



POLICY BRIEF



# Money on the Table: The Economic Cost of Ending DACA



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## I. EXECUTIVE SUMMARY

Deferred Action for Childhood Arrivals (DACA) provides employment authorization, e.g. the ability to lawfully work in the United States, and protection from deportation for undocumented immigrants who entered the United States before the age of 16 and meet other requirements. **Through June of 2016, U.S. Citizenship and Immigration Services (USCIS) has granted DACA to 741,546 individuals.**

DACA represents an immense success in the context of immigration policy, building the foundation for young immigrants to put their skills and education to better use for themselves, their families, and the American economy. **Eighty-seven percent, or 645,145 of DACA recipients are currently employed with businesses in the United States.** Through this employment, DACA has also broadened the payroll tax base, dramatically increasing Social Security and Medicare contributions.

DACA recipients bring a variety of educational and professional backgrounds to a wide spectrum of industries, from educators and community service providers to retail, manufacturing and hospitality workers. With DACA, many individuals have gotten their first job; contributed greater amounts in state, local, and federal taxes; increased their educational attainment; supported their families; and obtained state identification and driver's licenses.

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Yet these boosts to our nation's income are at risk of being cut as early as next month. President-elect Trump has promised to end DACA, which would **lead to the immediate unemployment of the 645,145 DACA recipients who are currently employed.** This massive unemployment would lead businesses and employers to incur turnover costs, e.g. costs associated with termination and potential replacement of an employee, of at least \$3.4 billion.

**In the tax context, ending DACA would reduce Social Security and Medicare tax contributions by \$24.6 billion over a decade, half of which would have been paid by employers. Of these contributions, the reduction in Social Security contributions would be \$19.9 billion, while the reduction to Medicare contributions would be \$4.6 billion.**

From an economic perspective, the incoming Administration would be wise to leave DACA fully intact. Our nation is significantly better off when our economy is driven by a healthy and robust workforce that is able to keep pace with industry demand. The billions of dollars in tax contributions resulting from the program should be reinvested in our nation's workers and retirees, not left on the table.

As the President-elect gears up to prepare his fiscal policy, one thing is clear: ending DACA is bad for business and bad for American workers.



## II. INTRODUCTION

As one of his first post-inauguration actions, President-elect Trump has promised to end President Obama's executive actions on immigration, including Deferred Action for Childhood Arrivals or DACA.<sup>1</sup> Originally announced on June 15, 2012, DACA represents a prosecutorial discretion initiative that provides employment authorization and protection from deportation for certain young adults who entered the age before the age of 16 and meet other, stringent requirements.<sup>2</sup> Over 741,546 undocumented immigrants currently hold DACA, all of whom are at risk of losing their employment authorization and being targeted for deportation when President-elect Trump takes office on January 20, 2017. The Center of American Progress estimates that ending DACA would reduce the nation's GDP by \$433.4 billion over a decade.<sup>3</sup> This brief expands on those findings and provides estimates on the negative impact on certain payroll tax revenues and increased replacement and retraining costs for employers, or turnover costs.

This policy brief synthesizes existing research—including a comprehensive survey conducted by political scientist Tom K. Wong, Center for American Progress, United We Dream, and National Immigration Law Center (“Professor Wong’s study”);<sup>4</sup> federal tax law; the Federal Income Contributions Act; and studies regarding turnover cost—

**Eighty-seven percent, or 645,145 of DACA recipients are currently employed with businesses in the United States.**

to calculate the economic impact of ending DACA in two key areas: (a) Social Security and Medicare revenues and (b) employer turnover costs. The policy brief concludes that ending DACA would have a significantly negative economic impact in these areas, shrinking the tax base, and imposing unneeded and burdensome turnover costs on employers.

## III. METHODOLOGY

As of June 30, 2016, USCIS granted DACA to 741,546 individuals.<sup>5</sup> Professor Wong's study surveyed over 1,000 DACA recipients and concluded that 87% were employed,<sup>6</sup> with the average hourly wage being \$13.96.<sup>7</sup> According to the Organisation for Economic Co-operation and Development, the average number of hours worked by employees in the United States is 1,790. Consequently, to calculate the average yearly wage for a DACA recipient, we multiply \$13.96 by 1,790,<sup>8</sup> yielding \$24,988.40. To calculate the number of DACA Recipients who are actually employed, we multiply 87% by 741,546 and obtain 645,145. Using these baseline numbers, we are able to apply certain tax and employment cost assumptions to yield the conclusions of this report.

This report assumes that the DACA population would not increase over the course of a decade. The Migration Policy Institute, however, estimates the total potentially eligible population for DACA at 1.9 million individuals.<sup>9</sup>



Due to the uncertainty of DACA's continued existence and future application rates, this brief does not attempt to estimate the number of individuals who could potentially obtain DACA in the future and the associated economic impact of subsequently revoking DACA for those individuals. Additionally, USCIS' data regarding the total number of DACA recipients are from June of 2016, but since then, USCIS has likely approved tens of thousands additional DACA requests, e.g. in June USCIS had over 40,000 pending requests for initial DACA alone.<sup>10</sup> However, as the June 2016 data represents the most recent data release by USCIS, this report uses those numbers. In light of these two limitations, the estimates in this report likely undercount the true economic impact of ending DACA.

