferable TSP account for Mexican workers in the United States, the Bush Administration can not only ensure the viability of their benefits, but also create a model that could protect the retirement benefits of U.S. citizens as well.

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