



America's Demographic Challenge: Understanding the Role of Immigration

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DISCLAIMER

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Introduction

The U.S. population is aging rapidly. Declining fertility rates over the last several decades, increasing life expectancies, and the retirement of the baby-boomer generation have placed strains on the social safety net and have contributed to sluggish economic growth. The confluence of these factors has also further strained the federal budget. The U.S. national debt is higher than at any time in history apart from the World War II era and is driven in large part by the growing cost of government programs such as Social Security and Medicare.

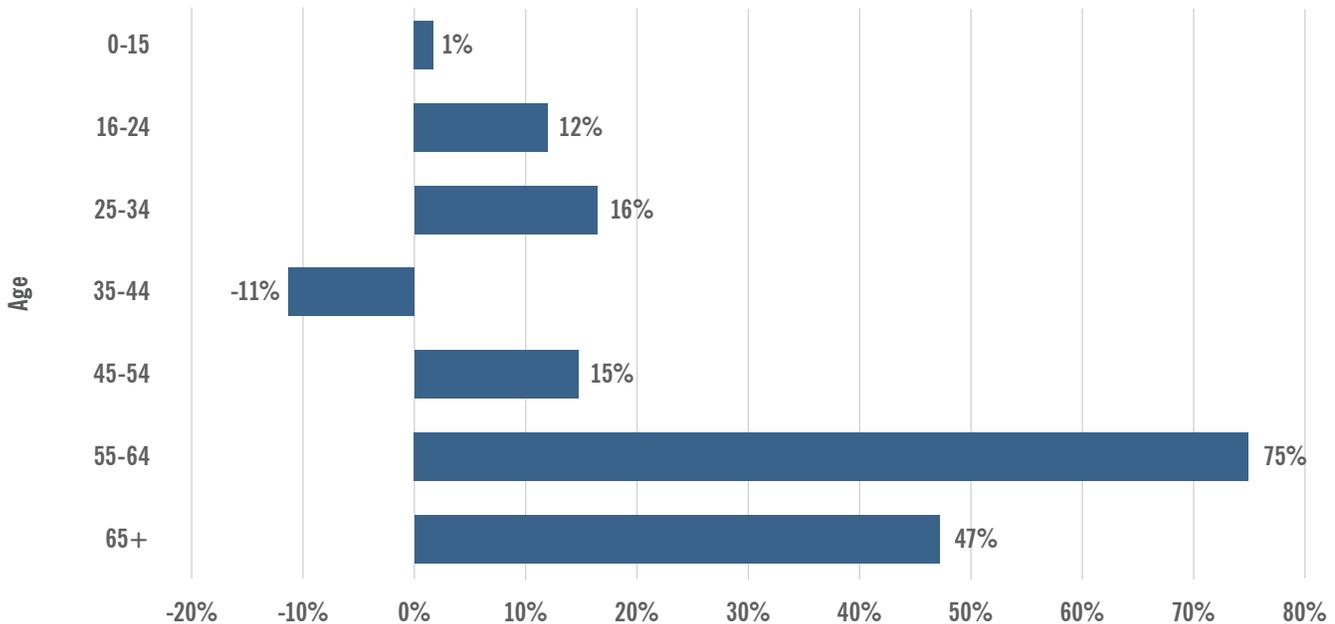
Immigration can and has helped mitigate some of the negative fiscal and economic effects of an aging population in the United States. As the Bipartisan Policy Center has previously reported, immigration has given the United States a demographic edge over other countries that are also facing rapid population aging.¹ Immigration provides working-age population growth that helps support growing ranks of retirees. Immigrants also add to economic growth through innovation and entrepreneurship, assisting with productivity increases that help offset labor-force declines.

This paper outlines some of the economic challenges facing the United States due to demographic change—focusing specifically on Social Security; economic growth; and federal, state, and local budgets—and highlights the role immigration can play in easing these strains. Part I outlines population and fertility trends, highlighting the differences in population growth by foreign- and native-born individuals; Part II looks at the demographic challenges facing Social Security and how immigration contributes to the system's solvency by increasing the worker-to-beneficiary ratio; Part III analyzes economic growth in the context of an aging population and identifies the potential for immigration to promote economic growth; and Part IV looks at the effects of an aging population on the federal debt, as well as the effect of immigration on federal, state, and local budgets. While current immigration levels are helping to ease these economic challenges, reforms to the immigration system could help address America's profound demographic challenge.

An Aging Population

The U.S. population grew considerably older between 2000 and 2016. The population cohort aged 55 to 64 grew by 75 percent over this period, while the cohort aged 65 and older increased by close to half. Meanwhile, the prime working-age population group (25-54) grew by just 6 percent over this span, and the newest generation of Americans (0-15) grew by just 1 percent.² Figure 1 displays these trends, showing large percentage increases in the population of older Americans and tepid population growth among prime working-age and younger Americans.

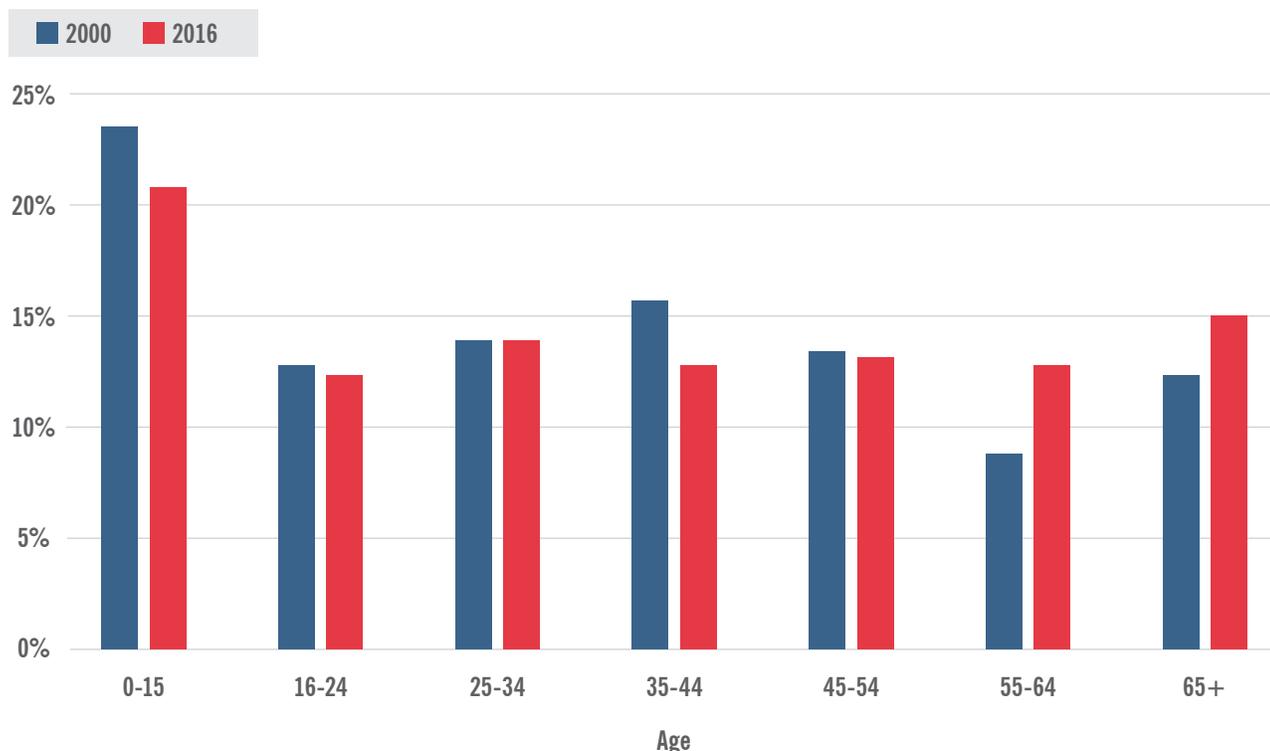
Figure 1. Cumulative Percent Change in Total U.S. Population (2000-2016)



Source: U.S. Census Bureau, Current Population Survey

Given these trends, it is unsurprising that older Americans have increased as a percent of the total U.S. population. Between 2000 and 2016, the population aged 65 and older grew from 12 percent to 15 percent of the total population, and the demographic aged 55 to 64 (the later baby boomers and early Generation X groups) increased from 9 percent to 13 percent. Meanwhile, the prime age group declined from 43 percent to 39 percent of the total population, a trend that was entirely driven by the demographic aged 35 to 44 (late Generation X, also called the “baby bust”), which saw a 4-percentage-point decline over this period—from 16 percent to 12 percent (Figure 2).³

Figure 2. U.S. Population Composition by Age (2000 and 2016)



