



It all adds up: reforming permanent points-tested visas

Briefing pack

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GRATTAN
Institute

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The points test should select migrants for their long-term economic potential

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- Getting permanent skilled migration right offers enormous long-term payoffs to Australia
- Points visas should be targeted at young, talented people, not used to solve short-term skills shortages

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- Points-tested visas should be open to all high-skilled occupations

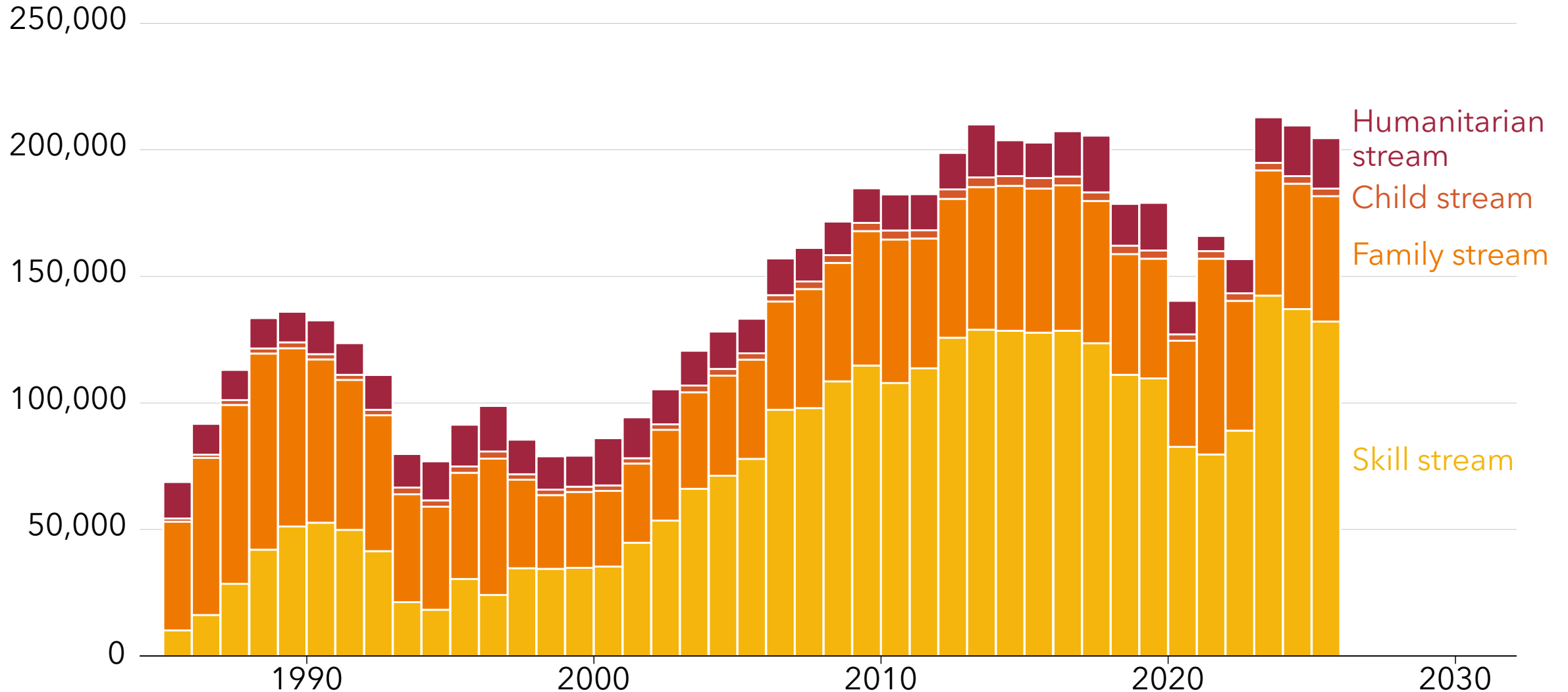
Consolidate state/territory and regional points-tested visa streams into a single points-tested visa

- State and regional points visa-holders earn less than other skilled migrants
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Our reforms generate big long-term payoffs including: a \$171 billion boost to govt budgets over 3 decades & faster productivity growth, while leaving fewer temporary visa holders stuck in limbo

Australia runs a substantial permanent migration program – two thirds of all visas are issued via the skilled stream

Australia permanent visa grants, by visa stream 1984-85 to 2024-25

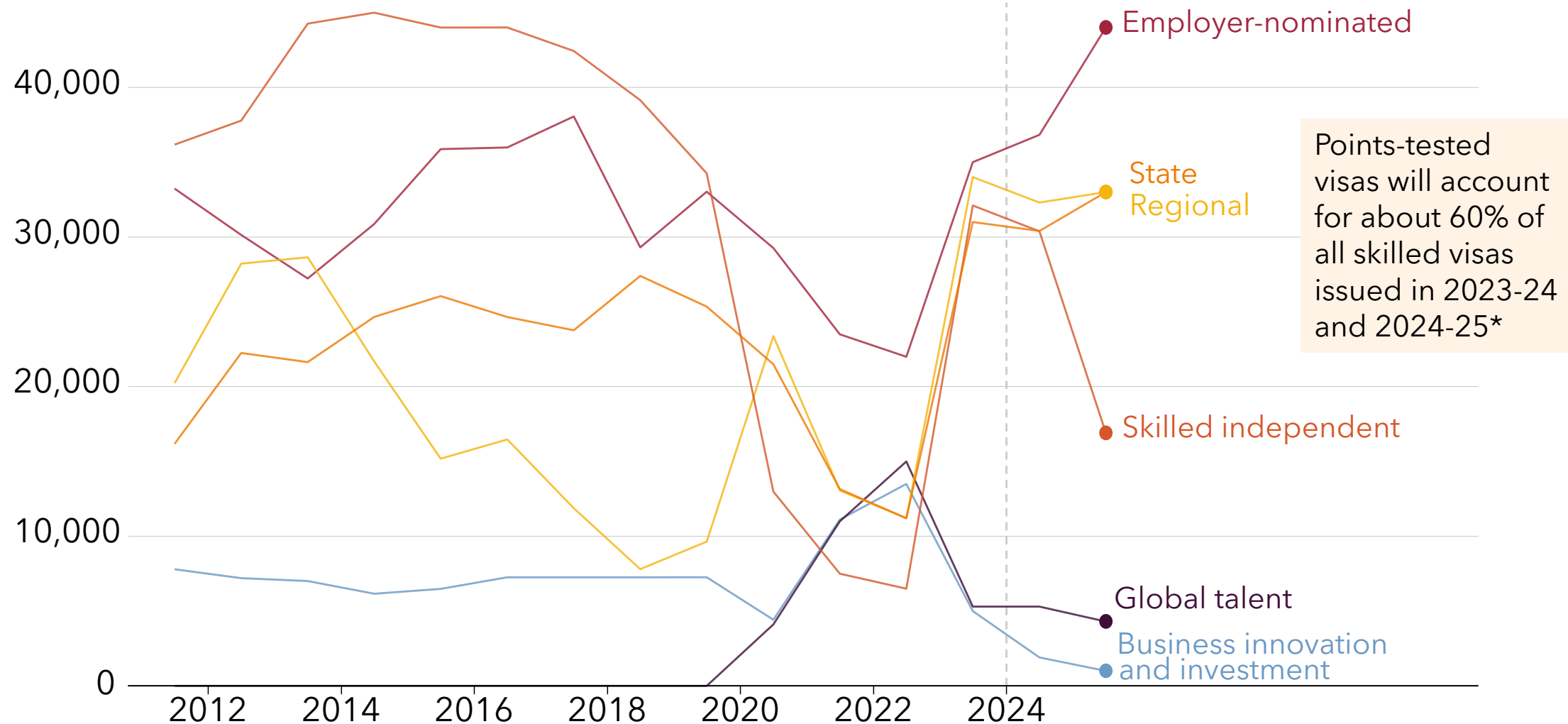


Notes: Data for 2023-24 and 2024-25 are from the planned permanent migration program. Planned humanitarian intake for 2023-24 and 2024-25 is assumed to be the same as in 2022-23. Humanitarian includes a small number of 'Special Eligibility' visas.

Source: Department of Home Affairs, Australian Migration Statistics; Parliamentary Library. Planned humanitarian intake for 2023-24 is assumed to be the same as in 2022-23.

Points-tested visas make up most of the permanent skilled intake

Annual permanent visa, outcomes and planning levels

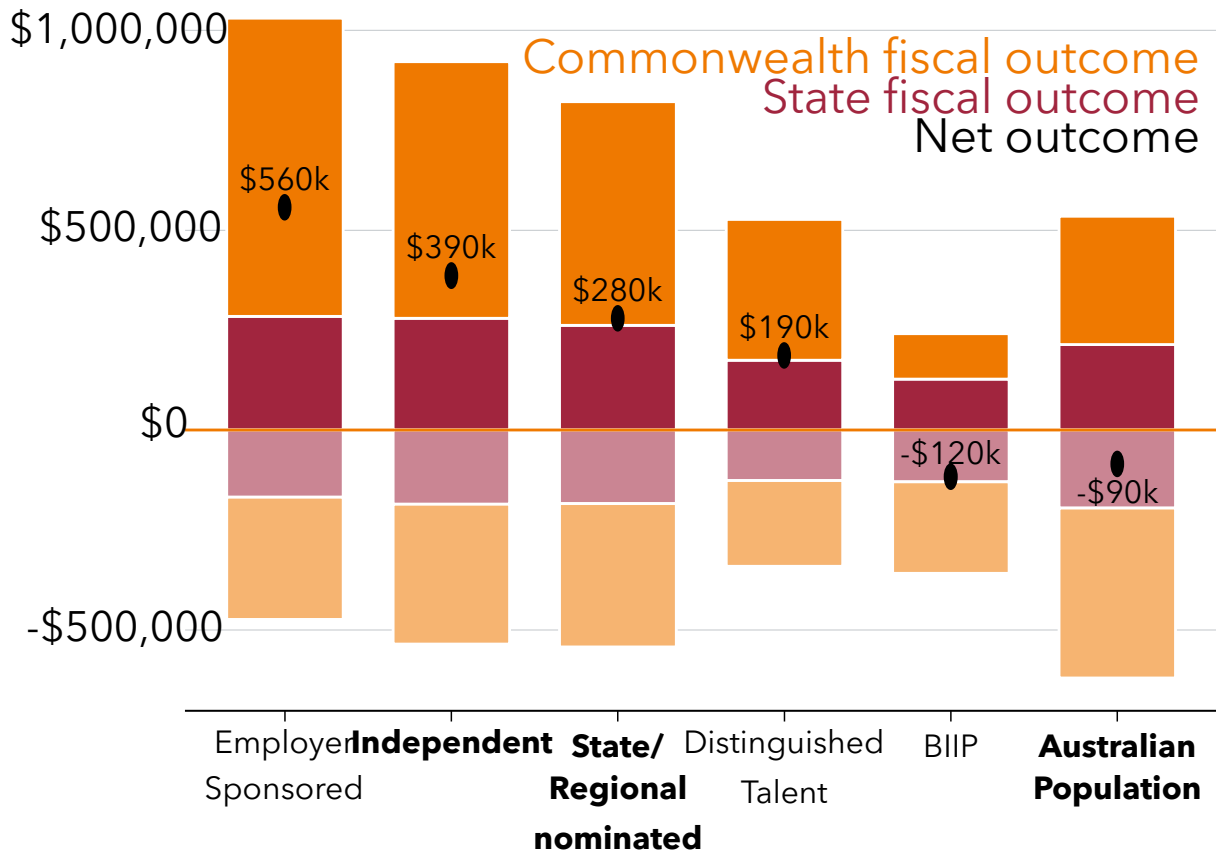


Points-tested visas will account for about 60% of all skilled visas issued in 2023-24 and 2024-25*

