Migration and the Canada Pension Plan

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Background

- Many of the parameters required for CPP actuarial forecasts depend upon political decisions (and public opinion)

- Understanding the context is thus essential
Canada is in the midst (near the end?) of a massive immigration system restructuring

- **Motivation**
  - Declining labour market outcomes of new arrivals
  - Mismatches with employment demand
    - Occupational and geographic
  - Public administration/legislative rigidities
    - Up to 4 or more year delays in processing applications
    - An inability to prioritize applications

- Arguably, largest restructuring since 1967 when the “points system” was introduced
Annual Earnings of Immigrants
Compared to those of Comparable Canadian-Born, Full-Time Full-Year Workers aged 16 to 64, Males

Source: Canadian Census of Population, Picot and Sweetman (2005)
Predicted values based on a econometric model
Having incomes below the “poverty line” (LICO) is increasingly common for immigrants.

Pre-tax, Post-transfer Low-Income (LICO) Rates


Source: Reformatted from Statistics Canada, Picot, Lu & Hou (2009)
Various aspects to restructuring

- Most relevant changes
  - Federal policy regarding immigrant selection
    - Esp. economic class
  - The temporary program
    - Changes to both reporting and programs

- Related changes
  - Fed settlement services
  - Fed Citizenship Act
  - Prov settlement and integration
    - E.g., Fairness Commissioner
  - Prov changes to PNP programs
Permanent Immigration to Canada by Major Class from 1985 - 2013

<table>
<thead>
<tr>
<th>Year</th>
<th>Economic Class</th>
<th>Family Class</th>
<th>Refugees</th>
<th>Others</th>
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<tbody>
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<td>2013</td>
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</tbody>
</table>

Source: CIC’s Facts and Figures
## Economic class programs – 2014

(CIC’s Facts & Figures 2014)

<table>
<thead>
<tr>
<th>Economic Class Immigrants</th>
<th>Count</th>
<th>Percentage of Perm. Residents</th>
<th>Percentage of Class</th>
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<tbody>
<tr>
<td>Cdn Experience Class</td>
<td>14,200</td>
<td>5.5</td>
<td>8.6</td>
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<td>- P.A.</td>
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<tr>
<td>- Sp &amp; Deps</td>
<td>9,586</td>
<td>3.7</td>
<td>5.8</td>
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<tr>
<td>Skilled workers</td>
<td>28,773</td>
<td>11.0</td>
<td>17.4</td>
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<tr>
<td>- Sp &amp; Deps</td>
<td>38,712</td>
<td>14.9</td>
<td>23.4</td>
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<td>Provincial/territorial nom.</td>
<td>21,003</td>
<td>8.1</td>
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<td>- P.A.</td>
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<tr>
<td>- Sp &amp; Deps</td>
<td>26,625</td>
<td>10.2</td>
<td>16.1</td>
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<td>Skilled trades</td>
<td>- P.A.</td>
<td>--</td>
<td>0.1</td>
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<tr>
<td>- Sp &amp; Deps</td>
<td>--</td>
<td>--</td>
<td>0.2</td>
</tr>
<tr>
<td>Entrepreneurs</td>
<td>131</td>
<td>0.1</td>
<td>0.1</td>
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<tr>
<td>- P.A.</td>
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<tr>
<td>- Sp &amp; Deps</td>
<td>368</td>
<td>0.1</td>
<td>0.2</td>
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<td>Self-employed</td>
<td>159</td>
<td>0.1</td>
<td>0.1</td>
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<td>- P.A.</td>
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<tr>
<td>- Sp &amp; Deps</td>
<td>240</td>
<td>0.1</td>
<td>0.1</td>
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<td>Investors</td>
<td>2,082</td>
<td>0.8</td>
<td>1.3</td>
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<td>- P.A.</td>
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<tr>
<td>- Sp &amp; Deps</td>
<td>5,371</td>
<td>2.1</td>
<td>3.3</td>
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<tr>
<td>Start-up Business</td>
<td>- P.A.</td>
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<tr>
<td>- Sp &amp; Deps</td>
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<tr>
<td>Live-in caregivers</td>
<td>11,693</td>
<td>4.5</td>
<td>7.1</td>
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<td>- P.A.</td>
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<tr>
<td>- Sp &amp; Deps</td>
<td>5,999</td>
<td>2.3</td>
<td>3.6</td>
</tr>
<tr>
<td>Subtotal</td>
<td>165,089</td>
<td>63.4</td>
<td>100.0</td>
</tr>
</tbody>
</table>
Flow of Economic Sub-Classes, 1994 - 2013

Number of Skilled Workers

Number of all Classes except Skilled Workers

Year


Source: CIC’s Facts and Figures
BIG: Express Entry
“Processing Framework”
Started Jan 2015

- Idea developed in New Zealand
  - Australia implemented a version a half year before Canada

- NOT an immigration class, but an application/processing framework for major sub-classes of economic class
1) Potential immigrants “express an interest” in immigrating
   - Provide information
   - Employers/provinces can “ask” individuals to enter the pool
2) Applications drawn from the pool by

