

It all adds up

Reforming points-tested visas

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Overview

Points-tested visas, which allocate points to potential migrants depending on their age, proficiency in English, education, and work experience, account for almost two-thirds of all permanent skilled visas issued by Australia over the past decade. On current trends, Australia will offer around 800,000 points-tested visas over the next decade. Australia should prioritise migrants for points-tested visas based on their long-term potential, estimated using their likely earnings.

Migrants contribute greatly to Australia's prosperity. Migration has shaped Australia's diverse, highly-educated and cohesive society. Skilled migrants in particular lift the productivity of local workers, raising Australians' incomes. And each permanent skilled visa-holder boosts Australian government budgets by \$250,000 over their lifetimes, or about \$34 billion for each annual intake, as they pay more in taxes than they receive in public services and benefits over their lifetimes.

But points-tested visas are not working as well as they should. The points test does not sufficiently reward the most-skilled applicants. Points-tested visas are offered to a subset of skilled occupations where workers are deemed to be 'in shortage'. This shuts Australia off from many talented migrants, and distorts the study and career choices of many temporary visa-holders already here, leaving many in visa limbo.

Separate state and regional points-tested visa programs do not select the most-skilled applicants for permanent visas. The typical regional points-tested visa-holder earns \$24,000 less each year, and state points-tested visa-holder \$6,500 less, than migrants with skilled independent visas. Pushing migrants to regions often harms their long-term career prospects, and those of their families. And many regional points-tested visa-holders do not stay in the regions for long.

Two simple changes are needed.

First, the points test should be reformed to better reward the most-skilled applicants. More points should be offered to highly-educated applicants and those with strong English language skills. Migrants trained in any high-skilled occupation should be eligible to apply, and points should be offered for any skilled employment experience and particularly for high-paying Australian work experience. Australia should no longer offer points for studying in Australia or in a regional area, or for undertaking a professional year. The minimum number of points required to be eligible for a points-tested visa should rise, and applicants who accrue a very high number of points should be guaranteed an invitation to apply for a visa.

Second, state and regional points-tested visa programs should be abolished, and more skilled independent visas offered in their stead. Abolishing these visas would help Australia select more highly-skilled migrants, and give those migrants the best chance to thrive in Australia.

Selecting more highly-skilled and higher-paid migrants would boost Australia's flagging rate of productivity growth, driving up Australians' living standards in the long term. And these changes would still allow governments to staff essential health and education services, including in regional areas, since the points test would better reward those applicants' qualifications and work experience.

Grattan Institute modelling shows that reforming the points test as we recommend would provide an \$84 billion boost to Australian government budgets over the next 30 years. Replacing state and regional points-tested visas with a single points-tested visa program would provide a further \$87 billion boost to government budgets.

These simple reforms to points-tested visas would help build an even more prosperous future for all Australians.

Recommendations

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.

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1 The points test should select migrants based on their long-term economic potential

Migration has shaped Australia's diverse, highly educated and cohesive society. While the broader permanent migration system provides opportunities for family reunion and entry on humanitarian grounds, Australia should select skilled migrants based on their economic potential, using their lifetime earnings as the best available proxy for that potential.

Skilled migration is the largest part of Australia's permanent migration program. Points-tested visas, which allocate points based on the applicant's characteristics such as their age, English language proficiency, education, and work experience, account for almost two-thirds of all permanent skilled visas issued by Australia over the past decade.

This report focuses on improving the way Australia selects skilled migrants for the tens of thousands of points-tested visas offered each year. The permanent skilled migration program should select skilled migrants on the basis of their long-term economic potential, not to address often short-term skills shortages.

Our recommended reforms would offer substantial benefits to Australia by boosting our flagging rate of productivity growth, and further supporting the contribution that migration makes to Australian government budgets.

1.1 Skilled migration is the largest component of Australia's permanent migration program

Australia runs a sizeable migration program, including permanent and temporary migration.

In 2023-24, Australia plans to grant permanent residency to 190,000 people, 137,100 in the skilled stream and 52,500 in the family stream, plus around 20,000 humanitarian visas.

The share of skilled migrants in the permanent program has increased substantially over the past two decades, from about half of the permanent intake in the year 2000 to 72 per cent in 2023-24 (Figure 1.1).¹

1.2 Australia selects permanent skilled migrants through a number of different streams

Each permanent skilled stream has significantly different selection mechanisms and eligibility requirements. The federal government specifies a ceiling on the number of visas allocated each year through each stream (Figure 1.2).

The major skilled visa streams are:

- Points-tested skilled migration: applicants are allocated points according to characteristics and then ranked by their overall points.²
- Employer-nominated: requires applicants to be nominated by a sponsoring employer, subject to minimum thresholds for applicants' age, qualifications, and proficiency in English.
- Global Talent: targets highly skilled professionals to work in 10 nominated sectors.

1. The permanent intake excludes Humanitarian visas.

2. Includes the 'Skilled independent', 'Skilled (state) nominated', and most 'Regional' visas.

The now-closed Business Innovation and Investment visa and Global Talent visa will be replaced with a new 'National Innovation' visa in late 2024, which will target 'exceptionally talented migrants'.³

1.2.1 Points-tested visas are the largest component of Australia's permanent skilled migration program

In 2023-24, points-tested visas will make up almost two-thirds of the 137,100 skilled visas issued.⁴

Australia currently uses three points-tested permanent visa subclasses, with different eligibility requirements, to select skilled workers. These are:

- Skilled independent (subclass 189): allocations are made using the points test, in conjunction with a list of 212 eligible occupations. Prospective migrants do not require either a sponsoring employer or approval from a state or territory government.
- Skilled (state) nominated (subclass 190): allocations are made using the points test, in conjunction with a list of 427 eligible occupations. Prospective migrants also require a nomination from a state or territory government.⁵
- Skilled work regional (subclass 491): allocations are made using the points test, in conjunction with a list of 504 eligible

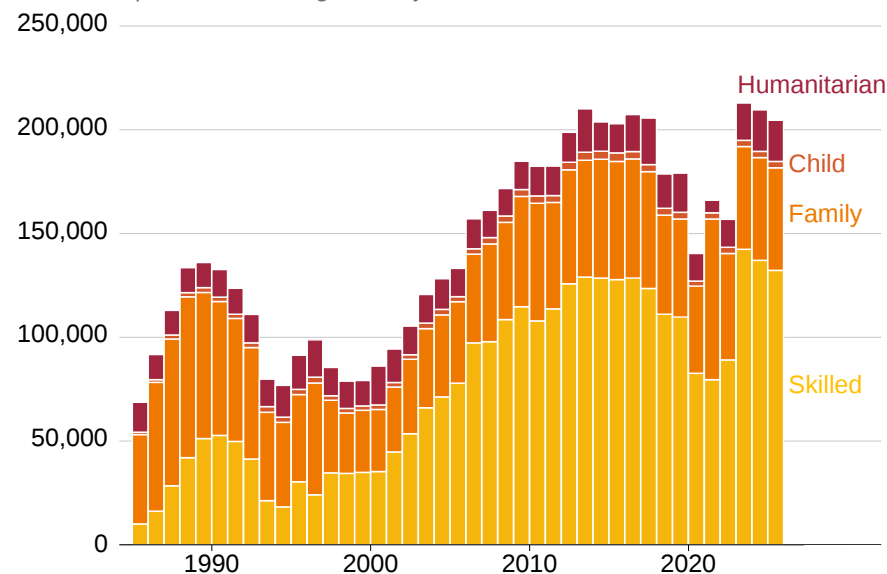
3. The Treasury (2024, p. 136); and Australian Government (2023, p. 59).

4. Assuming about 6,500 of the 32,300 'Regional' visas are the subclass 494 employer-sponsored provisional visa. See: Department of Home Affairs (2024a).

5. 'Skilled nominated' visas are referred to as 'state points-tested' visas in this report (territory governments are also able to nominate people for visas, but we use 'state' for brevity).

Figure 1.1: Most of Australia's permanent visas are allocated to the skilled stream

Australian 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 stream includes a small number of 'Special Eligibility' visas.

Sources: Australian Government (2018), Department of Home Affairs (2024a) and Phillips (2017).

occupations. Prospective migrants also require a nomination from a state or territory government.⁶

In this report, permanent skilled visas will be classified into five sub-groups: 'Independent', 'State', 'Regional', 'Employer-sponsored', and 'Regional employer-sponsored'. This report also refers to 'Other' visas, which include the Investor, Family, Talent, and Humanitarian visas.

1.2.2 The different streams of the permanent skilled migration program select migrants in different ways

The permanent skilled migration program is intended to select migrants for their long-term economic contribution.

Points visas are used to select migrants with individual characteristics, such as the level of education and English language ability, that are likely to lead to high lifetime earnings. Points visas are 'supply-driven', in that migrants apply to the Australian government to be selected.⁷ Most migrants who obtain an independent skilled visa are young and tertiary educated.

Permanent employer-sponsored visas are 'demand-driven', with employers who are willing to incur the costs of sponsoring and ultimately hiring a skilled migrant able to nominate a skilled migrant for a permanent visa.⁸

The bulk of permanent visas issued each year are via the skilled stream. Over the past decade, 28 per cent of permanent visas granted have gone to primary applicants for permanent skilled visas. A further

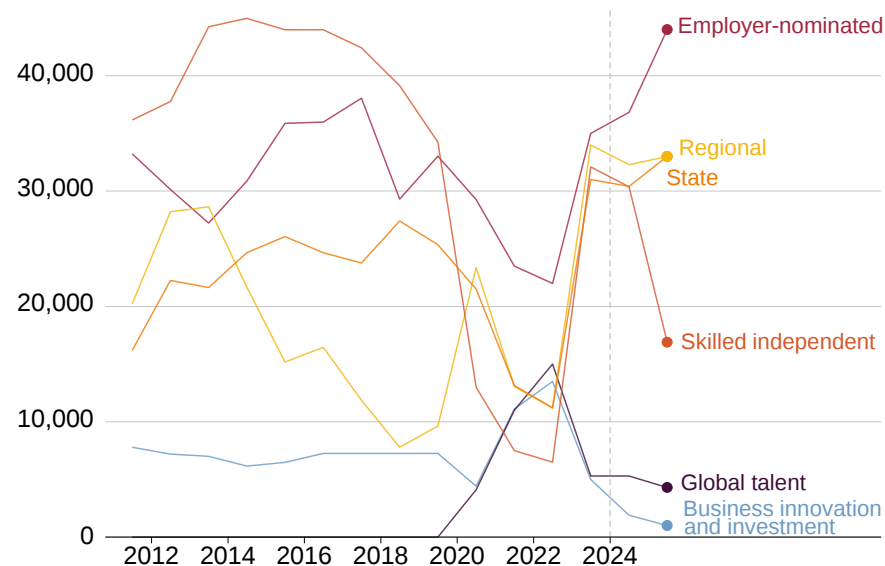
6. The 491 is a provisional visa that requires the migrant to live outside of Sydney, Melbourne, and Brisbane. The person can apply for a permanent visa after three years. The subclass 494 employer-sponsored provisional visa is included in the 'Regional' category in Figure 1.2.

7. Cully (2011).

8. See Coates et al (2021).

Figure 1.2: Points-tested visas make up most of the permanent skilled intake

Migration program planning levels, outcomes, and planned allocations, financial year ending



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 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 (2020), Department of Home Affairs (2024a), Department of Home Affairs (2023a) and Hansard (2021).

32 per cent of visas were issued to secondary applicants (spouses and children).⁹ The remainder were issued under the family and humanitarian streams, reflecting the broader objectives of Australia's migration program.

There are also more than 700,000 New Zealanders living in Australia on a temporary visa. While these migrants aren't selected on the basis of their skills, many work in critical roles, such as in child care, aged care, health care, and construction.¹⁰

1.3 Getting permanent skilled migration right offers enormous long-term benefits to Australia

Australia's skilled migration program should be designed to maximise the welfare of the Australian community.¹¹ While the migration system generates a large social dividend, and also provides opportunities for family reunion and entry on humanitarian grounds, for the skilled migration component Australia should select skilled migrants for their economic potential.

Skilled migration boosts Australians' incomes

High-skilled migrants are more likely to lift the productivity of incumbent workers, especially through the adoption of new technologies and business practices, and to generate the spread of knowledge and international best practice.¹²

Recent OECD research found that the 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.¹³

The existing Australian evidence, albeit imperfect, finds that migrants have little impact on Australian workers. The vast international literature examining the aggregate impact of migration on the labour market generally supports this story.¹⁴ Where migrants bring different skills and complement the work of incumbents, migration can boost the wages of incumbent workers, especially in cases where incumbent workers switch jobs.

Permanent skilled migration offers a large fiscal dividend to Australia

Permanent skilled migrants contribute significantly to federal and state government budgets since they pay much more in taxes than they receive in benefits and public services over their lifetimes in Australia.

Treasury modelling shows that, on average, each permanent skilled visa-holder boosts Australian government budgets by about \$249,000 over their lifetimes.¹⁵ The boost to state governments (combined) is about \$75,000 per person, and the boost to the federal government is about \$173,300.¹⁶

That means the cohort of 137,100 migrants granted permanent skilled visas in 2023-24 provides a boost to Australian government budgets of

9. Coates et al (2022, Chapter 1). Among those who were granted a visa without any assessment of their skills, 45 per cent were working in a low-skill job in 2016 (occupation skill level 4 or 5). See: Coates et al (ibid, p. 11).

10. Coates and Wiltshire (2024); and Coates et al (2022, Chapter 5).

11. As defined in Coates et al (2021), the Australian community includes citizens and permanent visa-holders – including their future children.

12. Coates et al (2022, Section 2.4).

13. OECD (2023); OECD (2024).

14. See: Edo (2019) and Caiumi and Peri (2024).

15. In 2022-23 dollars. In 2018-19 dollars the boost is \$198,000: Varela et al (2021, Table 4). These estimates omit the indirect fiscal impacts of migration on incumbent workers' wages (Colas and Sachs (2024)) and via increased taxes on capital income (Clemens (2022)). Including these indirect impacts would likely further boost the fiscal dividend Australians enjoy from our skilled migration program, and the long-term budget boost from our recommended reforms.

16. In 2022-23 dollars. Varela et al (2021, Table 4).

about \$34 billion, or 1.3 per cent of GDP, over their lifetimes.¹⁷ Of that, state governments collectively will receive a \$10 billion boost, whereas the federal government receives a \$24 billion boost.

As a result, Australian workers need to pay less tax to enjoy the same quality services, and have higher disposable incomes.

Permanent skilled migration supports our international education sector

Australia's substantial permanent skilled migration intake also helps attract international students to Australia. Many international students appear motivated to study in Australia by the prospect of building their lives and careers here.¹⁸

International education services were Australia's fourth-largest export pre-COVID, worth about \$40 billion annually, of which higher education exports accounted for two-thirds.¹⁹ Tuition fees paid by international students totalled \$17 billion in 2019, including \$10 billion in fees paid to Australian universities.²⁰

1.4 Australia's permanent skilled migration program should select young, highly skilled people

The permanent skilled migration program should select high-skilled, generally younger, migrants for their long-term economic potential.²¹

17. Grattan analysis of Varela et al (2021, Chart 1) and Department of Home Affairs (2024a). 2022-23 dollars. The budget boost from points-tested visas alone in 2023-24 is \$15 billion.

18. In one survey, the possibility of migrating to Australia was cited by 70 per cent of undergraduate international students as a reason for choosing to study in Australia: Quality Indicators for Learning and Teaching (2023, Table 15).

19. Coates et al (2023, Box 1).

20. Grozinger and Parsons (2019, p. 39); Ferguson and Spinks (2021, Table 6).

21. The 1988 Fitzgerald report on Australia's migration policies said: 'To realise its potential economic benefits to Australia, the immigration program needs a high

Skilled migrants who are granted permanent residency in Australia when they are in their 20s and 30s can be expected to remain in the workforce for 30-to-40 years.

The selection of permanent skilled migrants should not be concerned with short-term skills shortages. Shorter-term skills shortages are best addressed via Australia's temporary migration programs.²²

1.4.1 Potential lifetime earnings is the best available measure of permanent migrants' economic contribution for the purposes of the skilled migrant program

All migrants who make their lives, and build their families, in Australia make a social, cultural, and economic contribution to this country. The specific focus of the permanent skilled migration program, however, is to select migrants who will make the greatest economic contribution, for the limited number of visas awarded.

In this report, we use estimates of an applicant's expected lifetime earnings once granted permanent residency to assess their potential economic contribution in Australia.

All else being equal, higher earnings generate a larger fiscal dividend for Australian governments since migrants pay more tax and rely less on government-funded supports. And higher earnings are more likely to reflect skills that employers value and are more likely to be associated with productivity spillovers to other workers.

Lifetime labour earnings are an incomplete measure of a migrant's economic contribution to Australia. There are other ways that people contribute economically, including through unpaid work.

proportion of skilled, entrepreneurial, and youthful immigrants, with English and other language skills playing a part in selection.' (Fitzgerald (1988, pp. xii–xiii)).

22. Coates et al (2022, p. 22).

Australian labour markets are also far from perfect.

Discrimination against migrants contributes to poor employment outcomes.²³ For example, a recent Australian study found that job applicants with non-English names received fewer positive responses to applications for positions.²⁴

There is evidence that certain feminized occupations are structurally underpaid, through the interaction of historical benchmarks, ongoing gendered attitudes to the value of work performed, and government funding constraining the level shift required to address underpayment.

However, migration is not a durable nor equitable solution to this problem. At a practical level, even if we prioritised migrants with the skills to work in these under-valued occupations, there is no guarantee they would continue to work in them if they could attract a higher wage in another job. Instead, workforce shortages in these occupations will only be solved in the long term by offering higher wages commensurate with what these jobs demand of workers.²⁵

Despite these problems, lifetime earnings is a better measure than the alternatives.²⁶

23. Tang et al (2022); and Blackmore et al (2023).

24. Adamovic and Leibbrandt (2023). Earlier studies have found high levels of discrimination among employers against minority groups, especially those from Middle Eastern backgrounds: Booth et al (2012).

25. Higher wages for care-economy workers, paid for by government, are a transfer from all taxpayers to care-economy workers. Therefore the true cost of such wage rises is the cost to activity from raising the extra revenue via higher taxation (Coates et al (2022, pp. 95–96)), which could also be paid for via the boost to government budgets from the skilled migration reforms outlined in this report.

26. Other ways of evaluating a migrant's economic contribution, such as particular technical, entrepreneurial, or management skills, are difficult to measure and compare accurately, and are likely highly correlated with lifetime earnings. For instance, migrants with particularly in-demand skills, such as cyber security professionals, are also likely to attract high wages.

The objective of the reforms recommended in this report is to maximise the lifetime earnings of people granted permanent skilled visas each year and thereby maximise the estimated benefit to the Australian community.

1.5 All points-tested visas select younger, skilled workers, but some streams perform better than others

Permanent skilled migrants tend to have significantly higher levels of education than incumbents. About 40 per cent of people granted an independent points visa have a postgraduate qualification, and half have a bachelor degree.²⁷ The rates are similar for people granted state points visas, and slightly lower for regional points visa-holders.

A large majority of skilled visa-holders speak English natively or 'very well'.²⁸ But about a quarter of regional visa-holders say that they speak English only 'well', 'not well', or 'not at all'.

High levels of education and English language ability mean that permanent skilled migrants in Australia earn higher wages than incumbent Australians. But state and regional visa-holders tend to earn less than local workers of the same age (Figure 1.3).

1.6 Our recommended reforms would deliver substantial benefits to Australia

The remainder of this report recommends changes to Australia's permanent skilled migration streams.

Chapter 2 recommends reforms to the points test. Chapter 3 calls for the state and regional points-tested visas to be abolished. These

27. Primary visa-holders only. Grattan analysis of: ABS (2021a).

28. Primary visa-holders generally have better English, but secondary skilled visa-holders also have good English. Grattan analysis of: ABS (ibid).

changes would shift Australia's permanent skilled migrant intake further towards younger, higher-skilled migrants.

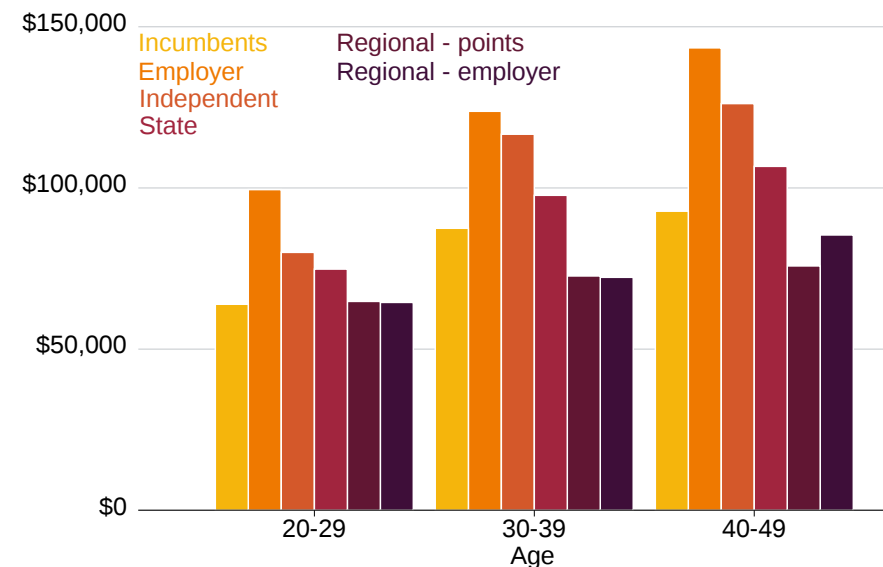
Selecting more highly-skilled and higher-paid migrants would boost Australia's living standards, especially by lifting Australia's flagging rate of productivity growth, which would drive up Australians' living standards in the long term. And abolishing state and especially regional points visas gives those migrants selected for skilled visas the best chance to thrive in Australia.

Reforming the points test as we recommend would provide an \$84 billion boost to Australian government budgets over the next 30 years. Abolishing the state and regional points visas and reallocating those places to the skilled independent program would boost the fiscal dividend over this period by a further \$87 billion to \$171 billion (Figure 1.4).²⁹

The annual fiscal dividend from our combined reforms grows over the next 30 years, as each new migrant cohort arrives in Australia, and remains in the workforce for decades (Figure 1.5). By the early 2050s, these reforms would offer more than a \$10 billion boost to Australian government budgets (in today's dollars) each year. The substantial boost to government budgets from reforming points visas would mean Australians can enjoy the same quality goods and services while paying \$10 billion a year less in taxes to fund them, further boosting their disposable incomes.

Figure 1.3: Employer-sponsored and independent points visa-holders typically earn more than state and regional visa-holders

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



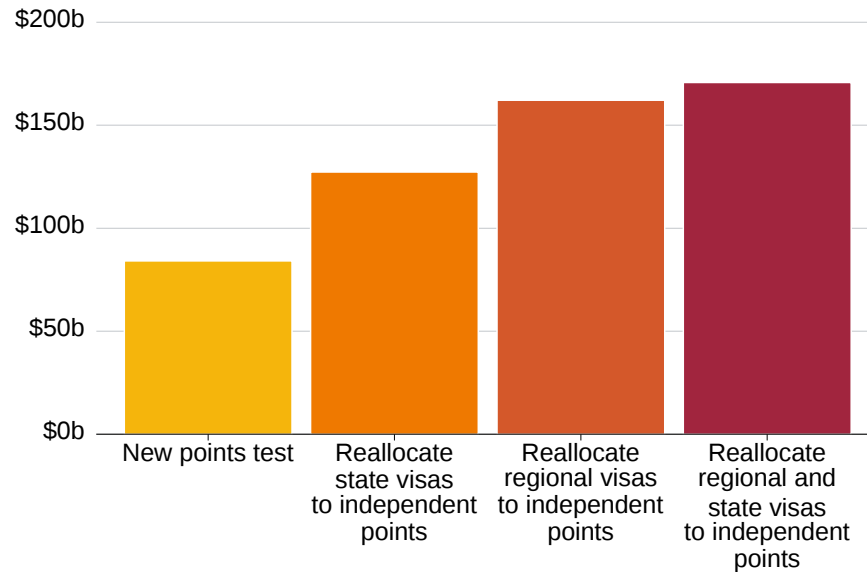
Notes: Permanent visa-holders in Australia in 2021 who arrived between 2015 and 2021. Visa group is according to the first permanent visa granted. Incumbents are residents born in Australia or those who arrived before 2005.