Source: U.S. Census Bureau, Current Population Survey

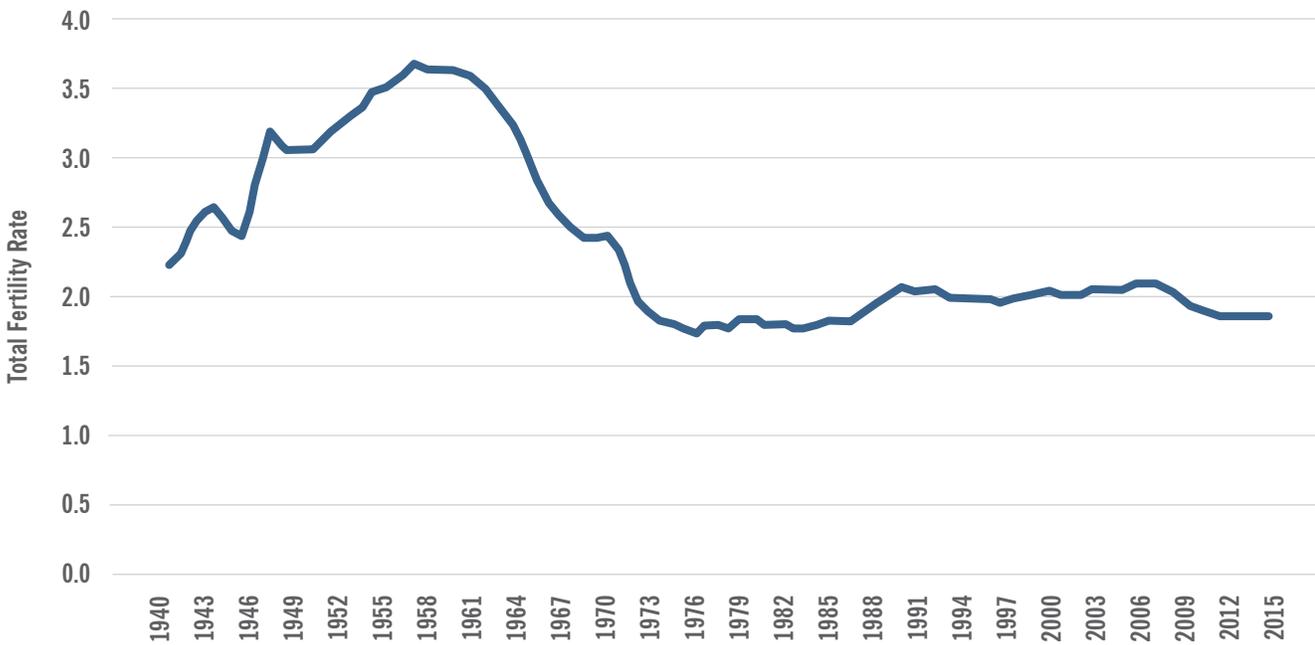
Stagnant Fertility Rates, Increasing Longevity

The demographic trends described above can be attributed to two factors: declining fertility rates and increasing life expectancies. Both have helped increase the number and proportion of older Americans, and will likely continue to do so into the foreseeable future.

Fertility rates have remained stagnant for the past several decades, after peaking in the late 1950s, a result of the “baby boom” that occurred after World War II. At the height of the baby boom, the fertility rate stood at over 3.5 children per mother, before declining to under two children per mother by the mid-1970s.^a Though fertility rates have increased slightly since then, they remain far below the levels seen in the mid-20th century, which has led to a growing proportion of older Americans in the overall population (Figure 3).

^a The fertility for any given year calculates the average number of children born to a woman in her lifetime. It assumes she survives the entire childbearing period and that she observes the birth rate observed in the selected year at each year of her life. For more information, refer to: Social Security Administration, *2016 OASDI Trustees Report-Principal Demographic Assumptions*, Table V.A.1., 2016. Available at: <https://www.ssa.gov/oact/tr/2016/lr5a1.html#foot5>.

Figure 3. The U.S. Total Fertility Rate (1940-2015)

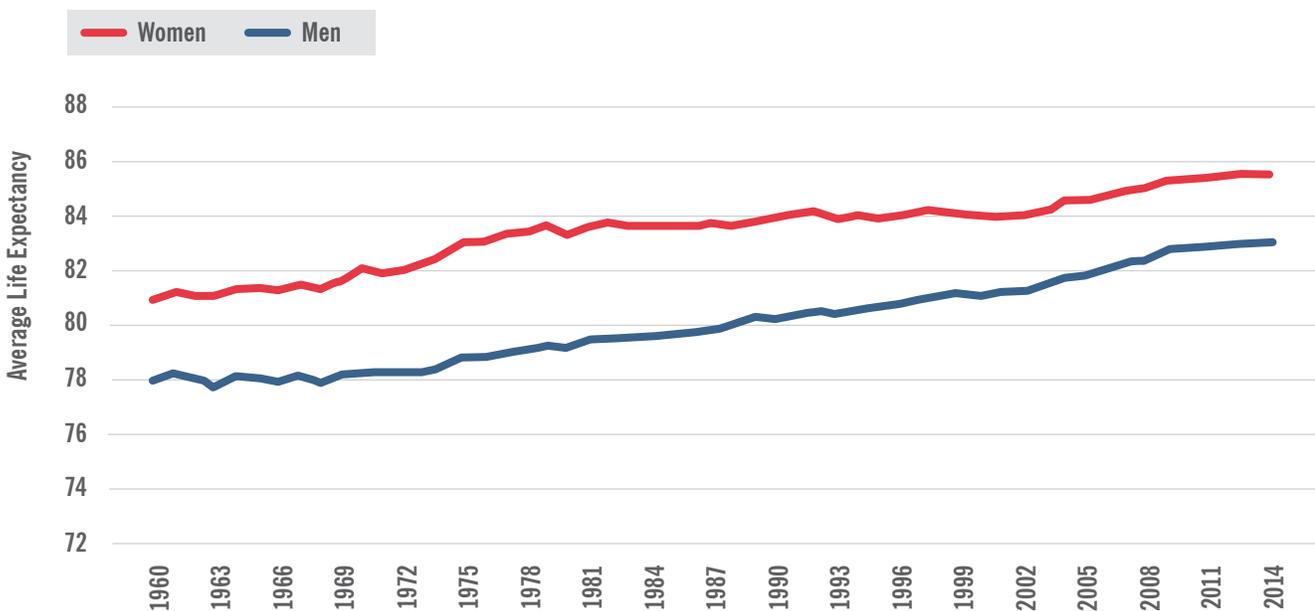


Source: U.S. Social Security Administration

Note: The total fertility rate is defined as the average number of children that a woman would have in her lifetime if she were to experience, at each age in her life, the birth rate observed in the selected year.

Increasing life expectancies have also contributed to the aging population. Since 1960, the average life expectancy among 65-year-old men has increased from 78 to 83; for women, it has risen from 81 to 86 (Figure 4). When combined with low fertility rates, increasing longevity has led to a growing share of older Americans in the U.S. population.

Figure 4. Average Life Expectancy at Age 65, Men and Women



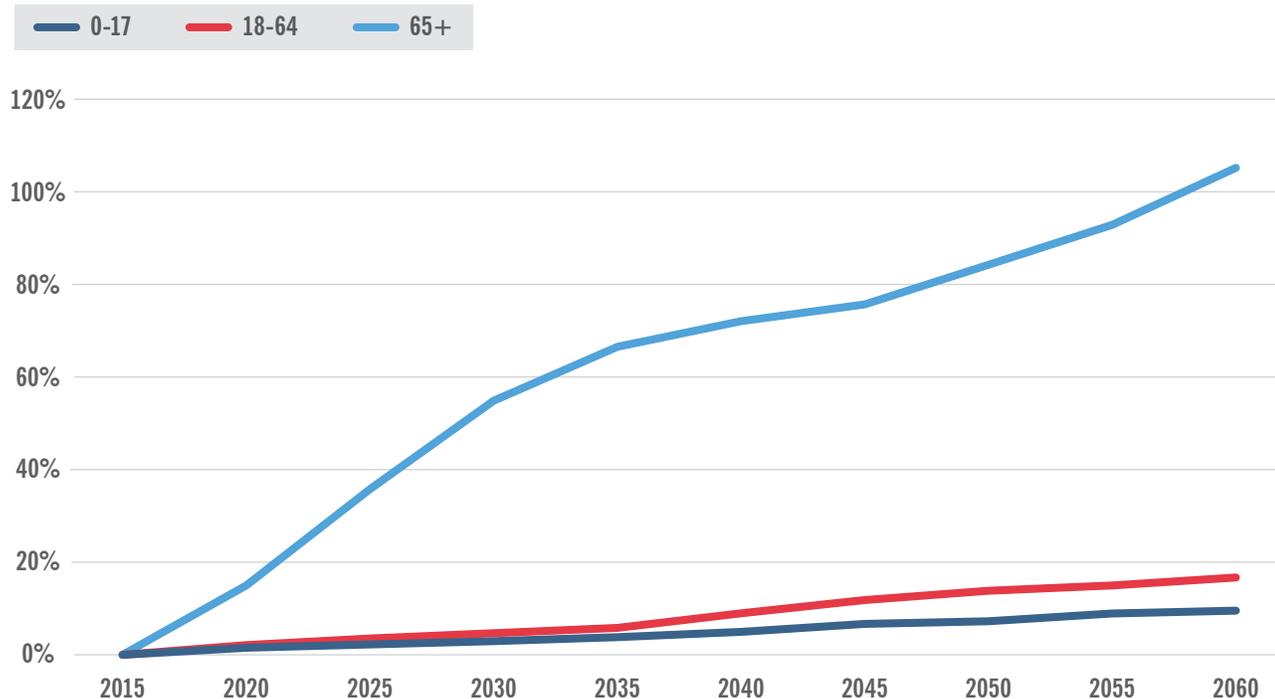
Source: Organization for Economic Cooperation and Development (OECD)

The size of the millennial generation (born between 1981 and 1997) continues to grow as well (largely the result of immigration) and is projected to reach 81.1 million in 2036.⁴ Immigration tends to occur among working-age individuals and can help alleviate many of the economic strains posed by an aging population. Over half of newly admitted immigrants are between the ages of 20 and 44, and just 5 percent are aged 65 and above.⁵ However, even with a large and growing millennial generation, current projections indicate that the U.S. population will continue to age considerably over the next half-century, in part due to extended life expectancies and currently stagnant immigration trends.