### **A. MEDICARE AND SOCIAL SECURITY CALCULATIONS**

The Federal Insurance Contributions Act (FICA) is a federal employment tax that requires contributions from both employers and employees to fund the Social Security and Medicare trust funds.<sup>11</sup> Both of these trust funds require contributions from workers to fund current, outstanding obligations to individuals who are eligible to receive benefits.<sup>12</sup>

The withholding rate for Social Security is 6.2% for employees<sup>13</sup> and 6.2% for employers,<sup>14</sup> for a total of 12.4%. The withholding rate for Medicare is 1.45% for employees<sup>15</sup> and 1.45% for employers,<sup>16</sup> for a total of 2.9%. Social Security tax is only applied to a certain amount of wages each year, for example, in 2016, that limit was \$118,500.<sup>17</sup> Additionally, for Medicare, employers must withhold an additional 0.9% on wages in excess of \$200,000.<sup>18</sup> As the average yearly wage for DACA recipients is \$24,988.40, we do not incorporate the \$118,500 limit or additional withholding requirements into our calculations.

**...ending DACA would reduce Social Security and Medicare tax contributions by \$24.6 billion over a decade, half of which would have been paid by employers.**

To obtain the amount the average DACA employee and employer contributes in Social Security taxes per year, we multiply \$24,988.40 (the average yearly wage) by 12.4% (the total Social Security tax rate), which yields \$3,098.56. To obtain the amount all DACA employees and employers contribute to Social Security taxes per year, we multiply \$3,098.56 by 645,145 (the number

of DACA recipients employed), yielding \$1,999,021,585.40. To obtain the total amount contributed through Social Security taxes over a decade, we multiply \$1,999,021,585.40 by 10, yielding \$19,990,215,854.03 or \$19.9 billion. By dividing \$19,990,215,854.03 by half, we obtain \$9,995,107,927.02, which represents both the DACA employer and employee contribution over a decade.

To obtain the amount the average DACA employee and employer contribute to Medicare taxes per year, we multiply \$24,988.40 (the average yearly wage) by 2.9% (the total Medicare tax rate), which yields \$724.66. To obtain the amount all average DACA employees and employers contribute to Medicare taxes per year,



we multiply \$724.66 by 645,145 (the number of DACA recipients employed), yielding \$467,513,112.72. To obtain the total amount contributed to Medicare taxes over a decade, we multiply \$467,513,112.72 by 10, yielding \$4,675,131,127.15 or \$4.6 billion. By dividing \$4,675,131,127.15 by half, we obtain \$2,337,565,563.58, which represents both the DACA employer and employee Medicare contribution over a decade.

Combining \$19,990,215,854.03 (DACA employer and employee Social Security contribution over ten years) and \$4,675,131,127.15 (DACA employer and employee Medicare contribution over ten years) yields \$24,665,346,981.19 or \$24.6 billion, the total amount of FICA contributions over a decade by DACA employers and employees.

## **B. TURNOVER COST CALCULATION**

The end of DACA would mean that the 645,145 DACA recipients who are employed would lose their employment authorization—which allows lawful employment in the United States. Consequently, employers would have to lay off these individuals and incur turnover costs. Employers incur a variety of turnover costs when an employee leaves a position, costs compounded when that employer must replace the absent employee. These costs can include the cost to temporarily cover an employee’s responsibilities, replacement costs (such as searching, interviewing, and hiring replacement candidates), training costs of new employees, and more.<sup>19</sup> Analyzing a variety of case studies, the Center for American Progress estimates that the cost of turnover is approximately 21.4% of an employee’s yearly salary.<sup>20</sup>

To obtain the turnover cost for the massive lay-off of close to three quarter of a million DACA employees, we multiply \$24,988.40 (the average yearly salary of a DACA recipient) by 645,145 to obtain \$16,121,141,817.77. We then multiply \$16,121,141,817.77 by 21.4% (the turnover cost) to yield \$3,449,924,349.00 or \$3.4 billion, the total turnover cost for the wholesale lay-off of the entire employed DACA population.

## **IV. CONCLUSION**

The costs of ending DACA are immense, not only the personal costs to nearly one million individuals and their families, but also to our country’s economic engine. President-elect Trump prides himself on his business prowess. As such, the continued existence of DACA represents one of the President-elect’s first major economic tests. The failure of this test would undoubtedly lead to significant, unnecessary costs to our nation’s businesses and the undermining of the Social Security and Medicare trust funds. DACA represents a good deal for our nation, and President-elect Trump would be wise to continue what amounts to one our nation’s most successful immigration and economic policies.