Sources: ABS (2022) and ABS (2021a).

29. See Appendix B for further details.

Figure 1.4: Our recommended reforms to permanent skilled migration offer a very large fiscal dividend

Total fiscal dividend for Australian governments over the next 30 years, 2024 dollars

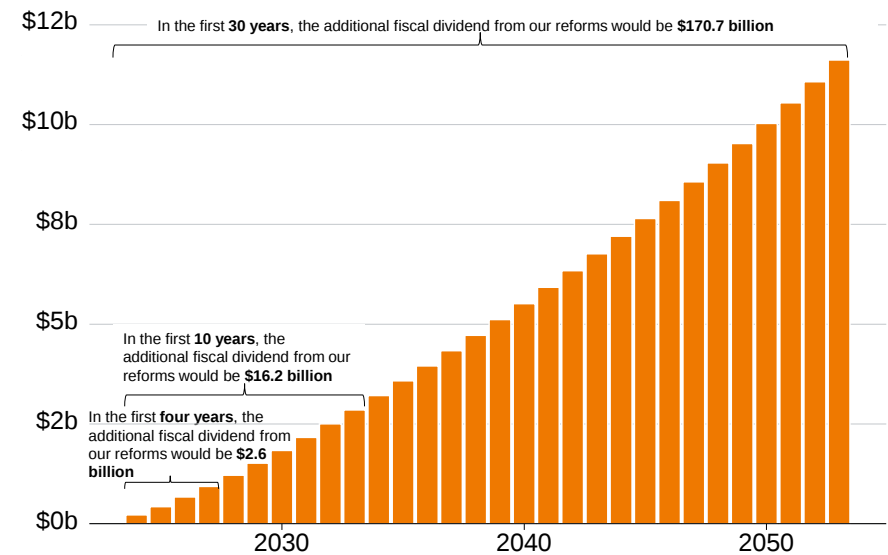


Notes: See Appendix B for model assumptions. All scenarios include the benefits of the new points test. Fiscal outcomes are partial equilibrium effects, and do not account for broader benefits.

Source: Grattan analysis.

Figure 1.5: The annual fiscal dividend from our recommended reforms would grow over time

Annual fiscal dividend for Australian governments over the next 30 years, 2024 dollars



Notes: See Appendix B for model assumptions.

Sources: Grattan analysis.

2 The points test should be reformed

Skilled migrants contribute greatly to Australia's prosperity, shaping our diverse society, and lifting the productivity and earnings of local workers.

The points test is used to allocate the limited number of available visas on the basis of an applicant's characteristics such as their age, English language proficiency, education, and work experience. Each permanent points-tested visa stream restricts applicants to those qualified to work, or train, in an occupation on an occupation list.

But the current points test does not prioritise the things that select the most skilled applicants. The test is bloated with unnecessary points for characteristics that are not correlated with high lifetime earnings, such as studying at an Australian education institution or in a regional area, or completing a 'professional year'. On the other hand, applicants get too few points for valuable characteristics that are closely related to long-term earnings, such as English language ability, education, and their spouses' skills.

Our proposed points test would give more points for highly skilled candidates: those who have already performed well in the Australian labour market, have strong English language skills, and are single or have a highly skilled spouse.

Points should be offered for any high-skill employment experience and for high-paying Australian work experience. Graduates from top-ranked global universities should secure extra points. Applicants with at least 400 points, out of a maximum of 500 points, should be guaranteed an invitation to apply for a visa.

Points-tested visas should be open to all high-skill occupations.

2.1 Points are offered for a broad range of characteristics

The current points test allocates points based on a wide range of characteristics (Table 2.1).³⁰

Unlike employer sponsorship, Australia's points-tested visas are not demand driven – applicants compete against each other for a scarce number of visas offered each year.³¹

In theory, ranked selection means visas go to applicants with the most points

In 2012, the SkillSelect system was introduced, which required applicants to submit an Expression of Interest (EOI) for a visa, before being invited to submit an application if the selection criteria are met. The quota is then nominally selected from the applicants with the most points.

The invitation process also allows the federal government to keep tight control over both the supply of available points-tested visas, and the number of visa applications, because people cannot apply for a visa unless they have an invitation.³²

30. See Papademetriou and Sumption (2011). Other countries that use a points test for permanent skilled migration include Canada, Germany and Japan.

31. See Coates et al (2021, Section 7.3) for more detail.

32. Before 2012, large numbers of applications were submitted each year from people who met the pass mark for the points test. This created long waiting periods to gain a visa, and meant the government was unable to control how many prospective permanent skilled workers applied for a visa. See Mares (2009).

Table 2.1: Points are awarded for a variety of applicant characteristics

Category	Points	Category	Points
Age	18-24: 25 points 25-32: 30 33-39: 25 40-44: 15	Australian study	5 points
English language	Superior: 20 points Proficient: 10 Competent: 0	Regional study	5 points
Overseas work experience	At least 8 years: 15 points At least 5 but less than 8 years: 10 At least 3 but less than 5 years: 5 Less than 3 years: 0	Professional year	5 points
Australian work experience	At least 8 years: 20 points At least 5 but less than 8 years: 15 At least 3 but less than 5 years: 10 At least 1 but less than 3 years: 5 Less than 1 year: 0	Specialist education	10 points
Occupation	Applicant needs to have a suitable skills assessment for an occupation on a skilled occupation list at the time of invitation	Credentialled community language	5 points
Education	PhD: 20 points Bachelor or higher: 15 Diploma/trade qualification (from an Australian institution): 10 Other suitable qualification: 10	State/territory nomination	190 visa: 5 points for nomination by a state or territory government 491 visa: 15 points for nomination by a state or territory government
		Partner skills	≤ 45 years old, competent English, and occupation on list: 10 points Competent English only: 5 Single: 10

Notes: Points criteria are assessed at the time of invitation to apply for a visa. Total points for work experience capped at 20. Experience must be in nominated skilled occupation or a closely related skilled occupation. Education points for highest qualification only. 'Other suitable qualification': attained a qualification or award recognised by the relevant assessing authority for nominated skilled occupation as being suitable for that occupation. Competent English: IELTS 6 or equivalent, proficient: IELTS 7 or equivalent, superior: IELTS 8 or equivalent. Specialist education: masters by research or PhD from an Australian university in a STEM field.

Sources: Department of Home Affairs (2023b); Department of Home Affairs (2023c); Department of Home Affairs (2023d).

The major drawback to ranked selection is the lack of certainty for prospective applicants. The number of points they require is determined by the number of invitations issued *and* the relative ranking of each applicant, and any ministerial directions and occupation ceilings. Prospective applicants who gain the minimum 65 points do not know if they have the points required to gain a visa.³³

This uncertainty may make Australia a less attractive destination for skilled migrants, which in turn may reduce the quality of the pool of prospective applicants.³⁴

But in practice, points visas are not allocated via ranked selection

EOIs are prioritised according to any ministerial directions in force, then the quota is selected from the top of the points distribution of submitted EOIs within each occupation, up to each occupation's 'occupation ceiling'.³⁵ This process means points visa applicants are competing against other applicants who have nominated the same occupation. As a result, the selection of independent points-test visas is not a pure ranked order selection.³⁶

State and regional points-tested visa applicants require a nomination from a state or territory. Applicants nominated by a state or territory government receive additional points for a nomination by a state or territory government and are automatically issued an invitation to apply

for a visa (if they score the minimum number of points). State and territory governments apply a range of different systems and criteria to rank and select prospective migrants.³⁷ So these visas are also not selected from an ordered ranking of all points-tested applicants.³⁸

Slow processing times can deter migrants from applying for points-tested visas

In addition to the uncertainty of the points visa process, visa processing times for points-tested visas are too slow. Long and uncertain waiting times may cause highly skilled prospective migrants, typically those with outside options, to look elsewhere.

As at May 1 2024, 50 per cent of skilled-independent visas are processed in 69 days, and 90 per cent are processed in 8 months. This is faster than the employer-nominated visa, but slower than the temporary sponsored visa. In addition to the visa processing time, points-tested visa applicants need to submit an EOI, undertake a skills assessment and, if successful, wait for an invitation from the Department of Home Affairs to be invited to apply for a visa. This process can add months to the time it takes to be offered a visa.

2.2 Permanent points visas are limited to people qualified to work in select occupations

Independent, state, and regional points visas are open only to applicants who are qualified to work or train in an eligible skilled occupation on one of the relevant skilled occupation lists. These occupation lists notionally target skills shortages.³⁹

There are three occupation lists for points-tested visas:

33. Boucher (2016); and Boucher and Davidson (2019).

34. Sumption (2019).

35. See Section 2.5 and Department of Home Affairs (2023e) for more detail on ministerial directions and occupation ceilings.

36. Grattan analysis of SkillSelect data from the Department of Home Affairs indicates that many EOIs that were not invited to apply for a points-tested visa may have been due to occupation ceilings. For example, 22,000 general accountants submitted an EOI between 2016-17 and 2021-22 but were not invited to apply for a subclass 189 visa, which is 74 per cent of all general accountant EOIs submitted over that period.

37. Described in more detail in Table 3.2.

38. Department of Home Affairs (2023f); and Department of Home Affairs (2023d).

39. See Coates et al (2021, pp. 67–68).

- The Medium- and Long-term Strategic Skills List (MLTSSL) lists occupations ‘of high value to the Australian economy’ and aligned with the government’s longer-term training and workforce strategies. Applicants for the skilled independent visa must be qualified to work in an occupation on the MLTSSL. There are 212 occupations on this list.
- The Short-term Skilled Occupation List (STSOL) lists occupations selected to fill ‘critical, short-term skills gaps’. This list has 215 occupations.
- The Regional Occupation List (ROL) includes the same occupations on the MLTSSL and STSOL, and 77 additional occupations. There are 504 occupations on this list.

Applicants for the state-nominated stream must be qualified in an occupation on either the MLTSSL or the STSOL. Applicants for the regional stream can be qualified in an occupation on any of the three lists.⁴⁰

Each occupation has a designated skill level.⁴¹ Only occupations classified as skill levels 1-3 are included in the main occupation lists.

Only 41 per cent of all skill level 1 occupations are included on the MLTSSL. A further 31 per cent are included in the STSOL (and therefore eligible for state and regional points visas), and a further 11 per cent are eligible solely for the regional points visa (Table 2.2).

Jobs and Skills Australia has been asked to analyse Australia’s skills needs. In time, this is likely to result in the compilation of new occupation lists for the skilled migration program.

Table 2.2: Less than half of high-skilled occupations are on the skilled occupation list for the independent points-tested visa

Skills list	Skill level 1	Skill level 2	Skill level 3	1 to 3 total
MLTSSL	159	9	44	212
STSOL	119	45	51	215
ROL	44	17	16	77
Occupations not on any list	63	39	67	169
Total	385	110	178	673
Share of all occupations by skill level on each list				
MLTSSL	41%	8%	25%	32%
STSOL	31%	41%	29%	32%
ROL	11%	15%	9%	11%
Occupations not on any list	16%	35%	38%	25%
Total	100%	100%	100%	100%

Note: Only skills lists for points visas shown. There also 650 occupations on the skilled occupation list for the subclass 494 Skilled Employer Sponsored (Regional) visa.

Source: Grattan analysis of skilled occupation lists.

40. Coates et al (2021, Table 7.2).

41. See Coates et al (ibid, Box 5).

2.3 The points test does not prioritise the things that predict high long-run earnings in Australia

Points-tested visas should aim to select migrants who are likely to make the biggest economic contribution to Australia. The current system does not do that (see Section 1.4.1).

2.3.1 Predicting migrants' long-run earnings

Measuring which characteristics predict the long-term earnings of migrants to Australia has been difficult in the past because of data limitations. Most studies were only able to measure short-term earnings and employment. For example, the 2006 Birrell Review of skilled migration that influenced the 2010-11 changes to the points test relied on data that measured migrant outcomes six and 18 months after arrival.⁴²

Short-term job characteristics and earnings may not be a good reflection of long-term earnings, because in many cases migrants will take time to find a high-skilled job, establish themselves in a new workforce, and have their qualifications recognised in Australia.

With the new Person Level Integrated Data Asset (PLIDA) compiled by the Australian Bureau of Statistics (ABS), analysing which characteristics predict a migrant's long-term earnings in Australia has recently become feasible. This dataset allows linkage of data on a whole range of characteristics, such as earnings, visa information, health, and education, which enables whole-of-life insights.⁴³ PLIDA

also provides information about migrants' visa histories, and the incomes that migrants earn in Australia over time.⁴⁴

How we measure what matters for long-term earnings

The availability of this data provides an opportunity to inform the calibration of the points test.

Using PLIDA, we have built a dataset of all permanent points visa-holders who were granted permanent visas from 2000 onwards. We've used regression analysis to measure which characteristics matter most for their long-term earnings. See Appendix A for further detail on the PLIDA data, analytical approach, results, and limitations.

Our new analysis shows what affects lifetime incomes

Grattan analysis of PLIDA data shows that occupational skill level, educational attainment, English language ability, and wages earned in Australia before the granting of a permanent visa, are the key measurable characteristics that determine migrants' long-term earnings in Australia (see Figure 2.1).

Our analysis shows that, all else being equal:

- Migrants who nominate an occupation that is skill level 1 (the most highly skilled level) when they first apply for a points visa, earn almost 1.6 times more than migrants with a less-skilled nominated occupation (i.e. skill levels 3-to-5).
- Migrants with a PhD earn 1.7 times more, and those with a bachelor (or masters) degree earn 1.4 times more, than migrants who have only graduated high school.

42. Birrell et al (2006, p. 66). In contrast, the Canadian studies that informed the development of the Comprehensive Ranking System analyse a dataset with outcomes 5-6 years and 10-11 years after migration: Picot et al (2022, p. 7).

43. ABS (2023).

44. We also used the Continuous Survey of Australia's Migrants for this report, with the latest release reporting migrant outcomes 30 months after being granted a permanent visa: Department of Home Affairs (2023g).

- Migrants who speak English ‘very well’ can expect to earn 2.5 times more than migrants who speak English ‘not well’, and 1.9 times more than migrants who speak English ‘well’.
- Migrants who previously held a high-paying job in Australia earn substantially more once granted a permanent points visa. Over the long run, a migrant who had an annual Australian taxable income of between \$70,000 and \$90,000 before their permanent visa is granted is expected to earn almost double that of a migrant who previously had an Australian taxable income of less than \$20,000 a year.

We control for gender and country of birth in our regressions to avoid ‘baking in’ earnings penalties that arise from labour market discrimination. For example, it could be the case that country of birth is closely related to English language proficiency. We want our regression to measure the relative importance of English fluency to earnings, but seek to remove the effect of employers assuming an individual would have poor English language skills because of their country of birth.

2.3.2 The points test undervalues characteristics such as English language, education, and spouses’ skills

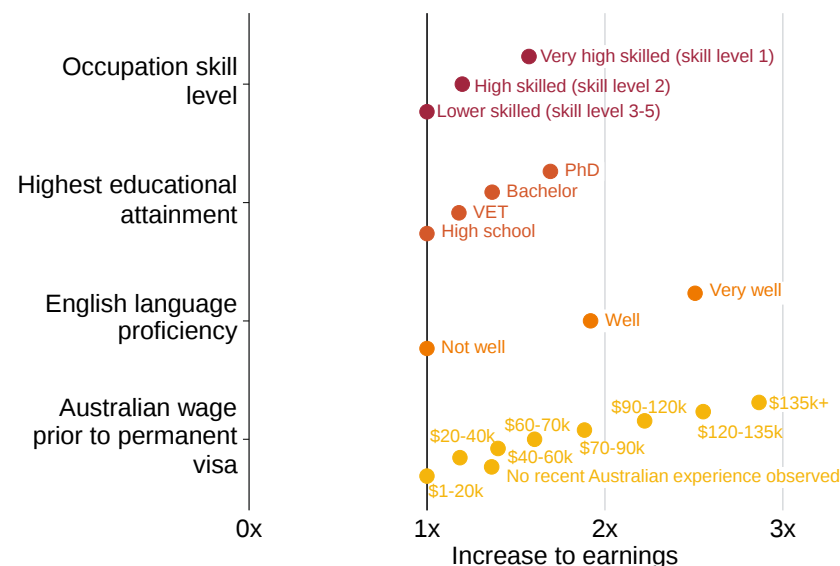
The points test currently places too little weight on the most important characteristics that predict long-term earnings. Only 70 points out of the total 130 points on offer are awarded based on applicants’ English-language skills, educational qualifications, and age.⁴⁵

Not enough points are given for English language proficiency

Migrants with high-level English language skills earn significantly more than otherwise comparable migrants with average or poor English language skills (Figure 2.1).

Figure 2.1: Skilled experience, education, and English language skills make migrants more likely to succeed

Effects of migrant characteristics on earnings, all else being equal



Notes: Points represent coefficients from a linear regression model of log annual earnings of permanent, points-tested primary applicant migrants between 2011 and 2021. Further detail and full regression results are shown in Appendix A..

Source: Grattan analysis of ABS (2023).

45. Parkinson et al (2023, p. 68).

But under the current points test, applicants can receive only a maximum 20 points for English language skills, which is 15 per cent of the maximum 130 points available.

Not enough points are given for high-level educational qualifications

Under the current points test, applicants can get only a maximum of 20 points for education (15 per cent of the maximum 130 points available).

These points allocations do not accurately reflect the impact education has on migrants' earnings (Figure 2.1).

Points for age should be recalibrated

In general, younger migrants will make a larger economic contribution to the Australian community, because they are likely to spend longer in the labour market paying taxes. The number of points offered depending on age does not adequately reflect this.

Currently, an applicant aged 25 gets only five points more than an applicant aged 39. Yet, all else being equal, the difference in future fiscal contributions from migrants of these two ages is substantial.

A 25-year-old migrant is likely to spend an extra 14 years, or roughly one-third longer, in the workforce than a 39-year-old migrant. A 25-year-old earning \$60,000 a year can be expected to pay more than \$500,000 in personal income tax alone over their lifetime. A 39-year-old earning the same amount can be expected to pay \$190,000.⁴⁶

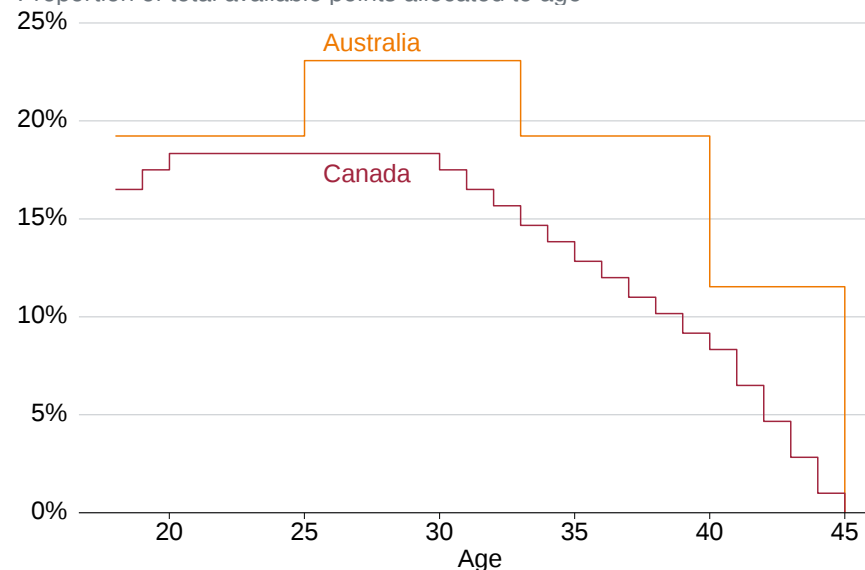
Australia should move much closer to the Canadian model, which applies a much more granular approach to allocating points for age, with age-related points dropping away quickly for applicants aged 30 or older (Figure 2.2).⁴⁷

46. Varela et al (2021).

47. Government of Canada (2024).

Figure 2.2: Canada uses a more granular scale when allocating points for age

Proportion of total available points allocated to age



Notes: Total Canadian points excludes points for nomination by a province, and is based on a single applicant. Total Australian points excludes points for nomination by a state or territory government.

Sources: Department of Home Affairs (2023b) and Government of Canada (2024).

The skills of spouses are not given enough weight

The current points test gives too little weight to the skills and experience of spouses. The test allocates 10 points for a skilled spouse who successfully passes a skills assessment in an occupation on a skilled occupation list and who can speak competent English. Five points are allocated for a spouse who can speak competent English but who can't pass a skills assessment.

Since the adult partners of primary applicants account for a significant share of total visa allocations, it's important that the points test also assesses their skills. Over the past decade, adult secondary applicants, mostly spouses, accounted for 28 per cent of all points visas issued.⁴⁸

Spouses of skilled primary visa-holders are younger and have higher education than incumbent Australians.⁴⁹ Adult secondary visa-holders have significantly more education on average than incumbents (Figure 2.3). But fewer secondary visa-holders than primary applicants have bachelor or postgraduate qualifications.⁵⁰ Adult secondary visa-holders also tend to have weaker English language skills than primary applicants (Figure 2.4).

Despite their skills, secondary applicants have lower rates of workforce participation than incumbents and primary applicants, and typically earn less. Secondary applicants are disproportionately women, so this aligns with the experience of women in the Australian labour market, with poorer employment and earnings outcomes, despite their level of qualification.⁵¹ Secondary applicants are also more likely to work in low-skill jobs than primary applicants (Figure 3.8).

48. Grattan analysis of Department of Home Affairs (2023h). Children (aged up to 19) accounted for 22 per cent of all points visas issued.

49. Coates et al (2021, pp. 86–87).

50. Ibid (pp. 86–87).

51. Women's Economic Equality Taskforce (2023, p. 12).

Points offered for work experience leave migrants in limbo

The design of the points test currently rewards the *quantity* of work experience, rather than the *quality*. Applicants can earn points based on the duration of work experience, both in Australia and overseas.

An applicant who has worked for eight years in a low-paid job in a particular occupation receives 20 points, whereas an applicant who has worked for four years in a more-skilled occupation earning a much higher income receives only 10 points.⁵²

The Parkinson Review concluded that 'the current approach of providing more points for a long period of Australian work may be interacting with the temporary visa program to encourage less highly-skilled applicants to remain in Australia for an extended period, contributing to the growing pool of 'permanently temporary' migrants'.⁵³

The current points test encourages migrants in Australia on temporary visas who are highly motivated to secure permanent residency to stay and secure more points for work experience, even if it is low-skilled.

Even after controlling for a wide range of migrant characteristics, permanent migrants who previously held graduate visas or working-holiday visas have lower earnings than other permanent skilled migrants (Figure 2.5). These migrants may remain in visa limbo trying to attain points offered by the current system, but that experience may not be well-correlated with their long-run earnings in Australia.

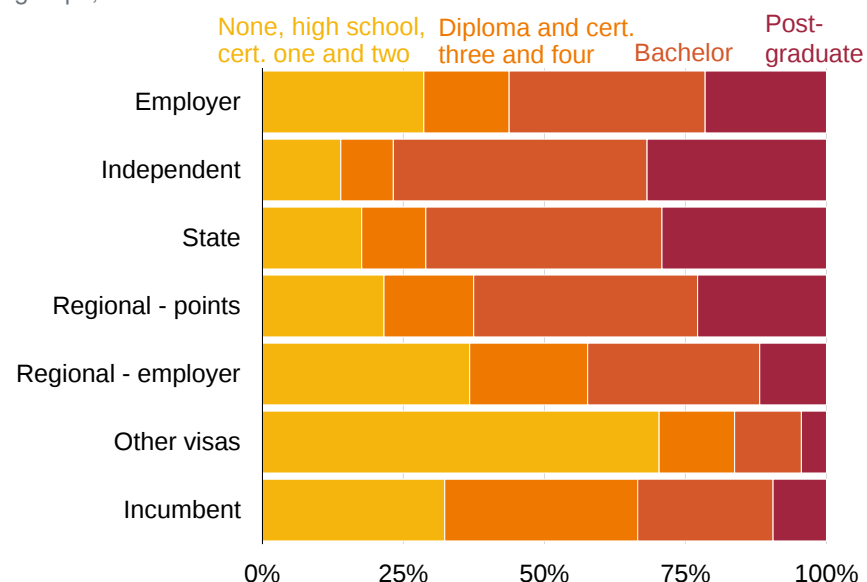
Meanwhile, those who previously held a Temporary Skill Shortage visa are predicted to earn 20 per cent more than other permanent skilled migrants, on average. Similarly, migrants who held high-paying jobs in Australia before their permanent visa was granted typically earn much higher incomes than other permanent migrants (Figure 2.1).

