



SOCIAL SECURITY
Office of the Chief Actuary

July 24, 2006

The Honorable Charles E. Grassley
United States Senate
Washington, DC 20510

Dear Senator Grassley:

In your letter of May 26, 2006, you requested short and long-term analysis of the effect of S. 2611, the Comprehensive Immigration Reform Act of 2006 as passed by the Senate, on the Social Security program. In addition, you requested an estimate of the effect of enactment of this bill on the estimated cost of a potential totalization agreement with Mexico. Finally, you requested a separate analysis of Senator Ensign's amendment #3985, assuming it were included in final legislation in a conference agreement. The preliminary estimates and analysis described in this letter reflect the careful work of Chris Chaplain and Alice Wade of the Office of the Actuary with the help of material provided to us by Steve Robinson of your staff. Being preliminary, these estimates are undergoing further analysis and may be subject to change in the future.

Summary Effects of S. 2611 on Social Security

The principal components of S. 2611 are establishment of a new guest worker program, expansion of some of the existing limits on annual legal immigration, and special provisions for achieving legal permanent resident status for many individuals who have been living in the United States without authorization. In addition, the bill includes provisions for extra border security (fences/agents) as well as an employment verification system. All estimates reflect the intermediate assumptions of the 2006 Trustees Report.

We estimate the total net effect of the enactment of S. 2611 as passed by the Senate would result in increases in net immigration that would improve the long-range OASDI actuarial deficit by roughly 0.13 percent of payroll. This would reduce the long range deficit from the estimated level of 2.02 percent of payroll under current law to roughly 1.88 percent of payroll. The effect of enactment on the annual balance of the OASDI program would rise gradually to about 0.35 percent of payroll in 2035, as the accumulating numbers of new immigrants are added to the workforce. Thereafter, the effect on the annual balance of the program would decline to a fairly stable 0.18 percent of payroll by 2070, as the initial new immigrants age into benefit eligibility under the OASDI program. For 2080, the annual deficit would be reduced from 5.38 to about 5.20 percent of payroll.

Over the short term period through calendar year 2016, OASDI net cash flow would be expected to improve by about \$27 billion. Including interest effects, this change would reduce the federal debt held by the public by an estimated \$30 billion at the end of 2016. The first year of negative cash flow is estimated to remain at 2017. And, the year of OASDI combined trust fund exhaustion is projected to be delayed two years from 2040 to 2042. Finally, the projected long-range open group unfunded obligation is projected to be reduced from \$4.6 to \$4.4 trillion.

More Detailed Analysis of S. 2611

Guest Worker Provision

The guest worker provision of the bill would permit entry into this country of up to 200,000 workers per year beginning 2007, plus dependents of the workers. The term for the guest workers would be three years with the opportunity for one renewal for an additional three years. Continued residence in the country under this provision would require continued employment. Individuals under the guest worker program for four years could apply for legal permanent residence. If sponsored by the employer, then legal permanent status could be applied for immediately.

We estimate that 200,000 individuals will begin participating in the guest worker program each year. Of these we estimate that about 140,000 would be workers who would not otherwise have entered the United States. Including their dependents, we estimate an additional 308,000 individuals entering the country each year under the guest worker provision. Of these, we estimate that about two-thirds, or 200,000 individuals would, about 4 years after entry, on average, achieve legal permanent residence (LPR) status, facilitated by the expansion of the employment based visa limits in the bill. Of those who achieve LPR status, we assume about 25 percent will later emigrate back to their home country, leaving a net increase in legal immigration of 150,000 individuals per year, starting about 2011. The other 108,000 guest workers and dependents newly entering the country are assumed to return to their home country within 6 years of entry to the United States without achieving LPR status.

The additional 60,000 guest workers added each year are assumed to be individuals who are already in the country or who would have entered the country on an other (not legal permanent resident) basis in the absence of this provision. These workers and their dependents are assumed to total 132,000 each year and are further assumed to result in about 60,000 additional net legal immigrants about 4 years after becoming guest workers, principally through the expansion of the limit on earnings-based visas in the bill. However this attainment of LPR status would have no net effect on our projected total immigration because they are simply assumed to transfer status from other residents to LPR.

The overall net increase in immigration represents about half of the long-range effect of the bill, or about 0.06 percent of taxable payroll. Through 2016, this provision is estimated to improve the OASDI net cash flow by about \$11 billion.

