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Social Security Analysis of Immigration Bill Opaque and Too Narrow

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Proponents of the Senate immigration bill have been touting a recent analysis by the Social Security Chief Actuary which alleges a $4.6 trillion immigration boon for Social Security's 75-year financial outlook. Despite a total lack of transparency in the actuarial analysis, a number of problems are quite clear—the largest being a failure to account for all future costs.

The Analysis Focuses on Specific Time Horizons . The Social Security System operates on a pay-as-you-go basis, meaning individuals pay taxes into the system decades before they receive anything in return. So regardless of how much they receive in comparison to what they pay in, the addition of any new group of taxpaying workers benefits Social Security's solvency in the short run. Adding the impact of those workers' children can extend the positive benefit indefinitely.

However, the Social Security actuaries fail to account for all of the additional benefits that new immigrants and their offspring will eventually draw from the system. This is like acquiring new credit cards and adding the newly available credit as assets but not subtracting the money spent on those cards as future liabilities.

This paper, in its entirety, can be found at
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Rather than considering the effects of immigration on Social Security over a certain time horizon, the Social Security actuaries should provide a closed-group analysis of immigrants' effects on Social Security. Such an analysis would fully incorporate both the added taxes paid and benefits received by immigrants under the proposed bill.

The Analysis Fails to Include the Immigration Bill's Impact on Medicare. Social insurance for the elderly consists primarily of Social Security and Medicare. While both programs are highly insolvent, Medicare is a much larger liability for the federal government. The average worker who retires today will receive more than three dollars in Medicare benefits for every one dollar of Medicare taxes paid.[1] By 2030, this ratio will approach four dollars in benefits per dollar of taxes paid.

Unlike Social Security, in which benefits are based in part on tax contributions, Medicare benefits are the same regardless of workers' payroll tax contributions, and Medicare taxes support only a small portion of Medicare benefits. Consequently, adding millions of workers with below-average wages (and thus below-average payroll tax contributions) would place an especially large drain on Medicare's already frightful long-run finances—as well as the federal budget as a whole.

The Analysis Lacks Transparency on Assumptions. Just as Social Security's trust fund is more like a black box than a lockbox, so too are the assumptions used in this actuarial analysis.

The initial May 8 letter to Senator Marco Rubio (R–FL)[2] provides a few top-line assumptions, including the estimated number of new immigrants, change in tax revenues, and change in Social

Security beneficiaries, but it provides no information on the assumptions that generated these estimates. Furthermore, the subsequent long-run forecasts were not made publicly available. The only long-run information shared with and reported by *The Wall Street Journal* is the net impact over 25 years and 75 years.[3]

Questionable Wage Assumptions. The 10-year figures show that the actuaries assumed an average wage for undocumented workers of $34,400 in 2015. This figure is extremely high. The average wage of undocumented workers in 2010 was around $25,000.[4]

Because of the progressive nature of Social Security, in which the benefit formula multiplies low-level wages by 90 percent and the high wages by only 15 percent, the high wage assumptions for undocumented workers produce higher lifetime payroll tax contributions and bias the analysis in favor of higher net immigrant contributions.[5]

Potentially Overstated Birth Effects. The analysis does not reveal any specifics about its birth effect assumptions other than stating that "the additional births for the increased population under this bill will have substantial positive effects."

It is obvious that the birth effects for a generic increase in immigration would have a positive effect on Social Security's finances because the children of new immigrants would contribute Social Security taxes that would presumably be more than sufficient to cover the benefits paid to their parents, but this is not true of undocumented workers.

Children who are born to undocumented workers living in the U.S. are treated automatically as U.S. citizens and therefore incorporated into the Social Security system upon obtaining their first jobs. Legalizing their parents would not have any effect on their participation in the Social Security system.

The Net Drag of Incorporating Many Undocumented Workers. While many undocumented workers operate off the books and do not pay taxes, a Heritage Foundation study estimates that 55 percent of undocumented workers are already contributing to Social Security.[6] These undocumented workers are currently not entitled to any benefits based on the taxes they pay, but if they become legal through amnesty, they will be eligible for future benefits.

Thus, a majority of the undocumented workers who would be made legal through the proposed bill would be pure liabilities to the Social Security system; they would pay little, if anything, more in taxes than they otherwise would, but they would be eligible for full Social Security benefits.

Congress Should Demand a Realistic Analysis. To understand the proposed immigration bill's true effects on U.S. entitlement programs, lawmakers should request a revised, closed-group analysis of the proposed immigration bill's effects on both Social Security and Medicare, including the details of the actuarial assumptions.

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