52. Both occupations must be on a skilled occupation list.

53. Parkinson et al (2023, p. 68).

Figure 2.3: Secondary points visa-holders typically have higher education than other secondary visa-holders, and incumbents

Secondary applicants by highest education and permanent skilled visa sub-groups, share of total

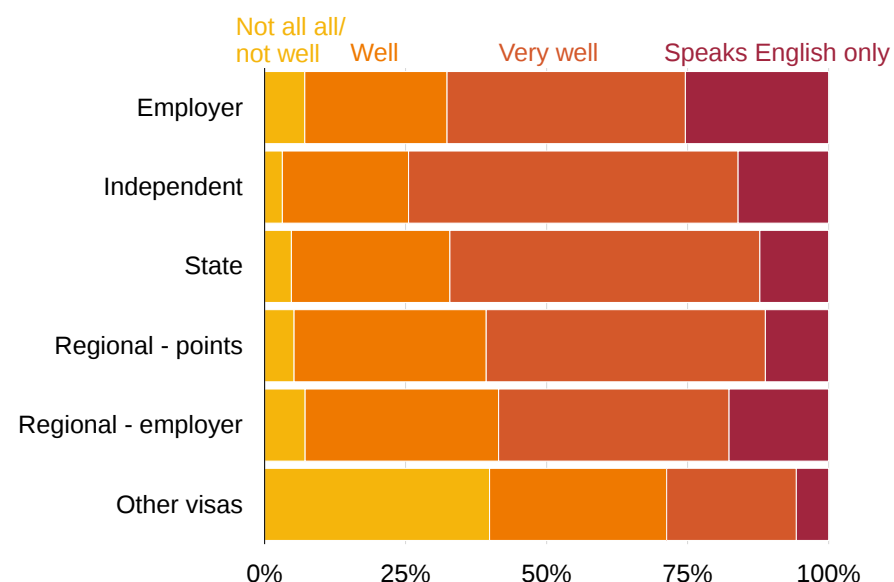


Notes: Incumbents are residents born in Australia or those who arrived before 2005, aged 20 to 49. Residents in Australia in 2021 who arrived between 2015 and 2021 and were granted a permanent visa. Latest permanent visa. Postgraduate includes graduate diplomas and certificates. Other visas includes the investor, family, talent, and humanitarian major groups (mainly partner and humanitarian visas), includes some state skilled visas, mainly investor visas.

Source: Grattan analysis of ABS (2021a) and ABS (2022).

Figure 2.4: Secondary skilled visa-holders have better language skills than other secondary visa-holders

Secondary applicants by English language ability and skilled visa sub-groups, share of total



Notes: Residents in Australia in 2021 who arrived between 2015 and 2021 and were granted a permanent visa. Aged 18 or older. Latest permanent visa. Other visas includes the investor, family, talent, and humanitarian major groups (mainly partner and humanitarian visas), includes some state skilled visas, mainly investor visas.

Source: Grattan analysis of ABS (2021a) and ABS (2022).

2.4 The points test includes ‘bonus’ points that are not correlated with high lifetime earnings

The points test awards points for characteristics that are not correlated with high lifetime earnings. These ‘bonus’ points are available for: Australian study, regional study, completing a professional year, holding a specialist education qualification, or speaking a credentialled community language.

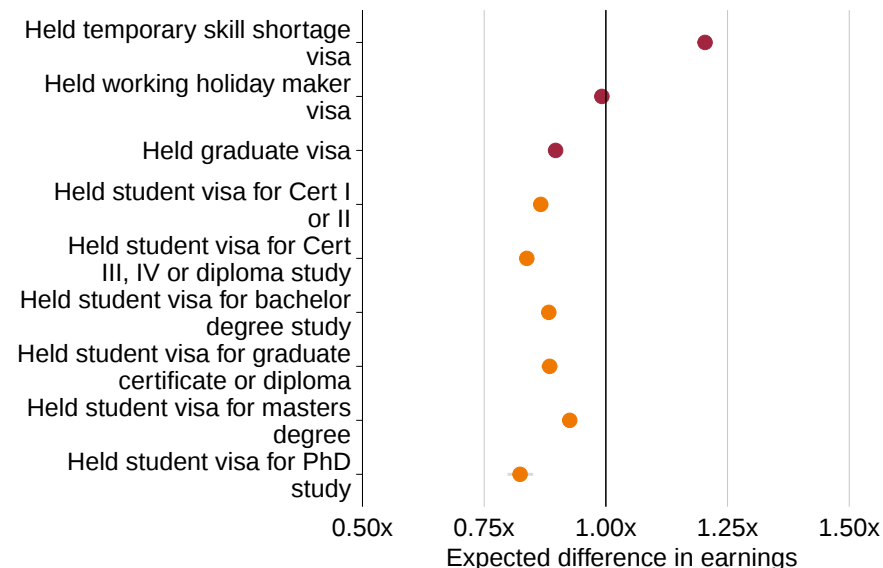
The Parkinson Review found that these bonus points are often the primary determinants of individual rankings, and hence who gets a points visa.⁵⁴

Many applicants for points visas claim at least some of these bonus points.⁵⁵ In particular, the bonus points for domestic study, and regional study, have disproportionately helped many applicants obtain a points-tested visa. These points encourage many temporary visa-holders to stay in Australia to accrue additional points.

Australian study

Applicants for points-tested visas can receive five points if they have a degree, diploma, or trade qualification from an approved Australian educational institution. About 60 per cent of EOIs that are invited to apply for a points-tested claim Australian study points, which helps determine whether an applicant is offered an invitation to apply for a permanent visa.⁵⁶

Figure 2.5: Permanent migrants who previously held Australian study or temporary grad visas typically earn less than other skilled migrants
Effect of prior Australian visas on earnings after permanent visa granted



Notes: See Appendix A.

Source: Grattan analysis of ABS (2023).

54. Parkinson et al (2023, p. 68). Grattan analysis of SkillSelect data supplied by the Department of Home Affairs shows bonus points matter more for migrants applying for regional points visas.

55. Grattan analysis of Department of Home Affairs (2023e).

56. EOIs submitted for subclass 189 and 190 visas between 2016-17 and 2022-23, and EOIs submitted for subclass 491 between 2019-20 to 2022-23. Grattan analysis of SkillSelect data from the Department of Home Affairs.

Offering bonus points to people who choose to study in Australia encourages people to choose Australia as a study destination.⁵⁷ But studying at an Australian university or VET provider does not boost the earnings of permanent migrants.

Grattan analysis shows that higher educated migrants earn more, on average, than other points-tested migrants.⁵⁸ But migrants who get their qualifications in Australia earn less than migrants who get the same qualifications elsewhere, after controlling for a range of factors (Figure 2.5). This may partly be explained by these migrants having less work experience when they are granted their permanent visa, which we may not fully control for in the regression analysis.⁵⁹ The extra points on offer for domestic study also lowers the bar to graduating students receiving a points-tested visa.

A 2023 research paper commissioned by Treasury also found that a migrant's level of education is more important than whether they studied at an Australian institution.⁶⁰

Regional study

Applicants for points-tested visas can receive five points if they have a degree, diploma, or trade qualification from an approved Australian educational institution and they studied at a campus outside of Sydney, Melbourne, and Brisbane.⁶¹ Almost one-in-five successful EOIs that

were invited to apply for a points-tested visa claimed the regional study points.⁶²

Bonus points for regional study were included in the points test to encourage international students to study in the regions, with the hope they would remain in the regions after their studies.⁶³

But regional study points don't appear to be encouraging international students to remain in the regions, with prospective migrants often choosing to apply for a regional visa as a last resort (Chapter 3).

Nor is there evidence that studying in regional Australia improves migrants' long-term earnings. Domestic regional university graduates typically earn less than other graduates.⁶⁴

Professional year

The 'professional year' was created exclusively for international students graduating with an accounting, information technology, or engineering degree, who pay up to \$15,000 to take a course after they have finished their studies to gain five points on the points test.⁶⁵ The professional year was designed to give overseas students 'vocationally-specific training designed to help applicants meet the requirements of Australian employers'.⁶⁶

Between 2016-17 and 2022-23, about one-in-six successful EOIs for points-tested visas claimed the professional year points.

57. Before COVID, international education services were Australia's fourth-largest export, worth about \$40 billion annually: Department of Foreign Affairs and Trade (2022).

58. Grattan analysis of ABS (2023)

59. Controls for age, education, and prior Australian earnings will partly proxy for years of work experience.

60. Varela and Breunig (2023).

61. Does not include study undertaken by distance education. See Department of Home Affairs (2023b).

62. EOIs submitted for subclass 189 and 190 visas between 2016-17 and 2022-23, and EOIs submitted for subclass 491 between 2019-20 to 2022-23. Grattan analysis of SkillSelect data from the Department of Home Affairs.

63. Temporary Graduate visa-holders can also receive longer duration visas for studying and living in the regions. See Coates et al (2023, p. 13).

64. Carroll et al (2018, p. 5). Koshy et al (2016) found some evidence of a negative salary effect from attending regional universities, particularly for women.

65. The professional year was introduced in 2008 in response to a recommendation in the 2006 evaluation of skilled migration: Birrell et al (2006, pp. 171–172).

66. Ibid (p. 161).

The professional year has created a cottage industry riddled with vested interests. Graduates pay high fees for qualifications that do not appear to make international students more employable or boost long-term earnings.⁶⁷

The availability of a professional year also distorts prospective migrants' choices. One study found that the vast majority of people who do a professional year do so to gain permanent residency.⁶⁸ And prospective migrants may be encouraged to study a degree that allows them to complete a professional year – and so attain more points – rather than a degree that they would prefer, and that might maximise their potential earnings in Australia.

Specialist education

Points-tested visa applicants are awarded 10 points for a 'Specialist education qualification' if they hold a PhD or a masters degree by research from an Australian university in natural and physical sciences, information technology, or engineering.⁶⁹

Less than 2 per cent of EOIs invited to apply for a points-tested visas claimed the specialist education points.

Bonus points for specialist education were introduced in 2016 in response to concerns that Australia was facing a shortage of workers in these fields.⁷⁰ But these concerns seem overblown, with most evidence indicating Australia has not suffered from a lack of postgraduate science and IT skills or, to a lesser extent, engineering skills.⁷¹

67. Coates et al (2021, p. 89).

68. Jones (2018).

69. Department of Home Affairs (2023b).

70. Originally, five bonus points were available, but in 2019 the government increased this to 10.

71. For example, STEM postgraduate degree-holders working full-time typically do not earn more than other postgraduate degree-holders. Grattan analysis of ABS

Credentialed community language

Applicants for points-tested visas can receive five points if they hold a recognised qualification in a 'credentialed community language'.⁷² Almost one-in-four successful EOIs for points-tested visas claimed the community language points.

The data does not suggest a community language qualification boosts migrant earnings or improves labour market outcomes. However, fluency in a language other than English is a valuable skill. It also increases diversity of the points-test cohort by giving additional points to people who are competent in English and who can speak another language well.

2.5 Skilled occupation lists limit Australia's access to high-skilled prospective migrants

Limiting permanent points-tested visas to a subset of all highly skilled occupations, and targeting those visas at occupations deemed in shortage, limits Australia's access to overseas skilled talent. The occupations eligible for points-tested visas, and especially the Skilled Independent stream, exclude many high-paying jobs, but include some occupations with below-average pay.

Occupation lists also distort the study choices of many international students at Australian universities, since many students are motivated, at least in part, by the prospect of securing permanent residency.⁷³ Using points-tested visas to prioritise people who train in particular occupations is a poor way to identify which graduates are likely to be high earners in the long term.

(2022), ABS (2021a) and Jobs and Skills Australia (2024). See also: Even et al (2023).

72. As at January 224, there were 52 credentialed community languages. See National Accreditation Authority et al (2024).

73. Coates et al (2023, pp. 10–11).

Targeting particular occupations also does not guarantee that migrants selected for points-tested visas will work in those occupations for much or indeed any of their subsequent careers in Australia. Many high-skilled migrants change occupations.

Occupation lists mean many skilled migrants can't apply for points-tested visas

Occupation lists form a core part of the selection criteria for points-tested migrants.

Occupation lists mean many prospective skilled migrants can't apply for points-tested visas. Australia risks missing out on many talented migrants who don't apply for a visa because their occupation is not on an occupation list.

There are more than 200 high-skill, high-income occupations not on the main occupation list for permanent skilled workers, the Medium and Long-term Strategic Skills List (MLTSSL) (Table 2.2).

Occupation lists do not prioritise high-skill, high-wage jobs because they are typically targeted at occupations deemed to be 'in shortage', rather than those that are the most skilled or attract the highest pay. Yet most skills shortages are likely to be temporary, and therefore are better addressed via Australia's temporary migration program.⁷⁴

Occupation lists also appear to be heavily shaped by vested interests. Industry and other interests play a key role in the construction of occupation lists.⁷⁵

Occupation lists distort the study choices of international students

Occupation lists that are narrowly defined and do not prioritise high-skill, high-paid jobs distort the study choices of many international students. Privileging particular occupations in Australia's visa programs has led to perverse outcomes.

For example, chefs were the eighth most common occupation among EOIs for points visas in the two years to May 2023.⁷⁶ Before 2010, the inclusion of hairdressers on the Migration Occupations in Demand List (MODL) encouraged migrants to study hairdressing to obtain a permanent visa.⁷⁷

But there is no guarantee that students who are enticed to switch course due to occupation lists will pursue that career in the long term.

Many migrants granted points-tested visas do not stay in their nominated occupation

Most recent migrants on a points-tested visa nominated a high-skill professional occupation.

But many points-tested migrants do not stay in the occupation they nominate – and for which their skills are assessed – when they apply to come to Australia (Figure 2.6).

One year after their permanent visa is granted, only half of employed, points-tested migrants work in the occupation they nominated. By 15 years after being granted permanent residency, only about 40 per cent work in the occupation they nominated.

The share of migrants who work in an occupation outside of their nominated occupation varies substantially by occupation. For example,

74. Coates et al (2022, Chapter 2).

75. Coates et al (2021, pp. 75, 78).

76. Submitted, lodged, and invited EOIs, 18,616 EOIs in total. Grattan analysis of: Department of Home Affairs (2023e).

77. Spinks (2016).

nurses and medical practitioners very rarely change from their nominated occupation, while accountants and ICT workers are more likely to work in jobs outside their nominated occupation, often in other high-skilled occupations, reflecting their more transferable skills.⁷⁸

Migrants with high-skill nominated occupations, such as engineers and ICT professionals, typically earn a relatively high wage after receiving their permanent visa and that wage increases with time, even if they change occupations a lot. In contrast, migrants with lower-skill nominated occupations who change occupations frequently, such as food trades workers, typically earn lower wages (Figure 2.7).

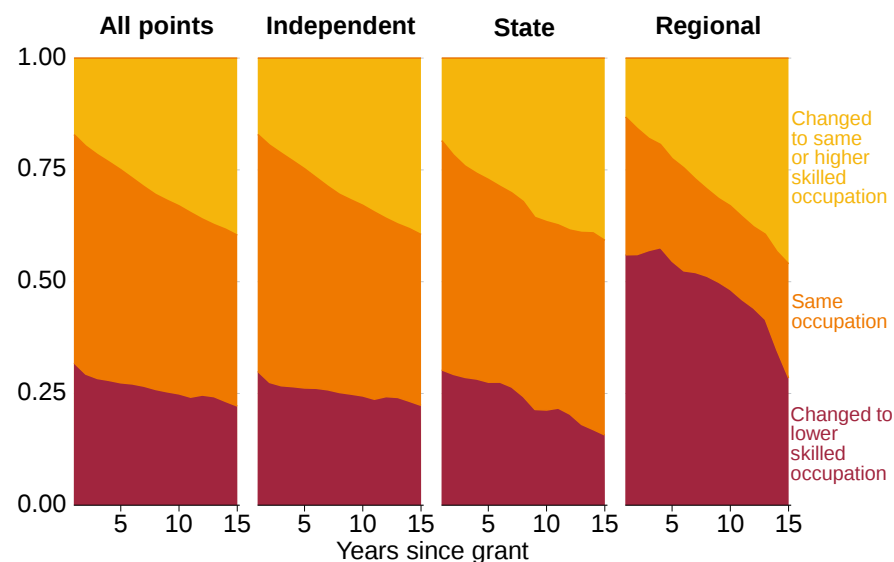
And while some migrants may be unable to find work in their nominated occupation, or choose to change occupations, their skills are not wasted: they usually remain in an occupation with similar skill requirements to their nominated occupation.

For example, accountants who change to a similar or other high-skill occupation most commonly work as finance managers, management consultants, and, in the longer term, as chief executive officers.⁷⁹ Those who work in lower-skilled occupations most commonly work as accounts clerks, general clerks, and bank workers.

ICT workers who change to a similar high-skilled occupation most commonly work as project managers, management consultants, ICT support engineers, and ICT managers. Those who change to a lower-skilled occupation most commonly work as ICT customer support officers, electronic equipment trades workers, project or program administrators, and customer service managers.

Figure 2.6: A large share of migrants work outside their nominated occupation

Share of permanent points-tested migrants working in their nominated occupation, by years since grant, 2021



Notes: Primary applicants only. Migrants are considered to have changed occupation if they change occupation at the 3 digit level. Excludes migrants with no recorded occupation on their 2021 income tax return.

Source: Grattan analysis of ABS (2023).

78. Grattan analysis of ABS (2023).

79. Grattan analysis of ABS (ibid).

Occupation lists add complexity and cost for migrants and employers

Skilled occupation lists make applying for a points visa more costly and cumbersome for prospective migrants.⁸⁰ The current process requires migrants to obtain a skills assessment at the time they are invited to apply for a points visa. Each occupation on the occupation list has a skills assessment authority that assesses the quality and relevance of the applicant's experience.

Ministerial interventions and occupation ceilings undermine the selection of talented migrants

Ministers can use ministerial directions to prioritise processing of applicants with certain characteristics who have applied for an independent points visa over other applicants who have a higher score.

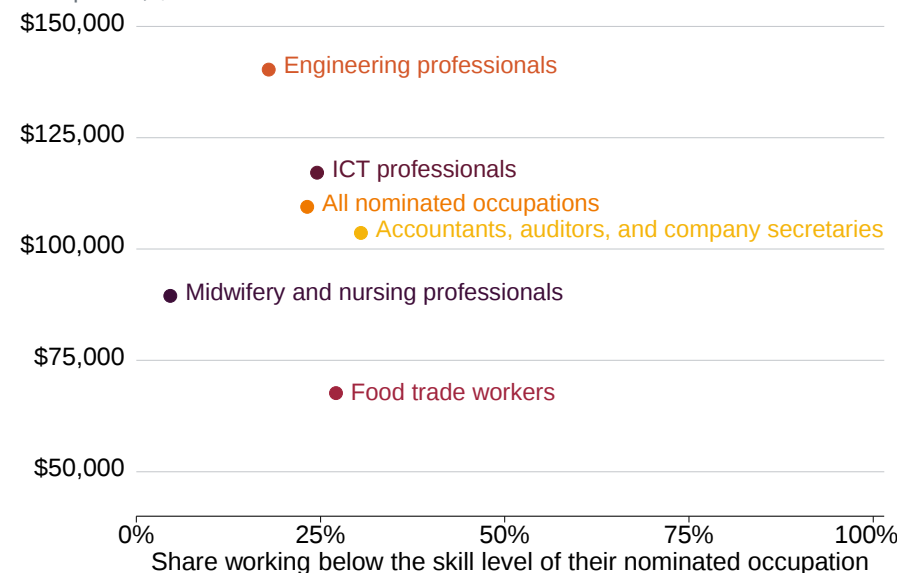
Ministerial directions are often based on meeting short-term labour market needs, or reflect political pressures. This can undermine the intent of the points test to select migrants who make the biggest long-term economic contribution to Australia, and moves the goal posts for prospective migrants by undermining ranked order selection based on published criteria.

Another intervention that interferes with ranked order selection is the use of 'occupation ceilings', which limit the number of individuals that can be offered an independent points visa from an occupation group. Occupation ceilings can result in some talented prospective migrants who score highly on the points test not being offered a visa because their selected occupation is considered 'full'.⁸¹

80. Occupation lists applying to employer-sponsored visas also create complexity for employers. Some employers cite the uncertainty created by changing occupation lists as a reason for not employing international student graduates: Coates et al (2023, p. 22).

81. Department of Home Affairs (2023e). State and regional points visas do not have occupation ceilings, but state and territory governments often prioritise certain occupations or industries as part of their selection processes.

Figure 2.7: Migrants in professions with high rates of people working below their skill level still earn relatively high wages in the long term
Average income 14 years after permanent visa granted, by nominated occupation, \$2021



Notes: Medical practitioner earnings are not shown, but have high wages and almost no under-skilling, exceeding all other listed occupations in every year since grant. Excludes migrants missing a current occupation on their income tax return.

Source: Grattan analysis of ABS (2023).

2.6 The points test should be recalibrated to reward characteristics that maximise long-term earnings

As outlined in Chapter 1, the limited number of points-tested visas available each year should be allocated to applicants with characteristics that maximise their long-term contribution to Australia's economic prosperity. The points test should therefore be reformed to prioritise migrant characteristics which suggest strong long-term earnings potential in Australia (Box 1).

Our proposed revised points test, outlined in Table 2.3, gives greater weight to English language proficiency, skilled work experience (including high-paid experience in Australia), and partner skills (Table 2.4). And it abolishes 'bonus' points that are currently available for domestic or regional study, for undertaking a professional year, or for a specialist education qualification in a STEM field. It retains points for credentialled community languages.

Our proposed points test would have a maximum of 500 points (the current test offers a maximum of 130 points). To be eligible for a points-tested visa, a person would need at least a Certificate III qualification from an Australian educational institution, or a higher-level degree from Australia or abroad.⁸² The minimum points required to qualify for a points-tested visa should rise to 60 per cent of the total points available, from 50 per cent currently.

These changes would ensure that the points test selects higher-skilled applicants. And removing points for low-paid local work experience, as well as 'bonus' points for domestic and regional study, the professional year, and specialist education, would mean that fewer international students' study choices would be distorted in their pursuit of permanent residency.

82. The current points test requires a migrant's diploma or trade qualification to be from an Australian educational institution.

Box 1: How we designed our recommended points test

Our recommended points test relies largely on our regression analysis of migrants' long-term earnings. The variables included in these regressions are those which are measurable when an applicant applies to Australia, positively relate to migrants' expected earnings, are relatively simple to measure and validate, and are characteristics we would realistically offer points for. See Appendix A for further detail on the regression strategy.

We use the coefficients from the regression model to set the points ratios for education, skilled work experience, high-paying Australian work experience, and English language proficiency. However, we scale down the points for English language proficiency,^a and retain points for credentialled community language, to account for potential labour market discrimination.

We use Grattan's fiscal model to obtain a similar estimate of the expected change to lifetime earnings of arriving in Australia one year younger, all else being equal, and use this to set the ratio of points for age. For partner points, we use the regression coefficients to set the ratio of points for education and English language, but scale the points and levels down, relative to those of primary applicants, to avoid disadvantaging coupled applicants compared with single applicants, who are given the maximum partner points.