Population Aging, A Continuing Trend

Federal forecasts indicate that growth in the share of older Americans will continue into the foreseeable future. According to estimates from the U.S. Census Bureau, the population aged 65 and above will more than double by 2060, from around 47.8 million to 98.2 million. Meanwhile, the number of individuals aged 0 to 17 and 18 to 64 will increase by 12 percent and 18 percent, respectively (Figure 5).⁶

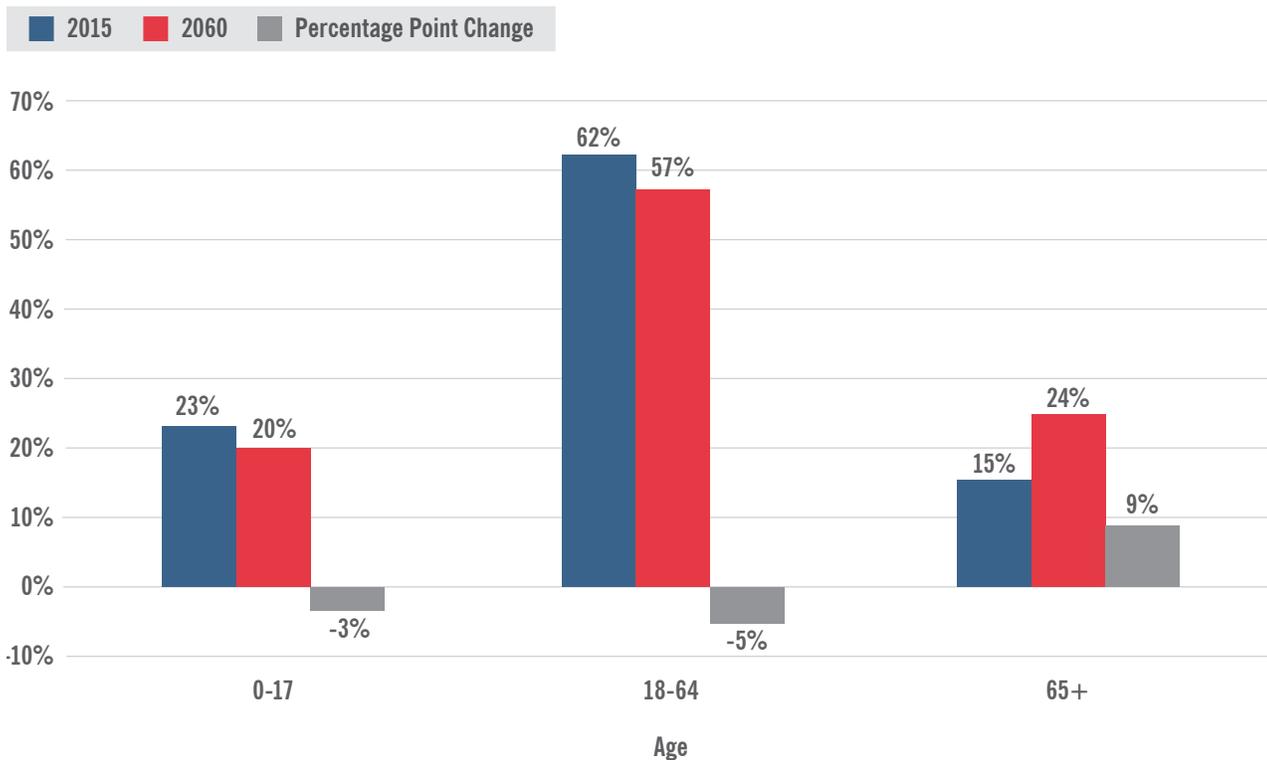
Figure 5. Projected Cumulative Percent Change in Population, by Age (2015-2060)



Source: U.S. Census Bureau, Population Division

These trends will likely result in an even higher share of the 65-and-older age group as a percent of the total population. According to projections, the portion of the population aged 65 and up will grow by 9 percentage points between 2015 and 2060, from 15 percent to 24 percent of the total population. Meanwhile, the working-age demographic (18-64) will decline by 5 percentage points—from 62 percent to 57 percent of the U.S. population. Similarly, the 0-to-17 age group will decline by 3 percentage points—from 23 percent to 20 percent of the population (Figure 6).⁷

Figure 6. Projected Population Composition by Age (2015 and 2060)



Source: U.S. Census Bureau, Population Division

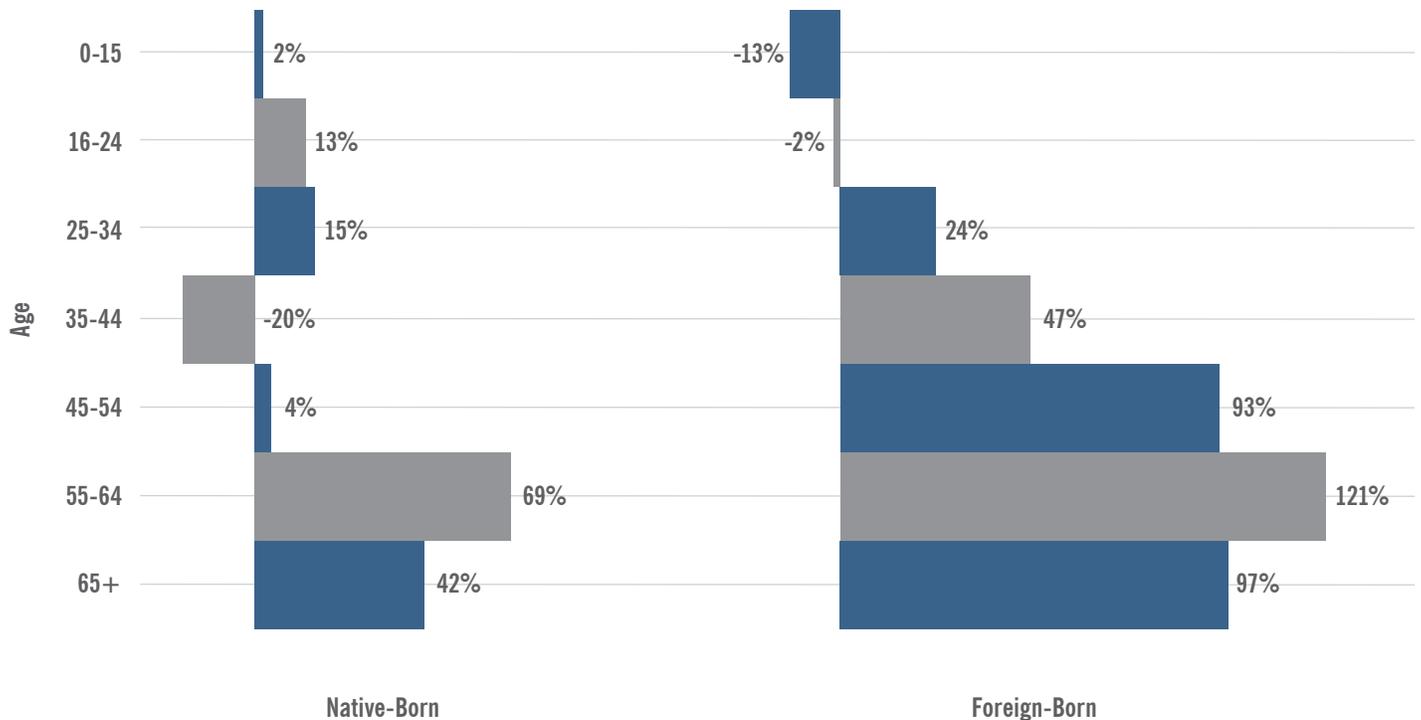
Foreign- and Native-Born Population Trends Differ

The demographics of the foreign-born and native-born populations have diverged over the past two decades. While both groups have seen considerable growth in the 65-plus age group, the older foreign-born population has aged at a faster pace. However, the foreign-born demographic has also experienced far more robust growth in its working-age population.