Notes: 2023-24 and 2024-25 are planned visa allocations. 'Regional' includes some employer-sponsored regional visas. The exact size of the 2023-24 and 2024-25 points-tested regional cohorts is uncertain because an unknown proportion of the 'Regional' visas are the subclass 494 employer-sponsored provisional visa. In 2022-23, 7,004 of the 33,944 regional visas (20 per cent) were regional employer-sponsored visas. Original visa grant figures have been adapted to mirror the government's new categorisation, introduced in 2019-20. The Business Innovation and Investment visa was closed to new applicants in 2023. Sources: Grattan analysis of Department of Home Affairs data.

Getting permanent skilled migration right offers enormous long-term payoffs

Lifetime fiscal impact per person by skilled visa subclass, primary applicants



Each annual cohort of 137,100 permanent skilled visa-holders offers a **\$34b fiscal dividend** (in today's dollars), or **1.3% of GDP**, to Australian gov't's over their lifetimes in Australia.

Lifetime per person economic contribution, by visa stream, \$ millions



Note: Primary applicants only. Source: Treasury FIONA model, Varela et al (2021, Chart 4)

Note: Primary and secondary applicants' impacts have been aggregates using a weighted average on their relative share. Source: Treasury OLGa model.

There is a growing evidence base showing that high-skilled migration generates productivity spillovers



REVIEW OF THE MIGRATION SYSTEM

FINAL REPORT 2023

“Attracting higher skilled migrants can improve productivity by bringing skills that take years to develop and are in relatively short supply in Australia. Attracting such workers raises the overall level of skill in the labour market and enables growth in high skill and high productivity industries.

The limited available evidence from the Australian literature suggests that **high skilled migration can have a positive effect on domestic workers** through higher employment or wages (often used as a proxy for productivity.”



<https://dx.doi.org/10.1787/7bc64c78-en>

Australian regions with a higher share of migrants tend to have **higher levels of productivity, and that this effect is larger for higher-skilled migrants.**

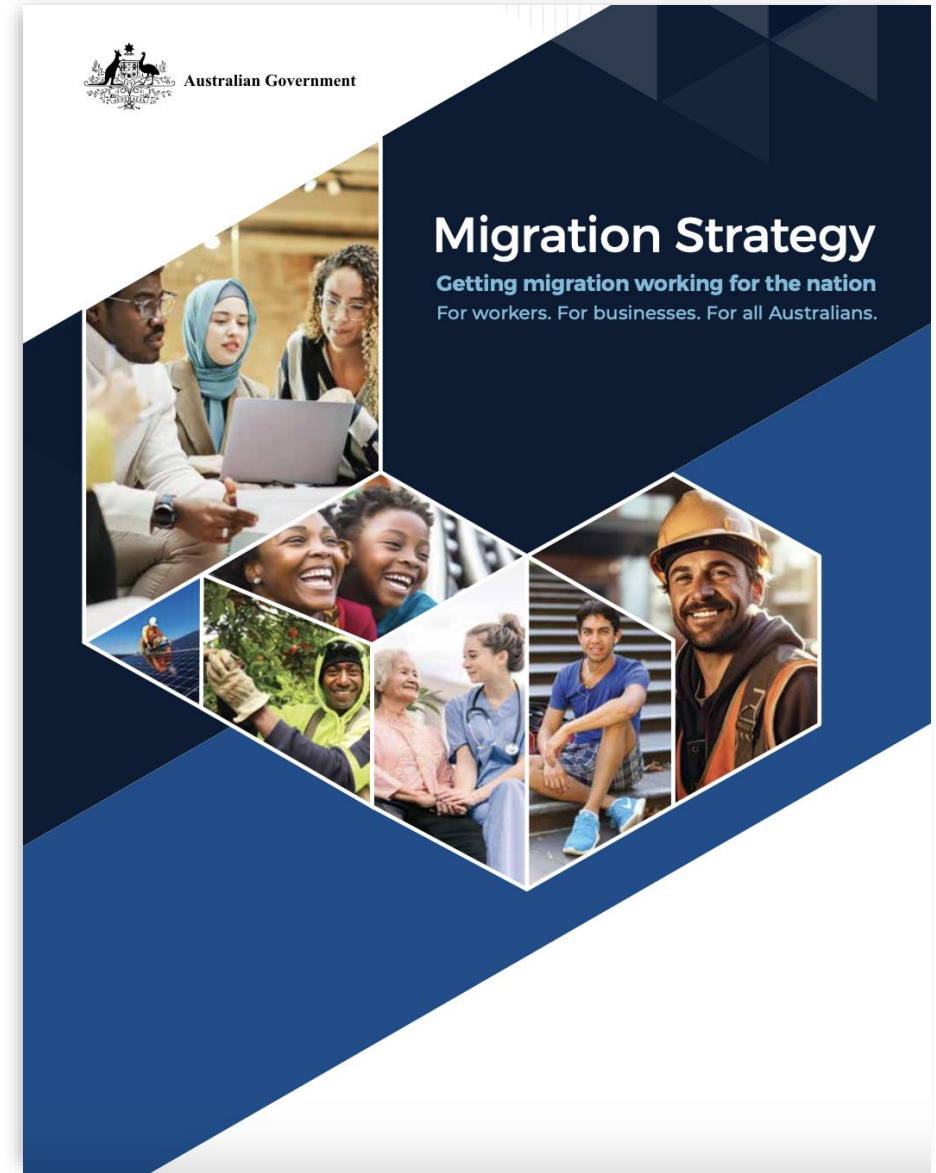
On average, a region with a 10 per cent larger migrant share (e.g. 33 per cent instead of 30 per cent) has a 1.3 per cent larger regional wage difference, which indicates a positive link between migration and labour productivity.

Skilled migration is intended to select migrants for their long-term economic contribution

“The way we select permanent skilled migrants (while providing clear pathways to permanent residence for temporary skilled migrants) should differ from the temporary migration system and focus on the factors that best contribute to lifting Australia’s long-term economic productivity and workforce participation.

It should respond to the challenges posed by our ageing population. In planning both permanent and temporary skilled migration, however, we must recognise the intrinsic link between the two.”

Australian Government, *Migration Strategy*, p.54.



It all adds up: reforming points-tested visas

The points test should select migrants for their long-term economic potential

- Australia runs a large permanent skilled migration program, with points-tested visas the largest component
- Getting permanent skilled migration right offers enormous long-term payoffs to Australia
- Points visas should be targeted at young, talented people, not used to solve short-term skills shortages

The points-test needs to be reformed to prioritise what predicts migrants' long-term success

- The points test should be re-calibrated to ensure it selects for the most-skilled migrants who will make the largest economic contribution to Australia
- The current test is bloated with unnecessary points that leave migrants in visa-limbo: regional and Australian study, professional year, length of experience rather than quality
- Points-tested visas should be open to all high-skilled occupations

Consolidate state/territory and regional points-tested visa streams into a single points-tested visa

- State and regional points visa-holders earn less than other skilled migrants
- Maintaining a separate state points program adds unnecessary duplication and complexity
- The regional points visa is a particularly expensive way to support regional Australia
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Our reforms generate big long-term payoffs including: a \$171 billion boost to govt budgets over 3 decades & faster productivity growth, while leaving fewer temporary visa holders stuck in limbo