For simplicity, we then scale the points so that they sum to a maximum of 500 points overall.

- a. Our analysis presented in Figure 2.1 implies migrants who speak English very well should be awarded 135 points, more than a quarter of the total points available, and the highest of any characteristic. But due to concerns about labour market discrimination against migrants from non-English speaking backgrounds, we instead recommend 90 points for applicants with very good English.

Table 2.3: Grattan Institute's proposed points test gives more points to characteristics that suggest a migrant will have long-term success in Australia

Category	Points	Category	Points
Age	18-20: 95 points	Occupation	Applicant needs to have a suitable skills assessment for a skill level 1, 2, or 3 occupation at the time of invitation.
	21-29: 100		
	30: 95		
	31: 90	Skilled work experience (2 years minimum, overseas or Australian)	Skill level 1 occupation: 50 points Skill level 2 occupation: 15
	32: 85		
	33: 80		
	34: 75	High-paying Australian job (1 year minimum) or job offer	Earning more than \$120,000 per year: 90 points Earning more than \$105,000 per year: 70 Earning more than \$90,000 per year: 50 Earning more than \$80,000 per year: 40 Earning more than \$70,000 per year: 30
	35: 70		
	36: 60		
	37: 55		
	38: 50		
	39: 45	Credentialled community language	20 points
	40: 35		
	41: 30		
	42: 20	Partner skills	English: Excellent (IELTS 8+): 60 points Very good (IELTS 7): 40 Education: Bachelor degree or higher: 30 Certificate III and above: 15 Single: 90 points
	43: 10		
	44: 5		
	45: 0		
English language	Excellent (IELTS 8+): 90 points Very good (IELTS 7): 45		
Education	PhD: 60 points Bachelor degree or higher from a top 20 globally-ranked university: 45 Bachelor degree or higher: 30 Certificate III or higher: 15		

Notes: Points criteria are assessed at the time of invitation to apply for a visa. Competent English (IELTS 6+) and a Certificate III qualification or higher are minimum requirements. Qualifications below a bachelor degree must be from an Australian education institution. The same duration of work experience can qualify for the points for a high-paying Australian job, and also the points for skilled work experience. Temporary Graduate visa-holders are eligible for the skilled work experience points after one year of Australian work experience.

Sources: Department of Home Affairs (2023b); Department of Home Affairs (2023c); Department of Home Affairs (2023d).

2.6.1 Migrants with excellent English language skills should get more points

Applicants with excellent English language skills, equivalent to 'superior' English language skills or an International English Language Testing System (IELTS) score of 8 or higher, would be awarded 90 points under our proposed points test.⁸³ Applicants with very good English language skills (i.e. IELTS 7+) should receive 45 points. The current requirement of a minimum of 'competent' English (an IELTS score of 6) for a points visa should remain, but an applicant with an IELTS score of 6 or below should receive 0 points.⁸⁴

A maximum of 18 per cent of all points would be available for English language skills under our proposed points test, up from 15 per cent under the current points test (Table 2.4).

2.6.2 Highly-educated migrants should get more points

To better reflect the large impact of higher educational qualifications on migrants' long-term earnings (Figure 2.1), relatively more points should be offered for higher degrees. Under our proposed points test, applicants with a Certificate III qualification would be awarded 15 points, a bachelor degree 30 points, and a PhD 60 points.⁸⁵

Migrants who have a bachelor degree or higher from a top 20 globally-ranked university should also receive an extra 15 points,⁸⁶ to reflect the

83. See Department of Home Affairs (2024b).

84. Department of Home Affairs (2023b). As is currently the case, applicants from Canada, the UK, New Zealand, the US, and Ireland should not need to sit a test to prove they have competent English.

85. Applicants holding a masters degree should not get additional points, because their earnings are no higher than applicants with a bachelor degree.

86. The rankings should be determined by taking an average of the Times Higher Education World University Ranking, the Academic Ranking of World Universities, and QS World University Rankings. Using this methodology, no Australian universities are currently in the top 20 globally-ranked universities.

Table 2.4: 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 Aus. experience	18%	0%
Community language	4%	4%
Partner skills	18%	8%

Notes: The current points test column does not sum to 100 as it excludes 'bonus' points categories.

Source: Grattan analysis.

fact that graduates of top-ranked global universities earn more, and are more likely to become entrepreneurs and inventors.⁸⁷

Under our proposed test, maximum education points would make up 12 per cent of the total 500 available points (Table 2.4). While we propose a slightly smaller share of points for education than under the current test (15 per cent), our test would place relatively greater weight on higher education qualifications and offer additional points for work experience that requires higher qualifications (Section 2.6.4).

87. Recent studies shows that graduates from top-ranked universities earn significantly more than other graduates, which is why we restrict these additional points to graduates of a small number of universities. See, for example, Martellini et al (2024) and Taras et al (2020), which show that students graduating from the top 20 global universities have an earnings premium of around 20 per cent compared to the top 21-50 universities, and more than 60 per cent compared to unranked universities, in the same labour market.

2.6.3 Points related to an applicant's age should be recalibrated

The current points test weights age heavily compared to other applicant characteristics, and points-tested migrants are younger than those selected via other permanent skilled visa streams. But the points related to age should be more granular (Table 2.3).

Grattan analysis shows that, all else being equal, reducing the age of Australia's skilled migration intake by one year would increase the boost to Australian government budgets from skilled migration by about 5 per cent.⁸⁸

Applicants aged between 21 and 29 years should receive the maximum of 100 points, so prospective migrants are not punished for undertaking extra study.⁸⁹ Under our scheme, the available points for applicants' age would fall by around 5 points for each year beyond age 29, reaching zero at age 45. A prospective migrant would also need to be younger than 45 when invited to apply for their visa, as is currently the case.⁹⁰

2.6.4 Points for work experience should be awarded for high-paying experience, rather than for time worked

The points offered for skilled work experience should be overhauled:

- The revamped points test should give points to applicants with experience in a high-paying Australian job. A total of 30 points should be given for people earning more than \$70,000 in a single skill level 1, 2 or 3 job for at least one year before submitting their

application, with more points for higher earnings, up to 90 points for earning more than \$120,000.⁹¹ These points should also be available to applicants who have a written job offer from an approved sponsor under the employer-sponsored program, or from public sector employers.⁹²

- 50 points should be awarded to applicants with at least two years' experience in any skill level 1 occupation, and 15 points for two years' work experience in any skill level 2 occupation. These points should be available for both Australian and overseas work experience.⁹³

These changes would help address the problem of 'permanently temporary' migrants staying in Australia on a temporary visa for a long time with little chance of getting a permanent visa. For example, a migrant on a temporary sponsored visa has a clear pathway to a

88. See Appendix B for further detail.

89. For example, if points offered for age started to decline from early 20s, then a person pursuing a PhD may not gain an advantage over someone who holds a bachelor degree and stats work. It is for this reason that Canada offers maximum points to all people aged 20 to 29: Government of Canada (2024).

90. Department of Home Affairs (2023b).

91. People working a minimum of three days a week would also be eligible for these points, with the earnings thresholds adjusted on a pro rata basis. The earnings requirements for employer sponsorship should apply when assessing earnings for the points test (i.e. excludes bonuses and reimbursements). Only skill level 1 to 3 jobs are eligible for these points, so a person working long hours in a low-skill job would not be able to get the points available for a high-paying Australian job.

92. Or related not-for-profit service providers funded by government. These restrictions on the type of job offers that accrue these points would reduce the risk of fraud. Over time, the range of job offers that attract these points could be expanded. An alternative is to offer age-adjusted points for earnings in Australia, where people earning a high wage at a younger age get more points. This could be similar to the approach taken in Japan, where young people get more points for earning the same wage as an older person.

93. People working a minimum of three days a week would also be eligible for these points. Temporary Graduate visa-holders should be eligible for the skilled work experience points after one year of Australian work experience, because they may not obtain a graduate job straight after graduating, which means they would not be eligible for the skilled work-experience points before their graduate visa expired.

permanent visa via employer sponsorship, or through the points test, if they work in a high-skill job and earn a high wage while in Australia.⁹⁴

High-paying Australian work experience is a strong indicator of higher lifetime earnings

Having a high-paying job signals that a prospective permanent migrant has valuable skills. Employer-sponsored migrants, who have a guaranteed job when they arrive in Australia, earn the highest incomes of all permanent skilled visa streams (Figure 1.3).

Offering substantial points for skilled work experience *and* a high-paying Australian job would also provide an alternative pathway to permanent residency for highly skilled temporary sponsored workers.

Points should not be offered for high-paid work experience overseas. It would be difficult for the Department of Home Affairs to verify income earned overseas. And there is no data available to show whether earnings from a job outside Australia is a good indicator of future success in Australia.

Removing ‘bonus’ points for domestic and regional study, or undertaking a professional year, already improves the relative ranking of offshore applicants (Section 2.6.7). Offshore applicants with work experience have alternative options to obtain a permanent visa. For example, they could get a temporary sponsored visa and then seek permanent employer sponsorship.⁹⁵ Offshore applicants with more experience are a focus of the existing Global Talent permanent skilled

visa, and are likely to be the focus of the new National Innovation visa.⁹⁶

The federal government should speed up processing times for points-tested visas. This will encourage highly skilled offshore applicants to apply for a visa. Australian employers will also be more willing to offer a job to overseas applicants if they know that points-tested visa applicants will get a visa in a reasonable time-frame, meaning applicants outside Australia can get the points for a high-paid job offer. Applicants with points for a job offer should be prioritised when processing EOIs.

The federal government should set a median processing time of 50 days for points-tested visas.⁹⁷ Using ranked-choice selection will help speed up visa processing, and increase certainty for applicants. In addition, reforming the skills assessment process will speed-up the visa approval process (Section 2.13).

Points should be offered for work experience in one or more skilled occupations

Points-test visa applicants should receive points for work experience in any high-skilled occupation, or combination of occupations. Offering 50 points for two years’ experience in any skill level 1 occupation, and 15 points for the same experience in a skill level 2 occupation, would reflect the impact of skilled work experience on migrants’ long-term earnings (Figure 2.1).

The vast majority of permanent points visas (83 per cent) are granted to applicants with a nominated occupation in skill level 1, and they have

94. For a detailed discussion of the challenges of permanently temporary migrants, see Coates et al (2022, pp. 37–43).

95. In 2021, more than 90 per cent of recently arrived permanent employer-sponsored visa-holders were granted their permanent visa after getting a temporary visa, indicating they had previously been living or working in Australia (Grattan analysis of ABS (2021a)).

96. The Treasury (2024, p. 136); and Australian Government (2023, p. 59).

97. As part of its Migration Strategy, the government will aim for a median visa approval time of 21 days for the new Skills in Demand visa (and 7 days for the Specialist Skills Pathway): Australian Government (2023, p. 53).

much higher earnings than migrants working in lower-skill occupations (Figure 2.1).⁹⁸

Limiting the maximum points available to just two years work experience reduces the incentive for temporary visa-holders to stay in Australia to secure more points for skilled work experience.

Work experience across more than one skilled occupation should be eligible for these points. Currently, applicants for permanent points-tested visas can only count work experience in their nominated occupation or a closely related occupation, which discriminates against those whose expertise is derived from experience across a number of different fields.⁹⁹

2.6.5 Skilled essential workers would continue to secure permanent skilled visas

Under our revamped points test, skilled essential workers would be eligible for a points-tested visa. And if they were in Australia on a temporary sponsored visa, and had some Australian experience, they would have good prospects of securing a points-tested visa (Section 3.6.1).

For example, a 26-year-old single nurse with excellent English and two years of overseas experience would score 360 points (as illustrated in Table 2.5). To gain extra points, they could also obtain Australian experience on a temporary sponsored visa, or secure a job offer.¹⁰⁰

98. Primary applicants with a permanent visa granted between 2014 and 2020. Grattan analysis of ABS (2023).

99. For example, a scientist who changes occupations to become a high school maths and science teacher.

100. For example, a registered nurse in NSW with two years experience earns a base salary of \$78,000 per year, so would be able to score an additional 30 points: Industrial Relations Commission of New South Wales (2023, p. 92).

Abolishing the professional year and specialist education points, as we recommend, would also mean many essential workers would have a higher ranking.

And our proposal to make employer sponsorship less costly for public sector employers would mean employer sponsorship would become more common (Section 3.6.4).

2.6.6 Skilled partners should be awarded more points

The number of points allocated to skilled partners should be increased. Spouses who have excellent English language skills and hold a bachelor degree or higher should be awarded 90 points. This is equivalent to 18 per cent of the maximum 500 points available under our proposed points test, compared to 8 per cent of the maximum points under the current test (Table 2.4). Single applicants should also be given the maximum allocation of spouse points.¹⁰¹

Our proposed points test effectively offers the maximum points for couples at a lower bar, since a secondary applicant can get maximum available points with fewer skills and qualifications. That is, we offer those points to people who may or may not secure a points visa as a primary applicant in their own right, but who are nonetheless more skilled than others.

To reduce administrative burden, spouses should not be required to prove their skilled work experience. Rather, points should be allocated for education attainment and English language skills only, especially as these characteristics are stronger predictors of migrants' earnings than having completed a skills assessment in a high-skill occupation (Figure 2.1).

101. Successful visa applicants with a partner that claim to be single when applying for a points-tested visa risk having their visa cancelled if they try to bring their partner to Australia at a later date on a partner visa and are found to have lied on their points-tested visa application.

More points for skilled partners and single applicants would lift the overall skill level of those granted permanent points-tested visas. Primary applicants with comparatively unskilled partners would be less likely to secure a permanent skilled visa, unless they were themselves particularly highly-skilled.

2.6.7 Points for Australian and regional study, a professional year, and specialist education should be abolished

Points for Australian study should be abolished. Outcomes for international students who study at an Australian educational institution are worse than for other migrants with similar qualifications and experience who studied abroad (Figure 2.5).

Points for regional study should be abolished. The points test should not be undermined to support universities and other higher education providers outside Sydney, Melbourne, and Brisbane, or for regional development reasons. Regional study does not improve migrant outcomes and does little to encourage migrants to remain in the regions.¹⁰²

Points for completing a professional year should also be abolished. The Temporary Graduate visa gives international graduates the opportunity to remain in Australia after their studies, typically for at least two years, and gain work experience, and improve their English and other skills.¹⁰³

Rather than encouraging international students to pay large fees for a professional year that does little to improve their employment

prospects, our redesigned points test would reward those students who secure a well-paying job after they graduate.

Specialist education points should also be abolished. As outlined in Section 2.4, there is limited evidence that many STEM occupations are in short supply.

Under our proposed points test, migrants with a PhD who also hold a high-paying job would receive significant points, making them more likely to be selected. Alternatively, applicants with high-level STEM qualifications and in-demand skills would very probably be able to secure employer sponsorship.¹⁰⁴

2.6.8 Points should be awarded for credentialled community language skills

A total of 20 points (4 per cent of total points available) should be awarded for speaking a credentialled community language. In an increasingly globalised world, the ability to speak a language other than English at a high level is a valuable skill, and one that also supports a more multicultural Australia.

Retaining these bonus points, while also allocating more points for higher-level English language skills, would help to ensure people from non-English speaking backgrounds are not more disadvantaged in the points test.

102. See Section 3.5.2 and Parkinson et al (2023, p. 134).

103. See Coates et al (2023, p. 13). The Albanese government announced changes to the Temporary Graduate visa in its Migration Strategy that should improve prospects for international graduates. But the federal government and universities need to provide more assistance to international graduates to help them succeed, for example by conducting a campaign to educate employers about international graduates' work rights, and by providing better settlement and support services to international graduates (see Coates et al (ibid, p. 13)).

104. Coates et al (2021, Chapter 7).

2.6.9 The minimum points required to qualify for a points-tested visa should rise

The minimum points floor¹⁰⁵ should be set at 300 points, or 60 per cent of the total available points, up from 50 per cent currently.¹⁰⁶

Under our proposed points test, as an example, a single person aged 26, with very good English and a bachelor degree, work experience in a skill level 1 occupation, and earning \$75,000 a year, would score 315 points and be eligible to be invited to apply for a visa.

2.6.10 Applicants with at least 400 points should be guaranteed an invitation to apply for a visa

The government should guarantee an invitation to apply for a visa to all applicants who submit an EOI and score at least 400 points (and pass other minimum requirements) in our proposed points test. That level is high enough to ensure that only the most highly-skilled applicants would be guaranteed an invitation to apply for a visa, and there would be no chance the maximum number of visas allocated to independent points visas would be exceeded.¹⁰⁷

Based on recent cohorts, this would mean about 5 per cent of applicants would be guaranteed an invitation to apply for a visa.¹⁰⁸

This change would make Australia more attractive to young, highly-talented prospective migrants. For example, a 28-year-old management consultant with a bachelor degree, excellent English, high-skill work

105. Points-visa applicants currently need to score more than 65 points to be eligible for a visa: Department of Home Affairs (2023e). This threshold was raised from 60 to 65 points on 1 July 2018.

106. This minimum is in addition to applicants needing to speak competent English, be 45 or younger, and hold at least a Certificate III qualification.

107. The points needs to be overhauled before any applicant is guaranteed an invitation, as the current points test does not rank top candidates well enough.

108. Grattan analysis of Department of Home Affairs (2023g). See also Appendix B.

experience, and a job offer with an annual salary of \$125,000 would score 450 points and be guaranteed an invitation to apply for a visa (Table 2.5).

2.7 Points-tested visas should be open to all high-skill occupations

Many high-skill, high-wage jobs are not currently eligible for an independent points visa (Table 2.6).

The range of skilled occupations eligible for points-tested visas should be expanded to all skill level 1, 2, and 3 occupations. This change would ensure Australia had access to a larger share of the global talent pool of people seeking to migrate.¹⁰⁹

Expanding the range of skilled occupations eligible for points-tested visas would mean that fewer international students' study choices would be distorted.

Under our proposal, more than 200 skill level 1 occupations would become eligible for independent points-tested visas, including occupations such as chief executive, corporate treasurer, and anaesthetists (Table 2.6).¹¹⁰ Another 100 skill level 2 occupations would be eligible for a points visa, such as laboratory technicians and building inspectors.

109. Coates et al (2021) recommended abolishing occupation lists for permanent employer-nominated visas on the basis that the wage could substitute for the need for a nominated occupation. However, it is not currently possible to abolish occupation lists for points-tested visas as canvassed in Coates et al (2022, pp. 68–69) since applicants' nominated occupations remain the basis for allocating which body undertakes the skills assessment, including verification of applicants' qualifications and work experience.

110. Using ANZSCO 2013, which is what the current occupation lists are based on. Some skill level 1 occupations, such as member of parliament, judge, and senior defence force official, are restricted to Australian citizens, so would not be open to new migrants.

Table 2.5: Case studies show that, under our proposed points test, talented young people would score highly

Guaranteed a points-tested visa		Eligible for a points-tested visa		Ineligible for a points-tested visa	
28-year-old management consultant with skilled partner		26-year-old single nurse		24-year-old single truck driver	
Characteristic	Points	Characteristic	Points	Characteristic	Points
Age: 28	100	Age: 26	100	Age: 24	100
English: Excellent (IELTS 8)	90	English: Excellent (IELTS 8)	90	English: Excellent (IELTS 8)	90
Education: Bachelor degree	30	Education: Bachelor degree	30	Education: none	0
Work experience:		Work experience:		Work experience:	
2 years overseas at skill level 1	50	2 years overseas at skill level 1	50	No skilled work experience	0
Job offer of \$125,000 a year	90			Australian job earning \$125,000	90
Partner skills:		Partner skills:		Partner skills:	
Excellent English (IELTS 8)	60	Single	90	Single	90
Bachelor degree	30				
Minimum points	450	Minimum points	360	Minimum points	370
Opportunities for additional points		Opportunities for additional points		Opportunities for additional points	
Credential community language	20	High-paying Australian work experience	Up to 90	Post-high school qualification (needed to qualify)	Up to 60
		Credentialled community language	20	Skilled work experience	Up to 50
29-year-old PhD graduate with skilled partner		34-year-old experienced engineer with skilled partner		25-year-old graduate accountant	
Characteristic	Points	Characteristic	Points	Characteristic	Points
Age: 29	100	Age: 34	75	Age: 25	100
English: Excellent (IELTS 8)	90	English: Excellent (IELTS 8)	90	English: Very good (IELTS 7)	45
Education: PhD	60	Education: Bachelor degree	30	Education: Bachelor degree	30
Work experience:		Work experience:		Work experience:	
2 years local at skill level 1	50	5 years overseas at skill level 1	50	1 year local at skill level 2	15
Australian job earning \$75,000	30			Australian job earning \$60,000	0
Partner skills:		Partner skills:		Partner skills:	
Very good English (IELTS 7)	40	Very good English (IELTS 7)	40	Single	90
Bachelor degree	30	Bachelor degree	30		
Minimum points	400	Minimum points	315	Minimum points	280
Opportunities for additional points		Opportunities for additional points		Opportunities for additional points	
High-paying Australian work experience	Up to 60	High-paying Australian work experience	Up to 90	High-paying Australian work experience	Up to 90
Credentialled community language	20	Credentialled community language	20	Skill level 1 work experience	35
Partner English	20	Partner English	20		

Note: Guaranteed an invitation to apply for a points-tested visa.

Source: Grattan analysis.

Very few skilled tradespeople currently obtain a points-tested visa,¹¹¹ but prospective migrants with trade qualifications who have the potential to earn high incomes should be eligible for a visa under our reformed points test.

In 2021, there were about 1.7 million jobs in Australia in one of these skill level 1 to 3 occupations, with a full-time median income of more than \$85,000 a year. Those jobs would now be open to migrants applying for an independent points-tested visa.¹¹²

Expanding the number of occupations eligible for permanent points-tested visas would require the government to allocate responsibility for skills assessments for a small number of skilled occupations that were not previously on any skilled occupation list.¹¹³ This will happen when the government shifts to new occupation lists compiled by Jobs and Skills Australia, and because the 2022 ANZSCO list contains more high-skill occupations.¹¹⁴

Workers with skills and experience in new and cutting-edge jobs, such as artificial intelligence engineer or user experience designer, would be eligible for a temporary sponsored visa under the new Specialist

Skills Pathway.¹¹⁵ To enable people with skills and experience in these emerging jobs to be able to obtain a permanent visa, the new National Innovation visa should be designed to create a pathway to permanent residency for people working in high-paid cutting-edge jobs.

2.8 Ranked choice selection should apply for all points visas

Ministerial interventions should be rare

Ministerial interventions undermine ranked selection of points-visa applicants. Ministerial interventions also create uncertainty for applicants. If a meritorious application can be de-prioritised at the whim of a minister, some prospective migrants will be deterred from applying to migrate to Australia, resulting in a less talented points-visa cohort.

Occupational ceilings should be abolished

Occupational ceilings undermine ranked selection by limiting the number of visas that can be issued to people with certain skills.

Occupational ceilings also create uncertainty for applicants, as even with a high score an applicant in a certain occupation may not be selected ahead of another person with a lower points score.

2.9 Our proposed points test would select more highly-skilled migrants

Our proposed points test would result in more highly-skilled, younger applicants getting a permanent visa, meaning future intakes would have higher earnings potential (Section 3.6.1). For example, a 29-year-old PhD graduate with two years' work experience, excellent

111. 7 per cent of independent points visa-holders nominated a 'technician or trade' occupation to obtain their visa (9 per cent of state points visas). In contrast, 27 per cent of employer-sponsored visa-holders nominated a 'technician or trade' occupation. Grattan analysis of: Department of Home Affairs (2023g). Around half of all former VET students who secured permanent residency did so via employer sponsorship. Grattan analysis of: ABS (2023).

112. Grattan analysis of ABS (2022).

113. There is currently a skills assessment process for 650 occupations: Australian Government (2023, p. 82).

114. ANZSCO 2022 has 1,076 occupations, compared to 1,023 in ANZSCO 2013. ANZSCO is currently being updated, with the update expected to be completed by December 2024. Requiring skills assessment for more occupations would also be needed to implement Grattan's previous recommendations to allow employer sponsorship for all high-paying occupations, see: Coates et al (2021, Chapter 7).