Between 2000 and 2016, the population aged 65 and older almost doubled among the foreign-born demographic, but it grew by 42 percent among native-born individuals. Similarly, the foreign-born population aged 55 to 64 more than doubled over this span, while the native-born population grew by 69 percent. Regarding younger-aged cohorts, the foreign-born population aged 0 to 15 shrunk by 13 percent over this period, while the native-born population grew by 2 percent. However, the foreign-born demographic also has experienced far more robust growth in the prime-age population than its native-born counterpart. The

number of individuals aged 35 to 44 grew by 47 percent among the foreign-born population, while shrinking by 20 percent among the native-born population. Similarly, the demographic aged 45 to 54 almost doubled among the foreign-born population, while growing by just 4 percent among the native-born population (Figure 7).

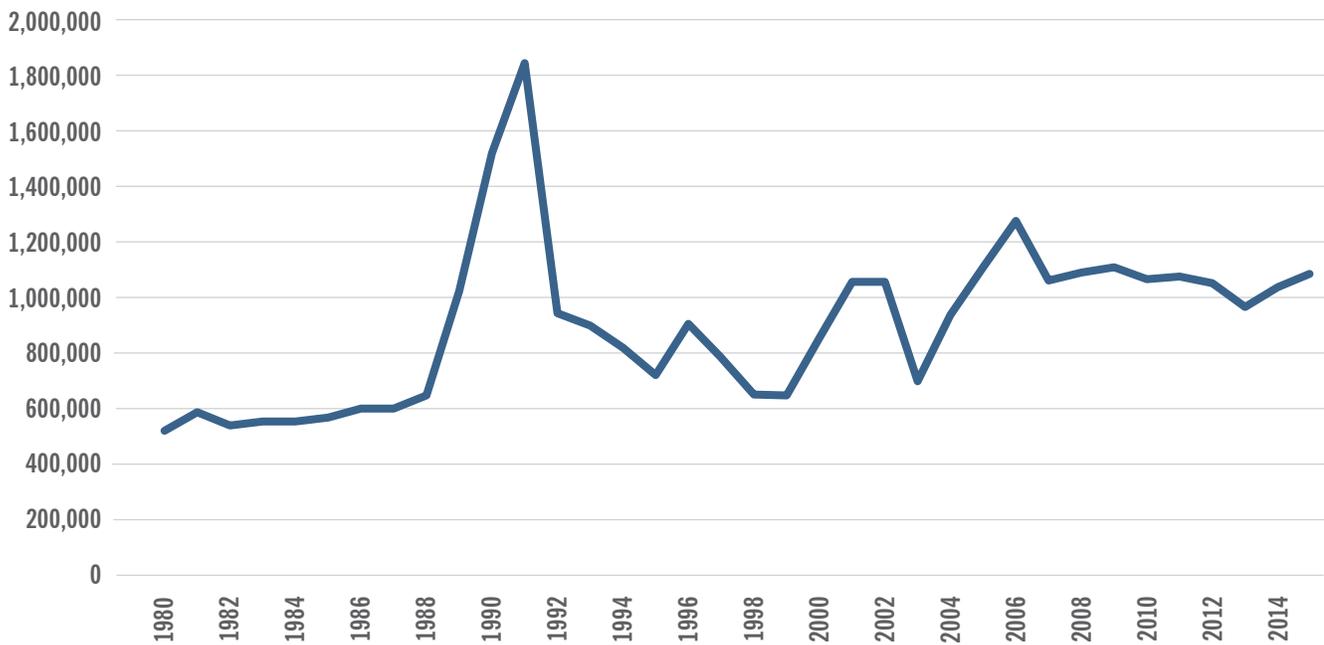
Figure 7. Cumulative Percent Change in the Native- and Foreign-Born Population, by Age (2000-2016)



Source: U.S. Census Bureau, Current Population Survey

The large growth in the older foreign-born population can be in part attributed to an immigration bulge that occurred several decades ago. Between 1988 and 1991, the number of immigrants obtaining legal permanent-resident status almost tripled—from around 640,000 to more than 1.8 million—before declining back to around 650,000 in 1998.⁸ While this figure has increased considerably since then, to about 1 million legal immigrants per year, it remains far below the 1991 peak (Figure 8). This means that many of the individuals who entered during the early 1990s are now entering retirement age. As mentioned previously, immigrants tend to enter the United States during their working years; around half of newly admitted immigrants are between the ages of 20 and 44, and 12 percent between 45 and 54.⁹

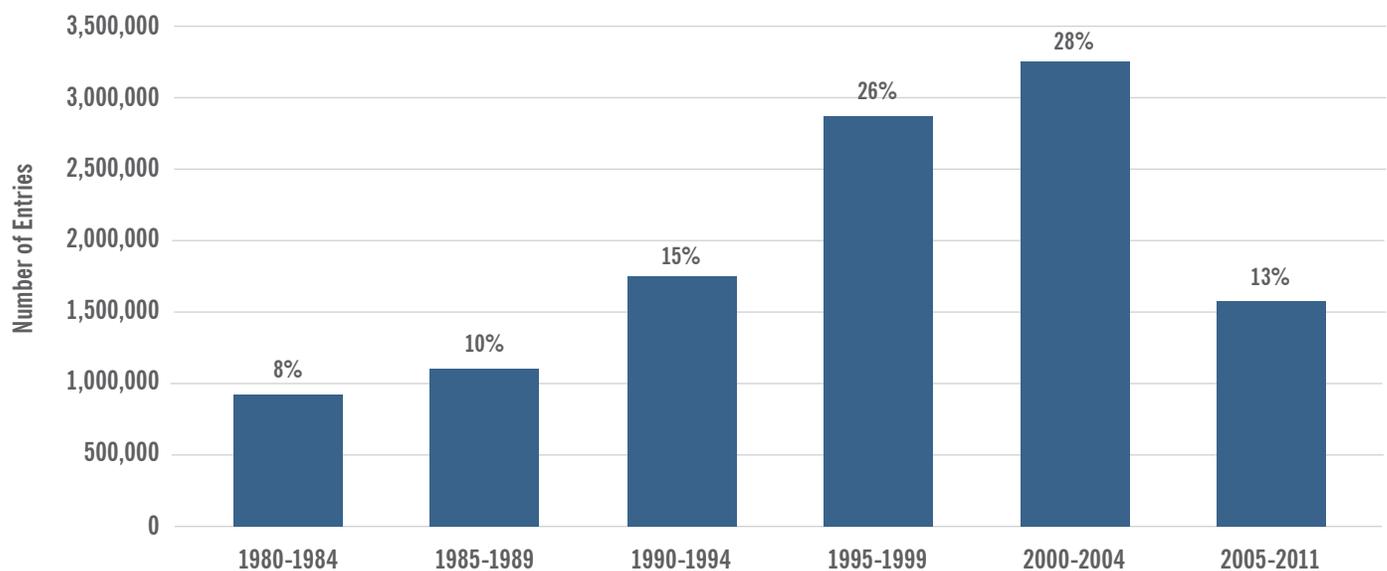
Figure 8. Annual Number of Individuals Obtaining Lawful Permanent Residence (1980-2015)



Source: U.S. Department of Homeland Security

Similarly, the smaller but still robust growth in younger working-age immigrants may be attributed to the fact that undocumented immigration has tapered off in recent years. According to the Pew Research Center, the number of undocumented immigrants living in the United States declined from 12.2 million in 2007 to 11.3 million in 2015.¹⁰ The majority of undocumented immigrants arrived between 1995 and 2004. Just 13 percent arrived between 2005 and 2011 (Figure 9).¹¹

