

UNCERTAINTY, CITIZENSHIP & MIGRANT SAVING CHOICES

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Motivation

Migrants hold significantly less wealth than natives in most Western countries. At the median, the wealth gap is more than **\$150,000**. This is driven by differences in **housing and pension** wealth.

Low wealth puts migrants at a greater risk of poverty in old age. It also decreases children's economic prospects.

Issue set to accelerate with demographic change. Countries require citizens to prepare for retirement through private saving. Wealth gap limits extent to which immigration can stabilize pension systems.



Many determinants

but a **persistent, unexplained gap in wealth and savings** remains.

Research Questions

I. Does uncertainty about their future keep migrants from saving?

Substantial uncertainty over right to stay long term and quality of life in the host country.

II. Can this be remedied by giving them access to citizenship?

Lowers uncertainty over income, preferences + right to stay.

Preparatory Saving Motive

Standard intertemporal models predict savings rates to **increase** in uncertainty due to a **precautionary saving motive**.

Hinges on two assumptions:

- i. Utility is not state dependent
- ii. Resources are equally accessible in any state

For migrants these assumption likely fail:

- Different preferences for living in different countries.
- Country preferences can evolve over time.
- Assets such as housing or pension plans are country specific.

Uncertainty can decrease savings rates due to a preparatory saving motive:

- i. **Preference channel.** Due to location uncertainty migrants may not be able to live in their preferred country.
- ii. **Learning channel.** Uncertainty over country preferences may only be revealed through experience.

Both channels lower the utility migrants expect to derive from any unit of future consumption.

- iii. **Accessibility channel.** Due to location uncertainty migrants may only be able to access illiquid assets when paying a liquidation cost.

Lowers the returns to saving.

Theoretical Framework

Three period life cycle saving model with uncertain retirement location and heterogeneous country preferences.

Migrants choose saving in liquid and illiquid saving as well as retirement location under uncertainty over income, country preferences and a risky right to stay.

Access to citizenship lowers variance of income & country preference process and eliminates risk to right to stay.

Key Predictions:

- If the preparatory saving motive outweighs the precautionary motive, access to citizenship increases savings rates.
- If the accessibility channel is important, investments in country specific assets increase more than others..
- If the learning channel is important, EU and non-EU migrants are equally affected. If only non-EU migrants are affected.

Reduced Form Evidence

Natural experiment. Two reforms to German citizenship law under which some migrants unexpectedly gained access to citizenship. Allows me to estimate the impact of citizenship on savings without bias from changing the composition of the migrant pool.

Difference-in-difference analyses with multiple control groups. Compare the saving behavior of migrants with and without prior access to citizenship as well as natives before and after the reforms, using data from the **German Socioeconomic Panel**.

Access to citizenship causally increases migrants' saving rate by 30%. This fully closes the previously detrimental saving rate gap. The result is driven by migrants from outside the EU. They become significantly more likely to invest in illiquid assets, especially private pension plans and housing. Remittances are unaffected.