- Employers, federal & provincial governments
  - Fed gov might use points system to select into skilled worker program from the pool (select highest points!)
- Draw from pool every (say) 2 weeks
- If not nominated within (say) 1 year exit pool
3) Processing by Fed Gov only starts after nomination

- Fast if no problems with info provided on expressing interest
- No guarantee of processing for applicants
- Where nominator not federal gov, effectively a “double threshold” model
  - Prioritizes those who meet a minimum threshold
    - Security, health, minimum language skills

- KEY: Employer (or provincial) selection cumulative to that of the federal government
  - Leverages information sets outside of fed gov, esp. that of employers
From “minimum threshold” to “competitive” model

- Fundamental change in approach to selection
- Major push to improve labour market outcomes
Can Canada sustain a “competitive” selection model?

- Barring “pauses” on accepting new applicants, in recent years Canada has received about 450,000 applications while it had a target intake of 250,000
  - Historically, this lead to large backlogs and delays in processing
  - These delays have been well known and discouraged applications
A recent attempt by Canada to reduce the number of applications by adding occupational restrictions was misunderstood as signaling a demand for immigrants in the listed occupations and served to increase the number of applications – despite the limits on the range of occupations accepted.

Globally, there appears to be far more demand to immigrate to wealthy developed nations than there are attractive immigrant destinations.

- In fact, there appears to be an excess supply of potential immigrants.
While there may be competition for the extremely talented, there is no shortage of candidates for countries such as Canada that have large-scale immigration programs.

- Even taking the new more stringent selection criteria into account.
- While the population of some major sources countries (esp. China) is aging, many retain something close to a traditional age pyramid with many young people interested in moving.
Reforms and age-at-immigration

- However, despite there not being a shortage of potential immigrants

- It has long been recognized that the average age-at-immigration has been creeping up

- Age-at-immigration has economic ramifications on several fronts
Canada: Permanent Residents by Age of Landing 2003 and 2014

CIC’s Facts and Figures, 2014
It’s not clear how the reforms will impact age-at-immigration

- Change in points for age, and the foreign-student stream of the Canadian Experience Class, favour younger applicants
- But, employers are also given a role in selection and they may well prefer slightly older workers
  - This also affects the Provincial Nominee Program

This is particularly important for ratio of years of work : years of retirement
Immigration level & the business cycle

- From 1947 to 1990 Canada adjusted immigration levels with the business cycle

- Since about 1990 the flow has been acyclical
Canadian Unemployment & Immigration Rates (1950-2009)

CIC's Facts and Figures, and Statistics Canada
Immigration level

- Annual permanent immigration rate (flow in)
  - Canada: roughly 0.70-0.80% of population
    - Of course, not all stay – more later
    - In contrast, US: 0.31-0.37% of population

- Also appreciable temporary population
  - Temporary stock about 4 times permanent flow
Success and immigration structure

- If the current reforms are successful
  - e.g., new immigrants’ labour market outcomes improve
- then it is possible that the system’s structure will stabilize for an extended period

- If unsuccessful
  - e.g., if poverty rates among new immigrants are stagnant or continue to increase
- then more changes are likely & the required CPP forecast parameters are quite uncertain
Success and immigration levels

- If successful
  - Immigration levels may be slowly increased
    - i.e., Count and percentage may increase

- If not successful
  - Immigration levels will likely stagnate
    - i.e., Decrease in percentage-of-the-population terms, and maybe even in the annual count

- In the interim (while success is determined) relative stability is likely
  - In percentage terms, slow increase in counts possible
Out migration

- Economic Class immigrants are more sensitive to the business cycle than Refugees & Family Class migrants
  - Those who arrive in a recession are less likely to remain
  - No data yet for most recent recession

- Increasing circular migration is likely to increase relative to once-and-for-all out migration
Departures (Are immigrants staying?)
e.g., Retention rates for males age 25-35 at landing

<table>
<thead>
<tr>
<th>Year</th>
<th>Landings</th>
<th>5 years</th>
<th>10 years</th>
<th>15 years</th>
<th>20 years</th>
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<tbody>
<tr>
<td>1981</td>
<td>18,040</td>
<td>78.6</td>
<td>70.0</td>
<td>67.1</td>
<td>65.5</td>
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<td>1986</td>
<td>15,580</td>
<td>84.5</td>
<td>81.5</td>
<td>78.5</td>
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<td>1991</td>
<td>40,860</td>
<td>77.7</td>
<td>73.4</td>
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<td>1996</td>
<td>32,920</td>
<td>77.0</td>
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Source: Statistics Canada, Aydemir and Robinson, 2006
In general, many researchers expect an increase in “circular” and “multi-step” migration

For CPP modelling purposes, this would appear as a modest and gradual increase in the rate of out-migration

Holding the intake constant, it implies a somewhat lower rate of net migration

- Of course, the intake may adjust in response – hard to know with certainty
Life Expectancy