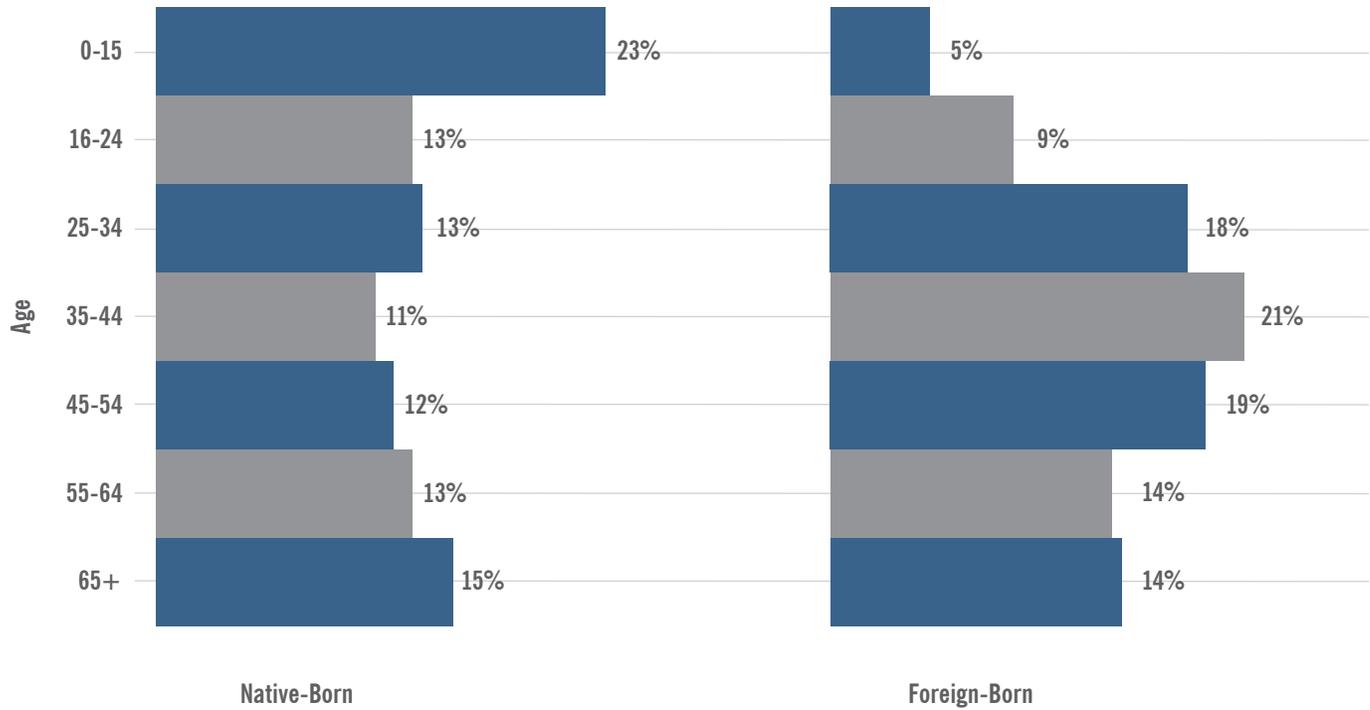
Figure 9. Period of Entry Among Undocumented Immigrants (1980-2011)



Source: U.S. Department of Homeland Security

Despite large increases in the 65-plus age bracket, the population of foreign-born working-age individuals remains significantly younger than its native-born counterpart. Fifty-eight percent of the foreign-born population was between the ages of 25 and 54 in 2016, compared with 36 percent of the native-born population (Figure 10).

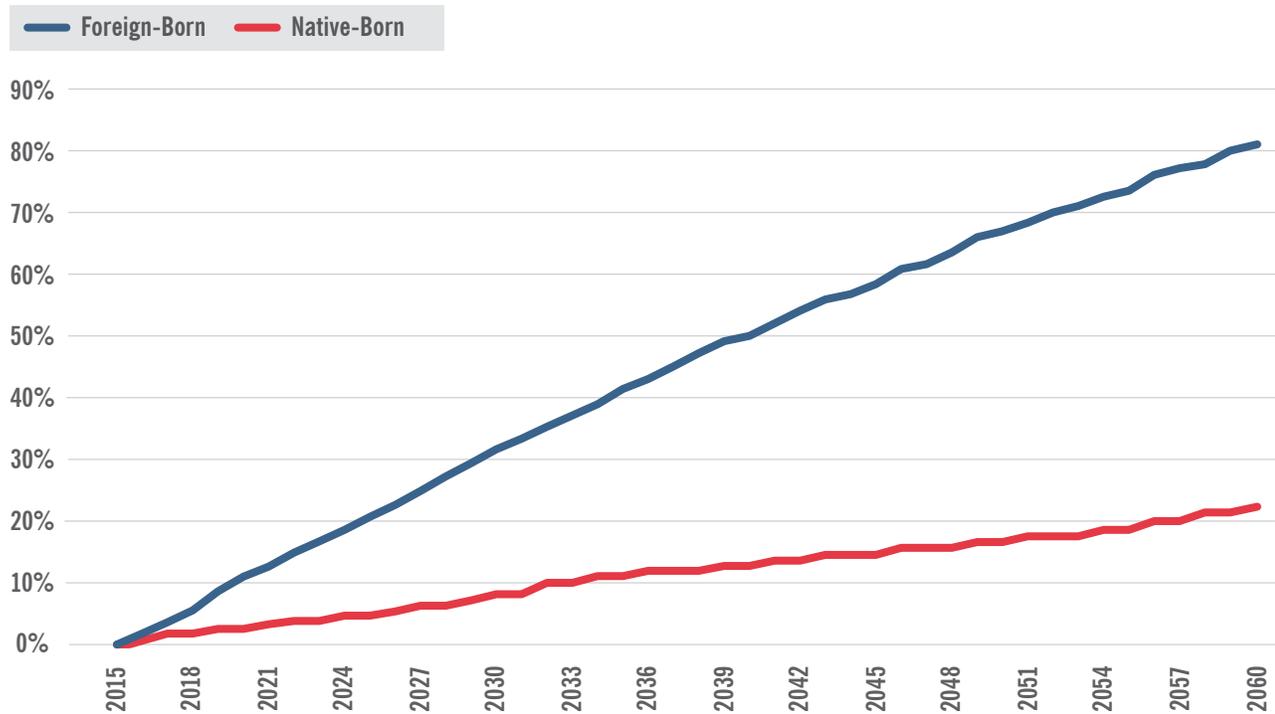
Figure 10. Native- and Foreign-Born Age Distribution (2016)



Source: U.S. Census Bureau, Population Division

Foreign-born population growth is also projected to far outpace native-born growth in the coming decades. The Census Bureau projects that by 2060, the foreign-born population will increase by over 80 percent—from 43.3 million to 78.2 million—while the native-born population is expected to grow by just around 20 percent, from 278 million to 339 million (Figure 11).¹²

Figure 11. Projected Cumulative Percent Change, Native- and Foreign-Born Population (2015-2060)



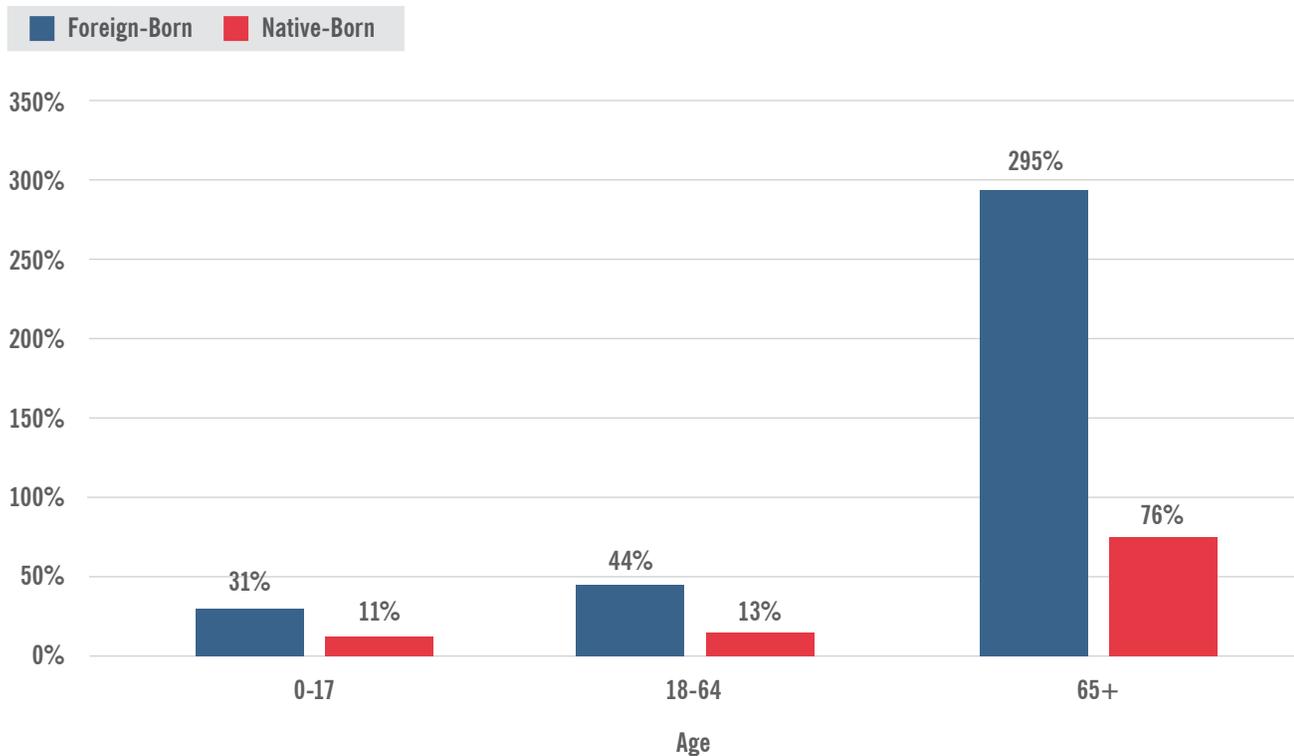
Source: U.S. Census Bureau, Population Division

Foreign-born population growth appears so much larger than native-born growth in part because the population of immigrants is much smaller than the native-born population—around one-sixth the size of the native-born population. This means that smaller absolute increases in the foreign-born population translate into a relatively larger rate of change.