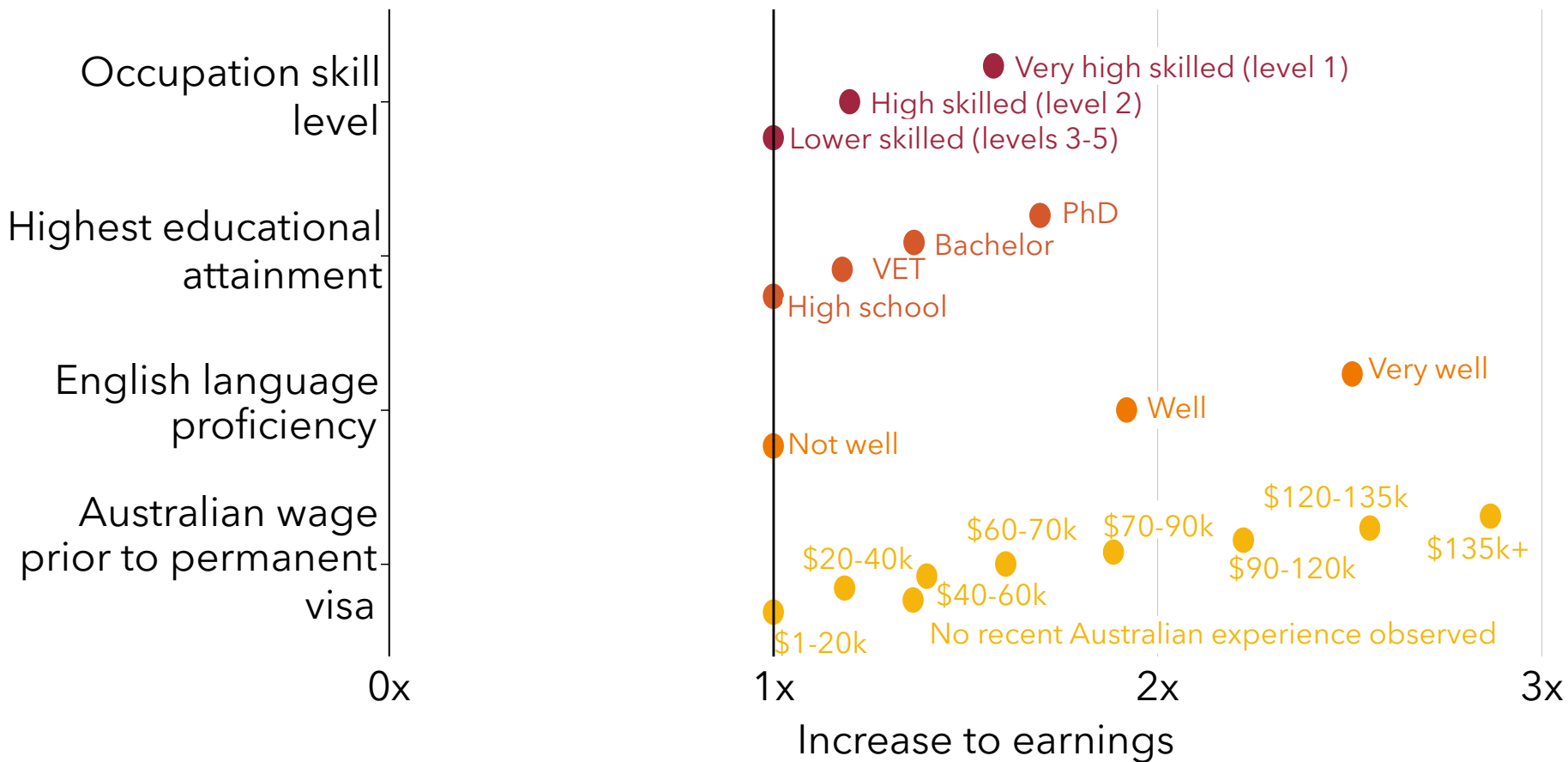
Points are currently awarded for a variety of characteristics

Category	Points
Age	18-24: 25 points 25-32: 30 points 33-39: 25 points 40-44: 15 points
English	Competent: 0 points Proficient: 10 points Superior: 20 points
Overseas experience *	Less than 3 years: 0 points At least 3 but less than 5 years: 5 points At least 5 but less than 8 years: 10 points At least 8 years: 15 points
Australia experience *	Less than 1 year: 0 points At least 1 but less than 3 years: 5 points At least 3 but less than 5 years: 10 points At least 5 but less than 8 years: 15 points At least 8 years: 20 points
Occupation	Applicant needs to have a suitable skills assessment for an occupation on a skilled occupation list at the time of invitation.

Category	Points
Education	PhD: 20 points Bachelor or higher: 15 points Diploma/trade qualification⁺: 10 points Other suitable qualification[#]: 10 points
Specialist education	Masters by research or PhD from an Australian university in STEM field: 10 points
Australian study	5 points
Professional year	5 points
Regional study	5 points
Credentialed community language	5 points
State nomination	190 visa: 5 points for nomination by a state government. 491 visa: 15 points for nomination by a state government.
Partner skills	≤ 45 years old, competent English and occupation on list: 10 points Competent English only: 5 points Single: 10 points

Skilled experience, education, and English language skills make migrants more likely to succeed

Effects of migrant characteristics on earnings, all else equal



Past analyses used short-term outcomes (6, 18 months after arrival) to calibrate the points test.

We use the Person Level Integrated Data Asset (PLIDA) to analyse **what migrant characteristics predict their long-term success** in Australia. This data includes:

- **Visa data (2000-2020):** visa granted; nominated occupation; age at visa grant; party size.
- **Tax data (2011-2021 FYs):** income; current occupation.
- **2016 Census:** education; English; gender; country of birth etc.

We include controls for 'country of birth' and gender to strip out the potential impact of discrimination on our regression results.

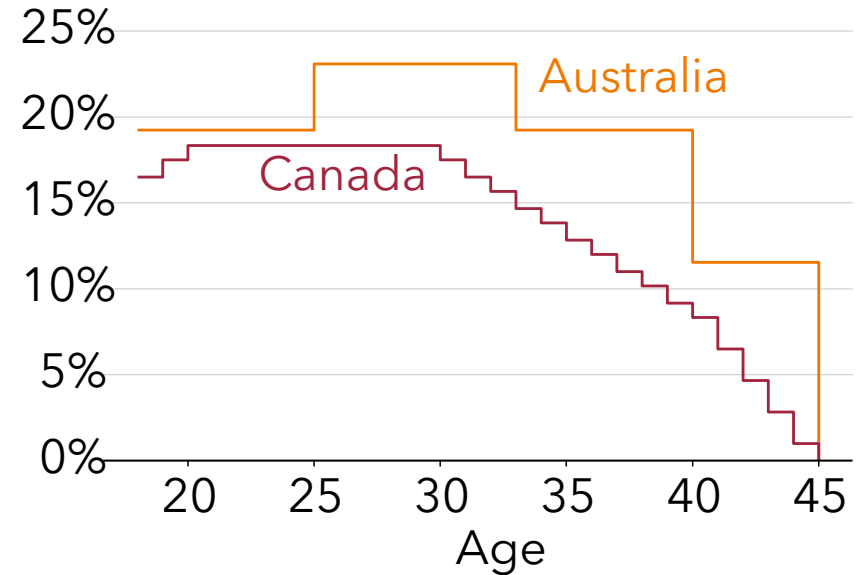
Notes: Points represent coefficients from a linear regression model of log annual earnings of permanent, points-tested primary applicant migrants between 2011 and 2021.

Source: Grattan analysis of PLIDA.

The existing points test has several flaws

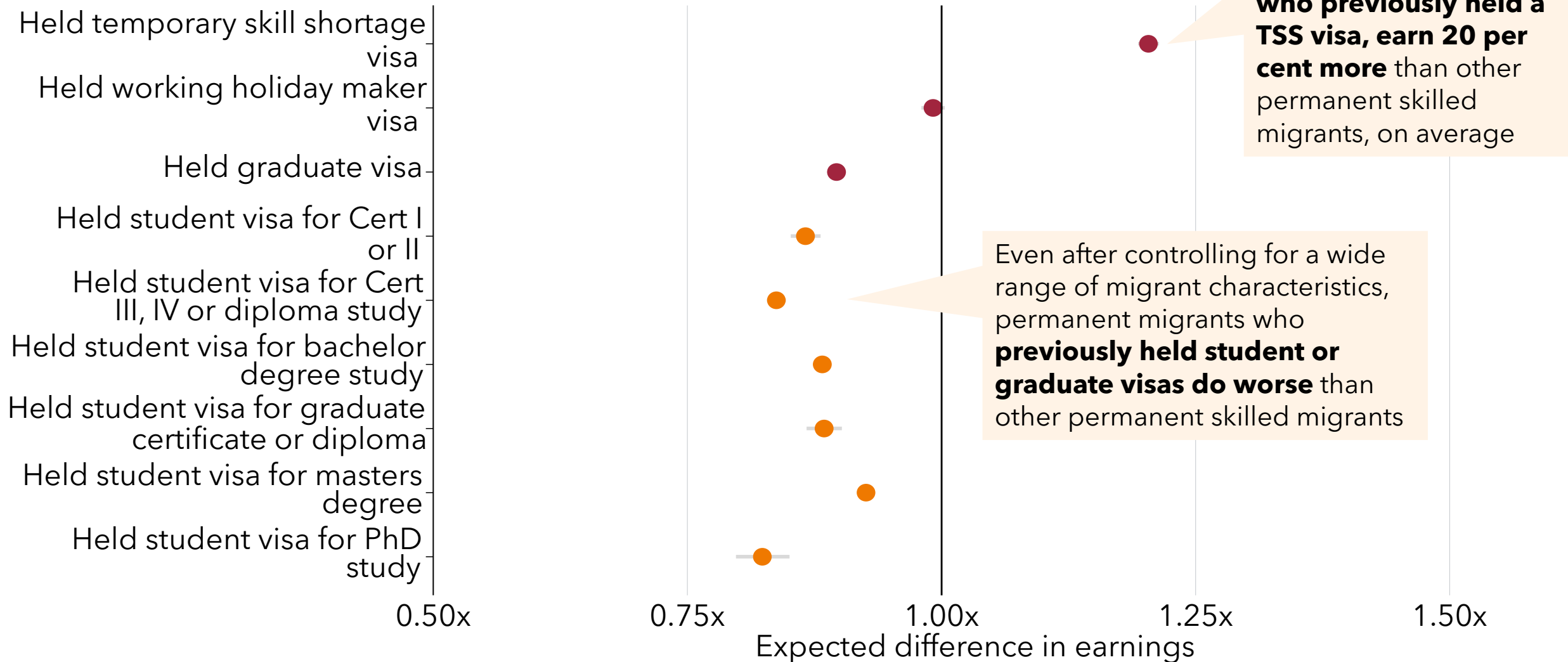
- **Insufficient points** (only 70 of the 130 available) are offered for characteristics that are highly predictive of migrants' long-term prospects:
 - Age
 - English language proficiency
 - Educational qualifications
 - Skilled work experience (incl. high-wage experience)
- **Current points offered for work experience too often reward persistence** rather than talent.
 - Duration of experience is a poor proxy for migrants' potential
 - Whereas high-wage work captures otherwise unobservable migrant characteristics.
- **Insufficient points are also offered for spouse skills** given they account for 28% of all skilled visas issued in the past decade
- **Points for age are not granular enough** given the enormous impact on lifetime earnings (via the fiscal dividend)
- **Bonus points** often determine who gets a visa, yet are typically poor predictors of migrants' long-term success

Proportion of total available points allocated to age



Permanent migrants who previously held student or graduate visas tend to do worse, all else equal

Effect of prior Australian visas on earnings after permanent visa granted



Attracting top global graduates to Australia offers enormous long-term payoffs

The Global Distribution of College Graduate Quality

Paolo Martellini

University of Wisconsin-Madison

Todd Schoellman

Federal Reserve Bank Minneapolis

Jason Sockin

US Treasury

We measure college graduate quality—the average human capital of a college’s graduates—for graduates from 2,800 colleges in 48 countries. Graduates of colleges in the richest countries have 50% more human capital than graduates of colleges in the poorest countries. Migration reinforces these differences: emigrants from poorer countries are highly positively selected on human capital. Finally, we show that these stocks and flows matter for growth and development by showing that college graduate quality predicts the share of a college’s students who become inventors, engage in entrepreneurship, and become top executives both within and across countries.

