

LABOR MARKET AND IMMIGRATION BEHAVIOR OF MIDDLE-AGED AND ELDERLY MEXICANS

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Many Mexicans near retirement age will have spent part of their working lives in the United States, a fact that will impact their lifetime earnings, their accumulation of retirement wealth, and their decisions about when to retire. There is no doubt in the literature that Mexican migrants move to the United States because of the wage differentials with Mexico. The work years such migrants spend in the United States may result in lifetime earnings that are higher than they otherwise would have been. However, a history of migration will also impact their eligibility for social security benefits and on the amount of benefit they will receive in both the United States and Mexico, because of minimum years of work requirements and amount of benefits calculations based on earnings under both countries' systems. Despite the importance of migration in the work lives of many Mexicans, the effect of the migration experience on the retirement decisions of older Mexicans is not well understood.

BACKGROUND

The United States has long recognized the importance of the portability of years of work from one country to another to qualify for social security retirement benefits. As a result, it has agreements in place with European countries, with Canada and Chile on the American continent, with South Korea in Asia, and with Australia in the Pacific Oceania. These agreements make workers' years of contribution to the social security system portable between countries and eliminate dual social security taxation when an employee is sent by a firm to another country and the employee is required to pay social security contributions in both countries. Mexico, in turn, has social security agreements with Argentina, Canada, Italy, and Spain. In June 2004, an agreement between the United States and Mexico coordinating social security benefits was drafted, but it has yet to be approved. This Totalization Agreement on Social Security between the United States and Mexico aims to coordinate pension benefits to eliminate dual taxation and fill benefit gaps. The agreement would permit workers to claim social security benefits according to the proportional part individuals contribute to each system.

This research aims to shed light on the labor force behavior and retirement decisions of older Mexicans with and without a history of migration to the United States, and on the effect of a Totalization Agreement between the U.S. and Mexico on retirement of Mexicans. First, using the Mexican Health and Aging Study (MHAS), a rich, two wave, nationally representative panel survey of respondents in Mexico over age 50, we describe health care insurance in Mexico, social security systems' requirements, benefits and their retirement incentives and our empirical methods. Second, analyze the labor status, income and wealth, pensions and health insurance, health indicators as well as education and other demographic characteristics of return migrants and non-migrants. Third, we estimate a multivariate retirement probability model of middle-age and older Mexicans with and without migration spells to the United States, and analyze the effect of public benefits including health care insurance and social security benefits on the decision to retire between survey waves.

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Mexicans with migration spells to the United States who were 50 years old or older in 2001 represent almost 9 percent of the sample. We find that immigration is most likely to occur during prime working years and age of return to Mexico is at its highest rate around retirement age for long-term return migrants, those who stayed in the U.S. for more than one year. Compared to non-migrants, return migrants are more likely to be working at older ages. Most of return migrants are male with no schooling or incomplete primary schooling. Compared to short-term migrants, long-term migrants are more likely to have access to U.S. Social Security benefits, less likely to have Mexican Social Security benefits and public health insurance coverage. Based on multivariate models of retirement by migration status, we find that Mexican non-migrants and return migrants are responsive to institutional incentives but more so for return migrants. That is, while both groups are more likely to retire if they have health insurance and pensions, the effect is much larger for migrants. In addition, receipt of U.S. Social Security benefits increases retirement rates among return migrants. Return migrants are more likely to report being in poor health than non-migrants and this also increases the likelihood of retiring.

CONCLUSION

This paper is one of the first studies to analyze retirement behavior of Mexican return migrants. We contribute to the public policy debate exploring the characteristics of return migrants and the impact of social security rules on their retirement pattern. Because pension benefits in the U.S. and in Mexico are an important determinant of retirement, this analysis suggests that a Social Security Agreement between the United States and Mexico would likely have important implications for the retirement behavior of beneficiaries of the agreement.

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