Future growth in the various age brackets is largely projected to mirror past trends—with disproportionate growth among older Americans (both foreign- and native-born), weak growth among the native-born working-age population, and stronger growth among working-age foreign-born individuals by 2060.

Specifically, the population aged 18 to 64 is projected to grow by 44 percent among the foreign-born population and by 13 percent among the native-born population. And the population aged 65 and older is projected to increase by 76 percent among the native-born population—but by close to 300 percent among the foreign-born population (Figure 12).¹³

Figure 12. Projected Percent Change in the Foreign- and Native-Born Populations, by Age Cohort (2015-2060)



Source: U.S. Census Bureau, Population Division

Again, foreign-born population growth appears large compared to native-born population growth because the immigrant population is considerably smaller than its native-born counterpart. For example, the native-born demographic aged 65 and older is more than six times larger than its foreign-born counterpart—around 41.4 million compared with just 6.4 million in 2015.¹⁴

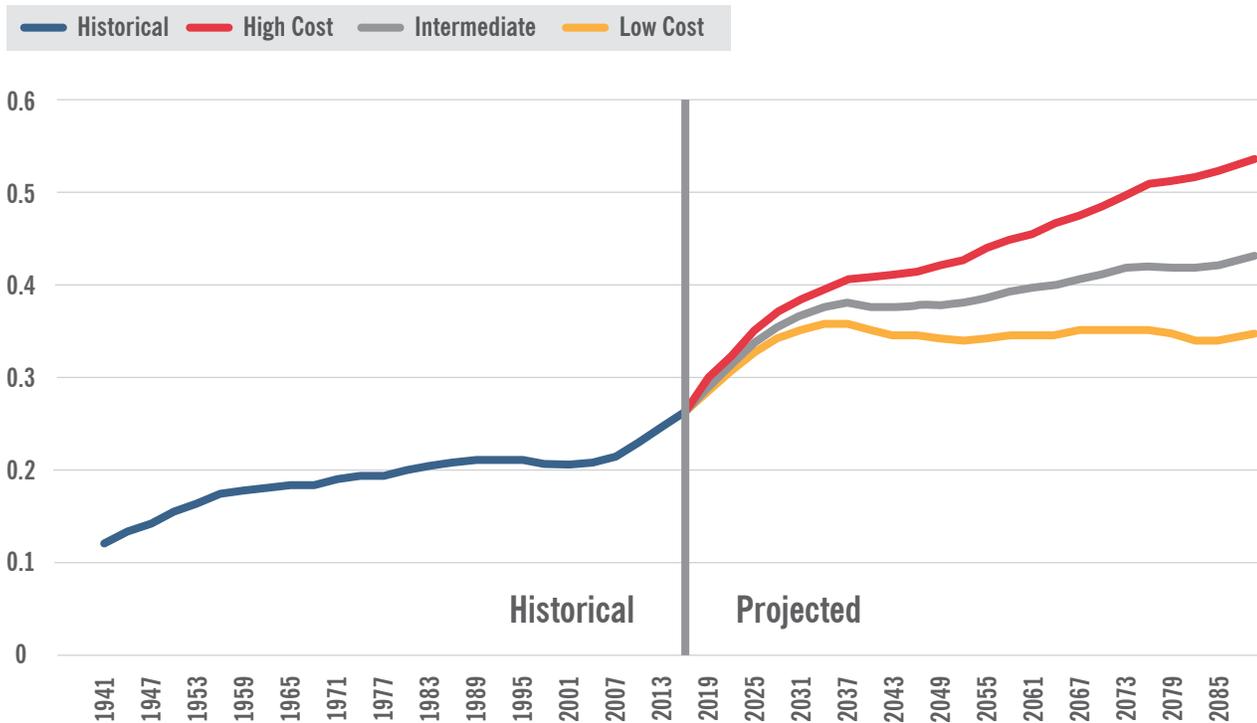
These projections predict large and unsustainable increases in the older populations of both demographics, which should serve as a warning to policy-makers. As explained in the following sections, an aging population has negative implications for Social Security, economic growth, and the national debt. However, reforms that permit greater working-age immigration—over and above current projections—could potentially mitigate some of these negative effects by increasing tax revenue, boosting investment, and spurring demand for goods and services.

An Aging Population Strains Social Security

An aging population and declining birth rates are placing strains on the Social Security system, as a smaller pool of workers finance the benefits for a growing number of retirees. Because Social Security was designed as a “pay-as-you-go” system—meaning, workers’ payroll taxes do not support their own future benefits, but are instead moved into a trust fund that supports current retirees—solvency depends on having enough workers to support the current population of older Americans. Unfortunately, the dramatic drop in birth rates that occurred after 1965 led to a permanent shift in the U.S. age distribution. Advances in health care and longer life expectancies also have contributed to the growth in the older population. Now, as the baby boomers begin entering retirement, the Social Security system faces severe shortfalls.¹⁵ Forecasts indicate that its trust fund will be depleted by 2034, which will lead to immediate and drastic benefit cuts absent earlier policy changes. Last year, BPC issued policy recommendations that would shore up the solvency of the trust fund through adjustments to revenues and benefits.¹⁶ Immigration can also help boost trust-fund solvency by increasing the population of workers that pay into the system (discussed further on page 14).

Figure 13 displays the long-term trend of what is known as the old-age dependency ratio, which measures the number of older Americans (aged 65 and older) divided by the population aged 20 to 64. It shows not only the historical trend, but also projected future trends under three scenarios modeled by the Social Security Trustees.

Figure 13. Aged Dependency Ratio, Historical and Under Three Projected Scenarios



Source: U.S. Social Security Administration

Regarding past trends, the data clearly indicate that the ratio of older Americans to working-age individuals has increased consistently since the 1940s and has increased faster since 2000. The ratio is also projected to continue growing under all three of the Social Security Trustees’ hypothetical scenarios—though at varying rates. The three scenarios— “Low Cost,” “Intermediate,” and “High Cost,” make varying economic and demographic assumptions—about economic growth, mortality rates, fertility rates, and immigration levels, among others. The low-cost assumptions are more favorable to trust-fund solvency and include higher immigration levels, robust economic growth, higher fertility rates, and higher 65-plus mortality rates than the other two scenarios. The high-cost scenario is less rosy in these assumptions, and the intermediate scenario falls in between the two.¹⁷ Unfortunately, even under the most optimistic projection, the old-age dependency ratio increases significantly, meaning that the trust fund will eventually become insolvent even under favorable demographic and economic projections absent significant policy changes. In addition, all three scenarios assume an annual net positive increase in immigration over the next half-century, though again at varying rates. This means that if new immigration were to slow or to stall in the coming decades, trust-fund solvency would likely be more strained than even the high-cost scenario projections indicate, all else equal.

“ *The ratio of older Americans to working-age individuals has increased consistently since the 1940s.* ”

Immigration Can Boost Trust-Fund Solvency

As shown in the Trustees’ solvency projections, immigration is one way to reduce the old-age dependency ratio and to lessen these strains on the U.S. Social Security system. The logic is simple: Immigrants tend to be of working age when they move to the United States. Furthermore, research indicates that foreign-born individuals are more likely to be employed than their native-born counterparts, as native-born individuals tend to have more flexibility to enter retirement, enroll in school, or enter disability.¹⁸ More people working and paying into the Social Security system decreases the old-age dependency ratio, which extends trust-fund solvency. The Trustees’ forecasts recognize this, which is why they include higher levels of immigration in the low-cost scenario assumptions. Specifically, the low-cost scenario assumes immigration levels that are 26 percent higher than the intermediate scenario by the year 2090, and 65 percent higher than the high-cost scenario.¹⁹ In comparison to recent trends, the intermediate scenario assumes similar legal immigration patterns as the past several years but also *higher levels* of undocumented immigrants. This assumption was based on the belief that the Great Recession temporarily increased rates of emigration and decreased rates of undocumented immigration, as many foreign-born individuals returned to their home countries or declined to come to the United States due to a lack of employment prospects.²⁰ The Trustees believed that as the economy recovered, previous levels of immigration would resume. However, it is worth noting that some immigration scholars believe that the decline in undocumented immigration, particularly from Mexico, is a more permanent phenomenon.²¹

In addition, the Social Security Administration (SSA) has modeled the effects of numerous immigration proposals and has, unsurprisingly, found that those which expand the labor force tend to have a positive effect on trust-fund solvency. For example, the SSA modeled the potential effects of the U.S. Senate’s 2013 comprehensive immigration-reform bill—the Border Security, Economic Opportunity, and Immigration Modernization Act—and found that its enactment would have extended trust-fund solvency by an estimated two years, increasing trust-fund reserves by an estimated \$284 billion over 10 years.²² The bill would

have greatly expanded the U.S. labor force with new immigration and granted legal status to an estimated 8 million undocumented immigrants already residing in the United States—allowing many to begin paying Social Security payroll taxes. In addition, it would have eliminated immigration backlogs, resulting in an additional 5 million legal immigrants over 10 years, and it would have expanded the number of temporary visas by around 400,000 annually.²³