Uses the database of the web platform Glassdoor where users volunteer their CV as well as the details of their job and pay in return for information about the average pay or job satisfaction of their peers.

Study includes the earnings of 2.2 million workers over the last decade who graduated from 2,873 universities spanning 48 countries around the world.

Results show:

- Graduates of the top 20 universities from the [Center for World University Rankings](#) earn:
 - 20% higher than graduates of 21-50 and 51-100 ranked universities
 - 30% higher than graduates of 100-200 ranked universities
- A 1 standard deviation in greater college graduate quality is associated with:
 - A near doubling of the share of graduates who become inventors;
 - 0.1 more Nobel laureates; and
 - Almost 1 percentage point more entrepreneurs among a college’s graduates.

Our redesigned points test gives greater weight to English language proficiency, skilled work experience, and partner skills

Maximum points in each category, per cent of total available points

Category	New points test	Current points test
Age	20%	23%
English language	18%	15%
Education	12%	15%
Skilled work experience	10%	15%
High-paying Australian experience	18%	0%
Community language	4%	4%
Partner skills	18%	8%

Our redesigned points test gives greater weight to English language proficiency, skilled work experience, and partner skills

Category	Points
Age	18-20: 95 points
	21-29: 100
	30: 95
	31: 90
	32: 85
	33: 80
	34: 75
	35: 70
	36: 60
	37: 55
	38: 50
	39: 45
	40: 35
	41: 30
	42: 20
43: 10	
44: 5	
45: 0	
English	Excellent (IELTS 8+): 90 points
	Very good (IELTS 7): 45
	Competent: (IELTS 6+): 0 (but needed to be eligible)

Category	Points
Education	PhD: 60 points
	Bachelor' degree or higher from a top-ranked university: 45
	Bachelor degree or higher: 30
	Certificate III and above: 15*
Skilled work experience (2 years min.)	Skill level 1 occ'n: 50 points
	Skill level 2 occ'n: 15
High-paying Australian job (1 year min.) or job offer	Earning \$120,000+: 90 points
	Earning \$105,000+: 70
	Earning \$90,000+: 50
	Earning \$80,000+: 40
	Earning \$70,000+: 30
Community language	20 points
Partner skills	English:
	Excellent (IELTS 8+): 60 points
	Very good (IELTS 7): 40 points
	Education:
Bachelor degree or higher: 30	
Certificate III and above: 15	
Single: 90 points	
Total points available	500 points

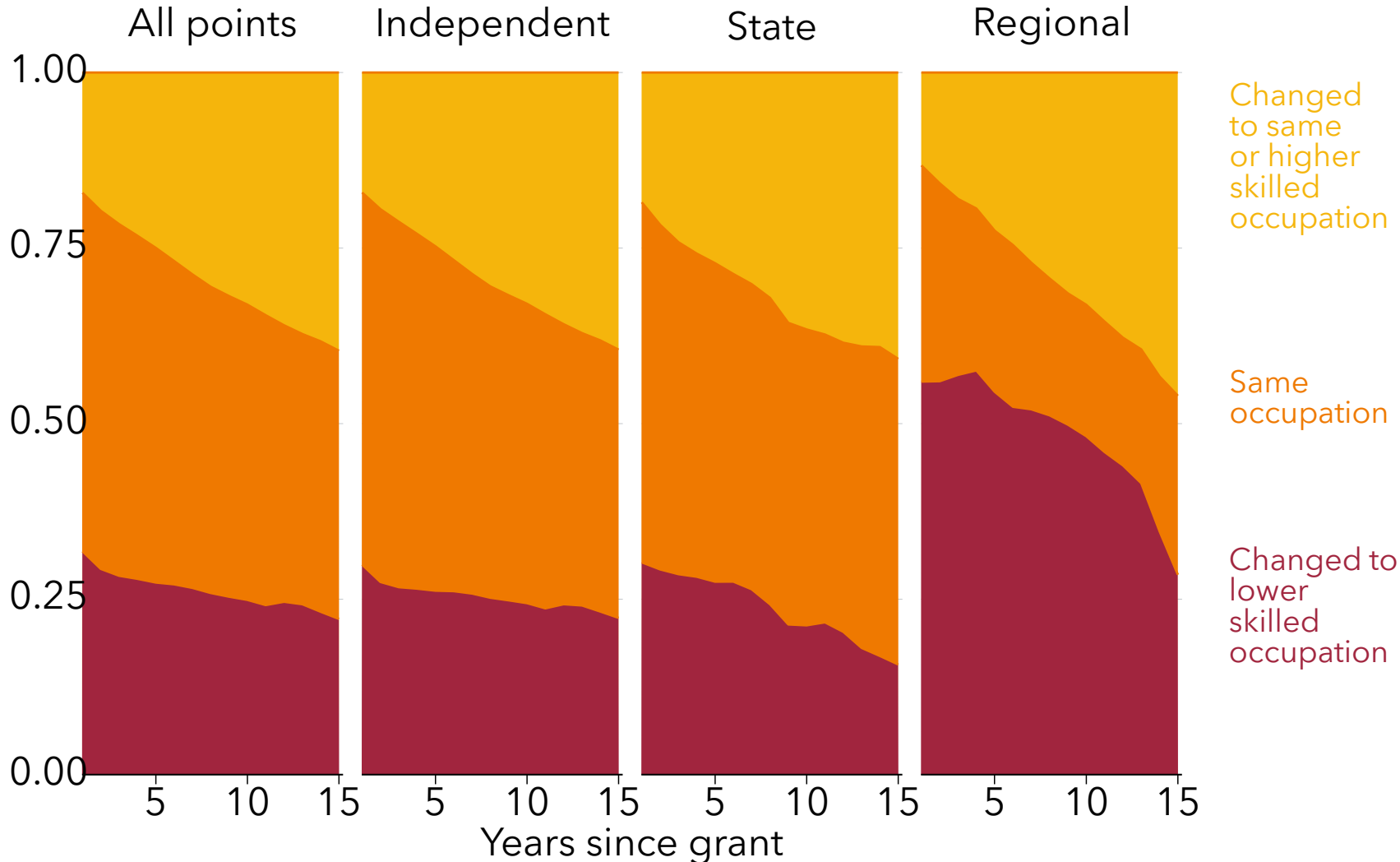
What are the main changes?

- **More granular points for age**
- **More points for English:** from max 15% => 18% of available points
- **Greater jump in education points for PhD** vis-à-vis lower-level study (& minimum of a Certificate III needed)
- **Bonus points for a degree from a top-ranked university**
- **Allocate experience points for broader skill level of experience,** not occupation
- **Offer many points for high-paying local work experience:** from max 15% => 18% of all points
- **Greater weighting for partner skills:** from max 8% => 18% of available points
- **Minimum 300 points to qualify for a points-tested visa**
- **Applicants with at least 400 points should be guaranteed an invitation to apply for a visa**

Notes: *minimum of a Certificate III needed to be eligible for points visa. Applicant needs to have a suitable skills assessment for an occupation on a skilled occupation list at the time of invitation. A top-25 ranked university.

Most migrants do not work in their nominated occupation in the long term

Share of migrants working in their nominated occupation, by visa and years since arrival



The range of skilled occupations eligible for points-tested visas should be expanded to all skill level 1, 2 and 3 occupations.

Would require the government to **create skills assessments for a small number of occupations not currently on any skilled occupation list.**

Some migrants with skills and experience in cutting-edge jobs would still be ineligible.

- E.g. artificial intelligence engineer, user experience designer or machine learning engineer

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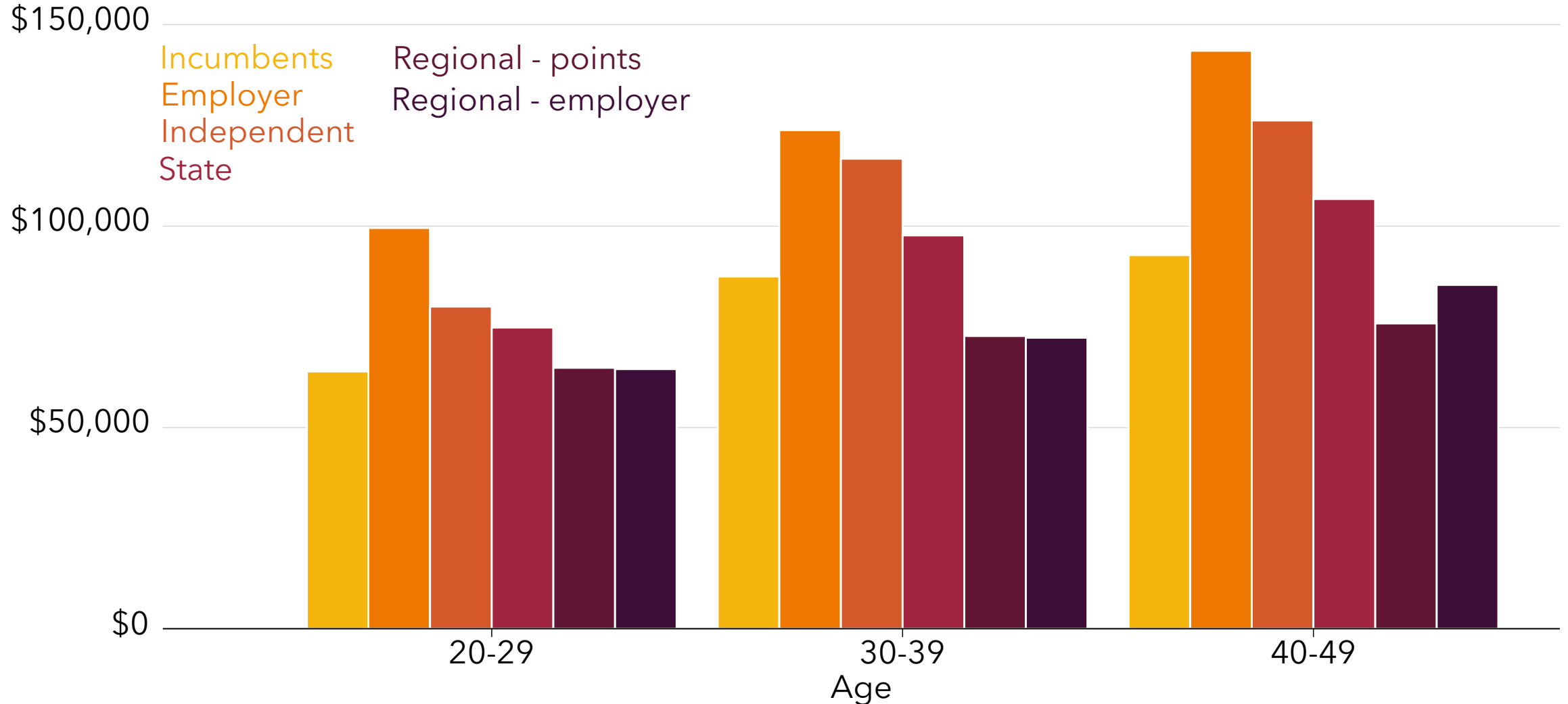
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State and regional visa-holders earn lower wages than other skilled visa streams

