

# WORKING PAPER

## *Executive Summary*

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## IMMIGRANT DIVERSITY AND SOCIAL SECURITY: RECENT PATTERNS AND FUTURE PROSPECTS

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Immigration is transforming the U.S. labor force. Immigrants account for about 12.5 percent of the population and half of recent U.S. labor force growth. Immigration also has important consequences for Social Security's finances. In 2008, when Social Security's Trustees adjusted the size and composition of assumed net immigration in their Annual Report, projections of the system's unfunded obligation fell markedly. Recent press accounts have speculated about how increased immigration could reduce financial pressures on the program.

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. Experience with Social Security 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 a parent's death) 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 immigrant subgroups, is thus a complex exercise, demanding extensive data unavailable in most public sources. 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. These data include matched earnings from the Summary Earnings Record (SER) and Detailed Earnings Record (DER), benefit receipt from the Master Beneficiary Record (MBR) and Supplemental Security Record (SSR), and mortality and nativity from Numerical Identification System (Numident) records. Using a mix of SIPP panels allows us to make a wide range of comparisons.

We follow several strains in the literature to provide a detailed accounting of immigrant experiences as taxpayers and beneficiaries. We consider the importance of the level of economic development of a non-native's country of origin and recency of immigration in shaping wage growth, and discuss factors like earnings volatility. We classify the foreign-born members of our sample by estimated legal status, and consider its effects on outcomes. We consider how years outside the U.S. labor force affect lifetime Social Security experiences, using lifetime payroll tax contributions and replacement rates as metrics. Our ultimate goal is to consider immigrant-native differences in economic well-being more broadly, both in prime age and retirement, and better understand how changes to Social Security policy could shape these differences.

We find great diversity in the ways that immigrants' Social Security experiences compare to natives' experiences. Immigrants from countries with higher per capita Gross Domestic Product (GDP) resemble natives closely on many dimensions – earnings, occupation, health, and wealth – with marriage and work years (and thus lifetime payroll taxes) main areas of difference. Outcomes for immigrants from countries with lower per capita GDP differ more notably from natives' outcomes; within this group, outcomes are very diverse, depending on estimated legal status. While earnings for those immigrants from lower-GDP countries grow at faster rates than natives' earnings earlier in their careers in the United States, the difference diminishes with time in the country. Differences between immigrants and natives by gender are also sometimes important. For example, some subgroups of immigrant women are less likely to work in the paid labor force than native women. Because of immigrants' great diversity, non-natives' outcomes – including total incomes and Social Security replacement rates – appear to be more skewed than natives' outcomes.

We 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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