Similarly, the SSA modeled the effects of President Barack Obama’s executive actions for immigration, which were announced on November 20, 2014. These executive orders would have created the Deferred Action for Parental Accountability (DAPA) program, which would have allowed legal work authorization for many undocumented parents of American citizens and permanent residents. It also would have expanded the Deferred Action for Childhood Arrivals (DACA) program, originally created in 2012, which provided legal work authorization for undocumented immigrants who arrived in the United States as children. According to the SSA, these executive actions would have increased the number of workers paying Social Security payroll taxes by 248,000 by 2024, and by 400,000 by 2050, extending trust-fund solvency by several months.²⁴ These programs were ultimately blocked from implementation by a federal judge²⁵ and were recently rescinded by the Trump administration.²⁶

“ Undocumented immigration may also have a positive impact on trust-fund solvency. ”

Research indicates that undocumented immigration may also have a positive impact on trust-fund solvency. The rules of the Social Security program stipulate that workers must have at least 40 quarters of covered earnings to qualify for benefits—that is, workers must pay Social Security payroll taxes for 40 quarters before becoming eligible. Because undocumented immigrants are not eligible to collect Social Security, many pay into the system but are unable to collect the benefits associated with those payments. In 2010, \$12 billion more was collected from undocumented workers’ payroll taxes than were paid out in benefits, according to estimates from the SSA.²⁷

It should be noted that immigration alone is an insufficient solution to the long-term problems associated with Social Security solvency.²⁸ Even the SSA’s most optimistic estimates under the low-cost scenario predict large and unsustainable increases in the old-age dependency ratio, which means that adjustments to revenues and/or benefits are necessary to ensure long-term solvency. In addition, a onetime influx of immigrants would do little to extend Social Security solvency over the long-term, as many of these individuals would eventually become eligible for benefits themselves, which would likely be financed by a smaller pool of workers, absent other changes to benefits, revenues, or another baby boom. However, without immigration, the changes required to payroll taxes and/or benefits would likely be significantly larger and would need to be made sooner. In short, past immigration has pushed insolvency further out, and future immigration can make the needed changes less severe.

An Aging Population Hurts Economic Growth

Beyond its impact on Social Security, an aging population can have negative implications for economic growth. Population aging leads to declines in labor-force participation, as individuals exit the workforce in favor of retirement or age-related disability. This reduces a country's productivity, output, and—ultimately—national wealth. In short: An aging population causes a growing share of people to consume more than they contribute to the economy, which can lead to economic stagnation.

Conversely, a growing population is generally a key component of robust economic growth.²⁹ Increasing the number of workers adds to economic growth by the value of the goods or services produced by those additional workers. A growing population can fuel two key components of economic growth: consumption and investment. A larger population increases the demand for goods and services, which leads to a boost in consumption. It can also lead to greater savings deposits in banks, which can then be lent to businesses so they can increase investment and growth.

The existing research tends to support the claim that population growth leads to economic growth. One report found that aging populations in highly developed countries exhibit both a lower labor-force participation rate and lower savings rates, which exert modest downward pressure on economic growth. However, the report also noted that the effect could be mostly mitigated by increasing female labor-force participation and by raising the retirement age—essentially adding more people back into the workforce.³⁰ Another report looked at state-level data in the United States from 1980 to 2010 and found that, on average, a 10 percent increase in the population aged 60 and over decreased the GDP per capita growth rate by 5.5 percent.³¹ The report attributed this decline in growth largely to a diminishing supply of labor, with declining productivity growth as a second cause. Notably, the report found that the negative relationship with aging and growth was consistent across time and was uniform across industries.

Still another report found a contrary position—that growth has recently been *higher* in some countries with rapidly aging populations.³² However, the report did not conclude that an aging population *contributes* to economic growth. Rather, the report posits that aging leads employers to automate jobs that were previously held by humans. While this can increase productivity, and be a boon to economic growth, it can also create domestic job losses as a result of automation.

Immigration Can Boost Economic Growth

Immigration can promote economic growth in an aging society. As the U.S. population continues to age, immigrants provide a vital source of prime-age labor that works to keep the economy dynamic and growing. Furthermore, research suggests that immigrants play a crucial role in innovation and business creation. Over a quarter of all new businesses in the United States are created by immigrants, despite accounting for only 13 percent of the total population.³³ Immigrants also file for patents at nearly twice the rate of the native-born population, even though both demographics have similar postsecondary attainment levels.³⁴

Lesser-skilled immigration also provides a unique value-add to the U.S. economy. Research indicates that lesser-skilled immigrants complement a higher-skilled, native-born workforce, providing them the flexibility to upskill.³⁵

The Congressional Budget Office modeled the potential economic effects of the 2013 Senate Border Security, Economic Opportunity, and Immigration Modernization Act—which, again, would have greatly increased immigration levels—and found that implementation would have boosted economic growth considerably, largely due to the increase in working-age individuals. Specifically, it would have increased the U.S. population by an estimated 16 million people between 2013 and 2033, and would have increased total U.S. economic output by 5.4 percent over this time.³⁶ In addition, BPC modeled the economic effects of this legislation and found that it would increase GDP by 2.8 percent over 10 years and by 4.8 percent over 20 years.³⁷

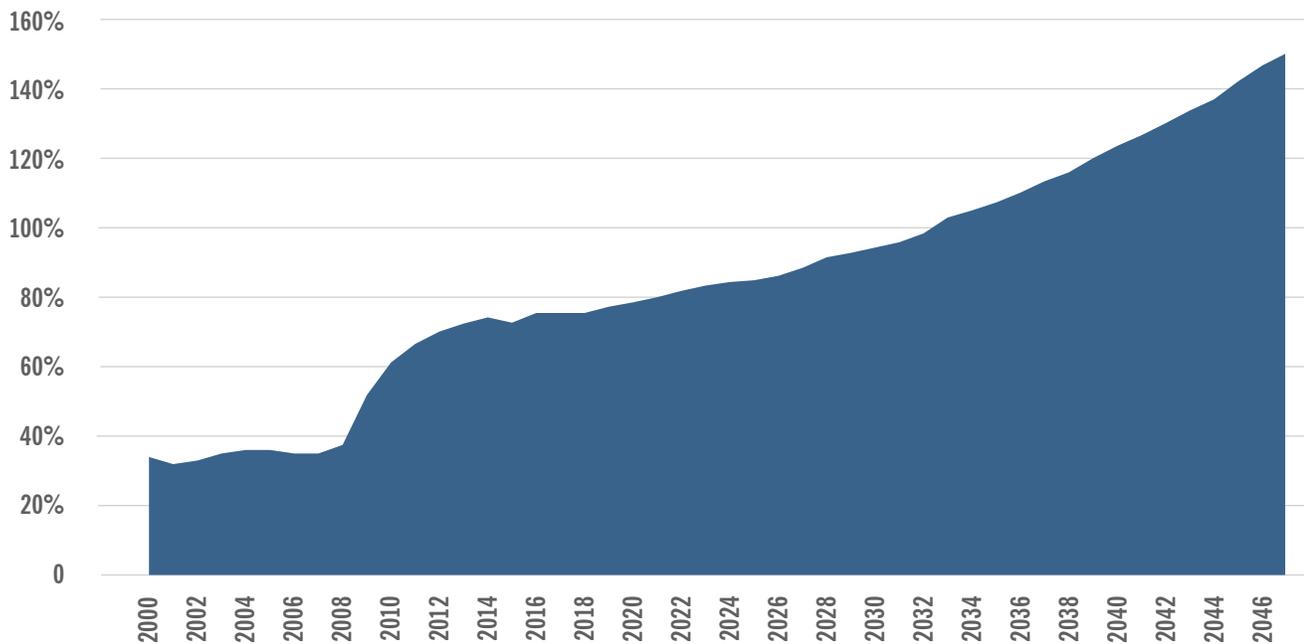
The research is clear that an aging population can have a negative effect on economic growth. Declines in the labor force can be countered by automation technologies to an extent, but this can also lead to increased unemployment among individuals—both native- and foreign-born—who might otherwise remain employed in these industries. Lower employment decreases consumer demand, which further reduces growth. Furthermore, technological solutions to labor-force declines do not support the social safety net. Employers pay less in payroll taxes if they employ fewer workers, and robots do not contribute to the Social Security system.

On the other hand, immigration can boost economic growth. Not only do immigrants add value to the economy through employment, but they are also consumers, driving demand for goods and services, which further contributes to a healthy economy.