## V. CITATIONS

- <sup>1</sup> Julia Preston and Jennifer Medina, *Immigrants Who Came to U.S. as Children Fear Deportation Under Trump*, N.Y. TIMES, Nov. 19, 2016, <http://www.nytimes.com/2016/11/20/us/immigrants-donald-trump-daca.html>.
- <sup>2</sup> See Memorandum from Janet Napolitano, Secretary, U.S. Department of Homeland Security, Memorandum on Exercising Prosecutorial Discretion with Respect to Individuals Who Came to the United States as Children (June 15, 2012), available at <http://www.dhs.gov/xlibrary/assets/s1-exercising-prosecutorial-discretion-individuals-who-came-to-us-as-children.pdf>.
- <sup>3</sup> Philip E. Wolgin, *The High Cost of Ending Deferred Action for Childhood Arrivals*, CENTER FOR AMERICAN PROGRESS, Nov. 18, 2016, <https://www.americanprogress.org/issues/immigration/news/2016/11/18/292550/the-high-cost-of-ending-deferred-action-for-childhood-arrivals/>.
- <sup>4</sup> Tom K. Wong, Greisa Martinez Rosas, Adrian Reyna, Ignacia Rodriguez, Patrick O'Shea, Tom Jawetz, and Philip E. Wolgin, *New Study of DACA Beneficiaries Shows Positive Economic and Educational Outcomes*, CENTER FOR AMERICAN PROGRESS, Oct. 18, 2016, [https://cdn.americanprogressaction.org/content/uploads/2016/10/21111136/2016-daca\\_survey\\_draft\\_updated-FINAL2.pdf](https://cdn.americanprogressaction.org/content/uploads/2016/10/21111136/2016-daca_survey_draft_updated-FINAL2.pdf) [hereinafter "Professor Wong study"].
- <sup>5</sup> U.S. CITIZENSHIP AND IMMIGRATION SERVICES, U.S. DEPARTMENT OF HOMELAND SECURITY, NUMBER OF I-821D, CONSIDERATION OF DEFERRED ACTION FOR CHILDHOOD ARRIVALS BY FISCAL YEAR, QUARTER, INTAKE, BIOMETRICS AND CASE STATUS: 2012-2016, 1 (Sep. 13, 2016), <https://www.uscis.gov/tools/reports-studies/immigration-forms-data/data-set-form-i-821d-deferred-action-childhood-arrivals> [hereinafter "USCIS DACA Data"].
- <sup>6</sup> Professor Wong study, *supra* note 4, at 4.
- <sup>7</sup> *Id.* at 5.
- <sup>8</sup> *Average annual hours actually worked per worker*, ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT, 2015, <http://stats.oecd.org/index.aspx?DataSetCode=ANHRS>.
- <sup>9</sup> Faye Hipsman, Bárbara Gómez-Aguíñaga, and Randy Capps, *DACA at Four: Participation in the Deferred Action Program and Impacts on Recipients*, MIGRATION POLICY INSTITUTE 2, Aug. 2016, available at <http://www.migrationpolicy.org/research/daca-four-participation-deferred-action-program-and-impacts-recipients>.
- <sup>10</sup> USCIS DACA Data, *supra* note 5, at 1.
- <sup>11</sup> 26 U.S.C. §§ 3101-3128 (West 2016).
- <sup>12</sup> The Social Security trust fund is projected to become insolvent in 2034 while the Medicare trust fund is projected to become insolvent in 2028. See Nick Timiraos, *Social Security, Medicare Face Insolvency Over 20 Years, Trustees Report*, WALL STREET JOURNAL, June 22, 2016, <http://www.wsj.com/articles/social-security-medicare-trust-funds-face-insolvency-over-20-years-trustees-report-1466605893>. A decrease in contributions, e.g. because of the removal of close to three quarter of million employees from the workforce, is thus likely to move forward the insolvency dates for both of these programs.
- <sup>13</sup> 26 U.S.C. §3101(a) (West 2016).
- <sup>14</sup> *Id.* at § 3111(a).
- <sup>15</sup> *Id.* at § 3101(b)(1).
- <sup>16</sup> *Id.* at § 3111(b).
- <sup>17</sup> INTERNAL REVENUE SERVICE, *Topic 751 - Social Security and Medicare Withholding Rates*, Oct. 10, 2016, <https://www.irs.gov/taxtopics/tc751.html>.
- <sup>18</sup> 26 U.S.C. §3101 (West 2016).
- <sup>19</sup> Heather Boushey and Sarah Jane Glynn, *There Are Significant Business Costs to Replacing Employees*, CENTER FOR AMERICAN PROGRESS, Nov. 16, 2012, <https://www.americanprogress.org/issues/economy/reports/2012/11/16/44464/there-are-significant-business-costs-to-replacing-employees/>.
- <sup>20</sup> *Id.*