

CBO Report Confirms a Positive Impact of Immigration Reform on Federal Budget

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In its January 2015 report *How Changes in Immigration Policy Might Affect the Federal Budget*,¹ the nonpartisan Congressional Budget Office (CBO) confirms that a fair and inclusive U.S. immigration policy would have a net positive impact on the federal budget. The CBO assessed the impact of various immigration policy proposals on the federal budget, looking specifically at the costs associated with changes to eligibility and program participation as well as new revenues from higher wages and a larger tax base. The proposals CBO reviewed include a broad legalization program for undocumented immigrants; shifting eligibility for lawful permanent residence from family-based to work- and “merit”-based eligibility; increasing the number of temporary visas granted every year; and increasing funding for border security and interior enforcement.

Potential Impact on Access to Benefits

Social Security and Medicare

The CBO confirmed that the noncitizen population in the United States is significantly younger than the citizen population. Only 7 percent of noncitizens are age 65 or older, compared to 15 percent of the citizen population. Significantly, 74 percent of noncitizens are of working age, compared to 51 percent of the citizen population. Noncitizens are much *more* likely than citizens to be healthy, of working age, and able to contribute to Social Security and Medicare, and are much *less* likely to need these programs in the near future.

Granting lawful immigration status to currently unauthorized workers would increase federal coffers that currently support citizens claiming Social Security and Medicare benefits. The CBO cites estimates indicating that over 50 percent of unauthorized workers pay income taxes and Social Security and Medicare taxes (aka payroll taxes) through their employers, even though they are not eligible for benefits under these programs. This figure would only increase if more workers were given lawful status.

At the same time, any future spending for Social Security and Medicare for a newly authorized population would not increase in direct proportion to the number of people granted status, because earnings for noncitizens during their working years—particularly those in which they were not authorized to work—were lower.

Other Federal Public Benefits

As the CBO notes, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) denies eligibility for all of the major federal health care and public benefit programs to most noncitizens. The few who may become eligible for federal public benefits often face a five-year or longer waiting period before gaining access to these programs. Even when they do gain access, noncitizens who are eligible for federal public benefits such as SNAP (aka food stamps) and TANF (aka cash assistance) generally have much lower participation rates than U.S. citizens. Finally, newly

¹ <https://www.cbo.gov/publication/49868>.

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work-authorized workers are more likely to become ineligible for means-tested programs once they obtain work authorization and their incomes increase.

Impact on Tax Revenues

While any program that grants lawful immigration status and work permits to unauthorized workers might increase access to and use of federal programs, it will also increase federal tax revenues and yield other positive economic effects such as increased productivity of labor and capital, and increased educational attainment, income, earnings, and tax payments.

The CBO concludes that proposals to legalize unauthorized populations would increase tax revenues and contributions made to Social Security, Medicare, and other federal programs if these noncitizens were permitted to work. With an estimated 50 percent of unauthorized workers already paying income and payroll taxes, federal tax revenues would also increase. In 2013, the CBO had found that S.744, the Senate's comprehensive immigration reform bill, would have a net federal fiscal benefit of \$897 billion over 20 years.

The cost of proposals that might provide greater access to the Earned Income Tax Credit (EITC) would be offset by increases in wages and a larger tax base of newly legalized workers. This is due partly to the fact that, as the CBO notes, "the EITC has the most stringent requirements for noncitizens." Furthermore, workers who earn more would eventually become ineligible for the EITC. Similarly, with respect to means-tested benefits, these workers will not be eligible for those programs as their incomes increase.

Impact on Federal Health Care Spending

The CBO report confirms that immigrant eligibility for Medicaid and CHIP under various immigration policy proposals would remain extremely limited due to restrictions under existing law.

Newly legalized immigrants who are left without affordable health care options will be forced to rely on emergency services for treatment, which is less cost-effective than providing access to health programs.

As the CBO finds, immigrants tend to be younger and healthier than their U.S. citizen counterparts. This means that they seek health services at lower rates while helping to stabilize insurance markets when they are included.

The CBO confirms that while various legalization scenarios may produce additional federal health care costs, especially as they relate to requirements under the Affordable Care Act, healthy workers improve the U.S. economy because they are more productive and pay more in taxes. Providing access to affordable health care programs ensures that we have a stable, healthy workforce.

Impact of Enforcement Spending

The CBO assessed various potential proposals to increase enforcement at the border and interior of the United States, which generally require additional funding for personnel and infrastructure. As the CBO notes, the specific fiscal impacts of enforcement-only proposals depend on the type and level of enforcement they mandate (e.g., how many additional border patrol officers they require). In 2013, the CBO estimated that H.R. 2278, an interior enforcement-only House bill, would cost \$22.9 billion to implement over five years. Reaffirming its previous findings, the CBO estimates that increasing immigration enforcement would likely reduce tax revenues, by reducing the fiscal benefit of immigration inflows.

Moreover, the CBO notes that the use and potential expansion of the E-Verify electronic employment eligibility verification system, absent any other changes to immigration policy, might result in decreased federal tax revenues. The CBO predicts that employers who face a greater likelihood of penalties without any opportunities for their workers to obtain work authorization would no longer withhold income and payroll taxes from their unauthorized workers and would instead move them outside of the tax system.