

Social Security Eligibility and the Labor Supply of Elderly Immigrants

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There has been a historic increase in the number of immigrants (both legal and illegal) in the United States in recent decades. Between 1970 and 2000, the share of immigrants in the workforce more than tripled from 4.9 to 15.3 percent. Some portion of these workers is at or near the age of eligibility for Social Security benefits. This paper examines the labor supply behavior of older immigrant men, as compared with non-immigrants, and considers the potential impact of Social Security policy on the labor market behavior of older immigrants.

The study begins by documenting that age-work profile of immigrants and natives, respectively. The primary difference in the labor market behavior of older immigrants, as compared with non-immigrants can be expressed in terms of a “crossover” age – which occurs in the late 50s or early 60s. Before the crossover age, natives tend to have higher employment rates than immigrants. After the crossover age, natives have lower employment rates than natives. Put another way, the native employment rate declines at a much faster rate as they approach their late 50’s and into their 60s; while immigrant employment rate declines more gradually. The two age-employment profiles then converge around the age of 70.

The rules of eligibility for Social Security benefits are considered in the paper as one reason for the difference in age-work profiles. Before qualifying for Social Security benefits, an individual must be age 62 and have a 10-year work history. The 10-year work rule is generally irrelevant to non-immigrant men near retirement age, as the large majority will have satisfied the 10-year work rule long before then. Many immigrants of the same age, however, may have arrived more recently in the United States, and not yet accumulated the requisite employment credits to be eligible for Social Security benefits. The 10-year work rule can then have a substantial impact on labor supply as immigrants optimize their time allocation to ensure that they eventually qualify for the substantial increase in lifetime wealth provided by Social Security benefit eligibility.

The data, in fact, show that the 10-year work rule has a substantial impact on immigrant labor supply behavior. Immigrants in their 50s who have not yet accumulated the required employment credits have much greater employment rates than otherwise comparable persons. Once the 10-year work rule is satisfied, the probability that an elderly immigrant receives retirement benefits rises significantly and his probability of employment drops by 7 to 11 percentage points. This finding may have important implications for the costs of the Social Security program, as well as on any assessment of the net benefits from immigration.

The full working paper is available on our website, www.nber.org/programs/ag/rrc/books&papers.html as paper NB07-13.

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