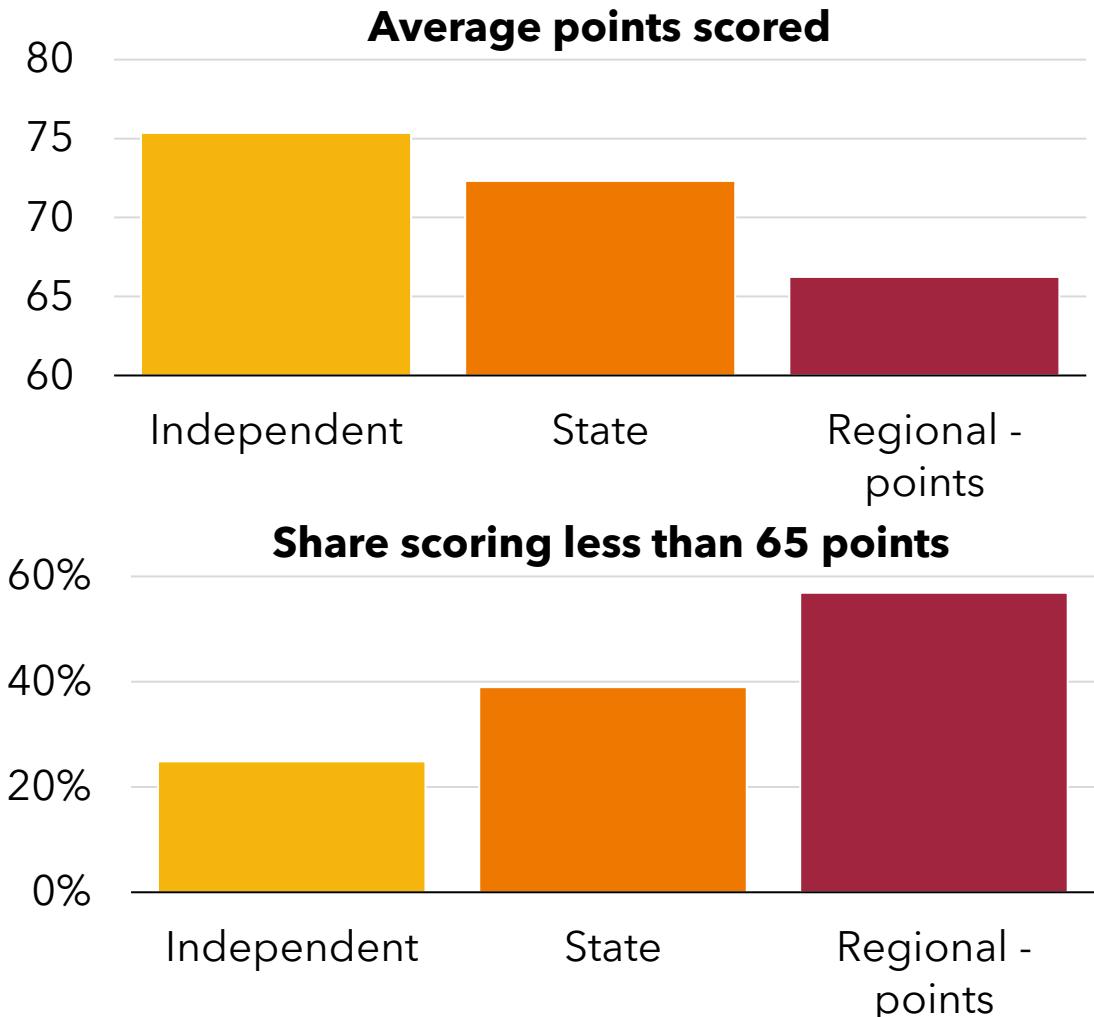
Median income by age and visa sub-group, and incumbents, full-time workers, primary visa-holders, 2021



State and regional points visas select less-skilled migrants than the skilled independent visa

- State and regional points visas require a nomination from a state or territory government (i.e. ranked choice selection is not used)
- States nominate applicants for:
 - **State points:** subclass 190 skilled nominated visa
 - **Regional points:** subclass 491 skilled work regional (provisional) visa - requires the visa-holder to live outside of Sydney, Melbourne, and Brisbane for at least three years
- State and territory governments choose migrants from Skillselect, where potential migrants submit an expression of interest.
- Visas are over-allocated to small states and territories
- States can apply their own criteria for nominations, provided applicant scores at least 65 points
- State nominations also attract 5 bonus points (state points visa) and 15 points (regional points visa)
- State and territories use these visas to meet multiple objectives: to support regions & local universities; to staff essential services; and to support industry policy objectives.

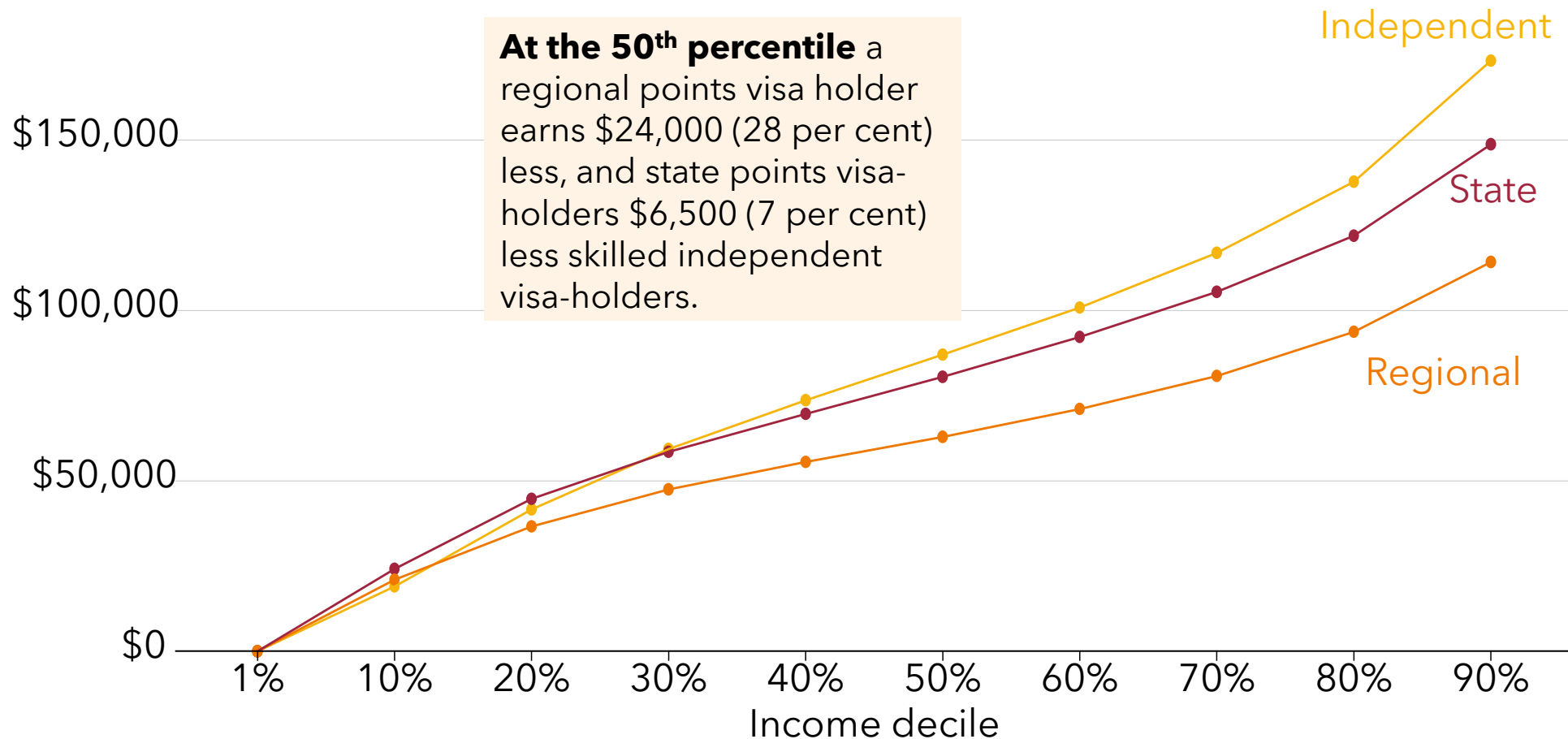
Outcomes for EOIs invited to apply for a visa, by visa subclass, 2016-17 to 2022-23



Notes: All EOIs submitted in 2016-17 to 2022-23. Excludes points for nomination by a state or territory government. Source: Department of Home Affairs SkillSelect data.

State and especially regional points visa holders earn substantially less than other skilled migrants

Annual income, 2021



At the 99th percentile:

- Independent points earn almost \$400,000
- State points earn \$260,000
- Regional points earn less than \$200,000.

