

**Committee on Ways and Means**

**Subcommittee on Social Security**

B-316 Rayburn House Office Building

Washington, D.C. 20515

<http://www.waysandmeans.house.gov>

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**UNDERSTANDING THE FACTS ABOUT A POTENTIAL  
U.S.-MEXICO TOTALIZATION AGREEMENT**

Dear Colleague:

Concerns and substantial misinformation surround a bilateral agreement signed earlier this year between the heads of the U.S. and Mexican Social Security systems to coordinate Social Security coverage for workers who divide their careers between the two countries. This "totalization" agreement is like agreements the United States already has with 20 other countries, including Canada, Chile, South Korea, Australia, and most of Western Europe. These agreements serve two purposes:

1. They eliminate the need to pay Social Security taxes in both countries when U.S. companies send workers to the other country (and vice versa).
2. They protect benefit eligibility for workers who divide their careers between the two countries.

The signed U.S.-Mexico totalization agreement is only in the first step in a process that requires review (in this order) by the State Department, the White House, and the Congress in order for the agreement to go into effect. Once it receives the agreement, Congress has 60 days during which either House is in session to review it. During that time, if either body passes a resolution of disapproval, the agreement does not go into effect. President Bush has not yet forwarded the proposed agreement to Congress.

Only through a full and fair vetting of all the issues--through public hearings by the responsible committee of jurisdiction, (Ways and Means) and the approval process--will Congress and the American people know whether a totalization agreement with Mexico is, or is not, in the best interest of our nation's workers and those who depend on benefits.

In addition, below is information provided by the Social Security Administration to clarify the effects of a potential totalization agreement with Mexico. If you have any

additional questions about totalization agreements or the process for their approval, please contact the Social Security Subcommittee staff at x59263 (Majority) or x54021 (Minority).

Sincerely,

E. Clay Shaw, Jr.  
Chairman

Robert T. Matsui  
Ranking Member

## **U.S. INTERNATIONAL SOCIAL SECURITY AGREEMENTS**

### **Facts about an agreement with Mexico**

- Currently, without an agreement, 3,000 U.S. workers and their employers will pay about \$140 million in Mexican social security taxes over the next 5 years in addition to U.S. Social Security taxes.
- Currently, without an agreement, U.S. workers who have worked in both countries, but not long enough in either country to qualify for benefits, face a gap in benefit protection.
- A totalization agreement with Mexico would have a negligible long-range effect on the Social Security Trust Funds (less than .005%). Costs to the U.S. Social Security system are estimated to average about \$105 million per year over the first five years, according to Social Security's actuaries.
- Mexico is the second largest trading partner with the U.S. With Mexico, the U.S. now has signed agreements with eight of its top ten trading partners. Many of these agreements have been in effect for nearly two decades. The two exceptions are China and Taiwan. By law, the U.S. could not enter into agreements with these two countries because they do not have generally applicable Social Security systems that pay periodic benefits or the actuarial equivalent. Mexico has such a system.

### **Myths about a totalization agreement**

- **Myth:** A totalization agreement would change existing immigration laws.
  - ◆ **Fact:** A totalization agreement does not address immigration laws. A totalization agreement only deals with: (1) Social Security payroll taxes associated with work performed by U.S. workers hired in the U.S. and sent to work in a foreign country, and foreign workers sent to work in the U.S. by and for

a foreign employer; and (2) workers with insufficient work credit earned to become eligible for full benefits in one or both countries.

➤ **Myth:** The U.S will begin to pay benefits to undocumented aliens under an agreement.

◆ **Fact:** A totalization agreement does not alter existing law relative to undocumented workers. An agreement with Mexico would be no different than the 20 agreements in effect with respect to illegal aliens. It would have no effect on the prohibition against payment of benefits to illegal aliens in the U.S. Similarly, under the recently enacted Social Security Protection Act of 2004, (P.L. 108-203) non-citizens generally will qualify to receive benefits only if they have been issued a work-authorized Social Security number. A totalization agreement does not change that law.

➤ **Myth:** The first year cost of an agreement with Mexico would cost the Social Security Trust Funds \$345 billion.

◆ **Fact:** \$345 billion is the approximate amount of wages posted to the Earnings Suspense File as of July 2002, (\$421 billion today) and is not at all related to the projected cost to the Social Security Trust Funds of a totalization agreement. Social Security's actuaries estimate that an agreement with Mexico will cost the Social Security Trust Funds an average of approximately \$105 million a year over the first five years.

➤ **Myth:** All the earnings in the suspense file came from undocumented aliens.

◆ **Fact:** Earnings maintained in the Earnings Suspense File represent wages that the Social Security is not able to post to a specific individual's record because the name and Social Security number (SSN) on the wage report do not match the name and SSN in the Agency's records. While a portion of the Earnings Suspense File represents the earnings of undocumented aliens, it also includes earnings from legal aliens and U.S. citizens. Name and SSN mismatches occur for a number of reasons including transcription or typographical errors, incomplete or blank names or SSNs, or name changes not reported to Social Security.

➤ **Myth:** Aliens who work a very short time in the U.S. would receive full U.S. Social Security benefits under an agreement.

◆ **Fact:** Totalization agreements provide that the United States will pay pro-rated benefits to those workers who have: (1) between 6 and 39 quarters of coverage with the U.S. system; and (2) a combined work record of at least 10 years in the United States and a partner country. Again, to emphasize, the benefits are paid on a pro-rated basis -- approximately 1/35th of a theoretical full-

career retirement benefit for each year of covered earnings under the U.S. Social Security system.