Immigration and Social Security:
A Lifetime Distributional Analysis

Melissa Favreault and Austin Nichols

EXTENDED ABSTRACT

Immigration is transforming the U.S. labor force. Today, immigrants account for about 12.5 percent of the population (Pew Hispanic Center 2010) and half of recent U.S. labor force growth (Council of Economic Advisors 2007). Immigration also has important consequences for Social Security's finances. For example, the 2008 Trustees' Report included a marked reduction in the system's unfunded obligation due to adjustments in the size and composition of historical and projected net immigration. Several recent press accounts (for example, Porter 2005, Reich 2010, Schumacher-Matos 2010) have speculated about how immigration can help to alleviate the program's financial pressures.

Research is limited, however, on how immigrants' experiences with the Social Security program differ from those of U.S.-born workers, especially for younger cohorts.[1] OASDI experience typically spans most of the life course. Participants often spend many decades making payroll tax contributions, followed by a decade or more receiving retirement benefits, which depend in complex ways on earnings and marital histories. Some participants receive benefits in childhood (for example due to death of a parent) or prior to a conventional retirement age due to onset of a severe disability. Understanding how Social Security treats different population groups, including natives and immigrants, plus subgroups of immigrants, is thus a complex exercise, with extensive data demands that most publicly available sources cannot meet.

[1] We use the terms "foreign born" and "immigrant" and also "Old-Age and Survivors Insurance and Disability Insurance (OASDI)" and "Social Security" interchangeably.

We use a unique source, longitudinal data from the 1996, 2001, 2004, and 2008 panels of the Survey of Income and Program Participation (SIPP) matched to administrative data on earnings and program participation.[2] These data include matched earnings from as far back as 1951 from the Summary Earnings Record (SER) and from 1978 from the Detailed Earnings Record (DER), plus benefit receipt information from the Master Beneficiary Record (MBR) and Supplemental Security Record (SSR), and mortality reports from Numident records. Using a mix of SIPP panels is important because the high levels of immigration—and changing composition of immigrants—in the last decade might imply different Social Security experiences for younger immigration cohorts.

We follow several strains in the literature to provide a detailed accounting of immigrant experiences both as taxpayers and beneficiaries. Integrating insights from, for example, Duleep and Dowhan (2008) and Duleep and Regets (1996, 1997a, 1997b), we consider the importance of country of origin and immigration age in shaping wage growth. We also draw heavily from the literature on intragenerational economic mobility to expand the discussion of lifetime earnings to include factors like volatility. Using data and techniques drawn from sources like Passel and Cohn (2010) and Hoefer, Rytina, and Baker (2010), we try to identify legal status of foreign-born members of our sample, and consider the effect of legal status both on outcomes and our ability to effectively measure them. Drawing from Gustman and Steinmeier (2000), we then consider how years outside the U.S. labor force affect lifetime experiences with OASDI, using metrics like lifetime benefits and contributions.

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[2] We have acquired access to these restricted data through our participation in the Social Security-sponsored Center for Retirement Research at Boston College.

Our ultimate goal is to consider immigrant-native differences in economic well-being more broadly, both in prime age and retirement,[3] and to better understand how changes to Social Security policy could shape these differences. We thus close with a few simulations designed to explore how recent proposals to improve Social Security adequacy and reduce immigrant-native differences in equity would be likely to play out for a changing population.

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[3] Raphael and Smolenky (2009), Orrenius and Zavodny (2009), and Sevak and Schmidt (2007) explore related issues.

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