The State and Federal Budgetary Effects of an Aging Population

The U.S. national debt is on an unsustainable path. As a percent of GDP, federal debt is larger now than at any point in the nation's history besides the World War II era. If current trends hold, and laws are not altered to tackle this challenge, the Congressional Budget Office projects that the national debt will swell to 150 percent of GDP by 2047, from 77 percent as of 2016.³⁸

Figure 14. Federal Debt Held by the Public, Percentage of GDP (2000-2047)



Source: Congressional Budget Office

An aging population is one of the primary factors driving up the national debt. As the baby boomers retire, they are beginning to collect benefits that are financed by a shrinking pool of tax revenue from a shrinking workforce. The mandatory spending on these programs reduces the amount of revenue the government can spend on other discretionary programs, including defense, foreign policy, and domestic programs. To date, the government has borrowed money to make up this difference, increasing the annual budget deficits and the overall public debt. The aging population means that this gap will widen over time and eventually force the government to increase taxes, cut benefits, or perform a combination of both.

Budgetary Effects of Immigration

As described above, immigration can have positive effects to balance out some of the economic challenges presented by an aging population, by promoting growth and helping to sustain Social Security. Boosting immigration can also have a significant effect on federal and state budgets, but numerous factors determine whether that effect is positive or negative. This is because immigration can grow the tax base—which increases federal revenue and decreases the old-age dependency ratio—but can

also increase demand for benefits, which boosts federal spending. These forces work in opposite directions, and the net effect ultimately depends on the characteristics of the workers being admitted, such as age, skill level, and propensity to work, as well as their legal status and the social programs for which they are eligible.

Despite this uncertainty, research suggests that boosting immigration would likely lead to net savings at the federal level—because immigrants tend to contribute to economic growth and many do not qualify for high levels of federal benefits. At the state level, however, immigration may lead to budget strains—largely because immigrants and their children are eligible for higher levels of state and local benefits, mainly in the public-school systems.

Federal Budgetary Effects

The process by which immigration can increase federal tax revenue is relatively simple. Immigration increases the labor force and decreases the old-age dependency ratio, which increases tax receipts and expands the pool of workers that support current retirees. Furthermore, as previously mentioned, immigration can grow the economy in other ways. Immigrants are disproportionately entrepreneurs, and lesser-skilled immigration allows native-born workers to upskill and specialize, which can lead to higher wages—and growth in tax revenue.

Conversely, immigrants can strain the federal budget if a high proportion receive federal benefits—that is, if the growth in benefits paid out exceeds the increased tax revenue accrued from immigration. Whether this would occur would largely depend on the legal status of the immigrants in question, as well as their demographic characteristics. For example, a proposal that would grant legal status to existing undocumented immigrants, a large percentage of whom are lesser-skilled and earn lower incomes, would make them eligible for increased federal benefits and would likely strain the federal budget. However, a policy that increased immigration among able-bodied, prime-age workers could lead to net budgetary savings—especially if these workers did not qualify for high levels of federal benefits.

As mentioned previously, immigrants tend to arrive at working age, and a recent study found that immigrants have a higher propensity to work than their native-born counterparts.³⁹ Large numbers of undocumented immigrants also pay taxes. Unauthorized immigrants can obtain an Individual Taxpayer Identification Number (ITIN) in lieu of a Social Security Number, which allows them to pay federal taxes—as well as collect certain tax benefits, namely the Child Tax Credit for their U.S.-born citizen children. In 2010, over \$870 million was collected in income taxes from 3 million ITIN filers.⁴⁰ These individuals are also required to pay into Social Security and Medicare. According to the Internal Revenue Service, ITIN filers pay over \$9 billion per year in these payroll taxes.⁴¹

Regarding benefit eligibility, undocumented immigrants and temporary visa holders are generally eligible for very few federal benefits; lawful permanent residents, on the other hand, are mostly eligible for the same benefits as American citizens—though some programs require a five-year waiting period before eligibility kicks in. The below table breaks down the benefit eligibility of several major federal programs by immigrant type.

Table A. Federal Program Eligibility by Immigration Status

	Undocumented	Temporary Work Visa	Lawful Permanent Residents
Tax Credits (Refundable)	Ineligible for most tax credits; ITIN holders can receive the Child Tax Credit	Dependent on time in the U.S., visa type, and other factors	Eligible
Pell Grants & Student Loans	Ineligible	Ineligible	Eligible
Unemployment Insurance	Ineligible	Eligible for temporary residents with work authorization	Eligible
Supplemental Security Income (SSI)	Ineligible	Ineligible	Available after five years and 40 quarters of work credit
Supplemental Nutrition Assistance Program (SNAP)	Ineligible	Ineligible	Available for LPR's under 18, or LPR's who wait five years
Social Security	Ineligible	Eligible	Eligible
Medicaid	Emergency service only	Emergency service only	Emergency service for first five years (full service after five years)
Health Care Premium and cost-sharing assistance	Ineligible	Eligible	Eligible
Children's Health Insurance Program (CHIP)	No federal care; some states cover for labor and delivery, prenatal, and postpartum care	No federal care; some states cover for labor and delivery, prenatal, and postpartum care	Full coverage after five years, though this can vary by state
Temporary Assistance for Needy Families (TANF)	Ineligible	Not eligible for federal matching; some states cover with state-only funded cash assistance	Not eligible for federal matching; some states cover with state-only funded cash assistance.

Sources: Congressional Budget Office and U.S. Department of Health and Human Services

In 2013, BPC analyzed the federal budgetary effects of several different hypothetical immigration scenarios. Importantly, it modeled the potential effects of the Border Security, Economic Opportunity, and Immigration Modernization Act, and found that it would reduce the federal deficit by \$180 billion over 10 years, and \$1.17 trillion over 20 years—leading to an annual reduction of \$60 billion. It also modeled the effects of a scenario that prioritized high-skill immigration and found that this would reduce the deficit by \$1.27 trillion over 20 years—or around \$65 billion per year. The reductions in both scenarios were the result of increased economic growth stemming from an influx of younger workers—which boosted employment and tax receipts.

Conversely, BPC also modeled a scenario in which all undocumented immigrants left the United States. The model also assumed that all undocumented immigration would cease going forward. Under this scenario, the deficit would increase by around \$800 billion over 20 years.⁴²

State and Local Budgetary Effects

Research suggests that immigration may pose net budgetary costs on state and local governments. This is not to say that immigrants do not pay state and local taxes. In fact, even undocumented immigrants pay close to \$12 billion per year in such taxes, according to research from the Institute on Taxation and Economic Policy.⁴³ The costs stem from benefit eligibility, as immigrants are eligible for more benefits at the state and local level than at the federal level.⁴⁴ For example, immigrant children are more likely to be non-native English speakers, which can cause schools—which are largely funded by state and local tax revenue—to expend more resources in teaching them. According to a report from the National Academy of Sciences, immigration on average leads to a net cost of \$1,600 per year per immigrant at the state and local level combined. However, it should also be noted that the *children of immigrants*, once they enter the workforce, lead to net budgetary savings at the state and local level—at around \$1,700 per person for the second generation of immigrants and \$1,300 per person for the third generation. This occurs because second- and third-generation immigrants tend to have higher incomes and fewer children than first-generation immigrants.⁴⁵ This leads to larger tax revenue and less strain on government benefits, particularly in public-school systems.

In sum, the extent to which immigration can lead to budgetary savings is dependent on the extent to which the foreign-born population contributes to tax revenue, as well as their eligibility for government benefits. On the federal level, a high propensity to work coupled with limited benefit eligibility for undocumented workers and temporary visa holders likely translates to net budgetary savings. On the state level, higher benefit eligibility—namely public schools for children—probably leads to additional costs. However, upon adulthood, research suggests that, on average, second-generation immigrants contribute higher levels of tax revenue, which likely leads to budget savings at the state and local level.

Conclusion: Immigration Helps Address America's Demographic Challenges

There is little doubt that the aging of the U.S. population will lead to long-term economic and social woes. Declining birth rates and increased longevity are working to increase the proportion of retirees to working people, a trend that will continue indefinitely into the future. This will place strains on the Social Security system, which relies on working people to support current retirees. It will also likely put downward pressure on economic growth, which depends on a large and dynamic workforce. These factors could exacerbate the federal debt, as economic stagnation will lead to declining tax receipts at a time when increasing numbers of retirees are claiming federal benefits.

Immigration has the potential to help mitigate these trends. Foreign-born individuals tend to immigrate during their working years, which can increase the old-age dependency ratio. Immigrants also have a higher propensity to work than their native-born counterparts and are disproportionately entrepreneurs, which can increase economic dynamism and contribute to economic growth. Though first-generation immigrants can pose challenges for state and local budgets, research indicates that second- and third-generation immigrants can boost revenue for state and local governments. And evidence suggests that even first-generation immigration can lead to federal budgetary savings as well.

“ It is crucial that lawmakers implement smart, data-driven, and bipartisan immigration reform. ”

Unfortunately, however, current immigration projections are insufficient to lessen the negative effects of an aging population. Foreign-born individuals who come to the United States eventually grow old and retire as well, and projected future working-age immigration trends are too low to support the growing ranks of retirees—both native- and foreign-born. As such, it is crucial that lawmakers implement smart, data-driven, and bipartisan immigration reform—so the United States can better-harness the economic potential of foreign-born individuals who are eager to move here to improve the lives of all Americans.

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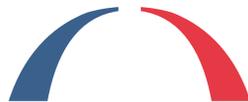
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