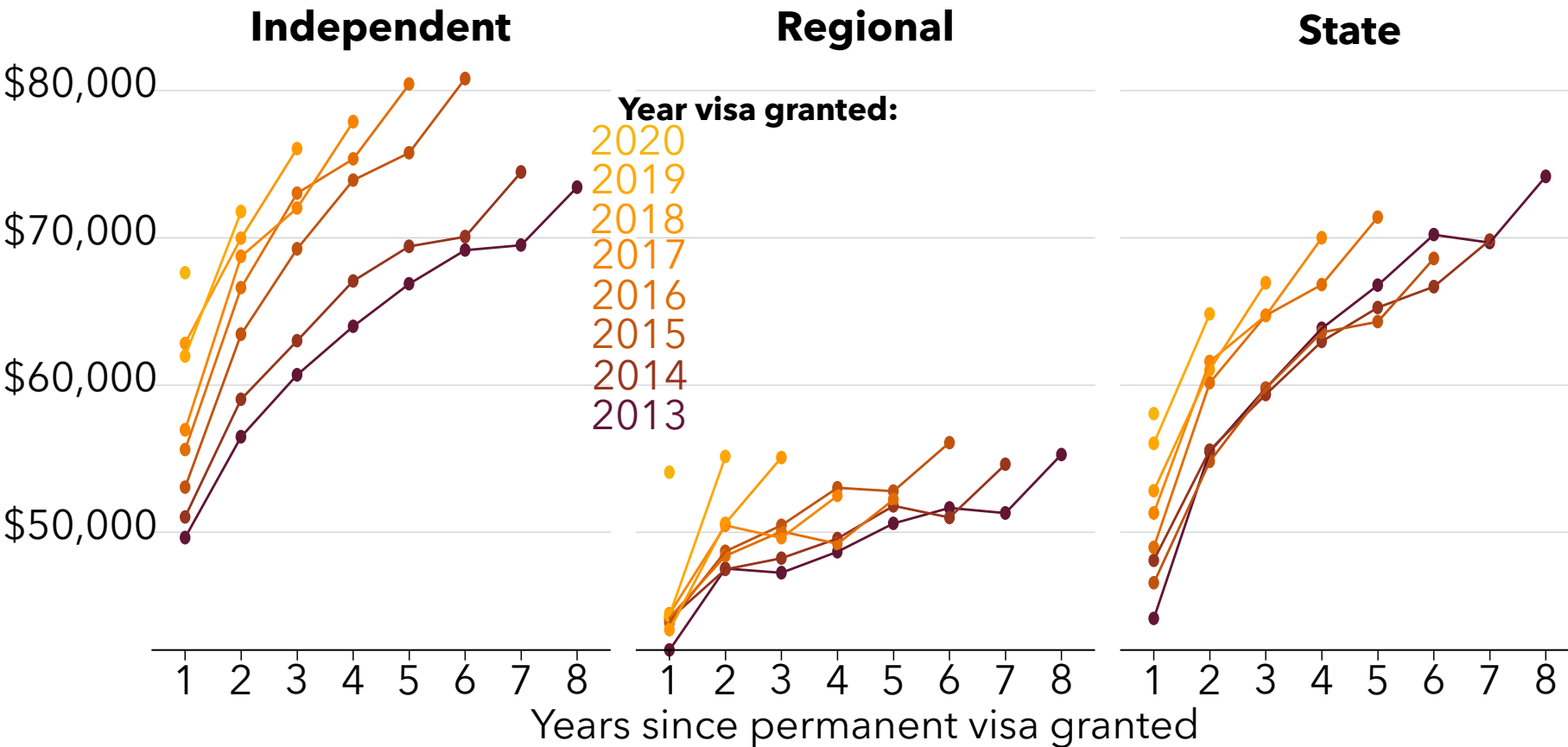
Notes: Primary applicants only. Includes permanent skilled visa-holders who were granted a permanent visa after 2000. Earnings are total income, based on 2021 tax returns and payment summaries.

Source: ABS, 2021, Multi-Agency Data Integration Project (MADIP).

Regional points visa-holders start out earning less, and the gap with other visa-holders widens further

Median annual income, 2022 dollars)

Annual average growth rates (all cohorts and years):
Independent: 6.9%, regional: 4.4%, state: 8.9%

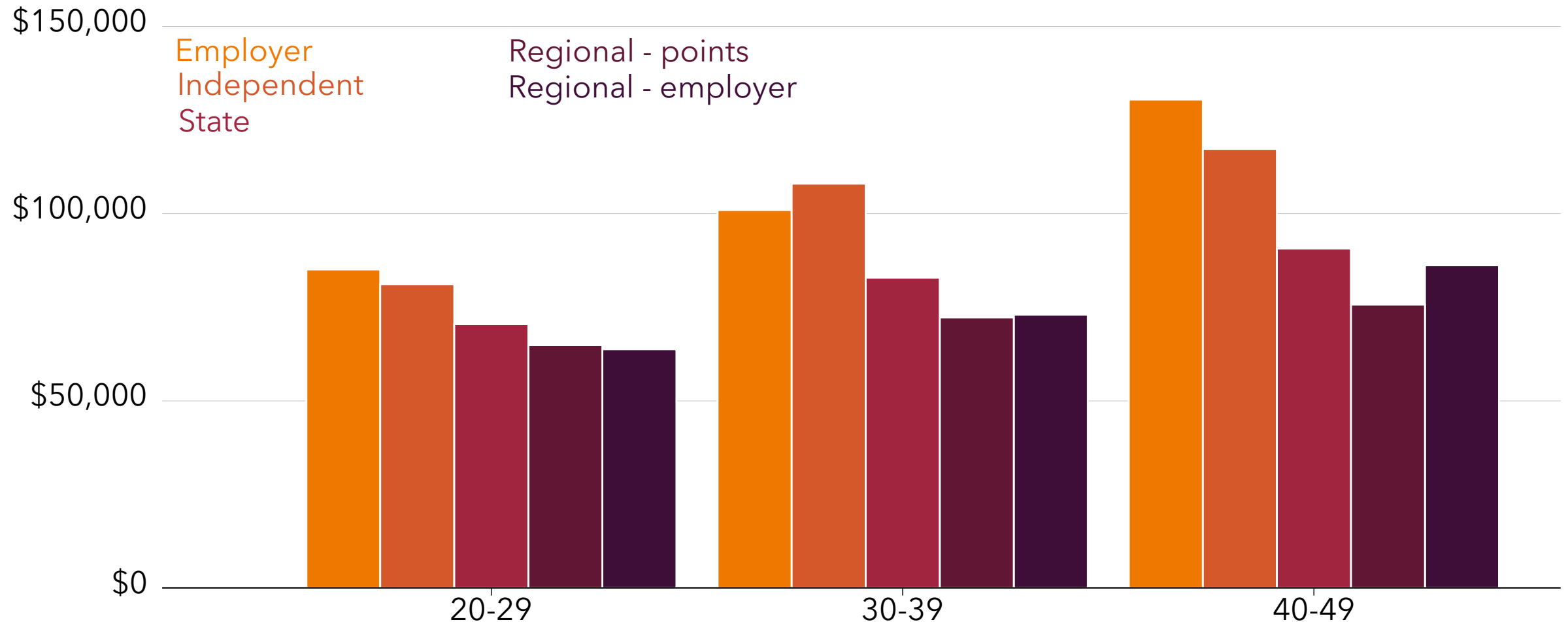


Why do regional and state visa-holders do worse?

1. State and territory government select less-skilled migrants
2. State and regional visa-holders nominate for less-skilled occupations
3. Provisional regional visas mean some migrants can't find the job they want (1 in 5 regional points visa-holders not working in their nominated occupation said that where they live stopped them from getting a good job)
4. The most skilled migrants prefer state and independent points visas

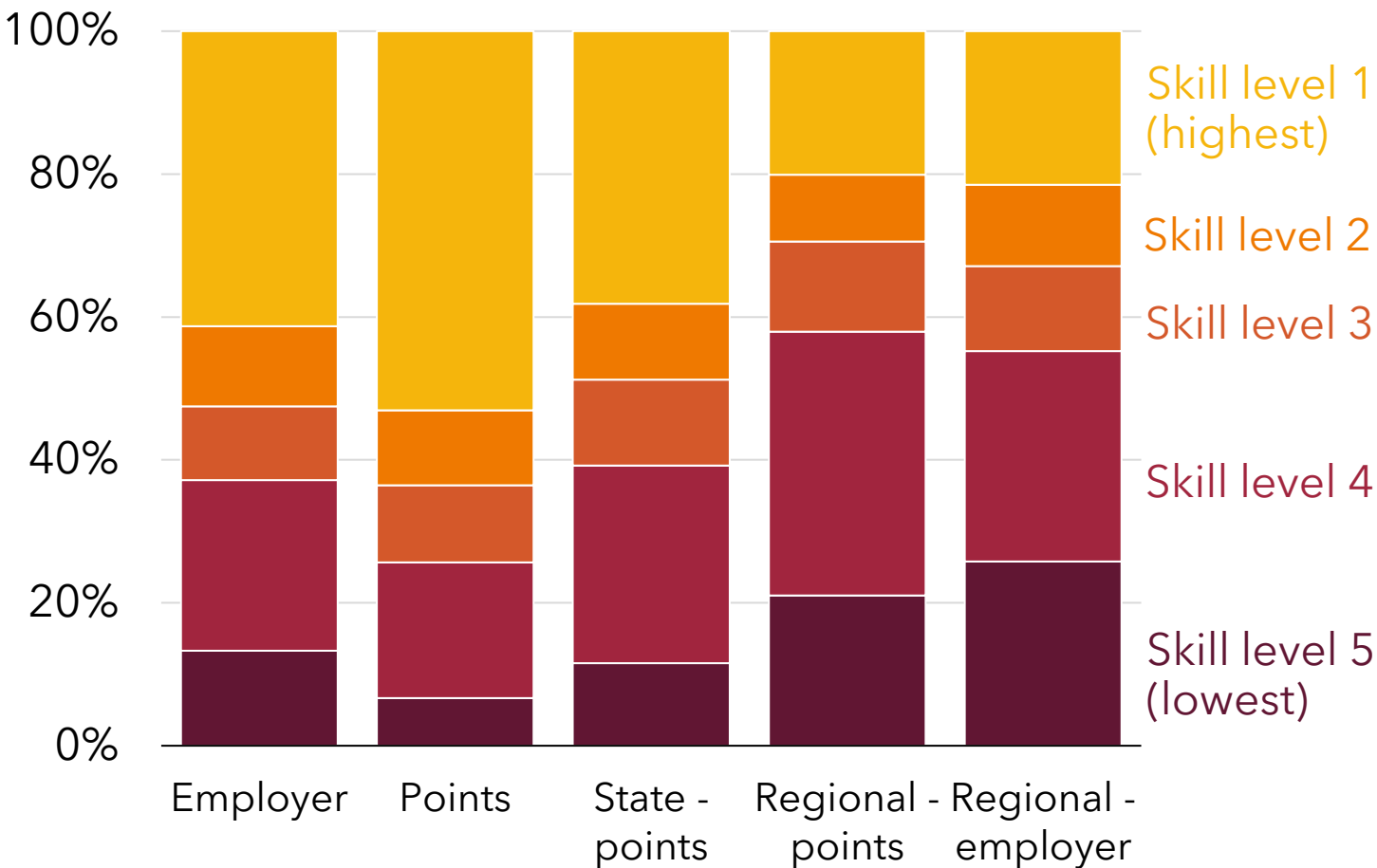
Employer and independent points visa-holders living in “regional” areas do much better than regional visa-holders