- Healthy immigrant effect
  - Historically, on average immigrants were observed to be healthier at entry than the Canadian born of the same age and sex
  - But, converged toward the national average with time in Canada
  - Appears to have implications for life expectancy
Limited recent research suggests that this may be changing (more work required)
- Health status gap appears to have closed

Accumulating evidence on importance of fetal and early childhood conditions (e.g., nutrition) on life expectancy in old age

These issues may have implications for the rate of change of life expectancy for those in receipt of CPP
Temporary Programs

- Major changes in definitions and some changes in program parameters

- Changes in definitions can confuse the discussion

- TFW program now has a very narrow definition
Not a clean split, but in part old TFWPs now fall into 2 “new” categories

- TFWPs (Temp. Foreign Worker Programs)
  - Require a Labour Market Impact Assessment
    - LMIA – formerly Labour Market Opinion (LMO)
  - Jointly managed by ESDC and CIC

- IMP (International Mobility Program)
  - Does not require an LMIA
    - Very diverse (e.g., spouses of TFWPs, intra-company transfers; medical residents, religious workers)
Comparing new & old definitions of Temporary Foreign Workers

- Calendar year 2012
  - CIC’s 2012 vs. 2013 publications/definitions
  - i.e., 2 ways of counting the same people

<table>
<thead>
<tr>
<th></th>
<th>New</th>
<th>Old</th>
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<tbody>
<tr>
<td>Dec 31 stock</td>
<td>86,710</td>
<td>192,623</td>
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<tr>
<td>Annual flow</td>
<td>116,799</td>
<td>491,547</td>
</tr>
</tbody>
</table>

CIC’s Facts and Figures
Temporary work permits issued by type and year, unique persons using new definitions (2004 to 2014 – CIC’s Facts & Figures)

TFWP - International Mobility Program
International Students
Humanitarian & Compassionate
Permanent Residence Purposes
Study Purposes
Annual Flow of Temporary Residents
(Longer-term perspective; old definitions: CIC’s Facts & Figures)

Aside: Note effect on refugee flows of safe 3rd country agreement with US.
Effective Dec 29, 2004
Forecasts

- The new, and high by historical norms, flows of temporary residents look like a phenomenon that is unlikely to decrease in the near future.
- The TFW and IMP programs are likely to grow more slowly than in recent years.
  - Perhaps to stay constant in percentage-of-the-population terms.
- But they are unlikely to shrink much.
With a few caveats

- Several of the IMP programs are reciprocal and the reciprocity is not equal on both sides
  - At some point this may lead to political problems and a reduction in the size of these programs

- Much mobility under free trade deals is simply not measured at present
  - Assuming more such deals will be signed, this could substantially increase numbers

- International students are likely to continue to increase
  - Not counted –in either TFW or IMP– but have automatic permission to work
Administration and temporary flows

- Increasing temporary flows (& circular migration) are likely to affect CPP’s administrative burden in the future
  - Many more payments to individuals outside of Canada

- A related, and potentially important, factor is the share of those eligible for CPP outside of Canada who actually (& successfully) claim
  - Improving communications technology makes “small benefit claims” increasingly likely
Temporary to permanent migration

- Formerly, it was difficult for low-skilled temporary workers to permanently migrate.
- However, this is changing,
  - Esp. new Skilled Tradespersons Class
    - Low skilled under CIC’s old rubric
- In future, expect increased permanent migration flows of BOTH former high and low skilled TFWs & IMPs (& foreign students)
- However, this can occur without impacting the levels discussion in a serious way
  - Reduced number in Skilled Worker stream
Conclusion

- My personal view is that the new immigration selection policies will be partly --but not completely-- successful in addressing the decline in labour market outcomes for new immigrants.

- This will take some time to be determined.
  - And some further modifications may be beneficial.
    - Increased emphasis on youth
    - Return to procyclical intake policy
This implies that the immigration rate is likely to remain roughly constant in the near term and perhaps increase slightly in the longer term.

Not discussed much to date (nor in this presentation) is that while immigration clearly increases GDP, it has little impact on GDP/capita.

- This may come to be an issue
  - As it is in, for example, the US at present
Out migration, and hence net migration, is the more highly variable parameter in my view.

Although there is little hard evidence, there is much soft evidence of increasing circular and multi-step migration:
- Driven in large part by reduced communication and transportation costs
- Who stays? May become a much more important question than it is at present
Temporary flows, under various labels, are likely to remain stable or increase

- Foreign students are especially likely to increase

This will lead to increased temporary to permanent transitions

- Though these can occur within the levels envelope without putting too much pressure on that envelope
- Pressure, both positive and negative, may be put on that envelope for other reasons however
Historically, immigrants have been, on average, healthier than the Canadian born and have had a positive or negligible impact on aggregate life expectancy.

There is some limited evidence, and some evidence-based speculation, that this is changing.

- New immigrants potentially have less healthy life trajectories, and this may affect life expectancy.
END