115. The Specialist Skills Pathway is available for migrants in any occupation except trades workers earning more than \$135,000 a year. Australian Government (2023, p. 49).

English, and a skilled partner would score 400 points, guaranteeing them an invitation to apply for a visa (Table 2.5).

Workers with overseas work experience would also be eligible for points-tested visas. They would be likely to secure a points-tested visa, particularly if they gain some Australian work experience while on a temporary sponsored visa or if they get a job offer from an Australian business. For example, an experienced civil engineer would score more than 300 points and would score around 400 points with high-paying Australian work experience or a job offer (Table 2.5).

Skilled tradespeople will still be eligible for a points-tested visa under our reforms. But most tradespeople will obtain a permanent visa via employer sponsorship, as is currently the case.

Our proposed points test would, however, rule out people without at least a Certificate III qualification, such as a young single truck driver earning a high wage working in a mining area. But someone in that situation could become eligible for a points-tested visa by completing some further study.

Older workers would struggle to obtain a points-tested visa, because our proposed points test is designed to maximise lifetime earnings, and a person in their 40s has fewer years left in the workforce. However, highly talented people in their 40s or 50s who have rare and sought-after skills or qualifications may still be able to secure a National Innovation visa, or employer sponsorship (if aged 45 or younger).

2.10 A reformed points test offers big long-term payoffs

A reformed points test would select more highly-skilled migrants who are likely to be high earners in Australia's labour market over the long term.

We estimate that the revamped points test we propose would increase the average annual income of points-tested migrants from \$80,000

Table 2.6: Migrants trained in many high-skill, high-wage occupations are currently ineligible for an independent points visa

High-income skill level 1, 2, and 3 occupations not currently eligible for an independent points visa

Occupation	Median income	Occ. size	Occ. skill level	Occ. list
Anaesthetist	\$204,800	4,099	1	ROL
Dental specialist	\$204,100	751	1	STSOL
Chief information officer	\$194,800	6,910	1	None
Company secretary	\$186,400	720	1	STSOL
Financial investment manager	\$186,100	7,783	1	STSOL
Stockbroking dealer	\$185,300	4,182	1	STSOL
Air traffic controller	\$184,900	1,200	1	None
Production manager (mining)	\$181,100	9,765	1	STSOL
Power generation plant operator	\$168,200	1,785	3	STSOL
Dentist	\$168,200	6,218	1	ROL
Chief executive / Managing dir.	\$167,600	62,044	1	None
Commissioned police officer	\$167,300	804	1	None
Mine deputy	\$159,900	6,196	2	STSOL
Intellectual property lawyer	\$159,800	652	1	ROL
Gas or petroleum operator	\$158,700	2,825	3	ROL
Insurance risk surveyor	\$154,000	823	2	None
Financial market dealer	\$151,900	1,077	1	STSOL
ICT business devel't manager	\$151,600	4,216	1	STSOL
Corporate general manager	\$151,500	49,853	1	None
Corporate treasurer	\$148,900	4,220	1	None
Finance manager	\$148,700	48,825	1	STSOL
ICT project manager	\$146,200	44,466	1	STSOL
Geologist	\$143,300	5,026	1	STSOL
Ship's engineer	\$141,900	1,391	1	None
Network analyst	\$140,600	1,508	1	STSOL

Notes: ROL = Regional occupation list. STSOL = Short-term Skilled Occupation List. ANZSCO 6-digit occupations. Excludes occupations for which Australian citizenship is required (e.g. legislators, judges) and 'not further defined' categories. Occupation size is full-time workers in 2021. Median income is from the 2021 Census, in 2021 dollars. Minimum 500 observations. Some occupations are on other skilled occupation lists.

Source: Grattan analysis of ABS (2022) and skills lists.

a year to \$97,000 a year.¹¹⁶ Selecting higher-skilled, higher-earning migrants for points-tested visas would boost the productivity spillovers to local workers. And these higher-earning migrants would also generate an additional \$84 billion fiscal dividend for Australia over the next 30 years (Section 1.6).

2.11 A reformed points test would minimise incentives for international students to cluster in particular occupations

The design of the current points test creates the risk of many migrants having the same qualifications, because it offers points for a professional year and for studying in Australia and regional Australia. This pushes students who want to gain permanent residency to study degrees which earn them more points (Section 2.4).

Under our proposed points test, people would not earn bonus points for studying particular courses to qualify for an occupation on the relevant occupation list, or for completing a professional year, or for undertaking a specialist education qualification in a STEM field. This should mean prospective international students would not have an incentive to study particular degrees to gain bonus points. It would allow migrants to select degrees that are more aligned to their preferences and employment prospects, and would put all international students on a more level playing field.

Better calibrating the points on offer for education, age, English skills and high-paying local work experience also means there should be less concern about what particular occupation a migrant has worked in. Our analysis shows that migrants with these core attributes on average earn much more than other migrants, and are likely to be more able to shift to other high paying jobs in response to a changing labour market.

116. See Appendix B for details.

2.12 The new system should commence from 1 July 2026

We recommend that the government continues with the current points-test system for 2024-25. The government should announce that the new points test and new IT system will be used from 1 July 2026.

2.13 Skills assessments and occupational licensing rules need reform

The current approach to skills recognition is too complex and burdensome.¹¹⁷

Applicants for points-tested visas have to complete a skills assessment, and then separately meet professional standards to be able to practice in their profession (known as 'occupational licensing').

Skills assessments are issued by relevant skills assessing authorities. There are currently 39 skilled migration assessing authorities approved to undertake skills assessments for the 650 occupations included in at least one of the occupation lists.¹¹⁸ Skills assessors also review the education and work experience of applicants for points visas.

This skills recognition process means it can take months or years for some migrants with professional qualifications to be able to work in their field of study.

The 2023 Kruk Review found that it can take general practitioners 35 to 130 weeks to be ready to practise in Australia, and they can spend up to \$51,000 to be licensed to work.¹¹⁹ The 2023 Parkinson Review found that the skills recognition process can cost more than \$9,000 for some skilled trades and take up to 18 months.¹²⁰

117. Parkinson et al (2023, p. 158).

118. Australian Government (2023, p. 82).

119. Kruk (2023, p. 6).

120. Parkinson et al (2023, Box 36).

The slow skills recognition process also hurts the Australian economy by choking the supply of, and raising the prices of, essential goods and services.

The Parkinson Review concluded that Australia's skills assessments and occupational licensing requirements can prevent migrants from realising their full potential and could deter migrants from coming to Australia in the first place.¹²¹

The federal government is working to improve the skills assessment process. The government's Migration Strategy included a commitment to 'improve the approach to skills recognition and assessment to better unlock the potential of migrants'.¹²² The government also ran skills assessment pilots that offered faster and cheaper skills assessments to selected migrants already in Australia, and is introducing new best practice principles for assessing authorities.¹²³

The above reforms are welcome, but they are incremental improvements. The federal government should commission a review of the entire skills recognition process to:

- Evaluate whether skills assessments can shift away from an occupation-based framework to assessing more generic skills.
- Assess the level of duplication between skills assessments for determining visa eligibility, and occupation licensing regimes to practice particular occupations once granted a skilled visa.
- Evaluate whether skills assessments are necessary for all occupations, and especially those occupations not subject to occupation licensing in Australia.

- Evaluate who is best placed to undertake skills assessments and how they should be regulated (if external from government).
- Assess whether the skills assessment process offers an opportunity to provide guidance to migrants to help them succeed in the Australian labour market.

2.14 The points test should be reviewed regularly to ensure it remains fit for purpose

The points test should be reviewed regularly to ensure Australia has the best system for selecting skilled migrants. The PLIDA dataset will continue to evolve, with new variables added that should inform refinements to the points test.

The federal government should also establish a new migration advisory body, along the lines of the UK's Migration Advisory Committee, to offer independent advice to government on visa policy changes backed by rigorous data analysis.¹²⁴

And the Department of Home Affairs should invest substantial resources to boost its capacity to analyse detailed administrative data to better inform migration policy design.

2.15 The federal government should run an advertising campaign to promote the new points test

Once Australia has a new points test, the federal government should run an advertising campaign explaining the new system, the benefits of living in Australia, the excellent outcomes of skilled migrants in Australia, and that submitting an expression of interest is free.

121. Ibid (p. 159).

122. Australian Government (2023, p. 82).

123. Department of Employment and Workplace Relations (2023).

124. See Coates et al (2022, Box 3) for more details.

The campaign should be aimed at skilled workers living overseas who may consider migrating to Australia. The goal should be to increase the pool of talented candidates for points visas.¹²⁵

125. In 2022-23, the Department of Home Affairs ran a large marketing campaign called 'Smart Move Australia' aimed at attracting skilled workers, which may have been a factor in the large increase in EOIs for points-tested visas that financial year: Department of Home Affairs (2023i, p. 196).

3 State and regional points-tested visas should be abolished

State and regional points-tested visas make up around two thirds of points visas, and nearly half of all skilled visas offered each year. Yet migrants selected for these visas accrue fewer points, work in less-skilled jobs, and earn less over their lifetimes than other skilled migrants. The typical regional points-tested visa holder earns \$24,000 less each year, and state points-tested visa-holders \$6,500 less, than migrants selected for the skilled independent visa.

State and territory governments are not better placed to select skilled migrants than the federal government. Maintaining a separate state points visa program adds unnecessary duplication and complexity. Regional visas also often fail to encourage migrants to live in the regions long-term. Many leave the regions due to lower earnings and worse employment prospects for themselves and their families.

The federal government should abolish state and regional points-tested visas, and instead offer more skilled independent visas. These reforms would boost Australians' living standards via a more-skilled and higher-earning migrant intake. If the points test is reformed as recommended in Chapter 2, abolishing regional points visas would boost federal and state government budgets by a combined \$162 billion over the next three decades. If both regional and state points visas were reallocated to the skilled independent program, that combined boost would rise to \$171 billion.

Abolishing state and regional visas won't affect the supply of essential workers, including in regional Australia. In fact, our recommended reforms to the points test may increase the share of health professionals selected for permanent points visas, because the new points test would better reward those applicants' qualifications and work experience. State and territory governments should also invest more in supporting

employers, including state government employers, to use employer sponsorship to secure any extra skilled workers they need.

3.1 State and regional points-tested visas now make up a large share of all skilled visas

The federal government introduced state government-allocated visas in the mid-1990s.¹²⁶ In the 2024-25 planned permanent intake, state and regional visas will account for 50 per cent of all skilled visas (Figure 1.2). This is up from 46 per cent in 2023-24, and about 30 per cent in the years before the pandemic, and just 4 per cent when the visas were first introduced in the mid-1990s.¹²⁷

Regional visas are a two-stage visa. The initial visa is provisional and requires the visa-holder to live outside of Sydney, Melbourne, and Brisbane for at least three years, after which they can apply for a permanent visa.¹²⁸

State and regional visas tend to be over-allocated to smaller states and territories. In 2022-23, South Australia, Tasmania, the Northern Territory, and the ACT were allocated significantly more visas than their share of the population (Table 3.1).¹²⁹ In contrast, NSW and Victoria received a smaller share of visa nomination allocations than their populations would suggest. This allocation bias towards smaller states was also evident pre-pandemic.¹³⁰

126. Beginning with the State-Specific and Regional Migration scheme: Golebiowska et al (2016, p. 436).

127. Department of Home Affairs (2024a); and Golebiowska et al (2016, p. 437).

128. The two-stage regional visa was introduced in 2006.

129. Department of Home Affairs (2022) and Department of Home Affairs (2024a).

130. Coates et al (2021, p. 91).

3.2 State and territories use different approaches to select skilled migrants

State and territory visas were introduced to support population growth in regional areas and divert migrant flows away from major cities.¹³¹ Supporting regional population growth continues to be an objective of state and regional points visas,¹³² along with other objectives such as supporting local universities and filling essential workers roles (Box 2 and Table 3.2).¹³³

State and territory governments take a variety of approaches to nominating applicants for state and regional points visas (Table 3.2). Most governments require applicants to be living or working in the state or territory before applying for a visa and to commit to live in the state or territory, or a regional area of the state or territory, if they receive a permanent visa.¹³⁴

Most state or territory governments have created their own skilled occupation lists, or prioritise applicants in particular industries or occupations. Some use both approaches (Table 3.2).

Table 3.1: Smaller states typically receive a larger proportional share of state and regional visas

State and territory nomination allocations according to 2022-23 Migration Program planning levels

State/ territory	State visa	Regional visa	State and regional (% of total)	State/ territory share of Aus. pop. (%)	Difference (ppt)
NSW	9,108	6,168	24.8	31.4	-6.6
Vic	11,500	3,400	24.2	25.5	-1.3
Qld	3,000	2,000	8.1	20.5	-12.4
WA	5,350	2,790	13.2	10.8	2.5
SA	2,700	5,300	13.0	7.0	6.0
Tas	2,000	2,250	6.9	2.2	4.7
NT	600	1,400	3.2	1.0	2.3
ACT	2,025	2,025	6.6	1.8	4.8
Total	36,283	25,333	100	100	

Notes: Based on 2022-23 state and territory nomination allocations announced in September 2022. Populations at December 2022.

Source: Grattan analysis of Department of Home Affairs (2022).

131. Golebiowska et al (2016, p. 436).

132. Australian Government (2023, pp. 28, 36).

133. Migrants who study outside of Sydney, Melbourne, and Brisbane get five additional points, and some states prioritise applicants who have studied in their state.

134. State and territory governments cannot legally enforce a requirement to live in a state or territory, but they can use these tools to try and assess degree of commitment to a state/region.

Table 3.2: State and territory governments have their own systems for prioritising applicants for state and regional points visas

State/ territory	State/territory skilled occupation list or focus industries/occupations	State/territory work experience or job offer required	Additional points test (or ranking system)	Priority to local international students	Requirement to have lived or live in the state/territory
NSW	Focus industries: health, education, ICT, infrastructure, agriculture.	No	Yes ¹	No	Onshore applicants: living in NSW for six months (190 visa) / three months (491 visa).
Victoria	Focus industries and occupations: health, social services, ICT, teachers, advanced manufacturing, infrastructure, renewable energy, hospitality, and tourism (491 only).	491 visa – onshore applicants must be living and working in regional Victoria.	Yes. Characteristics considered: English language proficiency, salary, years of experience in nominated occupation, education and occupation skill level, partner's skill. ²	No	Onshore applicants: must be living in Victoria and commit to living in the state. Offshore applicants: commit to living in Victoria.
Queensland	Yes: Queensland Skilled Occupation List.	Yes	190 visa: a points test result of 75 or higher (trades require 70 points or higher). 491 visa: 65 points or higher.	Yes	Onshore applicants: working full-time in Queensland (stricter requirement for 190 applicants). All 190 applicants: commit to living in Queensland for two years. All 491 applicants: commit to living in regional Queensland for three years.
Western Australia	Yes: WA Skilled Migration Occupation List, Graduate Occupation List. Priority industries: building and construction, healthcare and social assistance, hospitality and tourism; education and training.	Yes for most streams.	General stream ranked in the following order: ⁵ currently residing in WA, currently residing offshore or in another state or territory, occupations in priority sector, occupations in all sectors, highest EOI points score.	Yes	For Graduate stream, minimum two years of study in WA. Other streams: preference given to applicants living in WA.
South Australia	Yes: South Australia's Skilled Occupation List.	Yes for Graduates and Working in South Australia streams. ³	No	Yes	Onshore applicants for Graduate and Working in SA streams must have been living in SA for 12 months.
Tasmania	Yes: Tasmanian Onshore Skilled Employment Occupation List. Critical roles list: health care, engineering, construction, agriculture.	Yes	Gold: current employment on the critical roles list. Green: skilled work experience and paid a base salary of at least \$94,000 per year. Orange: base salary of at least \$65,000 per year, proficient or superior English, spouse employed in a skilled role or has studied in Tasmania.	Yes	Skilled Employment and Skilled Graduate Pathways: must have been living in Tasmania and continue living in the state. ⁴ Orange ranking: must have lived in Tasmania for at least the past two years.
ACT	Yes: ACT Critical Skills List.	Yes	'Canberra Matrix' ranking based on: skilled employment, English proficiency qualifications, length of ACT residence/study, investment activity in ACT (business and assets), family ties.	No	Onshore applicants: must have lived and worked in the ACT or nearby. All applicants: commit to living in the ACT.
NT	Yes: NT Migration Occupation List.	Yes	No	Yes	Onshore applicants: applicant and dependants must be living in the NT. All: commit to living in the NT.

Notes: 1) Details not publicly available. 2) Only onshore candidates. 3) If an international graduate of SA, highly skilled and talented, or currently living and working in outer regional South Australia, may be eligible for certain concessions and waivers. 4) Skilled Employment Pathway must be living in Tasmania and intend to continue living in Tasmania, and dependants must not be living in another state or territory. Skilled Graduate Pathway: must have lived and studied in Tasmania for at least two years and must be living in Tasmania and intend to continue living in Tasmania. 5) For Graduate stream, more highly educated applicants ranked higher.

Sources: State government websites.

3.2.1 State and regional points visa-holders typically earn less and work in lower-skilled jobs than other skilled migrants

State and regional points visa-holders typically earn less than other permanent skilled migrants

The typical regional points visa-holder earns \$24,000 (28 per cent) less each year, and state points visa-holders \$6,500 (7 per cent) less, than migrants selected via the skilled independent program (Figure 3.1).

State and especially regional points visa-holders have lower median earnings at all age groups, and in all states, than skilled independent visa-holders (see Figure 1.3 and Figure 3.2).

This pattern holds for migrants who live outside of Sydney, Melbourne, and Brisbane – the typical employer and independent points visa-holder aged 30-39 earns about 40-to-50 per cent more than the typical regional points or regional employer-sponsored visa-holder (Figure 3.3). This indicates the earnings gap is not just due to these visa-holders choosing to live in the biggest cities.

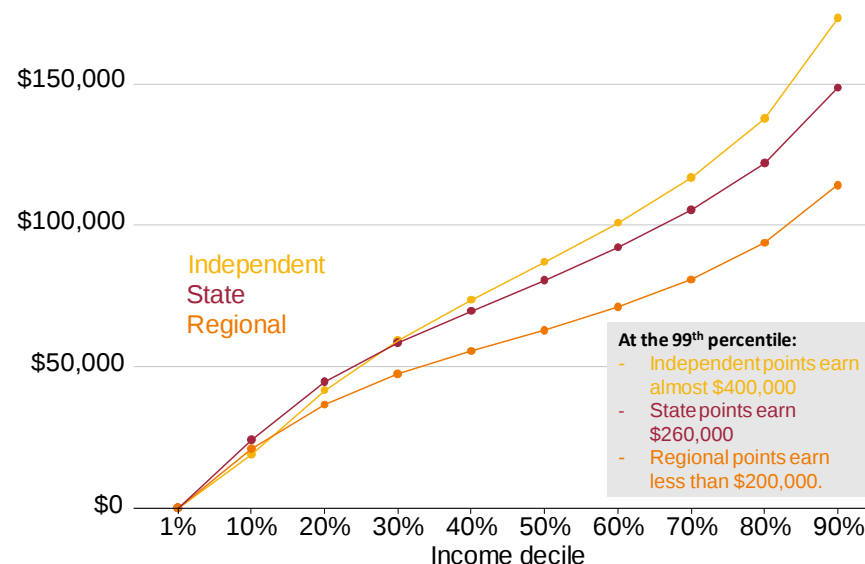
Regional visa-holders' earnings not only start lower, they also grow much more slowly than those of state points and independent points visa-holders. The annual real average growth in total income for migrants granted a permanent skilled visa between 2013 and 2020 was 8.9 per cent for state points visa-holders, 6.9 per cent for independent points visa-holders, and 4.4 per cent for regional points visa-holders (Figure 3.4).¹³⁵

State and regional points-tested visa holders are less likely to be working full time, or in a high-skilled job

In 2021, 75 per cent of recently arrived permanent migrants on a state or regional points visa were working full time, compared to

¹³⁵. This is despite income growth per person being similar across city and regional areas over the decade from 2006 to 2016: Daley et al (2017, p. 9).

Figure 3.1: Regional points visa-holders earn substantially less than other points-tested visa holders
Annual income, 2021



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: Grattan analysis of ABS (2023).

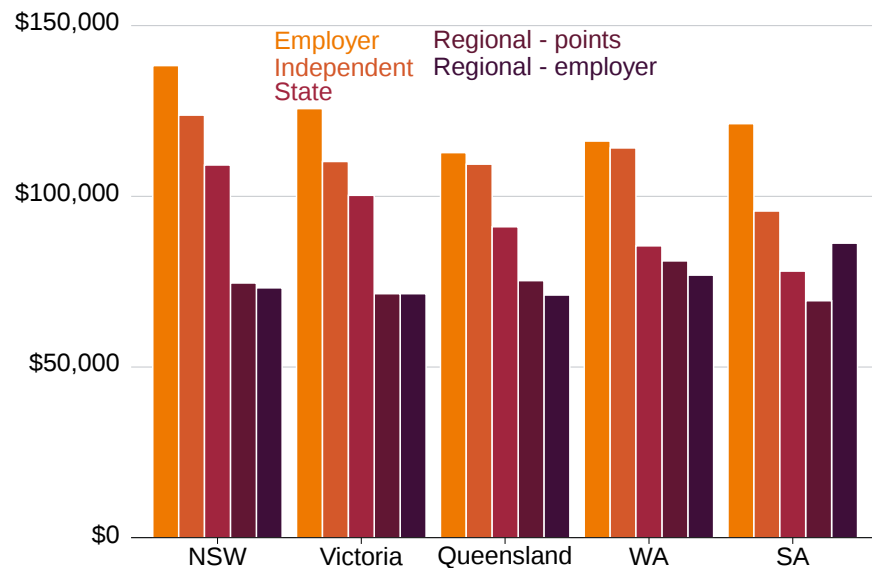
Box 2: Key messages from our consultations with state and territory governments about points visas

We consulted with most state and territory government departments responsible for state and regional points visas, as well as health and education departments, and public sector health services. Our aim was to understand how state governments choose the skilled migrants to nominate for points visas, the purpose and objectives of their skilled migration programs, and how governments fill vacancies in the healthcare and education sectors. Our key findings were:

- Governments use state and regional points visas to meet multiple objectives, including finding workers for particular industries (including future ‘growth industries’), filling vacancies in the health and education sectors and for infrastructure projects, encouraging international students to study in their state by offering a prioritised pathway to permanent residency, boosting population growth, and filling skills shortages in regional areas.
- Some stakeholders regarded the state programs as getting ‘too big’ and trying to achieve too many things. Some were open to smaller state and regional allocations, provided employer sponsorship was reformed. Some stated that small businesses are reluctant to sponsor workers because they don’t understand the migration system and because it is too expensive, but also because they can currently rely on governments to nominate workers for 190 and 491 visas.
- State and territory governments had different approaches to recruiting migrants to work in healthcare. Some used central agencies to coordinate recruitment of migrants to work in hospitals or health networks, while other states left recruitment to be predominately handled by the hospitals or health networks. Hospitals and schools often complained about the complexity of the visa system, as did some small organisations.
- Some governments struggled to fill their allocated places for the 491 visa due to its unpopularity. Some noted that while the regional visa helps people lay down roots in regions, the provisional nature of the visa deters people from applying for it because it can make it harder for people to get a job, it restricts their movement, and it can be harder for a migrant to get a home loan. Some stakeholders were open to the abolition of the 491 visa.
- Some government departments responsible for administering state and regional points visas are heavily involved in the placement of skilled migrants with particular businesses who need a vacancy filled, most commonly in regional areas.
- There was often overlap in the recruitment process between the government department responsible for the state migration program and the education and health departments.
- The Temporary Skill Shortage visa is used by most governments and agencies to fill at least some vacancies. But small- and medium-sized employers are reluctant to sponsor workers (particularly for a permanent visa, less so for a temporary visa).
- Smaller states and the territories struggle to attract independent points visa-holders to settle in their states or territories. Stakeholders were worried that if state and regional points visas were abolished, it would result in most migrants going to major cities.
- Some stakeholders cited the age limit of 45 as a barrier to getting the experienced workers their state needed, particularly in the health sector.