Median income by age and visa sub-group, migrants **living outside Sydney, Melbourne and Brisbane**, primary applicants, full-time workers, 2021

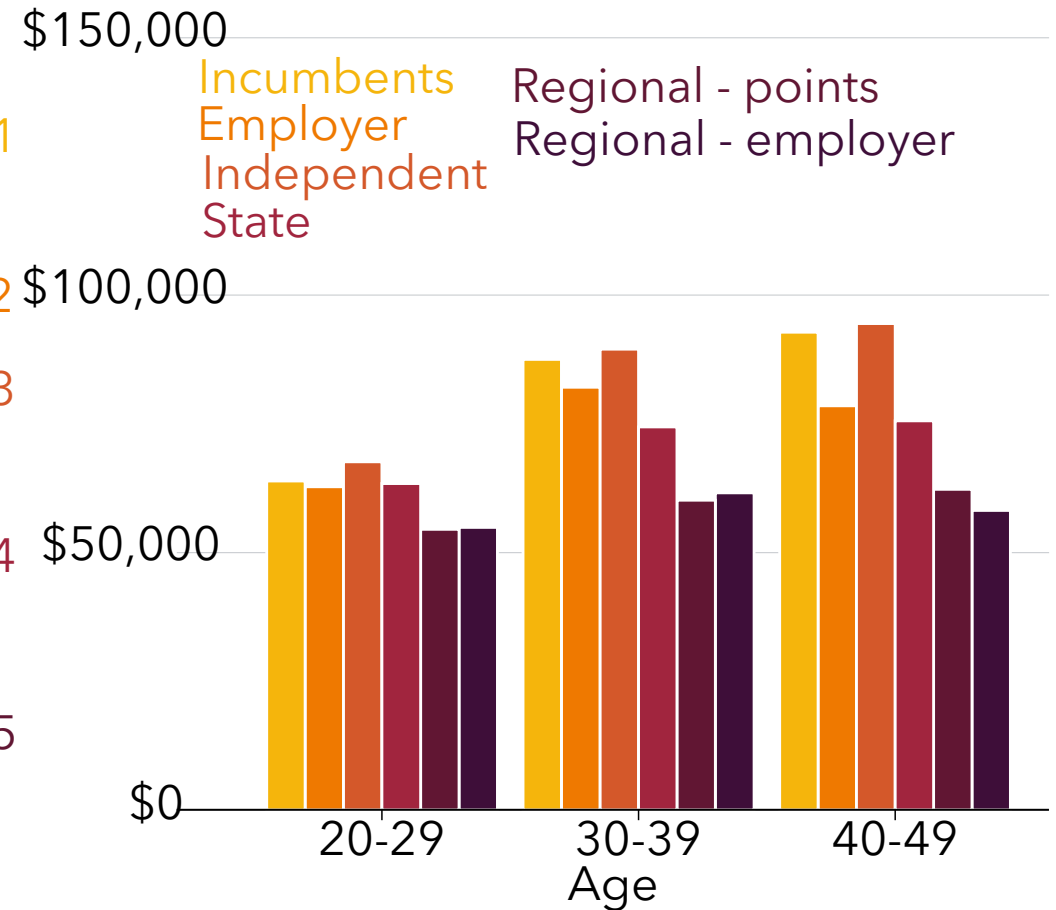


Spouses/partners also often work in less-skilled jobs, and earn less, when forced to the regions

Permanent migrants aged 25+, arrived 2015-2021, by occupational skill level, secondary visa-holders only, per cent



Median income by age, secondary applicants, and incumbents, full-time workers, 2021

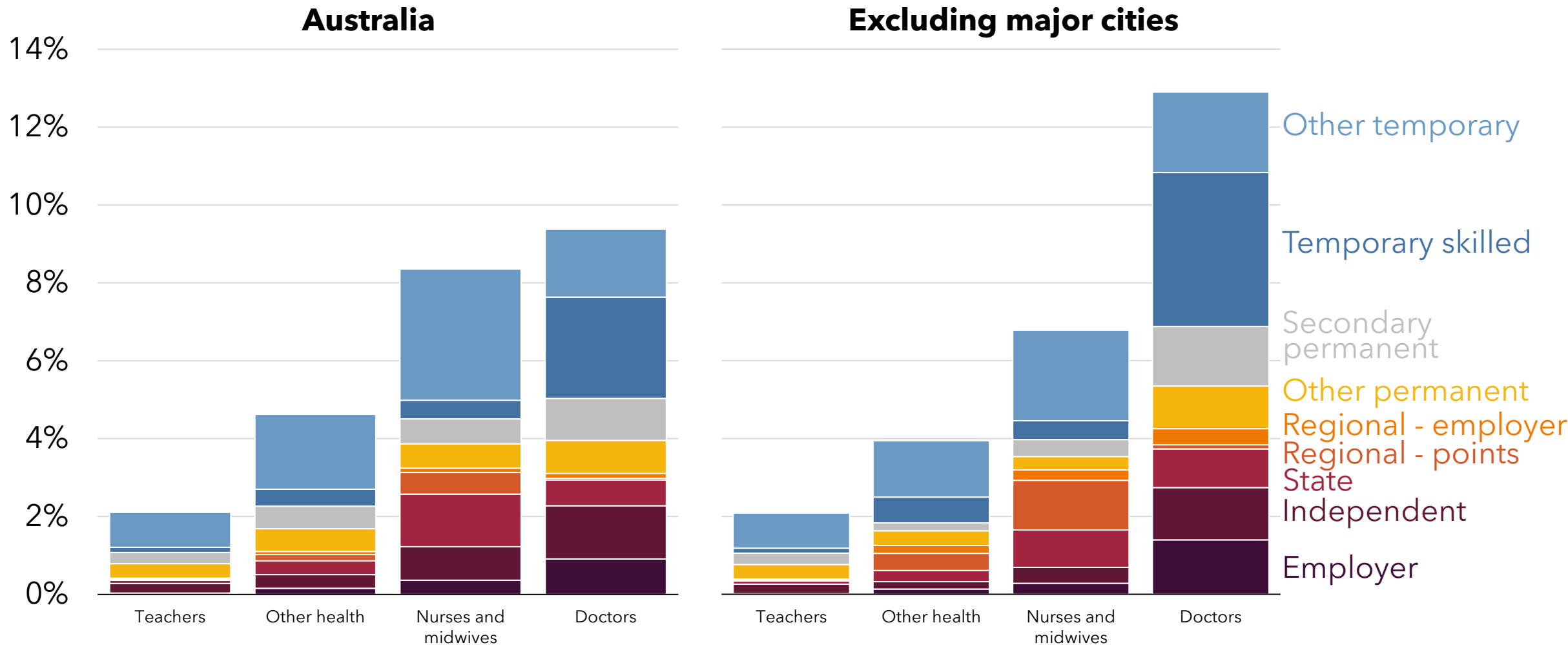


Notes: Permanent visa-holders in Australia in 2021 who arrived between 2015 and 2021. Latest permanent visa. Other includes the investor, family, talent and humanitarian major groups (mainly partner and humanitarian visas), includes some State skilled visas, mainly investor visas. Source: ACMID 2021

Notes: Incumbents are residents born in Australia or those who arrived before 2005. Permanent visa-holders are residents in Australia in 2021 who arrived on a permanent visa between 2015 and 2021. Visa group is according to the first permanent visa granted. Sources: ABS Census (2021); ABS Australian Census and Migrants Integrated Dataset (2021).

Few state and regional points visa-holders work in essential industries and occupations, even in the regions

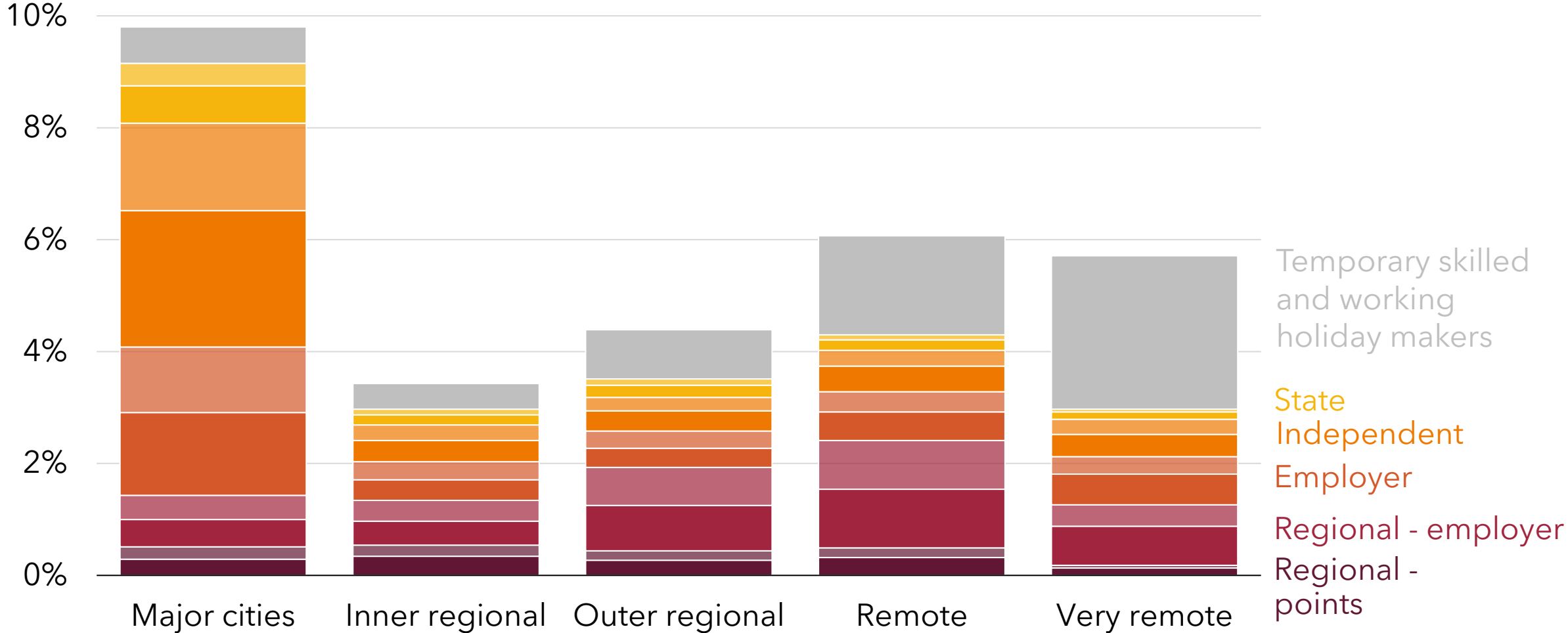
Permanent migrants arrived 2015-2021, share of all workers in occupation, by visa type, 2021



Notes: Migrants in Australia in 2021 who arrived between 2015 and 2021. Latest permanent visa. 'Other permanent' includes the investor, family, talent and humanitarian major groups (mainly partner and humanitarian visas), and includes some state skilled visas, mainly investor visas. Temporary visas includes secondary applicants. 'Other temporary' includes New Zealanders (subclass 444 visa holders). Temporary skilled includes 482 and 457 visa holders. Three-digit minor group occupations. Source: ACMID 2021; ACTEID 2021.