Employment Based Visa Limits

Under the bill, the current limit on employment based visas (for LPR status) would be increased from 140,000 per year to 650,000, including dependents of employed immigrants. The allocation would also be changed to place greater emphasis on unskilled workers. We do not assume that the entire difference would be filled. In the discussion of guest workers above, we identify two types of immigration that would qualify under this provision.

Family Sponsored Preference Limits

The current effective annual limit on family sponsored preference immigration is 226,000. This legislation would increase the limit to 480,000, or an increase of 254,000. We assume that this increased limit would be fully met. However, we also assume that about 20 percent (50,000) of this number would be individuals who would otherwise enter or remain in the United States on an other (not legal permanent resident) basis. Thus, on an ongoing basis, this provision is estimated to increase gross immigration by 204,000, and by 153,000 on a net basis (assuming emigration from this group will tend to be about 25 percent of the level of immigration.) This net effect on immigration represents about half of the long-range ultimate effect of the bill and thus would result in an increase in the actuarial balance of roughly 0.06 percent of payroll. Through 2016, this provision is estimated to improve the OASDI net cash flow by about \$11 billion.

Blue Card Provision

This provision would allow legal permanent resident status for up to 1.5 million undocumented agricultural workers over the 6-year period after bill enactment. We assume that many of those who would attain legal permanent resident (LPR) status under this provision would have entered the United States in the absence of this provision, as undocumented residents. We assume that about 350,000 individuals who achieve LPR status under this provision either (1) would have stayed in this country on an other (other than legal permanent resident) basis in any case, or (2) would have emigrated subsequently, and still would. However, we project that an additional 620,000 immigrants would enter the country during the period 2012 through 2014, with 25 percent assumed to emigrate from the United States in the future. This leaves an additional 465,000 net legal immigrants. This provision is estimated to have a negligible effect on the long-range actuarial balance. Through 2016, this provision is estimated to improve the OASDI net cash flow by about \$2 billion.

Special Provisions for Those Currently in the U.S. Without Authorization

This provision would provide the opportunity to apply for legal permanent resident status for unauthorized individuals with 2 or more years of residence in the U.S. at the time of enactment of the bill. This so-called “amnesty” provision is intended to provide an enhanced opportunity

for the up to 12 million individuals currently thought to be residing in the U.S. on an unauthorized basis. However, the requirements under this provision present a considerable challenge to those who might apply.

For those who have resided in the U.S. for 5 or more years at enactment, documentation of employment would be required for at least 3 of the last 5 years. In addition, total fines/fees of \$2,750 would be assessed, and any unpaid taxes from prior employment would have to be paid. Employment for 6 years after enactment would also be required. If these conditions are met, and the individual has a working use of English, then legal permanent residency can be granted, but not before any pre-enactment backlogs of applications for LPR status have been resolved. No numerical limits would apply for LPR status for this group.

Requirements for those who have resided in the U.S. for 2 to 4 years at enactment would be similar, but to apply for legal permanent residency status, these individuals would be required to first return to their home country. No numerical limits would apply for this group to achieve LPR status with employment-based visas.

Due to the strict requirements of this provision, we believe that use of it would be somewhat limited. We estimate that about 1.8 million individuals resident in the U.S. at least 2 years at the time of enactment would achieve legal permanent residence (LPR) status under these provisions. This group would have no effect on the overall population because they either (1) would have remained in the United States in any case, or (2) would have left the country subsequently in the absence of this provision, and still would. These individuals represent a change of status from other (other than legal permanent resident) status to legal permanent status as a result of this provision. In addition, we estimate that this provision would result in a net addition to the Social Security area population of about 440,000 individuals by their achieving legal permanent residence status in 2013, and an additional 73,000 doing so in each year 2014 through 2017. Consistent with our usual assumption, 25 percent of these individuals would be expected to emigrate to their home country in the future. In the absence of this provision it is assumed that all of these workers would have emigrated from the United States and their dependents would either have emigrated or not have come to the United States. This provision is estimated to have a negligible effect on the long-range actuarial balance. Through 2016, this provision is estimated to improve the OASDI net cash flow by about \$2 billion.

Border Security (fences/agents) and Employment Verification

The bill provides for fences and other security measures along the border with Mexico as well as additional agents to reduce unauthorized immigration. In addition, the bill provides for an electronic employment verification system to assist employers in determining the legal status of employees. Given that the above provisions of this bill are being assumed to reduce the ultimate level of net other immigration by one third, from 300,000 to 200,000 per year, we assume that it may be difficult to reduce this net flow and their employment much lower. (The net inflow of other immigrants has averaged over 500,000 per year since 1990.) For this reason we assume that these provisions will have a negligible effect on the financial status of the OASDI program.

