

# WORKING PAPER

## *Executive Summary*

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## THE EARNINGS AND SOCIAL SECURITY CONTRIBUTIONS OF DOCUMENTED AND UNDOCUMENTED MEXICAN IMMIGRANTS

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An estimated 11 million immigrants live in the United States without legal authorization to do so. Most of these immigrants work, and many hold jobs that are covered by Social Security. Their Social Security taxes increase the OASDI Trust Fund and, at least temporarily, improve the solvency of the Social Security program. Using information supplied by Mexican migrants to the United States in the Mexican Migration Project (MMP), we analyze the Social Security coverage of jobs held by legal and other-than-legal Mexican immigrants who work in the United States. We also track changes in the legal status of undocumented workers who enter the United States and earn wages inside and outside the Social-Security-covered sector. If undocumented workers eventually legalize their status, it is possible their Social Security contributions could eventually result in a claim on Social Security, reducing the net gain to the OASDI Trust Fund from undocumented workers' contributions. We investigate whether migrants in the MMP who entered the United States as undocumented workers earned Social-Security-covered wages and ultimately became legal permanent residents.

The MMP is an ethnographic survey of communities in Mexico that are expected to have at least some outmigration to the United States. Since 1987 the MMP survey has collected information on Mexican migrants to the United States from randomly sampled households in selected communities in Mexico during the winter, when seasonal migrants are likely to return to Mexico and from Mexican migrants who are current residents of the United States from the same communities. The entire MMP data file contains information on more than 7,200 household heads with immigration experience in the United States. The MMP interview included questions on basic demographic information, as well as details about migrants' first and most recent trips to the United States. Household heads supplied year-by-year information about border crossings and detailed information about the last trip made to the United States, including information about their employment, earnings, and utilization of social services. Crucially for our analysis, respondents were also asked whether migrants paid Social Security and federal income taxes on their U.S. earnings. In addition, interviewers obtained information about the legal status of migrants while in the United States.

We use estimates of immigrant workers' Social Security coverage status derived from the MMP surveys to predict Social Security coverage of immigrant workers who are interviewed in the Current Population Survey (CPS). The basic goal of the CPS is to track the number of adults who are employed, unemployed, and out of the labor force. An annual supplement to the CPS, conducted every March, obtains

detailed information on respondents' work status, work hours, income sources, and income amounts, including wages earned during the previous calendar year. The March CPS is the most widely used source of data on the distribution of income and earnings in the United States. The CPS interview was expanded in 1994 to include questions on the citizenship status and country of origin of immigrants and their year of entry into the United States. Census Bureau interviewers do not ask respondents about the legal status of noncitizens. The March CPS interview contains retrospective information on adults' work experience and earnings in the previous year, so it is possible to distinguish between the earned incomes of native-born citizens, immigrant citizens, and immigrant noncitizens for all calendar years starting in 1993. However, the CPS interview does not permit us to distinguish between noncitizens who are in the country legally and illegally.

A comparison of information supplied by Mexican immigrants in the MMP and March CPS samples shows considerable similarities in the two samples. For example, the distributions of U.S. hourly wages of MMP and CPS Mexican immigrants who head households are remarkably similar in the years where this comparison can be made (1993-2007). However, Mexican immigrant household heads in the MMP sample are somewhat younger and less educated than their counterparts in the CPS sample. In addition, the MMP migrants on average have been in the United States for fewer years than the Mexican immigrants interviewed in the March CPS. This difference reflects the nature of the samples for each survey, with the CPS representing more settled immigrants and the MMP representing more circular migrants.

One basic goal of this study is to determine the percentage of Mexican immigrants' earnings that is earned on wages in Social-Security-covered jobs. Census interviewers do not ask CPS respondents whether they or other family members have paid Social Security taxes on their wages, so we must impute this information from another source. The information source we use is the MMP survey. Our basic procedure is to impute Social Security coverage onto CPS immigrant wage and salary workers using the responses of similar but randomly selected migrants in the MMP sample. Our imputation uses a statistical matching procedure known as cold decking which is used to impute values for a missing variable in a file using information from another survey in which the variable was ascertained. Both survey files must contain one or more variables in common so that a statistical match can be performed. Our seven key matching variables include, in descending order of importance, gender, marital status, age, number of years since entry into the United States, basic education level, wage level, and specific schooling attainment level.

Our analysis suggests that about half the Mexican-born migrants residing in the United States who are wage earners and heads of household earn their incomes in jobs that are not covered by Social Security. Because workers in uncovered jobs tend to earn below-average wages, their earnings constitute less than half the wages earned by Mexican immigrants. Over the period from 1993 to 2007 we estimate that approximately 53 percent to 56 percent of the immigrant wages we analyze were earned in Social-Security-covered jobs. Over this period we find that Social-Security-coverage of Mexican immigrant earnings may have declined modestly.

Evidence from the MMP survey clearly shows that Social Security coverage is higher among Mexican immigrants who are authorized to live in the United States than it is among undocumented Mexican immigrants. Even though Social Security coverage among working legal permanent residents is less than 75 percent, the coverage rate among undocumented workers is even lower, about 25 percent.

Based on annual earnings reports in the March CPS we estimate that about 1.4 percent of all U.S. wages, or \$87 billion, were earned by Mexican immigrant heads of household. Our estimates imply that about 52 percent of this total was earned in Social-Security-covered jobs while the remainder, about \$41 billion, was earned in jobs not covered by Social Security. If our estimates can be extended to a broader immigrant population that includes Central American, as well as Mexican heads of household, total immigrant earnings would account for 1.8 percent of all U.S. wages, or \$112 billion. Of this total we estimate that 53 percent was earned in Social-Security-covered employment and 47 percent in jobs not covered by the Social Security system.

The MMP surveys provide some information about changes in the legal status of Mexican immigrants who either entered or stayed in the United States without legal authorization. Only a small proportion of these migrants report a change in their status that allowed them to live and work legally in this country. Two-thirds of these changes in legal status occurred within five years of passage of the Immigration Reform and Control Act (IRCA) in 1986. This finding implies that an overwhelming share of the legalizations observed in the MMP sample were traceable to that one-time change in the standard for admitting undocumented migrants to permanent residency status. IRCA provided the opportunity for a large number of undocumented immigrants to legalize their residency status under a program that ultimately provided legal status to more than three million immigrants by 1992. The law attempted to reduce the size of the population that was illegally residing in the United States through legalization of those who were undocumented. One presumed and desired labor market effect was that legalized immigrants would be more likely to enter into jobs in the formal sector and have taxes withheld from their pay after they legalized. In the absence of new legislation to permit unauthorized immigrants to convert their legal status, only a small percentage of undocumented workers is likely to be granted permanent residency status in the future. Thus, the Social-Security-covered earnings of most of the undocumented workers who earn them will never result in an increased claim for Social Security benefits.

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