Figure 3.2: Regional visa-holders earn significantly less than other permanent visa-holders within each state

Median income by state and visa sub-group, primary applicants aged 20-49, full-time workers, 2021

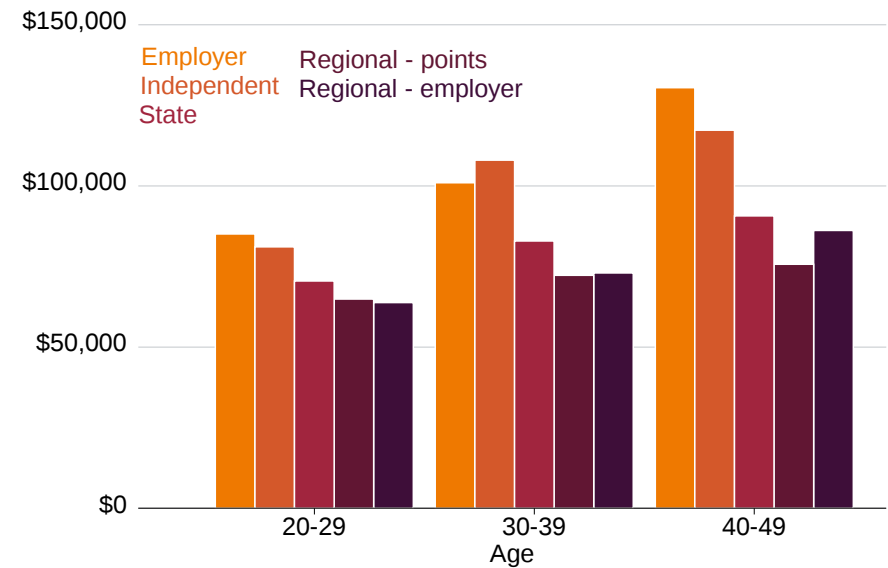


Notes: Permanent visa-holders in Australia in 2021 who arrived between 2015 and 2021. Visa group is according to the first permanent visa granted. Tasmania, ACT, and Northern Territory not shown due to the small number of visa-holders.

Source: ABS (2021a).

Figure 3.3: Regional visa-holders earn less than other skilled visa-holders living outside of Sydney, Melbourne, and Brisbane

Median income by age and visa sub-group, excluding people living in Sydney, Melbourne, and Brisbane, primary visa-holders, full-time workers, 2021



Notes: Permanent visa-holders in Australia in 2021 who arrived between 2015 and 2021. Visa group is according to the first permanent visa granted.

Source: ABS (ibid).

79 per cent of independent points visa-holders and 82 per cent of employer-sponsored visa-holders.¹³⁶

Regional points visa-holders in particular are more likely to be working in a less-skilled job than other permanent skilled visa-holders, reflecting their lower qualifications on average.¹³⁷ Just half of all regional points visa-holders worked in their nominated field, or a higher skill-level job, 30 months after being granted a permanent visa (Figure 3.5).¹³⁸

Regional employer-sponsored visa-holders typically have better labour market outcomes than regional points visa-holders

A higher proportion of regional employer-sponsored visa-holders work in their nominated field, or a higher skill-level field, than regional points visa-holders (Figure 3.5). However, earnings are broadly similar.¹³⁹ State and regional (and independent) points visa-holders have lower life satisfaction, lower job satisfaction, and lower satisfaction with their earnings than employer-sponsored and regional employer-sponsored permanent migrants.¹⁴⁰

3.2.2 State and regional points visa-holders generate a smaller fiscal dividend to Australian governments than other skilled visa-holders

State and regional visa-holders are typically younger than employer-sponsored and skilled independent visa-holders,¹⁴¹ and work in

136. Grattan analysis of ABS (2021a).

137. Almost 30 per cent of recently arrived migrants on regional points visas were working in a skill level 4 or 5 job, compared to less than 10 per cent of employer-sponsored and independent points visa-holders: Grattan analysis of ABS (ibid).

138. See also CEDA (2021).

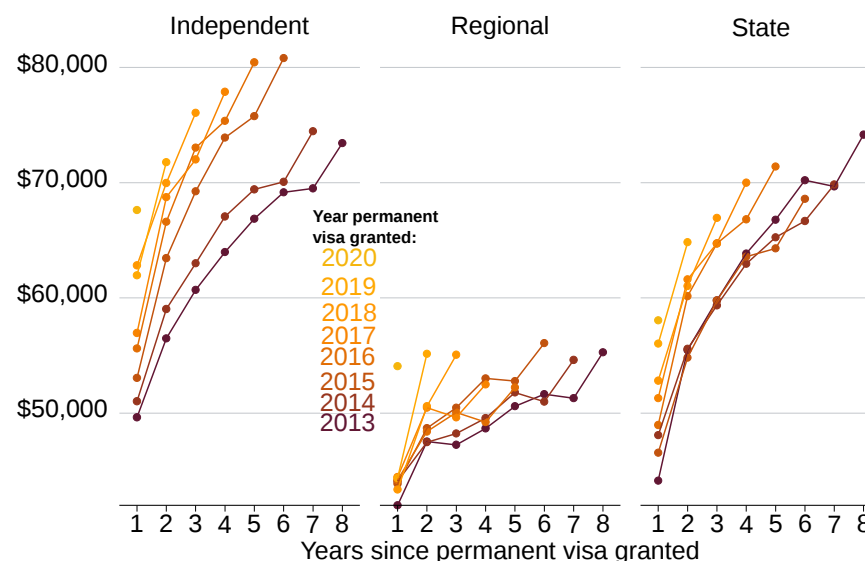
139. Grattan analysis of ABS (2021a) and Department of Home Affairs (2023g). See also Figure 1.3, Figure 3.2 and Figure 3.3.

140. 18 months and 30 months after being granted a permanent visa. Grattan analysis of Department of Home Affairs (ibid).

141. Grattan analysis of ABS (2021a).

Figure 3.4: Regional points visa-holders' earnings start lower and grow much slower than other points visa-holders

Median annual income by cohort, \$2021



Notes: Incomes are inflated to \$2021 using average weekly ordinary time earnings. Primary applicants only. Includes permanent skilled visa-holders who were granted a permanent visa after 2000. Earnings are total income, based on tax returns and payment summaries.

Source: Grattan analysis of ABS (2023).

important roles and make a positive contribution to Australian society. But their lower earnings mean they contribute substantially less to federal and state government budgets than employer-sponsored and skilled independent visa-holders.

Treasury estimates that each primary applicant for the state and regional points visa streams boosts Australian government budgets by \$363,000 over their lifetimes in Australia, compared to an average of \$489,000 for skilled independent visa-holders.¹⁴² Secondary applicants for skilled visas have little impact on Australian government budgets over their lifetimes.¹⁴³

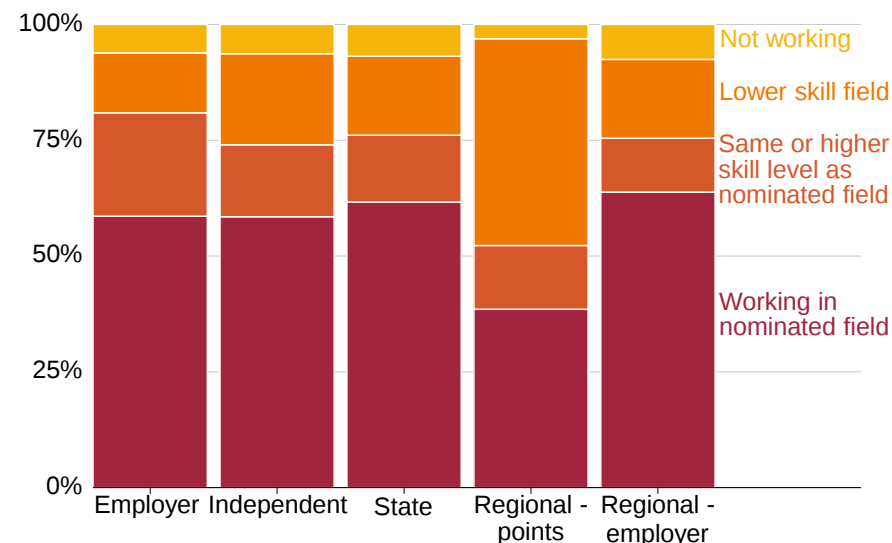
In total, if state and regional points visa-holders offered the same average fiscal dividend as the skilled independent visa-holders, the lifetime fiscal dividend from each annual permanent skilled migrant intake would be \$7.3 billion higher in today's dollars.¹⁴⁴

3.2.3 Why regional and state visa-holders typically earn less than other skilled visa-holders

State and regional points visa-holders typically earn less over their lifetimes than other skilled migrants for a number of reasons.

Figure 3.5: Regional points visa-holders are more likely to work in a lower-skilled job than in their nominated field

Whether working in nominated field 30 months after being granted a permanent visa, by visa sub-group, 2019 to 2022



Notes: Cohorts 5 to 8, 2019 to 2022. Visa sub-groups according to Grattan definition of visa subclasses. Excludes not stated and not applicable.

Source: Grattan analysis of Department of Home Affairs (2023g).

142. Varela et al (2021, Chart 5). Inflated to 2022-23 dollars using nominal GDP growth.

143. Treasury estimates that secondary applicants for the skilled independent visa, on average, boost Australian government budgets by \$30,000, whereas secondary applicants for state and regional points visas have a \$46,000 fiscal cost over their lifetimes in Australia (2022-23 dollars): Varela et al (ibid, Chart 4).

144. Grattan analysis of Parkinson et al (2023, Figure 24), inflated to 2022-23 dollars using growth in nominal GDP per capita, and Department of Home Affairs (2024a).

State and territory governments nominate less-skilled migrants for state and regional points-tested visas

Applicants for regional points visas receive 15 points for being nominated by a state or territory government. This is a significant boost – equivalent to the points offered for eight or more years of overseas work experience, or a bachelor degree.¹⁴⁵ Applicants for state points visas receive five points for such a nomination (Table 2.1).

Applicants for state points visas can therefore secure a visa with just 60 points (46 per cent of total points on offer), and applicants for regional points visas can secure a visa with just 50 points (or 38 per cent of all points). States and territories can also nominate any applicant who scores over 65 points, rather than selecting the top-ranked applicants.

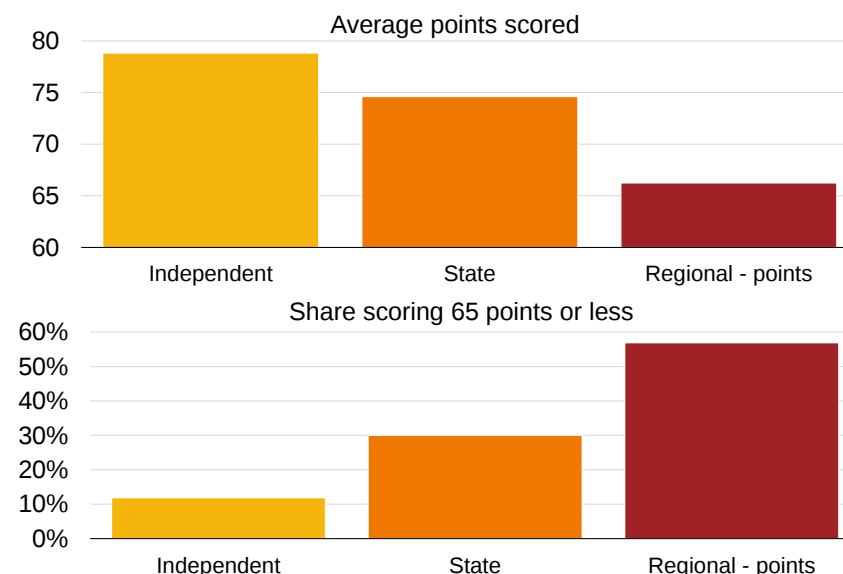
As a result, regional points-visa holders typically score fewer points (Figure 3.6). For all successful EOIs invited to apply for a visa, 57 per cent of successful applicants for a regional visa scored 65 points or less, compared to 12 per cent for independent points visas and 30 per cent for state points visas (after subtracting the points for state or territory nomination).

The regional visa is a provisional visa that restricts movement, which hurts migrants' ability to find the best job for them

The provisional regional points visa requires the person to live outside of Sydney, Melbourne, and Brisbane for at least three years before they can apply for a permanent visa. This requirement leaves migrants in visa 'limbo' and limits the jobs they can take. One-in-five regional points visa-holders not working in their nominated occupation said that where

Figure 3.6: Independent points visa-holders score more points, on average, than state and regional visa-holders

Outcomes for EOIs invited to apply for a visa, by visa subclass, 2018-19 to 2022-23



Notes: All EOIs invited to apply 2018-19 to 2022-23. Excludes points for nomination by a state or territory government.

Source: Grattan analysis of SkillSelect data from the Department of Home Affairs.

145. In 2019, the government increased bonus points for nomination by a state government for a regional visa from 10 to 15 points as part of a package of changes aimed at boosting migration to regional areas: Migration Amendment (New Skilled Regional Visas) Regulations 2019.

they live stopped them from getting a good job.¹⁴⁶ This compares to just 2-to-3 per cent of employer-sponsored and independent points visa-holders, and 9 per cent of state points visa-holders.

The provisional visa creates additional barriers that make it harder for a migrant to maximise their potential. Employers have a stigma against the provisional visa, which makes it harder to get a job.¹⁴⁷ Holders of the 491 regional provisional points visa can find it harder to get a home loan and they are also not eligible for any social security payments.¹⁴⁸

These drawbacks help explain why migrants holding provisional regional visas living outside of Sydney, Melbourne, and Brisbane typically earn significantly less than other skilled visa-holders living in these areas (Figure 3.3).

Regional visa-holders' incomes also grow much more slowly than those of state points and independent points visa-holders, even though income growth in cities and the regions is similar (Figure 3.4). This suggests that restrictions on movement not only hurts a migrant's chances of finding a good job in the short term but that poor employment outcomes early on in a person's career can also have a significant long-term 'scarring' effect on lifetime earnings.¹⁴⁹

Independent points visa-holders who choose to live in the regions earn just as much as those who choose to live in major cities.¹⁵⁰ This is probably because those who choose to live in the regions do so if they

can find suitable work, and not because they are forced to live in the regions by their visa conditions.

The most skilled migrants avoid regional visas and instead choose independent points and state points visas

Migrants who can score highly on the points test typically choose to apply for a regional visa as a last resort (Box 2).¹⁵¹

The gap in earnings between state and independent points visa-holders is smaller than the gap between regional visa-holders and independent points visa-holders, and state visa-holders' earnings grow strongly after they arrive (Figure 3.4).¹⁵²

However, the gap in lifetime earnings between state and especially regional points visa-holders on one hand, and skilled independent visa-holders on the other, is likely to grow should the points test be reformed in line with our recommendations in Chapter 2.

3.3 Maintaining a separate state points visa program adds unnecessary duplication and complexity

There is no strong evidence that state and territory governments possess greater ability to assess the human capital of prospective migrants than the federal government.

146. Grattan analysis of Department of Home Affairs (2023g). Cohorts 1 to 9 (2014 to 2022), primary applicants 18 months after arrival who are not working in their nominated occupation.

147. Conversations with state and territory governments.

148. Department of Social Services (2024, p. 9.2.7). These restrictions also apply to holders of the subclass 494 Employer Sponsored Regional (Provisional) visa.

149. Borland (2020); Andrews et al (2020); and Coates and Ballantyne (2022, Section 2.3.1).

150. Grattan analysis of ABS (2023).

151. Grattan Institute conversations with state and territory governments.

152. The fact that state points visa-holders only earn slightly less than skilled independent visa-holders may in part be because most prospective migrants are indifferent between an independent points visa and a state points visa, and can nominate to apply for both of these visas in an EOI submitted in SkillSelect (or in separate EOIs). And as the current points test is not good at ranking very skilled, highly-educated migrants, similar candidates are selected for state points and independent points visas despite state and territories (and the federal government) not following ranked choice selection (see Section 2.3.2).

State and territories routinely nominate visa-holders who score fewer points than skilled independent visa-holders (Figure 3.6). State and territory governments have less capacity to analyse migrant policy than the federal government, and have to rely on worse data to evaluate prospective applicants and the outcomes for existing skilled visa-holders in Australia.

State governments, especially in the smaller states, have an incentive to maximise the number of migrants that arrive in their state, even if it means selecting less-skilled migrants.¹⁵³ And the costs of selecting less-skilled migrants are largely incurred by the federal government, especially in the form of lower income tax receipts (Section 1.3).¹⁵⁴

There is also a significant cost for each state and territory government to administer its own selection process for state and regional points migrants (Table 3.2).

While states may have better insight into shortages in some public sector industries and occupations,¹⁵⁵ addressing skills shortages should not be the main reason for selecting migrants for permanent points-tested visas (Section 1.4).

3.4 Few state and regional points visa-holders work in essential industries and occupations

State and territory governments are large employers, particularly in the health and education sectors, and in government departments, but

they also create jobs indirectly via the private sector because they are responsible for building most large infrastructure projects.

Most state and territory governments identify the healthcare sector as a priority industry when nominating applicants for state and regional visas (Table 3.2). Among recent permanent migrants, about one-in-four state and regional points visa-holders work in the healthcare and social assistance industry, compared to one-in-five regional employer-sponsored visa-holders.¹⁵⁶

Most of the state and regional points visas granted to migrants working in the healthcare industry were granted to nurses.¹⁵⁷

But state and territory governments do not rely heavily on state and regional points visas to meet workforce needs in the healthcare industry. State and regional points visa-holders make up only a small share of doctors (0.7 per cent), nurses (1.9 per cent), and other health professionals (0.5 per cent) (Figure 3.7).

State and regional points visa-holders also make up a small share of the workforce in regional areas: doctors 1.1 per cent, nurses 2.2 per cent, and other health professionals 0.7 per cent.¹⁵⁸ Among nurses and doctors working in 2021, temporary sponsored migrants, temporary family visa-holders, and New Zealanders were the largest migrant groups, particularly in regional areas. And recent migrants made up just 2 per cent of the teaching workforce in 2021.

153. Each permanent skilled migrant offers a \$60,000 fiscal dividend to the government of the state or territory in which they reside over their lifetimes (2018-19 dollars): Varela et al (2021, Table 4).

154. Two-thirds of the annual fiscal dividend from the permanent skilled migration program accrues to the federal government, and one third to the states: Varela et al (ibid, Table 4).

155. Council for the Australian Federation (2023).

156. Permanent migrants in 2021, arrived between 2015 and 2021, primary visa-holders only. Grattan analysis of ABS (2021a).

157. In 2021, one in eight state and regional points visa-holders were nurses. Grattan analysis of ABS (ibid).

158. The proportions are similar when inner regional areas are also excluded.

3.5 The case for separate permanent regional skilled visas is especially weak

For many years, governments have tried unsuccessfully to get migrants to remain in the regions by requiring them to live in regional areas when they arrive. The 1988 Fitzgerald report on migration stated that, ‘Compulsory location away from the main centres is not likely to be any more successful in the future than it has been in the past’.¹⁵⁹

People who live in Australia enjoy freedom of movement and the choice of where they live, often choosing to be close to family, friends, and community. Forcing new permanent migrants to live in a particular location departs from this norm.

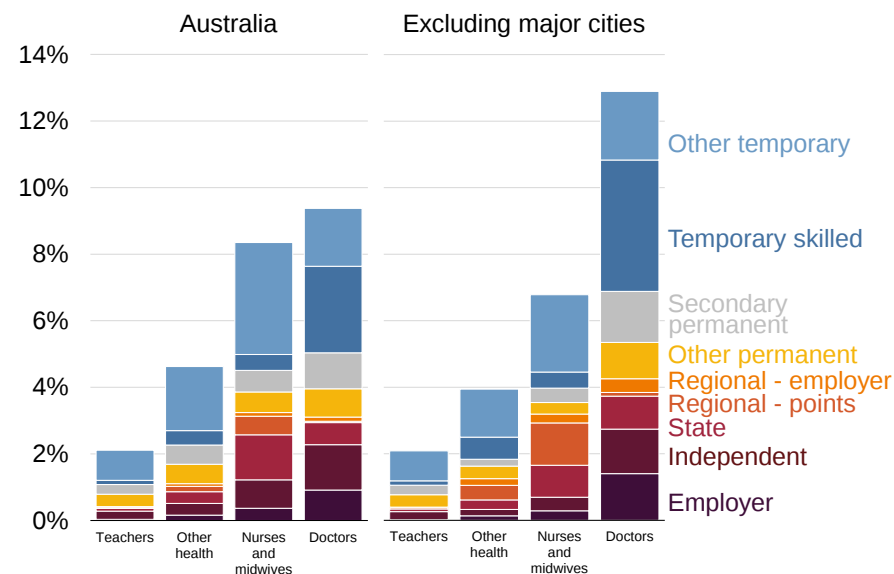
Forcing migrants to move to regional areas is also likely to reduce their incomes. Policies that require migrants to move to regional areas will also narrow the pool of prospective applicants – since most migrants would prefer to move to cities – reducing the future economic benefits to the Australian community from a given migrant intake. Diverting skilled migrants to regional areas, especially when granting permanent visas, is therefore likely to reduce the net benefits the community derives from skilled migration.

Grattan Institute has previously called on Australian governments to stop trying to divert population to regional Australia.¹⁶⁰ Instead, Australian governments should ensure people in regional areas have access to a reasonable level of services and infrastructure considering the costs of providing them.

In any case, pushing skilled visa-holders to the regions, where many struggle, is a particularly expensive and ineffective way to achieve regional development objectives. Many regional visa-holders also do not stay in regional areas long. Other regional development policies

Figure 3.7: State and regional points-tested visas account for a small proportion of migrants working in healthcare and as teachers

Migrants, share of all workers in occupation, by visa type and location, 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. ‘Other health’ is Health Diagnostic and Promotion Professionals and Health Therapy Professionals. Hobart and Darwin not included as major cities.

Sources: ABS (2021a) and ABS (2021b).

159. Fitzgerald (1988, p. 44).

160. Daley et al (2019, p. 8).

are therefore likely to be more cost effective in achieving regional development goals.

3.5.1 Diverting migrants to regional Australia is an expensive way to pursue regional development objectives

Pushing skilled migrants and their families to the regions lowers their earnings, which lowers the fiscal dividend from skilled migration

Australia's largest cities are more productive than the smaller cities and regional areas, so workers typically earn more. Migrants who settle in cities are more likely to find a job that they are willing and able to do, and if they lose their job, to find another one quickly.

Restricting where migrants can live also affects migrants' families. Spouses of primary regional visa-holders typically earn less than spouses of other skilled visa-holders,¹⁶¹ and have worse employment outcomes. Almost 60 per cent of spouses of primary regional visa-holders work in low-skilled jobs, compared to 25-to-40 per cent of spouses of other skilled visa-holders (Figure 3.8).

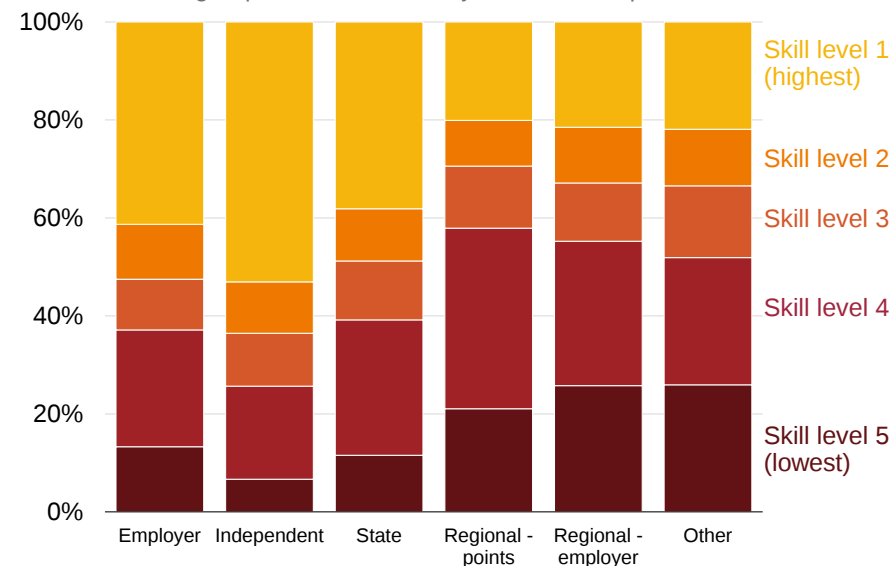
The poor employment outcomes and lower earnings for secondary visa-holders in regional areas, most of whom are women, are in part due to regional visas requiring migrants to live in areas where labour markets are thinner, meaning there are fewer job options for spouses. A major reason for migrants eventually moving to cities is better employment opportunities for their spouse.¹⁶²

161. The median income of a regional points secondary visa-holder aged 30 to 39 who works full time is 33 per cent lower than an equivalent independent points secondary visa-holder: Grattan analysis of ABS (2021a).