Effect of S. 2611 on Potential Totalization Agreement with Mexico

The memorandum dated March 10, 2003 from Chris Chaplain provided the latest estimate for a potential totalization agreement with Mexico. A potential agreement has been considered between the two governments but awaits full consideration by the executive and legislative branches of the federal government. Based on the best available information, such an agreement is expected to have a negligible effect on the OASDI actuarial balance (less than 0.005 percent of payroll), based on the intermediate assumptions of the 2003 Trustees Report. The memorandum cited above indicates that the effect over the first 5 years after implementation should be expected to be a net cost to the OASDI program of about \$551 million. The precise details of such an agreement should it be finalized are not yet clear. Thus, the estimate provided here is to be considered preliminary.

Should S. 2611 become law before a totalization agreement is effected with Mexico, then the net cost of such an agreement will be increased somewhat due to interaction between the effects of these two changes. S. 2611 would be expected to increase the number of Mexican citizens who would earn between 6 and 39 quarters of coverage under the OASDI program and thus potentially qualify for a totalized U.S. benefit. While this effect is expected to be small, the fact that the cost of a totalization agreement is just short of rounding up to 0.01 percent of payroll in the long run means that after enactment of S. 2611 the estimates cost of a totalization agreement with Mexico would then round to 0.01 percent of payroll.

Ensign Amendment Number 3985

The Ensign amendment was in fact considered in the Senate and was not adopted. However, your question relates to the possibility that this amendment could be added to the bill in a conference committee.

The Ensign amendment would stipulate that a worker assigned a valid social security number (SSN) after enactment not be credited with earnings for social security benefit purposes for years prior to being assigned the SSN. The effect of this provision is estimated to be a relatively small reduction in total benefits, possibly negligible.

Sincerely,



Stephen C. Goss
Chief Actuary

CHARLES E. GRASSLEY, IOWA, CHAIRMAN

ORRIN G. HATCH, UTAH
TRENT LOTT, MISSISSIPPI
OLYMPIA J. SNOWE, MAINE
JON KYL, ARIZONA
CRAIG THOMAS, WYOMING
RICK SANTORUM, PENNSYLVANIA
BILL FRIST, TENNESSEE
GORDON SMITH, OREGON
JIM BUNNING, KENTUCKY
MIKE CRAPO, IDAHO

MAX BAUCUS, MONTANA
JOHN D. ROCKEFELLER IV, WEST VIRGINIA
KENT CONRAD, NORTH DAKOTA
JAMES M. JEFFORDS (II), VERMONT
JEFF BINGAMAN, NEW MEXICO
JOHN F. KERRY, MASSACHUSETTS
BLANCHE L. LINCOLN, ARKANSAS
RON WYDEN, OREGON
CHARLES E. SCHUMER, NEW YORK

United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510-6200

KOLAN DAVIS, STAFF DIRECTOR AND CHIEF COUNSEL
RUSSELL SULLIVAN, DEMOCRATIC STAFF DIRECTOR

May 26, 2006

Mr. Stephen C. Goss
Chief Actuary
Social Security Administration
6401 Security Blvd.
Baltimore, MD 21235

Dear Mr. Goss:

As Chairman of the Committee on Finance, I'm writing to request a short and long-term analysis of S. 2611, the Comprehensive Immigration Reform Act of 2006, as recently passed by the Senate.

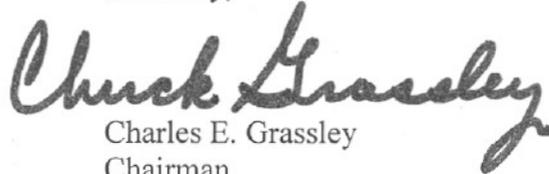
This legislation would dramatically alter current U.S. immigration policy through the legalization of an estimated 12 million illegal aliens; a significant increase in the level of legal immigration; a temporary guest worker program; and a mandatory employment verification system.

As the Senate moves toward a conference with the House, it would be exceedingly helpful to have a better understanding of the potential impact this legislation would have on the Social Security program.

I would also like to request an updated analysis of the pending totalization agreement with Mexico, specifically in light of the proposed guest worker program.

Finally, the analysis of S. 2611 and the totalization agreement should include a separate estimate of Senator Ensign's amendment #3985 (attached), assuming it is included in the final conference agreement.

Sincerely,


Charles E. Grassley
Chairman