Permanent skilled visa-holders make up a small share of the regional workforce

Migrant share of workforce, by area and visa type, 2021



Notes: Lighter shades are secondary visa-holders. Share of all employed people in Australia in 2021. Employed permanent visa-holders in Australia in 2021 who arrived between 2005 and 2021. Employed temporary visa-holders who arrived between 2015 and 2021. Temporary visas include primary and secondary visa-holders. Sources: ACMID 2021; ACTEDI 2021; Census 2021.

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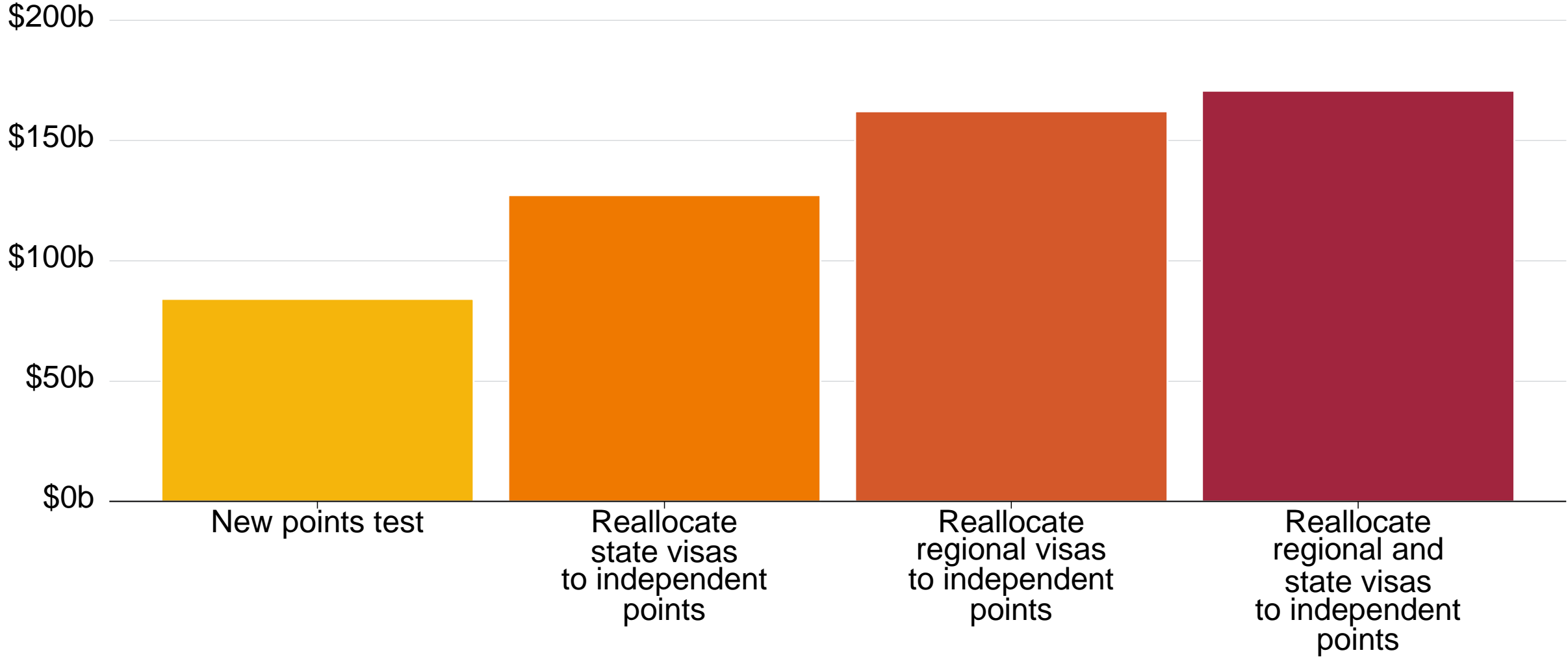
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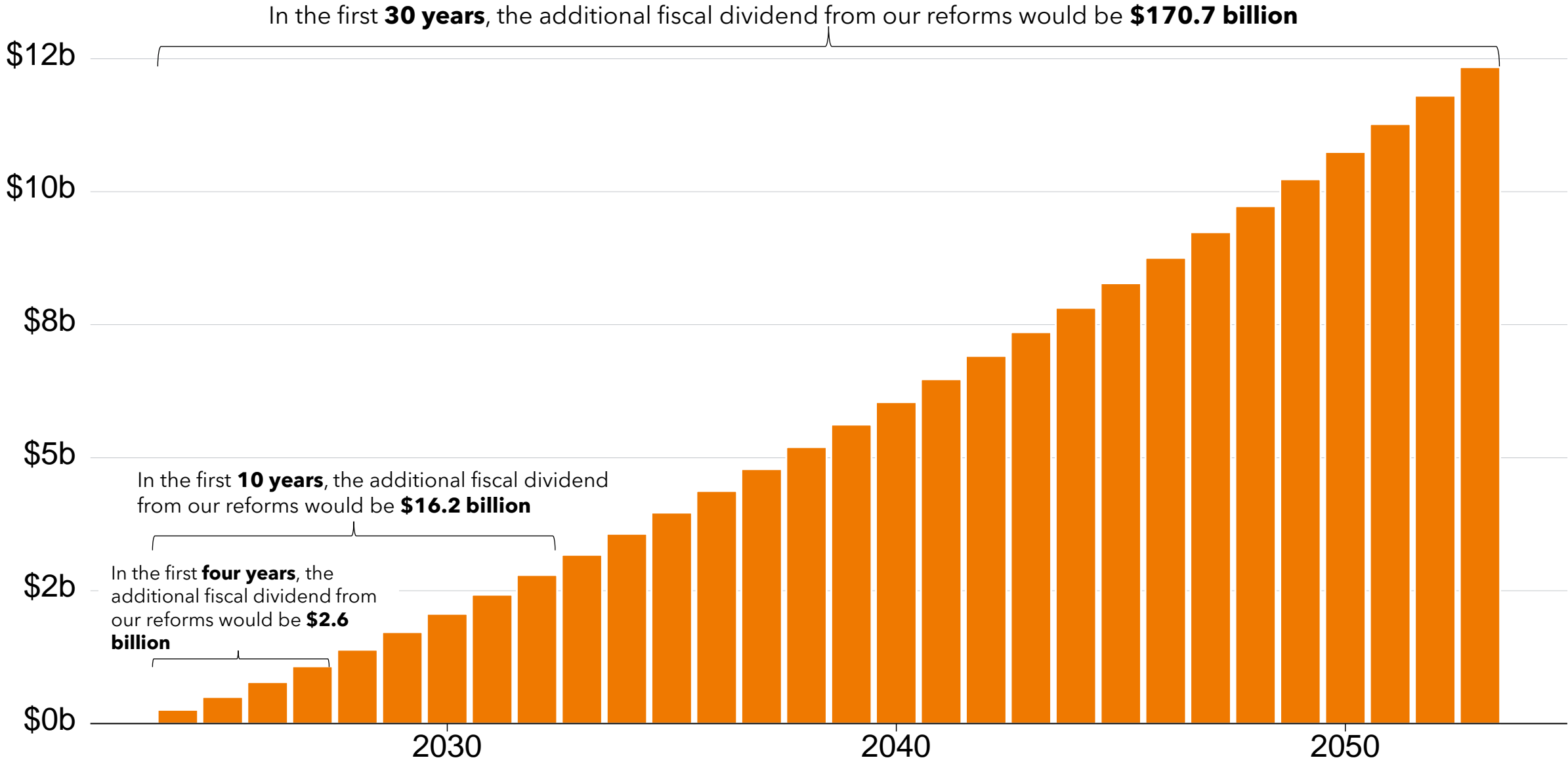
Our recommended reforms generate a big boost to federal and state government budgets

Total fiscal dividend for Australian governments over the next 30 years, 2022 dollars



Source: Grattan analysis.

The annual fiscal dividend from our recommended reforms will grow over time



1. Reform the points test

- Change the way points are offered based on the applicant's age.
- Offer more points to applicants with higher degrees, excellent English language skills, and/or skilled spouses.
- Abolish bonus points for Australian study, regional study, a professional year, and specialist education qualifications.
- Offer points for any high-skilled employment experience and especially for high-paying Australian work experience.
- Make points-tested visas available to applicants who can satisfy a skills assessment for any skill level 1, 2, or 3 occupation.
- Set the minimum points floor for qualifying for a points-tested visa to 300 points.
- Guarantee an invitation to apply for a visa to applicants with at least 400 points.
- Apply ranked choice selection to the allocation of all permanent points-tested visas.

2. Abolish state and regional points-tested visas

- Abolish state and regional points-test visas and expand the number of skilled independent visas granted each year.
- State governments should instead invest more in supporting employers, including state government employers, to make use of employer sponsorship to secure the skilled workers they need.
- Retain regional employer-sponsored visas, pending the findings of a review.

3. Reform the skills recognition process

- The federal government should commission a review of the skills assessment and occupational licensing processes.

4. Invest more in attracting skilled migrants to Australia and supporting them when they arrive

- The federal, state, and territory governments should invest more in attracting skilled migrants to choose Australia and helping them settle and thrive in Australia.

5. Strengthen the evidence base for skilled migration

- Review the points test regularly, including via an independent analysis of the outcomes of skilled migrants in Australia using linked administrative data.
- Boost the analytical resources within the Department of Home Affairs, to better inform migration policy design.
- Establish a new body, similar to the UK's Migration Advisory Committee, to offer independent advice to government on visa policy changes.
- Review visa charges every two years.