162. Wickramaarachchi and Butt (2014, p. 195). Limited job options, lower earnings, and fewer social connections are likely to mean lower life satisfaction for partners who are required to live in regional areas.

Figure 3.8: Spouses often work in low-skilled jobs when they live in regions

Permanent migrants aged 25+, by occupational skill level and permanent skilled visa sub-groups, 2021, secondary visa-holders, per cent of total



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: ABS (2021a).

It's not cheaper to build infrastructure in the regions

Recent studies have found that the total cost of infrastructure for newly built homes in the regions is unlikely to be cheaper than it is in the cities. For example, a report for Infrastructure Victoria that compared different population growth scenarios found that the cost of servicing new homes with infrastructure in greenfield areas – likely the most comparable to regional areas – is much more expensive than servicing a new home with necessary infrastructure in an established suburb in Melbourne due to higher local infrastructure and utilities costs.¹⁶³

Social services – particularly health and education – are also more expensive to deliver in regional and remote areas.¹⁶⁴ For example, the Independent Health and Aged Care Pricing Authority (IHACPA) estimates the cost of delivering services in very remote areas is 50 per cent higher than the national average.¹⁶⁵ The federal government also offers a more generous bulk-billing incentive to GPs in regional Australia.¹⁶⁶

3.5.2 Many regional visa-holders don't live in the regions or remain there long

Regional visas allow the visa-holder to live in major cities such as Perth, Adelaide, Canberra, and the Gold Coast.¹⁶⁷ More than half of

recently arrived 'regional' visa-holders lived in major cities in 2021 (Figure 3.9).

Of those migrants who do settle in regional areas initially, many eventually move to major cities. A 2022 study found that about 50 per cent of migrants who settled in outer regional, remote, or very remote areas had left within five years.¹⁶⁸

Grattan analysis of 2016 Census data shows that more than a quarter of recent arrivals who were living in inner regional, outer regional, or remote areas in 2011 had moved to major cities in 2016, compared to about 10 per cent for people born in Australia.¹⁶⁹

A low proportion of international students that have studied in regional areas and are seeking permanent residency apply for a regional points visa, indicating they do not want to remain in regional areas in the long term. Of the people who claimed regional study points and were granted a points-tested visa, only 20 per cent received a regional points visa, compared to 55 per cent who received a state points visa and 25 per cent who received a skilled independent points visa.¹⁷⁰

Other factors outlined in Section 2.4 also deter people from applying for a regional points visa.

163. For example, providing infrastructure to an extra dwelling in a greenfield areas is up to four times more expensive than servicing an extra dwelling in established suburbs: Infrastructure Victoria (2023, p. 20). Similarly, a 2023 report by the NSW Productivity Commission found it costs up to \$75,000 less to service a dwelling in an established suburb with infrastructure than it does for a new home in a greenfield development: NSW Productivity Commission (2023, pp. 10–11).

164. Commonwealth Grants Commission (2024, p. 40).

165. IHACPA (2024).

166. Department of Health and Aged Care (2024a).

167. Australia also offers visas to working holiday makers who undertake 'specified work' in regional areas and longer duration Temporary Graduate visas to international students who study and work in regional areas.

168. Laukova (2022). A major reason for migrants eventually moving to cities is because of better employment opportunities for their spouse: Wickramarachchi and Butt (2014, p. 195).

169. Mackey et al (2022, p. 76).

170. Grattan analysis of Department of Home Affairs (2023e), two years to February 2024.

Regional employer-sponsored visa-holders are more likely to stay in regional areas

Regional employer-sponsored visa-holders report higher levels of life satisfaction than regional points and other skilled visa-holders.¹⁷¹ A big reason is that employer sponsorship delivers better immediate labour market outcomes for the visa-holder (Section 3.2.1).

Regional employer-sponsored visa-holders also typically have a stronger connection to their local area due to the support and networks offered by their sponsoring employer.¹⁷²

As a result of these stronger immediate connections to a local area, regional employer-sponsored visa-holders are more likely than points visa-holders to remain in regional areas.

3.6 The federal government should abolish state and regional visas

The federal government should abolish state and regional points visas and expand the number of independent points visas granted each year.¹⁷³

This change would ensure all points visas were subject to ranked choice selection which, together with our recommended reforms to the points test (see Chapter 2), would result in Australia selecting a more skilled migrant cohort for the limited number of permanent skilled visas

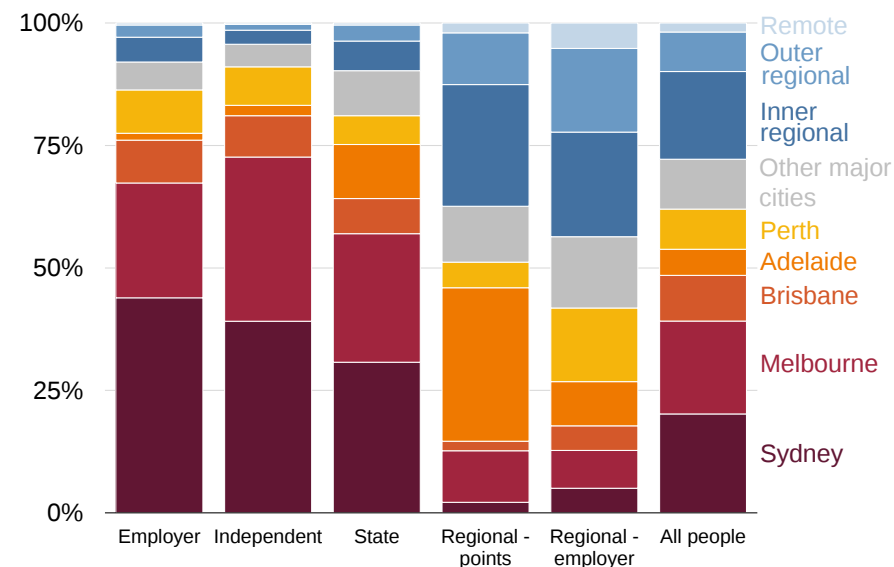
171. 18 months and 30 months after their permanent visa was granted. Grattan analysis of Department of Home Affairs (2023g).

172. Wulff and Dharmalingam (2008, p. 156). Bakshi et al (2024) found that sponsoring employers offer support and advice, as well as being 'cultural ambassadors' who assist migrants settle into their new community.

173. Abolishing regional and state points visas could also result in an increase in employer-sponsored visas if more state government employers sponsored workers directly.

Figure 3.9: More than half of recently arrived regional visa-holders live in major cities

Location of permanent visa-holders, by permanent skilled visa sub-groups and area



Notes: Permanent visa-holders in Australia in 2021 who arrived between 2015 and 2021. Primary visa-holders only. Place of usual residence. 'Other major cities' includes places such as Geelong, Wollongong, the Gold Coast, and some outer suburbs of major cities. 'Inner regional' includes Hobart. 'Remote' includes remote and very remote areas.

Source: ABS (2021a).

offered each year. And it would give all skilled migrants the best chance to thrive in Australia.

Abolishing state and regional points-tested visas would provide a large fiscal dividend, and would maximise productivity spillovers from skilled migration. It would also would reduce unnecessary duplication by removing states' role in nominating visa-holders.

The regional employer-sponsored visa should stay, but be reviewed

Regional employer-sponsored visa-holders have better labour market outcomes, higher earnings, higher life satisfaction, and are also more likely to stay in regional areas (Section 3.2.1 and Section 3.5.2).

The current regional employer-sponsored program, which started in November 2019, should be independently reviewed. The review should cover both the employer-sponsored regional provisional visa (subclass 494) and the permanent visa (subclass 191).

The review should assess the effectiveness of the regional employer-sponsored visas in its twin aims of attracting talented migrants who can fill vacancies in the regions and getting people to remain in regional areas in the long-term.

It should also examine whether the definition of a regional visa should be changed to exclude major cities such as Perth, Adelaide, and Canberra.

If the review found reasonable outcomes, then a small number of permanent employer-sponsored visas should be allocated to the regional employer-sponsored program.

3.6.1 Our proposed reforms would result in a more-skilled migrant intake

Our recommended reforms would result in a more-skilled, and higher-earning, cohort of skilled migrants being selected for permanent points-tested visas.

Our modelling shows that the average annual income of the current points-tested cohort is expected to be \$80,000 across all permanent points visas, and \$90,000 for independent points over their working lives. If regional and state visas were reallocated to independent points, and the points test was improved to better select migrants likely to succeed in the Australian labour market, the average annual income of the points-tested cohort would rise to \$97,000 over their working lives.¹⁷⁴

Under our reforms, more points-tested migrants would have bachelor and higher degrees. More would have the skills to work as nurses, medical practitioners, and teachers, and more would be in high-earning and high-skilled jobs such as engineers and ICT professionals.

There would be slightly fewer point-test migrants in less-skilled occupations requiring a VET qualification, such as cooks, chefs, and motor mechanics. Each of these occupations would typically make up about 1 per cent or less of the total points cohort. Historically, most VET-educated skilled migrants have secured permanent residency via employer sponsorship, rather than via points-tested visas.¹⁷⁵

174. See Appendix B for more details.

175. See Section 2.7. Grattan analysis of Department of Home Affairs (2023g).

3.6.2 Abolishing regional and state points visas offers a big long-term payoff

Our proposed reforms would bring big economic benefits to the Australian community by shifting Australia's permanent skilled migrant intake further towards younger, higher-skilled migrants.

Selecting more highly-skilled and higher-paid migrants would boost Australia's rate of productivity growth, raising Australians' living standards in the long term. And abolishing regional points visas in particular would give skilled migrants, and their partners, their best chance to thrive in Australia.

These changes would also bring a big boost to Australian government budgets.

Abolishing the regional points visa and reallocating those places to the skilled independent program, when combined with reforming the points test as we recommend in Chapter 2, would boost federal, state, and territory government budgets by \$162 billion over the next three decades (Figure 1.4).¹⁷⁶ Also abolishing state points visas and reallocating those places to the skilled independent program would increase the boost to Australian government budgets to \$171 billion over the next three decades.

3.6.3 Abolishing the state points visa would reduce unnecessary duplication

There is a significant cost for each state and territory government to run its own selection processes for state and regional points visas (Section 3.3).

Under our proposed reforms, state and territory government departments would play a much smaller role in selecting skilled

migrants for permanent skilled visas. State governments would, however, still benefit from the extra health and education professionals granted permanent residency via an expanded skilled independent points visa program. And state government employers could also play a larger role in sponsoring workers directly.

State and territory government employees currently involved in policy development and administration of state and regional points visa programs could be redeployed to other roles. They could assist government departments, hospitals, health services, and schools sponsor the workers they need. Resources could also be redirected to migrant settlement services, to attracting talent from overseas, or to other parts of the bureaucracy.

States and territories would still play a role in determining the size of the permanent intake and the temporary migration program via the new multi-year planning model.¹⁷⁷ And, state and regional points visas-holders only account for a small share of migrants living and working across Australian states, and in regional Australia.¹⁷⁸

3.6.4 State and territory governments could sponsor more migrants

Abolishing state and regional points visas would mean state and territory governments could sponsor more workers for temporary or permanent employer-sponsored visas, via their health and education departments, hospitals, health services, schools and other agencies, rather than relying on state and regional points visas.

State and territory governments already use the Temporary Skill Shortage visa to fill shortages, particularly in healthcare (Figure 3.7).

176. See Appendix B for further details.

177. Australian Government (2023, p. 80).

178. Mackey et al (2022, Figure 6.1)

But governments and public sector employers rarely sponsor workers for a permanent employer-sponsored visa (Box 2).

Under our recommended reforms, state governments could redirect public servants currently employed to evaluate, nominate, and process state-sponsored migrants to assisting with employer sponsorship and attracting highly skilled prospective migrants to work in their state.

Waive visa sponsorship fees for state government employers

Sponsoring workers for permanent skilled visas entails substantial upfront costs. Each time a job is nominated, the fee is \$540. The employer must also pay a Skilling Australians Fund (SAF) levy.¹⁷⁹ Businesses cite cost as a major barrier to becoming a sponsor.

The federal government could exempt public sector employers, and not-for-profit service providers funded by government, in the healthcare and education industries from the SAF levy (or offer a discount). Or the federal government could exempt all public sector employers from paying the SAF levy, or reduce or abolish the SAF levy for small businesses.

The federal government should also commission the Productivity Commission to review the SAF levy, as part of a broader review of visa application charges, to ensure these charges are proportionate and the funds are being used for their intended purpose.

3.6.5 Abolishing state and regional visas would not lead to health and education workforce shortages

Abolishing state and regional visas won't affect the supply of essential workers. In fact, our recommended reforms may *increase* the share

179. The SAF levy is \$3,000 per sponsored worker for employers with a turnover of up to \$10 million, and \$5,000 for employers with a turnover of more than \$10 million: Department of Home Affairs (2023j).

of skilled health professionals selected for permanent points visas, since we propose that the points test better reward English language skills and high-skilled work experience (most medical professions are skill level 1 occupations) as well as highly-paid local work experience. Other essential occupations that do not require a university degree, such as aged care and childcare workers, are mostly ineligible already for skilled visas.¹⁸⁰

State governments should invest more in supporting employers, including state government employers, to make use of employer sponsorship to secure the skilled workers they need.¹⁸¹ In particular, the regional employer-nominated permanent visa would remain an option available to regional health services to recruit skilled workers.

The requirement that international graduates who study medicine must first work in regional, rural, or remote areas to bill under Medicare is a more effective way to ensure regional Australians have access to adequate medical care.¹⁸² Some of the proceeds from the substantial fiscal dividend (Section 1.6) from reforming points-tested visas could be used to attract more skilled workers, and especially health professionals, to regional and remote Australia.

180. While many migrants work in less-skilled roles in the care economy, such as personal care assistants, childcare educators or disabled carers, they do not hold temporary or permanent skilled work visas. See: Coates et al (2022, Figure 5.4 and Figure 5.5).

181. Our past recommendations to overhaul employer sponsorship, such as the abolition of occupation lists and reducing the upfront costs of sponsorship and delays created by labour market testing, would mean more regional businesses and state and territory governments can sponsor the skilled workers they need: Coates et al (ibid).

182. Department of Health and Aged Care (2024b).

3.6.6 The impact on the workforce in regional Australia would be modest

Only about 3 per cent of workers in regional areas are permanent skilled visa-holders who arrived between 2005 and 2021 (Figure 3.10).¹⁸³ Temporary skilled workers and working holiday makers make up a similar share of the workforce in remote Australia. New Zealand citizens tend to be a large source of workers in most regional areas.¹⁸⁴ And some migrants selected for the expanded pool of skilled independent points visas offered each year would choose to move to regional Australia.

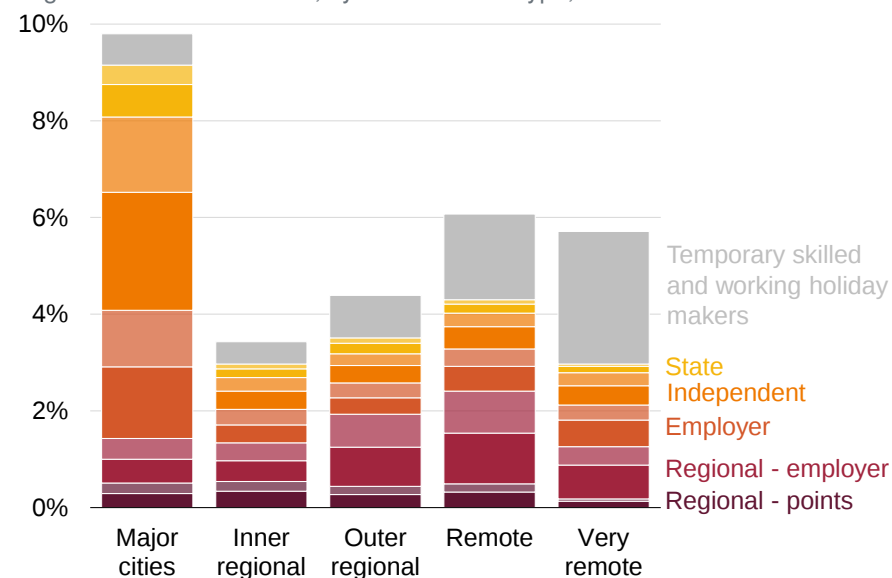
Ending regional points visas would therefore have minimal impact on the regional workforce in the short term. Temporary visas should be the primary way of meeting short-term workforce needs in regional Australia.¹⁸⁵ The government would also retain a small number of regional employer-sponsored visas to address regional workforce needs.

3.7 If state and regional points visas are retained, they should be reformed

If state and regional visas are retained, the best alternative is for visa applicants nominated by a state or territory government for a state or regional points visa to receive additional points. But ranked choice selection for the entire points cohort should remain, so that the additional nomination points increase the chances of a person receiving a regional or state points visa, but the nomination doesn't guarantee the person a visa. This approach would incentivise state and territory governments to nominate high-scoring applicants who are likely to be

Figure 3.10: 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: ABS (2021a), ABS (2021b) and ABS (2022).

183. Less than 1 per cent of the regional workforce are recently-arrived migrants (arriving between 2015 and 2021).

184. Mackey et al (2022, Figure 6.1).

185. Most government and health sector stakeholders we consulted use Temporary Skill Shortage visas to meet regional workforce needs.

selected. In addition, the higher minimum points requirement of 300 points should apply to state and regional visas (Section 2.6.9).

An alternative is for nomination by a state or territory government to guarantee an invitation to apply for a visa, but the applicant doesn't receive additional points for nomination (so must meet the minimum 300 points requirement). This would mean migrants chosen for state and territory points visas would, on average, score more points, raising the floor for securing a state or regional points visa.

Another option is for the federal government to abolish regional points visas but retain state-nominated visas. States could choose to allocate some of these visas to regional development objectives if they wish.

Appendix A: Measuring migrants' long-run earning potential

This appendix explains how we measure migrants' long-run earnings.

Data

This research uses datasets available under the ABS's Person Level Integrated Data Asset (PLIDA). PLIDA makes analysis of migrants' long-term earnings possible for the first time.

We built a dataset of Australian permanent migrants, linking unit record data from visa applications and grants, the census, geographic information, and annual income tax returns and payment summaries.

The datasets we use include:

- Visa application data, which includes visas granted between 1 January 2000 and 31 December 2020.
- Visa-grant data, which covers Australian visas granted between 1 January 1990 and 31 December 2020.
- 'Travellers data' that provides information on when individuals enter or leave Australia.
- Income tax returns and payment summary data, covering the 2011 to 2021 financial years.
- The 2016 Census.
- Location data, derived from a range of government sources.

For this study, we focus primarily on migrants with points-tested visas. We create an unbalanced panel of migrants who arrived after 2000, and we can observe incomes for this group between 2011 and 2021. In our main regressions, we restrict the sample to primary applicants only.

Outcome variables

The main outcome we measure using the PLIDA data is annual income, as recorded on annual income tax returns or payment summaries. \$0 incomes are imputed if the migrant is in the country for at least 8 out of 12 months in the financial year, and no income is recorded on a tax return or payment summary. Individuals are assumed to be in Australia if they never appear in the travellers dataset, which implies that they have not left the country since 2006.

In the regressions, we transform our outcome variable to $\log(\text{income}+1)$. This means that migrants who record \$0 of income are included, but the small share with negative incomes in any given financial year are dropped from the regressions. For robustness, and to measure the intensive margin of employment only, we also run these regressions limiting the sample to migrants earning any income, and those earning over \$20,000.

In addition to our primary outcome measure, we also measure the association between migrant characteristics and probability of employment. Due to limitations with taxation data, we define employment as earnings over \$20,000 in a given financial year.

Explanatory variables

Explanatory variables are derived from the PLIDA datasets, and used in the regressions to measure which characteristics are associated with migrants' long-run earnings. Table A.1 describes these explanatory variables, their sources, and the reasons they were included in the regressions.

One limitation of the PLIDA dataset is that some important explanatory variables such as education and English language proficiency can

only be taken from the census, rather than visa-grant and application data. This means that these characteristics are measured in 2016, regardless of when the migrant was granted their permanent visa.

Regression strategy

We estimate the effects of different migrant characteristics on migrants' earnings using 'Mincer' regressions. This approach tells us which migrant characteristics are associated with higher earnings, holding all else constant. For example, if you held everything else equal, how much does a migrant with a bachelor degree earn, on average, compared to a migrant who has completed a high-school qualification?

We run three sets of these Mincer regressions. The first includes a wide range of observable characteristics of migrants, including some that we cannot know prior to the migrant arriving in the Australia, such as the region where they choose to live, in both the short and longer term. For robustness, and to measure the importance of each characteristic in terms of explanatory power, we also run the regression several times, dropping the variables one at a time and measuring the change in adjusted R-squared.¹⁸⁶

The second set of regressions include only factors that we can observe prior to a migrant being granted their permanent visa. That is, characteristics that could feasibly be included in the points test. We use this second set to narrow down to the relevant characteristics that should be included in the points test, which are the final set of regressions.

The final set of regressions includes a smaller number of explanatory variables that are used to inform the allocation of points in our proposed points test. This removes variables from the second set that

did not predict positive earnings outcomes (such as prior Australian study), and variables we do not recommend allocating points for.

In all three sets of regressions, we include fixed effects for sex, party size, country of birth, financial year and years since grant. These are used as controls only, not for measuring how points should be allocated.

Results for the stage three regressions are shown in Table A.2.

The first column includes the full pooled dataset of primary, points-tested applicants. The last three columns are sub-samples based on years since the visa was granted. Differences across these columns may reflect differences in outcomes over time as migrants settle into Australia, and changing characteristics of migrants across cohorts.

It is very likely that the remaining variables are correlated with other factors that are not included in the regression. For example, a migrant's Australian income will be related to their visa history, work ethic, relationships in Australia, occupation, and so on. This is not necessarily a problem, as this means our variables are picking up other, often un-measurable, characteristics of migrants that are likely to impact their long-run success in Australia, and so it makes sense to give additional points for those characteristics.

Similarly, some of the characteristics in our regression will be closely related. For example, skill level 1 occupations typically require a bachelor degree. This becomes clear because when skill level is removed from the regression, the returns to education are higher. We recommend giving points related to both these characteristics, and so include both in our final regression.

186. These results are not shown but are available on request.

Limitations of our analysis

The PLIDA analysis has limitations. First, it does not help to inform how we should trade off the selected characteristics with points for age and partner skills. We address this challenge using separate analysis of fiscal outcomes, discussed in Appendix B.

Second, we only observe the outcomes of migrants who are offered a visa and choose to migrate to Australia. There is a much larger supply of global talent that may apply and be offered a permanent visa under a newly designed points test. This counterfactual group is not observable to us. Rather, the analysis tells us about which characteristics are associated with better outcomes for migrants who have been offered a permanent points-tested visa in Australia.

For robustness, we also run our regressions over a wider sample of permanent migrants.

Finally, our modelling only predicts a small part – between 7 and 30 per cent – of the total variation in migrants' earnings, depending on the model specification. This reflects that the points test can only select on characteristics that are observable when migrants apply to come to Australia. There are many factors that impact a migrant's earnings once they arrive in Australia that we cannot know before they arrive, such as migrants' future health, their caring responsibilities, occupation, study, and retirement decisions, as well as luck.

Nonetheless, the regression results show large and statistically significant associations between migrant characteristics and earnings. This represents the *average* difference in income when a migrant has a certain characteristic, all else being equal. Therefore, while there is a lot of variation in the earnings of individuals, these characteristics matter a lot on average. And since Australia grants more than 85,000 points-tested visas a year, selecting migrants who have higher earnings potential on average will increase the well-being of the Australian

community, especially through productivity spillovers to local workers, and larger government tax receipts.

Table A.1: Variables included in regression analysis

Variable	Description	Source	Rationale
Final stage regressions			
Financial year	Fixed effect for the financial year income was earned (base 2011).	Income tax returns.	Controls for variation across financial years, including inflation, and other macroeconomic fluctuations that impact earnings in a given year.
Years since grant	Years since permanent visa granted, fixed effect with base one year after arrival.	Visa grant data	Regardless of age, migrants are likely to experience higher earnings as they gain more Australian experience and connections, and the characteristics of the migrants offered permanent visas might have changed over time.
Education	Highest education, categorical variable. Base level is high school equivalent or less.	2016 Census. This variable is collected in 2016, regardless of the year the migrant arrived in Australia. This means that for some migrants, our approach might include education attained after they arrive in Australia.	Measures returns to educational attainment.
Australian income prior to permanent visa being granted.	Highest income observed in the 5 years before permanent visa granted in Australia. Grouped into income buckets, with base \$1-20k. "No recent Australian experience observed" will include people who never earned income in Australia prior to their permanent visa, and people who did earn income in Australia but can't be observed in the tax data (pre-2011).	Derived from income tax return data. It is the maximum income we can observe in the five years before the migrant is granted a permanent visa.	Earning a high wage in Australia prior to a permanent visa being granted demonstrates that a migrant has skills that are valued in the Australian labour market. Australian work experience also suggests the migrant has connections in Australia. This variable quantifies those returns.

English proficiency	Self-rated English proficiency. Categories: Very Well: Migrants who self-report as "Speaks English only" or speaks a language other than English and speaks English "Very well" Well: Speak a language other than English and speak English "Well" Not Well: Speak a language other than English, and speak English "Not well" or "Not at all" Missing: No data	This is a self-rated variable from the 2016 Census. Migrants would have been in Australia for different periods of time when they answer the question, and it relies on their self-evaluation, rather than test scores.	English proficiency is important for many Australian jobs, particularly high-paying managerial roles that require strong communication skills. This variable quantifies that impact. However, it may also partially reflect lower earnings for migrants from non-English speaking backgrounds due to labour market discrimination.
Occupation skill level	Skill level of nominated occupation. Very high skilled: skill level 1 High skilled: skill level 2 Lower skilled: skill level 3-5	Visa application data. This can be considered a proxy for skilled work experience because applicants would have passed a skilled assessment for their nominated occupation.	Measures returns to skilled work experience. Note this replaces the 'occupation on application' variable, and is only used in the final stage regression.
Gender	Categories: Male (base) Female Other Missing	2016 Census.	If gender or country of birth are correlated with other characteristics, controlling for it separately makes sure we are not 'baking in' any discrimination or labour market segregation into the new points test.
Country of birth	Country of birth, base is India.	2016 Census.	See 'gender'
Party size	Number of individuals on visa application: 1, 2, 3+, or missing. 1 is the base. People with no case ID are labelled "missing".	Visa application data (based on case IDs).	This loosely proxies for migrants who have spouses or dependent children. We would not allocate points on this basis, but it may help to ensure we don't discriminate against migrants who are earning less because of caring responsibilities.
Additional variables in second stage regression			

Occupation on application	Reported 6-digit occupation on visa application. Categorical variable with base occupation Accountant (General).	Visa application data	The occupation the migrant puts on their visa application, verified by a skills assessment. We can observe this occupation prior to a migrant arriving in Australia. We remove occupations from the final stage regressions because we recommend moving away from an occupation-based framework.
Age at grant	Categorical variable, with groups: <18 19-24 25-29 (base category) 30-34 35-44	Visa grant data	Age of arrival may impact migrants' earnings in two directions. Migrants who arrive later in life might bring highly specialised skills and experience from overseas that cannot be acquired in Australia. Migrants that arrive younger, however, will have longer term connections to the Australian workforce. This is removed from the final regressions because it is not statistically significant and does not impact other values in the regression.

Prior temporary visas:	This is a series of dummy variables, set to 1 if the migrant held that temporary visa prior to being granted their permanent visa, and zero otherwise.	Visa grant data	Time spent working and studying in Australia may help migrants to establish networks in Australia, get local work experience, and improve their English skills.
	Visas are not mutually exclusive, as a person can have held multiple different temporary visas.		This is removed from the final regression because most past visas have a negative or no correlation with future earnings, so we would not provide points for these.
	Includes: Student visas, separated by level of study Graduate visa Temporary skill shortage Working holiday maker		TSS visas are positively correlated with long-run earnings, but the quality of this work experience can be better captured by the migrant's wage while on this visa.
Additional variables in first stage regression			
Partner education Partner English proficiency Partner Australian income prior to permanent visa Partner sex	Partner variables for primary applicants. See primary applicant variable for descriptions.	Primary applicants are linked to secondary applicants via case IDs.	These variables are included to test whether spouse characteristics impact the primary applicant's earnings.
	Set to "Missing" for single applicants, or those who a partner is not observed. A secondary applicant aged over 18 is assumed to be a partner.		It may be the case, for example, that if both partners are highly skilled, there is less specialisation within the household, and the primary applicant earns less.
	If there are multiple secondary applicants over 18, the partner is selected by a ranked ordering by income, age, and education.		Separately, we consider whether the fiscal dividend would be higher if we allocated more points to highly-skilled spouses.

Region	Greater Capital City Statistical Area. Base is Greater Sydney.	Based on geographic data from a variety of government datasets, and based on the migrant's recorded address on 1 January each year.	This helps us to understand how incomes vary by location. We do not include this in later regressions because it cannot be observed before the migrant is granted a permanent visa.
Main field of study	Broad field of study of highest educational qualification.	2016 Census.	Measures whether returns are higher for certain fields of study.
Current occupation	Current occupation. This is a categorical variable of 6-digit occupations, Base is Accountant (General).	Self-reported occupation on annual income tax return.	Measures the occupation of the individual once they are in Australia, which often differs from their nominated occupation. This variable provides significant explanatory power, but cannot be observed on application.

Table A.2: Selected regression results

	Pooled (1-20 years after visa granted)	Short-term (1-2 years)	Med-term (3-6 years)	Long-term (7-10 years)
<i>Intercept</i>	8.350*** (0.0000)	8.768*** (0.0000)	6.456*** (0.0000)	6.975*** (0.0000)
<i>Nominated occupation skill level</i> (Base: Lower skilled)				
<i>High skilled (skill level 2)</i>	0.181*** (0.0000)	0.155*** (0.0000)	0.205*** (0.0000)	0.120*** (0.0000)
<i>Very high skilled (skill level 1)</i>	0.453*** (0.0000)	0.420*** (0.0000)	0.510*** (0.0000)	0.440*** (0.0000)
<i>Missing</i>	0.266*** (0.0000)	-0.003 (-0.8434)	0.068*** (0.0000)	0.244*** (0.0000)
<i>Education</i> (Base: High school equivalent or less)				
<i>VET</i>	0.165*** (0.0000)	0.102*** (0.0000)	0.216*** (0.0000)	0.202*** (0.0000)
<i>Bachelor</i>	0.312*** (0.0000)	0.169*** (0.0000)	0.262*** (0.0000)	0.322*** (0.0000)
<i>PhD</i>	0.527*** (0.0000)	0.196*** (0.0000)	0.306*** (0.0000)	0.551*** (0.0000)
<i>Missing</i>	0.157*** (0.0000)	0.099*** (0.0000)	0.199*** (0.0000)	0.158*** (0.0000)
<i>Australian income prior to Australian visa being granted</i> (Base \$1-20k)				
<i>\$20-40k</i>	0.170*** (0.0000)	0.331*** (0.0000)	0.083*** (0.0000)	0.085*** (-0.0002)
<i>\$40-60k</i>	0.336*** (0.0000)	0.574*** (0.0000)	0.249*** (0.0000)	0.191*** (0.0000)
<i>\$60-70k</i>	0.473*** (0.0000)	0.724*** (0.0000)	0.388*** (0.0000)	0.309*** (0.0000)
<i>\$70-90k</i>	0.634*** (0.0000)	0.916*** (0.0000)	0.530*** (0.0000)	0.421*** (0.0000)

Table A.2: Selected regression results

	Pooled (1-20 years after visa granted)	Short-term (1-2 years)	Med-term (3-6 years)	Long-term (7-10 years)
	(0.0000)	(0.0000)	(0.0000)	(0.0000)
\$90-120k	0.799***	1.099***	0.665***	0.546***
	(0.0000)	(0.0000)	(0.0000)	(0.0000)
\$120-135k	0.937***	1.244***	0.778***	0.749***
	(0.0000)	(0.0000)	(0.0000)	(0.0000)
\$135k+	1.053***	1.453***	0.864***	0.810***
	(0.0000)	(0.0000)	(0.0000)	(0.0000)
No prior Australian income observed	0.310***	0.154***	0.313***	0.263***
	(0.0000)	(0.0000)	(0.0000)	(0.0000)
English proficiency				
(Base: Not well or not at all)				
Well	0.652***	0.558***	0.654***	0.666***
	(0.0000)	(0.0000)	(0.0000)	(0.0000)
Very well, or speaks English only	0.919***	0.780***	0.870***	0.944***
	(0.0000)	(0.0000)	(0.0000)	(0.0000)
Missing	0.441***	0.577***	0.518***	0.335***
	(0.0000)	(0.0000)	(0.0000)	(0.0000)
Fixed effects				
Party Size	✓	✓	✓	✓
Country of birth	✓	✓	✓	✓
Years since grant	✓	✓	✓	✓
Financial year	✓	✓	✓	✓
Gender	✓	✓	✓	✓
Age	✓	✓	✓	✓
Observations	3,650,257	561,683	1,107,912	882,132

Appendix B: Modelling fiscal outcomes

In addition to our regression analysis, we also use a revised version of the fiscal model used in previous Grattan reports to help guide the allocation of points for age, and to estimate the fiscal dividend of our proposed changes.¹⁸⁷

B.1 Constructing cohorts

We construct a model to ‘simulate’ plausible future cohorts of permanent skilled migrant groups based on current planning levels, under a number of scenarios.

The analysis is conducted using the 2022 Continuous Survey of Australia’s Migrants (CSAM) dataset provided to Grattan Institute by the Department of Home Affairs. CSAM measures the labour market outcomes of family and skilled migrants who have recently arrived in Australia or been granted a permanent or provisional visa. Our dataset includes migrants who were granted a permanent skilled visa between 2013-2022.

We use seven Grattan-defined visa categories within the skilled migration program:

- Investment
- Employer-sponsored
- Independent points
- State points
- Talent
- Regional points

- Regional employer-sponsored

To measure the benefits of our proposed reforms, we first model the impacts of reallocating visas from regional and state visas to independent points, and improving the points test. We model five scenarios:

1. Leave the proportion of visas at the average of the planning level proportions over the three financial years ending 2024-25, with the total number of skilled visas equal to the 2024-25 planning levels.¹⁸⁸ This scenario is run twice, once for a baseline, and once with our proposed points test applied to select the modelled independent points cohort.
2. Re-allocate all regional visas to independent points, under our proposed points test. All other visas reflect scenario 1.
3. Re-allocate all state visas to independent points, under our proposed points test. All other visas reflect scenario 1.
4. Re-allocate all regional points and state points visas to independent points, under our proposed points test. All other visas reflect scenario 1.

These scenarios are shown in Table B.1. All scenarios have the same total number of skilled visas available in each year, reflecting the 2024-25 planning level. The ‘planned’ scenario takes the average planning levels of the three years to 2024-25, to smooth annual fluctuations in visa allocations. The scenarios all assume that the planning levels remain constant for 30 years.

187. For example, Coates et al (2021, Appendix B))

188. Department of Home Affairs (2024a).

Each scenario assumes the regional employer-sponsored visa program remains in place.

Table B.1: Scenarios for fiscal dividend modelling

	Planned allocation	Re-allocate regional points to independent points	Re-allocate state points to independent points	Re-allocate regional and state points to independent points
Investment	2,500	2,500	2,500	2,500
Employer-sponsored	37,300	37,300	37,300	37,300
Independent points	25,500	50,900	55,800	81,200
State points	30,300	30,300	-	-
Talent	4,800	4,800	4,800	4,800
Regional points	25,400	-	25,400	-
Regional employer sponsored	6,400	6,400	6,400	6,400
Total skilled intake	132,200	132,200	132,200	132,200

Notes: Based on migration program planning levels for 2022-23, 2023-24 and 2024-25.

Sources: Grattan Institute and Department of Home Affairs (2024a).

B.1.1 Drawing samples from the cohorts

We ‘simulate’ each of the cohorts by drawing random samples with replacement from the 2013-2022 pool of migrants. Sampling was done using the wave 1 weighting variable. For each visa group, we draw N primary and secondary applicants from the CSAM data, where N is shown in Table B.1.

These simulations make the following assumptions:

- Future migrants will have similar employment outcomes to past migrants from the same visa group.

- We expect the same distribution of outcomes regardless of the size of the visa pool. This means that the first person drawn from, say, the Talent visa pool has the same expected labour market outcomes as the last drawn. In reality, we would expect that increasing the number of visas offered would decrease the average labour market outcomes of the group, if only slightly. This assumption does not apply to the modelling of our new points test, which is explained below.
- There are no child secondary applicants.

B.1.2 Drawing samples for new points-tested visas

To measure the fiscal impacts of improving the points test, we need to use a different sampling method to select our modelled independent points cohort.

Random sampling with replacement captures the allocation of visas under the current points test. But to measure the impact of improvements to the points test, we need to rank applicants and test which prospective migrants would be selected under a new points test.

Applying the points test

We first use the characteristics in CSAM to apply our proposed points test to the sampled permanent skilled migrants. Age, English language proficiency, education, nominated occupation skill level, and partner characteristics are all directly observable in CSAM, and we can directly allocate points on this basis.

Some characteristics included in our proposed points test are not directly observable in the CSAM data, including credentialed community language, attending a top 25 globally ranked university, and prior Australian work experience. Community language and attending

a top university are a relatively small share of our points test, and we exclude these from our modelled test.

High-paying previous Australian work experience is not observable in CSAM, but is an important element of our proposed points test, making up almost one-fifth of the available points. We know from PLIDA analysis that of those granted a permanent, primary, points-tested visa in Australia since 2014, 5 per cent previously earned over \$120,000 in Australia. A further 6 per cent earned between \$90,000 and \$120,000, and 7.6 per cent earned between \$70,000 and 90,000 a year.

In CSAM, we use a simple linear model to predict each sampled migrant's income based on their observed education, English language proficiency, and the skill level of their nominated occupation. We then take the sample of migrants who earn more than predicted, and randomly assign prior Australian experience among these migrants. The total share of migrants assigned prior Australian experience at each wage level matches the share we observe in PLIDA.

Adjusting the size and make-up of our sampling cohort

Once the points test has been applied to our sampled cohort, we can rank-order migrants and then select our 'model cohort'. However, while we randomly sample with replacement for our other cohorts, replacement is not possible with ranked selection. Instead, we need a large enough sampled cohort to select from to make up our visa allocations. After re-allocated regional and state points, this means we would need at least 81,200 prospective migrants to sample from for the independent points visa.

We also want to ensure that the modeled applicant pool that we rank-select from looks similar to a true applicant pool. Since the CSAM sample only includes migrants who have been selected under the existing points test, the sample would score more highly on the points test than the broader applicant pool.

To adjust for this, we create weights that scale CSAM to four key characteristics in the SkillSelect dataset, provided to Grattan by the Department of Home Affairs. We weight using four key characteristics: age bracket, highest level of education, English language proficiency, and skill level of nominated occupation.

Using these weights, we duplicate our dataset to create a modelled applicant pool of 125,000 points-tested migrants who could be selected for our modelled cohort. We then rank-order this applicant pool, and select the top-ranking migrants up to N in table B.1. This forms our 'modelled cohort' for independent points visas.

This means that our model is assuming that in any given year there are 125,000 applicants for points-tested visas, of similar quality to those who currently receive points-tested visas.

While the likely number of applicants for points-tested visas and the quality of those applicants is difficult to estimate, we assume there is a strong supply of talented people who would like to migrate to Australia. Given Australia is a small but prosperous economy and the global talent pool is large, it is likely there is a large supply of talented migrants who would like to live and work permanently in Australia, and this pipeline is likely to grow.

We know little about the composition of Australia's migrant intake in terms of where individuals sit in a global distribution of migrant talent. However, before the pandemic Australia was the top-ranked destination country for higher-skilled workers (those with postgraduate degrees) and the seventh-most attractive destination for entrepreneurs, according to OECD talent attractiveness rankings from 2019.¹⁸⁹

Currently, many more people apply for points visas than are available under the annual planned intake. In 2022-23, there were 81,000 EOIs submitted from unique individuals for the Skilled Independent (subclass

189. Coates et al (2022, p. 15).

189) visa, more than twice as many as the 32,100 places available in 2022-23.¹⁹⁰ In the three years prior to the pandemic, there were around 40,000 to 50,000 EOIs for the 189 visa.¹⁹¹

The pipeline of potential migrants is growing, and is likely to grow further. There is a growing number of migrants in Australia on temporary visas competing for a limited number of permanent skilled visas. Many talented prospective migrants are also currently excluded from applying for points-tested visas because their preferred occupation is not included on the relevant skilled occupation list. Opening independent points visas to a larger number of skilled occupations, as we recommend, will also increase the number of potential high-quality applicants.

The global supply of talent is also increasing. The share of the world's adult population with a tertiary education is expected to rise from 15.8 per cent in 2020 to 23.9 per cent in 2024.¹⁹² The growing number of highly-skilled migrants are going to a smaller number of high-income countries, including Australia.¹⁹³

B.2 Measuring the lifetime fiscal outcomes of the cohorts

We use a migrant's age, sex, and income – an average of their first and second wave incomes – to estimate their working-life income. We assume they retire at age 67. Based on observed incomes in the

190. In addition, there were 36,000 EOIs submitted in the 2021-22 financial year, some of which would be eligible to be invited in 2022-23 as EOIs are valid for two years. Grattan analysis of SkillSelect data from the Department of Home Affairs.

191. In 2022-23, there were also 183,100 EOIs for the subclass 190 visa and 139,500 EOIs for the subclass 491 visa (an unknown number of these EOIs also applied for the 189 visa, or submitted multiple EOIs nominating different states).

192. Percentage of the population aged 25 to 65 years who have either completed or partially completed tertiary education: Barro and Lee (2015) and Our World in Data (2024). And the number of people with PhDs is also forecast to grow strongly: Sarrico (2022).

193. Kerr et al (2016).

CSAM for migrants of a given age, we construct a lifetime earnings profile. We obtain lifetime employment earnings profiles for each five-year age bracket and income percentile from ATO taxation statistics.

We assume a person will earn at roughly the same gender-age percentile for their working life. For example, we assume a 39-year-old woman earning at the 80th percentile for 39-year-old women will earn at the 80th percentile for women for the remainder of her working life.¹⁹⁴

For each year of income over a person's life, we calculate an estimate of personal income tax, using the present rates for the Resident Tax Rate and the Medicare Levy.¹⁹⁵ We assume real wage growth of 1 per cent per year.

We then run the lifetime income and tax modelling on each person in each cohort. Table B.2 shows the average annual income and tax paid by the skilled cohort under each of our modelled scenario. It also shows the total income, and total tax paid under each scenario over the next 30 years. The final column shows the additional fiscal dividend from each scenario, compared with the planned scenario, which is the main result we report in the text.

Table B.3 shows the average income and tax paid for each visa group in each cohort.

194. This methodology is described in full in Daley et al (2018, p. 110) More recent updates to the model are provided in Coates and Nolan (2020, p. 31). We conducted additional analysis to create separate lifetime earnings profiles for men and women based on the ATO 2 per cent sample file for 2015-16.

195. The Medicare Levy threshold can depend on household income as well as individual income: Wood et al (2020, p. 70) Wood et al (2020, p. 70). But this complexity is ignored in our model.

B.3 Measuring the relative importance of age

While older migrants will typically earn more upon arrival in Australia because they have greater skills and experience, younger migrants will typically make a larger contribution to government budgets over their lifetime in Australia. That's because younger migrants will spend longer in Australia paying taxes.

The number of points being given to younger migrants should be determined by the relative importance of age to lifetime earnings in Australia, compared with other characteristics, such as education and English proficiency. However, since the regression analysis in PLIDA measures average annual earnings over the long term, rather than total lifetime earnings, it is unable to measure the relative importance of age compared to other characteristics.

To measure whether age should be weighted more highly in the points test, we adjust the points test we apply in CSAM to increase the weighting of age from 20 per cent up to 50 per cent, and measure the effect on the fiscal dividend. The analysis shows that any increases to the weighting of age in the points test *reduces* the lifetime fiscal dividend of the points-tested cohort. This is because the cohort selected under the current points test is already very young, so increasing the weighting of points results in selecting a cohort that is only marginally younger, but earns significantly less because other important characteristics for human capital are weighted less. Therefore, we should not increase the weighting of the age points.

However, as outlined in Chapter 2, we should make age points more granular. Artificially lowering the age of all skilled migrants by 1 year increases the 30 year fiscal dividend by 4.6 per cent on average. This percentage is higher the older a migrant is when they arrive. If the total skilled pool represents a similar cohort to potential applicants to the skilled independent points program, points should fall by around 4 points on average per additional year of age, to align with the points

given to similar earnings premiums for education, English language, and skilled experience. Given age matters less for lifetime earnings the younger a migrant is, and we do not want to disadvantage migrants for taking the time necessary to make educational investments, we recommend a flat points distribution of 100 points for ages between ages 20-29, with points then reducing by roughly 5 points per additional year of age, reaching 0 at age 45.

Table B.2: Income and tax outcomes under our modelled scenarios

Scenario	Mean annual income (\$2024)	Mean annual tax (\$2024)	Total income (\$2024, billions)	Total tax (\$2024, billions)	Additional fiscal dividend (\$2024, billions)
Planned cohort	86,877	15,351	5,326	941	-
Planned cohort with new points test	92,286	16,689	5,669	1,025	84
Re-allocate regional points to independent points, with new points test	97,389	17,916	5,996	1,103	162
Re-allocate state points to independent points, with new points test	95,636	17,419	5,865	1,068	127
Re-allocate regional and state points to independent points, with new points test	97,457	17,921	6,046	1,112	171

Table B.3: Average annual income and tax by visa category and cohort

	Average annual income (\$)	Average annual tax (\$)
Planned		
Employer-sponsored	106,486	19,951
Regional employer-sponsored	75,731	12,531
Independent points	90,447	16,245
State points	79,870	13,949
Regional points	68,856	11,120
Investment	35,554	862
Talent	90,543	15,965
New points test		
Employer-sponsored	106,301	19,918
Regional employer-sponsored	77,659	13,045
Independent points	119,176	23,375
State points	86,717	15,593
Regional points	70,169	11,415
Investment	34,433	372
Talent	89,931	15,735
re-allocate regional points to independent points		
Employer-sponsored	106,352	19,912
Independent points	108,420	20,707
Investment	34,454	495
Regional employer-sponsored	77,230	12,933
State points	87,826	15,841
Talent	89,929	15,636
re-allocate state points to independent points		
Employer-sponsored	106,428	19,869
Independent points	107,200	20,407
Investment	33,631	286
Regional employer-sponsored	76,709	12,731
Regional points	71,750	11,795
Talent	91,433	15,964
re-allocate regional and state points		
Employer-sponsored	106,574	19,970
Independent points	97,115	18,008
Investment	34,323	336
Regional employer-sponsored	76,372	12,732
Talent	91,926	16,252

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